

## **CHAPTER III**

### **PRESENT SET-UP, ROLE AND FUNCTIONS OF INTEGRATED FINANCIAL ADVICE IN THE CENTRAL GOVERNMENT**

3.1 The scheme of IFAs, acting on behalf of MoF, operates in all ministries and departments under the Central Government. Further, in the context of the ministries of Defence and Railways, entailing substantial public expenditure, the specialized functions of finance and accounts are provided by officers of specialized Group A services namely Indian Defence Accounts Service (IDAS) and Indian Railways Accounts Service (IRAS) respectively. Similar responsibilities in the case of Departments of Posts and Telecom are discharged by officials of another Group A service namely Indian Post & Telecommunication Finance & Accounts Service (IP&TFAS). In other ministries/ departments of the Central Government, the IFA set-up is manned by officials drawn on deputation or with officials from the Central secretariat. The accounts wing of the Central ministries/ departments (that is, other than Railways, Defence, Posts and Telecom) are managed by the Indian Civil Accounts Service, a specialized Group A service, created consequent to departmentalization of accounts in 1977. In such ministries, however, the finance posts are filled by deputation and the officers can be drawn from all cadres including the afore-stated organized accounts services or IAS or the Indian Audit & Accounts Service (IAAS).

### **FINANCIAL ORGANIZATION IN RAILWAYS**

3.2.1 A study of the financial organization of the Railways reveals that it has been a pioneer as far as integration of finance and accounts work to its administrative set up is concerned. Indeed, the Railways had achieved before independence what the other Ministries/ Departments

are seeking to achieve today as a part of financial reforms. The finance and accounts cadre in Railways are manned by a specialized service (IRAS). The Financial Organization on the Railways has evolved through the following five stages—

Stage I: The stage prior to the appointment of the Financial Commissioner for Railways, when the Railway finance administration was a part of the Finance Department of the Government of India. The accounting work was done by the Accountant General Railways, under the administrative control of the Auditor General.

Stage II : The most important landmark in the history of the financial administration of Railways in India was the appointment of the Financial Commissioner for Railways in April, 1923 with the sanction of the Secretary of State for India, as part of the scheme of reorganization of the Railway Board as recommended by the Acworth Committee (1921). The declared object of this appointment was to secure, firstly, economy in the expenditure of public moneys and secondly, the co-ordination of Railway policy with the general financial policy of the Government of India. This was followed by the separation convention of 1924 by which Railway finances were separated from the General Finances of the Government of India

Stage III : Completion of the process of separation of the Accounting & Auditing functions on the Railways in 1929 as a sequel to the recommendations of the Acworth Committee supported in the report of Sir Arthur Lowes Dickinson (August, 1927). Under this arrangement, the post of Accountant General, Railways (then under the administrative control of the Auditor General) was replaced by—

- (i) The Controller of Railway Accounts responsible to the Financial Commissioner Railways; and
- (ii) The Director of Railway Audit under the Auditor General.

At the Railway level also the two functions were separated by appointing a Chief Accounts Officer answerable to the Controller of Railway

Accounts, and a Chief Auditor responsible to the Director of Railway Audit. This, marked the beginning of the Indian Railway Accounts Service as a Cadre distinct from that of the Indian Audit and Accounts Service.

Stage IV : Placing of the Railway Accounts Department under the General Manager where upon the Chief Accounts Officer was placed under the administrative control of the General Manager 'instead of the Financial Commissioner. Railways. This organizational change was recommended by the Indian Railway Enquiry Committee, 1937 (more commonly known as the Wedgwood Committee) on the pattern of the British Railway practice to ensure full contact and adequate co-ordination between the General Manager and his Chief Accounts Officer. While making this change on the Indian Railways, the Chief Accounts Officer was redesigned as the Financial Adviser & Chief Accounts Officer. It was, however, a condition precedent to this arrangement that the Financial Adviser and Chief Accounts Officer would have access to the Financial Commissioner in all important matters on which he might be in disagreement with the General Manager not only as regards accounting regularity but also on questions of financial prudence. This arrangement was initially tried as an experimental measure on two State Railways (the North Western Railway and the Great Indian Peninsular Railway) with effect from November, 1938 and was made permanent in 1941 when it was extended to all Government Railways.

Stage V: Setting up of a distinct Finance Branch under the Financial Adviser & Chief Accounts Officer for placing at the 'disposal of the General Manager an improved machinery for financial advice and control. Again, this scheme was initiated as an experimental measure in November, 1947 on one of the Railways and was later adopted permanently on all Indian Government Railways.<sup>1</sup>

3.2.2 With the completion of the above-mentioned five stages, the administrative and financial set-up of the Ministry of Railways (Railway Board) has achieved its present unique character viz.,

(a) This Ministry has been fully delegated with powers relating to all Railway matters;

(b) The Railway Ministry (Railway Board) is managed entirely by railway men, and

(c) The Railways have their own independent and integrated financial set up, i.e.—

(i) Railway budget is independent of the General budget,

(ii) The Railway Ministry enjoys full powers of financial sanction to expenditure, and

(iii) Accounts are maintained by the Railway's own accounting Cadres and not by the Comptroller & Auditor General.

3.2.3 The Financial Commissioner, Railways is the professional head of the Railway Financial Organization and represents the Government of India, Finance Department on the Railway Board. In his capacity as ex-officio Secretary to the Government of India in the Ministry of Railways in financial matters, he is vested with full powers of the Government of India to sanction Railway expenditure subject to the general control of the Finance Minister. This arrangement is intended to ensure that financial control over operations of the Railway Department is exercised from within the Organization by an officer who shares with the Members of the Railway Board and the Chairman the managerial responsibility as a senior partner in the common enterprise of efficient and economic working of the Railway undertaking. In the event of a difference of opinion between the Financial Commissioner and other Members of the Boards the former has the right to refer the matter to the Finance Minister. In the discharge of his responsibilities as head of the Railway Finance Organization, the Financial Commissioner, Railways

may issue or cause to be issued, instructions to the Financial Adviser & Chief Accounts Officer on all accounting and administrative matters. These instructions will be communicated to the General Manager and it is the duty of the Financial Adviser & Chief Accounts Officer to give effect to them. The latter should, however, keep the General Managers in touch with such correspondence as may be exchanged by him direct with the Financial Commissioner, Railways, or officers in the Railway Board working under him.<sup>2</sup>

3.2.4 At the time of the initial transfer of control over the Railway Accounts Department to the General Manager, the following stipulation was made by the Railway Board on the functions and responsibilities of the Financial Adviser & Chief Accounts Officer in regard to tendering of financial advice—

"At present the duty is imposed on the Chief Account Officer of advising the General Manager to make a reference to the Railway Board in the event of the former disagreeing with the latter on any matter of financial or accounting importance, or making such a reference himself should the General Manager be unwilling to do so. The change involved in the proposed delegation of control of the Accounts Department will not relieve the Chief Accounts Officer of this obligation. It will on the contrary lead to emphasize his special responsibility in this regard which it must be clearly understood relates not only to matters of accounting propriety but also to important matters of financial prudence, whether within the financial powers delegated to the General Managers or not."<sup>3</sup>

3.2.5 The main function of the Finance Branch under the control of the Financial Adviser & Chief Accounts Officer is to assist the Railway Administration in considering all proposals involving financial implications in accordance with the generally accepted standards of financial prudence and propriety. In the business of rail transportation,

as in any other business, there is hardly any activity or service which does not involve considerations of finance in some form or the other. The Finance Branch is thus an important limb of the Administration and its functions are broadly analogous to those of the Management Accountant, viz., to assist management (a) in making rational plans and decisions, (b) in controlling the operations of the Railway Administration as a whole, and (c) in controlling the operations within the various responsibility areas of the Administration. The role of the Finance Officer has changed, over the years, from that of a mere 'friendly critic' to one of complete 'management participation'. This role is in no way abated by the fact that in case of disagreement, when he has been over-ruled by the General Manager, the Financial Adviser & Chief Accounts Officer may request the General Manager to make a reference to the Railway Board for orders, and the General Manager would be under an obligation to make such a reference incorporating therein fairly and fully the comments and views of the Financial Adviser & Chief Account Officer. The success of the Finance Branch would depend on the spirit and the manner in which its services are utilised by the Executive Departments. The relations between the latter and the Finance Branch should, like all inter-departmental relations, be based on mutual confidence and free and full consultation.

3.2.6 One of the important functions of the Financial Adviser relates to compilation of budgets and setting up of a satisfactory system of Budgetary Control. While the initial preparation of the budgets is the responsibility of the Departmental Officers-concerned, the scrutiny and compilation of the Railway's Budget as a whole will be the responsibility of the Financial Adviser & Chief Accounts Officer.

3.2.7 The Financial Adviser & Chief Accounts Officer is assisted at the Head quarters office by a Deputy/Additional Financial Adviser who,

in turn, has a number of Accounts Officers reporting to him in connection with their respective duties involving financial scrutiny of proposals emanating from various departments of the Railway Administration. The Deputy/Additional Financial Adviser is also the Budget Officer of the Railway and, as head of the Budget Branch of the General Manager, he is expected to exercise control over the budgetary allocations of the Railway Administrations. While at the Headquarters level the financial functions, as distinct from the functions of internal check, are performed by a separate group of officers, both these functions are combined at the Unit level in the Divisional Accounts Officer, or the Workshop/Stores Accounts Officer as the case may be. .

3.2.8 The scope of financial scrutiny of proposals in the railways before obtaining the sanction of the competent authority may broadly be considered under the following two situations:—

- (a) Where a proposal is within the powers delegated to the General Manager and Officers subordinate to him; or
- (b) Where the proposal requires reference to the Railway Board, being either beyond the powers of the General Manager or involving an important matter of principle/policy.

In the case proposals of involving financial implications, which require reference to the Railway Board, it is necessary to furnish not only the technical and administrative aspects of the case but also a review of it from the financial angle, such a review being based on all the information which may be locally available. It is obligatory on the Railway Administration to furnish to the Board a verbatim copy of the opinion expressed by the Financial Adviser & Chief Accounts Officer with every such proposal, unless it has his unqualified concurrence in which case the fact that he has concurred in the proposal should be indicated in the letter addressed to the Railway Board. The Financial Adviser & Chief Accounts Officer's appreciation of the proposal accompanying the

Administration's letter should be sufficiently comprehensive and should not only contain his comments, if any, on the facts adduced in justification of the proposal but should also mention its financial and budgetary implications and his views as to its financial prudence.

3.2.9 For the speedy disposal of business, the Central Government have delegated most of their powers in financial matters to authorities subordinate to them. These powers have to be exercised, inter alia, subject to observance of the rules and accepted standards of financial propriety. Proposals which are within the competence of sanction of the General Manager and authorities subordinate to him, and which require prior consultation with the Financial Adviser & Chief Accounts Officer, should be subjected to close scrutiny from the point of view of need, scope and financial propriety of the proposal in the same manner as in the case of proposals which are referred to the Railway Board for orders. There can be no hard and fast rules on how precisely the financial, scrutiny of proposals received from the Executive Departments should be carried out. The objective is to secure maximum efficiency in railway operations at the minimum cost, without unduly sacrificing one for the other. The functions of Railway Finance Officers have now developed beyond the traditional bounds of those of the financial Accountants. These are no longer restricted to tendering advice to the Administration whenever required or necessary in all matters involving railway finances. The Finance Officer's job as a Management Accountant is to furnish and interpret financial statements, compile cost data and prepare cost reports, explore avenues of controlling staff and material costs, institute and operate budgetary control procedures, and participate in all Capital expenditure and rating/pricing decisions. This involves an irrevocable commitment to Management, and calls for a high degree of professional training and competence. At the same time, the Finance Officer should

see that the standards of financial propriety, expected of all Public Servants in the operation of public funds, are strictly observed.<sup>4</sup>

### **FINANCIAL ORGANIZATION IN THE MINISTRY OF DEFENCE**

3.3.1 A study of the financial organization of the Ministry of Defence shows that, unlike the Railways, the integration of finance and accounts to the administrative set up is more of a recent phenomenon. Though the defence set-up also had the benefit of having a dedicated finance and accounts service in the form of Indian Defence Accounts Service (IDAS), the charter of the IDAS was more for payment, accounting and internal audit. The finance function has occupied prominence only in the recent years. The process of integration of finance with the MoD and its attached/ subordinate offices has been taken up only recently along with other Ministries of the Government of India. However, an important difference between the Ministry of Defence and other Ministries was that there was always an 'associated' finance as a part of MoF exclusively assigned to MoD (which was not so for other ministries). The integration of finance and accounts for the attached/ subordinate offices of the MoD (like the Service Headquarters of the Army, Navy and Air Force) is even more recent as outlined in the succeeding paragraphs.

3.3.2 In May 1976, the IFA system was introduced in the Department, of Defence Supplies and Defence Production. The system was extended to the Department of Defence in 1983. With this, the complete integration of the former Defence Division of the Ministry of Finance with the Defence Ministry was achieved.<sup>5</sup>

3.3.3 The Ministry of Defence (Finance), is responsible for financial scrutiny, vetting, advice and concurrence of all proposals of

the Ministry of Defence, both from the Defence Service Estimates, and the Civil Estimates. The above role and functions are exercised through a hierarchical structure headed by the Secretary Defence Finance (SDF) or Financial Adviser Defence Services (FADS) (depending on the rank of the incumbent- whether he is a Secretary or a Special Secretary) and officers of the Finance Division. The SDF/ FADS is assisted by five Additional Financial Advisers (who are of the rank of Joint Secretary to Government of India), about 20 Directors/Deputy Financial Advisers (DFA), and about 30 Assistant Financial Advisers and 30 Sections. On the Defence Acquisitions side dealing with capital purchases, the SDF/ FADS is assisted by a Financial Adviser (Acquisition) (who is of the rank of an Additional Secretary to Government of India) , 3 Finance Managers, 3 Directors/ DFAs.<sup>6</sup>

3.3.4 The SDF/FADS is tasked with the exercising of financial control over the proposals involving expenditure from the Defence Budget and the Ministry of Defence (Civil) estimates, and with the responsibility for internal audit and accounting of the Defense Expenditure and expenditure from the Civil Estimates. Currently the Defence and Defence related Expenditure is about Rs.95,922 crores (2004-05),including the Civil Estimates of around Rs.16,000 crores comprising about Rs.11,000 crores towards Defense Pensions. In the task of internal audit and accounting, the Controller General of Defence Accounts (CGDA) assists the SDF/FADS. Defence planners currently face the task of reviewing programmes in the light of changes, which have taken place at the global level, as well as in the context of specific threats in our own region. The endeavour of the defence planners is to balance the minimum requirements of our Defence Forces and the need to modernize them, without unduly straining the national economy.<sup>7</sup>

3.3.5 With a view to ensuring greater efficiency in administration and quicker disposal of the cases, Ministry of Defence has been delegated enhanced financial powers in regard to expenditure met from the Defence Services Estimates. In matters within the delegated powers of the Ministry of Defence, Financial Adviser(Defence Services) or authorised Representatives of Finance Division are to be consulted before exercise of financial powers. In all matters beyond the powers delegated to the Ministry, the Finance Division functions as Associate Finance and is responsible to and have the right of access to the Ministry of Finance and to the Finance Minister through Secretary (Expenditure). If any important change in the duties and functions of Finance Division or the Defence Accounts Department is contemplated, approval of the Finance Ministry is necessary.

3.3.6 The financial control exercised by the Finance Division is a careful and intelligent scrutiny of all proposals involving expenditure from the public funds, the objective being the safeguarding of economy, efficiency and propriety in public finance. Before according financial concurrence to any proposals involving fresh expenditure, it is the duty of the Finance Division to seek complete and comprehensive justification for the proposals. The division may even challenge the necessity for spending so much money or on such a scale to secure a given object. In fact the Division may ask every question that might be expected from an intelligent taxpayer for obtaining best value for money.

3.3.7 The according of financial concurrence by the Finance Division of the Ministry of Defence falls generally in three, more or less, well defined stages –

- (1) the examination of the proposal on its merits.
- (2) the assessment of the financial effect.

(3) if the proposal is accepted, the careful examination and vetting of the final orders before issue.

Sometimes two or more of these stages are combined, but all proposals having a financial bearing inevitably follow through this process. This procedure ensures not only close and adequate control by Finance, but also enables them to give constructive suggestions and advice from the financial point of view at a fairly early stage of the consideration of a proposal.

3.3.8 The Finance Division prepares the Defence Budget and the Civil estimates for the Civilian Establishments of the Ministry of Defence. It also furnishes the Heads of the Branches of the Armed Forces Headquarters and Heads of Civilian Deptts./Organisations with all information necessary to enable them to discharge their financial responsibilities in respect of the grants allotted to them and advises them in regard to the preparation of proposals and the disposal of financial business generally. Finance Division is also fully associated with formulation and implementation of Defence Plans.<sup>8</sup>

### **FINANCIAL ORGANIZATION IN ATTACHED/ SUBORDINATE OFFICES OF MOD**

3.4.1 The Integration of Financial Advice below the level of MoD has been a recent phenomenon. In the light of recommendations of a sub Committee of the Committee on Defence Expenditure, the Ministry of Defence decided in Nov. 1991 that exercise of delegated financial powers by the authorities lower than Ministry of Defence should also be with the advice of local financial advisors. The 19<sup>th</sup> Estimate Committee of Parliament was also assured in this regard in 1992-93. These developments culminated in the introduction of IFA system in the three

Service Headquarters, Headquarters Maintenance Command (Air Force) and Director General Border Roads as follows:

- i. IFA Naval HQrs. - March 1994
- ii. IFA Air HQrs. - April 1994
- iii. IFA Army HQrs. - August 1994
- iv. IFA (BR) - March 1995
- v. IFA (MC) Nagpur - Sep 1995<sup>9</sup>

3.4.2 The objective of IFA system is to provide independent financial inputs to the competent financial authorities (CFAs) in exercise of delegated financial powers to expedite decision making thereby providing greater satisfaction to the troops deployed in the field as well as enhancing operational preparedness. With that in view IFAs have been positioned in the various services as:-

(i) ARMY

Dedicated IFAs in the Army Headquarters and Command Army Headquarters have been posted at the level of Senior administrative Grade (SAG) level whereas IFAs in CODs have been posted at the level of Senior/Junior Time Scale (STS/JTS) officers as per details given below:

<u>Army HQrs.</u>	<u>Command Headquarters</u>	<u>Other Formations</u>
IFA Army/O	IFA Western Command (Chandimandir).	COD Kandivali
IFA Army/Q	IFA Southern Command (Pune)	COD Dehu Road
IFA Army/M	IFA Central Command (Lucknow)	COD Delhi Cantt.
	IFA (Northern Command) Udhampur	COD Agra
	IFA (Eastern Command) Kolkatta	CAFVD Kirkee
	IFA South Western Command (Jaipur)	COD Chheoki

IFA Army Training Command (Simla)
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(ii) NAVY

IFAs at SAG level have been posted at Naval Headquarters, Western Naval Command Mumbai and Southern Naval command Kochi and an Officer at Junior Administrative Grade (JAG) level has been posted as IFA at Eastern Naval Command. IFAs have been provided in Naval Dockyards/ Depots at Vizag and Mumbai at JAG/STS/JTS level

Sr. No.	Naval Headquarters and Command Hqrs.	Naval Depots (MS)/Dockyards (ASD)
I	IFA Naval Hqrs (SAG).	FA to MS Mumbai (STS)
ii	IFA WNC(SAG)	FA to ASD Mumbai (JAG)
iii	IFA SNC(SAG)	FA to ASD Vizag(JTS)
iv	IFA ENC (JAG)	FA to MS Vizag (JTS)
v		FA to Flag officer of Goa Area. And Flag officer of naval aviation (STS)

(iii) AIR FORCE

IFAs at SAG level have been posted at Air Headquarters New Delhi and Maintenance Command, Nagpur. The IFAs at other Commands are at JAG/STS level. Dedicated IFAs have been positioned to provide finance cover to nine Base Repair Depots (BRDs)/ Equipment Depots (EDs). IFAs have also been nominated for providing IFA cover to Air Force Wings, and other Units and formations numbering 133.

Sr. No.	Air Headquarters	Command Hqrs.	IFA to Depots
I	IFA (Air HQrs.)(SAG)	IFA Maintenance Command (SAG)	9 IFAs (STS/JTS)in EDs/BRDs
ii		IFA Western Air Command (JAG)	IFAs Nominated for 133 units & formations of Air

			Force at JTS& STS level
iii		IFA South Western Air Command (JTS)	
iv		IFA Central Air Command (JAG)	
v		IFA Eastern Air Command (JAG)	
vi		IFA Southern Air Command (JAG)	
		IFA Training Command (JAG)	

(iv) OTHERS

In Director General Border Roads, an IFA of SAG level has been posted. IFA at Combined Integrated Defence Service Headquarters New Delhi is also an SAG level officer and the IFA Andaman Nicobar Command (ANC) is a JAG level officer. SAG level officers have also been positioned as IFA (R&D) and IFA Project 75<sup>10</sup>.

3.4.3 The above-stated IFAs in the lower formations of the MoD have been manned by IDAS officers. Further, their present role is presently confined to advising in exercise of delegated powers and in prudent expenditure management. The payment, accounting and internal audit functions continue to be carried out by the sub-offices under the Controller General of Defence Accounts and are carried out separate from the IFA set-up. To that extent, the situation in defence is different from that in railways.

**FINANCIAL ORGANIZATIONS UNDER OTHER MINISTRIES/  
DEPARTMENTS OF THE GOVERNMENT OF INDIA**

3.5.1 The Financial set up in Defence and Railways have traditionally been different from other Ministries and Departments in the Central Government. As stated earlier, these organizations had organized accounts service set up for a long time. It is the IFA's institution in other ministries that have been subject of scrutiny by various committees and expert bodies and it is there that we find a number of changes taking place over the years.

3.5.2 A list of IFAs in position as on 12.1.10 in various Ministries under the Central Government is given as Table 3.1. In all, at present, there are 28 designated IFAs for Ministries including those for Railways, Telecom and Defence. In the case of, Railways, Telecom and Defence, they are of the rank of Secretary to Government of India and assigned exclusively to that Ministry. In case of other Ministries, IFAs normally look after charge of more than one Ministry, with some Ministries as their main charge and others as additional charge. The FAs in other Ministries are of the rank of Additional Secretary or Joint Secretary.

**Table 3.1  
Financial Advisor (FA) set-up in Central Ministries as on 12.1.2010**

**(Source: Data obtained from E-Coord Division of Department of Expenditure, Ministry of Finance)**

	FA's Designation	MAIN CHARGE	ADDITIONAL CHARGE	SERVICE OF THE INCUMBENT FA
1.	Secretary Defence Finance	Ministry of Defence a) Department of Defence b) Deptt. of Defence		IDAS

		Production & Supply c) Deptt. of Defence Research & Development		
2.	Financial Commissioner Railways	Railways		IRAS
3.	Member (Finance Telecom)	a)Department of Telecom b)Department of Telecom Services		IDAS
4.	Additional Secretary(AS) &FA	Information & Broadcasting	Ministry of Law & Justice a) Department of Legal Affairs b) Legislative Department c) Department of Justice Department of Culture	IRAS
5.	AS & FA	Department of Industrial Policy & Promotion	a) Department of Corporate Affairs b) Department of Heavy Industry c) Department of Public Enterprise d) Ministry of Small & Medium Enterprises Ministry of Environment & Forests	IAS
6.	AS &FA	External Affairs	Cabinet Secretariat (Security Organization) Ministry of Overseas Indian Affairs	IAS
7.	AS &FA	a) Ministry of Road Transport &		IAS

		Highways b) Ministry of Shipping		
8.	AS & FA	Ministry of Steel		IAS
9.	AS & FA	Ministry of Consumer Affairs, Food & Public Distribution a) Department of Food & Public Distribution b) Department of Consumer Affairs		IAS
10.	AS & FA	Ministry of Commerce & Industry a) Department of Commerce	Ministry of Textiles	IAS
11.	JS & FA	Ministry of Urban Development Ministry of Housing & Urban Poverty Alleviation	Ministry of Development of North-eastern region	IA&AS
12.	AS & FA	Department of Agricultural Research & Education	Planning Commission Ministry of Planning Ministry of Statistics & Programme Implementation Department of Food Processing Industries	IAS
13.	JS& FA	Ministry of Chemicals & Fertilizers a) Department of Fertilizers	b) Department of Chemicals & Petrochemicals Department of Pharmaceuticals	Vacant
14.	AS& FA	Ministry of Petroleum & Natural Gas	Ministry of Social Justice & Empowerment	IAS

15.	AS & FA	Ministry of Agriculture a) Department of Agriculture & Cooperation b) Deptt. of Animal Husbandary, Dairying & Fisheries		IAS
16.	AS & FA	Department of Information Technology	Ministry of Minority Affairs Ministry of New & Renewable energy	IAS
17.	JS & FA	Ministry of Coal Ministry of Mines	Ministry of Youth Affairs & Sports	IAS
18.	JS& FA	Ministry of Communication a) Department of Posts		IP&TFAS
19.	AS&FA	Ministry of Rural Development	Ministry of Panchayati raj	IAS
20.	JS&FA	a) Department of Science & Industrial Research b) CSIR		IRS(C&CE)
21.	JS& FA	Ministry of Finance a) Department of Expenditure b) Department of Revenue c) Department of Economic Affairs	Ministry of Parliamentary Affairs Miscellaneous Department	IA&AS
22.	AS&FA	Ministry of Home Affairs a) Department of Internal Security b) Department of States c) Department of Home d) Department of Official Language e) Department of J&K Affairs	Min. of Personnel, Public Grievances & Pension	IAS

		f) Department of Border Roads Management		
23.	JS&FA	Department of Science & Technology	Department of Bio-tech.	CSS
24.	JS&FA	Ministry of Water Resources		IRS
25.	JS&FA	Ministry of Civil Aviation	Ministry of Tourism	IAS
26.	AS&FA	Ministry of Health & Family Welfare a) Department of Health b) Department of Family Welfare c) Department of AYUSH d) Department of Health Research.		IAS
27.	JS&FA	Ministry of Power	Ministry of Labour & Employment	IAS
28.	AS &FA	Ministry of Human Resources & Dev. a) Department of Secondary & Higher Education b) Deptt. of elementary education & literacy	Ministry of Tribal Affairs Deptt. of Women & Child Development	CSS

### REVISED CHARTER OF IFAs AS LAID DOWN BY MOF IN 2006

3.6.1 The scheme of IFA was reviewed by the MoF internally in 2006. This understandably applies to Ministries other than Defence and Railways. The reason for the review was the fact that in the last thirty years since its introduction, Indian economy has grown from a less developed stage to one of the fastest growing economies of the world. The need to match our systems to a fast growing economy was recognized. An important part of this was to have a re-look at some of the

institutionalized financial management systems. While the MoF recognized that the IFA scheme had served well till now, it also recognized that IFA's role, authority and accountability be redefined and codified in unambiguous terms.<sup>11</sup> Its latest instructions go a long way in bringing more clarity to the role of the IFAs. There are some distinct elements of the redefined charter of the role of IFAs under the said order from MoF.

3.6.2 First, it has conceived the role of the IFA to be akin to the role of the Chief Financial Officer in a corporate structure, with specific responsibilities for ensuring fiscal prudence and sound financial management. They would bring requisite financial expertise and overall perspective of financial management of the Government, as enunciated by the MoF.<sup>12</sup> This has undoubtedly made the role of the financial advisor in his integrated role more clear.

3.6.3 Second, it has not done away with the system of dual responsibility of the IFA both to the administrative secretary and to the Finance ministry. Indeed, the MoF order does not see any reason for conflict in the role of the IFA in a regime of dual responsibility. The instructions define the role of IFA vis-a vis the MoF as well as the administrative secretary in some more detail than hitherto fore. While being integrated to the set up, FA represents the MoF in all matters.<sup>13</sup>

3.6.4 The revised Government order stresses that MoF has been moving towards macro management of issues and delegating more power to administrative ministries. It lays down that FAs would be consulted by administrative ministries in all cases relating to exercise of delegated financial powers. While normally FA's advice would be expected to be adhered to, there could be instances in which the administrative ministries feel that there are valid reasons for some deviation. In such

rare instances, Secretaries of administrative ministries can exercise their power to overrule FA's advice by an order in writing.<sup>14</sup> To enable FAs to exercise their financial powers, they have the right of access to all records, reports, audits, reviews, documents, papers, recommendation or other material, which are the property of the Ministry.<sup>15</sup>

3.6.5 As far as interaction between MoF and FAs is concerned, the order institutionalizes the same to facilitate better two way communication and development of shared perspectives on financial issues. The administrative ministries would be clustered in three groups for this purpose, viz. economic/infrastructure sector, social sector and other ministries. Secretary (Expenditure) meets the FAs of each of these groups once in a quarter. The quarterly meetings are meant to cover various facets of the working of FAs including:-

- Implementation/ compliance of decisions taken in Finance Minister's quarterly meetings
- Discharge of responsibilities by FAs as envisaged in their charter
- Initiatives taken as a catalyst for policy formulation/ review and systems improvements in concerned ministries
- Identification of points for action on emerging sectoral issues, including potential opportunities within the sector/ Ministry.
- Major proposals/ projects currently in different stages of preparation/approval by the administrative ministries for the consideration of Cabinet/ Cabinet sub-committees<sup>16</sup>

3.6.6 As far as reporting systems to the MoF are concerned, FAs have been mandated to submit the following two annual reports to the Secretary (Expenditure), MoF through their administrative secretaries:-

- i) Annual Finance Report, which would be a factual report indicating the operational aspects of financial management of

the Ministry, including information on the resource requirement, pattern of expenditure with reference to outlay/budget, opening and closing unspent balances, opening and closing position of utilization certificates, position of non-tax revenue (user charges, dividends etc.) with reference to previous year, FRBM related activities etc. and suggestions for improvement.

- ii) Annual Outcomes and Systems Report, which would give factual information regarding outcomes achieved vis-à-vis intended (as per outcome budget), policy and systems changes/improvements and action taken/ results-achieved in regard to those aspects of FA's role which are not included in the Annual Financial report.<sup>17</sup>

3.6.7 The macro-control over IFAs by MoF has been envisaged to be within the concept where FA is an integral part of the administrative ministry. The overarching concept in redefining the charter for FAs is that they are meant to assist in achievement of objectives/ goals of their respective ministries. They must commit themselves to facilitate implementation of approved programmes, with due financial prudence, to ensure that monies allocated are spent on time, in the prescribed manner, to achieve the intended outcomes defined in measurable and monitorable terms. Assisting administrative ministries in ensuring 'value for money' would be a key objective for FAs, with emphasis on improving the quality of expenditure and requisite systemic improvements/capacity building for the purpose

3.6.8 In rendering their advice, the FAs would be expected to accord priority to macro management with a view to help in achieving the outcomes set by the Ministries as goals for themselves. The macro-issues could include schematic appraisal and concept functions, revenue

management, subsidy management, fiscal resource transfer issues, defining and evaluating outcomes besides maintaining and safeguarding the budget integrity etc. FAs would also be expected to look at total picture of resources for the sectors in which they are functioning, and assist the Secretaries of the ministries in moving towards greater resource mobilization, including in terms of enabling policy and regulatory framework to attract private sector funds

3.6.9 The specific tasks the FAs have been envisaged to be responsible for are as follows:-

**Budget Formulation:-** FAs would continue to be responsible for budget formulation. They are expected to bring in more analytical inputs into the budget formulation process, for improved budgeting and facilitating moving from 'itemized' to 'budgetary' control of expenditure. They would increasingly be required to assist the administrative ministries in moving towards zero-based budgeting, and assist in better inter se programme prioritization/ allocation within budgetary ceilings, based on analysis of expenditure profiles of each programme/ sub-programme and information on cost centers/ drivers; assessment of output, outcome and performance; and status of the projects/ programmes (e.g. priority to last mile projects)

**Outcome budget:-** Administrative ministries are required to prepare their 'outcome budgets' by late March each year, on the basis of annual financial statement presented in the Parliament. The outcome budget would reflect the outlays in terms of outcomes, defined in measurable and monitorable terms. Reasonability of budget estimates, vis-à-vis the intended outcomes, will be ensured through specific appreciation of unit costs of outcomes/ delivery. FAs would be involved in the preparation of outcome budgets. They would assist the administrative ministries in clear definition of measurable and monitorable outcome with specified deliverables, setting up appropriate appraisal, implementation/ delivery,

monitoring and evaluation systems; and ensuring actual achievement of the intended outcomes.

**Performance budget:-** Administrative ministries are required to prepare their respective 'performance budgets' by late March each year, indicating the 'outcome' of the "Outcome Budget" of the previous fiscal year. Thus while Annual Financial Statement and Outcome Budget would be for the ensuing financial year, the performance budget would present the picture for the year gone by. FAs are to be involved in and co-ordinate under the overall directions of the Secretaries concerned, the preparation of performance budgets for their ministries

**FRBM related tasks:** The Fiscal Responsibility and Budget management act required the Government to place disclosure-statements before Parliament along with Annual Financial Statement and Demands for Grants. FAs (with the assistance of CCAs/CAs) are responsible for preparation of these statements in the respect of their Ministry.

**Expenditure and cash management:** FAs would continue to be responsible for expenditure and cash management. MoF's initiatives for better expenditure management through sophisticated exchequer control mechanism would be supported by FAs with improved cash management, monitoring of cash flows effectively in the cash expenditure/ commitments to be agreed between the MoF and the Ministries/ PSUs/ Autonomous Institutions

**Project/ programme formulation, appraisal, monitoring and evaluation:-** The FAs are to take the lead in ensuring high quality appraisal and evaluation with requisite rigour. However, it has been made clear that administrative Joint Secretaries have to take the lead role in project/ programme formulation, implementation and monitoring.

**Screening of Proposals:-** FAs would be responsible for examining and forwarding all proposals, which need to be referred to any department in the Ministry of Finance.

### **Leveraging of non-budgetary resources for sectoral development:-**

FAs would assist the administrative ministries in evolving strategies for optimizing private sector investment and Public-private partnership in the sector, through enabling policies/ schemes and appropriate regulatory framework, formulating projects for external funding and taking innovative measures for leveraging of non-budgetary resources for sectoral development.

**Non-tax receipts:** FAs have been mandated to periodically review the various non-tax revenue receipts under control of the Ministry, in the context of market trends and other sectoral developments. FAs are expected to act as a catalyst in moving towards a regime in which the user charges recover the cost of service fully or substantially, and in case of only partial recovery to ensure that subsidy element is clearly quantified.

**Tax Expenditure:** FAs are to also monitor tax expenditures i.e. the revenue foregone by Government on account of various exemptions and concessions. Within administrative ministries, such proposals should be routed through FAs before finalization.

**Monitoring of assets and liabilities:** Each Ministry must have a comprehensive record of its assets and liabilities. FAs are to cause appropriate action for initial building up of such records and their on-going updation, as also for the maintenance and optimal utilization of the assets. FAs in Ministries with significant real estate assets/ property (land, buildings etc.) will cause a critical analysis of their utilization.

**Accounts and Audit:** FAs would be kept informed about the overall quality of maintenance of departmental accounts by their respective CCAs/ CAs. FAs would also progressively review the progress of internal audit and actions taken thereon, so as to make it an important tool for financial management. It has been reiterated that the CCAs/ CAs as heads of accounts wing will work under control and supervision of the Financial Advisors (Para 18) A fresh spectrum of the work of CCAs/ CAs

has also been delineated which includes receipts, payments and accounts, Internal Audit/ Performance Audit amongst other financial management activities.

**Procurements and Contracts:** FAs are required to set up strong internal systems to ensure due diligence and strict observance of MoF's guidelines in this regard.

**Financial Management systems :** FAs would periodically review the financial management of various programmes/ projects of the Ministry from the systems point of view and take action for making the financial management system more effective

**Nominee Directors on Boards of PSUs:-** As the nominees of Government on Boards of PSUs, FAs are expected to bring strong requisite expertise to bear on all major issues considered by boards.

**Use of Technology:-** FAs have been mandated to encourage increased use of technology, specially communications and information technology, not only in their domain but also domain of Ministries/ Departments with a view to ensure better utilization of resources available with the Government and improved delivery of public services to achieve intended results.<sup>18</sup>

3.7 An analysis of the above charter would show that FAs have been expected to play a very constructive, pro-active and positive role in the full spectrum of public financial management that goes far beyond the existing mandate of accounting, budgeting and expenditure control. The new charter expects the FAs to be co-partners in driving reforms in governance. While doing so, it makes clear their role as facilitators and advisors to the administrative Ministries. The new charter paves the way for finance becoming a more specialist than a generalist function in Central Ministries and departments.

3.8.1 The structure and functions of the IFA set up has also engaged the attention of other important committees/commissions who have made far reaching recommendations on the same. However, the recommendations have not yet been considered or implemented by the Government of India. A study of these nevertheless provides an insight on the current thinking on the IFA set up. These also may well be pointers to the future reforms in the IFA structure.

3.8.2 The Eshwaran Committee proposed in 1996 that the FAs be placed in full charge of financial management in their administrative ministries under the leadership of their Secretaries, and that FAs delegate their financial powers within their ministries. The MoF was advised to shift from micro-management, considering individual cases, to macro-level management. The responsibilities of the FA were redefined very extensively, particularly in project management, and three-year zero-based budgets were to be institutionalized. However, the recommendations were not accepted and implemented as a whole, though piecemeal changes continue to be made<sup>19</sup>

3.8.3 Subsequently, the Expenditure Reforms Commission (2001) also examined the IFA system. It had felt that to optimally utilize the officers at the level of IFAs and Chief Controllers of Accounts (CCAs) in Ministries and to reduce overstaffing, government should consider combining the functions of giving financial advice and supervision of accounts at the top level in a ministry. This arrangement will enable the government to appoint FA-cum-CCAs independently for more ministries and it may no longer be necessary to require some FAs to look after 3 or 4 departments as is now the case.<sup>20</sup> This also has not been accepted by Government till date

3.8.4 A review in the field has been conducted by the Second Administrative Reforms Commission (ARC). In its fourteenth report (2009), the commission has gone into a whole gamut of issues concerning the Public Financial Management System. As regards the IFA system, it has made the following recommendations:-

- a) The role of the Financial Adviser as the Chief Finance Officer of the ministry who is responsible and accountable to the Secretary of the Ministry/ Department should be recognized and the trend of dual accountability should be done away with.
- b) Officers with sufficient training and experience in modern financial management systems should be posted as Financial Advisers in the ministries/departments.<sup>21</sup>

The above recommendations of the ARC are still under examination of the Government.

#### **INTERNATIONAL COMPARISON- POSITION IN UK AND US.**

3.9 It will be worthwhile to examine the institutions of the Chief Financial Officer (CFO) in the USA and the Finance Director (FD) in the UK, which are similar to the IFA set-up in India. A study of the institution of FD would enable comparison with evolution of the system, which was the model for the Indian civil service before independence. A study of USA system offers insights from a developed nation that is often held out as the pioneer in the field of reforms in the field of public administration. In both these countries, the institutions have evolved into one that is fully integrated to the administrative structure and fully accountable for the results as a part of the same. Further, finance function is a specialized function manned by qualified people. There is scope for trained people from the private sector to man the jobs. The work content has been well-defined.

## **INSTITUTION OF FD IN UK**

3.10.1 The equivalent institution of the IFA in UK is the Finance Director. All agencies have an FD. The agencies are headed by a permanent secretary, who is also the 'Accounting Officer' of the department (which is similar to the position of Secretaries of Ministries in India) The mandate of the FD is by executive instruction, which is similar to the position of IFAs in India. Treasury administrative instruction lays down that the Permanent Secretary will invariably need a senior finance manager – normally a Finance Director, and sets out the specific responsibilities of the FD.<sup>22</sup>

3.10.2 The FD supports the Accounting Officer in: developing the department's aims and objectives; establishing the planning mechanisms; determining the allocation of resources; assessing competing priorities; monitoring the outturn of performance and resource consumption; achieving maximum value from the paybill; and ensuring that the department's staff take account of accepted standards of regularity and propriety and the need to secure value for money. FDs are at the apex of the finance function of each department, and are involved in all decisions that have financial implications.

3.10.3 The specific responsibilities of the FD vary according to the department, and department-specific elements have to be set out in writing. The general elements of the job description include: coordination and quality control of departmental expenditure proposals; coordination of planning; preparation of Estimates; control and monitoring of delegated authorities; advice to Accounting Officer on the regularity and propriety of expenditure; preparation of resource accounts; maintenance of costing systems; ensuring compliance with the Government

Accounting Manual; keeping spending within plans and the Estimates; reporting outturns promptly and accurately within the department and to the Treasury; ensuring that banking arrangements are secure and offer value for money; making payments and collecting receipts; ensuring that fees and charges are set and recovered in accordance with Treasury guidelines; ensuring that departmental managers obtain value for money; set appropriate indicators and targets for financial performance; ensure that procurement procedures are clearly understood and ensuring compliance with EU directives and Treasury guidance; and ensuring that the department has systems for monitoring executive agencies, non-departmental public bodies and public corporations sponsored by the department.

3.10.4 The FD is usually in charge of procurement. He should ensure that procurement strategies, procedures and responsibilities are clearly set out and understood by all staff, and ensure compliance with EU directives and guidance from the Treasury and the Office of Government Commerce. The FD is responsible for setting up systems to monitor adherence to procurement procedures.

3.10.5 Each department has a Management Board for setting out long-term strategies, approving key investment decisions and ensuring that the department's business planning and risk management is robust and sound. Most FDs are members of their Management Boards. The Board is chaired by the head of Department and consists of four Directors and three Non-executive Directors. The Non-executive Directors are experienced directors appointed from both government and the private sector. The Management Board meets monthly, and has two sub-committees - Audit and Remuneration - reporting to it.

3.10.6 As a member of the Management Board, the FD takes collegiate responsibility for all decisions of the Board, though the Accounting Officer remains ultimately accountable for all decisions. FD has responsibilities and is subject to his/her line superior (Departmental head), but within that framework has sufficient independence to carry out all responsibilities.

3.10.7 In theory, no commitment of resources can be made without Treasury approval. In practice, the Treasury delegates to departments authority to commit and spend within defined limits. The FD exercises this delegated authority through the head of department. FD reporting depends on the head of department, but normally includes monthly outturn reports and management accounting reports. These are submitted to the Management Board, and copied to the Treasury. The Treasury is encouraging FDs to copy them on other reports, including management reports that they submit to their Boards.

3.10.8 As in case of all civil servants subject to Annual Performance Report (APR), the FD's APR is prepared by the Head of Department. The Treasury has no input.

3.10.9 As regards appointment of FDs, agency heads have all the rights, duties and powers of an employer, so each agency has developed processes that best meet its requirements. These processes and the resultant recruitment decisions must, however, comply with central guidelines (Recruitment Code) issued by the Civil Service Commission. The CSC formally approves all appointments through external recruitment, and undertakes an audit of agency recruitment policies and practices. The guidelines include fairness and equal opportunity, eg. with regard to age, disability, race and sex. The Treasury is informed of applicants and may make comments or may sit on the agency's interview

panel to provide technical inputs. The FD should be technically competent and have a comprehensive understanding of the governing legislative framework. The FD should also be able to manage a team at the senior management level and have the capacity to interpret, analyse and present financial and related information for use in solving complex problems or analysing complex options. Since 2003, it has been the norm for an FD to be a professionally qualified accountant with senior-level finance experience as well as a graduate degree. By December 2006, 91% of all government expenditure was managed by qualified accountants. As the position is subject to merit selection it is open to both private and public sector applicants. Most FDs are now recruited from the private sector. Public sector experience is “useful but not essential”. Very few FDs have been promoted from the civil service

3.10.10 There is no separate accounts/finance cadre. The Government Finance Profession (formerly called Government Accounting Service) is a professional association, not a cadre. All are part of the civil service structure. Remuneration package is determined by negotiation with the selected candidate. Typical salary is £120-150,000 a year. Tenure depends on the contract: most FDs are on permanent tenure. FDs can apply for transfer. An FD at Director level can be promoted to Managing Director and can become permanent secretary in open competition, or an FD in a larger department/ ministry.

3.10.11 FDs are qualified professionals, subject to schemes of continued professional development managed by their professional institutes. Their skills are assessed in the recruitment process. Under the Professional Skills in Government Initiative, core FM competencies have been agreed by the Civil Service Management Board for all senior civil servants. New entrants to the civil service receive induction training at the National School for Government (the former Civil Service College).

New FDs receive initial mentoring by another FD in the same ministry. The Government Finance Profession (a unit in the Treasury) runs quarterly meetings for FDs, which all 40 FDs usually attend. There are several training institutions offering relevant courses, including the National School for Government.

3.10.12 The Accounting Officer(AO) is responsible for maintaining a sound system of internal control (with assistance from the FD) and managing risk. The AO is required to make an annual Statement on Internal Control (SIC), which accompanies the Accounts. The SIC is developed by the Head of Internal Audit and reviewed by the Audit Committee (and Risk Committee if there is one) as a service to the AO. The FD is responsible for the control system, while Internal Audit is responsible for independent review and reporting on it. FD is involved with Internal Audit only in connection with his/her responsibility for the budget: the FD has to ensure sufficient resources are allocated to internal audit. Internal audit queries are directed to the responsible officers within the department. FDs are also responsible for ensuring appropriate technological support for financial management information system in the department

3.10.13 External audit is conducted by the National Audit Office (NAO). The FD is responsible for the department's relations with the NAO. FD receives the NAO's Management Letter and coordinates replies to the NAO. He liaises with the external auditors (NAO) and ensures that the reports correctly reflect the department's position before the Accounting Officer agrees to publication.

3.10.14 In regard to the Finance Directorate headed by the FD, there is no standard structure. Each department organizes its own Finance Directorate. The number of support staff and their titles vary significantly

depending on the size and complexity of the agency. Below the FD there is a Head of Group Accounts or Chief Accountant (there is no Deputy FD - the Chief Accountant may act as FD in his absence). Qualified accountants are expected to fill posts at the two levels below FD. Finance staff are trained in finance, procurement staff trained in procurement, etc. FDs are responsible for managing their staff, including recruitment, professional development and performance management. They develop training plans for their staff and have a budget for this purpose.

### **THE INSTITUTION OF CFO IN US**

3.11.1 In US Federal Government agencies, the Chief Financial Officer Act 1990 provides a legislative basis for the mandate of CFOs, and defines their authority and functions. The Office of Management and Budget (OMB), which comes under the President, provides the operational guidelines under which a CFO is expected to carry out his/her functions. The Controller in the Office of Federal Financial Management (OFFM, part of the OMB) is the accounting authority for the Federal Government as a whole.<sup>23</sup>

3.11.2 The Secretary of the department is the head of the department/agency and is responsible for the conduct of business of the department as a whole. The CFO reports to the Secretary of the agency to which he is appointed and is also in constant communication with the OMB (while not having any line responsibility to them). The role of the CFO is advisory and supportive in nature and it is the departmental Secretary who takes the final decisions with regard to the work of the department. The CFO nevertheless provides extensive inputs into all financial decision making, especially that related to the budget process. Once the budget appropriations are passed, both the Secretary and the CFO work within the parameters of the OMB guidelines.

3.11.3 The CFO has overlapping roles with the Inspector General (IG), which also has a legislative mandate. The IG is appointed by the President and is confirmed by the Senate. He/she reports to the Secretary of the Department and also reports to the Congress, six-monthly. The IG is responsible for independent oversight of the agency's functions. While the IG is responsible for the financial audit and certification of financial statements, the work is often outsourced to external audit firms. The IG also investigates any issues raised by the Government Accountability Office. The GAO is an arm of the Congress and conducts external audits and evaluations of departmental policies, programmes and internal operations. It also conducts compliance assessments and fraud investigations, where necessary. The various Congressional committees review the reports of both the GAO and the IG, and while the Secretary testifies on policy and budget issues, the CFO certifies financial related matters.

3.11.4 The CFO is responsible for all financial management activities and processes including preparation of annual financial statements, which are finally signed off by the Secretary. The CFO oversees all financial management activities relating to the programmes and operations of the agency; develops and maintains an integrated agency accounting and financial management system, including financial reporting and internal controls, which complies with applicable accounting principles, standards and requirements, and internal control standards.

3.11.5 Broadly speaking, the CFO functions are uniformly structured across all federal agencies. However the CFO Act is implemented with a slight difference across federal departments - there are CFOs who are identified as having a "full service CFO role" and those

that are not “full service”. The former exercise all agency financial functions, including budget responsibilities, while the latter do not have any budget responsibilities. Of the 24 major federal departments/agencies, 22 have “full service” CFOs.

3.11.6 The US federal budget proposals are prepared by the OMB and appropriations are passed by the Congress, following which the OMB authorizes release of funds to the department. During this entire process, the CFO actively engages with the budget side of the OMB, through projecting agency requirements to them as also coordinating with the OMB once the appropriations have been passed. The CFO also liaises both with the Government Accountability Office (GAO) and the agency Inspector General (IG) on audit and accountability matters.

3.11.7 Budgetary allocations in the US federal system are based on agency programmes and not on budget line items. It is the individual programme managers, and not the agency CFO, who are responsible for executing programme budgets once appropriations are approved. The programme managers also account for and report on the usage of funds. Any changes/reallocations to the appropriations or proposals for transfer of funds from one programme to another within the agency require the prior approval of the Senate Appropriations Committee (AC). The CFO has a limited power of moving funds between individual items under the category of “discretionary spending”, but neither the CFO nor the Secretary can alter the “mandatory spending” without approval of the AC. Once the appropriations have been passed, the management side of the OMB monitors the department/ agency spending as well as programme execution, and provides appropriate strategic advice and guidance. Additionally, a regulatory group within the OMB monitors departmental adherence to regulations and guidelines and programme performance.

3.11.8 The CFO is a cabinet level position and, like the Secretary, is appointed by the President with the advice and consent of the Senate (in respect of those agencies described under subsection (b) (1) of the CFO Act). CFOs in agencies defined in sub-sec (b) (2) of the CFO Act are career appointees from the competitive service or the senior executive service, and are appointed by the head of the agency concerned. While the CFO Act does not specify the exact qualifications required for the position, it states that the individual must have “extensive practical experience in financial management practices in large governmental or business entities”. Some of the job skills prescribed for federal financial managers relate to management accounting, budget formulation, performance auditing and implementation of internal controls etc. Federal CFOs come from both the public and private sectors and there is a fair amount of two-way mobility. Often, CFOs have relevant sectoral experience in the private sector before joining a particular department of the Federal Government. The possibility of a generalist administrator becoming CFO is therefore slim. The CFO positions are not openly advertised, as they are political appointments: instead they are known and circulated by word of mouth. The US CFO is therefore a key political appointment with a strong legislative basis.

3.11.9 The tenure of the CFO is at the pleasure of the President, and the agency CFOs generally change with the change of President. In practice the average tenure of a CFO in a federal department/agency is about 18-24 months. As the CFO heads the finance function in an agency, further career advancement within the agency is unlikely, unless the incumbent is appointed the Secretary. In general, there is no defined system of assured career progression and promotions in the federal departments, and appointment to every higher position is through open competition. All federal civil service positions are advertised and

selections made depending on the job description requirements and the availability of the required skill set. The Deputy CFO in an agency is normally from the career civil service and is not a presidential appointee. The CFO is primarily responsible for identifying his/her own training needs. As CFOs are mostly professional accountants, they are required by their professional bodies to continue updating their professional development. There are several agencies providing training. In addition, the Chief Financial Officers Council has six committees including the Best Practices Committee and Financial Management and Policies Committee that help CFOs assess as well as satisfy their needs for training and capacity development. Some of the new areas in which the CFO is required to have knowledge are: linking performance to accountability; improved internal controls in the wake of the SOX legislation (Sarbanes-Oxley); cost accounting and management to increase efficiency of programmes; performance auditing; specialty accounting (for asset management, debt management etc.); and accelerated reporting (since CFOs are required to provide timely financial reports and to close their books within 45 days of the end of the fiscal year).

3.11.10 There is no individual performance appraisal of the CFO. His/her performance is interpreted through the agency's financial performance as a whole. The OMB evaluates the total agency performance based on a balanced scorecard method that uses financial indicators, such as submission of financial reports on time, no improper payments, compliance with various Acts and obtaining clean audit reports. This continuous and transparent evaluation of the agency's performance is a key factor in ensuring good governance and financial management. The performance of both the departmental Secretary and the CFO is therefore indirectly evaluated through this process.

3.11.11 Any difference of opinion between the departmental Secretary and the CFO over financial matters is expected to be addressed while the budget requirements are being discussed within the agency. Further on, discussions with the OMB provide an opportunity to the agency to lay out its work plan and provide justifications to OMB on budget requirements. The finalized appropriations are expected to provide full clarity on the programme allocations, and on mandatory and discretionary spending.

3.11.12 The CFO is supported by a Deputy CFO and several career finance staff managing distinct activities such as cash management, asset management etc. For example, the US Dept. of Labor has a Presidentially appointed CFO, and a Deputy CFO and two Associate Deputy CFOs who are career senior executives of the United States Civil Service. The number of staff varies according to the size and activities of the agency.

3.11.13 The support staff should be trained in finance, and are expected to have basic accounting and finance qualifications. Since they are recruited through the accounting/finance career stream, they are expected to build on their basic qualifications by acquiring further professional certification. The federal finance staff are expected to have basic degrees in accounting and finance, with advanced professional certification (CPA, CMA etc.) Additionally, they are expected to acquire core competencies in financial and performance reporting in such areas as performance measurement, balanced scorecard measurement, internal controls, cost accounting, budget planning and execution, IT capital investments, etc. Training is provided by the individual agencies, by NGOs such as the Performance Institute, as well as through the various certification programmes offered by the American Institute of Certified Public Accountants, the Institute of Certified Management

Accountants, etc. The CHCO (Chief Human Capital Officer) oversees the training programmes with CFO inputs. One of the institutional mechanisms for ongoing capacity building is elaborated in Sec. 503 of the CFO Act which defines the functions of Deputy Director for Management (OMB). This includes developing and maintaining qualification standards for agency CFOs and Deputy CFOs, and providing advice to agencies regarding the qualifications, recruitment, performance, and retention of other financial management personnel.

3.12 A study of the institutions of FD in UK and CFO in US would show that as the functioning of the respective Governments have become performance-oriented, finance has come up as a distinct specialized discipline as an integrated part of the administrative set-up. The position has become much similar to the finance function in the corporate sector. In India, such a system was introduced in the Railways long back but is a more recent phenomenon as far as other ministries are concerned. Furthermore, a complete integration of finance to the administrative ministries is a process that is still not complete. Also, finance is yet to emerge as a specialized and professional discipline the way it has emerged in US and UK. It possibly is still at an intermediate stage of evolution and only at the primitive stage of specialization. The implications of the same as obtained during the fieldwork carried out for this research is covered in the next chapter.

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- <sup>1</sup> [http://www.indianrailways.gov.in/financecode/irfc1/chapter-1\(R\).pdf](http://www.indianrailways.gov.in/financecode/irfc1/chapter-1(R).pdf) accessed on 23.2.10
- <sup>2</sup> ibid
- <sup>3</sup> ibid
- <sup>4</sup> ibid
- <sup>5</sup> <http://mod.nic.in/aboutus/modfin/welcome.html> accessed on 23.2.10
- <sup>6</sup> ibid
- <sup>7</sup> ibid
- <sup>8</sup> ibid
- <sup>9</sup> <http://cgda.nic.in/ifa/index.html> accessed on 23.2.10
- <sup>10</sup> ibid
- <sup>11</sup> Government of India (2006) *Scheme of 'Integrated Financial Adviser'. Office Memorandum No. F. No. 5(6)/L&C/2006 dated June 1, 2006*. New Delhi: Government of India
- <sup>12</sup> Ibid Para 6
- <sup>13</sup> Ibid Para 4
- <sup>14</sup> Ibid Para 12
- <sup>15</sup> Ibid Para 11
- <sup>16</sup> Ibid Paras 20-22
- <sup>17</sup> Ibid Paras 13-16
- <sup>18</sup> Ibid Para 9
- <sup>19</sup> V.B. Eswaran(1996) Report of the Committee to Review Integrated Financial Advisor Scheme, Ministry of Finance, Government of India
- <sup>20</sup> Government of India (2001) *Tenth Report of Expenditure Reforms Commission: Rationalisation of the Functions, Activities and Structure of the Department of Expenditure*. New Delhi: Government of India
- <sup>21</sup> Government of India (2009) *Fourteenth Report of Second Administrative Reforms Commission: Strengthening Financial Management Systems*. New Delhi: Government of India
- <sup>22</sup> The comparative position of FD in UK and IFA in India was studied by the World Bank in their Research Paper "The Role of the Integrated Financial Adviser in the Government of India" (2009). The study was conducted based on a request by the Finance Ministry. The inputs on role and structure of FD in UK while compared to IFAs in India have been compiled mainly from the said research paper available with MoF in India. The said research paper does not appear to have been published
- <sup>23</sup> Same as at 22 above. The Research Paper studied the comparative institutions in US & UK besides Canada, Australia, South Africa, Brazil, Mexico, Pakistan and Indonesia