

# **General Study Material On IFA System**



## **Volume Two**

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## **The Structure And Functions Of Ministry Of Defence And The Important Organizations Under Its Control**

The Armed Forces are primarily responsible for ensuring the territorial integrity of the nation. The Ministry of Defence (MOD), headed by the Defence Minister or the Raksha Mantri (RM), provides policy framework and wherewithal to the Armed Forces to discharge their responsibility in the context of the defence of the country. The principal task of the Ministry is to obtain policy directions of the Government on all defence and security related matters and communicate them for implementation to the Services Headquarters, Inter-Service Organisations, Production Establishments and Research & Development Organisations. It is also required to ensure effective implementation of the Government's policy directions and the execution of approved programmes within the allocated resources. The MOD consists of three Departments, namely, Department of Defence, Department of Defence Production & Supplies and Department of Defence Research & Development. The Defence Secretary functions as head of the Department of Defence and is additionally responsible for coordinating the activities of the three Departments in the Ministry. The principal functions of all the Departments are as follows:

**(I) The Department of Defence** deals with the three Services and various Inter-Service Organisations. It is also responsible for the Defence Budget, establishment matters, defence policy, matters relating to Parliament, defence co-operation with foreign countries and co-ordination of all activities. The details of matters dealt by it can be listed as below:-

- Defence of India and every part thereof including preparation for defence and all such acts as may be conducive in times of war to its prosecution and after its termination to effective demobilization.
- The Armed Forces of the Union, namely, the Army, the Navy, the Air Force.
- Integrated Headquarters of the Ministry of Defence comprising Army Headquarters, Naval Headquarters, Air Headquarters and Defence Staff Headquarters.
- The Reserves of the Army, Navy and Air Force.
- Territorial Army.
- The National Cadet Corps.
- Works relating to Army, Navy, Air Force and Ordnance Factories.
- Remounts, Veterinary and Farms Organisation.
- Canteen Stores Department (India).
- Civilian Services paid from Defence Estimators.
- Hydrographic Surveys and preparation of navigational charts.

- Formation of Cantonments, delimitation/excision of Cantonment areas, local self-government in such areas, the constitution and powers within such areas of Cantonment Boards and authorities and the regulation of house accommodation (including the control of rents) in such areas.
- Acquisition, requisitioning, custody and relinquishment of land and property for defence purposes. Eviction of unauthorized occupants from defence land and property.
- Matters relating to ex-Servicemen including pensioners.
- Defence Accounts Department.

• Administration of:-

the Pension Regulations for the Army, 1961 (Parts I and II);

the Pension Regulations for the Air Force, 1961 (Parts I and II);

the Navy (Pension) Regulations, 1964; and

the Entitlement Rules to Casualty Pensionary Awards to the Armed Forces Personnel, 1982.

- Purchase of foodstuffs for military requirements and their disposal excluding those entrusted to Ministry of food and Civil Supplies (Department of Food).
- All matters relating to Coast Guard Organisation, including: -  
Surveillance of maritime zones against oil spills;  
Combating oil spills in various maritime zones, except in the waters of ports and within 500 metres of offshore exploration and production platforms, coastal refineries and associated facilities such as Single Buoy Mooring (SBM), Crude Oil Terminal (COT) and pipelines; Central; Coordinating Agency for Combating of Oil Pollution in the coastal and marine environment of various maritime zones;  
Implementation of National Contingency Plan for oil spill disaster; and  
Undertaking oil spill prevention and control, inspection of ships and offshore platforms in the country, except within the limits of ports as empowered by the Merchant Shipping Act, 1958.  
Matters relating to diving and related activities in the country.

• The following inter-Service Organisations function under the Ministry of Defence:

- Military Engineer Services.
- Armed Forces Medical Services.
- Directorate General of Defence Estates.
- Office of the Chief Administrative Officer.
- Directorate of Public Relations.
- Army Purchase Organisation.
- Services Sports Control Board.
- Armed Sports Control Board.

- Armed Forces Films and Photo Division.
- School of Foreign Languages.
- History Division.
- National Defence College.
- College of Defence Management.
- Ministry of Defence Library.

**(II) The Department of Defence Production and Supplies** is headed by a Secretary and deals with matters pertaining to defence production, indigenisation of imported stores, equipment and spares, planning and control of departmental production units of the Ordnance Factory Board and for Defence Public Sector Undertakings (DPSUs). The matters dealt by it are as below:-

- Ordnance Factory Board and Ordnance Factories.
- Hindustan Aeronautics Limited (HAL).
- Bharat Electronics Limited(BEL)
- Mazgon docks Limited (MDL).
- Garden Reach Shipbuilders & Engineers Limited(GRSE).
- Goa Shipyard Limited(GSL)
- Bharat Dynamics Limited(BDL)
- Mishra Dhatu Nigam Limited(MIDHANI)
- Bharat Earth Movers Limited (BEML).
- Directorate General of Quality Assurance (DGQA) including Directorate of Technical Development & Production (Air).
- Standardisation of defence equipments and stores including Directorate of Standardisation.
- Development of aeronautics industry and Co-ordination among users other than those concerned with the department of Civil Aviation and the Department of Space.
- Indigenisation, development and production of items required for defence purposes.
- Procurement exclusive to the defence services.
- Defence exports and international Cooperation in defence production.

**(III) The Department of Defence Research and Development** is headed by a Secretary, who is also the Scientific Adviser to the Raksha Mantri. Its function is to advise the Government on scientific aspects of military equipment and logistics and the formulation of research, design and development plans for equipment used by the Services. The matters dealt by it are as below:-

- Apprising, assessing and advising Raksha Mantri on the influence on national Security of Emerging developments in Sciences and Technology.

- Rendering advice to Raksha Mantri and to the three services and inter-services and inter-Services Organizations on all scientific aspects of weapons; weapon platforms; military operations; surveillance; support and logistics, in all likely theatres of conflict.
- To function, with the concurrence of the Ministry of External Affairs, as the nodal co-ordinating agency of the Ministry of Defence on all matters relating to instruments of Accord with foreign Government relating to the acquisition of technologies whose export to India is the subject of national security related controls of foreign Governments.
- Formulation and execution of programmes of scientific research and design, development, test and evaluation, in fields of relevance to national security.
- Direction and administration of agencies, laboratories, establishments, ranges, facilities; programmes and projects of the Department.
- Aeronautical Development Agency.
- All matters relating to certification of the design air worthiness of military aircraft, their equipment and stores.
- All matters relating to the protection and transfer of technology generated by the activities of the Department.
- Scientific analysis support and participation in acquisition and evaluation proceedings of all weapons systems and related technologies proposed to be acquired by the Ministry of Defence.
- To render advice on the technological and intellectual property aspects of the import of technology by production units and enterprises manufacturing, or proposing to manufacture, equipment and stores for the Armed Services.
- To deal with reference made under section 35 of the Patents Act, 1970 (39 of 1970).
- Financial & other material assistance to individuals, institutions and bodies corporate, for study and for the training of manpower on aspects of Science and Technology that bear on national security.
- In consultation with the Ministry of External Affairs, international relations in matters connected with the role of Science and Technology in national security including:-
  - ✓ matters relating to relations with Research Organizations of other countries and with Inter- Governmental agencies, particularly those which concern themselves, inter alia, with the scientific and technological aspects of national security.
  - ✓ arrangement with Universities, educational and research-oriented institutions or bodies corporate abroad to provide for foreign scholarships and the training of Indian scientists and technologies under the administrative control of the Department.

- Execution of works and purchase of lands debitable to the budget of the Department.
- All matters relating to personnel under the control of the Department.
- Acquisition of all types of stores, equipment and services debitable to the budget of the Department.
- Financial sanctions relating to the Department.
- Any other activity assigned to, accepted by, the Department through understandings or arrangements with any other Ministry, Department Agency of the Government of India whose activities have a bearing on the scientific and technological aspect of national security.

**The Finance Division of the Ministry of Defence** is headed by Secretary Defence (Finance). He exercises financial control over proposals involving expenditure from the Defence Budget and is responsible for internal audit and accounting of defence expenditure. In the latter tasks, he is assisted by the Controller General of Defence Accounts (CGDA). The matters dealt by it are as below:-

- To examine all Defence matters having a financial bearing.
- To render financial advice to the various functionaries of Ministry of Defence and the Service Headquarters.
- To act as integrated finance Division of Ministry of Defence.
- To assist in the formulation and implementation of all Scheme/proposals involving expenditure.
- To assist in the formulation and implementation of Defence Plans.
- To prepare Defence budget and other estimates for the Defence Services and to monitor the progress of the Schemes against the budget.
- To exercise post-budget vigilance to ensure that there are neither considerable shortfalls in expenditure nor unforeseen excesses.
- To advise heads of branches of the Armed Forces Headquarters in the discharge of their financial responsibility.
- To function as the accounting authority for Defence Services.
- To prepare the Appropriation Accounts for the Defence Services.
- To discharge the responsibility for payments and internal audit of Defence expenditure through the Controller General Defence Accounts.

A number of Committees dealing with defence related activities assist the Raksha Mantri. He holds weekly meetings which are attended by the Defence Secretary, Secretary (Defence Production & Supplies), Scientific Adviser to Raksha Mantri, Secretary Defence (Finance), Principal Secretary to the Prime Minister, Cabinet Secretary, Foreign Secretary and the Chiefs of Staff of the three Services to review important developments and discuss issues concerning national security.

**The Chiefs of Staff Committee** is a forum in which the Service Chiefs discuss matters having a bearing on the activities of the Services and advise the Ministry. The position of Chairman of the Chiefs of Staff Committee devolves on the longest serving Chief of Staff, and consequently rotates amongst the three Services. To facilitate the work of the Chiefs of Staff Committee, a number of subcommittees have been established with representation from the three services.

The three Services Headquarters, viz., the Army Headquarters, the Naval Headquarters and the Air Headquarters function, under the Chief of the Army Staff (COAS), the Chief of the Naval Staff (CNS) and the Chief of the Air Staff (CAS) respectively. They are assisted by their Principal Staff Officers (PSOs).

The Inter-Services Organisations, under the Department of Defence are responsible for carrying out tasks related to common needs of the three Services such as medical care, public relations and personnel management of civilian staff in the Defence Headquarters.

The broad array of challenges both existing and potential to the national Security in the fast changing geo-strategic security environment mandated a reappraisal of our security procedures to cope with them. The Government, keeping this in view, had instituted a comprehensive review of the National Security System in its entirety for the first time in the history of independent India. The review was carried out by a Group of Ministers (GOM) constituted on April 17, 2000. The GOM consisted of the Home Minister, the Raksha Mantri, the External Affairs Minister and the Finance Minister. The Group of Ministers set up four Task Forces one each in the areas of (i) Internal Security; (ii) Border Management; (iii) Intelligence Apparatus; and (iv) Management of Defence, which were multi-disciplinary in character and comprised of acknowledged experts, to facilitate its tasks. The recommendations of the Group of Ministers, which aim at integration of the civil and military components and ensuring 'Jointness' and 'Synergy' among the Armed Forces, were approved by the Government on May 11, 2001. The Report of the GOM in so far as 'Management of Defence' is concerned included amongst others, measures such as creation of the Chief of Defence Staff(CDS), creation of a Defence Procurement Board, a Defence Production Board, a Defence R&D Board, preparation of holistic and integrated Defence Perspective Plans for 15-20 years, establishment of a National Defence University, effective media management, establishment of Andaman & Nicobar Island Command and Strategic Forces Command, integration of Service Headquarters with the Ministry of Defence and delegation of higher administrative and financial powers to the Services.

The process of implementation of the recommendations made by the Group of Ministers regarding reforms in Defence was initiated in 2001. These reforms have brought about improvements in the organizations, structures and processes for the integration of civil and military components. Some of the major reforms are detailed in the following paragraphs.

**Integrated Defence Staff** : A decision regarding the recommendation of the Group of Ministers for creation of the Chief of Defence Staff (CDS) has not been taken by the Government as yet pending consultation with political parties. However, with a view to ensure higher degree of jointness amongst the Services and attempt inter-service and intra-service prioritization, the Government has set up the Integrated Defence Staff, headed by the Chief of Integrated Staff to Chairman, Chiefs of Staff Committee (CISC), to support the Chiefs of Staff Committee and its Chairman in the optimal performance of their roles and functions. The CISC supervises the Integrated Defence Staff, chairs all multi-Service bodies and the Defence Crisis Management Group (DCMG) and is also responsible for the coordination of long-range plans, five year plans and annual budgetary proposals of the three Services in consultation and coordination with the Integrated Services Headquarters. The CISC renders advice to the Government on prioritization for developing force levels and capabilities through restructuring proposals, undertakes net assessment comprising the totality of the national capability, formulates joint doctrines in consultation with Service Headquarters, conceptualizes policy and programmes on joint planning and military education for personnel of Defence Services, render advice for evolving responses to non-conventional and unconventional threats to national security and proposes measures to be taken for ensuring the required jointness amongst the Armed Forces and enhancing the efficiency and effectiveness of the planning process through intra and inter-Service prioritization.

**Defence Intelligence Agency** : The Government has also set up the Defence Intelligence Agency (DIA) under DG DIA to co-ordinate and synergise the intelligence Wings of the Services. The DIA is responsible for providing integrated intelligence inputs to the higher echelons of Defence Management

**Defence Acquisition Council** : The Government has set up a Defence Acquisition Council headed by the Raksha Mantri for decision making in regard to the totality of the new planning process, which inter-alia involves according 'in principle' approval of capital acquisitions in the long term perspective plan and according 'in principle' approval for each capital acquisition programme. The decisions flowing from the Defence Acquisition Council are to be implemented by the following three Boards:-

- (i) **Defence Procurement Board** headed by the Defence Secretary;
- (ii) **Defence Production Board** headed by the Secretary (Defence Production & Supplies); and
- (iii) **Defence Research & Development Board** headed by Secretary (Defence Research & Development).

These Boards have been entrusted with specific functions.

**A Defence Acquisition Wing** headed by Special Secretary (Acquisition) has also been created to assist the Defence Procurement Board in its functioning. The new structures are intended to facilitate expeditious decision-making in an integrated manner in areas relating to acquisitions for the three Services while at the same time imparting a higher degree of transparency and cost effectiveness to the process of acquisition of equipment, weapon and weapon systems.

**Defence Technology Council (DTC)** : Defence Technology Council has been constituted under the Chairmanship of Raksha Mantri by the Government to provide guidance and supervision of growth and promotion of research, development and production related to Defence Technologies. DTC will assist the Defence Acquisition Council in taking holistic decisions on specific Defence Projects related to long term perspective plans and five year plans.

**Andaman and Nicobar Command** : The first tri-Service Joint Command was established in October 2001 in Andaman and Nicobar under the Commander-in-Chief (C-in-C) who exercises control over all force components of the three Services and the Coast Guard located in Andaman and Nicobar Islands. The C-in-C, Andaman and Nicobar Command reports to the Chairman, Chiefs of Staff Committee.

Keeping in view the nuclear, chemical and biological dimensions of our security environment and in keeping with our commitment to no first use of strategic assets, the Government has approved establishment of requisite structures for administering the Strategic Assets and also set up the **Strategic Forces Command**.

**Delegation of Administrative and Financial Powers** : Various administrative and financial powers have been delegated to the Integrated Service Headquarters to impart enhanced autonomy in their functioning. Decentralization of decision-making powers has strengthened and upgraded the decision-making apparatus in the Services. With higher delegation of financial powers, greater efficiency and cost effectiveness with accountability has brought about the transparency desired in the system of defence related expenditure.

### **Important Organizations under MOD**

Besides the three services namely the Army, Navy and Air Force, which are functioning under their respective Headquarters under the overall control of the respective chiefs, the MOD also administers other defence related organizations. A broad profile of some of the important organizations under the MOD are as given below:-

**The Coast Guard** is an Armed Force of the Union, set up in 1978, for the protection of our Exclusive Economic Zone (EEZ). The Coast Guard is responsible for keeping India's EEZ under regular surveillance in order to prevent poaching/smuggling and other illegal activities. The duty of Coast Guard also includes the pollution control at Sea, Search and Rescue (SAR) and protection of Marine Environment. The Command & Control of the Coast Guard is exercised by the Director General, Coast Guard from the Coast Guard Headquarters located at New Delhi. It has three Regional Commands with the Regional Headquarters situated at Mumbai, Chennai and Port Blair. The entire coastline of India and the maritime zones are divided into three Regions. The Regions are further divided into Coast Guard Districts, each representing a coastal State, under a District Commander. There are two Air Stations at Daman and Chennai and four Air Enclaves at Goa, Mumbai, Kolkata and Port Blair.

**Canteen Stores Department (CSD)** is engaged in supply of consumer goods of high quality to troops, wherever they are, at a price cheaper than the prevailing market price. The primary customers of the CSD are the defence officers, soldiers, sailors and airmen. Certain specified defence civilians are also entitled to receive the canteen facilities. CSD procures consumer items in bulk directly from the manufacturers/ sole selling agents and distributes the same to approximately 3500 Unit Run Canteens, which serve as the retail outlets, through its network of 35 area/ base depots located all across the country. The CSD Headquarters are located in Mumbai. For the administration of CSD, there is a board of administration in Mumbai whose chairman is the General Manager CSD, with one representative each of MOD (Finance) and Quarter Master General. The apex body controlling the activities of the CSD is the Board of Control for Canteen Services at New Delhi. The chairman of the board is the Raksha Mantri and other members are the Defence Secretary, Secretary (Defence Finance), Quarter Master General and representatives from Naval and Air Headquarters. The broad policy which the CSD is required to follow are laid down by this board. The executive committee of the board consists of Additional Secretary (MOD), QMG, Addl. FA (MOD) and the GM, CSD.

**The Territorial Army** constituted under the Territorial Army Act of 1948 is designed to relieve the regular Army of static duties, to aid the civil power and to provide units for the regular Army as and when required. Commissioning and enrolment in it are voluntary. It consists of two types of units- Urban and provincial. The provincial units are intended mostly for rural populace and are embodied for training of two months at a stretch. In the urban units, except the Railways and P&T units, training is imparted outside office hours so as not to interfere with the normal civil vocation of TA personnel. The state and the central Governments have allowed their personnel belonging to the urban units to draw their military pay and allowances, in addition to their civil emoluments for the period of training. For the purpose of pay and allowances, four hours of training is reckoned as one day. The period of training laid down per annum for the personnel of the urban units is not less than 36 days and not more than 60 days including an annual camp of 14 days duration. The pay allowances and other concessions available to TA personnel during training/ service in the Territorial Army are more or less the same as for the regular Army personnel.

**National Cadet Corps (NCC)** came into existence in 1948 by an Act of Parliament. The NCC which had a modest strength of 1.6 lakhs in 1948 now stands at approximately 13 lakhs. These cadets are enrolled from 6985 schools and 5159 colleges spread across the country and are controlled by 773 NCC units. The motto of NCC is “Unity & Discipline” - unity of the nation and self-discipline. The other important concept that the NCC strives to develop amongst the cadets is selfless service to the Nation. The NCC strives to provide the youth opportunities to develop in an all-round fashion with a sense of commitment, dedication, selfless service, adventure and moral values under one umbrella. The most important aspect of the NCC is that the opportunities are provided to young people across the country from all strata and large numbers are given a chance. The expenditure on NCC is shared between the state and the Central Governments. The Central Government bears the expenditure on:-

- Pay and allowances of defence service personnel drafted for service with NCC, Civilians employed in Directorate General NCC, NCC directorate in states and training establishments,
- Transportation expenses,
- Expenditure on office accommodation and contingencies in Directorate General NCC, NCC Directorates in states and training establishments,
- Expenditure on equipment, weapons, practice ammunition, vehicles and other stores, clothing for permanent training staff and cadets,
- 50 % of NCC camp expenditure

The State Government bears the expenditure on:-

- Pay and allowances of State Government employees in NCC directorates, Group Headquarters and units,

- Expenditure on office accommodation, furniture, equipment, contingencies, training and amenity grant, cost of petrol, oil etc. in respect of NCC group headquarters and units,
- Refreshment, washing and polishing allowance for NCC cadets and outfit allowance, outfit maintenance allowance and honorarium for NCC officers,
- Pre-commissioned training of NCC officer cadets and refresher training of officers, and
- 50 % of NCC camp expenditure

The overall control over NCC is exercised by DG NCC headquartered at Delhi.

**Ordnance Factories** are an integrated base for indigenous production of defence hardware & equipment and function under the Department of Defence Production & Supplies. Defence production is highly specialized, complex and poses unique challenges. Products have to be safe, reliable, consistent in quality and capable of operating under varying terrains as well as climates and under extreme conditions. Accordingly, the technologies applied, which cover a wide spectrum of engineering, metallurgy, chemical, textile, leather and optical technologies, should ensure high quality and productivity, apart from meeting the primary objective of self-reliance. Apart from supplying armaments to Armed Forces, wherever adequate capacities are available, the Ordnance Factories also fulfill the requirements of Paramilitary & Police Forces/Ministry of Home Affairs (MHA) for arms, ammunition and clothing etc. Thus, the Ordnance Factories endeavor to enhance their capacity utilization not only by securing work load from the defence forces but also through sustained efforts in diversification to non-defence customers and exports. The Indian Ordnance Factories Organisation completed 200 years of its existence on March 18, 2002. The Ordnance Factories Organisation is a fine blend of the old and the state-of-the-art factories with the first Ordnance Factory established in 1801 at Cossipore, near Kolkata and the 40<sup>th</sup> factory being set up with state-of-the-art technology at Nalanda, Bihar for production of Bi-modular Charges. The 40 Ordnance Factories are geographically distributed all over the country at 25 different locations. The pre-independence factories had capacities created not only for production of finished stores, but also had in-house facilities integrated backwards for supply of basic and intermediate materials, for which indigenous industrial infrastructure in the civil sector was then inadequate. In respect of the factories set up after Independence and with gradual emergence and development of civil industrial infrastructure in public and private sector, the concept of backward integration was progressively given up and the emphasis shifted from production of basic intermediate inputs to production of finished stores by drawing upon supplies from the civil sector for raw-materials, components and semi-finished goods to the extent practicable. Since 1962, 16 new Ordnance Factories have been set up. Their capacities have been augmented and modernized selectively keeping in mind the emerging

requirements of the Armed Forces. All the Ordnance Factories and Defence Public Sector Undertakings (DPSUs) are engaged in the task of manufacture of equipment and stores for Defence Services. In addition, the capacities of civil sector are also utilized for the purpose. The structure of the Ordnance Factory Organisation was changed in 1979 to promote cohesive, effective and coordinated functioning, based on the recommendations of an expert and high-powered committee (Rajadhyaksha Committee). The Ordnance Factory Board (OFB) was accordingly formed with Director General Ordnance Factories (DGOF) as Chairman and 9 Members in the rank of Additional DGOF; one member being from the Finance stream. Presently, Ordnance Factories are divided into 5 operating groups/divisions, based on the main products/technologies employed; these are:

- Ammunition & Explosives
- Weapons, Vehicles and Equipment
- Materials and Components
- Armoured Vehicles and
- Ordnance Equipment Group of Factories.

A member/Addl. DGOF heads each of the above group of factories. The remaining four Members are responsible for staff functions, viz. Personnel, Finance, Planning & Material Management, Projects & Engineering and Technical Services. A Special/Extended Ordnance Factory Board provides for representation of the Army, Defence Research & Development Organization and Ministry of Defence. The Special Board meetings are held periodically to provide appropriate inputs and perspectives for planning resources, upgrading technology of products and process and on various other critical issues necessary for the efficient functioning of OFB. The Ordnance Factories continuously upgrade their products and the manufacturing technologies to meet the emerging needs of Defence Forces. The facilities and capacities in the Ordnance Factories produce a wide range of arms and ammunitions for the Infantry, Artillery and Armoured Corps of the Army; Navy and the Air Force. The factories produce Military Transport Vehicles, Infantry Combat Vehicles, Armoured Vehicles, Optical and Optoelectronic instruments, summer & winter uniforms, parachutes, miscellaneous leather goods and general stores etc. Facilities also exist for design & manufacture of special purpose machine tools for captive use in the production of arms & ammunition.

Besides the Ordnance factories which function as Government departments, the Department of Defence Production and Supplies also administers **Defence Public Sector Undertakings** (DPSUs), which function as corporate bodies. The following DPSUs are functioning under the administrative control of the Department: -

- (i) Hindustan Aeronautics Limited (HAL)**
- (ii) Bharat Electronics Limited(BEL)**
- (iii) Bharat Earth Movers Limited(BEML)**
- (iv) Mazagon Dock Limited (MDL)**
- (v) Goa Shipyard Limited (GSL)**
- (vi) Garden Reach Shipbuilders and Engineers Limited (GRSE)**
- (vii) Bharat Dynamics Limited(BDL)**
- (viii) Mishra Dhatu Nigam Limited(MIDHANI)**

In addition, the following organisations are also associated with the Department of Defence Production and Supplies for technical support:-

- (i) Directorate General of Quality Assurance (DGQA)
- (ii) Directorate of Standardisation
- (iii) Directorate General of Aeronautical Quality Assurance (DGAQA)
- (iv) Directorate of Planning and Coordination
- (v) Defence Exhibition Organisation (DEO)

**The Directorate General of Quality Assurance (DGQA)** is an inter-service organisation functioning under the Department of Defence Production & Supplies. It is responsible for Quality Assurance of all defence stores and equipments, both imported and indigenous for the Army, the Navy (excluding naval armaments) and all common users items for the Air Force. It has, therefore, a vital role to play in the defence preparedness of the Country. The Organisation is structured into seven Technical Directorates each of which is responsible for a distinct range of equipment. The Technical Directorates are vertically structured in three - tiers for functional purposes, comprising their respective Headquarters, Controllerates, Field Quality Assurances Establishments & Proof Establishments (for Armament discipline only). The tasks performed by them are complimentary and are integrated to achieve maximum efficiency.

For indigenisation of spares of defence equipment, an institutional framework has been in existence in the form of 8 Technical Committees, comprising of officers from the Directorate General of Quality Assurance. Each Committee is headed by a Technical officer of the rank of Major General/Brigadier or equivalent. These committees maintain a compendium of civil industries capable of undertaking the task of indigenisation of defence equipment / stores after conducting surveys and assessing their capabilities. After identifying items in consultation with the user services for indigenisation and keeping in view the commercial viability and the strategic needs, these Committees take up indigenisation activities and ensure timely supply of defence equipment/stores. Government has taken a decision in February, 2002

that in future indigenisation work would be the responsibility of Production Agencies like Ordnance Factories & Defence PSUs and Service Headquarters.

DGQA Organisation has been awarding Self-Certification status to Quality conscious firms/ manufacturers who have well established Quality Management system and demonstrate consistent product quality during the execution of successive Defence Supply Orders. DGQA in association with Department of SSI, also organizes exhibitions at different locations all over the country to encourage SSIs to step into the field of defence production.

**Directorate General Of Aeronautical Quality Assurance (DGAQA)** has its Headquarters at New Delhi with Resident Inspection Establishments at various production centres in the country. Its main functions inter-alia include quality assurance during design/development, production, overhaul and repair of military aircraft and accessories, technical association with DRDO, establishment of indigenous spares for production of aeronautical stores etc.

**Directorate of Standardisation** was set-up in 1962 with the objective of controlling items proliferation within Defence Services. Nine standardisation cells and six Detachments have been located at nodal stations in the country to give a boost to the Standardisation activity. The prime objective of Directorate of Standardisation is to establish commonality in equipment and components among the three Services so that the overall inventory of Defence Services is reduced to the minimum. This objective is sought to be achieved through:

(i) Preparation of Standardisation documents such as Joint Services Specifications, Joint Services Preferred Ranges, Joint Services Rationalized Lists, Joint Services Guides, Joint Services Policy Statements & Joint Services Qualitative requirements.

(ii) Codification & Cataloguing of Defence Inventory and

(iii) Entry Control

Standardisation activities are done through 13 Standardisation Sub – Committees, Panels/Working Groups under these Sub – Committees and several Specialist Technical Panels (STP).

**The Directorate of Planning and Coordination** was set up in 1964 with the primary objective of preparing the overall plans for production of defence equipment in the country. It acts as a catalyst in the defence production efforts by providing a dynamic link between the production organisations, the users, the Research & Development (R&D) agencies and the quality assurance organisations thereby facilitating Transfer of Technology (ToT) and the modernization plan of Ordnance Factory Board. In furtherance of its role, the Directorate represents the Department of Defence Production and Supplies in the General Staff Equipment Policy Committee, the R&D panels and

Standardisation Committees. The Directorate also represents the Department of Defence Production and Supplies in the Licensing Committee meetings of the Ministry of Industry to ensure that there is no overlap in the capacities created elsewhere and under the Ministry of Defence. The cases for setting up of Ordnance Factories in the country at the green field sites as well as progressing electronics related projects for the defence forces are processed by the Directorate. The Directorate is also the nodal point in the Department for international co-operation on defence production and defence exports.

**The Defence Exhibition Organization (DEO)** established in 1981, is primarily responsible for organising and coordinating defence exhibitions in India and abroad. It maintains a permanent defence exhibition pavilion at Pragati Maidan, New Delhi. The Ordnance Factory Board; Defence Public Sector Undertakings (DPSUs); Defence Research and Development Organisation (DRDO); Directorate General of Quality Assurance (DGQA); the three Services; the Coast Guard and the National Cadet Corps(NCC) are represented in the exhibition. Products manufactured by Ordnance Factories and the Defence Public Sector Undertakings are displayed in the pavilion. The pavilion provides an overview of the wide range of defence infrastructure in the country and regularly participates in India International Trade Fair held in November each year. DEO also assists the Department of Defence Production & Supplies (DDP&S) in vendor awareness and development programme of the production units, in collaboration with Directorate General of Quality Assurance (DGQA).

**Defence Research and Development Organisation (DRDO)** was formed in 1958 from the amalgamation of then already functioning Technical Development Establishments (TDEs) of the Indian Army and the Directorate of Technical Development & Production (DTDP) with the Defence Science Organisation (DSO). Today DRDO is having 49 laboratories, engaged in developing Defence technologies covering various disciplines like aeronautics, armaments, electronics, combat vehicles, engineering systems, instrumentation, missiles, advanced computation and simulation, special materials, naval systems, life sciences, training, information systems and agriculture. DRDO is backed by over 5000 scientists and about 25,000 other scientific, technical and supporting personnel. **The Department of Defence Research and Development**, which was created in 1980, is dedicated to the mission of progressive enhancement of self reliance in defence systems and state-of-the-art defence technologies. To facilitate accomplishing this mission, there is a mission-mode structure headed by the Scientific Adviser to Raksha Mantri, who is also the Secretary, Department of Defence Research & Development and Director General, Research and Development. The Organisation has made great strides, which have not only insulated the Armed Forces from the ill effects of the tightened arms export controls clamped by the

advanced countries, but have also progressively enhanced their combat effectiveness through induction of state-of-the-art indigenous defence systems. DRDO has developed a large number of Defence systems and equipment as per requirements of the Armed Forces which have gone into production in the last five years.

DRDO Hqrs under the Department of Defence Research and Development, is organized in 9 Technical Directorates and 9 Corporate Directorates. The Technical Directorates act as 'single window' to facilitate laboratories under their area of work in obtaining various sanctions & coordinating information with laboratories and Hqrs. Corporate Directorates like Directorate of Personnel, Human Resource Development, Material Management, Planning & Coordination, Management Services & Rajbhasha, Budget Finance & Accounts, Security & Vigilance, Civil Works & Estates and Extramural Research and Intellectual Property Rights assist the laboratories in providing sanctions and facilities in their respective areas. Recruitment & Assessment Centre (RAC) & Personnel Assessment Centre (PEACE) undertake fresh recruitments and assessment for promotions of officers for all laboratories & Hqrs of DRDO under Defence Research & Development Services (DRDS) and Defence Research Technical Cadre (DRTC) respectively.

The programmes/projects, undertaken by the Department, are executed through a network of R&D laboratories/ establishments and the Centre for Military Airworthiness and Certification (CEMILAC). These laboratories/ establishments are situated all over the country from Tezpur in the East to Jodhpur in the West and Leh in the North to Kochi in the South. The programmes/projects are executed in close partnership with user Services, Defence Public Sector Undertakings, academic institutions, national research laboratories and private enterprises, to harness optimally the best available national resources & expertise and to meet the threat of technology denials posed by developed countries. The 'concurrent engineering' approach is being followed, in case of high technology projects, to reduce the time lag between design, development and production.

There are institutionalized programme/project monitoring and review mechanisms in the Department. There is an in-house apex level body called 'DRDO Council', chaired by Scientific Adviser to Raksha Mantri, to review progress of major projects of all the laboratories. In addition, Corporate Reviews covering techno managerial aspects are also carried out by a high level committee. The staff projects for Army are being reviewed by the Vice Chief of Army Staff (VCOAS), twice a year. For all major programmes/projects, there are multi-tier 'Programme Management Boards', having representation from the Services, defence R&D laboratories/establishments, production agencies,

quality assurance agencies and in some cases from academic institutions and other national research laboratories, which periodically monitor and review the programmes and give mid-course directions.

### **INTER-SERVICE ORGANISATIONS**

The following Inter-Service Organisations function directly under the Ministry of Defence:-

- (i) Military Engineer Services**
- (ii) Armed Forces Medical Services**
- (iii) Directorate General of Defence Estates**
- (iv) Office of the Chief Administrative Officer**
- (v) Directorate of Public Relations**
- (vi) Army Purchase Organisation**
- (vii) Services Sports Control Board**
- (viii) Armed Forces Films and Photo Division**
- (ix) School of Foreign Languages**
- (x) History Division**
- (xi) National Defence College**
- (xii) College of Defence Management**
- (xiii) Defence Services Staff College**
- (xiv) Ministry of Defence Library**

A profile of the important inter-service organizations is as given below:-

**Military Engineer Services:** The largest construction agency of the country, the Military Engineer Services (MES) provides works cover in 450 stations across the country in peace areas as well as in forward areas. It is the premier engineering arm of the Ministry of Defence which provides works services to the three Services and other related departments. Today, it handles an annual workload exceeding Rs. 3300 crores. MES functions under the overall control of Engineer-in-Chief, who is the adviser to the Ministry of Defence and the three Services on construction engineering. It executes work under the supervision of Officers and staff consisting of both civilians as well as combatants from the Corps of Engineers. It has an integral multi-disciplinary team of architects, civil, electrical and mechanical engineers, structural designers, quantity surveyors and contract specialists for planning, designing and supervising the works.

MES has specialized in wide spectrum of civil works, ranging from conventional buildings and factories to sophisticated complex laboratories, marine works, jetties, dockyards, wharves, workshops, slipways, air fields, roads, blast pens, etc. It also provides sophisticated infrastructural services like air-conditioning,

cold storage, water supply, compressed air, sewage treatment plants, lifts, crane, etc. for the three Services.

**The Armed Forces Medical Services (AFMS)**, consisting of the Army Medical Corps (AMC), the Army Dental Corps (ADC) and the Military Nursing Services (MNS) provide comprehensive health care to the serving Armed Forces personnel, their families and dependents, numbering approximately 66 lakhs. In addition, Ex- Servicemen and their families are also entitled to free treatment from Services sources as per rules and so are the Para Military Organizations like Assam Rifles, Rashtriya Rifles, Coast Guard as well as the DRDO and Border Road Organisation personnel, while posted in the field. Armed Forces Medical Services are also activated in aid to civil authorities during epidemics, natural calamities and internal security duties, especially in inaccessible and difficult areas. In addition to this, life saving emergent care is also provided to all civilians by the establishments of AFMS.

The Armed Forces Medical Services are the largest and amongst the best organized health-care delivery systems in the country. There is a network of Regimental Aid Posts manned by doctors. These are supported by 89 Field Ambulances, which are mobile 45 bedded hospitals. Besides the facilities made available in combat zones, 127 hospitals of varying sizes and facilities, spread over the length and breadth of the country, are also functional. While the peripheral hospitals have basic specialist facilities, the eight Command/Army Hospitals have super specialist centers with state-of-the-art equipment and facilities.

The Directorate General of Armed Forces Medical Services looks after research activities in the Armed Forces Medical Services (Army, Navy and Air Force). The Armed Forces Medical Research Committee meets yearly at Armed Forces Medical College, Pune in the month of February to discuss and select new research proposals and also to review progress of on-going projects.

**The Directorate General of Defence Estates (DGDE)** is the apex body of the Defence Estates Organisation, having its offices in various parts of the country. It functions as an adviser to the Ministry of Defence on Land and Cantonment Board matters. DGDE is the nodal executive agency of the Ministry of Defence for procurement of immovable property for defence purposes by way of acquisition, transfer, requisitioning, hiring and maintaining land records. It is also the advisor on cantonment boards. There are 62 cantonments in India. These are located in 19 States and National Capital Territory of Delhi. The Cantonment Boards are autonomous bodies functioning under the overall control of the Central Government in the Ministry of Defence under the provisions of Cantonment Act, 1924. The Cantonment Boards comprise of

elected representatives besides ex-officio and nominated members. Parity is maintained between elected and official members. The Station Commander is President of the Cantonment Board. Supervision and control over the working of these bodies are exercised through the Principal Director, Defence Estates and General Officer Commanding-in-Chief of the Commands at the intermediate level and by the Central Government through DGDE/Ministry of Defence at the apex level. The Central Government provides financial assistance by way of grant-in-aid and service charge in lieu of property tax to the Cantonment Boards to balance their budget.

**The Chief Administrative Officer (CAO)** is responsible for providing civilian manpower and infrastructural support to the Services Headquarters and the Headquarter offices of Inter-Service Organisations (ISOs) under Ministry of Defence. Joint Secretary (Training) discharges the functions of the Chief Administrative Officer and Director (Security). In relation to security, he oversees the work of the Chief Security Officer. The functioning of CAO's Office is discharged by the six Divisions namely the Administration Division, Personnel Division, Manpower Planning and Recruitment Division, Training, Coordination and Welfare Division, Finance and Materials Divisions and Estates and Works Division. It deals with roughly 10,000 civilian employees employed in Army Headquarters and 26 Inter-Service Organisations. It performs the estate functions in respect of residential accommodation of Service Officers posted at Armed Forces Headquarters. The Chief Security Officer and the personnel under his command ensure the physical security of office buildings in the Defence Security Zone under the supervision of JS (Trg) & CAO.

**Directorate Of Public Relations :** In a democratic polity such as ours, the media plays a pivotal role in disseminating information to the public. The Directorate of Public Relations with its Headquarters in New Delhi and 24 offices across the country, acts as the facilitator and is the nodal agency for providing media support and services to the Ministry of Defence, the three Services and Inter-Service Organizations under the Ministry of Defence. The Directorate of Public Relations also has a photo section that provides photographs of important defence related events to the print media. The Directorate coordinates preparation of the daily radio programme 'Sainikon ke liye', a popular forty minute programme broadcast over All India Radio for the benefit of the Armed Forces personnel. The Directorate brings out a fortnightly journal Sainik Samachar for the Armed Forces in 13 languages.

**Army Purchase Organisation (APO)** in the Ministry of Defence is entrusted with the responsibility of the procurement and timely supply of dry ration items for the consumption of the Defence Forces. APO procures rice and wheat

through the Food Corporation of India; sugar is allotted by the Directorate of Sugar out of levy quota. Other items like pulses, animal rations, edible oils, vanaspati, tea and milk products are purchased from the Central and State Public Sector Undertakings, and various National/State-Level Cooperative Consumer Federations/Cooperatives. Whole milk powder, skimmed milk powder, butter and ghee are purchased through negotiated contracts from National Cooperative Dairy Federation of India. Tinned items like vegetables, fruits, jelly and jams, tinned milk, meat and fish products, coffee, egg powder etc. are procured from the Registered Suppliers including private parties/dealers through open tender. The indented quantities as per the Army Specifications are procured keeping in view the flush season of the items so as to ensure cost effective procurement.

**School Of Foreign Languages:** The School of Foreign Languages (SFL) is an Inter-Service Organization under the aegis of the Ministry of Defence. It is a unique organization as no where else so many foreign languages are taught. It has been the pioneer in foreign language teaching in India since 1948. At present, the School is engaged in imparting training in 16 foreign languages to personnel of the three Services of the Indian Armed Forces. It also caters to the needs of the other Ministries of the Government of India, such as the Ministry of External Affairs, the Cabinet Secretariat, Central Police Organization etc.

**The National Defence College (NDC)** inaugurated on April 27, 1960 is the only institution in the country that imparts knowledge on all aspects of national security and strategy. Senior Defence and Civil Service Officers participate in a 47 weeks comprehensive programme of national security and strategy. The training at NDC is highly specialized to equip the participants with future planning of national strategy in the context of world polity. The NDC alumni have risen to the highest military posts in India and abroad and some of them have even become heads of their countries.

**College Of Defence Management**, located in Secunderabad, conducts training programmes oriented towards the application of management concepts and techniques to defence situations in all facets : operations, logistics, intelligence and training.

**The Defence Services Staff College (DSSC) Wellington** imparts training to middle level officers of the three Services besides a few civilian officers and officers from friendly foreign countries.

**National Defence Academy (NDA)** is a premier Joint Services Institution for training of young cadets as future officers of the Defence Services. It has a four-fold aim: -

- (a) attain requisite educational standard and acquire mental, moral and physical qualities essential to the cadet's progressive and continued development as officers of the fighting services;
- (b) obtain such basic service training as will assist in developing their character, initiative, self-confidence and above all qualities of leadership;
- (c) develop ability to appreciate inter service aspect of the armed forces; and also
- (d) develop interest in extra curricular activities particularly out-door oriented.

Entry into NDA is based on a competitive examination conducted by UPSC. Cadets of all three Services viz. Army, Navy and Air Force undergo combined training at NDA for three years. After passing out from the NDA, the cadets go to their respective Service academies for specialised training before being commissioned in the Armed Forces. The Academy is a unique institution wherein Inter Service aspects are developed right from the formative stages of an officer, thus developing a bond of friendship and respect for each other's service.

## **ORGANIZATION AND FUNCTIONS OF THE FINANCE DIVISION OF THE MINISTRY OF DEFENCE**

There is a separate Finance Division of the Raksha Mantralaya (Ministry of Defence) for dealing with all Defence matters having a financial bearing. The head of this Division is the Secretary (Defence/Finance). In order to bring about a closer association between the Administrative Ministries and their Financial Advisers and to enable the latter to play a more effective and constructive role, Government had introduced in October 1975 the Scheme of Integrated Financial Adviser under which the Secretary (Defence/Finance) become a part and parcel of the Administrative Ministry concerned and is, therefore, more closely associated with formulation and implementation of proposal. In accordance with that policy, the scheme of Integrated Finance Adviser was introduced in the Department of Defence Supplies and defence Production (including Research and Development and Director General of Quality Assurance) in May 1976. The question of introducing the system in the Department of Defence had been under consideration of the Government and it was ultimately decided to introduce the Integrated Financial Advice system in the Department of Defence as well with effect from 1<sup>st</sup> August 1983 and orders to that effect were issued on 16<sup>th</sup> July 1983. Thus there is now complete integration of the former Defence Division of the Ministry of Finance with the Defence Ministry. The designation of the Financial Adviser emphasizes the Advisory as distinct from the restrictive function of treasury control and it is in this capacity that the Secretary (Defence/Finance) (or his representative) is a member of the various Committees of the Raksha Mantralaya (Defence Ministry) and the Services Headquarters. The Secretary (Defence/Finance) also normally attends meetings of all high level Committees dealing with defence matters whenever proposals having a financial bearing are discussed.

With a view to ensuring greater efficiency in administration and quicker disposal of the cases, Ministry of Defence had been delegated enhanced financial powers in regard to expenditure met from the Defence Service Estimates. In matters within the delegated powers of the Ministry of Defence, Secretary (Defence/Finance) or his officers are to be consulted before exercise of the financial powers. In such cases, it is open to the Defence Secretary to over rule the advice of the Secretary (Defence/Finance) to request that the matter be placed before the Raksha Mantri. In all matter beyond the powers delegated to the Ministry, Secretary (Defence/Finance) and his officers functions as Associate Finance and are 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

Secretary (Defence/Finance) or the Defence Accounts Department is contemplated approval of the Finance Ministry is necessary.

The financial control exercise by the Secretary (Defence/Finance) and his officers is really a careful and intelligent scrutiny of all proposals involving expenditure from the public fund, the objective being the safeguarding of economy, efficiency and propriety in public finance. Before according financial concurrence to any proposal involving fresh expenditure, it is the duty of the Finance Officer to seek justification for the proposal. He may even challenge the necessity for spending so much money or such a scale to secure a given object. He asks whether the proposal is really necessary, whether the same results could not be obtained otherwise with greater economy, whether the expenditure involved is justified in the circumstances; whether individual items are in furtherance of the general Government Policy, whether the canons\* of financial propriety have been observed. In fact he asks every question that might be expected from an intelligent taxpayer bent on getting the best value for his money.

The rules provide that no expenditure which has not been provide for in the Budget or which having been provided has not been sanctioned shall be authorized without the concurrence of the Secretary (Defence/Finance) or representative. The strict observance of this rule is automatically ensured as the Controllers of Defence Accounts will not make any disbursement in respect of charge not covered by regulations or Government orders.

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 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.

The Secretary (Defence/Finance) prepares the Budget and other estimates for the Defence Services and also furnishes the Head of the Branches of the Armed forces Headquarters with all information at his disposal 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. He is also fully associated with formation and implementation of Defence Plans.

In addition to these functions the Secretary (Defence/Finance) is also the Chief Accounting officer for Defence Service. It is in this capacity that he prepares the Appropriation Accounts for the Defence Services. The Secretary (Defence/finance) is also ultimately responsible for the internal audit and accounting of Defence Expenditure, but this responsibility is discharged through the Controller General of Defence Accounts.

Defence Accounts Department, with the Controller General of Defence Accounts at its head, functions under the administrative control of the Secretary (Defence/Finance). The duties of the Defence Accounts Department are broadly audit\* payment and accounting of all charges pertaining to the Armed Forces, including bills for supplies and services rendered and for construction repair work, pay and allowances, miscellaneous charges, pensions etc. The Department is also responsible for the audit of cash and stores accounts kept by the various units and formations (including arsenals, workshops and storage depots) in the three services and maintenance of pay accounts of Army Officers and combatants of the Army.

The manufacturing accounts of Ordnance factories and the Naval Dockyard and the store accounts of the Ordnance factories are kept by the Defence Accounts Department. They also maintain Accounts relating to works services and audit the construction and other accounts relating to works project maintained by Military Engineer Services.

In addition to the duties mentioned above, the Controllers of Defence Accounts function as Local Financial Advisers to the General Officers Commanding-in Chief of Commands. Area Commanders and various other establishments. The Defence Accounts Department has also positioned Internal Financial Advisors at Service HQrs. to render financial advice on powers delegated to them.

The Defence Accounts Department comes under the Ministry of Defence with the Controller General of Defence Accounts as the Head of the Department. The Organization of the Defence Accounts Department corresponds broadly to the organization of the three services. In addition, it also caters for the Ordnance Factories, Defence Research & Development Organization, the Canteen Stores Department, the coast Guard, the Border Roads Organization and Inter Service Organizations under the Ministry of Defence.

The field organization of the department dealing with the Army has been structured by and large on the pattern of Army Commands/Areas. The location of these Controllers' Offices is in close proximity to the Command Headquarters/Area Headquarters in order to enable them to render prompt services to the units/formation located in these areas. Under some of the Controllers' offices, there are also Area Accounts Offices to render prompt service to the Sub-Area. In addition, there are Local Audit Offices to audit the accounts of the units and formations and Units and formations and the Unit Accountants are attached to each Garrison Engineer. The Pay Accounts Officers (JCO/ORS) are also under the jurisdiction of the nearest Regional Controller. In all there are 06 Regional Principal Controllers of Defence Accounts at Pune, Chandigarh, Jammu, Lucknow, New Delhi and Jaipur and 07 Regional Controllers of Defence Accounts at Guwahati, Meerut, Jabalpur, Bangalore, Chennai and Secunderabad. In addition, one Controller of Defence Accounts at Pune specifically deals with the pay and allowances of the Commissioned Officers.

The remaining Controllers' Offices are patterned to serve a particular Service or function except for Principal Controllers of Defence Accounts, New Delhi which covers all the Services Inter-Services Organizations and the Ministry of Defence. The Principal Controller of Defence Accounts covering the Navy is located at Mumbai. In the case Air force there are one Principal Controller of Defence Accounts at Dehradun covering all the Commands and field areas and one Controller of Defence Accounts (Air Force) at New Delhi covering the units located in Delhi including Air Headquarter. The Defence Research & Development has expanded considerably and there are number of projects being handled by the Defence Laboratories. Accordingly, there is a principal Controller of Defence at Pune, Delhi to deal with all matters connected with the R & D Organization with regional Joint Controllers of Defence Accounts at Pune, Delhi and Dehradun. Two other Controllers for R & D are functioning at Bangalore and Hyderabad to provide services to Laboratories/Establishments located in Tamil Nadu, Karnatak, Kerala and Andhra Pradesh states. There is a Controller for dealing with the Border Roads Organization at New Delhi assisted by the regional Joint Controllers of Defence Accounts at Chandigarh and Guwahati. For the Canteen Stores Department, the Controller is located at Mumbai.

The organization of the Ordnance Factories has 39 factories, which is managed by the Ordnance Factories Board but the entire accounting, internal audit and financial advice functions for these factories is looked after by the Principal Controller of Accounts (Factories) at Kolkata. He is assisted by a Controller of Accounts in the Headquarters and ten Controller are co-located

wherever the major Ordnance and Clothing Factories are functioning. The complex accounts set up are a highly specialized segment of the Department dealing with the cost accounts of the Ordnance and Clothing Factories.

The pension establishment of Defence has been growing substantially. Consequently, the responsibility of the department to determine the entitlement and make prompt payments of pensions has increased in order to handle this complex task, there is a Principal Controller of Defence Accounts located at Allahabad to deal with the sanctions of pensions in respect of the Service personnel (excluding Air Force and Navy personnel) which are sanctioned by CDA (Air Force) and CDA (Navy) respectively, Defence Civilians and the staff of the Defence Accounts in the Main Office. In addition, there is a Controller at Meerut dealing with the disbursement of pensions through 49 Defence Pension Disbursing Officers (DPDOs) located in various states besides 11 DPDOs also function under CDA (Chennai), who are responsible for disbursement of pensions in four Southern States.

The General Provident Fund Accounts of the civilian personnel of the Army as well as the Staff of the Defence Accounts Department are maintained by the Joint Controller of Defence Accounts (Funds) who functions under the administrative control of CDA (Army) Meerut. The GPF Accounts of other Defence Civilians are maintained by the concerned functional Controllers such as Controller of Finance & Accounts (Fys), Controller of Defence Accounts (R&D), CDA (NAVY) and CDA (Boarder Roads).

In addition there is a Training Division in the CGDA Office, Five Regional Training Centres (RTCs) at Bangalore, Pune Kolkata, Lucknow and Meerut one National Institute of Management & Accounts (NIMA) at Pune, two Regional Studies Centres at Mumbai and Chennai which cater to the overall training requirements of the department at Officers and staff level.

The Principal Controller of Defence Accounts, New Delhi deals with the pay and allowance, traveling allowance claims and fund accounts of civilian staff of Ministry of Defence, the Army and Navy Headquarters and the Inter Service Organisation located at Delhi. Claims pertaining to contingent and miscellaneous charges of the above said organizations are also dealt with by this Controller. In addition, this Controller also handles all work relating to payments of foreign contracts including contracts entered into by the Department of Defence Supply, payments for purchases made by Army Purchase Organisation and the work relating to London Accounts Current.

The Office of the Controller of Defence Accounts (Integrated Defence Staff) became operational w.e.f. 23.08.2004. The CDA (IDS) New Delhi is

responsible for providing accounting audit and payment service to the tri-services organization functioning under the HQrs IDS. The CDA (IDS) New Delhi deals with audit payment of bills pertaining to stores miscellaneous/contingent items and works bills in respect of organizations under HQrs IDS in and around New Delhi with Regional Joint Controller of Defence Accounts (ANC) and IFA to the Commander-in-Chief. Andaman and Nicobar Command at Port Blair under the overall administrative and functional control of the CDA (IDS) New Delhi w.e.f. 1.04.05 who is responsible for providing audit, payment, accounting and financial advice services to the Units/formations of the Andaman and Nicobar Command. The CDA (IDS) is operating as a self-accounting unit.

### **Regional Controllers/Principal Controllers**

<p><b>Southern Army Command</b> Pr.CDA(SC) Pune, CDA Chennai, CDA Secunderabad CDA Bangalore,</p> <p><b>Western Army Command,</b> Pr.CDA(WC) Chandigarh,</p> <p><b>Eastern Army Command</b> CDA Patna, CDA Guwahati,</p> <p><b>Central Army Command</b> Pr.CDA(CC) Lucknow, CDA Jabalpur, CDA(Army) Meerut,</p> <p><b>Northern Command</b> Pr.CDA(NC)</p> <p><b>South Western Command</b> PCDA Jaipur</p>	<p>Certain Regional Controllers are assigned specific functions whereas certain functional Controllers are assigned Regional responsibilities. For eg. CDA(O) is assigned the Regional function of overseeing the RTC. Pr.CDA(SC) is assigned the functional responsibilities of overseeing the PAO GREF and ORs computerization. Thus the Regional and Functional distinctions of early days have to a certain extent be ceased to exist now. PAO(ORs) all over India working with close association with Regional Depot officers are functioning under the nearest Regional Controllers offices</p>
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### **Other Controllers/Principal Controllers**

Pr.CDA(Pensions) Allahabad	Pensions of Defence Personnel excluding sanction of service gratuity
CDA(PD) Meerut	Pension disbursement through its

	sub offices
Pr.C A(Fys) Kolkata	Ordnance and clothing factories assessed by 10 CFAs : CFA (Fys) Avadi, Jabalpur, Kanpur, Ishapore, Kirkee, Dehradun, Medak, Bolangir, Ambajhari, Kolkata
PCDA(R&D) New Delhi CDA(R&D) Bangalore, CDA(R&D) Hyderabad	Research and Development Establishments
CDA(O) Pune	Pay, Allowances & Provident Funds of Army Officers
PCDA(AF) Dehradun	Pay, Stores and Fund Accounts of Air Force assisted by CDA(AF) New Delhi
PCDA(Navy) Mumbai	Pay, Stores and Fund Accounts of Navy
CDA (CSD) Mumbai	Pay, Stores and Audit of CSDs
CDA (Funds) Meerut	Fund of Defence Civilians, DAD

### **Integrated Financial Advisors**

Apart from Controllers/ Principal Controllers, there are 16 IFAs for different services such as

1. Principal IFA New Delhi
2. IFA (EC) Kolkatta
3. IFA (ARTRAC) Shimla
4. IFA (Army – M) New Delhi
5. IFA (Army – Q) New Delhi
6. IFA (B/R) New Delhi
7. IFA (HQ) SC Pune
8. IFA (Navy) New Delhi
9. IFA (Navy/WNC) Mumbai
10. IFA (AF) New Delhi
11. IFA (CISD & SFC) New Delhi
12. IFA (Maintenance Command) Nagpur
13. IFA (CC) Lucknow
14. IFA (NC) Udhampur
15. IFA (Army-O) New Delhi
16. IFA (WC) Chandigarh.

## **Reforms in Management of Defence**

The broad array of challenges both existing and potential to the National Security in the fast changing geo-strategic security environment mandate a periodical re-appraisal of our security procedures to cope with them. The Government, keeping this in view, instituted a comprehensive review of the National Security System in its entirety for the first time in the history of independent India. For details see 'Reforming the National Security System-Recommendations of the Group of Ministers in the New Additions. The review was carried out by a Group of Ministers (GOM) constituted on April 17, 2000. The GOM consisted of the Home Minister, the Raksha Mantri, the External Affairs Minister and the Finance Minister. The GOM made recommendation regarding reforms in Defence Management. The process of implementation of the recommendations was initiated in 2001. These reforms have brought about improvements in the organizations, structures and processes for the integration of civil and military components. Some of the major reforms are detailed in the following paragraphs

**Integrated Defence Staff:** A decision regarding the recommendation of the Group of Ministers for creation of the Chief of Defence Staff (CDS) has not been taken by the Government as yet pending consultation with political parties. However, with a view to ensure higher degree of jointness amongst the Services and attempt inter-service and intra-service prioritization, the Government has set up the Integrated Defence Staff, headed by the Chief of Integrated Staff to Chairman, Chiefs of Staff Committee (CISC), to support the Chiefs of Staff Committee and its Chairman in the optimal performance of their roles and functions. The CISC supervises the Integrated Defence Staff, chairs all multi-Service bodies and the Defence Crisis Management Group (DCMG) and is also responsible for the coordination of long-range plans, five year plans and annual budgetary proposals of the three Services in consultation and co-ordination with the Integrated Services Headquarters. The CISC renders advice to the Government on prioritization for developing force levels and capabilities through restructuring proposals, undertakes net assessment comprising the totality of the national capability, formulates joint doctrines in consultation with Service Headquarters, conceptualises policy and programmes on joint planning and military education for personnel of Defence Services, render advice for evolving responses to non-conventional and unconventional threats to national security and proposes measures to be taken for ensuring the required jointness amongst the Armed Forces and enhancing the efficiency and effectiveness of the planning process through intra and inter-Service prioritisation.

**Defence Intelligence Agency:** The Government has also set up the Defence Intelligence Agency (DIA) under DG DIA to co-ordinate and synergise the intelligence Wings of the Services. The DIA is responsible for providing integrated intelligence inputs to the higher echelons of Defence Management.

**Defence Acquisition Council:** The Government has set up a Defence Acquisition Council headed by the Raksha Mantri for decision making in regard to the totality of the new planning process, which inter-alia involves according 'in principle' approval of capital acquisitions in the long term perspective plan and according 'in principle' approval for each capital acquisition programme. The decisions flowing from the Defence Acquisition Council are to be implemented by the following three Boards:-

- (i) **Defence Procurement Board** headed by the Defence Secretary;
- (ii) **Defence Production Board** headed by the Secretary, Defence Production and
- (iii) **Defence Research & Development Board** headed by Secretary Defence Research & Development.

These Boards have been entrusted with specific functions. A **Defence Acquisition Wing** headed by Special Secretary (Acquisition) has also been created to assist the Defence Procurement Board in its functioning.

The new structures are intended to facilitate expeditious decision-making in an integrated manner in areas relating to acquisitions for the three Services while at the same time imparting a higher degree of transparency and cost effectiveness to the process of acquisition of equipment, weapon and weapon systems. For Defence Procurement Organisation and Defence Procurement Procedures-02 (June 03 version ) please see 'NEW ADDITIONS'.

**Defence Technology Council (DTC):** Defence Technology Council has been constituted under the Chairmanship of Raksha Mantri by the Government to provide guidance and supervision of growth and promotion of research, development and production related to Defence Technologies. DTC will assist the Defence Acquisition Council in taking holistic decisions on specific Defence Projects related to long term perspective plans and five year plans.

**Andaman and Nicobar Command:** The first tri-Service Joint Command was established in October 2001 in Andaman and Nicobar under the Commander-in-Chief (C-in-C) who exercises control over all force components of the three Services and the Coast Guard located in Andaman and Nicobar Islands. The

C-in-C, Andaman and Nicobar Command reports to the Chairman, Chiefs of Staff Committee.

Management of Strategic Assets : Keeping in view the nuclear, chemical and biological dimensions of our security environment and in keeping with our commitment to no first use of strategic assets, the Government has approved establishment of requisite structures for administering the Strategic Assets and also set up the Strategic Forces Command.

**Delegation of Administrative and Financial Powers:** Various administrative and financial powers have been delegated to the Integrated Service Headquarters to impart enhanced autonomy in their functioning. Decentralization of decision-making powers has strengthened and upgraded the decision-making apparatus in the Services. With higher delegation of financial powers, greater efficiency and cost effectiveness with accountability has brought about the transparency desired in the system of defence related expenditure.

## **GOVERNMENT FINANCIAL SYSTEM**

### **Introduction**

The structure of Government finance system of a country depends on the functions which the Government wants to discharge as well as on the form of Government.

The functions of the Government of India are not confined to maintenance of law and order and protection from external aggression but extend over numerous welfare and developmental measures as also manifold industrial and commercial activities. This naturally requires a vast and highly complex financial system.

We have a parliamentary system of Government with basic postulate-accountability of the Executive to the Legislature. The financial structure conforms to this basic concept so that the Executive Government is made accountable System of Government with a strong unitary bias. The Parliament has authority to legislate on matters included in the Union List, while the State Legislatures can legislate on matters which are listed in the State List. For subjects where both the Union as well as the States have concurrent legislative

powers as listed in the concurrent list, a provision exists that if both the Parliament and the State Legislatures legislate on a particular subject, the State legislation, to the extent it is inconsistent with the parliamentary law is void. The federal form of Government has added an additional complexity to the financial structure of the Government.

### **Basic Principles**

Only Parliament and State Legislatures have authority to enact legislation for raising Government revenues. The Executive has no powers to impose a tax.

As regards rising of loans the Parliament and the State Legislatures can lay down the limit upto which loans can be raised by the Executive. No such limit has been laid down either by Parliament or by any State Legislature. The States can raise loans only in India and have no authority to raise foreign loans. The Union has authority to raise loans both within and outside India.

The revenue collected and the loans raised are credited to the Consolidated Fund. Besides the Consolidated Fund, there is the Public Account in which the respect of which Government acts as a banker or creditor, are remitted. There is a third Fund called the Contingency Fund, with a fixed amount from which money can be withdrawn on the orders of the President/Governor, as the case may be to meet emergent commitments or for meeting the expenditure on 'new Services' not provided for in the budget, pending authorization by Parliament or the State Legislature. Both the Union Government as well as Individual State Governments have their respective Consolidated Funds, Contingency Funds and Public Accounts.

Under the Constitution, no money can be spend out of the Consolidated Fund until Parliament or the State Legislature, as the case may be, authorizes the drawal by passing necessary Appropriation Acts. The Appropriation Acts along with the Demands for Grants indicate the purpose for and the objects on which Parliament or the State Legislature authorizes the Executive to spend money from the Consolidated Fund. For the drawal from the Public Account, no authorization by Legislature enactment is necessary. The President/Governor, as the case may be, lay down rules to regulate such drawals.

The other important provisions are that the Parliament cannot vote money for any purpose whatsoever, except at the demand and upon the responsibility of the Executive. Similarly it cannot of its own volition impose a tax or increase a levy.

## **Financial Structure**

The main limbs of the financial structure are as follows:

- (a) The Executive, comprising:
  - (i) The Ministry of Finance
  - (ii) The Administrative Ministries
  - (iii) Other Agencies
  
- (b) The Parliament with its following Committees
  - (i) Estimates Committee
  - (ii) Public Accounts Committee
  - (iii) Committee on Public Undertakings
  
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## **Ministry of Finance**

The pivot in the financial structure is the Ministry of Finance which exercises overall control over the financial administration of the country. It is organised in three departments: -

- (a) Department of Economic Affairs
- (b) Department of Expenditure
- (c) Department of Revenue and Insurance

The Economic Affairs Department deals with Budget, Internal Finance, Capital Issues, Stock Exchange, and Banking. The Department of Expenditure deals with Planning, Financial Rules and Regulations relating to conditions of service, gives financial advice and exercises general financial control over the expenditure of other Ministries/ Departments. The Department of Revenue and Insurance deals with Insurance, Income Tax, Customs, Central Excise and other taxes levied by Union and administration of the various agencies which are engaged in administering these tax laws.

The Ministry of Finance is mainly responsible for and has authority over the raising of financial resources for the Government in the form of taxes,

loans, etc. It also evolves the principles on which administrative ministries will formulate their requirements of DEMANDS. It also vets them and includes them in the budget.

In the States, Finance Department exercises broad control on the Financial Administration and is divided into different branches varying from State to State.

All financial powers of the Executive vest in the President who exercises them through the Finance Department of the State concerned. Other ministries exercise the financial powers that are delegated to them, the residuary power remaining with the Finance Ministry. In order to expedite the execution of the plans very large amount of financial powers have been delegated to the respective ministries and this delegation is being periodically reviewed for proper execution of the plan and avoidance of bottlenecks and to see if more financial powers need to be delegated to other Ministries and Departments. The same process is also operating in the States.

### **Administrative Ministries**

The structure for finance function in the administrative ministries varies depending on their function and the size of their budget. For the Defence Ministry, there is a Financial Adviser (Defence) who advises on various matters involving finance and whose concurrence is required for items of expenditure, independent financial powers in respect of which have not been delegated to the Ministry of Defence or the Service Headquarters.

The Administrative Ministries are responsible for determining their requirements for funds, formulating their demands within the guidelines issued by the Ministry of Finance and for depending their demands on the floor of the Parliament. They are also responsible for executing the Budget, for keeping primary accounts, for answering audit objections and dealing with the Committees of Parliament.

### **Other Agencies**

*Reserve Bank:* The Reserve Bank of India which is a Government institution has a very important part to play in the financial administration of the country. It is the Central bank of the country and is the custodian of the Government money both of the Union and of the States. Like other Central Banks, it

exercises overall control over the banking institutions so that the latter may run and develop on healthy lines. The Reserve Bank has also been made responsible for issue of notes and for other ancillary matters under the overall control of the Finance Ministry. The Reserve Bank is the main instrument through which the Government executes the monetary policy in the maintenance of price level, including availability of funds for commerce, industry and agriculture.

### **Treasuries**

All the States are divided into a number of districts and at the headquarters of each district there is a Government Treasury called the 'District Treasury' with one or more sub-treasuries distributed throughout the district. The treasuries situated in a State and controlled by the State Government are called State Treasuries; while such treasuries are not under the control of State Government and treasuries situated in the Union Territories are called Union Treasuries. Into these treasuries are paid the receipts of Government and from them are disbursed the payments on behalf of the Government. The treasuries are the primary units of the financial system and the points at which the public accounts start.

### **Commercial Banks**

The State Bank of India is a Government Institution and with nationalization of banks in our country, commercial banking has now become more or less a Government undertaking. The Government has not got a firmer control over the distribution of credits to various institutions and people within the country.

### **Financial Institutions**

Other agencies which also play an important part in the financial structure of the country are autonomous institutions like the Industrial Finance Corporation, State Finance Corporations, Life Insurance Corporation, Unit Trust of India etc. These are not, technically speaking, Government departments but Government has got a very large measure of control over them and the working of these Institutions very materially affect the financial climate of the country. The laws which have created these Institutions have laid down broad lines on which these Institutions are to be run and by various means, formal and informal, Government can influence the running of these Institutions so as to conform to the policy which it may like them to pursue.

### **Public Undertakings**

Apart from the Government Agencies there are undertakings or companies in which Government has got not less than 51% of the share capital. During the last 25 years, investments of the Government in these undertakings have tremendously increased, with the result that in many of the fields Government Undertakings now have attained commanding heights, in our economy. These undertakings carry on activities falling under industrial and commercial sphere and are now playing an increasingly significant role in the development of our economy.

### **Planning Commission**

Plan expenditure represents expenditure on Plan outlays approved for each scheme or organization by the Planning Commission. Non-Plan expenditure represents other expenditure such as those on Pay and Allowances, Transportation, Office expense etc required for the maintenance and running of the organization. Both Plan and Non-Plan expenditure are distinctly and separately shown in Budget documents.

Planning Commission plays very crucial role in deciding allocation on Plan outlays to Ministries and Departments. Estimates of Plan expenditure are routed through the Planning Commission in the prescribed form under the various heads of development highlighting important Plan programmes and schemes. Ministries/Departments are required to prepare Performance Budget for these schemes. Allocation under Plan outlay to organizations is based on scrutiny and recommendations of Planning Commission.

### **Finance Commission**

The distribution of the taxing power between the Union and States should ideally be made in such a manner so that each gets adequate resources and necessary elasticity in raising revenue in order to perform the functions that have been imposed on them, in practice, however, it is almost impossible to devise a system for distribution of the taxing powers in such a way as to leave both the Union and the States with adequate and elastic sources of revenue. An innovation to resolve this problem is the Finance Commission appointed every five years. Its responsibility is to make recommendations to the President on the following:

- (a) The distribution between the Union and the States, of the net proceeds of taxes which are or may be shared between them and the allocation among the States of the States shares of the proceed.

(b) The principles, which should govern grants-in-aid of the revenues of the States out of the Consolidated Fund of India.

(c) Any other matter referred to it by the President

## **Parliament**

The Parliament is the highest seat of legislature. It consists of Lok Sabha (The Lower House) and Rajya Sabha (The Upper House) Parliament is responsible all kind of legislation business and passing of Budget.

## **Estimates Committee**

The Estimates Committee which was first established in 1950 is elected every year from amongst the Members of Lok Sabha (in the States, the Vidhan Sabha) only, according to the principle of the proportional representation by means of the single transferable vote. A minister is not eligible for election. The Central Committee consists of 30 members and the term of office is sought by a convention according to which only a third of the members retire every year. The Chairman of the committee is nominated by the speaker from amongst the member of the committee- normally a senior member of ruling party. The main function of the committee is to examine the estimates after they have been passed, whether economies consistent with the policy underlying the estimates may be effected and to suggest the form to which the estimates shall be presented to the legislature. The Committee takes up for its review a number of demands each year and looks into the functions of the departments concerned along with the monetary allocations made on their behalf as also the actual working of the department in carrying on the financial administration relating to them. In U.K. the Estimates Committee normally has no power to look into policy matters but in India the committee can go into the policy matter also. Normally the committee issues a questionnaire and calls for evidence of the officers and also visits the institutions or installations under examination. Its reports dealing with work of the various departments are submitted to Parliament or State Legislatures.

## **Public Accounts Committee**

The Public Accounts Committee (PAC) first created in 1921, now consists of 27 members, 15 members elected by the Lok Sabha and 7 members from the Rajya Sabha. The election is done on the principle of proportional

representation by means of the single transferable vote. A minister is not eligible for election as a member. The term of office of the members of the Committee is one year, but as continuity of experience is a valuable asset in the work of the Committee, it is generally the practice to let a member continue in office for two years. The main function of the committee is to examine the accounts showing the utilization of the sums granted by the Legislature to meet the expenditure of the Government and such other accounts laid before the Legislature as the committee may think fit. Reports of the Comptroller and Auditor General are examined in detail by the Public Accounts Committee of the Parliament or of the State Legislature. Financial irregularities, defects in control over expenditure, defects in budgeting and large savings and excess, are examined with the help of the departmental witnesses and recommendations made to the Parliament or the State Legislature in due course with the recommendations for regularizing all cases of excess over voted grants and charged appropriations. Until 1996-97, the Chairman of this committee used to be from ruling party since then he/she is from an opposition party.

### **Committee on Public Undertakings**

The Committee on Public Undertakings came into being on 01st May, 1964. It acts more or less on the lines of the Estimates Committee and the Public Accounts Committee. It not only considers the reports of the Comptroller and Auditor General on the various undertakings but on its own initiative may undertake examination of specific companies selected by them. This Committee also makes recommendations like the Estimates Committee and the Public Accounts Committee. The Government companies and the concerned Ministries take appropriate action to implement the recommendations of this Committee.

### **C&AG**

The third limb of Financial System is Comptroller and Auditor General of India (C&AG). The Comptroller and Auditor General is appointed by the President under his hand and seal and can only be removed from office on an address from both Houses of Parliament on grounds of proved misbehavior or incapacity. He would not be eligible for any other office under the Government after retirement. His oath of office requires him to uphold the constitution and the laws and to discharge his duties without fear or favour, affection or ill-will.

In October, 1976, an Organisation named Controller General of Accounts (CGA) was set up to administer matters pertaining to the departmentalization

of accounts of the Union Government. This organisation which works as a part of the Ministry of Finance performs interalia, the following main functions:

- (a) Prescribe the forms of accounts relating to Union and State Governments
- (b) Lay down accounting procedures
- (c) Oversee the maintenance of adequate standards of accounting by Central Accounts Office
- (d) Consolidation of the monthly and annual accounts of the Government of India
- (e) Administration of rules under Article 283 of the Constitution relating to the Custody of the Consolidated Fund of India, the Contingency Fund and the Public Accounts
- (f) Prepare the condensed form of the Appropriation Accounts and the Finance of the Union Government.

It is necessary to verify the accuracy and completeness of accounts prepared by the CGA and ensure that the expenditure incurred has been sanctioned by the Parliament. The accounts prepared by the CGA are therefore audited by C&AG. The audited accounts are placed on the table of both the Houses of Parliament along with the C&AG Report. The Powers and duties of the C&AG are described in Article 148 and 151 of the Constitution. In 1971 the Parliament enacted the Comptroller and Auditor General's (Duties, Powers and Conditions of Series) Act 1971, which after amendment in 1976 relieved him of his duty to prepare the accounts of the Union. The important functions of the C&AG are:

- (a) To audit and report on all expenditure from the Consolidated Fund of India and of each State, as to whether such expenditure has been in accordance with the law.
- (b) To audit and report on all expenditure from the Contingency Funds and Public Accounts of the Union and of the States.
- (c) To audit and report on all trading, manufacturing, profit and loss accounts kept by any Department of the Union or a State.

The Comptroller and Auditor General is the sole authority for auditing the accounts of the Union and the States. The scope and extent of audit are left to the sole discretion of the Comptroller and Auditor General. For the purpose of audit he and his staff have right of access to all documents, papers and files of Government having a bearing on the transactions under his audit and he has the right to inspect any office or institution where Government accounts

are kept and to raise such queries as he considers necessary for the discharge of his functions. He is competent to disallow any sanction which in his opinion violates the provision of the Constitution or its laws. His examination extends beyond the formality of the expenditure, to its wisdom, faithfulness and economy. Important irregularities which are proposed to be included in the Audit Report are issued to the Administrative Ministries/ Departments as Draft Audit Paras; Draft Paras which are not dropped as a result of the Department's replies are incorporated in the Audit Report, which is submitted to the President/ Governors.

All the reports of the C&AG are presented to the concerned legislature.

## **THE BUDEGETARY SYSTEM IN INDIA**

The genesis of the budget system in the Government of India can be traced to the year 1800 when Sir James Wilson, the First Finance Member of the Viceroy's Council, introduced the first budget. The system of financial administration as developed in England was taken as a model and its features transplanted to the Indian scene. In the process of evolving a system of financial control for the Government of India, the British inducted in India some of the institutions already functioning in their country. Some modifications were, however, made in these institutions to suit the requirements of a colonial administration. The system of financial control as introduced in India also incorporated features to cater to the constitutional requirements and the pattern of division of powers and responsibilities between the Secretary of State and the Viceroy.

### **Legislative Financial Control**

In England, the system of financial administration was developed as part of the democratic process. Budget was used as an instrument to ensure accountability of the Executive to Parliament. By showing the agencies for which funds were required and the details of such expenditure (detailed heads of account), the budget provided a basis for Parliamentary legislative control.

In India, however, there was no legislature in the beginning and the administrative authorities were accountable to the Secretary of State in London. The budget system introduced in India was meant to ensure accountability of one level of Executive to another. Even the audit set-up as originally created in India was an instrument of Executive Control as distinguished from the position of such an institution in England where it was meant to serve the purposes of legislative control.

The executive and Audit Department Act of 1866, in United Kingdom had created a statutory authority in Comptroller and Auditor General who was made independent of the Executive. The Act also provided for the preparation of appropriation accounts by all departments for presentation to Parliament. The statutory duties of the Comptroller and Auditor General included audit and examination of the accounts and submission of report thereon to the House. He has to scrutinise accounts to ensure that Parliamentary grants were applied to the purposes as intended, the actual amount of expenditure was in conformity with the vote of the Legislature, and moneys were spent in accordance with laws, rules and regulations. The Act of 1866 further provided for the examination of the reports of the Comptroller and Auditor General,

submitted to Parliament, by a committee of the House, known as Public Accounts Committee. The rationale for creating such a Committee was that Parliament as a whole could not spare enough time for detailed examination of these reports. Also, the type of scrutiny needed was of a technical nature which could best be done by a select committee of the House; moreover, these reports required an examination of a non-party character which was not possible if they were to be debated in the full House.

In India, initially, the Auditor-General submitted his reports to the Secretary of State for India and not to the Legislature. It was on the introduction of the Moneague Chelmsford Reforms in 1921 that the Central Legislature was given the right to vote supplies, except for block of expenditure including Defence estimates, which are treated as non-voted and, therefore, not subject to legislative approval. The Central Legislature had also been given an elected majority. Along with these reforms the U.K. system of audit of public accounts by an independent statutory authority was adopted in India. The Auditor General was made an authority independent of the Executive. Provision was also made for the examination of his reports on the financial transactions of the Government, by a Legislative Committee called the Public Accounts Committee. The Public Accounts Committee comprised of both elected and nominated members and had the Finance member as its Chairman, ex-officio.

After independence of the country in 1947, the Public Accounts Committee was made a wholly elected body with the Finance Minister continuing as its Chairman, it was, however, felt that as the Chairman of the Committee was from the Executive, it tended to restrict free expression of view in the deliberations of the Committee. The situation was remedied on the introduction of the Constitution Act in 1950 when P.A.C. was made a completely Parliamentary Committee with a Chairman appointed by the Speaker from amongst the members of the Lok Sabha.

The Public Accounts Committee examines the report of the Comptroller and Auditor General to ensure that the funds granted by Parliament have been spend by the Executive within the scope of the demand'. The Committee has been gradually encouraging the Audit, which was originally confined to testing the accuracy of accounting and estimating, to encompass in its scrutiny assessment of the propriety and utility of expenditure in addition to ensuring its regularity and proper compilation. It is no more sufficient to ensure that funds are applied to purposes as approved by Parliament and appropriation is not exceeded. The committee expects the Comptroller and Auditor General to extend his examination of accounts beyond the formality of expenditure to its

wisdom, faithfulness, and economy. The P.A.C. has further required the C&AG to look into the efficiency of public expenditures.

### **The Centralized Financial Administration**

On taking over the administration of the country from the East India Company in 1858, the British Rulers introduced a highly centralized system of financial administration in India. This was in line with the British Policy of consolidating their hold on the country, and also to meet the requirements of the situation. The British wanted to introduce order and discipline in the system of financial control which had been quite loose during the regime of the East India Company. Also, the British Government was interesting in undertaking in India a few activities only, namely, collection of revenues, maintenance of law and order, and some economic activities primarily for the protection and furtherance of British trade, like development of transport and communications. A centralized system of financial control suited the interests of the foreign rulers, which, based on lack of trust of functionaries, was made a characteristic feature of the colonial administration.

A striking feature of the system of financial control as introduced by the British in India had been that it was centralized in the Department of Finance. Such a centralization was further pronounced by effecting a divorce between administrative and financial functions. It was maintained that the administrative departments could not be depended upon for the exercise of financial prudence in their expenditure. The departments were neither suitably organised for the purpose nor possessed the necessary personnel for the job. It was the Finance Department which was considered as the sole repository of financial wisdom. Such an attitude was further strengthened when in 1938 the Government of India constituted a special Finance Commerce Pool centrally administered to provide personnel for manning posts in the field of economic and financial administration. As the administrative departments were not considered competent to exercise financial scrutiny, internally, with a view to effect economies in expenditure, itemized control by the Department of Finance of the expenditure proposals submitted by the administrative departments was instituted.

The remote control of the Secretary of State for India also accounted for an extreme centralization of the system of financial administration. The control of the Secretary of State over the finance of the Government of India was ensured by requiring the budget of the colonial Government to be submitted for his approval and acceptance. Also, he issued various codes and executive orders binding the spending authorities in India to specified limits and prescribed manner for incurring expenditure. The Finance Department of the

Government of India was entrusted with the responsibility of enforcing these codes and regulations.

The Department of Finance, thus, came to assume the responsibility for protecting the interests of economy and financial propriety in Government. It used the budgetary system of exercising the necessary financial control over the spending authorities. At the stage of budget formulation, the Finance Department reviewed the revenue and expenditure proposals of the administrative departments. It carried out a thorough pre-budget scrutiny of the expenditure proposals submitted by the administrative departments, from the point of view of economy and to examine their consistency with the accepted policies of the Government. The Finance Department did not restrict its control to the pre-budget scrutiny only. It got another opportunity for a detailed scrutiny of the expenditure proposals after the budget was passed and when references came to it for expenditure sanctions before the administrative authorities could incur expenditure. The inclusion of an item of expenditure in the budget did not by itself give authority to the concerned administrative agency to spend money on it. The administrative authority had to approach the Department of Finance again with a full justification of the proposed expenditure, and to obtain its concurrence to the issue of expenditure sanction.

It had been provided in the rules of business that no proposal involving expenditure could be taken up for execution without the concurrence of the Department of Finance. These rules continue to exist even after the Reforms of 1919 and 1935. It has survived even in the present system which came into existence after the promulgation of the Indian Constitution, 1950. In the rules framed by the President of India 'for the more convenient transaction of the business of Government of India' under Article 77(3) of the Constitution, the Ministry of Finance has been assigned a special position in regard to the management of the financial affairs of Government. The existing rules of business provide that, subject to general or special orders made by the Min. of Finance, no department shall, without the previous concurrence of the Ministry of Finance, issue any orders which may:

- (a) involve any abandonment of revenue or involve any expenditure for which no provision has been made in Appropriation Act;
- (b) involve any grant of land or assignment of revenue or concession, grant lease or license of mineral or forests rights or a right to water, power or any easement or privilege in respect of such concession;

- (c) relate to the number of grades of posts or to the strength of a Service or to the pay or allowances of Government servants or to any other conditions of their service having financial implications, or
- (d) otherwise have a financial bearing whether involving expenditure or not.

These rules of business hardly leave any financial powers for the administrative ministries to exercise. However, there is a provision in the rules that they are exercisable subject to general or special orders made by the Ministry of Finance. Under this provision, the Ministry of Finance can delegate financial powers to the administrative authorities and share its responsibility for financial control with them. The various types of financial delegations made by the Ministry of Finance to the administrative authorities flow from this provision and the rules framed on the subject, like Delegation of Financial Powers Rules, derive their authority there from.

Under the Indian Budgetary system, the position till the late 1950s had been that the executing agencies needed specific expenditure sanction from the Ministry of Finance before they could implement a programme even though budget provision had been made for it. Such a situation deprived the implementing agencies of a feeling of participation in the processes of financial control and blunted their financial consciousness.

This system of extreme centralization of financial powers in the Department/ Ministry of Finance was adversely commented upon, from time to time, in the reports of various experts and expert body. These included reports of Sir Richard Tottenham (1945-46), the Secretariat Reorganisation Committee (August 1947), the Economy Committee (1949), N Gopaldaswami Ayyangar's Report on Reorganisation of the Machinery of Government (1949), Second Report of the Estimates Committee of the First Lok Sabha on Reorganisation of the Secretariat and Departments of the Government of India (1951). The First Five Year Plan (1952) A.D. Gorwala's Report on Public Administration in India (1951), Paul H Appleby's Report on Public Administration in India (1953), Ninth Report of the Estimates Committee of the First Lok Sabha (1953-54) and the Second Five Year Plan (1956). It was advocated by the experts that for achieving efficiency and economy in public expenditure, greater financial powers were needed to be delegated by the Ministry of Finance to the administrative ministries and executing agencies.

As a result of the pressing demands for reforms in the system of financial control, particularly when the Government had launched upon programmes of

planned socio-economic development, greater powers came to be delegated to the administrative ministries. A scheme of significance was introduced from August 1950 whereby the Ministry of Finance delegated considerably larger powers to the administrative ministries. This was followed by other delegation schemes introduced in June 1962, October 1968, April 1975 and January 1979, which vested the administrative authorities with enhanced financial powers. Also, a scheme of integrated financial advisor was introduced in October, 1975, whereby financial Advisor has been made a part of the administrative ministry and designated as Integrated Financial Advisor.

### **Lump-sum Cuts**

A practice started during the British times which has its echo in the present day system of financial control pertains to the application of lump-sum cuts by the Finance Department while carrying out scrutiny of budget estimates prepared by the administrative authorities. Whereas the Department of Finance had assumed the role of custodian of efficiency and economy in public expenditure, it did not make use of rational planning and management techniques in its exercise of financial control.

In the absence of scientific Yardsticks and norms for conducting financial scrutiny, the administrative departments tried to take recourse to various tactics for obtaining more and more funds from the Department of Finance. The result of such an attitude was that the administrative departments over-estimated their requirements of funds and later under spent the sanctioned grants. A wide gap was generally observed between the approved budget estimates and the actual expenditure. The main concern of the Department of Finance after the reforms of 1919, therefore, was to ensure that the budget estimates prepared by the administrative departments reflected realistically their spending capacities so that the actual expenditure remained as close as possible to the budget estimates framed by the administrative departments owes its origin during these period.

The Finance Department was encouraged by the Public Accounts Committee in resorting to the practice of applying arbitrary or ad-hoc cut to the demand for grant as a whole while scrutinizing the budget estimates formulated by an administrative department. This reduction was effected in addition to the cuts which were already being applied on the individual estimates of the administrative authorities. Such an approach was thought to remedy the problem of loose budgeting by the administrative departments and to bring the gap between their actual expenditure and the sanctioned grants. As mentioned earlier, the practice of making ad-hoc cuts by the Ministry of

Finance on the budget estimates prepared by the administrative authorities continues even today.

### **The Combined System of Audit and Accounts**

In 1857, Lord Canning brought about a Reorganisation of the accounting system of the East India Company by amalgamating separate accounting organizations existing in the three Presidencies of Bengal, Madras and Bombay, into one imperial establishment were put under the charge of an Accountant General. On taking over the Indian Administration in 1858, the British Crown created a complementary post of Accountant General at the India Office in London for the preparation of the accounts of the expenditure incurred in England. At the same time, the Crown appointed an independent Auditor for the audit of those accounts. This way, the accounts and audit authorities were kept separate, and the same pattern was reproduced in the machinery of the reconstituted Government of India. The arrangement however, did not last for long, and the accounting and auditing functions in the Government of India were amalgamated in 1860. The combined offices for audit and accounts functions were put under the charge of the Accountant General to the Government of India, whose designation was changed to Auditor General. Later, exception was made in the case of the Military Accounts which was separated from audit in 1864. The separation of accounts from audit was also introduced in the Indian Railways in 1925, and was completed in 1929.

A scheme for the separation of audit and accounts was introduced from 1st April 1955 in the ministries of Food, Rehabilitation and Department of Supply. This scheme was later extended to the Lok Sabha and Rajya Sabha Secretariat from October 1955 and to the Department of Printing and Stationery from December, 1955. In 1967, accounts relating to Telecommunication wing of the Posts and Telegraphs Department were separated from Audit. But, by and large, the combined system of audit and accounts continued as a peculiar feature of the Indian Financial System. It was retained in the enactment of 1935 and continued to exist even after the promulgation of the Indian Constitution in 1950.

The Comptroller and Auditor General and his predecessors have, for more than a century, been responsible for the compilation, maintenance and audit of the accounts of the civil departments of the Government of India. In the financial system of India, the treasuries played a vital role. They functioned as the common payment and receipt offices for almost all departments of Government located in their jurisdictions. They were responsible for making payment of claims against Government on bills or cheques or other instruments presented in the prescribed form by duly authorised persons. It

had also been their responsibility to receive money from the public and the government departments and agencies for credit to Government. Further-more the treasuries were responsible for preparing the initial accounts of all payments and receipts taking place at them. The statements of these transactions had to be rendered by the treasuries to the concerned Accountant General. These statements (accompanied by the necessary documents and vouchers) formed the main basis for the detailed compilation and consolidation of accounts by the Accountants General.

The vesting of accounts function in the Comptroller and Auditor General left the departments without adequately maintaining the basic accounts necessary for ensuring effective financial control and for other management purposes. The departments were not able to follow properly the progress of their expenditure. There occurred a considerable time lag between the disbursement of funds by the departments and the time they got accounts figures from the Audit and Accounts Department.

Accounting being essentially a management function the logical approach is that the responsibility for the maintenance and compilation of accounts should rest in the administrative departments and executing agencies. The imperative of integrating accounting function with the administrative departments has assumed greater significance with the adoption of performance budgeting by the Government of India. It has been felt that accounting needs of the administrative departments and agencies for speedy, accurate and adequate information would increase manifold with the introduction of the scheme of performance budgeting. The new style of management as envisaged under the system of performance budgeting would necessitate easy availability of accounting data internally.

In the circumstances, retaining accounting function, in any form, with the Comptroller and Auditor General was considered a retrograde step. It was thought that accounts should be completely separated from the audit function of the Audit and Accounts Department and vested with the administrative departments. The administrative departments should be assigned full responsibility for the compilation and maintenance of their accounts. Efforts should be made to develop accounting competence within the administrative departments and agencies to fully support the system of performance budgeting. A view, therefore, strongly gained ground that the administrative departments which are entrusted with funds for expenditure should also be assigned full responsibility for the maintenance and compilation of the accounts relating to such expenditure.

In 1971, the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act was passed which did visualize the need for separating accounts from audit. Section 10 of the Act empowered the President, after consultation with the Comptroller and Auditor General to relieve the Comptroller and Auditor General from the responsibility of maintaining and compiling the accounts of any department of the Union Government.

A scheme for the separation of accounts from audit was approved by the Government of India in June, 1975. An ordinance was issued by the President, which was followed by passing an Act which amended the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act of 1971. The amendment amplified the scope of the provision under section 10 of the Act of 1971 to enable the Government of India to relieve the Comptroller and Auditor General of the responsibility for compiling the accounts of the Union Government. Section 11 of the same Act was also amended to authorize the President after consultation with the Comptroller and Auditor General, to relieve the Comptroller and Auditor General from the responsibility for preparation and submission of annual accounts of the Union. The separation of accounts from audit has already been completed in three phases effective from 1st April, 1976 (covering three Ministries), 1st July (covering nine more Ministries), 1st October (covering the remaining Ministries/ Departments).

Under the new departmentalized accounting system the role of the treasuries in respect of payments and receipts has been eliminated. All payments are stipulated to be made by the departments by cheques drawn on public sector banks. In addition to the Reserve Bank of India and the State Bank of India, nationalized banks have also been authorized to handle cash business of Government departments.

A new feature had been introduced in the Indian system of financial control after the reforms of 1919. It pertained to making each head of department responsible for the control of expenditure against the portion of the budget grant specifically assigned to his department. The departmental controlling officer was required to ensure that each expenditure was incurred in accordance with proper sanctions, rules, regulations, and the accepted principles of financial propriety. Also he was to make sure that the expenditure was covered by a sanctioned grant. For these purposes, a controlling officer needed to maintain his departmental accounts which he periodically reviewed to keep a watch on the progress of expenditure. To ensure correctness of his accounts, he also got them verified and reconciled, periodically, with the accounts maintained by the Accountant General. This practice of the departments maintaining duplicate accounts and reconciling them periodically

with those compiled in the Accountant General's office finds its echo even today when the accounting function has been departmentalized and placed under the charge of the departmental administrative Secretary. The departments continue to maintain parallel accounts which they periodically reconcile with those prepared in their own accounting organization.

Another development of interest which took place after the Reforms of 1935 pertained to the publication of a set of financial Rules, known as, the General Financial Rules, Treasury Rules, Account Code, Audit Code, etc. These publications removed the overlapping of subjects in the then existing codes and brought about much needed simplification, clarification and grouping of subjects.

### **The Budget year**

The rationale of our present financial year (April to March) has been a subject of debate ever since it was adopted by the Government of India in 1866 in conformity with the British practice. It has been argued that the existing budget period is responsible for the late start of public works. Under the present arrangements, soon after the expenditure sanctions reached the executing agencies, monsoon would break in most parts of the country rendering it difficult to start construction of the budget works. These works could be started only after the rains were over. The commencement of the budget year on 1st of April affected the speed of works because of the monsoon season coming in immediately after the preparatory work for works projects was complete. It has further been made out that the delayed execution of public works under the existing system results in rush of expenditure towards the end of the year leading to surrender of sizable funds at the close of the financial year.

Another criticism against the existing financial year is that it is not based on the customs and needs of our country. Our economy is till predominantly agricultural and is dependent on the behaviour of the monsoon. The budget year does not enable a realistic assessment of Kharif revenues as the agricultural picture dependent on the behaviour of rains is not known when the budget is formulated. Therefore, different dates have been advocated for the commencement of the financial year, namely, the 1st of July, the 1st of October or the 1st of November, and the 1st of January, it has been pointed out that a budget year should be such as would enable: (i) accuracy of revenue estimates, (ii) accuracy of expenditure estimates, (iii) efficacy of performance, and (iv) budget timing to suit convenience of Legislators and administrators.

After analyzing the various suggestions advocated for the commencement of the financial year, it has been found that none of the solutions offered would reconcile all the criteria mentioned for better budgeting. None of the alternatives suggested, i.e. the 1st of July, the 1st of October or the 1st of November, and the 1st of January ensures fulfillment of all the desired criteria even if such an alternative is considered from the point of view of any one particular State. Considering alone the criterion of predictability of revenues, we find that no single alternative budget year allows the various States a realistic assessment for both Kharif and Rabi crops. If a particular budget year makes it possible to know about the behavior of south-west monsoon before framing estimates of revenues, it may not do so for the crop to a complete guess work. It may be mentioned that Rabi Crop is financially more important for some of the States in India. It would, thus, be difficult to reconcile the interests of various States of India on any one alternative date suggested for the commencement of the budget year. Moreover, it has been argued that in certain respects the criticism against the present budget year has been overdone and is not fully justified.

A case has, therefore, been made for retaining status quo. It has been argued that there is not particular advantage to be gained by disturbing the existing arrangements. A revision of the present financial year is to be set with dislocations in statistical, accounting and administrative fields. Though these difficulties are not insurmountable, the advantages to be gained from any such change may not compensate for all the troubles taken and the problems faced. Moreover, different states of India view differently the suitability of various alternatives to their respective climatic and other conditions. It is not possible to reconcile the interests of all the states to any one alternative budget year. It is, however, accepted by all concerned that we should have an uniform financial year- both for the Union and the States. In the circumstances, therefore, the best practicable approach would be to retain the existing budget year.

### **Expenditure Finance Committee & Public Investment Board**

There had been in existence a Standing Finance Committee of Parliament presided over by the Finance Minister which considered and approved for inclusion in the budget, estimates in respect of 'new services' and individual items of expenditure costing over Rs.5 lakhs. Since its abolition in 1952, the expenditure proposals of large schemes were being referred to a Departmental Finance Committee in the Ministry of Finance, which comprised the Minister concerned in the Ministry of Finance and officials from the Finance Ministry and the Administrative Ministry concerned. On 10th August, 1956 the Ministry

of Finance changed the name of the Departmental Finance Committee to Expenditure Finance Committee.

The expenditure Finance Committee has the Expenditure Secretary as its Chairman and includes as members, the Integrated Financial Advisor of the administrative Ministry concerned with the proposal, a representative of the Planning Commission, and a representative of the Bureau of Public Enterprises. The E.F.C. provides the Ministry of Finance with an opportunity to consider expenditure proposal of amounts ranging between Rs.5 crores and Rs.20 crores, in their various aspects both in regard to policy and details, before a formal sanction is accorded by the Finance Ministry to the cost estimates of such projects. Investment proposals involving expenditure of Rs.20 crores and above are examined by a Public Investment Board set up in 1972, which is also presided over by the Expenditure Secretary as its Chairman. Other members of the P.I.L. include the Secretary, Economic Affairs, the Secretary of the Planning Commission, the Secretary, Industrial Development, the Principal Secretary to the Prime Minister, the Director General, Bureau of Public Enterprises, and the Secretary of the administrative Ministry concerned with the proposal. The Board examines the proposed projects both from the point of view of their financial and economic aspects.

### **The existing Budgetary Process**

The essential features of our country's budget and its budgetary process are derived from the Constitutional requirements and the rules of business framed there under. The relevant provisions of the Constitution are contained in Article 112 to 117, 202 to 206 and 260 and 267 of the Constitution of India.

Article 112 (1) of the Constitution of India requires the Government to present to both Houses of Parliament before the commencement of each financial year an annual financial statement, known as budget, showing the estimated receipts and expenditures 'of the Union Government in respect to that year. The President causes to be laid before Parliament the annual financial statement. The Annual Financial Statement or the Budget of the Union Government is presented to Parliament in two parts; (1) The Central Budget, and (ii) The Railway Budget. Under the Indian Constitution, no expenditure can be incurred except in the manner as provided in the Constitution, and in accordance with the law made by Parliament.

The Railway Budget is prepared by the Ministry of Railways (Railway Board). It is presented to Parliament preceding the General Budget. Under the Financial Rules, it is the responsibility of the Ministry of Finance to formulate the Government's budget for presentation to Parliament. The formulation of the

budget is done by the Ministry of Finance with the active assistance of the administrative and executing authorities. The administrative departments frame their estimates of receipts and expenditures and submit the same to the Ministry of Finance for approval and incorporation in the budget.

There are various types of decisions involved in budget formulation. The first one is in regard to the size of the budget i.e. total expenditures and total receipts to be included in the budget. This decision has to be taken keeping in view the state of the economy and the prevailing economic conditions in the country. There would be a number of problems in estimating various factors and consequently in making a broad judgment in deciding on the size of the budget. The next decision which would need to be made is in regard to a proper allocation of resources among various purposes.

Decision-making in budget formulation has to be done within the existing constraints. There are certain types of expenditure, like debt repayment, interest payment, defence, salaries, food subsidies, export subsidies, etc. There are also 'on going' projects which cannot be stopped. These items of expenditure make a considerable portion of the budget, already committed. This committed expenditure, which is relatively non-controllable part of the budget, constitutes more than seventy-five percent of the total expenditure for the fiscal year. Therefore, whatever leverage is available in budget formulation is confined to new projects or to rephrasing of the Projects already under implementation. Decision making which gets confined to allocating less than twenty-five percent of the budget provision available, needs to be done with utmost care as these decisions are going to forestall future choices in the subsequent budgets.

According to constitutional requirements, estimates have to be prepared by the Government for each Vote separately. The estimates of expenditure in the budget show two types of amounts. One type pertains to the sums required to meet the expenditure "charged" on the Consolidated Fund of India. The items of expenditure covered by this category are set out in Article 122 (3) of the Constitution, and include expenditure like the salary of the President, Presiding Officers of Parliament, the Comptroller and Auditor General, and the Supreme Court Judges. This type of expenditure is not submitted to the vote of the Lok Sabha. The other type of expenditure, also met from the Consolidated Fund requires Vote of the Lok Sabha after obtaining the recommendation of the President of India. A Vote on Account passed by Parliament gives authority to the Executive to spend money till the regular budget is passed.

The review and approval of the Budget proposals by Parliament proceeds in four stages, i.e. (i) general discussion on the budget, (ii) discussion and voting on the demands for grants, (iii) passing of the Appropriation Bill, and (iv)

passing of the Finance Bill. The occasion of the general discussion on the budget in Parliament is meant to provide an opportunity to the members to discuss the financial and other policies of the government. During this stage the members are free to discuss the budget as a whole or any question or principle involved therein. Generally 20 to 24 hours are allotted for discussion at this stage.

The second stage in the legislative approval of the budget commences with the start of the debate on the demands for grants. At this stage the members may resort to - cut motions, like disapproval or policy cut, economy cut and token cut, to make the Ministries aware of certain problems.' About 120 to 140 hours are allotted for the purpose of debate during this stage. However, at this stage of the discussion the members can raise only those issues with which the administrative ministry, whose demands for grants are under consideration, is concerned. It is Lok Sabha which is empowered to discuss and vote demands for grants. It may, however, be mentioned that during the allotted time for discussion, it is only a few Ministries' demands for grants which are discussed. The remaining demands for grants are put to the vote of the Lok Sabha on the last day of the allotted period.

After the demands for grants are approved by the Lok Sabha, a bill is introduced to provide for the appropriation of moneys required to meet the grants. According to Article 114 of the Constitution of India, the provision in the Appropriation Bill is not to exceed, in any case the amount as previously asked for by the government while presenting the demands for grants. Before the Appropriation Bill is passed, a debate takes place again which is, however, restricted to matters of public importance or Administrative policy relevant to the grants but not already raised during the prior discussions. The passing of the appropriation bill completes the authorization by Parliament of the Government expenditure.

The Parliament then sets to approve the Finance Bill which contains the proposals of Government for raising the required revenue. A General discussion on the Bill takes place, which is followed by clause by clause discussion. This forms the fourth stage in the approval of the budget by Parliament. The Budget is said to be passed with the passing of the Finance Bill. It may be stated that the initiative in regard to financial matters lies with the Executive in as much as the Demands for Grants and Finance Bill are framed by it for presentation to Parliament.

A budget implementation has to be accompanied by a proper accounting of transactions. A revised accounts classification on functional lines to suit the needs of the scheme of performance budgeting has been in use since April 1,

1974. The accounts are duly audited by an independent agency based by the Comptroller and Auditor General. In the post-budget stage, parliament exercises financial control through the appointment of three financial committees, namely the Public Accounts Committee, the Estimates Committee, and the Committee on Public Undertakings.

The Public Accounts Committee which discusses reports of the Comptroller and Auditor General is generally able to cover because of paucity of time, only a small percentage of the audit Paras. It comprises of members from both the Houses of Parliament - 15 from Lok Sabha and 7 from Rajya Sabha. The Estimates Committee, first constituted in 1950, is composed of 30 members, all of whom are from Lok Sabha.

The Committee is mainly concerned with the efficiency appraisal of departments. It examines the budget estimates of the departments of the Government of India with a view to find out what economy and efficiency could be effected in their functioning. The Committee on Public Undertakings, which was set up in 1964, combines the functions of Public Accounts Committee and Estimates Committee in relation to Public Undertakings. It is composed of 22 members, of whom 15 are from Lok Sabha and 7 from Rajya Sabha.

The financial committee of Parliament receives information from government departments as well as from various other agencies. These committees have been submitting unanimous reports. However, the recommendations of the financial committees are advisory in nature, their rules being recommendatory and not mandatory.

## **BUDGET**

### **Origin**

In India, the first budget was introduced in the year 1800 by Sir James Wilson, Finance Member of Viceroy's Council - British Model was transplanted.

### **Aim**

- (1) Budget was introduced as an instrument to ensure accountability of Executives to Parliament.
- (2) In 1921, the post of C&AG was created and his report on the financial transactions of the Govt. was brought under scrutiny by legislative committee called Public Accounts Committee.
- (3) The Deptt of Finance used budgeting system for exercising necessary financial control over spending authorities.
- (4) With the separation of "Accounting Functions" from audit in 1975, C&AG was relieved of his responsibility of compiling of accounts. As far as DAD was concerned in the year 1964, accounting work was separated from Audit.

### **Procedure for Budgeting**

(1) Article 112 (I) of constitution, requires the Government to present to both houses of Parliament before commencement of each financial year an "Annual Financial Statement" known as Budget showing estimated receipts & expenditure of Union Govt. for that year. It is submitted in two parts: (a) General Budget & (b) Railway Budget. The formulation of Budget is done by Minister of Finance with the assistance of admin & executive authorities, keeping in view the state of economy & prevailing economic conditions in the country.

(2) Provision for committed expenditure which is not controllable, viz. debt repayment, interest payment, defence, salaries, food subsidies, etc. (This accounts for 75% of the budget) Balance 25% only is available for plan expenditure.

(3) Stages of approval of Budget by Parliament:

- (a) General discussion on the Budget.
- (b) Discussion & voting on the demands for grants
- (c) Passing of Appropriation Bill, &
- (d) Passing of Finance Bill.

The third stage, viz. "Appropriation Bill" is generally not to exceed the amount included "demands for grants". Passing of appropriation bill marks the authorization by Parliament to Govt. expenditure.

Finance Bill contains proposals of Govt. for raising the required revenue to meet the proposed expenditure.

### **Budgetary Control by Parliament**

(a) Parliament exercises financial control through three financial committees, viz:

- (i) Public Accounts Committee,
- (ii) Estimates Committees, &
- (iii) Committee on Public Undertakings

(b) (i) PAC discuss the reports of C&AG, i.e. a small percentage of audit Para.

(ii) Estimates Committee discusses and debates the efficiency appraisal of Depts., i.e. finding out where economy and efficiency could be effected in functioning Deptts, &

(iii) Committee on Public Undertakings (set up in 1964) combines the functions of PAC with Estimates committee.

### **Performance Budgeting**

- (a) Concept/ Definitions:
  - (i) Budget is now an exercise for marshalling of fiscal and organizational resources for attainment of benefits - i.e. secure the goal of efficiency with economy.
  - (ii) It is a process for systematically relating the spending of funds to the accomplishment of planned objectives

(iii) The annual budget is in essence of a work plan specifying the programme targets to be achieved during the financial year.

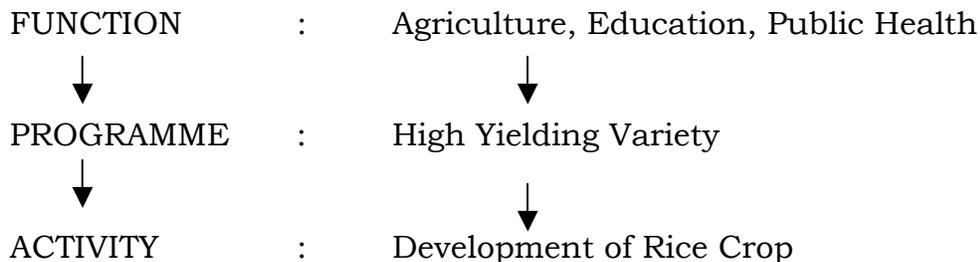
(b) Method

The essence of P.B. lies in formulation of objectives, which should be operational and capable of being converted into work assignments.

(i) Object/Line Item Classification serves the purpose of financial accountability and ensuring legality & regularity of expenditure.

(ii) Functional classification relates to budgeting in terms of functions, programmes, activities and projects.

*Illustration*



While objective classification lays emphasis on inputs on which money is proposed to be spent thereby indicating the nature of expenditure viz. salaries, TA, Minor Works, etc. programme/ activity classification highlights the purpose of budgeted expenditure.

(iii) Essence of P.B. is to fix physical targets for accomplishment in respect of each programme and activity to enable working out of corresponding financial estimates. For this purpose, pre-determined norms/yardsticks/ standards for measuring inputs & outputs are to be carefully fixed.

(iv) Drawbacks of P.B: Qualitative output cannot be measured easily

(v) The P.B. has close links with new scheme of classification.

(i) Major Head - Assigned to each function -  
Capital Outlays for Defence Services

- (i-a) Sub Major Head -Sub Functions:  
Army
- (ii) Minor Head - Each Programme such as Other equipment
- (iii) Sub-Heads - Activities, Schemes  
such as Radars
- (iv) Detailed Head - Item wise various Radars

The above classification has a link between budget account heads, plan heads of development and to facilitate monitoring, analysis of expenditure on functions, programme activities to aid management functions.

- (vi) For successful operation of P.B. a style of management based on decentralized responsibility is, necessary by laying emphasis on operating levels where resources are utilized, services are rendered and work is accomplished.
- (vii) P.B. also requires efficient control and reporting systems, at top level, middle level and operational (lower level) in order to obtain a correct picture of physical accomplishment and related cost of each programme / activity. This could otherwise be called Management Accounting System.

However, under present Government, accounts system, which is done on cash basis, it is difficult to know the cost assignable to an activity.

### **Zero Based Budgeting**

(a) Implications:

- (i) Every year activities of an organisation should be viewed afresh and priorities among competing claims for allocation of funds settled by using techniques like cost benefit-cost effective analysis. It means that complete re-examination of all ongoing programmes and activities should be carried out by taking a total look instead of following incremental approach to budgeting.
- (ii) Identify and remove duplication or multiplication of activity by a number of agencies of the same organisation. This is to eliminate multiplication of infrastructural operations by various agencies.

- (iii) Looking for a better alternative for incurring expenditure like solar equipment instead of election gadget.
- (iv) Aims of optimizing expenditure by making it productive and efficient. Evaluation of actual achievement by a sound system of monitoring and review performance. Performance budgeting as an essential adjunct of ZBB would ensure productivity and efficiency of expenditure.

(b) How Being Followed:

- (i) In the economic surveys for 1985-86 & 1986-87 presented to Parliament embodies the requirement of initiating ZBB in all Government Departments from 1987-88.
- (ii)
  - (a) Identification of decision units.
  - (b) Formulation & development of decision packages
  - (c) Evaluation of ranking of decision package in order of priority.
  - (d) Preparation of budget by allocating resources to activities or decision packages by utilizing hierarchical funding cut off levels.

What is Decision Unit?

It consists of programme, scheme, project or an operation. Discretions & options available should be suitably made use of by analytical study & review of expenditure.

Decision Package

It comprises of comprehensive justification for budget estimates of an activity by enquiring

- (a) into the need for proposed expenditure
- (b) specific purpose it will serve
- (c) better alternative way of incurring expenditure.

(C) Methodology vs Problems

- (i) Need for ZBB has arisen because of resource crunch and to solve the problems of allocating scarce resources among competing demands.
- (ii) Financing high priority decisions packages at the cost of low priority packages.

## Problems

- (i) Too much paperwork of unmanageable proportions. Linking of ZBB with PB is necessary to increase the usefulness of the latter.
- (ii) Involves extensive review of expenditure roughly 1/3 in a year
- (iii) Constraints: Non-availability of trained person for applying evaluative analysis/techniques like cost benefit - cost - effective analysis. Designing a sound M.I.S. (Management Information System) so as to achieve the desired objective.
- (iv) Results of such analysis would lead to re-deployment of manpower, material, machining, equipment which may become redundant.

## **Budget Documents Presented to Parliament**

### **Annual Financial Statement**

1. Under article 112 of the constitution, a statement of estimated receipts and expenditure of the Government of India has to be laid before parliament in respect of every financial year, which runs from 1st April to 31 March. This statement is the main budget document and is normally laid in Parliament in (the current year) in the month of February for the following financial year. The Annual financial statement shows the estimated receipts and payments of Government under the three parts in which Government accounts are kept. (i) Consolidated fund, (ii) Contingency Fund and (iii) Public Account.
2. All revenues received by Government, loans raised by it, and its receipts from recoveries of loans granted by it, from the Consolidated Fund. All expenditure of Government is incurred from the Consolidated Fund and no amount can be withdrawn from the fund without authorization from Parliament.
3. Occasions may arise when Government may have to meet urgent unforeseen expenditure pending authorization from Parliament. The Contingency Fund is an imprest placed at the disposal of the President to incur such expenditure. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from Contingency fund is recouped to the Fund. The corpus of the Fund authorized by the Parliament, at present is Rs. 50crores.
4. Besides the normal receipts and expenditures of Government which relate to the Consolidated Fund, certain other transactions enter Government accounts, in respect of which the Government acts more as a banker. For example, transactions relating to provident funds, small savings collections, other deposits, etc. The moneys thus received are kept in the Public Account and the connected disbursements are also made there from. Generally speaking, Public Account funds do not belong to Government and have to be paid back some time or the other to the persons and authorities who deposited them. A parliamentary authorization for payments from the Public Account is, therefore, not required. In a few cases, a part of the revenue of Government is set apart in separate funds for expenditure on specific objects like sugar

development, replacement of depreciated assets of commercial undertakings, etc. These amounts are withdrawn from the consolidated Fund with the approval of Parliament and department in the Public Account for expenditure on the specific objects. The actual expenditure on the specific objects is, however, again submitted for vote of parliament even though the moneys have already been earmarked by parliament for transfer to the funds.

5. Under the Constitution, Budget has to distinguish expenditure on revenue account from other expenditure. Government budget, therefore, comprises (i) Revenue Budget and (ii) Capital Budget.
6. Revenue Budget consists of the revenue receipts of Government (tax revenues and other revenues) and the expenditure met from these revenues. Tax revenues comprise proceeds of taxes and other duties levied by the Union. The estimates of revenue receipts shown in the Annual Financial Statement take into account the effect of the taxation proposals made in the Finance Bill. Other receipts of Government mainly consist of interest and dividend on investments made by Government. Revenue expenditure is for the normal running of Government departments and various services, interest charges on debt incurred by Government, subsidies, etc. Broadly speaking, expenditure, which does not result in creation of assets, is treated as revenue expenditure. All grants given to State Governments and other parties are also treated as revenue expenditure even though some of the grants may be for creation of assets.
7. Capital Budget consists of capital receipts and payments. The main items of capital receipts are loans raised by Government from the public which are called Market loans, borrowings by Government from Reserve Bank and other parties through sale of Treasury Bills, loans received from foreign Governments and bodies and recoveries of loans granted by Central Government to State and Union territory Governments and other parties. Capital payments consist of capital expenditure on State and Union territory Governments, Government companies, Corporations and other parties. Capital Budget also incorporates transactions in the Public Account.

### **Accounting Classification**

8. The estimates of receipts and disbursements in the Annual Financial Statement and of expenditure in the Demands for Grants are shown according to the accounting classification prescribed under article 150 of

the Constitution. This classification is intended to allow Parliament and the public to make a meaningful expenditure.

9. Under the constitution, certain items of expenditure like emoluments of the President, salaries and allowances of the Chairman and the Deputy Chairman of the Rajya Sabha and the Speaker and the Deputy Speaker of the Lok Sabha, salaries, allowances and pensions of Judges of the Supreme Court and the Comptroller and Auditor General of India, interest on the repayment of loans raised by Government and payments made to satisfy decrees of courts etc. are charged on the Consolidated Fund and are not required to be voted by the Lok Sabha. The Annual Financial Statement shows the expenditure charged on the Consolidated Fund separately.

### **Demands for Grants**

10. The estimates of expenditure from the Consolidated Fund included in the Annual Financial Statement and required to be voted by the Lok Sabha are submitted in the form of Demands for Grants in pursuance of article 113 of the Constitution. Generally, one Demand for grant is presented in respect of each Ministry or Department. However, in respect of large Ministries or Departments more than one Demand is presented. Each Demand normally includes the total provisions required for a service, that is, provisions on account of revenue expenditure, capital expenditure, Grants to state and union territory Governments and also loans and advances to the service. In regard to Union Territories without Legislature, a separate Demand is presented for each of the Union territories. Where the provision for a service is entirely for expenditure charged on the Consolidated Fund, for example interest- payments, a separate Appropriation, as distinct from a Demand, is presented for that expenditure and it is not required to be voted by the Parliament. Where, however, expenditure on a service includes both 'Voted and 'Charged' items of expenditure, the latter are also included in the Demand presented for that service but the 'voted' and 'charged' provisions are shown separately in that Demand.
11. The Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement. Each Demand first gives the totals of 'voted' and 'charged' expenditure as also the 'revenue' and 'capital' expenditure included in the Demand separately and also the grand total of the amount of expenditure for which Demand is presented. This is followed by the estimates of expenditure under different major heads of account. The break up of the expenditure under each major head between "Plan"

and 'Non-Plan' is also given. The amounts of recoveries taken in reduction of expenditure in the accounts are also shown. A summary of Demands for grants is given at the beginning of this document, while details of "New Service" or "New Instrument of Service" such as formation of a new company, undertaking a new scheme etc., if any, are indicated at the end of the document.

### **Finance Bill**

12. The proposals of government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament are submitted to Parliament through the Finance Bill.
13. The Budget documents presented in terms of the Constitution have to fulfill certain legal and procedural requirements and hence may not by themselves give a clear indication of the major features of the Budget. To facilitate and easy comprehension of the Budget, these are described now. The same have been elucidated below to facilitate an easy comprehension of the budget.

### **Budget at a Glance**

14. The document Budget at a Glance shows in brief receipts and disbursements along with broad details of tax revenues and other receipts. This document also exhibits broad break-up of expenditure - Plan and Non-Plan, allocation of Plan Outlays by Sectors as well as by Ministries/Departments and details of resources transferred by the Central Government to State and Union Territory Governments. This document also shows the revenue deficit, the primary deficit, the budgetary deficit and the fiscal deficit of the Central Government. The excess of Government's revenue expenditure over revenue receipts constitutes revenue deficit of Government. Taking into account the capital expenditure and capital receipts also there is a gap between receipts and expenditure of a year. This gap which is covered by issue of 91 days Treasury Bills, (mostly held by Reserve Bank), constitutes overall budgetary deficit. Apart from, this borrowing through Treasury Bills, Government also borrows funds under many schemes, which form part of capital receipts. The difference between the total expenditure of Government by way of revenue, capital and loans net of repayments on the one hand, and revenue receipts of Government and Capital receipts which are not in the nature of borrowing but which finally accrue to

Government on the other, constitutes fiscal deficit. Primary deficit is measured by fiscal deficit reduced by gross interest payments.

### **Expenditure Budget Vol. 1**

15. Expenditure Budget Vol. I deals with revenue and capital disbursements of various Ministries/ Departments and gives the estimates in respect of each under 'Plan' and 'Non Plan'. This also gives analysis of various types of expenditure and broad reasons for the variations in estimates.
16. Under the present accounting and budgetary procedures, certain classes of receipts, like payments made by one department to another and receipts of capital projects` or schemes are taken in reduction of the expenditure of the receiving department. The estimates of expenditure included in the Annual Financial Statement are for the net expenditure as will be reflected in the accounts, that is, after taking into account the recoveries. The document Expenditure Budget makes certain other refinements like netting expenditure of related receipts so that inflation of receipts and expenditure figure are avoided and there can be a better appreciation of the magnitudes of various expenditure. In separate annexure guarantees given by Central Government and outstanding as at the end of and contributions to International bodies are shown. A statement showing the estimated strength of establishment of various Government Departments and provision made therefore is also included in the documents.

### **Expenditure Budget Vol.2**

17. To understand the objectives underlying the expenditure proposed in the Demands for Grants a brief description of the various items of expenditure on major programmes included in the Demands together with the reasons for variation between the original budget and revised budget for the current year, and the requirements for the budget year are given in this volume.

### **Receipts Budget**

18. Estimates of receipts included in the "Annual Financial Statement are further analyzed in the Document "Receipts Budget". The document gives details of revenue receipts and capital receipts and explains the estimates. Trend of receipts over the years and details of External Assistance received are also included.

19. To facilitate understanding of the taxation, proposals made in the Finance Bill, the provisions of the Bill are explained in the document titled Memorandum explaining the provisions in the Finance Bill.

### **Detailed Demands for Grants**

20. The Demands for Grants are followed by the Detailed Demands for Grants laid on the table of the Lok Sabha some time after the presentation of the Budget, but before the discussion on Demands for Grants commences. These Detailed Demands for Grants show further details of the provisions included in the Demands of Grant as also of actual expenditure during the previous year. A break up of the estimates relating to each programme/organization, wherever the amount involved is not less than Rs.10lakhs, is given under a number of detailed heads which indicate the categories and nature of expenditure Incurred on that programme, like salaries, wages, travel expenses, material and equipment, grants-in-aid, etc. At the end of these Detailed Demands are shown the details of recoveries' taken in reduction of expenditure in the accounts. Physical and financial aspects of major programmes and schemes are included in the Performance Budgets presented to Parliament separately by the Ministries/ Departments.

### **Resources transferred to States**

21. The State Governments are paid grants and loans for various Plan and Non-Plan schemes. Besides, sizeable amounts of tax revenues collected by the Central Government in the form of income tax, union excise duties and estate duty are also transferred to the State Governments. Some of the States also get grants to cover the gap in their revenue resources, as recommended by the Finance Commission. The total resources transferred to State and Union territory Governments are indicated in a statement incorporated in the document Budget at a Glance. Further details of these transfers by way of share of tax, grants-in-aid and loans are given in Expenditure Budget Vol. 1. The share of Union excise duties and bulk of the grants and loans are paid by the Ministry of Finance and are included in the Demand "Transfers to State Governments" presented on its behalf. The grants and loans paid by other Ministries are provided for in the Demands of respective Ministries.

## **Plan Outlay**

22. Plan expenditure forms a sizeable proportion of the total expenditure of the Central Government. These Demands for Grants of the various Ministries show the Plan expenditure under each head separately from the non-Plan expenditure. The Expenditure Budget Vol. 1 also gives the total Plan provisions for each of the Ministries arranged under the various heads of development and highlights the budget provisions for the more important Plan programmes and schemes. A description of important schemes included in the Plan along with the objectives targets and achievements is given in the Performance Budget of the respective Ministry. Variations in the estimates of Plan expenditure are also explained in this document.

## **Performance Budget**

23. Performance Budgets are prepared and circulated to Members of Parliament by all Ministries/ Departments dealing with developmental activities. The Performance Budget presents the budget of the Ministry/ Department in terms of functions, programmes and activities and gives appraised reports separately in respect of major central sector projects/ programmes estimated to cost Rs.100crores or more. It also includes a statement on the programmes and performance of the various public sector undertakings under the Ministry/ Department indicating, among other things, the capacity installed and utilized, physical targets and achievements, results of operation, return on capital etc. Performance Budget serves the management as a tool of administrative and financial control in the implementation of development programmes.

## **Public Sector Enterprises**

24. A large part of the Plan expenditure incurred by the Central Government is through public sector enterprises. Budgetary support for financing outlays of these enterprises is provided by Government either through investment in share capital or through loans. Expenditure Budget Vol. 1 shows the estimates of capital and loan disbursements to public sector enterprises for both the current and the following financial years for Plan and Non-Plan purposes and also the extra-budgetary resources available for financing their Plans. A detailed report on the working of public sector enterprises is given in the document titled Public Enterprises. A report on the working of the enterprises under the control of the various administrative Ministries' is circulated to members of Parliament separately. The annual reports along with the audited accounts of each

of the Government companies are also separately laid before Parliament. Besides, the reports of the Comptroller and Auditor-General; of India on the working of various public sector enterprises are also laid before Parliament. .

### **Commercial Department**

25. The Railways and Telecommunication 'services are the principal departmentally-run commercial undertakings of Government. The Budget of the Railways and the Demands for Grants relating to Railway expenditure are presented to Parliament separately. The total receipts and expenditure of the Railways are incorporated in the Annual Financial Statement of the Government of India. However, to portray to actual working of these departments and not inflate either receipts or expenditure, the expenditure as reflected in the Receipts Budget 8b Expenditure Budget Vol. 1 and 2 has been taken net of receipts. The Demands for Grants of the Department of Telecommunications are presented along with other Demands of the Central Government.
26. The receipts and expenditure of the Defence Department shown in the Annual Financial Statement are explained in greater detail in the document Defence Services Estimates presented along with the Detailed Demands for Grants of the Ministry of Defence.
27. The details of grants given to bodies other than State and Union territory Governments are given in the statements of Grants-in-aid paid to non-Government bodies appended to Detailed Demands for Grants of the various Ministries.

### **Annual report**

28. A descriptive account of the activities of each Ministry/ Department during the current year is given in the document Annual Report which is brought out separately by each Ministry/ department and circulated to Members of parliament at the time of discussion on the Demands for Grants.

### **Economic Survey**

29. The Budget of the Central Government is not merely a statement of receipts and expenditure. Since independence, with the launching of Five-Year Plans, it has also become a significant statement of government policy. The Budget reflects and shapes, and is, in turn, shaped by the

country's economic life. A background of the economic trends in the country during the current year will enable a better appreciation of the mobilization of, resources and their allocation reflected in the Budget. The document Economic Survey circulated to members of parliament in advance provides this background. The Economic Survey analyses the trends in agricultural, industrial production, money supply, prices, imports and exports and other relevant economic factors having a bearing on the Budget.

30. The Budget of the Government has an impact on the economy as a whole. For a better appreciation of the impact of governmental receipts and expenditure on the other sectors of the economy, it is necessary to group them in terms of economic magnitudes, for example, how much is set aside for capital formation, how much is spent directly by the Government and how much is transferred by Government to other sectors of the economy by way of grants, loans etc. This analysis is contained in the document Economic and Functional Classification of the Central Government Budget, which is brought out by the Ministry of Finance separately.

### **Appropriation Bills**

31. After the Demands for Grants are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amounts so voted and of the amount required to meet the expenditure charged on the consolidated Fund is sought through the Appropriation Bill. Under article 114 of the constitution, no amount can be withdrawn from the consolidated Fund without the enactment of such a law by Parliament.
32. The process of detailed consideration of the Demands for Grants is not completed before the commencement of the new financial year. To enable Government to carry on its normal activities from 1st April till such time as the Appropriation Bill is enacted, a Vote on Account is obtained from parliament through an Appropriation (Vote on Account) Bill.

## **Outcome Budget**

Outcome budget is seen as a more advanced form of budgetary process, which would provide more detailed information about progress towards meeting the Executives' spending priorities.

In India, till recently, budget formulation and allocation has mainly focused on inputs (i.e. amount of money allocated to a specific department for a specified purpose) and outputs (i.e. products such as facility created for public or security need met). 'Outcome' is seen as a benefit resulting from outputs, which correspond to the ultimate objective of a government. For example, the output of expenditure on public health program may be more doctors and hospitals, but the outcome of that expenditure may be to improve the overall health of the citizens/nation. Similarly in the context of security needs, the output could be acquisition of targeted ship or submarine and allied systems while the outcome would be strategic achievement of secured maritime zone.

Thus outcome budgeting could be defined as a budget process that makes resource allocation and control decisions based on the results of the expenditure. It is distinct from the budgeting based on inputs and outputs and can be implemented in addition to these two.

Some of the prominent countries which have attempted to switch over to the outcome budgeting in the past few years are Australia, United States, Newzeland, Scotland, Singapore and Sweden. Similarly some of the common sectors found suitable for this are social services such as education, health & family welfare, sanitation, housing & urban development, social welfare and nutrition, and economic services like agriculture & allied activities, rural development, irrigation & flood control and environment protection.

### **Indian Experience**

Finance Minister in his Budget Speech on February 28, 2005 emphasized Government's determination to increase revenue and reorient expenditure to provide more outlays on education, health and infrastructure. At the same time, he cautioned that outlays do not necessarily mean outcomes, and emphasized the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. It was stated in the Budget Speech that during the course of the year, with the assistance of the Planning Commission, a mechanism would be put in place to measure the development outcomes of all major programmes.

Consequently, Finance Minister presented the 'Outcome Budget' in the Parliament on 25<sup>th</sup> August, 2005 in respect of the Plan expenditure. In the Foreword to this Document, he indicated the future agenda on shifting focus from 'outlays' to 'outcomes'. It was emphasized that the administrative Ministries have to play a crucial role in defining and delivering their intended outcomes, with the strong sense of ownership right up to the cutting edge levels. Based on this perspective, the detailed guidelines were issued on 30<sup>th</sup> December 2005, requesting Ministries/Departments to carry the process forward and prepare more detailed Outcome Budget for 2006-07 and Performance Budget for 2005-06.

During March, 2006, the Outcome Budget for 2006-07 and Performance Budget for 2005-06 has been presented by individual Ministries/Departments to both the Houses of Parliament. At present, the coverage of the Outcome Budget includes a large component of non-Plan Expenditure also with the exception of strategic sectors like Defence. The Planning Commission has also constituted a Development Evaluation Advisory Committee (DEAC) which is mandated inter alia to closely monitor the progress in delivering the intended outcomes with necessary assistance from the Ministry of Finance, which in turn have also constituted a Standing Group of Financial Advisers on Outcome Budget in September 2005 to advise the Government on various aspects of the Outcome Budget.

### **Converting Outlays into Outcomes**

Outcomes can be broadly defined as the final products/results of the Government's initiatives and interventions. Converting outlays into outcomes is a complex process, which may differ from Ministry to Ministry and programme to programme. Some of the identified important steps/elements in this conversion process are as follows:

- Outcomes to be specifically defined in measurable and monitor able terms; intermediate outputs being also defined wherever required.
- Standardizing unit cost of delivery.
- Benchmarking the standards/quality of outcomes/services.
- Capacity building for requisite efficiency at all levels, in terms of equipment, technology, knowledge and skills.
- Ensuring flow of right amount of money at the right time to the right level, with neither delay nor "parking" of funds.
- Effective monitoring and evaluation systems, to indicate the directions for further calibration and honing the processes, to deliver the intended outcomes.
- Involvement of the community/target groups/recipients of the service, with easy access and feedback systems.

Under the outcomes and outputs framework, it is important that the implementing agencies viz. Administrative Ministries and down the line up to cutting edge levels -

- have a clearer idea of what is expected of them, because government specifies its requirements in terms of clearly articulated outcomes;
- are able to identify what is to be delivered to meet those requirements in a performance management environment, in contrast to earlier inputs focused arrangements;
- can be assessed against agreed performance indicators derived directly from the specific outcomes and outputs for which they are accountable; and
- have a greater flexibility in the mix and disposition of the resources (inputs) used to deliver the outputs agreed with the government.

Efficient conversion of outlays into outcomes would require making the delivery systems effective with appropriate structures and processes, strengthening financial management systems, increasing use of information technology and meaningful involvement of all the Ministries/State Government/Local Bodies/PRI/Self Help Groups etc. in critical decision making and implementation processes.

### **Role of Administrative Ministries**

The administrative Ministries have to play a very critical role in

- (i) defining the Outcomes in terms of measurable and monitor able deliverables,
- (ii) setting up/strengthening their internal planning and monitoring systems, and
- (iii) actual delivery and implementation of various programmes and projects to achieve these outcomes.

Involvement of the Ministries in each of these activities, and a sense of ownership of the initiative on their part is essential for the success. This sense of ownership, in turn, would need to be shared down the line up to the cutting edge levels, through effective communication. Indian Prime Minister, therefore, had also addressed all Union Ministers on 17<sup>th</sup> March, 2005 emphasizing the need to examine the programmes/schemes being implemented in their respective areas and convert their financial outlays into physical outcomes.

### **Outcome Budgeting**

The Outcome Budgeting is only the first significant step to reorient the entire budgetary process and its objectives. It is important to underline the fact

that even as the first step, the compilation would need to be continuously improved, since it is only beginning and many of the formulations made by the Ministries, in the format devised by the Planning Commission, may not be specific enough. Besides it would also require attitudinal changes and result oriented approach at planning and implementation levels. Further, apart from the steps outlined above the following factors would also need to be taken into account in a long-term perspective:

(1) Outcome mindset: Over a period of time, the mindset of the entire government machinery would need to shift from being Outlay-centric to being Outcome-centric. This will have to be specifically factored into the strategy for moving towards 'Outcome Budget'

(2) Performance Budget: With exception of a few Ministries like Defence, a performance budget is prepared by each Ministry/Department at the beginning of the financial year. With Ministries like Defence, having only non-Plan Expenditure, switching over to the Outcome Budget, it may be necessary to prepare a Performance Budget for all with the 'Outcome' focus. The performance budget will serve as supporting document for the Outcome Budget.

(3) Citizen's Charter: Many Ministries/Departments have developed and laid down Citizen's Charters. In a sense, the deliverables mentioned in the Citizen's Charters are to be achieved through the 'Outcome Budget'. Appropriate linkages will, therefore, have to be built by the Administrative Ministries between their respective Citizens ' Charters and Outcome Budgets.

(4) Outcomes involving several Ministries: There may be certain outcomes that would need the coordinated efforts of several Ministries. It would, therefore, be necessary that for each such programme/scheme, the concerned Administrative Ministry actively coordinates with other connected Ministries and get their respective components included in the action plan of those Ministries. Therefore, the 'Outcome Budget' in future years may need to be fine-tuned to provide this cluster approach.

(5) Panchayati Raj Institution: The way priority have been accorded to Panchayati Raj Institution in the Union Government's vision of delivering Outcomes in the rural areas in a number of important sectors, the concerned Ministries may need to develop appropriate structures, programmes and implementation mechanisms for actively associating the Panchayati Raj Institutions.

(6) Delivery systems: The Ministries will also need to take concerted action for improving their delivery system to ensure timely delivery of quality service. This is indeed a key issue, which has been emphasized both by the Prime Minister and Finance Minister, and the need for which has also been widely perceived.

(7) Value for money: Ensuring 'value for money' is of paramount importance in the exercise for preparing the 'Outcome Budget'. Hence a greater care and attention in Project/Programme formulation, appraisal, management and implementation would be necessary.

### **Non-Plan expenditure**

The focus so far has been on outcomes of plan schemes. As the ultimate aim of the Union Government is to bring both Plan and non-Plan Expenditures in the ambit of the 'Outcome Budget', it is necessary that areas and ways and means are explored with a view to implement the aforesaid policy of the Government even in the General Services Sector like Defence.

### **Outcome Budgeting in Defence Services**

While presenting Outcome Budget in respect of the Plan Expenditure, the Finance Minister had made it clear that the Outcome Budget will be prepared for the non-Plan expenditure also. In due course, the Outcome Budget will reflect the annual outlay budget in terms of intended outcomes, thus setting the stage for the Performance Budgeting for the non-Plan Expenditure.

The concept of the Outcome Budgeting is still at a nascent stage in the Ministry of Defence. Keeping in view the security considerations and traditional approach of keeping information on strategic policies, programmes and equipment away from general public, the entire Defence Budget has been kept out of the Plan Expenditure. In fact till about a few years back, privilege was frequently claimed in the name of safeguarding public interest in even sharing information on such matters with people's representations in the Parliament. With several reforms and proactive approach of Parliamentary Committees and MOD, now volume of information is shared by the Ministry of Defence leading to a fair degree of transparency and frankness in policies and programmes. Infact, this has only helped the cause of the Defence Services in resource augmentation and turning public opinion favourably disposed towards them over the years.

However, the issue is still being debated whether it would be advisable to keep the Ministry of Defence completely out of the purview of the Outcome Budget for the present and performance Budget in the long run.

Considering the resolve of the Union Government to bring non-plan expenditure also within the ambit of Outcome Budget/Performance Budget, a strong case is emerging not to keep the Defence Services completely out of the scope of the Outcome Budget. Instead, it is felt necessary to evolve the criteria for identifying the areas/projects/programmes under the Capital and Revenue Head, in which it may be possible to fix the outcome/targets in quantifiable terms, without compromising on security concerns. In fact, some of the areas already suggested are Married Accommodation Project, Land Acquisition, ECHS coverage etc. Besides, National Cadet Corps, Military Farms, Rashtriya Rifles, Canteen Stores Department, other than married accommodation, Information Technology, hired transport, supplies & services etc. could be other potential areas for the outcome budgeting.

### **Conclusion and Recommendation**

Concept of the 'Outlays' to 'Outcome' based budgeting is a current buzzword in several democratic countries. It may be a right step for the Union Government to switch over to modern management methods of mapping input, output and outcome resources.

So far as Defence Services are concerned, despite a selective approach in Defence so far in sharing information, let us not forget that in an era of mass public awakening through electronic & print media and spread of Information Technology, a lot of nearly accurate data/information even in regard to holding of equipment, deployment of troops etc is readily available on internet and internationally reputed journals. Hence there is a strong case to include Defence within the gamut of Outcome/Performance Budgeting, which will not only enhance accountability and value for money right up to the gross root level but also ensure mapping of inputs through outputs and outcomes. In the beginning, however, a selective approach would be necessary.

## **The Budgetary Control over Defence Expenditure**

The Defence Services Budget Estimates are presented in five Demands, four on Revenue Account (one each for the Army, Navy, Air Force and Ordnance Factories and one on Capital Account).

2. The expenditure for which provision has been made in the Defence Services Budget Estimates, falls broadly into the following categories:-

Pay and allowances of the personnel of the Armed Forces  
Payments to Industrial Establishment employed in Stores Depots, Factories, etc.  
Transportation and Miscellaneous expenditure  
Stores purchases  
Works expenditure and  
Capital Outlay such as, Capital Works, purchase of vessels, plant and machinery.

3. Expenditure falling under category (a) mentioned in Para 2 above represents for the most part obligatory charges dependent upon the strength and composition of the Armed Forces maintained for the Defence of the country. Government of India in the Raksha Mantralaya (Ministry of Defence) decide on the policy regarding strength and composition of the Armed Forces. Hence the responsibility for implementing the decision and ensuring proper control over expenditure is vested with the Armed forces Headquarters authorities and no distribution of provision is made to the subordinate authorities and no distribution of provision is made to the subordinate authorities.

4. Expenditure falling into categories (b) to (f) mention in Para 2 above is in general susceptible to control against budget provision by the various administrative and executive authorities subordinate to the Government of India. The three important stages in exercising this control are:-

Initial distribution of budget grants  
Watching expenditure against allotments, and  
Re-appropriations

### **5. Initial Distribution of Budget Grants**

5.1. The ultimate responsibility for ensuring that the expenditure does not exceed the corresponding budget allotment rests on the Principle Staff Officers at the Service Headquarters, within whose

control, the relative activities fall. This responsibility is usually undertaken on their behalf by the Director administering the activities concerned. To cite an instance, the Director of Military Training is responsible, under Deputy Chief of Army Staff,. For controlling expenditure based on specialised training institutions and schools. It is for these officers to see that the amount provided in the Defence Estimates falling under (b) to (f) of para 2 above and subject to their respective controls are allotted to commands and lower formations. The authorities at the Service Headquarters responsible for allotting the funds to lower formations keep back certain amounts as 'Reserve' to meet unforeseen requirements from the formations. The quantum of this 'Reserve' is decided by the Controlling Officer at the Service Headquarters, in consultation with the Deputy Financial Adviser concerned. The authorities at lower stages in the chain of control have the discretion to hold in Reserve a portion of the allotment placed at their disposal.

- 5.2. All communications of allotment from the Service Headquarters issue with the concurrence of the respective Deputy Financial Advisers and these orders are endorsed to the Controller of Defence Accounts. Sub allotments by Command or formation Headquarters are also endorsed to the Controllers of Defence Accounts.

## **6. Watching Expenditure against Allotments**

- 6.1. It is the primary responsibility of the authorities to whom allotments are made, to watch the progress of expenditure and to see that the expenditure does not exceed the allotment. To facilitate this, the Controllers of Defence Accounts render monthly statements to the allottees showing the Serial Nos. of claims admitted in audit and the amounts debited against the allotment. In the case of Military Engineer Services, the instructions laid down in the MES Regulations are followed. The Controllers of Defence Accounts also keep a watch on the progress of expenditure against sanctioned allotments and bring to the notice of the allottees and the immediate higher authorities, cases in which the trend of expenditure in their opinion, is abnormally heavy or unusually low.
- 6.2. This procedure enables the controlling authorities to initiate remedial measures either by regulating the trend of expenditure or by approaching higher authorities for additional allotment with full

justification, if the progress of expenditure is heavy. They may also surrender such portion of the allotment as is not likely to be necessary for the rest of the year.

- 6.3. Authorities competent to sanction additional allotment do so either from the 'Reserve' held by them or from the surrenders reported to them. If the 'Reserve' is inadequate and no surrender is forthcoming, such additional allotment may be sanctioned in anticipation of provision of funds, only with the concurrence of the concerned Controller of Defence Accounts. Additional allotments sanctioned by the Services Headquarters, issue with the concurrence of the Deputy Financial Adviser concerned.

## **7. Re-Appropriation**

- 7.1. The procedure of re-appropriation provides some flexibility by which savings in the budget provides under one head can be utilized to meet excess expenditure under another head, provided the heads are in the same demand voted by the Parliament. The cardinal principle is that an authority can re-appropriate only in respect of savings arising out of the allotments placed at his disposal. The normal rules governing re-appropriation of funds in the case of Defence Estimates are indicated below: -

Powers of re-appropriation between different minor heads under a major head are exercised by the Government of India.

Full powers of re-appropriation between the sub-heads within the minor heads under each Demand have been delegated to the Ministry of Defence.

Powers of re-appropriation are also exercised by the following lower authorities: -

Central Controlling Authorities  
Command Headquarters  
Independent Area Headquarters  
Air Force Commands, and  
Independent Stations

- 7.2. In the case of direct Controlling Officers of these headquarters, re-appropriations are permissible only between control heads falling under the same sub-head. In the case of Navy, powers of Re-

appropriation between different detailed heads falling under the same minor head are exercised by Naval Headquarters.

- 7.3. The powers of re-appropriation between different sub-heads falling under the same will be confined to Principal Staff Officers except in the case of Military Engineer Services, which are governed by the instructions laid down in M.E.S. regulations and such other instructions as may be issued by Government from time to time.
- 7.4. All re-appropriations are formally sanctioned and copies endorsed the the accounts authorities. Re-appropriations are sanctioned by the Principal Staff Officers and the Raksha Mantralaya (Ministry of Defence) in consultation with the Internal Financial Advisers.
- 7.5. No appropriation is permissible between funds allotted for charged items of expenditure in terms of Article 112 (3) of the Constitution and voted items of expenditure.
- 7.6. Re-appropriations are permissible only between expenditure heads. Thus, excess receipts and recoveries, which are required to be accounted for as such, cannot be utilised to meet expenditure in excess of Sanctioned Grant.
- 7.7. The sanction of Government of India is required to any re-appropriation, which affects the following: -

Savings due to non-expenditure of amount provided for a specific measure.

An error in estimates.

**Note:** No formal re-appropriation is sanctioned for transferring funds under the same control head between Commands, Areas, Sub-Areas, Institutions, Depots, etc. such transfers are effected by first withdrawing savings surrendered by one Command, etc. and then re-allotting as required.

## **8. Periodical Estimates and Reviews**

- 8.1. The Raksha Mantralaya (Ministry of Defence) and the Services Headquarters review the trend in expenditure and assess future requirements at periodical intervals. For this purpose, the lower formations furnish estimates in respect of locally controlled heads so as to reach the respective branches at the Service Headquarters

by the dates prescribed for the purpose, through the Controllers of Defence Accounts concerned except in the case of MES formation, Ordnance & Clothing Factories and R&D Organisation who furnish the estimates direct Headquarters.

- 8.2. In addition, periodical reviews are conducted by the Raksha Mantralaya (Ministry of Defence) to ensure prompt and effective utilization of the provisions made. Likely achievement of targets are examined and procedural and practical difficulties thrown up during the discussions are also tackled during reviews.
- 8.3. The fundamental rule on which the whole system of budgetary control may be said to rest is that no item of public expenditure may be incurred unless provision exists to meet it in the sanctioned budget estimates of the year concerned. This rule applies to the nature of expenditure as well as the amount; in other words, the provision in the budget must have been made, for the purpose of meeting the particular kind of expenditure involved. Certain authorities are vested with limited powers of “re-appropriation” i.e. transfer of funds from one budget head to another as explained in paragraph 10 but with this exception, the rule referred to above is absolute. It follows that each individual officer to whom any portion of a grant provided in the budget to meet a specified class of expenditure is allotted, is responsible for seeing that the allotment is utilized solely for that class of expenditure and is not overspent.

## **The Budget Monitoring Process**

The process of budget monitoring is common in all the ministries and departments of the Government. Generally, this process is spread out in four well defined stages as given below:-

- Preliminary report for the current financial year
- Preliminary revised estimates for the current year and forecast estimates for the ensuing year.
- Revised estimates for the current year and budgetary estimates for the ensuing year.
- Modified appropriation

*Preliminary Report (PR)* of the current year:- The purpose of PR is to undertake a first review of the estimates of the current financial year. This should take into account the actual expenditure and other factors that have a bearing on the budget. It shows the extent to which the sanctioned budget estimates are affected by factors occurring before or after 1<sup>st</sup> April which may necessitate any modification in the estimates. On receipt of the report, review of estimates is carried out by the Government and consequent decisions are taken e.g. the issue of orders requiring restriction of expenditure under a particular head during the remaining part of the year or submission of supplementary demands for grant if it is clear that expenditure during the year is likely to exceed the grant sanctioned. Preliminary report is submitted to the Government by 20<sup>th</sup> August.

*Preliminary Revised estimates (PRE)* for the current year and *Forecast estimates (FE)* for the ensuing year:- PRE is a sharper estimate of the likely expenditure during the current financial year on the available trend of expenditure against sanctions. All important changes which increase or decrease the budget estimates are taken into account in the preparation of these estimates. The estimates are reviewed by the Government for taking a similar action as in the case of PR. This is an important review and generally the revised and the budget estimates are decided on this return.

Along with the PRE for the current year, the forecast estimates for the ensuing year are also submitted to the Government. The purpose of these estimates is to provide to the Government with an early indication of the likely requirement of the funds in the ensuing year.

Both the PRE and FE are submitted to the Government by 10 Nov

*Revised Estimates (RE)* for the current year and *Budgetary Estimates (BE)* for the ensuing year:- RE is a more accurate estimate of what the requirements of the current year are likely to be and is based on actual expenditure. It is at the

RE estimate that Union Budget is reworked and additional allocations/ cuts in expenditure imposed.

The purpose of BE for the ensuing year is to make provisions for funds to meet the requirements for the ensuing year. Budget estimates, as projected by respective defence organisations are further modified by the Ministry of defence and sent to the Ministry of finance with its recommendations for presentation to the Parliament with the general budget of the central Government. Ministry of Finance may also amend the projected estimates, as it considers necessary. Both the RE and BE are submitted to the Government by 20<sup>th</sup> December

*Modified Appropriation (MA):-* MA is the final stage of estimates for the current financial year. This is based on latest actuals and likely expenditure for the remaining part of year i.e. 31<sup>st</sup> March. These estimates correspond to the actual expenditure in a particular year and are of paramount importance, since it is based on these estimates that necessary re-appropriations and surrenders are finally sanctioned by the Government.

It would be clear from the foregoing that budgetary control over expenditure is exercised at four levels in the Government of India. At the first level, it is exercised by the Parliament. At the second level it is exercised by the ministries of Defence and Finance. At the third level it is exercised at the highest departmental level in a ministry. At the fourth and the most elementary level it is exercised by the budget centres/ lowest formations to whom sub-allocations are made. In the context of defence budget the specific departments and directorates involved in financial planning and control are explained next.

## **Broad System of Government Accounting**

The accounts of the Government of India are kept in three parts as below:-

- Part I - Consolidated fund of India.
- Part II - Contingency fund of India.
- Part III - Public Account of India.

**Consolidated Fund of India (Part I)** is the most important part of the Government accounts. In fact it is what is normally referred as the public exchequer. In it all the revenues received by the central government on account of taxes, loans raised by government and the expenditure incurred by the Government are accounted. Within the Consolidated fund of India account there are two main divisions viz. :-

- (i) Revenue - consisting of sections for 'Receipt Heads (Revenue Account)' and 'Expenditure Heads (Revenue Account)'. This division deals with the proceeds of taxation and other receipts classed as revenue and the expenditure met therefrom.
- (ii) Capital, Public Debt, Loans etc.- consisting of sections for 'Receipt Heads (Capital Account)', 'Expenditure Heads (Capital Account) and Public debt (Loans and Advances etc.).

The section 'Receipt Head' of Capital Account deals with receipts of a Capital nature which cannot be applied to set off a Capital Expenditure. The section 'Expenditure Head' of Capital Account deals with expenditure, met usually from borrowed funds, with the object of either of increasing concrete assets of a material and permanent character or of reducing recurring liabilities. It also includes receipts of a capital nature that are intended to set off a Capital Expenditure. The section 'Public Debt' and 'Loans and Advances etc.' comprise loans raised and their repayments by Government such as 'Internal Debt', 'External Debt' of the Central Government and loans & advances made (and their recoveries) by Government. The sections also include certain special types of heads for transactions relating to 'Transfers from the Consolidated Fund' and inter-state settlement.

As per the provisions of Article 112 of the Indian Constitution, the President "shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year" in the Consolidated Fund of India. It is also referred to as the "annual financial statement" or in the common parlance as the Annual Budget. The Parliamentary approval of the budget is the basis of the Ministries of the Government of India incurring the

expenditure in the ensuing year. The estimates of expenditure embodied in the annual financial statement shows separately:-

- The sums required to meet expenditure described by this Constitution as expenditure 'charged' upon Consolidated Fund of India; and
- The sums required for meeting other expenditure proposed to be made from the Consolidated Fund of India, and shall distinguish expenditure on revenue account from other expenditure.

While most of the expenditure is voted by Parliament, there are certain expenditure which are not subject to vote and are 'charged' on the Consolidated Fund of India. This expenditure is also called 'Charged Expenditure'. The following are the expenditure charged on the Consolidated Fund of India –

- (i) The emoluments and allowances of the President and other expenditure relating to his office.
- (ii) The salaries and allowances of the Chairman and the Deputy Chairman of the Council of States and the Speaker and the Deputy Speaker of the House of the People;
- (iii) Debt charges for which the Government of India is liable including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of Loans and the service and redemption of debt;
- (iv) the salaries, allowances and pensions payable to or in respect of Judges of the Supreme Court;
- (v) The pensions payable to or in respect of Judges of the Federal Court;
- (vi) The pensions payable to or in respect of Judges of any High Court that exercises jurisdiction in relation to any area included in the territory of India.
- (vii) The salary, allowances and pension payable to or in respect of the Comptroller and Auditor-General Of India.
- (viii) Any sums required to satisfy any judgment, decree or award of any court or arbitral tribunal;
- (ix) Any other expenditure declared by the Constitution or Parliament by Law to be so charged.

**Contingency fund of India (Part II)** has been created to cater for meeting unforeseen expenditure, pending authorization by the Parliament. This fund is placed at the disposal of the President of India. The procedure involved in custody of the payment of money in the contingency fund as well as for withdrawal from it, is regulated by laws made by the Parliament from time to time. There may be payments pertaining to advances or to "Charged expenditure" out of the contingency fund.

Advance will be made from Contingency Fund, when a need arises to incur unforeseen expenditure in excess of the sanctioned grant or appropriation or on a 'new service' not provided in the budget and there is no sufficient time for the voting of the Supplementary Demand. It is made pending the sanction of necessary appropriation bill from the Parliament under the provisions of Article 267(I) of the Constitution.

Payments for Charged Expenditure:- There may be instances where the Charged expenditure is met out of the contingency fund.

Expenditure met out of advances from the Contingency Fund of India should be recorded under the Major Head 'Contingency Fund' with the same details as it would have been recorded if it had been met out of the Consolidated Fund. For this purpose each Major Head of Expenditure under the Consolidated Fund is treated as a Minor Head subordinate to the Major Head 'Contingency Fund of India'.

Payments made out of the advances drawn from the 'Contingency Fund' will be debited to the relevant heads of Account specified under Contingency Fund of India. When expenditure initially met out of an advance drawn from the Contingency Fund is recouped to the Fund after passing of the necessary Appropriation Act, the necessary adjustment is carried out by the Accounting authority in whose accounts the transaction originated as soon as the resumption order is received.

In cases where payments on account of 'charged' expenditure are made out of the anticipatory Budget provision the same will be debited to the relevant Head of account under the 'Consolidated Fund of India'.

**Public Account of India (Part III)** constitutes a fund in which money received on behalf of the Central Government is kept and disbursed in accordance with the laws made from time to time. In this Accounts, the transactions relating of Debt (other than those included in 'Consolidated Fund of India' account), Deposits, Advances, Remittances and Suspense shall be recorded. The transactions under Debt, Deposits and Advances in this account are such in respect of which Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid together with the repayments of the former (Debt and Deposits) and the recoveries of the latter (advances). The transactions relating to 'Remittances' and 'Suspense' in this account will embrace all merely adjusting heads under which shall appear transactions between different accounting circles of Governments of India. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments either within the same circle of account or in another circle.

## **CLASSIFICATION OF ACCOUNTS IN GOVERNMENT**

Within each of the Divisions/Sections mentioned in the preceding paragraphs i.e the Consolidated fund, the Contingency fund and the public account, the transactions are grouped into Sectors, under which specific functions or services are grouped. The Sectors are sub-divided into Major Heads of Account. In some cases, the sectors are, in addition, sub-divided into sub-sectors before division into Major Heads of Accounts. The sectors shall be distinguished by a series of letter of the Alphabet separately for the 'Revenue Receipt' section, the 'Revenue Expenditure' section and for the sectors included in the remaining Sections/Divisions.

Some of the examples of the Sectors and Sub Sectors under Consolidated Fund of India, and the items dealt under them are as given below: -

(a) Receipts Heads (Revenue Account)

Sector A - Tax Revenue

(i) Sub Sector (a) - Taxes on Income and Expenditure

Sector B - Non-Tax Revenue

(i) Sub Sector (b) - Interest Receipts, Dividends & Profits

(ii) Sub Sector (c) - Other Non-tax Revenue

(b) Expenditure Heads (Revenue Account)

Sector A - General Services

(i) Sub Sector (b) - Fiscal services

(ii) Sub Sector (c) - Interest payment and servicing of Debt

(iii) Sub Sector (e) - Pensions and Misc. General services

(iv) Sub Sector (f) - Defence Services

(c) Expenditure Heads (Capital Account)

Sector A - Capital Account of General Services

Sector F - Loans & advances

Some examples of the Sectors and Sub Sectors under Public Account deals with the items as given below:-

Sector I - Small Savings, Provident Fund etc.

(i) Sub Sector (b) - Provident Fund

(ii) Sub Sector (c) - Other Accounts

Sector J - Reserve Fund

Sector K - Deposits and Advances

- (i) Sub sector (a) - Deposits bearing interest
- (ii) Sub sector (b) - Deposits not bearing interest
- (iii) Sub sector (c) - Advances

- Sector L - Suspense & Miscellaneous
- (i) Sub sector (b) - Suspense accounts
- (ii) Sub sector (c) - Other accounts
- (iii) Sub sector (d) - Accounts with Govts. Of Foreign countries
- (iv) Sub sector (e) - Miscellaneous

- Sector M - Remittances
- (i) Sub sector(a) - Money orders, Remittances and adjustments between the officers rendering accounts to the same Accountant General and other Remittances
- (ii) Sub sector (b) - Inter Governmental adjustment Accounts
- (iii) Sub sector (c) - Exchange accounts

Below the sectors, the accounting classification consists of the major heads. The major heads have been allotted a four-digit code, the first digit indicating whether the Major head is Receipt head or a Revenue expenditure head or a Capital expenditure head or Loan head. If the first digit is '0' or '1' the head of account will represent Revenue receipt, '2' or '3' will represent Revenue expenditure, '4' or '5' Capital expenditure and '6' or '7' Loan head. Major heads starting with '8' represent transactions pertaining to the Contingency Fund and Public Account.

A few examples of Major Head of accounts under consolidated fund of India are as follows :

- (i) 2076 - Defence Services – Army
- (ii) 2077 - Defence Services – Navy
- (iii) 2078 - Defence Services – Air Force
- (iv) 2079 - Defence Services – Ordnance Factories
- (v) 4076 - Capital outlay on Defence Services
- (vi) 7610 - Loans and advances by the Central Government.

Under the scheme of accounting codification, the 'Receipt' Major heads are assigned the block of consecutive serial nos. 0001 to 1999 and 'Expenditure' Major heads on Revenue accounts from 2001 to 3999. The only

Capital Receipt Major head has been given the code number 4000. Expenditure Major head on Capital account are assigned the code nos. from 4001 to 5999 while Major heads under 'Public Debt' Loans and Advances, Inter-state settlement and transfer to Contingency Fund are assigned code nos. from 6001 to 7999. The only Head for Contingency Fund is given the code no. 8000. The Major heads in the Public Account are assigned code nos. from 8001 to 8999. The code numbers relating to Major head in respect of the same function falling under the four sections mentioned above are arranged in such a way that by adding 2000 to the concerned code, the Major head applicable for the four sections could be determined. This is to ensure easy correlation of Receipts/Expenditure relating to the same function in these four sections. This will be illustrated in the examples given below:-

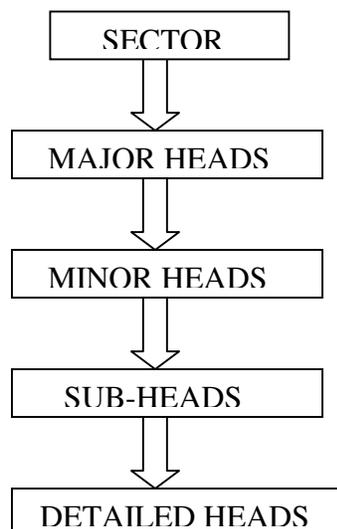
Receipt Major Head (Revenue A/C)	Expenditure Major Head (Revenue A/C)	Capital Major Head	Loan Major Head
Civil Heads : 0075 Misc Gen Services	2075 Misc Gen Services	4075 Capital outlay on Misc Gen Services	6075 Loans for Misc Gen Services
0210 Medical & public health	2210 Medical & Public health	4210 Capital outlay on Medical & public health	6210 Loans for Medical & Public health
0435 other Agriculture Programmes	2435 other Agriculture programmes	4435 Capital outlay on other Agricultural Programmes	6435 Loans for Agricultural programmes
1054 Roads & Bridges	3054 Roads & Bridges	5054 Capital outlay on Roads and Bridges	
Defence Head : 0076 Defence Services, Army	2076 Defence Services, Army	4076 Capital outlay on Defence Services	

The major heads of accounts falling within the sectors of the consolidated fund of India generally correspond to functions of Government.

For example, the revenue expenditure pertaining to the Army is accounted under major head 2076, Navy under Major Head 2077 etc. The minor heads, which are subordinate to the major heads, identify the programmes undertaken to achieve the objective of the function represented by the major head. For instance, while the major head 2077 represents the revenue expenditure on account of Navy, minor heads under it namely cater for pay and allowances (Minor Head 101), transportation (Minor Head 105), stores (Minor Head 110), works (Minor Head 111) and miscellaneous expenditure (Minor Head 800). A programme may contain of a number of schedules or activities and these generally correspond to sub-head below the minor head represented by the programme. For instance, under the minor head for works, subheads would cater for major works, minor works, special repairs etc. As can be seen, the main unit of classification in accounts is the Major Heads, which is divided into Minor Heads each of which have a number of Sub-heads. The Sub-heads are further divided into 'Detailed heads'. Some times, Major heads are also divided into Sub Major heads before their further division into Minor Heads.

A detailed head, which constitutes the last tier of classification, is termed as an object classification. The detailed heads represent the primary unit for classification and are meant for itemised control over expenditure and indicate the nature of expenditure on a scheme or activity or organisation such as salaries, office expenses etc. There exists a standard list of detailed heads comprising the common items of expenditure in the government which can be uniformly adopted. These can be adopted by all departments and each additional detailed head may be opened to cover specific types of expenditure under different departments.

The system of accounting classification in the Government can thus be represented as below:-



The Sectors, Major Heads, Minor Heads, Sub-Heads and Detailed Heads together constitute a five tier arrangement of the classification structure of Government Accounts.

The detailed classification of account heads used in Government Accounts upto the stage of minor heads is given in the list of Major and Minor Head of Account of Union and States – published by Controller General of Accounts, Department of Expenditure, Ministry of Finance. CGDA has been authorised to open the sub and detailed heads below the minor heads to meet the local requirements. This is however subject to the stipulation that sub and detailed head pertaining to civil ministries and expenditure debitable to composite heads of grants should be exercised in consultation with the DGADS.

## **Role and Function of Regional Controller of Defence Accounts**

Under the organizational setup of Controller General of Defence Accounts, Controllers are divided into two categories:

1. Regional Controllers and
2. Functional Controllers

2. Audit jurisdiction of the Regional Controller generally corresponds to Command, Area and Independent Sub-Areas. Regional Controller acts as Financial Adviser to the GOC-in-C of the Command as well as to the Area and Independent Sub-Area Commanders in his audit area.

3. Regional Controllers are the Chief authority for accounting and internal audit of all Army formations, including MES, in their respective Commands and may overrule an audit decision taken by any of their subordinate officers. They also assist the GOC-in-C, Area and Sub Area Commanders in the preparation of all estimates and furnish them regularly with such statistics relating to accounts as they may require for carrying out a systematic review of expenditure under locally controlled heads, with the object of restricting expenditure within reasonable limits, of avoiding unnecessary expenditure and of utilization of savings towards objects of importance in maintaining the efficiency of the Defence Services.

4. The offices of the Regional Controllers are located at:

Southern Command	Principal CDA (SC), Pune
Northern Command	Principal CDA (NC), Jammu
Western Command	Principal CDA (WC), Chandigarh
Central Command	Principal CDA (CC), Lucknow
Eastern Command	CDA, Patna

Other Regional Controllers are functioning from Bangalore, Chennai, Guwahati, Meerut, Secunderabad and Jabalpur.

### **5. Sections in a Regional PCDA/CDA**

#### **Administration Section:**

- i. To look after various aspects of personnel management of DAD;
- ii. To provide healthy living and working conditions for officers and staff.

**Accounts Section:**

- i. To, provide accounting and financial information to executive authorities for the performance of their management functions; and
- ii. To provide timely and accurate figures to Govt. for preparation of financial accounts for Defence Services

**Disbursement Section:**

- i. To arrange promptly for disbursement on behalf of the Defence Services and DAD in the allotted spheres, safeguarding the interests of Govt.

**Pay Section:**

- i. To pay on due dates salary and other dues as per entitlement;
- ii. To maintain all necessary records, correct and complete in all respects; and
- iii. To advise Executive and Administrative authorities on matters relating to service conditions and entitlements of Defence Civilians.

**Miscellaneous Section:**

- i. To arrange prompt payment of bills relating to the miscellaneous expenditure for the upkeep and training of the Army

**Store Contract Section:**

- i. To advise Administrative/Executive authorities on the financial and other allied aspects of ASC other Contracts; and
- ii. To make prompt payment for supplies and other services rendered by the Contractors

**Store Audit Section:**

- i. To helping the financial control of the activities of quasi-commercial organizations and manufacturing establishments of the Defence Services;
- ii. To pay for stores and equipments procured for the Defence Services indigenously and from abroad; and

- iii. To ensure correct recovery and compilation of dues to the Defence Services on store transactions, hire of transport, hospital treatment etc.

**Transportation Section:**

- i. To make prompt payment of entitled Traveling allowances to defence employees and DAD personnel.

**Engineering Section:**

- i. Scrutiny of Admin Approval/Technical Sanction; Contract Agreements and payment of works bills;
- ii. Watching expenditure against allotment through MER, Annual Review of MES expenditure. Provisioning of Cash Assignment to MES officer (i.e. GEs), Watching adjustment I D Schedule; C P Vouchers for stores issued to MES Units by other Controllers/' procured through DGS&D;
- iii. Local Audit Objection, Test Audit Objection, Draft Paras, Super Review .and Arbitration cases relating to MES works; and
- iv. To question relating to recovery of LF and allied charges including interpretation of rules and orders.

**Financial Advice Section:**

- i. To assist Admin/Executive authorities in improving financial; administration, of the units and formations under their command;
- ii. To ensure that financial and other resources placed at the disposal of the Admin/Executive authorities are utilized in the best interest of the State;
- iii. To evolve methods to increase the cost effectiveness of the expenditure incurred by the Admin & Executive authorities; and
- iv. To keep Admin & Executive authorities and CODA informed periodically of the Major Financial & Accounting Irregularities (MFAI).

**Organization & Methods (O&M) Section:**

- i. To ensure rational organization by keeping in view span of control and scalar process to assess requirement of staff on scientific basis through methods study and standard norms and to review the same through periodical systematic review.

### **EDP/DDP Section:**

- i. Processing the Punching Medium received from different sections/offices for Sectional Compilation and send printed Compilation to the concerned offices;
- ii. Sending the Data file in duplicate on magnetic tape/floppy disc to the CODA for printing All India Compilation of Receipt & Charges, Book Compilation of RD&R Heads through CDA (R&D) and other responsible EDP/DDP centers; and
- iii. Forwarding printed copy of All India Compilations to the DFA (Budget), Ministry of Defence (Finance), AHQ, D GADS, and Administrative & Financial authorities concerned at Defence Headquarters and Controllers concerned for watching expenditure against allotment.

6. It is clear from the above that the Regional Controllers are responsible for all work connected with the audit, payment, classification and accounting of bills relating to Pay & allowances, TA etc. of civilian officers and subordinates, miscellaneous allowances, contingencies, payment of bills for stores, supplies and works, local audit of the stores and MES accounts and the inspection of cash accounts of Units and formations in the areas under their audit jurisdiction.

7. The Regional Controllers are also responsible for:

- i) The maintenance of the pay accounts of JCOs & ORs and internal audit thereof. The Pay Accounts Offices co-located with corresponding Regimental Centres and Depot Offices at various stations all over India are responsible for the maintenance of the Individual Running Ledger Accounts (IRLAs) of the Army personnel serving in the particular Corps'/Regiments.
- ii) Payment of conveyance allowance and road mileage claims of Other Ranks and rail fares of recruits.
- iii) The audit of Field Imprest Accounts rendered by Field Imprest Holders.
- iv) The supply of Funds to Officer-in-charge, Record offices for remitting family allotments, terminal credit balances of non-effective personnel and payment of retaining fees of reservists etc. and audit of accounts rendered by them in connection with these funds.
- v) The maintenance of AFPP Fund Accounts of JCOs/ORs and other than those maintained by JCDA (Funds), Meerut.

8. Regional Controllers also act as Financial Advisers to all Commands and other lower formations in their respective areas on all matters of pay and allowances and AFPP Fund Accounts including traveling allowances of JCOs,

ORs, NCs (E) and non-gazetted civilians in operational area on War System of Accounting.

## **IFA SYSTEM**

### **Organization, Structure and Role - An Overview**

#### **What is an IFA System?**

- Some Constitutional Facts
  - Executive Powers of Union vested in the President of India.
  - These Powers are exercised through Ministries/Departments.
  - The work distribution of a Ministry/Deptt. are governed by Allocation of Business Rules.
  - All financial powers of the Union are vested in Ministry of Finance, Govt. of India.

#### **Delegation of Powers & IFA System**

- Delegation of Powers necessary for Administrative Efficiency and faster Decision Making.
- Finance Ministry has delegated financial powers to other Administrative Ministries/Departments from time to time.
- A large scale delegation took place in 1975/76 consequent to Committee set for Departmentalization of Accounts.
- Along with the delegation, a scheme of Integrated Financial Advice was also introduced in Ministries/Departments of Govt. of India.
- The basic objective of the scheme was to make financial advice/inputs available to the executive authority in-house for better decision making with a view to economy, efficiency and effectiveness.
- As per the scheme, an Integrated Financial Advisor was attached with each Ministry/Department of GOI.
- Financial Advisor so appointed was made part and parcel of the Ministry who was mandated to help the Secretary/Minister of the Department in all financial, budget, accounting and audit related matters.
- Financial Advisor was placed under the administrative control of the respective ministry/department.
- For the exercise of delegated financial powers, FA acts as Internal Financial Advisor and concurs of all such proposals/ cases.
- For cases beyond delegated powers, he provides inputs to Finance Ministry and thus acts as a representative of Finance Ministry.
- Because of the above features, the scheme has been called Integrated Financial Advice (IFA) System.

## **IFA Scheme in Defence**

- IFA Scheme in Ministry of Defence was first launched in 1976 when Department of Defence Production & Supplies and Defence Research & Development were brought under the scheme.
- IFA system in the main ministry i.e. Department of Defence was introduced in 1983.
- With this Ministry of Finance (Defence) became Ministry of Defence (Finance).
- Secretary (Defence Finance) or Financial Advisor (Defence Services) as the head of Ministry of Defence (Fin) is the Integrated Financial Advisor of Ministry of Defence

## **IFA System in Services**

- Arun Singh Committee on Defence Expenditure recommended
  - wide scale delegation of financial powers to Services and
  - Introduction of IFA System in Services
- This was also the time when changes were introduced in the various Govt. Deptts. Navy also took a cue from this and brought about a momentous change in the area of its resource management called NMS in 1994. Basic features of NMS
- It provides for greater de-centralization of responsibilities for target setting, planning budget formulation and financial control by involving lower level functionaries with Accountability at every level.
- Creation of Authority-cum-Responsibility and Budget centers under various PSOs in the NHQ
- Establishing clear relationship between financial inputs and outputs or physical targets.
- Better value for money in all exp. Programmes.
- NMS also envisaged introduction of the system of IFA both in the NHQ as also in some selected formations to advise them on various financial matters including the exercise of their enhanced delegated financial powers.
- IFA System was also established in Air HQ in 1994 under which an Integrated Financial Advisor with a Deputy IF A was placed in Air HQ.
- IFA (Army) and a Deputy IFA was also placed in Army HQ in 1994.
- New Management Strategy for Ordnance and EME was implemented in 1997.

## **Role of IFA**

- To concur all proposals falling under the delegated powers at the necessity as well as expenditure sanction stage.
- To advise in the matters falling under the powers of MOD.
- To participate in TPC/PNCs held by the various authorities in Service HQ/Lower Formations.
- To assist in budgetary matters including preparation of Committed Liability Data base.
- To aid and assist in preparation of replies as regards to Audit Para, Draft Paras etc.
- Any other duties given by FA (DS).

## **Further Developments**

- The next major push towards IFA system took place after Kargil war on the GOM (Group of Ministers) recommendations in 2002.
- With this IFA system has been implemented at Command Level and each command HQ has been provided with a dedicated IFA and Deputy IFAs.
- A large-scale delegation of powers to executives at all levels under MOD letter dated 22 April, 2002, further revised in July 2006.
- In future, dedicated IFAs to be provided at Corps levels and also at CODs.

## **Organisation Structure of IFA system in Army**

- Principle IFA in Delhi to coordinate and handle all IFA related issues.
- IFA (Army/Ord), IFA (Army/Q and IFA (Army/Misc.) in the Army HQs.
- IFA at each of six commands.
- IFAs are Senior Administrative Grade officers.
- IFAs are provided with the assistance of one Joint IFA and two Deputy IFAs.
- Under the concept of decentralised powers IFA forms part of the management in the decision making process.
- Therefore, IFA should not be considered as a person to create impediments or outsider.
- The IFA scheme is an aid to the management and is intended for their benefit and achieves the common objective.

## **Integrated Financial Advice (IFA) System**

The concept of IFA was introduced in the Ministries of Government of India in the wake of the decision on departmentalization of accounts in 1976.

### **AIM:**

To expedite decision-making and to ensure that all expenditure proposals are subjected to due financial scrutiny before the expenditure is sanctioned or committed.

### **Why is an Integrated Financial Adviser necessary in Armed Forces Headquarters?**

- (i) Over view of all expenditure proposals which ensures optimum utilization of funds.
- (ii) Ability to take independent view unaffected by hierarchy of Service HQ
  - Functional Accountability to Secretary Defence (Finance)
  - Administrative Control of DCOAS (P&S)
  - AC written by DCOAS
  - Review by Secretary Defence (Finance)
- (iii) Years of experience in all aspects of Financial Management
  - Accounting, Audit, Budgeting and Financial Advice

### **IFA System in Service HQrs**

Based on the recommendation of a Sub Committee on Defence Expenditure, Ministry of Defence decided in November, 1991, that exercise of delegated financial powers should be with the advice of IFAs. Accordingly, IFAs have been positioned in Service Headquarters and Headquarters DGBR vide the following Government Orders:

- (a) MOD F No. 665/ADDL FA (C) Dated 22.3.94 - IFA NAVAL HQ
- (b) MOD F No, 840/ADDL FA (C) Dated 4.4.94 - IFA AIR HQ
- (c) MOD, F No. AN-1 /11791 /1 N1 (PC-/XXV) - IFA ARMY HQ Dated 17.8.94
- (d) BRDB No. F 731/ (18) BRDB/BWA/ - IFA DGBR 94-Delegation Dated 23.3.95
- (e) MOD No. Air HQ/61279/35/4/L1215/ - IFA HQ

### **Role and Functions of IFA in Army HQrs**

The duties of IFA as stipulated in the Ministry of Defence (Finance) letter No. AN/1/1 1791/1/VI (PC-XXV) dated 17.8.94 are as under:

- (i) He/She shall be the Integrated Financial Adviser at Army Headquarters.
- (ii) He/She shall render advice on financial matters, which fall within the competence of various authorities at Army Headquarters within the delegated financial powers as and when sought for. Such authorities will, however, continue to exercise these powers independently as hitherto fore.
- (iii) He/She will vet proposals falling within the enhanced financial powers as and when sanctioned.
- (iv) He/She may render advice and assist in cases of all proposals/ cases requiring government sanction. if called upon.
- (v) He/She or his/her representative will participate in various TPCs/PNCs at Army Headquarters.
- (vi) He/She will monitor the processing of draft Audit Paras, internal Audit objections etc. concerning the Army to ensure adequate attention and speedy remedial measures. For this purpose, he/she will maintain close liaison with Regional Controllers of Defence Accounts, CGDA, DGADS and Ministry of Defence.
- (vii) He/She will assist in preparing and monitoring a data base on committed liabilities.
- (viii) Any other duties relating to Finance/Accounts as assigned to him/her by the DCOAS (P&S) and Secretary Defence (Finance).
- (ix) in case of difference of opinion between IFA and PSOs and DCOAS (P&S), the matter may be referred to Secretary Defence (Finance).

6. The following items of work were specifically mentioned in a subsequent note of Ministry of Defence (Finance) bearing ID No. 2780/Addl. FA (J)/QB/94 dated 7.14.94:

- (i) Participate in TPCs/PNCs held at Army Headquarters (ST Branch) for finalization of procurement of tubes and greases, hygiene chemicals etc.
- (ii) Conclusion of STAs for procurement of fodder by DDGMF.
- (iii) Conclusion of Meat Group contracts falling within delegated powers of QMG.
- (iv) Regularization of losses under the delegated powers of various authorities in QMG Branch/ Army Headquarters.

7. In the Financial Management Strategy for MGO's Branch, the role of IFA has been defined asunder:

- (i) The IFA (Army HQ), set up vide MOD (Fin) letter dated 17.8.94, will also function as IFA for MGO Branch including DGOS and DGEME.
- (ii) He/She- shall render advice on all financial matters pertaining to these functionaries.
- (iii) In all matters %within delegated powers of MGO, DGOS, DGEME, the IFA is to be consulted in respect of all cases of specific expenditure proposals and these powers will be exercised with his/her consultation.
- (iv) To enable the IFA to discharge his/her role of rendering financial advice effectively within the delegated financial powers, all the concerned papers/case files relevant to the case as also the relevant papers in regard to tenders; original quotations, comparative statements of tenders etc. will be made available to the IFA or his/her representative as and when required for rendering such financial advice through TPCs or otherwise.
- (v) IFA will also be fully associated with the post-contract stage developments such as granting of extension of time, levy, recovery/waiver of liquidated damages and risk purchase etc.

### **Organization of IFA**

The IFA Cell was originally sanctioned vide MOD (Fin) letter No. AN/1/1179/VI (PC- XXV) dated 17.8.94 with the following complement:

- (i) One IFA - To be manned by an officer of - Senior Administrative Grade of the IDAS
- (ii) One Deputy IFA - To be manned by a Time Scale Officer of the IDAS
- (iii) Two Junior Officers - To be manned by Assistant Accounts Officers of the Defence Accounts Department

With the increase in workload, a second IFA was positioned in Army Headquarters in April' 99. The number of subordinate officers have now detailed in Services Hqrs, Commands and lower formations as per restructuring proposal of the Defence Accounts Department approved by the Government in 2002.

# **Basic Concepts of Negotiation**

## **Introduction**

Negotiation is a two-way communication process designed to reach an agreement when the two sides have some interests. It means interaction with other person/persons with a view to arrive an agreement or a solution.

### (a) Origin of Negotiation

Negotiation is a fact of life. It is the basic means of getting what you want from others. It is as old as the origin of human race. Right from the birth one enters into some form of negotiation. For example the cry of child when it is hungry, means it wants the attention of mother. Once the child gets what it wants it stops crying. Here it involves a negotiation of the child with the mother for the attention and feeding. So there is an agreement.

Today almost everything needs to be negotiated – whether in business, industry of family; people reach most decisions through negotiation.

### (b) Basics of Negotiation

The primary objective of every negotiation is the goal of achievement i.e. both negotiators involved in the process will have their goals achieved. So the art of negotiation is important. It plays a vital role in everybody's life. So one has to be proficient in it and know the basics of Negotiation. They are:

- Knowledge of Goals
- Power of Communication.
- Process of Negotiation.

## **Process**

Negotiation usually take place between two or more parties who have some common interest; but with the object of arriving at an agreed solution.

The desirable/probable situations are

- a) Win-win – situation

- b) Win-lose – situation (once in a life time)
- c) Win-lose – situation (Regular with rare party)
- d) Win-lose- situation(Regular with same party)

## **Illustrations**

- a) Win-win- situation:

Here both parties get a feeling of satisfaction with the outcome. (Eg. Children dispute over a large chocolate)

- b) Win- loose – situation (once in life time):

This may generally take place once in a life time transaction. (Eg. Selling/buying of a house)

- c) Win-loose – situation (Regular with a rare customer)

Here the loser will be an aggrieved party and if the power is more or less equal and the desire is to negotiate on a win-win note. Here the first aspect in the process in the creation of proper atmosphere (Eg: Selection of a candidate to G.M. post)

Note: Listening is a vital, in a good negotiation. Good listening is an intensive and active process both mentally and physically. Failure to listen can lead to unnecessary conflict and misunderstanding. Non-verbal communication is another important aspect of negotiation. Facial expressions, smiles, eye-contact, frowns etc. are significant elements of body language. These convey as much/even more than the verbal speech.

## **Tips of negotiation**

- Tactics are advantageous in a negotiation. Eg: Moderate bluffing.
- Giving a small advantage for getting big one.
- Spirit of give and take in the long run.
- Giving an extra unexpected small benefit at the end which creates a good will.
- Summarizing the entire deal at the end to avoid misunderstanding.

## Preparation before Negotiation

- ✓ For any good negotiation it is necessary to prepare for one self about the goals and objectives.
- ✓ Here one should carefully read and understand the facts the relationship between the two. Though after winning, the winning party is also left with some tension. (Eg. Passenger and Auto driver.)

d) Win-lose – situation (With the same party):

Here though one loses some, but with a bit of agreement on both sides – to keep up the relation at healthy. (Eg. Purchase of cloths from a shop.)

The most significant and vital issue in any negotiation is the relative power of the negotiation parties. This power depends upon:

- I. Perceived need.
- II. Alternatives
- III. Flexibility.

- i) Perceived Need:** Selling of Car when you have to meet out certain obligations. (Though you loose, but you sell out)
- ii) Alternatives:** Purchase of pressure cooker. (Here buyer has the option to choose 0 buyers market)
- iii) Flexibility:** There is no negotiation (sellers market) as the seller has no flexibility and has the authority over it. (Eg: Purchase of rare medicine)

Understanding of the goal and power leads us to the process of negotiation. The process becomes particularly important where entire proposal.

Once should prepare a check list, viz:-

1. Facts about the case and any helpful information about past negotiations with the same party or similar case with same party or some others.

2. The issues needing negotiated settlement.
3. Our stand and our limits.
4. The best alternative.
5. Arguments.
6. Concessions and other limits.
7. Inexpensive valuable concessions – motivations to induce the other party to come to a settlement.
8. Strength and weaknesses – ours as well as opponent's.
9. Strategy and tactics.

### **Three basic steps of Negotiations**

- 1 The target (Price lowest possible)
- 2 The opening bid. (i.e Estimated price)
- 3 The walk – away point. (Our bottom line)

### **Miscellaneous points:**

1. Best alternative.
2. Arguments & Counter Arguments.
3. Concessions.
4. Deadlocks.
5. Best offer.
6. Last offer.
7. Role of time.
8. Dead lines.
9. Tactics.
10. Language of communication.
11. General behavior & emotions.
12. Notes/Documents left behind.

### **Conclusion**

The importance of the art of negotiation is increasing as the economy is becoming more and more competitive. Negotiation is a demanding activity. The best way to learn it is to practice it with seasoned negotiators and get personal feed back. While the skill will be acquired over a period, preparation through understanding the goal and the power as well as following the process systematically would go a long way to become successful in the Art of Negotiation.