

DEFENCE ACCOUNTS DEPARTMENT

D A D FOUNDATION DAY LECTURE

Defence Expenditure and Accountability

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DEFENCE EXPENDITURE AND ACCOUNTABILITY

I am grateful to the CGDA for according me this rare privilege of delivering the first Foundation Day Lecture of the Defence Accounts Department. The Defence Accounts Department is among the oldest government departments which had been functioning long before India gained independence. It has a rich legacy which can be traced back to January 1750, when the first Pay Master was appointed for disbursements to the Garrison in Fort Williams in Calcutta. The first Military Auditor General was so designated in 1788, even before the Auditor General of the country was appointed. 1864 saw the office of the Accountant General, Military department being created. It was in 1951 that the department, in its present avatar was established. Indeed a remarkable track record of supporting the armed forces of the country and ensuring accountability and credibility to all defence spending. The department has a track record of more than two centuries of outstanding service, of which we need to be justifiably proud. My sincere congratulations to the department for this selfless service which has kept the defence forces above reproach and well provided for.

2. In any country a very sizeable proportion of the federal budget is invariably spent on its defence forces. The armed forces also make very big ticket purchases. In a parliamentary democracy, such spending has to be properly accounted for and assurance of the same provided to the parliament. Such assurance brings credibility to the functioning of the govt. and lends it a certain degree of authenticity in the eyes of the public. Accountability, in fact, is the obligation of those holding power, to take responsibility for their behaviour and actions. It becomes even more

important an issue when management of public funds is involved. The government spends a huge amount of money in creating infrastructure, providing services and running various schemes for the welfare of its people. A large chunk of the government's money comes from tax which is compulsorily collected from its citizens. The government is, therefore, obligated to work in the interest of its citizens and deliver accountable governance. It is answerable to the public for its policies, decisions and performance.

3 Let us spend a minute on attempting to understand how accountability has attained iconic status today. In a democracy, ultimate power rests with the people. For conduct of their affairs they elect persons who will represent them, and in turn, constitute an official machinery which is architected to discharge the policy decisions undertaken by the elected representatives. However, in a system of separation of powers and constitutional checks and balances, accountability ensures that actions and decisions taken by public officials are subject to oversight so as to guarantee that government initiatives meet their stated objectives and respond to the needs of the community they are meant to be benefitting. The concept of accountability involves two distinct stages viz. answerability and enforcement. The former refers to the obligation of the government, its agencies and officials, to provide information about their decisions and actions. It enjoins upon them to justify these to the institutions of accountability tasked with providing oversight. Enforcement suggests that the institution responsible for accountability can sanction the offending party or remedy the contravening behaviour. Accountability is thus important as it ensures that public bodies are performing to their full potential, providing value for money in the provision of public services and it instills confidence of the community in its

government. This is the basic tenet of a vibrant democracy. Democracy without accountability, is a body without a soul.

4. In any parliamentary democracy the people have given to themselves an elaborate devolution of powers among institutions. Parliament and the judiciary are accountability institutions which derive a constitutional mandate to legislate and ensure that the rule of law does prevail. However, since quite often the executive cannot discharge all the powers granted to it directly by the Constitution, it creates institutions such as independent regulators, public auditors, election, vigilance and public service commissions with an arm's length approach for transparent and effective functioning. Embedded in the creation of these institutions is the core belief that they will be allowed independence and freedom of functioning. Permitting them such freedom only enhances trust between the government and its people of equality, ethics and welfare. Any whiff of impairment in the functioning of these institutions only leads to erosion in the credibility of government and hence weakening of the sinews of trust.

5. Nations worldwide design different institutions and indicators to ascertain how various government programmes and policies are working. Ingredients of accountability and transparency are built in to ensure a reduction of waste, prevent misuse, and deploy resources where their potential is exploited to the maximum. Accountability Institutions ensure that no one is above the law and is accountable for their actions. They are designed to provide early warning signals to the executive about sub-optimality of policies, transgression in implementation and hence, partner the executive departments in the implementation process. They should not be viewed as adversarial institutions. Their partnership in development and the

achievement of democratic values is as much as any agency of government. One such institution is the Defence accounts department. It is a department, which among its other activities, has to establish the credibility and answerability of defence expenditure. However, let me hasten to add that in modern times, even though you may continue to have designations such as the Controller General of Defence Accounts or the Controller of Defence Accounts, your role has evolved more towards ensuring the accountability of defence spending. You do exercise control. Maybe you impose a certain degree of discipline and responsiveness too, towards prudent financial discipline, but the principal function today is of establishing public confidence in the trustworthiness of government spending. In seeking and establishing such accountability, you ensure the advisability of government processes, decisions and actions. Accountability is essential for good governance and good governance is critical for long term sustainable development. It is not only about delivery of efficient services, but facilitating the preparedness of the Forces and ensuring timely acquisition of their support systems. The role is not negative. It is of support. Your principal responsibility is to guide spending in a manner which is effective, efficient and responsive to the need of the hour. Thus, if in the process, you do shut a door somewhere, it is as much your responsibility to open a window elsewhere. It is all about facilitating the outcomes of defence spending which enhances its quality and encourages transparency, thereby building parliamentary and public trust in such big ticket spending. The mindset has to be positive, to facilitate and provision, and not oppose.

6. In this uncertain security landscape, the Armed Forces must be kept well prepared to respond to emerging challenges. They must be well equipped to effectively execute different missions. The Armed forces must have the

technological advantage to confront the complex situation and succeed. They must have the best possible equipment to meet potential threats. The resources available to the defence sector are, however, limited. They have to compete with other pressing demands on the Union budget. Therefore, it is vitally important that the available resources are utilized optimally and in the best possible manner. Enough and more is said, and I daresay, is the refrain of every service headquarter that the acquisition process gets delayed by uninformed queries and that bureaucrats are often not sensitised about the urgency or criticality of such requirements. Such feelings are the outcome of inadequate communication and inadequate appreciation of each others objectives. The important feature is to factor the element of transparency into the acquisition process, sensitise the uniformed and political executive towards the same and convince them of the objectivity of your procedure. Lack of this communication introduces elements of doubt leading to delays and repeated clarification. We need to create an assurance, a trust, that the bureaucracy is as much sensitised and concerned towards the urgency and criticality of the defence requirement. We need to help them achieve their objective and do it such that transparency and accountability are evident in the entire process

7. An argument is often made, that defence is a sensitive subject and certain details on its functioning should not be put in public domain. It is agreed that confidentiality on defence plans and programmes, give a unique advantage to the country and are therefore meant to be secret and should not be disclosed. However, the extent of confidentiality must be balanced with the requirements of transparency and accountability. The clamour for secrecy should not be a pretext to avoid public criticism and accountability. Lack of transparency allows corruption, fraud and abuse of power to creep into the

system. Such a system facilitates manipulation of the decision making process harming public interests. On the other hand, openness facilitates accountability. It prevents ad hoc-ism in decision making. The defence sector does not exist in isolation. It uses public money and must be accountable to the Parliament and to the public. Oversight over the functioning of Government operations and use of public resources is a fundamental requirement of democratic institutions. Look around in democracies like ours. The extent of information in public domain is remarkable. The mitigating factor is the time gap in the information becoming public and real time. Hence, these do not impact operational preparedness. The defence establishments, therefore, need to promote transparency, accountability, and rule of law. In recent years, in democracies such as the UK and Canada, the overall Defence and intelligence funding levels have been placed in the public domain with no adverse security consequences. In 2007, the US began reporting the aggregated national intelligence budget figure for the preceding fiscal year. In 2010, the secretary of defence of the US, disclosed the size of the Military intelligence programme budget for the first time. The trend worldwide is to encourage transparency.

8. It is also important to recognize that the citizen today has become far more discerning. He has become far more demanding. He has come centre stage and seeks empowerment. This phenomenon will have to be factored into your day to day functioning. The common man has begun to express his views on all important matters affecting the interests of the Nation. Security matters and capabilities of our Armed Forces are also subject of public debate, particularly after some of the terrorist attacks and cross border transgressions in our country. People want to know whether the public resources invested in defence activities are being used efficiently and

effectively in protecting the security interest of the Nation and its citizens. Insulating the activities and processes in the Armed Forces will, therefore, only impair its credibility. Alternately, transparency will give opportunity for independent professional review and also valuable feedback from Civil Society. It will add to the richness of public debate and provide necessary checks and balances. Most importantly, it will help build public confidence and win the trust of people. The culture of secrecy and low transparency therefore has to be dispelled. The earlier that we accept this transformation in governance today, the better that we can design our template for a more effective and far reaching realization of our objectives.

9. There is a common perception that departments such as Audit and Accounts departments are mere fault finding agencies that kill initiative. This perception is flawed. It is borne out of a thought process that views audit as impediments in decision making. I would look to this perception as an alibi for non-performance. Such a mind-set needs to be corrected. Any oversight mechanism is an integral process of institution building. Action taken in good faith and based on sound judgement will always stand up to the scrutiny of accountability institutions. Audit and Accounting departments are an equal partner in the development process. Their objective is the same as that of the audited entities, that is: to promote good governance in execution of programmes and in ensuring efficient and effective use of public resources. You need to be conscious of your responsibility of adding value to the process of governance and hence provide a mechanism for ab initio perfection in the entire process as much as to cater for mid-course corrections. The cardinal principle in your functioning is that there should not be a 'We' and 'They' relationship between you and the forces. You are on the same side of the table and your basic objectives are also conjoined.

10. If we were to go back a while in time , it would be recalled that the operational preparedness of the defence forces first came up for scrutiny and adverse notice after the 1962 engagement with the Chinese on the eastern border . The war threw up a spate of issues. Amongst others, it was also the first time that the disconnect between the forces and the government came to light. The issues that came up for scrutiny was: the budget formulation and provisioning of the forces, timeliness and efficiency of the acquisition process and the credibility of Defence spending. In a parliamentary democracy like ours, as stated earlier, there are competing demands on the Union budget. It makes good public rhetoric to say that the national security cannot be compromised at any cost. However, can we deny drinking water to our population? Can we deny them primary education? Can we deny primary health? The budget has to balance all these requirements. It has to prioritise. Every rupee provided for any requirement has a huge opportunity cost. It is a rupee which is being snatched from an equally pressing requirement. Hence, we need to devise our spending and accounting process such as to ensure that the moneys allotted to us are spent wisely, spent without inviting an iota of reproach, and spent such that the efficiency of every rupee is best realised . However, in doing so in defence in as much as any other equally important department of government, we need to ensure the timeliness of the expenditure --could be a battle--could be an epidemic--could be a natural catastrophe. We cannot afford to have the spending activity tied up in processes which defeat the very purpose of the spending. It is in this context that our processes need to undergo a continuous scrutiny for improvement and speed of delivery. It has also has to withstand the test of ensuring that the stated budgetary objectives of the spending have actually been achieved. This is where the need for outcome budgets become important. The process

of outcome budgets was first introduced in 2006. Most ministries have been preparing outcome budgets to establish a linkage between resource requirements and desired outcomes. This has not been done, to the best of my knowledge, by the Defence ministry. There is no reason why Defence PSU's, shipyards, and Ordnance factories do not introduce the principle of outcome budgets. The process will introduce transparency and create trust between parliament and the organisations to which it provides budgetary support. It is high time that there is transparency about such input and output linkages so that they can be compared with the private sector in terms of cost and economic efficiency.

11. Another worrisome issue is the strange phenomenon of the defence five year Plan being approved only after about three years of that 'Plan' period have elapsed. This is neglect of the defence forces is of an unpardonable kind. Big ticket acquisition has a long lead time. Uncertainty around such acquisitions leads to time and cost over runs besides depriving the forces of much needed equipment at the appointed time. Delayed Plan approvals throw the entire acquisition process out of gear and introduce ad hoc-ism to the exercise. There can be no authentic reason for this exercise to prolong. Perchance. even if it were to for uncontrollable reasons, the major part of the Plan can be frozen, so that the acquisition process may commence. Dealing of the issue by movement of files is highly avoidable and can save time, effort and provide much needed impetus, to the process by the Ministries of finance and defence sitting together and resolving the issue around the table. Obviously defence has to be sensitive to the other competing demands on the budget, but at the same time it deserves a consideration in parity with the strategic demands on the nation.

12. Since, we have been discussing the need and urgency of introducing systems upgrades and thereby introduce accountability, we need to focus on the advisability of introducing accrual accounting instead of the present system of cash accounting in the defence sector. To start with, the process can certainly be introduced in the production units. Accrual accounting provides for better accountability as it takes stock of the end result. It will also help proper liability monitoring and better long term planning for weapons acquisition. Whilst a continuous debate ensues on the advisability of introducing Accrual accounting, the fact remains that agencies like the Post and Telegraph department have already introduced it. The Railways have embarked on the roadmap to introduce it. The benefits are perceptible. The transparency that it introduces is undeniable. Why delay the inevitable? The process is long drawn. Preparation itself will take about three to four years. Hence, it would be prudent to be ahead of the curve and start preparing for the introduction, than have impossible timeliness being imposed on the department wherein , the process gets hustled into compliance and leads to lack of holistic planning. Transparency of a very high order will get built into the system by such an accounting process. It will also send a very strong signal on the intent of government to introduce such upgrades. Do we need to wait to be told to undertake such upgrades? Why can we not be ahead of the times and be pioneers in the initiative to introduce transparency and effective controls.

13. A strong and ethical culture at the 'top' creates an expectation and compulsion among employees to be on the 'straight and narrow path'. Opportunities for laxity or misadventure arise when the message from the "top" is of confusion and indecisiveness. There is the need to create a strong and ethical culture, an entire new paradigm where there is zero tolerance of

irregularity and personal aggrandisement. The message should be of not only conforming to the legal and committed process but to create a culture of ethicality so as to comply with the value system. The message has to be of zero acceptability for compromised actions across the entire sector and the officialdom at the top must be seen to be totally committed to this. Any act of misdemeanor needs to be handled promptly and without any compromise on the principle. Creating checks and balances reduces the probability of instances of irregularity. There is need for authority levels and access to be predefined through control mechanisms. One can safeguard secure data by maintaining a vigilante on it at all times.

14. The DAD and the armed forces share a symbiotic relationship. The understanding and hence patience of the armed forces with 'matters financial' is limited. It is our responsibility to guide the forces in to creating an architecture which is built on an edifice of transparency, probity and accountability---and is yet capable of delivering within the desired time schedule. The task is not too onerous. It can be done. The Defence Accounts Department has the professionalism which can ensure the desired result. The orientation and mind set has to be positive. The swan song has to be zero tolerance of delay and opacity. Much is at stake---and I daresay---it is your professional capability and positive orientation as a facilitator, which is at challenge. The attempt should be to deliver not derail, espousal not disapproval, and finally to be an ally not an adversary. The DAD has to be the sieve through which the evaluated and authentic proposals pass, and pass such, that they can withstand the severest scrutiny of any agency in government or outside. In an era where transparency is going to be the order of the day, let it be said that when the challenge arose it was, through the pursuit of excellence and the professional capability of the Defence Accounts

Department , that the operational preparedness and transparency in the functioning of the armed forces was ensured. In doing so you would have made the forces content, the nation grateful to you and most of all, maintained the outstanding legacy that the DAD is so proud of.
