

**Reading Material  
on  
IFA System  
Navy**



**Volume Four**

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## **Background**

With the departmentalization of accounts in 1976 the concepts of integrated financial advise system took shape and IFAs were introduced in various ministries. In the Ministry of Defence this scheme was introduced in 1983.

In 1991, on the recommendations of the Arun Singh committee on Defence expenditure, and the Estimates Committee of Parliament, it was decided by the Ministry of Defence that the exercise of the delegated financial powers in the Defence services should be with the advise of the Financial Advisers. In this background Financial Advisers were posted in various service headquarters and subsequently even at the field level during 1994-95.

### **Objectives of IFA System**

The objectives of IFA system are to enable the executive authorities to exercise the delegated financial powers and to implement the concept of NMS like:-

- a) Creation of Authority cum Responsibility cum Budget Centres,
- b) Objective settings and fixing the targets,
- c) Budgeting,
- d) Value for money etc.

### **Implementation**

The implementation of NMS/IFA system took place in a phased manner.

Phase 1: Positioning of IFAs in the Dockyard, in Dec'93 and Naval Headquarters in Mar 94. It was decided that CDA(Navy) (now PCDA(Navy)) would be functioning as "FA to all the three commands".

Phase II: Positioning of IFAs in material organisations in Jan 95

Phase III: To implement the IFA System for the entire Navy (units & formations).

On date, apart from the IFA at the Naval Hqrs, SAG level IFAs have been positioned in the Western and Eastern Naval Commands at Mumbai and Vizag. A JAG level IFA have been posted in the Southern Command at Kochi. IFAs

at JAG/STS have been positioned in ASDs/MS Depots at Vizag and Mumbai. Flag Officers of Goa Area and Naval Aviation have also been given dedicated IFAs in STS/JTS.

### **Functioning of IFA Scheme at the field level**

The IFA scheme was also recently introduced in the major establishments like Goa area (FOGA) & Port Blair (FORTAN) by positioning the officers.

However, in the case of Depots, NOICs and COs of major Ships/Establishments, the utilization of delegated financial powers and implementation of NMS is in the process.

### **Role and functioning of IFAs**

1. Rendering financial advise to High Level budget holders on all financial matters.
2. Specific advise on expenditure proposals.
3. Preparation and sound management of the budget.
4. Effective audit, accounting and payment function.
5. Rationalization of various procedures.
6. Expeditious and direct interaction with the executive authorities for the effective implementation of NMS.

In short the IFAs are to ensure that Government gets best value for money.

### **Measures taken by the IFAs to meet the desired Objectives**

In order to ensure that the desired objectives of NMS are met, the following measures have been taken by the IFAs.

1. It has been ensured that the authority-cum-accountability, responsibility and budget centre concept is fully implemented.
2. Procedures for procurement, offloading of refits, TPCs/NLCs/PNCs etc have been streamlined.
3. Identification of right sourcing, vendor classification and de-registration of firms wherever required has been carried out.
4. It has been ensured that the concept of de-centralization by delegation of financial powers upto the level of budget centres by the CFAs is made.
5. Highlighting the shortcomings/deviations at the right forum.

## **PCDA(Navy) as a nodal point**

PCDA(N) is a nodal point agency in the implementation of IFA scheme in the Navy. To strengthen the role/functioning of the IFAs a Co-ordination cell has been established to discharge these functions on behalf of the CDA(N). The main aim of interacting closely with the IFAs is to ensure:-

- (a) **Co-ordination of various FAs activities:** CDA(N) maintain regular direct interaction with the IFAs. In the case of local FAs, meetings/discussions are held on a weekly basis. In the case of FAs stationed at Vizag, Cochin, Goa and Port Blair, the interaction is maintained regularly through faxes and telephone calls. Apart from this, PCDA maintains constant supervision by making monthly visits to Vizag and Cochin. To maintain uniformity and interactions, FAs conferences are organized on a quarterly basis with all the IFAs of the Navy. In addition to above the following activities are also being carried out:-
- Asking FAs to refer the cases to PCDA(N)
  - Institutionalized reporting system for getting regular feed back from the FAs, and
  - Rendering advice on various policy matters.
- (b) **Guidance to carry out performance studies/internal audit reports** Under the IFA System Internal Audit has become quite effective. The IFAs are carrying out various studies based on the directions and advise of PCDA(N). Because of accessibility of information, it has been possible for the IFAs to carry out studies in the areas of inventory management, utilization of spare capacities and optimal utilization of plants and machinery.
- (c) **Timely and correct advise to FAs:** Wherever there is a doubt in the interpretation of rules the cases are referred to PCDA(N) for guidance.
- (d) **Audit and inspection of FA establishments:** The functioning of FAs is kept in constant observation by carrying out regular and effective inspections.
- (e) **Co-ordination of Budget of the various IFAs:** PCDA(N) ensures that the payments made by the FAs are within the allocation received by them.

## **Benefits derived from the IFA System**

### **(A) Executive point of view:**

- (i) Faster processing of expenditure proposals.
- (ii) Streamlining of procedures related to PNC/TNC, sourcing, payments etc.
- (iii) Delegation of powers upto the level of budget centres.
- (iv) Timely and effective financial advise; some examples are as follows:-
  - (a) Taking on work from civil trade in areas where excess capacity exists.
  - (b) Procurement of items from CSD.
  - (c) Installation of capacitor banks in order to reduce power factor surcharges in both the Naval Dockyards.
  - (d) Implementation of foreign procurement powers and release of FFE.
  - (e) Indegenisation of the Air-conditioning Plant in the Submarines
  - (f) Revisions of scales for fresh provisions like mutton, fish etc.
  - (g) Energy audit:  
Consumption pattern of aviation fuel and Supply of LSHSD by IOC at Mumbai
  - (h) Pointing out irregularities in survey Contracts concluded by NHO Dehradun.
  - (i) Exploring the alternative sources for the electricity/Power supplies to the Naval establishments on competitive basis.
  - (j) Study on Projects funded by Navy (INHS Asvini, DGNP & INS Shivaji)
  - (k) Foreign cruises by IN Ships
  - (l) Streamlining cash assignment holdings.
  - (m) Providing landing facilities to civil aircrafts
  - (n) Advise on judicious use of telecommunication facilities etc.

### **(B) Finance point of view**

- (i) Accessibility to original documents
- (ii) Examination of necessity i.e. contribution during decision making stage.
- (iii) Conduct of performance studies which serves as Effective management information tools and which in turn can result in capacity utilization.
  - (a) Study on Electroplating Plant at Mumbai and Vizag

- (b) Study on Inventory control of steel, paints, cables ARS items, scrap, certain electronic spares at Material Organizations.
- (c) Study on Zonal Store Depot, ND(MB).
- (d) Study on consumption of electricity etc.
- (iv) Streamlining of procedures.

#### **Areas which need attention**

- (I) Preparation of estimates for refit of ships needs to be more accurate so that cost-variance analysis can be carried out.
- (II) Involvement of local FAs in provisioning Activities.
- (III) Decentralization of revenue budget (CP).
- (IV) Full implementation of works procedure.
- (V) Involvement of FAs in tendering.

#### **Successful implementation of IFA System in Navy: Reasons therefor**

- 1) Transparency in the interactions/operations at all levels with executive authorities.
- 2) Effective co-ordination of IFAs by PCDA(N) through meetings, reports and returns.
- 3) Positive approach of Finance and Navy.

# **New Management Strategy**

## **Concept & Philosophy**

### **1. Introduction**

The concept of NMS originated from UK where certain experiments were carried out to empower managers with financial powers and to make them responsible for achievement of specific objectives. Authority-accountability-responsibility and budget centre concept was tried out in Base Supply Depot, Liverpool and in Military Farms in UK. The managers were permitted flexibility and were given delegation of powers and were made responsible for physical and financial powers. They were allowed to reappropriate from one major head to another without the necessity of seeking sanction from Ministry of Defence. They were also allowed flexibility of transfer between revenue and capital heads. The flexible budgetary system also allowed 5% of capital expenditure to overflow to the next financial year. Out of all these aspects, the concept of ARB was selected and introduced in the Navy in 1993 as “New Management Strategy”.

### **2. Objectives of NMS**

These can be divided into two categories namely short-term objectives and long term objectives.

#### **Short Term Objectives**

##### **(a) Allocation of Budget with defined targets**

NMS envisages in the achievement of physical targets (refit of ships for ASD(MB), high compliance rate for MS etc) as also financial targets, i.e. expenditure within budget allocations, especially local purchase budget allocation which had been given to budget centres viz. MS & ASD.

##### **(b) Providing necessary resources**

Necessary resources have been provided to achieve the targets viz. Budget allocations, delegation of financial powers, positioning of IFAs at NHQ, Command, ASD and MS.



- (c) Reviewing the performance

Performance indicators have been formulated to measure the performance at various levels in ASD, MS etc.

### **Ultimate Objectives**

- (a) Value for Money: Value for money is the ultimate object as NMS is primarily concerned with economy, efficiency and effectiveness of expenditure.

- (b) Operational Availability: To improve the operational availability of ships, submarines and aircrafts through better logistics support and to minimize the financial cost of logistics i.e. by providing the material in the most cost effective manner.

- 2. Methodology: The objectives of NMS are sought to be achieved by various methods.

- (a) Planning; The Annual Provisioning Plan is prepared by COL and annual Refit Plan by COM

- (b) Delegation of Powers: There is a substantial increase in the delegation of financial powers under NMS, which can be classified into five major issues:

- i) LP Powers
- ii) CP Powers
- iii) Cash and Carry Powers
- iv) Advance payment powers and
- v) Foreign procurement powers

- (c) Authority-cum-Accountability, Responsibility and Budget Centres (ARBs): It is a three-tier approach for delegation of financial powers and responsibility for achievement of objective from the top to the line managers.

- i) Authority-cum-Accountability Centre:  
Accountable for the revenue budget  
Called as High Level Budget holders (HLBS)  
Eg. CNS, COM/COL, ASD, MS.
- ii) Responsibility Centres:  
Responsible to the authority centre

- Management of objectives within given budget called as Intermediate Budget Holders (ILBS)  
eg. ACOM, ACOL, GM®, GM(T), CPRO & CMP.
- iii) Budget Centres:  
Actual functionaries, who does the day-to-day budget management and monitoring of expenditure called as Functional Level Budget Holder (FLBS)  
Eg. DLS, DCV, DFM, DNA, DOS in NHQ, AGM, DGMs in NDs (AGM PL, AGM HR, DGM TS and Jt. Controllers & Deputy controllers in MS)
- (d) Allocation of Budget: Allocation to MOs & NSDs is done by NHQ. LP budget is being allocated and not the central purchase budget.
- (e) Appraisal: An annual review report is submitted to NHQ ie. To DNP by ASD regarding targets and their achievements. Financial estimates for various kinds of ships are prepared by ASD(MB) which are being compared with the actual expenditure for purpose of variance analysis.

## **Conclusion**

There is thinking in some quarters that NMS only means enhanced financial powers. This view needs to be dispelled, because NMS goes much beyond enhanced financial powers. The concept of ARB centres is the center piece of NMS. Enhanced financial powers and greater flexibility in resource management have also to be linked with greater accountability and responsibility. Accordingly, objective setting, resource allocation, concepts of costing and mechanism for monitoring expenditure and output measurement by way of performance parameters and reviews have to be developed. The main aspect of NMS is an entirely new approach towards management. It is a system of managing the Navy on corporate lines with proper management strategy and financial management to seek-best value for money.

## **Naval Instructions I/S/97**

### **NEW MANAGEMENT STRATEGY FOR THE NAVY**

#### **General**

The New Management Strategy is intended to enhance value for money in revenue expenditure by establishing a clear between resources utilized and outputs achieved. To achieve this goal, it is necessary to increase decentralization of responsibility for budget formulation and financial control, together with adoption of the concept of accountability. This Navy Instruction is intended to extend the scope of New Management Strategy that was earlier introduced in the field of Maintenance on 4<sup>th</sup> Oct. 93 and in the field of Logistics on 23<sup>rd</sup> Nov 94.

2. NMS emphasizes, 'Value for Money' which encompasses economy, efficiency and effectiveness. The aims are to achieve targets with the least expenditure of money, material, manpower and to convert resources into outputs in the most advantageous ratio. The concern for 'value for money' leads to more detailed planning and the establishment of priorities, proper utilization of resources and a hierarchical structure of budget with emphasis on decentralization.

#### **Objectives of NMS**

3. The short term objective of NMS is to lay stress on Management Planning through the following means :-

- (a) Allocation of budgets with clearly defined objectives/targets.
- (b) Provision of resources to budget centres to achieve their objectives/targets.
- (c) Review of performance of budget centres in terms of objectives/targets achieved.

4. The longer term objective of NMS is to develop a system in which managers at all levels have:

- (a) A clear view of their objectives and the means to assess, and wherever possible measure, outputs in relation to those objectives.
- (b) A well defined set of responsibilities for making the best use of their resources.

- (c) The information, particularly about cost, and training as well as access to expert financial advice that are needed to exercise their responsibilities effectively.

### **Budget Management**

5. The Vice Chief of the Naval Staff shall be the Top Level Budget Holder of the Navy under NMS. The revenue budget of the Navy will be allocated by VCNS (TLBH) among Authority-cum-Accountability centres (High Level Budget Holders), at NHQ who are VCNS, CNS, COP, COM, COL and CWP&A. Allocations to HLBHs will be used as means of locating resources as well as management of the budget during the year.

### **Budget Centres**

6. The present management of revenue budget puts on centralized control of expenditure or resource inputs. To fit in with the output oriented budgetary system of NMS, the management responsibility would need to be decentralized. As systems for accounting and monitoring expenditure get developed, budget centres will acquire the management responsibility or the whole range of expenditure and receipts that fall within their areas. Within the limits of their delegated authority, budget centres will have the freedom to manage their budgets so that objectives and targets are achieved in the most economic, efficient and effective manner.

### **Short Term Operating Plans**

7. In order to improve the planning processes needed for NMS, plans for expenditure and outputs need to be prepared by each budget centre and consolidated by HLBs. These Short Term Operating Cost Plans (STOPs) should be prepared on a roll in basis by each HLBH every year, on the basis of the indicative budget given by VCNS (TLBH). STOPs are to be prepared every year covering the estimate year and the two subsequent years. This annual exercise helps to :-

- (a) Review the efficiency delivered through STOPs.
- (b) Improve the clarity of objectives and the utility of performance indicators.

### **Integrated Financial Advice**

8. A major component of the New Management Strategy is integrated financial advice. The Integrated Financial Advisor (Navy) will provide financial

advice to TLBH and HLBHs at Naval Headquarters. Integrated Financial Advisors have also been provided to Flag Officers Commanding-in-Chief as well as major budget centres. The IFA (Navy) is responsible to TLBH and HLBHs to ensure that: -

- (a) Appropriate financial accounting systems as well as procedures have been established and are functioning properly in accordance with the accounting procedures laid down by the Government.
  - (b) Instructions and guidance on financial matters are issued to all concerned.
  - (c) Lower Level Budget Holders receive guidance in the preparation of budgetary estimates.
9. The IFA (Navy) is accountable to MOD (Fin) for the integrity of the financial system. This accountability should not be confused with the IFA (Navy)'s primary accountability to HLBHs for advice given or action taken on their behalf on expenditure proposals or budget management that is needed to achieve the performance required by an HLBH to meet his objectives.
10. In case of difference of opinion between a CFA and his FA, the matter shall be reported to the next higher CFA who shall look into the matter ab-initio and take a decision. In case of difference of opinion between a CFA, who is an HLBH and IFA(Navy), the matter shall be referred to VCNS for taking a decision as per existing Orders.

### **Financial Powers**

11. Annexures 1 to 5 of this Navy Instructions stipulate the financial powers that have been delegated under the New Management Strategy and Annexure 6 to 8 contain ***explanate*** information, as indicated below: -
- (a) **Annexure - 1** General Financial Powers at Naval Headquarters
  - (b) **Annexure - 2** General Financial Powers at Command Headquarters and lower formations
  - (c) **Annexure - 3** Financial Powers for Contracting.
  - (d) **Annexure - 4** Financial Powers regarding Losses, Regulation, Appropriation
  - (e) **Annexure - 5** Operational Financial Powers.
  - (f) **Annexure - 6** Provisioning and Procurement.
  - (g) **Annexure - 7** Heads of Departments.
  - (h) **Annexure - 8** Definitions.

## **Manner of Exercising Financial Powers**

12. The Powers authorized in this Instruction are ex-officio and cannot be delegated to subordinate officer except as indicated in the Para 13 below.
13.
  - (a) In every case, the officer possessing financial powers is personally and unreserved responsibility for any orders purporting to be issued in accordance with the degree of relaxation permitted by this paragraph whether the communication conveying the orders is signed himself or by an officer subordinate to him.
  - (b) On the strict understanding that the sole responsibility rests on him, an officer possess financial powers may authorize a staff officer to sign communication and documents of financial character on his behalf, provided that the name of the officer who is authorized sign is communicated to the audit officer concerned. In such case it shall not be necessary the officer possessing financial powers himself to sanction each item personally.
  - (c) Claims for minor allowances which should ordinarily be countersigned by the PSOs or Naval Administrative Authorities may be countersigned by a selected officer empowered sign for him.
  - (d) When an officer possessing financial powers is absent on leave and no officer has been formally appointed in his place, financial responsibility will rest on the officer incumbent performing his duties who will for the time being exercise full powers of the absentee. Subordinate officer's signature in these cases should, however, indicate that he signs in the absence of the regular incumbent.
  - (e) When an officer possessing financial powers is absent in temporary duty or tour, he may permit in writing another officer to sign letters on his behalf. An audit office will accept subordinate officer's signature as implying that the orders have been approved by the superior officer, provided that the signing officer signs for regular incumbent absent on tour/temporary duty
  - (f) When an officer possessing financial powers has been posted out and no officer has been formally appointed in his place, financial responsibility will rest on the officer actually performing his duties

who will for the time being exercise the full powers of the appointment.

**Note :** The Civilian Staff Officer in Naval Headquarters and Inter-Services Organizations may be treated as “Staff Officer” for the purpose of signing communications of a financial character on behalf of the Competent Financial Authority in terms of para (b) above.

14. In partial modification of Rule 388, FR Part I so far as it related to the powers of concluding contracts, the Principal Staff Officers are authorize to delegate to lower Naval authorities his powers to conclude contracts. Ordinarily no such delegation should be made to an authority who holds a rank (or equivalent rank) below that of a Commander. Once delegation has been made, the authority to whom it has been made shall be personally responsible for the proper exercise of such powers in accordance with the rules contained in the Financial Regulations on the Subject.

15. If objections is taken in audit to any item of expenditure sanctioned by the C. F. A. in exercise of the powers conferred by these rules and the objection is not withdrawn as a result of any representation or explanation made by the Competent Financial report the transactions to the next higher CFA for orders. In the event of disagreement between the IFA (Navy) and the Vice Chief of the Naval Staff, the case shall be referred for the orders of Ministry of Defence, Government of India.

### **Condition and Monetary Limits Upto Which Expenditure May Be Sanctioned By Competent Financial Authorities**

16. Expenditure debitable to Naval Estimates may be sanctioned by the authorities referred to in his Instruction to the extent specified therein subject to the following conditions: -

- (a) The expenditure shall pertain to Defence and shall not require the prior approval of the Government of India.
- (b) No sanction may be given under these powers which involves an express contravention of any current rules contained in authorized codes or regulations and no grant shall be made for services or individual projects on which the Government of India have previously definitely refused to incur expenditure.
- (c) The powers authorized are ex-officio and cannot be delegated to any subordinate officer except to the extent provided for

specifically in this Instruction. The exercise of such delegated powers is subject to the observance of any general or special directions, which the authority delegating the powers may issue at any time, whether in general or in reference to a particular case.

- (d) The monetary limit, which has been set, extends to each separate transaction, except where otherwise stated. The criterion in any case, shall be the total cost of a measure and no measure which requires the sanction of a superior authority shall be sanctioned by an inferior authority in installments. No sanction shall exceed the Budgetary allocations made by higher formations.
- (e) In the exercise of the financial powers, the fullest use should be made of the assistance of the financial authorities accredited to each Competent Financial Authority with a view to restricting expenditure as far as possible consistent with efficiency. The IFA (N) is invested with the duty of affording financial advice to VCNS and the FA to Administrative Authorities and they should be fully consulted in the exercise of these powers. As regards the other authorities, in the absence of gazetted officer of the CDA(N) in their station, they will rely on their own individual judgment but shall have the right and responsibility to consult the CDA (N) in any specific case of doubt or difficulty in respect of the cases falling within their financial powers.
- (f) Sanction for any fresh expenditure authorized under these powers which has not been acted on during the financial year shall be viewed to have lapsed unless it is specifically renewed or provided for otherwise.

### **Object and Monetary Limits**

17. The objects for which officers are empowered to sanction expenditure and the monetary limits of such sanctions are shown in the subjoined table at attached annexures.

18. Nothing in these rules shall be held to authorize an officer to:-

- (a) Sanction expenditure in excess of fixed annual allotments except monetary allotment for consumable stores for Establishments



- (b) Sanction expenditure which is liable to establish a new rule or practice involving further expenditure in the future e.g. admit unauthorized person to treatment in the Naval Hospitals;
- (c) Sanction a pension in excess of the amount admissible under the rules;
- (d) Sanction an advance or loan unauthorized by rules;
- (e) Authorize the payment to Government servants of any remuneration of allowance to which they are not entitled under ordinary rules;
- (f) Sanction the provision of new kinds and patterns of furniture in super session of standards already laid down by Government.

19. A copy of every sanction by C. F. A. shall be forwarded to the Controller of Defence Accounts (Navy) quoting the rule under which such sanction has been accorded.

20. The financial canons referred to in Rule 6 of FR Part I shall be carefully observed.

21. By the issue of this NI 1/S/97, GOI MOD letter PL/3221/NHQ/14(16)92/D(N-I) dated 4<sup>th</sup> Oct. 93, PL/3402/NHQ/6515/94/D(N-I) dated 23<sup>rd</sup> Nov. 94 and PL/3221/NHQ/609/D(N-I) dated 22<sup>nd</sup> Feb. 96 are superseded.

**Note:- These provisions are still relevant with the issue of NI 2006 in July 2006 as necessary and relevant features have been retained.**

## Naval Logistics Committee

### Introduction

Revenue procurement in the Navy is divided into central procurement and local purchase. As envisaged in N. M. S. all central procurements and procurement cases beyond the powers of CFAs under the revenue head is to be carried out through Naval Logistics Committee. The TPC's of pre-NMS days is rechristened as NLCs.

The aim of NLCs is to process the procurement cases expeditiously by associating experts from various fields/areas.

**Basic Objectives:** The basic objectives are to procure the stores/equipment/machinery needed to operate and maintain the Navy efficiently in peace and war and to provide the stores in the most cost effective manner.

LEVELS : NLCs are set up at 3 levels.

LEVEL I	Chairman	COL
LEVEL II	Chairman	ACOL
LEVEL III	Chairman	MS/CSO(P&A) of SNC

**Members:** The members of NLCs are respective Financial Adviser DPRO/CPRO/CMS (Procurement Number), Technical member. Inspection member and Indenter.

**Guidelines:** NLC – I is given the responsibility of lay down the operating guidelines, consistent with government practices for the efficient functioning of NLCs at various levels. Various manuals like Material Management Manual, Procurement Manual etc were issued by COL (Chairman of NLC-I) by incorporating various rules and regulations as guidelines.

**NLC Process:** NLCs are generally meet as often as necessary to ensure speedy processing of cases. Generally once in a week these meetings are held. All NLCs has a Secretary, who generally perform duties like scrutiny of bids, preparing CST, analysis of bids, highlighting deviations, preparing briefs, convening the meetings, issuing of minutes etc. All cases are deliberated and price/technical negotiations will be held in deserved cases.

**Financial Powers:** Financial power of NLCs of the 3 levels are laid down by NI 1/S/97. These include :-

- (a) Central procurement of all indigenous items including PAC items.
- (b) Central procurement of office equipment, stationery and printing.
- (c) Central procurement of all imported items including PAC items and release of FE.
- (d) Disposal of ships, aircrafts and stores through Public Sector disposal organization/Trade.
- (e) Approval of PAC status for equipment and stores.

**Decision Taking:** The expenditure proposed are scrutinized inn terms of quantity, quality, delivery and money. Acceptance of necessity in terms of quantity and value for money are the main focus points in discussions.

The Chairman shall take decisions normally with the concurrence of the members of NLC. However, in case of difference of opinion by the Chairman and other members of NLCs, the decision of the Chairman will be final. As regards difference of opinion between member Finance/IFA of NLC II and III and the concerned Chairman, the matter should be reported to the next higher NLC which shall look at it ab-initio and take a decision. In case of difference of opinion between Member Finance/IFA of NLC – I and the Chairman the latter shall refer to VCNS for taking a decision as per the existing orders.

**Role of IFA/Finance Member:** The role of Integrated Financial Adviser is to give specific and specialist advice as well as general guidance on the financial proposals in NLCs.

The 3 basic criteria used to scrutinize the expenditure proposals/NLC cases are:

- (a) Value for money
- (b) Affordability and long term implications and
- (c) Financial propriety

Active participation of IFAs are in the areas of acceptance of necessity and price negotiations.

**Special Features of NLC – I:** NLC – I at NNHQ with COL as Chairman is responsible for lay down the operating guidelines for functioning of various NLCs, for purchase of PAC item and disposal of stores. Vendor classification into various categories and vendors re-classification/movement is also the responsibility of NLC – I. Special powers like acceptance of stores by self

certification from manufacturers, advance payments to firms, changes in SCQC etc. is rest with NLC – I.

**Problem Areas:**

- (1) The knowledge of good sources of many stores being procured indigenously is inadequate. Dependency on traders is substantial, due to large extent, to insufficient source knowledge.
- (2) Planning is the key to procurement. Traditionally much emphasis was not given to this area. The basic data available today is incomplete. The provisioning activity is infested with problem like huge inventory, multiplicity of same item, unscientific, provisioning parameter, absence of stocktaking, poor maintenance of ledgers etc that led to over-provisioning. This was evident from various studies made by IFAs in certain specific items of inventory like steel, paints, cables etc.
- (3) The procurement activity is having problem like inadequate specification, long lead-time, unscientific cost estimates, multiple procurement activity, admin delays, non-bulking, routine DP extension etc.
- (4) Non-involvement of local IFAS in planning activity: Indents are the outcome of planning activity carried out by the depots. At the indent raising stage scrutiny and vetting of indents will be essential for arriving at the correct requirement/quantity

**Parallel Agencies:**

As in the case of logistics, there is Weapon Procurement Committee for weapon stores (WPC 1, WPC 2 & WPC 3) and Air Store Procurement Committee (ASPC 1, ASPC 2 & ASPC 3) for Air Stores functioning on the same lines.

**Conclusion:** To achieve the objectives of NLCs the following suggestions are made: -

- (a) Association of FAs in scrutiny and vetting of indents.
- (b) Conclusion of more rate contracts.
- (c) Procurement of items from CSD.
- (d) De-centralization of local purchase responsibility of general use items to ships/establishments.
- (e) De-centralization of budget/provisioning activity.

## **Role and Functioning of IFAs and Future Ahead**

### **Role and Functioning of IFAs**

- 1) The IFA System has taken its conception from NMS, which was introduced in Navy in 1993. Over the years, IFAs have gone from strength to strength. Initially there was one IFA at ASD (MB) in 1993, now the strength has gone up and all the CFAs at Commands, Dockyards, Areas and Depots have been covered.
- 2) Many IFAs in the Navy are functioning in dual capacity, while they are financial advisors to their respective CFAs, they are also heading their respective accounting and audit jurisdictions. This dual role helps the IFAs to discharge their duties more efficiently and effectively. It is due to their dual role, the IFAs have been able to carry out various performance studies and have highlighted the areas of concern, such as optimum utilization of plant and machinery at NDs, provisioning of stores such as steel plates, cables, paints etc. at MOs, energy audit at NDs etc. These studies are focused not for faultfinding but aimed at rectifying the defects, if any, in the systems.
- 3) Today IFA System has been established on a firm ground also because of the cooperation from the Navy. The field level IFAs have immensely benefited from the constant interaction with the CFAs. They have gained knowledge about the role and the responsibilities of the organization to which they are rendering financial advice. They have understood the organizational concerns and constraints. With this exposure, the IFAs are able to resolve problems with a more pragmatic approach and a positive attitude. By adding these dimensions they have been able to transform into effective financial advisors.
- 4) The key to success has been their close interaction with the executive. IFAs' interaction is almost on daily basis in addition to the normal schedule meetings. Over the past two years, we have organized two workshops for naval officers to understand each other very closely. These interactions has helped to resolve the problems to a greater extent.
- 5) Notwithstanding this, there are problems and difference of opinion between the CFAs or his officers and IFAs. There have been certain occasions when the IFAs have been constrained to disagree with proposals. These differences have been because of budgetary constraints, Govt of India orders and procedures and policies. In most cases, the IFAs' points of view have been well received by the CFAs. It

can be said that the IFA System of the Navy has succeeded in achieving its true objectives. In this help of Navy and its officers has been very significant.

### **Future Ahead**

For effective functioning as IFAs and to ensure cost effective management of Defence resources:

- 1) First, IFA must have a fair understanding of the organization its objectives and goals, as well as the dynamics of the environments.
- 2) Second, he should acquire a better understanding of the process of management and the requirement of organization.
- 3) Third, he should not unnecessarily impose audit control, rather, we should advised the right course of action to be followed. We should probably resist the temptation of asking for remedial action particularly as auditors, in shape of further regulations and instructions.
- 4) Fourth, he should always have a reasonably positive bias in favour of the Defence forces specially for those working in the operational/field areas.
- 5) Last, but not least, the financial advisors should act as a “check” as well as “balance”. They should act as a “check” against executive extravagance, wastefulness, inefficiency and the like, but we should also act as a ‘balance’ between operational commitments and the cannons of financial propriety. The financial advisors are in a unique and privileged position to do so.

### **Conclusion**

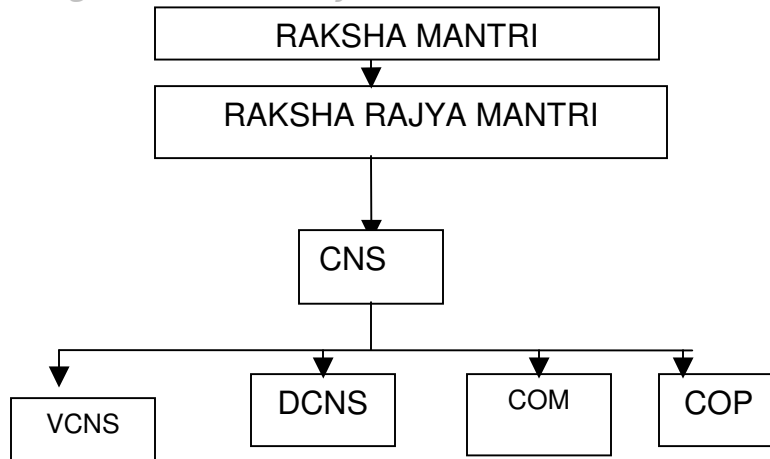
It is the professional excellence and ethics of Finance which inspire confidence in the Defence Services. The Financial Advisers should build functional competence, participatory attitude in solving the problem of executive, result orientation, dynamism and the continuing awareness of accountability all the time and at every level. This will ensure success of IFA system in times to come.

## Indian Navy – Structure and Functions

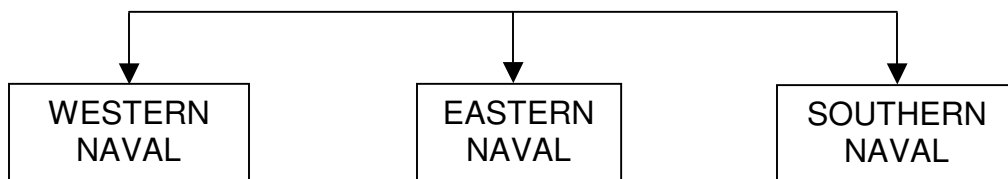
- Courtesy : Shri S. L. Singla, IDAS, IFA(Navy)

- India has a prominent geo-strategic location in Indian Ocean. With the coastline of over 7500 kms, territorial waters of 1,55,000 Sq Kms, an EEZ of over 2 million square kms, continental shelf of 5,30,000 sq kms, and deep sea mining area of 1,50,000 sq kms, India has a rich wealth of maritime assets comprising about 600 island territories and a network of 13 major and 185 minor ports.
- India's ability to control and influence the Indian ocean is thus paramount for her security.

### Organization of Navy



### NAVAL COMMANDS



## Material Superintendent, Mumbai – Core Functions

- PLANNING
- PROCUREMENT
- WARE HOUSING
- TECHNICAL SERVICES

### Personnel - MS Mumbai

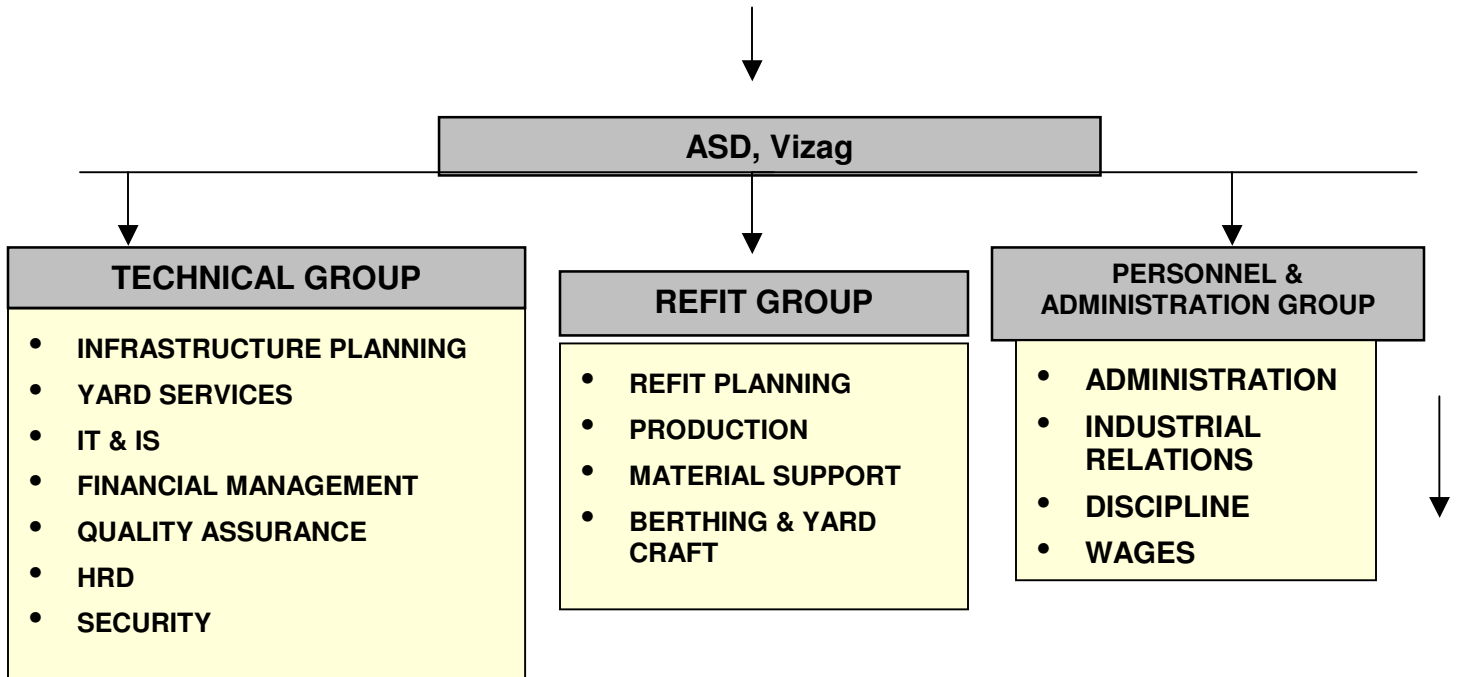
	SANCTIONED	BORNE	DEFICIENCY
(A) <u>SERVICE</u>			
OFFICERS	44	43	01
SAILORS	144	84	60
DSC	237	229	08
(B) <u>CIVILIAN</u>			
OFFICERS	74	57	17
MINISTERIAL	535	411	124
NON INDUSTRIAL	763	613	150
INDUSTRIAL	1204	864	340
TOTAL	3001	2298	703

## INVENTORY

<u>Total</u>	
2003-04	4.64 Lakhs
2002-03	4.26 Lakhs
2001-02	3.49 Lakhs



# ADMIRAL SUPRINTENDENT



- Repairs & Refits of Ships & Submarines
  - Short Refits
  - Normal Refits
  - Medium Refits
  - Mid Life Upgrades
  - Emergency Repairs and Dry Docking
  - Operational Defects
- Berthing of Ships and Submarines
- Yard Services
- Security and Fire Cover
- Infrastructure Planning and Estate Management

### **ROLE of ASD- Vizag**

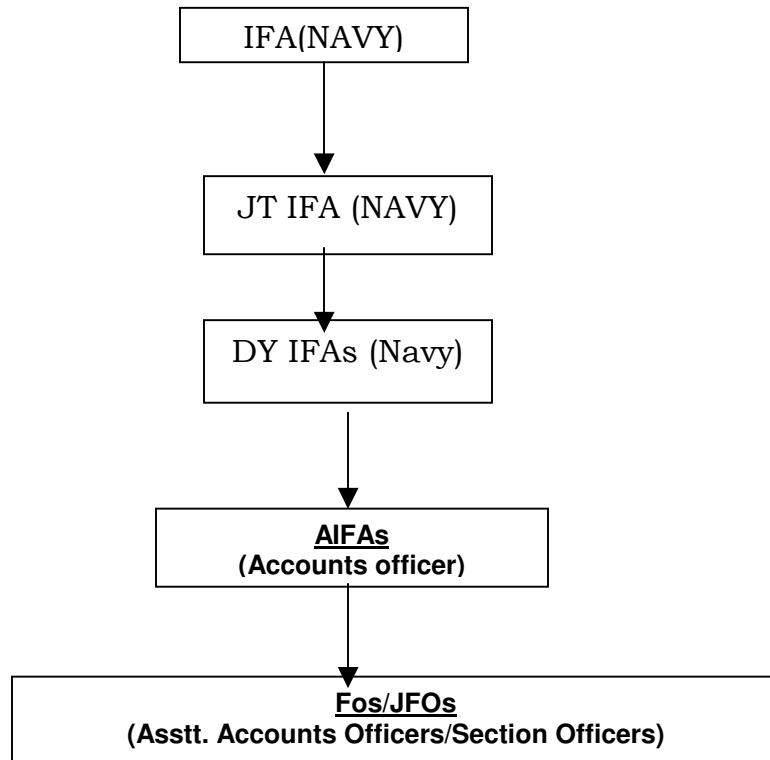
- Repairs & Refits of Ships & Submarines
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  - Medium Refits
  - Mid Life Upgrades
  - Emergency Repairs and Dry Docking
  - Operational Defects
  
- Berthing of Ships and Submarines
- Yard Services
- Security and Fire Cover
- Infrastructure Planning and Estate Management
- Financial Management
- Personnel and Administration Services

### MANPOWER RESOURCES - ASD Vizag

• OFFICERS	250
• SUPERVISORS	850
• TRADESMEN	4000
• OTHERS	2000
• TOTAL	7100

## IFA SET UP AT NHQ

IFA(N) is Financial Advisor to all designated CFAs at NHQ



## Types of cases processed

### (1) **Types of cases processed**

- Non Weapon Stores (indigenous)
- (2) Non Weapon Stores (imported)
- (3) Office equipment
- (4) IT related equipment
- (5) Weapon Store (indigenous)
- (6) Weapon Store (imported)

## (7) Air Stores (indigenous)

While according concurrences IFA asks all questions that might be expected from an intelligent tax payer bent on getting the best value for his money

### **Standards of Financial Propriety**

(Also called canons of financial propriety)

- These are necessary to be observed for achieving the objective of safeguarding of economy, efficiency and propriety in public finance
- Every officer incurring or authorizing expenditure from public money should also enforce financial order and strict economy at every step and see that all relevant financial rules and regulations are observed, by his own office and by Subordinate Disbursing Officers.

Among the principles on which emphasis is generally laid are:

- Every officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- The expenditure should not be prima facie more than what the occasion demands.
- No authority should exercise its powers of sanctioning expenditure to pass an order which will directly or indirectly to its own advantage
- Expenditure from public moneys should not be incurred for the benefit of a particular person or a section of the people, unless:
  - a claim for the amount could be enforced in a Court of Law, or
  - the expenditure is in pursuance of a recognized policy or custom.
- The amount of allowances granted to meet expenditure of a particular type should be so regulated that the allowance is not on the whole a source of profit to the recipients.
- The responsibility and accountability of every authority delegated with financial powers to procure any item or service on Government account is total and indivisible. Govt expects that the authority concerned will

have the public interest uppermost in its mind while making a procurement decision.

### **IFA scrutiny involves**

- Whether the offers have been invited in accordance with governing rules and after following a fair and reasonable procedure in the prevailing circumstances.
- Whether the price on offer reasonable and consistent with the quality required.
  - Further, the concerned authority must place on record in precise terms, the considerations which weighed with him whilst taking the procurement decision.

### PROVISIONING AND PROCUREMENT

In Navy, the Procurement Committee is a composite body Competent to take decision on provisioning & Procurement.

- The Procurement Committee is the CFA because powers of provisioning, procurement and sanctions are vested in procurement committees and not in any individual in his personal capacity.
- Each of the Procurement Committee comprises the following members: -
  - a). Chairperson
  - b). Financial Advisor
  - c). Technical Member
  - d). Inspection Member
  - e). Indentor
  - f). Procurement Member

### ROLE OF PROCUREMENT COMMITTEES

- These committees are vested with powers for provisioning, procurement and to issue sanctions as composite body.
- First level of these committees is the only CFA empowered to accord PAC status to firms (for eg. NLC-I/WPC-I etc)
- First level of these committees frames guidelines and instructions for functioning of various procurement committees.
- Procurement committees are empowered to conduct price negotiations.

- Procurement committees can conclude rate contracts.
- Procurement committees can reject a Tender even at price negotiation stage
- The PNC on the other hand, only deals with examination and finalization of commercial terms offered by the vendors and negotiation on prices, where considered necessary.
- Neither TNC nor PNC has the authority to finally approve the purchase proposal. Whereas the Procurement Committee are vested with the power to approve the purchase proposal or contract as the Competent Financial Authority (CFA) as designated in Naval Instructions 1/S/2003.

#### PROCUREMENT COMMITTEE VIS A VIS TNC/PNC

- The Procurement committee is fundamentally different from technical negotiation committee (TNC) or Price Negotiation Committee/ PNC
- In TNC, only technical negotiations and evaluations as per laid down specifications are carried out to determine the technical Conformance of the technical bid with the schedule of requirement tendered and the capability and potential of the vendors to execute the orders.
- The PNC on the other hand, only deals with examination and finalization of commercial terms offered by the vendors and negotiation on prices, where considered necessary.
- Neither TNC nor PNC has the authority to finally approve the purchase proposal. Whereas the Procurement Committee are vested with the power to approve the purchase proposal or contract as the Competent Financial Authority (CFA) as designated in Naval Instructions 1/S/2003.