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Defence Expenditure and Accountability¹

The paper makes a case for modernising the audit and accounting procedures in India's defence establishment in a manner that could also harmonise the basic objectives of the mandarins of the country's Defence Accounts Department and Armed Forces.

Vinod Rai

The Defence Accounts Department is among the oldest government departments in India which had been functioning long before the country 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. The year 1864 saw the creation of the Office of the Accountant General, Military Department. It was in 1951 that the department, in its present *avatar*, was established. It has a remarkable track record of supporting the armed forces of the country and ensuring accountability and credibility of all defence spending. The department has a legacy of more than two centuries of outstanding service of which India needs to be justifiably proud.

¹ This is a reproduction of India's Defence Accounts Department Foundation Day Lecture delivered in New Delhi on 1 October 2015 by Mr Vinod Rai, Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. Mr Rai is a former Comptroller and Auditor General of India. He can be contacted at isasvr@nus.edu.sg and raivinod@hotmail.com. The author, not ISAS, is responsible for the facts cited and opinions expressed in this paper.

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. It is essential that, because of the size of such expenditure, especially so in a parliamentary democracy, such spending is properly accounted for and an assurance of the same is provided to the parliament. Such assurance brings credibility to the functioning of the government 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 the 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 the people. A large chunk of the government's money comes from taxes which are compulsorily collected from the citizens. The government is, therefore, obligated to work in the interest of the citizens and deliver accountable governance. It is answerable to the public for its policies, decisions and performance.

Modern times have seen a remarkable paradigm shift – a shift in which the people are feeling empowered and have begun to closely scrutinise all actions of government. Invariably, big-ticket expenditure on defence projects does come up for such scrutiny. In a democracy, ultimate power rests with the people. For the conduct of their affairs, they elect persons who will represent them, and in turn, constitute an official machinery which is to implement the policy decisions made by the elected representatives. In a system of separation of powers and constitutional checks and balances, accountability ensures that actions and decisions taken by public officials are subjected 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 benefit. The concept of accountability involves two distinct stages, viz. answerability and enforcement. The former refers to the obligations 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, ensuring value for money in the provision of public services and encourages the community to repose confidence in its government. This is the basic tenet of a vibrant democracy. Democracy without accountability is a body without a soul.

In a parliamentary democracy, the people give 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 exercise all the powers granted to it directly by the Constitution, it creates institutions such as independent regulators, public auditors, commissions for elections, vigilance and public service – 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 the people for 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 a weakening of the sinews of trust.

Nations worldwide design different institutions and indicators to ascertain how various government programmes and policies are working. Ingredients of accountability and transparency are built 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 all are accountable for their actions. They are designed to provide early-warning signals to the executive about sub-optimality of policies, transgression in implementation and partnering for progress. They should not be viewed as adversarial institutions. Their partnership in development and the achievement of democratic values is as much as that of 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 of and answerability for defence expenditure. However, let me hasten to add that in modern times, even though the department may continue to have designations such as the Controller General of Defence Accounts or the Controller of Defence Accounts, its role has evolved more towards ensuring the accountability of defence spending. It may exercise some controls. Maybe it imposes a certain degree of discipline and responsiveness, too, towards prudent financial discipline, but its principal function today is of establishing public confidence in the trustworthiness of government spending. In seeking and establishing such accountability, it ensures the advisability of government processes, decisions and actions. Accountability is essential for good governance, and good governance is critical to long-term sustainable development. It is not only about the delivery of efficient services, but facilitating the preparedness of the Armed Forces and ensuring timely acquisition of their support systems. The role is not negative. It is of support. The 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, a door is shut somewhere, it is as much the department's 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.

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 complex situations 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 utilised optimally and in the best possible manner. Enough and more is said, and I daresay, the refrain of every service headquarters is that the acquisition process gets delayed by uninformed queries and that bureaucrats are often not sensitised to the urgency and criticality of such requirements. Such views are the outcome of inadequate communication and inadequate appreciation of each other's 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 the procedure. A lack of this feeling introduces elements of doubt, leading to delays and the need for repeated clarification. We need to create an assurance, a trust, that the bureaucracy is as much sensitised to, and concerned about, the urgency and criticality of the defence requirement.

An argument is often advanced that defence is a sensitive subject, and certain reports on the functioning of Armed Forces and their budgets should not be put out in the public domain. Agreed that the confidentiality of defence plans and programmes give a unique advantage to the country, and that these are therefore meant to be secret, without any need for disclosure. 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. A 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 the public interest. 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 the use of public resources is a fundamental requirement of democratic institutions. When we look around in democracies like ours, the extent of information in the public domain is remarkable. The mitigating factor is the time-gap in the information becoming public and the real-time. Hence, these do not impact operational preparedness. The defence establishment, therefore, needs to promote transparency, accountability, and rule of law. In recent years, in democracies such as the United Kingdom and Canada, the overall defence- and intelligence-funding levels have been placed in the public domain with no adverse security consequences. In 2007, the United States 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 budget for military intelligence programme for the first time. The trend worldwide is to encourage transparency.

It is also important to recognise 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-in in the 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 the capabilities of our Armed Forces are also subjects of public debate, particularly after some of the terrorist attacks in, and cross-border transgressions into, 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 the 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 it will be to design our template for a more effective and far-reaching realisation of our objectives.

There is a common perception that departments such as the Audit and Accounts Department 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 to decision-making. I would look upon this perception as an alibi for non-performance. Such a mind-set needs to be corrected. Any oversight mechanism is integral to the 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 same as that of the audited entities, that is: to promote good governance in the execution of programmes and in ensuring efficient and effective use of public resources. We need to be conscious of our responsibility of adding value to the process of governance and hence providing a mechanism for *ab initio* perfection in the entire process as much as also catering for mid-course corrections. The cardinal principle in the audit-function is that there should not be a 'We' and 'They' relationship between the department and the Armed Forces. Both are on the same side of the table and their basic objectives are compatible.

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 dis-connection between the Armed Forces and the Government came to light. The issues that came up for scrutiny were: 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 India's, 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 the country deny drinking water to the population, in the process? Can the government deny them primary education? Can primary health be denied? 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, India needs to devise its spending- and accounting-process in such a way as to ensure that the moneys allotted are spent wisely, spent without inviting an iota of reproach, and spent in such a way that the value of every rupee is best realised. However, in doing so in the defence sector, in as much as in any other equally important department of government, the authorities need to ensure the timeliness of the expenditure in normal times and during crises. The spending activity cannot be tied to processes which defeat the very purpose of the spending. It is in this context that processes need to undergo a continuous scrutiny for improvement and speed of delivery. It 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 India 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-related public sector undertakings, 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.

Another worrisome issue is the strange phenomenon of the defence-sector five-year Plan being approved after about three years of that 'Plan' have elapsed. This is a neglect of the Defence Forces of an unpardonable kind. Big-ticket acquisition has a long lead-time. Uncertainty around such projects leads to time- and cost-overruns besides depriving the forces of much-needed equipment in time. Delayed plan proposals throw the entire acquisition process out of gear and introduce ad hoc-ism in the entire exercise. There can be no authentic excuse for this exercise to prolong.

Since we have been discussing the need and urgency of introducing systems upgrades, we need to focus on the advisability of introducing Accrual accounting in India's defence sector, instead of the present system of cash accounting. To start with, the process can certainly be adopted in the production units. Such a system provides for better accounting as it takes stock of the end-result. This 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 and 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 its introduction, rather than have impossible timelines being imposed on the Defence Department later, wherein the process gets hustled and leads to a 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 about the intent of government to introduce such upgrades.

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 greed. 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 a need for pre-defining the authority levels and access through control mechanisms. One can safeguard secure data by maintaining vigil at all times.

India's Defence Accounts Department (DAD) and Armed Forces share a symbiotic relationship. The understanding and hence patience of the Armed Forces with 'matters financial' is limited. It is the DAD's responsibility to guide the forces in 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 *mantra* has to be zero-tolerance of delay and opacity. Much is at stake, and I daresay, it the professional capability and positive orientation of the DAD as a facilitator which is at stake. The attempt should be to deliver, not derail; uphold 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 in a way 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 India's Armed Forces was ensured.

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