

Finance Concurrence in PSUs



In every public sector undertaking (PSU), the finance department plays a pivotal role, and in addition to its finance/accounting functions, ensures that the procedures, rules and regulations are followed in line with the processes and defined guidelines. In an organisation, finance department has number of wings or branches to take care of all activities such as establishments, billing, payments, taxation, commercial, etc. One of the important activities is concurring the proposals received from various departments of an organisation. In a public sector undertaking, a separate department exists named as 'Finance Concurrence Department' (FCD). We need to understand here the meaning of 'finance concurrence' and the role of FCD. Let's read on to know...



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The dictionary meaning of concurrence is "the state of agreeing with someone or something". Finance concurrence means the proposal is agreed to by the finance department.

If the finance department does not agree or is not in concurrence with any proposal received from any

department, it specifies the reasons thereof and if agrees (with some reservations), it put the comments along with the suggestions to be followed by the owner of the proposal. The finance concurrence also plays its role from propriety point of view. Now what is propriety? Let us examine clearly.

The dictionary meaning of *propriety* is fitness, rightness; correctness of behaviour or morals. The business meaning is “doing things with the same vigilance for expenditure incurred from the organisation as a person of ordinary prudence would exercise in respect of expenditure of his own money.”

What are the Canons of Propriety?

- Expenditure should not *prima-facie* be more than the occasion demands.
- Every employee should exercise the same vigilance for expenditure incurred from organisation as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- No authority should exercise powers of sanctioning expenditure to pass any order which will directly or indirectly be to its own advantage.
- Expenditure should not *prima-facie* be more than the occasion demands.
- Public money should not be utilised for the benefit of a particular person or section of the community unless:
 - Expenditure is in pursuance of a recognised custom or policy.
 - A claim for the amount would be enforced in a court of law.
 - Amount of expenditure is insignificant.

Since the government is the shareholder, the shareholder is not involved in decision-making; hence, propriety is to be exercised by managers.

Role of Finance Concurrence

Finance Concurrence vis-a-vis Contracts:

S. No.	Activity	Finance Concurrence to Examine
1	Package list for the main Plant	Technically approved, basis of bifurcation of packages, similarity to other main plant packages and pricing.
2	Qualifying criteria for each package	Basis for technical clauses, basis of financial data, any ambiguity in language.

3	Cost estimate for each package	Basis of cost/unit prices, documentation of cost, correctness.
4	Bid documents	Terms and conditions as documented, any ambiguity, clear specifications (if given), approval of technical clauses.
5	Tendering process	Tendering as per defined manual, basis of selection of tenders with approval as per DOP, any deviation (if) with approval.
6	Pre-bid conference	Representatives of departments as per defined process, replies to queries of bidders as per Q.R and tendering conditions.
6	Bid openings (a) Technical (b) Commercial	BOD as per tendering process and as per policy. Any deviation (if) with approval as per DOP.
7	Bid evaluation	As per documents submitted by the bidder, the conditions of tender documents, approved Q.R's, any cost compensation with supporting.
8	Approval for negotiation(if required)	To be followed as per company policy and guidelines of vigilance department, approval as per DOP.
9	Award of contract	As per approval accorded and followed with the defined process.
10	Post award issues	Administrative approval, technical approval (if required), association in negotiations, supporting documentation.
11	Delegation of power	Correct interpretation of clauses of DOP. If required, the approval to be taken of any variation to clauses.

Management

Finance Concurrence vis-a-vis Procurements:

1	Indents	Requirement and criteria of urgency, fulfilment of guidelines of procurement policy.
2	Approval as per DOP	In view of any addition, fresh requirement or variation in quantity, DOP followed or not.
3	Estimated cost	Basis, supporting documents, correctness.
4	Tendering process	Whether single tender/limited tender/open tender-process followed or not.
5	Tender documents	To check any ambiguity in terms and conditions, coverage of all commercial terms/conditions.
5	Pre-award discussion	Requirement, compliance of guidelines of procurement policy, approval.
6	Negotiation (if required)	Basis, supporting documents, approval.
7	Delegation of power	Correct interpretation of DOP clauses.

Finance Concurrence vis-a-vis Administrative Proposal:

1	Indents and approval	Requirement along with criteria of urgency, approval as per DOP.
2	Budgets approval	Proposed expenditure as per approved budget or not, approval if required to be obtained.
3	Tendering	Process as per requirement being followed or not.
4	Standardisation/R/C	In case of repetitive procurement of items, process of rate contract or standardisation followed or not. Specific approval required.
5	Estimated cost	Basis, supporting documents, correctness either of lump sum amount or unit rates.

6	DOP	Proposal to be strictly as per DOP.
7	Negotiation and award	Reasons for negotiation, fulfilment of guidelines issued and award to be placed as per approval.

Finance Concurrence vis-a-vis Research and Development Proposal:

1	Requirement and approval	Administrative/technical approval, requirement of expenditure from propriety point of view.
2	Tendering process	Defined process for such proposed expenditure being followed or not.
3	Allocated budgeted cost	Head-wise expenditure is as per approved budget or not. In case specific approval required, to be obtained.
4	Activities before award	Tendering process or any other methodology if to be followed to be suggested from propriety point of view.
5	Negotiation process	Compliance to guidelines in this regard to be seen.
6	Final award	Approval for final award of total expenditure being spent to be obtained as per DOP.

Finance Concurrence vis-a-vis Post Award Process:

1	Nature of activity and approval	Approval of each activity as per DOP to be verified. Propriety angle, wherever required, needs to be examined also.
2	Monetary limit of variation (if taken).	Total variations to original award to be seen and approval if required to be ensured.
3	Delegation of power	Strictly DOP is to be followed considering cumulative variation amount as well as each individual activity variation.

4	Negotiation process (if required)	In case of material variation either quantity or unit rates, negotiation process being considered to be examined.
5	Award process	Award is to be placed as per policy/DOP.

From the above, it can be seen that finance concurrence department's functions are:

- To ensure the compliance to systems, procedures envisaged in the contract/procurement policy,
- To strictly adhere to delegation of power of the company,

- To see financial correctness, and
- To see any impropriety in the proposal.

However, FCD does not put any break in the working of the organisation, rather suggests for smooth working and proper compliance in case of any deviations. Sometimes, the finance concurrence is correlated with internal audit or government audit. But it may be noted that exactly the functions are not the same of all these departments. There may be few similarities of the functions but the activities as well as objectives of all these departments are different and independent.

Now, let us see as how the finance concurrence differs from internal audit as well as CAG's office audit.

Finance Concurrence- Internal Audit and CAG Audit:

Subject	Finance Concurrence	Internal Audit	CAG Office's Audit
Objectives	To see Finance correctness and any impropriety.	To vouch transactions, accounting treatment.	To oversee fairness of transactions and do propriety audit.
Scope	To review and accord approval of proposal and if needed, giving suggestions.	To evaluate internal, financial and operational controls.	To audit constructively to promote economical, effective and efficient governance.
Planning	To review the proposals for any suggestion.	To develop an audit plan for efficient and economical use of resources.	To do strategic audit planning and selection of audit topics keeping in view of government priorities, goals and programmes.
Investigation	To go into depth of the proposal in case of suspicion or doubtful integrity.	To investigate cases of misappropriation, misconduct or fraud.	CAG's office have full powers to conduct transactions audits relating to debt, remittances, deposits, P&L accounts and balance sheets.
Recommendations	Recommend the proposal as proposed or in addition giving suggestive measures.	Recommend adoption of desirable policies or changes to existing policies.	Recommend gist of major audit findings and recommendations along with the risk and materiality of the issues.
Reporting	Approving and sending proposal to authorities as per DOP.	Put up the audit observations to reporting officer and keep informing audit committees as required statutorily.	Final signed copies of reports forwarded to government.
Ethics	To follow ethics from propriety point of view.	To follow standards of professional practice of internal auditing and code of ethics as promulgated by the Institute of Internal Auditors.	To comply with the relevant ethical requirements with independence.

How Important is Finance Concurrence?

Finance concurrence department should not be given less importance in an organisation. Even appointment of an officer in this department requires due diligence. Pressure always remains on this department since the officer has to ensure that procedures, policies of the company are being followed and proposals are made by the relevant department from propriety point of view in addition to financial correctness as well as with fair evaluation. This is inspite of the fact that proposals cannot be stopped, rather suggestions are to be forwarded to the competent authority for further implementations. This is the department who put forward lacunas, if any, and recommend the options for the higher authorities to take care of while approving the proposals. Further, it may be said that the recommendations given by the FC in the proposals are tools for the internal audit for their detailed examination.

Finance Concurrence Department - "A Facilitator"

Finance department acts as a facilitator to the executing department in various ways such as pointing out deficiencies for necessary corrections, giving the appropriate suggestions in case of faulty procedures being followed, helping the negotiation team by providing commercial data, etc. In addition, FCD becomes a facilitator to internal audit, statutory audit and government audit in the following ways:



Facilitator to Internal Audit:

The major roles of internal audit are to review: (i) methods and procedures, (ii) orderly and efficient conduct of activities, (iii) adherence to management policies, (iv) prevention and detection of frauds and errors and (v) accuracy and completeness of accounting records. Finance concurrence reviews the activities before the activity takes place whereas, internal audit do their job after the event takes place but the deficiencies noted and suggestions provided by FCD definitely helps internal audit to take note of the same and get the systems improved for future.

In addition to above, the role of internal auditor has been widened with specific reference to corporate governance and audit to perform obligations i.e.:

- (i) To review the effectiveness of the organisation's code of conduct, ethics policies, and whistle-blower provisions.
- (ii) To evaluate the effectiveness of the corporate governance activities.
- (iii) To participate in whistle-blower and other ethics complaints investigation processes.
- (iv) To facilitate identification of important risk areas for the organisation as well as organisation's most important processes.
- (v) To maintain open communications with management and audit committees.

The suggestions provided by FCD during evaluation of various proposals always make way for internal audit objectives of economical and efficient operations of the company to be fulfilled and assist the auditor in investigating the activities/processes, if required.

Facilitator to Statutory Auditor:

The role of statutory auditor has been enhanced to a greater extent and the Act expects the auditors to be proactive in their actions and in discharge of statutory duties in addition to assessment of internal control and auditing of accounts. The statutory auditor can complete its job of true and fair assessment only after reviewing the proprietary functions. The contract/procurement/administrative proposals can be reviewed by statutory auditor on random basis (especially high value packages) and after considering FCD's views and suggestions wherever given, can make recommendations to the management for further streamlining the procedures and for review the policies, if required.

Facilitator to Government Audit:

The basic objective of government audit is to carry out the audit from propriety point of view. The role of CAG's office is to audit the company's affairs constructively to promote economical, effective and efficient governance of the company. It has been seen that the agenda of government audit includes review of high value award proposals which definitely takes views of finance concurrence wherever given and if need be, they go into the details and investigate the proposal, if suspicion arises for any lapses on the part of management.

In view of the above, it can be observed that finance concurrence department plays a positive and important role in promoting the company's functions, systems and policies.

Facilitator to Audit Committees:

"Audit committee is a sub-committee of the Board, to assist the board of directors in the discharge of the latter's oversight responsibility, particularly in relation to financial reporting, integrity, internal control, risk management and corporate standard of behaviour."

Few important provisions have been made under the Companies Act 2013 and by SEBI under Clause 49 inserting important requirements for listed companies to comply on manner of appointment of independent directors, meetings of audit committees, quorum, qualifications of independent directors, etc. Audit committees need to review the performance of auditors (internal/statutory), to review the functioning of whistle blower mechanism besides performing other duties.

The deficiencies highlighted by FCD (especially in high value proposals) in implementation of processes by the concerned group always help the internal audit and in turn audit committee to go into depth either for taking corrective actions or making amendments in processes. Audit committee must refer the important proposals and review the suggestions made by FCD which helps in meeting overall objectives.

Conclusion

In view of the latest changes made in the Companies Act 2013, enhancing the role of statutory auditors and in view of CAG's reports on mega corruptions, particularly in 2G spectrum scam, commonwealth games scam and other scams, it would be prudent to have an independent finance concurrence

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department in all PSU's who ensures that the policies, systems, procedures and delegation of powers laid-down by the management are complied in all respects.

Further, for improvement of finance concurrence department, following are the suggestive key points for the management:

- To give full independence to FCD for reporting suggestions in the interest of the company.
- To appoint officers in FCD with an overall integrity.
- To give technical support to FCD wherever needed.
- To impart training to the officers from time to time (keeping in view the latest corporate guidelines including of CVC).
- The management to assure that FCD holds monthly interactive meetings to be consistent in all similar type of proposals.
- To make sure that FCD improve their negotiation skills from time to time.
- To see that FCD keeps updating with latest commercial laws and ICB procedures/guidelines issued from time to time.
- To ensure that audit committee have atleast quarterly meet with FCD for feedback and taking future remedial measures to avoid any scam. ■