CHAPTER II

REVIEW OF LITERATURE

“Three hundred and fifty-four days and nights constitute the year of work. The king should fix the duration of the year as ending on the full moon day in Asadha”.

-Kautilya’s Arthasastra - Circa 320 B.C.
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This Chapter is devoted to a review of the literature available on the research topic which adds substance to the components of the study, besides giving relevant exposure to the researcher in gaining grip over the subject matter of the thesis. The review is presented on a “flow” basis so that the topics have a sequential arrangement. It is discussed under 20 heads covering the three major areas namely, Government Accounting System (GAS), Government Budgeting System (GBS) and the related governance issues. The literature reviewed consisted of books of high standing, scholarly articles from reputed journals and research papers of relevance both from Indian and foreign sources. However, legal enactments having a bearing on this topic have been mentioned in brief as they will be discussed elsewhere in the thesis.

2.1 Need for Restructuring the Government System

The way of functioning of the governmental system has been subjected to frequent introspection. Osborne David and Gaebler Ted (1993) put governments across the board under a microscope to study minutely the loopholes of the system and the reasons therefor. Though the American situation is predominantly considered, the problems have a global application. It explains the conceptual issues of governance for the readership of every person who lives in a setup run by the State. Governments, in the modern context, have two predominant features:

i. It is a changing phenomenon and

ii. It needs continuous renewal to meet the needs of an ever-changing world.

The basic concepts in this regard with its structural formations need to be understood and illustrated to give a complete picture. The various ideas surfacing from all the discussions on types of governments along with their strengths and weaknesses emphasize the notion of reinventing the governmental structure or ‘need of a new vision’. This logical extraction from a strong premise convinces that reforms in the governmental setup are the need of the hour across the globe.
The reasons for the formation of complex structures of governance baffle researchers. 

Williamson E Oliver (1996) explains the structure of governance and gels the works of some of the best economic theorists with the relatively new concept of Transaction Cost Economies. This explains in practice the reasons for the occurrence of various phenomena which may confuse the onlooker. Due to this, the transaction cost economics theory is catching up with the researchers as the new preferred line of thought. It elaborates on the machinery build-up from the simple to the multifarious which obscures the learning of economic structures. Many practical applications of the lessons of public policy and reforms accrue, thanks to this framework.

The issue has gained more – and not less – relevance in the post-globalization era as the structural handicaps are all too visible. The Indian context is explained by the reputed journal The Economist (UK) which observes:

"India has been a daunting place to do business, its entrepreneurs chained down by the world’s most bureaucratic bureaucracy, lousy infrastructure and lousier Fabian economic ideas."

2.2 Reforms in Government Sector

Reforming the public sector has invited varied hues of opinions. The World Development Report 1996, of the World Bank suggested two approaches to reforms in the governmental structure.

"The first is to launch a rapid, all-out program, undertaking as many reforms as possible in the shortest possible time. The second is to change by way of partial and phased reforms."

All reforms may be reviewed from this hypothesis. ‘Government’ is a well accepted structure existing amidst us and supporting the functioning of all countries. However from time to time, we need to bring changes in its operation to make its systems relevant to the ongoing changes within and outside the country. Agenda for improving Governance (2004) speaks more on this aspect of the change in governance and on the measures to be taken to improve governance. This covers a compendium of issues relating to both theoretical and practical aspects of the change in the thought of governance which the world is undergoing. This process envelopes both core and peripheral issues concerning the functioning of state as well as the primary and secondary issues arising in the reformation of administrative arrangements.
The issues are heavily impacted by the government staff responsible for the results. Unfortunately, there is a mismatch between the personality profile of the governmental staff and the organizational requirements. The work system is highly segmented, so it is difficult to secure the optimum contribution from the employees. Sekharan, C. Chandra; Mohanty, G (1984) in an empirical study present cases of organizational effectiveness and development in the civil service in India. The employees feel that the working conditions in the government organizations are not very satisfactory. The staff thinks that although they are professionally qualified, their capabilities are not being fully utilized. While disapproving of the existing power orientation of the organization, they want the organization to be task-and-growth-oriented. Finally, the employees are not satisfied with the opportunities available for training and development.

2.3 Government Accounting Systems
Traditionally the system of accounting followed by the government was different from the commercial systems. Michael H. Granof (2007) discusses the entire gamut of government accounting systems followed in the U.S.A. The concepts explained are also of relevance to India as the notion of fund accounting has already made inroads into the Indian Urban Local Bodies. Many of the Municipal Corporations in Karnataka are following this system and it has been accepted as a workable model for transparency and decision making by the elected representatives. The main features to be observed are:

i. Differences between Government and commercial accounting
ii. Overall purposes of financial reporting
iii. Uses and the users of financial reports.

The objectives of financial reporting in the USA set forth by the Government Accounting Standards Board (GASB) are very relevant. Financial Reporting provides data regarding the trends in current accounting and reporting standards and practices. It helps to develop a critical understanding and analyses of the prevalent practices by informing the reader regarding the new trends which are well tailored and better suited for governmental accounting. The need for accrual accounting on the one hand, and actual accounting problems on the other hand explain the realms of governmental accounting practices with its loopholes and strengths. Practical solutions to improve the same are the need of the hour. In this process, besides the financial accountants, the management accountants also participate.

2.4 Control Systems
Sekhar R.C. (2006)\(^9\) outlines control measures available for the government sector. “The purpose is not to control people, but to ensure that the systems are under control.” This establishes that the concept of management controls has wide applications particularly in the state sector. Being a managerial tool it can be applied in governance too. Simons (2000)\(^10\) feels that controls are of various types and dimensions.

i. **Diagnostic controls** are the simplest and most easily understood of all the systems as they have the traditional wisdom of authoritarianism which tends to treat human beings as machines. It was used extensively in feudal systems of all nations, including India. They are also most pervasive even in modern times particularly in bureaucratic organizations and the administrative machinery of the state.

ii. The next system deals about a less formal control mechanism called as *interactive systems*. It is obvious that better interaction between the different layers of management in an organization would improve controls. But there is special meaning for this in an era of information technology. Highlighting this Sumantra Ghoshal\(^11\) concludes that the concept of strategic planning as a long term framework for controls is dead. Human interaction hence reigns supreme.

iii. The **boundary system** discusses the tolerance limits beyond which punishments shall be meted out to the employees.

iv. The core organizational values and codes of conduct are covered under the **belief system**.

Maciariello and Kirby (1994)\(^12\) stress on the role of formal and informal controls and the role of culture in management controls. Controls also are to be viewed from the efficiency and effectiveness parenthesis (Antony and Govindarajan (2007)\(^13\) and the concept of responsibility centers. It can also be researched under the concepts of action controls and result controls with the costs of control systems providing the crucial denominator effect. (Merchant (1998)\(^14\)

### 2.5 Government Budgeting System

Government budgets at the central, state and the local government levels have been the most visible tools of government financial management system. They always attract tremendous expectations, consultations and at times hostile opposition from the public. Dr.Sudarsanan C N (2001)\(^15\) explains various aspects of government budgeting under some broad parenthesis.
i. Conceptual aspects of budgeting including its historical background

ii. Basic principles of budgeting.

iii. Budgetary theories
   a. Classical approach
   b. Modern approach and
   c. Approach of the developing countries.

iv. Different types of budgets

The performance budgeting system has attracted lot of attention from the analysts of Govt. Accounting. Zero Base Budgeting (ZBB) invited the global glare in view of the importance given to it in the USA both politically and economically. Though it failed to take off in the USA, it has attracted wide spread attention both in the public and private sectors and modified versions of ZBB are being actively discussed.

Explaining the government budgetary system, The Eleventh Planning Commission says,

“The task of expenditure restructuring cannot be fully accomplished until attention is paid to the efficiency of government expenditure. A prerequisite to this is reform of budgeting processes and improved management and control of government expenditure. Budgets in India both at the Centre and in the States are known for their poor quality forecasts. Frequent supplementary demands and appropriation bills bear evidence to this malady. Budget estimates often turn out to be far out of line with “actuals”.

Budgets are also often non-transparent and items where government is involved sometimes are kept “off budget”. Various funds have been created which add to the opacity of the budgeting process. The phenomenon of “March spending” pushes a considerable amount of expenditure to last few months of the financial year where the quality of decision making suffers. Excessive categorization of expenditure into plan and non-plan, and developmental and non-developmental categories, also adds to non-transparency of government expenditure. Although provisions exist for examination of accounts in constitution (articles 149,150 and 151), scant follow up of the observations made in reports of the Comptroller and Auditor General (C & AG) is responsible for not providing necessary feedback which could improve the quality of budgeting, and management and control of government expenditure.”

2.6 Human Capital in Government Sector

Lack of accountability is a major problem in public administration. Sowell (2007), the noted American writer and Economist opined that bureaucrats are solely concerned with the
procedures and not with the outcomes.\textsuperscript{17} This has relevance to India too. Explaining the rapid changes in administrative setups, Clevenger N.N.; Clevenger T.B. and McElroy J. (2006)\textsuperscript{18} focus on the growing human capital shortage in the government accounting profession and its link to the problems with accounting education in the U.S. The government is facing a critical shortage of qualified workers particularly in the accounting and finance area. With this regard, the American Accounting Association has published some possible solutions that might ease the shortage of financial management professionals.

2.7 Financial Management in Government Sector

There exists a parable in management science that “unwieldy bureaucracy, rigid regulations and frustrating human resources have made managing government employees virtually impossible.” Rubbishing this and providing substantial grounds to delineate the statement Stewart L. (2007)\textsuperscript{19} tells a different fact. He puts forth the idea that it’s because of lack of motivation that the government sector failed to get maximum benefits from their employees. There are various factors that differentiate the experience of working with a government institution and a private one. The job security is high but the constraints that employees face are many. They are expected to function is a tight frame of rules and regulations. The rigidity in their work culture and mind set can be overcome with right amounts of motivation. Governance is a system inclusive of its employees. Thus employees are the pillars of the structure. Only a motivated lot of government employees can ensure smooth governance. The literature thus is very relevant and referable.

Throwing light on whether the institutional or non-institutional factors are the more important determinants of local public expenditure decisions, Reid G. J (1991)\textsuperscript{20} does a relevant observation. Employing data that allows us to directly identify the entire distribution of voter expenditure demands, we estimate models of deviations of actual expenditures from the expenditure demand of defensible benchmarks, namely, the median voter's expenditure demand and the mean of voters' expenditure demands. Three competing paradigms are employed to specify these models; namely,

\begin{itemize}
  \item[i.] A non-institutional model,
  \item[ii.] ‘Reform Government Movement's explanation of how institutions affect local government decisions and
  \item[iii.] Transactions-cost model of this same phenomenon.
\end{itemize}
Predictions from these three competing models differ in many respects. Comparisons of results from estimating models of expenditure deviations are found to be generally more consistent with the non-institutional model than with either of the two institutional models. These results suggest that a competitive local public service market helps limit the ability of governments to tax and spend in excess of the demands of the median or mean voter.

### 2.8 Reforms in the Public Sector

Reforms have started in the public sector from the mid-20th century. There were regular attacks on public administration which can be attributed to several reasons like its size, cost of operations and insensitivity to public needs. Several measures were taken to reform the public sector at various tiers of the economy with mixed results.

Municipal Reforms have been the toast of the era and are well implemented in the Western part of the world. Various ideas emerged in the democratic societies across the globe and had significant influence in a globalised planet. The issues when viewed on a macro outlook may be put under three broad sections namely, the societal context of governance, administrative reforms, and corporate governance. Chart 2.1 presents the pictorial design.

**Chart 2.1 Reforms in the Public Sector**
These three parts are important and interlinked giving a broad idea regarding the mechanism of governance at a macro level, in the global context as well as its implementable ideas at the national and local levels.

Emphasizing on the structural adjustments in governance, Avinash Dixit (1997)\(^2\) presents ideas on the notion that government agencies and public enterprises are generally thought to perform poorly because their managers and workers lack the high-powered incentives that are believed to prevail in private firms. This belief motivates many attempts to privatize public services and reform government bureaucracies. Considerable research on the design of incentives in government agencies also exists. This draws upon the general theory of incentives, whose main application concerns the organization and regulation of private firms. Government firms and agencies are in some ways like large, complex, private firms but differ in other important respects. Some differences are matters of degree. Government agencies' outputs are often harder to quantify and measure. The goods and services they supply usually have few close substitutes, making it difficult to use market-based or yardstick competition for incentives.

2.9 Government Accounting Reforms- Global

The International Federation of Accountants (IFAC) is at the forefront of accounting reforms at a global level. It has a special body devoted to deal with governmental accounting aspects, called as the Public Sector Committee (PSC/IFAC). The PSC-IFAC has done some pioneering work in this direction. This body is very active on a regular basis in bringing about uniformity in government accounting. Their publications are relevant in the areas of accounting reforms addressed by this study. Some of the publications used in this research project are Governmental Financial Reporting and IFAC Handbook 2000: Technical Pronouncements\(^2\)\(^4\). They provide the roadmap for developing accounting standards as well as specific standards for treatment of transactions in accountings. Governmental financial reporting, discusses the current state of accounting systems in the various levels of government and the need for change. It provides a detailed account of the optional methods available for the public sector like the modified accrual system and modified cash basis methods.
The reforms to government accounting in New Zealand are highly acclaimed and also have been well documented. This highlights a structured approach to reforms in government accounting.

2.9.1 Accounting Reforms - Some Criticisms

However governmental reforms have also come for wide criticisms (Lynn & Jay 1989) and have been ridiculed from time to time in media. Thomas Friedman (2007) feels that the accounting profession is currently undergoing transformation and resisting change will force it to commoditization. He underscores the need for leadership, relationships and creativity for transformation in this era.

Christian J and Rommel present a study based on governmental accounting experiences and on the rising criticism of accrual accounting. Accrual accounting in governments will only succeed in businesslike parts of governments in the coming years. This proposition leans on the inappropriate transfer of the accrual accounting framework from the profit sector, the underestimation of difficulties considering accrual budgeting and the lack of attention to the political dimension. The advocates of accrual accounting have neglected some important considerations.

Articulating on the practice of calling public accounting as a regulated practice, Thornburg, S; and Roberts, R. W (2008) observe that the profession actively manages its relationship with the state. While prior studies have analyzed the profession’s efforts to shape its regulatory environment, few studies have examined the profession’s pointed attempts to influence a specific regulatory policy that affects the practice of auditing in the United States.

Providing information on the Governmental Accounting Standards Board (GASB) in the U.S. which has been operating since 1984, Foltin C. (2008) has made an observation that GASB has provided standards and guidance for accounting and financial reporting to state and local government entities. Some, including the Government Finance Officers Association, have proposed that the mission of the GASB may be complete and its ongoing operation should be reevaluated. Since 1984, the Governmental Accounting Standards Board (GASB) has provided standards and guidance for accounting and financial reporting to state and local government entities. GASB was given the task of creating a comprehensive set of standards and developing a new reporting model for the government accounting profession. Some,
including the Government Finance Officers Association (GFOA) have proposed that GASB's mission and its ongoing operation should be reevaluated.

2.9.2 Performance Reporting and Performance Audit

Service Efforts and Accomplishment (SEA) is an initiative by GASB to measure performance of the government under some key parameters. Recent movements of SEA on performance reporting have stirred debate concerning the necessity and future of GASB. In November 2006, the Financial Accounting Foundation (FAF), which oversees GASB, voted to confirm its belief that GASB has the authority to issue standards on SEA. GASB promptly added SEA to its technical agenda. Although the Government Finance Officers Association’s (GFOA) lineage in government accounting and financial reporting guidance stretches back more than 100 years, little attention was paid until the mid-1970s, when organizations like the American Institute of Certified Public Accountants (AICPA), the General Accounting Office (now the Government Accountability Office; GAO), Federal Accounting Standards Board (FASB), and the Government Finance Officers Association (GFOA) recognized a need.

One place to start exploring how to strengthen the SEA argument may be performance auditing. If a concern is that SEA is counterproductive and meaningless because of the myriad differences among different entities, then performance audits may be a constructive start. Performance audits review on an individual-entity basis whether an entity is maximizing and obtaining all revenue resources available and whether it is expending those resources effectively. Performance audits support SEA modeling by identifying areas of improvement and allowing management to analyze independent feedback and reconfigure operations. They are an objective tool that can be customized for individual government entities. Data of performance audits do not have to be required as part of a comprehensive annual financial report to be useful.

2.9.3 An American Framework

Assessing reforms in government accounting and budgeting, Smith K. A. and Cheng R.H. (2006), discuss that fiscal reforms in government are continually proposed, frequently adopted, and usually assessed as failing to achieve their desired outcomes. A broad contingency framework can be developed that focuses on the third step—the assessment of fiscal reforms. The value of the framework is that it provides researchers as well as reformers
a lens to assess the net benefits of reforms. Not only does it provide the lens, but it also suggests the accuracy or clarity of the lens in different circumstances. This framework is contingent on two dimensions: type of fiscal reform (rules vs. judgment) and life cycle (innovators, early adopters, maturity). The framework is broad in that it combines prior research from the budgeting and accounting literature. Recent budgeting research has suggested that an outcome view of reform can be replaced with a process view. In addition to these viewpoints, the paper also analyzes the monitoring and signaling viewpoints from accounting research. The four viewpoints are complementary rather than mutually exclusive, and both accounting and budgeting researchers can learn from each other. The authors argue that signaling may be the best viewpoint for two reasons: (a) It provides insights into the net costs and benefits of adopting a reform, and (b) it provides insights into policy suggestions that are likely to increase the adoption of beneficial reforms. They then apply the framework to performance budgeting reforms of state governments in the United States. The analysis suggests that performance measures might not be useful for the legislative decision process of allocating resources among disparate goals but appear to be useful for improving the quality and cost of providing services. Three policy suggestions are (a) legislators should focus on incentives for managers to report performance measures, (b) researchers and reformers should consider how performance budgeting could be done on a comparable basis across states, and (c) their influence

2.9.4 Public Expenditure Management

Bringing forth the short comings of governance and accounting measures an article by *Williams McCoy (2007)* speaks of the federal government being accountable for how its agencies and grantees spend hundreds of billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments as well as for recouping those funds when improper payments occur. The US Congress enacted the Improper Payments Information Act of 2002 (IPIA) and the Recovery Auditing Act to address these issues. Fiscal year 2006 marked the 3rd year that agencies were required to report improper payment and recovery audit information in their Performance and Accountability Reports. GAO was asked to testify on the progress agencies have made in these areas. Specifically, GAO focused on (1) trends in agencies' reporting under IPIA from fiscal years 2004 through 2006, (2) challenges in reporting improper payment information and improving internal control, and (3) agencies' reporting of recovery auditing efforts. This testimony is based on GAO's previous reports on agencies' efforts to implement IPIA requirements for fiscal years 2005 and 2004.
and current review of available fiscal year 2006 improper payment and recovery auditing information. The Office of Management and Budget (OMB) provided technical comments that were incorporated as appropriate.

GAO identified several key trends related to IPIA reporting requirements. (1) Risk assessments: For fiscal years 2004 through 2006, some agencies still had not instituted systematic methods of reviewing all programs and activities or had not identified all programs susceptible to significant improper payments. Further, certain agencies' risk assessments appeared questionable. GAO also noted that OMB's recently revised IPIA implementing guidance, which allows certain agencies to perform risk assessments every 3 years instead of annually, may result in fewer agencies conducting risk assessments in the future. (2) Improper payment estimates: Since fiscal year 2004, agencies have made some progress in reporting improper payment information.

The literature review under the heading “Government Accounting Reforms—Global” brings out a comprehensive picture of the positive and negative sides of reforms adopted globally. It has significant lessons for the Indian scenario.

2.10 Government Accounting Reforms—India
Reforms in India have been slow to come by. D.N. Ghosh (2007) discusses the issues of governance and accountability on a contemporary relevance. The crucial issues relate to:

- i. Fiscal responsibility
- ii. Transparency
- iii. Budget management

It also raises relevant issues of significance in the area of institutional reforms. There are problems of classifications of government expenditure which do not provide adequate details for analysis.

There are defects in the present governmental accounting system. The system follows the outdated cash basis which has significant drawbacks in ensuring provisions for liabilities. The asset accounting virtually does not exist in the modern commercial sense in the government accounting system. The assets are treated as expenditure and are not recorded as a long term instrument of fiscal relevance. Such a system leads to inferior quality of database for decision making. As a result the government is unable to analyze full costs of products and services...
provided by it. The system of classifying outlays as plan and non-plan expenditure creates unintended problems in financial management and distorts proper classification of capital and revenue expenditure. Besides, the governance culture has to adjust to the globalization culture to remain credible.

Mr. Ball, Chief Executive, IFAC (2006) feels that India holds a key position in IFAC (International Federation of Accountants) in this context. Its position as a rapidly emerging economy adds direct credibility to norms of IFAC which India continues to be committed to. If a country does not follow accrual form of accounting then its system continues on cash-basis which is idiosyncratic and not reliable in terms of underlying record keeping. The steps taken by Government of New Zealand are exemplary as they brought significant changes in their system to implement accrual accounting. Structural changes like granting departmental chiefs with powers to take managerial decisions with powerful requirement for them to be accountable for the same, has substantially made the transition easier.

Social welfare has also become a part of the reform philosophy. “Accounting is moving away from its traditional procedural base encompassing record keeping and such related work as the preparation of budgets and final accounts, towards a role that emphasizes on its social importance. The social welfare theory of accounting acquires that the interests of employees, trade unions and consumers be taken into account and that traditional imbalance existing in the supply of information should be corrected.”

2.11 Governance – the Meaning and Concept
The concepts of corporate governance have become popular, and have been widely documented. This has broad similarities with public governance. The Accountable Corporation (2006) which is primarily dedicated to Corporate Governance in the private sector also discusses generally accepted governance codes and the governance convergence issues. It tries to develop some general standards which are of interest to the government sector also. It further discusses international corporate governance in the context of OECD nations.

Good governance is the endeavor of any democratic country. The book Good Governance initiatives in India (2003) is a collection of papers which focuses on the problems and strategies of deliverance of public services in India. The edifice of good governance is built on a three layered strategy to address issues on reforming administration, application of technologies and decentralization. The pillars of this edifice are accountability, transparency,
equity and efficiency. Participation and ethics are matters of vital importance in today’s governance of public service delivery. Along with them, another prerequisite is the basket of initiatives taken by government in the implementation of various laws and legislations to ensure good governance. Dr. Udai Vir Singh (2008) develops a Magnificent Management Theory to holistically address the issues in this regard based on Indian ethos.

Besides the above, new types of governance have emerged in modern society. They occur in several forms and are the product of the need to tackle new problems and the wish to reform government. (Nelissen and Nico (2002). The new types of governance can be seen as "fit" solutions. However, the central question is: are they a panacea? The article aims at investigating the administrative capacity of these new types of governance. By introducing the JEP (Judicial-Economic-Political) Triangle a three dimensional approach of administrative capacity is given. The triangle will be placed within the broader academic discussion of modernist, postmodernist, and super modernist theory.

2.12 Governance – Its Importance

There is a fair amount of literature available on this topic. The World Development Report 2004 (an annual publication of the World Bank) titled Making Services Work for Poor People explains why services too often fail and outcomes (a term now becoming popular in India) are getting worse for people. It touches important areas of where governments shall make them work and where there can be better participation from the citizens. Two areas of significance are information strategies and accountability and service providers shall ensure that the services do reach the needy people. This forms a matrix of the current forces which act – sometimes at tangent with each other – in ensuring the success or otherwise of the governance initiatives.

Madhav Godbole (2003) has the advantage of first-hand knowledge on the happenings of the Indian government as he has served as an IAS Officer from 1959 to 1993, and retired as Union Home Secretary. He comments upon the excessive delegation of power and unguided discretion to the executives under various legislations. Weak expenditure control by the Parliament is the matter of serious concern in a number of countries including India. Even the legislators seem to be confused regarding the budget matters. Instances of the lack of control on public expenditure in India cry for reforms and the outcome of the current reforms need to be critically reviewed with limited information availability with gaps which at times are significant. In the matters of transparency and as a source of financial control, the futility of
having a voluminous budget at the various levels of Government have to be brought to the surface along with certain reference solutions. The reports of the Comptroller & Auditor General of India on the expenditure of local bodies show the inadequate controls existing in the Indian system. Financial Management in the Government sector impacts the totality of governance and need more reforms at all levels.

Similar research has been done in the USA as well on the importance of reforms and policy issues, (Newell, C., Ammons and David N (1987) \textsuperscript{43}. A survey of 527 city managers, mayors, assistant managers, and mayoral assistants demonstrate the multidimensional nature of the work of municipal executives. Varying degrees of emphasis are placed on the "management," "policy," and "political" roles by respondents serving in different capacities, suggesting not only the importance of position within a given structure but also the relevance of reform in government. Finally, perceptions of city managers regarding the relative importance of specified roles are contrasted with opinions of their counterparts of 20 years earlier (1965) to reveal a dramatic escalation in the perceived importance of the "policy" role of city managers.

Developing empirical tests Carpenter, V. L.; Cheng R. H and Feroz, E. H (2007)\textsuperscript{44} explain an institutional governance theory for explaining the decisions by the population of 50 US state governments to adopt Generally Accepted Accounting Principles (GAAP) for external financial reporting. Governmental accounting studies have generally explained the governance choice of an accounting method in terms of the economic consequences of these choices for managerial welfare and other microeconomic determinants of those decisions. This study develops an institutional governance theory and demonstrates that institutional governance variables in conjunction with traditional economic agency variables can improve the explanatory power of government accounting choice models. The empirical results are consistent with the stipulations of the institutional governance theory.

\textbf{2.13 Governance in the Indian context}

Good controls on governmental finance and accounting are not new to India. They have flourished in the days prior to Christendom and fortunately there is some documentation about them also. Kangle R.P\textsuperscript{45} speaks about the ancient Indian wisdom in the areas of accounting and accountability as portrayed very effectively by Kautilya. This may be arguably the first book on public administration. It states in considerable detail the methods of accounting, auditing, and disclosure with details of outstanding income and methods of accounting further. Even today the government accounting in India and in most of the other
countries follow what is called as “The Cash Basis of Accounting”. Some form of accrual accounting might have existed during the Mauryan Empire which is an interesting fact to consider. There were attempts to ensure a fair measure of governance even in those days (around fourth century B.C.). Strict control measures are prescribed for audit of accounts and punishments are common for the erring officials. Apparently corruption was prevalent in those days and Kautilya lists 40 different methods of fraudulent dealings. This is often normative with a long list of punishments for every offence. But the underlying concern for a welfare state where the citizens have a right to get a good administration is unmistakable. Krishan Saigal (2000) supports the above concept which was the leading spirit of Indian administration in the ancient days.

The contemporary Indian situation of governance calls for focus on the complexity of local governance in both rural and urban circumstances (Niraja Gopal Jal, Amit Prakash and Pradeep K Sharma). Certain issues gain significance in these tiers as cited below:

i. Regional discrepancies across the States in the contextual application of governance measures thus deriving important proportional comparative conclusions.

ii. Showcase the linkages between institutions at local levels and their scope of operations.

iii. Issues of transparency, representation and accountability

iv. Analytical outlook towards the issue of governance at grass root

2.13.1 Accounting and Governance Issues – Local Bodies

Reforms in the Urban Local Bodies (ULBs) gained significant momentum through the 74th Constitutional Amendment Act (CAA) 1992, which gave them wider resources and powers and also an institutional backup for reforms and growth. A study on transparency, accountability and governance, local government in Kerala and Karnataka discusses about certain aspects of accountability in the above states. It states that there is a wide gap between normative principles and the ground reality of accountability (Local Governance in India: Decentralization and Beyond 2006). Though it is an essential component of an elected representative this cannot be taken for granted and specified institutions must be created to ensure that such accountability really is witnessed. The electoral accountability has certain interesting ramification and entwines the strings of a political economy bringing in the
political implications of agendas and issues faced by an economy run by the elected political representatives.

India is at last waking up to the reforms in Governance. Various Urban local Bodies are adopting the modern techniques of accounting for updating their records and bringing them to global level of competency. (*Urban Governance and Management: Indian Initiatives*<sup>50</sup>) A variety of other issues like Urbanization and Governance, Local Government Finance, City planning and regulation, shelter, poverty and basic services, urban infrastructure, urban heritage, and sustainability of human settlements are getting addressed to elevate the social paradigms of urban development. The governance thrust is greatly facilitated by the e-governance measures taken by some of the urban bodies.

2.13.2 Accounting Reforms
The role of central and state government towards unified nationwide municipal accounting system highlights the road ahead in this challenge. Mention is also to be made of The National Accounting Manual (NAM) and model data base formats. The property tax reforms in Andhra Pradesh resulted in several benefits due to the reforms like tax payer acceptability, transparency, simplicity in assessment, buoyancy in revenue collection and most significantly reduction and corruption in the assessment of property tax. Some of the models referred to here are workable across the country and are acceptable as guiding role models for Urban Bodies throughout the country.

The Institute of Chartered Accountants of India (ICAI) has appointed a Committee on Accounting Standards for Local Bodies to develop Accounting Standards for Local Bodies. Exposure Draft on *Preface to the Statement of Accounting Standards for Local Bodies*<sup>51</sup> outlines the basic issues in this context.

2.14 Crisis in Governance
There are criticisms of varied hues on the success of governance in India. *Mr. Jagmohan (2005)*<sup>52</sup> argues that profound questions of the structure and soul of the governance missionary are not raised adequately in our country and even when voiced are dealt with in a perfunctory manner. There, hence, is a need for collective national mission in attending to fundamental issues. The superficial issues are attended in a routine manner and no methodical attempt has been made to go down to the root causes. There is room for visible pessimism in the developments of the post-reform period. Issues of fundamental significance, such as those relating to the quality and commitment of political and administrative governors and also of
the governed, have not been attended to in the reform period. The basic and long-term interests of the nation were treated with casualness. Unprincipled pursuit of power had numbed the conscience of the leaders and smothered to death whatever little commitment and motivation they might have acquired during the time of crisis.

Haraway III, William M. Kuselman and Julie C (2006) refer to recent efforts to reform government which are challenging many of the basic theoretical and managerial assumptions of governance at the federal, state, and local levels. Under the political rubric of reinventing government, reform initiatives have devolved administrative decision mailing to more local levels. In practice this can result in ethical dilemmas for local government administrators as they attempt to reconcile constitutional governance, legal accountability and political environments with the search for flexibility, innovation, and productivity while mimicking private sector processes and practices. The ethical dilemma often faced at all levels, emphasizes the importance of practicing ethical leadership to build public trust and accountability in the responsible use of administrative discretion while pursuing the public interest.

In this context, government accounting reforms emerge as an enabler. Focusing on the shortfalls of governmental accounting Kelly Janet M. discusses the link between reporting and accountability that is essential to understanding the U.S. Government Accounting Standards Board’s (GASB) position that measures of performance should appear in the financial statements of state and local governments. The GASB has been the setter of accounting and financial reporting standards for state and local governments since 1984.

### 2.15 Corruption and Governance

Corruption is a major issue affecting good governance. Government executives are entrusted with vast powers, which are at times misused for personal purposes. This is a global phenomenon and has been discussed widely in various forums. Poor governance and widespread corruption cut into government revenues and lead to wasteful spending, thereby weakening the macroeconomic position of a country, Governance, Corruption & Economic Performance. Corruption is a global concern and no country is being spared from its clutches. IMF with the concern over effectiveness of the state and the hollowing trust of people (public) in the institutions and their policies is making an estimable effort to promote and preach Good Governance. It is advocating increased transparency, enhanced surveillance and promulgation of standards for improved public participation. The codes of good
governance need to be imbibed in fiscal and monetary policies to bring them in effectiveness and practical operations in a nation.

Corruption can be addressed effectively by citizen participation. The reforms to governance in general and the Budgeting process in particular gain credibility by a well arranged citizen participation platform. This exercise enhances transparency and makes accountability more visible. This requires adequacy of opportunities, the quality of the knowledge of citizens and the cost involved for this activity. (*Bruce and Knuth (2000)*)57.

### 2.16 Changes in the Concept of Governance

World Bank pioneers as an institution that interprets the various changes occurring in the economies across the globe. The World Bank has come out with certain norms on governance in its publication entitled *Governance Reform: Bridging Monitoring and Action* by Brian Levy58. On a global level governance reform is a work-in-progress and addresses several issues as below:

i. The framework for monitoring governance  
   - to define its indicators moving from broad to specific.

ii. The concepts of Public Finance Management and the Administration  
   - to improve the quality of services rendered.

iii. Relevant models  
   a. Theoretical frameworks with justifiable practical implications  
   b. Examples from both developed and developing nations

Governance indicators can be developed to point out “good enough governance”. Hence monitoring governance has to be given greater priority in the development agenda. Any monitoring framework for governance is likely to be reasonably accurate, though arguable. Interestingly, as per this model governance and corruption are not synonymous though they are frequently used identical. A relationship diagram has been developed for the national governance systems roping in the actors and their accountabilities. This leads to a list of transparency issues and the manifestations of the same. This has the advantage of simplifying the major issues of governance into certain reasonably quantifiable parameters. It is possible to develop measures of corruption based on business indicators and investment climate survey. Thus it is possible to identify the causal influences to enhance budget credibility. The platform approach to budget management reforms is an empirical one, based on a developing country model taking the leaders through four platforms resulting in greater accountability for performance management.
2.16.1 Role of Youth

*World Development Report 2007* titled *Development and Next Generation*\(^5^9\) throws light on the role of youth in the building and the progress of a nation’s development and economy. A raging source of human assets in the form of this young and enthusiastic lot is a form of energy that is waiting to be harnessed and channelized. Paul Wolfowitz, President of the World Bank states,

> “*Today’s youth are tomorrow’s workers, entrepreneurs, parents, active citizens, and indeed, leaders.*”

Thus the youth of today is being viewed as the potential bricks of a superior growth story. *Exercising citizenship* is a concept that deals with the conceptual meaning of citizenship and its role in a participatory form of government. It examines the transition the youngsters undergo when they count as citizens and start realizing the effect of policies on their lives. Youth citizenship is crucial for development outcomes. The experience of citizenship the youth undergo has lasting effects on their political participation throughout their lifespan. Thus citizenship directly affects governance. The process is not a single stroke societal action. The changing phases of youth participation, the awareness levels and the programs that can be undertaken to conduit the youth participation in processes of nation’s governance are to be factored in.

2.16.2 Directional Changes in Governance

Certain directional changes are happening in the field of governance. The Planning Commission being the determining body of the government finances has a pivotal role to play in the genesis and reform of governmental budgeting and accounting systems. The Finance Commissions of the Government of India follow patterns developed by keen observation of the civic built of the Indian Society. Bhattacherjee (2008)\(^6^0\) observes that this had led to renewed interest among the sources outside government to participate in the government’s tasks and develop healthy mix of public and private participation.

2.17 Reforms in Governance—India

Mumbai based NGO PRAJA has developed a grievance redress method at Brihanmumbai Municipal Corporation (BMC) (*Complaint Audit December 2003*\(^6^1\). It reviews data collected from 24 wards of the city through the BMC-Praja Online Complaint Management System
(OCMS) and analyses them under various departments like solid waste management, drainage, water, roads etc. The data are treated under various heads like the mode of complaint like online, telephone, visit etc., and the status of the complaints. The satisfaction level with BMC is also analyzed. This is a fruitful study at a local government level, and ensures monitoring performance.

The All India Management Association (AIMA) has identified public governance as a major activity and has set up a Centre for Public Governance in Delhi. Their publication Public Governance Dividends: the road ahead edited by Maj. Gen. D N Khurana & Col. S C Mohan discusses the public governance under three major heads wherein eminent personalities have contributed a number of good ideas. For example the survey on satisfaction of public services in Bangalore for nine different institutions shows significant improvement between the last decade and current decade. This trend is encouraging and the survey itself has tremendous credibility as it is done by an NGO of repute. This is a positive step towards developing a good model for the outcome of reforms and the ultimate results in the form of improved governance. There are interesting pointers to the role of civil society in shaping public debates and eventually enhancing the levels of public governance.

Governance reforms are best addressed by involving the citizens at all levels in the governmental process. Stakes must be created for the users and they must have forums for expressing their views. In fact people participation has become the key to all economic developmental issues in recent years.\textsuperscript{62}

2.17.1 Nucleus for Reforms

The concluding decade of the last century provided the nucleus for reforms, which went full stream in the 21\textsuperscript{st} century’s opening years. The latest developments in important social sectors, reviews, implementations and legislations in the field of social governance can be located in India Social Development Report 2008 Development and displacement.\textsuperscript{63}

2.17.2 Right to Information

The most important legislation implemented in social sectors in recent times is the Right to Information Act (RTI). The RTI Act has been a path breaking effort to provide more power to the citizens to learn about the activities in the government and participate in the same.
Aruna Roy, Nikhil Dey and Suchi Pande\textsuperscript{64} provide a comprehensive report of the legal enactments and their implications. The tools need understanding as to

i. Platforms where the RTI can be used effectively.
ii. Focal points
iii. Impact of the Act on governance in an inclusive manner,
iv. Scope for grass root level changes in the society to make the government more accountable.

This awareness is crucial at a time when constant changes are occurring in the society with significant impact on governance.

2.18 Governance Through Reforms in Government Financial Systems

Budgets represent the condensed wisdom of the financial management of the state. Dr. C N Sudarsanan speaks about the parliamentary control over budget which is implemented through a host of committees with distinct roles and has been appropriately discussed. Any discussion on budgets is incomplete without a study of the budget oversight. The role and powers of the Comptroller and Auditor General of India are very important checks in the process of ensuring good governance. The CAG in India plays a crucial role in ensuring efficiency, propriety and economy on public spending. A very significant financial tool for ensuring transparency and accountability for the Govt. is the Fiscal Responsibility and Budget Management Act. It ensures intergenerational equity in fiscal management and sustained macro-economic stability. This has far reaching consequences and has been a significant step forward in the Indian polity. There have been some significant reforms in the Government Fiscal Management and Budgetary areas in India.

In spite of the multifarious control systems, India’s Public Finance has not been entirely successful in meeting the requirements of the stakeholders. It has been criticized for its archaic systems and slow processes. At a functional level it has attracted criticisms by many due to the high levels of federal and state budget deficits. (Engardio 2007)\textsuperscript{65}

The reforms in accounting are rather slow at the level of the national and state governments, but good progress has been made in some municipal towns. This has led to better quality of data available for citizens to enable them to have a meaningful participation for shared decision making. This is captured in the text From Accounting to Accountability by Dr. Joshi\textsuperscript{66}. Good governance is possible only with reliable Accounting and suitable Financial Reporting Systems. But due to the traditional ways of allocating and administering the funds
and recording and reporting the accounts, accountability in the Municipal Bodies has been highly minimal. In the last five years, however, there have been several welcome initiatives taken by a variety of institutions including the Supreme Court of India, Eleventh Finance Commission, Comptroller and Auditor General of India, Institute of Chartered Accountants of India and others. A combined effect of these is a reformation resulting in upgraded information flows enabling greater transparency and higher accountability. The pace of change should, however, be quickened at all the Municipal Corporations of the mega cities and the Municipal Bodies of other towns and cities.

There exists no clue in our system regarding the usage pattern of funds that are allotted to various programs in many socio-civic welfare projects. It is high time that social - cost benefit analysis is introduced in India to bridge the trench between the benefactor (government) and the beneficiaries (citizens). Only such steps can clarify the path on which the nation is moving and induce transparency in the machinery.

2.19 e-Governance
An important development in the governance front is the emerging phenomenon of e-governance. Events, seminars and conferences are being organized in various parts of the world, to learn from the experiences of different countries and governments so as to evolve appropriate e-governance models that will work effectively. Gupta M P, Prabhat Kumar and Jaijit Bhattacharya (2004) trace these topics from the perspective of enabling readers to take informed decisions for architecturing a likely roadmap. The various tiers of governments at the Centre, at the State and even at the level of local bodies like Municipalities and Panchayati Raj institutions, are not only looking up to the power of leveraging IT for good governance, but are also embracing it in a big way. At the technical and IT (hardware and software) level too, a number of steps are being taken to turn traditional government into a digital government. Specific strategies are needed for an ideal e-government along with the leadership required for such initiatives. Focus is also needed for reforms at various levels. Certain key requirements are reforms at treasury systems of governments, citizen service delivery, disaster MIS, public private partnership and the requirements of ministerial and secretariat level solutions. Even though the traditional governments performed well in the past, the modern government has demonstrated the need for better systems that would enable the government to handle issues swiftly and satisfactorily. The advent of Internet Technology has made it possible for the government to become e-enabled and transform itself into a
government online. It offers an outstanding opportunity to react to demands of the citizens and businesses by offering new methods of service delivery to meet their expectations.

e-Governance is the major tool of governance, thanks to the penetration of information technology. Though it started slowly, it has caught up in a big way in India which has one of the most ambitious plans with a budget of more than a billion dollars at the federal level. India certainly has come a long way in this exercise, but the benefits have been accruing to a few sections of the society only.

2.20  Indian Government Recommendations on Reforms

Some significant reports from statutory bodies constituted by the Government of India, have made comprehensive recommendations on a number of areas, discussed under the above twenty topics. In terms of holistic coverage, the various reports of the Administrative Reforms Commission (ARC) provide a watershed in this arena. The 11\textsuperscript{th}, 12\textsuperscript{th} & 13\textsuperscript{th} Finance Commissions and reports attached therewith address several issues of governance. Some of them have been acted upon while others are being debated. These reports provide sumptuous data on the defects of the Governmental Financial Systems and remedial measures.

END NOTES


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