CHAPTER VI

CONCLUSION

It is easy to preach how an act is to be performed;
But it is very difficult to practice what has been preached.

- Thirukkural
6.1 Review of the Research Problem

6.2 Review of the Research Methodology

6.3 Findings as to Government Accounting System (GAS)

6.4 Findings as to Government Budgeting System (GBS)

6.5 Findings as to Impact of Reforms to GAS / GBS on Governance

6.6 Demand-Supply Interaction in Governance Delivery

6.7 Scope for Future Research
The sixth and final chapter of this research work concludes the study by summarizing the contours and findings of the study, besides pointing out further research possibilities on this area of study.

6.1 Review of the Research Problem

The present position of the Government Accounting System (GAS) based on the traditional single-entry, cash basis method, has been criticized for its inadequacy in respect of propriety, quality, reputation, sagacity and transparency. Opinion on the need for the double-entry or accrual accounting in the core government sector is divided and even those in support of a shift are very cautious about its urgency. Some countries like New Zealand have already shifted to full accrual based accounting at all levels. In USA, UK and OECD countries, reforms are at various stages. Hence two important research questions merit serious research, namely: (i) Is the present condition of GAS satisfactory? and (ii) If not, what reforms are needed?

Government Budget is a very important tool of Governmental Finance Management. In developing economies, the budget has become the principal instrument of resource mobilization and allocation of resources. This serves several purposes such as a planning document, an approval for spending and the fiscal manifestation of government policies and priorities. Several steps have been taken to enhance its utility. But rampant fiscal deficit and project delays and the like exposed shortcomings in GBS. Hence further two important research questions merit serious research, namely: (i) whether the current state of Government Budgetary System (GBS) is adequate or not and (ii) what improvements, if any are needed.

Enhancements to GAS and GBS are not an end in themselves. These should lead to perceivable benefits to the public. Hence they need to be tested under certain significant areas of ‘Governance’ based on internationally accepted parameters. Selected parameters are to be subjected for finer scrutiny. Further two research questions that were developed for study are: (i) The relationship between GAS and GBS, and (ii) The beneficial impact of reforms to GAS and GBS on governance.
6.2 Review of the Research Methodology

A mix of quantitative and qualitative research methodology was adopted for the study as the subject matter of research is not only advanced but also less familiar to most of the concerned people. Hence in addition to survey data form generic respondents, expert opinions from selected informed persons were collected and corroborated.

Quantitative Method: This study combined the qualitative and quantitative methods of data collection and analysis and adopted a hybrid methodology. The primary data were collected using a structured questionnaire covering the three major components of the study namely

i. Government Accounting System (GAS) – This was divided into two parts namely a) Present situation and b) Reforms needed

ii. Government Budgeting Systems (GBS) -- This was also divided into two parts in the same lines of GAS namely a) Present situation and b) Reforms needed. Based on the response to these two parts, the third component evolves which is

iii. Impact of reforms of GAS – GBS on Governance

This is based on the first two parts and is derived out of the reforms. The study has considered eight parameters based on earlier research, under which the impact of reforms is considered. The parameters are

ix. Propriety of Government Spending and GAS / GBS
x. Monitoring of Budget Implementation and GAS / GBS
xi. e-Governance and GAS / GBS
xii. Corruption and GAS / GBS
xiii. Right to Information (RTI) and the GAS/GBS
xiv. Public Interest and GAS/GBS
xv. Human Resources and GAS/GBS
xvi. Participative Process and GAS/GBS

The Final Questionnaire was prepared based on a pilot study, and consisted of 102 questions. The respondents were asked to give their replies in a 5-point scale ranging from strongly agree to strongly disagree.
**Qualitative Methods:** This study involved a good understanding of the functioning of governmental finances, and an ability to discriminate between the present systems and a reformed system. The third part (impact on governance) is based on this ability to analyze the outcomes of reforms. This required contributions from participants well versed in the *governance function* with a basic familiarity with commercial and governmental financial practices. This cannot be fully achieved by an objective structured questionnaire approach. Hence *qualitative tools* were also applied to compliment the findings from the quantitative methods deployed. This former approach consisted of focus groups and in-depth interviews.

**Focus Groups:** Three focus groups were formed on the following basis

i. **Focus Group I** - Government Servants. This included serving and retired government servants. (8 members) -

   **Objective:** These are the people with primary knowledge of the current systems. Some members were exposed to global practices as well.

ii. **Focus Group II** – Private Sector executives (Finance / Non Finance). Executives holding middle to top level positions constituted this group (6 members)

   **Objective:** There were chartered accountants and others with good exposure to modern financial practices who can throw light on reforms and its impact

iii. **Focus Group III** - Prominent citizens. Men and women who are concerned about national governance and are active in this area as well as professionals were part of this group. (7 members)

   **Objective:** This group is expected to give concrete views on the governance side of reforms

The groups were fully briefed on the purpose of the study. The approach was explained to the members along with the global developments in this field, and the questionnaire was shown to them. The discussions were broadly conversational while the researcher merely acted as a moderator.

**In-Depth Interview**

In depth interviews help to study the technical nuances of the project from an expert’s view. It required somebody with the following qualities.
i. A sound government financial background at senior levels
ii. Exposure to the reforms work undertaken in this field
iii. An inclination to research work/ projects
iv. Willingness to take an unbiased view of the topic of study

It took a fair amount of effort and time to locate such an expert. The search was not in vain as the expert selected had held secretary-level position in the government hierarchy with over forty years of exposure. He was a member of the Indian Government Accounting Standards Board (GASAB). He holds a Doctorate (PhD) and is widely respected for his forthright views on this area. The research materials were provided to him and the purpose was explained. He was given freedom to express himself.

Based on the Results of the qualitative and quantitative analyses, supported by the secondary data and the global ambience, the following broad conclusions were reached.

Besides descriptive statistics (uni-variate, bi-variate and multi-variate) and appropriate test statistics are used at appropriate contexts with right interpretation.

6.3 Findings as to Government Accounting System (GAS)

The first organized work on public accounting and finances is the Arthasastra of Kautilya. Written around 320 B.C., during the reign of Chandragupta Maurya, the Arthasastra shows clear evidence of an organized accounting and control system practiced during that period.

IFAC PSC Study 1 (1991) ‘Financial Reporting by National Governments’ identified the following objectives of GAS:

viii. Indicating whether resources were obtained and used in accordance with the legally adopted budget;

ix. Indicating whether resources were obtained and utilized in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities;

x. Providing information about the sources, allocation, and uses of financial resources;

xi. Providing information about how the government or unit financed its activities and met its cash requirements;

xii. Providing information that is useful in evaluating the government’s or unit’s ability to finance its activities and to meet its liabilities and commitments;
Providing information about the financial condition of the government or unit and changes in it

Providing aggregate information useful in evaluating the government’s or unit’s performance in terms of service costs, efficiency and accomplishments.

Present state of GAS: The accounting systems are perceived to be adequate, but require enhancements. The systems have stood the test of time and are felt to be adequate. It is well understood and is linked to the Government Budgeting System. However, need is felt for accounting data on a more comprehensible fashion.

Opinion on Present state of GAS (Quantitative Analysis): The overall mean score of 3.4 on a five point scale revealed marginally satisfactory GAS. No significant difference between males and females with respect to the perception of present condition of adequacy/acceptability of GAS in India. There is some significant difference between the lower age group (18-25) and the group above 25. There is less variation between the other two (26-50 & above 50) groups. The perception of youth is different from the rest in terms of satisfaction with the GAS. No significant difference between Government and Non-Government employees with respect to the perception of Present condition of adequacy/acceptability of GAS in India.

Opinion on Present state of GAS (Qualitative Analysis): Focus Group-1 was of the view that the accounting systems have stood the test of time and it provides for consistency and comparison between different years. However, it was agreed that there is scope for simplification of the accounting system to make it more comprehensible. Focus Group -2 was more forthcoming in its views. GAS has become more a ritual of merely ensuring of procedures than propriety. It is an outdated system meant for the colonial administration. GAS does not help in true accountability, felt Focus Group -3 as it is too elaborate and only succeeds in confusing the public. The in-depth interview also revealed that GAS is too elaborate and diffused, and is very different from the normal final accounts of a company
Reforms Needed in GAS: Accounting reforms are at the threshold of all formats of governance. Government accounting reforms in industrialized countries have become a recognizable component of market-oriented New Public Management reforms. A key dimension is the conversion of accounting from the traditional cash basis to accruals. Several governmental entities have attempted such exercises both in the developing and the developed world. However, the most quoted reforms are from New Zealand. Few countries have undertaken such extensive reform of their public sector, or of their public sector accounting practices as an integral part of those reforms, as New Zealand did. Financial management best-practice technical assistance program is part of the reform process among local governments in South Africa. In Australia, accrual accounting by local governments provides useful information as measured by the ability to predict one-year-ahead operating cash-flows.

Opinion on Needed Reforms of GAS (Quantitative Analysis): The perception of need for Reforms of GAS is significantly high, with mean score 3.87 on a five point scale. There is significant difference between the Age groups with respect to the perception of Reforms needed in GAS. The middle age group wants more reforms than other two groups. But no gender or occupational difference could be noticed. The correlation between present perception of GAS and reforms needed in GAS is significant. The quantitative and qualitative approaches almost yielded the same revelation and conclusion.

Opinion on Needed Reforms of GAS (Qualitative Analysis): There is need for overhauling the entire system of GAS, felt Focus Group-1, starting with the heads of accounts, their classification and statements prepared, preferably on accrual accounting lines, but the process has to be gradual. Focus Group -2 wanted reforms in clarity, audit and quality. In Focus Group-3, consensus was apparent that GAS is better patterned on accrual accounting as followed by commercial undertakings, because the principles of accrual accounting emphatically fit with Government activities also. The in-depth interview revealed that the GAS be provided mechanism to present physical achievement along with financial aspect involved to ensure conformance.

6.4 Findings as to Government Budgeting System (GBS)
*Kaudilya’s Arthasastra* is one of the oldest texts available to analysts in the field of budgets. It provides extensive details under which budgets are to be drawn, and reported upon. The projects are to be prepared keeping several aspects in mind namely the men and materials, time of starting and interestingly a *provision for failures which is a unique feature of Kaudilya’s budgeting systems*. Government Budgeting system is generally incremental based on previous year BE/RE. There is a high degree of secrecy and that principles of participation, purpose, propriety and performance are not adequately ensured.

**Opinion on Present situation of GBS:** Budgets prepared in the present system of State Governments, with the defective accounting system underlying the same, suffer from shortcomings.

**Opinion on Present situation of GBS (Quantitative Analysis):** The perception about GBS is not adverse, as the mean score of 3.74 on a 5 point scale is not that low to worry about. At the same time, it is not overwhelmingly high either. There is gender, age and occupational differences as to perception of adequacy of present GBS.

**Opinion on Present situation of GBS (Qualitative Analysis):** Focus Group-1 supported this on the grounds that the current system has the merits of Parliamentary Accountability, and it has reasonable checks and balances. Focus Group-2 opined that people are only interested in the taxation proposals. Nobody understands Budget proposals holistically. The discussions in the media also focus more on popular schemes than on the new schemes and their impact. Focus Group-3 lamented over the lack of continuation in the government priorities since independence. Proposals are based on un-substantiated assumptions of growth rate and other statistics and even poverty yardsticks have not been firmed up after 60 years of Independence. Hence budgets have become poorly compiled guesstimates.

**Reforms Needed in GBS:** GBS has to be tuned to the requirements of a growing nation under the phenomenon of globalization. Government is the biggest spender and budget is the key process for expenditure approval. Hence this has to be periodically updated and sophisticated technique should be incorporated. It is also painfully true that budgets are often ambitious with big claims revealed by vastness of ends not backed up by sufficient means. Hence reforms are needed as to content, scheduling, programming, controlling variations, etc. Performance Budgeting and Outcome budgeting have been strongly recommended. The half-
measures taken need to be strengthened. Reforms needed included: Zero-based Budget (mixed opinion), Performance Budget, Medium Term Fiscal Policy, FRBM and Outcome Budget (majority backing).

Governments have been traditionally shy of reforms. This shyness accounts for the slow pace of reforms in various areas and financial reforms are no exception. In fact the need for handling the funds with greater sophistication is more at the governmental level as the funds have greater economic relevance.

**Opinion on Needed Reforms of GBS (Quantitative Analysis):** The perception of reforms of GBS is significantly higher than the expected levels. A mean score of 4.05 on a 5 point scale underscores strong urge for reforms in GBS. As expected, there is no significant difference between males and females with respect to the perception of Reforms needed in GBS; but age-group differences are striking. The correlation between present perception of, and reforms needed in GBS is also significant. The quantitative and qualitative analyses followed in the study yielded almost the same revelation and conclusion.

**Opinion on Needed Reforms of GBS (Quantitative Analysis):** Focus Group-1 felt that in a huge country like ours, reforms shall be aimed as a gradual process. These ideas, lofty though they may be, should not be hurried through. Focus Group-2 took the stand that GAS and GBS are closely inter-related. There is need for integrating the entire system of GBS with GAS to ensure correspondence between plans and actual. It also supported privatization of some audit functions. Striking a moral tone, Focus Group-3 felt that budget reforms cannot be isolated. They are linked with elevating moral standards of the government at all levels. The emphasis on honesty cannot be overstated.

**6.5 Findings as to the Impact of Reforms to GAS / GBS on Governance**

The reforms to government’s accounting and financial systems are not an end by themselves. They are expected to improve the governance and hence are justified if the results substantiate such a relationship. Governance is the outcome of the reforms and effective adherence to these by every participant is important. The study revealed interesting information on the relationship between Reforms to GAS/ GBS and Governance captured by eight selected parameters. Table 6.1 gives the relationship succinctly.

**Table 6.1: Impact of Reforms to GAS / GBS on Governance - Multi-variate Analysis**
<table>
<thead>
<tr>
<th>Parameter</th>
<th>Relationship to Reforms to GAS / GBS</th>
<th>Inference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Propriety of Government spending</td>
<td>Significant linear relationship</td>
<td>Huge projects are undertaken by the governments. The selection, allocation of funds and accounting play a major role in deciding the governance quotient.</td>
</tr>
<tr>
<td>Monitoring of Budget Implementation</td>
<td>Significant linear relationship</td>
<td>This is a crucial area for a developing economy, where the state is the biggest spender. Reforms can go a big way in ensuring that the tax payers’ benefit by the huge amounts spent. PEM is the real test of good governance.</td>
</tr>
<tr>
<td>e-Governance</td>
<td>Significant linear relationship</td>
<td>The quality of the e-Governance can be improved if the financial data is robust. This, however is not entirely a cause-result relationship.</td>
</tr>
<tr>
<td>Corruption</td>
<td>Significant linear relationship</td>
<td>Corruption can be controlled to some extent by a pragmatic GAS/GBS. This, however is not a cause-result relation, as corruption flourishes irrespective of reforms</td>
</tr>
<tr>
<td>Right to Information</td>
<td>Significant linear relationship</td>
<td>It is a 2-way relationship. RTI improves need for reforms. Good systems improve RTI data.</td>
</tr>
<tr>
<td>Public Interest</td>
<td>Significant linear relationship</td>
<td>Public Interest is served by reforms.</td>
</tr>
<tr>
<td>Human Resources</td>
<td>No significant linear relationship</td>
<td>Reforms and HR are not connected to each other.</td>
</tr>
<tr>
<td>Participation</td>
<td>No significant linear relationship</td>
<td>Public participation is independent of GAS/GBS.</td>
</tr>
</tbody>
</table>

Source: Primary Data.

**Impact of reforms to GAS / GBS on Propriety of Government Spending**

*Focus Group-2* made a striking comment. GAS and GBS have resulted in far too many controls which create bottlenecks and should be done away with. Hence there is a need for streamlining the control function holistically. The expert opinion was that budgets are not people oriented, but politically focused.

**Impact of reforms to GAS / GBS on Monitoring of Budget Implementation**

Some unique views came out. Budget monitoring is nothing but monitoring the whole economy through the monetary mechanism felt *Focus Group-2*. “Who will reform the reformer?” asked a member of *Focus Group-3*, stressing on the mind- set of the men at the helm of affairs.
Impact of reforms to GAS / GBS on e-Governance

There was wholehearted acceptance for this aspect, though Focus Group-1 grumbled that it brings extra load to the overloaded staff. It facilitates proper reporting which helps in monitoring and control.

Impact of reforms to GAS / GBS on Corruption

All shades of opinions came out in this topic. Focus Group-1 felt that considering the size of public expenditure, the level of corruption in India is within limits. But the situation needs improvement. GAS has nothing much to do with corruption. Even the good fragments of the society get “enticed, encircled and enveloped into a corrupt domain, with negligible consequential ethics” felt Focus Group-2. Reforms are a serious priority and need immediate attention. Focus Group-3 was pessimistic about reforms reducing the corruption levels. “Corruption envelopes like the environment around, better ignore it” was one opinion.

Impact of reforms to GAS / GBS on Right to Information (RTI)

There were varying feelings about the way RTI is used, and Focus Groups had misgivings about it. But there was consensus on the opinion that reforms would improve RTI quality and vice versa.

Impact of reforms to GAS / GBS on Public Interest

Focus Group-3 felt that more frequent dissemination of accounting information facilitates public interest. GAS/GBS have failed to place emphasis on Cost Control and Revenue Maximization, affecting public interest. The expert opinion was that the reforms are a continuous process and will enable enhanced public welfare.

Impact of reforms to GAS / GBS on Human Resources

“Not much can be expected, as the government servants’ attitude to work the world over is the same” voiced Focus Group-2. The educational background of public servants in charge
of GAS/GBS are adequate, felt Focus Group-3 but the “change culture should substitute the current status quo culture”. A group member quoted Jawaharlal Nehru who said, “People call me the PM of India, but I consider as the first servant of the people”. This mind set of a colossus of a leader is the need of the hour. Government employees must consider themselves as the servants of the people.

**Impact of reforms to GAS / GBS on Participative Process**

Polarization of views was apparent between Focus Groups. Focus Group-1 could not have a meaningful debate, as participative process was not well appreciated. The public is seen as a beneficiary, not exactly as a partner in the process of GBS. On the other hand several members of Focus Group-3 felt that the current systems “kept the public in dark, may be intentionally”. Except Focus Group-1, others felt that reforms could enhance participative process.

**Comparison of Qualitative and Quantitative Methods**

In the first two areas of study, namely reforms to GAS and reforms to GBS, no differences are noticed. In the third area (impact on governance), though there is holistic convergence between the two methods, several rich shades of opinions emerged in the qualitative analysis, which have enriched the quality of the research.

6.6 **Demand-Supply Interaction in Governance Delivery**

The arguments advanced by the various Focus Groups and In-Depth Interview support an active interaction between the service providers who constitute the Supply Side -- and the citizens, who constitute the Demand Side. This has to be constantly reviewed in the changing international reform perspective.

The issues of governance culture in adjusting to globalization are also significant, (Ghosh D.N. 2007). Chart 6.1 shows, the relationship between demand and supply aspects in the reforms context, highlighting the role of reforms in GAS / GBS.

**Chart 6.1: Demand –Supply Interaction in Reforms**
The 2004 Human Development Report titled *Making Services Work for Poor People* has some close relevance to the conclusions of this research topic. This report explains why services too often fail and outcomes (a term now becoming popular in India) are getting worse for people. It touches upon important areas of where governments shall make them work and where there can be better participation from the citizens. Two areas of
significance namely *information strategies and accountability* are dealt with in detail. Besides, it traces with examples from various parts of the world, how the services do not reach the needy people, and comes out with a matrix of the current forces which act – sometimes at tangent with each other – in ensuring the success or otherwise of the governance initiatives. This reinforces the role of the citizens in developing the *Demand – Push* as the ultimate force for better governance.

### 6.7 Scope for Future Research

Future research can be done in the following areas:

i. Impact of enhancing control and audit measures and fund allocation systems.

ii. Impact of reforms in GAS/GBS on areas other than the eight specific areas considered in the research project.

iii. Enhancing the quality of Public Expenditure Management systems.

iv. External validation of GAS/GBS activities.