Public Financial Accountability

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Introduction

WHAT IS ACCOUNTABILITY? What is it that the community is interested in? Formulation of answers to these questions has never been easy. Not a great deal has been said about the contents of accountability or the means through which it may be achieved although routine incantation of the need for accountability has become a notable feature of national and international debate. In some quarters, it is being offered as an instant aspirin that would contribute to minimal fiscal problems. There is, however, a need to go beyond slogans and discussion of general propositions, to look into the details and delineate the contours, contents and potential fault lines of accountability in general and of financial accountability, in particular. In addition to the two important issues raised above, it is imperative that answers are provided to a variety of questions that arise in this context. What is the evolution of accountability? Why the current emphasis on financial accountability? What are the features and instruments of financial accountability? Are the instruments adequate for the purpose? If they are underachieving, what are the contributory factors? What constructive agenda may be followed hereafter?

The need for providing answers to the above and a multitude of related questions has assumed greater importance in the context of the impact of four factors. First, two decades of fiscal turbulence have contributed to a substantial erosion of the credibility of governmental fiscal machinery, and to a growing distrust of governments. Second, the gradual spread of globalization has put policymakers in a large number of countries into a reactive, rather than a proactive mould; external developments that do not always lend themselves to precise identification would appear to have a greater role, indeed a dominating one, on fiscal policies. Information asymmetries have made the already formidable tasks of policy makers even more complex and intractable. In the absence of crucial information, the risks faced by the policymakers have increased significantly. Third, the change in the nature of government and its gradual withdrawal from production activities, has made it take an active role in regulation, which adds to the complexity of financial accountability. Fourth, there has been a major change in the composition of expenditures of central and federal governments. Apart from the sizeable outlays on the servicing of public debt, increasingly expenditures at the level of central governments are devoted to transfers to the private sector, entitlement payments, and to transfers to regional and local governments. This has contributed to a separation of funding from the actual provision of services. This too has an impact on the pattern of financial accountability.

This paper is devoted to a consideration of the above issues, such a consideration requires a comprehensive perspective on the evolution of accountability. It is only in the
light of that perspective, that financial accountability can be distinguished from general accountability.

Scope of the Paper

In order to provide a comprehensive background that would facilitate an appraisal of the current issues, the evolution and practice of the idea of accountability is discussed first. This is followed by a discussion of the anatomy of financial accountability, and why there is underachievement of the goals inherent in financial accountability. The paper concludes with a constructive agenda that may be pursued hereafter.

It will be argued in this paper that notwithstanding the fact that the idea of accountability is inherent in the actions of an institution and its employees, the means of achieving this have varied over years and have moved from a simple to complex, if frequently expensive, machinery. Despite the complexity, the capacity to achieve full accountability has been and continues to be inadequate, partly because of the design of accountability itself and in part due to the widening range of objectives and associated expectations attached to accountability. It is further argued that if accountability has to be achieved in full, including its constructive aspects, then it needs to be designed with care. The objectives of accountability, it is argued here, should go beyond the naming and shaming of officials, or pursuit of sleaze, to seek durable improvements in economic management so that the incidence of institutional recidivism could be reduced. The future of accountability consists in covering the macro aspects of economic and financial sustainability, as well as micro aspects of service delivery including specific attention to public-private partnerships. It should envisage a three tier structure of accountability of officials both political and regular civil employees, accountability of intragovernmental relationships and between governments and respective legislatures. Further, it is argued that the existence of numerous institutions and established procedures for financial accountability does not necessarily contribute to the realization of the goal of full accountability and that fulfillment of financial accountability does not necessarily mean improved fiscal status of a country. Improvements in the existing systems, which are undoubtedly needed, should be envisaged with due regard to cost effectiveness and possible paradoxical results.

Evolution and Practice of an Idea

Accountability has been viewed from times immemorial as a channel for ascertaining how power was used by an individual or an organization that has been entrusted with the task of performing prescribed tasks. The means through which accountability has been achieved, however, has varied over the years. The concerns of financial accountability whether in a kingdom, which was the more common form of government, or that of a democracy, in the pre-Christian era was the same, that is, the preservation of the wealth of the king or the society. Writing nearly three hundred years before the beginning of the Christian era, Kautilya, in what is easily recognized as the first manual on bureaucracy, observed that human nature had a disposition toward acquiring public money for private gain. He wrote “just as it is impossible not to taste honey or poison that one may find at the tip of one’s tongue, so it is impossible for one dealing with government funds not to taste, at least a little bit, of the
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king’s wealth.” He added “just as it is impossible to know when a fish moving in water is drinking it, so it is impossible to find out when government servants in charge of undertakings misappropriate money” (Kautilya, 1992: 281). In recognition of this human proclivity, Kautilya went on to formulate a series of checks and balances in the administrative system. He wrote that “in all cases (where) an official has caused loss of revenue to the state …. his property shall be confiscated” (Kautilya, 1992: 294). A similar set of practices was observed in contemporary China.

In the Athenian State, the hallmark “was its concern for the accountability of its officials.” For them, “to have officials accountable was the key to responsible government, unaccountability meant lawless” (quoted in Day and Klein 1987: 6). Toward this end, officials were required to report on their conduct ten times a year to the Assembly of the Citizens. If the explanations did not meet with the Assembly’s approval, officials were subjected to a trial, and indeed, where necessary, to impeachment. It was noted by historians that the prospect of being sentenced to death by the judicial system was often greater than the risk of dying in battle. Aristotle wrote “some officials handle large sums of money: it is therefore necessary to have other officials to receive and examine the accounts. These inspectors must administer no funds themselves. Different cities call them examiners, auditors, scrutinees and public advocates” (cited Day and Klein, 1987: 9). From that time, accountability went through six stylized stages described in Box 1. More important is the fact that during this period of evolution, attention turned from estate preservation and management to being accountable for actions and results. The estate preservation, however, has not been neglected. In fact, the idea behind the introduction of accrual accounting during recent years is to ascertain the trends in the net worth of a country, a concept similar to that of estate management.

Meanwhile, however, the growing public administration and management sciences, have explored in some detail, the functions of a modern executive. Barnard has devoted a considerable part of his attention to these aspects. In Barnard’s view, an individual’s actions are guided by an informal code of ethics (drawn from his moral environment), and more explicit and formal codes of organizations. He noted “morals are personal forces or propensities of a general and stable character in individuals which tend to inhibit, control or modify inconsistent immediate specific decisions, impulses or interests and to intensify those which are consistent with such propensities” (Barnard, 1968: 261). He added, while noting that the responsibility was that of the individual, “the point is that responsibility is the property of an individual by which whatever morality exists in him becomes effective in conduct” (Barnard, 1968: 267). This concept of individual responsibility is partly included in Simon’s system of values that have a prominent part in decision-making (Simon, 1997). These points of view indicate the distinctive beginning of the managerialism—as a school of thought, with its own impact on the concept of accountability.

Available history shows that the concept of accountability which was always inherent in the tasks, responsibilities, and broad administrative behavior, has moved in terms of the clientele group to which it was addressed. From a personal accountability to the king (for the king and the country a civil servant was expected to give his life when necessary) it moved to a responsibility to the elected representatives of the people, and now in addition, to the
Box 1. Conventional and Enhanced Financial Accountability

Over the years, events and ideas have forged some conventions of financial accountability. While it is difficult to be precise in enumerating the historical phases of financial accountability, some stylized stages can be construed from the pages of world history. Broadly, there are six stages which have contributed to the expansion of the scope of financial accountability and thus to changing conventions.

First, there were the practices of treasury management associated with kings and royal rule. As Kautilya (1992: 253) wrote more than two millennia ago “all state activities depend first on the treasury. Therefore a king shall devote best attention to it”. All revenues and expenditures were to be recorded in prescribed forms; these were then subjected to audit (inspection). Kautilya (1992: 275) added “Accounts officers shall present themselves for audit at the appointed time”. The kind, advised Kautilya, should devote the “first 1½ hours after sunrise—to reports on defense, revenue and expenditure.” Similar practices later were found in contemporary China and Greece (the latter was not a monarchy). The endeavor in this phase was to devise machinery for the preservation and enhancement of royal wealth, or estate management.

The above practices continued for more than a millennia and were enshrined in the principles of accounting devised by the royalty in England, and later in the approaches of cameralists in Europe.

The second stage refers to the developments in England during the seventeenth century when, in response to the steady and growing demands of members of parliament, committees were appointed to review the ‘wisdom, faithfulness and economy’ with which parliamentary grants were spent. This stage represented the assertion of the rights of legislators and endeavors, as a part of the procedures of the control of purse, to ensure financial accountability. The continuation of these endeavors contributed to the appointment of a commission on accounts (a predecessor of audit as practiced now) as well as a Commissioner of Accounts.

During the third stage (Nineteenth century), as a part of Gladstonian reform of exchequer management and its oversight by legislative committees, an independent audit agency was set up to review the regularity and economy in expenditure. The annual audit report was to be reviewed by a committee of the legislature representing the final stamp of approval or qualified approval of the financial transactions of government.

The fourth stage refers to the developments during the twentieth century, in particular, after the second world war. The emergence and the gradual consolidation of the welfare state enabled the diversion of both governments and people from the economy in expenditure (although it continues to be an important principle) to greater participation by the people and to greater public scrutiny of public transactions, as well as to delivery of services. The latter, in turn, contributed to more emphasis on performance or outputs. The response to these developments was in the form of economic development plans that reflected the people’s needs, and to performance budgeting in government, as well as performance contracts. Later developments contributed to refined systems of budgeting that emphasized economy (in the use of resources), efficiency (in achieving greater results within allotted resources) and effectiveness (in achieving program objectives). In the process, the scope of financial accountability came to be expanded rapidly and significantly.

During the fifth stage, in addition to the above dimensions, emphasis was laid on prudent macroeconomic management. Governments were expected to be prudent (in the use of resources and in considering what can be achieved at what cost) and take explicitly into account the assessment of the linkages between the budget and the economy. As a result, a kind of three dimensional financial accountability emerged. The three dimensions are (1) expenditure choices (to ascertain the degree of prudence), (2) Program management (propriety, economic management, adequate delivery systems), and (3) regular dissemination of information (showing material matching, i.e. a process by which outputs and income are related in a time frame to cost of services).

The sixth stage, which is yet to emerge in a final form and is meanwhile grouping for clarity and acceptance, envisages enhanced financial accountability. In addition to conventional financial accountability,
now governments may be accountable to ensuring that there are adequate systems for securing and improving results and to maintain the financial condition of the state (economic sustainability, flexibility in the use of resources, and the reduction of vulnerability). Furthermore, governments are expected to demonstrate that the selected programs are a part of the legitimate functions of a government and more important, that they can be afforded by the community.

Financial accountability has thus expanded, reflecting the changing tasks and expectations, and now people expect that enhanced financial accountability would be fulfilled while being compliant with the requirements that constituted accountability in the preceding stages.

people themselves. The various stages in the evolution are shown in Chart 1. The net result is that accountability is now a multi-faceted phenomenon that involves, as shown in Chart 2, three distinct segments relating to general accountability, fiscal accountability and to managerial accountability. Financial management systems during most of these stages remained rooted in the principle that no individual official was to be trusted. For this reason, a greater part of financial management devoted its time and process to the verification of payment claims and arrangements for the custody of money. The managerial approach, in contrast to the traditional belief, is based on the idea that an individual official, in order to be a creative and innovative manager, should be trusted and endowed with commensurate autonomy. But autonomy is not equivalent to independence. Rather, the official should be subjected to accountability in terms of results. The orientation to results is a significant departure from the previous practice and is intended to be a vast improvement over process oriented behavior and being subjected to continuous second-guessing at various levels in the hierarchy.³ It is in this context that the specific aspects of financial accountability need to be considered.

Financial Accountability

Financial accountability too has grown within the range of parameters described above. In the process, it has developed its own chain of operations and institutions. The broad financial accountability chain, common to many governments is shown in Chart 3. In considering the relative roles of the institutions indicated in the chart, it has to be recognized that the role of donors and international financial institutions may be different from one country to another, as is the role of nongovernmental organizations (NGOs) and others (the latter category includes a wide range of contractors and other providers that are engaged in the provision of services funded by different levels of governments), and legislatures and the clientele groups. In former centrally planned economies, client groups are represented, in principle, by the party representatives. In other countries, clients may form significant pressure groups having pervasive, if frequently subtle, influences on policy making and in the allocation of resources.

The main instruments of financial accountability are government budgets, periodic data published on public finances, annual accounts and the investigative and other general reports prepared by the independent agencies. The main components of these groups of instruments, their features and limitations and the way in which they contribute to the fulfillment of financial accountability are illustrated in the Annex.
Some specific features that have a significant impact on the financial accountability debate may be noted here. First, although the instrumentation may be wide ranging, it needs to be recognized that not all of them are to be found in the countries. Some have minimal instruments such as an annual budget and a set of annual accounts. The other instruments have yet to find acceptance and practice in many countries. Second, it appears that in most countries where the instruments may be basic and not too sophisticated there may yet be an effective machinery in regard to the financial relationships with donors and international financial institutions. This is largely due to the extensive range of techniques deployed by the donors and others. Aid provided by donors also comes with stiff and far reaching conditionality. Donors and international financial institutions have regular and systematic approaches toward monitoring the actual progress in the field. In some cases, projects and programs financed by them may also be supervised by them. Moreover, the fear of losing the financial support makes the recipient countries to pay particular attention to foreign aided projects, and agreements with international financial institutions. Furthermore, the violation of agreements could have a significant and quick adverse impact on the credit ratings of a
Chart 3. Financial Accountability Chain

Donors and IFI's

Central and Federal Governments

Regional, State and Provincial Governments

Local Governments

Legislature

Agencies

Clients

NGOs and Others

Legislature

Agencies

Clients

NGOs and Others

Councils

Agencies

Clients

NGOs and Others
country. These aspects also suggest that where oversight bodies are keen to be effective, there are improved chances for the fulfillment of financial accountability. The regrettable aspect of the financial transactions with donors and international financial institutions is that most of them may not require explicit approval by the legislature and information on them may not be available to the public, although this is being addressed through the opening of websites by international financial institutions. But in countries where the access to cyber technology is limited, information about this important area may not be available to the public. The dissemination of information in this regard is dependent, to a very large extent, on the approaches of recipient governments. They may be less inclined to share information with the public when that information shows the policies followed hitherto by a government were not conducive to improved economic welfare and were on the other hand, responsible for the additional burdens and declining benefits experienced by the community. This also illustrates how public scrutiny, an important component of accountability is adversely affected.

This, many of the dimensions of accountability shown in Chart 2, remain to be fulfilled. In many countries, performance aspects of programs and projects and their linkages to the financial resources, are not specified. A consequence is that while governments have a general responsibility for the provision of a service, the community has very scant information to assess the efficiency with which a service has been provided. In most cases, cost information is not available even to governmental agencies. Thus, where no quantitative targets are available, there can be little accountability. Moreover, the services may be provided by NGOs with the distant and often weak. To that extent, it may not be easy to locate responsibility for failures in the provision of services, and even if it is located, sanctions may not be feasible. These aspects illustrate that the machinery for providing fiscal accountability, has over the years, been lagging behind the pace of growing demands on accountability (Chart 1). Many financial management systems have yet to achieve capabilities for securing economies in expenditure and efficiency in operations. The preponderance of soft constraints and perverse incentives (such as the rush of expenditure in the concluding stages of a fiscal year) effectively prevent the procurement of economies. The same may be said about prudence in economic management and achievement of improved performance. Where quantitative targets are not available, the effective exercise of oversight becomes difficult.

Factors Hindering Financial Accountability

Experience shows that there have been several factors at work hindering the effectiveness of the institution charged with the responsibility of ensuring financial accountability. These include the following:

- Certain expenditures are excluded from the purview of the oversight bodies. Some expenditures are incurred outside the scope of budget. These transactions may be carried out through extra budgetary accounts, or through executive decree. Further, defense expenditures continue to be shrouded in secrecy for reasons of national security.4

- Established systems of oversight such as Audit and legislative control have many limitations. Specific factors contributing to this underachieving machinery are described in detail in Box 2.
Box 2. Financial Accountability: Factors Contributing to Underachievement

In many countries, there are institutions and procedures established for the purpose of achieving financial accountability. The two most important institutions in this regard are independent audit and the legislature. Both of these, experience shows, has been less than effective in fulfilling their charters, let alone the expectations of the public. The underachievement is mostly due to the limitations that these institutions encounter in the process of fulfilling their mandate. These are described below:

**Audit:**

In a number of countries, the audit agencies remain to be fully developed and fully independent. Even in those countries where audit has been in existence for several years, its contribution has not been effective in ensuring financial accountability. This is largely due to the following factors:

- In most cases, audit is not empowered to review policy matters. They do not have, as yet full authority in most countries, to follow the trail of the budget peso or rupee to the last stage where it is spent. Thus, local governments, nongovernmental boxes, private contractors who perform agency functions on behalf of the central or federal government are not within the orbit of primary audit. In most cases, the audit conducted by the audit agency is limited to the financial compliance audit (regularity and compliance of laws) and efficiency audit remains to be fully developed;
- In a large number of cases, audit has yet to develop expertise in areas such as public debt (which represents a significant block of government outlays) and foreign exchange management remains to be effectively audited;
- Audit agencies in many cases follow the track of accountancy and appropriation audit and very little emphasis is laid on investigative audit into special areas. Even in countries where investigative audit is undertaken, a judicious combination of regular audit and investigative audit remains to be achieved; and
- The effectiveness of audit, even in its own chosen areas, is dependent on the support it receives from the legislative institutions. These institutions may often be governed by party politics or by an issue that is topical, rather than by considerations of institutional development.

**Legislative institutions:**

The practices in this regard vary considerably from being forceful and decisive to being complaisant or without deliberative and legislative powers in regard to budgets. Moreover, the following limitations stand in the way in the realization of the full potential of financial accountability:

- In several countries, particularly those that have practices modeled on the Whitehall, legislatures can only reject government policies (which run the risk of a change of the party in government), but cannot modify them. During recent years, consultative committees have been set up in some countries, to provide opportunities for legislative inputs into policymaking. Experience in this regard is limited and does not justify optimism. Elsewhere, experience shows that legislators may be more interested, where party discipline permits, in pork barrel politics rather than on the major premises of macroeconomic policies;
- In many cases, major portion of public outlays are covered by existing legislation thus limiting the scope of legislative control. In some cases, e.g. Public debt, governmental operations may not require legislation. Until recently, agreements with international financial institutions were not submitted either for legislative approval or information;
- Legislatures have rare opportunities to discuss macroeconomic policy issues. Also, discussion is largely handicapped due to lack of expertise in this area.

- The portfolio of expenditures of central governments, as noted earlier, has been changing during recent years. Central governments are increasingly becoming cash counters transferring funds to autonomous agencies, nongovernmental organizations, and state and local governments. Services provided by the street level bureaucracy are mostly within the realm of
state and local governments, while finding responsibilities are with the central government. In some cases, such as the European community, disbursing power has moved from national governments to supra-national governments. This growing distance between funding and delivery of services has exacerbated the problem of financial accountability and as yet, a satisfactory solution remains to be evolved to reduce the gap between the two. In some cases, it is argued that state and local governments have their own audit agencies and legislatures and therefore, the composite picture of accountability is completed. In practice, however, there are differences in the approaches of oversight bodies at the state and local levels and the expected complementarity among the various levels remains to be achieved. The financial relationships between governments and non-governmental organizations continues to be a black-box. More often than not, the nongovernmental organizations do not have the expertise and an adequate regulatory framework remains to be evolved to monitor the activities of nongovernmental organizations.

- It is generally agreed that as in corporate governance, public organizations too should endeavor to hold managers accountable for their actions. The implementation of this simple, at least in appearance, requirement in the public organization has become a complex and frequently intractable matter. Two factors would appear to have contributed to this complexity. First, most public organizations are hierarchical in nature. Even where there has been a decentralization of tasks and responsibilities, there may in practice be, a concentration of power in a few hands. Hierarchical organizations such as those found in the civil service, defense management, and police administration have contributed to a thick fog of diffused responsibility, in turn making the location of the person or the authority responsible for poor performance extremely difficult. This problem has been sought to be tackled through performance contracts with the chief executives, and with the creation of task oriented agencies that are primarily concerned with policy implementation. But the application of these approaches, it is argued, has been carried out in “too crude and simplified a fashion (Foster and Plowden, 1996: x). The agencies have, in most cases, yet to develop a consensus on the type of accountability to be provided by them. The local bodies or the policy making departments (ministries) tend to view, experience shows, accountability as a form of control. Consequently, there has been a paradoxical result of ministers and chief executives becoming more powerful through direction and arm twisting. The performance contracts too cannot be all encompassing and there are several grey zones where it is difficult to locate responsibility for actions. Meanwhile the monitoring of performance contracts and their enforcement have brought added costs, and the distinct cost advantages of the chief executives over the traditional civil service remains to be proven.

- Formulation of performance indicators through the establishment of direct and explicit relationships between the inputs of money and manpower and
tasks of an agency has been and continues to be a formidable task. Several
problems are being encountered in the formulation of these indicators. First,
there seems to be a one-size-fits-all approach such as through the formulation
of work load data for categories like ‘policy formulation.’ Government
departments tend to have a distinct personality of their own which is not
always captured through these general, ambiguous, and frequently non-
empirical categories. Second, the formulation of tasks expected to be carried
out by agencies tend to be, notwithstanding exhortations to the contrary,
broad and general. At one stage, the task of the Health Authorities in
Britain was to “carry out the priorities of the government of the day” (Day
and Klein, 1987: 84). This type of an approach has the effect of redefining
the problem rather than solving it. Third, the formulation of performance
indicators has been and continues to be a unilateral exercise undertaken by
the executive wing of governments, which is almost like the defendant in a
legal dispute determining the parameters and the course of the judicial
process.

The overall framework of financial accountability provides for an access to
the public through information on the actions of the executive. Such access
may not however, enable detailed scrutiny for several reasons. First, the
annual accounts and related documents show the overall results of actions
taken during a year but are less helpful in illuminating the factors contributing
to a specific action. Second, in several cases, there may be full compliance
with the budget estimates, and all laws and regulations may be fully adhered
to. But this compliance by itself does not mean that the objectives of
budgetary policy have been achieved or that the delivery of services has
been performed well. The audit too, concentrates, in several cases on the
financial control process rather than the value for money or efficiency
audit. Third, government has the monopoly on the information needed for
accountability. As an interested party, government has not been above
managing the information to its advantage. Being economical with truth
has become, it is frequently suggested, an ingrained habit of the bureaucracy.

As a result of all of the above factors, citizens often feel that their access to
information does not necessarily translate into full-fledged scrutiny and
accountability. The other means available to them (Box 3) may be expensive
and incapable of yielding immediate results. The opportunity to use the
ballot box as a means to revoke the policies, is limited as it has its own
schedule and therefore may not be exercisable with the prospect of immediate
results.

It is in this context of a sense of disenchantment with the existing systems of accountability
and the lack of their effectiveness that there has been a growing demand for improved and
more important, effective, systems of financial accountability. This additional stimulus for
achieving financial accountability (Box 4) is being addressed in different ways.
Box 3. Citizens and Financial Accountability

The overarching purpose of financial accountability is to keep the citizen informed of the progress made in the mobilization of financial resources and in using them toward meeting the needs of the community. Citizens have a variety of instruments at their disposal to make financial accountability a reality. In principle, citizens have the power to revoke the decisions made by the executive and the legislature; they can move the judiciary when they find policies and decisions to be discriminatory or having an adverse impact on the community. They can undertake public scrutiny of government policies through their access to the information available in the public domain. In some instances, they may participate in financial decisions and in monitoring the progress made by various programs and in evaluating the results of policies. Selectively, public opinion may also play a significant role in the imposition of sanctions and penalties against delinquent officials.

In practice, however, in each of the above areas, the citizen remains somewhat distant from the focus of financial accountability. This aloofness stems from the nature of instruments chosen for the purpose of financial accountability. In most countries, revoking the decisions made by governments tends to be difficult except in the tax area. In several countries, full budget documentation is not available to the public. Although, progress has been made during recent years in publicizing the nature and magnitudes of fiscal deficits, the issue remains confusing to many in the context of the existence of many extrabudgetary accounts and numerous transactions between them and the general account, and constitutional imperatives of a balanced budget. There have been many instances, however, where the tax proposals have been altered or withdrawn in the light of popular opposition and potential political consequences. Details of expenditure programs are rarely provided, and where provided, are highly aggregated and sketchy. Thus, public scrutiny, which is the basis for financial accountability, is rarely fulfilled. An associated feature is that periodic financial data, which are being selectively published during recent years, are addressed more to the financial markets than ordinary citizens. Audit reports are primarily intended to serve the needs of legislatures and their committees and are not structured to address the concerns of citizens. The voice of citizens in regard to the delivery of services tends to be muted in view of the growing distance between those responsible for funding and those for delivery of services.

Citizens can take recourse to the judiciary, but only in those cases where there are inequities in the existing legislation. Although general issues may be taken up through public interest litigation, judicial intervention has been more in the tax area than in expenditure matters.

At the local levels, citizens are being enabled in many western democracies, in the determination of awards of contracts, in monitoring progress and in evaluating the completed programs. In most developing countries, the Executive continues to have a dominant role and the options of citizens are limited to discussions within party caucuses, or ventilating grievances through organized protests. Citizens have little role in the imposition of penalties and sanctions.

Thus, the language and structure of financial documentation limits the scope of public debate and scrutiny. A good deal of progress remains to be made in taking financial accountability closer to the public.

Moving Ahead: Recent Developments

During recent years, particularly in the early 90s, there has been a growing recognition of some of the above problem areas. As a result, there were more efforts at consolidating the progress made in achieving financial accountability. More specifically, these efforts covered further strengthening financial management in government agencies, imparting a set of moral values in public service, and in the formulation of a fiscal transparency framework by international financial institutions.
In the area of financial management, accounting systems are being organized in terms of accrual and in applying some corporate approaches. Some governments have already moved to accrual accounting while a few others are scheduled to complete this transformation by the end of the century. As an integral part of this effort accounting standards with specific applicability for government operations are being evolved. In some cases, budgets too are being prepared on an accrual basis. When these innovations are fully implemented, there is a

Box 4. New Impetus for Financial Accountability

Although accountability has always been inherent in the responsibilities of an official or an institution, it has acquired a new impetus and many dimensions during recent years as efforts continue to strengthen fragile democracies and the links between the civil society and forms of government. The new impetus and the growing demands for strengthening accountability in general and financial accountability, in particular, have their origins in the following factors:

- During recent years, notwithstanding a steady increase in the size of the bureaucracy, there is a perception that there continues to be a sizeable waste in government operations. As a result, there has been a socialization of inefficiency, in turn contributing to a growing distrust of governments. Opinion polls conducted in western democracies since the second world war reveal that this distrust has been growing.
- As an integral part of the above perception, there is also a generally shared view that bureaucracies tend to be self-serving with scant regard for the client’s needs. Moreover, it is also believed that bureaucracies lack accountability.
- While in normal circumstances, the legislatures would have been expected to perform a major role in ensuring financial accountability, they tended to be ineffective as bureaucracies acquired additional powers in day-to-day economic decision-making. Legislatures may discuss the policies of governments or, may approve or reject them. In reality, however, policies reach legislatures at too late a stage, or in terms of aerodynamics when the plane is about to take off and when aborting the plan could have unpleasant consequences; opportunities for crucial inputs into policymaking are few and major chunks of expenditures are either already committed or beyond the scope of legislative intervention. Year end scrutiny tends to be spotty, with major attention devoted to issues of sleaze or those that damage the political prospects of the ruling party.
- There is also a perception that the machinery for accountability, where it is already in existence and operation, is often slow and parochial in character contributing to a discord between the rapid pace in the advancement of expectations and the scope of response of the institutional machinery. Experience also shows, as in the case of the European community, that where machinery has been designed during recent periods, sufficient attention has not been paid to ensure adequate financial accountability.
- Recent efforts to install or strengthen management capabilities (prompted by the new roles for the managers. They are public management philosophy) envisage greater roles for the manager. They are expected, within the limits of financial resources and endowed autonomy, to deliver services in terms of specified cost, quality and time frames. Such additional delegation of financial powers and autonomy undertaken as a part of the new public management approach may render the existing hollow core of the accountability machinery even weaker, and finally
- There is an overall gap between the intent of governments and it performance. The reality, as perceived by the people, is that services are deteriorating even as the debt burden increases, and the community’s suffering increased even as governments considered strong and fiscally viable, have become weak due to other internal and external developments.

These factors accentuate the need for appropriate financial accountability so that the erosion of confidence in government can be stopped, and credibility may be restored.
distinct prospect that activity based costing will emerge as the anchor for expenditure management and financial accountability. In a number of cases, performance contracts are being developed as concordats between agency heads and the government. Although many of the difficulties relating to performance measurement continue to prevail, the hope is that with more experience, improved indicators that have the potential of having enhanced accountability could be developed. Moreover, it is likely that the shift of emphasis from inputs to performance and results will have the effect of transforming the culture of government organizations into management oriented ones. The audit agencies too have been developing agendas combining traditional financial audit with investigative audit oriented to ascertaining the value for money (e.g. European countries). In the United States, starting from 1998 onwards, investigative audit is being combined, as is required under law, with financial audit of all the operations of the government. While none of these instruments are entirely novel (see Annex), the emphasis, and in some cases, revival of some ideas merit recognition.

Moral values, as Barnard envisaged them, were essentially a part of the informal and to some extent, private aspects of an official. During recent years, however, there has been a view (e.g., United Kingdom) that in order to restore public confidence in the system of public administration, standards of public life were needed. Accordingly, the need for selflessness, integrity, objectivity, accountability, openness, honesty and leadership are being emphasized. These qualities, which have always been essential, would undoubtedly enhance the confidence of the public in governments. At the same time, it has to be noted that if six of these qualities are firmly entrenched in public administration then, accountability would be automatic and even self enforcing. Experience suggests that mere exhortation of the need for these values would not have any major impact particularly when the laws aimed at penalizing corruption in public life, have had so little of enduring effect.

Meanwhile, international financial institutions which have found that the developmental policies advocated and pursued by them were being jeopardized by the levels of corruption and the consequent losses suffered by the society, have also initiated efforts to strengthen institutional development. As a part of this, they began to formulate frameworks that will have the effect of promoting financial transparency and accountability. The framework proposed by them is more in the nature of a minimal agenda (Box 5). Many countries already have the features of the proposed framework. The problem, as noted earlier, is not the lack of institutions and instruments but the lag between the intent and the practice, and other factors contributing to underachievement and in a few cases to failure of the prescribed machinery. It would appear, by implication, that the suggested framework is applicable more to those former centrally planned economies which have yet to make the complete transformation to democratic forms of government. Even in these countries, there is a good deal of vertical accountability (within the hierarchical system of an organization) and the imposition of penalties for violations is often quick and severe. In terms of horizontal accountability, the party congress, particularly at the provincial and local levels, plays a crucial role in the allocation of resources, their utilization and accountability. What needs to be recognized is they have their own form of accountability even though that form may not be similar to those found in some democracies.
Box 5. Financial Accountability: Minimal Agenda Not Adequate

Recently several international financial institutions have taken initiatives to issue guidelines on the ways in which financial (the term used by the international agencies is ‘fiscal’) transparency and accountability may be achieved by countries. Being international guidelines that seek universal applicability, they are more concerned with the general rather than the specific features of a particular country. The guidelines envisages (a) a medium term fiscal strategy, (b) a comprehensive annual budget, (c) periodic data to be published on the status of government finances, and annual accounts to be submitted to the legislature, and (d) identification and publication of government liabilities including contingent liabilities. The guidelines envisage the functioning of a legislature endowed with powers to review the budget and annual accounts.

Many of the features described above are found in most democracies, in one form or another. The role of the legislature as a deliberative body and engaged in the enactment of legislation is yet to be established in some of the former centrally planned economies (most former centrally planned economies in Europe have already made this transition). Meanwhile, the party congresses have been taking an active role in the consideration of the annual report on the economy and the budget. They have also made a beginning in the establishment of an audit agency. Here again, the former centrally planned economies in Eastern Europe have made rapid progress (with the help of European organization of Systems Audit Authorities and the Audit agencies of some industrial countries) in the establishment of independent agencies endowed with powers to undertake financial and investigative audit.

The experience of many countries in regard to the features enumerated by international financial institutions shows that they provide, at best, a modest beginning in the process of achieving financial accountability, largely because the systems and operational techniques utilized by the relevant governmental institutions leaves a good deal to be desired.

Several countries have medium term fiscal strategies, either in the form of development plans, or global visions, or in the strategies formulated in the wake of economic crisis experienced, during recent years, by some Asian countries. These strategies are too general and are more indicative of the likely goals to be reached and are scarce in the specification of the means (as required by a strategy) to achieve those goals. Moreover, insufficient attention is paid to uncertainty, high risk areas and associated vulnerabilities. The strategies also lack enforceability and the imposition of sanctions, in the event of failure, as needed by financial accountability.

The budget, even on a comprehensive basis - a goal that remains to be achieved by some Asian countries, is far from accessible to the general public. Budgets tend to have a unique language of its own, and some mysteries that defy probing by the public. Details on expenditure programs and the likely benefits are scant and in many cases doctored.

The periodic reports, which are being published by many countries, are too aggregative in nature and are intended for the benefit of domestic and external financial markets. Annual accounts, which in most countries are required to be audited, is not of recent origin. Indeed, it has been a part of the framework of legal accountability for a long time. These accounts are mere records of transactions and do not offer any benchmarks for performance assessment. They remain inaccessible to the general public.

The effort at revealing liabilities, particularly in a cash based budget and accounting systems, is a welcome one. The most significant part of liabilities is external and internal debt. Data on debt are regularly published by many countries, although, on occasion, some countries have attempted to doctor them too. Several countries also publish data on contingent liabilities stemming from guarantees (although the coverage is far from uniform or comprehensive). No attempts are made to publish data on liabilities relating to arrears in wage payments, repayment of debt and settlement of claims by contractors. Hidden or informal debt remains an area of darkness for the public.

Thus, the framework of accountability offers a hollow core rather than an effective one. Provision of information is equated with public scrutiny; the existence of an audit agency of a legislature is viewed in this oversimplified model of accountability, as fulfillment of financial accountability. The important need is to look into the working of the institutions and ascertain as to why their full potential is not being realized.
Toward a Constructive Agenda:

A paradoxical feature of the current situation is that the expectations of and demands by the public are growing at a faster pace than the rate at which the existing machinery established for the purpose of accountability is able to cope with it. The solution to this does not lay in reducing the scope of accountability but in producing a more viable and responsive accountability machinery. In evolving such machinery, the following aspects merit specific attention.

- Financial accountability is no longer limited to ensuring that the budgeted amounts have been spent and that the specified annual objectives of an organization have been met. While these elements will continue to be important, it appears essential that accountability is enlarged to include the success achieved in ensuring economic sustainability. The interest of the community is in satisfying itself that the policies pursued enhance the strengths of the economy and that the financial balance of the community is not jeopardized. This enhanced accountability should be the cornerstone of every effort. Accountability for economic performance should go hand in hand with financial performance and the provision of the services.

- Accountability will not be achieved unless it becomes an integral part of service delivery, and a political agenda at the national level. Toward the former, it may be necessary to arrange for more formal participation of the client groups. At the national level, legislatures may not be very interested, depending on the political climate, in pursuing limited accountability. There is thus a need to strengthen the role of the legislature in the management of the economy through more opportunities to review and approve government policies. Categories of expenditure that are now exempt from legislative approval should be reviewed and reduced. In addition, the society should have more opportunities to review policies, program results and where necessary, to impose sanctions.

- Measurement of economic and program performance should form an integral part of financial accountability. Formulation of performance should not be left to be determined by the executive but should form part of a tripartite deliberations comprising client groups, executive and the legislature. Formulation of performance measures is a complex task and the pursuit of a one-size-fits-all approach is bound to be counterproductive. Rather, the diversified nature of government transactions needs to be explicitly recognized. Toward this end, organizations may be divided, as a first step, into those that are (a) production oriented (where outputs and outcomes are observable) (b) procedural in nature (where internal activity can be monitored but not the outcome) (c) craft oriented (those engaged in ensuring compliance of rules and regulations), and (d) those that are responsible for coping up with difficult situations (outputs and outcomes may be uncertain). The performance measures should facilitate risk taking and should be flexible.
Accountability should not be limited to the imposition of sanctions. If that were the primary objective, then there would be a good deal of defensive policymaking and the bureaucracy may be inhibited from taking risks. It should therefore aim at investing resources to secure lasting improvements in the administrative machinery that would also be effective in preventing or minimizing institutional recidivism. (Box 6)

Box 6. Beyond Financial Accountability: Moving Toward a Constructive Agenda

Financial accountability involves the identification of the losses suffered by the community. Inevitably, the identification contributes to the ‘naming and shaming’ of individuals, organizations and institutions whose actions have contributed to such losses. This is frequently viewed as an integral part of the audit system. Identification of guilty individuals and organization is expected to lead to the imposition of penalties and sanctions on them. This represents the concluding stage of accountability.

The ‘naming and shaming’ and imposition of penalties has the potential of leading to tension, hostilities or adversaries relationships between those that are in governmental agencies and those outside it. The continuity of such adversarial relationships could also lead to hardened obsessions but not necessarily to improved systems. While human failures need to be punished, it is to be recognized that many of the lapses may be systemic. Addressing the individual crimes and misdemeanors, without looking into the underlying contributory factors could, and indeed, has lead to institutional recidivism.

Just as a judicial system looks beyond the incarceration of the criminal, to the correction and reform of the individual so that the potential crime could be reduced, so also governments and the community have the need, indeed an obligation, to reform the system of financial management to strengthen it so that the hopes of the community could be fulfilled with minimum friction. Experience of many countries shows that apart from greedy individuals who seek to exploit situations for personal gains, which translate in this zero sum game as losses of the community, the financial management system which has structural and procedural flaws, needs to be improved. This positive aspect of investing in improved financial management systems should form an integral part of a constructive agenda.

Recent developments in technology are such that with their gradual deployment, participatory decision making is likely to get a strong impetus. In the not too distant future, electronic technology my make possible a kind of townhall meeting, where each individual in the comfort of his home, may indicate his or her personal preferences in regard to a proposed action. Such participatory decision-making, which is a significant step forward in linking the democratic tradition with a civic society, could promote yet another new phase in financial accountability.

Financial accountability envisages the promotion of a management culture in public organizations so that performance may be specified and evaluated. The increasing provision of public services by the corporate world is contributing to a widening of the choice of benchmarks. Here again an agenda that envisages a greater involvement of the community in the promotion of a management culture is likely to contribute to improved financial accountability.

In sum, the emphasis on punishing the guilty should be tempered by an explicit recognition of the need for improved systems of financial management and to the promotion of an accountable management culture.

Accountability framework should reflect, in the light of the preceding observations, the vertical aspects within a hierarchy, and among supra-national, national and sub-national governments, and horizontal aspects reflecting the relationships with the legislature, client groups and the society itself
Conclusions

It is important that the framework for financial accountability is formulated with care and caution, so as to inspire confidence in the public and restore the credibility of governments. Accountability narrowly defined and aiming at financial process controls is no longer adequate. The scope of accountability needs to be expanded to include overall economic management as well as delivery of services both by governmental and nongovernmental agencies. The objectives should not be limited to the pursuit of sleaze, but should include a more constructive agenda aimed at strengthening operational systems of public administration. The dimensions of accountability have grown, over the years, and that access to information on government operations, while facilitating public understanding, does not by itself complete the process of public scrutiny. Many of the initiatives taken during recent years remain to be fully implemented or taken to their logical conclusion. A framework of financial accountability encompassing all these aspects remains to be formulated and that by itself constitutes a major agenda for the future.

NOTES

1 This principle is now included in the financial rules and regulations of many countries. In practice, however, the application of this principle has been relatively rare.

2 For an illustration of the experience of China, see Premchand (1995).

3 A civil society needs freedom to think and act and to function effectively. Such freedom implies a substantial degree of trust on the part of each individual regarding the actions of his fellow members of the society. The question arises as to how one can get on with his life in the absence of that basic trust. Financial management systems were designed without taking this factor into account. Management philosophy, however, embodies this principle in its operational approaches; indeed, it has made it a cornerstone. Breach of the implicit trust is to be addressed as a part of the accountability framework. Government operations have grown so enormously, that it is difficult to live without endowing every administrator that degree of trust that every citizen shows to his fellow citizens. Continued dependence on misanthropy is likely to be counterproductive.

4 Defense opaqueness reflects a cruel irony. Outlays on protecting the common man are not fully revealed to the public with the result that an individual has no idea as to how he is protected or the full costs of protection, not to mention the effectiveness of that protection.

5 For an account of these developments in Australia, New Zealand, United Kingdom and the United States, see Premchand (1999: 82-116).

6 See Premchand (1998: 72-88). The exhortation for standards in public life may be inherent in human condition in view of what Montaigne called a long time ago, the ‘ordinary vices’ associated with human behaviour. Included in these vices were treachery, disloyalty, cruelty, and tyranny. Judith Skhlar suggested that ‘dishonesty’ be added to the list. Despite these periodic reminders, and admonitions from the religious establishments that some of these sins might invoke divine wrath, ordinary vices continue to dominate day to day to economic life. Indeed, some of the public standards, e.g.
selflessness, may be contrary to the spirit of economic rationality that emphasizes the virtue of maximizing profit.

7 Accountability is not a mere technical process and therefore cannot be entirely apolitical, even when fully objective. A distinction needs to be made, however, between proper political use and abuse of the accountability process; the former seeks to enrich the level of political discourse so that the community’s understanding may be illuminated; the latter is a tactical weapon in an adversarial process.

8 This approach is adopted from Wilson, 1989: 160-171.

REFERENCES
