

# **Fiscal Transparency and Accountability\***

**Idea and Reality**

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\* Paper prepared for the workshop on Financial Management and Accountability, Rome, Nov 28-30, 2001.

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## CONTENTS

Introduction . . . . .	1
Scope of the paper . . . . .	2
Evolution . . . . .	3
Content of Transparency . . . . .	5
Content of Accountability . . . . .	7
Issues . . . . .	8
(i.) Corruption and Financial Management . . . . .	10
(ii.) Fiscal Policy and Macroeconomic Stability . . . . .	10
(iii.) Circumvention. . . . .	11
(iv.) Implications of New Management Philosophy . . . . .	11
(v.) Rebuilding Dilemma . . . . .	11
(vi.) Comprehension . . . . .	12
(vii.) Audit . . . . .	12
(viii.) Legislatures . . . . .	13
Toward Improvement . . . . .	13
References . . . . .	14

## **Fiscal Transparency and Accountability Idea and Reality**

“The rule of the many, on the other hand, has, in the first place, the fairest of names, to wit *isonomy* (perfect equality of all civil and political rights – emphasis added) and further it is free from all those outrages which a king is wont to commit. There, . . . , the magistrate is answerable for what he does and measures rest with the commonality. . . . Again, in a democracy, it is impossible that but there will be malpractices.

Herodotus, *The Histories*.

**Introduction:** Fiscal transparency, reflecting a system of well organized windows on public policy making and policy implementation, is not an end in itself, but is a means contributing to effective and comprehensive accountability that aims at securing full answerability from governments and their officials. Both these aspects have had a long history and have evolved over the years. States and governments depend on authority needed to provide services, to regulate the economy and to finance both types of activities. Markets are dependent on securing utility, but both governments and markets depend for their smooth functioning, on a large variety of information. The structure of information is heterogeneous, as are the users. The importance of information on the activities of the government to facilitate the twin roles of individual decision-makers, or economic agents, - to ascertain what the government is doing and to evaluate how the financial resources of the community are being utilized – has all along been recognized. Similarly, there has been recognition, from the Pre-Christian times, that “unaccountability meant lawlessness.” Although this lineage is kept in view, it is also important to recognize that there have been three major and interrelated factors that have been providing additional impetus to these subjects during recent years.

First, the growing recognition of the importance of strengthening the civic society to perform its designated role has been an important factor in shaping the debate on fiscal transparency. What is civic society is itself, however, a controversial issue. To one school, it is one where the role of politics is reduced and that of individual liberty is expanded. To another school, however, the rule of private power over public goods, and the potential for malcontents, including anarchy, needs to be properly recognized if the civic society is to function smoothly. This, in turn, requires the development and strengthening of market based institutions, and a regulatory framework that is not overstretched. The strengthening of the civic society requires greater transparency in governmental actions, and greater trust on government agencies, accompanied by an effective framework of accountability. The determination of the content of transparency,

and the processes contributing to effective accountability, however, remain to be delineated.

Second, the demand for a strengthened civic society comes in the context of a profound paradox in the working of the governments. On the one hand, there is a view that governments have grown enormously in size and in the range of tasks undertaken, and their performance has yet to match expectations. Notwithstanding this prevailing sense of disappointment, there is also greater demand for services that only a government can achieve. As Derek Bok says “over the past sixty years, Americans have come to ask *more and more* (emphasis added) of their governments as newer concerns for economic security, the environment, access to health care, racial and gender equality, and consumer protection have joined more traditional demands for national defense and essential services.”<sup>1</sup> A related issue is how this paradox may be addressed through greater fiscal transparency and improved accountability.

Third, the series of financial crises experienced during the last decade (i.e. 90’s) have raised two issues about public policy making, and the need to reduce high vulnerability. Public policy making, in general, and the national fiscal system, in particular has become a unit of analysis.<sup>2</sup> What is the role of fiscal institutions in economic transformation, whether during an expansionary phase, or during a structural adjustment phase through deregulation, liberalization and in partnership with private programs? Given that the institutions involved in both phases are the same, how should they be evaluated and held accountable.<sup>3</sup> The other aspect, is, that to the extent market perceptions, and associated belief systems, can contribute to sudden changes and destabilizing effects, how the crises may be forestalled, through an enhancement of fiscal transparency. These have an impact on the nature and content of information made available to the public. Associated with this institutional approach, is the issue relating to the strengthening of governance, through participation and empowerment. If participation and empowerment are to be achieved, how should fiscal transparency and accountability framework be improved? These questions and several related ones have, indeed lent a degree of added urgency, for a detailed discussion of the subject.

**Scope of the Paper:** This paper is devoted to a consideration of the above issues. To facilitate discussion, an essential perspective on the evolution of fiscal transparency and accountability is provided first. This is followed by a delineation of the content of transparency and accountability. The reality, at the ground level, is often, however, different from the conceptual framework, and the issues arising from the reality, a sort of

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<sup>1</sup> See Bok (2001), p. 10.

<sup>2</sup> The terms are not free from ambiguity: Essentially, however, they refer to a cycle of six stages – (i.) identification of factors contributing to public actions; (ii.) ensuring that policies are backed by actions and authority; (iii.) evaluation of impact of proposed policies on finances and the observance of prudence and fiscal rectitude, (iv.) identification of estimated benefits and their use by the different segments of population; (v.) assignment of tasks to an agency, and the formulation of terms of accountability and (vi.) imposition of penalties on deviations from proposed actions. This cycle is inherent in any sphere of public policy making.

<sup>3</sup> For a recent case study of this approach, see Gao (2001).

a worm's eye-view, is provided, and the future directions are briefly indicated in the concluding part.

It is argued that the establishment of institutions aimed at providing transparency and accountability is only a first step, but the more important step is to ensure that they are effective in what they have been designed for. This, in turn, requires a specification of the framework of transparency and accountability and efforts, at several levels, aimed at making them fully operational.

**Evolution:** Both fiscal transparency and associated accountability (the form and content) have evolved over the years, and in order to gain a full understanding of their importance, coverage and contribution, it is essential to have a perspective of the saga of their development. The intent here is not to provide a detailed history but to selectively identify the important milestones that have had a significant impact on the content of fiscal transparency and accountability.

The contours of fiscal transparency and accountability were shaped during the last two millennia by two distinct trends – a desire to make public officials accountable for their actions, and the political arithmetic of the times reflecting the concerns of the financial class and their interest in investing money in instruments of indebtedness. The evolution can best be discussed in terms of six stylized stages.

During the first stage, the concern of financial accountability of the monarchs, on the one hand, and the concerns of an active society seeking a role in the utilization of public money (Aristotle was the first one to formulate the concept of public money) on the other, a feature associated with the Athenian state in Pre-Christian era, dominated the fiscal scene. The concerns of the King were the preservation of wealth of his own domain and this required him, as may be gleaned from the histories of China and India, to devise ways and penalties that would prevent his numerous officials stealing from the public treasury. The emphasis in a monarchy was on transparency that was intended for only one person, viz. the King, and his audit agency. The concerns were the same in the development of the Athenian state where there was explicit recognition of the risks associated with handling of large sums of money by officials and the need for systematic accounts that would illumine the whole area. The common concern of accountability, although the channels were very different, was the estate management. In the monarchical system, all accountability was to the King; In the Athenian State, it was to the people's representatives.

The second stage reflects the emergence of double entry bookkeeping about five hundred years ago, and its relevance for governments. While available records do not throw much light upon this, it would appear that the decision not to apply this system to the royal finances, but to develop the cameralist approaches that came to be extensively prevalent in the European monarchies, was a deliberate one. The finances of the royalty were not a matter of concern for the general public, and therefore there was no need to apply double entry bookkeeping to government finances. A distinct legacy of this approach is the fact that in a large number of countries, government accounting continues to be based on a

single-entry system even today and to that extent, information of liabilities and assets remains outside its scope.

During the third stage, however, there was a minor reversal, in the trend, in that the investing class in England forced the government during the seventeenth century, to develop systems of government accounting, audit, and a legislative forum for overseeing the utilization of royal finances. This impetus, it is important to note, came not from the general public, but from the investing or financial class. A continuous engagement in wars depleted the British Treasury and made it dependent on private sources for financing. The investing class, as is its wont, pressed for details on the financial health of the government. As data were not available within the government, investors organized their own compilation of accounts, for a time, and later concentrated their efforts on the establishment of an accounting class in government. The overall development of a new nexus between governments and their investing public contributed to the colonization of the state by financial interests. (See Brewer, (1983), Ferguson (2001) and Premchand (2001).

The fourth stage, representing a century from the mid 1700's, saw the consolidation of many efforts that were initiated in Britain during the previous period. Thus, in 1787, a consolidated fund, "as one fund into which shall flow every stream of public revenue and from which shall come the supply for every service" was set up. Similarly, to ensure that the money was spent with 'wisdom, faithfulness, and economy,' a legislative commission on accounts and a commission on audit were set up. These were later formalized in 1866 with the passage of the Exchequer and Audit Act, which led to the proper institutionalization of compilation of accounts, processes of audit, and oversight by the legislative committees.

The fifth stage witnessed, in the era stretching from the 1930's to the 1970's, an enlargement of the focus of transparency and accountability from finances, to performance, delivery of services, development and application of cost accounting methods, and to the observance of economy, efficiency and effectiveness of expenditure. To a large extent, this enlargement, which had only a sporadic application in industrial and developing countries, was facilitated by variants of performance budgeting that also contributed to a paradigm shift in budgeting. (See Premchand (2000))

The sixth stage, which represents, the period from the 1980's onwards, has contributed to a further enlargement of the scope of transparency and accountability. The focus expanded to include prudent economic management, and the overall quality of public finances that would facilitate an evaluation of fiscal sustainability of a government. This process also saw the active involvement of international financial institutions (See International Monetary Fund, 1998 and 2001), and growing emphasis, not merely on cash flows of government, but on liabilities and assets of government. Thus, emphasis was laid on accrual accounting and preparation of balance sheets by each agency, strengthening of internal controls, and to the preparation of government wide audit reports, as an integral part of the overall effort. The implicit faith in all these endeavors

is that the overall enhanced transparency would reduce information asymmetries, and accountability would promote the cause of civic governance.

**Content of Transparency:** The content of transparency has been determined, over the years, by the various user groups. These groups include policy makers, legislators, investors, academics and the general public. Although, the traditional content of transparency largely revolved around budgets, audited annual accounts, intra-fiscal year indications of the fiscal accounts, the more recent emphasis on the quality of public finances has sought to shed lime light on institutions, approaches to policy making, content of public expenditures, reform and adjustment efforts and their impact, etc. Together, the process of fiscal transparency seeks to provide a large amount of periodic information on the following aspects.

**I. Structures and Policy Spheres:**

- Functions of central, regional, state and local governments.
- Financial arrangements among the various levels of governments.
- Autonomous bodies and their financing.
- State owned enterprises and their performance.
- Relationships with the corporate private sector including government equity holdings.
- Relationships with legislatures.
- Primary fund instruments; Role of extra-budgetary activities, Quasi-fiscal activities, guarantees, tax expenditures, contingent liabilities, etc.
- Availability of a budget law.
- Taxation under authority of law including transparent methods of assessment and collections.
- Accounting basis to be explicit indicating cash position and liabilities.
- Classification of government transactions that shed light on the activities and their impact.

**II. Fiscal Management:**

- Statement of objectives and their legal status.
- Consolidated budget for all levels.
- Specification of macroeconomic framework governing annual budgets.
- Annual policy making with particular reference to new policies, changes in revenue and lending policies, and efforts to contain budget deficits to utilize surpluses.
- Changes in debt position.
- Changes in delivery of services.
- Identification of high-risk areas.
- Detailed objectives of departments and agencies.
- Performance orientation.
- Pursuit of efficiency and economy.
- Changes in supporting administrative infrastructure.

### **III. Implementation of Budgets:**

- Phased release of budget authority and related arrangements.
- Established cash management practices.
- Sound procedures for award of contracts.
- Procedures to ensure congruence between budgetary intent and outcome.
- Performance measures.

### **IV. Accounting and Reporting:**

- Basis of accounting.
- Procedures for payments.
- Compilation of intra-year and year-end accounts.
- Preparation of agency annual reports.

### **V. Evaluation:**

- Evaluation efforts within governments and their contribution.

### **VI. Audit:**

- Arrangements for an independent audit agency.
- Arrangements for accountancy, financial and performance audit reports.
- Arrangements for investigative audit.
- Arrangements for the consideration of audit reports by legislative bodies.

### **VII. Independent Standards:**

- Standards for the accounting and auditing systems and for the rating of government financial management systems.

### **VIII. Legislative Review:**

- Role in policymaking, review of budgets, monitoring of budgets, implementation and review of annual audited accounts.

The above approach follows the traditional financial management cycle, as well as the new contours on the role of institutions and is larger in scope than the content of fiscal transparency indicated in the guidelines issued by international financial agencies.<sup>4</sup>

The ground level arrangements in regard to the above do not form a uniform pattern given the historical legacies, orientation to law (such as common and civil law), the role of the legislature, the role of audit, and the transparency of the working of fiscal instruments. These differences, which range from being delicate nuances to structural features, do not tend to be obvious when governments adopt common formats of

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<sup>4</sup> See, for example, the guidelines issued by the International Monetary Fund, (1998 & 2001). The guidelines are broadly divided into four groups – (i.) clarity of roles and responsibilities, (ii.) public availability of information, (iii.) open budget preparation, execution and reporting; and (iv.) independent assurances of integrity. There is a good deal of common ground between what is covered by the guidelines and the framework indicated above.

reporting on the status of government finances, in conformity with international standards. These reports, tend to be brief and essentially cover revenues, expenditures, size of deficit/surplus, and the financing arrangements at the level of the central government, and are intended, for the international financial community. The implication is that large fiscal deficits, contributing in turn to significant public debt may undermine confidence in the medium-term solvency of governments. These data are therefore intended to facilitate judgements on the state of fiscal health. Needs of the domestic legislatures, policymakers, and the public are more varied and substantial and are therefore needed to be addressed by the other arrangements for fiscal transparency.

**Content of Accountability:**<sup>5</sup> Accountability is generally interpreted to be of two kinds – vertical accountability and horizontal accountability. The former has relevance to the pyramidal structures of governments and essentially refers to the accountability of the lower levels to the higher levels. The latter refers to the patterns of relationships between governments and the legislatures as well as to the public. The discussion here addresses horizontal accountability. In discussing accountability, two features should be noted at the outset. First, fiscal transparency or the act of providing information on the fiscal activities of governments, either to a specified group such as the legislature, or to several groups, is a means, as noted previously, to accountability and is not a substitute for the latter. Accountability implies the existence of a body of oversight charged with the responsibility of reviewing the content of information provided and reporting on that to the general public.<sup>6</sup>

The term accountability, notwithstanding the long lineage, remains a fuzzy concept, with each analyst tending to define it in his/her own way. For the sake of precision, the scope of accountability, as interpreted here is given below:

**General Accountability:**

- Answerability for action.
- Sanctions where justification is not adequate.
- Ability to revoke a mandate.
- Public scrutiny of governmental actions.
- Citizen participation in the design of programs.

**Fiscal Accountability:**

- Approval of policies and actions having financial implications by a representative body.
- Approval of an annual or medium term budget.
- Framework to ensure that in the process of economic management, no actions are taken to impair the fiscal capacity of the community.

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<sup>5</sup> A more detailed account is given in Premchand (i.), 1999.

<sup>6</sup> During recent years, many international agencies have claimed that their accountability has been enhanced merely because the decisions made are posted on the web site. Web sites are a medium for transparency and do not necessarily contribute to improved accountability in the absence of oversight bodies.

**Managerial Accountability:**

- Appropriate rules are observed and that the authority is not abused.
- Risks are taken within delegated powers to achieve objectives.
- Responsibility for service delivery within specified cost, quality and time schedules.
- Observance of economy and efficiency.

The concept of fiscal accountability reflects the concerns of those interested in the sustainability and quality of public finances. Managerial accountability is closer to what is called by some international financial institutions (e.g. World Bank), as financial accountability or as fiduciary responsibility (distinct from stewardship of public resources) by others, but is larger in scope than the others, in that service delivery and observance of economy and efficiency are integral parts of this form.

The instruments of fiscal transparency, including medium term fiscal strategies, development plans, annual budgets, annual accounts including balance sheets, and audit reports, are utilized, in conjunction with other means, to render accountability. More specifically, however, emphasis is laid on two aspects – (i.) role of the representative body in the approval of policies, budgets, and annual audited accounts, and (ii.) the role of the audit in aiding the representative bodies, or independently to carry out the verifactory exercises. The guidelines issued by the international financial agencies appear, if only implicitly, to support the type of institutional arrangements found in the British administration. In Britain, there is an independent, statutorily laid out, National Audit office, whose investigative and annual findings are grist to the mill of the public accounts committee of the House of Commons. The form of audit varies from one country to another. In some, they carry out a *priori audit*, while in a few others, they are endowed with judicial powers, and most are engaged in a *posteriori audit*. Some are engaged in performance in additional financial audits, while a few others carry out essentially a financial audit. The arrangements for the audit of state enterprises, and public bodies vary considerably, as are the periods of accounts for which audit is conducted. In a few European countries, the accounts of previous years may also be taken up. In a few countries, audit may be called upon to provide an ‘opinion’ on the accounts while in other countries, audit may have a key role in the granting of the discharge of the annual budget. Similarly, the time tables for audit and actions thereon vary, as also the roles of legislative committees. In some countries, e.g. U.S.A., the committee on government operations, has the freedom to determine whether the annual accounts are to be reviewed. Although practices vary, the real issue relates to the extent to which transparency and related accountability are effective in fulfilling the tasks for which they were designed in the first place.

**Issues:** If the framework of transparency and accountability described above is incorporated into laws, and administrative practices, would that contribute to improved governance, and greater participation by the people in the management of their own affairs? The answer to this question is dependent on an evaluation, cursory in the circumstances, of the institutions that have been assigned major roles in the above process. Evaluation of institutional performance is a delicate and complex area where full empiricism may not always be available. For the purpose here, the framework

formulated by Putnam<sup>7</sup> has been kept in view. The application of this framework, which is comprehensive, internally consistent, and reliable, reveals a reality that raises several fundamental issues on the effectiveness of transparency and accountability arrangements and their combined contribution to a stable environment of improved governance.

The current reality is such that while several newly formed republics (such as those that were formerly in the Soviet Union) have established laws regarding the budget, its contents, and the overall financial system, thus ensuring fiscal transparency, in several other countries access of the public to the budget, and full accounts, continues to be scant. In some of the centrally planned economies, which are also based on mono-political cultures, and some of the middle eastern kingdoms, the public gets only bits of information and the full documentation on budgets and annual performance continues to be absent from the public domain. It is likely that approximately one-third of the world's population is in this area of darkness.

The role of the legislature has also undergone major change during recent years in the name of quick decision-making, that is so essential to macroeconomic management, much of the power relating to the control of the purse, has shifted to the executive wing of the government. Even in such countries as the United States, where the legislature has been viewed as traditionally dominant, the role of the congress has been reduced by the permanent legislation governing budgetary outlays. Nearly seventy percent of the outlays in the annual budget are predetermined by the existing legislation. In a large number of developing countries, the annual flexibility is very limited. This, together with the shift of power to the executive has made governments more vulnerable, and its capacity to avoid financial crises, has reduced, in the eyes of the public, the esteem that it would have otherwise had. Besides, insistence on routine unidimensional financial accountability by separating it from effective service delivery has not improved matters. The financial management cycle, it is perceived, has become a ritual that is often carried on like an innocent folk rite for its own sake, than for the public. Further, the emphasis on these aspects by the international financial institutions has changed the color of the issue. It is viewed as an elite idea than as a home grown approach, undertaken more to please the international institutions, than to be effective in the service of the community.

In addition, where the machinery for full (as distinct from minimum) transparency and accountability exists, the institutions charged with these responsibilities, as will be indicated further on; have not been very effective. Their underachievement is, in part due to the laws enacted a long time ago governing their administrative processes and in part, due to poor effort to adjust to the changing tasks. A combined result is growing apathy toward government at a time when its role is also expanding, the paradox referred to at the outset, and the capture of policymaking by small groups, with a negative impact on governance. If the reality is different from the idea, then it is appropriate that the issues affecting transparency and accountability are addressed in details. The problem is not with the general notion but is with the functioning of the arrangements for transparency and accountability of operations. The details, however, are too many, and the following discussion covers only the more salient ones.

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<sup>7</sup> See Putnam (1993), p. 64-66.

**(i.) Corruption and Financial Management:**

One of the underlying objectives of improved transparency and accountability is to reduce the extent of corruption in the management of governmental affairs. The nature of corruption, however, is a complex one, and may not be fully addressed by the existing fiscal machinery. Conceptually, corruption arises, in so far as the tax collection machinery is concerned, when the transactions between the assessor and the assessee are not transparent. In several countries, e.g. India, tax assessment is in part negotiated between the assessor and assessee. Even in regard to indirect taxes, e.g. customs, the scope for negotiated settlement is quite substantial and may be inherent in the system. In one country, for instance, the customs law specifies forty-five varieties of imported steel, each with its own rate of tax. Given the subtle distinctions, the levy becomes a matter of negotiation, with the inevitable prospect of corruption, with the taxpayer. Similarly, the application of the law relating to tax expenditures, which in many countries, is extensive and covers a wide ground, also permits, in some cases by design, a good deal of discretionary action, contributing in turn to corruption. It could be argued that efforts aimed at reducing corruption should therefore address the task of revamping the tax system, and related laws.

As for expenditures, financial management systems including effective internal and external audit control systems can only deal with embezzlements and motivated award of contracts. In both types, the proof of malafide intentions and practices is pursued, in most cases, as a part of criminal law, rather than as a part of the audit process. The introduction of electronic payment systems, particularly for payroll, pensions and public debt, was viewed, by some, as an approach that would reduce the amount of corruption. Even here, the inadequate maintenance of manual record and the quick transition to electronic systems has contributed to the emergence of ‘ghost employees’ and ‘ghost pensioners.’<sup>8</sup> These aspects illustrate the need for a good deal of supplementary action aimed at improving the administrative infrastructure.

**(ii.) Fiscal Policy and Macroeconomic Stability:**

Several measures taken during recent years by many governments reveal the pursuit of contradictory approaches. The enactment of fiscal responsibility legislation, the pursuit of hard budget constraint as an integral part of regional cooperation, have, in some ways contributed to the picture of a strong determination to pursue fiscal rectitude. On the other hand, the passage of zero deficit approaches into law, or pursuit of cash-limited payment systems under which government payments are limited by available revenues, have posed serious problems to the pursuit of proper fiscal policy. A fiscal policy implies a balance between fiscal aspects and service delivery. In cash limited approaches, budgeting becomes a back-door exercise in that the budget that is implemented may not be the one that is approved by the legislature but the one that is determined by cash inflows. In such a context, service delivery becomes incidental, and the very approach

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<sup>8</sup> The phenomenon of ghost employees is not entirely a new one. For a delightful spoof of the Russian situation at the end of the 19<sup>th</sup> century, see Ivan Turgenev’s novel “Ghost Souls.”

that is intended to shore up investor confidence ends up eroding the public trust of government, and more important, militates against the framework of legislative accountability. In some cases, the extremes of cash limited back door budgets are sought to be mitigated through the specification of protected categories of expenditure. These categories, however, are limited to wages, pensions, public debt, defense, etc., which again reinforces the popular perception that in a crisis, the first activity that is protected is, not service delivery, but payment of wages to government employees.

**(iii.) Circumvention:**

The experience of both industrial and developing countries shows that governments are generally engaged in circumvention of their own laws. The practices include, generous window dressing of budget estimates of revenues and expenditures, avoidance of credit limits through an accumulation of unpaid bills, transfer of amounts toward the end of the year to personal accounts to avoid lapse of funds, manipulation of performance data and associated means. Window dressing involves assumption of rosy scenarios of economic growth, and policy measures yet to be formulated. Both these are sought to be done in such a way that a gullible public may not always know what the government is doing. While these practices are sought to be minimized in some countries through a review of the estimates by the audit agency, or through an assessment by credit rating agencies, it should be noted, that these efforts are, by and large, very limited. Meanwhile, the budget reflects, in several cases, the deployment of creative accounting approaches that effectively mask the reality in the short-term. These practices, to say the least, work against the framework of financial accountability.

**(iv.) Implications of New Management Philosophy:**

During the last decade, advocacy for the introduction of new management philosophy in governments, has become a major feature of public debate. Although there are several versions of this philosophy, in so far as financial management is concerned, it is expected to comprise the following – creation of small task-oriented agencies, indication of firm advance ceilings for the budget and the results expected during the fiscal year, and extensive delegation of financial, administrative powers to the managers of agencies, and a framework of accountability to the public. This approach, it was suggested, would shift the traditional emphasis in public authorities on the control of minutiae to results. There is much to be said in favor of the new philosophy. Experience however, shows that the implementation of this approach has also contributed to the phenomenon on ‘accountable to none’ in that the channels of accountability to the legislature tend to be very weak. The agencies are not subject, in most cases, to the discipline inherent in the legislative process, and placement of reports with the legislature or maintenance of web sites were deemed to be adequate for accountability. In most cases of administrative reorganization, the addition of financial accountability to the administrative design was more, in the nature of an after thought, rather than an integral part. The reduced accountability has in turn, contributed to more issues about the design associated with the philosophy, including the inherent trade-off between managerial autonomy and accountability.

**(v.) Rebuilding Dilemma:**

The changes in the portfolio of expenditures of government have had serious implications for transparency and accountability. Increasingly, in several cases, a greater share of government expenditures is devoted to transfers to local governments, and, in the case of social services, to non-governmental organizations. This has inevitably contributed to a greater gap between funding of services and the actual provision of services. While government agencies, concerned with funding, engage in a good deal of conditionality aimed at ring fencing, in practice, the means of enforcement are limited. Local governments and non-governmental organizations have their own administrative systems and are generally not subject to end-use audit by the central audit agency. In several cases, non-governmental organizations may not have any self-enforcing standards governing their financial management systems. As a consequence, a whole layer of administration that is beyond the scope of accountability has emerged. In the view of some, this represents a serious leakage in the traditional system of financial control, without any redeeming advantages to service delivery.

**(vi.) Comprehension:**

The success of fiscal transparency is dependent on the way it in which fiscal information is utilized by the public in guiding its own behavior. As noted earlier, public is a generic concept that includes several homogeneous groups with conflicting interests. The overwhelming impression about the information released by governments on their financial transactions, and associated transparency arrangements is that there are vital gaps in them, and are far from adequate in serving the interests of the public. In several cases, neither the budgets, nor the annual accounts, provide information on tax-expenditures, outstanding guarantees, the nature and reliability of financial assets, and liabilities including contingent ones. Moreover, a good deal of detailed information on small operations may be provided, while being generally opaque in large areas such as defense, and extremely brief on benefits of expenditure programs or on the high-risk areas of operations. More important, most budgets tend to be very silent on risk management, that is, the changes in strategy in the event of changes in the underlying assumptions. Also, budgets and accounts in government speak a technical language that tends to be extremely difficult to comprehend for the public. In several cases, the classification of government activities may conceal more than they reveal. In turn, these built-in features have tended to reduce the beneficial impact of fiscal transparency, while contributing to greater reliance on interpreters of data.

**(vii.) Audit:**

The effective functioning of an independent audit system reinforces the trust that the public has on governments. During recent years, efforts have been made to establish audit systems in newly formed countries. While this is a major achievement, the overall performance of the audit systems leaves a good deal to be desired. In many cases, audit is not permitted to review government policies, and financial audit yields very limited results. In several cases, the audit cannot also follow the full trail of government expenditures. Transfers to local governments, non-governmental organizations and the books of contractors that perform tasks for and on behalf of governments, are beyond the scope of a normal audit. Moreover, in most cases, audit continues to be of a conventional accountancy type and there is, as yet, little reliance of performance or investigative audit.

In most cases, the purview of the audit is constrained by the laws, which are old, and which reflect the values prevalent then. In some countries, audit continues to be engaged in the maintenance of accounts too and to that extent, is engaged in auditing its own books. Although, the international organization of supreme audit institutions has suggested more than a decade ago, that each audit agency should undertake a peer review of its own activities, so far, only one country has done that. A result, in many cases, is an outdated audit agency that has to grow in several ways in order to be effective.

**(viii.) Legislatures:**

Legislatures are of several varieties and their role in the approval and evaluation of public policies, both a *priori*, and a *posteriori*, reflects wide variations. For analytical purposes, however, they may be divided into three groups – (a.) those that can transform public policies, including financial legislation, on their own initiative; (b.) those that are limited to the approval/rejection of governmental policies; and (c.) those that have a limited function of only debating government proposals without any powers either to approve or reject them. Excluding the third category, whose lack of effectiveness is too palpable, it would appear, that even in the other cases, the role of party whip, and accumulated legislation with a decisive impact on the resources committed, their role in day-to-day management of fiscal affairs has been reduced considerably. In several countries, the year-end review of accounts has become a ritual, and in some countries, non-existent. Due to schedule differences between the audit agencies and the legislators, the reports produced by the former may not even reach the legislative table, while the fact that the reports are available in the public domain should by itself be contributing to improved accountability, the absence of a channel to exercise effective oversight has, in combination with other weaknesses, contributed to a state of helplessness. Meanwhile, the very source that is expected to convert the idea of public accountability into a reality, is also the one, mostly by accident, and paradoxically, in some cases, by design, that is standing in the way.

**Towards Improvement:**

The preceding analysis shows some of the many factors impeding the effectiveness of fiscal machinery in many countries. It reveals the mismatch between the expectations of the public, and the responses of the administrative machinery both within and outside government. Meanwhile, the changing portfolios of government expenditures, on the one hand, and the dynamic compulsions of new management philosophies, are making further assiduous efforts at improvement an imperative. The pursuit of this imperative through umbrella themes, such as fiscal transparency and accountability, is by itself not adequate. These terms have to be converted into operational frameworks, and this task implies continuing efforts dedicated to details, and a constant process of adaptation – a task that remains to be undertaken.

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