

***Inaugural Address***

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*Mr. Kaul, Mr. Gupta, Mr. Carter, Mrs. A. Makhan, distinguished guests, Ladies and Gentlemen.* It gives me great pleasure to be in your midst this morning. It is heartening to see such a large gathering of distinguished representatives from so many countries who have come here to discuss different aspects of Government Accounting. The theme of the Seminar is “Accounting for Results”. The purpose, as I understand, is to focus on the objectives, systems and procedures of government accounting so that accounting becomes one of the instruments for achieving efficiency in the mobilization of resources and effective utilization of the resources so raised. In India the Centre and the States taken together today raise through revenue receipts and capital receipts an amount equal to 30% of GDP. In a country like Sweden, the Government raises more than 50% of the country’s GDP in the form of resources. Needless to say that a good government accounting system is imperative, when resources of such magnitude are involved. A good accounting system should make people accountable for their actions. Accountability will in turn lead to achieving the desired results. In that sense, accountability and results are the two sides of the same coin.

The most important organisation in any country is government. While there is a continuing debate and discussions on the respective roles of state and market in an economy, it goes without saying that the state or the government has a very large role to play. The functions of the government can be broadly classified into two groups 1) administrative and 2) developmental. From the earliest times, it has been recognized that a major function of the state is to maintain law and order and protect the country from external aggression. This, in fact, was the original function of the state and was the *raison d’etre* of state. These functions continue to remain important and are performed by all states and governments. The developmental role has undergone some changes in the recent period. In the recent period, there has been a de-emphasis on the role of government in the production of goods and services, which are not in the nature of ‘public’ goods. Hence, the role of the state or government in the provision of social infrastructure facilities such as health, education and sanitation is gaining added importance. That is why the seemingly paradoxical statement “More market does not mean less government but only different government”. Whatever be the role of the government whether it is administrative or developmental, the need for efficiency remains paramount. The government must perform well whatever it has set out to achieve. The government to be truly effective must be efficient, responsive and transparent. Efficiency implies better utilization of resources. Responsiveness means that the government, as a provider of services, is alive to the

requirements of the people. Transparency means openness in decision making and implementation. In relation to all these three dimensions, government accounting has an important role to play.

The primary purposes of government accountants have always been to facilitate internal decision making and at the conclusion of the fiscal year compile the financial results, which will enable the public and the legislators to evaluate the performance of the government. At the core of government accounting is a task of compiling government accounts. While this core activity continues to remain the same, the procedures and modalities of presentation are undergoing change. This is in part because of the shift in the objectives of accounting and in part due to the increase in the number of stakeholders and their awareness. A question that is frequently asked is whether the way in which government accounts are prepared presents a true picture of the soundness of the fiscal system. It is in this context, there is considerable discussion on the relative merits as Auditor General *Kaul* just mentioned of cash accounting and accrual accounting. There is, as he just mentioned, scepticism whether government as a whole can adopt accrual accounting. Nevertheless the imperfections or inadequacies of the cash accounting system cannot be ignored. The system of cash accounting does not bring out clearly the future liabilities. Loan repayments and pension liabilities loom large before many governments. In fact the need for creating Sinking Funds to meet future repayment liabilities would have been apparent, had the system of accounting brought out more explicitly the future burdens. Not providing for depreciation has led to poor maintenance of assets and lack of replacement at the appropriate time. Government accountants have to seriously think in terms of how the cash system of accounting can be modified or supplemented so that the full picture of the monetary liabilities of the government will be captured and brought out.

New concepts have also evolved over time for understanding better the fiscal or financial position of the governments. One such concept is the fiscal deficit. For example, in this country for a long time the budgetary deficit of the Government of India was defined in a narrow sense. It was just equal to the changes in the treasury bills holding and the change in cash balances. Since the bulk of the treasury bills were held by the Reserve Bank of India, this definition meant only short term borrowing from the Central bank. The Chakravarty Committee, of which I was a Member, suggested in mid-80s that this concept should be broadened to include all types of borrowings from the Reserve Bank of India. It recommended showing in the budget document changes in the Net RBI credit to government. In fact, I don't remember exactly, perhaps from the year 1987 onwards, the net RBI credit to the Government was shown as a separate column in the Budget. It was only subsequently that the concept of fiscal deficit, which included the entire borrowings of the Government of India, came to be adopted. Definitionally, the fiscal deficit in any particular year must be equal to the change in the outstanding liabilities of the Government that is at the beginning and end of the year. Sometimes these numbers do not tally unless you work diligently.

While the concept of overall fiscal deficit is important, there are other concepts such as revenue deficit and primary deficit, which are also relevant. It is indeed the responsibility of the government accountants to prepare the accounting statements in such a way that these deficits can be computed easily. The concern with fiscal deficit is not a fetish. The interest payments continue to increase and these interest payments continue to remain not only in absolute terms but also as a portion of revenue expenditure. And this has happened because expenditure of the Government particularly revenue expenditure has increased at a much faster rate. I recall in this context somebody comparing the Government with the alimentary canal of the child, voracious appetite at one end and no control at the other. Someone has also said, Governments all over the world are weak in mathematics. They know how to add but not subtract. In fact there is such a concern with the level of fiscal deficit, that many Government have passed legislations limiting the extent of borrowing by the Government. In India, the Lower House recently passed the Fiscal Responsibility and Budget Management Bill, which though somewhat diluted from the original draft, nevertheless, has set a time limit of March 31, 2008 for eliminating revenue deficits. The Bill which has been passed has not set the road map for reaching this goal which was indicated in the Draft Bill. Nevertheless, it is an important legislation. It has created an institutional framework for the authorities authorized by the statute for ensuring fiscal discipline. The enactment casts an important obligation on the Government to present a Medium Term Fiscal Policy Statement along with many other statements. While the reduction in the fiscal deficit involves several policy decisions, Government accountants can play an important part in bringing about the desired objective through such systems and procedures, which ensure better expenditure control, improved public expenditure productivity and better cash management.

Professional accountants have come in for some severe criticism in the last few years in the light of many scandals that have rocked the corporate world. Questionable accounting practices have come to light. These practices have been designed to hide and conceal rather than educate and inform. The exposure of these financial reporting practices has lead to a great deal of scepticism about the profession of accountants. Earlier, there was considerable discussion on corporate governance because of deficiencies and malpractices noted in the way public limited companies have been managing their affairs. The need for better ethical standards in the profession has now assumed importance in the light of the recent episodes. Professional accountants have been seen to be hands in glove with managements. While all these may not be directly applicable to government accountants, nevertheless, the fundamental issue is the same and that is whether accountants have been able to present a true picture of the institutions for which they are accountants. In this context, several institutional changes may be called for in the field of Government Accounting. Viewed in this context, the organization of the Controller General of Accounts in India has been a landmark in the modernization of our government financial administration.

The government accounting system as well as the administrative regulations in all our countries has evolved over time. The shared colonial experience has also introduced some commonality in our systems. The emphasis in all our systems has been on following the proper procedures. Much less emphasis has been laid on results in terms of achieving the objectives. That is why it has been remarked that our systems are such that the bureaucracy is encouraged to do things rightly rather than do the right things. We must move towards a system, which encourages the bureaucracy to do the right things in the right way. "Accounting for Results" emphasizes this approach. What is needed is a result-oriented approach. Resources are scarce. They need to be employed in such a way that the maximum benefits are obtained. People should be made accountable for results. For this to happen there is need for a clear enunciation of the objectives and this is not always found. The New Zealand experience is appreciable and a system that encourages initiative within a framework of reasonable checks and balances.

Accountants are not meant merely to record expenditures. They are more than record keepers. Through a proper system of classification and analysis, they can help to reduce unproductive expenditure and improve the effectiveness of expenditures. Performance budgeting, which has taken a back seat in recent times, needs to be brought forward.

I would like to emphasize in this context the need for timeliness in the presentation of accounts, a point emphasized by one of the speakers earlier. Any long delay in presenting the actual figures defeats the very purpose of accounting as a tool of management. Fortunately, information technology has come to our help. Government accounts departments must make effective use of the new technological advances so that the required financial statements are made available with a minimum time lag. I must say, the trauma through which some of us used to pass because of unavailability of data on correct time. The RBI has, and continues to have, a regulation under which a State Government continues to have an overdraft, instructions will be issued to countermand the cheques. This information is needed at the end of the time period. Precisely and accurately because any wrong decision would be injurious. So I again emphasise the need for timeliness arises for variety of reasons for taking action etc.

The role of Government is changing. The liberalized regime has not in any way diminished its role. In some areas, it is expanding and in some others, it is contracting. People will be willing to be taxed only if they see corresponding benefits flowing from the resources taken away from them. Management of public expenditure is the key to providing satisfaction to people. Enhancing the productivity of public expenditure must assume central importance in any programme of governmental re-organisation aimed to achieve good governance. In this task, government accountants can play an important role by presenting transparent financial reports at periodic intervals on the state of finances of the government., It will help the government not only to fine

tune its policies but also to assess its performance continually. More importantly, a good Government Accounting System will facilitate better public expenditure management comprising of rationalisation of expenditure, elimination of unproductive expenditures and enhancing the revenue, monetary or otherwise, from productive expenditures. A good accounting system is a necessary, though not a sufficient condition for good governance. Certainly it can pave the way to good and efficient public administration. An accounting system given to achieving results is what the countries of this region need very badly, as they race forward to achieve higher levels of growth.

I would like to congratulate the Controller General of Accounts and the World Bank for organising this Seminar. I wish your deliberations all success.