
Accounting for Results

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The Session on 'Accounting for Results' was chaired by *Mr. Shabid Ali*, Asst. Director, Ministry of Finance & Treasury of the Maldives. The panellists were *Mr. S.W. Oak*, Principal Chief Controller of Accounts, Central Board of Direct Taxes, Ministry of Finance (India), *Dr. M. Govinda Rao*, Director, National Institute of Public Finance and Policy (India) and *Dr. Maria Barrados*, Assistant Auditor General (Canada).

In his opening remarks, *Shabid Ali* spoke on the importance of having a proper accounting system and cited the ongoing World Bank aided project in Maldives. He also mentioned that the accounting system in Maldives is not a colonial legacy, unlike many of the other South Asian countries.

Initiating the discussion, *Dr. Govinda Rao* highlighted the importance of accountability and the need to measure the outputs/outcomes. Quoting from Kautilya's Artha Shastra, "Just as it is impossible not to taste the honey or poison which one finds at the tip of his tongue, it is impossible for someone dealing with government funds not to taste some of the king's wealth"; he stated that there should be a proper accounting system, which is now, also a worldwide concern. In the private sector the market determines the prices. However, the case is entirely different in the government sphere. Here, the government provides the goods and services. In fact, in the public sphere, people who pay the taxes are not necessarily the ones who gain public service, all the time. . Since, the goods and services provided by the government are non-rival and non –excludable, everybody gains. In principle, it is impossible to exclude some people from not taking advantage of the services of the government. It is therefore necessary that accountability exist in the public system. Accountability in public service is very important and since no automatic checks & balances exist value for money should be achieved. This problem is more serious in the developing and transitional societies and is also of great significance because of the scarcity of resources. In India, over 30-35% of GDP is spent on public services every year, so it is important to ensure that public spending is according to the preferences of the people and in the most efficient manner. Several innovations have been have been tried earlier, to get the value for money like ZBB, Performance Budgeting etc. However, the question of evolving a system to get the value for money has been repeatedly asked.

New Zealand has innovated and tried to specify individual functions. The Governor of the Reserve Bank has been given the mandate that if the inflation rate is greater than 3%; then the individual should offer to resign. This is a new aspect of individual accountability. However such a system may not work in a developing country setting. The challenge therefore is how to

develop an efficient system, within the constraints imposed by the less organized nature of the economy, and by the lack of information.

Conceptualization

Dr. Rao raised the question of “Accountability to whom”. Ultimately accountability is to the people. In India, it is virtually to the people’s representatives i.e. the parliament. There exist internal as well as external control mechanisms to ensure accountability. The constitutional authority, the CAG, submits his reports to the President, who places it before the parliament. By the time this happens, any loss has already been incurred. It is like locking the door when the thieves have already broken it, and taken away the loot. Emphasis is on processes, rather than value of money. The ultimate results are not attended to.

Expenditure is controlled by input purchases. Sometimes outputs & outcomes are difficult to trace, for e.g. education. The link between literacy & expenditure is difficult to monitor. Focus is on enrolment, salary of teachers, textbooks, etc. which does not indicate the output viz. literacy. The problem is mainly due to difficulties in measuring public output. The objective function includes not only the volume output, but also who are the beneficiaries. Difficulties in identifying the beneficiaries exist.

Among other issues, *Dr. Rao* raised the following:

- ❖ The important precondition for accounting is a Medium Term Expenditure Framework (MTEF). Having set targets in terms of outputs/outcomes, one should work out expenditure & then phase it out over the next 5 years. Accounting for results, not only involves monitoring, but relates to the whole gamut of issues like MTEF and multi- year budgeting. Involvement of line Ministries and sub-national governments in MTEF is important.
- ❖ Information asymmetry and high transaction cost.
- ❖ Incentive compatibility within government hierarchy.

The overall expenditure should confine itself to areas where the market fails. Secondly, it needs to be investigated whether it has some impact on the poor and lastly there should be technical efficiency in the spending. It is found that the individual agents of the government tend to maximize their own welfare. Within the public choice framework, we have to explore the possibility of the other options available.

Institutional Reforms

Accounting for results involve policies and institutional arrangements. Formulation implementation and monitoring of Institutional reforms are as important as Policies. A critical element of institution reforms is to restore competitive environment. There can be no effective accounting at Taluk/District level without devolution of power. In fact, it is necessary that

incentive to perform should exist. Accounting reforms should encompass all the three processes – Budget formulation, implementation and monitoring/control systems.

Accounting is a professional task and should coincide with capacity. It should not be a post retirement job. Manning of posts by professionals from the top, downward would give the right message regarding the importance given to the Accounting function. Transparency and simplicity in accounting systems is crucial. The Godbole Committee pointed out that the Maharashtra budget is a document of 10,000 pages. It is difficult for any politician to understand it. Stress should be to simplify the whole system and to demystify the budget. *Dr. Rao* stated that there is a need to get rid of the distinction between Plan and Non Plan expenditure. The focus should shift from procedure and processes to the result. He concluded by saying that the system is as good as intended. One size does not fit all. Institutional Environment is extremely important and is a precondition for a successful accounting system. Political will is the most important factor. Participatory Evaluation has a lot of merits. Accounting is a professional job – it is necessary to constantly review and upgrade capacity.

Dr. Maria Barrados pointed out that the Canadian approach has been evolutionary, rather than introducing major reforms. The definition of accounting boils down to linking the financial information (costs) and non-financial information (results) to determine value. The focus is on managing for results, using result chains. In financial management, it is important that the essentials of proper accounting and a sound record maintenance system are in place. For better accounting, spending should focus on economy, efficiency and effectiveness. It should also support decision making by management and strengthen accountability.

In Canada there has been a shift from cash accounting to modified cash accounting, and now accrual accounting. There is also a commitment on the part of government to have budgeting on accrual basis as well. The emphasis should be on changes on a continuous basis rather than on sudden reform. If a framework is in place, which has citizens as its focus, the Citizen focus will ensure responsible spending and strong values and ethics, on which the programs are managed. There exist linkages between inputs and outcomes. There is a need to control the linkages between immediate, intermediate and end outcomes. For example, a program to reduce water pollution could have the advertisement campaign as the activity, and output as the number of flyers sent, offering assistance. The immediate outcome would be the number of firms that requested assistance. The intermediate outcomes would be the number of firms that adopted requisite production changes, and amount of pollution discharged by the firms. The end outcomes would be; improved water quality and improved health of the population. One of the challenges to using result chains is the need for learning from results; and using the result information to improve future results.

Linking money spent and results: For this, one needs good financial information and also good result information. In Canada, planning and budgeting are being done on business lines. In Alberta

province of Canada, results have been linked with numbers and for each core business goals are set. In linking expenditure with results it is important to have a matching structure. We now talk of a shift in focus on resource inputs, activities and outputs to linking the inputs, activities and outputs to outcomes. There has to be responsibility for the outcomes, even though we recognize that some factors are not entirely, in the government's control. Summing up, *Dr. Barrados* stated that it is essential in moving forward, to link results with financial information; and one cannot forget the fundamentals.

S.W. Oak stated that Accounting for Results is a catchy concept. Traditionally, Governments have focused on resource inputs, activities and outputs. The shift is now towards outcomes with a focus on citizen. Government spending according to the preference of the citizen need not necessarily happen, unless beneficiary feedback is sought and obtained. Schemes and programs do not talk of outcomes, hence the results are not commensurate with the efforts. For instance, the success of the malaria eradication program is measured in terms of employment, setting up of industries, etc., whereas the focus should be on the outcomes viz. preventing malaria deaths. The psyche of India and its neighbouring countries needs to be well understood, when making changes; including the broad based outlook as opposed to super specialization and a scenario where time frames are not deemed to be critical.

The accounting structure should be institution based. Financial and physical statements need to be interlinked to provide meaningful information to Management. The Non Governmental Organisations (NGO's) are very important in developing countries. Professionalising the NGO's would help in proper determination of outcomes. In conclusion, *Mr. Oak* said that, terms such as Gross National Product (GNP) and Human Development Index (HDI) are referred to, when focusing on results. In Bhutan, a new concept viz. Gross National Happiness (GNH) has been found to be relevant, in the quest for getting the desired results.

The session ended with an interactive session, wherein the need for multi-year accounting was discussed. It was pointed out that it may require multi-year Appropriations, as opposed to Annual Appropriations; but would ensure that temporary parking of funds is avoided.

Conclusions & Recommendations:

- ❖ There is a clear need to measure outputs and outcomes. Linking inputs, activities and output to outcomes must be a stated objective of the "new" accounting system.
- ❖ Accounting should be an integral component of Managing for Results.
- ❖ Categories of classification of government expenditure, which do not provide any meaningful information, should be eliminated.
- ❖ There is a need to constantly review and upgrade capacity in the government accounting profession.