ISAS Special Report

No. 26 – 14 July 2015

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Audit, Good Governance and Sustainable Development[1]

Democracy is a system in which the rule of law is allowed to take its course and the ultimate goal of the government is the pursuit of the collective good. The auditor, keeping vigil on the functioning of all the institutions of the executive, is a key player in this process. Such an atmosphere will ensure that economic growth is inclusive.

Vinod Rai[2]

Audit, good governance and sustainable development are the concerns uppermost in the minds of all citizens in India today. Economic development, however rapid it may be, cannot be sustained in the long run unless it is driven by good governance. This has been the experience of nations around the world. Hence, its relevance in the Indian context. I propose to approach the issues involved in three parts:

First, we will address the historical perspective of these factors and the background leading to why and how good governance has become so critical to India today. In the second part, we shall see how good governance helps in making development efforts more sustainable in the long run. We shall draw on lessons in history wherein the lack of a responsive and

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[1] This Special Report is based on a speech delivered at the Indian Institute of Public Administration, Karnataka Branch, in Bengaluru on 30 May 2015.

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accountable administration led to a frittering away of the benefits of economic development. We shall then proceed to examine how audit can contribute to good governance and how it can help sensitise awareness and public opinion which, in turn, helps the citizenry to maintain vigil on the actions of government.

To view the entire issue in the appropriate perspective, let us begin with events at the turn of the millennium. At the turn of the century, the Indian economy was displaying excellent signs of growth and buoyancy. A matter of great elation was the uplifting thought that the vibrant Indian democracy was capable of delivering near-double-digit economic growth. India had successfully overcome the stressful situation that preceded the 1991 reforms, consolidated the initiatives taken after the reform agenda was unfolded, and indeed withstood the shock which had hit the Asian Tigers in 1997. In fact, the ‘India shining’ story was being projected during the 2004 general election with great gusto. Private investment indeed was encouraging. Manufacturing was being freed of licensing; banking and insurance had been liberalised. Road and telecom sectors were clocking good growth. Value Added Tax (VAT) had been introduced, and it was believed that General Sales Tax (GST) would follow soon. The country even managed to survive the initial setbacks of the financial meltdown which was traceable to the toxic assets originating from the United States of America. India had grown out of the shadow of an albatross around its neck for forty years since Independence – the tag of its economy growing at the 'Hindu rate of growth' viz. 2.5% to 3.5% per annum.

However, as almost all major developed and emerging economies are now globally networked through trade and financial institutions, the gathering economic consequences of the meltdown did create difficulties for India. The adverse turn in India’s external economic environment proved to be the real test, wherein exports began to decline and, as a consequence, the manufacturing sector began to suffer upon the emergence of supply side problems. Trade imbalances began to arise, leading to serious deficits on the current account. It was around that time when some recent decisions of the government came up for adverse notice in the public space as well as in parliament. The decline in investments on infrastructure, and the poor quality of public spending, sparked allegations of 'cronyism', opacity in the decision making process and a feeling of so-called 'policy paralysis'. There appeared to be a decline in the trust between the government and its people. The government did attempt the usual macroeconomic solutions to overcome the slide in the economy. These did not yield the desired results.

Something had very seriously gone wrong. Was it only about economic issues? Was it only because of the Indian economy being plugged into the global economy, which in itself was stalling? Or, was it that India had not unleashed its ‘national spirit'? Something had gone wrong, horribly wrong.

This was the time when the citizens’ dissatisfaction peaked, and the civil society movements took centre-stage to demonstrate that the common man was no longer willing to accept the ineptitude that seemed to afflict the management of the economy and the government itself. The citizen began seeking accountability for some very-obvious misdoings, instances of which had become public knowledge. The bungling in the preparations for the Commonwealth Games of 2010, the perceived opacity in the distribution of finite national resources such as coal and radio waves, became the subject matter of discussions at bus stops, tea shops, on television channels, in living rooms and indeed, the parliament, too. There was an all-pervasive feeling among the citizens that the government had faltered, and governance had become a casualty.

2012 became the defining year, as the discerning Indian citizenry, awakened to the perceived misdeeds of government, demanded a responsive administration, and set out to debunk another myth: the myth of a 'silent majority'. The majority decided it could no longer afford to be silent and that it should hold its government to account. This heralded a maturing of India’s democratic forces. It became clear that the citizens were seeking a dialogue – a dialogue in which they could participate in governance. This was indeed the old order changing, yielding place to the new. The era of a new discerning and very-demanding class of citizen had now come to stay. The citizen was now seeking to develop a new moral and ethical framework to guide the elected representatives and the populace as well.

With the citizenry seeking transparency, responsiveness and accountability in the operations of government, the requirements of good governance had clearly come centre-stage. By now, there were very distinct signs of the urban Indian middle class mobilising itself politically. This mobilisation was again debunking the conventional wisdom of the white-collared urban citizenry being unwilling to take to the streets to pursue the public cause. This class of people had earlier confined itself to living-room discussions, TV debates and maybe, college-level politics. They even took pride in not caring to cast their vote. They had looked askance at caste- and regional-politics, and were never sought out by the political parties. But this disparate group began aggregating and uniting for a cause. It seemed to feel its strength. What stirred them?

Maybe, corruption at every government office; in the issuance of a birth certificate, a driver's licence, a hospital bed, a gas connection.

Maybe, it was a series of episodes that related to a Jessica Lal, a Director General of Police Rathore or a Manu Sharma, a series of events that outraged the public' sense of justice and propriety. Maybe, it was the realisation that the citizens should no longer tolerate being denied basic amenities such as drinking water, power and security.

Maybe it was a TV clip of a state minister telling officials that it was okay to steal a bit but one should not loot.

The proverbial last straw on the camel's back certainly was the unfolding of human barbarity at its worst, on the night of 16 December 2012, in New Delhi, against a young lady. A churning of public conscience among the civil society had commenced. A new paradigm was now emerging.

In a parliamentary democracy, the three main pillars such as the legislature, the executive and the judiciary have an equal role to perform. They have their own checks and balances too. The supremacy of the elected political executive in a parliamentary democracy cannot be denied. The administrative bureaucracy is meant to facilitate the implementation of the policy parameters enunciated by the political executive. The conventional wisdom of good governance is premised on the basic tenet that democratically elected governments will conduct public affairs with probity and accountability.

Governments are entrusted with the responsibility of exercising power and taking decisions on behalf of the people. The well-being and development of all people depend on the choices made by their representatives. It is easier to misuse or not use this authority. A government is administered well or practices good governance when its authority and institutions are accountable, effective and efficient, transparent, responsive, equitable and inclusive, under the rule of law.

Good governance is not the responsibility of the government alone. It is an equally important requirement in the corporate sector too. It also extends to the civil society, the non-governmental organisations and citizens' groups. However, as the governments collect money from the public and spends it on behalf of the public, such spending does place an element of higher accountability on governments. Such accountability requires that the actions and decisions taken by public officials are transparent and capable of withstanding public scrutiny: such accountability in respect of government decisions and actions ensures that the government initiatives meet their stated objectives and are indeed responsive to the needs of the people. History speaks of such accountability being a cornerstone of virtually all definitions of democracy and good governance, since time immemorial.

The idea of governance and accountability is as old as organised government. The preservation of the resources of the king in ancient times was accorded topmost priority. As early as in the Third Century BC, *Kautilya* in his *magnum opus*, *Arthashashtra*, had observed that it was the disposition of human nature to acquire 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 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". Therefore, *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".

The Greek philosopher 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".

In medieval England, we find that the concern for fiscal accountability was paramount. As early as the 13th century, parliament had sought to scrutinise accounts, even from the royal household, and the attempts in the succeeding centuries met with an objection from Henry IV that 'kings do not render accounts'. After the Glorious Revolution of 1688, the Commons felt that they ‘might claim a more extensive function, that of investigating the wisdom, faithfulness and economy with which grants had been expended’. This led to the setting up of ‘commissioners of accounts’. Later in 1780, the creation of statutory commissions by Lord North was a significant step in the process of accountability, as these commissions were independent agencies as distinct from the earlier political institutions.

We need to ponder why there is so much of emphasis on good governance and more so for sustainable development. History speaks of so many instances in the development of nations, where despite good steps being initiated by governments and emperors alike, the lack of transparency and accountability had rendered the entire effort fruitless. A remarkable example is from the administration of the East India Company. The company is often believed to be the forerunner of the modern multinational firm. Starting as a humble trader in Asian spices, the company soon emerged as the face of the British Raj. Today, there is no sign, not even a plaque in any building or location, as a reminder of the existence of the world’s most powerful corporation of yesteryear. What did bring about the decline of this powerful company in an era which was otherwise promoting an earlier phase of globalisation? Private trading by its managers became one of the cancers that gnawed at the company’s ethical fibre. Accepting ‘presents’ in order to secure business for the East India Company had become commonplace at one stage. Those ‘presents’ influenced the quality and cost of the commodities traded. The cancer spread as intrigue, corruption and speculation, leading to that company’s decline and its demise. The company’s legacy provides compelling lessons on how to ensure accountability and probity in today’s global business. The most fundamental challenge that all institutions face is to ensure that their employees promote the collective rather than the individual self-interest. History has repeated itself with Barings Bank, Bears Stearns, and Satyam – personal greed versus corporate interest.

The community of nations seeks development which is sustainable over the long run. Such sustainability is possible only when it is premised on the delivery of public services based on core values such as integrity, transparency and accountability. It is imperative that the rule of law is allowed to prevail and the system delivers on its own. To further strengthen the delivery process, it is essential that public sector agencies possess or develop the capability and expertise to perform in that sector. Domain capability is very critical to sustainable performance. Such capability will have to be dovetailed with the objectives of the public sector institutions to ensure that prioritisation of the service-delivery is based on the felt-needs of the society. When the service-delivery is dictated by the insidious design of those in power for personal needs, the environment becomes vitiated leading to a breakdown of public trust in both the elected and nominated officials.

Accountability-ensuring institutions form the core of a successful and performing democracy. The existence of strong and independent accountability-ensuring institutions are necessary to uphold the interest of citizens. Oversight by these institutions improves efficiency and effectiveness of a government's operations. These institutions detect and prevent poor administration, waste and leakages in the system. They restrain abuse of power and arbitrary behaviour. They prevent illegal and unconstitutional conduct and enforce standards of responsible and accountable leadership. The institutions entrusted with the oversight functions provide an independent mechanism to ensure that things move in the manner they are supposed to move and that the deviations to acceptable practices are identified and mid-course corrections are taken. Citizens are the ultimate stakeholders in their government, and public trust is crucial to any government which wants to survive. Such independent institutions assure the public that efforts are directed towards the achievement of national goals, and help build the trust of citizens in the system of government.

Audit, as one of the instruments of accountability, is a powerful tool of good governance. Accountability and transparency, the two cardinal principles of good governance in a democratic set-up, depend to a large extent on how well the public-audit function is discharged. Effective audit strengthens governance by providing for accountability and protecting the core values of government. It helps in enhancing transparency in operations of the government and bringing to light improprieties committed by persons holding high positions. It plays a significant role in safeguarding the interests of various stakeholders, thereby facilitating good governance. For any vibrant parliamentary democracy, an effective system of accountability of the executive to parliament is fundamental. It is in this background that the framers of the Constitution of India decided to provide an independent authority in the form of the Comptroller & Auditor General.

The Comptroller & Auditor General's external audit provides confidence by which parliament, on behalf of the tax payer, scrutinises how the government uses the authorised appropriations of money. The CAG helps to hold the government financially accountable to the legislature. It is a critical link in the chain of public accountability in a democratic system of government. In democracies across the world the provision of such an institution is premised on the universal belief that public oversight of government policies and actions is essential for the inclusive and sustainable economic growth.

Worldwide, governments have empowered supreme audit institutions in response to the changing models of governance and the rising demands of citizens for greater transparency and accountability. Mandates of several national auditing offices have been broadened to secure not only the legality and probity of government's spending but also its efficiency and effectiveness. A symbolic demonstration of how public-audit has evolved to bring into focus its accountability-role is the repositioning of the Supreme Audit Institution of the United States. In July 2004, recognising the critical role that the GAO, the equivalent of the Indian Audit and Accounts Department, would be called upon to play, the 110th Congress, introduced several proposals to augment the mandate of the external auditor. The US congress decided that, the erstwhile 'General Accounting Office' be re-designated as the 'Government Accountability Office' and its mandate be accordingly modified. This sent a very clear signal about the repositioned role of the national auditor.

In Canada, the parliament passed the Federal Accountability Act in December 2006 to amend the Auditor General Act to give the Auditor General authority to conduct performance audits. The Australian National Audit Office, in its centenary celebration, published a book, "From Accounting to Accountability" to record the change, over the last century, from an emphasis largely on the practice of compliance-audit to a norm based on value-for-money and accountability-for-performance.

As models of governance evolve and newer systems to purvey government schemes are conceptualised, auditors have also to keep upgrading their skill-sets. This is the way in which audit can add value and not detract from the process. Working together, auditors and the executive can improve the efficiency of administration and the effectiveness of government's spending. Whilst the executive has been given the freedom to frame and architecture schemes and projects to fulfil the requirement of growth, it is essential to ensure that subjective elements do not enter the implementation process. Hence, the need to have an independent agency – the auditor to ensure objectivity. I also wish to emphasise that between "audit" and the "administration" there is no "WE" and "THEY" relationship. Both are on the same side of the table. Their goals are common. While the administration is the spending agency of governmental resources, the auditor is merely the validation agency to provide comfort not only to the legislature but the man on the street that the monies extracted from him have been most efficiently expended.

In the newly emerging scenario, the public, besides seeking a more participative governance, is getting more vocal in its observations on the performance of the government agencies. There is thus a perceptible paradigm shift in the approach towards public spending. Should there not be a paradigm shift in the approach of auditors too? The oft-raised query is that, in an era where the government has itself introduced the concept of social audit and transparency through the Right To Information Act, should not the public-auditors seek to sensitise public opinion about audit-observations, especially so in respect of the audits of the social sector departments such as those dealing with public health, primary education, rural employment, air pollution, environment and drinking water. It is incumbent on auditors to sensitise public opinion towards the way government expenditure is undertaken and how the nation's resources are being tapped for its economic development. It is towards this role that auditors-general, worldwide, have been mandated to conduct performance-audit to assess the efficiency and economy of public spending. In a reference made before the Supreme Court of India in 2013, the Court had passed a judgment stating as follows: "The CAG is not a *Munim* (accountant) to go into the balance sheets. The CAG is a constitutional authority entitled to review and conduct performance audit on revenue allocations relating to the centre, the states and the union territories and examine matters relating to the economy and how the government uses its resources. Don't undermine the office of the CAG".

The Indian political system faces many critical challenges today. Bottlenecks impinging on accountability have to be removed. Good governance cannot be relegated to a secondary position in pursuit of power and money. Typically people with vested interests in the system attempt to subvert the rules of government’s accountability, on the one hand, and free-market competition, on the other. Several transformational developments taking place in India present opportunities for this section of players to try to divert decision making in government and public institutions for their personal agenda. These people then become the most insidious threats to a healthy democracy. It is, therefore, crucial that the accountability-institutions must reposition themselves to the changing scenario and must assist to serve the interests of the public.

It must be recognised that good governance is not an end in itself. It is merely the means to create an enabling environment in which every individual gets to benefit from the fruits of economic development on a continuing basis, and in which each institution of the country performs its role with impartiality and transparency. It is a system in which the rule of law is allowed to take its course and the ultimate pursuit is that of the collective good and not any partisan interests. In such a pursuit, the auditor is a key player, keeping vigil on the functioning of all the institutions of the executive. Such an atmosphere would nurture and perpetuate economic growth, thereby ensuring that it is inclusive and leads to the benefit of the welfare of society at large.

Economic prosperity is not an option – it is a necessity. Economic empowerment of the people in India, and its emergence as a superpower, can be possible if growth is founded on good governance. Such growth is sustainable only if it is premised on an ethical code of governance. When the story of India is written, it should be written that governance has been the solution and not the problem, wherein the state has been the facilitator and not the predator. These edicts in India's governance structure have to be an essential ingredient, as a lot is at stake, and that too for a huge population, whose democratic aspirations deserve the best effort of the government.

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