

## Decision-making processes of public sector accounting reforms in India—Institutional perspectives

Article (Accepted Version)

Krishnan, Sarada Rajeswari (2021) Decision-making processes of public sector accounting reforms in India—Institutional perspectives. *Financial Accountability and Management*. pp. 1-28. ISSN 0267-4424

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## **DECISION-MAKING STRATEGEMS FOR PUBLIC SECTOR ACCOUNTING REFORMS IN INDIA – INSTITUTIONAL PERSPECTIVES**

While International Financial Reporting Standards (IFRS) convergence has been the face of the global accounting standardisation movement for the past few decades accounting reforms in the public sector had started to gain momentum from the late 1990s. This paper examines the reasons for the adoption of public sector accrual accounting reforms in India. It explores the various sources of pressure influencing these reforms and the ways in which these pressures are balanced and addressed by key decision-makers in the national and transnational contexts of an emerging economy like India. This study finds that demands for greater accountability from the public in the national context (demand pressures) as well as requests for greater transparency from international financial institutions in the transnational context (supply pressures) are two major sources of pressure that are balanced by the state in its quest for greater legitimacy. This is demonstrated through triggering event such as political scandals evoking responses from the government to reinforce its weakened legitimacy by adopting public sector accounting reforms. Extant literature on public sector accounting reforms, mostly focuses on the phases where the standards are being actually implemented by the country. Studies exploring decision-making processes that lead to actual implementation of accrual accounting reforms are limited. This study contributes to existing literature by examining the decision-making process that ensues before the actual use of international standards in public sector accounting reforms and demonstrates the significant role that institutional influences play in defining such decision-making processes. The role of these institutional influences also draw attention to the probable disparities between rationales and actual reasons for government accounting reforms undertaken by developing countries.

**Key Words:** accounting reforms, public sector, India, IPSAS, decision-making

## 1. Introduction

Public sector accounting reforms across the globe commenced as early as the 1980s (McGregor, 1999; Groot and Budding, 2008). These reforms, mainly focusing on a transit from cash to accrual accounting, formed a part of the wider movement for increasing public efficiency and accountability (Ahn, Jacobs, Lim and Moon, 2014) driven by the emergence of the ideas of New Public Management (NPM) (Oulasvirta, 2014). Studies examining such reforms mostly explored decision-making that occurs *post*-implementation rather than an in-depth exploration of the decision-making processes that *led* to the adoption of such reforms. For example, issues such as use of accounting information in political decision-making (Groot and Budding, 2008), role of institutional forces in the emergence of accrual accounting practices in a political jurisdiction (Ahn et al., 2014) and the impact of local and global institutional pressures on the outcome of public sector accrual accounting reforms (Oulasvirta, 2014) were post-implementation decision-making aspects examined within national contexts. While these studies provide valuable insights into decision-making issues that arise after the reformed accounting standards have been implemented, they do not provide an in-depth exploration of the decision-making processes that lead to such implementation. The key unit of analysis in this paper, is the decision-making process that occurs prior to the actual implementation of standards by India. Extant literature identifies factors such as policy failures, political scandals, inability of governmental and economic performance to meet public expectations (Peters, 1999; Nye, 1997) and the information gap between the state and the public (Mutz and Flemming, 1999) as reasons for decline in public trust. As a result of these concerns, financial accountability assumed greater significance in the renewal of state policies (Chan, 2003). The main objective of this paper is to explore the decision-processes that led to the choices made by the Indian government to reform public sector accounting practices.

### ***1.1 Transparency and Accountability -Cash versus Accrual Accounting in Public Sector***

More recently, the financial crisis of 2007-08 acted as a catalyst to bring about greater demand for transparency and accountability. High levels of debt, budgetary instability and deficits of governments further strengthened the argument for accounting reforms in the public sector (Arnaboldi and Lapsley, 2004; Bergman, 2010; Ball 2012; Lapsley, 2001). Ensuing developments in public sector accounting reforms led to the development of IPSAS issued by the International Public Sector Standards Board (IPSASB) supported by the International Federation of Accountants (IFAC). (Christiaens, Reyniers and Rolle, 2010).

Accounting reform in the public sector is mainly characterised by a shift from cash accounting to accrual accounting (Mellett and Ryan, 2008; Lapsley, Mussari and Paulsson, 2009). Hence, the debate on necessity of a global set of accounting standards in the public sector is centred around the cash versus accrual accounting argument. Supporters of accrual accounting argue that it caters to democratic demands of the public for greater transparency, responsiveness and accountability, while monitoring

legal compliance and administrative decision-making are the only real benefits of the cash accounting system (Pina, Torres and Yetano,2009).

The IPSAS convergence process of a country initiated by a transition from cash to accrual accounting system often witnesses the manifestation of these arguments in different forms of negotiations. India initiated the decision-making process for accrual accounting reforms eventually aiming for IPSAS convergence in the public sector since 2002 in response to couple of major political scandals (GASAB,2004; Adukia,2012). 21 out of 29 provinces in the country commenced trials of applying accrual accounting systems in local governments towards achieving this goal. (GASAB,2011).

This paper responds to a call by researchers to further explore the self-evident and rhetoric claims of increased efficiency, accountability and transparency of accrual accounting reforms in the public sector (Humphrey and Miller,2012; Lapsley et. al, 2009). While most researchers highlight the need to explore such claims at a global level, Ahn et al.(2014) emphasise the need for research in individual countries, since country specific factors lead to differences in the manifestation of such reforms.

### ***1.2 Implementation of Public Sector Accounting Reforms - Reasons, Rationales, and Impact***

Public sector accounting reforms have been widely discussed and debated in the context of developed and developing countries (Adhikari et al.,2013; Adhikari and Garseth-Nesbakk,2016; Barton,2004). Application of reinterpreted organisational theories based on institutionalism, legitimacy and stakeholder networks to analyse such reforms add extensively to empirical knowledge of accounting practices in non-Anglo-Saxon countries (Oulasvirta,2014; Hopper, Lassou and Soobarayen,2017). Debates surrounding the relevance of IPSAS, (Oulasvirta,2014;Lapsley et al.,2009), impact of social, economic, political and bureaucratic factors on the implementation of accrual accounting in the public sector (Ouda, 2004; Wickramasinghe, Hopper and Rathnasiri,2004; Hopper et al.,2017; Adhikari and Garseth-Nesbakk,2016; Komori and Humphrey,2000), gaps between implementation targets and achievements ( Hyndman and Connolly, 2011; Lapsley et al., 2009) as well as challenges and solutions such as implementation frameworks are some key issues explored in extant literature (Ouda, 2004; Ouda,2011; Adhikari and Garseth-Nesbakk,2016). Summarily, these studies focused on relevance, impact, disparities, challenges and solutions, mostly in the context of implementation of public sector accounting reforms and standards.

Research on accrual accounting reforms in the public sector of South-Asian developing countries mostly focuses on Nepal, Sri Lanka, Bangladesh and Pakistan (Wickramasinghe et al.,2004; Adhikari, Kuruppu and Matilal,2013; Adhikari and Garseth- Nesbakk, 2016). Developing countries such as Nepal and Bangladesh adopted international accounting standards under coercive pressure from World Bank (WB) and United Nations (UN), while countries such as Pakistan and Sri Lanka, pursued accrual accounting reforms due to normative and mimetic pressures such as membership and participation in anti-corruption as well as public sector reforms initiatives organized by such international organisations. These reforms were often driven by a need for greater legitimacy at both, local and transnational levels (Neu et al., 2002; Rahman,1997; Mir and Rahman,2005; ADB;2005; Adhikari et.al.,2013;

Hopper et al.,2017; Chow and Pontoppidan, 2019; Da Veiga and Major,2019). Motives of and power relationships between various stakeholders such as international organisations, professional accountants, politicians and high-level government officials involved in implementing these reforms, were important determinants driving accrual accounting reforms. The myriad ways in which the balance of power among key stakeholders can shape and at times, even reverse the implementation process of accrual accounting reforms in the public sector have been demonstrated in the context of both developed and developing countries (Oulasvirta,2014; Humphrey and Samsonova-Taddei, 2014; Wickramasinghe et al.,2004).

### ***1.3 Need for Research in Decision-making on Public Sector Accounting Reforms***

While existing studies on public sector accounting reforms provide significant insights into the implementation processes of such reforms, they do not delve into the rationales and reasons debated during the decision-making processes preceding the implementation of reforms, especially in developing countries. Need for further research on these issues were highlighted by researchers who explored public sector accounting reforms in South Asian countries (Adhikari et al.,2013; Athukorala and Reid,2003). Compared to other South Asian countries, research on public sector accounting reforms in India has been limited. One exception is Adhikari and Mellemvik (2010), who observed that, while all seven South-Asian countries expressed unambiguous intention to move to accrual accounting system, India was the only country that had a ‘clear transition plan’ (pp.190).

However, this study found a discrepancy between the progress in implementing this plan and the initial enthusiasm of the government. Bureaucratic delays were found to be one of the main reasons for this disparity between the plan and its actual implementation. Bureaucratic delays are typical organisational behaviour characteristics of Indian government organisations, also observed to be a common work culture trait across public sector in India and other developing countries. While in-depth analyses of decision processes surrounding accrual accounting reforms in countries neighboring India are limited, it was found that bureaucratic delays could affect the decision-making and implementation of such reforms in developing countries (Mir and Rahman,2005; Raman,2012; Chakrawal and Goyal,2016; Wickramasinghe et al.,2004). Compared to bureaucratic delays for similar reforms in developed economies such as the UK and Germany, those in developing economies last longer and often lead to incomplete public sector reforms processes due to corruption and political interferences (Raman,2012, Chakrawal and Goyal,2016; Mir and Rahman,2005). Analysing the decision-making processes that preceded or facilitated these bureaucratic delays and the apathy in India adds to extant literature by providing a deeper understanding of issues faced while carrying out public sector accounting reforms in India and other developing countries. According to recent WB reports, India is the fastest growing economy in the world and is one of the largest developing countries in the world (WB,2019). It is the fifth largest in terms of nominal Gross Domestic Product (GDP) and third largest in terms of purchasing power parity (Krishnan,2018;WB,2019).

The socio-political and economic context in India often displays traits of both developing and developed countries. This was evident from the assessment reports of

the International Monetary Fund (IMF) and the WB that classified India as a major Newly Industrialised Country<sup>1</sup> (NIC) and a transition economy (WB, 2019). It represents the world's largest middle-income group and boasts of some of the richest industrialists in the world (WB,2019). However, it also represents the world's largest segment (in terms of population) of one of the most important beneficiaries of public sector reforms - people living in poverty (WB,2019). Such contrasting scenarios in the social and economic context of India makes it an interesting site for research on public sector accounting reforms.

Also, the relatively low proportion of employees working for central<sup>2</sup> and state governments in India raises questions about the ability of the government to implement massive accrual accounting reforms across the country (Swami,2012).The intriguingly limited amount of research on public sector accounting reforms in India, compared to other South Asian countries such as Nepal, Pakistan, Sri Lanka and Bangladesh, also highlighted the need to explore accounting reforms in the country.

This study analyses local and transnational contexts shaping decision-making processes for public sector accounting reforms in India and attempts to flesh out the different sources of influence exerting pressure on such processes. The extent to which these pressures succeed in influencing the decision in India is determined by the unique combination of local factors such as increasing economic independence from international financial institutions (IFIs) due to high rate of development, limited control on corruption, public demands for greater transparency as well as legitimacy needs of the state at the local and global levels (WB,2017; Krishnan,2018). However, receding economic dependence on IFI's had not reduced the symbolic value of ideas and problem-solving strategies promoted by these organisations. For example, powerful international organisations such as the OECD, ADB and the UN organized anti-corruption initiatives in the Indian sub-continent and promoted a move to accrual accounting followed by IPSAS convergence as a solution to fight corruption (ADB,2005). Such promotions from powerful international organisations provided an unambiguous and visible credibility to government efforts to regain public trust. While fiscal discipline measures were introduced by the government in the late 1990s, these measures couldn't prevent national level political scandals from occurring in 2001, leading to massive public protests (Thampu, 2001; Dugger,2001). Hence, the government took up efforts that were demonstrably new and different to previous strategies. Research exploring accrual accounting reforms in the public sector in such contexts is limited (Christiaens et. al.,2015; Wu and Patel,2015). To analyse these contexts this paper examines the balance of pressures that initiate, develop and disseminate global accrual accounting reforms in the country. The research questions addressed in this paper are:

- Why are public sector accrual accounting reforms initiated and undertaken and what are the different sources of pressure influencing the reforms process in the Indian context?

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<sup>1</sup> The term NIC is used for developing countries that have surpassed most other developing countries in economic growth but have not yet achieved the status of a developed country

<sup>2</sup> According to a 2011 census, India has 1623 government employees for every 100,000 residents which is in sharp contrast to countries such as the US which has 7,681 government employees for every 100,000 residents (Swami, 2012)

- How do these pressures balance each other in the national and transnational contexts of an emerging economy like India?

Perspectives of the local actors and the ways through which their understanding and interpretation of global ideas feed forward to shape the global context of standard-setting are also explored. The paper draws upon and combines the concepts of institutional theory such as legitimacy and transnational governance used in different studies to analyse the local and transnational contexts of a developing country moving towards accounting reforms in the public sector.

This study makes three important contributions. Firstly, it makes an empirical contribution by providing an in-depth analysis of events constituting the decision-making process and the role of institutional sources of pressure, both global and local, that propelled India towards accrual accounting reforms in the public sector. The findings provide an understanding of the decision-making process and the rationales and actual reasons for such reforms in a developing country. Secondly, the application of the concepts of institutional theory and transnational dynamics as a theoretical lens significantly contributes to our understanding of the manifestation of institutional pressures on accrual accounting reforms. It helps visualise and explain the flow and balance of global and local pressures across national and transnational institutional fields that influence accrual accounting reforms in the public sector in India. Thirdly, the findings of this study add to extant literature on the role of accounting reforms in the ongoing move towards establishing improved mechanisms of public accountability in developing countries. The rest of this paper is structured as follows. Section 2 introduces and discusses the theoretical perspectives and framework while Section 3 presents the research methodology. Section 4 presents a discussion and analysis of empirical evidence on the accrual accounting reforms in the country followed by the conclusion in Section 5.

## **2. Theoretical Dimensions of Decision-Making on Public Sector Accounting Standards Reforms**

Public sector accounting reforms have been explored through multiple theoretical dimensions frequently focusing on links between modern political ideas and the conversion of these ideas into organizational practice (Tsunogaya and Patel,2020; Lassou and Hopper,2016; Antipova and Bourmistrov,2013). For example, diffusion theory (Rogers,1995) has been used to explore the range and extent to which organisational practices incorporate and implement accounting systems (Bjornenak,1997). Mellett et al.(2009) also used diffusion theory to investigate the implementation phases of accrual accounting reforms in British organizations. While diffusion theory could be applicable to this study, institutional theory seemed more suitable to examine organisational influences and pressures driving the reforms process, especially since this study focuses on the decision-making process for convergence (Krishnan,2018; Baskerville and Grossi, 2019). Rationales for public sector accounting reforms are driven by the institutional agendas of numerous stakeholders involved in the decision-making process (Goddard,2010; Pollanen and Loiselle-Lapointe,2012; Adhikari et al.,2013). Carpenter and Feroz (1992) while examining the adoption of GAAP as a symbol of legitimacy state that “institutional theory...offers the strongest theoretical base for expanding understanding of accounting choice in public sector” (pp.638). Theories such as economic consequence theory, political science theory and legitimacy theory have been considered

inadequate on their own to explore accounting choices in the public sector (Carpenter and Feroz,1992). Key empirical and theoretical gaps emerging from the review of literature on accounting standards reforms in the public sector, include limited focus on pre-implementation decision-making processes as well as deeper analysis of the manner in which institutional forces manifest themselves during such decision-making processes. Key themes emerging from the review of institutional literature exploring transnational and local contexts of decision-making surrounding accounting reforms are discussed below.

### ***2.1 Sources of Pressures on the Decision-Making Process – Global and Local Institutional Influences***

Local factors influencing the evolution of national accounting practices have been widely discussed and debated (Patel,2004; Wu and Patel,2015; Lassou and Hopper,2016). These influences are channelled through pre-existing institutional arrangements within the country, leading to a perceived demand for institutionalisation of new practices (Goddard et al.,2016; Adhikari et al.,2013). While institutionalisation of transnational ideas is a major phase of accrual accounting reforms in the public sector, deinstitutionalisation plays an equally significant role in the local context (Oulasvirta,2014; Lassou and Hopper,2016). Deinstitutionalisation is a determinant of the extent of institutionalisation of such ideas. Strong resistance against deinstitutionalisation of deeply rooted accounting practices makes institutionalization of IPSAS led accounting reforms a challenging endeavour (Tsunogaya and Patel,2020; Tolbert and Zucker,1996). Therefore, deinstitutionalisation is more viable in contexts where established practices, traditions and institutional orders are perceived as being inadequate or obsolete (Rovik,1996). Hence, the perception of new ideas as being useful and necessary could lead to institutionalisation of those ideas while simultaneously leading to deinstitutionalisation of existing ideas and practices (Wu and Patel,2015; Antipova and Bourmistrov,2013).

Review of extant literature suggests that both processes are interlinked and necessary to bring about institutional changes in existing accounting systems (Baskerville and Grossi,2019; Czarniawska and Joerges,1996). Other factors triggering deinstitutionalisation include political, functional and social pressures (Djelic and Quack, 2008; Tsunogaya and Patel,2020).

While political pressure initiates from powerful actors from within or outside the local arena driven by specific interests, functional pressures could result due to technical and economic inadequacy of existing systems (Oliver,1991; Baskerville and Grossi,2019). Social pressures often occur due to fragmentation of existing organisational environment due to declining consensus regarding normative and institutional rules among members. Such situations lead to partial deinstitutionalisation of existing practices followed by attempts to institutionalise practices successfully applied to resolve similar issues in other countries (Lassou and Hopper,2016; Djelic and Quack,2008).

Political, social and functional pressures driving institutionalisation and deinstitutionalisation of public sector reforms are often interlinked (Oulasvirta,2014; Djelic and Quack,2008). For example, corruption and failure of government policies led to a decline in public trust and social awareness of the rights of the public to



accountability from the government resulting in NPM reforms (Christiaens et al.,2015; Peters,1999; Nye,1997). Subsequent public demands for greater state accountability demonstrates the exertion of socio-political pressure on the state while NPM reforms in response to such demands, manifested through the ensuing institutional changes enforced by the government on in its agencies is an example of functional pressures exerted by the state on its own agencies (Goddard et al., 2016; Mutz and Flemming,1999). Socio-political pressures in the national context also often arise because of the need of the government to reinforce its legitimacy at the local level (Tsunogaya and Patel, 2020; Ball and Craig,2010; Meyer and Rowan,1977; Dillard, Rigsby and Goodman, 2004). This could result in governments of countries volunteering to adopt international norms or standards perceived as symbols of legitimacy (Tsunogaya and Patel,2020; Palmer, Jennings and Zhou,1993; Djelic and Quack, 2008).

This study classifies and interprets socio-political and functional pressures into two: demand pressures emerging from the local context (eg: public demand for accountability) and supply pressures (eg: pressure exerted by global agencies that propagate international standards convergence). These concepts of pressures are applied to analyse public sector accounting reforms in India.

Coercive, normative and mimetic mechanisms of institutional isomorphism (DiMaggio and Powell,1983) have been extensively used to explore transnational influences on accrual accounting reforms manifesting through institutionalisation and deinstitutionalisation (Goddard et al.,2016; Carpenter and Feroz,1992; Oulasvirta,2014). Coercive isomorphism, applied to explore economic power relations between IFIs and policy makers of accrual accounting reforms in varying national contexts have enhanced our understanding of how developing countries are often pressurised, formally or informally, into adopting international standards (Baskerville and Grossi,2019; Connolly, Reeves and Wall,2009; Mizruchi and Fein,1999). Demands for greater transparency arising due to the slow pace of economic development of countries funded by these institutions, often due to corruption and bureaucratic delays lead to exertion of such coercion (Krishnan, 2018; Raman, 2012; Chakrawal and Goyal,2016). Mimetic and normative pressures are key enablers of the ongoing professionalisation drive by international professional bodies such as IPSASB and IASB as well as triggers of cash to accrual accounting transitions undertaken by state agencies in attempts to deal more efficiently with uncertainties (Adhikari et al.,2013; Irvine, 2011; Covaleski and Dirsmith,1988). Need for legitimacy in the socio-political context, at internal and external levels, often leads to such mimetic and normative transformations in accounting regulations and practices (Krishnan, 2018; Antipova and Bourmistrov,2013).

Organisational Institutionalism, a key theme of institutionalization, focuses on the interactions of the organisation with institutionally legitimised procedures and prototypes of its external environment and how such interactions re-shape organisational practices (Christiaens et al.,2015; Weber,1978).Transnational dynamics of organisational institutionalism help explore the actual extent of homogenisation and divergent outcomes achieved through the convergence of global accrual accounting practices in local contexts (Wu and Patel,2015).

Transnational dynamics in societal institutionalism (Djelic and Qquack,2008), another key concept of institutionalisation (Drori, Meyer and Hwang, 2006; Goddard et al.,2016) focuses on conflict of interests between different actor groups in the

society resulting in potential institutional changes (Almond and Rubery, 2000; Tsunogaya and Patel, 2020), co-existence of numerous but less dominant institutional repertoires within a predominant institutional framework (Schneiberg,2007; Christiaens et al.,2015) and interactions between transnational organisations operating from institutional contexts with multiple and at times contradictory regulatory systems (Goddard et al.,2016; Harzing and Sorge,2003; Kirsten and Zeitlin,2001). World systems institutionalism explores the role of dominant institutional frames composed of global cultural norms and symbolic arrangements in economically powerful societies, diffused across relatively weaker societies leading to institutional changes in those societies (Patel, 2004; Wu and Patel, 2015; Jepperson,1991).Anglo-Saxon actors of professional fields such as banking and finance enjoy a ‘trademark’ advantage rendering them powerful in processes of diffusion (Djelic and Quack,2008). For example, the role of Big 4 audit firms in global standard setting processes are dominant and persuasive both at the global level where standards are framed and at the local level where standards are implemented (Botzem,2012; Oulasvirta,2014). However, the procedures and modes of operations used by local actors to absorb these ‘transnational blueprints’ into local institutional models, have not been adequately explored (Humphrey and Samsonova- Taddei (2014).

In this study, institutionalisation is viewed as a process constituted of both transnational and national occurrences as it initiates from the global arena and subsequently percolates into the local arena.

De-institutionalization on the other hand is essentially perceived as a local phenomenon driven by interlinked types of socio-political and functional pressures exerted from the transnational and local institutional fields and occurs within the context wherein new institutional orders replace existing systems. Oulasvirta (2014) in his study demonstrated the futile attempts of local and international, normative and mimetic pressures, to de-institutionalise deep rooted accounting cultures in a developed country, ultimately leading to Finland’s refusal to adopt IPSAS. The presence of coercive pressures, usually observed in developing countries (Rahman, 1997; Mir and Rahman,2005, Adhikari et al.,2013), may have rendered a complex and layered outcome to the IPSAS adoption decision in the country. Oulasvirta (2014) while citing the multiplicity of studies on accrual accounting systems of governments, also cites the lack of country-specific studies exploring accrual accounting reforms towards IPSAS adoption (Oulasvirta,2014). Furthermore, a recent study by Schmidhuber et al.,(2020) noted that within country-specific studies on government accounting, a large majority focused on western countries, thereby indicating a need for more research on accrual accounting reforms of government accounting in emerging economies. This study responds to these calls by exploring accrual accounting reforms pursued in India.

### **3. Research Methods**

Documentary analysis was a major source of empirical data used in this study. Different types of documents published over a period of 14 years from 2000-2014 were analysed. Interviews with 10 key actors participating in the decision-making process for convergence also provided significant evidence. Information gathered from interviews helped corroborate evidence obtained from documentary analysis and vice-versa.

Interviewees were selected based on accessibility as well as target groups identified during preparation for field work. Interviews and documents were both significant sources of data collected.

Preparation for field work commenced with preliminary analysis of secondary sources such as online media articles and reports to identify key actors driving the decision-making process for convergence. Personal contacts were also used to identify key actors. Three members of Indian professional accounting bodies were personally known to the researcher. They worked with senior government officers in the decision-making process for convergence.

This study conducted semi-structured interviews based on an interview guide including key themes and theoretical concepts identified from an extensive review of literature. Some of these themes and concepts included societal institutionalisation, organisational institutionalisation, as well as transnational and national institutions. The interview guide used these themes for the background study before interviews and to frame interview questions. Open-ended questions were used to encourage the interviewees to share experiences in their own words and at the desired pace (McCracken,1988). The order of the questions posed were altered and at times some of the questions were skipped to suit the context of interviews (Saunders, Thornhill and Lewis,2012). During some of the interviews, 'planned prompts' were used where the interviewee tended to diverge from the main issue. All except two interviews were conducted face-to-face. A couple of interviews were conducted over Skype. Interviews with senior government officials could not be recorded as permission was not granted due to regulations. Evidence gathered from such interviews were manually transcribed during and soon after the interviews.

The first round of interviews with 3 members of national professional accounting bodies were conducted in July 2012. In April 2013, 6 government officials, 1 member of an IFI and 1 member of an international accounting organisation were interviewed. Government officials included 3 representatives of Ministry of Finance (MoF) and 1 representative of Government Accounting Standards Board (GASAB). Some of these interviewees were re-interviewed through Skype or phone in May 2014 to fill in gaps that emerged during analysis of data collected during the first two rounds of interviews and also to obtain updates on progress made in the decision-making process. All interviewees occupied senior positions within their respective organisations and played important roles in the decision-making process. Further details on interviews such as interview codes and duration of interviews is provided in Table 1.

**TABLE 1<sup>3</sup> INTERVIEW DETAILS**

<b>Position of Interviewee</b>	<b>Interview Code</b>	<b>Location</b>	<b>Date</b>	<b>Type of Interview</b>	<b>Length of Interview</b>
1. Member of ICAI	PB1	New Delhi	July 2012 October 2019	Face to Face & Telephone	2 hours
2. Member of ICAI	PB2	New Delhi	July 2012	Face to Face	1 hour
3. Member of ICAI	PB3	New Delhi	July 2012	Face to Face	1 hour 10 minutes
4. Member of MoF	MoF1	New Delhi	April 2013 May 2014 October 2019	Face to Face & Telephone	1 hour 30 minutes
5. Member of MoF	MoF 2	New Delhi	April 2013	Face to Face	1 hour 30 minutes
6. Member of MoF	MoF 3	New Delhi	April 2013	Face to Face	50 minutes
7. Member of GASAB	GB 1	New Delhi	April 2013 October 2019	Face to Face & Telephone	1 hour 30 minutes
8. Member of MCA	GB2	New Delhi	April 2013	Face to Face	1 hour
9. Member of World Bank	IF1	New Delhi	April 2013	Face to Face	55 minutes
10. Member of USAID	IF2	New Delhi	April 2013 May 2014	Face to Face	50 minutes

<sup>3</sup> PB – Professional Body, ICAI – Institute of Chartered Accountants of India, MoF-Ministry of Finance  
GB -Government Body, GASAB- Government Accounting Standards Board, MCA-Ministry of Corporate Affairs, IFI – International Financial Institutions, WB- World Bank, IMF -International Monetary Fund

**TABLE 2 DETAILS OF DOCUMENTARY ANALYSIS I**

<b>Categories of Documents</b>	<b>Details of Analysis</b>
<b>Press Release/ articles/ reports</b>	<p>To gain an understanding of the local context of accounting convergence, relevant media articles were traced using key search phrases such as ‘public sector accounting reforms in India’ and ‘accrual accounting reforms in government of India’. Newspapers articles, press releases and reports shortlisted during the search, were reviewed to identify key decision-makers such as the lead government officers involved in the process. These sources also provided introductory information on the debates and delays surrounding the convergence decision-making process. Such information also included the names of personnel and ministries involved in the process. These details, in addition to information gathered from reports and documents of professional bodies, government and regulatory authorities were used to establish initial contacts and trace key actors. Some of the key actors included members of professional bodies and government representatives working for the ministries involved in the convergence process.</p> <p>The shortlisted sources of information included 62 press releases issued by government organisations and 45 press releases issued by standard-setting bodies. These press releases provided information regarding important decisions and announcements made by the government and national standard-setting organisations. Such data helped fill any gaps in information collected from newspaper articles. It further helped design interview questions addressing the events and interactions discussed in these media sources.</p>
<b>Documents and Reports</b>	<p>This study reviewed documents and reports published by national and international organisations such as government agencies, international financial institutions, professional accounting bodies and regulatory authorities. Data collected from these documents included information on key issues discussed during events held by these organisations. Examples of such events include conferences, seminars, training and development programmes at the local and global levels, that led to the initiation and development of the decision-making process in India.</p>
<b>Websites</b>	<p>Websites of different organisations such as local and global professional accounting bodies, international financial institutions such as the World Bank and IMF, state entities and regulatory agencies were rich sources of data that complemented and contributed to the information collected from other sources. Some of these sources included joint memorandum notices issued by state and non-state entities at the local and global level, speeches on accrual accounting reforms made by key decision-makers in the government at important conferences as well as annual messages published by the presidents of key professional accounting bodies in the country.</p>

**TABLE 3 DETAILS OF DOCUMENTARY ANALYSIS II<sup>4</sup>**

<b>Types of Documents / Types of Organisations</b>	<b>Press Releases/ Articles</b>	<b>Reports</b>	<b>Websites</b>
<b>Government</b>	Press releases/ press notes issued by government entities such as the MCA and published on the website of the ministry, provided information on some of the key strategies undertaken to plan and develop accrual accounting reforms in the country.	Reports published online by national government organisations such as GASAB, INGAF and IICA provided information about key issues discussed and speeches by key decision makers at important meetings, pilot projects and training programmes. Reports published by transnational government agencies such as ICGFM, AGAOA, provided information on collaborations between government entities of different countries to implement accrual accounting reforms.	Reports published by government organisations are available on organisational websites, press releases/press notes were published on the relevant Ministry websites and national portals created by the government. Full reference of reports collected from different websites and portals are provided in the bibliography.
<b>Professional Bodies</b>	-	Reports published by national and international professional accounting bodies such as ICAI and IPSASB provided information on national and international developments in accrual accounting standards and practices in the public sector.	Newsletters, events pages, conference proceedings and annual messages of presidents, published on the websites of professional accounting bodies were useful sources of information.
<b>Public practice accountancy firms and international financial institutions</b>	-	International financial institutions such as WB, IMF, ADB and USAID publish useful reports on accountability assessments and ongoing projects in accrual accounting reforms in the public sector. For example, SFAA reports published by the World Bank. Public practice accountancy firms such as Deloitte, KPMG and PWC published reports discussing comparative analysis of reforms across nations, which helped position national accounting developments in the international context.	Information on accrual accounting reforms projects and comparative analysis of progress made in reforms across nations were available on the website of these organisations. These websites also provide information on conferences, seminars and other events on public sector accounting reforms organised at international forums.

<sup>4</sup> INGAF – Institute of Government Accounts and Finance, IICA -Indian Institute of Corporate Affairs, USAID – United States Agency for International Development, ICGFM -International Consortium on Governmental Financial Management, AGAOA-Association of Government Accountants of India.

<b>Professional and Business Media Outlets</b>	Articles published in national and transnational business media outlets helped complement and corroborate evidence collected from interviews and documents. Some examples of the sources used in this study are the Telegraph, NY times, BBC and the Hindu.	-	Websites of these outlets provided come key indications of current developments which were used to initiate further investigations through interviews as well as review of documents.
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#### 4. Discussion and Analysis of Evidence<sup>5</sup>

India is a federation of 29 states and 7 union territories with a parliamentary system that distributes power between the centre and the states. Finance commissions are set up every 4-5 years by the president to define the financial relations between the central and state governments and make decisions on issues such as distribution of revenues from taxes, calamity relief funds and grants-in-aid to state governments. These commissions are constituted of senior civil servants who are experts in government accounts and finances, law, administration and economics (Krishnan,2016). The Twelfth Finance Commission (TFC12) in 2004 and the Thirteenth Finance Commission (TFC13) in 2009 made important recommendations for accrual accounting reforms, discussed later on in the paper. Indian government accounts are maintained in three parts<sup>6</sup> - Consolidated Fund, Contingency Fund and Public Account. These accounts are maintained on a cash basis according to Government Accounting Rules (GAR) 1990. Shortcomings of cash accounting were cited as reasons for the need to move to accrual accounting. Some of these limitations include incomplete information on assets and liabilities of the government, government budgets, resource management, changes in financial position of the government over time as well as ambiguity of information available under the cash basis (TFC12, 2004; Krishnan,2016).

This paper analyses evidence from the public sector, through a narration of events constituting the decision-making process for convergence. India’s decision to converge with IPSAS in the public sector was triggered by transnational and national institutional influences, interpreted as demand pressures arising from

<sup>5</sup> ICAI-Institute of Chartered Accountants of India, IPSASB- International Public Sector Accounting Standards Board, SFAA-State Financial Accountability Assessment, NY -New York.

<sup>6</sup> Consolidated Fund – Revenues, internal and external debts are credited to this account. Contingency Fund – Controlled by MoF and used to meet unforeseen expenditures. Public Account – Liabilities to replay or recover an amount paid or received are recorded in this account under debts, deposits and advances.

local influences and supply pressures emerging from global influences. Transnational institutional influences were exerted through pre-existing relationships between local and transnational institutional fields. The events and sources of influences that led to the emergence of demand and supply pressures on the state as a key decision-maker, are discussed below.

#### ***4.1 Socio-Political Institutional Influences on the Decision-Making Process - Local Demand Pressures on the State***

Collaborations between the state and IFIs for improving public financial management and accountability in the country with specific focus on transition to accrual system of accounting had started as early as 2002. National political scandals such as Operation West End<sup>7</sup> in 2001 (Dugger,2001) led to public demand for greater accountability of public finances (Thampu,2001)). While political scandals of different magnitudes do occur in the country, public has been observed to be far more sensitive and outraged in response to scandals in defence deals, as this is perceived as treachery (Bedi,2001)<sup>8</sup>. This is especially the case since India has border areas that are frequently in need of services of the armed forces due to political disputes with Pakistan (BBC News,2019). In response to these public demands, the 11<sup>th</sup> finance commission made recommendations to the Comptroller and Auditor General (CAG) of India to constitute a task force to suggest budget and accounting formats of Urban Local Bodies (ULBs). Accordingly, the CAG constituted a task force in February 2002 (CAG, 2002). The recommendations of the Commission were intended for general reforms in public financial management of rural and ULBs. Although accrual accounting was not specifically mentioned, subsequent recommendations of this task force constituted a significant step towards accrual accounting.

State responses to societal institutional pressures were characterised by attempts to engage with transnational institutions perceived as significant sources of legitimacy. The report of the CAG task force was accepted and forwarded by the state in April 2003 to provincial governments for implementation. The Ministry of Urban Development (MoUD) while reviewing the progress of the application of these recommendations, advised that the CAG in conjunction with the Indo-USAID<sup>9</sup> Financial Institutions Reform and Expansions Project-Debt and Infrastructure Component (Indo-USAID-D-Project) should prepare a National Accounting Manual that would be forwarded to the provincial governments (USAID,2004).

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<sup>7</sup> Operation West End was a first sting operation carried out in 2001 by Tehelka, a news magazine pursuing investigative journalism, to expose murky defense deals. Release of video CDs of the operation on the 13th of March 2001 by Tehelka led to a political storm in India, revealing that the defence deals were driven by the greed of politicians and bureaucrats rather than considerations of national security (Thampu, 2001).

<sup>8</sup> Being a country that achieved independence relatively recently (in 1947), nationalist sentiments are easily stoked, especially in the context of long-standing disputes with Pakistan, often leading to military conflicts on border areas. Public outrage in cases of murky defence deals have previously been noted to have significant political implications (Bedi, 2001).

<sup>9</sup> United States Agency for International Development (USAID)



#### ***4.1.1 State Collaborations with IFIs – Power Balance and Local Legitimacy***

The USAID has been actively involved in promoting accrual accounting in municipal bodies in India through financial and technical support (IF2). Since the 1980s, the USAID along with other international financial and development organisations such as the UN, WB and IMF, has been playing an important role in initiating and implementing accrual accounting reforms in countries across Central America, the Caribbean as well as Asia (Mir and Rahman, 2005; Adhikari et.al., 2013; Hopper et al., 2017; Chow and Pontoppidan,2019; Da Veiga and Major,2019). These reforms are undertaken as part of implementing financial management models at the municipal and higher levels of government. For example, the USAID, along with the UN and local state agencies, helped set up the government accounting system in Nepal and was actively involved in the development and institutionalisation of accrual accounting practices in the public sector (Araya-Leandro et al.,2016; Adhikari and Mellemvik,2009).The role of such international organisations in accrual accounting reforms undertaken in India was different to these countries, due to differences in the political, social and economic dynamics of the country (Krishnan,2018). For example, influences from institutions such as the USAID and World Bank during IFRS convergence in India were non-coercive, due to reduced financial dependency on these institutions which enabled India to be in a stronger position in its dealings with IFIs, in contrast to its neighbouring countries such as Bangladesh and Nepal where IFIs were able to exert coercive pressure for IFRS adoption (Krishnan,2018; Mir and Rahman,2005). Tsunogaya and Patel (2020) in their study on accounting reforms in Japan found that domestic power balances were a part of internal pressures on reforms decisions, whereas in this study power balance was a determinant of the extent of external pressure from IFIs, as demonstrated in the comparisons with Bangladesh and Nepal.

Krishnan (2018) in her study on decisions regarding IFRS convergence in India, found that significant trade relations between US and India led to indirect US influences on private sector accounting reforms. With regards to public sector accounting reforms, the state’s need for legitimacy arising out of demand pressures due to public demands for greater accountability is interpreted to be a key factor that led to engagement with transnational institutions.

Regional offices of institutions such as the USAID are comprised of mostly local staff who actively participate in conferences and meetings on international accounting convergence and act as channels of influences between transnational and national institutional fields. Such institutional influences are conveyed through formal and informal channels. For example, one interviewee stated,

*“The meetings and conferences are used as a platform to commence communications with representatives of government bodies and professional associations which are often followed up by informal communications as well” (IF2).*

#### ***4.1.2 Preparing for Institutionalisation of Accrual Accounting Practices – State Response to Local Demand Pressures***

Following GOI initiatives, the provincial government of Orissa (GOO), between February to May 2003 approached the WB to conduct a State Financial Accountability Assessment (SFAA). The assessment was conducted by a South Asian Region Financial Management (SARFM) task team including members from the Department for International Development (DFID) and South Asia Poverty Reduction and Economic Management (SASPR).

Hence the presence of dominant socio-political institutional influences led to attempts at organisational institutional changes by the government. In its attempt to win public trust and regain its legitimacy in response to public demand pressures, the government approached institutions such as the WB to bring in reforms. These IFIs while being perceived as a source of legitimacy are also channels that convey global institutional norms and arrangements of powerful economic societies into relatively weaker economic societies; in this case propelling the country towards the decision to pursue accrual accounting reforms. Examples of economically weaker societies include developing countries which are recipients of such influences (Mir and Rahman, 2005). This is also true in the context of accounting standards convergence in the private sector. Botzem and Quack (2009) critically analyse the significant influence of Anglo-American accounting principles and practices on the International Accounting Standards Board (IASB), which is subsequently channelled into standard-setting arenas of developing countries.

Such channels of global influences on public sector accounting reforms often lead to supply pressures on the state from a multitude of global actors such as IFIs, professional accounting bodies, the BIG 4 and other pioneering countries that actively promote the global convergence agenda. The reports of SFAA jointly conducted by WB and other IFIs in India contained clear indications encouraging convergence with international accounting standards. For example, one of the recommendations of the SFAA report stated:

*“IPSAS requires that final accounts disclose comparative information in respect of the previous period for all numerical information contained therein. Except for the summary statements of finance accounts, such comparative information, which facilitates an understanding of changes in government activity from year to year, is not being provided. We recommend that comparative information for the previous year be provided in all government annual financial statements” (SFAA, 2004).*

Hence in 2004 two significant documents were published; the National Municipal Accounting Manual (NMAM) by CAG-USAID, and the SFAA report. The NMAM prescribed a shift to accrual accounting principles based on the recommendations of the task force (USAID,2004), while the SFAA report, published by the WB pointed out a lack of compliance with IPSAS cash accounting in Orissa. The report stated that,

*“A detailed comparison of the above mentioned IPSAS with standards practices by the GOO (Government of Orissa), reveals significant deviations from IPSAS, which need to be addressed at the national level, where the standards are determined” (SFAA, 2004).*

The report recommended greater alignment of national standards with IPSAS requirements while also noting that such a change in accounting policy needs to be considered at the national rather than the provincial level. These recommendations seemed to be heeded by the GOI in moving towards IPSAS convergence in the same year.

The potential impact of such influences on the convergence decision-making process needs to be viewed in the wider institutional context of long-standing donor-recipient relations between the state and IFIs (Ramanna,2012). Rising need for accountability promoted by NPM initiatives led to institutional changes in the lending arrangements of IFIs, such as demands to meet international standards of financial reporting by funds recipients (SFAA,2004). Such criteria applied by IFIs are channels enabling the exertion of supply pressures on the state. Analysing the translation of transnational influences into local institutional changes adds to our understanding of the diffusion of international accounting standards and practices across the globe.

#### ***4.1.3 Plans for De-Institutionalisation of Existing Practices - State Responses to Local Demand Pressures***

TFC12<sup>10</sup> recommendations for accrual accounting implementation in central and provincial governments (for the period of 2005-2010) marked a significant step towards (de)institutionalisation of organisational accounting practices of the government. The central government accepted this recommendation. The explanatory memorandum of the TFC 12 report advised the GASAB<sup>11</sup> to prepare a roadmap and an operational framework for transition to the accrual accounting system. The operational framework would include the accounting and treatment of assets, liabilities, revenue and expenses and final accounts of the governments according to constitutional provisions and budgetary requirements. These frameworks were perceived to include substantial replacement or de-institutionalism of existing practices rather than more gradual transformations in accounting practices with time (GASAB,2011a; GB 2, PB 3). These recommendations are interpreted as organisational institutional reforms undertaken in response to the SFAA report which enables the visualisation of the convergence decision as a result of two-way interactive process between transnational and national institutional ‘fields’. It provides a logically plausible explanation for the occurrence of the events that mark the convergence decision in this time period. There are two reasons which led to this interpretation. The first reason is the time sequence of these events. The SFAA

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<sup>10</sup> Twelfth Finance Commission

<sup>11</sup> GASAB – Government Accounting Standards Advisory Board

assessment carried out in 2003 and publishing of the report in 2004 occurred immediately before the TFC12 recommendations.

Secondly, the SFAA recommendations though addressed to the provincial government, seem to indirectly urge the central government to act at the national level. Since institutional arrangements between provincial governments and transnational bodies occur with the approval of the central government, the acceptance of the SFAA recommendations is interpreted to be an example of the state conceding to demand pressures from the public to reinforce its legitimacy in the national context.

#### ***4.2 Socio-Political Influences on the Decision-Making Process – Global Supply Pressures on the State***

While the recommendations of the TFC12 represented organisational reforms within the country, institutional networks between government accounting bodies from India and neighbouring countries demonstrate the influence of geo-political and socio-economic ties on organisational institutional reforms undertaken at the national level. The Association of Government Accountants of Asia (AGAOA), formed in 2004 to share experiences of public financial management, accrual accounting, risk-based audit and internal controls, included representatives from the respective ministries of finance of all its member countries (AGAOA,2011). The Indian Institute of Government Accounts and Finance (INGAF), a training institute of the MoF, is the secretariat of the association (INGAF, 2009). AGAOA receives financial assistance under the International Development Fund (IDF) grant system and technical assistance from the WB for improving the public financial management system in member countries. All seminars and conferences held by the AGAOA are attended by a WB official as an observer (AGAOA,2011,PB 2). While explaining the nature of discussions at such platforms, an interviewee stated,

*“We (government accounting professional of member countries) discussed ideas to improve accounting practices in our countries, to meet international standards...of course organisations such as the IPSASB and WB are sources of reference and guidance” (PB2).*

Such transfer of global institutional norms of accounting demonstrates the indirect exertion of supply pressure on national standard-setting arenas. Similarly, the International Consortium of Governmental Financial Management (ICGFM) in 2004 organised the ‘Joint Professional Development Programme on Public Sector Accounting and Financial Reporting’ in India to enable the sharing of experiences in public sector accounting reforms, including the cash to accrual accounting transition in India. Members of ICGFM include high level government executives from state financial management departments, representatives of MoF, accountants and auditors general from countries across the world (ICGFM,2008). In his inaugural speech, the CAG noted,

*“A need to revisit the conceptual underpinnings of government accounting systems has been felt in India largely due to realisation of deficiencies in the*

*cash based system particularly for purposes of modern financial management and the need for greater transparency and user friendliness” (pp.1, GASAB, 2004a).*

This acknowledgement of deficiencies in the government accounting system soon after the political scandals clearly indicate the societal and functional pressures that triggered such attempts for institutional reforms. The CAG further stated that the International Organisation for Supreme Audit (INTOSAI) and the IFAC Public Sector Committee (PSC) are significant sources of reference for standards development and training programmes for government accountants (GASAB,2002; GASAB,2004a, GB2). This further highlights the linkages between national and transnational institutional fields in the public-sector accounting arena.

#### **4.2.1 State Responses to Global Supply Pressures**

On the local front, GASAB in accordance with the TFC12 recommendations, constituted two committees to create the roadmap and the operational framework. The members of GASAB include representatives from railways, post and telecom, MoF, presidents of the two main professional bodies, Institute of Chartered Accountants of India (ICAI) and Institute of Cost and Works Accountants of India, and director of the National Council of Applied Economic Research (NCAER) (PB1, GASAB,2008).

Socio-economic institutional influences from the transnational arena promote international accounting standards convergence as a deterrent to corruption. Global organisations such as the WB, UN, ADB and OECD rank the adoption of international accounting standards high on the list of steps to be taken to fight corruption (Everett et al.,2007). These organisations actively promote international accounting standards through joint anti-corruption initiatives with IFAC and INTOSAI (Everett et al.,2007).

Participants who are Official Development Assistance (ODA) recipients are funded by such initiatives and India is among countries receiving funds to attend these seminars (OECD,2012). Speaking about the impact of attendance at such seminars on national policies, a senior representative of the government stated,

*“Of course, we do take on board the recommendations made at such seminars and conferences.....we may not do everything they (global organisations) say.... We make changes to suit our local situations....but we certainly want to be a part of the global community and stay updated with global trends” (MOF1).*

While these claims may well be rhetoric, they are to some extent justified by steps taken by the government in the subsequent years, to commence the move towards accrual accounting in the public sector. Hence the sources of transnational institutional influences promoting convergence played an important role in the socio-economic development of India. In addition to OECD, the ADB is also an important donor agency providing financial and technical support to projects in India. Accounting reforms projects funded by the EU were also successfully completed by the

ICAI in 2006 (ICAI,2010). In 2007/08, the committees constituted by GASAB drew up a roadmap and an operational framework for transition to accrual accounting. The roadmap proposed a transition plan including value addition within the current system, making slight alterations to enable greater disclosures such as arrears in revenue and committed liabilities, as well as attaining the required accrual accounting system. A period of ten to twelve years was considered adequate to achieve the targets, given the differences in the level of preparedness of different departments. Although the roadmap committee recommended the drafting of detailed roadmaps by individual departments catering to specific needs of their jurisdictions, it provided a broad framework as a guideline for the detailed roadmap (GB 1, GASAB,2008).

#### ***4.2.2 Direct and Indirect Channels of Global Supply Pressures***

The decision-making process in India was shaped by both direct and indirect institutional influences from IFIs, professional bodies and state agencies such as the DFID and USAID.

For instance, the direct influence of IFIs was evident from SFAA assessments conducted specifically in India as also in the preparation of NMAM. Also, the SFAA report makes unambiguous recommendations to the GOI for IPSAS convergence. Similarly, ADB and OECD promote international accounting standards convergence through platforms organised for socio-economic and political causes such as building development strategies and fighting corruption. The state response to IFI recommendations in the public sector was in contrast to the findings of Krishnan (2018) regarding IFRS convergence in the private sector where the influence of trade partners and industrial lobbies seemed to supersede the influences from IFIs.

The continuing occurrences of political/corruption scandals leading to a need for symbolic legitimacy at both local and transnational levels could be a reason for state acquiescence of such influences. The state while appearing to take steps to bring about greater accountability, does not seem to be sincere in achieving the end results. Interviewees, however, suggested that there are power centres in the state that wish to genuinely bring in greater public accountability. Further inquiries into the power centers and conflicting views between these power centers did not elicit responses as these were considered to be classified and confidential information, although the existence of such conflicting influences was confirmed. Deep rooted corruption, however, has been cited to thwart such attempts for greater accountability (MoF 1). The findings of the study in this context are similar to studies exploring the adoption of accrual accounting. For example, Carpenter and Feroz (1992) state that the GAAP adoption process in New York was “slow, time-consuming and muddled with politics” (pp.638).

In India it is interpreted that financial assistance provided by transnational financial institutions such as the WB is an example of direct influences. Indirect influences were often channelled through transnational platforms that promoted institutional norms and ideas largely suited to the context of developed countries and practiced in powerful economic societies.

#### ***4.2.3 Role of Transnational Institutional Arrangements – Accounting Reforms and Global Legitimacy***

A key point to be noted is the voluntary nature of participation of members in

transnational platforms. For example, in 2009 India became a (rotating, voluntary) member of IPSASB. Interviews revealed that IPSASB conferences served as platforms for communications between members representing different countries and transnational organisations such as IFIs. IFAC as a facilitator of IPSASB operations, was also involved in these conferences (GB2). According to a senior member of the government, these conferences were observed by the WB, IMF, UN, OECD and MNCs. Being observers, these organisations have no voting rights. Hence any opinion expressed by them could be overruled if the members voted against it; however, interviewees participating in these conferences revealed that in the practical scenario this never happened (GB1). The interviewee further explained

*“The comments/suggestions/opinions made by the observers were almost always accepted and were not opposed. This is because member countries were aware that these huge organisations were wealthy and in powerful positions” (GB 2).*

The voluntary participation of India and other developing countries in such conferences represents multiple state agendas i.e. response to societal and organisational institutional influences exerted at the national level as well as the agenda of gaining international influence to deal with domestic legitimacy issues. For example, the societal response to political scandals in India led the state to seek increased legitimacy, both at the national and transnational levels. In contrast to the accounting convergence project in the private sector in India, where the state was a key institution providing legitimacy (pp. 322, Krishnan 2018), public sector accounting reforms in the country were partly driven by attempts of the state seeking legitimacy following the political scandals. This change in the dynamics of legitimacy needs of the state appears to have altered its role as a key decision-maker for accrual accounting reforms in the public sector. The state’s need for legitimacy as a driver for accrual accounting reforms in the public sector in India is different to studies exploring legitimacy dynamics of such reforms. This includes studies showing IPSAS gaining greater legitimacy due to its adoption by powerful organisations such as the UN and the role of the internal governance of these organisations on such adoption (Chow and Pontoppidan,2019; Da Veiga and Major,2019). In seeking legitimacy and attempting to follow global norms, India became a voluntary recipient of indirect institutional influences from transnational institutions. This adds to extant literature by demonstrating how local actors perceive and respond to transnational institution such as the WB and IMF promoting international accounting standards at global accounting forums (Everett et al.,2007).

#### **4.3 Institutionalisation of new practices - State responses to Demand and Supply Pressures**

Responses to demand and supply pressures led to initial stages of institutionalization of new accounting practices and deinstitutionalisation of existing practices in India,

which occurred through local developments in 2009. In May 2009, GASAB organised the National Roundtable Conference on accrual accounting which was attended by provincial finance secretaries from across the country as well as WB officials. Issues such as the format of financial statements for the union and provinces, pilot studies in states and a five-year time frame for a national roll out of accrual accounting system (MoF,2009; MoF 2) were discussed at the conference. By 2009, the central, provincial and local government were preparing to facilitate a ‘bubble up’ approach to transition to accrual accounting. This meant that the initiative for accrual accounting would start at the lower local government level and then gradually move upwards to higher levels of government i.e. the provincial and central government level (WB,2010). In 2009, TFC13<sup>12</sup> took important steps such as reviewing the previous Finance Commission and holding consultations with provincial and local governments (Rao,2010; MoUD, 2010). TFC13 sent out exhaustive questionnaires to provincial governments and associated organisations to examine issues such as finances of ULBs, accounting and audit practices and implementation stage of recommendations made by previous commissions (Rao,2010; MoUD,2010).

On finding the implementation progress unsatisfactory, the Commission laid out 9 mandatory conditions to obtain half of the grant that was previously available in full amount to all provinces unconditionally. The other half was still unconditionally available to all provinces. Reforms recommended were listed along with compliance mechanisms for the same. One of the major recommendations of TFC13 was,

*“The states (provinces) should implement in all ULBs an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounts Manual. This implies that all ULBs should introduce accrual based double entry accounting system as per the National Municipal Accounts Manual which has been agreed by all the states (provinces) and are in the process of customizing and adopting the Manual”* (MoUD, 2010).

Events following these steps prove that the recommendations had the necessary and intended impact on provincial and local governments. Based on the recommendations of the two finance commissions and GASAB, it was decided that pilot studies should be conducted in a couple of provinces before proceeding towards convergence across the country (GASAB,2008). However, according to a senior government official, funding these pilot studies was an issue and in 2010, the WB stepped in and agreed to provide funding. These studies received both financial and technical aid from transnational institutions leading to direct institutional influences from these agencies. For instance, the pilot study conducted in Andhra Pradesh received technical support from Deloitte. Such financial assistance from the WB aligns with the findings of existing literature on the role of IFIs in transferring transnational institutional practices into the local context. However, in contrast to findings of similar studies on neighbouring countries such as Bangladesh receiving conditional financial aid from WB to implement accounting reforms, no such evidence of a quid pro quo relationship was found in the case of India (Rahman,1997; Mir and Rahman,2005). For the pilot study,

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<sup>12</sup> TFC13 – Thirteenth Finance Commission



two departments under the provincial government were selected and model formats for Annual Financial Statements (AFS) were conceptualised, based on IPSAS, IGFRS and few international experiences. The model formats were filled in on the existing cash based AFS and on the new piloted formats in the respective departments. Part of the analysis included comparison of several aspects of AFS with those of UK, New Zealand, Canada and Australia (GASAB and CAG,2010). This demonstrates sources of organisational institutional influences transmitting transnational accounting practices into the local context.

The pilot studies aimed to identify gaps between the existing cash accounting system and accrual system including potential issues during actual migration to accrual accounting specifically in the case of Plant, Property and Equipment and Inventories (WB,2010). By 2011, more than 48 ULBs across seventeen provinces switched over to accrual accounting. Four provinces adopted accrual accounting for Panchayati Raj Institution (PRI)<sup>13</sup>, and sixteen provinces adopted the Model Accounting System<sup>14</sup> based on accrual accounting system (GASAB,2011b; Kalyan,2014). Communications with transnational professional bodies that furthered the process included a visit to New Delhi by the Chairman of IPSASB Dr Andreas Bergmann in 2012 during the course of which he met the president, the vice-president and other members of the ICAI as well as the Joint Secretary (Budget) to the MoF to discuss IPSAS convergence. Dr Bergmann emphasised the need for IPSAS convergence while also commending government efforts in transitioning to cash IPSAS (ICAI,2012; IICA,2014, PB 5). Responding to queries about the significance of such meetings, a senior member of the ICAI stated,

*“The government takes serious note of recommendations made by IPSASB...this is particularly the case when members of the IPSASB directly communicate with them (government officials)” (PB 5).*

This view was later corroborated when a government representative involved in IFRS convergence confirmed that,

*“We take serious note of such recommendations while planning our strategies for convergence” (MOF 2).*

He also indicated that government officials appreciate direct communications and recommendations from global standard-setters. So, it appears that the GOI was taking proactive steps towards achieving IPSAS convergence. It made relatively reasonable progress in achieving a consensus amongst provincial governments to adopt accrual accounting and commencing implementation of accrual accounting systems in 21 out of 29 provinces; although the timelines set in the roadmap for convergence were not met because of bureaucratic delays. Nevertheless, the initiatives that the government managed to commence, despite bureaucratic delays, represent significant

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<sup>13</sup> Panchayati raj institutions are local self-government institutions for villages in rural parts of India. It has three tiers of administration – village, block and district

<sup>14</sup> Model accounting system was established by the CAG of India as part of strategies to empower the PRIs and to reduce the financial dependence of these institutions on state and central governments. The accounting practices recommended under this system are aligned with ongoing accrual accounting reforms (Kalyan, 2014).

organisational institutional reforms in response to multiple forms of societal, organisational and transnational institutional influences. Recurrence of political scandals despite state efforts have been attributed to organisational loopholes in institutional practices allowing corruption to take place without being caught. The official steps taken by the state, continuing to participate and be a recipient of influences driving accrual accounting reforms in the country, however, does match its rhetoric. It is an analysis of the effectiveness of these steps that prompts one to contemplate on the purpose of the process.

## **5. Conclusion**

This study aimed to trace, firstly, the rationales and pressures influencing public sector accounting reforms in India and secondly, the manner in which such pressures are balanced in the local context of the country. The balancing of demand and supply pressures is often manifested in the form of triggering events and responsive events as well as negotiations between actors involved in both types of events, subsequently leading to changes in accounting practices. Political scandals and government initiatives for public sector reforms are examples of triggering and responsive events found in this research. The study found that socio-political demand pressures emerging from the national context and global supply pressures arising from the transnational context led the state to initiate and undertake public sector accounting reforms in India. In terms of the second research question regarding the balance of pressures, this study finds that demand pressures are of greater significance to the state and supply pressures arise due to the state's attempt to meet demand pressures.

Localised socio-political pressures arising due to political scandals that wounded public sentiment, led to demands for greater state accountability. The state was under pressure to rebuild public trust and reinforce its legitimacy. Such pressures are interpreted as demand pressures. In seeking such legitimacy, the state engaged with transnational institutions perceived as reliable and accountable sources of legitimacy. These institutions are suppliers of conditional promises of legitimacy, whereby the conditions require the state to agree for convergence with international standards. This study interprets such influences as supply pressures. The relations of the state with these global institutions have multiple dimensions. For example, transnational organisations such as the WB and OECD mainly function to provide aid to developing countries. However, they also act as significant carriers of institutional norms in all areas including accounting reforms. Transnational organisations such as Deloitte as well as accounting systems followed in UK, US, Canada and Australia were cited by the GASAB to be guiding sources of inspiration for IGFRS, thereby acting as direct and indirect sources of institutional influences. However, a key point to be noted is that despite drawing heavily from IPSAS to create new accounting standards, the government has not fully adopted IPSAS and has only converged with IPSAS, maintaining a distinct identity. Hence, the newly created standards are named IGFRS and not IPSAS, indicating that while supply pressures are significant, they are voluntarily sought by the state to meet demand pressures, i.e., reinforce its legitimacy in the national socio-political context.

Extant literature on public sector accounting reforms, mostly focuses on the standards implementation phases of the country. A significant literature gap identified during this research is the limited number of studies exploring decision-making processes that precede actual implementation of accrual accounting reforms. This study makes three significant contributions. Firstly, it makes an empirical contribution by focusing on the

decision-making process ensuing before the actual use of international standards in public sector accounting reforms and demonstrates the significant role that institutional influences play in defining such processes. The role of these institutional influences also draw attention to probable disparities between rationales and actual reasons for government accounting reforms undertaken by developing countries.

Secondly, the paper adds to our understanding of the flow of multiple forms of institutional influences between local and transnational institutional fields in the context of public sector accrual accounting reforms. While institutional literature on accrual accounting reforms in Europe and other countries in South Asia explores different sources and types of pressure on decisions regarding public sector accounting reforms, the application of institutional perspectives to examine the balance of demand and supply pressures on accrual accounting reforms is limited. Analysis of such pressures through institutional perspectives provides deeper insights into the rationales and reasons for accrual counting reforms undertaken in developing countries. Finally, and most importantly, this study contributes to a wider set of studies on how IPSAS, its promoters and followers set out to get these practices accepted as a global solution to localised issues such as perennial political scandals. It adds to the extant literature on the decision-making processes that drive accrual accounting reforms in India which has been rarely explored with the exception of recent literature such as Krishnan(2018). While Krishnan(2018) analysed the decision-making process for IFRS convergence as being shaped by traditional cross-country trade and economic relationships in the private sector, this paper focuses on deeper analysis of global and local channels of institutional influences that shape decisions for public sector accounting reforms and the responses of the state in response to local contexts wherein accounting reforms could be used as a significant medium to address public demands for accountability.

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**APPENDIX 1**  
**LIST OF ABBREVIATIONS**

ADB	Asian Development Bank
AFS	Annual Financial Statements
AGAOA	Association of Government Accountants of Asia
ASB	Accounting Standards Board
BIG 4	Big-4 Audit Firms
CAG	Comptroller and Auditor General
CAS	Country Assistance Strategy
CEO	Chief Executive Officer
DFID	Department for International Development
EC	European Commission
EU	European Union
FS	Financial Statements
GAAP	Generally Accepted Accounting Principles
GAR	Government Accounting Rules
GASAB	Government Accounting Standards Advisory Board
GDP	Gross Domestic Product
GOI	Government of India
GOO	Government of Orissa
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
ICAI	Institute of Chartered Accountants of India
ICGFM	International Consortium on Governmental Financial Management
ICSI	Institute of Company Secretaries of India
IFAC	International Federation of Accountants
IFIs	International Financial Institutions
IFRS	International Financial Reporting Standards
IGAS	Indian Government Accounting Standards
IGFRS	Indian Government Financial Reporting Standards
IMF	International Monetary Fund
INGAF	Institute of Government Accounts and Finance
INTOSAI	International Organisation for Supreme Audit
IOSCO	International Organization of Securities Commission
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
MCA	Ministry of Corporate Affairs
MFF	Multitranches Financial Facility
MNCs	Multi-National Companies
MoF	Ministry of Finance
MoUD	Ministry of Urban Development
NACAS	National Advisory Committee on Accounting Standards

NCAER	National Council of Applied Economic Research
NIUA	National Institute of Urban Affairs
NMAM	National Municipal Accounting Manual
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PL	Profit and Loss
PSC	Public Sector Committee
PSE	Public Sector Enterprise
RQ	Research Questions
SARFM	South Asian Region Financial Management
SASPR	South Asia Poverty Reduction and Economic Management
SFAA	State Financial Accountability Assessment
ULB	Urban Local Bodies
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organisation

#### **DATA AVAILABILITY STATEMENT**

**The data analysed in this article has been collected from documents available on websites as well as information collected from interviews. Data from interviews can be made available on request. Interviewee details would be anonymised.**