

**Inaugural address by Mr. Vijayendra N. Kaul, C&AG of India
Government Accounting Standards Advisory Board (GASAB)
7th November, 2002**

1. It gives me great pleasure to be with you at the inaugural meeting of the Government Accounting Standards Advisory Board. I consider this a landmark event in the history of public sector financial management in this country. It fulfills a long felt need in the area of Government accounting. The GASAB will formulate Government Accounting Standards for our country. These accounting standards will be formulated in conformity with the provisions of the Constitution and our laws and in keeping with international norms in this regard. The basic objective of this initiative, taken at the behest and with the approval of the Ministry of Finance, Government of India, is to promote best practices on the basis of generally accepted principles of Government accounting. Your Board is charged with the responsibility of not only formulating and proposing standards to improve the usefulness of the Government's financial reports based on the needs of the users but also to keep these standards current so as to reflect changes in the economic environment. Your Board also has the onerous responsibility to provide guidance on the implementation of standards and to consider significant areas of accounting and financial reporting that can be improved through the standard setting processes. Government of India's hope is that this initiative taken through the CAG will improve, at the very least, the common understanding of the nature and purpose of information contained in Government financial reports.
2. Accounting and financial reporting standards are essential for improved public accountability and, in fact, for the efficient and effective functioning of our democratic system. They play a major role in fulfilling the Government's duty to be publicly accountable and they contribute to a fuller understanding of economic, political and social consequences of allocation decisions and various uses of Government resources both at the Centre and at the State levels. We all realize that accounting rules are designed to provide standardized frameworks within which the financial position of a Government can be assessed. Bad accounting frameworks can lead to bad information and bad information invariably leads to bad decisions with serious long-term consequences. We also realize that accounting rules can be manipulated and abused to provide a misleading picture of what is really happening in the national economy.
3. In India we have a fairly sound system of accounts, based on rules, the basic structure of which was established a long time back in colonial times. The Accounts Code, the Financial Code, the Treasury Codes, the departmental accounting rules etc, all form an elaborate structure of a well established accounting system which has been functioning quite efficiently in different departments of Central and State Governments and Union

Territories. Therefore, our existing accounting rules are not operating without a system, in a vacuum as it were. They have underlying accounting concepts. But the problem is that we cannot identify these principles readily and distinctly. Consequently they do not respond fast enough to our changing needs. Therefore, a primary concern of the Board will no doubt be to ensure proper identity to the existing concepts enshrined in the current rules. While doing so, the Board will no doubt also consider filling up any lacuna in our accounting system and hopefully improve the quality attributes of our Government accounting practices. Therefore, the primary purpose of the standards that you formulate would be to act as quality assurance yardsticks.

4. I am confident that the Board will be able to promote the basic characteristics of understandability, reliability, relevance, timeliness, consistency and comparability of Government accounts across various departmental rules and across Central and State financial reporting practices. The advantages of standard setting are obvious and I need not labour them before eminent professionals such as you.
5. I hope that during its deliberations the Board will be able to comprehensively address accounting and financial management issues as they exist today in the Indian context as well as prepare the public sector for issues that the country is likely to face in the future. Government accounting frameworks have to be devised in a manner that provides accurate and useful signals to the market as distorted financial information exacerbates a country's economic problems. Of late we have noticed a tendency of using existing accounting rules to accommodate what can be called off-budget transactions which are the equivalent of off-balance sheet transactions in the private sector. I hope this Board is able to address problems that have arisen on this account so that the temptation to resort to creative accounting practices in the public sector is totally discouraged. Transparency and accuracy are two other issues that would need the attention of this Board. There has been an increasing tendency to some times not disclose debt and other liabilities of entities in the public sector fully and transparently. Such actions and practices are attracting critical attention of the public as parallels are drawn between Corporate and Government standards of disclosure. I am sure the Board will address this issue comprehensively in due course. Similarly accounting of contingent liabilities is an issue which needs the attention of this Board.
6. These are some of the issues that Government accounting system faces today and which need your attention. Of course there will be other fundamental issues such as the nexus of accounts with financial management which will also have to be addressed by this Board and attended through its standard setting powers.
7. Ladies & Gentlemen, as you are aware the Government has so far used a cash based accounting system in India. There is currently a debate on transiting from this system to an accrual based accounting system. The advantages and disadvantages of cash and accrual-based systems have

been debated for a long time, but a meaningful synthesis has not yet emerged on this issue. It is our hope that this Board will be able to encourage the study of this issue in depth so that there is greater clarity in this matter.

8. In the end, let me say that everyone today recognises the relevance of Government accounting standards. The standards will delineate the basic principles that represent the best practices of government accounting and financial reporting, as it should be. They will provide a framework for performing and promoting a broad range of value-added activities concerning financial reporting and accounting in the Government. The standards will establish the basis for the measurement of performance. They will foster improvement in government processes and operations. We have well-established national and international conventions of standard-setting process that facilitate extensive discussion and consultation with stakeholders. But once established the standards would be required to be meticulously adhered to by all and in the interest of all. The accounting standards that you formulate will be significant, therefore, the work you are embarking upon is significant and seminal.
9. I wish you success in your endeavours and look forward to your valuable contributions. On my part, I will extend full and continued support to the important task being undertaken by the Board. I have already approved the establishment of a Secretariat and the taking on deputation of three professionally competent officers at Group Officers level one each from Civil, Defence and Railway Accounts. The Secretariat will have one nominee from the Ministry of Finance as well. The idea is to have broad-based representation and widest possible consultations so that the standard setting process satisfies all the government departments in the Centre and in the State Governments. The Secretariat would also provide a sustained momentum and support to your important work.

With these observations and best wishes, I inaugurate the first meeting of Government Accounting Standards Advisory Board.

Thank you.

Welcome speech
by Mr.K.N. Khandelwal, Deputy C&AG (Accounts & LB)
and Chairperson

Government Accounting Standards Advisory Board
7th November, 2002

Hon'ble Comptroller and Auditor General of India, Shri V.N. Kaul, distinguished Members of the Government Accounting Standards Advisory Board,

1. It is my privilege to extend a hearty welcome to all of you for the first meeting of the Government Accounting Standards Advisory Board. Establishment of this prestigious institution marks a distinct beginning in the government financial reporting and accounting systems in our country. This coincides with simultaneous developments in the accounting field all around. The recent collapse of corporate giants abroad has brought issues relating to accounting and corporate governance into prominence. Similar concerns have been expressed in respect of public sector accounting as well. Joseph Stiglitz, Professor of Economics and Finance at the Columbia University and the winner of 2001 Nobel Prize in Economics has alleged that public accounting rules have been bent so as to provide a misleading picture of what is really happening in national economies. He has particularly referred to the revision of the surplus of more than three trillion dollars for the years 2002 to 2011 into two trillion dollars deficit by the United States Government last year.
2. The crises in the United States where the issues concerning private and public sector governance are said to be fairly strong should make us cautious about our financial reporting and accounting systems. We have noticed that the Government and the other regulatory bodies have already initiated some actions in the corporate sector. Even though some may call these as over-reactions, objective reviews and proactive measures are normal processes in any system.
3. However, I may clarify that the establishment of the Government Accounting Standards Advisory Board is not a direct consequence of these developments. It is a natural corollary of the series of measures introduced by the C&AG of India in the last few years. It also synchronised with various actions taken by the Government of India. For instance, the committee on fiscal Responsibility Legislation headed by the Secretary to the Government of India, Department of Economic Affairs with wide

representation that included the Deputy Governor – Reserve Bank of India, Director – National Institute of Public Finance and Policy, Director – National School of Law besides the Controller General of Accounts, representation of the C&AG of India and others have recommended preparation of accounting standards for the government to improve fiscal reporting in order to take care of the quasi-fiscal operations and ensuring better fiscal transparency. Further, the successful computerization of Union Civil, Railway and Defence accounts as also the State accounts has underscored the importance of uniformity and consistency in government accounts. The Voucher Level computerization project in various States has brought out the desirability of common fundamental principles over the multiplicity of rules for any meaningful comparison and consolidation. Also, several emerging issues such as the accounting of the grants-in-aid to the Local Bodies for capital works, allocation of assets and liabilities of the bifurcated States, accounting treatment of pension liabilities and scores of other significant aspects have pressed the urgency for formulating appropriate accounting standards. To briefly elaborate, the grants-in-aid are revenue items according to the accounting principles. But when the substantial grants-in-aid are made by the State Governments to the Local Bodies, especially for undertaking capital works, the State Governments feel that the grants-in-aid should be classified under capital expenditure. As the matter has assumed significance after the 73rd Amendment to the Constitution, an objective review of the various issues with open mind is appropriate that could be undertaken by the standard setting body with wide representation.

4. Important developments in the international public sector accounting field have also influenced the process of standard setting for the government accounts. These included issue of International Public Sector Accounting Standards by the IFAC that set out the requirements for financial reporting by the governments. Particularly, IFAC has proposed to issue a number of government accounting standards on the cash basis before the end of the year 2002, in addition to its Exposure Draft 9 on the “Financial Reporting on the Cash Basis of Accounting.”
5. The International Monetary Fund has revised its Government Finance Statistics Manual (GFS Manual) in the year 2001 that is said to provide a comprehensive conceptual and accounting framework suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any country. The revised Manual is a departure from earlier version and advocates accrual system of accounting.
6. Under the Accounting and Auditing Act of the United States, the federal agencies must comply with the accounting standards and principles prescribed by the Auditor General of the US. Accordingly, a standard

setting board exclusively for the federal government agencies known as Federal Accounting Standards Advisory Board (FASAB) was set up in 1990. Since 1993, the FASAB has published 22 Accounting Standards, keeping in view the characteristics of the government agencies as distinct from the corporate entities.

7. These international developments coincided with the reform initiatives in government accounting in our country that led to the establishment of the Government Accounting Standards Advisory Board.
8. Our Board will be developing government accounting standards to suit our environment and challenges peculiar to our systems and will draw upon the rich tradition and expertise of various accounting services in the Central and State Governments. With the globalisation affecting all walks of life, we should also have accounting standards that would convey the strength of our governmental accounts while suggesting improvements in the language intelligible to the international community to facilitate easier grasp of our government accounts and financial statements.
9. I am happy that immediately on his assuming the office, the present C&AG of India Shri V.N. Kaul has taken a pioneering step in setting up the GASAB with the support of the Government of India. We are also pleased that he has kindly consented to deliver the inaugural address today. Sir, once again, I extend a warm welcome to you.
10. It is also my pleasant privilege to welcome each one of you, the distinguished members of the Government Accounting Standards Advisory Board for this first meeting. Ladies and Gentlemen, I welcome you one and all.

Constitution of government Accounting Standards Advisory Board for Union and the States

Government of India have supported the proposal for establishment of a Government Accounting Standards Advisory Board for the Union and the States by the Comptroller and Auditor General of India in order to establish and improve standards of governmental accounting and financial reporting and enhance accountability mechanisms. Accordingly, the Comptroller and Auditor General of India has constituted a Government Accounting Standards Advisory Board (GASAB) consisting of the following officers:

1. Deputy comptroller and Auditor General (Accounts) as Chairperson
2. Controller General of Accounts
3. Financial commissioner, Railways
4. Controller General of Defence Accounts
5. Additional Secretary (Budget), Ministry of Finance, Government of India
6. Deputy Governor, Reserve Bank of India or his nominee
7. Director General, National Council of Applied Economic Research (NCAER), New Delhi
8. President, Institute of Chartered Accountants of India (ICAI), or his nominee
- 9-12. Principal Secretary (Finance) of four States by annual rotation
13. Principal Director (Accounts), office of the Comptroller and Auditor General of India as Member Secretary

2. GASAB will, inter alia, have the following responsibilities:

- (i) To formulate and propose standards that improve the usefulness of financial reports based on the needs of the financial report users.
- (ii) To keep standards current and reflect changes in the governmental environment.
- (iii) To provide guidance on implementation of standards.
- (iv) To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
- (v) To improve the common understanding of the nature and purpose of information contained in financial reports.