GASAB and its Relevance:
A perspective in Government Accounts

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Background

Government accounting is the process of recording, classifying, compiling, consolidating, reporting and interpreting financial information about cash transactions in general and other economic events. The financial records are maintained for budgetary control, internal control, reporting to stakeholders and the requirement of auditors. Accounts are maintained for a wide range of administrative entities: ministries, departments, state governments, autonomous bodies and local bodies which are spread throughout the country.

Not only the Finance Commissions but the Administrative Reforms Commission also strongly indicated an inevitable shift towards accrual accounting in government, to the extent that the 12th Finance Commission (2005-10) directly linked it to the much required reforms in government accounting. The report conveyed a sense of urgency to this transition and emphatically summed up in paragraph 14.16 of the Report that "the system of accrual accounting, thus, inter alia, allows better cost price calculations, records capital use properly, distinguishes between current and capital expenditures, presents a complete picture of debt and other liabilities and focuses policy attention on financial position, as shown in the whole balance sheet not just cash flows or debts. It gives a complete measure of cost of various services, takes care of disinvestment receipts and provides adequate information of both fiscal balance and net worth and their changes over time."

Further, the 13th Finance Commission, in its Report, advocated a 'bubble up' approach for adoption of accrual accounting in para 13.9 of the Report. This is stated while supporting the Second Administrative Reforms Commission in its recommendation that a task force be set up to examine the costs and benefits to the system as well as its applicability in the case of

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appropriation accounts and finance accounts. The report also underlines the need for training and capacity building; ensuring alignment of the plan, budget and accounts; as well as putting in place a viable financial system of accounts. To further reiterate this paradigm shift, the government set up an Apex Committee with Secretary. Finance as its chair in 2011 to commission pilot studies and oversee pilot implementation for transition to accrual base accounting in government.

However, the Ministry of Finance, in its presentation to the Finance Commission[1], urged that the changeover to accrual accounting be managed with care and circumspection, given that the process is resource and time intensive, and that its benefits have not been unambiguously proven by international experience.

The International Scenario

International Public Sector Accounting Standards Board (IPSASB), International Accounting Standards Board (IASB), International Monetary Fund (IMF), International Financial Reporting Standards (IFRS),The International Federation of Accountants (IFAC), World Bank and other international bodies feel that it is now imperative that governments, across countries now adopt robust accounting systems which present and reflect the utilization of the taxpayer's money in addition to disclosing the complete and comparative economic impact of government's decisions. A better accounting inevitably ensures an optimum use of public resources. "High-quality financial reporting is essential to ensure that governments make fiscal decisions based on up-to-date information and an accurate understanding of their financial position," said Fayez Choudhury, IFAC CEO. "They provide a mechanism through which legislatures, auditors, and the public at large can hold governments accountable for their financial performance."

While there is undoubtedly a very strong case for switching to accrual accounts, there are other ramifications to this transition. The international experience so far has been quite mixed. According to an IMF report2, the current accounting practices show the following trend:

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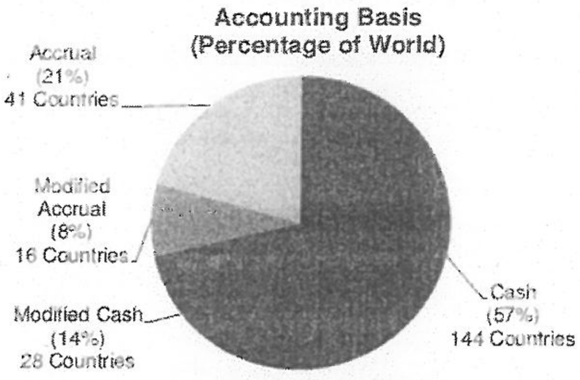
[1] Para 13.9 of the Thirteenth Finance Commission Report

[2]https://www.slideshare.net/OECD-GOV/implementing-accrual-accounting-in-the-public-sector-suzanne-flynn-imf



Further, Nearly three-quarters of OECD countries have adopted accrual accounting for their year-end financial reports and more than a quarter now prepare their annual budgets on an accrual basis, according to the landmark study Accrual Practices and Reform Experiences in OECD Countries by the IFAC and the Organisation for Economic Co-operation and Development (OECD). The study also points out that while the direct adoption of international accounting standards, such as IPSAS or IFRS, by national governments remains very low, many standard setters use IPSAS or IFRS as primary or explicit references for developing their national standards.

To take the example of UK, one of the pioneers in accrual accounting in government, this was done under Resource Accounting and Budgeting. First accrual accounts, parallel to the cash accounts were prepared in UK in 2001. Despite more than 15 years into the process, the government continues to face significant challenges. For example, the Ministry of Defence raises the issue of stock-taking 1.5 million lines of inventory in over hundred locations, some dating from the first world war, the issue of assigning values to these assets/inventory and whether the majority are then, to be treated as assets or spare parts or obsolete items, is still ambiguous. Further, depreciation model is based on the assumption of useful life of assets which may be, in effect, far from ground reality.

Points of issues- International

The challenges faced by those in the process of transition commence with the

a) basic approach on whether it is "top down" including elements that are pre-determined with fixed timelines and are mandatory or "bottom up" where principles are still to be firmed up depending on the success of the subordinate units;

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b) current accounting policy and system of the entity, the IT and MIS systems and the completeness, transparency and accuracy of existing system along with other logistics;

c) methodology of accounting used in the preparation of budget, especially because there is an increasing demand that government should be accountable to the community for the resources entrusted;

d) level of commitment by the government to the adoption of accrual accounting; and

capacity, knowhow and skills of the target people and organizations responsible for implementing the changes.

The Current Indian Scenario

Choosing the right accounting method does make a difference between an accurate reading of the financial status and health of an organization and a mere formal compilation of figures. However, the transition to accrual accounting entails professional accounting and technological skills, identification and valuation of assets, development of accounting policies, rules, systems, procedures etc as well as validation of assumptions by neutral and skilled agents/ evaluators and auditors, all involving high cost of transition and a long transition period. Further, it is largely designed to measure profit which is corporate performance yardstick whereas for Government the main motive is good governance and in connection therewith, administrating and gearing up the entities and departments to render best possible service to the citizens in a primarily non-reciprocal way.

Sound and transparent public accounting is a necessary component for effective public resource management for better reporting and decision-making, enhanced accountability and finally to better use of public resources. The Government of India also realized the constraints in transition to and implementation of the accrual accounts in government, especially given the scale of operations and the size of the Indian economy and the fact that this was a time consuming process. The 12th Finance Commission recommended that as an interim measure, subsidies, salaries, pensions, committed liabilities, salary and non-salary portions, liabilities on outstanding debts should be appended to the present system of cash accounting (Para 14.16) to enable a more informed decision making. This not only lends greater credence due to enhanced transparency but ensures faith of international stakeholders in the strength of Indian economy and its future prospects. The Government accepted the recommendation in principle and set up Government Accounting Standards Advisory Board

(GASAB) which framed the roadmap for gradual transition from cash to accrual accounting system.

In India the accounting policies followed by all Government entities following cash based system of accounting, are embedded in the General Financial Rules (GFR) and the Government Accounting Rules (GAR). These lay down the rules to be followed by the government entities in their accounting for any receipt or expense. Hence, it was also decided that GASAB would commence work on the shift from a rule based to a standard based accounting and develop the framework and formulate of cash based Accounting Standards as well as Accrual based Standards, the basic objective being providing of relevant information to the stakeholders in standardized reporting structure.

The existing problems and the need to introduce the concepts of accrual accounting into cash accounting by appending information as disclosures, thereby, leading to a hybrid accounting was considered the way forward, without entailing the long, tedious and expensive process of actually switching to accrual.

Core challenges in India

The Indian government accounting system continues to be cash based with intermittent proforma accounts in some entities parallel drawing their accounts on accrual basis. The issues and challenges remain:

- timeliness, reliability, completeness and accuracy of information;
- non-standardisation in recognising and recording transactions and other processes across government entities;
- the government has conducted pilot studies in 4 states through GASAB, reports from some departments within these 4 states have been received and forwarded to the Apex committee, these reports depict differing states of readiness of entities within the Government;
- there is a presently an attempt to prescribe a standard format for disclosure on physical assets, however, detailed information on assets and liabilities across government entities is not available;
- accounting policies and a revised chart of accounts will need to be developed;
- consolidation of business processes;

- mapping will also be required for new processes under accrual accounting;
- capacity building and skill enhancement for the accounting and finance personnel;
- software modules and other IT requirements to support accrual accounting;
- creation of database on assets and liabilities;
- amalgamation of the budgetary processes with the contemplated accrual accounting , shall also then, need to be planned, to cover the entire continuum from resource allocation to asset creation or rendering of service.
- The Department of Railways has prepared proforma accounts on accrual basis for the year 2015-16 wherein the CSER has also identified several areas of accrual impact which are hitherto not captured as current assets and current liabilities. Some areas which have been identified are as under: 1. Work/measurement done but bill not received 2. Bill received but payment not made 3. Revenue received but service not provided 4. Employees liabilities viz. Pension 5. Demands payable, Salary payable 6. Advances to employees 7. Demands Recoverable 8. Inventory Closing stock
- The Department of Posts is also preparing proforma accounts of two HPOs in accrual system

Government Accounting Standards Accounting Board (GASAB)

GASAB was constituted by the Comptroller & Auditor General of India on August 12, 2002 for the Union and States under Article 150 of the Constitution of India to formulate Government Accounting Standards (IGAS) for government cash accounting entities and Government Financial Reporting Standards (IGFRS) for facilitating pilot studies accrual accounting in government in addition to other pronouncements and Guidance Notes. These accounting standards will be formulated in conformity with the provisions of the Constitution, our laws and international norms, promoting best practices on the basis of GAAP. GASAB was entrusted with the following responsibilities:

i. To establish and improve standards of governmental accounting and financial reporting in order to enhance accountability mechanisms;

ii. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the financial report users;

iii. To keep the standards current and reflect changes in the governmental environment;

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iv. To provide guidance on implementation of standards;

v. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process; and

vi. To improve the common understanding of the nature and purpose of information contained in financial reports.

GASAB endeavors and is contributing to a fuller understanding of resource allocation decisions both at the Centre and State levels, disclose debt and other liabilities of entities in the public domain fully and transparently. It attempts to a) address the direct correlation of accounts with financial management, b) improve the understanding of the accurate financial position of a Government, c) synthesize the cash based accounting system and accrual based accounting system, d) cover both Union and States, e) promote best practices on the basis of generally accepted principles of Government Accounting and f) steer a gradual course in reforming our accounting system. It is in the process of addressing three major gaps in the current system of government accounts, viz., understating liabilities, overstating assets and unconsolidated financial statements in government accounts.

The idea is also to ensure better information on liabilities such as employee entitlements, claims, obligations, expected losses which are not typically recognized in a cash accounting environment. The financial decision is then an informed one apart from a useful evaluation of government's performance in terms of its accomplishments, service costs and efficiency. The government entities fail to keep full records of their fixed assets, sometimes even its current assets and fail also to account for all financial resources available to meet their obligations. Governments that follow pure cash accounting typically account only for their cash holding on the assets side and debt on the liability side.

The process is also on to address the issue of current non-recording of assets and liabilities, in balance sheets including financial assets (equity) and physical assets (land and buildings etc), and liabilities other than debts and bonds (e.g. payment arrears and pension obligations). A complete listing of assets available with all government entities was the absolute need of the hour. This shall, then, to a large extent, lead to

i. credibility of the accounting data

ii. transparency in disclosing the correct data which are the underlying principle of a sound accounting system. Cost accounting, fixed assets management, performance management and long-term planning and forecasting are all key accounting areas. Improving these shall contribute to enhanced service performance and long-term sustainability of public finances.

The pronouncements of GASAB: IGASs and IGFRSs

- IGAS: The standard based on cash based accounting system are termed as Indian Government Accounting Standards (IGASs) and become mandatory for application by the Union, States and the Union territories with legislature from the date as notified by the Government.
- IGFRS: The standards based on accrual based accounting system are termed as Indian Government Financial Reporting Standards (IGFRSs) and have become recommendatory for pilot studies from the date approved by GASAB.
- Both the pronouncements, however, are developed in consultation with stakeholders, are forwarded to Ministry of Finance for consideration and notification in accordance with provisions of the Constitution.

STATUS ON PRONOUNCEMENTS BY GASAB

The IGASs duly notified include:

- Guarantees given by the Governments: Disclosure Requirements (IGAS1)
- Accounting and Classification of Grants-in-aid (IGAS2)
- Loans and Advances made by Governments (IGAS3)

The notified IGA 2 and IGAS 3 are also undergoing modification not only to keep them updated but also to make them more relevant for both the grantor and the loaner entities by proposing to include additional information by way of Annexures. The modified IGAS2 proposes to include a disclosure by both the grantor and the grantee on duplication of grants for the same purposes by the grantor, if any, utilization of grants for the specified purpose, the extent to which the grants have been provided for capital formation, the extent to which the grants have remained unspent with the grantee before release of subsequent grant by the grantor, whether submission of 'Achievement-cum-performance Report" has been done and the details and utilization of grants-in-aid in kind, especially land. The modified IGAS3 proposes to include information on duplication of loans, if any, given for the same purposes by the government, extent and type of loan given to individual entities, their utilisation and the interest charged, arrears pertaining to different entities and information in cases where fresh loans have been given despite arrears alongwith reasons therefor, loans in perpetuity, if any, loans given where terms and conditions are yet to be decided and quantum of subsidy, if any, given to meet the interest burden.

Further, there are IGASs approved by GASAB, but under consideration by the President of India for notification. In the 31st meeting of Board of GASAB, it was decided that since documents awaiting notification are already dated, they may be deliberated in the TBG again and modified to make them current with the changing financial milieu, viz., General Purpose Financial Statements of Government, Foreign Currency and Loss/ Gain by Exchange Rate Variations, Public Debt and Other liabilities.

Further, due to the fact that the present system of cash basis of accounting does not recognize fixed assets as such, but recognizes them merely as capital expenditure, Capital Works-in-Progress (CWIP) is subsumed in the capital expenditure booked and both the accounts and the existing Asset Registers do not separately depict Capital Works-in-Progress. Similarly, it is seen that complete details of fixed assets owned/under construction/ constructed/purchased/acquired by a Government entity are not available in the Finance Accounts. Further, fixed assets like computers, furniture etc., booked under revenue object heads viz., Office Expenses and Other Administrative Expenses are currently not captured as capital expenditure. In addition, heritage, intangible and leased assets are not recognized and therefore not included in the Asset Registers. Further, no de-recognition of asset takes place even after the asset is no longer in use. GASAB, in its 32nd meeting has recently approved a Guidance Note on Accounting of Fixed Assets to enable comprehensive and transparent financial reporting with regard to capital expenditure and provide information about entity's fixed assets including changes therein. The document is awaiting notification by Ministry of Finance.

Pronouncements under development include a Standard on Accounting of Reserve Funds. Currently, proliferation of reserve funds/ developmental funds leads to lack of legislative control over the expenditure, as expenditure from the Public Accounts is not subject to vote of Parliament/ Legislature. Further, excessive transfer of funds from the Consolidated Fund to Public Account, especially at the close of the Financial Year in order to avoid lapsing of budget allocation, undermines the basic principles of operation of reserve funds/ developmental funds.

There are other IGAs approved by the Board of GASAB by yet to be notified by MoF, viz., General Purpose Financial Statements of Government, Foreign Currency and Loss/ Gain by Exchange Rate Variations, Public Debt and Other liabilities. A decision has been taken to further update these approved documents as these documents are now dated.

IGFRSs approved but pending notification include:

- IGFRS 1: Framework for financial reporting under accrual basis accounting
- IGFRS 2 : Property, Plant and Equipment
- IGFRS 3: Revenue from exchange transactions
- IGFRS 4: Inventories
- IGFRS 5: Provision, contingent liabilities and contingent assets

Just like the approved IGASs, the approved IGFRSs are also proposed to be modified as a decision was taken by the board to keep all the pronouncements current as the Government accounts must gradually make a transition from a rule based accounting to a standard and principle based accounting. GASAB's role is also vital in bringing pragmatism to the structure of accounts, accounting heads and the related rules and principles, thereby adhering to a compliance of GAAP and the best international accounting practices, not to mention the adherence to a uniformity and standardization in presentation. This is inevitable as there is also an increasing demand that government should be accountable to the stakeholders for the resources entrusted.

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