FORMULATION OF AN ACCOUNTING STANDARD

The GASAB Narrative

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INTRODUCTION

In a milieu where government accounting systems depicted individual entity's objectives and peculiarities in measuring and accounting only receipts, expenditure, and budgetary control, the 12th Finance Commission recommended that while the Central government should gradually move towards accrual basis of accounting, as interim measures, 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). The 13th Finance Commission recommended a 'bubble up' approach to facilitate the switch over to accrual accounting system in government and stressed the need for improving transparency in government accounts.

The Government accepted the recommendation in principle and, accordingly, the Government Accounting Standards Advisory Board (GASAB) framed the roadmap for transition from cash to accrual accounting system and work on the framework and development of Accounting Standards on cash as well as accrual based Standards for a better disclosure, providing relevant information to the stakeholders in a uniform and standardized reporting structure. 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 guidelines to be followed by the government entities in their accounting for any receipt or expense.

There is an increasing demand that **government should be accountable to the community for the resources entrusted.** Choosing the right accounting method can make a difference between an accurate reading of the financial status and health of an organization. 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, all involving high cost of transition and a long transition period. Further, it is designed to measure profit which is corporate performance yardstick whereas efficiency in the public sector management methods should serve the needs of socio-political economy.

However, this is not to deny the need for reforms in public financial management leading to greater accountability. The present classification system was instituted around 1974 and struggles to cope with greater complexities and much needed transparency in the government's fiscal operations. The Finance Accounts is a mesh of Schedules, difficult to collate and grasp, instead of professional approach towards reflecting the financial position of the government entity vis-a-vis the Balance Sheet and /or Income and Expenditure Statement of Government.

GOVERNMENT ACCOUNTING STANDARDS ADVISORY BOARD (GASAB)

The (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 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 responsibility to establish and improve standards of governmental accounting and financial reporting in order to enhance accountability mechanisms in keeping with the changes in the governmental environment; to provide guidance on implementation of standards; and to consider significant areas of accounting and financial reporting that can be improved through the standard setting process.

GASAB endeavors and is contributing to a fuller understanding of **economic, political and social consequences of resource allocation** decisions of the government, **disclose debt and other liabilities** of entities, address the **direct correlation of accounts with financial management,** improve the understanding of the **accurate financial position** of a Government and promote best practices on the basis of generally accepted principles of Government Accounting and steer a **gradual course in reforming our accounting system**

The Board of GASAB has high level representation from Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organizations with the DAI (Government Accounts) as Chairperson. Technical Advisors (TAs) are nominated by the GASAB members in accordance with the provisions of Rules of Business approved during 24th GASAB meeting held on 20th December, 2011. TAs are representative of and assist the Board members during the GASAB meetings and act as nodal officers to present the views of the member and may not be from the same organization as the member. The institution of TAs helps in more frequent interaction and exchange of ideas with members of GASAB Secretariat as well as among each other. The Secretariat of GASAB is constituted by officers of premier accounts and finance streams belonging to the Civil Services.

WORKING PROCEDURE OF GASAB

The procedures currently adopted by the GASAB for formulating Standards are:

1. **Identification and Issue Paper**: The GASAB Secretariat deliberates, duly considering all important suggestions, proposals received from various stakeholders and identifies areas for formulation of pronouncements and places them before the GASAB for approval as part of the Strategic Development Plan.

2. GASAB may engage a **Consultative Group** comprising observers, representatives of appropriate accounting organizations and academia possessing subject specific expertise. The members may form **Task Based Groups** (sub committees) from amongst themselves too.

3. The GASAB Secretariat thereafter prepares the **discussion paper** on the identified issues for consideration of the GASAB with a comprehensive overview of the issue. While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements/Standards issued by other national and international Standard setting and regulatory bodies followed by a comprehensive deliberation and a broader consensus among the TAs. The Discussion Paper will then be circulated to GASAB members as an agenda item and discussed during the board meeting. It is then reviewed and revised in consideration of the responses of the Board members with research support from officers from GASAB Secretariat and the TBG.

4. The Modified Discussion paper and the comments received with input thereon, are again taken up in GASAB and taken forward as **Exposure Draft** for hosting at the website of GASAB i.e. the Board may take a view to approve it for public exposure as an Exposure Draft (ED) for a minimum period of 90 days for inviting comments from all stakeholders.

5. Based on the comments received on the Exposure Draft, the **Standards are finalized** by the GASAB and then forwarded to the Government for **notification** in accordance with the provisions under Article 150 of the Constitution of India.

6. The GASAB may meet as often as is deemed necessary but generally not less than **four times in a financial year**. Special meeting may be convened by the Chair to address an emergent issue. The decisions of the GASAB may preferably be by general consensus. In case differences persist, the decision shall be on the basis of voting favoring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendations. The **quorum** for GASAB meetings requires the presence, in person or by simultaneous telecommunications link, of at least seven members.

3

7. The **meetings are normally chaired** by the Chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior-most member from the Central Government will chair the meeting. The C&AG of India will be kept informed of the important developments in the meetings of GASAB.

AUTHORITY, SCOPE, APPLICABILITY AND COMPLIANCE OF COMPLIANCE WITH IGASs AND IGFRSs

The format of the IGASs and IGFRSs ordinarily includes the Objective, Scope, Definitions, Accounting and Presentation requirements, Disclosure requirements and Transitional Provisions apart from the Date of Effect.

The standards notified by the Government are mandatory from the effective date (s) as mentioned in the notification. Financial Statements cannot be described as complying with IGASs and IGFRSs unless they comply with all the requirements of each applicable IGAS and IGFRS. A disclosure shall be made with reasons for such deviations as well as the effect of the deviations on the Financial Statements. The provisions of the Standards do not override the provisions of any existing or future Acts by the Union or State Governments. The Standards would be prospective in their application and are meant to apply to material items.

IGASs VS IGFRSs

- IGAS: The standard based on cash 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 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 to keep them updated.

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 taken up for modification to make them current with the changing financial milieu. They include Standards on General Purpose Financial Statements of Government, Foreign Currency and Loss/ Gain by Exchange Rate Variations, Public Debt and Other liabilities.

Pronouncements under development include a Standard on Accounting of Reserve Funds and a Guidance Note on Accounting of Fixed Assets (approved by the Board of GASAB in its 32nd meeting).

IGFRSs approved but pending notification also being considered for modification include Framework for financial reporting under accrual basis accounting, Property, Plant and Equipment, Revenue from exchange transactions, Inventories and Provision, contingent liabilities and contingent assets.

ISSUES IN THE FORMULATION OF PRONOUNCEMENTS BY GASAB

a. The timelines for the processes are not well defined, as a result the deliberation is drags on, on occasions even on minor issues, till consensus is arrived.

b. Many government organizations have 'strategic issues', due to which disclosure becomes difficult.

c. The Secretariat comprises of representatives from premium accounting services of the Government of India. Non- representation, not only compromises on the quality of organization related input, but also leads to barely existing body. Dedicated man-hours are pre-requisite to take this organization forward.

It therefore becomes imperative that GASAB attains the desired strength to formulate pronouncements and help bring out the best possible disclosures in cash accounting. It also facilitates introduction of concepts of accrual in disclosure for bringing out the details leading to an informed decision making by both the government and the stakeholders.

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 along with a uniformity and standardization in presentation. The Government accounts must gradually make a transition from a rule based accounting to a standard and principle based accounting. The pronouncements further must be diligently and regularly updated and kept current.