

GOVERNMENT ACCOUNTING STANDARDS ADVISORY BOARD

**A Study on
Gap Analysis of Indian Government
Accounting with International Standards**

A Research Study by
GASAB Secretariat

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-: Foreword :-

The Government accounting system in our country is rule based and follows primarily, cash basis accounting. The Comptroller and Auditor General of India has constituted Government Accounting Standards Advisory Board (GASAB) with the support of Government of India to facilitate reforms in Government Accounting.

The mission of GASAB is to formulate and recommend Indian Government Accounting Standards (IGASs) with a view to improving standards of Governmental accounting and financial reporting that will enhance and strengthen the quality of decision-making and public accountability. GASAB has two fold mission improvements in the existing cash basis accounting system, and facilitating an eventual migration to accrual basis accounting. GASAB develops accounting standards under cash basis known as Indian Government Accounting Standards (IGAS) for the existing accounting system and standards for accrual basis under the nomenclature of Indian Government Financial Reporting Standards (IGFRS). The latter is essentially to facilitate pilot studies and the on-going applied research on accrual basis accounting in Government.

The Government Accounting Standards Advisory Board has so far developed five IGAS and submitted them to the Government of India for notification. GASAB has also developed a detailed road map and an operational framework for Government of India and States to migrate to accrual basis accounting. Several other products of GASAB are under various stages of development.

The International Public Sector Accounting Standards (IPSAS) issued by IPSAS Board constitutes international framework for government accounting. The World Bank has been conducting gap analysis of government accounting with cash basis IPSAS. In the South Asian region it has studied in Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka. In its role of standard setting authority, GASAB also examines and assesses various International developments on accounting standards for possible adaptation to Indian requirements.

This research paper is an attempt to compare the prevailing Government Accounting in India with Cash IPSAS and to identify the specific differences so as to charter a transition path for adoption of IPSAS. The diagnostic tool for gap analysis developed by the World Bank has been used in conducting this research study. This is a research paper from GASAB's Secretariat and it does not necessarily represent the views of members of the Board. It can be used by all stakeholders in Government Accounting System in any further research or decision on harmonization of Government Accounting System in India with International Standards.

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(Bharti Prasad)

Chairperson (GASAB) &
Deputy Comptroller and Auditor General

Scope



1. The accounting system prevailing in Government of India and the states is essentially cash based. The preparation of government accounts in India is governed by the Government Accounting Rules, 1990 framed under Article 150 of the Constitution of India. As per the Government Accounting Rules, 1990, the accounts are to be kept on Cash basis.
2. Internationally, a number of countries follow the cash basis of accounting in presenting their accounts. The International Public Sector Accounting Board (IPSASB), constituted by the International Federation of Accountants (IFAC), has issued IPSAS standards for Cash basis of accounting (popularly known as Cash IPSAS). It prescribes the manner in which the general purpose financial statements are to be presented under the cash basis of accounting.
3. The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by governments around the world. A number of countries have already adopted IPSASs or are in the process of doing so. Hence, there is a case to make serious efforts to make the government accounts Cash IPSAS compliant.
4. The study envisages comparing the requirements of Cash IPSAS with the present Indian Government Accounting System on a as is where is basis. The scope is limited to identifying the requirements of cash IPSAS which are not satisfied in the current government accounting system. The other areas of reform in the government accounting system are not the specific scope of this paper.



International Developments on Cash basis IPSAS



1. This section reviews the international developments on framing and issue of cash IPSAS and adoption by nation states for core government financial reporting. The advantages of adoption of Cash basis IPSAS from an Indian standpoint are reviewed.
2. The IPSASB (formerly Public Sector Committee (PSC)) is a Board of IFAC formed to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs). IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprises (GBEs). IPSAS are essentially of accrual basis accounting. Since many governments have not yet migrated to accrual basis accounting, the IPSASB has also issued a comprehensive Cash Basis IPSAS that includes mandatory and encouraged disclosures sections.
3. The IPSASB has issued cash IPSAS with the aim that the adoption of IPSASs, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.
4. IPSASs (cash or accrual) are gaining acceptance all over the world. The countries which have either adopted IPSAS or have undertaken the process to do so include: Afghanistan, Albania, Argentina, Bangladesh, China, Cyprus, East Timor, France, Gambia, Ghana, Hungary, Indonesia, Israel, Jamaica, Macedonia, Maldives and Malaysia.
5. In the globalised scenario, there is an increasing trend of seamless transfer of funds across countries. Financial statements which are prepared in accordance with the local standards of a country would not be decipherable to the majority of the international investors interested in the accounts of the country. Adoption of a uniform global standard would ensure readability of the financial statements to the international investors. In other words, adoption of cash IPSAS would increase the acceptability of Accounts of the Government of India, internationally. Further, the adoption of the IPSAS by all countries would enable comparability of the financial statements of all the countries.
6. Public sector under international parlance refers to core government i.e., for example, Government of India, Government of Andhra Pradesh, Municipal Corporation of Hyderabad. Public sector does not include Government Companies or Corporations like NTPC, BHEL etc. They are governed by commercial accounting standards as issued by Institute of Chartered Accountants of India and notified by Government of India.



Gaps in Government Accounting System with mandatory requirements of Cash IPSAS

1. The accounting standards prescribed by IPSASB are divided into two parts: mandatory requirements and non-mandatory requirements. The mandatory portion sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. The requirements in this part must be complied with by entities which claim to be reporting in accordance with the cash basis IPSAS.
2. The non- mandatory portion of the cash IPSAS standard identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information.
3. In India the accounting policies followed by Government entities are outlined in the Government Accounting Rules (GAR) and the General Financial Rules (GFR). These set out the guidelines to be followed the government entities accounting for any receipt or expense or receipt.
4. This section brings out the accounting practices followed in India vis-à-vis the cash IPSAS standards and outlines gaps between the existing practice in India as against the mandatory requirements of the Cash IPSAS. The requirements set out by cash IPSAS are outlined followed by the accounting practices of government entities as mandated under GFR and GAR.

5. General purpose financial statements

(a) The Cash Basis IPSAS requires that General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report.

(b) Rule 4 of the Government Accounting Rules states that from the accounts compiled by the authorities authorized to maintain the accounts of the Central Government, State Governments and Union Territory Governments, accounts showing under the respective heads the annual receipts and disbursements. Rule 23 of the Government Accounting Rules prescribes the form of accounts to be prepared which shall include the receipts and disbursements for the year. The accounts prepared in this manner are certified by the CAG. The report of the CAG relating to these accounts shall be submitted to the President of India, who shall cause them to be laid before each House of the Parliament.



(c) **Finance Accounts and Appropriation Accounts of the Union Government and the States constitutes the General Purpose Financial Statements of the Government. The requirements of Cash IPSAS relating to preparation of financial statements is met under the Government Accounting system in India.**

6. Accounting Basis

(a) Cash IPSAS state that Cash basis of accounting means a basis of accounting that recognizes transactions and other events only when cash is received or paid.

(b) Rule 21 of the Government Accounting Rules, Government accounts shall be prepared on cash basis. With the exception of such exceptions as may be authorized by GAR or by any general or special order issued by the Central Government on the advice of the CAG, the transactions in the Government Accounts shall represent actual cash receipts and disbursements during a financial year as distinguished from amounts due to or by Government during the same period. Some of the transactions which are presented on accrual basis are payment of GPF interest in which the accrual transactions are also taken into account. Further there are transactions which does not involve cash flows, a few examples are as follows :

i. In public works department, Material Purchase Suspense Account (MPSA) involves booking of expenditure when there is no actual cash flow

ii. Expenditure is booked on Consolidated Fund of India and the amount is shown in public account as deposit.

iii. Write off of loans to book expenditure and reduce the loan amount without any cash flows

iv. Debt swap involving reduction of debt and difference being booked as revenue receipt without actual cash inflow

v. Loan conversion to equity with equity shown as capital expenditure while no cash outflow actually takes place.

(c) **From the above transactions, it can be seen that Government Accounting is strictly not in cash basis. It is actual cash plus some transactions under accrual basis accounting. Since the Cash IPSAS deals with cash transactions alone, some non cash transactions treatment may not be aligned with Cash IPSAS. Nevertheless, such a difference is merely on account of existing consistent practice to record non cash transactions, it need not be treated as a limitation in following cash basis IPSAS. Since cash IPSAS adoption itself is considered a step in the direction of migration to accrual basis accounting, such a modified cash system may be continued.**

7. Accounting Policy

(a) Cash IPSAS states that accounting policies are the specific principles, conventions, rules and practices adopted by an entity in preparing and presenting financial statements



and these policies should be stated explicitly by the government entities.

(b) As per Rule 67 of the GFR, the main principles according to which the accounts of the Government of India shall be maintained are contained in GAR; Accounting rules for Treasuries; Account Code for Accountants General Volume III. Detailed rules and instruction relating to the forms of the initial and subsidiary accounts to be kept and rendered by Officers of the Departmental of Posts and other technical departments are laid down in the respective manuals or in their departmental regulations relating to their departments.

(c) **Accounting policies are not specifically disclosed on the face of financial statements. Nevertheless, this need not be considered a limitation since the embodiment of policies is laid down in the publicly available documents like the Government Accounting Rules, Accounts Code for Accountants General etc.**

8. Financial Statements

(a) As per the IPSAS Cash standards, an entity should prepare and present general purpose financial statements which include the following components

- i. A statement of cash receipts and payments which:
- ii. Recognizes all cash receipts, cash payments and cash balances controlled by the entity; and
- iii. Separately identifies payments made by third parties on behalf of the entity;
- iv. Accounting policies and explanatory notes; and
- v. When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments.

(b) The statement of cash receipts and payments should present the following amounts for the reporting period :

- i. Total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;
- ii. Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations; and
- iii. Beginning and closing cash balances of the entity.

(c) Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, should be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when Line items, headings and sub-totals should be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash



receipts, cash payments and cash balances. Budget comparatives are provided in the Appropriation Account.

(d) Rule 4 of the Government Accounting Rules states that the accounts compiled by the authorities authorized to maintain the accounts of the Central Government, State Governments and Union Territory Governments, accounts will show under the respective heads the annual receipts and disbursements. The transactions made by third parties on behalf of the entity are not separately identified. Consolidation of financial statements with controlling entities is not envisaged (as discussed in Para 9 below). Other requirements of Cash IPSAS are broadly satisfied.

9. Entity

(a) IPSAS envisages recognition of all cash receipts, cash payments and cash balances controlled by the entity. This control may imply that Government will have to add the cash flows of the entities that it controls i.e., for example, para-statals like Government Companies, Corporations, Autonomous bodies etc. The cash flows does not mean merely the investments and dividends, but all cash flows through sales, purchases, receipts and payments of controlled entities, the net of which has to be consolidated with the entity.

(b) At present Government Accounting system in India does not envisage such consolidation. Government recognizes only its own cash flows, but not those of the entities it controls. However, the Comptroller and Auditor General of India prepares a Combined Finance and Revenue Account which is a consolidation of Union Government and all the States.

(c) Though this is fundamental requirement of Cash IPSAS, it is likely to cause more distortion than bringing in clarity in the financial statements of government. In a country like India which a federation with unitary bias, it is very difficult to even distinguish whether State Governments and local bodies are independent entities or entities controlled by the Union Government. Much of the social sector expenditure flows from Union Government to States and Local bodies. Further, consolidating Government Companies accounts with that of Government will result in artificial inflation of cash inflows and outflows and is not likely result in any improved presentation of financial statements.

(d) The entity can perhaps be continued to be recognized as Union Government and the States separately without any consolidation of controlled entities. While this may not be fully aligned to the spirit of the Cash IPSAS, practical considerations may warrant such a deviation.



10. Notes to Financial Statements

- (a) IPSAS requires the notes to the financial statements of an entity to:
 - i. Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and
 - ii. Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances.
- (b) The general purpose financial statements should be presented at least annually.
- (c) Rule 4 of the Government Accounting Rules requires that from the accounts compiled by the authorities authorized to maintain the accounts of the Central Government, State Governments and Union Territory Governments, accounts showing under the respective heads the annual receipts and disbursements. As per Rule 69 of the GFR, the annual accounts of the Central Government shall record transactions which take place during a financial year running from April 1 to March 31. However, there is no requirement for the presentation of the information on the basis of the preparation of the financial statements and specific accounting policies applied to significant transactions and other events. The same is also presented in Rule 20 of the Government Accounting Rule.
- (d) **The requirement relating to presentation of the basis of preparation of financial statements and the specific accounting policies disclosure needs to be incorporated in the Government Accounting system.**

11. Reporting Date

- (a) An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of no more than three months is strongly encouraged.
- (b) Rule 83 of the Government Financial Rules, the Appropriation and Finance Accounts shall be prepared by the respective authorities on the dates mutually agreed upon with the CAG of India.
- (c) **In practice, the accounts are targeted to be prepared by September 15, i.e., within six months of the reporting date, as per the instructions issued by the CAG. Most often the accounts are not placed in the parliament or state legislature within six months of the reporting period. This mandatory requirement of IPSAS if implemented for Government Accounting in India would substantially improve the timeliness and availability of accounting information to stakeholders.**



12. Authorisation date

(a) Under IPSAS, an entity should disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.

(b) While there is no such concept of authorisation date in case of government accounting in India, there are two dates that can be considered to be authorization date. It can be either the date on which the CAG of India signs on the accounts or the date that they are placed in the parliament or the state legislature as the case may be. These dates are in any case already depicted in the Finance Accounts and Appropriation Accounts.

(c) **A formal arrangement may be worked out where either the date on which CAG signs the accounts or the date on which accounts are placed in the parliament or state legislature may be identified as 'authorisation date' and disclosed in accounts.**

13. Disclosures

(a) An entity should disclose the following if not disclosed elsewhere in information published with the financial statements :

- i. The domicile and legal form of the entity, and the jurisdiction within which it operates;
- ii. A description of the nature of the entity's operations and principal activities;
- iii. A reference to the relevant legislation governing the entity's operations, if any; and
- iv. The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable, if any).

(b) **The Government Accounting Rules do not require the presentation of the above information in the financial statements. This is probably due to legacy of the past where government accounting information is basically intended to internal users in government and people of India /State, who are already aware of all such information.**

14. Cash out of control

(a) An entity should disclose in the notes to the financial statements together with a commentary, the nature and amount of:

- i. Significant cash balances that are not available for use by the entity;
- ii. cash balances that are subject to external restrictions; and
- iii. Significant Undrawn borrowing facilities that may be available for future operating



activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

(b) **The Government Accounting Rules do not require the presentation of the above information in the financial statements.**

15. Consistency

(a) The presentation and classification of items in the financial statements should be retained from one period to the next according to IPSAS.

(b) **The preparation of the financial accounts in the government accounting system is fully consistent. Usual changes are only based on changes in Accounting Standards or approved accounting procedure issued by Government of India on the advise of the CAG of India.**

16. Comparative Information

(a) As per IPSAS, unless a provision of IPSAS permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

(b) The government accounts in India include comparative information only in certain statements in the financial accounts of the government. Comparatives are also provided in the Appropriation Accounts.

17. Prior period adjustments and errors

(a) When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an entity should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.

(b) **Under the government accounting rules, the comparative amounts are not restated in case of prior period amendments.**

(c) When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods should be reported by adjusting the cash at the beginning of the period. Comparative information should be restated, unless it is impracticable to do so.



- (d) An entity should disclose in the notes to the financial statements the following:
- i. The nature of the error;
 - ii. The amount of the correction; and
 - iii. The fact that comparative information has been restated or that it is impracticable to do so.
- (e) **The Government Accounting Rules do not require the presentation of the restated information in case of prior period errors.**

18. Identification of financial statements

- (a) Under IPSAS, the financial statements should be clearly identified and distinguished from other information in the same published document.
- (b) **The financial statements prepared under the government accounting rules are clearly identified. As the Finance Accounts and Appropriation Accounts are independent documents, the question of distinguishing from other information does not arise.**
- (c) IPSAS requires that each component of the financial statements be clearly identified. In addition, the following information should be prominently displayed and repeated when it is necessary for a proper understanding of the information presented:
- i. appropriate to the related component of the financial statements;
 - ii. The reporting currency; and
 - iii. The name of the reporting entity or other means of identification;
 - iv. Whether the financial statements cover the individual entity or the economic entity;
 - v. The reporting date or the period covered by the financial statements
 - vi. level of precision used in the presentation of figures in the financial statements.
- (d) **Government Accounts satisfies the spirit of these requirements identification of components of financial statements.**

19. External assistance

- (a) IPSAS lays down detailed disclosure requirements on external assistance including total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity; the balance of undrawn external assistance loans; significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the



period when non compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously provided; the amount of external assistance cancelled or to be returned should also be disclosed etc.

(b) The details of the external assistance received are disclosed in the accounts. However, the other details of the external assistance as required by the Standard are not disclosed in Government Accounting.

20. Elimination of inter departmental transactions

(a) Cash IPSAS requires that when accounts are prepared at an entity level, the transactions within various wings / departments of the same entity needs to be eliminated. This arises from the principle that an entity cannot transact with itself. For example, if one department pays service charges to another department of the same government, the transaction should be eliminated as interdepartmental transaction.

(b) In Government accounting, recoveries made by one department from another are not eliminated ie., not paired off. To that extent the transactions are loaded.



Review of non-mandatory requirements of Cash IPSAS



1. The non- mandatory portion of the cash IPSAS standard identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information.
2. This section brings out the accounting practices followed in India vis-à-vis the cash IPSAS standards and outlines gaps between the existing practice in India as against the non-mandatory requirements of the Cash IPSAS. The requirements set out by cash IPSAS are outlined followed by the accounting practices of government entities as mandated under GFR and GAR.
3. **Going Concern**
 - 3.1. When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.
 - 3.2. **The Government Accounting Rules do not provide for any such disclosures. While this may be of some relevance to provincial governments or local bodies, it is not an issue for consideration in case of sovereign governments.**
4. **Extraordinary Items**
 - 4.1. An entity is encouraged to separately disclose the nature and amount of each extraordinary item. The disclosure may be made on the face of the statement of cash receipts and payments, or in other financial statements or in the notes to the financial statements.
 - 4.2. **The Government Accounting Rules do not provide for any such disclosures. The concept of Extraordinary items itself is undergoing major transformation in accounting discipline and eventually no activity seems to be reasonable to be categorized as extraordinary item. Hence this variation may not be relevant.**
5. **Agency Transactions**
 - 5.1. An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.



5.2. The Government Accounting Rules do not provide for any such disclosures.

6. Functional Classification

6.1. Entities are required to disclose information of the receipts and payments of cash classifying them according to function or nature.

6.2. The sectoral depiction of receipts and payments in Government Accounts broadly satisfies these requirements.

7. Disclosures in notes to accounts

7.1. Under IPSAS, public sector entities are encouraged to disclose in the notes to the financial statements :

i. The proportion of ownership interest in controlled entities and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);

ii. Where applicable :

- The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists; and

- The name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and

- In the controlling entity's separate financial statements, a description of the method used to account for controlled entities.

7.2. Government Accounts discloses the investment in shares of Government Companies and Corporations.

8. Consolidated Financial Statement

8.1. A controlling entity which does not present a consolidated statement of cash receipts and payments is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the basis on which controlled entities are accounted for in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes consolidated financial statements.

8.2. Under the Government Accounting Rules, the financial statements prepared by the government entities presents the information regarding the entities in which the government has a share indicating the share of the government in each of such entities. However, line item wise consolidation is not envisaged in government accounting.



9. Treatment of flows from acquisition/disposal of units

- 9.1. An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units. The following details are disclosed :
- i. The total purchase or disposal consideration (including cash or other assets);
 - ii. The portion of the purchase or disposal consideration discharged by means of cash; (c) The amount of cash in the controlled entity or operating unit acquired or disposed of.
 - iii. The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals would not be deducted from those acquisitions.
- 9.2. **Under the Government accounting Rules, the details of the acquisition of disposal of controlled entities or other operating units is presented.**

10. Hyperinflationary Economy

- 10.1. IPSAS requires the restatement of financial statements in an hyperinflationary economy
- 10.2. **The Government Accounting Rules do not have any such specification. Since India has not faced such situation of hyperinflationary economy, the requirements are not relevant for India.**

11. Assistance from External Agencies and NGOs

- 11.1. The IPSAS also encourages provision of information regarding assistance received from NGOs and external agencies
- 11.2. **The details of assistance received from external agencies are presented in the Indian financial accounts.**



Results of diagnostic tool for gap analysis with cash basis IPSAS

The World Bank uses a formal diagnostic tool for gap analysis with Cash basis IPSAS. The questionnaire for diagnostic tool has been used by the GASAB Secretariat to identify appropriate responses from an Indian perspective. The responses to the diagnostic tool are part of this research study for identifying the variations.

I Framework for the Preparation and Presentation of Financial Statements

Questions		Yes	No
1(a)	Has the Government adopted a national financial accounting and reporting framework on which the national standards are based?	***	
	<u>Comments</u> : The framework is included in the Government Accounting Rules. National standards are being set by Government Accounting Standards Advisory Board (GASAB). It is envisaged that the standards would also constitute the framework for financial reporting in public sector in India.		
1(b)	In the national framework or standards :		
	i. Cash Basis Are financial statements prepared on cash basis?	***	
	ii. Other Basis Are financial statements prepared on a basis other than cash?	***	
	<u>Comments</u> : There are transactions other than under cash basis (Eg: transfers, GPF accruals etc) which are clubbed with cash basis transactions and to that extent cash basis is modified.		
1(c)	Assess the impact of any differences between national standards and IPSASs on the relevance and reliability of the financial statements for external reporting.	***	***
	<u>Response/Comments</u> : There are certain basic differences between Government Accounting system in India and cash basis IPSAS. Except to the extent that some non cash transactions are included in Government Accounting, the differences are minor and can be easily modified for ensuring compliance with cash basis IPSAS.		



II The Preparation and Presentation of Financial Statements on the Cash Basis

Please refer to the whole text of the IPSAS Cash Basis standard.

Questions		Yes	No
2(a)	Has the IPSAS Cash Basis Standard been adopted as a national standard?		
i.	Primary statement Do the financial statements comply with the requirements of Part 1 of the Cash Basis IPSAS? (IPSAS Cash Standard 1.1.1)		***
ii.	Primary statement If the financial statements do comply with the requirements of Part 1 is this fact disclosed? (IPSAS Cash Standard 1.1.4)		NA
iii.	Primary statement Is the Cash Basis IPSAS standard applied to all public sector entities other than Government Business Enterprises? (IPSAS Cash Standard 1.1.5)		NA
	<p><u>Comments</u> : There are some differences regarding the structure, disclosures and basis of accounting at present. Hence Part I requirements are presently not satisfied. Since Cash basis IPSAS has NOT been adopted by government, the question of IPSAS compliance statement does not arise. However the general purpose financial statements can be easily modified to make them compliant fully with cash basis IPSAS Part I.</p>		
2(b)	Are the following accounting treatments and disclosures specifically mandated by the national standards?		
i.	Primary statement Is a statement of cash receipts and cash payments required? (IPSAS Cash Standard 1.3.4)	***	
ii.	Notes to the financial statement Are accounting policies and explanatory notes required and a comparison of budget and actual amounts? (IPSAS Cash Standard 1.3.4)		***
iii.	Sub-classification of cash receipts and cash payments - Does the statement of cash receipts and cash payments present the following amounts: total cash receipts; total cash payments; and opening and closing cash balances? (IPSAS Cash Standard 1.3.12)		***
iv.	Third party payments - Does the government disclose in separate columns on the face of the statement of cash receipts and cash payments the amounts that a third party directly settles the obligations of the government or purchases goods and services for the benefit of the government? (IPSAS Cash Standard 1.3.24)		***



v. Authorization date - Does the government disclose the date when the financial statements were authorized for issue and who gave that authorization? (IPSAS Cash Standard 1.4.5)		***
vi. Restrictions on cash balances - Do the notes disclose significant cash balances that are not available for use by the government as well as any significant cash balances that are subject to external restrictions? (IPSAS Cash Standard 1.4.9)		***
vii. Comparative information Are one year of comparatives required for all numerical information in the financial statement? (IPSAS Cash Standard 1.4.16)		***
viii. Consolidated financial statement Does the government issue a consolidated financial statement which consolidates all controlled entities? (IPSAS Cash Standard 1.6.5)		***
ix. Foreign currency Are cash receipts and cash payments arising from transactions in a foreign currency recorded in the government's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and foreign currency at the date of the receipts and payments? (IPSAS Cash Standard 1.7.2)		***
<p><u>Comments :</u></p> <p>i. Though cash based statement is required, it also includes some non cash transactions.</p> <p>ii. No requirements of detailed policy disclosure at present. Comparatives are also not presented for the entire statement.</p> <p>iii. Inclusion of non cash transactions makes the document non compliant with the requirement.</p> <p>iv. Third party payments are not reflected in government accounts.</p> <p>v. There is no such concept of authorization date and impact of events occurring after reporting date. However, the date on which signed by CAG and date of presentation to legislature are indicated.</p> <p>vi. The principle of examining whether the cash balance is actually available for use is not established in India. Hence such concept does not exist to be reported.</p> <p>vii. Comparative information of previous year's figures is given only few statements of Finance Accounts and not all.</p> <p>viii. Consolidated financial statements are not prepared by governments. The</p>		



<p>entity is either the national government or the provincial government and the financial statements of any entity controlled by it (eg: Government Companies, local bodies etc) are not consolidated with the government. However, a Combined Finance and Revenue Account is prepared annually with the accounts of Union and the states.</p>		
<p>ix. At present, the rate adopted is the rate declared by RBI rather than market rate. This needs specific examination.</p>		
2(c)	<p>Assess the impact of any differences between national standards and IPSASs on the relevance and reliability of the financial statements for external reporting.</p>	
	<p><u>Response/Comments :</u></p> <p>Cash basis IPSAS are quite generic in nature and most of the requirements of the Part I can be easily adopted in Government Accounting. However adoption of Cash IPSAS should not lead to existing accrual items (non cash) be depicted under cash basis. As more and more nations are moving towards accrual accounting, limited adoption of cash basis IPSAS for cash transactions and corresponding accrual IPSAS for those transactions recorded on other than cash basis could be appropriate for India.</p>	



Road ahead for harmonization with Cash IPSAS



1. India may adopt the Cash basis IPSAS

India has been maintaining accounts on a cash basis but not in accordance with Cash IPSAS. There is a need for changes in the existing cash system to comply with Cash IPSAS. Except for few items like accrual based treatment of GPF interest and non cash transfer entries, the basis accounting process in India is aligned to Cash IPSAS. Few procedural issues like inclusion of statement of Accounting policies, inclusion of information about the Entity etc can be easily incorporated in the system. India may adopt Cash basis IPSAS in the short or medium term in respect of budget sector accounting information alone (ie., controlled entities consolidation may not be attempted for the present). Since adoption of Cash IPSAS is primarily to facilitate eventual migration to accrual basis accounting, the existing non cash items may be continued.

2. Form of Account

Cash IPSAS envisages a one to two page statement as Receipts and Payments accounts with details that can be available in the annexures. There is no comparable statement with the one envisaged in Cash IPSAS in the present accounting system. This statement if added to the present Finance Accounts format would improve the utility substantially. This statement can be brought out from the existing accounting information.

3. Role of GASAB's IGAS

Unlike accrual IPSAS, the cash basis IPSAS is a very generic standard laying down broad requirements for preparation of General Purpose Financial Statements under cash basis. The IGAS issued by GASAB are comprehensive standards on individual line items in the financial statements. Even if India adopts cash IPSAS for its financial reporting, GASAB's IGAS would be necessary for appropriate accounting in Government. In view of the generic nature of Cash IPSAS, inconsistencies between Cash IPSAS and IGAS are expected to be very few. GASAB's IGAS where necessary can be reviewed and aligned with cash IPSAS over a transition period of five years.

4. Few illustrative activities required for adoption of Cash IPSAS

<i>Requirements</i>	<i>Variations</i>	<i>Activity required to adopt cash basis IPSAS</i>
Financial statements presented in the IPSAS	The reporting structure focuses on consolidated fund, contingency Fund and public accounts. Numerous statements are present in Finance Accounts each	A statement of cash receipt and payment as per the cash basis IPSAS can be prepared using existing information from the accounting records.



	focusing on a specific area. Present financial statements are not consistent with IPSAS	
Accounting policies and explanatory notes	Finance Accounts and Appropriation Accounts do not include accounting policies and explanatory notes.	There is a need to state the accounting policies and explanatory notes, and the basis on which the accounts are prepared.
General Considerations	Audited financial statements are not available within 6 months of the reporting period. Cash balances that are available for use and cash balances that are subject to external restrictions and un-drawn borrowing facilities are not disclosed. The presentation does not meet certain transparency requirements of IPSAS	It would be necessary to reduce the reporting lag and to disclose further information required by Cash Basis IPSAS, for example, to disclose un-drawn borrowing facilities, liabilities of the Government, and outstanding advances.
<ul style="list-style-type: none"> • Reporting period • Adequacy of information about the entity • Presentation of comparative information 		
Correction of errors disclosed	The nature of errors, the amount of the correction, and the fact that comparative information has been restated, or that it is impracticable to do so, is not done	Procedures needs to be brought into place to ensure appropriate accounting treatment as per IPSAS
<ul style="list-style-type: none"> • Nature of error • Amount of correction • Comparative information restarted 		
Consolidated financial statements	Combined Finance and Revenue Account includes the consolidated position of Union and States. There is no concept of consolidating controlling entities like Government Companies and Corporations with Government accounts	The consolidation of cash flows of Government companies and Corporations with Government Account may need not be considered as they are distinct legal entities and prepare their own financial statements



Appendix I : Overview of Government Accounting System

1. A brief overview of Government Accounting System is included in this appendix for researches and stakeholders in order to appreciate the framework of Government Accounting System.

The Basis of Accounting

2. In India, government accounts are maintained on cash basis. In the government accounting system, the financial year commences on April 1 of the calendar and ends on March 31 of the next calendar year.
3. The expenditure booked in the Indian accounts is broadly classified into three categories:
 - i. Charged expenditure and Voted expenditure
 - ii. Revenue expenditure and Capital expenditure
 - iii. Plan expenditure and non plan expenditure
4. The classification of transactions is being done on function cum programme basis from 1974. The classification follows a six tier classification which consists of Sectors, Major Heads, Minor Heads, Subheads, Detailed Heads and Object Heads.
5. In the accounting system, the accounts of the departments are compiled by the Drawing and Disbursing Officers (DDOs) of the department and sent to the Pay and Accounts Offices in the case of Central Government departments and to the Treasuries in the case of State Government departments. The DDO is responsible for examining the claims presented to ensure that a budget provision exists for payment of that claim.
6. The Pay and Accounts Officers in the Central government accounting set up and the treasuries in the State Government set up are charged with the responsibility of ensuring that the budget provision under the relevant head of account is available to meet the expenditure, the expenditure to be incurred conforms to the relevant provisions of the act and the expenditure is covered by a sanction issued by the competent authority before authorizing any expenditure from the Consolidated Fund.
7. As per Article 151 of the Constitution, annual accounts of the Government of India along with the audit report of the CAG are to be placed before each house of Parliament. These accounts consist of Appropriation Accounts and Finance Accounts. Appropriation Accounts indicate the original budget estimates, supplementaries, surrenders, reappropriations, actual expenditure and the excess or savings under the heads. Finance Accounts present the classified and consolidated accounts of all the transactions of the government under the Consolidated Fund, Contingency Fund and Public Account.



8. The accounting system in India indicates whether the resources have been obtained and used in accordance with the budget. The system helps in demonstrating compliance with expenditure limits as voted by the Parliament. As the Indian accounting system provides information about only cash resources, the departments do not have a complete record of all the physical or financial assets they own, including the current value of these assets. The system does not also fully record financial dues or outstanding liabilities that have been accrued.
9. The accounting system records inflows and outflows of cash, whenever it is received or paid. It is possible to exercise control over the flows of money to the extent that there are not misappropriated or misused or diverted for purposes not officially intended. The information generated by the accounting system do not enable the costing of departmental activities fully. The biggest problem with the accounting system in the Indian government is that expenditure on a capital asset, which is used over many years, is recorded only in the year the capital expenditure is incurred. Further, the accounting system allows the presentation of financial system to reflect the fiscal reality differently from what it actually is.



Appendix II : Cash Basis Standards Issued by GASAB



Indian Government Accounting Standards (IGAS)

Government Accounting in India follows cash basis of recognition of expenditure and revenues. The Indian Generally Accepted Accounting Practices (Indian GAAP) is codified in Government Accounting Rules, List of Major and Minor heads, Civil Accounts Manual, Accounts Code for Accountants General etc. The rules embody the essential principles of accounting. No formal Accounting Standards exists for government before the constitution of GASAB. GASAB embarked on setting up standards under the Cash basis accounting since its inception. The Cash Basis IPSAS (International Public Sector Accounting Standards) issued by the IFAC (International Federation of Accountants) Public Sector Committee - *Financial Reporting under the Cash Basis of Accounting*, has been examined by the Board. Based on the requirement in Indian context, scope of the Cash Basis IPSAS has been analysed and amplified. The Board takes into account the requirements of stakeholders and decides on the topics for setting standards. GASAB Secretariat, the technical support team to the Board works on the products.

IGASs under consideration by the President of India for notification

These Indian Government Accounting Standards (IGASs) and Preface thereof have been proposed by the Board and approved by the Comptroller & Auditor General of India are under consideration by the President of India for notification :

- IGAS 1: Guarantees given by Governments: Disclosure Requirements
- IGAS 2: Accounting and classification of Grants-in-Aid
- IGAS 3: Cash Flow Statements
- IGAS 4: General Purpose Financial Statements of Government
- IGAS 5: Loans and Advances made by Governments

IGAS under development

- IGAS 7: Foreign Currency and Loss/ Gain by Exchange Rate Variations
- IGAS 8: Contingent Liabilities and Assets
- IGAS 9 : Government Investments
- IGAS 10: Public Debt and Other liabilities
- IGAS 11: Accounting for revenue from exchange and non exchange transactions



- IGAS 12: Accounting for Capital transactions

IGAS planned to be taken up

- Standard on Chart of Accounts (uniform object head of classification)
- Events after reporting date
- Disclosure of information on General Government Sector
- Presentation of budget information in financial statements
- Transfer of funds from Consolidated Fund of India to Public Deposits
- Suspense and Remittance heads
- Standard on cash balance
- Incomplete capital works
- Accounting for Subsidies in government
- Off-budget borrowings



Appendix III : GASAB Composition



The Board

The Board has a wide representation from Government of India, Reserve Bank of India, Constituted Accounts Services, Institute of Chartered Accountants of India, National Council of Applied Economic Research, etc. In addition the Board has representation of Finance Departments of four State Governments on annual rotation basis to accommodate all the State Governments. The constitution of the Board is as follows :

- Deputy Comptroller and Auditor General - *Chairperson*,
- Controller General of Accounts,
- Controller General of Defence Accounts,
- Financial Commissioner, Railways
- Director General, National Council of Applied Economic Research,
- Additional Secretary (Budget), Ministry of Finance, Government of India,
- Deputy Governor, Reserve Bank of India or his nominee,
- President, Institute of Chartered Accountants of India or his nominee,
- Principal Secretary (Finance), of four State Governments on annual rotation basis,
- Director General (Accounts), Office of the Comptroller and Auditor General of India - as *Member Secretary*,



Appendix IV : Initiatives and Status migration to Accrual Accounting

1. Traditionally, cash based accounting system is followed in India for budgeting, accounting and financial reporting. Cash based system is simple and recognizes a transaction when cash is paid or received. It requires less skilled personnel and is geared to cash management needs. It has also served the basic requirements of financial accountability of Government to Parliament.
2. However, cash based system of accounting is not the most informative way of presenting government accounts. It is limited in scope because it lacks an adequate framework for accounting for assets and liabilities, depicting consumption of resources and full picture of government's financial position at any point of time. Importantly, capital expenditure under the cash system is brought to account only in the year in which a purchase or disposal of an asset is made. An asset once acquired is expensed in the same year and only progressive figure of expenditure remains in the book of accounts. There is no effective way of tracking assets created out of public money, which, in turn, dilutes accountability of departments for management of government's assets. The present system also fails to reflect accrued liabilities arising from the gap between commitments and transactions of government on the one hand and payments made on that behalf on the other. Because of these weaknesses, the existing accounting system does not capture the long-term impact of the decisions taken and promotes a bias in favour of short-term policies. Fiscal irresponsibility built in the system needs to be removed if financially responsible and sustainable decisions are to be made.
3. Due to incompleteness and distortions in recording and reporting of transactions, the cash based system lends itself to the charge that it is less transparent and can be used neither for meaningful cash management nor for rational resource allocation. These apprehensions have taken the shape of realization that existing Government accounting system in India needs to be reviewed. Internationally, such review has been generally in terms of migration to accrual accounting. India's response to this also has been similar.
4. Twelfth Finance Commission in its report submitted in November 2004 recommended introduction of accrual accounting in Government. Government has accepted the recommendation in principle and asked Government Accounting Standards Advisory Board (GASAB) in the office of the Comptroller and Auditor General of India to draw a roadmap for transition from cash to accrual accounting system and an operational framework for its implementation.
5. GASAB has finalized a broad roadmap containing list of activities that are to be completed for migration to accrual accounting and has forwarded the same to the Ministry of



Finance, Government of India in May 2006. The roadmap mentions the activities and milestones to be completed to migrate to accrual accounting.

6. GASAB has also developed an operational framework of the accrual system that will prevail in Government. The operational framework would provide overall architecture of the accounting model that would prevail in Government while conforming to the national and constitutional reporting needs. This important document is also under consideration of the Government.
7. Accounting system in India is uniform across the Union and the States and Union Territories having Legislature. The uniformity is envisaged in Article 150 of the Constitution of India. This is relevant while Governments migrate to accrual basis of accounting. Applicability of the recommendation of the Twelfth Finance Commission with respect to introduction of accrual accounting is to be viewed across a variety of stakeholders in accounting reforms. There are different stakeholders in accounting reforms, such as the Civil Ministries and Departments, Department of Posts, Ministry of Railways and Ministry of Defence at the Union level and the States and Union Territories having Legislature. Uniformity of basis of accounting requires a uniform accounting model across the stakeholders. It is also possible that different stakeholders are at different footings in terms of their preparedness and may take different time-period to achieve the suggested level of accrual accounting. The operational framework would need to be sensitive to both these needs.
8. While the Roadmap and the Operational Framework are meant to serve as implementation guidance, a two-pronged agenda is being followed for implementation of accrual accounting. *Firstly*, the ministries and departments at the Union level are taking up pilot studies for knowing their requirements for migration and implementation. Initiatives for migration to accrual accounting are underway by some Civil Ministries and the Ministry of Railways at the Union level. Department of Posts is also actively considering introduction of accrual accounting. Office of the Controller General of Accounts has taken up the Ministry of Road, Surface Transport and Highways and a few hospitals for pilot study. Ministry of Railways has appointed Consortium of Consultants for knowing its requirements for migration. *Secondly*, the State Governments are being taken on board. Office of the Comptroller and Auditor General of India has taken up the matter with the State Governments for sensitizing them on accrual accounting through seminar-cum-workshop. So far, twenty one (21) State Governments have agreed in principle to introduce accrual accounting. A few of them have constituted their task force for starting pilot study to know the gap between the existing system and the proposed migration and requirements for the same. Pilot studies are under way in various State Governments on migration to accrual basis accounting.
9. Some of the issues involved in migration need mention here:
Firstly, the **transition will be incremental and in phases** spanning from 10-12 years. It would be important to see distortions do not develop due to prolonged implementation schedule



Secondly, accrual basis of accounting will **supplement the cash system** and this is necessary to retain the embedded elements of the latter that serve the legislative and budgetary reporting requirements. However, this does not mean that accounting reforms should follow a model which retains the cash basis and makes additional disclosures. Accounting reform needs to be in terms of switch over to accrual basis from cash basis. Flow of all information – cash and accrual, needs to be integral to the accounting system and not mere add-on statements from outside. Current reforms are to be positioned within the existing constitutional provisions. As of now, introduction of accrual basis has been envisaged only for accounting. Budget and appropriation reporting will remain on the cash basis for the present as these will involve constitutional amendment.

Thirdly, in the end, **accounting and budgeting reforms are to be conceived in an integrated manner** and positioned clearly as part of a wider public sector management reform programme. Experiences of countries such as Australia, Canada, New Zealand and United Kingdom suggest that accounting and budgeting reforms must complement each other and could be part of a comprehensive framework of public finance reform agenda if full benefits of such reforms have to be reaped. To the extent our accounting system follows the parameters of budget and provides information about its implementation, the two should be integrated for a fuller picture.

Fourthly, there is need for coordination and smooth implementation of the reforms. **Commitment of the executive and sense of ownership** of the reform process by the management in the departments and ministries would very much be needed. Constituting a High Level Committee at the national level as a nodal agency could be helpful in facilitating an integrated approach towards reforms.

Fifthly, need for **capacity-building and training** in accrual accounting amongst various accounting departments of the Government of India and in the States is highlighted. The transition from a simple cash system to a more complex accrual system requires not only the sensitization of Government accountants to accrual concepts, but formal training in a new type of accounting system. While this will greatly facilitate the transition from cash accounting to accrual accounting system, it is also required to impart professionalism in the cadres of government accountants. This could be feasible with the help of certification at lower level of accountants through a professional institute. In addition to training and certification, it is also needed to review the entry-level qualifications for the accountants.

Sixthly, **migration to accrual accounting must be informed by a laid out uniform operational framework** so that the final accounts of the Governments, both the Union and the respective States and the Union Territories with Legislature, fall within a uniform reporting framework. This also requires uniformity in the classification system. Pilot studies could throw up specific requirements of different stakeholders. This may need moderation in the operational framework suitable to their needs. However, this does not obviate the need for maintaining an overall uniformity of financial reporting. Disparate and incomparable data thrown by different departments/ ministries may not serve the purpose of parliamentary reporting.



Seventhly, some of the implementation issues that currently engage attention need mention. These include (a) creation of **Asset Register** for listing, grouping and valuation of assets, (b) preparation of revised **Chart of Accounts** for devising classification system for capturing accrual transactions as well, (c) devising new **accounting policies and accounting standards** for laying down principles of recognition, measurement and disclosure, and (d) reflection of liabilities including **long-term pensionary liabilities** besides current liabilities.

10. As suggested by the Twelfth Finance Commission, while the full switch over to accrual accounting is a long term goal, a beginning is to be made by starting disclosures of financial information that are outside the present reporting framework of Government accounting. This is possible within the existing system and need to be an immediate concern. Simultaneously, preparation for switch over to accrual accounting needs to be planned. One important step in this direction is conducting pilot study to know the gaps between the present cash based system and the proposed accrual based system. Many stakeholders have already initiated such pilots and their results need to be taken into account for moving further.
11. GASAB plans to develop a detailed Migration Manual for facilitating the transition to accrual accounting. GASAB also embarked on development of Accounting Standards on Accrual basis alongside with cash basis standards. This will enable better appreciation of the processes by operative levels at Union and State. The standards will be issued as Indian Government Financial Reporting Standards (IGFRS) and will be applicable to Government of India and State Governments in preparation of accounts under Accrual basis accounting. These standards are envisaged to facilitate ongoing pilot studies for migration to Accrual Basis Accounting in Government of India and State Governments. These standards will initially be issued as recommendatory to facilitate transition to Accrual accounting. The following standards on Accrual basis are under development:
 - 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
12. Switch over to accrual accounting will facilitate informed decision- making by the stakeholders and help in assessing long-term financial impacts of the current decisions taken and policies formulated. If imbibed in spirit, it will be helpful in taking fiscally responsible decisions. Politically, it will help Governments to be more focused, judicious and rational in resource allocation, as fiscal imprudence leads to fiscal burden in the long-run. In brief, accrual accounting will facilitate fiscal transparency and accountability through restraint on fiscal irresponsibility and opportunism. Benefits of such a reform are more qualitative than quantitative.



