

Strategic Development Plan 2017-20

A. Introduction

Comptroller and Auditor General of India (C&AG) constituted Government Accounting Standards Advisory Board (GASAB) through a notification dated 12th August, 2002. The decision to set-up GASAB was taken in the backdrop of the new priorities emerging in Public Finance Management and to keep pace with International trends. The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending.

The accounting systems, the world over, are being revisited with an emphasis on transition from rules to principle based standards and migration from cash to accrual based system of accounting. GASAB, as a nodal advisory body in India, is taking similar action to formulate and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

B. Need for Strategic Development Plan (SDP)

Government Accounting Standard Advisory Board (GASAB) has been entrusted with the duty of setting high quality accounting pronouncements, for national and provincial governments infusing both cash basis of accounting and accrual basis of accounting. SDP 2017-20 will serve as a planning instrument for the development of various Accounting Standards, Guidance Notes and Guidelines. It will serve as a directional and flexible working tool and ensure overall planning and coordination. SDP will also help and strengthen the standard setting process in GASAB in a systematic and time bound manner.

C. GASAB's Structure

GASAB has high level representation from the important accounting heads in Government, Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organizations.

D. GASAB's responsibilities

1. To establish and improve standards of governmental accounting and financial reporting in order to enhance accountability mechanisms;
2. To formulate and propose standards that improve the usefulness of financial reports based on the needs of the financial report users;
3. To keep the standards current and reflect changes in the governmental environment;

4. To provide guidance on implementation of standards;
5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process; and
6. To improve the common understanding of the nature and purpose of information contained in financial reports.

E. GASAB's Mission

"The mission of the Government Accounting Standards Advisory Board (GASAB) is to formulate and recommend Indian Government Accounting Standards (IGASs) for cash system of accounting and **Indian Government Financial Reporting Standards (IGFRS) for accrual system of accounting**, with a view to improving standards of Governmental accounting and financial reporting which will enhance the quality of decision-making and public accountability".

F. GASAB's Goals & Priorities

GASAB's SDP (2017-20) proposes to set priorities for next three years (2017-20) and to execute a time bound Programme to fulfill its mandate. The objectives of GASAB are to formulate high quality government accounting and financial reporting pronouncements including standards/guidance notes/guidelines. While formulating these pronouncements, GASAB shall examine the existing provisions of the Constitution of India, underlying accounting concepts and principles and relevant international best practices, thereby enhancing the quality of financial reporting for improved accountability and decision-making.

GASAB intends to prioritise the following projects during 2017-20:

I. Completion of ongoing projects

(a) Guidance note on Fixed Asset Accounting and Reporting:

In keeping with the recommendations of the Twelfth and the Fourteenth Finance Commissions, that additional information in the form of Statements should be appended to the present system of cash basis of accounting to enable informed decision making; the FRBM Rules prescribing the preparation of asset register by the entities; and the Expenditure Management Commission constituted recommending that the "Government should move towards an IT-enabled e-asset register, this Guidance Note duly approved in the 32nd Board meeting of GASAB proposes to prepare and maintain Fixed Asset Registers in all government entities which will link the voucher with the transaction for acquisition of a fixed asset, leading to greater accountability of Government expenditure. It also

proposes to include an annual Statement on Capital Expenditure for Acquisition of Fixed Assets in the Finance Accounts by depicting the information as captured under the Primary Units of Accounting available for acquisition of Fixed Assets.

It is seen that the information on Fixed Assets is not captured in the current cash based system of accounting. The prevailing system of cash accounting does not recognize Fixed Assets as such, but recognizes them merely as capital expenditure up to Minor Head/Sub-heads. Hence, it is essential that the government entities have complete information with greater accessibility of data on all their Fixed Assets for better accountability leading to improvement in decision making by government and depicting a standardized disclosure on Fixed Assets Accounting.

(b) Conceptual Framework of GASAB

Conceptual Framework is a system of ideas and objectives for creating a consistent set of accounting pronouncements, viz., Standards/ Guidance Notes/ Guidelines. It provides a framework for setting accounting pronouncements and fundamental principles which then do not have to be repeated in the pronouncements. These pronouncements and principles then improve reporting for the guidance and education of the public, including issuers, auditors, and users of financial information. In a broad sense a conceptual framework can be seen as an attempt to define the nature and purpose of accounting. A conceptual framework must consider the theoretical and conceptual issues surrounding financial reporting and form a coherent and consistent foundation that will underpin the development of accounting pronouncements.

Lack of a conceptual framework leads to a proliferation of inflexible 'rules-based' accounting systems resulting in un-explained inconsistencies and lack of transparency. By contrast, the availability of a conceptual framework could lead to 'principles-based' system whereby accounting pronouncements are developed from an agreed conceptual basis with specific objectives in order to improve governance and accountability. Hence, Conceptual framework is seen as a statement of generally accepted accounting principles (GAAP) that form a frame of reference for the evaluation of existing practices and the development of new ones. As the purpose of financial reporting is to provide useful information as a basis for economic decision making, a conceptual framework will form a theoretical basis for

determining how transactions should be recognized, measured (historical value or current value) and reported/ disclosed, i.e. how they are presented or communicated to users.

(c) Due Process and the Drafting Conventions

The due process sets out the objectives and operating procedures of the professional pronouncements which GASAB issues. The due process should be followed when developing these pronouncements. The purpose of due process is to maintain integrity and to formulate high quality of government accounting and financial reporting pronouncements.

The due process examines all existing rules, Accounting concepts, principles and existing International best practices. It enhances quality of Financial Reporting, ensure transparency, accountability, uniformity, consistency, duly subjected to a suitable and adequate consultative process and high level of scrutiny leading to their approval. The drafting conventions ensure that the GASAB pronouncements maintain highest possible quality and are technically sound. Further, they are easy to read, understand and apply while discharging accounting functions by the various Union, State and UT authorities.

It is proposed to revise the Drafting Conventions, Due Process and the Preface to make it more compatible with the prevalent changes in the accounting milieu and the fiscal operations of the government. At the moment there are no defined timelines except in case of the Exposure Draft. This needs rectification too. These documents also need to bring about a more professional approach in preparation of pronouncements just like in case of the international standards.

(d) General Purpose Financial Statements- IGAS -4

- This standard applies to Finance Accounts and related Statements of a government – Union, State and Union Territories with Legislature. Under Article 150 of the Constitution of India, the accounts of the Union, the States and the Union Territories with Legislatures are to be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India, prescribe. Finance Accounts of the Government presented to the Parliament/Legislature constitute financial information about Government. Appropriation Accounts are a condensed presentation of Grant-wise information with respect to the respective Appropriation Acts. They are prepared

by different appropriate authorities as prescribed under the Constitution and supplement the Finance Accounts.

- Compliance with the requirements of this proposed Standard will enhance standardization and also bring about comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances and the book adjustments of the government entity so as to present a reliable picture of the financial health of the entity. It will also enhance comparability with the entity's own financial statements of previous periods and with the financial statements of other entities preparing and presenting financial statements on cash basis of accounting.
- The purpose of this Standard is to prescribe the manner in which General Purpose Financial Statements shall be prepared and presented under the cash basis of accounting. Compliance with the requirements of this Standard will bring about uniformity in the structure of the General Purpose Financial Statements prepared by Union, State Governments and UTs with Legislature.

(e) Transfer of Funds from Consolidated Funds to Public Deposits/Reserve Funds

- In the Union and State Finance Accounts under the MH head 8001-8999 Public Account is dealt wherein all the Reserve Funds are accounted for. Unlike Consolidated Fund of the Union and States which lapse on 31 March of every financial year; the amount lying in Public Account/ Reserve funds do not lapse.
- The proposed standard for Reserve Funds is intended to have a uniform reporting on all financial transactions in the existing reserve funds of the Union and State Governments. Further all operational and all dormant accounts also need to be disclosed sufficiently.
- Reserve Funds being an omnibus vehicle and a means of financial transactions outside Consolidated Fund, in the Public Account, the need to make standards for disclosure of financial transactions is imperative. There is no time limit for the operation of Reserve Funds which are co-terminus with a particular scheme. Audit reports of CAG have pointed out that a number of reserve funds are lying dormant and need a closure. The proposed standard entails a uniformity in creation of such funds with due procedures and approvals and a uniform disclosure in the accounts.

II. Review of IGASs:

GASAB had proposed to review the existing pronouncements (both notified by the Ministry of Finance and awaiting notification) every three years post notification to update, modify, to keep the pronouncements current and reflect the changes in the government accounting environment. The following notified IGASs were proposed for review:

(a) Review of IGASs notified by the Ministry of Finance:

(i) **IGAS-2 (2011)-Grants-in-Aid given by Government:** IGAS-2 intended in its Scope to disclose grants 'given' and grants 'received' by various Government entities. However, the proforma and text of the notified IGAS -2 seeks disclosure only on grants 'received' by the government entities. Further 'conditional' grants received by various government entities having possibilities of becoming liabilities also needed disclosure to be included in the refurbished IGAS-2. Further, Grants-in-aid given by the Union Government to the States under the head 3601 and to the UTs under the head 3602 should tally with the figures under the head 1601- Grants-in-aid received by the state and under the head 1602 Grants-in-aid received by the UTs. However, there are significant differences. IGAS-2 was taken up for review in view of the above issues in the Technical Advisors meeting held on 08 May 2018. The Record Notes of the meeting alongwith the draft modified on the basis of deliberations duly incorporated has also been circulated for further comments to the Technical Advisors. The benefits accruing from the aforementioned disclosures and others now included viz. specific disclosures by grantee and grantor, on Grants-in-aid in cash and in kind, Utilisation Certificates, Unspent Balances and interest earned thereon, assets created out of grants-in-aid etc. have also been included in the modified draft.

(ii) **IGAS-3 (2012)-Loans and Advances made by Government:** The proformas in IGAS-3 require a "Statement of Loans & Advances made by the Union Government" –Loanee Group-wise. As a result, information is divulged for all the states bunched together as one under "States" in the proforma, instead of separate information for each State. Similar is the case in the proforma disclosed by the State Government. The problem is due to this bunching because of which individual entity wise information is not disclosed in the Finance Accounts of Union & States.

Further, there are 10 proformas at Union level and 10 proformas at the state/UTs level to be disclosed separately though there is no differences in the format. These proformas can be rationalized and the number of proformas also can be reduced.

The proposed modified document has been further modified as per deliberations in the Technical Advisors meeting to include better disclosures on recognition, measurement and derecognition of loans & advances, unsecured loans, Utilisation Certificates, interest earned on unspent balances, subsidy to meet the interest portion etc. and greater details. The benefits accruing from the aforementioned disclosures and others now included have also been mentioned in the modified draft.

b) Review of IGASs approved but pending notification: The following IGASs have become dated in the current government accounting milieu as they are pending notification by MoF for more than 3 years despite GASAB's approval.

(i) IGAS-7: Foreign Currency Transactions and loss or gain by Exchange Rate Variation

(ii) IGAS-9- Government Investment in Equity

(iii) IGAS-10: Public Debt and other liabilities of Government: Disclosure Requirements

On an immediate basis it is proposed that the approved IGAS 10 be taken up for review. It has become dated since it was approved by the Board in the year 2010. The related issues have been detailed below:

Though the standard deals with Public Debt and other liabilities, definition of 'Other Liabilities' is absent in Para 4 "Definitions" of the Standard. Instead 'other obligations' was defined. Further, In Para 7 (b) and (c) under Disclosure, interest received on loans was shown as "Obligations". Statement No.2 attached to the Standard is on details of Foreign Loans without depiction of Historical cost and foreign exchange rate. Also, Statement No.3 (Part III–Public Accounts) captures figures of OB/Receipt/ Disbursement/CB of Suspense. Remittances, Miscellaneous and cash balances. However, in the definitions of other obligations it is mentioned that transactions of the above items will not be included. In view of the above there is a need to review IGAS 10 to address all the anomalies and shortcomings while dealing with the disclosure items of liabilities. It is also proposed that the name of the standard may be modified and one standard be developed to include all 'Liabilities'.

c) Review of IGFRSs approved but pending notification: The following IGFRSs have been approved by GASAB but pending notification by Ministry of Finance.

- (i) IGFERS-1: Presentation of Financial Statements
- (ii) IGFERS-2: Property, Plant & Equipment
- (iii) IGFERS-3: Revenue from Government Exchange Transactions
- (iv) IGFERS-4: Inventories
- (v) IGFERS-5: Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements

On an immediate basis it is proposed to review IGFERS-2: Property, Plant & Equipment, and also make it compatible to the proposed Guidance Note on Fixed Assets Recording and Accounting.

In the 32nd Board meeting of GASAB held on 17.5.2018, it was decided to use the proforma accrual accounts prepared by the Railways as pilot study for IGFERS implementation. In this context, Railways were requested to make a presentation on their adherence to IGFERS, gaps, in any, and best practices.

III. New Areas: The following areas under the cash accounting system in the Government need adequate and comprehensive disclosure:

- (i) Suspense and Remittance Heads
- (ii) Events after Reporting Date
- (iii) Accounting Policies, Changes in Accounting Estimates and Errors (IGFRS-6)
- (iv) Off-budget Borrowings
- (v) External Assistance
- (vi) Accounting of Subsidies

The structure of Accounts is an important issue which GASAB needs to look at, in view of the proliferations of schemes and proformas of Govt. of India. In this context, the Report of the Sundermurthy committee needs to be taken up on priority as decided in the 32nd meeting of the GASAB held on 17.5.2018. The Sundaramurti Report on classification of accounts could be a base document for us to build our structure of accounts. During the Board meeting it was informed that comments were expected from Ministry of Finance to whom the report was sent for their inputs. O/o CGA was requested to forward copies of all the related documents to GASAB. It is an issue which addresses problems on monitoring of schemes and programmes at the centre and state levels.