

**Welcome Address of the Deputy
Comptroller and General (LB/A) – June 21,
2011**

Hon'ble Union Finance Minister, Shri Pranab Mukherjee, Respected Smt. Sheila Dikshit, Chief Minister of Delhi, Hon'ble State Finance Ministers, Shri Vinod Rai, Hon'ble Comptroller and Auditor General of India, Secretaries to the Government of India, State Finance Secretaries, senior officers, distinguished guests, colleagues, ladies and gentlemen, I welcome you all to the one-day Conference on "Accrual Based Financial Reporting in Government."

Today's conference had its formal genesis when the Twelfth Finance Commission recommended adoption of accrual based

accounting system for the Union and State Governments in November 2004. The Government of India accepted the recommendation in principle. Several State Governments have also shown willingness for gradually moving towards accrual accounting.

Under the present system of cash accounting, transactions are recognized when cash is paid or received. In the books of accounts, expenditures are recorded when cheques are issued and receipts are recorded when these are reported by the collecting banks. Movements in the government cash balance, as a result of such payments and receipts, are also simultaneously recorded in the books of accounts. Thus, the government accounts are a record of cash flows into and out

of the Consolidated Fund and the Public Account and *the* effect of these cash flows reflect on the government's liquidity position.

The cash based accounting system lays emphasis on transactions vis a vis the budget. It does not record and report complete financial information required for management of resources. It does not provide a full picture of the government's financial position at any given point of time and the changes that take place over time as a result of government policy.

The accrual accounting system, on *the* other hand, recognizes financial flows at the time economic value is created, transformed, exchanged, transferred or extinguished, whether or not cash is exchanged at that time. It is different from the cash based system in that

it records flow of resources. Expenses are recorded when the resources are consumed and income when it is earned.

The Government Accounting Standards Advisory Board, GASAB for short, in *the* office of the Comptroller and Auditor General of India, was entrusted with the task of suggesting an Operational Framework and detailed Roadmap for implementation of accrual accounting. Primary stake holders in the Central and State Governments are members of GASAB.

The work of GASAB has encompassed the contours of the accounting system under accrual basis, including accounting and treatment of assets, liabilities, revenues and expenses, and the final accounts of the Governments consistent with the provisions of

the Constitution, and duly meeting budgetary reporting requirements. In other words, *the* operational framework and roadmap essentially cover the broad accounting heads and treatment of transactions relating to revenues and expenditure accounting, fixed asset accounting, long term liability accounting, accounting for current assets, current liabilities as well as accounting for interest and depreciation as also non-financial and contingent liabilities.

It was realized at *the* outset itself that adoption of accrual accounting by the Central and the State governments would be a challenging and long drawn out task. *The* experience of other countries that had made this transition, either fully or in part, had given

us some lessons to draw upon. Additionally, different ministries and departments in the Central and State governments were and continue to be at varying stages of preparedness regarding disclosure requirements.

Some level of assurance and uniformity is vital before the process of accrual accounting can commence. With this realization, *the* office of the Comptroller and Auditor General of India with the help of State Governments, performed pilot studies in select States. The World Bank too has supported a few such studies. The pilot studies have flagged certain issues giving us the confidence to successfully make the process of transition from a purely cash system of accounting to accrual basis. On *the* orders of

the Comptroller and Auditor General, additional statements, that improve disclosure, have been included in the Finance Accounts of the States.

Today's conference will take the process forward by sharing international experiences of the transition process and lessons learnt from pilot studies conducted by GASAB. A booklet on "Operational Guidelines for Accrual based Financial Reporting" has also been prepared by the GASAB secretariat which draws on the lessons of pilot studies to formulate guidelines to aid the transition process. The Hon'ble Union Finance Minister has very graciously agreed to release this booklet. The Conference will include presentations by select state governments about their experiences with Accrual Accounting. Also, there are two panel

discussions scheduled for the afternoon session in which the operational guidelines and the issue of asset accounting would be discussed. It is hoped that the discussions today would help build consensus on the way forward. This will involve asset and liability identification and creation of appropriate and comprehensive registers, mapping of processes, devising a detailed framework of accounting, laying down accounting policies, preparing Chart of Accounts, devising documentation and subsidiary registers, making and streamlining the organizational arrangements for *data* and information flow, formalizing the information technology *data* system that will handle the flow of information, assessing training needs and building capacity

at different levels. The road will be long and weary, but we are confident that the destination will be worthwhile and achieved.

Once again, I extend a very warm welcome to all of you to the Conference.