

**Address by Comptroller & Auditor General of India
on the occasion of**

**International Symposium on "Standard-setting for
government accounts"**

15th December, 2003

Ladies and Gentlemen, it gives me great pleasure to be here with you this morning. I extend a very warm welcome to all of you. I am sure that the deliberations at this Symposium will enrich the newly initiated standard setting process in India.

The Government accounting system in our country is rule based. Basic principles of Government accounts are enunciated in the Government Accounting Rules and other related rules framed under the Constitution. These rules which form the foundation of the Indian accounting system have been framed by the Ministry of Finance on the advice of the Comptroller and Auditor General of India. Supplementary or subsidiary rule making power is delegated to the State Governments or subordinate Departments and is to be exercised by them on advice of the C&AG.

As Government accounting in India is predominantly on cash basis, there is hardly any correspondence with private sector accounting principles except in cases of commercial undertakings of Government departments. The operational results of commercial undertakings are expressed in normal commercial form outside the general accounts of Government under proforma accounting practices stipulated in the Government - Accounting Rules. The accounts of Government Companies and Statutory Corporations, however, are maintained on an accrual basis while the system of accounts of urban Local bodies like Municipal Bodies varies from entity to entity ranging from modified cash to full accrual basis. Government's preference for cash based accounting system is largely historical and driven primarily by considerations of budgetary control and the perceived simplicity and certainty of a cash based system.

However, there is a realization that the existing Government accounting system in India needs to be reviewed. An Advisory Group on Fiscal Transparency set up by the Reserve Bank of India, the Central bank of the country, has emphasised the need for greater transparency in Government accounting. The Advisory Group has highlighted the essentiality of improved disclosure norms for government debt, subsidies, off-budget Government borrowings, contingent liabilities and revenue exemptions granted by the Government.

A recent study of State level accounting practices by the World Bank also has concluded that the existing system needs a review as the finance accounts of the States suffer from many infirmities. They do not represent the position of the State in totality. For instance, the so called off-budget borrowings are outside the ambit of the Finance Accounts. The practice of year end transfers to the Personal Deposit Accounts to avoid the lapse of the budget provisions create distortions in the Annual accounts by inflating

revenue expenditure and budget deficit. Current accounting rules permit practices like booking of transactions temporarily under “suspense” heads. But these exceptions have been misused affecting the quality and completeness of accounts.

The main criticism of the current system is that it lacks transparency and cannot be used either for meaningful cash management or rational resource allocation. The system also suffers from a lack of uniformity in measurement norms and inadequacy in disclosure standards in financial statements. It is felt that there is need for clear public sector accounting standards to enhance transparency and accountability of the government to the stake holders.

In response, the Government has approved the establishment of a Government Accounting Standards Advisory Board by the Comptroller and Auditor General of India and I am happy that this Board is actively collaborating with national and international experts in organising this Symposium. Comprehensive reform in Government accounting systems in other countries has been sparked off largely by a need to move to an accrual-based system from a cash based system. While no such decision has been taken in India, some pilot exercises have been proposed by the Controller General of Accounts and based on the experience of these exercises, the future course of action will be determined.

However, any accounting reform has to be a part of a larger integrated public financial management initiative. A strong political consensus on a new direction for the accounting system is essential before any overhaul of the system is undertaken. This consensus has to be achieved not only in the centre but also in the states. As there is no clearly established theory of a relationship between financial reporting of a particular type and the well being of the people, political consensus not technical issues will determine the success of accounting reform. This is likely to take time.

On the other hand development imperatives and the rapid pace of globalization of the Indian economy along with the increasing convergence of accounting standards the world over requires us to move quickly.

Therefore, GASAB will have a central role to play not only in formulating standards but also in conceptualising and calibrating accounting reform and in building a constituency for it. The first requirement would be to develop a “conceptual framework” which clearly defines the objectives of financial reporting in the new circumstances and then set and implement a road map on how to achieve these objectives. Our aim should be to reduce diversity in an increasingly globalised world, particularly on issues of measurement and disclosure. There is also a growing agreement about the need for a dramatic improvement in the publication, communication and usability of financial accounts of the Government. We have to look for best practices internationally. I am sure this Symposium will add to our knowledge on these matters.

Another related issue that we will have to consider in due course is that of harmonisation of the system of Government financial statistics with the changes proposed in the accounting system. International and country experiences in this matter are fairly extensive and well known. In fact, being a late comer we may have the benefit of the experience of others.

I hope this Symposium will enable the sharing of international experiences in standard setting and throw more light on the interaction between the private sector and Government sector standard setting processes. I look forward to the recommendations made at this Symposium with great interest.

Thank you.