

Government Accounting Standards Advisory Board (GASAB)

**Inaugural address by
Shri Vijayendra N. Kaul,
Comptroller and Auditor General of India**

7th November, 2002

1. **It** gives me great pleasure to be with you at the inaugural meeting of the Government Accounting Standards Advisory Board. I consider this a landmark event in the history of public sector financial management in this country. It fulfills a long felt need in the area of Government accounting. The GASAB will formulate Government Accounting Standards for our country. These accounting standards will be formulated in conformity with the provisions of the Constitution and our laws and in keeping with international norms in this regard. The basic objective of this initiative, taken at the behest and with the approval of the Ministry of Finance, Government of India, is to promote best practices on the basis of generally accepted principles of Government accounting. Your Board is charged with the responsibility of not only formulating and proposing standards to improve the usefulness of the Government's financial reports based on the needs of the users but also to keep these standards current so as to reflect changes in the economic environment. Your Board also has the onerous responsibility to provide guidance on the implementation of standards and to consider significant areas of accounting and financial reporting that can be improved through the standard setting processes. Government of India's hope is that this initiative taken through the CAG will improve, at the very least, the common understanding of the nature and purpose of information contained in Government financial reports.
2. **Accounting** and financial reporting standards are essential for improved public accountability and, in fact, for the efficient and effective functioning of our democratic system. They play a major role in fulfilling the Government's duty to be publicly accountable and they contribute to a fuller understanding of economic, political and social consequences of allocation decisions and various uses of Government resources both at the Centre and at the State levels. We all realize that accounting rules are designed to provide standardized frameworks within which the financial position of a Government can be assessed. Bad accounting frameworks can lead to bad information and bad information invariably leads to bad decisions with serious long-term consequences. We also realize that accounting rules can be manipulated and abused to provide a misleading picture of what is really happening in the national economy.

3. **I**n India we have a fairly sound system of accounts, based on rules, the basic structure of which was established a long time back in colonial times. The Accounts Code, the Financial Code, the Treasury Codes, the departmental accounting rules etc, all form an elaborate structure of a well established accounting system which has been functioning quite efficiently in different departments of Central and State Governments and Union Territories. Therefore, our existing accounting rules are not operating without a system, in a vacuum as it were. They have underlying accounting concepts. But the problem is that we cannot identify these principles readily and distinctly. Consequently they do not respond fast enough to our changing needs. Therefore, a primary concern of the Board will no doubt be to ensure proper identity to the existing concepts enshrined in the current rules. While doing so, the Board will no doubt also consider filling up any lacuna in our accounting system and hopefully improve the quality attributes of our Government accounting practices. Therefore, the primary purpose of the standards that you formulate would be to act as quality assurance yardsticks.
4. **I** am confident that the Board will be able to promote the basic characteristics of understandability, reliability, relevance, timeliness, consistency and comparability of Government accounts across various departmental rules and across Central and State financial reporting practices. The advantages of standard setting are obvious and I need not labour them before eminent professionals such as you.
5. **I** hope that during its deliberations the Board will be able to comprehensively address accounting and financial management issues as they exist today in the Indian context as well as prepare the public sector for issues that the country is likely to face in the future. Government accounting frameworks have to be devised in a manner that provides accurate and useful signals to the market as distorted financial information exacerbates a country's economic problems. Of late we have noticed a tendency of using existing accounting rules to accommodate what can be called off-budget transactions which are the equivalent of off-balance sheet transactions in the private sector. I hope this Board is able to address problems that have arisen on this account so that the temptation to resort to creative accounting practices in the public sector is totally discouraged. Transparency and accuracy are two other issues that would need the attention of this Board. There has been an increasing tendency to some times not disclose debt and other liabilities of entities in the public sector fully and transparently. Such actions and practices are attracting critical attention of the public as parallels are drawn between Corporate and Government standards of disclosure. I am sure the Board will address this issue comprehensively in due course. Similarly accounting of contingent liabilities is an issue which needs the attention of this Board.
6. **T**hese are some of the issues that Government accounting system faces today and which need your attention. Of course there will be other fundamental issues such as the nexus of accounts with financial

management which will also have to be addressed by this Board and attended through its standard setting powers.

7. **Ladies & Gentlemen**, as you are aware the Government has so far used a cash based accounting system in India. There is currently a debate on transiting from this system to an accrual based accounting system. The advantages and disadvantages of cash and accrual-based systems have been debated for a long time, but a meaningful synthesis has not yet emerged on this issue. It is our hope that this Board will be able to encourage the study of this issue in depth so that there is greater clarity in this matter.
8. **In the end**, let me say that everyone today recognises the relevance of Government accounting standards. The standards will delineate the basic principles that represent the best practices of government accounting and financial reporting, as it should be. They will provide a framework for performing and promoting a broad range of value-added activities concerning financial reporting and accounting in the Government. The standards will establish the basis for the measurement of performance. They will foster improvement in government processes and operations. We have well-established national and international conventions of standard-setting process that facilitate extensive discussion and consultation with stakeholders. But once established the standards would be required to be meticulously adhered to by all and in the interest of all. The accounting standards that you formulate will be significant, therefore, the work you are embarking upon is significant and seminal.
9. **I wish you success** in your endeavours and look forward to your valuable contributions. On my part, I will extend full and continued support to the important task being undertaken by the Board. I have already approved the establishment of a Secretariat and the taking on deputation of three professionally competent officers at Group Officers level one each from Civil, Defence and Railway Accounts. The Secretariat will have one nominee from the Ministry of Finance as well. The idea is to have broad-based representation and widest possible consultations so that the standard setting process satisfies all the government departments in the Centre and in the State Governments. The Secretariat would also provide a sustained momentum and support to your important work.

With these observations and best wishes, I inaugurate the first meeting of Government Accounting Standards Advisory Board.

Thank you.