

Government Accounting Standards Advisory Board

**Welcome speech by
Shri K.N. Khandelwal,
Deputy C&AG (Accounts & LB) and Chairperson**

7th November, 2002

Hon'ble Comptroller and Auditor General of India, Shri V.N. Kaul, distinguished Members of the Government Accounting Standards Advisory Board,

- 1. It** is my privilege to extend a hearty welcome to all of you for the first meeting of the Government Accounting Standards Advisory Board. Establishment of this prestigious institution marks a distinct beginning in the government financial reporting and accounting systems in our country. This coincides with simultaneous developments in the accounting field all around. The recent collapse of corporate giants abroad has brought issues relating to accounting and corporate governance into prominence. Similar concerns have been expressed in respect of public sector accounting as well. Joseph Stiglitz, Professor of Economics and Finance at the Columbia University and the winner of 2001 Nobel Prize in Economics has alleged that public accounting rules have been bent so as to provide a misleading picture of what is really happening in national economies. He has particularly referred to the revision of the surplus of more than three trillion dollars for the years 2002 to 2011 into two trillion dollars deficit by the United States Government last year.
- 2. The** crises in the United States where the issues concerning private and public sector governance are said to be fairly strong should make us cautious about our financial reporting and accounting systems. We have noticed that the Government and the other regulatory bodies have already initiated some actions in the corporate sector. Even though some may call these as over-reactions, objective reviews and proactive measures are normal processes in any system.
- 3. However,** I may clarify that the establishment of the Government Accounting Standards Advisory Board is not a direct consequence of these developments. It is a natural corollary of the series of measures introduced by the C&AG of India in the last few years. It also synchronized with various actions taken by the Government of India. For instance, the

committee on fiscal Responsibility Legislation headed by the Secretary to the Government of India, Department of Economic Affairs with wide representation that included the Deputy Governor – Reserve Bank of India, Director – National Institute of Public Finance and Policy, Director – National School of Law besides the Controller General of Accounts, representation of the C&AG of India and others have recommended preparation of accounting standards for the government to improve fiscal reporting in order to take care of the quasi-fiscal operations and ensuring better fiscal transparency. Further, the successful computerization of Union Civil, Railway and Defence accounts as also the State accounts has underscored the importance of uniformity and consistency in government accounts. The Voucher Level computerization project in various States has brought out the desirability of common fundamental principles over the multiplicity of rules for any meaningful comparison and consolidation. Also, several emerging issues such as the accounting of the grants-in-aid to the Local Bodies for capital works, allocation of assets and liabilities of the bifurcated States, accounting treatment of pension liabilities and scores of other significant aspects have pressed the urgency for formulating appropriate accounting standards. To briefly elaborate, the grants-in-aid are revenue items according to the accounting principles. But when the substantial grants-in-aid are made by the State Governments to the Local Bodies, especially for undertaking capital works, the State Governments feel that the grants-in-aid should be classified under capital expenditure. As the matter has assumed significance after the 73rd Amendment to the Constitution, an objective review of the various issues with open mind is appropriate that could be undertaken by the standard setting body with wide representation.

4. **I**mportant developments in the international public sector accounting field have also influenced the process of standard setting for the government accounts. These included issue of International Public Sector Accounting Standards by the IFAC that set out the requirements for financial reporting by the governments. Particularly, IFAC has proposed to issue a number of government accounting standards on the cash basis before the end of the year 2002, in addition to its Exposure Draft 9 on the “Financial Reporting on the Cash Basis of Accounting.”
5. **T**he International Monetary Fund has revised its Government Finance Statistics Manual (GFS Manual) in the year 2001 that is said to provide a comprehensive conceptual and accounting framework suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any country. The revised Manual is a departure from earlier version and advocates accrual system of accounting.

6. **U**nder the Accounting and Auditing Act of the United States, the federal agencies must comply with the accounting standards and principles prescribed by the Auditor General of the US. Accordingly, a standard setting board exclusively for the federal government agencies known as Federal Accounting Standards Advisory Board (FASAB) was set up in 1990. Since 1993, the FASAB has published 22 Accounting Standards, keeping in view the characteristics of the government agencies as distinct from the corporate entities.
7. **T**hese international developments coincided with the reform initiatives in government accounting in our country that led to the establishment of the Government Accounting Standards Advisory Board.
8. **O**ur Board will be developing government accounting standards to suit our environment and challenges peculiar to our systems and will draw upon the rich tradition and expertise of various accounting services in the Central and State Governments. With the globalisation affecting all walks of life, we should also have accounting standards that would convey the strength of our governmental accounts while suggesting improvements in the language intelligible to the international community to facilitate easier grasp of our government accounts and financial statements.
9. **I** am happy that immediately on his assuming the office, the present C&AG of India Shri V.N. Kaul has taken a pioneering step in setting up the GASAB with the support of the Government of India. We are also pleased that he has kindly consented to deliver the inaugural address today. Sir, once again, I extend a warm welcome to you.
10. **I**t is also my pleasant privilege to welcome each one of you, the distinguished members of the Government Accounting Standards Advisory Board for this first meeting.

Ladies and Gentlemen, I welcome you one and all.