Accounting Reforms for Good Governance

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Outline of the session

- Trigger for accounting reforms
- The international experience
- Standards based financial reporting
- Accounting reforms by Government of India
- Accounting reforms by Ministry of Railways
- Challenges
- The way forward
Trigger for Accounting Reforms

- Paradigm shift: evolving Public Financial Management
- Reliable & real time information about government finances
- Sovereign debt crisis - emphasis on sustainability of key government programs
- Limitations of cash accounts - payables, receivables, provisions
- Accounting system being revisited the world over
The international experience

- Transition from cash to accrual accounting
- Transition from rules to standards based financial reporting
- Over 80 countries have either adopted or in transition to adopt standards based financial reporting

Large number of international organizations have migrated to Standards based financial reporting
- The United Nations,
- North Atlantic Treaty Organization (NATO),
- Organization for Economic Co-Operation and Development (OECD),
- International Criminal Police Organization (INTERPOL),
- European Commission (EC).
# International Practices on Accrual Accounting

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*FS prepared on accrual based national or int’l accounting standards*
Why Accrual Accounting Standards?

- Principles-based accounting provides a conceptual frame work for accountants
- Lays the key objectives of financial reporting
- Common examples are provided as guidance which explain the objectives
- Improves accountability and understandability
- Better asset management & assessment of liability
- True and fair presentation of accounts to assist decision makers
International Public Sector Accounting Standards

IFAC (1977)

Public Sector Committee (1986)

International Public Sector Accounting Standards Board (2004)

Improve Financial Reporting + Enhance decision-making

32 accrual based + 1 cash based + transition guidelines (Study 14)
Components of GPFS

- Statement of Financial Position
- Statement of Financial Performance
- Statement of Changes in Net Assets
- Cash Flow Statements
- Appropriation Accounts
- Accounting Policies and Notes to the Financial Statements
Accounting reforms initiatives by Government of India

- **2002**: Government Accounting Standards Advisory Board
- **2004**: XII Finance Commission supports accrual accounting
- **2006**: Technical committee on Accounting Standards - ULB
- **2008**: Technical committee on Accounting standards – PRI
- **2009**: XIII Finance Commission supports bubble up approach to accrual accounting
- **2009**: 2nd Administrative Reforms Commission, 14th Report, broadly endorses accrual accounting
Accounting reforms

- December 2010 -12: Notification of 3 cash accounting standards
  - IGAS 1: Guarantees given by Governments: Disclosure Requirements
  - IGAS 2: Accounting and Classification of Grants-in-aid
  - IGAS 3: Loans and Advances made by government

- 2007-12: 2 accrual standards approved by GASAB
  - IFRS 2: Property, Plant and Equipment
  - IFRS 5: Contingent Liabilities (other than guarantees) and Contingent assets: disclosure requirements

- June 2011: Finance Ministers Conference on accrual based financial reporting

- September 2011: Constitution of Apex Committee for implementation and transition to accrual based accounting systems in governments

- 2012: FM stressed the need to strengthen the process of accounting standards to keep pace with other countries across the world
Accounting reforms initiatives

**Union**
- CGA : RML; CPWD Div.-4
- DoP : New Delhi GPO; Naraina Industrial Estate Head Post Office
- DoT: CCA Circle, Maharashtra
- MoD: CSD

**States**
- 22 States in principle approval
- Andhra Pradesh (pilot study)
- Madhya Pradesh (pilot study)
- Jammu & Kashmir (Task group)

**Third tier**
- Urban local bodies
- National Municipal Accounting Manual
- Accrual based double entry system
- Panchayati Raj Institutions
- Model Accounting System for Panchayats (MAS) and PRIASoft (accounting software) cash based double entry

December 12, 2012
IRAS Day
Accounting Reforms in Railways

Accounting Reforms project:
- Presentation of Financial Statements compliant to GAAP & in conformity with GoI’s current reporting requirements
- To facilitate measurement of performance by lines of business for analysis of cost of service

Vision 2020:
- Attempt switchover to accrual-based accounting in convergence with standards based accounting system
- Attempt activity-wise costing for business lines to aid pricing decisions and management information

Railways Ministers’ speech-2012:
- To move over gradually to an accrual based accounting system as also envisaged in the Vision 2020 of Indian Railways

December 12, 2012
Challenges

- Commitment to change
- Clear mandate
- Definite timeline
- Greater Involvement of stakeholders
- Greater awareness
  - Concept of accrual accounting in Government
  - Benefits of accrual accounting
Measures to meet challenges

- Administrative reforms
- Accounting reforms
- IT reforms
- Capacity building
- Pilot studies
The Way Forward
1 Phase

Formation of an apex body at Ministry level

- Formation of task based groups
- Revision of Chart of Accounts
- Revision of manuals / Codes
- Capacity building
- Integrated Financial Management System

- Pilot studies
- Identification of assets category wise
- Identification of liability and their valuation
Performance

Determinants of Performance

80% System

20% People
2 Phase

Valuation of assets

Provision of depreciation

Recognition of expenses and payables

Recognition of revenue and receivables
3 Phase

General Purpose Financial Statement

- Statement of Financial Position
- Statement of Financial Performance
- Statement of changes in Assets/Liabilities
- Cash Flow Statement
- Appropriation Accounts
- Accounting Policies and Notes to Accounts
- Statement of Financial Responsibility
“Accruals is not a magic bullet for improving the performance of the public sector. It is simply a tool for getting better information about the true cost of government in order to achieve the desired improvement in decision-making in government.”
Thank you

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