

**National Seminar on
“Good Governance: Accounting Reforms”**

National Academy of Audit and Accounts, Shimla
30 April-01 May 2009

A two day National Seminar on ‘Good Governance: Accounting Reforms’ was held at the National Academy of Audit and Accounts, Shimla on April 30th and 1st May 2009. A list of participants is annexed.

Shri K.M. Chandrasekhar, Cabinet Secretary inaugurated the seminar on 30 April 2009. Dr. Vijay Kelkar, Chairman, XIII Finance Commission delivered the valedictory address on 01 May 2009.

DAY 1

SESSION I

The Comptroller and Auditor General of India, Shri Vinod Rai, while welcoming the Cabinet Secretary and participants underscored the importance of Financial Reports, including the Annual Accounts in promoting good governance. He drew attention to the comments on the Union Government accounts in his last Audit Report, in particular to the unascertainable unspent balances in the accounts of implementing agencies against Rs 51259 crore released to them. The comments on accounts highlight the need for reforms in the accounting, which could serve as a means to good governance. He also highlighted the progress made by the Government Accounting Standard Board in relation to development of a roadmap for shift to accrual accounting.

The Cabinet Secretary while inaugurating the seminar, highlighted the following:

- The subject of this seminar manifests in the desire to achieve a government that “does the right things” and also “does them right.” Good governance represents the “right things” and good accounting system is one of the means of ensuring that they are “done right.”
- A good control system ought to focus on the outputs and specify the inputs required to produce those outputs efficiently.
- Autonomy without accountability is undesirable and represents an unstable situation. An overall goal of the reform efforts has to be an enhancement of the accountability for results.

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- One of the vital challenges is to find a better way of integrating reporting of financial and performance information. An integrated reporting system would give managers up-to-date information on performance covering inputs consumed, activities completed, outputs delivered and the outcomes along with how these compare to the organization's performance commitment and budget.
- New accounting system should deliver a performance scorecard to each programme manager, at least once a quarter. The new system must balance "risk" and "results".
- The core purpose of the central accounting strategy is to provide information needed for effective decision-making – use of such information is intended to improve the states' management and operations, compliance, and accountability. The central accounting system should be designed to identify errors, omissions, and inconsistencies.
- It is important to create an institutional mechanism for collaborative work between the office of the CAG and the Central & State governments, which, over a period of a year or two, can carry forward the outcome of the deliberation of this national seminar. He assured full support from the Cabinet Secretariat.

SESSION II

Shri A.K. Awasthi, Additional Deputy Comptroller and Auditor General made a presentation on some key issues related to "Ownership of accounts". The main points of his presentation were as follows:-

- There are inherent problems/disincentives with accountability in Government as there is no exchange relationship between resources provided and services received. There is therefore a strong need for accountability in the public sector as Government must explain how it compulsorily procured resources from its citizens, and what it did with those resources.
- There are tangible costs associated with delays in accounting reforms as the accountability structure has a direct bearing on the credit rating of the country and the cost of its commercial debt.
- Acceptance of ownership and affirmative assertion of this responsibility is the starting point of accounting reforms. This would also be in conformity with best international practice.
- Stewards of public funds are expected to 'own' the accounts; in other words, to accept the responsibility for correctness of the Accounts and the related accounting records. The external auditor provides an independent opinion regarding the 'fair presentation' or the 'true and fair' view in the accounts.

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- Under Rule 64 of GFR the Secretary is the Chief Accounting Authority of the ministry/department which enjoins upon him/her responsibility inter-alia for:
 - financial management of the ministry/department;
 - preparation of expenditure and other statements;
 - ensuring maintenance of full and proper records; and
 - Internal controls over financial reporting, compliance with laws and regulations, safeguarding assets and achievement of institutional objectives

Acknowledgement of ‘ownership’ is consistent with Rule 64 of GFR.

- Audit of the annual accounts should be conducted only after these are finalized and Chief Accounting Authority signs Accounts with a certificate/assertion of correctness, along with a statement on internal controls and certificate of compliance with Rule 64 of GFR.
- While the best practice for ‘Statement on Internal Control’ as in OECD countries, consists of an elaborate personal assertion of compliance with the prescribed COSO framework by the CEO set out in a conversational mode, it is up to the Chief Accounting Authorities to decide the format or template for this Statement which reflects the nature and extent of control actually exercised over financial reporting.
- Unlike the Union Government, ownership issue is relatively unclear between the State government and AG’s office. The World Bank’s Financial Accountability Assessments flag the issue and suggest joint sign-offs.
- CAG’s office proposed to the Chief Secretaries (2004) that Finance Secretaries should certify the correctness of **initial** and **subsidiary** accounts rendered. Only six states have agreed while others have either not agreed or are undecided.
- CAG has revised his Audit Certificate for the Union Accounts in conformity with best global practice and ISA (International Standard of Auditing) 700.
- Uniform reporting framework is desirable for grants released through ‘society’ (as distinct from ‘treasury’) mode; special purpose funds, and institutional mechanisms for better oversight should be put in place.
- Budgetary and accounting framework for Regulatory Agencies should be brought within the umbrella of Union Government as ‘independent regulators’ are extensions of the ‘executive’ arm of Government and should be subject to parliamentary oversight.

During the deliberations that followed, there were a general consents on the key criteria that the Annual Accounts of the Government should be ‘owned’ by the respective Chief Accounting Authorities, which hitherto was mostly dealt with by Joint Secretaries and below and Secretaries

were only associated in the signing grant statements of Appropriation Accounts. There was also some debate on the wide range of responsibility that 'ownership' entailed and the good practices available/known to deal arising issues. It was, however, agreed that the external auditor was not responsible for the Annual Accounts especially as Rule 64 of GFR was clear about the responsibility of Chief Accounting Authority. However, as the change in Rule 64 was brought about recently in 2005, Secretaries to the Government felt that there should be some guidance from the CAG regarding the proper way to operationalise it. There was also a suggestion that Secretaries to the Government may formally take charge as Chief Accounting Authority so that there was a better awareness about this role.

Conclusions

1. It was recognized that Accounts have a vital role in promoting good governance. The need for accounting reforms for enhancing the transparency and communication to the stakeholders was acknowledged by the seminar.
2. Taking note of the good practices in government accounting reforms in other countries, the consensus was for introducing reforms that were consistent with the contemporary best practices in financial reporting, including moving towards **International Public Sector Accounting Standards (IPSAS) - cash, to begin with, and later Accrual Accounts.**
3. The responsibilities enjoined upon on the Secretaries to the Government of India as Chief Accounting Authority (CAA) were recognised and there was consensus that an integrated institutional oversight framework to assist the CAA in discharge of those responsibilities; facilitating assertions on true and fair presentation/correctness and on internal control has not been put in place.
4. The seminar noted that apart from the control structure, guidelines supporting the discharge of the

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responsibilities by the CAAs with the help of appropriate control environment and control procedures should also be put in place. The secretaries to the Government of India requested CAG to encourage and support the development of the guidelines.

5. There was a consensus that milestones for moving forward towards complete ownership of accounts by the CAA along with disclosure of the significant accounting policies, statements of responsibility and internal control should be given due attention.
6. The seminar was informed that unlike the existing system of stage audit and clearance, the accounts should be presented for audit after the final compilation and approval/signature of the CAA.
7. The seminar also felt that as the public sector accounting reforms were generic rather than specific, steps to resolve the issue of ownership for the accounts of the state governments should also be expedited to ensure uniformity in public sector accounting reforms.
8. To resolve the ambiguities and limitations in the general purpose annual accounts of the Government, the desirability of enacting a comprehensive 'Public Finance Act' covering the entire range of public sector financial management and reporting standards on the lines of similar laws enacted by other countries may be considered.
9. The seminar was in general agreement and supportive of the steps that lie ahead in accounting reforms outlined in the presentation, consisting of:
 - a. Statement of compliance with Rule 64 of the GFRs 2005;
 - b. Introduction of the eight statements in the Finance Accounts, recommended by the Finance Commission;

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- c. Uniform financial reporting standards for grants released directly to the autonomous societies under the Centrally Sponsored and Central Sector Schemes;
- d. Review of classifications and reduction of opaqueness in the accounts; and
- e. Uniform internal control framework for all public sector agencies, etc.

SESSION III

The second presentation was made on “Internal control framework in Govt. of India and role of internal audit” by **Dr. Arvind Mayaram, Additional Secretary and Financial Advisor, Ministry of Rural Development, Govt. of India**. The salient points of the presentation were as follow:-

Project support systems should include basic Internal Control measures to ensure

- Meeting of the project objectives;
- Timely completion or delivery of the project; and
- Satisfactory quality of project implementation procedures.

Limitations of existing set up of the Centrally sponsored schemes (CSS)

- Central Government has passive role: mere fund provider;
- Diversion of funds by state governments for other commitments;
- Weak internal control systems in most states results in weakening of schemes;
- Implementation delays; and
- Targeted outcomes not achieved/achieved too late to be effective.

Implementation of CSS: The MORD Model

- Release of funds: directly to bodies;
- Responsible for implementing the programme; and
- Internal control systems established by MORD to ensure effective utilization of resources and proper implementation of projects.

Innovations in Internal Control by MORD

- On-line monitoring of all major MORD projects;
- Transparency: Maximum information in the public domain; and
- Electronic transfer of funds.

Control Environment

MORD's approach for creation of a positive environment for internal controls in all schemes

- Making scheme-specific rules;
- Clear definition of roles of states and Central governments;
- Clear definition of various levels of Implementation authorities; and
- Lines of reporting made clear to all concerned.

Risk Assessment

Risk assessment done by –

- Regular reviews; and
- Using risk-based audit techniques in Internal Audit.

Information and communication

Information regularly available to management through:

- On-line accounting data; and
- Detailed custom-designed on-line MIS.

The presentation was followed by discussion covering the entire range of internal control framework consisting of internal control environment and procedure, etc., and the need to institutionalise internal control framework in an integrated manner. The participants were of the view that in the background of weak internal control structures and procedures in the state governments, it is imperative that the internal control measures in the Central Government in particular, for the Centrally Sponsored Schemes are strengthened. The participants were in agreement that effectiveness of the internal control assumes greater importance for those programmes, which are implemented through autonomous societies through direct transfer of funds to them outside the government accounts. They felt that concurrent internal audit, being one of the critical means to provide assurance on the integrity of the financial and performance information must be strengthened to ensure accountability. There was unanimous opinion that on-line real-time reports, placing more and more information in the public domain, public participation and clear delineation of accountability would go a long way in strengthening the internal control.

Conclusions

10. The seminar acknowledged the internal control measures established in the Ministry of Rural Development, in particular, with reference to the programme management and monitoring of the Centrally Sponsored Schemes.
11. The seminar appreciated that the internal control structure has been modelled against the framework of the Committee of Sponsoring Organizations (COSO), covering control environment, risk assignment, control activities, information and communication and monitoring.
12. The participants also appreciated that apart from programme management good internal control system will also assist the Chief Accounting Authorities in discharge of their responsibilities stipulated under Rule 64 of the General Financial Rules, 2005.
13. The seminar noted several initiatives taken by the Ministry of Rural Development viz. electronic accounting process, digital phase photo capture system, life fingerprint scan system, use of GPS, etc. and suggested that similar steps could be introduced in other Centrally Sponsored Schemes.
14. The seminar recommended that standardized internal control structure may be introduced across the government.

DAY 2

SESSION IV

The third presentation of the seminar was made by **Shri Naresh Dayal, Secretary, Ministry of Health and Family Welfare, Govt. of India** on 'Governance and financial reforms under NRHM'; the main points were as follows:-

- Effective Decentralized planning and management of integrated health system;
- Enabling flexible financing for local decision making as per decentralized plans; and
- Enabling decentralized account keeping and social audit.

NRHM has the following approaches

- Communitize;
- Flexible financing;
- Monitor progress against standards;
- Improved management through capacity;
- Innovation in human resource management; and
- Reaching resources to the cutting edge at speed and ensuring timely reporting of expenditure – Monthly Concurrent Audit.

Electronic Fund Flow:

- Funds to all States and UTs being sent electronically and time taken in fund transfer brought down from 1-3 months to 1-2 days.

Improved reporting timelines/compliances:

- Focused attention has led to vastly improved compliance timelines in reporting.

The participants appreciated the positive features of the NRHM programme, in particular, the innovative governance measures viz. communitization, flexible financing and monitoring against the standards, i.e. Indian Public Health Standards. The participants deliberated on the NRHM's key principles of bridging from distrust to trust, employment to service guarantee and monitoring against institution specific goals and were of the view that successful community planning and monitoring could be a model for other programmes. Features of the financial management, in particular, electronic fund transfer, e-banking initiative and web-enabled financial reporting and monitoring system and

delegation of financial powers under the scheme were discussed. They noted that sound financial management and reporting framework is critical to performance monitoring. The issue of asset accounting of the assets established under the programme was also discussed.

Conclusions

15. The participants noted the good governance structure introduced in the National Rural Health Mission as a good benchmark.
16. The key financial management reforms highlighted in the presentation could go a long way in decentralized planning and management.
17. The approach to communitize the programme, introduce flexible financing, monitoring progress against standards, capacity building for management and innovation in human resource management was acknowledged by the seminar with appreciation.
18. The participants appreciated the decentralised planning along with proper accountability frame-work and accountability procedures.
19. The seminar also noted electronic fund flow introduced in the scheme and the reporting frame-work with the objective of reducing the time and ensuring compliance and was of the opinion that reporting structure on similar lines for other schemes will also be useful.

SESSION V

The last presentation of the seminar was made on 'Accrual accounting: general issues' by **Shri Rakesh Jain, Director General in the CAG's office**. The main points in his presentation were as follows:-

Lessons learned over the past few years:

- Unit of accrual accounts should begin with the DDO;
- Robust IT system connecting all the DDOs, treasuries, AsG and the departments may be necessary; and
- Threshold needs to be defined for accruing expenses and revenues.

Plans ahead – The Gateways approach of GASAB

Gateway 1: Improve the existing cash basis

- Indian Government Accounting Standards (IGAS) developed by GASAB on cash basis; and
- Other reforms in cash-basis accounting.

Gateway 2: Accelerated pilot studies and development of standard

- World bank supported accelerated pilot studies on accrual accounting in Department of Posts, MP, AP, Haryana and West Bengal;
- Establish accrual basis standards;
- Indian Government Financial Reporting Standards (IGFRS) –uniform accrual basis standards for Union and States;
- Three exposure Drafts approved so far for exposure and comments;
- The presentation further highlighted challenges ahead:
 - Asset Accounting and valuation;
 - Non exchange transactions;
 - Pension liability;
 - Inventories;
 - Current assets and current liabilities; and
 - Fair value accounting.

Gateway 3: The National rollout

- Creation of task force in the Ministry of Finance;
- Encourage the organizations commercial in nature, to move to accrual accounting; and

- Decentralized Development of accounting policies aligned with IFRS

The presentation was followed by a discussion on the limitations of the existing cash-based accounts and relative advantages of the accrual system. The existing global trend on shift to accrual accounts in modern governments was discussed at length. The seminar noted that the 12th Finance Commission had recommended changeover to accrual accounting in government in a gradual and calibrated manner. The seminar noted with satisfaction that 21 states have agreed in principle for migration to accrual system and the rigorous procedure adopted by GASAB for preparing the Standards. Need for involving the experts of the subjects in respect of preparing the standards on technical matters such as Public Private partnership was felt by the participants. The participants discussed the outcomes of the pilot studies undertaken in the states. There was consensus that pending migration to accrual system, the existing cash-based accounts should be improved, which would also facilitate migration to accrual accounts.

Conclusions

20. The seminar noted the recommendations of the 12th Finance Commission in relation to introduction of accrual accounts in the government, which has been accepted by the Government.
21. The participants were unanimous that accrual accounts afford a greater opportunity for representing a fair view of the public sector accounts and supported the measures for movement towards introduction of accrual accounts in the government.
22. The seminar, while acknowledging the stewardship by the office of the Comptroller and Auditor General of India in developing the Indian Government Accounting Standards, expected that the migration to accrual accounts would be completed in a time-bound manner.
23. It was the unanimous opinion that before migrating to accrual accounts, it would be necessary to strengthen the existing cash basis of accounts.

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24. The seminar noted the implementation of the recommendations of the Finance Commission on introduction of eight additional statements in the Finance Accounts and suggested that the recommendations may be implemented completely both for Union and state accounts.
25. The seminar also noted with satisfaction the approach to developing the frame-work under three gateway approach of GASAB consisting of:
- (i) improving the cash basis of accounts;
 - (ii) accelerating the pilot studies and development of Indian Government Financial Reporting Standards; and
 - (iii) National rollout of accrual basis accounting.
26. The seminar was of the opinion that the challenges to migration to accrual accounts, viz. asset accounting and valuation, non-exchange transactions, estimation of pension liability and fair value accounting should be overcome through appropriate measures.

SESSION VI

Dr. Vijay Kelkar, Chairman, 13th Finance Commission delivered the valedictory address. During his address he emphasized the following points:-

- He appreciated the contributions of AsG to the Commission on the finances of their respective States and stated that these contained valuable analysis of state government finances.
- The Comptroller and Auditor General has demonstrated independence in discharging his constitutional obligations with respect to the accounts of the Centre and the states. The Finance Commission is another such body which has set very high standards in equity and probity while examining contentious issues relating to fiscal federalism. This has also raised

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the expectations of our citizens and created increasing challenges which have to be met continuously. Initiatives such as this seminar are a valuable contribution to such efforts.

- The Twelfth Finance Commission acknowledged that the current system of cash-based accounting did not provide a full picture of the government's financial position at any given point. While recommending a changeover to accrual accounting in Government, the Commission had recognized that this would need to be a gradual and calibrated process.
- The Prime minister in his address to the All India Conference of Accountants General on 16th October 2008 had emphasized the need for accelerated movement towards accrual based accounting.
- The huge backlog in the audit of accounts of state public sector undertakings as well as other autonomous bodies, which get substantial support as grants-in-aid from Government is a matter of concern. Keeping in mind the contingent liabilities of the state governments on account of these PSUs, the switchover to accrual accounting will succeed only if this problem is tackled upfront.
- The finance accounts must be maintained consistently across states as well as be produced in a timely fashion.
- On Government related issues in the present Accounts and Audit Framework some issues of concern are:
 - (a) contra entries in accounts;
 - (b) administration of the calamity relief scheme ; and
 - (c) budgetary classifications for Centrally Sponsored Schemes across states.
- The undesirable trend of diversion of public expenditure from the budget to nominated funds operated outside the authority of the legislature and transfer of budgetary allocations from the consolidated fund to civil deposits in the public account at the end of a financial year to avoid lapse, are matters of concern.
- While concluding his address, he stated that the following measures must be considered for implementation -
 - (a) CAG monitoring the compliance of Centre and states with their respective FRBM;
 - (b) Introduction of an Advance Audit Authority for new schemes/projects; and
 - (c) Accounting support for the National Informational Utilities.

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The seminar ended with vote of thanks to the Chairman XIII Finance Commission, Cabinet Secretary, the Comptroller and Auditor General of India and all participants.

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List of Participants:

Dr. Sanjiv Misra	Member, Thirteenth Finance Commission
Mrs. Sudha Pillai	Secretary, Ministry of Labour & Employment Government of India
Shri G.K. Pillai	Secretary, Ministry of Commerce Government of India
Shri Naresh Dayal	Secretary, Ministry of Health and Family Welfare Government of India
Shri Pradeep Kumar	Secretary, Ministry of Defence, Deptt. Of Defence Production Government of India
Shri Rahul Khullar	Secretary, Deptt. of Disinvestment, Government of India
Shri Sujit Banerjee	Secretary, Ministry of Tourism Government of India
Shri Arvind Mayaram	Addl. Secretary & FA, Ministry of Rural Development Government of India
Shri L.C. Goyal	Pr. Finance Secretary, Government of Kerala
Shri C.K. Mathew	Pr. Finance Secretary, Government of Rajasthan
Shri Anoop Mishra	Pr. Finance Secretary, Government of Uttar Pradesh
Ms. Bharti Prasad	Dy. Comptroller & Auditor General

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Shri Narendra Singh	Addl. Dy. Comptroller & Auditor General
Shri A.K. Awasthi	Addl. Dy. Comptroller & Auditor General
Shri A.K. Thakur	Director General of Audit, Central Revenues
Shri Rakesh Jain	Director General (Accounts), O/o CAG of India