

Government Accounting and GASAB Background

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ARTICLE DETAILS

Article History

Published Online: 15 April 2019

Keywords

Accountability Mechanisms; Financial Reporting; Government Accounting; System of Accounting.

ABSTRACT

Comptroller and Auditor General of India (C&AG) constituted Government Accounting Standards Advisory Board (GASAB) with the support of Government of India through a notification dated 12th August, 2002. The decision to set-up GASAB was taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace with International trends. The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending. The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle based standards and migration from cash to accrual based system of accounting. GASAB, as a nodal advisory body in India, is taking similar action to formulate and improve standards of government accounting and financial reporting and enhance accountability mechanisms.

1. Introduction

History of Government Accounting, Concept of Accrual Accounting, Formation of GASAB, Composition of GASAB, Essentiality of formulating Accounting and Financial Reporting Standards, Scope and Objectives of GASAB, Responsibilities of GASAB, Authority, Scope and Applicability of IGASs and IGFRSs, Standard-setting Procedure for IGASs, Compliance with IGASs, Introduction to Integrated Financial Management System (IFMS), Introduction to Key Result Area (KRA) With the support of the Government of India, the Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller & Auditor General of India on August 12, 2002 for the Union and States under Article 150 of the Constitution of India. The main objective of setting of GASAB is to establish and improve standards of Government accounting and financial reporting in order to enhance transparency and financial accountability. It also formulates and proposes standards that improve the usefulness of financial reports based on the needs of the users. It also cover significant areas of accounting and financial reporting that can be improved through the standard setting process; and to improve the common understanding of the nature and purpose of information contained in the financial reports.

2. Objectives and Responsibilities of GASAB

The objective of the GASAB is to formulate Standards relating to accounting and financial reporting by the Union, the States and Union Territories with Legislature. The Standards so formulated by GASAB are recommended to the Government of India for notification in accordance with the provisions of the Constitution.

The GASAB shall have, inter alia, the following responsibilities:-

- To establish and improve Standards of Government accounting and financial reporting in order to enhance accountability mechanisms;
- To formulate and propose Standards that improves the usefulness of financial reports based on the needs of the users;
- To keep the Standards current and reflect change in the Governmental environment;

- To provide guidance on implementation of Standards;
- To consider significant areas of accounting and financial reporting that can be improved through the standard setting process; and
- To improve the common understanding of the nature and purpose of information contained in the financial reports.

3. Structure of the Board

The Board has high level representation from the important accounting heads in Government, Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organizations. The board consists of the following members:

4. Board Members

- a. Deputy Comptroller and Auditor General (Government Accounts) as Chairperson
- b. Financial Commissioner, Railways
- c. Member (Finance) Telecom Commission, Department of Telecom
- d. Secretary, Department of Post
- e. Controller General of Defence Accounts
- f. Controller General of Accounts
- g. Additional / Joint Secretary (Budget), Ministry of finance, Govt. of India
- h. Deputy Governor, Reserve Bank of India or his nominee
- i. Principal Secretary (Finance) of four States by rotation
- j. Director General, National Council of Applied Economic Research (NCAER), N. Delhi
- k. President, Institute of Chartered Accountants of India (ICAI) or his nominee
- l. President, Institute of Cost and Works Accountants of India or his nominee
- m. Principal Director (Government Accounts), office of the Comptroller & Auditor General of India as Member secretary.

IGFRS NO	Description	Basis Of Accounting	Objectives Of The Standards
IGFRS 2	Property, Plant And Equipment	Accrual Order Notification	The objective of the Standard is to prescribe the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment.
IGFRS	Revenue From Exchange Transaction	Accrual (At Draft Stage)	The primary activities of Government encompass sovereign functions like the defence, developing infrastructure, social welfare programmes. The revenue is essentially realized from taxation, which is essentially a non-exchange transaction.
IGFRS	Accrual (At Draft Stage)	Accrual (At Draft Stage)	The objective of this Standard is to prescribe the accounting treatment for inventories.

5. Development of Government Accounting System in India

- Under the Government of India Act, 1858, India came under the direct control of British Parliament from 1st November, 1858. Imperial Income & Expenditure for sanction by the Supreme Government of India was introduced from 1861-62 by way of Annual Budget, which formed the base of Imperial Account and laid the foundation of Imperial Audit.
- The A.G. to Government of India was designated as Auditor General of India (1860).
- In 1862, Financial Secretary became head of the Financial Department which included the Department of Accounts & Audit. The Auditor General of India was re-designated as Auditor and Accountant General of India. He was charged with the duty of bringing the accounts of the Indian Empire together and responsible to the Government of India for correct performance of the mechanical duties of accounts and audit as distinguished from administrative matters coming within the Province of the Finance Secretary.
- From April, 1866, a uniform financial year was adopted beginning from 1st April and ending on 31st March. Use of Arabic numerals for accounts maintenance was enforced.
- A system of monthly consolidation of audited accounts was brought into force in place of annual consolidation as in the past by resolution dated 20th April 1865 and dated 6th October, 1865.
- The designation of the Auditor and Accountant General to the Government of India was changed to the Comptroller General of Accounts (July, 1881) and he was made responsible for consolidating the Budget and regular estimates which was reviewed by the Financial Department.
- The Comptroller General of Accounts was further redesigned as Comptroller and Auditor General in India by a resolution dated 6th May, 1884. He was entrusted with the responsibility of supervising the accounting system as well as conducting an Appropriation Audit.
- Under Government of India Act, 1919 the designation "C&AG in India" was changed into Auditor General in

India and he was responsible for audit of all accounts in India.

- Government of India Act, 1935 changed this designation to Auditor General of India and general superintendence of Audit of Indian Home Accounts was now vested in him. This designation was again changed to the Comptroller & Auditor General of India under the Indian Constitution.

6. Government Accounting in India Follows Cash Basis of Accounting

Government Accounting Standards Advisory Board (GASAB) constituted by Comptroller and Auditor General of India, with the support of Government of India, has been working on migration to accrual basis accounting in Union and States. There is a felt need for an accounting framework and accounting standards on accrual basis to facilitate pilot studies and research efforts on migration to accrual accounting at Union and State level. To facilitate such pilot studies and also for scale up of activities, GASAB decided to develop accrual basis accounting standards alongside cash basis standards. This is based on the need expressed by many stakeholders. The accrual basis standards will be issued under the title 'Indian Government Financial Reporting Standards (IGFRS)'. The objective of the IGFRS 2 Standard is to prescribe the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment.

7. The Important Essentialities for Formulating Government Accounting Standards in India

- Improved public accountability for the efficient and effective functioning of our democratic system.
- Fulfill the Government's duty to be accountable to public and it 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.
- Accounting rules are designed to provide standardized frameworks within which the financial position of a Government can be assessed.

- Having good accounting standards, no one can manipulate or abuse to provide a misleading picture of what is really happening in the national economy.
- a primary concern of GASAB is to ensure proper identity to the existing concepts enshrined in the current rules and filling up any lacuna in our accounting system so that it improve the quality attributes of our Government accounting practices. Therefore, the primary purpose of the standards that GASAB will act as quality assurance yardsticks.
- Address the 'off-budget' transactions effectively.
- Disclose debt and other liabilities of entities in the public sector fully and transparently.
- address the nexus of accounts with financial management
- Synthesize the cash based accounting system and accrual based accounting system.
- Government Accounting Standards Advisory Board (GASAB) will cover both Union and States and promote best practices on the basis of generally accepted principles of Government Accounting and steering a gradual course in reforming our accounting system.

8. Authority, Scope and Applicability of IGASs and IGFRSs

- The Standards are notified by the Government as per the powers vested under Article 150 of the Constitution. The IGASs and IGFRSs, as notified by the Government, are applicable to the Union and the States.
- The provisions of the Standards do not override the provisions of any existing or future Acts or Rules made there under by the Union or State Governments.
- The Standards would be prospective in their application. The Standards are not applicable retrospectively and the Governments are not required to reframe their Financial Statements of previous periods to comply with the Standards.
- Standards by their very nature are meant to apply to material items. Any other limitation on their applicability or otherwise is made clear by GASAB in the respective Standards.
- The Standards have standard portions set in bold italic type which should be read in the context of explanatory paragraphs in the respective Standards set in plain type. Both have equal authority; portion in bold, italic type indicating main principles whereas those in plain type explain those principles.

9. Benefits of Efficient Government Accounting

It is not widely recognized that a sound government accounting system is an important part of a country's institutional infrastructure. Rather, government accounting is commonly perceived as a bureaucratic function. To make matters worse, like the foundation of a house or the sewer lines under the street, the accounting system as a critical institutional infrastructure is often invisible until it fails: when public money is lost and wasted, when taxes are not collected, or when employees are not paid on time. Better accounting

systems can quite readily lead to improvements in a government's financial management. However, the accounting system's contribution to the achievement of higher-order goals, such as poverty reduction, is necessarily indirect and long-term. So it is difficult to see its social benefits. Government accounting can contribute to a country's socioeconomic development by providing information to public managers and those who hold them accountable for performance of the fundamental functions of the state. As a support function, accounting does not have value of its own, and does not decide the allocation of resources. However, once these decisions are made, the accounting system performs the critical function of following the money. As such, accounting and its allied functions -including information system design, internal control, pre-and post-audit, revenue administration, and public expenditure management -ensure that resources are used for their intended purposes. If the purpose is socio-economic development, accounting can help meet this goal by ensuring legal and contractual compliance, facilitating financial management, and promoting transparency and accountability.

10. Conclusion

However, It is clarified 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 synchronised 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, representative 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 computerisation 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 Computerisation 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 this standard setting body with wide representation.

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