

# Moving in Unison with the Government in Public Financial Management

*The three-tier governance system in India comprises of Central, State and Local-Self Government. The public expenditure done by the Government in India is huge. Therefore, various initiatives have been and are being taken in India to strengthen and encourage timely financial reporting, public financial management and auditing system in Government so as to ensure greater accountability and enhanced transparency. For any part of the government using tax-payers' money, availability of accounts (including audited accounts) in the public domain on a timely basis is a primary requirement for good governance. Read on ...*

Availability of accounts in public domain is important as a part of good governance for government. The lack of timely accounts, including audited accounts, on a timely basis has been identified as one of the major problems with the accounts of local governments in India. XV Finance Commission (report for the year 2020-21) recommended forming an expert group to draft legislation to provide for a statutory framework for sound public financial management system consistent with international best practices. It observed requirement of an overarching legal fiscal framework to provide for budgeting, accounting, and audit standards to be followed

at all levels of Government. It also recommended for the integration of the Panchayati Raj Institutions Accounting Software (PRIASoft) and National Municipal Accounts Manual (NMAM) systems with the State-level Integrated Financial Management Information System (IFMIS) and subsequently with Public Financial Management System (PFMS) to achieve complete integration of accounts of all the three levels of Governments for better control and targeted utilisation of resources for the desired purposes.

Consolidating the same, in its report for 2021-26, XV FC amongst others, mandated the availability of annual



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accounts for the previous year and audited accounts for the year preceding previous year in the public domain online as an entry level condition for qualifying for any grant for Local-Self Government (both Urban Local Bodies and Rural Local Bodies). It also appreciated practice of involving external agents like chartered accountants for audit and certification of accounts, by States like Chhattisgarh, Madhya Pradesh, Rajasthan and Sikkim and more efforts in this direction are required across all State Governments.

### Role of ICAI in Public and Government Financial Management

The Institute of Chartered Accountants of India (ICAI) is an apex body in the field of accountancy and auditing in the country. ICAI, a partner in nation building, also plays an important role in improving Financial Reporting and empowering Public Financial Management system in Government in India. ICAI

is assisting Central & State Government(s) and Local Bodies in India in successful implementation of the accounting reforms and public financial management. ICAI is engaged in constant dialogue with the Ministry of Housing & Urban Affairs, Ministry of Panchayati Raj, O/o Controller General of Accounts and O/o Comptroller & Auditor General of India apart from several State Governments to give **organisational support to the accounting reforms in Public Financial Management** in India.

### Capacity Building Exercise

ICAI through the Committee on Public & Government Financial Management<sup>1</sup> (CP&GFM) is also involved in **capacity building of the accounts and finance officials** of various tiers of Government in India by several means such as organizing workshops (virtual or classroom), seminars, conferences, developing relevant e-learning modules which have been made available at ICAI website at <http://icaity.com/category/local-bodies>.

Time and again, ICAI has emphasised **need of separate accounts and finance cadre officials/ staff in Local Bodies**.

To test the waters, accounts, finance and audit being specialized functions, the State Governments may consider outsourcing it to the Chartered Accountants within the existing

rules/regulations or may amend the relevant statutes suitably. Such a timely measure will enable the States to earn the grant fully and timely.

To enable its members to understand Public Finance and Government Accounting of all three tiers, ICAI through the CP&GFM is conducting Certificate Course<sup>2</sup> (virtual or classroom)/online self-paced course<sup>3</sup> on Public Finance and Government Accounting. So far, the Committee has trained around thousand members on this subject covering twelve modules, viz., Public Finance, Public Revenue & Taxation, Public Debt, Public Expenditure, Government Accounting, Accounting Rules, Process, in general & at specific Ministries, Union Accounts, State Accounts, Accounting/ Auditing of Constitutional, Statutory, Autonomous and Regulatory Bodies, Accounting in Local Bodies (Both Urban and Rural), Internal Control and Risk Management and Professional Opportunities for Chartered Accountants in Public Finance and Government Accounting. ICAI has also released several publications covering key aspects of Public Financial Management<sup>4</sup>.

### Submission of inputs/ suggestions to Government

The Government Accounting Standards Advisory Board

<sup>1</sup> Link of CP&GFM page: <http://icai.org/post/committee-on-public-and-government-financial-management>

<sup>2</sup> Refer [https://www.icai.org/new\\_post.html?post\\_id=16586](https://www.icai.org/new_post.html?post_id=16586) for more information regarding Certificate Course

<sup>3</sup> Refer <https://learning.icai.org/committee/government-accounting/public-finance-and-government-accounting-self/> for detailed information regarding self-paced Course

<sup>4</sup> These publications are available at <https://www.icai.org/post/icai-publications-cpgfm>

(GASAB), where ICAI President is a member, formulates Accounting Standards for the Central and State Government(s) in India. ICAI participates in the formulation of Standards for Government by actively contributing in its group/board meetings and submitting its inputs/suggestions on their documents.

### Implementation of Accounting Reforms

ICAI through its research arm, ICAI Accounting Research Foundation (ICAI ARF)<sup>5</sup>, also conducts pilot studies/facilitate the Government in accounting reforms. In the past, ICAI ARF has assisted various Government departments (Department of Posts, Indian Railways, etc.) and Municipal Corporations in their conversion project, studies on financial management, etc.

### Formulation of Accounting Standards for Local Bodies (ASLBs)

For international benchmarking, the accounts of Local Bodies

need to be prepared as per principle-based standards instead of rule-based NMAM. For the purpose, ICAI through the CP&GFM is formulating Accounting Standards for Local Bodies (ASLBs). ICAI considers the International Public Sector Accounting Standards (IPSASs) issued by the IPSAS Board of International Federation of Accountants (IFAC) while formulating ASLBs, departures from the IPSASs are made to make them suitable to the Indian Local Bodies. These ASLBs are submitted to the Technical Committee on Budget and Accounting Standards for Local Bodies constituted by the Ministry of Housing and Urban Affairs (MoHUA) and the Ministry of Panchayati Raj (MoPR) from Urban and Rural Bodies respectively, for consideration and recommending them to the State Governments for implementation. ASLBs are recommendatory in nature and will become mandatory for Local Bodies from the date specified in this regard by the State Government concerned. Till date, following 27 ASLBs<sup>6</sup> have been issued including one cash based ASLB to facilitate transitioning from cash to accrual basis of accounting:

- ***Preface to the Accounting Standards for Local Bodies:*** sets out the objectives and operating procedures of the Committee and explains the scope and authority of the ASLBs.
- ***The Conceptual Framework for General Purpose Financial Reporting by Local Bodies:*** establishes the concepts that are to be applied in developing ASLBs that are applicable to the preparation and presentation of general purpose financial reports of local bodies.
- ***Cash basis ASLB on 'Financial Reporting under Cash Basis of Accounting':*** prescribes the manner in which general purpose financial statements should be presented under the cash basis of accounting. This Standard also contains various disclosure requirements relating to the assets and liabilities, therefore, this ASLB can serve as an interim measure to facilitate transition from cash to accrual basis of accounting for Local Bodies.
- ***ASLB 1, 'Presentation of Financial Statements':*** prescribes the manner in which general purpose



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<sup>5</sup> Link of ICAI ARF website: <https://icaiarf.org.in/>

<sup>6</sup> ASLBs issued by ICAI are available at [https://www.icai.org/post.html?post\\_id=1527](https://www.icai.org/post.html?post_id=1527)

# Public Interest

financial statements of local bodies should be presented.

- **ASLB 2, 'Cash Flow Statements':** covers all aspects of preparation and presentation of Cash Flow Statement.
- **ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors':** prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the corrections of errors.
- **ASLB 4, 'The Effects of Changes in Foreign Exchange Rates':** deals with accounting of foreign currency transactions and foreign operations.
- **ASLB 5, 'Borrowing Costs':** prescribes the accounting treatment of borrowing costs.
- **ASLB 9, 'Revenue from Exchange Transactions':** lays down accounting treatment of revenue arising from exchange transactions and events in addition to specifying revenue recognition norms.
- **ASLB 11, 'Construction Contracts':** prescribes the accounting treatment of costs and revenue associated with construction contracts and specifies the basis for recognition and disclosure of contract expenses and contract revenues.
- **ASLB 12, 'Inventories':** prescribes the accounting treatment for inventories. It also provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to Net Realisable Value, the cost formulas that are used to assign costs to inventories.
- **ASLB 13, 'Leases':** prescribes, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.
- **ASLB 14, 'Events After the Reporting Date':** prescribes when an entity should adjust or not adjust its financial statements for events after the reporting date and the disclosures with regard to the date when the financial statements are authorised for issue and non-adjusting events after the reporting date.
- **ASLB 16, 'Investment Property':** prescribes the accounting treatment for investment property and related disclosure requirements.
- **ASLB 17, 'Property, Plant and Equipment':** prescribes the accounting treatment for property, plant and equipment including recognition of the assets, determination of their carrying amounts, depreciation charges and impairment losses to be recognised in relation to them.
- **ASLB 18, 'Segment Reporting':** establishes principles for reporting financial information by segments.
- **ASLB 19, 'Provisions, Contingent Liabilities and Contingent Assets':** deals with the accounting principles in respect of provisions, contingent liabilities and contingent assets. It also deals with the identification of the circumstances in which provisions should be recognised, how the same should be measured and disclosed.
- **ASLB 20, 'Related Party Disclosures':** requires the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances.
- **ASLB 21, 'Impairment of Non-Cash-Generating Assets':** prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and to ensure that impairment losses are recognised. It also specifies when an entity would reverse an impairment loss, and prescribes disclosures.
- **ASLB 23, 'Revenue from Non-Exchange Transactions (Taxes and Transfers)':** prescribes requirements for the financial reporting of revenue arising from non-



exchange transactions. It deals with the issues to be considered in recognising and measuring revenue from non-exchange transactions including the identification of contributions from owners.

- **ASLB 24, 'Presentation of Budget Information in Financial Statements':** requires a comparison of budget amounts and the actual amounts to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget (s). It also requires disclosure of reasons for material differences between the budget and actual amounts.
- **ASLB 26, 'Impairment of Cash-Generating Assets':** prescribes the procedures that an entity applies to determine whether a cash-generating asset is impaired, and to ensure that impairment losses are recognised. It also specifies when an entity should reverse an impairment loss, and prescribes disclosures.
- **ASLB 31, 'Intangible Assets':** prescribes the accounting treatment for intangible assets including how to measure their carrying amount and specified disclosures.
- **ASLB 32, 'Service Concession Arrangements: Grantor':** prescribes the accounting for service concession arrangements by

the grantor (a Local Body).

- **ASLB 33, 'First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies':** provides guidance to a first-time adopter that prepares and presents financial statements adopting the accrual basis ASLBs.
- **ASLB 34, 'Separate Financial Statements':** prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.
- **ASLB 36, 'Investments in Associates and Joint Ventures':** prescribes the accounting for investments in associates and joint ventures.
- **ASLB 39, 'Employee Benefits':** prescribes the accounting and disclosure for employee benefits.
- **ASLB 42, 'Social Benefits':** defines social benefits, and determine when expenses and liabilities for social benefits are recognised and how they are measured.

### **Mandating Accounting Standards for Local Bodies (ASLBs) for Members of ICAI<sup>7</sup>**

- The Council of the ICAI at its 393<sup>rd</sup> meeting held in June/July, 2020 mandated the ASLB 2, 'Cash Flow Statements' and ASLB

5, 'Borrowing Costs' for Members of ICAI while auditing the Financial Statements of ULBs for the period commencing on or after April 1, 2022 (till that date these will be recommendatory). As these Standards are conceptually similar to the NMAM, some additional guidance and disclosures have been provided in ASLBs 2 and 5 to apply the accounting principles.

- In the event of non-compliance of ASLBs 2 and 5 in the preparation of Financial Statements of ULBs, the members of the ICAI, while conducting audit of such Financial Statements, have to mandatorily qualify their audit report in respect of the general purpose financial statements of ULBs prepared for the periods commencing on or after 1.4.2022.

### **Endnote**

Good governance in public matters with accounts that are as per the standards endorse transparency, foster capacity in public administration. Involvement of ICAI and Chartered Accountants will enable the Government to strengthen their financial reporting, auditing and financial management system that will ultimately support them in better service delivery to citizens and their developmental initiatives and in turn strengthen democracy. ■■■

<sup>7</sup> Announcement of Council of ICAI <https://resource.cdn.icai.org/60819cpfgm49453.pdf>