

PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA

FM TO ADDRESS STATE FINANCE MINISTERS ON REFORMS IN FINANCIAL REPORTING

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The Union Finance Minister Shri Pranab Mukherjee will inaugurate a national conference of the State Finance Ministers here tomorrow. The day-long conference, which includes participation from all stakeholders from Union and State Governments, aims to trigger discussions on operational guidelines for conceptualizing ‘General Purpose Financial Reporting’ under accrual based accounting system. Secretaries to the Government of India, State Finance Secretaries, Financial Advisors from key ministries and State Accountant Generals will participate. The conference is being organised by Government Accounting Standards Advisory Board (GASAB) under the Office of the Comptroller and Auditor General of India. The Union Finance Minister will also release the operational guidelines for shifting to accrual accounting.

The Twelfth and Thirteenth Finance Commissions and the Second Administrative Reform Commission have all recommended a gradual shift to accrual basis of accounting. The Government of India has entrusted the GASAB to steer the process of transition to accrual accounting. The GASAB is a high power advisory body which includes heads of six major Accounting Departments of the Government of India namely, Indian Audit and Accounts Department, Indian Civil Accounts Department, Indian Defence Accounts Department, Indian Railway Accounts Department and Indian Postal Department.

The present cash based accounting system lacks an adequate framework for accounting of assets and liabilities, depicting consumption of resources and presenting the full picture of the government's financial position at any point of time. In this system, there is no effective way of tracking assets created out of public money which, in turn, dilutes accountability of departments for management of government assets. The deficiencies in the present system result in lack of transparency, poor stewardship and impaired ability to accurately predict the future cost of a current financial commitment.

Reforms in the financial system are an integral part of overall reforms. A move from cash to accrual accounting will be a fundamental change which will help overcome the deficiencies of the present cash system. Under the accrual system,

transactions will be recorded at the time when economic value is created, exchanged, transferred or impaired irrespective of whether cash is actually exchanged or not. Only accrual accounting captures the full cost of services provided by the government, thereby supporting effective and efficient decision making. It will also fully disclose information on the assets and liabilities of the government. For example: the true burden of pension liabilities on the public exchequer will be reflected with the help of actuarial valuation. It would also help in capturing both implicit and explicit subsidies provided by the government. The operational guidelines have now been designed to provide ample flexibility for governments to incorporate their unique requirements without harming the need of legislative reporting on a common and comparable basis.

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