



# **Local Body and Govt. Accounting – Professional Opportunities for CAs & Challenges**

**Committee on Public & Government Financial  
Management, ICAI & Pune Branch of ICAI**

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# Disclaimer

*The views, opinion, and articulation are personal of the speaker and not necessarily the views of ICAI or any Regional Branch of ICAI or any members of ICAI or any Government Authority of India*

# Presentation Outline

- Overview of Local Body & Government Accounting in India
- Progress of Local Body & Government Accounting Reforms in India
- Opportunities for CAs in the Local Body & Government Accounting
- Other opportunities for CAs within Government Sector
- Challenges envisaged





# Overview of Local Body and Government Accounting in India

# Overview of Local Body Accounting in India

- Local Bodies directly influence the welfare of the people by providing civic, social and economic infrastructure services and facilities in both urban (**Urban Local Bodies** or ULB) and rural areas (**Panchayat Raj Institutions** or PRI)
- Local Government Units are institutional units whose fiscal, legislative and executive authority extends over the smallest geographical areas distinguished for administrative and political purposes
- Following the **Constitutional (73rd & 74th) Amendment Acts**, more functions, powers and resources have been provided to them – ULB and PRI
- Accounting of the third tier or local governments ULB and PRI are covered by State-specific legislations

# Overview of Local Body Accounting in India

- Accounting in Urban Local Bodies
  - State specific legislations
  - State specific accounting manual largely based on **National Municipal Accounting Manual** (NMAM, 2004)
  - In-principle adoption of accrual-based double entry accounting system (AB-DEAS) by State Governments and ULBs
  - **No uniform accounting software** is in place – States and ULBs adopted accounting software as per their need and under different reforms program of GOI or under funded projects of World Bank and ADB
  - Many ULBs are still following the traditional and **conventional cash-based accounting system in parallel**

# Overview of Local Body Accounting in India

- Accounting in rural Local Bodies or PRI
  - State specific legislations
  - State specific accounting manual or guidelines but there is no model manual like NMAM
  - C&AG and MoPR-GOI developed **Model Account Formats for Panchayats** (2009)
  - Adopted cash-based single-entry accounting system by State Governments and PRIs
  - A model accounting software is in place – **PRI Accounting** (or PRIA) developed by NIC for PRIs but some States (like West Bengal) have State-specific software
  - There was introduction of “Simplified System” which was supposed to create a base for introduction of accrual-based accounting

# Overview of Local Body Accounting in India

- Accounting in 3<sup>rd</sup> Tier of Government - Urban and Rural Local Bodies:
  - Prior to 1980-90, all urban local bodies (municipal corporations, municipalities and municipal council) and rural local bodies (Zilla Parishad, Panchayat Samitis and Gram Panchayat) followed cash-basis of accounting;
  - 12 Finance Commission recommendations for migration to AB-DEAS by all municipalities
  - Judgment of Honourable Supreme Court indicating to follow accrual-based accounting methods (Case of Almitra Patel);
  - Mandatory condition under URIF, JNNURM and UIDSSMT to maintain accounts under AB-DEAS;
  - 13 Finance Commission recommendation for AB-DEAS so to access Performance Grant
  - Mandatory covenant for loans extended by multi-lateral funding agencies;



# Overview of Government Accounting in India

- Government Accounting System in India covers the Central Government and the State Government Accounts;
- Government accounts are at present being compiled on cash basis as opposed to accrual basis - which is consistent with the basis of budgeting adopted by the Government;
- Union Budget and State Budget as it is colloquially called is referred to as Annual Financial Statement in **Article 112** of the Constitution;
- The **Annual Financial Statement** or **Budget** is a detailed statement of actual (for last year) and estimated (for next year) receipts and expenditures of the government – AFS usually presented before Parliament/Assembly during Jan-Mar;

# Overview of Government Accounting in India

- **Article 150** prescribes: *“The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor-General of India, prescribe”*;
- Accordingly, all issues which have an accounting implication are forwarded to Comptroller & Auditor General of India (CAG) for advice;
- The **compilation and consolidation** of the Accounts of Union Government is the responsibility of the Controller General of Accounts (CGA);
- CAG is constitutionally and statutorily responsible for prescribing the format in which Government accounts are kept and **for preparation of the accounts of the State Governments**;

# Overview of Government Accounting in India

- In relation to State accounts, the CAG is responsible for the following:
  - Compilation and preparation of the accounts of all State Government except Goa and Puducherry;
  - CAG prepares the Finance Accounts and Appropriation Accounts and submit these to the Governor for being laid before the State Legislature;
  - State Government accounts are kept in such form as the President may prescribe on the advice of the CAG;
- CAG also plays a key role in setting accounting standards for the government;
- Government Accounting Standards Advisory Board (GASAB) set up by CAG develops and issues Accounting Standards for Union and the States;
- The Cash basis accounting standards of GASAB are known as Indian Government Accounting Standards (IGAS);

*Note: GASAB has also started developing standards on accrual basis known as Indian Government Financial Reporting Standards (IGFRS) to facilitate migration to accrual basis accounting*

# Overview of Government Accounting in India

- General Overview:
  - Government Accounting and financial reporting in India have a history of several centuries;
  - Current government accounting system, both in the Union and the States, derives its form and substance largely from cash based book keeping procedures, which were introduced during British era;
  - Though Governments implemented modernized system of data collection but have continued essentially on cash basis accounting;
  - Being primarily focused on inputs the cash based system cannot be used effectively to fix accountability for performance;

# Overview of Government Accounting in India

- General Overview:
  - Government accounts are prepared to satisfy legal requirements rather than serve as a key source of financial decision-making for stakeholders;
  - While a lot of emphasis is placed on accuracy and timeliness of Monthly Civil Account, Appropriation Account and Finance Account, the stakeholders do not seem to be really interested in these financial reports;
  - Government Accounts do not present the complete picture about the entity, the way financial statements of a commercial entities do;
  - There are many limitations in the existing system of Government Accounting principles and practice (*lack of asset records, lack of liability accounting, no difference in principle for accounting of assets and of repairs and maintenance, etc.*);

# Overview of Government Accounting in India

- General Overview:
  - Ownership of Finance Accounts and Appropriation Accounts of State Governments essentially lies with the State Government concerned. However, the ownership is not formally owned by the State Government. Accounts are signed by the CAG in the capacity as the compiler of accounts;
  - At present CAG issues an Audit Certificate / Opinion that the Accounts are 'correct' subject to comments in the audit report. The international practice is to issue audit certificate as 'True and Fair' or 'fairly represents';
  - Transactions may not be aligned always to the spirit of FRBM legislation;
  - The existing system of accounting for plan schemes both for States and the Centre does not adequately support informed planning, budgeting, effective monitoring and decision making;



# Progress of Government Accounting Reforms in India

# Progress of Govt. Accounting Reforms in India

- Trigger for Accounting Reforms
  - Paradigm shift for evolving better Public Financial Management
  - Reliable & real time information about government finances
  - Sovereign debt crisis - emphasis on sustainability of key government programs
  - Limitations of cash accounts – non-availability of payables, receivables, provisions
  - Accounting system being revisited the world over
- Adopting the international experience
  - Transition from cash to accrual accounting by many nations
  - Transition from rules to standards based financial reporting
  - Over 80 countries have either adopted or in transition to adopt standards based financial reporting



# Progress of Govt. Accounting Reforms in India

- Adopting the international experience
  - 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)
  - **Accrual Accounting and Accrual Budgeting:** New Zealand and Australia;
  - **Only Accrual Accounting:** United Kingdom, United States of America, Canada, France, Indonesia, Turkey, and Singapore;

# Progress of Govt. Accounting Reforms in India

- Accounting reforms initiatives by Government of India
  - 2002: Government Accounting Standards Advisory Board (GASAB)
  - 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: 2<sup>nd</sup> Administrative Reforms Commission, 14<sup>th</sup> Report, broadly endorsed accrual accounting

# Progress of Govt. Accounting Reforms in India

- Accounting reforms initiatives in Central Government
  - 2006-2007: With support of World Bank, Government of India appointed ICAI ARF for a pilot study to migrate to accrual-based DEAS in the following entities:
    - Out of the different divisions of the CPWD, the following four divisions were identified and selected for the pilot project:
      - Electrical II Division (under New Delhi Zone I)
      - "I" or Civil and maintenance Division (under New Delhi Zone I)
      - Parliament Works IV Division (under New Delhi Zone I)
      - Horticulture III Division (under New Delhi Zone II)
    - Dr. Ram Manohar Lohia (RML) Hospital, New Delhi
  - Department of Posts: New Delhi GPO; Naraina Industrial Estate Head Post Office

# Progress of Govt. Accounting Reforms in India

- Accounting reforms initiatives in Central Government
  - Department of Telecommunication: CCA Circle, Maharashtra
  - Ministry of Defense: CSD (Canteen)
  - Ministry of Railways: Accounting Reforms project objectives
    - 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
  - Railways Accounting Reforms (RAR) has been on the anvil since 2003 when it was first mentioned in the Railway Budget speech by the then Minister of Railways;
  - Following the announcement, the RAR project was sanctioned in the Railways works program in 2004-05. Indian Railways appointed a consultant in 2006 for undertaking necessary studies required for accounting reforms funded by the Asian Development Bank

# Progress of Govt. Accounting Reforms in India

- Accounting reforms initiatives in Central Government
  - Railways Accounting Reforms Project
    - The Accounting Reforms Foundation (ARF) of ICAI was appointed and Ajmer division and Ajmer group of workshops (North Western Railways – NWR) were chosen for the pilot implementation.
    - On-ground work on this pilot project in Ajmer division started around December 2014. The key activities under the pilot implementation project awarded to ARF – ICAI included:
      - To conduct Pilot Study for introduction of Accrual Accounting at Ajmer division and Ajmer group of workshops of NWR;
      - Compile accounts of Ajmer division and Ajmer group of workshops under Accrual accounting mode and also draw up financial statements i.e. Profit & Loss Accounts, Balance sheets etc.;
      - Compile a detailed manual for implementing accrual accounting in other zonal railways and production units;
    - ICAI ARF appointed firms of Chartered Accountants to accomplish these tasks;

# Progress of Govt. Accounting Reforms in India

- Accounting reforms initiatives in State Government
  - The status as of 2012-13
    - 22 States provided in principle approval to migrate to accrual-based accounting
    - Andhra Pradesh (pilot study)
    - Madhya Pradesh (pilot study)
    - Jammu & Kashmir (Task group)

*Note: Not much updated information available to suggest the progress of implementation in State Governments*

# Progress of Govt. Accounting Reforms in India

- Accounting in 3<sup>rd</sup> Tier of Government - Urban and Rural Local Bodies:
  - Since 1980-1990 with various interventions Local Bodies started adopting accounting reforms;
    - 1981-90: Mumbai, Kolkata and Chennai at the instance of World Bank (TA)
    - 1990-95: Seven cities of Gujarat – World Bank TA (GUJARAT URBAN DEVELOPMENT PROJECT)
    - 1997-2001: State wide Accounting Reform-all ULB'S Of Tamil Nadu under TNUDF leadership
    - Karnataka 55 ULBs under Nirmal Nagara Programme with the assistance of ADB and 158 ULBs under World Bank assisted Karnataka Municipal Reforms Programme (KMRP)
    - Anand, Jaipur, Tumkur (under ADB TA) and Mirzapur (GANGA ACTION PLAN)
    - 2002-2007: Andhra Pradesh Phase I under DFID-funded APUSP, Phase II under World Bank funding

# Progress of Govt. Accounting Reforms in India

- Accounting in 3<sup>rd</sup> Tier of Government - Urban and Rural Local Bodies:
  - Since 1980-1990 with various interventions Local Bodies started adopting accounting reforms;
    - 2006-2007: Bhubaneswar under USAID funding, other Orissa ULBs – state funding;
    - 2002-2004: Municipal Corporation of Delhi (implemented by ICAI-ARF) – World Bank funding;
    - 2004-2006 Kolkata Mpl. Corporation (implemented by ICAI-ARF) and other municipalities under DFID funded KUSP;
    - 14 municipal corporation of Madhya Pradesh under DFID funded MPUSP; remaining municipalities under State funding;
    - 28 municipalities (all corporation and some councils) of Bihar under DFID funding (SPUR);
    - 5 municipal councils of North-east States under ADB NERCCDIP funding;
    - PRI's of some States initiated reforms by implementing PRIA (PRI ACCOUNTING) software for introduction of cash-based double-entry accounting system;





# Opportunities for Chartered Accountants in Local Body & Government Accounting

# Opportunities for Chartered Accountants in the Government Accounting

- With involvement of ICAI ARF in the Ministry of Railways pilot project implementation in the Accounting Reforms project, there would be requirement of firms of Chartered Accountants in implementation of reforms in other zones and other units of Indian Railways for accounting
- If Government of India continues with these accounting reforms in other departments and units of the Government, the need of accounting professionals would increase during the future
- When various State governments start the implementation of accounting reforms, this would open the sector and the need of accounting professionals would increase in the future
- The requirement for accounting professionals would continue for implementation of accounting reforms in urban and rural local bodies;
- All needs a push from the Government for implementing financial and accounting reforms in Government

# Opportunities for Chartered Accountants in the Local Body Accounting

- Urban Local Bodies
  - Conversion of traditional accounts to AB-DEAS
  - Preparation of opening balance sheet and first accounts (less required as of now)
  - Continue maintenance of accounts under AB-DEAS
  - Valuation of municipal assets
  - Issue of Municipal Bonds – following SEBI Regulations of 2015
  - Review and Update of existing State Accounts Manual
  - Business process re-engineering with reference to Accrual System of Accounting.
  - Categorisation, grouping and sub-grouping of assets and liabilities
  - Design and updating of Chart of Accounts with Accounting Codes

# Opportunities for Chartered Accountants in the Local Body Accounting

- Urban Local Bodies
  - Preparing annual financial statements of ULBs (regular and continuous work considering the institutional strength of ULBs)
  - Advocacy on use of appropriate accounting policies and drafting of disclosures of accounting policies
  - Training of finance and accounts personnel and training of trainers
- Rural Local Bodies
  - Accounting in PRI's is yet to open up (as understood)
  - Advocacy and training of finance and accounts personnel would continue



# Other opportunities for Chartered Accountants within Government Sector

## Other opportunities for Chartered Accountants within Government Sector

- Statutory Audit of Government's project accounts under various programs (would continue as before) like NHM, NLM (Urban & Rural), PMAY, PMGSY, AMRUT, etc
- Statutory audits of Special Purpose Vehicles (under Companies Act, 2013) formed for Smart City Mission
- Internal Audit of various mission mode programs, government-funded projects and Internal Audit of units of Government undertakings would continue
- Fiscal reforms initiated under present programs like tax and non-tax reforms initiated under programs like AMRUT and Smart City Mission require Chartered Accountants (individual capacities) for implementing fiscal reforms
- Requirement of Chartered Accountants would increase when Government implements financial management reforms including budgeting reforms

## Other opportunities for Chartered Accountants within Government Sector

- Assistance for computerization of records and introduction of computerization of Accounting and Fiscal Systems
- Advising the Local Bodies in Statutory compliances – IT and GST (TDS and filing of Returns)
- Design and implementation of Budgetary Control System in the line with the Accrual Accounting (yet to open, but expected)
- Implementation of Accounting Standards in Local Bodies, once State Governments mandates its implementation

## Other opportunities for Chartered Accountants within Government Sector

- Involvement of Chartered Accountants (*individual capacity*) in various tasks with Asian Development Bank and World Bank when it extends grants and loans to Central Government, State Government and Local Government;
- During **processing of loans and grants**, multi-lateral agencies require the services of Chartered Accountants to:
  - Undertake detailed financial viability assessments of projects identified by state entities to ensure that these are eligible for funding under World Bank / ADBs investment guidelines and GoI and State Governments;
  - Update and gather information in order to conduct sample financial models for the proposed projects;



## Other opportunities for Chartered Accountants within Government Sector

- During **processing of loans and grants**, multi-lateral agencies require the services of Chartered Accountants to:
  - Provide financial analysis assessments for input into the project feasibility and project processing reports;
  - Prepare an assessment of the revenue streams of the government bodies including tariffs for services and prepare recommendations to enable sustainable service delivery with adequate operations and maintenance cost recovery;
  - Conduct financial management assessment of the respective ULBs to include accounting and reporting systems, auditing arrangements, internal control, and governance and anticorruption;

## Other opportunities for Chartered Accountants within Government Sector

- During **implementation of loans and grants**, multi-lateral agencies require the services of Chartered Accountants to:
  - Assist State Government or Project Management Unit (PMU) in maintaining the project accounts with all ledgers and control systems;
  - Support the PMU staff on WB/ADB disbursement and reporting procedures;
  - Help PMU in preparation of annual budgets, accounting and audit reports;
  - Generate different accounts reports and financial statements;

## Other opportunities for Chartered Accountants within Government Sector

- During **implementation of loans and grants**, multi-lateral agencies requires the services of Chartered Accountants to:
  - Assist PMU in ensuring smooth funds flow from WB/ADB and the State government;
  - Support the PMU in obtaining reimbursements from WB/ADB;
  - Support the PMU Finance Officer during project start-up to set up the accounts and manage the finances of the project meeting ADB's requirements;
  - Training the PMU staff on WB/ADB procedures and reporting requirements;



# Challenges envisaged

# Challenges envisaged

Note:

- During accounting reforms implementation, professional Chartered Accountants many times adopted audit approach for accounting of government accounts – this creates an understanding gap between the Client and the CA's;
- CA's must consider that approach to audit and government accounting are different;
- Government accounting reforms involve structuring of the existing set of accounts under a new format – for that information provided by the Client would be sufficient – an audit of the information is not required;
- CA's have prepared accounts and submitted an audit report/certificate – primarily the responsibility of audit of local bodies lies with the Examiner of Local Accounts under C&AG;

# Challenges envisaged

- Many a times these assignments are awarded through a government tendering process – involving submission of Expression of Interest, Request for Proposal, etc which are under Government procurement norms or norms of World Bank, ADB, etc;
- CA's must consider that approach to bidding under such circumstances are different – this is not a regular bidding approach that CA's involve – must pay adequate attention to the bidding requirements, especially the documentation for bidding;
- Must adhere to professional approach towards preparation of bidding documents as Client evaluates the quality of bids;

# Challenges envisaged

- Price Quoting in tenders is a difficult task – over the years CA's have quoted very low towards government accounting reforms assignments (especially in local bodies accounting projects);
- CA's must consider that government accounting reforms assignments are tedious, time-consuming, and requires many staff – more than that the bid document asks for – hence, all CA's must quote appropriately (*may be our ICAI look into this aspect in the future, where there is a fixed budget selection*);
- Professional approach towards report preparation – this is not a standard formatted Audit Report – here reporting requires lot of grasp in understanding and articulation, especially in English;
- These reforms project are separate from regular audit and tax practice – hence, CA firms must create a separate team to pursue such tasks;



# Thank You