

Address

by Shri V.N. Kaul

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Dr. Rangarajan, Secretary Shri D.C.Gupta, Controller General of Accounts, Additional Controller General of Accounts, Mr. Michael Carter of the World Bank, distinguished guests, Ladies and Gentlemen. I am delighted to be present at the inaugural session of this International Seminar on “Accounting for Results”.

I recall that on the occasion of the Silver Jubilee Celebrations of the Civil Accounts Service last year, I had mentioned that the accounting function in the public sector acquires its full significance when, besides fulfilling legislative mandates, it can be used for financial management. Government Accounting Systems in India have some way to go to achieve this goal. This Seminar is, therefore, a welcome step forward.

The primary objective of Government accounts in India has been to fulfil legislative mandates for financial reporting and control over public exchequer through the mechanism of the budget and finance and accounts rules. Government accounting in India has fulfilled this traditional role exceptionally well. However, it could play a more active part in overall management of Government finances and in enabling easy evaluation of the economy, efficiency and effectiveness of Government programs. Ideally, accounting systems should assist not only in evaluation of projects but also in the selection of projects and indeed in strengthening the accountability mechanism in a democracy. Such a system should be user friendly so that the public can judge the financial performance of a Government through disclosures made in its accounts.

The Government accounting system prevailing in India, though basically sound, is not very effective in aiding financial management and in strengthening accountability. The Government’s response to this challenge has been to permit the CAG to setup a Government Accounting Standards Advisory Board (GASAB) for the Union and the States. This Board was constituted on 12th August 2002 by me. The basic objective of this initiative is to promote best practices in our public sector accounting systems on the basis of generally accepted principles of Government Accounting. The Board is responsible for formulating and proposing Government Accounting Standards to improve the usefulness of Government’s financial reports based on the need of the users. It is also required to keep these Standards current so as to reflect changes in the public sector accounting environment in India. The Board has representation of all major accounting departments and entities of the Government of India as well as representation from the Ministry of Finance, the NCAER, the Reserve Bank of India, the Institute of Chartered Accountants of India and the representatives of

selected State Governments. The Board is currently deliberating on priority issues relating to modernization of Government Accounts. It has already commenced work on formulating Government Accounting Standards and issued its first Exposure draft on “ Guarantees given by the Government” for comments. This draft once finalized will be part of the Standards on Contingent Liabilities of the Government. I am certain that the deliberations of this Seminar will be of immense value to the Board particularly in determining its future agenda.

When we talk of accounting for results, one of the major issues that require our attention in India is the question of transition from the current cash based system to an accrual based system of accounting. Many countries have transited from a cash based system to a full accrual based accounting system perceiving deficiencies in a cash based system for effective financial management. However, the jury is still out on this subject. In fact, it has been argued by some experts including those in the IMF that many of the objectives of performance oriented budgeting can be attained by less than full accrual accounting and that unless certain pre-conditions are met, it is safer for countries like India to remain with, and improve, their cash based accounting systems. Given the cost involved perhaps a move to accrual accounting is only worthwhile in the context of adopting a much wider public sector management reform programme. I hope this Seminar will find time to address the issue directly or indirectly while focusing on “Accounting for Results”.

I compliment the World Bank and the Controller General of Accounts for this initiative. I hope that the recommendations of this Seminar will not only help in improving the quality of accounts and our disclosures but also make the accounting system more relevant for financial management both in the union and in the States.

I wish this Seminar success and look forward to the outcome of the deliberations with great interest. Thank you.