
Accounts as an Aid to Management*Alok Ranjan*

The first session on the last day was on 'Accounts as an Aid to Management' and the panellists were *Shri E.A.S.Sarma*, Principal, Administrative Staff College of India, Hyderabad (India); *Shri S. Satyamoorthi*, Deputy Comptroller and Auditor-General of India; *Shri D.N. Narasimha Raju*, Secretary (Expenditure), Government of Karnataka (India); and Accountant-General, Punjab, Pakistan, *Mr. Wazir Ahmad Qureshi*. *Mrs. Aruna Makhan*, Controller General of Accounts (India) chaired the session.

Initiating the discussion *E.A.S.Sarma*, expressed concern that Accounting in India is not on accrual basis whereas the third century B.C. treatise "Arthashastra" by Kautilya contains the details of accrual accounting. The predominating concerns are largely legislative control over taxation and public expenditure, scarce public resources combined with inefficient use of public resources. He stressed that accounting can provide an MIS for designing programmes/ schemes. A good Accounting system can overcome some of the constraints impeding the achievement of desired results by a government management.

Dr. Sarma, however, outlined certain shortcomings of the present form of accounting terming it as a 'post mortem exercise' where no long term analysis is possible. Expenditure, sometimes, implies 'release of fund' from the centre to the executing agency, which is utilised over a period of time. The classification under "Capital" Vs. "Revenue" or "Plan" Vs. "Non Plan" is vague and misleading. The accounting is on cash basis and not on accrual basis, which affects transparency. Finally, it is not linked to physical performance and hence is not meaningful. He discussed some rural employment schemes, viz, Jawahar Rozgar Yojna and Employment Assurance Scheme in this regard as examples and highlighted the conflicting figures of official proclamation of achievement on paper and the Report of Programme Evaluation Organisation (PEO) on actual achievement of targets.

Dr. Sarma observed that some of the weaknesses inherent in the accounting systems are that unit cost is not factored into original budget estimates nor could it be measured in implementation. There is no strategy to target the beneficiary groups also. In this context, he dwelt upon the concept of performance budgeting as an answer to the problems. However, the result of implementation of performance budgeting in several States as well as at the Centre, he said, has not been very encouraging. Ministries submit Performance Budgets to Parliament but it is not accessible to public and hence it is not adequately transparent. He commented that in the present format it is reduced to mere narration of achievements rather than an objective assessment of

what rupees have delivered at the grass root level. There are inadequacies in terms of measurable indices of performance. Unit cost and cost effectiveness are rarely forming a part of Performance Budget. He stressed on the need of formulating performance indicators. His particular emphasis in this regard was Andhra Pradesh experiment. In Andhra Pradesh, there has been a shift from 'public financial audit' to 'performance management system'. Services have been defined in terms of quantity, quality, economy (cost effectiveness), efficiency (resource efficiency) and effectiveness. Performance management system, accordingly, implies monitoring, measurement, evaluation and review, helped by baseline measurements.

The Fiscal Responsibility and Budget Management (FRBM) legislation was discussed in some detail in his speech. The bill aims at bringing about greater transparency in budgetary process through accounting. It envisages the budget to be supplemented by medium term fiscal policy statement, fiscal policy strategy statement and macro economic framework statement. The Fiscal Responsibility and Budget Management aims at bringing about reforms in Accounting by moving towards accrual accounting format which would encompass outstanding contractual obligations, explicit contingent liabilities, revenue demands raised but not realised etc. It also requires that Accounting norms should be gradually aligned with internationally accepted best practices.

Concluding, Dr. *Sarma* observed that Accounting for Results has a long way to go as we have to adopt accrual accounting, integrate performance in accounting framework, standardise costing norms and build capacity in costing at all levels.

S. Satyamoorthi viewed the paradoxical situations prevailing in the financial management of the country from the audit perspective. These include multiplicities of government departments, poor maintenance of records, multiplicity of schemes for achieving the same objective, operation of Suspense accounts, overall supervision by Ministry of Finance for allocation of funds, issue of utilisation certificates etc. He highlighted that the accounts figures are in certain instances not being translated into physical attainment of goals. Codes, Manuals and Instructions are not being followed scrupulously. One of the serious issue that we are confronting in India is that the excess expenditure over the allocation is not being regularised. He suggested that it is high time the Accountants start adopting standard practices to negate the ill effects of the above mentioned anomalies. He expressed his optimism that with the help of IMF and World Bank a reform process would be initiated to bring about substantial improvement in the situation.

D.N. Narasimha Raju, in his speech on the above topic highlighted that the expansion of government activities have led to increase in expenditure. Exchequer control is one of the tools by which the legislature has control over expenditure. In specific reference to the State of Karnataka he stated that Section 10 of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971 vests the responsibility of compilation of accounts of the State with the C&AG. The C&AG is also maintaining provident funds accounts and is responsible for pensions and other retirement benefits of the State Government employees. Putting an emphasis on the accuracy of

accounts he stated that reconciliation helps in true and accurate accounts and also guards against fraudulent drawals. Due to multiplicity of major heads of account and increase in number of drawing officers there is normally a delay in reconciliation.

He highlighted the role of accounting system as an input in the decision making process of the government. However both the monthly accounts and annual accounts are received after a time lag and are not useful for the purpose of policy formation. He observed that the separation of audit and accounts at the Centre has not been replicated in his State and the GPF, Pension, Insurance etc. are still being looked after by the Accountant General. He urged for the introduction of modern management practices in the government departments in order to provide well-defined services and attain the desired objectives. Wider application of techniques like PERT and CPM is the need of the hour. Highlighting some of the achievements of Government of Karnataka he stated that online computerisation of treasuries is being done to render timely and accurate accounts. Reconciliation procedure has been made simpler. Fiscal responsibility Act has been passed to reduce reliance on supplementary budgets. The system of self-drawing officers on treasuries has been dispensed with from November 2001. The recommendation of the Task Force (May 1976) to consider strengthening of the Treasury System to facilitate eventual take over of accounting functions by the State Government is the long term strategy of the State to convert treasuries into District Pay and Accounts Offices.

Wazir Ahmad Qureshi highlighted the role of accounting in Pakistan as an aid to management. He stated that Punjab Province in Pakistan is the largest province with 34 districts and 122 Tehsils. The Accounting in Pakistan follows a three-tier system – Province level, District level and Tehsil level. He highlighted the participation of local citizens, as 25% of the Development Fund is available to them for utilisation.

He observed that public spending through management is necessary to overcome the key gaps in the delivery of quantity and quality of public goods. He classified the uses of accounting as an aid to management in three categories i.e. documentary function of accounting, control function of accounting and communication function of accounting. He opined that openness and transparency in accounting is a part of attitude. There should be clear accounting information depicting true application of rules, regulations, economic policies and property rights. The role of Financial and Accounting Managers is to protect the public purse, to be accountable to public, to safeguard the assets of the government and to manage and control the government's financial position. Article 170 of the Constitution of Pakistan gives a mandate to the Accountant-General to keep the Accounts of the province in such form and in accordance with such principles as the Auditor-General of Pakistan, with the approval of the President, may prescribe. In May 2001 the Government of Pakistan enacted Controller General of Accounts (Appointments, Functions and Powers) Ordinance. In Pakistan the Federal and Provincial Governments are separate accounting and reporting entities, each having one Consolidated fund into which all revenues, borrowing and

repayment of loans from the Govt. are paid and out of which all public expenditure are met. He shared that the system of accounting and reporting in Pakistan is a manual, cash based accounting and is on Single entry basis. Local bodies at Tehsil level have been made responsible for making their own accounting arrangements. Discussing about the latest initiatives being taken to adopt IT in a big way he appreciated the ongoing Project for Improvement of Financial Reporting & Accounting (PIFRA) Project, which has been started in cooperation with the World Bank. It aims at timely, accurate, relevant and reliable financial reports; monthly and fortnightly cash forecasting reports; consolidated monthly and quarterly accounts and trend analysis reports. Finally he concluded with the remarks that the skill and knowledge must be supported through change in attitude, change in vision and change in thinking.

Conclusions & Recommendations:

- ❖ Managing for results requires an accounting system that can provide information for better design of schemes and programmes. Accounting on accrual basis, which provides more detailed information is therefore recommended.
- ❖ Financial performance and physical progress should be linked and reflected in accounts.
- ❖ Performance should be integrated in the accounting framework and standardized costing norms should be developed. Towards this, well-defined performance measures should be developed; government accounting systems should enable accurate measurement of the costs of government activities.