

Government Accounting Reforms

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Introduction

Government Accounting System in India covers the Central Government and the State Government Accounts. The compilation and consolidation of the Accounts of Union Government is the responsibility of the Controller General of Accounts (CGA).

In relation to accounts, the Comptroller & Auditor General of India (CAG) is responsible for the following:

- ✚ Compilation and preparation of the accounts of all State Government except Goa and Puducherry. In this role, 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
- ✚ 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 CAG for advice.
- ✚ CAG also plays a key role in setting accounting standards for the government. Government Accounting Standards Advisory Board (GASAB) set up by CAG of India with the support of Government of India 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). GASAB has also started developing standards on accrual basis known as Indian Government Financial Reporting Standards (IGFRS) to facilitate migration to accrual basis accounting.

The Government accounts are maintained in cash which is consistent with the basis of budgeting adopted by the Government. It is felt that 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. Perhaps, reforms in Government Accounting are long overdue. This is the key driver of the theme for discussion in the conference taking a holistic approach considering all issues and their interrelationships.

Objective

Fundamental rethinking into the entire gamut of issues relating to Government Accounting to radically re - engineer the system for improved financial management and good governance.

Layout of this document

The need for reform originates from the realization of the limitations of the existing system. The key limitations can be categorized into technical, operational and technological issues. This paper acts as a curtain raiser to provide the background information of various issues; flags issues and the possible courses of action for discussion. The possible course of action for few items have been categorized based on time frame into short term, medium term and long term and included in the annexure.

1. Technical issues

1.1 Form of Accounts

1.1.1 Finance Accounts: Finance Accounts of the State / Union are annual compilation of the accounts of the State / Union as a whole. It shows the receipts and outgoings of the Government for the current year, together with the financial results disclosed by the revenues and capital accounts & the accounts relating to Public Debt.

1.1.2 A relook at the utility of Finance Accounts in its present form leads us to following issues:

- ✓ Ideally it should reflect the financial position of the government in a bird's eye. However, no single statement in the Finance Accounts reflects the Balance Sheet and / or Income Statement of Government. The compilation resembles more of schedules to the financial statements rather than the financial statements themselves.
- ✓ The complex character of mass of data presented in the Finance Accounts has undermined their reader friendliness.
- ✓ No delineation of the balances in Suspense Accounts between the outstanding amounts that have an expenditure impact and the items that impact the cash balance of the Government
- ✓ No detail note in the Finance Accounts explaining the genuineness and age of balances under suspense and remittance heads, reasons for delay in their liquidation and the financial implication of their continuance.
- ✓ Need for uniform form of the Finance accounts for both Union and States and depiction of figures in all statements either in crore or lakh or whole figures
- ✓ Significant variation in Finance Accounts over the previous year needs to be analyzed and given as footnote.

1.1.3 Appropriation Accounts: The Appropriation Accounts of Government depicts the excess or savings from budget. However, the reasons included more often than not are devoid of depth and reflects the reasons stated by state government. Most often, they are obvious facts. The Appropriation Accounts should include analysis on the reasons after they are duly verified.

1.1.4 Ownership of Accounts: The ownership of Finance Accounts and Appropriation Accounts of the State Government essentially lies with the State Government concerned. However, the ownership is not formally owned by the State Government. The Accounts are signed by the CAG in his capacity as the compiler of accounts. Views have been received from various quarters on whether there should be any formal mechanism where the State Government officials would be required to sign on the Finance Accounts and Appropriation Accounts. The World Bank in its State Financial Accountability Assessment specifically pointed out that lack of ownership of accounts by the State Government is a limitation of the present system of accounting. Three models were circulated by Accounts wing for comments from AsG (A&E) wherein ownership of accounts could be established. These included (i) State Finance Secretary signing the Finance Accounts (ii) obtaining a certificate by State Finance Secretary which would be referred to in the Finance Accounts and (iii) AG signing the Accounts (as CFO) on the basis of which Finance Secretary (representing CEO) also signing on the Finance Accounts. Some State Governments have agreed for State Finance Secretary issuing the certificate while others did not.

1.1.5 Audit Certificate: 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'. The Certificate as to 'correct' is perceived by many as unreasonable on various quarters, viz., number of inaccuracies that may exist in accounts and reliance on the information provided by the State Government. In some quarters there is an opinion that Audit Certificate should be 'True and fair' and not 'correct'.

1.1.6 Issues for discussion:

- List out the areas/items where there is need for changes/relook
- Making Finance Accounts interesting and reliable documents
- Need for changing the format of audit certificate
- Need for examination of excess / savings with reference to budget in Appropriation Accounts to provide meaningful information and giving comments where there is significant variation over previous year as a footnote in Finance Accounts.
- Inclusion in Finance Account containing a Statement of Financial Position (Balance Sheet) in a page or two. In addition to this, an executive summary of Finance Accounts in narrative form may also be enclosed. Similar inclusion in respect of Appropriation Accounts.
- Necessity of formal ownership of accounts by getting signature of Finance Secretary. If so, the format of the same.

1.2 Cash basis of Accounting- need for migration to accrual basis

1.2.1 Cash based system is simple and recognizes a transaction when cash is paid or received. It is limited in scope because it lacks an adequate framework for accounting of assets and liabilities, depicting consumption of resources and presenting the full picture of

government's financial position at any point of time. Importantly, capital expenditure under the cash system is brought to account only in the year in which a purchase or disposal of an asset is made. An asset once acquired is expensed in the same year and only progressive figure of expenditure remains in the books of accounts. There is no effective way of tracking assets created out of public money, which, in turn, dilutes accountability of departments for management of government's assets. The present system also fails to reflect accrued liabilities arising from the gap between commitments and transactions of government on the one hand and payments made in that behalf on the other. The existing accounting system therefore does not capture the long-term impact of the decisions taken and promotes a bias towards short-term policies.

- 1.2.2 These apprehensions have led to the realization that existing Government accounting system in India needs to be reviewed. Internationally, such review generally been migration to accrual accounting. India's response to this also has been similar. Twelfth Finance Commission recommended introduction of accrual accounting in Government. Government has accepted the recommendation in principle and asked Government Accounting Standards Advisory Board (GASAB) in the office of the Comptroller and Auditor General of India to draw a roadmap for transition from cash to accrual accounting system and an operational framework for its implementation.
- 1.2.3 GASAB has finalized a broad roadmap containing list of activities that are to be completed for migration to accrual accounting and has forwarded the same to the Ministry of Finance, Government of India. The roadmap mentions the activities and milestones to be completed to migrate to accrual accounting. GASAB has developed an operational framework which provides overall architecture of the accounting model that would prevail in Government while conforming to the national and constitutional reporting needs.
- 1.2.4 While the Roadmap and the Operational Framework are meant to serve as implementation guidance, a two-pronged agenda is being followed for implementation of accrual accounting. *In the first prong*, ministries and departments at the Union level are taking up pilot studies for ascertaining their requirements for migration and implementation. Initiatives for migration to accrual accounting are underway in some Civil Ministries and the Ministry of Railways at the Union level. Department of Posts is also actively considering introduction of accrual accounting. Office of the Controller General of Accounts has taken up the Ministry of Roads, Surface Transport and Highways and Ram Manohar Lohia Hospital for pilot study. Ministry of Railways has appointed a consortium of consultants for determining its requirements for migration. In the second prong, the State Governments are being taken on board. **GASAB** has taken up the matter with the State Governments for sensitizing them on accrual accounting through seminar-cum-workshops. So far, twenty one (21) State Governments have agreed in principle to introduce accrual accounting. A few of them have constituted task forces for pilot studies to identify gaps between the existing system and the proposed system and requirements for bridging the gap. The pilot study of public works department of Vidisha division (conducted by *IPAI*) contained the balance sheet and summarizes issues which

are likely to come up on migration to accrual accounting. GASAB has also received requests for pilot study from Haryana, Gujarat and Andhra Pradesh.

1.2.5 Some of the issues involved in migration need mention here:

- ✓ The **transition will be incremental and in phases** spanning 8-10 years.
- ✓ Accrual basis of accounting will **supplement the cash system** as this is necessary to retain the embedded elements of the latter that serve the legislative and budgetary reporting requirements.
- ✓ **Commitment of the executive and sense of ownership** of the reform process by the management in the departments and ministries is very much needed.
- ✓ **Capacity-building and training** in accrual accounting amongst various accounting departments of the Government of India and in the States.

1.2.6 As suggested by the Twelfth Finance Commission, while the full switch over to accrual accounting is a long term goal, a beginning is to be made by starting disclosures of financial information that are outside the present reporting framework of Government accounting. This is possible within the existing system and needs to be an immediate concern. Simultaneously, preparation for switch over to accrual accounting needs to be planned. One important step in this direction is conducting pilot study to know the gaps between the present cash based system and the proposed accrual based system.

1.2.7 Twelfth Finance Commission recommended that certain additional information be provided in Finance Accounts, in the interim period prior to migration to accrual accounting as follows:

1	A Statement of subsidies given, both explicit and implicit
2	A Statement containing expenditure on salaries by various departments/units
3	Detailed information on pensioners and expenditure on government pensions
4	Data on committed liabilities in the future
5	Statement containing information on debt and other liabilities as well as repayment schedule
6	Accretion and erosion in financial assets held by the government including those arising out of changes in manner of spending by the government
7	Implications of major policy decisions taken by the government during the year on new schemes proposed in the budget for the future cash flows
8	Statement on maintenance expenditure with segregation of salary and non-salary portion

1.2.8 Of these five statements have been introduced i.e. (i) salaries, (ii) subsidiaries and (iii) number of pensioners during 2005-06, maturity profile of Internal Debt of Govt. and Loans & Advances from Government of India & Changes in Financial Assets during 2007-08.


1.2.9 It was decided that GASAB would work on development of Accounting Standards on Accrual basis alongside with cash basis standards. These will be issued as Indian Government Financial Reporting Standards (IGFRS). This will enable better appreciation of the processes by operative levels at Union and State. Further GASAB plans to develop a detailed Migration Manual for facilitating the transition to accrual accounting.

1.2.10 Issues for discussion:

- As regards, the Finance Commission's recommendations, feasibility of implementing the recommendations (Statements) particularly on provision of information 'Implications of major policy decisions taken by the Government during the year on new schemes proposed in the budget for the future cash flows'.
- Top-down vis-à-vis Bottom up approach: A top down approach would involve attempt to prepare Balance Sheet based on information available in Finance Accounts and additional information on accrual accounting progressively captured to bridge the gap. Necessary procedures to be developed at sub-entities live for generation of information. In a bottom up approach financial statements for sub-entities are prepared first and consolidated to the entity accounts.
- Targeted accrual approach and individual items to be accounted under accrual basis.
- Capacity building in AG offices and state governments through seminars, workshops and training.
- Obtaining the cooperation of State Government for accrual accounting.

1.3 Chart of Account

1.3.1 The classification system follows a six tier pattern (15 digit code):

Major Head		Function
Sub major head		Sub Function
Minor head		Programme
Sub head		Scheme
Detailed head		Sub scheme
Object head		Subject of Expenditure

1.3.2 Chart of Account is the List of Major and Minor Heads. The multilayered classification is intended to facilitate the tracking of resource allocation, provide link between budget

outlays on one hand and functions, programmes, schemes and sub-schemes on the other. The efficacy of the existing six tier system of classification of transaction in Government Accounts has been questioned on several counts:

- ✓ The relationship between functions, programmes and schemes is not always linear and cuts across functions.
- ✓ The system does not permit classification of transfer payments, so as to relate these to specific programmes or functions.
- ✓ If the programme has revenue, capital and loan components, the accounting data is spread over a number of accounting heads.
- ✓ As the programmes cut across various functions, it creates a distance between the accounting format and the plan format.
- ✓ Lack of uniformity of classification beyond minor head.
- ✓ The existing system of classification is uni-dimensional as it flows in one direction namely from fund to sector /sub-sector to functions/programmes to schemes etc.

1.3.3 *Need for distinct Capital Major Heads for services / departments of Defence:* In terms of Para 8 of General directions of the Chart of Accounts (List of Major and Minor Heads), every service/department has been allotted a distinct four digit major head code. The first digit in the code indicates weather the Major Head is a receipt head (0 or 1), Revenue expenditure head (2 or 3), capital expenditure (4 or 5) or loan head (6 or 7). Adding 2 to the first digit of the revenue receipt head gives the number allotted to the corresponding revenue expenditure head, adding another 2 leads to the capital expenditure head and another 2 gives the loan head of account. However an exception has been observed in the case of the allotment of the capital heads of the expenditure in the Ministry of Defence. Though Army, Navy, Air Force and Ordinance Factories have separate revenue receipt heads (0076, 0077, 0078 and 0079) and revenue expenditure heads (2076, 2077, 2078 and 2079), only one capital major head (4076) has been allotted. Thus there are no distinct capital expenditure heads for Army, Navy, Air Force and Ordinance factories despite the huge capital expenditure is being incurred by all these services individual. Similarly the heads relating to Education (Primary Education, Secondary Education and Technical education) also needs a fresh look.

1.3.4 Issues for discussion

- Any need for replacing the existing Chart of Account
- Need for re-look at the allotment of capital major heads for Ministry of Defence in the direction that Army, navy, air force and Ordinance factories are allotted separate Major Heads for capital expenditure. Similar reexamination can be done for other departments like Education.
- Overall redesign of Chart of Account making it multi-dimensional

1.4 Creative accounting through unique instruments (Oil bonds, fertilizer bonds etc)

1.4.1 Government of India issues Oil bonds to ‘compensate for firms for selling below cost’. This violates one of the basic principles of finance of matching the revenues with the expenditure. Long term bonds being used to finance immediate expenses is not an acceptable practice in theory. The accounting procedure does not bring out true impact of

the transaction in the accounts. The Accounting procedure is to Debit MH 2802 - Compensation to Oil Companies for under recoveries on account of sale of sensitive petroleum products (Revenue Expenditure on Consolidated Fund of India) and Credit MH 8012 – Deposits by the Oil companies (Liability on public account). A revenue expenditure head is debited and a liability is created in the public account.

- 1.4.2 The impact of the transaction is to book expenditure in the current year without cash outflow, but create a liability for future. It leads to favorable impact on current deficits as depicted in Budget (i.e., deficits are shown lower than what they are). It uses public account to fund Consolidated Fund of India. Debt is being created which has to be repaid some day and this has intergenerational equity issues. The bonds just postpone the losses, and also, in a way, amortize them over several years. The Finance Accounts do not present the true impact of the accounting transaction to stakeholders. Further the deficits shown in 'Budget at a Glance' do not match with the deficits shown in the Finance Accounts as the deficits are understated in the former document.
- 1.4.3 The transaction may not be aligned to the spirit of FRBM legislation. The very intention of this legislation is to bring into force fiscal prudence of not to burden the next generations with revenue expenditure pertaining to current generation. The instant case literally transfers the burden to next generation without even transparently depicting to the current generation of the injustice being done to the next generation.
- 1.4.4 A related issue is the Government's decision to create various funds like 'Social and Infrastructure Development Fund' diffusing the budgetary control over expenditure and funding normal social sector programmes of government through creation of funds.

1.4.5 *Issues for discussion:*

- One of the guiding principles of accounting is 'substance over form'. Accounting Entries may be patently correct; but when the entries camouflage the impact on financial position or performance, should auditor disregard the veil of accounting entry to bring out the true impact on financial position or performance.
- This is apparently a case of **CREATIVE ACCOUNTING**. The amount involved is huge and it affects the revenue deficit and fiscal deficit, which essentially depict the financial performance. By showing the amount as a deduction from expenditure, both the deficits are understated. The figures in 'Budget at a Glance' would not match with those in accounts since in accounts based on audit's comments were prepared without showing the deduction for deficit calculation (i.e., though the entry would remain the same, the deficit is calculated including the expenditure indicated in MH 2802). The manner in which the transaction should be reported may be considered.
- Other innovative accounting devices like creation of Social and Infrastructure Development Fund (SIDF) undermines the parliamentary financial control.

2. Operational issues

2.1 Central Plan and Centrally Sponsored Schemes

- 2.1.1 An amount of over Rs. 1, 50,000 crore has been allocated to the various Central Plan and Centrally Sponsored schemes of the Government of India. Under the existing procedure, Government of India issues sanctions in respect of the schemes both through the State budget and directly to DRDAs, Societies, and NGOs among others. This procedure does not facilitate capture of amounts actually utilized for the end-use or of amounts in transit, i.e. advances to local bodies/PRI or to the executing departments (viz. PWD, PHED, etc.) or unspent amounts with the State Government/agencies etc. The amounts released are booked as final expenditure in the books of the Central Government, even if the whole or part remains unutilized during the year. At any point of time, there is an estimated float of Rs. 10,000 crore.
- 2.1.2 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. The extant accounting framework is not structured to generate State-wise & scheme-wise returns and actual utilization for the internal performance. Of late, the emerging concern is to ensure accountability in the usage of these funds.
- 2.1.3 Planning Commission sought the views of the CAG in April 2006. Suggestions were made to the Planning Commission for tracking the expenditure incurred by the States on Central Plan and Centrally sponsored schemes and the manner in which IA&AD could assist in tracking the funds released under the Central Schemes. Government decided to develop the Central Plan Scheme Monitoring System to be implemented as a Management Information/Decision Support System (MI/DSS) for the Centre and the States for restructuring the accounting /reporting systems. The objective is to monitor scheme-wise and State-wise releases for the 1200 odd Central Plan and centrally sponsored schemes. Department of Expenditure, Ministry of Finance desired that the offices of the State AsG may be brought on board for efficient implementation of the scheme.
- 2.1.4 **Action taken so far:** As a first step, the Planning Commission sought information relating to releases made under Central Plan Schemes & Centrally Sponsored Schemes and the State Plan up to district level. Pilot studies on the issue were conducted by the O/o Accountants' General (A&E) of six states namely Punjab, Tamil Nadu, Gujarat, Jharkhand, Bihar & Manipur. The exercise has been extended to all the States. The information collected indicates not only the expenditure figures against the schemes but also that considerable funds are parked with various agencies.

2.1.5 Issues for discussion:

- Suitable system to capture the expenditure in the accounts against the agency which has actually spent it.
- Methodology to be adopted to collect the information up to Block level

- Proposal of CGA to use Core Accounting Solution integrated with Core Banking Solution of banking system to completely eliminate cash payments and ensure audit trail.
- Examining need for change in the accounting practice for large amounts drawn from government as advances or on AC bills pending clearance.
- Grants in aid paid to autonomous bodies for capital expenditure and creation of assets are classified in Government accounts as revenue expenditure. The Government accounts classifying the expenditure as revenues and true value of assets is not captured in accounts.

2.2 Plan and Non-Plan distinction – Artificial devoid of substance

2.2.1 The distinction of Plan and non – plan came up with India embarking on a model of planned economic development. Planning Commission decides the Plan expenditure. It is generally on new schemes covering a plan period. Government may need to spent more money on the same scheme even after the plan period. This expenditure is treated as non-plan expenditure. As brought out by the Economic survey 2007-08, the distinction has led to ever increasing tendency to start new schemes and projects to the utter neglect of maintenance of existing capacity and service levels. The distinction often leads to the misperception that non plan expenditure is wasteful and should be avoided. This dichotomy has resulted in fragmented view of resource allocation to various sectors.

2.2.2 By common understanding, Plan expenditure is compared with developmental expenditure while non plan expenditure is treated as related to operating or day to day maintenance expenditure. However, in actual practice, such clear distinction of the nature is not ensured in the existing system of classification. The distinction, along with curbing of salary expenditure is creating problem of resource allocation in social sector. In social sectors, salary constitutes an important element of the programme.

2.2.3 **Issues for discussion**

- Review of the possibility of complete elimination of the artificial distinction between plan and non-plan
- If the distinction has to be maintained, identify the measures that can be taken to link nature of expenditure to the classification.

Excessive use of ‘Minor Head 800 – Other expenditure’ to classify expenditure

2.2.4 The structure of the Government Accounts was last reviewed in 1987 when certain new sub-sections were introduced and a few major heads were revised to the level of sub-sections and minor heads to the level of major heads because of their importance.

2.2.5 A review of the Statement No.9 of the Finance Accounts of the Union Government which inter-alia provides details of accounts of revenue expenditure by minor heads by **Report Central Wing** showed that there are large number of major heads under which significant part (50 to 100 percent) of the total expenditure is being booked under the

Minor Head “800 – Other Expenditure” .Similar is the situation under Capital Account (Statement No.10) and Major Heads in the Revenue Receipts Section and in the States.

- 2.2.6 The Minor Head 800 – Other expenditure/receipts operated under most of the major heads/sub-major heads to record expenditure/receipts which cannot be accommodated under any other specific Minor Heads. Large booking of expenditure/receipt under this Minor Head (800) indicates that other existing Minor Heads where relatively smaller amounts are being booked are unable to truly reflect the current activities of the Department /Ministry.
- 2.2.7 Since the Finance Account is prepared up to the Minor Head level no further details or break up of expenditure/receipt booked under Minor Head 800 – Other Expenditure is available in the accounts presented to the Parliament /Legislature. Large booking of expenditure/receipts under the Minor Head 800 – Other makes the Government Account completely non-transparent in respect of large number of Major Heads.

2.2.8 Issues for discussion:

- Position in States and reasons for such excessive booking of expenditure under the residuary minor head.
- Identify Major Activities of the respective Departments/Ministries not reflected in the Accounts at Minor Head level.
- Impact of such excessive bookings under residuary Minor head on the overall accuracy, transparency and usefulness of Accounts.

2.3 Incorrect treatment of foreign currency losses in Finance Accounts of GOI

- 2.3.1 Rule position: In terms of Rule 32 of Government Accounting Rules, net gain or loss by exchange in respect of government transactions in foreign currencies has to be uniformly adjusted under the head the 0075/2075 Miscellaneous General Services – Gain / loss by exchange. Since this is the rule position as on date, the Government has no option to account for forex gains and losses in any other form. This would ensure the appraise depiction of foreign exchange gains and losses as a consolidated figure under the MH 0075 /2075.
- 2.3.2 Pre 1991-92 practice: Prior to 1991-92, budget provision for the loss arising out of foreign exchange variation was made centrally in the Demand for Grants for Department of Economic Affairs. This would imply that under MH 2075 there would be a projected estimate in budget for exchange losses and eventually, the loss amount will be reflected under MH 2075 in Finance Accounts. This is a correct practice and is in the lines of Rule 32 of GAR.
- 2.3.3 Change in practice: Department of Economic Affairs, MoF informed us that with effect from 1991-92, the practice was changed to decentralize there by making provision for exchange losses in the respective ministries. This would mean in most of the losses on foreign exchange being absorbed to the Major Heads of various departments and not to MH 2075. This has also been illustrated by few facts from Finance Accounts. The

Finance Accounts of 1979-80 included the expenditure on account of 'loss of exchange' to the order on Rs 879 Crores. The Finance Accounts of 2003-04 and 2004-05 show a meager amount of about Rs 23-28 lakh as 'loss by exchange under the MH '2075-Miscellaneous General Services'. Similarly in 2005-06 the amount was Rs 17.24 lakh. All ministries / Departments which are transacting in foreign currencies. These amounts probably do not reflect the amount of exchange losses made by government as it is understated due to change in practice.

2.3.4 Issues for discussion:

- The change in practice violates Rule 32 of GAR. All the losses on account of foreign currency need to be booked in MH 2075 as per Rule 32. In this situation the accounts of the Government of India may need to be qualified. The Government may have to revert to pre 1991-92 practice.

3. Technological issues

3.1 Digital Access of Treasuries by AsG (DATA) project – eliminating redundant data entry in VLC

- 3.1.1 Accounting application of state governments at present involves two distinct applications working with a single goal of generating Monthly Civil Account and Finance Accounts & Appropriation Accounts. The two applications are the treasury computerization packages known with different names like eKosh, eKhajana, Koshwahini etc and the Voucher Level Computerization project of the AG. These applications operate in different platforms and do not talk to each other. The result of this situation is the colossal additional efforts in terms of redundant data entry and the risk of increasing number of errors. In many states, the treasuries are significantly computerized and can generate and provide all the accounting inputs to the AsG for compilation of accounts. Nevertheless, in some States data is received from treasuries in hardcopy along with vouchers and make the data entry again in the AG offices. This is wastage of efforts in terms of human and machine hours for the redundant data entry. The only advantage is that presumed superior quality (of data entry) in the AG offices as the AG offices have the ultimate responsibility for development of financial statements. If the data quality in the treasury systems can be ensured or suitable system for data revalidation is placed in AG office, the redundant data entry in AG offices can be completely eliminated by accepting digital data from treasuries.
- 3.1.2 For the interface with the treasuries, a module has already been provided in the VLC applications. The BPR & BPM report and IT Audit report of the DG (IT Audit) also recommended interfacing the treasuries and the AG offices.
- 3.1.3 Work done so far: A pilot project on **DATA (Digital Access of Treasuries by AG)** is commenced in all the States where treasury computerization has stabilized. Some work

has been already done in Maharashtra. An over of approach in Maharashtra office is included below:

- ✓ VLC in AG (A&E)I, Maharashtra went live in April 2001
- ✓ Government of Maharashtra implemented a 'Koshwahini' project as a treasury data MIS.
- ✓ Data is uploaded by DAT (Director, Accounts and Treasuries) on Koshwahini and AG office is provided access through the website using a user profile.
- ✓ March 2008 accounts have been successfully imported into VLC from Koshwahini and VLC was populated. Monthly Civil Account has been generated using the data downloaded.

3.1.4 Issues for discussion

- Mere change on role of AsG (A&E) due to decreased work load on account of elimination of work of original data entry should not deter integration of applications.
- Redeployment of human resources released on account of reduction of data entry work on issues that improve quality of accounts.
- Need for capturing the entire data available at Treasuries and building a robust system of data revalidation with suitable checks at each level.
- Back end improvements in oversight mechanism of treasuries so that the data received in digital form are reliable and have appropriate system of data revalidation.

3.2 *New generation VLC: Need for a relook in the light of ERP applications and three tier architecture*

3.2.1 VLC is there for about a decade. It is developed with SCO UNIXWARE as server operating system and Oracle as RDBMS. VLC has been the largest IT application in the department and has improved the pace of accounting by crashing the time frame for generation of Finance Accounts and Appropriation Accounts and has brought about qualitative improvement in accounting. Most of the offices have been able to generate Monthly Civil Accounts around 10 days in advance as compared to the date of submission of accounts prescribed in manual system. Similarly, the target date of submission of FA&AA has been advanced. Monthly Civil Accounts are now generated through VLC system in all A&E offices while Finance & Appropriation Accounts are generated in all the offices except in Karnataka. Strengthening of the system is in progress and is targeted to be completed by 31.3.2009.

3.2.2 Technology has progressed significantly since the VLC development. Today we have web enabled technologies and object oriented programming system. The SCO UNIX 7.1.1 and Oracle 8i on which VLC is working are no longer supported by the respective vendors. VLC is presently operating in UNIX environment with SCO UNIX 7.1.1 as the Server Operating system. Where servers are replaced, the new servers are not compatible with SCO UNIX 7.1.1. The options in this situation are either to migrate to SCO UNIX 7.1.4 or to change the platform to other alternatives -**Linux Red hat ,Windows Server**. Oracle 8i is compatible with SCO UNIX 7.1.4. The latest versions of Oracle are not compatible with UNIX environment. Upgradation would involve huge costs and

reengineering the application. However, continuing with existing technology has issues of hardware incompatibility as well. VLC is developed in a two tier architecture i.e., client server architecture. The client is a fat client which does lot of processing in VLC. Oracle 8i supports two-tier architecture. However, the present generation of Oracle i.e., all versions after Oracle 9i do not support three tier architecture. They work on three tier architecture involving Database server, Application Server and thin client. However, moving from two tiers to three tier architecture is not very easy. It is estimated that about 10 – 20% programming effort would be required for VLC to move from two tiers to three tier architecture.

3.2.3 Issues for discussion:

- Can VLC in present form meet the requirement for the next five years in view of the technology and hardware changes?
- Is time ripe for next generation VLC – should we move from a two tier architecture to a three tier architecture and advantages that accrue from three tier architecture and web enabled technologies?
- If we are considering a new generation VLC, should it be an ERP application?

Proposed course of action on few items for discussion

I. *Central Plan and Centrally Sponsored Schemes*

Short Term

- ✓ Implement Central Plan Monitoring Scheme (CPMS) linking releases to expenditure from compiled information collected from DRDA's/Societies/NGO's up to district level and VLC and preparation of concordant table
- ✓ Development of Plan Budget Link document in all the states.
- ✓ Work in close coordination with Planning Commission and CGA to develop the MIS.
- ✓ Suggest suitable system to capture this information through Accounts.

Medium Term

- ✓ Chart of Accounts
- ✓ Institutionalize district level arrangements for data entry at the unit level.
- ✓ Integrate the MIS information with accounting information on an integrated IT application to facilitate information base for audit function.

II. **Accrual basis accounting**

Short term

- ✓ Introduce all statements in Finance Accounts as suggested by Finance Commission.
- ✓ Pilot studies in few states
- ✓ Issue of principle based IGFRS aligned with accrual IPSAS.
- ✓ Preparation of Balance Sheets based on Finance Accounts with progressive implementation of accrual based information.

Medium term

- ✓ Complete asset accounting and actuarial valuation of pension liability
- ✓ Implementation of appropriate Indian model of accrual basis accounting for Union and States.

Long term

- ✓ Adoption of International Public Sector Accounting Standards
- ✓ Development of 'Whole of Government Accounts' to include para-statals etc

III. DATA project (Digital Access of Treasuries by AsG)
Short term

- ✓ Establish technical feasibility of DATA project
- ✓ Move towards digital capture of data in VLC system wherever treasury computerization is complete.

Medium term

- ✓ Integrate systems up-stream with the treasuries and down stream with Audit Management System (AMS).

Long term

- ✓ Capture all information available in the DDO/ Treasury on vouchers and other records in VLC system with robust revalidation system.