

CHAPTER 9

CONCLUSIONS AND RECOMMENDATIONS

9.1. Conclusions

Cash and accrual accounting represent two ends of a wide spectrum of possible accounting and budgeting bases. Traditionally, all government sectors followed cash based accounting system, till the recent demand from key stakeholders to present a true and fair picture of government finances, propelled many government entities to move towards accrual based accounting system, for a more comprehensive financial information. The switchover to accrual based accounting system was greatly influenced by the desire of the government to have accurate evaluation of its ability to finance activities and to meet its liabilities and commitments, to track all its assets for optimum utilization, to be aware of full cost of public services, to measure outcomes and above all to enhance accountability and transparency of government finances.

Experiences of the countries and municipal corporations studied, clearly indicate that most accounting reforms were initiated to overcome major economic crisis faced by the governments. Adoption of accrual based accounting system was an integral part of these reforms.

Accrual based accounting system presents complete financial position of an entity, identifying all assets and liabilities — current, non-current, deferred, contingent or otherwise. It compels the entity to record cash flows and changes in its net worth or equity. Thus, in addition to cash flow, unpaid consumptions (payables) and unrealized income (receivables) are also recorded. Resources acquired but not fully consumed during an accounting period are treated as assets (inventory and fixed assets). Payments made for acquisition of inventory are included in the operating cost for the period in which it is consumed. Payments made for acquisition of physical assets, that have future service potential, are amortized over the entire useful life of the asset by charging depreciation. The system of accrual accounting, thus, inter alia, allows better cost-price calculations, records capital use properly, distinguishes between current and capital expenditures, presents a complete picture of debt and other

liabilities and focuses policy attention on financial position, as shown in the whole balance sheet not just cash flows or debts.

It gives a complete measure of cost of various services, provides adequate information of both fiscal balances and net worth and their changes over time. This allows decision makers to have accurate and reliable picture of government finances to make prudent decisions for best utilization of resources, complete ongoing projects without overemphasizing on new projects, discharge present obligations without compromising on the intergenerational equity and become more accountable for use of appropriated money, entrusted to them by the people through tax and non-tax revenue. It prevents government entities from correcting their fiscal balances through changes in cash flows without affecting the stocks, represented by the changes in net worth of the government entity.

The above advantages of accrual based accounting system clearly addresses the concern of the first research, whether there was any comparative advantage of accrual over the cash based accounting system.

International experiences and review of literature indicates that most developed countries are at various stages of accounting reforms with most adopting accrual accounting—from mild to full accrual—in preparing and presenting their financial statements at the National, State (regional), and Local level. It is agreed that the environment in developing countries is very different from that of a developed nation, even when the gap is fast diminishing. A developing country is still ridden with myriad political situation, numerous social conflicts and yawning fiscal deficits at the macroeconomic level. While some may argue that the accounting reforms, involving substantial resources in terms of up-gradation of technology and capacity building, is perhaps an ambitious process for developing nations that have various alternative uses for the resources in hand, others counter it for this precise reason.

In a quest to address the second research question, an in-depth study of the experiences of countries and municipal corporations that have migrated to accrual based accounting system, indicate that the accounting reforms were an integral part of wider public management reforms and were supported by

legislative Acts to ensure their implementation in full earnestness. With an active support of legislature and executive, accounting reforms have enabled government entities to publish financial statements in a manner similar to those of a professionally run organisation. The accounting reforms have helped set priorities, both within areas of expenditure and government's broader strategic goals. An essential prerequisite for all accounting reform is the need for an Integrated Financial Management System (IFMS). The clear lesson emerging from government entities that have migrated to accrual accounting is to opt for existing software that is currently available in the market and to adjust internal processes in government entities to those systems. Problems start arising and costs mount, when government entities decide to build their own systems or make significant changes to commercial software, or pursue IT reforms in a disjointed manner.

A lot of expenditure is made on IT up-gradation at all times under various programmes, without integrating it for efficient results in a cost effective manner. An example of only two, out of many IT schemes, launched by Government of India, in the recent past are mentioned below:

(i) Government of India launched a mission mode project relating to Treasury Computerization under the National E-Governance Plan (NeGP), in 2010, with the objective of computerizing and making budgeting processes more efficient, improving cash flow management, promoting real-time reconciliation of accounts, strengthening Management Information Systems (MIS), improving accuracy and timeliness in accounts preparation, bringing transparency and efficiency in public delivery systems and ensuring better financial management with improved quality of governance in all States and Union Territories (UTs). The project was launched as a State Plan Scheme under NeGP and financial support to the States/UTs' projects was up to 75% (90% in case of North Eastern States) of the individual project cost of admissible components limited to Rs. 75 lakh per district (Rs. 90 lakh per district for North Eastern States).

(ii) Ministry of Textiles, Government of India introduced Technology Up gradation Fund Scheme (TUFS) for Textile and Jute Industries on 1 April 1999, for a period of 5 years, subsequently extended by 3 years to cover sanctions

up to 31 March 2007, modified further for a period of 5 years till FY 2011-12, re-launched on 28 April 2011 and continued till 31 March 2013 with an overall subsidy cap of Rs.1972 crores, with sectoral allocation of 26% for spinning, 13% for weaving, 21% for processing, 8% for garmenting and 32% for others expecting to leverage an investment of Rs.46, 900 crores by private sector.

The above two schemes, give an indication of many such schemes, launched concurrently, or sequentially, hint at fragmented efforts of the government to reinvent government finances and processes for a computerized environment. An IFMS, involving all wings of the government, though ambitious, but feasible will lead to creation of a strong data base, which can be used in varied manner to get information, improve presentation of reports, ensure legislative requirement of presenting accounting information following a different budgetary basis, improve process re-engineering with minimum costs.

Despite advantages of accrual over cash based accounting system, the progress to adoption of accrual accounting is rather slow. The slow progress may also be attributed to the fact that while political scientists, lawyers and economists feature greatly in policy making and evaluation exercises, accountants are often forgotten. They are not thought to have any significant contribution to make in such processes, although when it comes to measuring the cost-benefit of a specific social program, it is the accountant who becomes the focus of attention. While this unfortunate situation lingers on in many countries, it is significantly worse in developing countries where operations of government accounting systems have regressed to the extent that governments are now grappling with a series of problems relating to weak public financial management.

It is extremely difficult to measure the benefits of accrual accounting. However, the study indicates a strong and positive co-relation between accrual accounting in government and greater accountability of government finances and public officials. Though, there is no exact definition of accountability, however, an attempt was made to assess the impact of accrual accounting in government with the help of certain economic and non-economic indicators and perceptions. All indicators whether it related to debt and deficit ratio to GDP or GDP per capita income or credit ratings, show that accrual based accounting

provides comprehensive, reliable and accurate financial information, focusing attention of policy makers to take appropriate steps to regulate finances of the government, entrusted to them by the stakeholders, for effective and efficient use. Even the non-economic indicators and rankings of perception indices whether Corruption Perception Index or Doing Business or access to safe drinking water, respond better in jurisdictions that have embraced accounting reforms. Though, it is agreed that improvement in indicators, economic or non-economic are a result of many factors and accounting reforms cannot alone take the credit for it, however there is *definitely a clear and positive co-relation between accrual accounting in government and greater accountability, as the former gives a comprehensive position of the financial position and performance of the government finances, addressing the concern of the third research question whether there was a link between accrual accounting in government and greater accountability, for improved governance.*

The developing nations, stand at an advantage to learn from the experience of nations which have already moved to accrual accounting and bring in a reform at all levels of governments. One of the benefits of not being in the first wave of countries to introduce accounting reforms, is the opportunity to learn from their experience. The experiences of select countries and municipal corporations suggest that reforms process is a long, time and resource intensive exercise. *However, a systematic approach, as also highlighted in the suggested roadmap and implementation guidelines, (in an attempt to address the fourth research question) can facilitate a smooth transition process from cash to accrual accounting, to achieve the desired benefits.*

9.2. Recommendations

The challenges faced by developing nations are fundamentally different from those of developed nation. Developing countries are often faced with resource and capacity constraints. Deteriorating working environment, political instability, corrupt practices that often lead to a weak legislative and regulatory framework. Despite the limitations, a strong political will, determined administrative approach, adequate training and prioritization of resources may go a long way in ushering the process of reforms in all sectors. A few suggestions, which can