

**Day 1 - Session: 1**

**Instructor’s Guide**

**Session Title:** CAG’s mandate for the preparation of Finance & Appropriation Accounts. Recommendations of the Twelfth Finance Commission.

	Ref.
<p><b>Session Overview:</b>  <b>Welcome</b> participants to the session and remind them that their active participation is important for the success of each session.  <b>Tell</b> the participants that in this session we will discuss on</p> <ol style="list-style-type: none"> <li>1. Mandate of the C&amp;AG of India envisaged in the Constitution of India and the CAG’s DPC Act, 1971.</li> <li>2. Preparation of Combined Finance and Revenue Accounts of the Union and State Governments,</li> <li>3. Preparation of Finance Accounts of the state,</li> <li>4. The importance of the disclosure of financial position of the Government through additional statements as recommended by the TFC.</li> </ol>	
<p><b>Learning Objective:</b>  <b>Inform</b> By the end of the session, we will be enlightened with the mandate of the C&amp;AG of India envisaged in the Constitution of India and the CAG’s DPC Act, 1971. We will also appreciate the importance of the disclosure of financial position of the Government through additional statements as recommended by the TFC.</p>	
<p><b>Basic Concept:</b>  <b>Form</b> groups of five or less depending upon the number of participants.  <b>Ask</b> about their understanding on the ‘mandate of C&amp;AG for preparation of Finance &amp; Appropriation Accounts.  <b>Show</b> the PowerPoint presentation on the topic and <b>discuss</b>.</p>	PowerPoint Presentation
<p><b>Distribute</b> Participants Note</p>	
<p><b>Summarise and conclude:</b>  <b>Recapitulate</b> the points of CAG’s mandate, which were discussed in the session.  <b>Thank</b> the participants for their active participation and announce the closure of the session.</p>	

**Session Title:**

**CAG's mandate for the preparation of Finance & Appropriation Accounts. Recommendations of the Twelfth Finance Commission (TFC).**

**Session Overview**

In this session we will discuss the mandate of Comptroller & Auditor General of India for the preparation of Finance & Appropriation Accounts, and the recommendations of the 12<sup>th</sup> Finance Commission regarding the Accounting Procedure and necessary for inclusion of various additional statements in the Finance Accounts.

**Learning Objectives**

At the end of the session, we will be enlightened with the mandate of the C&AG of India envisaged in the Constitution of India and the CAG's DPC Act, 1971. We will also appreciate the importance of the disclosure of financial position of the Government through additional statements as recommended by the TFC.

**APPROPRIATION ACCOUNTS**

1.1 In accordance with the requirements of Article 149 of the Constitution of India read with Section 11 of Comptroller and Auditor Generals' (D.P.C.) Act, 1971, the CAG has to prepare for the Central Government, each State Government and the Government of each of the Union Territories provided with separate Legislative Assemblies under the Government of Union Territories Act, 1963, Appropriation Accounts, that is accounts of the expenditure (both voted and charged) of the Government for each financial year compared with the accounts of voted grants and charged appropriations for the different purposes as specified in the schedules appended to the Appropriation Acts passed by the legislature. The responsibility is confined to grants/appropriations in respect of which the accounts are maintained by the Indian Audit and Accounts Department,

Article 149 of the Constitution of India and Section 10 (extract only) and Section 11 of C.A.G.'s (D.P.C.) Act, 1971 are reproduced below:

### **Article 149 of the Constitution of India**

The CAG shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament and, until provision in that behalf is so made, shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States as were conferred on or exercisable by the Auditor General of India immediately before the commencement of this Constitution in relation to the accounts of the Dominion of India and of the Provinces respectively.

### **Section 10 of CAG's DPC Act (extract)**

10(1) The C.A.G. Shall be responsible  
(a) for compiling the accounts of the  
Union and of each State  
from the initial and

subsidiary accounts rendered to the Audit and the Accounts Offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and

(b) for keeping such accounts in relation to any of the matters specified in clause (a) as may be necessary.

Provided that the President may, after consultation with the C&AG, by order, relieve him from the responsibility for compiling

(i) the said accounts of the Union  
(either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the Union:

Provided further that the Governor of a State may with the previous approval of the President and after consultation with the CAG, by order relieve him from the responsibility for compiling-

(i) the said accounts of the State (either at once or gradually by the issue of several orders); or

(ii) the accounts of any particular services or departments of the State.

Provided also that the President may after consultation with the C&AG by order relieve him from the responsibility for keeping the accounts of any particular class or character.

### **Section 11 of CAG's DPC Act**

The CAG shall from the accounts compiled by him or by the Government or any other person responsible on that behalf prepare in each year accounts (including in the case of accounts compiled by him, Appropriation Accounts) showing under the respective heads the annual receipts and disbursements for the purpose of the Union of each State and of each Union Territory having a Legislative Assembly and shall submit those account to the President or the Governor of a State or Administrator of the Union Territory having a Legislative Assembly as the case may

be on or after such dates, as he may, with the concurrence of the President determine.

Provided that the President may after consultation with the CAG, by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the Union or of a Union Territory having a Legislative Assembly.

Provided further that the Governor of a State may, with the previous approval of the President and after consultation with the CAG by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the State.

Note : The CAG has been relieved from the responsibility of preparing the Finance Accounts and Appropriation Accounts of the Union Government, Union Territory Government of Pondicherry and the State Government of Goa but continues to be responsible for their submission to the

President/Governor/Administrator of the Union Territory for being laid before the Parliament/Legislatures.

## **FINANCE ACCOUNTS**

In accordance with the provisions of Article 149 of the Constitution of India read with Section 11 of Comptroller and Auditor Generals' (D.P.C.) Act, 1971, the Comptroller and Auditor General to prepare the Annual Financial Accounts of each State Government and the Government of each of the Union Territories provided with separate Legislative Assemblies under the Government of Union Territories Act, 1963. The Constitutional and Statutory Provisions governing the responsibility of the CAG in relation to preparation of the Finance Accounts have been discussed in detail in Para 1.1. These Accounts present the accounts of the receipts and outgoings of the Government for the year, together with the financial results disclosed by the revenue and Capital accounts, the accounts of the public debt and the liabilities and assets of the Government

concerned as worked out from the balances recorded in the accounts.

## **Extracts from the Report of the 12<sup>th</sup> Finance Commission (Chapter 14)**

### **Accounting Procedure**

14.13 Under the present system of cash based system of accounting, followed by the central and state governments, transactions are recognized, when the cash is paid out or received in. In the books of accounts, expenditures are recorded at the time of payment, i.e. when a cheque is issued, and receipts are recorded when these are reported by the collecting bank. Movements in the government cash balance kept with RBI as a result of such payments and receipts are also simultaneously recorded in the account books. Thus, the government accounts are a record of cash flows into and out of consolidated fund and public account, and the effect of these cash flows reflect on government's liquidity position.

14.14 The cash based system of accounting lays emphasis on transactions vis-à-vis the budget. It does not record and report complete financial information required for management of resources. It does not provide a full picture of the government's financial position at any given point and the changes that take place over time as a result of government policy. The system fails to reflect government's liabilities such as accrued liabilities arising due to unfunded pensions and superannuation benefits and current liabilities arising from a disconnect between commitments and payments. Similarly, the present system is unable to track current assets as well as non-financial assets. It does not provide information on the assets held by the government, much less the cost of holding and operating these assets and the impact of current consumption on the stock of assets. Another major limitation is its inability to record the full cost of providing services by the government's departments or the commitments made by the government regarding payment

in future years. The cash based system of accounting provides room for fiscal opportunism, as tax revenues can be collected in excess during a period followed by high incidence of refunds, payments can easily be deferred and passed on to future periods, revenues due in the future could be compromised by providing for one time payments, etc. To quote some other examples, it takes no note of transformation of indebted government agencies into autonomous legal entities outside government through suitable state guarantees, and on the expenditure side, omit existing net liabilities of public enterprises and agencies outside the government, though the latter cannot escape such liabilities.

14.15 Compared to the cash based system, the system of accrual accounting recognizes financial flows at the time economic value is created, transformed, exchanged, transferred or extinguished, whether or not cash is exchanged at that time. It is different from cash based system in that it records flow of resources.

Expenses are recorded when the resources (labour, goods and services and capital) are consumed, and income when it is earned, i.e. when the goods are sold or the services rendered. The associated cash flows generally follow the event after some time and may or may not take place during the same accounting period. 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.

14.16 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, takes care of disinvestments receipts and provides adequate information of both fiscal balance and net worth and their changes over time. Information, as would be available under accrual accounts, constitutes an essential input for bodies like finance commissions, not only in assessing the revenue requirements of the Centre and States vis-à-vis the available resources, but also in appraising their fiscal performance with a view to assigning due credit to the governments, which have performed well and providing disincentives to those, which fail to measure upto expectations. We understand that some action has been initiated by the central government to move towards accrual basis of accounting. However, the transition would occur in stages, as this is a time consuming process. While we

are in favour of a changeover to the accrual based system of accounting in the medium term, we suggest that in the interim, some additional information as mentioned below in the form of statements should be appended to the present system of cash accounting to enable more informed decision making. An illustrative list of statements, which could be included are:

- (i) A statement of subsidies given, both explicit and implicit;
- (ii) A statement containing expenditure on salaries by various departments/ units;
- (iii) detailed information on pensioners and expenditure on government pensions;
- (iv) Data on committed liabilities in the future;
- (v) Statement containing information on debt and other liabilities as well as repayment schedule;
- (vi) Accretion to or erosion in financial assets held by the government including those arising out of changes in the manner of spending by the government;

(vi) Implications of major policy decisions taken by the government during the year or new schemes proposed in the budget for future cash flows; and

(vii) Statement on maintenance expenditure with segregation of salary and non-salary portions.

14.17 While introducing these statements, the ultimate goal of switching over to the accrual-based system of accounting may be kept in view and proformae designed in a manner that facilitates a smooth and effective transition. We have, while dealing with the Fiscal Reform Facility in chapter 11, noted the absence of a standard definition of revenue deficit with states being allowed selectively to include/exclude the deficits of major state government entities like the state electricity board, road transport undertakings etc. for the purpose of measuring performance. We have also noticed that some states have started classifying the grants to local bodies as capital expenditure. Some states are already meeting the deficit of



their electricity boards by granting loans or investing in equity rather than providing transparent subsidies. Our scheme of debt relief in respect of repayment of loan during 2005-10 is linked to reduction in revenue deficit so as to eliminate it by 2008-09. It is necessary to guard against any attempts to defeat the objectives of the scheme through creative accounting. We, therefore, recommend that the definition of revenue and fiscal deficits etc. be standardized and instructions for a uniform classification code for all states down to the object head are issued. Unauthorized changes in accounting policies and arbitrary reclassification of expenditure should be viewed seriously by the monitoring agency while granting relief under the scheme.

14.18 The change over to the accrual based system of accounting will place considerable demands on the accounting personnel in various government organizations, particularly at the lower and middle levels of the accounting hierarchy, consisting of accounts clerks,

accountants, assistants, treasury officials and others. Although a few of these functionaries would have a formal background in finance and accounts, majority of them may not possess professional qualifications. Even those who have professional qualifications often need to upgrade their skills during their career. In most countries, accountants are required to acquire recognized vocational qualifications in public sector accounting and audit. In the United States of America, for instance, the Association of Government Accountants and Government Financial Officers' Association train accountants to become accounting technicians. Similar arrangements for providing continuing professional education are also in place in the UK, Malaysia, Singapore, South Africa, Behrain, etc. through chartered institutes. The absence of professionalized accounting personnel in the public sector in India has also been commented on by several analysts. Considering the need for

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qualified and professional accounts staff and training for capacity building particularly in the context of our recommendation for changeover to the accrual based system of accounting, we recommend that a National Institute of Public Financial Accountants be set

up by the government of India and its charter be decided in consultation with the C&AG.

**Day 1 - Session: 1****Session at a Glance**

**Session Title:** CAG's mandate for the preparation of Finance & Appropriation Accounts. Recommendations of the Twelfth Finance Commission.

**Learning Objectives:** At the end of the session, we will be enlightened with the mandate of the C&AG of India envisaged in the Constitution of India and the CAG's DPC Act, 1971. We will also appreciate the importance of the disclosure of financial position of the Government through additional statements as recommended by the TFC.

	<b>Time Required</b>	<b>Training Method</b>
<p><b>Session Overview:</b></p> <p>In this session we will discuss the mandate of Comptroller &amp; Auditor General of India for the preparation of Finance &amp; Appropriation Accounts, and the recommendations of the 12<sup>th</sup> Finance Commission regarding the Accounting Procedure and necessary for inclusion of various additional statements in the Finance Accounts.</p>	10 min.	Lecture
<b>Key Teaching Points</b>		
<p><b>Key Teaching Point 1</b></p> <p>Mandate of C&amp;AG of India for the preparation of Finance &amp; Appropriation Accounts</p>	30 min.	Lecture, PowerPoint Presentations.
<p><b>Key Teaching Point 2</b></p> <p>Recommendations of 12<sup>th</sup> Finance Commission on Accounting Procedure and inclusion of additional statements in Finance Accounts.</p>	15 min.	Lecture, PowerPoint Presentations.
<p><b>Key Teaching Point 3</b></p> <p>Group Exercise</p>	15 min.	Discussions within Groups.
<b>Summary</b>	5 min.	Lecture
<b>Total</b>	<b>75 min..</b>	

**Material Required:**

- PowerPoint Presentation
- Multi Media Projector
- White Board Marker Pen
- Participants' Note

# **Day 1 - Session : 1**

## **Session Title:**

**CAG's mandate for the preparation of Finance & Appropriation Accounts. Recommendations of the Twelfth Finance Commission.**

**Session at a glance**

**Instructor's Guide**

**PowerPoint Presentations**

**(Given in Annexure)**

**Participants' Note**

**GROUP EXERCISE FOR SESSION 2 (DAY 1)****Time 15 Minutes**

*{Note: Prepare slips for each exercise and distribute them to the participants duly shuffled.}*

- I. Arrange the **slips** in the proper order to depict the flow chart of the **Main Divisions** of Government Accounts.

## **MAIN DIVISIONS OF GOVERNMENT ACCOUNTS**

Consolidated Fund

Contingency Fund

Public Accounts

Revenue Receipts

Revenue Expenditure

Capital, Public Debt, Loans Etc.

Capital Receipts

Capital Expenditure

Small savings, Provident Fund etc.

Reserve Funds

Deposits and Advances

Suspense & Miscellaneous

Remittances

Cash Balance

- II.** Arrange the slips in the proper order to depict the flow chart of the **Functional (Five Tier) Classifications.**

## **FUNCTIONAL (FIVE TIER) CLASSIFICATIONS**

SECTOR

SUB-SECTOR

Function

MAJOR HEAD

4 Digits

Sub-Function

SUB-MAJOR HEAD

2 Digits

Programme

MINOR HEAD

3 Digits

Scheme

SUB-HEAD

2 Digits

Activity

DETAIL HEAD

2 Digits



# Object of Expenditure

## OBJECT HEAD

2 Digits

- III. Arrange the slips in the proper order to depict the flow chart of the **Coding Pattern** adopted in the Government Accounts.

## **CODING PATTERN**

### **Revenue Accounts Receipts**

**0020 to 1606**

### **Revenue Account Expenditure**

**2001 to 3606**

### **Capital Account Receipts**

**4000**

### **Capital Account Expenditure**

**4046 to 5475**

## **Public Debt**

**6001 to 6004**

## **Loans & Advances and Transfer to Contingency Fund**

**6075 to 7999**

## **Contingency Fund**

**8000**

## **Public Account**

**8001 to 8999**

- IV. Arrange the slips in the proper order to depict the flow of data for preparation of **Monthly Civil Accounts**.

## **MONTHLY CIVIL ACCOUNTS**

LOP

Cash Accounts

Cash Balance Report in r/o. NonBanking Treasuries.

List of Lapsed treasury cheques.

List of outstanding treasury cheques.

List of cancelled treasury cheques.

Supporting Receipt challans & receipt schedules MH wise

Supporting paid vouchers in r/o. payment M.H wise.

± memo in r/o. MHs. 8336, 8443, 8670-DTO cheques.

Paid vouchers in r/o. MH 8670 – DTO cheques, 8782, 8443 paid cheques under MH 8670 - Milk Scheme Cheques.

Paid vouchers in r/o. 8658 – OAA, Central PAOs, Railways, Defence.

Paid vouchers in r/o. MH 8793 – Inter State Suspense.

Vrs. in r/o. MH 8009 – GPF Cl.III

Vrs. in r/o. 8009 – GPF Cl. IV

Vrs. in r/o. GPF to IAS Officers

Vrs. in r/o. MH 2071

PUBLIC WORKS ACCOUNTS

FOREST ACCOUNTS

DEPARTMENTAL ACCOUNTS

SETTLEMENT ACCOUNTS

## Day 1 - Session: 2

## Instructor's Guide

**Session Title:** An outline on the compilation & consolidation of government accounts.

	Ref.
<p><b>Session Overview:</b></p> <p><b>Welcome</b> participants to the sessions and remind them that their active participation is important for the success of each session.</p> <p><b>Tell</b> the participants that in this session we will discuss on</p> <ol style="list-style-type: none"> <li>1. The provisions contained in the Constitution of India and CAG's DPC Act to highlight the responsibilities of C&amp;AG in so far as it relates to the compilation and consolidation of Accounts.</li> <li>2. Various sources of Accounts.</li> <li>3. Entire process between the receipt and the consolidation of the Accounts.</li> </ol>	
<p><b>Learning Objective:</b></p> <p><b>Inform</b> by the end of the session, we will understand the responsibilities of C&amp;AG in so far it relates to compilation of Accounts. We will review various stages involved in the process of compilation and consolidation of Accounts.</p>	
<p><b>Basic Concept:</b></p> <p><b>Form</b> groups of five or less depending upon the number of participants.</p> <p><b>Ask</b> about their understanding on the responsibilities of C&amp;AG in so far it relates to compilation of Accounts, various sources of accounts and stages involved in the process of compilation and consolidation of Accounts</p> <p><b>Show</b> the PowerPoint presentations on the topic and <b>discuss</b>.</p>	PowerPoint Presentation
<p><b>Distribute</b> Exercises and request the participants solve them in each group.</p> <p><b>Discuss</b> the questions given in the exercise with the suggested solutions.</p> <p><b>Distribute</b> Participants' Notes.</p>	
<p><b>Summarise &amp; conclude:</b></p> <p><b>Recapitulate</b> the points which were discussed in the sessions.</p> <p><b>Thank</b> the participants for their active participation and announce the closure of the sessions.</p>	