

Update on Actionable Items of First Conference of State Finance Secretaries

Working Groups post Finance Secretaries Conference

Post the Conference of First Finance Secretaries (October 2024), the following three Working Groups of Finance Secretaries were constituted (November 2024) to deliberate further on the issues of:

- ❖ Rationalisation and Harmonisation of Primary Unit of Appropriations/Object Heads
 - ❖ Advancing Timelines for preparation of Monthly Civil Accounts (MCA) in States
 - ❖ Review of practices relating to Grants-in-Aid and Utilisation Certificates in States
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Working Group on Advancing the Timelines of Monthly Civil Accounts

Background of the Initiative

- ❖ A request was received from the Ministry of Finance in December 2022, to advance the timelines in preparation and compilation of monthly accounts by the AsG (from 25th of the following month), given the implementation of IFMS in most States.
 - ❖ Government Accounts Wing in CAG engaged with State Governments for early furnishing of monthly accounts by Accounts Rendering Units (ARUs) and with RBI for Monthly Report on receipt and payment transactions.
 - ❖ Progress made was presented in the First Finance Secretaries Conference.
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ToRs of the Working Group

Post the Conference, a Working Group with Director General (GA) CAG Office (Chair), Finance Secretaries and PAsG/AsG of Jammu and Kashmir, Madhya Pradesh, Meghalaya, and Karnataka and representative from RBI was constituted to review and make recommendations, for mainly-

- ❖ On ARUs furnishing the Monthly Accounts to AG office early, enabling the States to close MCA by 10th of the following month.
 - ❖ Receipt reconciliation of State Governments with RBI for improving the quality of accounts.
 - ❖ Legal requirements related to digital vouchers/ sub-vouchers.
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Report of the Working Group

- ❖ The Working Group after detailed deliberations during December 2024-March 2025 submitted its Report. Inputs were received from State Governments, Field AsG, Papers and Reports of GA wing and RBI & the Group also interacted with select other Finance Secretaries.
 - ❖ Post approval the Report has been **shared with State Governments and RBI with specific actionable items, to be completed timely, preferably by March 2026.**
 - ❖ State AsG have been advised to render all support to the State Governments, for implementation of the recommendations.
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Key Recommendations

- ❖ Digitisation of all ARUs in a time-bound manner, as rendition of Accounts by the ARUs to the AsG is closely linked to the level of digitisation in the States.
 - ❖ Computerisation of the Accounts related Modules, such as Payment Module, Receipt Module, Budget Module, on priority.
 - ❖ Implementation of digital signature for authentication of payment documents.
 - ❖ All States to proactively move towards a system of fully digitised vouchers, and to submit all sub-vouchers to AG office.
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Key Recommendations

- ❖ Adoption of the policy on legal requirement related to digital vouchers, as approved by the CAG of India.
 - ❖ All States to adopt version 2.0 of e-Kuber, for making reconciliation easier between the banks and the State Treasury/Accounting Units.
 - ❖ RBI to set uniform time limit for reporting of receipt collections by agency banks in all States.
 - ❖ Updation of Memorandum of Instructions by RBI, issued in 2003 for accounting and reconciliation of State Government transactions.
 - ❖ RBI to provide Major Heads-wise receipts in the Clearance Memo for easier reconciliation of receipts.
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Key Positives

- ❖ 7-8 States now render MCA by 10th of the following month, including some States **by 8th of the following month**.
 - ❖ **7-8** States render MCA between 11th to 15th and another **4-5** States between 16th to 20th of the following month.
 - ❖ Early closure of MCA makes the fiscal outturns available to the State Governments as early as possible.
 - ❖ Provides timely information on fiscal parameters of the States, which are required by other stakeholders like RBI; MoSPI- for estimation of National Income, GDP, GSDP of the States.
 - ❖ Receipt reconciliation improves the quality of accounts
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Expected Outcome of Exercise

- Timeliness
- Completeness
- Integrity of accounts

- Important pillars of Financial Reporting/ Public Financial Management.



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Working Group on Rationalisation and Harmonisation of Primary Unit of Appropriations/Object Heads

Background

- ❖ Lack of Uniformity and Standardization, at the disaggregate level, of the economic classification of expenditure across the States.
 - ❖ Against Union Governments' 61 Object Heads, variation in States ranged from 40 to over 400 Object Heads.
 - ❖ Head-wise similar /identical nomenclature capturing varying nature of expenditure in States.
 - ❖ Lack of standardisation- Impacting inter-spatial comparison
 - ❖ Divergent classification structures across States – ranging from 6-tier (15 digit) to 7-tier (19 digit) and even 22-digit systems
 - ❖ 12th and 13th Finance Commission emphasised on standardisation of Object Heads.
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Working Group

- ❖ Post deliberation at the conference a Working Group was constituted with Director General (Union Accounts) in CAG and Finance Secretaries & PAG/AG (A&E) of Rajasthan, Odisha, Tamil Nadu, and Tripura, representatives of CGA and CGDA.

Key Areas reviewed by Working Group for Standardisation

- ❖ **Reviewed the Union Governments' revised Object Head (OH) list (2022 DFPR) arranged in a taxonomic format (Revenue/Capital, 7 object classes).**
 - ❖ **Reviewed State-specific practices and deviations in classification of expenditure.**
 - ❖ **Deliberated on possibility of new OHs: R&D, Social Security, Outsourcing, and salary components (DA, Allowances, LTC, Medical).**
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Key recommendations by the Working Group

- ❖ Six-tier classification to be adopted by all the States.
- ❖ New Object Heads proposed based on feedback from the States.
- ❖ Common Object Heads structure for adoption in Union and States.
- ❖ Phased implementation, full roll-out from FY 2027–28.

‘One Nation : One set of Object Heads !’

Recommendations of the Working Group are being firmed up in consultation with the Ministry of Finance, Department of Expenditure and will be rolled out shortly by the CAG.

Expected Outcome of Exercise

- ❖ Adoption of a uniform and comprehensive economic classification framework, will uniquely and uniformly capture expenditure across all States at the disaggregate level.

This landmark reform will address issues of:

- ❖ Comparability
 - ❖ Integrity
 - ❖ Uniformity
 - ❖ Transparency
- in financial reporting**
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Working Group on Review of practices relating to Grants-in-Aid and Utilisation Certificates in States

Context and Importance of Grants-in-Aid (GIA)

Grants-in-Aid (GIA) constituted **26 percent** of States' total expenditure & **33 percent** of their revenue expenditure in FY 2022-23. **GIA constitutes single largest item of State Govts Expenditure.**

- ✓ Issue of GIA & Utilisation Certificates (UCs) was deliberated upon during 1st Finance Secretaries' Conference.
 - ✓ Working Group chaired by ACS, Finance, West Bengal along with State Finance Secretaries/ AGs of West Bengal, Telangana, Assam, Himachal Pradesh and Odisha, GASAB, and CGA.
 - ✓ Report suggested actionable recommendations for States, which has since been circulated to all States.
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Key Recommendations of Working Group Report and Expected Action:

Recommendation	Expected Action by State
Strengthen reporting & monitoring	Implement robust tracking mechanisms across all administrative levels.
Adopt uniform Object Head structure	Revise budget and account classification on the lines of the Union Government.
Review/Update Treasury/Financial Codes	Incorporate Utilisation Certificate (UC) provisions broadly on line of GFR 2017 of GOI.
Leverage technology	Tag UCs within IFMS; implement systems like SNA-SPARSH and Just-in-Time to reduce UC dependency.
Review UC requirement for DBT Schemes	Until full DBT rollout, continue obtaining UCs and share beneficiary lists with AGs.

Key Recommendations of Working Group Report and Expected Action:

Recommendation

Expected Action by State

Clear backlog of pending UCs

Prioritise clearance of UCs pending for more than 5 years.

Revise codes for digital mechanisms

Include DBT, SNA-SPARSH, and Just-in-Time systems in State financial rules.

Expected Outcome of the Exercise:

- ❖ Common framework for budgeting and accounting GIA across the country.
- ❖ Alignment of Union and State Government oversight and monitoring of GIA.

Will strengthen:

- ❖ Accountability
- ❖ Transparency
- ❖ Comparability across the country

With respect to an important component of Government expenditure.



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Thank You