

**Report
On
Pilot Study on Migration to
Accrual Accounting**

**Forest and Health Departments of State
Government of Madhya Pradesh (India)**

May, 2010

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Disclaimer

The objective of this study is to identify gaps between the existing cash based accounting system and the accrual based accounting system to assist Government Accounting Standards Advisory Board (GASAB) to address issues related to Property, Plant and Equipment (PPE) and inventories during actual migration to accrual accounting. This is not a full fledged exercise on implementation of accrual accounting and should not be construed as transition of the existing system in the State of Madhya Pradesh to accrual accounting. This is a step in the direction of creating better understanding on the scale of activities involved in moving towards accrual accounting.

The Annual Financial Statements (AFS) prepared for each of the pilot offices are only illustrative to signify the information availability from the current cash based accounts supplemented by International Public Sector Accounting Standards (IPSAS) and assumptions, as disclosed, wherever necessary for preparing accounts on accrual basis. Needless to say, this being a pilot study, the data contained in these statements should not be used as a basis for any decision or action.

Chapter - I

Introduction

1.1 Background

As a part of financial reforms there have been wide discussions internationally to reform Government Accounting and Financial Reporting. Some Governments have brought about changes and have moved to accrual based accounting and some are at different stages of migration. This is based on the premise that the accrual basis of accounting provides the most comprehensive information and benefits to both internal and external users.

In India, the Twelfth Finance Commission recommended adoption of accrual accounting for the Union and the State Governments. The Central Government has accepted the recommendations in principle. Besides Central Government, twenty one State Governments including Madhya Pradesh have accepted adopting accrual accounting in principle. Following the recommendations of the Twelfth Finance Commission, the Government Accounting Standards Advisory Board (GASAB) set up in the office of the Comptroller and Auditor General of India was entrusted with the task of drawing up a detailed road map for migration to accrual accounting and preparation of an operational framework for its implementation. Accordingly, GASAB has developed an operational framework and detailed road map for migration from existing cash basis of accounting to accrual basis. To facilitate migration to accrual accounting, GASAB is in the process of developing Standards on accrual basis to be issued as Indian Government Financial Reporting Standards (IGFRS).

The Thirteenth Finance Commission (2010) while reviewing the follow up in this area has observed “We are satisfied that the issue is receiving close attention from relevant authorities, and that extant actions by the Central, State and Local Governments are facilitating a ‘bubble up’ approach to the transition”.

The present study initiated by the Government Accounting Standards Advisory Board (GASAB) is supported by the World Bank. The Institute of Public Auditors of India (IPAI), New Delhi was engaged as consultant to provide technical assistance. The study is a joint collaborative effort with the World Bank, GASAB, Accountant General(A&E)-I, MP and Government of Madhya Pradesh.

Forest Territorial Division, Bhopal in the Forest Department and Civil Surgeon-cum- Chief Hospital Superintendent, District Hospital, Gwalior in the Health Department were selected by the State Government in consultation with the Accountant General (Accounts and Entitlement)-I, MP Gwalior for the pilot study. The core team comprised the following :

World Bank : Shri P.K. Subramaniam, Lead Financial Management, Specialist South Asia Region, Shri Mohan Gopal Krishnan, Senior Financial Management, Shri Jesse W. Huges, Specialist World Bank Consultant.

GASAB : Shri R.S. Rangrajan, IA&AS, Member Secretary, GASAB upto March 2010 and Shri Shankar Narayan, IA&AS Member Secretary, GASAB from April 2010, Ms. Preeti Jha, IRAS, Principal Director and Shri G. Shrinivas, IA&AS, Director, GASAB.

Institute of Public Auditors of India: Shri K.N. Khandelwal, Project Director, Shri P.N. Koul, Technical Coordinator, Shri K.L. Kapoor, Sr. Consultant, Shri G.K.Shukla, Team Leader (Bhopal), Shri R.P. Agrawal, Consultant, Shri B.P. Patel, Consultant, Shri K.B.Mishra, Team Leader(Gwalior), Shri P.K.Khandelwal, Sr. Consultant, Shri R.C. Sharma, Consultant and Shri R.S.Upadhyay, Consultant.

1.2 Objectives and Scope of the Study

The objective of this study is to identify gaps between the existing cash based accounting system and the proposed accrual based accounting system to assist GASAB to address issues related to Property, Plant and Equipment (PPE) and inventories during actual migration to accrual accounting.

In order to develop the specific guidelines, the operability of the standards (draft and those awaiting notification by GoI) need to test by way of extensive field testing of *selected IGFRS, Exposure drafts on IGFRS and IPSAS standards* in both the selected offices of Forest and Health departments of Government of MP. For this, the focus of this study was on (a) Property Plant and Equipments (IGFRS); (b) Inventories (AED) and (c) Revenue from Exchange Transactions (AED) with a view to identify the issues which may arise in these segments :

- a) **Property, Plant and Equipment (PPE):** Identification, verification, valuation of fixed assets, classification of major repairs and capacity enhancement activities as capital or revenue, documenting the quality of data/record across the selected offices; depreciation, valuation of capital work in progress etc;

suggestions and approaches where subsidiary record was not available and appropriate cut off period and valuation of assets which have outlived their normal useful life span etc.

- b) **Inventories:** Valuation of inventories, basis of valuation, provision of non-moving inventory and non-existing inventory and documenting the quality of data/records across the selected department. The process involved compilation of assets, liabilities and inventory data from primary sources to testify the concept and support the assertions for the guidance note.

This study also includes documentation of operational and implementation issues and suggested solutions to latent problems and road blocks if any so as to provide necessary inputs to GASAB for framing appropriate guidelines for migration of Government accounts from cash basis to accrual accounting system.

1.3 Approach and Methodology

Our approach to this study has been to identify the future needs/requirements for such migration considering the existing Government accounting framework, which would help in smooth transition from cash based to accrual based accounting. The method essentially consisted of the activities as detailed in the table 1 below:

Table – 1

Stepping on to the objective

S. No.	Activity	Purpose
1.	Study of IPSAS, IGFRS and Accrual Exposure Drafts –IGFRS	To identify precisely the canvas on which the study is to be based
2.	Study of existing system of accounts and process of financial reporting	The background mapping is essential to devise the approach and the strategy.
3.	Consultations with the departmental officers and officials	To familiarise with the activities of the entity.
4.	Designing formats to collect the information	To elicit all necessary data relating to assets & liabilities and information for identification of assets and liabilities for preparation of Annual Financial Statements(AFS).

S. No.	Activity	Purpose
5.	Visiting Pilot locations to study the initial record keeping and methodology.	<ul style="list-style-type: none"> To identify sources of information and to ensure that the process adopted is compatible with the existing accounting environs. To be aware of the books and records currently being maintained.
6.	Analyse the data in the existing system of accounts	<ul style="list-style-type: none"> To understand the information available in the records being maintained Identify gaps between existing system of accounts and accrual based accounts and to identify sources to capture it. Tabulating information systematically.
7.	Classification of assets, liabilities, income and expenditure	For formatting and devising annual financial statements
8.	Collection of necessary data and recognition, measurements/valuation of assets, liabilities etc.	For processing annual financial statements and compilation of all necessary data for it.

These steps have led to:

- (i) Determination of balances of fixed assets owned on the date of the opening balance sheet. This involved identification of each and every asset and assigning it a value based on historical cost and where not identifiable from the records of the selected units, based on the best judgment following the valuation principles in IGFRS and IPSAS.
- (ii) Determination of capital works in progress i.e. the capital works taken up prior to the date of opening balance sheet date and not completed by that date.
- (iii) Determination of the value of inventories held as on the opening date of the balance sheet. The valuation is generally based on cost of acquisition.
- (iv) Determination of receivables as on the opening date of the opening balance sheet.
- (v) Determination of outstanding loan and advances as on the opening date of the opening balance sheet provided to employees/contractors/suppliers separately for each type of advance.
- (vi) Determination of cash lying at all cash points as on 1st April, 2008.

- (vii) Determination of current liabilities, concerning bills payable of contractors, suppliers, expenses payable etc.
- (viii) Determination of employee related liabilities which will include salaries and wages, leave encashment, pension and superannuation entitlement, medical claims etc.
- (ix) Determination of statutory dues payable i.e. deducted or received but not deposited with the appropriate authority as on the opening date of the Statement of Financial Position.
- (x) Determination of necessary provisions and contingent assets and liabilities as on that date.
- (xi) Preparation of the Statement of Financial Position or Statement of Assets and Liabilities and Statement of Financial Performance for 2008-09.
- (xii) Cash flow statement.
- (xiii) The itemization of notes to accounts.

1.4 Maintenance of Accounting Records

1.4.1 Maintenance of proper records of various classes of assets (constructed, acquired or donated), inventories, receivables and carry over as prescribed in the Financial rules and departmental regulations is a starting point for transition to accrual accounting. There are, however, problems connected with the gathering of information which stem from non-maintenance of these basic records and poor quality of data that are available. This is a major accounting concern. Concerted efforts are needed to assemble the necessary historical data for the previously acquired assets to build a proper inventory which should inter-alia include location of assets. This would help in identification and valuation of assets. The preparation of asset register and valuation of assets doubtless will be a huge task but is a pre-requisite to facilitate transition to accrual accounting and better management of assets. Reconstruction of records may present many challenges. Non-availability of old records due to their limited life of preservation or organizational restructuring may dictate the use of physical verification for the purpose of re-construction of these records.

Maintenance of a priced upto date inventory of stock as required under the rules by the entity showing therein receipt and disposal and the balance in hand for each kind of inventory is obligatory and therefore, need to be addressed.

1.4.2 The details of records to be maintained under codal provisions and departmental rules but which have not been maintained in both the selected offices are provided in the following table alongwith the purpose against each record:

**Table 2(a)
Details of records not maintained in Territorial Forest Division**

S. No.	Particulars of Record	Purpose
1	Register of Land	For identification of land under the control of the division.
2	Register of Buildings	For identification of various buildings under the control of the division.
3	Register of other infrastructure and heritage assets viz. Tube wells, Dug wells, Stop Dam, WBM Road, Culverts, Heritage etc.	For identification of other fixed assets under the control of the division.
4	Register of Sanctioned Estimates	Details of sanctioned works.
5	Register of Works	Details of works in-progress
6	Register of Funds received from other Departments/ Institutions	Identifying amount and progress of expenditure on each work
7	Register of Loans and Advances to the Staff	For identification of receivables
8	Departmental Provident Fund (DPF) Register	To identify DPF balance in each account
9	Register of Rent of Departmental Buildings	Keeping track of rent due and their recoveries
10	Register of Consumables	Inventory details
11	Register of Bills of Suppliers	For identification of liabilities

**Table 2(b)
Details of records not maintained/ or incomplete in office of the Civil Surgeon-cum-
Chief Superintendent, District Hospital, Gwalior(CS)**

S. No.	Particulars of Record	Purpose
1	Register of Land & Building (not maintained)	For identification of land and buildings under the control of the CS.
2	Register of Fixed assets other than Land & Buildings (incomplete)	For identification of other fixed assets under the control of the CS.
3	Stock Register of Medical Supplies (incomplete)	For identification of details of medicines, other medical supplies received, consumed and balance on the Balance Sheet date.

4	Register of Loans and Advances to the Staff (not maintained)	For identification of receivables
5	Departmental Provident Fund (DPF) Register (incomplete)	To identify DPF balance in each account
6	Register of Bills of Suppliers (not maintained)	For identification of liabilities

In the absence of above mentioned records, we had to carry out a massive exercise of identification and compilation of details of assets and liabilities under the control of both the entities by eliciting information on pre-designed formats.

Chapter - 2

Study in Pilot Offices

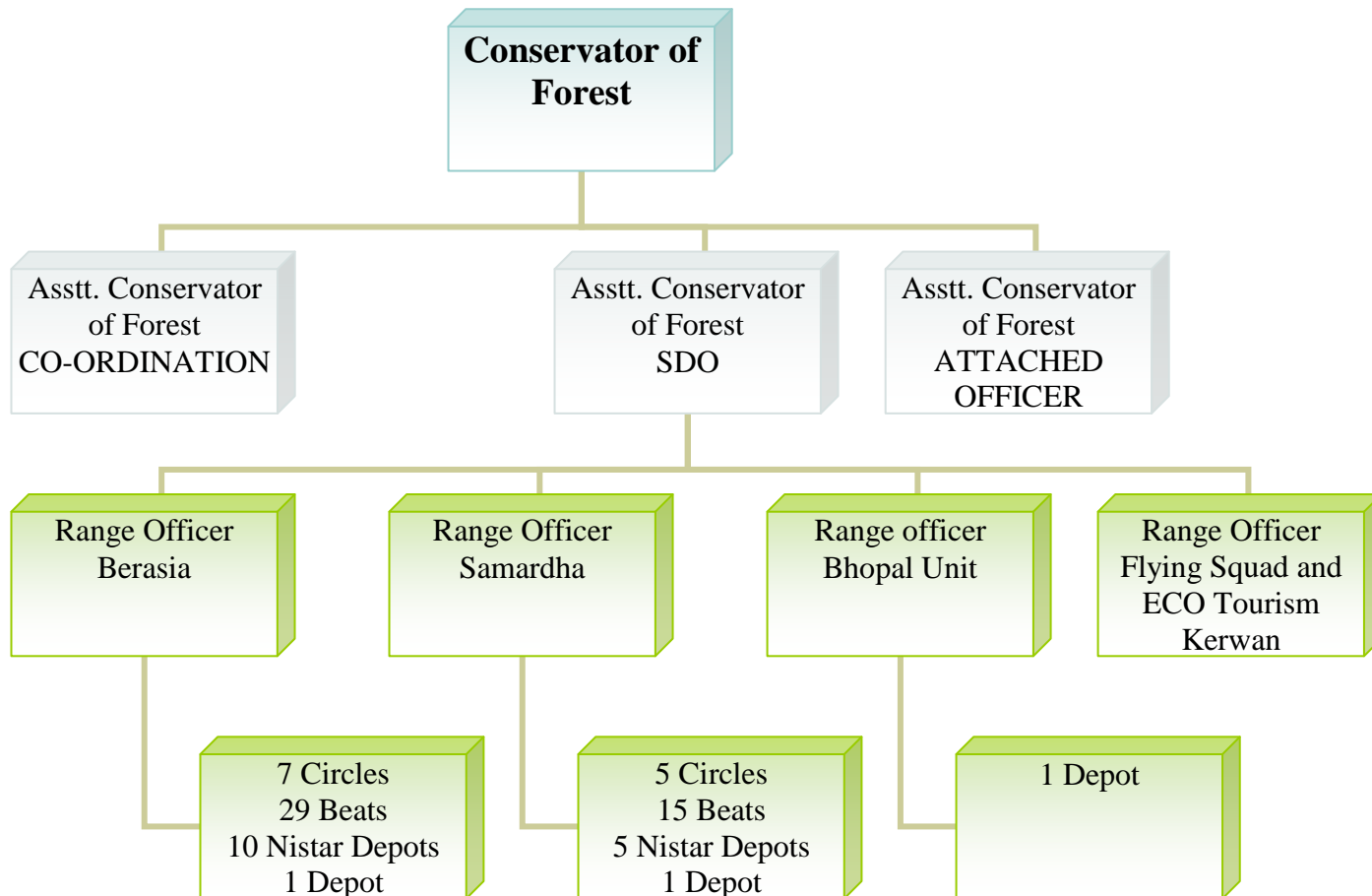
Territorial Forest Division , Bhopal

2.1 Organisationsal Set up

Territorial Forest Division, Bhopal has one Sub-division and four Range Offices. One sub-division and two Ranges are territorial units. The Division has 12 circles, 44 beats, 3 Forest Depots, 15 Nistar Depots, 1 Nursery and 14 Forest Villages. The forest cover in the Division is 43,723 ha. Pilot study was conducted in Bhopal sub- division, one range office at Samardha under BHopal sub division, 5 beats, Ahmadpur and Bersia forest depots and 5 Nistar depots.

The organizational structure of the Division is given below:

Organizational Chart of Territorial Division, Bhopal



2.2 Reporting Entity

A unique feature of the Department is the multi organisational ownership of the forest produce specially the minor forest produce. There is a parallel organisation - Madhya Pradesh State Minor Forest Produce Federation registered as Society - a separate entity under the State Government. The minor forest produce including tendu leaves are harvested by the Federation and income so generated does not form part of the receipts of the Forest Divisions. In accordance with IPSAS 6 the Federation, not under the control of the Division has not been taken as group of related entity. For the purpose of presentation of AFs, the Division has been considered as a single reporting entity.

2.3 System of Accounting

Territorial Forest Division, Bhopal is headed by a Conservator of Forest who is the drawing officer for the Unit. The funds are drawn by cheques except those relating to establishment and office expenses which are drawn through bills presented at government treasury. The disbursers are Range Officers for Payments relating to Forest activities and Head clerk in the Divisional Office for establishment payments. The accounts for expenditure incurred are submitted to the Division by these disbursers for inclusion in the monthly account of the Division.

The accounts of the Division are on cash basis and are kept in the form prescribed in the Account Code Vol. III. These are compiled on monthly basis and submitted to the Accountant General (Accounts and Entitlements), Madhya Pradesh for consolidation and incorporation in the accounts of the State Government. The period of accounts is financial year from 1st April through 31st March.

2.4 Field testing of IPSAS/IGFRS Standard and AEDs

2.4.1 GASAB has issued the following Financial Reporting Standard on Accrual basis of Accounting.

- IGFRS 2 Property, Plant and Equipments
- IGFRS (Accrual Exposure Draft)- 3 Revenue for Exchange Transactions
- IGFRS (Accrual Exposure Draft)-4 Inventories

2.4.2 Analysis of existing IPSAS/IGFRS (Standrad and AEDs) for the different accounting subjects is provided below:

Table – 3

Sl. No	Accounting Subject	
1.	<p>(i) Forest and Similar regenerative natural resources</p> <p>(ii) Biological assets related to – agricultural activity.</p> <p>(iii) Forest Produce</p>	<p>These are not covered by the existing pronouncements of IPSAS (IPSAS–17 Property, Plant and Equipment) and GASAB (IGFRS -2 Property, Plant and Equipment).</p> <p>In view of some commonalities between forest produce and agriculture like degeneration, production procreation and periodic harvesting, the pronouncements of IPSAS 27 - Agriculture drawn primarily from IAS 41- Agriculture is mostly relevant except for timber which matures for felling in decades and to determine fair value for initial and subsequent stage wise recognition. IPSAS 27 does not cover natural forests, which would need explicit guidance.</p> <p>We had wider consultations with the departmental functionaries, access to available documentation namely ten year working plan of the division and Accounting practices in MP Rajya Van Vikas Nigam- a commercial undertaking. The ten year forest working plan recognize the existing forest stock and estimated annual growth based on past results and is a compact technical literature. Since these have potentially far reaching impact upon forest accounting and reporting, we suggest that the working plan should take precedence till some formal accounting treatment is specified.</p>
2.	<p>Forest land and vegetation thereon</p>	<ul style="list-style-type: none"> • Forest land and vegetation thereon is neither measurable nor marketable. However, both qualify for recognition as assets in terms of para 6 of IPSAS-1, Should then the land and vegetation on it be recognized separately? While land can be measured and valued it is not the same for vegetation. <p>MP Rajya Van Vikas Nigam a commercial undertaking recognizes vegetation as an inventory under “Re-generation Expenditure” the stock of harvested crop is valued at lower of the upset price and market price during the last three auctions. This is broadly consistent with AS-2 issued by the Accounting Standards Board of the Institute of Chartered Accountants. The impairment to crop has not been provided for in IPSAS 26 on Impairment</p>

		<p>of Cash Generating assets. Thus, this issue needs further examination.</p> <ul style="list-style-type: none"> • Land other than the forest land has been recognized at fair value consistent with the provisions of IPSAS. • Land attached/underneath buildings or set aside for conservation areas, or recreational facilities, value included as a component of the value of these classes of assets. • For the purpose of Annual Financial Statements the forest land with natural vegetation on it has been recognized and valued at assumed nominal price of Rs. 1000 per ha. for the purpose of preparation of AFS.
3.	Operational Buildings	<p>Consistent with Para 80 of IGFRS-2 Property, Plant and Equipment, the following principles have been applied.</p> <p>Where purchase/construction cost is available recognized at carrying value</p> <p>Where this information is not available, valued at Re. 1 per sq ft.</p> <p>Where the building has not entirely outlived its useful life and its plinth area measurements are available, value based on square feet and plinth area less depreciated value.</p>
4.	Infrastructure Assets	<p>It is an issue for deliberation whether infrastructure assets should be capitalized, how often should these assets be revalued and what should be the basis?</p> <p>For the purpose of AFS, in the absence of information about their cost of construction, useful life, the current replacement cost could not be worked out. The valuation has been made at Rs.1000 per km for Roads and Re. 1 per unit for other assets. This is in line with IPSAS 17 – Property, Plant and Equipment and IGFRS -2 Property, Plant and Equipment.</p>
5.	Machinery, Motor Vehicles etc.	<p>Valued at carrying amount (Cost of acquisition less accumulated depreciation) where year of purchase, acquisition and cost is known. Otherwise at nominal value of Re. 1 per unit consistent with the provisions of Para 78 through 81 of IGFRS-2.</p>

6.	Donated/Gifted Assets	<p>Gifted/donated assets (other than service in kind) are to be recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. Such type of assets are valued at fair value as provided in IPSAS 23.</p>
7.	Encroached Land	<p>There is no mention in IPSAS/IGFRS about treatment of assets/land which has been encroached. It is felt that Since title of such type of land vests with the Government, it will be valued like any other Government land with adequate disclosure about encroachment.</p>
8.	Depreciation	<p>The quantum of depreciation depending on the useful life of assets to be determined by the entity itself.</p> <p>In the illustrative AFS, depreciation has been provided for Property and Equipment on straight line method assuming their useful life as prescribed by GASAB (31st December 2009)* for the offices of the IA&AD. Land and vegetation thereon not being depreciable, it has not been provided.</p> <p>* Building Permanent 40 years, Building Temporary 5 years, Computers, Office Equipments, Furniture and Fixture, Machinery, Motor Vehicles 5 years.</p>
9.	Heritage Assets (Prehistoric rock Paintings)	<p>It would need to deliberate whether heritage assets should be valued. However, for AFS, these have been valued at nominal value of for Re 1 each.</p>
10.	<p>Inventories</p> <p>(i) Forest produce held for sale or distribution in the ordinary course of operation</p> <p>(ii) Material held for distribution at a subsidized or nominal rate as part of service</p>	<p>The materials at (i) and (ii) are obtained through non-exchange transactions. Their cost is measured at their fair value or net realizable value. For timber sold by auction the upset value is decided at average of the last three auctions, which approximates the fair value of the produce.</p> <p>Fuel wood is sold through the Nistar depots. Other products include bamboos and ballis and the grazing rights for cattle belonging to the inhabitants in the range of 5 k.m. of the forest area and plants from nurseries to promote plantation. These are the produces the distribution of which have service intent and cannot be guided by the fair value. Reasonably these can be recognized at</p>

		net realizable cost.
11.	Consumables and Maintenance Material	<p>These are valued at purchase cost and other incidental costs incurred on bringing the inventories to their present location and condition as per provisions of Para 13 of IPSAS12 and its adaptation in Para-23 of the IGFRS (AED)-4 Inventories.</p> <p>The cost of consumables is directly charged to work and there is generally no piling up of inventories. Recognition of consumables will depend upon the materiality and the value of inventory in hand at the close of the year.</p>
12.	Threshold limit for capitalization of assets	<p>Establishment of threshold limit below which assets individually or collectively would be expended as expenditure and not capitalized shall have to be accordingly fixed by the management of the entity keeping in view the materiality factor. For the purpose of accounting, however, these will be taken in stock till its disposal. In the case of Forest segment we have taken it as Rs.5,000/- for the purpose of AFS.</p>

2.5 Treatment of Various Transactions

A summary of treatment of various transactions for the year 2008-09 is provided in table -4 below. The recognition and measurement criteria in the context of pilot study are broadly consistent with IPSAS wherever relevant. In other cases where explicit standard/guidance is not available, most rational options available in the circumstances have been adopted.

Table –4

Recognition and Measurement of Financial Transactions

S.No.	Account Group and sub-group	Recognition Criteria	Measurement Basis	Remarks
A.	Revenue			
1	Sale of Timber, fuel wood and Bamboo	(i) Sale of Timber, fuel wood and bamboo by Nistar Depot is recognised on cash basis	Revenue realisation and other related records/ registers	Timber, fuel wood and bamboo are sold by Nistar depot on fixed price on cash payment. It is therefore valued at net realisable value.

S.No.	Account Group and sub-group	Recognition Criteria	Measurement Basis	Remarks
		(ii) Sale of Timber, fuel wood and bamboo by Depots by auction recognised on acceptance of bid by the competent authority	Revenue realisation and other related records/ registers	Sale from Depots on the basis of highest bid received in auction.
2	Other receipts	Fines and forfeitures etc. recognised on receipt basis	Revenue realization and other related records/ registers	

B Expenses				
1	Salary, wages and employees benefit	Pay and allowances of staff recognised when due for payment.	Pay Bill Register and other records	Account of Pay and Allowances compiled by the Treasury and rendered to the A.G. (A&E) M.P. on monthly basis.
2	Office Expenses & maintenance of vehicles	All expenses are recognised on accrual basis.	Paid Vouchers and bills not presented	
C. Assets				
1	Property, plant and equipment.	Probability that future economic benefits or service potential associated with item will flow to the entity	As per IPSAS 17 and IGFRS-2	
2	Land and Forest produce	All forest land belongs to the State Government	Land and natural forest produce is valued @ Rs. 1000/- per ha. as discussed in item 2 in Table-3 of this report.	

3	Regeneration expenses	Expenditure incurred on nursery and additive plantation on accrual basis	Monthly accounts of units as compiled by Divisional Forest Office	As discussed in sub-para 2.4.2(2) of this Report.
4	Buildings	Residential and non-residential buildings on cost basis	Buildings valued on historical cost less depreciation basis and where historical cost is not available these are valued at Re.1/- per square ft.	
5	Other Assets	Other assets includes furniture, vehicles etc. on cost basis	Other assets valued on historical cost. Where historical cost is not available these are valued at Re. 1/- per item	
6	Inventories	Timber, fuel wood and bamboo held for sale valued at fair value or net realisable value depending on process of sale I.e. auction 'or' at a nominal rate.	The value of the inventories to be sold by auction is measured on the basis of average bids of previous three auctions and in the rest of the cases at net realisable value.	
7	Loan and Advances	Legal enforceability of the claim as evidenced from the records	The value of the financial assets based on historical cost	Financial assets include loan and advances to staff.

D.	Liability			
1	Outstanding expenses	Present obligations as a result of a past event. Provision can be made on the basis of pending obligations i.e. bills received upto cut off date as decided by the entity	Bills for the period upto 31.03.2009 received and paid upto 30th June 2009 i.e the cut off date have been considered	
2	Employees Retirement Benefits			

	(i) Pension Gratuity	(a) Employees recruited prior to 01.01.2005	Actuarial value for calculation of pension is not made available as such not recognised.	Actuarial valuation
		(b) Employees recruited on or after 01.01.2005. Deduction @ 10% of Pay plus Dearness Allowance from the employees and equal contribution by Forest Department towards contributory pension scheme.	Matching contribution from employees provided for.	
	(ii) Departmental Provident Fund	For group "D" employees Departmental Provident Fund is maintained by Forest Department.	Liabilities towards interest on balance of DPF provided at the rate applicable to Provident Fund for the year 2008-09.	

2.6 Annual Financial Statement

2.6.1 As per IPSAS-1 and 2, the set of annual financial statements include:

- (a) Statement of Financial Position;
- (b) Statement of Financial Performance;
- (c) Statement of Change in net assets/equity ;
- (d) Cash Flow Statement ; and
- (e) Accounting Policies and Notes to Financial Statement.

Financial statements on accrual bases for 2008-09, which are illustrative, conform to the requirements of IPSAS-1 and 2. These are placed as Annexure to this Report.

Chapter - 3

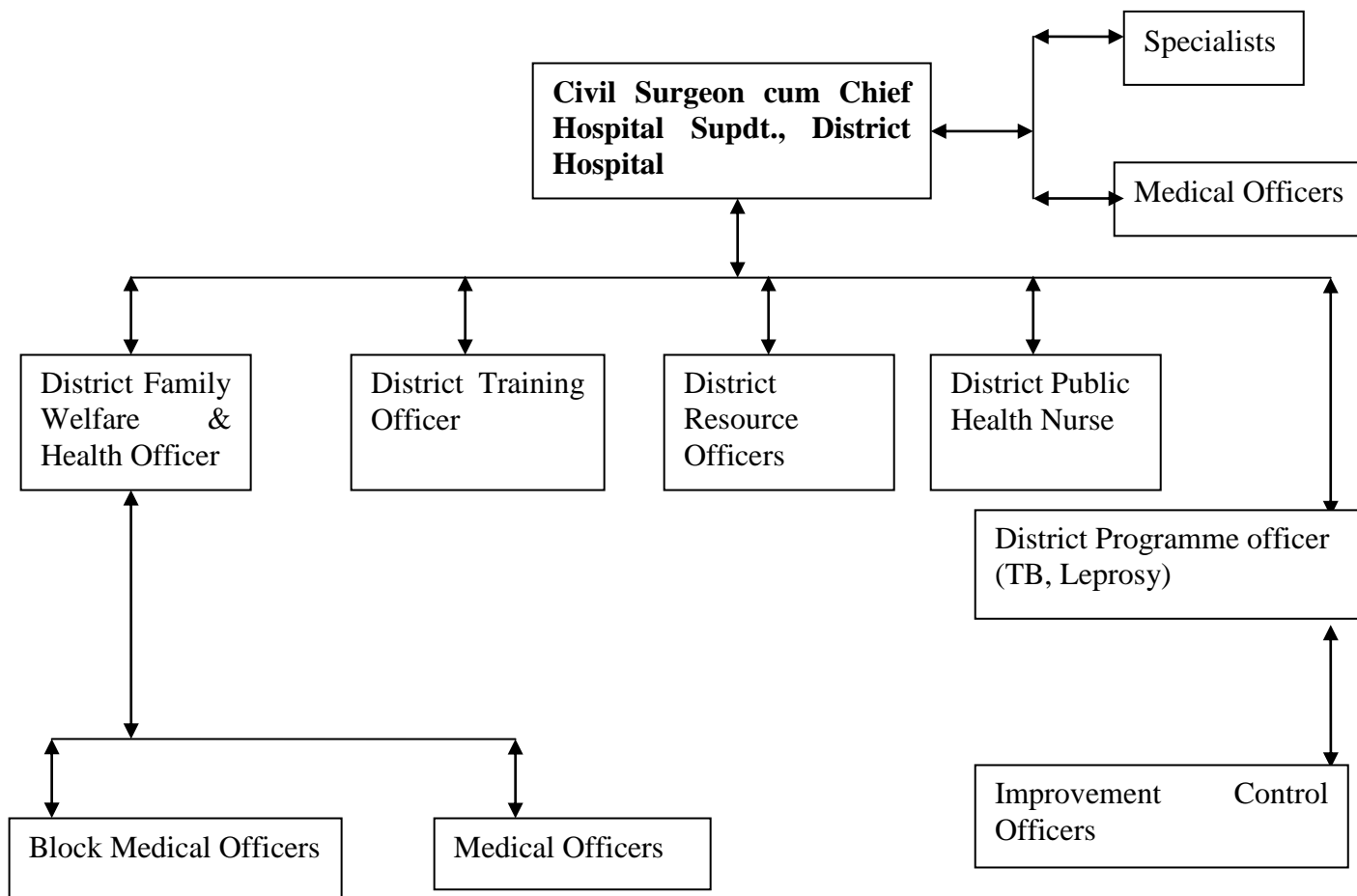
Civil Surgeon-cum-Chief Hospital Superintendent, District Hospital Gwalior

3.1 Organisaional Set up

The office of Civil Surgeon-cum-Chief Hospital Superintendent, District Hospital Gwalior (CS) came into existence in 1997. Primarily the objective for establishment of the office of CS at Gwalior is to provide medical, public health and family planning services to the town/urban area population (8,26,919 as per 2001 census) falling under Nagar Nigam area of Gwalior. Prior to the establishment of the O/O CS these services were provided by Chief Medical and Health Officer Gwalior (CMHO).

21 attached hospitals and dispensaries {1 District Hospital (200 beds), 2 Civil Hospitals (70 beds), 1 TB Hospital (104 beds), 3 Maternity Homes (80 beds), 1 Field Health Centre and 13 Civil Dispensaries (50 beds)} are functioning under the control of CS, Gwalior with a total complement of medical and paramedical staff of 352.

The organizational set up of the office of the Civil Surgeon-cum-Chief Hospital Superintendent District Hospital is given in the chart below :



3.2 System of Accounting

Civil Surgeon-cum-Chief Hospital Superintendent, District Hospital Gwalior (CS) is the head of office. The accounting functions in the office are looked after by an Accountant who is responsible for drawal of money from Treasury for payment of staff salary , bills etc. The budget is communicated to the Treasury which controls expenditure with reference to allotted funds.

Office of the CS does not have any direct income. The expenditure incurred by CS is mostly on providing medical, public health and family planning services. Capital works, if any, on land and buildings is carried out by Public Works Department of Government of MP for which budget is allocated directly to PWD by the State Government.

3.3 Reporting Entity

Civil Surgeon-cum- Chief Superintendent (CS), District Hospital, Gwalior including 21 attached hospitals and dispensaries has been treated as a separate reporting entity for the purpose of preparation of AFS as provided in IPSAS 6. All the revenues, expenses, assets and liabilities relating to and under the control of CS Gwalior are included in these AFS.

3.4 Field testing of IPSAS/IGFRS (AED)

3.4.1 GASAB has issued the following Financial Reporting Standard on Accrual basis of Accounting.

- IGFRS 2 Property, Plant and Equipments
- IGFRS (Accrual Exposure Draft)- 3 Revenue for Exchange Transactions
- IGFRS (Accrual Exposure Draft)-4 Inventories

3.4.2 Analysis of existing IPSAS/IGFRS (Standard and AEDs) for the different accounting subjects is provided below:

Table – 5

Sl.No.	Accounting Subject	
1.	Land and Buildings	<ul style="list-style-type: none">• Land may be acquired through purchase or by way of gift. Regardless of manner of acquisition these qualify for recognition and the cost principle is applicable as per IPSAS. In the case of gift it would be fair value at date of gift. Where

		<p>the cost of acquisition is not ascertainable the fair value could be determined with reference to the circle rates fixed by the land registration authorities. Land attached/ underneath buildings or set aside for conservation areas or recreational facilities value is included as a component of the value of these classes of assets.</p> <ul style="list-style-type: none"> • For buildings which are constructed or purchased the cost principles shall be applied consistent with IPSAS. • The donated buildings shall be recorded at fair market value at the date of gift. <p>The following principles should be acceptable as per IGFRS - 2 Property, Plant and Equipment.</p> <ul style="list-style-type: none"> • Where purchase/construction cost is available, recognize the building at carrying cost. Where this information is not available, valued at Re. 1 per sq ft. • Where the building has not entirely outlived its useful life and its plinth area measurements are available, value based on square feet and plinth area less depreciated value should be available. <p>Because of non-availability of information, none of the aforesaid principles could be applied in the case of buildings under the control of the Civil Surgeon, Gwalior. These have been recorded at a nominal value of Re. 1.</p>
2.	Surgical and Medical Equipment Machinery, Motor Vehicles including Ambulances	Consistent with the provision of IGFRS -2, Property, Plant and Equipment where year of purchase/acquisition and cost is known, assets to be recorded at carrying cost. Otherwise recording at nominal value of Re.1 per unit should be acceptable as per IGFRS -2.
3.	Furniture and Fixtures	<p>Where year of purchase/acquisition and cost is known to be recorded at carrying cost. Otherwise recording at nominal value of Re.1 per unit should be acceptable as per IGFRS -2.</p> <p>Where Furniture and Fixtures have been acquired many years before but never entered the records (as in the case of Civil Surgeon), original purchase documents not being available, the original cost can not be established precisely, it should be acceptable to records these assets in accounts at nominal value of Re. 1.</p>
4.	Donated/Gifted Assets	Gifted/donated assets (other than service in kind) are

		to be recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. Such type of assets are valued at fair value as provided in IPSAS 23.
5.	Encroached Land	There is no mention in IPSAS/IGFRS about treatment of assets/land which has been encroached. It is felt that Since title of such type of land vests with the Government, it will be valued like any other Government land with adequate disclosure about encroachment.
6.	Depreciation	The quantum of depreciation with reference to the useful life of the assets should appropriately be determined by the entity itself. The Health department in the Government of the Madhya Pradesh prescribed (2009) useful life of assets for different classes of assets, which has been adopted while calculating depreciation for preparation of AFS. As per these orders, life of Kitchen ware prescribed as 5 years, Fixtures as 10 years, Computers and Electrical Equipments as 5-7 years, Medical and Surgical Equipment as 10 years
7.	Inventories	<p>These include :</p> <p>(i) Medical supplies held for distribution as part of service.</p> <p>(ii) Materials and supplies to be used in running hospital activities.</p> <p>(iii) Consumable and maintenance stores to be valued at their cost of purchase and other incidental cost incurred on brining the inventories to their present location and condition as per provisions of Para-13 of IPSAS-12 and adaptation in Para -23 of the IGFRS (AED)-4 Inventories.</p> <p>The supplies are generally expensed and purchased to the extent of requirements. Thus, there is seldom piling up of inventory. The recognition will depend on the materiality of items both in terms of purchases and inventory in hand at the close of the year.</p>
8.	Threshold limit for capitalization of assets	Establishment of threshold limit below which assets individually or collectively would be expended as expenditure and not capitalized shall have to be accordingly fixed by the management of the entity keeping in view the materiality factor. For the purpose of accounting, however, these will be taken in stock till its disposal. In the case of Health segment, we have taken it as Rs.1,000/- collectively for the purpose

		of AFS.
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3.5 Recognition and measurement of identified transactions

Recognition and measurement of transactions in the context of pilot study refers to the recording and its valuation in trial balance taking cognizance of identified transactions for the purpose of preparation of accrual AFS. The recognition and measurement criteria are primarily based on IPSAS/IGFRS, guidelines/instructions wherever, relevant and applicable. In other cases, generally accepted accounting principles have been considered for recognition of the transaction.

The broad recognition and identification criteria followed are as under :-

Table – 6

Account Group classification as per Accrual AFS	Recognition Criteria	Measurement basis (valuation Methodology)
1	2	3
Expenses		
Wages, Salaries and employee benefits	Salaries and other employee related benefits are recorded on accrual basis on gross basis i.e without any deductions	From Pay bills and other relevant bills/ records.
Supplies and consumables used	Issue of consumables for consumption	Value of materials consumed
Other Expenditure	Decrease in future economic benefits related to a decrease in an asset or an increase of a liability which has arisen that is probable and can be measured reliably.	Actual disbursement during the year. Value of ascertainable obligations as on 31 st March.

Assets & Liabilities

Equipments/ instruments electrical, Medical, Surgical, Furniture and Fixtures.	From the details as available in various stock Registers	Cost of purchase.
Inventories	From the details available in various stock registers	Cost of purchase
Financial Assets	Amount recoverable as per records.	Amount receivable as per records.
Liabilities on account of Employee Benefits-Retirement	At present both pension plans i.e defined benefit plan and defined contributory plan are applicable to the employees working under the control of entity. Defined benefit plan is	

	applicable to the pre-January 2005 employees while defined contributory plan to post January 2005 employees. Liabilities exhibited in the current AFS do not include value of obligations on account of payment of pension under defined benefit plan. Further liabilities on account of retirement benefits are worked out by the Finance Department of Government of MP, as such the details of liability on this account were not available with the entity.
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3.6 Identification of Transactions

The first stage in the identification of the transactions was through discussions with the concerned officers and officials. Based on the discussions, the relevant records and other documents maintained and the information they provided, these were identified. This analysis helped to identify the information gaps for preparation of accrual AFS. The details of records maintained and their purpose vis-a-vis information available are as under :

Table – 7

S.No.	Name of Records	Purpose	Information available
1	2	3	4
1.	Budget Control Register	For control of expenditure against allocations in Budget	Budget control register not maintained.
2.	Treasury Bill Register	To record the bills submitted to the treasury with details of payment/rejection by treasury	Details of bills presented to treasury for payment
3.	Stock Registers	(a) To record the receipt and issue of consumables (inventories) (b) Record transactions of receipt and issue of articles of permanent nature (fixed assets). (c) To record transactions relating to receipt and issue of food grains, milk etc. (d) To record transactions relating to receipt and issue of liveries linen etc.	Availability of stock materials as on any date.
4.	Pay bills.	Maintained for employees emoluments	Details of gross salary payable to each employee

S.No.	Name of Records	Purpose	Information available
1	2	3	4
		with details of various allowances payable/ paid	and details of recoveries and net amount payable/ paid.
5.	Cash Book	To record receipts and disbursements of cash.	Details of all receipts and disbursements made.

Based on records and sources of transactions, identification and classification of transactions were made as per details given below:

Table – 8

S.No.	Transaction identified	Nature of transaction (asset/ liability/ Income / Expenses)	Classification as per accrual AFS
1	2	3	4
(A) Receipts and disbursements			
1.	Salary (including pay & allowances, DA, HRA)	Expense	Wages, Salaries and allowances
2.	Medical reimbursement		
3.	Encashment of earned leave		
4	Leave travel concession		
5.	Travelling Allowances		
6.	Wages		
7.	Postage, Telegram, Telephone charges	Expense	Other expenditure
8.	Water and Electricity Charges	Expense	Other expenditure
9.	Rent, rates and taxes	Expense	Other expenditure
10.	Medicines , Diet, Milk, liveries, bed sheets, etc.	Expense	Hospital Expenses
11.	Maintenance and repair of Motor Vehicles	Expense	Maintenance Expenses
(B) Liability / Assets			
12.	Office equipment, Electrical equipment	Asset	Property, Plant & Equipment
13.	Medical and Surgical instruments/equipment s	Asset	Property, Plant & Equipment
14.	Furniture and fixtures	Asset	Property, Plant &

			Equipment
15.	Inventories	Asset	Current Assets
16.	Loans & advances to Government Servants	Asset	Financial Assets
17.	Payables	Liability	Financial Liabilities
18.	Receivables	Assets	Financial Assets
19.	Pension and other retirement benefits (Pension, Ex-gratia, leave encashment on retirement)	Liability	Liabilities

3.7 Annual Financial Statement

As per IPSAS-1 and 2, the set of annual financial statements include:

- (i) Statement of Financial Position;
- (ii) Statement of Financial Performance;
- (iii) Statement of Change in net assets/equity ;
- (iv) Cash Flow Statement; and
- (v) Significant Accounting Policies and Notes to Financial Statement.

Financial statements on accrual bases for 2008-09, which are illustrative, conform to the requirements of IPSAS-1 and 2. These are placed as Annexure to this Report.

Chapter 4

Benefits, Issues and Suggestions

4.1 Benefits of the Study

The study is noteworthy that not only statement of Financial Position for the reporting entity has been prepared but it also discloses physical assets and current liabilities. Expenses rather than expenditure have been recognized resulting in exhibition of fair view of operating results. The illustrative AFS compliant with IPSAS 1 and 2 provide comprehensive financial/ accounting information on recognition of non-financial assets and depiction of receivables and payables in the accounts. These details would help the line managers in better asset control and management, informed decision making and efficient resource allocations.

4.2 Issues and Suggestions

The following table gives the details of issues as a result of non-compliance of prescribed system, absence of standards/ guidance notes for transition to accrual accounting noticed during the pilot study in both the offices:

Table – 9

Issues/Gaps	Description	Suggestion
1. Non-maintenance of Register of Land and Buildings or Register of properties	Register of Land and Buildings or Register of properties has not been maintained as a result the identification of assets, their value could not be done/worked out.	<ul style="list-style-type: none">• Proper inventory of fixed assets at cost for new assets has to be maintained. Effort to find out the historical cost of previously acquired assets shall have to be made. The register should be regularly updated and validated.• Records maintained by the Public Works Department for the buildings / Revenue department for the land could be accessed.• In case where details are not known, these records may be compiled with reference to
2. Register of other infrastructure and heritage assets viz. Tube wells, Dug wells, Stop Dam, WBM Road, Culverts, Heritage etc.	These registers have not been maintained; as a result the identification of assets, their value could not be done/worked out.	

		the physical existence of assets.
3. Register of Loans and Advances to the Staff	In the absence of non-maintenance or improper maintenance, information relating to receivables could not be worked out.	The requisite records shall be maintained in proper form with reference to payment vouchers and recovery schedule with complete details. Pay bill register and abstract of pay bill in the form of a ledger for recording the dues payable and deductions made in respect of each claim for pay and allowances of a Government servant similar to the form used by the Central Government offices as prescribed in Central Government Account-Receipt and Payment Rules may be adopted by reporting entities.
4. Stock Register of consumables	Stock Registers maintained are incomplete in as much as neither the rates of items received/procured nor total value thereof was recorded.	Register of Assets/ Inventory shall have to be maintained indicating months/year in which the item (s) was purchased/received or acquired, make, size, quantity and total value/ cost thereof with details of quantity and value thereof issued /consumed, balance lying in stock alongwith its value. This register should have cross reference to the suppliers bills and be seen for its completeness and update posting by DDO every month. This can be monitored if internal audit as well as external audit in their inspection report make their observations on the maintenance of prescribed

		accounting records as noticed after a thorough check.
5. Register of Liabilities	The books/ records in the existing system of accounts do not exhibit the details of Payables to suppliers, salaries & wages payables, pension & gratuity liabilities, etc	Liability register may be maintained and posted as and when the liability is incurred. The source being the Suppliers/Contractor's pending bills, arrears on account of salaries & allowances payable to staff and other personal claims.
6. Absence of explicit Standards /guidance notes		
(a) Valuation of natural Forest	IPSAS 27 - Agriculture drawn primarily from IAS 41- Agriculture does not cover as to how the natural forests could be valued.	As to how the natural forests is to be valued, there is need for explicit guidance by the Accounting Standard Setting Body.
(b) Impairment of forest vegetation	IPSAS 26 on Impairment of Cash Generating Assets does not cover impairment of forest vegetation	Accounting policies for impairment methods used to collect impairment data and responsibility for conducting the impairment review should be established.
(c) Valuation of Infrastructure Asset	There is no clear provision in the standards regarding valuation of infrastructure assets	For non-tradable commodities/ infrastructure like roads, bridges, culverts, etc. Accounting Standard setting Body may deliberate as to how such type of assets should be valued. We feel that these should be shown at nominal value with detailed listing in the appropriate schedule.
(d) Fixation of threshold limit for capitalization of assets	There is no clear provision in the standards regarding fixation of threshold limit for capitalization of assets.	Establishment of threshold limit below which assets individually or collectively would be expended as expenditure and not capitalized shall have to be accordingly fixed by the entity

		keeping in view the materiality factor. For the purpose of accounting, however, these will be taken in stock till its disposal.
(e) Encroached Land	There is no mention in IPSAS/IGFRS about treatment of Govt. assets/land which has been encroached.	Since title of such type of land vests with the Government, it will be valued like any other Government land with adequate disclosure about its encroachment.
7. Liabilities on account of Retirement Benefits	At present both pension plans i.e defined benefit plan and defined contributory plan are applicable to the employees working under the control of entity. No liability on this account could be provided as actuarial valuation in respect of defined benefit plan was not available.	Entity should get the pensionary liability worked out by engaging actuaries.

4.3 Other Suggestions

A few more suggestions are:

- First point for switch over to accrual accounting system is that the existing cash based accounting system be purged of the accounting abuses and get to work well by aligning with existing cash based IPSAS as suggested by the International Monetary Fund in IMF Working Paper (December 2002/240). This we would also like to emphasize.
- Departmental record keeping has to improve considerably. Maintenance of records/register prescribed under existing financial and accounting codes and departmental regulations has to be a binding priority.
- Identification of physical assets, their valuation by the control entity and the identification of current liabilities has to be a priority and pre-condition to migration.
- Physical verification of the inventory held in stock should be conducted annually as already laid down in Departmental Rules and shortages/excess(s) detected, if

any should be recognized in the AFS. This will help in knowing the physical existence and location of the inventory of stock.

- To be successful, the organization would need to be prepared and willing to accept the benefits of change. The line managers would need to know how the accrual information will help them manage activities more efficiently and effectively. This could be demonstrated by holding Workshops on Study of Cash and accrual systems of Accounting through case studies of the pilots already done. The accounting staff would require adequate training and capacity building to manage the accrual accounting.
- Before whole of Government approach for migration to accrual accounting in Government sector is attempted, more pilots of individual departments of Government should be taken up.
- Accrual Accounting would need a robust IT system to capture accrual information.