

Accounting Standards for Local Bodies

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Objectives

01

To sensitise the participants on ASLBs

02

To understand this new area of practise objectively

03

To identify the scope for the profession

Municipal e-Governance Modules



Definition of Accounting Standards

Accounting Standards Board (AcSB, Canada) define Accounting Standards:

*“**Accounting standards** specify how transactions and other events are to be recognized, measured, presented, and disclosed in financial statements. Their **objective** is to provide financial information to investors, lenders, creditors, contributors, and others that is useful in making decisions about providing resources to the entity”*

Need for ASLB

Accountability

Consistency

Efficiency

Compliance

Budgeting

Investment
decisions

Oversight

Clarity during
the transition
to accrual

Accounting Standards for Local Bodies (ASLB)

- ASLBs have been developed by Committee on Public & Government Financial Management (**CPGFM** - <https://www.icaai.org/post/committee-on-public-and-government-financial-management>)
- ASLBs provide a **consistent framework for financial reporting** that can be used to improve transparency, accountability, and comparability of financial information of local bodies.
- **ICAI has developed 31 ASLBs** based on International Public Sector Accounting Standards (IPSAS – <https://www.ipsasb.org>) normalising them to Indian conditions and requirements

Role of CPGFM

- **Committee on Public and Government Financial Management (CPGFM)**
- Constituted by ICAI to assist Central & State Governments and Local Bodies in successful implementation of the accounting reforms and public finance management
- Main objective of the committee is **formulating** Accounting Standards for Local Bodies (ASLBs)
- Has drafted **31 ASLBs**
- Also focuses on **capacity building** of the finance officials of various tiers of Government by various means such as organizing workshops, developing relevant e-training modules, etc.

Procedure for Issuing an ASLB

- Broadly, the following procedure is adopted for formulating Accounting Standards for Local Bodies:
 1. Determine the **broad areas** in which Accounting Standards need to be formulated and the priority in regard to the selection thereof.
 2. For the preparation of the Accounting Standards, the CASLB will be assisted by **Study Groups** constituted to consider specific subjects. In the formation of Study Groups, provision will be made for wide participation by various interest groups.
 3. The **draft of the proposed standard** will normally include the following:
 - ✓ (a) Objective of the Standard,
 - ✓ (b) Scope of the Standard,
 - ✓ (c) Definitions of the terms used in the Standard,
 - ✓ (d) Recognition and measurement principles, wherever applicable,
 - ✓ (e) Presentation and disclosure requirements,
 - ✓ (f) Deviations, if any, from the corresponding International Public Sector Accounting Standard (IPSAS), as an Appendix to the Standard.

Procedure for Issuing an ASLB

4. The Committee will consider the **preliminary draft** prepared by the Study Group and if any revision of the draft is required on the basis of deliberations, the CASLB will make the same or refer the same to the Study Group.
5. The **procedure for issuance** of an **Interpretation** on any Accounting Standard for Local Bodies will be the **same as that for issuance of an Accounting Standard** since the authority of an Interpretation is the same as that of Accounting Standard for Local Bodies to which it relates.
6. The Committee will **circulate the draft** of the Accounting Standard/Accounting Standards Interpretation for Local Bodies to the Council **members** of the ICAI and the **following specified bodies** for their comments*:

1. Comptroller and Auditor General of India (C&AG)
2. Ministry of Urban Development
3. Controller General of Accounts
4. Ministry of Panchayati Raj
5. National Institute of Urban Affairs
6. Directorates of Local Bodies of the State Governments
7. Directorates of Local Fund Audit Department of the State Governments
8. Major Local Bodies
9. National Institute of Financial Management
10. Securities and Exchange Board of India
11. Any governmental Committee(s) or other similar body, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted by the Ministry of Urban Development.
12. The All India Council of Mayors
13. All India Institute of Local Self Government
14. Donors of funds to Local Bodies such as US AID, World Bank, etc.
15. The Institute of Cost and Works Accountants of India
16. The Institute of Company Secretaries of India
17. All the Indian Institutes of Management (IIMs)
18. Any other body considered relevant by the CASLB keeping in view the nature of the Accounting Standard.

Procedure for Issuing an ASLB

7. The Committee will hold a **meeting with the representatives of the selected specified bodies to ascertain their views** on the draft of the proposed Accounting Standard/Accounting Standards Interpretation for Local Bodies. On the basis of comments received and discussion with the representatives of specified bodies, the Committee will **finalise the Exposure Draft** of the proposed Accounting Standard/Accounting Standards Interpretation for Local Bodies*.
8. The Exposure Draft of the proposed Standard/Interpretation will be issued for **comments by the members of the Institute and the public**. The Exposure Draft will be sent to the **specified bodies** (as listed above), and other **interest groups**, as appropriate.
9. The Exposure Draft will be sent to any **governmental Committee(s)** or other similar body, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted by the Ministry of Urban Development for sending comments on the Exposure Drafts of the proposed Standard/Interpretation.
10. After taking into consideration the comments received, the draft of the proposed **Accounting Standards Interpretation for Local Bodies** will be finalised by the Committee and **submitted to the Council**.

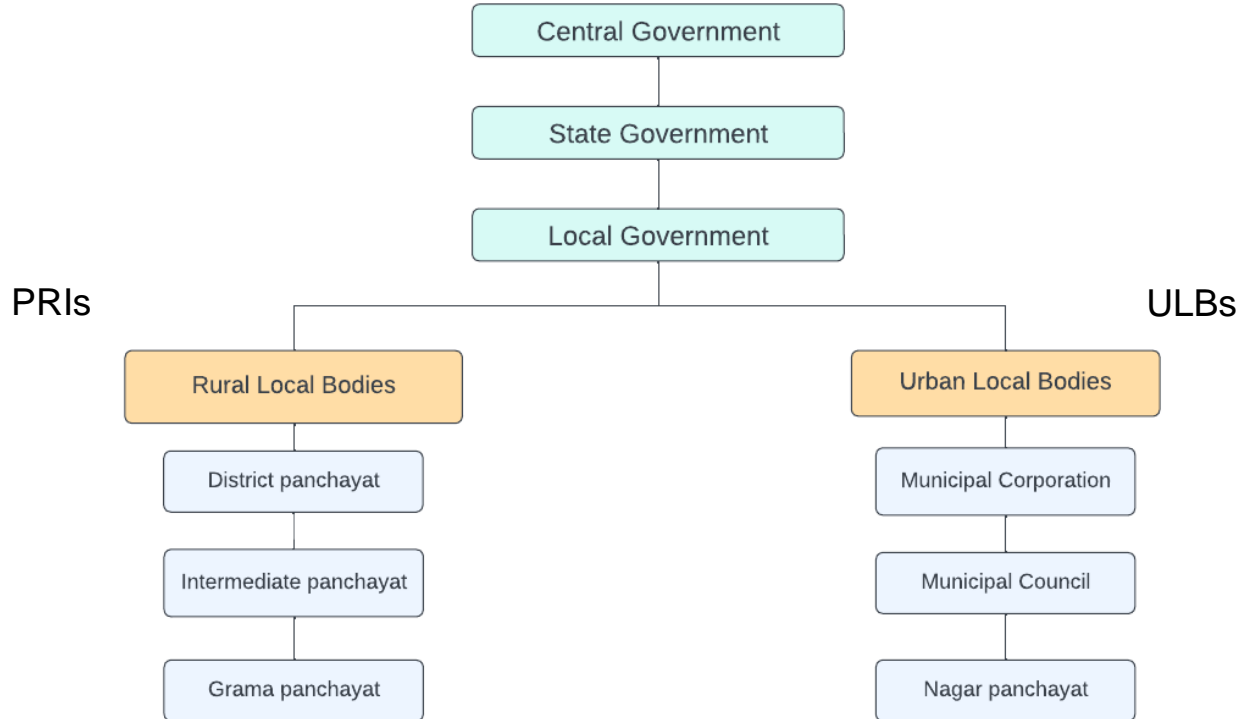
Procedure for Issuing an ASLB

11. The Council of the ICAI will consider the final draft of the proposed Standard/Interpretation, and **if found necessary, modify** the same in consultation with the Committee. The Accounting Standard/Accounting Standards Interpretation on the relevant subject will then be **issued by the ICAI**.
12. The ICAI will send the Accounting Standards so formulated to the **governmental Committee(s)** or other similar body, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted by the **Ministry of Urban Development** for recommending the same for implementation by the State Governments to achieve uniformity in preparation and presentation of financial statements by complying with the requirements of the Accounting Standards for Local Bodies.
13. For a **substantive revision** of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, the **procedure followed** for formulation of a new Accounting Standard/Accounting Standards Interpretation for Local Bodies, as detailed above, **will be followed**.

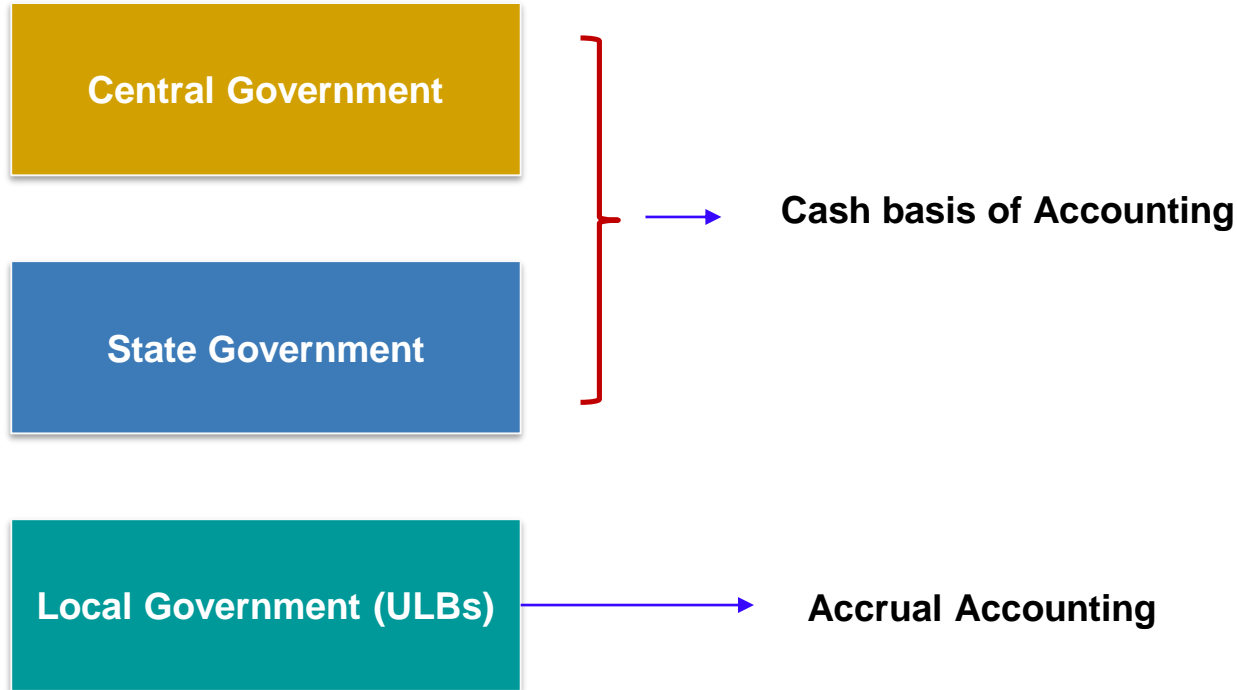
Procedure for Issuing an ASLB

14. Subsequent to issuance of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, some aspect(s) **may require revision which are not substantive in nature.**
15. Accounting Standard/Accounting Standards Interpretation for Local Bodies. The procedure followed for the limited revision will **substantially be the same as that** to be followed for formulation of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, ensuring that sufficient opportunity is given to various interest groups and general public to react to the proposal for limited revision.

Local Government in India



Accounting scenario in India



Adoption of Accrual accounting globally

- According to International Federation of Accountants (IFAC)
 - many governments have started moving to accrual accounting and are applying the IPSAS
 - 30% of jurisdictions reporting on accrual in 2020
 - up 6% since 2018

IPSASB and IPSAS

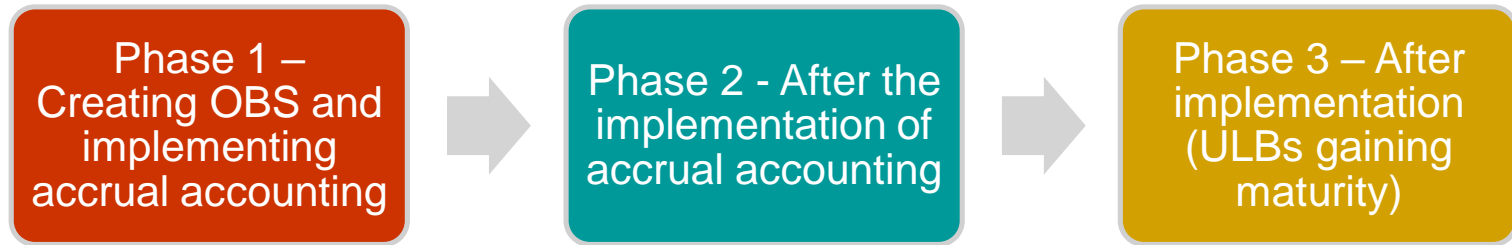
- The International Public Sector Accounting Standards Board (IPSASB) is an independent standard-setting board
- Develops and promotes high quality financial reporting standards for governments
- IPSASB develops International Public Sector Accounting Standards (IPSASs) which are designed to improve the quality and comparability of financial reporting by Governments, including local governments
- IPSASs provide a comprehensive set of financial reporting requirements that cover areas such as presentation of financial statements, recognition and measurement of assets and liabilities, and inclusion of budget information in financial reporting

Applicability of ASLBs

- ULBs in India are required to follow the accounting manuals prescribed by the State Government based on NMAM (National Municipal Accounting Manual)
- ASLBs not mandatory for ULBs yet
- Apply only to items which are material
- CPGFM of ICAI addresses various issues that may arise from time to time with regard to ASLBs and their implementation
- Flexibility for practitioners to adapt the ASLBs to the requirements of the ULBs without compromising on the overarching principles laid out

Adoption and implementation of ASLBs

- Implementation of ASLBs ideally taken up in three phases



ASLB Adoption Matrix

- Suggested for an ULB that has already adopted accrual accounting with software like Tally
- Out of 31 ASLBs issues TWO have been made mandatory for ICAI members in case they audit or certify the financial statements of ULBs
 - *ASLB 2 Cash Flow Statements*
 - *ASLB 5 Borrowing Costs*
for financial statements w.e.f. 1.04.2022
(<https://resource.cdn.icai.org/60819cpfgm49453.pdf>)

ASLB adoption Matrix

ASLB No	ASLB Title	Ease of adoption			Key Content	Key Links to other ASLBs	Remarks
		Phase 1	Phase 2	Phase 3			
1	Presentation of Financial Statements	X			Purpose, Responsibility, Components	2, 14, 18, 19, 20, 24, 33	
2	Cash Flow Statements	X			Operating, Investing, Financing aspects	1	To link with Receipts and Payments Account
3	Accounting Policies, changes in Accounting Estimates and Errors	X			Accounting policies, changes in estimates	ALL	To introduce accounting policies first
4	The Effects of Changes in Foreign Exchange Rates		X		Involving foreign exchange transactions		May be applicable for few large municipal corporations
5	Borrowing Costs	X			Recognition, capitalisation	17	To link to accounting policies
9	Revenue from Exchange Transactions	X			Revenue measurement (with exclusions)		To link to Demand Collection Balance (DCB) book
11	Construction Contracts		X		Different types of construction contracts	17	To link to accounting policies

ASLB No	ASLB Title	Ease of adoption			Key Content	Key Links to other ASLBs	Remarks
		Phase 1	Phase 2	Phase 3			
12	Inventories	X			Inventory accounting and valuation		
13	Leases		X		Classification, treatment in books of lessor, lessee	16	The accounting processes must be sensitive to identify such transactions
14	Events After the Reporting Date	X			Impact of events after the reporting date	1	The accounting processes must be sensitive to identify such transactions
16	Investment Property	X			Rented properties and revenue recognition	13,17	To link DCB, asset register, rent register
17	Property, Plant and Equipment	X			Recognition, costing models, implementation guidelines	5, 11,16	To link to accounting policies and Asset Register
18	Segment Reporting	X			Segment structuring, reporting, implementation guidelines	1	Could involve non-financial data also, processes need to capture such data
19	Provision, Contingent Liabilities and Contingent Assets	X			Provision, contingent liability, contingent asset		To set up processes to identify such transactions

ASLB No	ASLB Title	Ease of adoption			Key Content	Key Links to other ASLBs	Remarks
		Phase 1	Phase 2	Phase 3			
20	Related Party Disclosures		X		Related party, Key managerial personnel	1	May need a government policy on definitions
21	Impairment of Non-Cash-Generating Assets		X		Identification of assets and impairment		To have processes to identify assets and quantify impairment
23	Revenue from Non-Exchange Transaction (Taxes and Transfers)	X			Taxes and Transfers primary source for ULBs	1	To link to Demand Collection Balance book
24	Presentation of Budget Information in Financial Statements	X			Comparison of budget and actual info		Accounting software to link budgets
26	Impairment of Cash-Generating Assets		X		Identification of impairment and losses		To have processes to identify assets and quantify impairment
31	Intangible Assets		X		Goodwill, R&D		To link to accounting policies and systems
32	Service Concession Arrangements: Grantor			X	Service concession asset, contract		To link to accounting policies and systems
33	First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies	X			Opening balance sheet and related matters	1	To be considered while preparing the opening balance sheet

ASLB No	ASLB Title	Ease of adoption			Key Content	Key Links to other ASLBs	Remarks
		Phase 1	Phase 2	Phase 3			
34	Separate Financial Statements			X	Investment in controlled entities, Joint Ventures (JVs), etc.		ULBs may need more time to implement this
35	Consolidated Financial Statements			X	Entity with one or more controlled entities		May not be applicable for all ULBs
36	Investment in Associates and Joint Ventures			X	When ULB has associate or JVs	37, 38, 40	ULBs may need more time to implement this
37	Joint Arrangements			X	Financial reporting of ULBs with joint arrangements	36, 38, 40	ULBs may need more time to implement this
38	Disclosure of Interests in Other Entities			X	Disclosure in case of joint arrangements etc	36, 37, 40	ULBs may need more time to implement this
39	Employee Benefits		X		Recognition, measurement, disclosure of employee benefits		May require consultations with state and union government
40	Entity Combinations			x	ULB combines with another ULB or entity	36, 37, 38	Accounting policies may be aligned to this

Key issues in implementing ASLBs

Lack of capacity and resources

- Lack of trained personnel to implement ASLB
- Results in inaccurate or incomplete financial reporting
- May impact the ability to make informed financial decisions

Complexity of ASLBs

- Local Governments may find it difficult to understand ASLB
- May result in errors or misrepresentation
- May impact the accuracy and reliability of financial information

Limited stakeholder engagement

- Local Governments may not engage effectively with stakeholders (citizens, civil society, organisations, auditors)
- Results in lack of transparency, accountability and impacts public trust

Limited enforcement mechanisms

- May not have effective enforcement mechanisms in place for compliance
- Impacts accuracy and reliability of financial reporting

Mitigation strategies

Key Issues	Mitigation Strategies
Lack of capacity and resources	<ul style="list-style-type: none">• Local governments can invest in building the capacity of their personnel to implement accounting standards effectively• Can involve a combination of providing training, engaging professionals, recruiting experienced personnel, and leveraging technology to simplify financial reporting processes
The complexity of ASLBs	<ul style="list-style-type: none">• Local governments can work with ICAI to advocate for the simplification of accounting standards• Providing implementation checklists and using ICAI members in the implementation can demystify the seemingly complex ASLBs
Limited stakeholder engagement	<ul style="list-style-type: none">• Local governments need to engage extensively with stakeholders (accounting staff, auditors, ICAI, and so on) to promote transparency and accountability in the implementation process
Limited enforcement mechanisms	<ul style="list-style-type: none">• Enforcement mechanisms can involve establishing deterrents for non-compliance, providing incentives for compliance, and conducting regular reviews to detect and deter improper implementation of ASLBs

Progress so far

- In the last two decades ICAI has undertaken enormous efforts to develop ASLBs
- Although the ICAI has issued over 31 ASLBs, they are yet to be mandated for ULBs by the State Government
- The approach to adopting the ASLBs in phases needs to be understood by the implementers
- Specific strategies to handle the key issues highlighted need to be formulated

Scope for Chartered Accountants

With regard to ASLBs

- Implementing ASLBs
- Training in ASLBs
- Audit

With regard to Accounting/Audit/Consulting

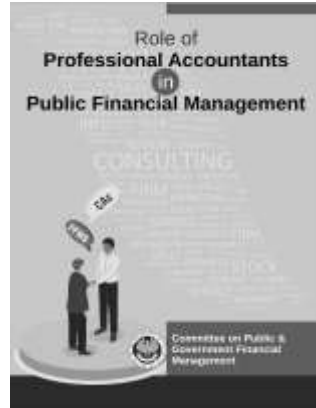
- Huge opportunities as individual consultants
- Working for/with larger organisations

ICAI Resources

<https://cpgfm.icai.org/publications/>



https://www.niti.gov.in/sites/default/files/2023-01/transition-to-accrual-accounting_0.pdf



<https://resource.cd.n.icai.org/69187cpgm55305.pdf>

<https://cityfinance.in/dashboard/>

1. Public Finance

- Commonly Used Terms in Public Finance & Government Accounting (2022 Edition)
- Role of Professional Accountants in Public Financial Management (2022 Edition)
- Booklet on "Commonly used terms in Public Finance & Government Accounting" (Hindi) (2015 Edition)
- Issues in Public Finance (2010)

2. Government Accounting

- Changing Times in Government Accounting (A Status Paper) (2010 Edition)
- Quick Insight on Accrual Accounting

3. Local Bodies

- Accounting Standards for Local Bodies (ASLB) 40, 'Entity Combinations' (issued in 2022)
- Status Paper on Accounting Reforms in Local Bodies in India: Overview (Revised) (2020 Edition)
- Accounting Standards for Local Bodies (ASLBs) – At a Glance (2021 Edition)
- Guidance Note on 'Accounting for Investments' for Local Bodies (2022 Edition)
- Accounting Standards for Local Bodies (ASLB) 35, 'Consolidated Financial Statements' (issued in 2021)
- Accounting Standards for Local Bodies (ASLB) 37, 'Joint Arrangements' (issued in 2021)
- Accounting Standards for Local Bodies (ASLB) 38, 'Disclosure of Interests in Other Entities' (issued in 2021)
- Summary of Accounting Standards for Local Bodies (ASLBs) (issued in 2021)
- Municipal Bonds for Financing Urban Infrastructure in India: An Overview (2020 Edition)
- Accrual Accounting for Local Bodies (Elected Representatives and Stakeholders)- Hindi version (2009 Edition)
- Compendium on Accounting Standards for Local Bodies (Volume II) (2020 Edition)
- Research Study on "Accounting Reforms in Urban Local Bodies in India" (2019 Edition)
- Booklet on 'Accrual Accounting for Local Bodies: Elected Representatives and Stakeholders' – English version (2009 Edition)
- Compendium on Accounting Standards for Local Bodies (ASLBs) (2015 Edition)
- Transition to Accrual Accounting: Models & Learnings for Urban Local Bodies

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
State MAM in place																	
	IT solutions requirement in place																
		Solution development, testing, data migration															
					Pilot runs and fine-tuning			State-wide rollout including backlog data updating									
			Opening balance sheet preparation														
			Conceptual training				Software training										
												Preparation of AFS for 1 st year			AFS audit of 1 st year		
												Support arrangements					

AFS: Annual Financial Statements

AFS: Annual Financial Statements

Points from NITI - ICAI Study

- An overview as well as detailed writeups on reform journeys of study states
- Recommendations – Reform design and planning, reform implementation, resourcing & capacity creation, technology
- Critical Success Factors checklist: (a) State level (46 points) and (b) ULB level (34 points)
- Indicative project timelines along with key milestones
- How accrual accounting can be used for better financial management?
- Overview of a finance-integrated municipal eGovernance system
- A snapshot of benefits derived by the early mover states
- Brief international case studies
- Overview of statutory provisions in state laws relating to accrual accounting (more detailed comparison available on www.cityfinance.in)
- Key recommendations in CFC and select SFC reports on municipal finance matters



National Performance

Summary of key national-level demographics and municipal (urban) indicators

3,316

ULBs With Financial Data

10,372

Financial Statements (2015-16 to 21-22)

223

ULBs Credit Rating Reports

95

ULBs With Investment Grade Rating

22

ULBs With Rating A & Above

41

Municipal Bond Issuances Of Rs. 5459 Cr With Details



INR 32,562 Cr

Total Tax Revenue



INR 32,898 Cr

Total Own Revenue



INR 25,818 Cr

Total Grant



INR 65,461 Cr

Total Revenue



INR 70,113 Cr

Total Expenditure



INR 3,84,370 Cr

Total Balance Sheet Size

Dashboard

Data Availability - 43%

Data Availability

Revenue

Expenditure

Own Revenue

Capital Expenditure

Resources

India Data Availability - 43%

India ▾

2020-21 ▾

Reset

Population Category

ULB Type



% of Data Availability on
Cityfinance.in

- 81%-100%
- 61%-80%
- 26%-60%
- 1%-25%
- 0%

Population Category	Number Of ULBs	ULBs With Data	Data Availability Percentage	Urban Population Percentage
4 Million+	7	4	57 %	0 %
1 Million - 4 Million	42	24	57 %	1 %
500 Thousand - 1 Million	53	26	49 %	1 %
100 Thousand - 500 Thousand	382	145	38 %	8 %
< 100 Thousand	4303	0	0 %	88 %

Municipal e-Governance Modules



Analytics & Insights



External Systems



In summary

- Accrual accounting reforms are two decades old
- Enough experiences have been gained across states
- Both at national and state levels the importance has been recognized
- ICAI has issued enough guidelines and ASLBs in this regard
- Members should make full use of this available knowledge repository!



Any Questions ?



Thank You