

Accounting for Local Bodies

Unit-4

B.Com. Hons. in Accounting
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Unit-4

Preface to Accounting Standards for Local Bodies

Introduction to the Accounting Standards for Local Bodies

The 73rd and 74th Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing and drinking water. The State Governments are required to devolve powers and responsibilities upon the PRIs and the ULBs with respect to preparation of plans for economic development and social justice, and for the implementation of development schemes as may be required to enable them to function as institutions of self-government. Due to such devolution of powers and responsibilities, the role of the ULBs varies across various States. Under the Urban Reforms Incentive Fund (URIF) which was launched a few years back, 28 States/Union Territories agreed to adopt the double entry system of accounting. Further, through the National Urban Renewal Mission, the Government requires Local Self Governments to adopt modern, accrual-based double entry system of accounting. The Government had also proposed Second Generation Reforms under Urban Reforms Incentive Fund (URIF-II) to further encourage adoption of accrualbased double entry system of accounting amongst Local Self Governments.

Objectives and Functions of the Committee on Accounting Standards for Local Bodies (CASLB)

The following are the objectives and functions of the CASLB:

- (i) To conceive of and suggest areas in which Accounting Standards for Local Bodies need to be developed.
- (ii) To formulate Accounting Standards for Local Bodies.
- (iii) To examine how far International Public Sector Accounting Standards (IPSASs) prepared by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) can be integrated into national Accounting Standards for Local Bodies envisaged in paragraph (ii) above and to integrate the same to the extent possible with a view to facilitate global harmonisation.

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- (iv) To review, at regular intervals, the Accounting Standards for Local Bodies from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
- (v) To provide, from time to time, interpretations and guidance on Accounting Standards for Local Bodies.
- (vi) To respond to issues arising from implementation of Accounting Standards for Local Bodies.

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(vii) To take adequate steps for propagation and dissemination of the requirements contained in the Accounting Standards for Local Bodies, including appropriately addressing the training issues, with a view to ensure effective implementation of the standards.

(viii) To take steps in facilitating improvement in accounting methodology and systems of Local Bodies, keeping abreast of the state of development of accounting systems in Local Bodies and to act as a forum to receive feedback from Local Bodies regarding problems faced by them in the adoption of accrual accounting and in application of the Accounting Standards.

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(ix) To create awareness amongst various stakeholders such as end users and citizens about the benefits of the accounting reform process in Government and Local Bodies. (x) To carry out such other work relating to Accounting Standards and other aspects of accounting and financial reporting by Local Bodies as may be entrusted to it by the Council.

(xi) To formulate comments on the drafts of Accounting Standards for governmental bodies issued by various authorities including International 5 Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).

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(xii) To perform such other functions as may be assigned by the Council such as, to provide support to Government(s) and regulators, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted under the aegis of Ministry of Urban Development, in their endeavours towards various other aspects of financial reporting including preparation of asset registers, performance measurement, budgeting, costing, internal control and audit

Scope of Accounting Standards for Local Bodies

(i) The CASLB is developing a set of standards which will be based on the accrual basis of accounting. Efforts will be made to issue Accounting Standards for Local Bodies after giving due consideration to the provisions of the applicable customs, laws, usages and economic environment in India. Accounting Standards formulated by the CASLB do not override the statute/law that govern the issue of general purpose financial statements of a particular Local Body.

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(ii) The Accounting Standards for Local Bodies are intended to apply only to items which are material. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI from time to time.

(iii) The CASLB believes that the adoption of the Accounting Standards for Local Bodies, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by Local Bodies. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions, thereby increasing transparency and accountability.

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(iv) In the formulation of Accounting Standards for Local Bodies, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.

(v) The Standards formulated by the CASLB include paragraphs in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.

(vi) The CASLB may consider any issue requiring interpretation on any Accounting Standard for Local Bodies. Interpretations will be issued under the authority of the Council. The authority of Interpretations is the same as that of the Accounting Standard to which it relates.

Procedure for Issuing an Accounting Standard for Local Bodies

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.

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3. The draft of the proposed standard will normally include the following:

- a. Objective of the Standard,
- b. Scope of the Standard,
- c. Definition of the terms used in the Standard,
- d. Recognition and measurement principles, wherever applicable,
- e. Deviations, if any, from the corresponding International Public Sector Accounting Standard (IPSAS), as an Appendix to the Standard.

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4. The CASLB 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.

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6. The CASLB 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:

- a. Comptroller and Auditor General of India (C&AG), b. Ministry of Urban Development, Government of India, c. Controller General of Accounts
- d. Ministry of Panchayati Raj, Government of India, e. National Institute of Urban Affairs, f. Directorates of Local Bodies of the State Governments
- g. Directorates of Local Fund Audit Department of the State, Government
- h. Major Local Bodies, i. National Institute of Financial Management
- j. Securities and Exchange Board of India

List of Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India.

(ASLB) 1, 'Presentation of Financial Statements'

(ASLB) 2, 'Cash Flow Statements'

(ASLB) 3, 'Accounting Policies, changes in Accounting Estimates and Errors'

(ASLB) 4, 'The Effects of Changes in Foreign Exchange Rates'

(ASLB) 5, 'Borrowing Costs'

(ASLB) 9, 'Revenue from Exchange Transactions'

(ASLB) 11, "Construction Contracts"

(ASLB) 12, 'Inventories'

(ASLB) 13, 'Leases'

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(ASLB) 14, 'Events After the Reporting Date'

(ASLB) 16, 'Investment Property'

(ASLB) 17, 'Property, Plant and Equipment'

(ASLB) 18, 'Segment Reporting'

(ASLB) 19, 'Provision, Contingent Liabilities and Contingent Assets'

(ASLB) 20, 'Related Party Disclosures'

(ASLB) 21, 'Impairment of Non-Cash-Generating Assets'

(ASLB) 23, 'Revenue from Non-Exchange Transaction (Taxes and Transfers)'

(ASLB) 24, 'Presentation of Budget Information in Financial Statements'

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(ASLB) 26, 'Impairment of Cash-Generating Assets'

(ASLB) 31, 'Intangible Assets'

(ASLB) 32, 'Service Concession Arrangements: Grantor'

(ASLB) 33, 'First-Time Adoption of Accrual Basis (ASLBs)'

(ASLB) 34, 'Separate Financial Statements'

(ASLB) 36, 'Investment in Associates and Joint Ventures'

(ASLB) 39, 'Employee Benefits'

(ASLB) 42, 'Social Benefits'

References

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