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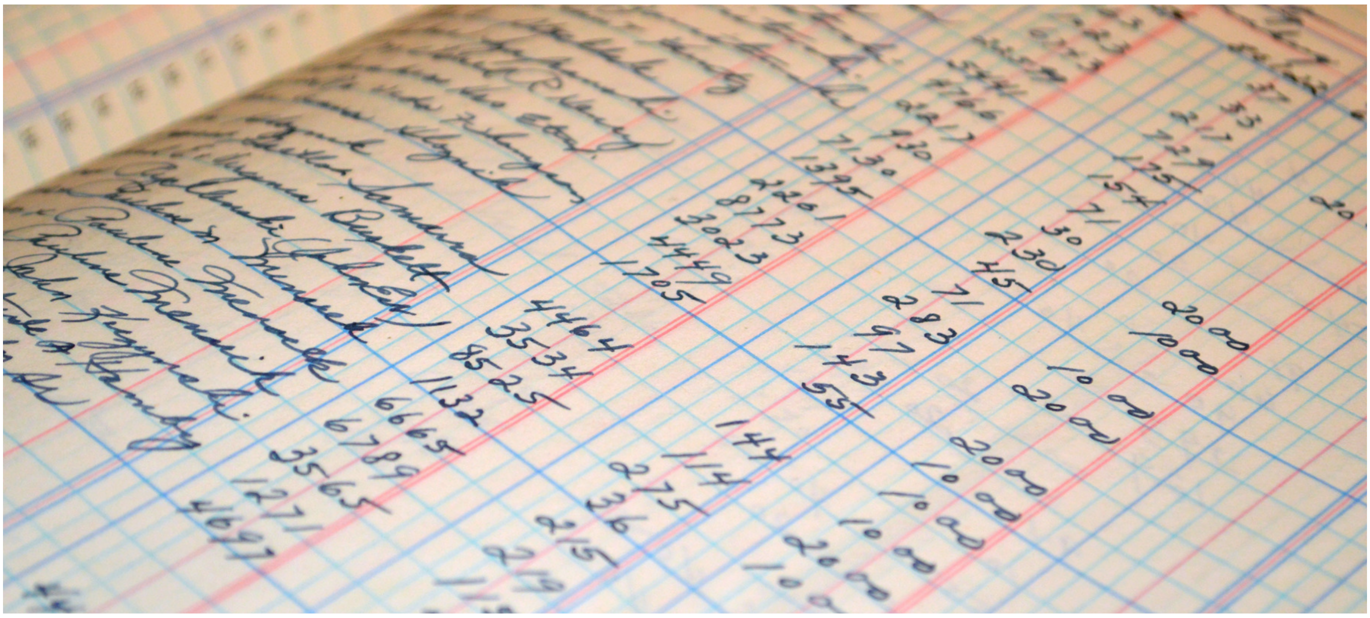
E-SUBMISSION OF ACCOUNTS TO AG



Introduction

As per the Constitution of India, the office of the Comptroller & Auditor General of India (C&AG) discharges the responsibility of maintaining and preparing finance and appropriation accounts of State governments in India. Accordingly, District treasuries, which are single point centres for making payments and receiving monies on behalf of State governments, render their accounts along with related vouchers and challans to the Accountant General (AG), who consolidates and compiles these accounts on behalf of the state government. Initially, this was being done in paper form, with States supplying accounts and vouchers in hard copy to the AG and the AG following a manual system for compiling accounts. This has changed with the advent of technology. Now, many State governments have computerized their accounts through one or the other variant of Financial Management Information System (FMIS). Simultaneously, the C&AG has also adopted computerised accounting.

While this development is expected to culminate into the paperless e-transmission of accounts from state to AG, at present different States are in different stages of the reform continuum. In this good practice note, we take the case of the state of Odisha, Kerala and Himachal Pradesh to understand where each stands, what challenges they faced and what key benefits have accrued to them from migrating to IT based systems for data capture, exchange and accounts finalization.

Odisha

The system of preparation of government accounts in Odisha has evolved through various phases, like in other States. In the first phase (2001-2006), sub-treasuries prepared manual accounts and submitted the same to District treasury, which converted the same into electronic form as well as prepared their own accounts online. These accounts were then printed and submitted physically to the AG. In the second phase (2006-2010), the State implemented 'Orissa Treasury Management System' (OTMS) in 2006. This system enabled sub-treasuries to now prepare accounts online in the system upon receipt of scroll from Link Banks. Under OTMS, the accounts prepared by sub-treasuries merged with the accounts of the corresponding District treasuries systematically without any manual intervention. The process after that, however, remained unchanged. In the third phase (2012-2017), the State implemented e-disbursement. This enabled payment related accounts to be generated by the system automatically upon receipt of scroll from RBI.

Since 2018, the state has taken steps to migrate to complete online submission of accounts. Some critical activities such as sanction order generation and bill preparation, along with their submission to treasury by Drawing and Disbursing Officers (DDO), has been taken up for automation first. To address the issue of possible re-use of vouchers for bill generation, steps are being taken for providing DDOs with digital signature for sanction order generation and bill submission to treasury.

Major Benefits

a. Due to electronic submission of accounts, redundant data entry activity at the level of AG (A&E), Odisha has become limited and led to an improvement in quality of accounts.

b. Electronic process has also facilitated timely preparation of accounts both at the end of Treasury as well as AG (A&E).

c. Significant reduction has been noticed in the the treasury suspense and other suspense accounts.

d. Electronic data sharing has helped GPF subscribers obtain monthly information about the credit and debit of their account.

e. Timely compilation of accounts in matters relating to personal recoveries from employees has helped in hastening the process of final pension payment.

f. Treasuries and the office of AG (A&E), Odisha have been able to meet expectations in spite of staff shortages because of the electronic system in place.

Kerala

In Kerala, transmission of civil accounts is done in electronic form by the treasury to AG. The practice of transmission of hard copy vouchers to the AG separately continues to be followed in the state for all bills. Kerala has developed an online Integrated Financial Management System (IFMS 3.0) for the purpose of government accounting. Bills are prepared by DDOs and passed on for payment by the Treasury Officer via this system. Receipts are also accounted for electronically as all government revenues and dues are paid on-line via e-challans. Once the month end closing and reconciliation is completed, the District treasury-wise accounts are uploaded to the central server where the AG can access them. The AG carries out data integrity checks before accepting the accounts in its Voucher Level Computerization (VLC) server through a ‘middle-ware’, a software used to convert the data in IFMS 3.0 into a format compatible with VLC. The AG then adds inter-governmental transactions, transfer entries etc. to complete the monthly civil accounts in addition to conducting validation checks by comparing hard copy vouchers with the entries in IFMS 3.0. All e-challans are also provided to the AG to test check correctness of accounts. If any misclassifications are noted, they are corrected in the subsequent month.

Kerala has its own HRMS called SPARK for recording personnel data, which is integrated with the AG’s GPF system. The AG downloads soft copies of the schedules for GPF and other deductions and posts entries into individual accounts of government employees electronically. Due to the integration between the two systems, monthly credits get reflected in SPARK automatically.

The AG is of the view that in the absence of digital signatures, the meta data and related voucher can be altered by accessing them at the back end. The voucher should ideally be immutable, and so digital signature becomes imperative. Kerala has already taken action to introduce digital signature in about 15 departments and is planning to extend it to the entire government in the near future. The proposal to discontinue sending hard copies of supporting vouchers to AG hinges essentially on ensuring that they are not reused. A suitable solution, such as defacing or time stamping of the bills, needs to be explored for addressing this concern.

Himachal Pradesh

In Himachal Pradesh (HP), civil accounts and works accounts are rendered separately by the treasury and works departments respectively.

In case of civil accounts, the treasury submits all accounts in e-form and supplements them with the supply of physical accounts to the AG, except in the case of personnel related bills (salary, pension and GPF), where scans of bills are supplied online to the AG and physical submission of vouchers has been completely discontinued. The e-submission of personnel accounts was achieved via the preparation of an online salary module by the State treasury and having extensive stakeholder consultations on the same with staff, NIC, commercial banks and the AG. The AG supported the exercise by assisting with the development of 14 formats which now allow the treasury to port personnel data directly into VLC. Additionally, the AG has been provided a login to the State treasury system.

In respect of the rest of civil accounts, while physical vouchers continue to be supplied to the AG, HP has been successful in taking the entire system of reporting and accounting online through the electronic rendering of accounts by cyber treasury to the AG.

All government receipts have been made online via the roll out of a web-based system. The system has a common challan for all types of receipts for all State departments. More than sixty (60) banks have been integrated with this online system. Online payment facility is available 24x7 to all payees, with features like double verification. The system is integrated at the back end with the portals of Excise & Taxation, GST, e-Kuber, Transport etc. The AG has supported the State and is accepting the receipt account electronically from the State treasury, supplemented by the supply of physical vouchers. The system's robustness is demonstrated by the ability of the AG to rely on the 'TA-2 Cyber Treasury' & 'TA-2 GST Treasury' for the compilation of accounts.

Key challenges in implementation

a. Change Management: Resistance in treasury offices was felt as officials feared increase in workload (eg. staff would have to devote time for creation of in-house databases). DDOs and their staff resisted the introduction of e-salary as they felt that it would dilute their authority of bill preparation. Banks were skeptic of the shift to e-Receipt and e-Payment initially as the move would substantially reduce cash handing.

b. Low personnel capacity; poor broadband connectivity.

c. No standard set of requirements laid down by the AG for migrating to a 100% electronic submission system.

Conclusion

e-Submission of accounts presupposes that bill preparation, bill preparation, bill transmission to Treasury, bill approval, payment to beneficiary, employee, vendor, pensioner, etc. through e-Kuber, receipt of government revenues and dues and the use of digital signature in all critical stages to ensure integrity and authenticity of transactions are automated. In other words, e-submission of accounts is the ultimate step for automation of state government accounts.

Integration/ interface of State government's application with AG office's VLC is required. For this, using a middle ware/ API (Application Programming Interface) that reads IFMS data and ports it into VLC system automatically is worth consideration.

Attention must be paid to (i) reengineering the process while automating; (ii) training of staff involved (which could involve large numbers); and (iii) change management (persuading stakeholders to go along).

It is necessary to ensure integrity of accounts data. For acceptance of e-vouchers, particularly, sub vouchers, it is necessary to prevent its reuse. This can be achieved by encryption via digital signatures, de-facing of originals or other suitable technological solutions.

Credits:

Dr. Satyapriya Rath and Mr. Sidhartha Das
Government of Odisha

Mr. A.M. Jafar and Mr. Reghunathan U.
Government of Kerala

Mr. Deepak Bharadwaj
Government of Himachal Pradesh

Mr. Srinivas Alamuru, Ms. Neha Gupta
& Mr. Puneet Kapoor,
The World Bank

LEVERAGING COOPERATIVE FEDERALISM

Pathway to PFM reforms in India

Some noteworthy PFM reforms have taken place over the past few years. For instance, the 14th Finance Commission significantly enhanced financial devolution to states for improved service delivery. It did this by helping direct more “untied funds” from the Centre to the states. Treasury systems across most Indian states have been strengthened and information technology has been a crucial enabler. There is a much greater integration of processes and better financial information is being made available quicker, more easily and for improved decision-making.

The recently-constituted 15th Finance Commission has a primary mandate for promoting equity through redistribution of revenue between the center and state. In order to fulfill this mandate, it is laying strong emphasis on public financial management and accountability. States are looking for guidance on strategic and forward planning. There is a strong demand for knowledge sharing and transfer of good practices on PFM reforms, to help lagging states leapfrog and avoid reinventing the wheel. “Whether it is the coming in of GST, the demands from our citizens in terms of service delivery, the coming of the Right to Information Act, technology – all this has made it imperative for the Centre and states to really rethink the way they are delivering services. Gone are the days when the government was seen as a patron of its citizens. It’s more about accountability now”, said Anirudh Tiwari, Principal Secretary, Finance, Government of Punjab.

> “Direct transfer from the national government into a beneficiary account is now possible in seconds for several centrally-sponsored schemes. Earlier, it would have taken months.”

- Mr. Manoj Jain, Lead Financial Management Specialist, The World Bank, India

Peer-to-Peer Learning on PFM: the way forward

Recognizing the strong demand for knowledge, the World Bank has facilitated a series of Knowledge Exchanges (KE) on PFM between Indian states since 2014, under the aegis of a PFM Community of Practice called Public Finance Management Knowledge and Innovation Network, *PFM-KIN*.

The most recent PFM-KIN workshop was held on May 9 & 10, 2019, the first in a series of "technical deep-dives" into three key PFM issues – electronic submission of accounts, e-procurement and the perennial issue of budget transparency and accountability. Fifty senior officials, including principal finance secretaries, participated from eight Indian states (Andhra Pradesh, Assam, Chhattisgarh, Himachal Pradesh, Kerala, Punjab, West Bengal and Uttarakhand). Central accounting agencies were also well-represented (Department of Economic Affairs (DEA), National Informatics Centre (NIC), Comptroller General of Accounts (CGA) and Comptroller and Auditor General of India (CAG).

From national PFM legislation to standard accounting procedures: Key Lessons

The most important message to emerge was that the states are looking to the national Government to create a vehicle, much like the GST council, that can enable a seamless exchange on the public finance constraints and planning vacuum they are facing. *PFM-KIN* could serve as a beginning in this direction, with its aim to facilitate an exchange of ideas and learnings across states. Also, the national Government and most states in India have already passed fiscal responsibility laws, but are still waiting for an overarching national level legislation on PFM.

Finally, there is a need for instituting acceptable accounting standards in India. This will help prevent opaqueness and standardize financial reporting across the Centre and States. The International Public Sector Accounting Standards (IPSAS) serves as a tried and tested global standard, which can be adopted for India.

These changes only signal the inevitable forward march of PFM reforms in India. In the end, improving PFM improves governance.

> "Almost all big decentralized countries have actually implemented an overarching legislation, that gives the principles of PFM and then the sub-nationals are able to innovate around those principles. This overarching legislation then acts almost as a catalyst for reform in the states themselves. It's how one can marry harmonization with innovation."
>
> - Mr. Junaid Ahmad, Country Director, India
> The World Bank

> "PFM reforms will happen – it's an eventuality, not an option."
>
> - Mr. Pawan Kadyan, Joint Secretary (Finance), Government of West Bengal

Credits:
Mr. Manoj Jain and Ms. Divya Gupta, The World Bank
This article featured in the World Bank Newsletter, Jul'19 edition

INTERNAL AUDIT WORKSHOP IN BHUTAN

Event

A workshop on *'Government Internal Audit - Embracing the Changes and Innovations'* was organized in Thimphu, Bhutan on August 27 & 28, 2019. The event was attended by the internal audit teams of the Royal Government of Bhutan, Indonesia, Nepal, Sri Lanka and the states of Assam and Uttarakhand from India. Representatives from the Institute of Internal Auditors Malaysia, the Institute of Chartered Accountants of India, the Royal Audit Authority, the Anti-Corruption Commission of Bhutan, the World Bank and Austrian Development Cooperation also graced the occasion. EY LLP India provided technical support for the event.

There were 6 technical sessions in all. The core technical sessions were on performance audit, risk-based audit and disruptive technologies affecting internal audit. The topics for discussion were selected so as to bring out the organization, practices and unique features of each country/state's internal audit function and familiarize participants with new technologies and audit approaches.

Highlights of the core technical sessions were -

1) Bhutan demonstrated how it had used performance audit to confirm/negate suspicions about areas of inefficiency in the provision of drinking water in Thimphu.

2) Malaysia emphasized the importance of having a national risk register as a precursor to risk audits. It underlined that it was the government's responsibility to put in place internal guidelines, controls and systems to manage risk, and the auditor's to assess these systems.

3) EY made participants aware of various tools like automated audit management systems, CAAT, AI and Blockchain that could be adopted to significantly improve the internal audit function, reduce the margin of error and relieve staff of repetitive and mundane tasks.

Key messages from the core technical sessions were -

1) Effective performance audits address questions of interest to parliamentarians and citizens and aggregate recommendations into an overall actionable plan.

2) In the absence of principles and guidelines to measure and mitigate risk, internal auditors should avoid a formulaic approach and innovate instead. Their reports should be crisp and meaningful, and should highlight key findings and recommendations. Further, internal auditors should create an environment of trust as it

enhances their credibility and improves functioning.

3) Limited skillset and resources can be remedied to some extent by the adoption of new age technologies, IT tools and toolkits.

4) Internal audit should be looked upon as a leadership function rather than a compliance function by the management. Simultaneously, internal audit should be able to support the vision of the government and enable it to achieve its objectives.

The technical sessions culminated in a panel discussion on 'Enhancing Relevance and Effectiveness of Internal Audit'. Issues in improving executive response to audit findings, attracting and retaining talent in internal audit and improving the quality of audit reports which can bring value to the stakeholders were deliberated upon spiritedly herein, with a high degree of audience participation relating especially to on the ground realities, implementation challenges and possible solutions.

Challenges

- Low status
- No separate cadre
- High attrition rate
- Difficulty in attracting new talent
- Adhoc jobs assigned
- Less training opportunities
- Poor management response

Opportunities

- Keep the citizens in mind
- Be a trusted partner
- Provide value to management
- Embrace technology
- Automate audit processes
- Risk based audit
- Crisp and auditable audit reports
- Collaborate with other agencies
- Attain professional qualifications

Credits:
Mr. Puneet Kapoor & Mr. Savinay Grover, The World Bank
For more information, log on to www.pfmkin.org

EDITOR'S PICK

Publications

A STUDY OF STATE BUDGETS

2019
RESERVE BANK OF INDIA

The *publication* is an annual collation of the fiscal position of State governments in India. It reports the fiscal and financial health of States on widely accepted indicators.

TAX REVENUE EFFICIENCY OF INDIAN STATES
The case of Stamp Duty and Registration Fees

2019
National Institute of Public Finance and Policy

Under the background of FRBM regulations, GST implementation and, federal transfers, this *study* addresses the following questions: How efficient are Indian states in exploiting their tax potential? How diverse or similar are Indian states in the overall tax effort?

STRENGTHENING THE ROLE OF RURAL LOCAL BODIES IN WASH FINANCING AND SERVICES

2019
CENTRE FOR BUDGET AND GOVERNANCE ACCOUNTABILITY

This document is based on the *discussions in a multi-stakeholder workshop* on Public Financing for Water and Sanitation that was held on March 25, 2019 at New Delhi.

DIGITAL INNOVATION IN PFM
Opportunities and Implications for low income countries

2018
Bill and Melinda Gates Foundation

This *report* identifies 60 technology applications with the potential to transform PFM systems and help authorities in low-income countries overcome key challenges of managing expenses and revenues. It quotes global examples to arrive at SIX universal lessons, regardless of their individual readiness level.

EXAMINING THE DEBT IMPLICATIONS OF THE BELT AND ROAD INITIATIVE
from a policy perspective

2018, Centre for Global Development

China's Belt and Road Initiative (BRI) hopes to deliver trillions of dollars in infrastructure financing to Asia, Europe, and Africa. If the initiative follows Chinese practices for infrastructure financing, then BRI raises the risk of debt distress in some borrower countries. This *policy paper assesses the likelihood of debt problems in 68 countries identified as potential BRI borrowers*

All publications are also available at www.pfmkin.org

TALENTS

Photography

In this new section, we shall feature the unique talent of our PFM practitioners outside their place of work. Be it photography, poetry or anything else, we encourage readers to make contributions by mailing in at *www.pfm-kin@worldbank.org*

This photograph was taken by Mr. Mohan Nagarajan, Senior Economist, The World Bank in the spring of 2018 in New Delhi.

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