

Role of CMAs in Government



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Introduction

There are around 2,000 practicing members all over the country playing a crucial role in the national economy. Besides more than 50,000 qualified Cost and Management Accountant professionals are in employment as well. There has been increasing awareness amongst the business entrepreneurs about the vital contributions of cost and management accountants in the attainment of business objectives. This has resulted in increasing demand for cost and management accounting services in all the sectors of economy.

In other countries, Cost Accountants are recognized as "Management Accountants" and they are the sought after professionals for strategic management and cost competitiveness in all kinds of enterprises and also in the Government sector, banking & finance sector, development agencies, education, training & research sector, service and public utility sector and the relative fields.

Realizing the importance of the profession of Cost and Management Accountancy, the Central Government had constituted an all India cadre known as Indian Cost Accounts Service (ICAS) at par with other Class I services such as IAS, IFS etc., to advise the government in cost and pricing and in framing the appropriate fiscal and tax policies.

Currently available professional Cost Accounting support under the Indian Cost Accounts Service and/or MCA is mainly to serve as an independent agency of the Central Government catering mainly to the objectives of Cost-Benefit Studies and costing and pricing studies on government projects. There is an imminent need for strengthening, widening and enhancing effectiveness of the existing support to advisory role to Ministries and Government Undertakings on Cost and Management Accounting practices and cost investigation work. More specifically, some of their work also includes cost and management audit of industrial undertakings, concurrent audit of escalations claims of manufacturing units, subsidy determination and verification

of claims, cost accounting system for departmental undertakings/autonomous bodies etc.

CMAs' role in Government has to be repositioned and reinforced to strengthen the existing role either by way of augmented ICoAS (Indian Cost Accounts Service) or otherwise. India, being the largest democratic country with the second largest population in the world, annually spends around Rs. 11,00,000 crores or more of public funds on its economic development and another ICoAS could be seen as totally inadequate for the huge Government administrative system.

Prosperity and growth of any entity – irrespective of whether it is a nation or a business organization – depends on the way in which the resources of the organizations are utilized, managed and disposed. In the backdrop of competitive and globalized economy, this growth and prosperity has got tremendous importance. The managerial strategies have occupied a crucial place and these strategies can deliver fruitful results only when they are backed up by a sound information system with appropriate and quality information. In this context, the profession of cost and management accounting commands its place of pride. The occupation has acquired a place of an organized profession offering a yeoman service to business houses in particular and society and general, with its origin at the time of World War II (1939-1945).

In March 2010, speaking at a seminar "Global Meltdown and after – Managing Growth" organized by Durgapur Chapter of ICWAI, the then Union Minister of State for Corporate Affairs, Mr. Salman Khurshid, stated that the global requirement of cost and management accountant professional would be about one million. He also stated that Indian companies were making global footprints by acquiring overseas companies and it was high time country's CMAs showed their worth before the world.

Regulatory Standards for Government

Public demand for transparency, increased use of RTI, budgetary pressures to reduce public spending etc. have forced the Government to improve

accountability for the way it provides goods and services. 'Cost and Management accounting' is one tool officers in Government need to demonstrate accountability, improve program performance, and reduce program costs.

Best practices of Cost and Management Accounting in Government could cover the following areas: (1) Cost Accounting Strategy (2) Agency Culture, Management attitudes and Core Competencies (3) Project Implementation Practices and (4) Commitment to the Processes.

Financial Accounting, Budgeting, and Management Accounting are three essential ingredients of accountability in the Government. Managerial cost accounting is one tool managers needed to demonstrate accountability, improve program performance, and reduce program costs. Cost accounting information supports all three aspects of accountability and cost information supports decision making in a variety of different business environments, such as :

1. Management Accounting : to assist government organization report users in evaluating service efforts, costs, and the accomplishments of the reporting entity;

2. Planning and Budgeting : to plan and make resource allocation decisions;

3. Managing achieving end-results : This is fulfilled by the role of Management Accounting to manage resources in the accomplishment of broad program purposes, to manage the unit cost of output to ensure that units of output are produced as inexpensively as possible, and to set fees. In each of these environments, management must know the cost of their activities in order to make good business decisions and to report financial and performance information to external parties such as Congress and the public.

In each of these environments, management in Government must know the cost of their activities in order to make good business decisions and to report financial and performance information to Government Ministries and the public. In this context, it is interesting to observe that the Thirteenth Finance Commission has in some ways a unique terms of reference when compared to its predecessors. For the first time they have been asked to examine "the need to improve the quality of public expenditure to improve outputs and outcomes".

About Government Accounting Standards

Government Accounting and financial reporting in India have a history of several centuries. Our current government accounting system, both in the Union and the States, derives its form and substance largely from cash based book keeping procedures,

which were introduced during British era. We have, of course, modernized the system of data collection but have continued to remain essentially on cash basis. Being primarily focused on inputs, the cash based system cannot be used effectively to fix accountability for performance. The result of these deficiencies is that it is difficult to keep an accurate track of assets and it is easy to understate liabilities.

In August 2002, Comptroller and Auditor General (CAG) of India established a Government Accounting Standards Advisory Board (GASAB) under the chairmanship of Deputy Comptroller and Auditor General. The members of the Board include Controller General of Accounts, Financial Commissioner Railways, Controller General of Defence Accounts, Additional Secretary (Budget), Government of India, Deputy Governor of RBI, and President of ICAI, Director General of NCAER, and Principal Finance Secretaries of four States (by rotation). Director General (AEC) in the office of CAG is the Member Secretary of the Board. The mission of the Government Accounting Standards Advisory Board is to establish and improve standards of State and local Governmental accounting and financial reporting that will result in useful information for users of financial reports. The mission of GASAB is to formulate and recommend Indian Government Accounting Standards (IGASs) with a view to improving standards of Governmental accounting and financial reporting that will enhance and strengthen the quality of decision-making and public accountability.

GASAB has issued five standards (of which IGAS 1 and IGAS 2 have been notified in Gazette) on the following subjects :

IGAS 1 : Guarantees given by Governments: Disclosure Requirements (notified Dec 2010)

IGAS 2 : Accounting and classification of Grants-in-Aid (notified May 2011)

IGAS 3 : Cash Flow Statements

IGAS 4 : General Purpose Financial Statements of Government

IGAS 5 : Loans and Advances made by Governments

In addition to the above, seven more Standards are under development.

GASAB has two-fold mission improvements in the existing cash basis accounting system, and facilitating an eventual migration to accrual basis accounting. GASAB develops accounting standards under cash basis known as Indian Government Accounting Standards (IGAS) for the existing accounting system and standards for accrual basis under the nomenclature of Indian Government Financial

Reporting Standards (IGFRS). The latter is essentially to facilitate pilot studies and the ongoing applied research on accrual basis accounting in Government.

Need for Government Cost & Management Accounting Standards

On the lines of MCA that approved Cost Accounting Standards which have been remarkably developed by ICWAI for the Industry, it is absolutely necessary to consider similar Cost and Management Accounting Standards for the Government. In the 1990s, for example, some of the countries in other parts of the world have introduced similar standards (for example, in US, Federal Accounting Standards Advisory Board (FASAB) issued a new standard, Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Standards).

The proposed Cost and Management Accounting Standards for the Government will have to be suitably aligned to the Financial Accounting Standards for the Government and this, complementary to each other, will be effectively put in place.

What is Ailing the Government Machinery?

The need for such a GCMAS (Government Cost and Management Accounting Standards) can be better understood in the context of critical issues at the macro-level and at the micro-level in the public governance in India. The several key concerns of the people in power – politician or administrator – could be traced to causes arising from one or more than one of the following which can be termed "barriers to good governance".

1. Need to provide antidote to government policy inaction.
2. Fear of ill-effects on career on possible post-decision probe.
3. Fear of corruption accusation.
4. Decision errors and possible probe for mala-fide intention.
5. Need to have more cost-effective and efficient supply chain and public distribution system for essential commodities, goods etc.
6. Effective and timely utilization of grants, specific fund allocation etc.
7. Timely execution, efficient utilization, effective end-use of budget allocation.
8. Making aid work.
9. Need to move focus from planning to execution (or intention to implementation).
10. Compelling need to show strong growth with weak institutions and structure.
11. Need to constantly reduce the 'cost of bureaucracy'.

12. Need to move from 'babu' culture to 'serve the public' culture as a true public servant.
13. Culture of showing pride in following 'rules in letter' rather than 'in spirit'. Public good results only if decision takes place complying rules in 'letter' and 'spirit'.

When we discuss efficiency and effectiveness in governance, it is difficult to ignore the need to remove existence of 'policy paralysis' or 'governance deficit'. Even the perception that it exists does have a dampening effect on economic development and on the mindset of the people called 'government servants' through whose hands all implementations take place.

CMAs Role in Governance

Let us look at the crucial role of the Cost and Management Accounting professionals to support a transformational initiative ("Parivarthan") or BPR (Business Process Re-engineering) in Government.

Government organization/departments (for example, public health care or Government schools) do face constantly challenges to improve performance in a resource constrained environment. Faced with the challenges of management of huge amount of grants, public spending, budgetary allocations effectively and efficiently on a time-bound manner, the departments/organizations end up with 'less-than optimum' fund-use and huge wastage or cost of service in the process. One key to achieving this goal is a detailed understanding of activity to be performed in support of the organization's outputs, programmes, mission and the specific volume and cost of resources consumed by these activities. To gain this, detailed insight and to be able to trace Unit cost per output back to original source costs, a robust cost and management accounting system is essentially required. This is lacking in the current context of Governance in India.

Government agencies/departments are constantly challenged (if not, should be challenged in public interest) to efficiently and effectively utilize resources which are always scarce. This will increase transparency, expand constituent services, and improve performance. Key to resolve this challenge is a detailed understanding of the resources needed for management and employees to make decisions that will effectively utilize resources and improve programmatic performance while at the same time increasing transparency.

CMAs role would be to help them with a system to accumulate and timely analyze accurate and auditable cost information that is tied to programmatic outputs and delivered services. Despite admirably significant progress in computerization of

our governance system, confusion and inaccuracy do exist due to (i) multiple silos of data and multiple report and analytic platforms, (ii) people concerns (including resistance to or fear of change), and (iii) process issues including the challenge of fully defining an organization's output by activity/output.

CMA as a Catalyst in Dynamic Indian Economy

It is, therefore necessary to introduce a comprehensive cost management programme (including policy, practice and system improvements in the accounting, budgeting and management areas) to improve the ability to accurately track government spending, analyse cost and performance drivers on time. The intention is not 'fault-finding' but 'fault prevention' before it occurs. It is also not to fix a 'government official' but to fix a problem. In Government we do face 'safe players', who take no risk, do no work and hence make no mistake. We need officials who work and take calculated risk (with bona fide intentions) complying the 'rules of the game' supported by a well developed cost and management system. Implementing an integrated cost and management system can provide the required 'system capability enhancements' for sustainable long term performance improvements. The benefits could be classified into three components viz.,

a) Statutory/Regulatory compliance : Improved statutory and regulatory compliance include decreased regulatory oversight and reduced political pressure. This also results to huge cost saving in bureaucracy.

b) Improvement in managerial information and decision making : Better quality decisions results in minimum error in judgment and timely benefits percolating to the 'aam admi' and more effective monitoring/evaluation system.

c) Continued funding and effective use of scarce resources of the nation : Funding requests are supported by detailed cost justification tied to performance goals are likely to be approved faster and safer—thereby permitting better allocation of funds to other areas of government attention.

In short, a professional culture gets developed where all voices explicitly or implicitly that the use of government resources must be properly tracked and tied to an organization's performance goals. Cost and Management accounting system is a recommended method of achieving this goal.

Conclusion

There is undoubtedly a strong case for developing a Government Cost and Management Accounting

Standards (GCAMAS). These Standards are expected to play a powerful role in the cost management in Government making the entire government machinery capable of responding to the various dynamic challenges being thrown up in the volatile economic scenario. More than this, it can be a guiding tool to administer the entire system efficiently and effectively making happen what should happen and preventing happenings that should not happen. Thus, as a result, post-audit issues or unproductive post-mortem activities for the audit bodies such as CAG and others would reduce. The GCAMAS could be developed for specific areas coming under the responsibilities of the Central Government as well as State Governments. Some of these areas include public healthcare, education, land utilization, agriculture production, infrastructure creation and management, disaster prevention management, disaster crisis management, transport construction and management (road, rail, metro, monorail, sea port and airport) costing and pricing system, airwave pricing (or telecom), infrastructure development and management, development of different models for PPPs, emerging modern industry-specific cost management practices also for public media, film, entertainment, management of Municipalities, Municipal Corporations, Panchayat, event management in government such as election, census, publicity and communication etc. In the next stage these standards would also help in giving directions for performance benchmarking and best practices within the country as well as inter-state levels. The other side of the essential requirement would be for strengthening the supply side of Institute's CMA professionals in terms of quality as well as quantity. Efforts should be immediately on for necessary actions to sharpen the tools and imparting the skills appropriate to the application area and getting the actions right. The Government and the Institute—reposing faith in and supporting each other can create the capabilities as required. This is to strengthen the existing efforts with intention to empower and re-orient existing manpower and not to replace anyone.

Undoubtedly, people of India deserve a governance and delivery mechanism far more superior than what is currently capable of. With the individual capabilities and advancement in technology Indians have achieved, this is absolutely a 'do-able' proposition. We can do it. In the global race being witnessed, we cannot afford to wait any more. Speed matters. Let us take these ideas forward and succeed. □