

Professional Accountancy Organisations

# ENGAGING WITH THE PUBLIC SECTOR

## CASE STUDY 1: INDIA





In May 2019, CAPA issued a publication titled ***‘Professional Accountancy Organisations – Engaging with the Public Sector’***. Amongst the seven (7) findings from a survey giving rise to the publication were the following:

- The public sector lags in the implementation of internationally recognised standards, especially in accounting.
- Most PAOs focus on the private sector, and engagement with the public sector is limited.
- PAOs in developing and emerging economies are uncertain about how to engage with the public sector.

This case study demonstrates how the professional accountancy organisations (PAOs) in India ‘engaged’ with the Indian government to improve the quality of accountancy information within the Indian Railways and derive the resultant benefits. It represents a good example of how PAOs can address the findings highlighted from the survey.

# Raising the Value of Accounting Information at the Indian Railways

The two PAOs in India, the Institute of Chartered Accountants of India (ICAI) and the Institute of Cost Accountants of India (ICAI-CMA), long had relationships with the Indian government, ranging from commenting on policies of a financial nature through a number of their members working within the public sector. However, in recent years, that engagement has increased on a number of fronts, and recent involvement in projects at the Indian Railways has certainly raised the profile of the PAOs to new heights.

Since 2014, the PAOs have been directly engaged to assist in the following at the Indian Railways:

- To migrate a long established cash-based accounting system to an internationally recognised accrual-basis
- To upgrade and develop performance costing systems to provide better information for decision-making

These projects are part of much broader on-going reforms and initiatives as the Indian public sector strives towards improved budget outputs and outcomes.

## The Indian Railways

The Indian Railways is one of the world's largest transport networks, making these projects significant in size and complexity.



**> 13,000 passenger trains daily**



**> 9,000 freight trains daily**



**> 1.2 million employees**



**> 120,000km of railway track**



**> US\$25bn annual revenues and expenditures**



**> 7,000 stations**



**> US\$14bn annual capital expenditure**

# The Involvement of the Professional Accountancy Organisations

## The Institute of Chartered Accountants of India (ICAI)



ICAI is somewhat unique in that in 1999 it established the ICAI Accounting Research Foundation (ICAI ARF) – a not-for-profit core research body in the areas of accounting, auditing, capital markets, fiscal policies, monetary policies and other related disciplines. The ICAI ARF has undertaken many projects involving basic and applied research to raise the level of corporate governance, management, accounting and financial reporting. Further details regarding ICAI ARF, including completed projects, can be found at: [www.icaiarf.org.in](http://www.icaiarf.org.in)

The Ministry of Railways considered the ICAI ARF as a partner in a project to introduce accrual accounting. The **Accounting Reforms** project was first mentioned in a 2003 Railways budget speech by the then Minister of Railways, and appointed consultants commenced some initial work between 2006 and 2010. However, it was not until 2014 that the project took a major step forward, with the appointment of ICAI ARF.

## Success Factors for Engaging

In 2004, the Twelfth Finance Commission recommended the adoption of accrual accounting for the Central Government of India, and this was reiterated in subsequent Finance Commissions, especially for those departments operating on a commercial basis. Advances in public sector accounting and reporting certainly requires government support and a political will to initiate change.

Further, it became apparent that with so many stakeholders involved, awareness levels about the project, the approach, the requirements and the expected benefits, had to be very high.

As a separate organisation, with specific objectives and a dedicated governance and management structure, the ICAI ARF was well placed to respond to opportunities. Long-term relationships have been established at a number of levels, including some strong personal relationships as a result of chartered accountants occupying some leadership roles in the public sector. Resources to undertake projects are usually sourced by inviting proposals from appropriate organisations and individuals.

Whilst ICAI ARF operates separately to ICAI, the two are closely linked, including the majority of the Board of ICAI ARF comprising ICAI Central Council members. With the reputation of ICAI and hence the broader profession at risk, the incentive to perform well and achieve success is high. The choice of organisations and individuals to undertake the work is therefore key.

By 2014, ICAI ARF had established a successful track record, including smaller projects elsewhere in the public sector, and similar projects involving railways. Accrual accounting for the public sector was deeply entrenched in a number of countries by this time – at central, state and/or local levels. Many other countries were at various stages of introducing accrual accounting – the momentum worldwide was certainly moving forward in a positive direction. The challenges of introducing accrual accounting at all levels in a vast country such as India are immense. In this context, introducing by way of a pilot within one central government department was a sensible approach.

## The Institute of Cost Accountants of India (ICAI-CMA)



ICAI-CMA established the ICWAI Management Accounting Research Foundation (ICWAI MARF) in 2009. In many respects, the objectives, governance and operational arrangements are similar to those described for the ICAI ARF.

ICWAI MARF was appointed to conduct a comprehensive study of the existing costing system in the Indian Railways and propose upgrades to the existing system to allow for improved managerial analysis of costing data and hence efficiency improvements in key performance areas. This included presenting a detailed costing framework that could be integrated with the existing information technology systems and applications.

It also included the development of related training manuals, guidance for data collection and a wide range of reports for business segments to analyse results and as input for effective decision-making.

## Success Factors for Engaging

Indian Railways recognised that a significant business process re-engineering and transformation exercise was needed to ensure the railways could be competitive with other forms of transport and provide excellent customer service. This would require a thorough understanding of costs and thus, the expertise of management accountants. ICAI-CMA is well known as a leading institution focused on cost and management accounting within India.

A pilot activity undertaken by ICWAI MARF demonstrated the impact of quality cost information in achieving the projected outcome and generated confidence to take up the transformation process.

As with the accrual accounting project, prior consultants had only taken the work so far. The ICWAI MARF had established a successful track record working with other government institutions and was well placed to be appointed.





## The Project's Outcomes

- In 2019, Indian Railways published its first annual consolidated financial statements prepared under the accrual basis of accounting.
- Interest levels have increased to migrate other ministries to accrual-based systems recognising the improved transparency, accountability and quality of information that it brings, with another ministry now expected to commence a similar project.
- The new costing system is helping to improve efficiency, productivity, cost competitiveness, profitability, sustainability, business planning, budgeting, resource allocation, resource utilisation and investment decisions. This includes:
  - improved usage of limited resources;
  - undertaking evaluation studies after commissioning of assets;
  - appropriate pricing/tariff decisions for passenger and freight services;
  - identification of profitable, loss-making and non-value adding activities;
  - identifying controllable and non-controllable costs;
  - discovering areas/opportunities for cost optimisation or reduction; and
  - improving movement of goods and services.

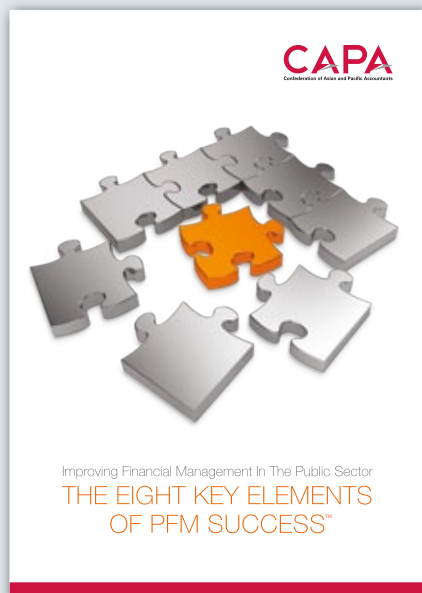
## The Benefits to the PAOs in India

- Twenty-five (25) firms involving more than 120 chartered accountants were exposed to the accrual accounting project, acquiring new knowledge and applying new skills. This included knowledge of the railways industry.
- The profiles of both ICAI ARF and ICWAI MARF have been increased, generating pride and enthusiasm both with the individuals involved and within the accountancy profession generally.
- The reputation and credibility of the accountancy profession to deliver and bring about reform in the public sector has been enhanced.
- The PAOs are recognised as having assisted the public sector by enhancing transparency and control through the improved accounting systems.
- There is an increased understanding of the expertise of accountants and the value they can bring to organisations.
- New opportunities for the PAOs are anticipated as a result of the successful projects, including:
  - Other ministries or departments, especially those providing services or goods on a similar basis to commercial entities, are expected to migrate to accrual accounting.
  - Assistance in later implementation stages of certain aspects of the overall Indian Railways projects.

## Considerations for all PAOs

- The separate Research Foundation entities provided a unique operating platform to undertake these activities. PAOs may wish to consider how they are structured to best focus on activities of this nature or any other opportunities.
- A wide-range of opportunities have arisen for both the PAO and their members. PAOs may wish to consider if they are maximising public sector related opportunities available to them.
- The case study demonstrates the ability of the accountancy profession to be involved in transformational projects and deliver value to the government and people of India. PAOs may wish to consider if they are making the level of impact that is possible in their jurisdiction.

## Related Publications



The effective management of public finances – known as public financial management (PFM) – is fundamental to the development and growth of individual economies. Governments are responsible to their citizens and taxpayers for implementing effective systems of PFM.

The profession is committed to protecting the public interest and encouraging accountability and transparency from governments around the world.

This publication is specifically aimed at assisting dialogue between PAOs and the public sector to identify improvement opportunities.

Having the right people with the right financial skills will be crucial if a jurisdiction is to have effective public financial management. However, attracting and retaining finance personnel in the public sector is a challenge in many jurisdictions.

This publication suggests a multi-faceted stakeholder approach to address the challenge, including the unique role a PAO can play.



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The case study information has been supplied by the Institute of Chartered Accountants of India and the Institute of Cost Accountants of India. CAPA does not accept any responsibility for the nature, accuracy or completeness of the information.

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