

CAs Can Help Govt Maintain its Accounts and Achieve Fiscal Consolidation: Yashwant Sinha

Member of Parliament and Chairman of the Standing Committee of Finance Shri. Yashwant Sinha, who has extended valuable guidance and support to the Institute of Chartered Accountants of India and its members on various important issues related to Indian accountancy profession, addressed the 315th meeting of the Council of Institute of Chartered Accountants of India on 26th March 2012. In his enlightening address, he talked about how the Chartered Accountants can effectively help the Government properly maintain its accounts to reflect a correct picture. Having excelled in both Government service and Public Life, Shri. Sinha has served the country in various high profile capacities, including twice as Union Finance Minister. He has recently authored an acclaimed book *Confusion of Swadeshi*. Following are the excerpts from his address to the ICAI Council:



"I am quite familiar with the working of the Institute of Chartered Accountants of India. We had numerous occasions in the past to interact with each other, both formal and informal. I am very impressed by the work that you are doing as an Institute. Problems keep on arising from time to time and we solve them as and when they come, including the latest one related to branch audit of public sector banks for 2011-12. I am very happy that this issue has been resolved. My writing to the Finance Minister

helped. I assure you of such help from me in future also.

I wish to share two issues with you. First one is with regard to how the Government of India's accounts should be written. I understand that Government of India had appointed a Committee on this under Shri Rangarajan. The question is whether to carry on with the accounting procedures which are prevailing in government at the moment, basically with reference to the issue of planned and non-planned expenditure and revenue

and capital. I think these are misleading nomenclatures for the classification of the accounts of Government of India as at present and you must be aware of the fact that a new concept has been forwarded which is called Effective Revenue Deficit. It is said that part of the revenue deficit of the Government of India also is accounting for the budget capital expenditure of the Government of India. So the deficit has been reduced and it is now classified in the Budget as Revenue Deficit and

Effective Revenue Deficit. How accurate or valid this classification is remains to be seen because this has not been examined in great detail. But the issue is that any expenditure, including household expenditure, can only be divided into two categories: Consumption Expenditure and Investment Expenditure. The Government's Consumption Expenditure and Investment Expenditure is not clearly defined. You have to look where exactly the investment or productive expenditure and what is being spent on current consumption which is not productive. We know that investment payment especially expenditure or the expenditure on Defence are all unproductive expenditure but it is the necessary part of the expenditure, but does not lead to returns. Then, there is expenditure which leads to production. I was recently in China and when one looks at the investment of the China, one wonders where the money comes from. And what is the accounting principle they follow? They would get money and not insisting on internal rate of return, they are able to build roads, bridges and airports and all infrastructure over

If you don't have the savings you don't have the investors' resources and the private sector becomes reluctant; consumers don't consume; they do not save, and overall it becomes a complex and critical situation.

This is an issue for the entire nation. You Chartered Accountants can advise how we get out of this situation. You are already advising the Corporate Sector in this regard and you can also effectively advise the Government and society at large how to maximise savings.

I would suggest that, may be, you can appoint a Committee or Working Group to examine the Government of India's classification of accounts and help the Government maintain its accounts. Tell the people of India what is Consumption Expenditure and what is Investment Expenditure because the whole concept of deficit is predicted on this. If the accounts are not classified correctly, you do not get the correct picture.

a period of time. So, this is one issue which I mentioned the last time when I was with you. I would suggest that, may be, you can appoint a Committee or Working Group to examine the Government of India's classification of accounts and help the Government maintain its accounts. Tell the people of India what is Consumption Expenditure and what is Investment Expenditure because the whole concept of deficit is predicted on this. If the accounts are not classified correctly, you do not get the correct picture.

The second issue is with regard to fiscal consolidation. As you are aware, the fiscal responsibility and budget management responsibility targets have literally thrown open a window.

On the foreign exchange front we are safe because of the large reserves that has been built up over the time. But we know the experience

of the Brazil and other countries that the reserves can get exhausted in no time. About 10-20 billion dollars are put in to keep the rupee steady. The world economy is not in our control, we cannot order China or US what to do. We have to see our own economy. We have to have the effective policy implementation. I am not happy to tell you that our domestic saving rate has come down from 37% to 30%. About 7% of the GDP has been shelved out as a result of the lost domestic saving. If you don't have the savings you don't have the investors' resources and the private sector becomes reluctant; consumers don't consume; they do not save, and overall it becomes a complex and critical situation. This is an issue for the entire nation. You Chartered Accountants can advise how we get out of this situation. You are already advising the Corporate Sector in this regard and you can also effectively advise the Government and society at large how to maximise savings.

Please spend some time and tell the Government how to maintain their accounts and how they should maximise the savings and returns so that ultimately people in general get benefited." ■