

## Chapter 6: Disclosure and Transparency in fiscal operations

The FRBM Act requires that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operations and make such disclosures in the prescribed forms. This chapter analyses general transparency in government accounts together with data contained in disclosure forms/statements mandated under the Act.

### 6.1 Transparency in Government Accounts

Section 6(1) of FRBM Act provides that the Central Government shall ensure greater transparency in its fiscal operations in the public interest and minimise as far as practicable, secrecy in the preparation of the Annual Financial Statement and the Demands for Grants. Further, the principles of recognition of expenditure and receipt are required to be consistent in the Budget documents, Finance and Appropriation Accounts. Observations relating to issues of transparency are discussed in succeeding paras.

#### 6.1.1 Variation in deficits figures

The issue of variation in figures of revenue and fiscal deficits derived on the basis of data contained in Annual Financial statements (AFS)/Union Government Finance Accounts (UGFA) and those reflected in the Budget at a Glance (BAG) had regularly been reported in the Reports of C&AG. **Table-6.1** below presents budgeted projections for financial year 2015-16 in respect of revenue and fiscal deficits as derived from Annual Financial Statement and reflected in Budget at a Glance.

**Table-6.1: Variation in estimates of deficits: 2015-16**

(₹ in crore)

Estimates as per	Revenue Receipt	Revenue Expenditure	Revenue Deficit (RD)	Total non-debt Receipt	Total Expenditure	Fiscal Deficit (FD)
	1	2	3=2-1	4	5	6=5-4
Annual Financial Statement	13,97,620	17,92,562	3,94,942	14,89,834	20,45,988	5,56,154
Budget at a Glance	11,41,575	15,36,047	3,94,472	12,21,828	17,77,477	5,55,649
	<b>Variation in RD</b>		<b>470</b>	<b>Variation in FD</b>		<b>505</b>

Source: Budget 2015-16

AFS is a statement of receipts and expenditure of the Government laid before both the Houses of Parliament in compliance to Article 112(1) of the Constitution. However, in BAG which shows in brief the estimates of receipts and disbursements, the estimates of deficits have been arrived at after netting of receipts against expenditure on the logic that these are fiscal neutral/non-cash

transactions. Reconciliation statements are appended in the Receipt and Expenditure Budget explaining the transactions netted from the AFS.

An examination of reconciliation statements showed that estimates of revenue expenditure was netted by ₹ 470.53 crore on account of Securities issued to African Development Fund/Asian Development Fund and the identical amount has been accounted under capital receipt. Since transaction relating to securities issued to African Development Fund/Asian Development Fund was of capital nature, no explanation was furnished in the Budget document for netting this transaction from revenue expenditure, resulting in variation on like amount in revenue deficit in comparison to AFS. Further, a transaction of ₹ 34.84 crore on account of Securities issued to International Monetary Fund had been netted in capital expenditure and capital receipt.

At the end of the financial year corresponding to the estimate year, the variation gets more accentuated after obtaining supplementary provisions during the year and finalisation of Union Government accounts, as can be observed from **Annexure 3.1**. For financial year 2015-16, the variation in actual fiscal deficit figure worked out based on data contained in AFS/Union Government Finance Accounts and those in BAG was ₹ 52,706 crore<sup>15</sup>. Against this, the variation at estimated stage was only ₹ 505 crore.

While making the estimates of deficits in BAG netting of certain transactions of receipts and expenditure are carried out by the Government. As targets of fiscal indicators in MTFP Statement are integrated from figures contained in BAG, netting of any transactions which affects the computation of revenue and fiscal deficit is inconsistent with the definitions of deficits prescribed in the FRBM Act.

*Ministry stated (June 2017) that securities issued to African Development Fund/Asian Development Fund was in the form of contribution and non-cash transaction; therefore it was netted with revenue expenditure. It added that on receipts side the amount was booked appropriately on capital side under Major Head 6001. Ministry also explained that on account of securities issued to international bodies, ₹ 633 crore was netted on revenue account expenditure and amount of ₹ 52,181.60 crore was netted on capital account expenditure resulting in variation in actual deficit figures as worked out from AFS/Union Government Finance Accounts with those in BAG.*

While taking into consideration the reply of the Ministry, it is emphasised that Section 6(1) of the FRBM Act requires the Central Government to take suitable

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<sup>15</sup> In the Union Government Finance Accounts 2015-16, the recovery of loans and advances has been shown as ₹ 41,878.38 crore, while in Annual Financial Statement it has been shown as ₹ 41,869.80 crore, a difference of ₹ 8.58 crore.

measures to ensure greater transparency in its fiscal operations. The practice of netting of any transaction, cash and/or non-cash, is inconsistent with the definition of deficits prescribed under the FRBM Act. The continuance of inconsistent practice year after year had resulted in variation of deficit figures depicted in Budget at a Glance and those as arrived from Annual Financial Statement/Union Government Finance Accounts.

### 6.1.2 Variation in expenditure on grants for creation of capital assets

In the Budget document, figure of actual expenditure incurred on grants for creation of capital assets appears in Budget at a Glance and Ministry-wise details thereof are appended with Expenditure Budget, Volume-I. In Union Government Finance Accounts, compiled by the Controller General of Accounts (CGA) under the Ministry of Finance, this figure appears in Appendix to Statement No. 9 as a disclosure statement. Accounts at a Glance is another document published by the CGA providing macro level overview of financial information of the Government for relevant year. While comparing the actual figure of expenditure on grants for creation of capital assets for financial year 2015-16, variation was noticed between the Budget documents and documents compiled/prepared by CGA as detailed in **Table-6.2** below:

**Table-6.2: Expenditure on grants for creation of capital assets: 2015-16**

(₹ in crore)

As per Union Government Finance Accounts/Account at a Glance	As per Budget at a Glance/ Expenditure Budget, Volume-I	Variation
1,30,955	1,31,754	799

Source: Budget documents, Account at a Glance and Union Government Finance Accounts

*The Ministry stated (June 2017) that information provided in the Budget Statement on grants for creation of capital assets was based on the inputs/information provided by various Ministries/Departments. It further submitted that Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Ministry however intimated that efforts are being made to rectify the errors/inconsistency.*

Ministry of Finance, being the nodal Ministry for the administration of the FRBM Act, should ensure that information being collected and disclosed under the Act is complete, accurate and consistent with other Government documents brought out by the various arms of the same Ministry.

### 6.1.3 Variation in the amount of liabilities

In the Receipt Budget a statement showing liabilities of the Central Government is appended as annexure. The details of liabilities are also reflected through Union Government Finance Accounts (UGFA). **Table-6.3** below presents the variation in the position of liabilities of the Government at the end of financial year 2015-16, as reflected through Receipt Budget and UGFA.

**Table-6.3: Variation in the amount of liabilities: 2015-16**

(₹ in crore)

	Liabilities as shown in		Variation
	Receipt Budget	UGFA	
Public Debt	55,15,097	55,15,097	Nil
National Small Savings, Provident Funds, Other Accounts	11,88,361	12,31,500	43,139
Reserve Funds and Deposits	1,98,513	1,98,513	Nil
<b>Total liability</b>	<b>69,01,971</b>	<b>69,45,110</b>	<b>43,139</b>

*Source: Receipt Budget 2017-18 and Statement No. 2 of Union Government Finance Accounts 2015-16*

The gross liabilities on account of National Small Savings, Provident Funds, Other Accounts in Public Account in the UGFA 2015-16 have been reflected as ₹ 12,31,500 crore. However in Receipt Budget, the National Small Savings, Provident Funds, Other Accounts liabilities though shown on gross basis, has a variation of ₹ 43,139 crore on account of non-inclusion of amount of investment of Post Office Insurance Fund through Private Fund Managers.

*The Ministry stated (June 2017) that the observation regarding variation in the amount of total liabilities is being examined and comments/reply in this regard will be communicated shortly.*

### 6.2 Lack of transparency in Direct tax receipt figure

In the Annual Financial Statement and Union Government Finance Accounts, the estimates and actual collection from Tax Revenue are reflected after taking into account the amount of refunds (including interest on refunds). Analysis of direct tax receipt of the Union Government, revealed that substantial portion of tax collected are refunded every year, as detailed in the **Table 6.4** below:

**Table 6.4: Collection of Direct Tax and Refunds***(₹ in crore)*

Financial Year	Direct Tax Collection* (1)	Refunds # (2)	Total Direct Tax collection (3=1+2)	Percentage of refunds to direct tax collection (2/3)
2011-12	4,93,987	1,00,300	5,94,287	16.88
2012-13	5,58,989	90,432	6,49,421	13.93
2013-14	6,38,596	95,658	7,34,254	13.03
2014-15	6,95,792	1,17,495	8,13,287	14.45
2015-16	7,42,012	1,29,482	8,71,494	14.86

\* Source: Union Government Finance accounts and CAG's Reports No. 2 of 2017 (Direct Taxes).

# Refunds also include interest on refunds of taxes.

During last five years period 2011-16, the refunds ranged from 13.03 to 16.88 per cent of the total direct tax collection. In financial year 2015-16, amount of refunds included ₹ 6,886 crore as expenditure on interest on refunds. Though the amount of refunds was substantial, no information about the quantum of refunds was disclosed either in the Annual Financial Statement or in the Union Government Finance Accounts. As such, the accounts of the Government were not transparent in respect of information on Tax Revenue collections.

*The Ministry stated (June 2017) that in Finance Accounts revenue receipts are categorized as 'Tax Revenue Receipts' and 'Non-tax Revenue Receipts' and figures for Direct Taxes are not shown separately. It added that in Finance Accounts, tax collections are accounted/shown at the minor head level which are net of refunds. Refund of revenue is accounted for at one level below, viz. sub head level.*

Reply of the Ministry does not address the audit concern relating to transparency in account of gross tax collection and refunds made therefrom in a year, although net collections are captured in the accounts. The Union Government Finance Accounts are prepared at Minor Head level, whereas the amount of refunds despite being significant are recorded at a lower level of classification and thereby refunds get obscured in this compilation. Appropriate disclosure of this information in the Union Government Finance Account or in Budget documents would address the transparency requirement as envisaged in the FRBM Act.

### **6.3 Transparency in disclosure statements mandated under FRBM Act**

In compliance to Section 6 of FRBM Act, along with Budget, six disclosure statements, as detailed in **Annexure 1.1**, are placed before the Parliament. Examination of these statements revealed inadequacy in disclosures, as discussed in succeeding paras.

### 6.3.1 Inconsistency in disclosure of arrears of Non-Tax Revenue

Rule 6 of the FRBM Rules requires laying of a statement providing details of non-tax revenue in arrear in **Form D-2**. Receipt Budget 2017-18 (Annex-11) provided details of arrears of non-tax revenue as at the end of reporting year 2015-16. As per this disclosure, at the end of financial year 2015-16, the arrears of non-tax revenue was ₹ 1,41,966.26 crore, which also includes ₹ 43,182.92 crore as arrears of interest receipts from State/Union territory Government, Department Commercial Undertakings and Public Sector Undertakings.

It was noticed that arrears of interest receipts from State/Union Territory Governments and other loanee entities as disclosed through Union Government Finance Accounts for financial year 2015-16<sup>16</sup> was at variance with disclosure made through **Form D-2** as detailed in **Table 6.5** below:

**Table-6.5: Inconsistency in disclosure of arrears of interest: 2015-16**

(₹ in crore)

Loanee entity	Interest arrears as per		Variation
	Form D-2	UGFA	
State/Union Territory Government	1,858.90	2,097.78	+238.88
Public Sector and other Undertakings	41,324.02	41,073.88	-250.14

Source: Receipt Budget and Union Government Finance Accounts

Further examination revealed that Ministry of Information and Broadcasting while furnishing information in respect of Form D-2, did not furnish the arrears of interest amounting to ₹ 3,753.11 crore which was receivable from Prasar Bharti and clearly appearing in Section 3 of Statement No.15 of UGFA of 2015-16.

Ministry of Information and Broadcasting stated (February 2017) that information relating to Prasar Bharti (statutory and autonomous organisation) was not included in Form D-2 furnished to the Ministry of Finance, as information was called for only in respect of State/UT Governments, Public Sector and Departmental Commercial Undertakings. In view of the reply of the Ministry of Information and Broadcasting, the information collated and presented to the Parliament in Form D-2 by the Ministry of Finance is incomplete.

### 6.3.2 Incorrect information of coal levy in arrears

The Hon'ble Supreme Court had cancelled (September 2014) allocation of 204 captive coal blocks and imposed additional levy @ ₹ 295 per tonne on coal extracted. In the first report of CAG on FRBM (No.27 of 2016), a para on

<sup>16</sup> Statement No. 3.

outstanding amount of coal levy amounting to ₹ 3,368 crore (as on 31 March 2015) and its non-inclusion in the disclosure statement (Form D-2) pertaining to arrears of non-tax revenue was made.

It was noticed that for the reporting year 2015-16, the outstanding amount of coal levy furnished to the Ministry of Finance in Form D-2 by the Ministry of Coal was incorrect, in comparison to information furnished to Audit. The information furnished in Form D-2 and to the Audit are detailed in **Table-6.6** below:

**Table-6.6: Arrears of non-tax revenue - Reporting year 2015-16**

(₹ in crore)

	Amounts Pending			Total amount outstanding
	0-1 year	1-2 year	2-3 year	
Other Receipts (Additional Levy) as shown in Form D-2	3,368.18	3,551.36	3,536.55	10,456.09
Information provided to Audit which should have been depicted in Form D-2	183.18	3,368.18	Nil	3,551.36

### 6.3.3 Variation in disclosure of details in asset register

Rule 6 of the FRBM Rules requires laying of a statement of physical and financial assets of the Government in **Form D-4**. Receipt Budget 2017-18 (Annex-4(iv)) provides details of assets of the Union Government as at the end of reporting year 2015-16. As per the disclosure made by the Government, the cumulative total of assets at the end of the year 2015-16 was ₹ 10,63,677.39 crore. Following inconsistencies were noticed in the disclosure pertaining to asset register.

#### 6.3.3.1 Inconsistency in figures of loans to Foreign Governments

Examination of disclosure statement **Form D-4** revealed that a sum of ₹ 12,248.21 crore was shown as loans outstanding from Foreign Governments at the end of 2015-16. Similar information contained in the Union Government Finance Account 2015-16 revealed that a sum of ₹ 12,034.59 crore was outstanding as loans from foreign governments. Thus, there was overstatement of ₹ 213.62 crore of loans outstanding from foreign governments in **Form D-4** statement.

### 6.3.3.2 Variation in figures of closing and opening balances of assets

On examination of **Form D-4** appended with Receipts Budget 2016-17 and 2017-18, variations were noticed in the closing and opening balances of assets, as depicted below in the **Table-6.7**.

**Table-6.7: Variations in value of assets**

(₹ in crore)

Total assets at the end of Reporting year (closing figure)		Total assets at beginning of next Reporting year (opening figure)		Variation in closing and opening figures
2014-15	9,71,354.25	2015-16	9,48,173.47	23,180.78
2015-16	10,63,677.39			

Source: Receipt Budgets for financial years 2016-17 and 2017-18.

This discrepancy was also pointed out in the first Report (No.27 of 2016) of CAG on FRBM. However in the Receipt Budget 2017-18, a foot note - 'variation between closing balance of previous year and opening balance of the reporting year is due to reconciliation' had been inserted in Form D-4 to qualify the said variations. Since the physical and financial assets are depicted under various categories in Form D-4, it has not been indicated specifically which category of assets had undergone reconciliation, leading to variations in closing balance of previous year and opening balance of the reporting year .

*In respect of Para 6.3.1, 6.3.2 and 6.3.3 Ministry stated (June 2017) that Budget Division compiles the information strictly on the basis of the information furnished by the respective Ministries/Departments. Ministry further added that Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Citing the example of inconsistent information on arrears of non-tax revenue by Ministry of Information and Broadcasting, Ministry stated that Audit itself has attested error on the part of the line Ministry. Ministry of Finance however added that efforts were being made to rectify the errors/ inconsistency.*

Ministry of Finance, being the nodal Ministry for the administration of the FRBM Act, should issue appropriate directions to all the Ministries/Departments to ensure coordination so that correct and consistent figures are included in the prescribed disclosure forms and other linked documents.

**Recommendation:** *The Government should ensure adequate transparency and consistency in its fiscal operations so that fiscal indicators are computed accurately and disclosure forms as mandated under the Act contain correct information.*

## Conclusion

Transparency in fiscal operations of the Government is an important ingredient to achieve the accurate target of fiscal indicators envisaged under the FRBM Act. However, there was lack of transparency in disclosing the deficit figures in Budget at a Glance and Annual Financial Statements. Expenditure on grants for creation of capital assets as disclosed through Union Government Finance Accounts and Expenditure Budget was at variance. Further, gross liability position of the Government shown through Union Government Finance Accounts and Receipt Budget were also at variance. Though a significant amount of refund is made from gross direct tax collection, its depiction is obscured in the Government Finance Accounts and other publications. The disclosures made by the Government through various Forms envisaged under the FRBM Act were not complete and at variance with corresponding information contained in Union Government Finance Accounts.

New Delhi  
Dated: 14 July 2017



(MUKESH PRASAD SINGH)  
Director General of Audit  
Central Expenditure

Countersigned

New Delhi  
Dated: 14 July 2017



(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India

