2: COMMENTS ON ACCOUNTS

Comments relating to significant deficiencies in the presentation (accuracy, completeness and transparency) of the Union Finance Accounts are given in the succeeding paragraphs. The comments arising from Appropriation audit are included in Chapters 3, 4 and 5 of this Report. Observations on regularity, economy, efficiency and effectiveness of Government spending are incorporated in compliance and performance audit reports, being presented separately to the Parliament.

2.1 Issues of transparency

2.1.1 Non-inclusion of statements/information in the Union Finance Accounts as recommended by the Twelfth, Thirteenth and Fourteenth Finance Commissions

The Twelfth Finance Commission, in their Report submitted to the Government in November 2004, had recommended inclusion of eight additional statements/information in the Union Government accounts for greater transparency and informed decision making, pending transition from cash to accrual basis of accounting. The recommendation was accepted in principle by the Government.

The Thirteenth Finance Commission had observed that the Finance Accounts did not provide all the appendices and recommended (in para 7.134) that the list of appendices to the Finance Accounts be standardised, keeping in view the recommendations of the Twelfth Finance Commission and this be followed in all the States.

The Fourteenth Finance Commission in their Report of December 2014, while endorsing the views of the earlier Commissions for transition to accrual based accounting, reiterated (in para 17.14) inclusion of various statements in the Finance Accounts of Union and State Governments.

The additional statements recommended by the Twelfth Finance Commission were in respect of the following:

(i) Subsidies given, both explicit and implicit; (ii) Expenditure on salaries by various departments/units; (iii) Detailed information on pensioners and expenditure on Government pensions; (iv) Committed liabilities in the future; (v) Debt and other liabilities as well as repayment schedule; (vi) Accretion to or erosion in financial assets held by the Government including those arising out of changes in the manner of spending by it; (vii) Implications of major policy decisions taken by the Government during the year or new schemes proposed in the budget for future cash flows; and (viii) Maintenance expenditure with segregation of salary and non- salary portions.

Scrutiny of the Finance Accounts for the year 2013-14 disclosed that the statements as recommended by the Twelfth and Thirteenth Finance Commissions had not been included therein. It would be pertinent to mention that most of the States were appending all the above statements to their accounts except the statements relating to (a) committed liabilities in the future; and (b) implications of major policy decisions taken by the Government during the year or new schemes proposed in the budget for future cash flows.

This aspect was mentioned in the Reports of the Comptroller and Auditor General of India on the Accounts of the Union Government for the year ended 2007-08, 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 successively but no action has been taken by the Government even after a lapse of ten years.

As pointed out in the Reports of the Comptroller and Auditor General on the Accounts of the Union Government for the year 2010-11, the status of implementation of the recommendations of the Twelfth Finance Commission in the financial statements of State Governments is encouraging. However, there has been no compliance by Union Government in this regard.

The Controller General of Accounts (CGA) replied (March 2015) that most of these statements were already in public domain in e-lekha, Accounts at a Glance, Finance Accounts and various budget documents. Some of these statements relate to accrual accounting which could not be included in the existing structure of cash based accounting.

The reply of the CGA is not convincing as only one statement at No. (v) 'Debt and other liabilities as well as repayment schedule' is available in Finance Accounts. Ministry of Finance may set a specific time frame for inclusion of the above additional statements in the Union Finance Accounts.

2.1.2 Opaqueness in Government Accounts

Scrutiny of Union Government Finance Accounts for the year 2013-14 disclosed that under 16 Major Heads of accounts (representing functions of the Government) expenditure of ₹ 14,073.67 crore was classified under the Minor head '800-Other expenditure' alone in the accounts, constituting more than 50 *per cent* of the total expenditure recorded under the respective Major Heads. This indicates a high degree of opaqueness in the accounts. Some of the functions where opaqueness in expenditure exists are Other Social Services, Agricultural Financial Institutions, Flood Control and Drainage, Civil Aviation, North Eastern Areas, Capital Outlays on Soil and Water Conservation, Capital

Outlay on Non-Ferrous Mining and Metallurgical Industries, Capital Outlay on Other Communication Services and Capital Outlay on Foreign Trade and Export Promotion etc. Details of the 16 Major Heads are given in **Annexure 2.1.**

Expenditure on some significant initiatives such as expenditure on interest subvention for providing short-term credit to farmers (₹ 6,000 crore), Rajeev Gandhi Gramin Vidyutikaran Yojana (₹ 2,593.89 crore), subsidy to Assam Gas Cracker Complex (₹ 976.96 crore), subsidy for operation of Haj Charters (₹ 680 crore), Other Allied Activities (₹ 677.60 crore), National Thermal Power Corporation (₹ 536.30 crore), Scheme for Assistance for Infrastructure Development-Viability Gap Funding (₹ 450 crore) were not depicted distinctly in the Finance Accounts but were merged under the Minor head, 'Other Expenditure'.

This aspect was commented upon in the Reports of the Comptroller and Auditor General of India on the Accounts of the Union Government for the year ended 2007-08, 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 successively with the recommendation that the Government may conduct a comprehensive review of the structure of Government Accounts to address this deficiency for achieving greater transparency in financial reporting. As an interim measure, the CGA has inserted footnotes in the Finance Accounts, giving details of expenditure on significant initiatives merged under the Minor Head '800-Other Expenditure'. Instead of restructuring the accounts to reflect the current activities of the Government, piecemeal action of opening a few new Minor Heads for recording substantial expenditure of the Government distinctly, may not help.

The CGA replied (March 2015) that they had been advising continuously to various Ministries/Departments to exercise restraint while making provisions under the Minor head '800-Other Expenditure' at the stage of preparing BE/RE and new Minor heads may be opened in cases of substantial expenditure.

2.1.3 Public Fund lying outside Government Account

The Ministry of Finance, Department of Economic Affairs (DEA) directed all Ministries and Departments of the Government in January 2005[1] to ensure that funds of regulatory bodies were maintained in the Public Account.

Scrutiny of annual accounts of fourteen regulatory bodies and autonomous bodies which also act as regulators in their respective field, revealed that these

[1] Government of India, Ministry of Finance, Department of Economic Affairs (Budget Division), O.M.No.F.1(30)-B(AC)/2004 dated 7 January 2005

bodies had retained funds generated through fee charges, unspent grants received from Government of India, interest accrued on government grants, receipt of license fees, corpus fund, etc. aggregating ₹ 5,917.44 crore at the end of March 2014 outside the Government Account, contrary to the above instructions issued in January 2005. Details of such bodies and funds retained by them are depicted in **Annexure 2.2.**

In respect of regulatory bodies viz., the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA), this aspect was also commented upon in the Reports of the Comptroller and Auditor General on the Accounts of the Union Government for the years ended 2007-08, 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13.

The Ministry of Finance in its ATN stated (September 2011) that separate Funds with the nomenclatures 'The Securities and Exchange Board of India (SEBI) Fund' and 'The Insurance Regulatory and Development Authority (IRDA) Fund' respectively would be opened under Major Head '8235-General and other Reserve Fund' in the non-interest bearing section of the Public Account of India, for operationalising the fund in the Government Account. It subsequently added (February 2014) that 'as per Section-16 of IRDA Act', all Government fees and charges received by the Authority, all sums received by the Authority from such other source as may be decided upon by the Central Government would be part of the IRDA Fund. No action to bring the SEBI Fund and IRDA fund into Government Account, even after a lapse of more than two years, had been taken by the Ministry.

The Department of Economic Affairs (DEA), Ministry of Finance stated (December 2014) that the matter relating to SEBI general funds in Public Account had been referred to the Department of Legal Affairs for taking full and final view. The reply of DEA is not tenable as it has already taken the view of Department of Legal Affairs in July 2010 wherein Ministry of Law and Justice had opined that all funds received by SEBI are public money and all public money received on behalf of Government of India would be the part of the Public Account as defined under Article 266(2) of the Constitution of India. Sums realized by SEBI by way of penalties under Section 15JA of the SEBI Act, 1992, should be credited to the CFI.

In respect of Medical Council of India (MCI), Ministry of Health and Family Welfare replied (December 2014) that the surplus fund would be utilised for purchase of land for construction of staff quarters and sum of ₹ 50 crore had been transferred to MCI Staff Pension Fund Account in 2014-15.

Further, the Indian Nursing Council (INC) replied (March 2015) that it would utilize surplus fund for purchase of its own office building and it was envisaging a project 'Computer live register for nurses' at cost of ₹ 25 crore.

The reply of the Ministry with regard to MCI and the reply of INC are not tenable. Revenues generated by regulatory functions performed by these bodies should form part of the Government accounts and the expenditure incurred by these bodies should be brought within the ambit of budgetary process so as to pass through the Parliamentary scrutiny. Hence, surplus funds lying with the regulatory bodies should be brought into the Government accounts by framing appropriate accounting procedure/rules, on the lines of Central Electricity Regulatory Commission Fund, Telecom Regulatory Authority of India General Fund, etc. appearing in the Public Account.

2.1.4 Understatement of customs receipts and short devolution to States

As per the prescribed procedure, any advance customs receipts collected, which pertain to a future period have to be kept under a transitory suspense head[2] under the Public Account. The amounts are to be credited to the Consolidated Fund of India (CFI) in the year to which the advance duties collected from assesses pertain.

Scrutiny of the Finance Accounts revealed that ₹ 222.56 crore was available under the transitory suspense head as opening balance in financial year 2013-14. This was to be accounted for as customs receipts in the Consolidated Fund of India during financial year 2013-14. However, the amount remained booked under the suspense head. This resulted in an understatement of the customs receipts of the Government of India by ₹ 222.56 crore in financial year 2013- 14. The amount collected under customs receipts forms a part of the divisible pool of taxes, which is to be shared between the Centre and the States. Non-credit of this amount to the Consolidated Fund of India could imply short devolution of the amount as envisaged by the Finance Commission to States during the financial year 2013-14.

This matter was also commented upon in the Reports of the Comptroller and Auditor General of India on the Accounts of the Union Government for the year ended 2010-11, 2011-12 and 2012-13 but no corrective measures were taken up to clear the entire balance from the Public Account to the appropriate receipt head in CFI.

[2] 8658.136-Customs Receipts Awaiting Transfer to the Receipt Head

The Department of Revenue, CBEC stated (November 2014) that an amount of ₹ 143.44 crore had been cleared in April 2013. It further added that rigorous efforts were being made to clear the remaining balance under the said head.

2.2 Observations with regard to Public Account

2.2.1 Universal Service Obligation Fund

The Universal Service Obligation (USO) Fund[3] was set up in April 2002 for achieving universal service objectives emphasized in the National Telecom Policy (NTP) 1999. The Indian Telegraph (Amendment) Act 2003 gave statutory status to the USO Fund and laid down that the fund is to be utilized exclusively for meeting the Universal Service Obligation by providing access to basic telegraph services, like, provision of public telecommunication and information services and provision of household telephones in rural and remote areas, as may be determined by the Central Government from time to time. It also envisaged creation of infrastructure for provision of mobile services in rural and remote areas, provision of broadband connectivity to villages in a phased manner and induction of new technological developments in the telecom sector in rural and remote areas, etc. The resources for meeting the USO Fund were to be raised through a 'Universal Access Levy' (UAL). The implementation of USO related activities was to be carried out by the eligible operators who get a subsidy as per the rules.

The fund is administered by the Department of Telecommunications (DoT). The levy received towards USO is first credited to the Consolidated Fund of India and subsequently, the Central Government credits the proceeds to the USO Fund in the Public Account of India from time to time, for being utilized exclusively towards the stated objectives and it is a non-lapsable Fund.

The issue of understatement of balances in USO Fund was commented upon in the Report of the Comptroller and Auditor General of India on Accounts of the Union Government for the year 2009-10, 2010-11, 2011-12 and 2012-13. The Public Accounts Committee (PAC) in their Fourteenth Report (Fifteenth Lok Sabha 2009-10) also disapproved the diversion of funds exclusively meant for USO activities to other programmes by the Ministry of Finance.

Despite CAG's audit observation on USO Fund during earlier years, it was noticed that DoT transferred only ₹ 2,163.45 crore to the USO Fund in the Public Account out of the total receipts of ₹ 7,896.39 crore towards Universal Access Levy during year 2013-14. The short transfer of levy resulted in under-

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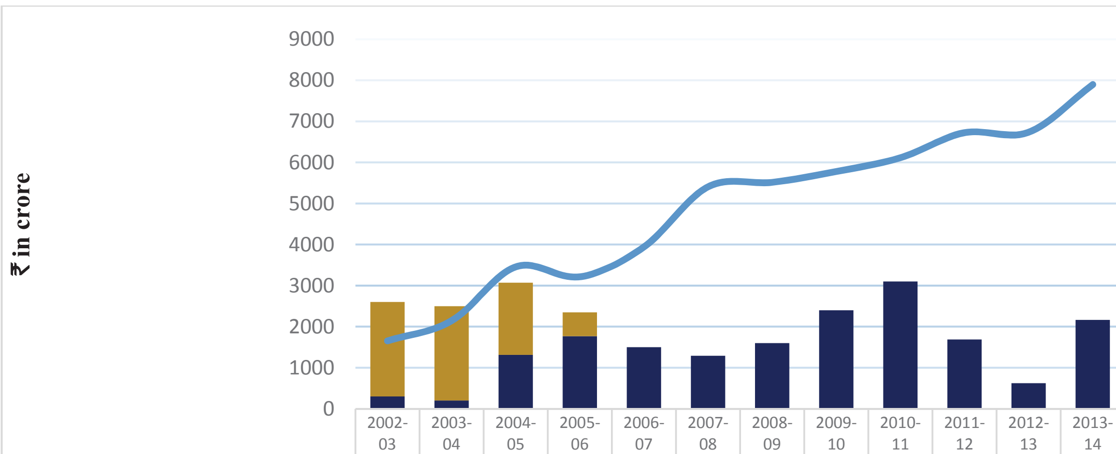
[3] 8235.118 – USO Fund

statement of the closing balance of the USO Fund by ₹ 5,732.94 crore for the financial year 2013-14. The overall understatement of the closing balance in the USO Fund was to the tune of ₹ 33,682.86 crore as of 31 March 2014.

Further, against the total collection of levy of ₹ 58,579.35 crore during 2002-03 to 2013-14, disbursement of subsidy of only ₹ 24,896.49 crore (after taking into account the reimbursement of licence fees and spectrum charges to BSNL amounting to ₹ 6,948.64 crore over the period 2002-03 to 2005-06 for fulfilling rural obligation as exhibited) was made from the fund during these periods. The remaining levy of ₹ 33,682.86 crore was not transferred to the USO Fund and utilised for the purposes other than the stated objectives for which the levy was meant. The details of levy collected and their utilisation for USO purposes since its inception are shown in the **Chart 2.1**.

Chart 2.1: Universal Services Obligation Fund



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Reimbursement of LF and Spectrum Charges to BSNL	2300	2300	1756.68	582.96	0	0	0	0	0	0	0	0
Disbursements	300	200	1314.59	1766.85	1500	1290	1600	2400	3100	1687.96	625	2163.45
UAL Collections	1653.61	2143.22	3457.73	3215.13	3940.73	5405.8	5515.14	5778	6114.56	6723.57	6735.47	7896.39

The PAC in its recommendations contained in their Fourteenth Report (Fifteenth Lok Sabha 2009-10) had observed that the Government should not have any problem in crediting the full amount collected as UAL in the USO Fund especially when the proceeds to the fund were meant to be utilised exclusively for meeting Universal Service Obligation.

Thus, depiction of 'Nil' balance under USO Fund in the Finance Accounts of the respective years was in contravention of the recommendations of the PAC, which clearly stipulated that full amount collected as UAL should be credited to the USO Fund.

The Ministry of Communication and Information Techonology, Department of Telecommunications in its reply (November 2014) stated that:

i) The facts and figures are agreed upon but the transfer of entire collection under UAL to the USO Fund does not happen automatically. Instead, credit to the fund shall be amount as received through Parliamentary approvals as per the provisions of the Indian Telegraph (Amendment) Act, 2003.

ii) The matter was taken up with the Ministry of Finance (MoF) during May 2012 communicating the concerns of PAC. It was submitted before the Committee that transfers to USO Fund are made based on the requirement and ability of the Department to spend in any financial year and the unutilized funds kept in Public Account add to the liability of the Government. While approving the amendment to IT Act, 1885, Cabinet had directed DoT to consult MoF while finalizing the amount to be transferred to USO Fund.

iii) Further, MoF was again approached in this matter and MoF had intimated (January 2014) that Government had a commitment of ₹ 20,100 crore for implementation of National Optical Fibre Network (NOFN) to be financed out of USO Fund. As and when the scheme takes off, Government is bound to provide funds for this scheme through USO Fund. Cabinet Secretariat directed (July 2003) that DoT may consult MoF while finalizing the amount to be transferred to the USO Fund. Even the clause 9B of the IT Act 2003 states 'the sum of money received towards the Universal Obligation under Section 4 shall first be credited to the Consolidated Fund of India, and the Central Government may, if parliament by appropriation made by law in this behalf so provides, credit such proceeds to the Fund from time to time for being utilized exclusively for Universal Service Obligations.' It did not say all such proceeds would be credited to the Fund. Further keeping money locked in Public Account may not be the most prudent way to utilize resources and in view of this, MoF was not committing any violation of legal provision.

iv) It is expected that the bulk of the accruals to USO Fund would be utilized in financing and implementing the presently ongoing schemes as well as new schemes of USO Fund such as NOFN, scheme for Mobile Communication Services in Left Wing Extremism affected areas and for North Eastern Region.

The reply of the Ministry/Department is not acceptable in view of the fact that being a specific purpose levy, the entire collection of levy, after initially being credited to the CFI, should have been transferred to the USO Fund in the Public Account. After meeting the expenditure on the stated objectives under the scheme, the USO Fund should transparently reflect the unutilised balances.

2.2.2 Under-utilisation of cess collected under Research & Development Cess Fund

The Research and Development Cess Act was enacted in 1986 to provide for the levy and collection of a cess on all payments made for import of technology to encourage commercial application of indigenously developed technology and for adapting imported technology to wider domestic application and for matters connected therewith or incidental thereto. Section 3 of the Act provides for collection of cess at such rates not exceeding 5 *per cent* to be levied and collected on all payments made towards the import of technology, as the Central Government may, from time to time, specify, by notification, in the official gazette.

The Act enables the creation of a Fund for Technology Development and Application to be administered by Technology Development Board (TDB). The Fund is maintained outside Government accounts. The Fund is credited with the grants released by the Government of India out of the cess collected by the Government on the import of technology by the industrial concerns under the provisions of the Research and Development Cess Act, 1986, as amended in 1995. The research and development cess collection is administered by Department of Science & Technology. Section 4 of the Act requires the proceeds of the cess levied and collected to be credited initially to the Consolidated Fund of India and Government may, with the approval of the Parliament, pay to the Development Bank (erstwhile Industrial Development Bank of India in this case) such sums required to be utilized on the purposes of the fund.

From the figures given in **Table 2.1**, it is observed that cess to the extent of ₹ 4,876.71 crore were collected during the period from 1996-97 to 2013-14. Out of this, ₹ 542.41 crore (11.12 *per cent*) only was disbursed to TDB as Grants-in-aid during the same period. TDB, in turn, disbursed financial assistance and loans of ₹ 1,217.77 crore to industrial concerns attempting commercial applications of indigenous technology or adapting imported technology to wider domestic applications out of the funds made available by the Government.

Table 2.1: Collection of R&D cess and its utilisation

(₹ in crore)

Year	Collection of Cess	Grants released to TDB	Disbursement made by TDB to Industries
1996-97	80.13	29.97	Nil
1997-98	81.42	49.93	30.14
1998-99	81.10	27.99	36.99
1999-00	88.93	50.00	85.23
2000-01	98.91	62.79	101.73
2001-02	95.30	57.00	53.44
2002-03	99.47	56.00	107.11
2003-04	133.74	53.65	53.86
2004-05	53.98	48.10	57.91
2005-06	176.61	42.66	89.23
2006-07	186.56	4.32	74.98
2007-08	254.09	19.00	63.01
2008-09	310.33	0.00	81.60
2009-10	418.22	0.00	55.04
2010-11	592.22	5.00	64.19
2011-12	702.54	0.00	48.00
2012-13	685.62	22.50	116.21
2013-14	737.54	13.50	99.10
Total	**4876.71**	**542.41**	**1217.77**

From above table, it may be observed that the collection of cess under the Act is substantial. However, the utilisation of the cess proceeds for the intended objectives is not optimum. In turn the cess proceeds are being partly utilised to finance the revenue deficit of the Government over the years. The matter of under-utilisation of the proceeds for the desired objectives and the levy of cess at the rate being collected, was raised in previous years too; however, the trend remains the same.

2.2.3 Inconsistencies and continued adverse balance in Beedi Workers Welfare Fund

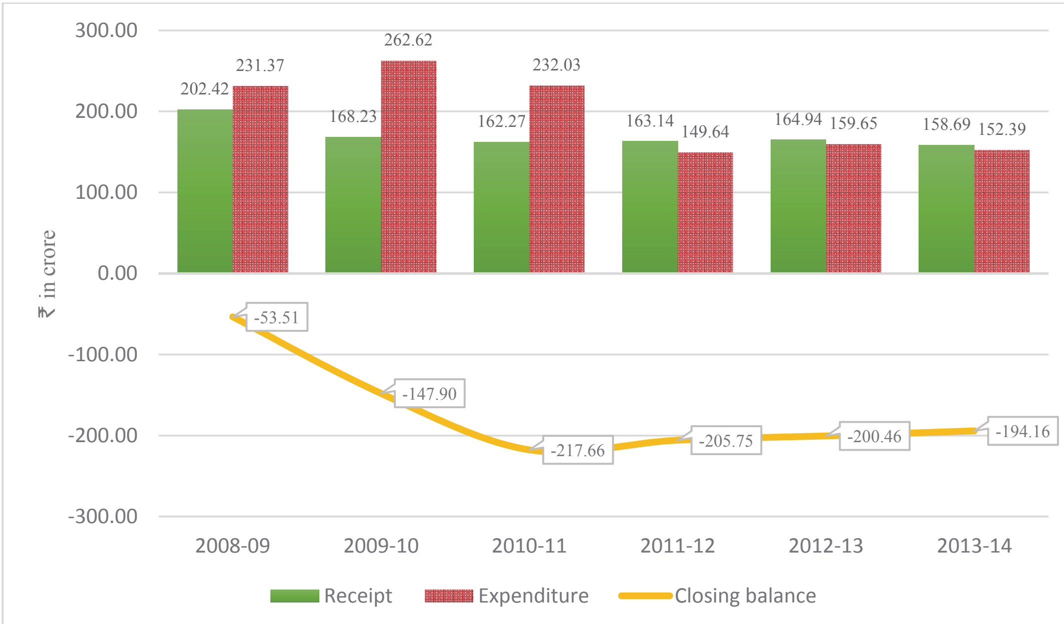
Beedi Workers Welfare Fund was created in the Public Account[4] under Beedi Workers Welfare Fund Act, 1976 to provide for the financing of measures to promote the welfare of persons engaged in beedi establishments. For this purpose, the Government introduced a cess in the form of duty of excise on manufactured beedi. The collection of cess is initially credited to the CFI and subsequently transferred through the appropriation to the Beedi Workers Welfare Fund in the Public Account.

On account of expenditure from the fund being in excess of the receipts, the balance in the Beedi Workers Welfare Fund over the years had become adverse.

[4] MH 8229.200 – Other Development and Welfare Fund

The aggregate position with regard to expenditure, receipts and closing balance in the Beedi Workers Welfare Fund during the period 2008-09 to 2013-14 is shown in the **Chart 2.2**.

Chart 2.2: Inconsistencies and continued adverse balance in Beedi Workers Welfare Fund



The chart above indicates that there was continuous adverse balance in the fund during the period 2008-09 to 2013-14, which steadily increased from ₹ (-)53.51 crore in 2008-09 to ₹ (-)205.75 crore in 2011-12. It decreased to ₹ (-)200.46 crore in 2012-13 and further to ₹ (-)194.16 crore in 2013-14.

This matter was also commented in the Report of the Comptroller and Auditor General on the Accounts of the Union Government for the year ended 2011-12 and 2012-13.

The Ministry of Labour and Employment agreed (February 2015) with the audit observation and stated that the Ministry was exploring further remedial measures to reduce the adverse balances in future.

2.2.4 Accountal of Education Cess

(a) Primary Education Cess

A non-lapsable fund for elementary education known as Prarambhik Shiksha Kosh[5] (PSK) was created in 2005-06 under non-interest bearing section of the reserve funds in the Public Account. This fund is meant to meet the expenditure

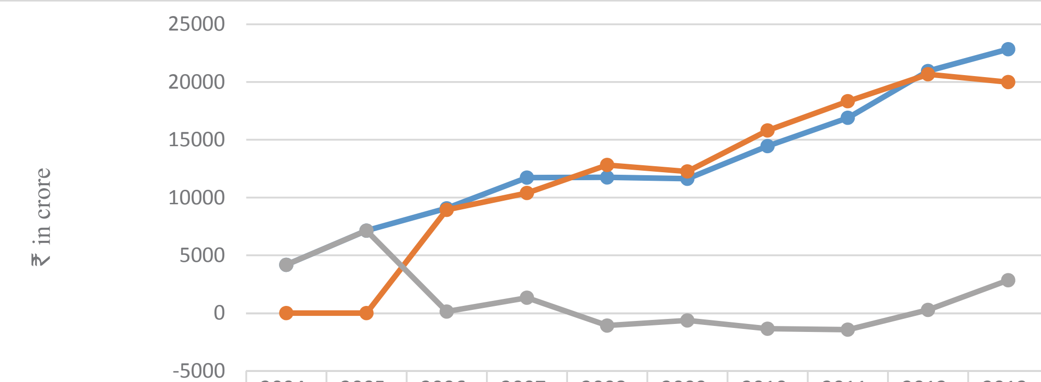
[5] Major Head 8229.127 – Prarambhik Shiksha Kosh

requirement for elementary education under the schemes of Sarva Shiksha Abhiyaan and Mid-Day Meal Scheme. Through the Finance Act (No. 2) of 2004 a primary education cess of 2 *per cent* was levied on all central taxes. The cess collection is initially credited to the CFI and subsequently transferred after obtaining the Parliamentary authorisation to the PSK to finance the expenditure on elementary education.

Chief Controller of Accounts (CCA), Ministry of Human Resource Development is responsible for maintaining the accounts of the PSK in coordination with the CCA, Central Board of Direct Taxes and Central Board of Excise and Customs in the Department of Revenue.

Scrutiny of Union Finance Accounts for the period 2004-05 to 2013-14 revealed that against the total collection of ₹ 1,30,599 crore of primary education cess in the CFI, only ₹ 1,19,197 crore was transferred to the PSK, resulting in short transfer of ₹ 11,402 crore. During the period 2004-14, in some years the transfer was more than the cess collected, while in some years it was less than the cess collected as reflected in **Chart 2.3**. Thus, there is no reconciliation between the CCA of the Ministry of Human Resource Development and the CCA, Central Board of Direct Taxes/Central Board of Excise and Customs in the Department of Revenue.

Chart 2.3: Collection of primary education cess and its transfer to PSK



	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total cess collection	4177	7136	9069	11722	11741	11623	14451	16899	20946	22837
Transfer to PSK	0	0	8935	10393	12817	12258	15805	18334	20667	19988
Short/Excess transfer	4177	7136	134	1329	-1076	-635	-1354	-1435	279	2848

Negative figure shows excess transfer to PSK

(b) Secondary and Higher Education Cess

The Secondary and Higher Education Cess (SHEC) was introduced in the Finance Act, 2007 to fulfil the commitment of secondary and higher education.

Scrutiny of the Union Finance Accounts for the period 2006-14 revealed that a total collection of SHEC of ₹ 52,268.65 crore had been made. However, unlike the creation of PSK in the case of primary education cess, neither a designated fund was created to monitor the deposit of proceeds of SHEC thereto nor schemes identified on which the cess proceeds were to be spent. Consequently, the utilisation of cess for furthering the cause of secondary and higher education as envisaged in the Finance Act was not transparently ascertainable from the Union Accounts.

2.2.5 Incorrect depiction of transfer to Renewal Reserve Fund

In Grant No. 25-Ordinance Factory, a sum of ₹ 375 crore was transferred from Consolidated Fund of India (CFI) through the Head '2079.00.797- Transfer to Renewal & Replacement (RR) Fund' to the Public Account in the Head '8226.102' in Statement No. 13 of Union Finance Accounts for year 2013-14. Further, an expenditure of ₹ 697.01 crore on renewal and replacement was incurred under the Head '2079.00.106- Renewal and Replacement' and the amount was met from the Renewal and Replacement Fund in the Public Account.

However, in Statement No. 9 of Union Finance Accounts for FY 2013-14 a sum of ₹ (-)322.01 crore had incorrectly been shown as transferred from CFI to the Public Account under the Head 2079.00.797- Transfer to RR Fund by netting off the expenditure with the amount transferred. Even in the Statement of Central Transactions (SCT) of the Ministry of Defence, this transaction has been shown incorrectly. Instead of netting the transfer to the Public Account, the correct depiction of this transaction in SCT and in Statement No. 9 would have been (i) to transfer ₹ 375 crore to the Public Account; (ii) incur and book the actual expenditure of ₹ 697.01 crore on renewal and replacement to the appropriate Minor Head under the Major Head 2079; and (iii) operate the appropriate Minor Head 'deduct amount met from reserve fund' amounting to ₹ 697.01 crore under the Major Head 2079.

This accounting treatment would imply that expenditure of ₹ 697.01 crore were incurred on renewals and replacements in 2013-14, which had partly been financed to the extent of ₹ 322.01 crore from the balances already available in the earmarked fund, over and above the amount of ₹ 375 crore transferred in

2013-14 to the Renewal and Reserve Fund in Statement No. 13 of the Finance Accounts.

Comment on this issue had continuously been appearing in the CAG's Audit Reports (Para 2.3.9 of No.1 for the year 2011-12; Para 2.2.4 of No.1 of 2013; Para 2.2.4 of No.1 of 2014) but no corrective measures had been taken by the CGA in coordination with the Controller General of Defence Accounts in the Ministry of Defence.

2.2.6 National Clean Energy Fund

National Clean Energy Fund (NCEF) was established in 2010-11 for funding research and innovative projects in clean energy technology by levying a clean energy cess on coal produced in India and imported coal.

A total of ₹ 9,780.92 crore was collected as clean energy cess[6] during the years 2010-11 to 2013-14. Against this, only ₹ 4,216.46 crore had been transferred to the National Clean Energy Fund[7] in the Public Account, leading to short transfer of cess to the earmarked fund by ₹ 5,564.46 crore for achieving the desired objective, as given in **Table 2.2**.

Table 2.2: Clean Energy cess

(₹ in crore)

Year	Clean Energy Cess collected (0038.03.112)	Transferred to National Clean Energy Fund (2810.797)	Short transfer of Cess
2010-11	1066.46	--	1066.46
2011-12	2579.55	1066.46	1513.09
2012-13	3053.19	1500.00	1553.19
2013-14	3081.72	1650.00	1431.72
Total	**9780.92**	**4216.46**	**5564.46**

The issue despite being pointed out in CAG's Report No. 1 of 2013 and 2014, there was a short transfer of ₹ 1,431.72 crore in 2013-14.

The CGA replied (November 2014) that reply from the Ministry of Finance was still awaited, last reminder was sent in November 2014 and final position would be communicated in due course.

2.2.7 Irregular retention of balances under Mahila Samriddhi Yojna

For providing economic security to the rural women and to encourage saving habit among them, the Mahila Samriddhi Yojna (MSY) was started in October 1993 by the Department of Women and Child Development, being the nodal

[6] MH 0038.03.112-Clean Energy Cess
[7] MH 8235.129-National Clean Energy Fund

agency of the scheme. Under the scheme, the rural women of 18 years of age and above can open their saving account in the rural post office of their own area. The deposit was accounted in the Public Account under the head 8013.60.101 – Mahila Samriddhi Yojna for Rural Women.

The scheme had since been discontinued in July 2001 with the stipulation that MSY account should either be converted into savings bank account or to close the account by allowing the withdrawal. However, it was noticed that an amount of ₹ 3.10 crore was lying under head '8013.60.101- Mahila Samridhi Yojna for Rural Women' as on 31 March 2014. No action has been taken either for conversion of accounts into saving bank accounts or for closure of accounts.

On being pointed out, the Department of Posts stated that the concerned PAOs have been instructed to take necessary action in this regard.

2.2.8 Income Tax Welfare Fund

Ministry of Finance, Department of Revenue created the Income Tax Welfare Fund (ITWF) with a corpus of ₹ 100 crore and transferred to the Fund over a period of three years in three tranches of ₹ 30 crore each in 2006-07 and 2007-08 and ₹ 40 crore in 2008-09. The Fund was created with the purpose of (i) promotion of welfare, recreation and other outdoor activities of officials of the Income Tax Department, (ii) providing financial help to officials during contingencies such as injuries or accidents, (iii) providing ex-gratia payment to families of deceased officials, (iv) providing different forms of medical maintenance including risk insurance for emergencies and serious distress to officials not fully reimbursable under CGHS reimbursement rules, and (v) construction/hiring/leasing/furnishing/ maintenance of holiday homes for the use of officials, etc. The interest accruing on the corpus fund and additional accretions as specified in para 3 of Income Tax Welfare Fund rules 2007 shall be used for meeting the expenditure on the above purposes.

The CAG had not agreed to the creation of the Fund on the ground that the activities proposed to be covered by the Fund could be included in the annual budget of the Department and be financed through the normal budgetary process. The creation of the Fund under interest-bearing section of the Public Account entailed recurring liability of interest to the exchequer, besides outgo of 10 *per cent* of excess amount received from auction over the consideration paid by the Government in case of pre-emptive purchase of property, which otherwise is credited to CFI. The utilisation of the Fund would not be reported through the standard object heads as is the case with the demand for grants presented in the Parliament and hence, the process would not be transparent. Further, the General Financial Rules (GFR) also do not permit expenditure from public moneys for the benefit of a section of people or individuals unless the expenditure was in pursuance of recognised policy or customs. Further, if the objective was to cover officials/family members of officials who faced injury/death during search/seizure operations and provision of high risk insurance cover to the officials, provision could be made under a designated scheme of the Government of India or included in the existing provisions of any scheme for such purposes. The other purpose cited could be covered under the standard object heads “Rewards”, “Medical treatment”, “Office expenses”, “Grants-in-aid” in the demand for grants of the Ministry.

The matter was commented upon in the CAG’s Audit Report No.1 for the year 2008-09, 2010-11, 2011-12 and 2012-13. The Ministry, in its Action Taken Note of September 2010, stated that the Fund was created after extensive examination in January 1998. It added that the genesis of the creation of the Fund lay in the successful implementation of Voluntary Disclosure of Income Scheme-97 wherein an additional tax collection of about □ 10,700 crore was made over and above the normal tax collection. The Ministry further stated (June 2014) that the nature of the Fund was clearly brought out in connection with the budget proposals of 1998-99 presented to and agreed to by the Parliament; as such, approval would be against recognised policy or customs because cabinet decisions themselves reflect Government policy on any subject. It also added that in view of the extremely elaborate scheme of accounting devised by Pr. Chief Controller of Accounts in concurrence with the Controller General of Accounts, there was no reason to doubt that utilisation of Fund would not be reported through standard object heads as was the case with the demands for grants presented to the Parliament. It also drew a parallel with the similar fund available and operated by the Central Board of Excise and Customs. The Ministry also contended that since the fund had been created after extensive examination within the Government with regard to purpose and methodology of such expenditure, there was no justification for the Fund to be wound up. The Ministry clarified (September 2014) that no expenditure had been incurred out of the accumulated corpus of ₹ 100 crore and no interest had been credited into this Fund since its inception.

Audit observed that the CBDT had submitted a “Note for the Cabinet” in April 1998 seeking their approval for setting up ITWF. The Secretary (Revenue) in June 1998 had noted that proposal to create ITWF had been approved by the Cabinet as a part of the budget documents. However, the Secretary (Expenditure) in May 2003 turned down the proposal for want of clear approval of the Cabinet. Subsequently, the proposal was approved by the Secretary (Expenditure) in January 2006 on the grounds that the budget proposals undergo debate and discussions in the Parliament, and hence it was to be taken as tacit approval of the Cabinet. However, there are no records in the CBDT indicating that the approval of the Cabinet in relation to the initial note submitted in April 1998 had come through. In the instant case, the procedure for obtaining the Cabinet approval for setting up of the Fund had been compromised and the stated approval cannot be construed as a categorical approval of the Cabinet.

The underlying purposes for the setting up of the Fund was promotion of staff welfare, recreation and other outdoor activities, to provide different forms of medical maintenance for emergencies, construction/hiring/leasing of holiday homes in places of tourist interest and departmental guest houses, advancement of supplementary loans to officers/staff of the department for construction/hiring of residential complexes etc. The propriety of the above expenditure proposed to be met from the Fund in respect of a section of employees remains questionable since the Government already has separate provisions or schemes for the benefit of all the Central Government Employees and their families, which also include the officers/staff of the Income Tax Department. The estimates of expenditure on proposed welfare measures can be financed through normal budgetary process of the Department by obtaining Parliamentary approval to the estimates under appropriate object heads, relevant to the nature of expenditure, as prescribed under Rule 8 of Delegation of Financial Powers Rules 1978 in the concerned Detailed Demands for Grants of the Department, without taking recourse to financing these expenditure from a designated welfare fund. Additional financial assistance for various items either over and above those provided by the Government under the common applicable rules or on altogether new objects is in violation of the standards of financial propriety. Further, the General Financial Rules also do not permit expenditure from public moneys for the benefit of a section of people or individuals. Mere existence of a Fund of an analogous character in another department is not a basis to constitute similar fund in other departments to incentivise and reward performance. Audit is of the opinion that there is no need to operate any ITWF in the Public Account and expenditure on welfare activities as contemplated by the department can be met through appropriate object heads and such expenditure can directly be debited to the Consolidated Fund of India if the expenditure fits into the schemes and meets the standards of financial propriety as prescribed in various financial rules. The ITWF opened in the Public Account may be closed and balance may be credited into the Consolidated Fund of India.

In response, the CBDT stated (December 2014) that the Department after taking into consideration the vetting comments of the Audit, had already submitted a final ATN on the previous para to the Monitoring Cell, Department of Expenditure in June 2014. It further added that the para now proposed by Audit reiterated the earlier observation which had already been considered and replied to in the ATN.

The reply of the Ministry, however, does not recognize that Audit at any stage did not concur with the action of the Department to continue with the ITWF. In fact, even in response to the ATN, the vetting comments of Audit clearly advocated closure of the ITWF and crediting the balance available in the said fund into the Consolidated Fund of India, which should be complied with.

2.2.9 Customs and Central Excise Welfare Fund

Creation of Funds: As a part of liberalization of the policies and procedures relating to grant of rewards to the government servants, the government decided to create three funds, namely (i) Customs Welfare Fund, (ii) Performance Award Fund, and (iii) Customs Special Fund for acquisition of Anti Smuggling Equipment vide Ministry of Finance, Department of Revenue F.No.13011/3/85-Ad.V dated 30 March, 1985. The sanction of the President was accorded for the creation of three funds vide Ministry of Finance, Department of Revenue, Government of India letter No.711/8/86-Cus (AS), dated 20 January1987. As per the modality, Pr. Account Office, Chief Controller of Accounts, Central Board of Excise and Customs (CBEC) is responsible to carry out transfer entry equal to the amount which has been sanctioned in the budget by the Government for these three funds, each financial year, by debiting the concerned Major Head.

Objectives of the Funds : The objectives of the fund were promotion of staff welfare, setting up of recreation clubs/libraries; scholarships for children of employees; subsidized transport facility; payment of ex-gratia in cases of death or injuries resulting from accident, operation or action; different forms of financial medical assistances; removal of difficulties caused by natural calamities like floods, earthquake, drought; and procurement of anti-smuggling equipments of specialized nature etc.

Mode of financing: The mode of financing the three Funds is by transfer of 10 *per cent* of the sale proceeds of confiscated goods by customs / excise and fines, penalties in offence cases realized and sustained in appeal/revision etc. since 1985-86 onwards as verified and confirmed by the Chief Controller of Accounts, CBEC and Financial Adviser to the Ministry of Finance. Distribution of the credits of 10 *per cent* amongst three Funds was one *per cent* to Customs Welfare Fund, four *per cent* to Performance Award Fund and five *per cent* to

Customs Special Fund for Acquisition of Anti Smuggling Equipments respectively.

Merger of Funds: Customs Welfare Fund and Performance Award Fund had been merged to make a single entity called Customs and Central Excise Welfare Fund vide Ministry's order No.712/1/2005-Cus-(AS), dated 12 October 2006. Further, with effect from 12 October 2006, the allocation of Funds between (i) Customs & Central Excise Welfare Fund and (ii) Special Fund for acquisition of Anti Smuggling Equipment has been in the ratio of 1:1, i.e. distribution of the credits of 10 *per cent* between two funds is five *per cent* each.

Accounting process of fund involves the following:

- CCA intimates value of confiscated goods, fines, penalties realized
- 10 *per cent* of the value transferred from Major Head 2037(Customs) to Minor Head- (Reserve Fund & Deposit Account) in DDG
- Ministry's sanction obtained for transfer of budgeted amount to PD Accounts managed by the Governing Body
- Proposals received from field formations under various schemes duly recommended by Advisory Committee
- Amount sanctioned by the Governing Body after concurrence of Integrated Finance Unit.

The details of sale proceeds of confiscated/seized goods and amount transferred during 2008-09 to 2013-14 to Funds are given in **Table 2.3**.

Table 2.3: Source of Fund

(₹ in crore)

Year	Value of Sale proceed of confiscated/ seizure of goods	10 *per cent* of value of sale proceeds	5 *per cent* transferred to Customs & Central Excise Welfare Fund	5 *per cent* transferred to Customs Special Equipment Fund
2008-09	105.25	10.52	5.26	5.26
2009-10	85.32	8.53	**4.27	**4.27
2010-11	0	0	0	0
2011-12	0	0	0	0
2012-13	70.82	*5.58	2.79	2.79
2013-14	0	0	0	0
Total	**261.39**	**24.63**	**12.32**	**12.32**

* *As per Ministry letter dated 06 March 2013*

*** Difference in figure of ₹ 0.01 crore due to rounding off*

The details of transactions and balances in the Funds during 2008-09 to 2013- 14 as provided by the CBEC are depicted in **Table 2.4**.

Table 2.4: Transactions of Funds

(₹ in crore)

Name of fund	Year	Opening Balance	Receipt	Disbursement	Closing Balance
Customs & Central Excise Welfare Fund	2008-09	108.94	5.26	2.24	111.96
	2009-10	111.96	4.27	2.89	113.34
	2010-11	113.34	0	2.81	110.53
	2011-12	110.53	0	2.75	107.78
	2012-13	107.78	2.79	6.92	103.65
	2013-14	103.65	0	5.81	97.84
		Total	**12.32**	**23.42**	
Special Equipment Fund	2008-09	53.26	5.26	1.49*	57.03
	2009-10	57.03	4.27	14.04*	47.26
	2010-11	47.26	0	7.51*	39.75
	2011-12	39.75	0	4.15*	35.6
	2012-13	35.6	2.79	6.21*	32.18
	2013-14	32.18	0	9.61*	22.57
		Total	**12.32**	**43.01**	

**Amount disbursed is sanctioned amount minus refund.*

However, the figures provided by the CBEC in respect of above funds do not tally with the figures as appearing in Finance Accounts. For the year 2013-14, the opening balance, closing balance and transactions as per Finance Accounts are detailed in **Table 2.5** which shows wide variations between the two sets of records.

Table 2.5: Inconsistencies/Discrepancies in Finance Accounts (FA) and books of Department

(₹ in crore)

Name of fund	Opening Balance			Receipt			Disbursement			Closing Balance		
	As per FA	As per CBEC	Difference	As per FA	As per CBEC	Difference	As per FA	As per CBEC	Difference	As per FA	As per CBEC	Difference
Customs & Central Excise Welfare Fund	105.08	103.65	1.43	1.68	0	1.68	8.01	5.81	2.20	98.76	97.84	0.92
Special Equipment Fund	33.01	32.18	0.83	0	0	0	9.49	9.61	(-)0.12	23.52	22.57	0.95

A test check of expenditure financed from these two funds were conducted and the audit findings are summarised below:

(I) Customs & Central Excise Welfare Fund

(i) In terms of Department of Pension & Pensioners Welfare O.M.No.38/37/08-P&PW(A), dated 2 September 2008 an ex-gratia lump sum compensation is payable to the families of Central Government civilian employees from Welfare Fund, who die during the performance of official duties, terrorist action, or natural calamity. It was noticed that out of Welfare Fund, the department made ex-gratia payment in 3 cases for ₹ 25 lakh in respect of death occurred due to accident/attributable to violence of terrorists or in the course of performance of duties, ₹ 381.50 lakh ex-gratia payment in respect of 350 cases of natural death and ₹ 20.02 lakh in respect of 7 cases to sports persons during 2008-09 to 2013-14. However, payment of ₹ 381.50 lakh and ₹ 20.02 lakh were not covered under the DOPT notification for payment from Welfare fund and thus resulted in irregular payment.

(ii) An expenditure of ₹ 715 lakh was incurred on setting up of a museum at Panaji, Goa to promote common man's awareness regarding history of the department out of the Welfare Fund, which could have been financed from normal budgetary process.

(iii) During the period 2008-09 to 2013-14, an expenditure of ₹ 472.75 lakh was incurred in 919 cases of medical assistance/expenses on treatment from private hospitals out of the Welfare Fund. These employees were also covered under CGHS (MA)/CGHS Rules and the expenditure could have been financed from normal budgetary process.

(iv) As per Department's letter No.712/1/2005-Cus (AS), dated 12.10.2006, the Performance Award Fund was merged with the Customs & Central Excise Welfare Fund in October 2006. Despite merger of the two funds, Performance Award Fund was continued to be reflected in the Finance Accounts upto 2013-14. Share of Welfare fund was also being transferred to the Performance Award Fund instead of Customs & Central Excise Welfare Fund irregularly till 2012-13 against the above order.

(II) Customs Special Equipment Fund

(i) Ministry of Finance issued notification in December 1999 for "Procurement of anti-smuggling equipments of the specialized nature and vehicles for anti-smuggling/anti-evasion purpose within the shortest possible time." The Governing Body, Directorate of Logistics, Customs and Central Excise issued sanctions of ₹ 15 crore for maintenance/ up-gradation of special equipment during the period 2008- 09 to 2013-14 out of Special Equipment Fund placed for procurement of equipment. The Financial Advisor (Finance) disagreed (March 2013) with the transaction stating that "Special Equipment Fund" was only meant for procurement of equipment. Maintenance expenditure should have been met from the Special Secret Fund (SSF), which would have required augmentation to the extent." The Department incurred expenditure of ₹ 13.49 crore for maintenance/ up-gradation of equipment which was irregular.

(ii) Video Conferencing System was not classified as special equipment for anti-smuggling as per approved list of the Department. Expenditure of ₹ 0.32 crore was incurred irregularly out of special equipment fund for procurement and installation of video conference system at New Delhi and Chennai.

(iii) As per Ministry of Finance, Department of Revenue instruction of 28 October, 2005 the balances lying in the saving bank/current account shall be transferred immediately to the Personal Deposit Account. Scrutiny of record revealed that the Directorate of Revenue Intelligence was allocated ₹ 15 crore out of Special Equipment Fund during the period 2008-09 to 2013-14. It was noticed that Directorate of Revenue Intelligence was still operating saving account instead of Personal Deposit Account. Thus, Directorate of Revenue Intelligence retained funds aggregating ₹ 15 crore outside the Government Accounts contrary to the above instructions issued in October 2005.

(iv) The Governing Body, Directorate of Logistics, Customs and Central Excise disbursed ₹ 43.01[8] crore for procurement of special anti-smuggling equipment or maintenance thereof during the period 2008- 09 to 2013-14. The Department furnished utilization certificate of ₹ 11.00 crore only. The utilization certificates in respect of sanctions of ₹ 32.01 crore were not furnished till November-2014.

Above test checks revealed that the Department incurred irregular expenditures of ₹ 15.89 crore out of ₹ 23.42 crore from Customs & Central Excise Welfare Fund and ₹ 13.80 crore out of ₹ 43.01 crore from Special Equipment Fund. Thus, the irregular expenditure of ₹ 29.69 crore out of total expenditure of ₹ 66.43 crore was against the purpose/objectives for which the respective funds were created and also against the instructions of Ministry of Finance issued from time to time.

Further, the Department procured a number of other anti-smuggling special equipment like Patrolling Marine Vessels, Container Scanners etc. out of normal budget, rather than from Special Equipment Fund. Thus, there were two sources for procurement in the Department, which could have been financed commonly from normal budgetary process.

Thus, it may be observed that almost all the welfare activities financed from the Welfare fund of the CBEC are already being extended to the Government employees of other Departments through the normal budgetary process and

[8] Amount disbursed is sanctioned amount minus refund

under extant rules governing such expenditure, without creating any welfare fund in those Departments. As General Financial Rules do not allow expenditure from the public moneys for the benefit of a section of the people, the continuance of Customs and Central Excise Welfare Fund is not necessary. The welfare activities can be financed through the normal budgetary process of the Department.

2.2.10 Short transfer of cess to Central Road Fund (CRF) in Public Account

As per para 4 of the Central Road Fund Act, 2004 the proceeds of the cess levied under Section 3 shall first be credited to the Consolidated Fund of India, and the Central Government may, if Parliament by appropriation made by law in this behalf so provides, credit such proceeds to the CRF from time to time, after deducting the expenses of collection, for being utilized exclusively for the purposes of this Act.

Examination of Statement No. 8[9] and Statement No. 13[10] of Union Government Finance Accounts for the years 2009-10 to 2013-14 revealed that against the total collection of ₹ 92,224.39 crore, only ₹ 88,544.45 crore was transferred to the CRF (Head 8224.00.101) in Public Account as detailed in **Table 2.6**.

Table 2.6: Short transfer of cess to earmarked funds in Public Account

(₹ in crore)

Years	Excise duty on Motor Spirit	Excise duty on HSD Oil	Transfer to CRF	Short Transfer
2009-10	3487.07	12717.00	14400.00	1804.07
2010-11	3561.67	13639.39	16600.00	601.06
2011-12	3744.22	14617.83	18677.00	-314.95
2012-13	4098.00	15881.29	19433.73	545.56
2013-14	4712.00	15765.92	19433.72	1044.20
Total	**19602.96**	**72621.43**	**88544.45**	**3679.94**

Source: Union Government Finance Accounts (Heads : 0038.03.106 and 0038.03.107)

The additional excise duties on indigenous Motor Spirit and High Speed Diesel are levied and collected by Department of Revenue, Ministry of Finance. As is evident from the above table, this has resulted in short transfer of cess proceeds of ₹ 3,679.94 crore.

Department of Economic Affairs stated (January 2015) that figures of cess collection for Budget Estimates were received from Department of Revenue by Budget Division. Till now, the practice was to provide these estimates to

9 Statement No 8: Detailed Account of Revenue Receipts and Capital Receipts by Minor Heads.

10 Statement No 13: Statement of Receipts, Disbursements and Balances under heads of account relating to Debt, Deposits, Remittances and Contingency Fund

Planning Commission with the request that cess backed allocations were fully provided for. The Planning Commission and the Ministry/Department accordingly, made provision for transfer to fund and its scheme financing.

Since these are specific purpose cess, the entire cess collection should be transferred to the designated fund in the Public Account.

2.2.11 Non-closure of National Calamity Contingency Fund

National Disaster Response Fund (NDRF) was constituted as per Ministry of Home's Notification No 1995 dated 28 September 2010. According to para 4.1 of its guidelines, National Calamity Contingency Fund (NCCF) was to be merged with National Disaster Response Fund (NDRF). On scrutiny of Union Government Finance Accounts for 2013-14, it was noticed that the head 8235.119-National Calamity Contingency Fund is still being depicted with closing balance of ₹ 1,484.78 crore in Statement No-13.

Further, an amount of ₹ 3,546.07 crore has been shown as receipt under head 0038.03.108- National Calamity Contingent Duty and against this amount, ₹ 4,649.94 crore was transferred to the head 8235.125-National Disaster Response Fund in Statement No-13 resulting in excess transfer of duty of ₹ 1,103.87 crore into the said fund during the year 2013-14.

The CGA replied (October 2014) that a reference had been made to the Ministry and Audit would be informed accordingly.

2.3 Integrity and Reconciliation Issues

2.3.1 Discrepancy in balances of Employees' Pension Fund

As per the Employees' Pension Scheme, 1995, the Central Government's contribution to the Employees' Pension Fund is to be kept in the Public Account of the Government of India. The Ministry of Labour and Employment issues sanctions in respect of the Government's share of contribution (and for interest thereon) for necessary adjustments by the Pay and Accounts Office in the Union Government accounts. The copies of the sanctions are also forwarded to the Central Provident Fund Commissioner, New Delhi (Employees' Provident Fund Organisation, (EPFO)) for making necessary entries in its Annual Accounts. As such, the balances of the Government's share of pension contribution to the Employees' Pension Fund, as depicted in the Public Account and in the accounts of EPFO should agree.

Scrutiny of the records revealed that as per the annual accounts of EPFO for the year 2007-08, the closing balance of the Central Government's contribution (including interest) to the Pension Fund was ₹ 36,809.06 crore as against

₹ 36,939.04 crore depicted in the Union Government Finance Accounts for the year 2007-08. There was a difference of ₹ 129.98 crore in the two financial documents in that year.

The balance for the year 2013-14, as depicted in the Union Government Finance Accounts is ₹ 71,449.59 crore and as per balance sheet of EPFO the balance is ₹ 71,319.61 crore. Thus the same difference of ₹ 129.98 crore was continuing up to the end of the financial year 2013-14.

The Ministry of Labour and Employment replied (November 2011) that the sanction issuing authority in the Ministry had requested Reserve Bank of India to provide details of bookings made by it from 1971 and as soon as the details were received from them, full reconciliation between the Union Government Finance Accounts figures and those of the Annual Accounts of EPFO would be carried out. Necessary changes would be carried out in the Union Government Finance Accounts and/or Annual Accounts of EPFO, accordingly.

The Ministry further stated (December 2014) that necessary steps for reconciliation was being taken by EPFO, Ministry and RBI for early compliance.

However, despite this subject being commented upon in the CAG's Audit Report No.1 for the years 2008-09, 2010-11, 2011-12 and 2012-13 no discernible progress has been made to address this discrepancy.

2.3.2 Discrepancy in balances of Special Deposit of Employees' Deposit Linked Insurance Scheme

In Statement No.14[11] of the Finance Accounts for the financial year 2013-14, under the Special Deposit of Employees' Deposit Linked Insurance Scheme[12] in the Public Account, a credit balance of ₹ 1,594.61 crore was lying. However, as per the balance sheet of the Employees' Deposit Linked Insurance Scheme, 1976 (EDLI), maintained by the Employees' Provident Fund Organisation (EPFO), a sum of ₹ 6,922.94 crore had been shown as closing balance in the Public Account as on 31 March 2014. Thus, there was a difference of ₹ 5,328.33 crore in the two sets of figures.

This matter was also pointed out in the CAG's Audit Report No.1 for the year 2012-13 when there was a difference of ₹ 4,941.81 crore in these two sets of accounts. The Principal Accounts Office, Ministry of Labour and Employment

[11] Statement 14: Statement of debts and other interest bearing obligations of Government
[12] Head 8012.00.124-Special Deposit of Employees Deposit Linked Insurance Scheme

had stated (January 2012) that two Minor Heads[13] were being operated for this purpose. Based on the reply of the Ministry, the balances under the two heads works out to ₹ 8,963.04 crore, an excess balance of ₹ 2,040.10 crore at the end of 2013-14. The Ministry also did not clarify the difference appearing in the books of the Government and that being shown in the books of EPFO.

The Ministry stated (December 2014) that as per Statement No 13 of the Finance Accounts available in the Principal Accounts Office, under head 8012.00.124-Employees Deposit Linked Insurance Scheme (EDLI), the balance was ₹ 1,594.61 crore. ₹ 6,922.94 crore pertained to the head 8342.00.120-Misc. Deposit (EDLI) during 2013-14. Thus, the two different sets of figures under different heads had been compared.

Reply of the Ministry is not tenable as the total under the above two heads as appearing in Finance Accounts 2013-14 becomes ₹ 8,963.04 crore (Head 8342.00.120 ₹ 7,368.43 crore + Head 8012.00.124 ₹ 1,594.61 crore), whereas in the books of EPFO the closing balance is ₹ 6,922.94 crore. There is a need to reconcile the balances in the Union Finance Accounts and in the books of EPFO.

2.3.3 Non-depiction of interest received

No interest has been shown as received under '8008.01.105-Interest on investment in other securities' in National Small Saving Fund (Appendix No. 1 to Statement No. 16) during 2013-14 whereas under the same head an income of ₹ 135 crore had been shown in 2012-13.

The CGA replied (October 2014) that the Cheque/Sanction for booking interest was received in Ministry of Finance after 31 March 2014 and as such it could not be incorporated in the accounts for 2013-14.

Reply is not tenable as the Department of Economic Affairs (DEA) should enquire before booking 'nil' interest as it was known to DEA that the investment during the year remained at ₹ 1500 crore under the head '8007.00.105-Investment in other Instruments' in Statement No-16 for 2013-14.

2.3.4 Non-crediting of amount to the Security Redemption Fund

The Union Government had invested ₹ 9,996 crore in the rights issue of the State Bank of India (SBI) in the financial year 2007-08. Instead of cash draw down, the Government created a liability in the Public Account by issuing

[13] Heads 8342.00.120-Miscellaneous Deposits in Statement No.13 and 8012.00.124-Special Deposit of Employees Deposit Linked Insurance Scheme in Statement No.14

special securities[14]. These securities were to be redeemed on a future date by creation of a 'Security Redemption Fund', by transferring funds from the Consolidated Fund of India[15] to the Public Account.

Scrutiny of the accounts revealed that during the years 2008-09 to 2013-14, a sum of ₹ 625 crore in each year had been booked as expenditure on account of contribution to the Security Redemption Fund. The amount of ₹ 3,750 crore should have been credited to the Security Redemption Fund in the Public Account with the sole purpose to retire the special securities of ₹ 9,996 crore to SBI on some future date.

The records of the Department of Economic Affairs revealed that the said Fund had not yet been created despite pointing out the matter in Audit Report No.1 for the year 2011-12 and 2012-13; resultantly an amount of ₹ 3,750 crore was lying under a suspense head till date.

Chief Controller of Accounts, Ministry of Finance stated (January 2015) that pending modification of the proposed accounting procedure of Security Redemption Fund (SRF) based on C&AG observations, a sum of ₹ 3,750 crore was booked under 'Suspense Account Civil'. Once the Minor Head for SRF is opened with the concurrence of C&AG, the amount would be transferred to that head.

Ministry may get the accounting procedure approved at the earliest and book the expenditure to the appropriate head for the sake of transparency in the accounts.

2.3.5 Incorrect depiction of loan to Shipping Development Fund Committee

The Shipping Development Fund Committee (SDFC) was abolished with effect from 1986 and its assets and liabilities stood transferred to the Central Government in terms of Section 4 of SDFC (Abolition) Act, 1986. Scrutiny of Statement No. 15 of Union Finance Accounts for the years 2010-11, 2011-12, 2012- 13 and 2013-14, revealed that a net loan of ₹ (-)231.71 crore (Debit) as detailed in **Table 2.7**, was still being shown as outstanding against SDFC, though all assets and liabilities of SDFC had already been transferred to Central Government.

[14] MH 8012.00.120-Special Securities issued to Nationalised Banks
[15] MH 3465.01.190.04-Security Redemption Fund

Table 2.7: Incorrect depiction of loans to SDFC

Name of the Head	Amount (₹ in crore)
7052-01-101-Loans to Shipping Development Fund Committee	53.83 Dr.
7052-60-101-Loans to Shipping Development Fund Committee	8.59 Dr.
7052-02-101-Loans to Shipping Development Fund Committee	(-)294.13 Dr.
Total	**(-)231.71 Dr.**

Controller of Accounts, Department of Economic Affairs (DEA), Ministry of Finance stated (January 2015) that the Government of India appointed erstwhile SCICI Ltd, which subsequently merged with ICICI Bank Ltd, as its Designated Person to manage the SDFC portfolio and take such necessary steps as deemed fit to expedite recovery of loans from the Shipping/Fishing companies. It further added that ICICI Bank had remitted money in Government Accounts as principal and interest thereon without giving the details of the loans. The amount received from ICICI Bank were deposited in Government loan heads resulting in adverse balances in others. This matter was already taken up with ICICI Bank and Department of Financial Services for reconciliation.

However, the fact remains that the issue stands unresolved despite its being pointed out in Audit Report No. 1 for the year 2012-13.

2.3.6 Dormant Reserve Funds/Deposits/Other Fund

Reserve Funds and Deposits form a part of the Public Account, wherein the transactions in respect of which Government incurs a liability to repay the moneys received and the repayments thereof are recorded. Dormant funds/deposits constitute those funds or deposits which are not in operation for a long period of time. Since the creation of a reserve fund generally involves transfer of sum from Consolidated Fund of India into Public Account, the dormant funds in the Public Account should be closed and the closing balances therein should be transferred back to Consolidated Fund of India.

Scrutiny of Finance Accounts revealed 47 cases of reserve funds/deposits/other funds, which were lying dormant for period ranging from five to 26 years. These cases have been depicted in **Annexure 2.3**.

It is evident from the **Annexure 2.3** that the most of the cases involved meagre amounts and hence, their continuance does not appear to serve any logical purpose. These cases may be reviewed and considered for closure by crediting the balances to the Consolidated Fund of India.

The matter was commented upon in CAG's Audit Report No. 1 of 2013 and 2014, but no discernible action was taken.

The CGA replied (November 2014) that the dormant Reserve Funds were maintained by various departmental accounts organizations and the concerned accounting authorities had already been requested to review the dormant fund for liquidation/write off of the balances.

2.3.7 Understated accounting of external debt

External borrowings raised by the Government of India from lender countries or institutions abroad are recorded in Government Accounts at the historical rate of exchange, i.e. the rate prevailing on the date of transaction/receipt. On account of the subsequent variations in exchange rate, the repayments are higher than the amount payable as worked out on the basis of accounts. This overpayment is reflected in the account as negative closing balance every year. Rest of the loans, which have not yet been fully repaid, appear in the account with positive balances. Subsequently, when the external debt is aggregated, it gets understated due to netting of negative and positive balances.

Similarly, the balances of debt obtained from a particular country also do not reflect the correct figure of debt because one particular country lends loans for a number of projects which are accounted for separately. Of these, loans on some projects have already been paid off, yet payment on account of exchange variations is being made which are accounted for as negative balance. This negative balance, when aggregated, understates the balances of outstanding debt from that particular country as well.

Thus, the figure of external debt of ₹ 1,84,580.75 crore, as appearing in the Finance Accounts, does not reflect the actual dimension of outstanding external debt. As per note below the Statement No.14 of Union Finance Accounts, the external debt at the current rate at the end of March 2014 was ₹ 3,74,483.34 crore. Thus, the depiction of external debt in the accounts at historical rate of exchange is not a true reflection of liability.

In Report No.1 of 2013 and 2014, it was pointed out that a mechanism needs to be devised by the CGA to depict the actual dimension of the outstanding external debt appearing at historical rate of exchange. However, no progress has been made in this regard yet.

The CGA stated (October 2014) that a reference had been made to the Controller of Aid, Accounts and Audit.

2.3.8 Inconsistent depiction of external debt at current rate

Under the Minor Heads 6002-296 and 6002-298, loans of ₹ 6.15 crore and ₹ 0.01 crore have been depicted as outstanding to International Sugar

Organisation and Defence Certificate respectively as on 31 March 2014. However, statement showing foreign loans converted at current rates do not depict these loans. On the other hand, foreign loan at current rate from Italy amounting to ₹ 2.31 crore has not been mentioned under the head 6002-External Debt maintained at historical rate of exchange.

In respect of foreign loans from 'International Sugar Organisation' and 'Italy', the CGA replied (November 2014) that reference had been made to the Controller of Aid, Accounts and Audit.

In respect of foreign loan - Defence Certificate, the CGA replied (October 2014) that the balance pertained to Director of Audit, Central Revenue (DACR) and as such the same had not been shown under Statement of Foreign Loans in foreign currency.

2.3.9 Excess withdrawal from National Rural Employment Guarantee Fund

The Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MNREGA) aims at enhancing the livelihood security of people in rural areas by guaranteeing hundred days of wage-employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work.

Scrutiny of Union Finance Accounts for the years 2010-11 to 2013-14 revealed variation of ₹ 5.29 crore between the disbursement made from the National Rural Employment Guarantee Funds (8232.00.101) in the Public Account and the amount actually expended and booked in CFI on NREGS head (2505.02.101). From the **Table 2.8**, it can be seen that the total disbursement from the fund in Public Account was ₹ 1,28,325.38 crore through head 8232.00.101 as against the total expenditure on scheme which was ₹ 1,28,320.09 crore. Thus the excess disbursement of ₹ 5.29 crore from the fund indicates the probable utilisation of funds on purposes other than the designated promise of the Government for enhancing the livelihood security of unskilled people in rural areas.

Table 2.8: Excess withdrawal from National Rural Employment Guarantee Fund

(₹ in crore)

Year	Disbursement from Fund (8232.00.101)	Expenditure booked under NREGS head (2505.02.101)	Excess transfer from Fund.
2010-11	35841.49	35840.74	0.75
2011-12	29215.05	29212.92	2.13
2012-13	30274.72	30273.60	1.12
2013-14	32994.12	32992.83	1.29
Total	**128325.38**	**128320.09**	**5.29**

This matter was commented upon in CAG's Audit Report No. 1 for the year 2013 and 2014.

Ministry of Rural Development stated (February 2015) that the sanction was issued on 31 March every year after ascertaining the final requirement of funds which also included the authorizations in favour of other agencies such as DAVP, CPWD etc. The difference between the *Inter- Account Transfer* and the *Actual Expenditure* was due to the fact that expenditure was less than the authorization. Further, it was also stated that the actual expenditure against authorizations was informed to Principal Accounts Office, Ministry of Rural Development at the time of preparing the Statement of Central Transaction (after 31 March every year) and the MNREGA Division issued sanction on the basis of total authorization made during the year on 31 March every year. As regards the possibility of eliminating the difference, it was replied that Principal Accounts Office, Ministry of Rural Development will include the actual expenditure booked as on 31 March 2015 against the authorization and not the authorization figure itself. This would hopefully ensure that there was no such difference arising between inter-account transfer and the actual expenditure, except to the extent that the implementing agencies carry out some adjustment/correction through supplementary accounts.

2.3.10 Other discrepancies

(a) Incomplete depiction of investment in Statement No. 11 of Union Government Finance Accounts

Statement No. 11 of the Finance Accounts provides details of the investment of the Union Government in Statutory Corporations, Government Companies, Other Joint Stock Companies, Cooperative Banks and Societies etc. Scrutiny of the Statement for the financial year 2013-14 revealed a number of discrepancies with regard to disclosure, which are summarised in the **Table 2.9**. Moreover, as per para 4.2 of General Direction to List of Major and Minor Heads of Accounts (LMMHA), Minor Head 190-Investment in Public Sector and Other Undertakings is meant for investments in equity shares. However, in a few cases, investment in equity share has been made through Minor Head 800- Other expenditure, which is against the general direction.

Table 2.9: Discrepancies in disclosures of Government investment in PSUs

Sl. No.	Name of PSUs	Discrepancies	Reply of CGA/Ministry/Audit Remarks
1.	North Eastern Handicrafts and Handlooms Development Corporation Ltd.	An investment of ₹ 4 crore was made in 2013-14 but the detail was not shown in Statement No. 11 of Union Government Finance Accounts.	CGA replied (October 2014) that reference has been made to the Ministry of Development of North Eastern Region.
2.	Burn Standard Ltd. and Braithwaite Ltd.	These two entities were already liquidated and merged with the Bharat Bhari Udyog Ltd in the financial year 2010-11. However, from 2011-12 fresh investments have been shown in these two entities in Statement No. 11. This issue was also commented upon in para No. 2.3.10 of CAG's Report No. 1 of 2013 and para 2.3.14 (b) of CAG's Report No. 1 of 2014.	CGA replied (October 2014) that reference has been made to the Ministry of Railways. Similar reply was furnished by the CGA in 2012-13, without taking any remedial measure.
3.	Hindustan Shipyard Limited	Progressive investment as on 31 March 2014 was ₹ 304.01 crore as per Union Government Finance Accounts 2013-14, whereas the progressive investment as per Controller General of Defence Accounts (CGDA) was ₹ 301.99 crore.	CGA and CGDA may reconcile the difference in investment, which was also pointed out in CAG's Report No 1 of 2013 vide Para 2.3.10 (e).
4.	Hindustan Aeronautics Ltd., Bengaluru	Progressive investment as on 31 March 2014 was ₹ 120.54 crore as per Union Government Finance Accounts 2013-14 whereas the progressive investment as per CGDA was ₹ 482 crore.	CGDA stated (September 2014) that the matter had been taken up with the CGA and concerned Controller of Accounts. CGA and CGDA may reconcile the difference in investment.

The above discrepancies indicate that the 'Register of Investments' in Form CAM – 60 as required to be maintained by the Principal Accounts Office or the Pay and Accounts Office responsible for release of funds for investments are not being maintained properly, leading to deficient/delayed disclosure in the Accounts of the Union Government.

(b) Inconsistencies/discrepancies in Statement No. 15 of Union Government Finance Accounts

Section 3 of Statement No. 15 of Union Government Finance Accounts depicts the 'Repayments in arrears from Other Loanee Entities or Institutions'. Further, the additional disclosure in the Statement depicts the fresh Loans and Advances made during the year. In a few cases, the interest on arrears of outstanding loans have neither been reflected nor qualified by any remark for not reflecting the same in Union Finance Accounts 2013-14. The details of such cases are given in **Table 2.10**.

Table 2.10: Inconsistencies/Discrepancies in Statement No. 15

Interest not reflected in respect of arrears of loans			
Sl. No.	**Name of Entity**	**Total loans outstanding on 31 March 2014 (₹ in lakh)**	**Remark**
1.	Shri Sitaram Sugar Co Baithalpur, Uttar Pradesh	347.53	The CGA replied (October 2014) that the matter had been taken up with the Ministry of Consumer Affairs, Food and Public Distribution and Audit would be informed accordingly.
2.	Deoria Sugar Mills, Deoria, Uttar Pradesh	362.87	
3.	Raja Bulan Sugar Ltd, Rampur, Uttar Pradesh	105.85	
Incomplete depiction in Section-3/Additional Disclosure			
	Discrepancies		**Reply of CGA/Ministry**
4.	'Additional Disclosures' of Statement No. 15 of 2013-14 depicts the fresh Loans and Advances made to State Governments during the year. Information in respect of number of such loans made during the financial year has not been reflected and qualified by a footnote stating the information is awaited. Similar practice had also been adopted for the financial year 2012-13 defeating the purpose of additional disclosure		The CGA replied (October 2014) that the matter had been taken up with the Ministry of Finance

(c) Non-finalisation of terms and conditions of loans advanced

The terms and conditions of loans advanced to the loanees have not been finalised as disclosed in Statement No. 15 of Finance Accounts 2013-14. The details are given in **Table 2.11**.

Table 2.11 : Institutions where terms and conditions of loans not finalised

(₹ in crore)

Name of Entity	Loan Amount	Earliest period to which pertains	Remarks
Rajiv Gandhi Cancer Institute and Research Centre, New Delhi, Ministry of Health and Family Welfare	29.29	1994-95	This issue was highlighted as early as in Report No. 1 of 2000. Even after a gap of 19 years of advancing the loan, the terms and conditions of loans had not been finalized. The CGA replied (October 2014) that the Ministry of Health and Family Welfare in June 2014 had taken up the matter with the Ministry of Finance for finalization of terms and condition.
Government of Maldives	624. 40	2011-12	The loan was depicted first time in the additional disclosure of Statement No. 15 of Finance Accounts for 2013-14. CGA stated (October 2014) that the matter had been taken up with the Ministry of External Affairs.

2.4 Important factors affecting accuracy of accounts

The accuracy of Union Finance Accounts 2013-14 is adversely affected by factors like (i) large number of transactions under Suspense heads awaiting final classification, (ii) increasing number and magnitude of adverse balances under Debt, Deposit and Remittances (DDR) heads of accounts and (iii) persistent outstanding balances in Suspense heads awaiting clearance.

A general review of outstanding balances under Debt, Deposit, Remittance and Suspense heads was carried out for the last five years period in the office of CGA and six Principal Accounts Offices (Pr. AOs) viz. Central Board of Direct Taxes (CBDT), Ministry of Road, Transport and Highways, Department of Supply, Department of Economic Affairs, Controller of Aid, Accounts and Audit (CAA&A) and Ministry of External Affairs (MEA). These Pr. AOs were selected on the basis of concentration of balances and their accumulation over the years. The audit findings are reported below:

2.4.1 Outstanding balances under major Suspense Accounts

Certain intermediary/adjusting heads of accounts known as "Suspense heads" are operated in Government accounts to reflect transactions of receipts and payments which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by minus debit or minus credit when the amount under them is booked to their respective final heads of accounts. If these amounts remain uncleared, the balances under the suspense heads would accumulate and would not reflect Governments' receipts and expenditure accurately.

The ledger for suspense balances is maintained by Pay and Accounts Offices (PAOs) sub/detailed head-wise, as may be necessary and by Principal Accounts Offices Minor Head wise on the basis of figures furnished by the PAOs periodically. The Chief Controller of Accounts of concerned Principal Accounts Office is required to review the suspense balances and report to the Controller General of Accounts (CGA) for monitoring purposes.

The aggregate net balance under suspense heads in the Union Finance Accounts including Civil, Defence, Railways, Posts and Telecommunication was ₹ 24,844.21 crore (Debit) as on 31 March 2014. This balance comprised of ₹ 3,257.64 crore (Debit) in respect of Civil, for Defence ₹ 16,496.03 crore (Debit), Railways ₹ 1,803.68 crore (Debit), for Postal ₹ 2,005.12 crore (Debit), for Telecommunications ₹ 148.06 crore (Debit) and ₹ 1,133.68 crore (Debit), in respect of Redemption of Government of India Compensation (Project Exports to Iraq) Bonds, 2001. The Finance Accounts reflect the net balances under Suspense Heads and, therefore, the real magnitude of outstanding under these heads does not get reported in the annual accounts of Government presented to the Parliament. The correct balances under these heads can be worked out only by aggregating the debit and credit balances separately under various Suspense heads. Netting of debit/credit balances leads to significant understatement of Suspense balances in the Finance Accounts. This understatement takes place both at the Minor Head as well as at Major Head level. The position of suspense balances under major suspense heads in respect of Civil Ministries (Major Head 8658) for the last five years is given in **Table 2.12**.

Table 2.12: Position of Suspense balances under major suspense heads in respect of civil Ministries

(₹ in crore)

Name of Head	2009-10		2010-11		2011-12		2012-13		2013-14	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
101-PAO Suspense	2880.09	1172.22	3374.13	1131.37	3213.12	740.00	3348.71	331.95	2737.37	156.44
Net	**Dr 1707.87**		**Dr 2242.76**		**Dr 2473.12**		**Dr 3016.76**		**Dr 2580.93**	
102-Suspense Accounts (Civil)	1942.11	1447.74	1943.09	9781.95	2050.60	3409.87	1200.82	4039.04	1194.54	4670.36
Net	**Dr 494.37**		**Cr 7838.86**		**Cr 1359.27**		**Cr 2838.22**		**Cr 3475.82**	
107-Cash Settlement Suspense Accounts	371.03	16.57	374.62	19.81	363.32	36.10	404.99	36.34	497.97	36.34
Net	**Dr 354.46**		**Dr 354.81**		**Dr 327.22**		**Dr 368.65**		**Dr 461.63**	
108-PSB Suspense	2435.52	1775.10	3091.85	1052.85	2881.34	1292.70	4352.63	1104.38	5969.95	2988.75
Net	**Dr 660.42**		**Dr 2039.00**		**Dr 1588.64**		**Dr 3248.25**		**Dr 2981.20**	

109-Reserve Bank Suspense (HQ)	11.37	185.26	11.67	185.14	11.37	185.80	11.37	188.73	11.37	185.41
Net	**Cr 173.89**		**Cr 173.47**		**Cr 174.43**		**Cr 177.36**		**Cr 174.04**	
110-Reserve Bank Suspense Central Accounts Office	92.02	128.83	28.52	193.74	45.50	65.52	59.07	114.38	58.39	502.62
Net	**Cr 36.81**		**Cr 165.22**		**Cr 20.02**		**Cr 55.31**		**Cr 444.23**	
115- Suspense Accounts for Purchases etc. abroad	1894.85	--	940.82	--	661.19	-	504.63	52.00	1941.34	52.00
Net	**Dr 1894.85**		**Dr 940.82**		**Dr 661.19**		**Dr 452.63**		**Dr 1889.34**	
129-Material Purchase Settlement Suspense Accounts	195.25	143.11	202.22	102.16	208.56	86.30	213.35	87.01	212.08	78.32
Net	**Dr 52.14**		**Dr 100.06**		**Dr 122.26**		**Dr 126.34**		**Dr 133.76**	
136-Customs Receipts awaiting transfer to receipt head	--	145.47	--	252.28	--	249.50	-	222.56	--	223.26
Net	**Cr 145.47**		**Cr 252.28**		**Cr 249.50**		**Cr 222.56**		**Cr 223.26**	
138-Other Nominated Banks (Pvt. Sector Banks) Suspense Transaction Connected with War, 1939	2.88	100.70	36.28	294.80	5.82	243.39	1.38	481.96	51.98	593.43
Net	**Cr 97.82**		**Cr 258.52**		**Cr 237.57**		**Cr 480.58**		**Cr 541.45**	

It would be seen that net debit balances under Cash Settlement Suspense Account, Suspense Accounts for Purchases etc. Abroad and Material Purchase Settlement Suspense Accounts have increased by ₹ 1,537.11 crore in 2013-14 over the previous year. Similarly, net credit balances under Suspense Accounts Civil, Reserve Bank Suspense Central Accounts Office, Customs Receipt awaiting transfer to Receipt Head, and Other Nominated Banks (Private Sector Banks) head have increased by ₹ 1,088.09 crore in 2013-14 over the previous year. The year-wise break-up of the balances outstanding under the suspense Minor Heads was not maintained by the CGA hindering effective monitoring of clearance such balances.

(a) PAO Suspense

This Minor Head is operated for the settlement of inter-departmental and inter-Governmental transactions arising in the books of PAOs under the Union Government, PAOs of the Union Territories and the Accountants General. Transactions under this Minor Head represent either recoveries effected or payments made by an Accounts Officer on behalf of another Accounts Officer against whom the Minor Head 'PAO Suspense' has been operated. Credit under the head is cleared by 'minus credit' when cheque is issued by the Accounts Officer in whose books initial recovery was accounted for. Debit under 'PAO Suspense' is cleared by 'minus debit' on receipt and realization of cheque from the Accounts Officer on whose behalf payments were made. Outstanding debit balance under this head would mean that payments have been made by the PAO on behalf of other PAO, which are yet to be recovered. Outstanding credit balance would mean that payments have been received by the PAO on behalf of other PAO, which are yet to be paid.

At the end of March 2014, the outstanding debit balance under this head was ₹ 2,737.37 crore and under credit it was ₹ 156.44 crore. Thus, an aggregated balance of ₹ 2,893.81 crore was awaiting clearance from this head. The outstanding balances were mainly in respect of Department of Supply ₹ 1,723.45 crore (Debit), Ministry of External Affairs ₹ 530.89 crore (Debit), Ministry of Home Affairs ₹ 118.56 crore (Debit) and Ministry of Road Transport and Highways ₹ 89.75 crore (Credit), indicating the payments made (Debit) or received (Credit) by these Departments/ Ministries on behalf of other PAOs which were yet to be recovered/ paid by them as on 31 March 2014. Large debit and credit balances under PAO suspense and their continuous accumulation indicated significant control deficiencies.

Test check of the accounts of Principal Accounts Offices revealed that in CBDT, ₹ 0.03 crore (Debit) and ₹ 3.99 crore (Credit) pertaining to the period prior to 1986-87 till 2013-14 were outstanding which included ₹ (-)358.34 crore (Debit) and ₹ 352.50 crore (Credit) pending settlement for more than five years. In Department of Economic Affairs, Ministry of Finance, balances of ₹ (-) 0.46 crore (Debit) and ₹ 1.68 crore (Credit) were outstanding at the end of the year 2013-14. In Ministry of External Affairs, balances of ₹ 530.89 crore (Debit) was outstanding at the end of the year 2013-14. In Ministry of Road Transport and Highways balance of ₹ 89.75 crore (Credit) were outstanding at the end of the year 2013-14. In Department of Supply balance of ₹ 1,723.35 crore (Debit) was outstanding at the end of the year 2013-14.

(b) Suspense Accounts (Civil)

This transitory Minor Head is operated for accounting of transactions, which cannot be taken to the final head of expenditure or receipt for want of certain information/ documents viz. vouchers, challans etc. This Minor Head is credited for recording receipts and debited for expenditure incurred. On receipt of the requisite information/ documents etc. the Minor Head is cleared by minus debit or minus credit by per contra debit or credit to the concerned Minor/sub-Minor /Minor Heads of accounts. Outstanding debit balances under this head would mean payments made, which could not be debited to final expenditure head for want of details like vouchers etc. Outstanding credit balance would mean amounts received, which could not be credited to the final receipt head for want of details.

The outstanding balance under this Minor Head as on 31 March 2014 was ₹ 4,670.36 crore (Credit) and ₹ 1,194.54 crore (Debit). An aggregated balance of ₹ 5,864.90 crore was required to be handled individually for settlement, which had not been booked to their final heads of account. The major balances outstanding pertained to Department of Economic Affairs ₹ 3,959.93 crore (Credit), Department of Supply ₹ 597.57 crore (Debit), Ministry of External Affairs ₹ 598.14 crore (Credit) and High Commission ₹ 435.76 crore (Debit).

In Principal Accounts Office of CBDT, balance of ₹ 2.79 crore (Debit) and ₹ 0.40 crore (Credit) were outstanding at the end of 2013-14 which included debit balance of ₹ 2.39 crore (Debit) and credit balance of ₹ 0.15 crore (Credit) pending settlement more than five years.

(c) Suspense Accounts for Purchases etc abroad

The Minor Head 'Suspense accounts for purchases etc abroad' is operated in the books of the Controller of Aid, Accounts and Audit (CAA&A), Ministry of Finance (Department of Economic Affairs). The Government advises the donor to make payments directly to the supplier abroad against the supplies made to the project authorities/ importers and an equal amount is kept under the suspense head till the payment is received from the concerned line Ministry/Importer. The debit balance under this head indicates the amount, which is yet to be recovered from the importers/project authorities, although the Government has already made the payment for these imports.

In 2013-14, the outstanding debit balance under this head was ₹ 1,941.34 crore and credit was ₹ 52 crore. Major debtors as on 31 March 2014 were Helicopter Corporation of India Ltd. (₹ 67.24 crore), Pawan Hans Ltd. (₹ 57.44 crore), Pyrites, Phosphates and Chemicals Ltd. (₹ 24.95 crore), Coal India Ltd. (₹ 23.18 crore). It was also observed that ₹ 207.13 crore was outstanding from different organizations since 2005. A list showing the details of amounts outstanding since 2005 is given in **Annexure-2.4.**

It was noticed from the information made available by the CAA&A that subsequent payments had been made on behalf of various importers/project authorities while the payments for earlier purchases were still due from them. Concrete steps need to be taken by CAA&A for recovery of the outstanding amounts.

(d) Public Sector Bank Suspense (PSB Suspense)

In the Government accounting system, the designated banks conduct Government business on behalf of the Reserve Bank of India. When a cheque is issued for payment of a bill, the amount is debited to the final head of account. When the cheque is encashed by a public sector bank, it initially pays the amount from its own cash balance and then claims reimbursement from the Central Accounts Section (CAS), RBI Nagpur, which maintains the account of each Ministry/Department. Similarly, when Government receipts are paid into the designated/ accredited bank, it passes on the proceeds to the Central Accounts Section RBI Nagpur. As there is a time lag in booking of a Government Transaction carried out by the bank, in Government cash balances, the Minor Head 'Public Sector Bank Suspense' is operated in Government books to account for the transactions awaiting settlement. On receipt of accounts from (CAS) RBI, Nagpur the original booking under PSB Suspense is cleared by minus credit/ minus debit, as the case may be. Clearance of balances (both credit and debit) is required to be conducted within the minimum possible time otherwise the cash balance of government with RBI would present an erroneous position.

The outstanding PSB balance for the year ending 31 March 2014 aggregated to ₹ 5,969.95 crore (Debit) and ₹ 2,988.75 crore (Credit). Thus, an aggregated balance of ₹ 8,958.70 crore was required to be cleared at the end of March 2014. The departments against which major balances were outstanding were Department of Supply ₹ 278.16 crore (Debit), CBDT (Expenditure) ₹ 120.31 crore (Debit), Ministry of Road Transport and Highways ₹ 1,523.42 crore (Debit), Department of Economic Affairs ₹ 4.36 crore (Debit) and Ministry of External Affairs ₹ 578.79 crore (credit).

Test check of balances in Principal Accounts Offices revealed that in CBDT balance of ₹ (-)19,780.56 crore (Debit) and ₹ 30,148.52 crore (Credit) were outstanding at the end of the year 2013-14 which included debit balance of ₹ 1,962.74 crore and credit balance of ₹ (-)374.27 crore pending settlement from 7 to 25 years. In Ministry of Road Transport and Highways balance of ₹ 1,523.42 crore (Debit) were outstanding at the end of the year 2013-14. In Department of Economic Affairs, Ministry of Finance, balances of ₹ 2.11 crore (Debit) and ₹ (-)2.25 crore (Credit) were outstanding at the end of the year 2013-14. In Department of Supply, ₹ 278.16 crore (Debit) were outstanding at the end of the year 2013-14.

(e) Reserve Bank Suspense, Central Accounts Office (CAO)

This Minor Head is operated in the books of Union Government for payments of loans, Grants-in-aid, share of income tax and share of Union Excise Duty to the State Governments. When the payment is authorized, the respective expenditure head is debited and credit is afforded to this Suspense head. On receipt of monthly statements of accounts from RBI adjusting the account of Union Government, the Minor Head is minus credited by crediting '8675-Deposits with RBI-101 Central Civil'. At the time of repayment of loan and payment of interest thereon by the State Government, this suspense head is debited by crediting the loans/ interest head. On receipt of monthly statement of accounts from Central Accounts Section (CAS) RBI, Nagpur the suspense head is minus debited by contra debit to '8675-Depostis with RBI-101-Central Civil'. The outstanding balance under this Minor Head as on 31 March 2014 was ₹ 58.39 crore (Debit) and ₹ 502.62 crore (Credit) with aggregated balance of ₹561.01 crore to be cleared at the end of March 2014. The outstanding RBI (CAO) suspense balances were mainly against the Ministry of Road Transport and Highways ₹ 19.14 crore (Debit), Department of Supply ₹ 28.21 crore (Debit), Ministry of Urban Development ₹ 8.16 crore (Credit), Ministry of Shipping ₹ 367.99 crore (Credit)) and Department of North Eastern Region ₹ 73.57 crore (Credit).

Test check of balances in Principal Accounts Offices revealed that in Department of Supply, a net debit balance of ₹ 28.21 crore was outstanding at the end of the year 2013-14. In Ministry of Road Transport and Highways a balance of ₹ 19.14 crore (Debit) was outstanding at the end of the year 2013-14. In Ministry of External Affairs, a balance of ₹ 0.71 crore (Debit) was outstanding at the end of the year 2013-14.

2.4.2 Large number of adverse balances under Debt Deposit and Remittance (DDR) Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced.

In the Finance Accounts of the Union Government for the Year 2013-14, there are 78 cases of adverse balances under debt, deposit and remittances heads as given in **Annexure-2.5**. Of these, four cases became adverse during the year 2013-14 and remaining 74 cases were outstanding from earlier years. These included 42 cases outstanding for less than 5 years, 18 cases outstanding for more than 5 years, 10 cases for more than 10 years and 4 cases were more than

20 years old. Though the footnotes to the adverse balances in the Finance Accounts mentioned that the case were under investigation, the findings of such investigation by the CGA and subordinate offices and efforts made to clear them were not made available to Audit.

2.4.3 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediate accounting head for initial recording of transactions which are eventually to be cleared. Under the scheme of departmentalisation of accounts, payment of claims against Government is made by Pay and Accounts Offices of different Ministries/Departments by cheques drawn on branches of RBI or accredited banks.

When claims are preferred in the appropriate bill form to the PAO/departmental officer, the payment is authorized through issue of cheques, after exercising the prescribed checks and recording of pay order. At the end of each month, the Major Head '8670 – Cheques and Bills' is credited by the total amount of the cheques delivered during the month. On receipt of Date-wise Monthly Statements (DMS)/ Monthly Statement of Balances from Public Sector Bank/ (CAS) RBI, Nagpur showing the payments made by them against the cheques issued, the head '8670 – Cheques and Bills' is minus credited and credit is afforded to the Suspense Head '8658.108-PSB Suspense'/'8675.101- Deposit with RBI-Central Civil', as the case may be.

In the Union Finance Accounts for 2013-14 large balances are lying outstanding under the various Minor Heads of 'Cheques and Bills' as detailed in **Table 2.13**.

Table 2.13: Outstanding balances under the head 'Cheques and Bills'

(₹ in crore)

8670.101	Pre-audit Cheques	Credit	0.43
8670.102	Pay and Accounts Office Cheques	Credit	9018.07
8670.103	Departmental Cheques	Credit	845.19
8670.104	Treasury Cheques	Credit	4.62
8670.105	IRLA Cheques	Credit	0.59
8670.106	Telecommunication Accounts Cheques	Credit	1221.97
8670.107	Postal Cheques	Credit	11652.85
8670.108	Railway Cheques	Credit	3044.14
8670.109	Defence Cheques	Credit	1080.53
8670.110	Electronic Advices	Debit	4.44
8670.111	Pay and Accounts Offices Electronic Advices	Debit	637.96
8670.112	Pr. Controller of Communication Accounts Offices Electronic Advices	Credit	0.44

Rule 45 of Central Government Account (Receipts and Payments) Rules, 1983 envisages that a cheque shall be payable at any time within three months from the date of issue. Further, Rule 47(2) envisages that cheques remaining unpaid for a period of six months after the month of their issue and not surrendered for renewal are to be reversed and cancelled by minus crediting '8670-Cheques and Bills' and minus debiting the functional Major/Minor Head to which the expenditure was originally debited and the amount is to be written back in the accounts.

Such large outstanding amounts under different Minor Heads reflect that the accounting authorities are not taking necessary action as required to be taken under the rules. To the extent the amounts are outstanding under the 'Cheques and Bills', the Government cash balance stands overstated and reflects erroneous position.

Test check in the Principal Accounts Offices revealed that 3,751 cheques amounting to ₹ 378.49 crore in MEA, 854 Cheques amounting to ₹ 7.13 crore in Department of Supply, 888 cheques amounting to ₹ 37,348.59 crore in Ministry of Road Transport and Highways and 11,622 cheques amounting to ₹ 16.31 crore in CBDT had remained unpaid for more than six months, but had not been cancelled by the Principal Accounts Offices as on 31 March 2014.

2.4.4 Review of balances not carried out by Principal Accounts Offices

As per Civil Accounts Manual, at the close of a financial year the PAOs shall review and verify the balances under various Debt, Deposit and Remittances (DDR) heads to ascertain, wherever necessary, whether the correctness of the balances is accepted by the person/ parties by whom the balances are owed or to whom these are due and are required to furnish annually by 15 September of each year to the Principal Accounts Office, a detailed statement showing the unreconciled differences and the cases where acceptance of balances are awaited. The Principal Accounts Office, in turn, is required to send a consolidated report of the Ministry/ Department as a whole to the Controller General of Accounts by 15 October of each year. The purpose of conducting this review is to ascertain the quality of maintenance of various books of accounts and reconcile the figures of Debt, Deposit and Remittances.

In respect of civil departments, the review of balances for the year 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 was completed only in 25, 21, 20, 20 and 11 departments respectively, out of a total 72 Pr. PAOs.

Large number of adverse balances in Finance Accounts for several years are reflective of the failure of the Pr. PAOs in carrying out timely reviews and follow up action.

The CGA replied (March 2015) that clearance of balances under suspense heads and adverse balances was an ongoing process and Ministries had been asked to take corrective action to liquidate/clear the suspense and adverse balances.

2.4.5 Departmentally managed Government Undertakings- Position of Proforma Accounts

Rule 84 of General Financial Rules, 2005 stipulate that the departmentally managed Government undertakings of commercial or quasi commercial nature will maintain subsidiary accounts and Proforma Accounts as may be prescribed by the Government in consultation with the CAG.

There were 38 departmentally managed Government undertakings of commercial or quasi commercial nature as of March 2014. The financial results of these undertakings are ascertained annually by preparing Proforma Accounts generally consisting of Trading Account, Profit and Loss Account and Balance Sheet. While the Government of India Presses prepare Proforma Accounts without Trading Account, Profit and Loss Account and Balance Sheet, the Department of Publications prepares only the Stores Accounts. Only three departmentally managed Government undertakings have prepared the proforma accounts for the financial year 2013-14. The position of availability of latest annual accounts, prepared by the departmentally managed undertakings, is given in **Annexure 2.6**.

Table 2.14 : Period for which Proforma Accounts are lying in arrears

Delay in preparation of Proforma Accounts	Financial Year of the account	No. of Undertakings
No delay	2013-14	3
One year	2012-13	4
2–5 years	2007-08 to 2011-12	27
6 years and more	2006-07 and before	4
	Total	**38**

Table 2.14 shows that Proforma Accounts of 5 Undertakings were in delay for a period of one year, while 27 Undertakings had not prepared their accounts for the financial year from 2007-08 to 2011-12, a delay ranging from two to five years. In the case of Department of Publications, in the Ministry of Urban Development, the Proforma Accounts had not been prepared since the financial year 2000-01 onwards.

In the absence of availability of updated proforma account, the cost of services provided by these organisations, which are intended to be managed on commercial basis, could not be ascertained. It was also not possible to work out performance indicators like return on investment, profitability etc. for their activities.

2.4.6 Losses and irrecoverable dues written off/waived

Rule 33 of General Financial Rules, 2005 envisages that any loss or shortage of public moneys, departmental revenue or receipts, stamps, opium, stores or other property held by, or on behalf of Government, irrespective of the cause of loss and manner of detection, shall be immediately reported by the subordinate authority concerned to the next higher authority as well as to the Statutory Audit Officer and to the concerned Principal Accounts Officer, even when such loss has been made good by the party responsible for it. Petty losses of value not exceeding ₹ 2,000 need not be reported.

Statement of losses and irrecoverable dues written off /waived off during the year 2013-14 furnished by the Ministries/Departments, is given in **Annexure 2.7.** It will be seen from the Annexure that in 120 cases, ₹ 160.46 lakh were written off during 2013-14. During the year, recoveries waived and ex gratia payment made in 14,108 cases aggregated to ₹ 331.86 lakh.