

Chapter 5: Disclosure and Transparency in fiscal operations

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

5.1 Transparency in Government Accounts

Section 6(1) of FRBM Act provides that the Central Government shall ensure greater transparency in its fiscal operations in the public interest and minimise as far as practicable, secrecy in the preparation of the Annual Financial Statement and the Demands for Grants. Observations relating to issues of transparency are discussed in succeeding paras.

5.1.1 Non-inclusion of statements in Union Accounts

12th FC, in its 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 additional statements recommended by the 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.

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This recommendation of the Commission was endorsed by 13th and 14th Finance Commissions also. However, the Government has not taken steps to include these statements in the accounts of the Union Government even after a lapse of eleven years, despite in-principle acceptance of the recommendation.

The Ministry stated (May 2016) that the Government is making all disclosure statement as notified under the FRBM Rules. It added that the FRBM Act does not require Government to make disclosure statements as recommended by the Finance Commission and other Committees.

While taking into consideration the reply of the Ministry, it may be mentioned that Section 6(1) of the FRBM Act requires the Central Government to take suitable measures to ensure greater transparency in its fiscal operations. As such the inclusion of above eight additional statements in the accounts of the Union Government would further enhance the transparency.

Recommendation: *Necessary steps may be taken to append additional statements in the Union Government Finance Accounts as suggested by the 12th FC to ensure greater transparency in the accounts.*

5.1.2 Lack of transparency in Direct tax receipt figure

In the Annual Financial Statement and Union Government Finance Accounts, the estimates and actual collection from Tax Revenue are netted after taking into account the amount of refunds (including interest on refunds). Analysis of direct tax receipt of the Union Government, revealed that substantial portion of tax collected goes out as refunds every year, as detailed in the **Table-10** below:

Table-10: Collection of Direct Tax and Refunds

(₹ in crore)

Financial Year	Gross Direct Tax Collection* (1)	Refunds # (2)	Total Direct Tax collection (3=1+2)	Percentage of refunds to direct tax collection (4=2/3)
2010-11	4,45,995	85,668	5,31,663	16.11
2011-12	4,93,987	1,00,300	5,94,287	16.88
2012-13	5,58,989	90,432	6,49,421	13.93
2013-14	6,38,596	95,658	7,34,254	13.03
2014-15	6,95,792	1,17,495	8,13,287	14.45

* Source: Union Government Finance accounts.

Source: CAG's Report No. 3 of 2016 (Direct Taxes). Refunds also include interest on refunds of taxes.

During last five years period 2010-15, the refunds ranged from 13.03 to 16.88 *per cent* of the total direct tax collection. Though the amount of refunds was substantial, no information about the quantum of refunds was available either in the Annual Financial Statement or in the Finance Accounts. As such, the accounts of the Government were not transparent in respect of information on Tax Revenue.

The Ministry while furnishing the data of refunds, which ranged between 12 to 17 per cent of the gross direct tax collection, stated (May 2016) that in Finance Accounts revenue receipt are categorized as Tax Revenue and Non-tax Revenue, and figures for Direct Taxes are not shown separately. It added that Finance Accounts is prepared at minor head level showing the tax figures net of refunds.

Reply of the Ministry is not tenable as refunds and interest on refunds under respective tax receipt heads (viz. direct tax and indirect tax) form a significant proportion of gross Tax Revenue and hence needs to be depicted in the Union Government Finance Accounts through appropriate disclosures to improve transparency in accounts.

5.2 Transparency in disclosure statements mandated under FRBM Act

In compliance to Section 6 of FRBM Act, along with Budget, disclosure statements viz. arrear of tax and non-tax receipts, position of outstanding guarantees, liabilities and assets of the Government etc. are placed before the Parliament. Examination of these statements revealed inadequacy in disclosures, as discussed below.

5.2.1 Understatement of arrears of Non-Tax Revenue

Rule 6 of the FRBM Rules requires laying of a statement providing details of non-tax revenue in arrear in **Form D-2**. Receipt Budget 2016-17 (Annex-12) provided details of arrears of non-tax revenue as at the end of reporting year 2014-15. As per disclosure, at the end of FY 2014-15, the arrears of non-tax revenue was ₹ 1,07,961.47 crore, which also includes ₹ 35,141.05 crore as arrears of interest receipts from State/Union territory Government, Department Commercial Undertakings and Public Sector Undertakings.

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It was noticed that, as per Union Government Finance Accounts for FY 2014-15, the amount of arrears of interest receipts from State/Union Territory Governments and other loanee entities was ₹ 48,523.28 crore. Thus, information relating to interest receipt disclosed under the FRBM Act for the same period was not correct and was understated by ₹ 13,382.23 crore.

5.2.2 Non-inclusion of outstanding coal levy in arrears of Non-Tax Revenue

It was noticed that out of additional levy of ₹ 9,518 crore (for coal extracted up to 24 September 2014) on cancelled coal block to be deposited by 31 December 2014 (as discussed in Para 3.2.5.2), only ₹ 6,150 crore was received till 31 March 2015. An amount of ₹ 3,368 crore was outstanding as receivable during the financial year 2014-15. However, this receivable amount was not reflected in the **Form D-2** (Receipt Budget 2016-17, Annex-12) as arrears of non-tax revenue. Thus, the disclosure made by the Government was inadequate.

Ministry of Coal stated (May 2016) that the amount of coal levy was to be calculated based on the actual amount of coal extracted till 31 March 2015 and this information would have been possible only after March 2015. Thus, it could technically become arrear only during 2015-16.

The reply of the Ministry is factually incorrect as they are referring for the dues for the period 25 September 2014 to 31 March 2015, which has not been raised in the above para. The balance amount of ₹ 3,368 crore was receivable for the year 2014-15, as it was to be deposited by 31 December 2014. Further, Form D-2 for reporting year 2014-15 was made available in the Budget of 2016-17 and there was sufficient time available with the Ministry to furnish updated and accurate information relating to the reporting year 2014-15.

5.2.3 Understatement of assets

Rule 6 of the FRBM Rules requires laying of a statement of physical and financial assets of the Government in **Form D-4**. Receipt Budget 2016-17 (Annex-5(iv)) provides details of assets of the Union Government as at the end of reporting year 2014-15. As per the disclosure made by the Government, the cumulative total of assets at the end of the year 2014-15 was ₹ 9,71,354.25 crore. Following observations relating to inconsistency in the disclosure pertaining to asset register have been made.

5.2.3.1 Variation in figures of closing and opening balances of assets

On examination of **Form D-4**, variations were noticed in the closing and opening balances of assets, as depicted below in the **Table-11**.

Table-11: Variations in closing and opening balances

(₹ in crore)				
Position of total assets at the end of financial year		Position of total assets at beginning of next financial year		Variation in closing and opening figures
2012-13	9,77,672.48	2013-14	9,70,914.56	6,757.92
2013-14	10,31,139.36	2014-15	9,18,374.52	1,12,764.84
2014-15	9,71,354.25			

Source: Receipt Budget (Annex-5(iv) of 2014-15, 2015-16 and 2016-17.

Clarification for variation in the closing and opening figures in respect of assets for financial years 2012-13 and 2013-14 was not given in the **Form D-4** of relevant years, which indicated absence of transparency in disclosure.

5.2.3.2 Inconsistency in figures of loans to Foreign Governments

Examination of **Form D-4** disclosure revealed that a sum of ₹ 9,773.73 crore was shown as loans outstanding from foreign governments at the end of 2014-15. Similar information contained in the Union Government Finance Account revealed that a sum of ₹ 9,210.62 crore was outstanding as loans from foreign governments at the end of 2014-15. Thus, there was overstatement of ₹ 563.11 crore of loans outstanding from foreign governments in **Form D-4** disclosure.

5.2.4 Inconsistency in disclosure of grants for creation of capital assets

Rule 6 of the amended FRBM Rules requires laying of a statement providing the Ministry-wise breakup of grants for creation of capital assets in **Form D-6**. The disclosure requires providing details of budget and revised provisions for the current financial year and BE for ensuing financial year. During examination of information contained in **Form D-6** disclosed by the Government following inconsistencies were noticed:

5.2.4.1 Incorrect disclosure in Form D-6

The information contained in Form D-6 for BE 2014-15, which also contained information relating to BE/RE of 2013-14, was analysed in audit. Following inconsistencies were noticed.

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- In the column meant for BE 2013-14, provision of ₹ 79.04 crore in respect of Ministry of Defence, Ministry of Environment & Forests, and Ministry of Labour & Employment were included afresh in **Form D-6** in the Expenditure Budget Volume-I for 2014-15, which were absent in **Form D-6** in the Expenditure Budget Volume-I for 2013-14.
- In respect of Department of Health Research, a provision of ₹ 98 crore was included in the column meant for BE 2013-14 in Expenditure Budget Volume-I for 2013-14. However, the same was missing in **Form D-6** in the column meant for BE 2013-14 in Expenditure Budget Volume-I for 2014-15.

Thus, **Form D-6** for BE 2013-14 contained total provision of ₹ 1,74,656 crore, which was altered as ₹ 1,74,633 crore for FY 2013-14 in Expenditure Budget Volume-I for 2014-15. No statement or clarification with regard to variations made in the provision for the relevant financial year was given in the Budget documents by the Government.

5.2.4.2 Discrepancies between Budget Estimates and DDG

For FY 2014-15 in respect of Ministry of Housing and Urban Poverty Alleviation, there were discrepancies in the expenditure provision on grants for creation of capital assets included in **Form D-6** and in the Detailed Demands for Grants (DDGs) as detailed in the **Table-12** below.

Table-12: Discrepancies between Budget Estimate and DDG

(₹ in crore)

FY 2014-15	Budget Estimate		Revised Estimate	
	DDG	Form D-6	DDG	Form D-6
	4,026.04	4,004.99	2,230.87	Nil

Comments contained in Paras 5.2.4.1 and 5.2.4.2 points that information furnished to the Parliament in two sets of data viz. **Form D-6** and the DDGs of the Ministries/Departments were not consistent.

In respect of inconsistency and discrepancy in the information furnished through prescribed Forms pointed out by Audit, the Ministry stated (May and June 2016) that the Budget Division of the Ministry compiles such information strictly on the basis of the information furnished by the respective Ministries/Departments and it has no means to verify the facts and figures

furnished. It added that data contained in some statements may be impacted, inter-alia, by any ongoing liquidation and improvement in capture of data, which has been mentioned through appropriate foot note. Ministry also advised the Audit to take up the cases of inconsistency in respect of data of individual Ministry in various Forms with the respective Ministries.


The reply of the Ministry is against the spirit of the Act and Rules made thereunder. In respect of many information, the reporting year for disclosure mandated under the Act and release of actual figures through the certified accounts of that year are more or less in the same timeframe of the year. The Ministry of Finance needs to have appropriate coordination with all the Ministries/Departments to ensure that correct and consistent figures find place in all the documents which have the linkages. Ministry of Finance, being the focal point for administration of the FRBM Act, should ensure that the information being disclosed under the Act are complete and accurate.

Recommendation: *Disclosure statements prepared under the FRBM Act and Rules made thereunder should be complete in all respect and transparent.*

Conclusion

Transparency in fiscal operations of the Government is an important ingredient to achieve the accurate target of fiscal indicators envisaged under the FRBM Act. However, it was noticed that the Government did not append additional disclosure statements as recommended by Twelfth Finance Commission to bring more transparency in its operations. There was lack of adequate transparency with regard to direct tax receipt figures. Further, the disclosures made by the Government in various Forms envisaged under the FRBM Act were not complete and at variance with other publications, such as Union Government Finance Accounts and Detailed Demands for Grants.


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