

EXECUTIVE SUMMARY

Introduction

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted by the Parliament in August 2003. The objective of introducing FRBM Act, 2003 was to institutionalize fiscal discipline, reduce fiscal deficit, improve macro-economic management and the overall management of the public funds by moving towards a balanced budget. Due to global economic crisis and adverse circumstances, the implementation of FRBM Act was put on hold in February 2009. An amendment to the FRBM Act was made by the Parliament in May 2012. An important aspect of the amendment was introduction of Section 7A, which provides for entrustment to the Comptroller and Auditor General of India, the periodical review of compliance of the provisions of the Act by the Union Government.

What the Report covers

The present report discusses the compliance by the Union Government of the provisions of FRBM Act, 2003 and the Rules made thereunder for the financial year 2014-15. We have examined various amendments made in the FRBM Act and Rules and analysed the trends and targets of various fiscal indicators as set out in the Act/Rules from time to time. During the review Audit examined (i) consistency of rules framed under the provisions of the Act; (ii) achievement of targets by the Government as set out in the FRBM Act and Rules; (iii) achievement of targets of receipts and expenditure as set out in various fiscal statements; and (iv) issues of transparency and disclosures made by the Government.

Major observations

Important audit observations relating to compliance of the provisions of the Act and Rules made thereunder, and also on other related topics, are detailed below:

Deviation from the Act and Rules

- For financial year 2014-15, in respect of effective revenue deficit and revenue deficit, the annual reduction targets set out by the Government in the Budget were not in accordance with the provisions of the Act.

(Para 2.2)

- There were inconsistencies in prescribed targets dates of fiscal indicators under FRBM Act/Rules and target dates set out in Medium Term Fiscal Policy Statement.

(Para 2.3)

- There was inconsistency between provisions contained in the FRBM Act and Rules made thereunder in respect of assumption of additional liabilities.

(Paras 2.4)

Progress in achievement of FRBM targets

- For financial year 2014-15, Government was able to achieve the targets as set in Medium Term Fiscal Policy Statements in respect of revenue and fiscal deficits. However, in respect of effective revenue deficit, the target could not be achieved.

(Paras 3.1.3, 3.2.3 and 3.3.3)

- During the course of audit of accounts for FY 2014-15 of the Union Government, certain transactions and financial eventualities were noticed which had affected or had the bearing to affect the computation of prescribed deficit indicators set out in the Act and the Rules made thereunder.

(Para 3.2.5)

- Due to deficiency in the mechanism of estimating provisions on grants for creation of capital assets, in certain test checked Ministries/ Departments, the resultant estimation of effective revenue deficit target in FY 2014-15 was incorrect.

(Para 3.3.4)

- As a result of existence of varying practices in treatment of expenditure on grants for creation of capital assets and incorrect classification of

expenditure in certain welfare schemes, the effective revenue deficit was understated during the financial year 2014-15.

(Paras 3.3.5.1 and 3.3.5.2)

- From FY 2011-12 onwards, the outstanding liability in terms of GDP outstripped the targeted level as contained in the Medium Term Fiscal Policy Statement. Further, due to understatement of liabilities of ₹ 6,70,210 crore in the Public Account, the total liabilities of the Union Government were contained at 46.2 *per cent* of GDP, which otherwise would have stood at 51.6 *per cent* of GDP in FY 2014-15.

(Paras 3.4.2 and 3.4.3)

Analysis of projections in fiscal policy statements

- Projection for FY 2014-15 included in Medium Term Fiscal Policy Statement in respect of gross tax revenue, outstanding liabilities, and disinvestment varied significantly from the actuals. Similarly, projection under various heads of expenditure for FY 2014-15 included in Medium Term Expenditure Framework Statements of 2013-14 varied significantly in BE and RE of 2014-15.

(Paras 4.1 and 4.2)

Disclosure and Transparency in fiscal operations

- Recommendation of Twelfth Finance Commission relating to inclusion of eight additional statements in the Union Government Accounts for greater transparency, has not been acted upon, despite in-principle acceptance of the recommendation by the Government.

(Para 5.1.1)

- Refunds of ₹ 1,17,495 crore (including interest on refunds of taxes) were made from gross direct tax collection in FY 2014-15 but this aspect was not disclosed in the Government accounts.

(Para 5.1.2)

- Disclosure statements mandated under the FRBM Act and the Rules made thereunder placed before the Parliament for FY 2014-15 and earlier years contained inconsistencies relating to understatement of non-tax revenue; variations in closing and opening balances of physical and

financial assets; overstatement of loans to foreign governments; and discrepancies in the estimation of provision on grants for creation of capital assets.

(*Para 5.2*)

Recommendations

Based on audit observations contained in the Report, the following recommendations are made:

- (i) *To address the issues of inconsistency in the FRBM Act/Rules, the Government may carry out suitable amendments.*
- (ii) *The Government should follow the format of Form D-6 as prescribed under the FRBM Rules.*
- (iii) *Budgetary provisioning as well as their accountal need to be in harmony with the codal provisions relating to classification structure of accounts to avoid misclassification of expenditure.*
- (iv) *The Government may transfer specific purpose levies/cess collected to the funds earmarked for the purpose.*
- (v) *A mechanism for recognizing the result of annual operations of NSSF and its impact on the Government finances may be put in place.*
- (vi) *To facilitate correct identification and booking of expenditure as grants on creation of capital assets, the Government may consider defining the criteria for classification of expenditure as grants for creation of capital assets and its compliance by the Ministries/Departments.*
- (vii) *The Government may exclude such grants, which does not lead to creation of assets owned by the grantee organisations, from categorising as grants for creation of capital asset.*
- (viii) *The Government may strengthen the process of making underlying assumptions for projection of receipt and expenditure in various fiscal policy statements to insulate them from frequent changes and to seamlessly integrate the projection in the Budget.*

- (ix) *Necessary steps may be taken to append additional statements in the Union Government Finance Accounts as suggested by the 12th Finance Commission to ensure greater transparency in the accounts.*
- (x) *Disclosure statements prepared under the FRBM Act and Rules made thereunder should be complete in all respect and transparent.*