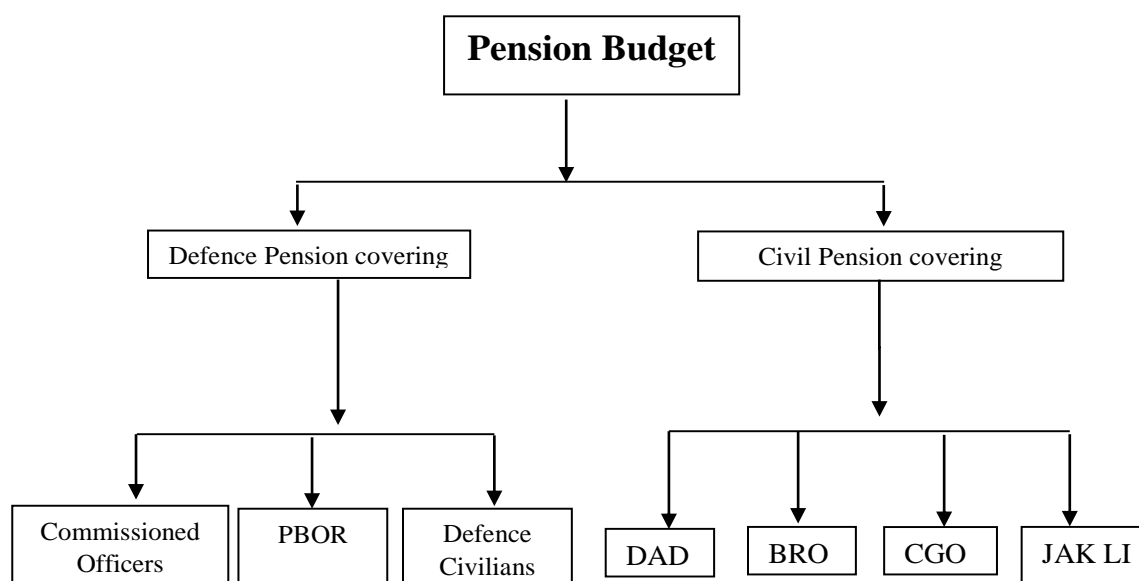


CHAPTER II: FINANCIAL MANAGEMENT

2.1 Introduction

2.1.1 The Defence Pension Budget is prepared by the PCDA (P) in two parts, one for defence pensioners and the other for civil pensioners of Ministry of Defence (MoD), and sent to the CGDA⁶, who sends the estimates of the defence pension to the MoD and the estimates of the civil pension to the Central Pension Accounting Office (CPAO), MoF⁷, for obtaining approval of the Parliament. The schematic presentation of the defence pension budget is depicted in **Chart 2** below:

Chart 2 : Schematic Presentation of Defence Pension Budget



(Note: PBOR-Personnel below Officers Rank, DAD-Defence Accounts Department, BRO-Border Roads Organisation, CGO- Coast Guard Organisation, JAKLI- Jammu and Kashmir Light Infantry)

2.2 Budget Allotment and Expenditure on Defence Pension

2.2.1 Defence Pension Grant

The details of Defence Pension Budget for the years 2011-12 to 2015-16 are given in the **Table 2.1** below:

⁶Controller General of Defence Accounts

⁷Ministry of Finance

Table 2.1: Budget Estimates and Expenditure on Defence Pension

(₹ in crore)

Year	Budget Estimate	Revised Estimate approved	Booked expenditure	Excess (-) / Savings (+) (Col 3 - Col 4)	Excess/ savings as percentage of RE
1	2	3	4	5	6
2011-12	34,000	34,000	37,569.39	(-) 3,569.39	10.50
2012-13	39,000	39,500	43,367.71	(-) 3,867.71	9.79
2013-14	44,500	45,500	45,499.54	(+) 0.46	-
2014-15	51,000	50,000	60,449.75	(-) 10,449.75	20.90
2015-16	54,500	60,238	60,237.60	(+) 0.40	-

Source: Demand for Grants prepared by the CGDA

Table 2.1 shows that the expenditure exceeded the allotment in 03 of the 05 years period from 2011-12 to 2015-16. There were minor savings in the years 2013-14 and 2015-16. MoD stated that the PCDA (P) was not able to get adequate funds under defence pension budget.

2.2.2 Civil Pension Grant

The Civil Pension Budget for the years 2011-12 to 2015-16 is given in **Table 2.2** below:

Table 2.2 : Budget Estimates and Actual Expenditure on Civil Pension

(₹ in crore)

Year	Budget Estimate	Revised Estimate	Actual Expenditure	Excess (-) / Savings (+) (Col 3 - Col 4)
1	2	3	4	5
2011-12	1,199.30	1,302.87	1,308.24	(-) 5.37
2012-13	1,410.06	1,434.15	1,502.34	(-) 68.19
2013-14	1,625.67	1,690.47	1,721.07	(-) 30.60
2014-15	1,860.60	1,974.46	1,967.67	(+) 6.79
2015-16	2,150.50	2,213.47	2,222.93	(-) 9.46

Source: Demand for Grants prepared by the CGDA

There was excess expenditure in all the years except in 2014-15. MoD replied that the excess/ savings were within the permissible limit of *five per cent* of approved RE, but did not produce any authority in support of the permissibility of the *five per cent* deviation.

2.3 Incomplete accounting of expenditure

2.3.1 The information furnished by PCDA (P) showed that substantial amount of expenditure in each year was not booked to the pension head of account of that year and the expenditure of the earlier years was lying in the “RBI suspense unclassified” head (**Table 2.3** given below), as the banks had not furnished to the PCDA (P) the detailed payment scrolls on the basis of which the PCDA would book the amounts to the final head of expenditure. The MoD stated that at the close of every financial year at least 07 to 10 per cent pension payment scrolls were not received in the PCDA (P).

Table 2.3 : Amounts lying in RBI suspense (unclassified)

(₹ in crore)

Year	Amounts lying at the year end
2011-12	5,887.17
2012-13	5,444.90
2013-14	8,388.07
2014-15	4,090.92
2015-16	6,831.95

The information furnished by PCDA (P) further showed that the amounts in the suspense head were carried forward for several years as **Table 2.4** below would indicate:

Table 2.4 : Break up of RBI Suspense (unclassified) at the end of 2014-15

(₹ in crore)

Year	RBI Suspense Un-classified
Upto 2008-09	247.74
2009-2010	368.36
2010-11	68.21
2011-12	711.26
2012-13	55.31
2013-14	112.14
2014-15	2,527.90
TOTAL	4,090.92

2.3.2 The outstanding balances in the suspense head indicated that the expenditure booked in government accounts did not reflect the correct picture of expenditure in the relevant year.

2.3.3 Our review indicated that a part of this problem can be traced to the system laid down by the RBI for reimbursement of the amounts disbursed by the banks. Until March 2007, the banks were being reimbursed the amounts disbursed by them under the ‘Scheme for Payment of Pensions of Defence Pensioners by Public Sector Banks’ launched by MoD from 01 January 1987. Under this scheme, the RBI or the State Bank of India (SBI) or its subsidiaries transacting Government business were responsible for checking the payment

scroll received from the banks, reimbursing to them the net amount of pension disbursed by them, and sending a copy of the debit advice together with the original scroll received from the banks to the PCDA (P) for accounting. The RBI modified this scheme with effect from 01 April 2007, introducing a Single Window System, whereby the reimbursement would be made only by the Central Accounts Section (CAS) of the RBI located at Nagpur and the agency banks were required to send the payment scrolls directly to the PCDA (P). Under this arrangement the PCDA (P) initially books the payments, as advised by RBI, under suspense head "RBI Suspense Unclassified", to be cleared on receipt of the payment scrolls from the paying banks. Since the new system has permitted the banks to get reimbursements from RBI on the basis of the advice sent by them to RBI, irrespective of whether they had sent the payment scrolls to the PCDA (P), there was little incentive for the banks to submit payment scrolls to the PCDA (P) in time. The new system led to weaker control, both by the RBI and the PCDA, over the submission of the payment scrolls by the banks.

2.3.4 Any inefficiency in submission of payment scrolls by the banks results in two consequences:

- The amount lying in the suspense head will not get booked to the correct head of account; and will affect the correctness of the accounts for that year. An example of this is the accounts for the year 2014-15, when the compiled expenditure of ₹49,999.73 crore was revised, after closure of the accounts for the year 2014-15, to ₹60,449.75 crore due to booking of ₹10,450.03 crore of the suspense amount cleared in the year 2015-16. The matter was commented upon in the CAG's Report on Union Government Accounts 2014-15 as mentioned in Paragraph 4.14 of Audit Report No. 50 of 2015 (Financial Audit) (**Annexure-3**).
- Since the reimbursement is made by RBI by operating the cash balance of the government, any reimbursements made to the banks on the basis of incorrect claims, will not only affect the cash balance of the government, but will not get detected until the payment scrolls have been submitted by the banks and scrutinized by the PCDA.

2.3.5 As the banks disburse pension through their automated Core Banking Systems, the generation and submission of scrolls within a short time after the disbursement can be ensured. This will in turn ensure that the expenditure incurred on account of pension in any year will get accounted for in that year itself as the Government accounts are kept open for booking expenditure for some time after the closure of the year. This will also ensure that the PCDA (P) can check the scrolls timely for any errors of omission and commission, including under and overpayments.

2.4 Conclusions and Recommendations

As indicated above, the outstanding balances in the suspense head indicated that the expenditure booked in government accounts did not reflect the correct picture of expenditure in the relevant year. The de-linking of the reimbursement of the amounts to the banks from their responsibility to furnish payment scrolls to the PCDA (P) adversely impacts the correctness of the government accounts with its attendant consequences on the revenue deficit; and its cash balances with RBI on account of possible overpayments. This underscores the need for strengthening the controls to address this issue.

It is recommended that the MoD should work with RBI to review RBI's 2007 guidelines and incorporate adequate incentives/ disincentives to ensure that the banks submit the payment scrolls to PCDA (P) regularly and in time. This could be possible in two ways:

- RBI should make the reimbursement to the banks conditional upon the proof of submission of the payment scroll to the PCDA (P), *e.g.*, an electronic receipt or a report upload confirmation.
- Alternatively, RBI should introduce financial disincentives for not submitting the e-scrolls to PCDA (P), *e.g.*, deducting a certain percentage of the reimbursable amount as fine for not submitting the past scrolls.

MoD (June 2017) expressed agreement with the recommendations.