

# 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 and Rule 8, which provide for the Comptroller and Auditor General of India to carry out an annual 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 2015-16. We have examined 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.

## 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 in performance from the Act and Rules

- For financial year 2015-16, in respect of effective revenue deficit, revenue deficit and fiscal deficit the annual reduction targets set out by the Government in the Budget were not in accordance with the provisions of the Act/Rule applicable.

*(Para 2.1)*

- Effective revenue deficit and fiscal deficit targets were deferred by the Government in Budget 2016-17 and 2017-18 without corresponding amendment in the Act.

*(Para 2.2)*

### **Progress in achievement of FRBM targets**

- For financial year 2015-16, Government was able to achieve the targets as set in Medium Term Fiscal Policy Statements in respect of effective revenue deficit, revenue deficit and fiscal deficits.

*(Paras 3.1.3, 3.2.3 and 3.4.3)*

- The budgeted figure of grants for creation of capital assets (₹ 1,10,551 crore) for the financial year 2015-16 was modified in subsequent year's Budget as ₹ 1,32,472 crore (increased by ₹ 21,921 crore). Similarly the budgeted figure of effective revenue deficit was also revised from ₹ 2,83,921 crore to ₹ 2,68,000 crore (reduced by ₹ 15,921 crore).

*(Para 3.4.2.1)*

- During the period 2011-12 to 2015-16, 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 ₹ 7,18,404 crore in the Public Account, the total liabilities of the Union Government were contained at 47.3 per cent of GDP, which otherwise would have stood at 52.6 per cent of GDP in financial year 2015-16.

*(Paras 3.5.2 and 3.5.3)*

### **Analysis of components of receipts and expenditure**

- Certain transactions and financial eventualities, viz. misclassification of expenditure; short/non-transfer of levy/cess to earmarked funds; non-recognition of losses under NSSF in CFI; unpaid expenditure on subsidies; and short devolution out of net proceeds to States, 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 4.3)*

- As a result of existence of varying practices, certain expenditure of the Government was incorrectly classified as grants for creation of capital assets.

*(Paras 4.4 and 4.5)*

### **Analysis of projections in fiscal policy statements**

- Projection for financial year 2015-16 included in Medium Term Fiscal Policy Statement placed with the Budget for 2013-14 in respect of gross tax revenue, outstanding liabilities, and disinvestment varied significantly from the actuals for the year 2015-16.

*(Para 5.1)*

- Projection under various heads of expenditure for financial year 2015-16 included in Medium Term Expenditure Framework Statements placed in December 2014 varied significantly with Revised Estimates of 2015-16.

*(Para 5.2, Annexure-5.1)*

### **Disclosure and Transparency in fiscal operations**

- Variations were noticed in deficit figures depicted in Budget at a Glance and Annual Financial Statements/Union Government Finance Accounts.

*(Para 6.1.1)*

- Variation was noticed in disclosure of actual expenditure on grants for creation of capital assets between Expenditure Budget/Budget at a Glance and Union Government Finance Accounts.

*(Para 6.1.2)*

- Variation was noticed in disclosure of liability position shown through Receipt Budget and Union Government Finance Accounts.

*(Para 6.1.3)*

- Refunds of ₹ 1,29,482 crore (including interest on refunds of taxes) were made from gross direct tax collection in financial year 2015-16 but no corresponding disclosure was available in the Government accounts.

*(Para 6.2)*

- Disclosure statements mandated under the FRBM Act and the Rules made thereunder placed before the Parliament reflected inconsistencies relating to disclosure of non-tax revenue and assets.

*(Para 6.3)*

### ***Recommendations***

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

- i. Deferment of fiscal targets needs to be carried out through appropriate amendment in the Act.*
- ii. The disclosure relating to liability on annuity projects may be modified suitably to reflect the amount of unpaid annuity liability at the end of a particular financial year.*
- iii. An appropriate mechanism needs to be put in place by the Government to avoid instances of inconsistencies in estimation and correct reporting of components of expenditure having bearing on deficit indicators.*
- iv. The Government may transfer specific purpose levies/cess collected to the designated funds.*
- v. A mechanism for recognising the result of annual operation of NSSF and its impact on the Government finances may be put in place.*
- vi. Criteria for classification of expenditure as grants for creation of capital assets may be prescribed for appropriate compliance by the Ministry/Department. Assets created out of such grants but not owned by the grantee organization may be excluded from categorizing as grants for creation of capital assets.*
- vii. The Government may strengthen the process of making underlying assumptions for projections of receipt and expenditure in various fiscal policy statements to insulate them from frequent changes and to seamlessly integrate the projections in the Budget.*
- viii. The Government should ensure adequate transparency and consistency in its fiscal operations so that fiscal indicators are computed accurately and disclosure forms as mandated under the Act contain correct information.*