

## Chapter 6: Disclosure and Transparency in fiscal operations

The 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 data contained in disclosure forms/statements mandated under the Act.

### 6.1 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. Further, the principles of recognition of expenditure and receipt are required to be consistent in the Budget documents, Finance and Appropriation Accounts. Observations relating to issues of transparency are discussed in succeeding paras.

#### 6.1.1 Variation in deficit figures

The issue of variation in figures of revenue and fiscal deficit derived on the basis of data contained in Annual Financial statements (AFS)/Union Government Finance Accounts (UGFA) and those reflected in the Budget at a Glance (BAG) has regularly been reported in the Reports of C&AG. **Table-6.1** below presents variations for financial year 2016-17 in respect of revenue and fiscal deficits as derived from Annual Financial Statement and reflected in Budget at a Glance. This was also highlighted in FRBM report for the year 2015-16, but the discrepancy of different figures of deficits in different set of accounts of Government continue to prevail.

**Table-6.1: Variation in deficits: 2016-17**

Actuals as per	Revenue Receipt	Revenue Expenditure	Revenue Deficit (RD)	Total non-debt Receipt	Total Expenditure	Fiscal Deficit (FD)
	1	2	3=2-1	4	5	6=5-4
Annual Financial Statement	16,15,988	19,33,018	3,17,030	17,04,702	22,42,501	5,37,799
Budget at a Glance	13,74,203	16,90,584	3,16,381	14,39,576	19,75,194	5,35,618
<b>Variation in RD</b>			<b>649</b>	<b>Variation in FD</b>		<b>2,181</b>

Source: Budget 2018-19

Annual Financial Statement is a statement of receipts and expenditure of the Government laid before both the Houses of Parliament in compliance to Article 112(1) of the Constitution. However, in BAG, deficits have been arrived at after

netting of receipts against expenditure on the logic that these are fiscal neutral/non-cash transactions. Reconciliation statements are appended in the Receipt and Expenditure Budget explaining the transactions netted from the AFS.

An examination of reconciliation statements showed that revenue expenditure was netted by ₹ 648.83 crore on account of Securities issued to African Development Fund/Asian Development Fund and the identical amount has been accounted under capital receipt. Since transaction relating to securities issued to African Development Fund/Asian Development Fund was of capital nature, no explanation was furnished in the Budget document for netting this transaction from revenue expenditure, resulting in variation of like amount in revenue deficit in comparison to AFS. Further, a transaction of ₹ 1672.19 crore on account of Securities issued to International Monetary Fund had been netted in capital expenditure and capital receipt.

While working out deficits in BAG netting of certain transactions of receipts and expenditure are carried out by the Government. As targets of fiscal indicators in MTFP Statement are integrated from figures contained in BAG, netting of any transactions which affects the computation of revenue and fiscal deficit is inconsistent with the definitions of deficits prescribed in the FRBM Act.

*Ministry stated (July 2018) that due diligence is done to ensure that there are no inconsistencies with the definition of fiscal indicators given in the FRBM Act.*

While taking into consideration the reply of the Ministry, it is emphasised that Section 6(1) of the FRBM Act requires the Central Government to take suitable measures to ensure greater transparency in its fiscal operations. The continuance of inconsistent practice year after year had resulted in variation of deficit figures depicted in Budget at a Glance and those as arrived from Annual Financial Statement/Union Government Finance Accounts.

### **6.1.2 Variation in expenditure on grants for creation of capital assets**

In the Budget document, figure of actual expenditure incurred on grants for creation of capital assets appears in Budget at a Glance and Ministry-wise details thereof are appended with Expenditure Budget, Volume-I. In Union Government Finance Accounts, compiled by the Controller General of Accounts (CGA) under the Ministry of Finance, this figure appears in Appendix to Statement No. 9 as a disclosure statement. Accounts at a Glance is another document published by the CGA providing macro level overview of financial information of the Government for relevant year. While comparing the actual figure of expenditure on grants for creation of capital assets for financial year 2016-17, variation was noticed between the Budget documents and documents compiled/prepared by CGA as detailed in **Table-6.2.**

**Table-6.2: Expenditure on grants for creation of capital assets: 2016-17**

(₹ in crore)

Year	As per Union Government Finance Accounts/Account at a Glance	As per Budget at a Glance/ Expenditure Budget, Volume-I	Variation
2016-17	1,66,560	1,65,733	827

Source: Budget documents, Account at a Glance and Union Government Finance Accounts

Ministry of Finance, being the nodal Ministry for the administration of the FRBM Act, should ensure that information being collected and disclosed under the Act, is complete, accurate and consistent with other Government documents brought out by the various arms of the same Ministry.

### 6.1.3 Variation in the amount of liabilities

In the Receipt Budget, a statement showing liabilities of the Central Government is appended as annexure. The details of liabilities are also reflected through Union Government Finance Accounts (UGFA). **Table-6.3** below presents the variation in the position of liabilities of the Government at the end of financial year 2016-17, as reflected through Receipt Budget and UGFA.

**Table-6.3 : Variation in the amount of liabilities: 2016-17**

(₹ in crore)

	Liabilities as shown in		Variation
	Receipt Budget	UGFA	
Public Debt	59,69,968	59,69,968	-
National Small Savings, Provident Funds, Other Accounts	12,57,994	13,11,628	53,634
Reserve Funds and Deposits	2,08,099	2,08,099	-
<b>Total liability</b>	<b>74,36,061</b>	<b>74,89,695</b>	<b>53,634</b>

Source: Receipt Budget 2018-19 and Statement No. 2 of Union Government Finance Accounts 2016-17

The gross liabilities on account of National Small Savings, Provident Funds, Other Accounts in Public Account in the UGFA 2016-17 have been reflected as ₹ 13,11,628 crore. However in Receipt Budget, the National Small Savings, Provident Funds, Other Accounts liabilities though shown on gross basis, has a variation of ₹ 53,634 crore on account of non-inclusion of amount of investment of Post Office Insurance Fund through Private Fund Managers.

*Ministry stated (July 2018) that the para is factual in nature and reason for variation in the amount of liability have already been pointed out in the audit para.*

Variation in figures of liabilities under two sets of government documents is against the Rule 6 (1) of FRBM Rule which provides for greater transparency and minimum secrecy in fiscal operation of the Government.

## 6.2 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 reflected 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 are refunded every year, as detailed in the **Table 6.4** below:

**Table 6.4: Collection of Direct Tax and Refunds**

(₹ in crore)

Financial Year	Direct Tax Collection* (1)	Refunds # (2)	Total Direct Tax collection (3=1+2)	Percentage of refunds to direct tax collection (2/3)
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
2015-16	7,42,012	1,29,482	8,71,494	14.86
2016-17	8,49,801	1,72,894	10,22,695	16.91

\* Source: Union Government Finance Accounts and CAG's Reports No. 40 of 2017 (Direct Taxes).

# Refunds also include interest on refunds of taxes.

During five-year period 2012-17, the refunds of direct taxes showed steady increase and refunds were at about 17 per cent of the total direct tax collection in 2016-17. In financial year 2016-17, amount of refunds included ₹ 10,312 crore as expenditure on interest on refunds. Though the amount of refunds was substantial, no information about the quantum of refunds was disclosed either in the Annual Financial Statement or in the Union Government Finance Accounts. As such, the accounts of the Government were not transparent in respect of information on Tax Revenue collections.

*Ministry replied (July 2018) that estimation of refunds is operationally difficult at the time of budgeting.*

Reply of the Ministry does not address the audit concern relating to transparency in account of gross tax collection and refunds made therefrom in a year, although net collections are captured in the accounts. Appropriate disclosure of this information in the Union Government Finance Account or in Budget documents would address the transparency requirement as envisaged in the FRBM Act.

Further, it would be also pertinent to mention that Public Account Committee had also observed<sup>10</sup> that Ministry should make broad estimates of expenditure on interest liability on tax refunds based on passed trends.

## 6.3 Transparency in disclosure forms mandated under FRBM Act

In compliance to Section 6 of FRBM Act, along with Budget, six disclosure forms, as detailed in **Annexure 1.1**, are placed before the Parliament. Examination of these forms revealed inadequacy in disclosures, as discussed in succeeding paras.

<sup>10</sup> 66<sup>th</sup> Report of PAC, 15<sup>th</sup> Lok Sabha.

### 6.3.1 Inconsistency in disclosure of arrears of Non-Tax Revenue

Rule 6 of the FRBM Rules requires laying of a form providing details of non-tax revenue in arrear in **Form D-2**. Receipt Budget 2018-19 (Annex-6) provided details of arrears of non-tax revenue as at the end of financial year 2016-17. As per this disclosure, at the end of financial year 2016-17, the arrears of non-tax revenue was ₹ 1,71,844 crore, which also includes ₹ 42,437 crore as arrears of interest receipts from State/Union territory Government, Department Commercial Undertakings and Public Sector Undertakings.

It was noticed that arrears of interest receipts from State/Union Territory Governments and other loanee entities as disclosed through Union Government Finance Accounts for financial year 2016-17<sup>11</sup> was at variance with disclosure made through **Form D-2** as detailed in **Table 6.5** below:

**Table-6.5: Inconsistency in disclosure of arrears of interest: 2016-17**

(₹ in crores)

Loanee entity	Interest arrears as per		Variation
	Form D-2	UGFA	
State/Union Territory Government	6,285	2,416	3,869
Public Sector and other Undertakings	36,152	31,728	4,424

Source: Receipt Budget 2018-19 and Union Government Finance Account 2016-17.

### 6.3.2 Incorrect information of coal levy in arrears

The Hon'ble Supreme Court had cancelled (September 2014) allocation of 204 captive coal blocks and imposed additional levy on coal extracted. This levy was to be collected by Ministry of Coal in two phases, in 1<sup>st</sup> phase, levy becoming due on or before 31 December 2014 for coal produced since commencement of coal production till 24 September 2014. In second phase, levy becoming due on or before 30 June 2015 for coal produced between 25 September 2014 and 31 March 2015.

During examination of information in respect of Ministry of Coal, it came to knowledge that Ministry of Coal had furnished the incorrect information relating to Arrears of Non-Tax Revenue for financial year 2016-17 for inclusion in consolidated statement of the same presented along with Budget 2018-19. The details are given **Table 6.6**.

<sup>11</sup> Statement No. 3.

**Table-6.6: Arrears of Non-Tax Revenue - 2016-17**

	Amounts Outstanding			Total amount outstanding
	0-1 year	1-2 year	2-3 year	
As per information furnished by Ministry of Coal to Audit	Nil	144.81	3,053.87	3,198.68
As per information furnished by Ministry of Coal to Ministry of Finance in Form D-2	3,551.36	3,512.99	3,198.43	3,198.43

(₹ in crores)

The consolidated statement of Arrears of Non-Tax Revenue compiled on the basis of report of Ministries/Departments is presented as part of the Budget each reporting year in Annex-6 of Receipt Budget.

*Ministry stated (July 2018) that Budget Division compiles the information on the basis of the information furnished by the respective Ministries/Departments.*

Ministry of Finance should ensure that information obtained from the line Ministries and included in the Budget documents laid before the Parliament is complete, accurate and consistent, being the nodal Ministry for the administration of the FRBM Act and preparation of Central Budget.

### **6.3.3 Variation in guarantee given by the Government**

As per Rule 6 of FRBM Rule 2004, in order to ensure greater transparency in its fiscal operation in the public interest, the central Government shall, at the time of presenting the Annual Financial Statement and Demand for Grants, make disclosure about guarantees in **Form D 3**.

The details of guarantee given by the Government is published in Receipt Budget in compliance to FRBM Rule. The data is based on information furnished by the Office of Controller General of Accounts (CGA) as reported by the Ministries/Departments. Further, the details of guarantees given by the Government is also mentioned in Statement No.4 of Finance Account compiled by the office of the CGA.

During comparison of guarantee given by the Government for the year 2016-17 published in Receipt Budget 2018-19 and those detailed in Statement No. 4 of Finance Account 2016-17, variation of ₹ 112 crore was noticed between these two sets of documents as detailed in **Table 6.7**.

**Table-6.7: Guarantee given by the Government - 2016-17**

(₹ in crore)

Heads	As per Finance Account 2016-17	As per Receipt Budget 2018-19	Difference
Maximum amount of guarantee for which Government have entered into agreements	3,78,592.16	3,78,704.16	112

On scrutiny, it was revealed that difference of ₹ 112 crore was due to invocation of guarantee amounting to ₹ 112 crore in respect of Department of Heavy industry which was not depicted in Finance Account.

Variation in details of guarantee without any explanation published in two sets of Government documents undermines the spirit behind greater transparency in public interest as envisaged under Rule 6 of FRBM Rule 2004.

*Ministry agreed with the audit observation (July 2018) that the difference of ₹ 112 crore was due to the dual information provided by Department of Heavy Industry (DHI) for the Receipt Budget 2017-18.*

*It agreed that the total outstanding guarantee at the end of the 2016-17 is ₹ 366188.70 crore which is same as reflected in Finance Account 2016-17.*

### **6.3.4 Variation in disclosure of details in asset register**

Rule 6 of the FRBM Rules requires laying of a disclosure form of physical and financial assets of the Government in **Form D-4**. Receipt Budget 2018-19 provides details of assets of the Union Government as at the end of reporting year 2016-17. As per the disclosure made by the Government, the cumulative total of assets at the end of the year 2016-17 was ₹ 13,42,278.10 crore. Following inconsistencies were noticed in the disclosure pertaining to asset register.

#### **6.3.4.1 Inconsistency in figures of loans to Foreign Governments**

Examination of disclosure statement **Form D-4** revealed that a sum of ₹ 13,501 crore was shown as loans outstanding from Foreign Governments at the end of 2016-17. Similar information contained in the Union Government Finance Account 2016-17 revealed that a sum of ₹ 12,920 crore was outstanding as loans from foreign Governments. Thus, there was overstatement of ₹ 581 crore of loans outstanding from foreign Governments in **Form D-4** statement.

#### **6.3.4.2 Variation in figures of closing and opening balances of assets**

On examination of **Form D-4** appended with Receipts Budget 2017-18 and 2018-19, variations were noticed in the closing and opening balances of assets, as depicted in **Table-6.8**.



**Table-6.8: Variations in value of assets**

	(₹ in crore)
Total assets at the end of Reporting year 2015-16 (closing figure)	10,63,677.39
Total assets at beginning of next Reporting year 2016-17 (opening figure)	12,41,184.58
Variation in closing and opening figures	1,77,507.19
Assets acquired during the year 2016-17	1,01,093.52
<b>Total assets at the end of Reporting year 2016-17 (closing figure)</b>	<b>13,42,278.10</b>

Source: Receipt Budgets for financial years 2017-18 and 2018-19.

In the Receipt Budget 2018-19, a foot note - ‘Variation between closing balance at the end of previous reporting year and opening balance at the end of the reporting year is mainly due to increase in the value of cost of land on account of revision of rates as reported by M/o Housing and Urban Affairs (₹ 1,65,764 crore) and M/o Information and Broadcasting (₹ 8,260 crore).’ has been inserted in **Form D4** to explain the said variations. However, it emerged that this could explain difference of ₹ 1,74,024 crore whereas difference in asset register closing balance of 2015-16 and opening balance of 2016-17 is ₹ 1,77,507.19 crore. An amount of ₹ 3,483.19 crore still remained unreconciled.

### **6.3.5 Non-Submission of disclosure statements as required under the FRBM Act.**

As per Rule 6 of FRBM Rule 2004, in order to ensure greater transparency in its fiscal operation in the public interest, the central Government shall, at the time of presenting the Annual Financial Statement and Demand for Grants, make disclosure about arrears of tax revenue and non-tax revenue, guarantees, asset, liability on annuity projects and grants for creation of capital assets in **Form D1** to **D6**. The consolidated statements of disclosures in **Form D1** to **D6**, presented along with Budget, are compiled on the basis of reports of ministries/departments furnished to the Ministry of Finance

During test check of disclosure statements furnished by the individual ministry/department to Ministry of Finance, it was found that some ministries/departments did not furnish the information to the Ministry of Finance in respect of some disclosure statements on the assumption that information in respect of concerned disclosure statement was ‘Nil’ or it does not pertain to their department/ministry. The details of such cases are in **Annexure 6.1**.

Since, the consolidated statements of disclosures in **Form D1** to **D6** are compiled solely on the basis of reports of ministries/departments furnished to the Ministry of Finance and thereafter presented in Parliament along with Budget and Ministry of Finance having no mechanism to ensure authenticity of information furnished by the concerned Ministries/Departments, the possibility of incorrectness of information in **Form D1** to **D6** presented along with Budget could not be ruled out.



It is therefore, Ministry of Finance must ensure that each ministry/department must furnish 'Nil' information in **Form D1 to D6** to it timely for inclusion in Budget even in case the information is 'Nil' or not pertain to it.

*Ministry stated (July 2018) that efforts are made to ensure that all Ministries/ Departments furnish information for statement of disclosures under FRBM Act.*

#### **6.4 Audit Summation**

Audit noticed lack of transparency/mismatches in disclosure of deficit figures in *Budget at a Glance* and *Annual Financial Statements*. Expenditure on grants for creation of capital assets as disclosed through Union Government Finance Accounts and Expenditure Budget was at variance. Further, gross liability position of the Government shown through Union Government Finance Accounts and Receipt Budget were also at variance. Though a significant amount of the gross direct tax collected in the relevant year is refunded in subsequent years, Government Finance Accounts do not include this. The disclosures made by the Government through various Forms envisaged under the FRBM Act were not complete and at variance with corresponding information contained in Union Government Finance Accounts.

#### **6.5 Recommendation**

*Government may ensure explicit disclosures of all transactions having fiscal implications and avoid presenting mis-matched figures.*

New Delhi  
Dated: 25 July 2018



(MAMTA KUNDRA)  
Director General of Audit,  
Central Expenditure

Countersigned



New Delhi  
Dated: 31 July 2018

(RAJIV MEHRISHI)  
Comptroller and Auditor General of India

