

The FRBM Act requires the Central Government to take appropriate steps to ensure greater transparency in its fiscal operations and make mandated disclosures in the prescribed formats. This Chapter examines transparency in Government accounts and the information provided as part of the mandated disclosure statements.

5.1 Transparency in Government Accounts

Section 6 of the FRBM Act inter-alia, requires the Central Government to engender transparency in the preparation of the Annual Financial Statement and the Demands for Grants. Further, the principles of recognition of expenditure and receipts are required to be consistent in the Budget documents, Union Government Finance Accounts (UGFA) and the Appropriation Accounts. Observations relating to issues of transparency are discussed in succeeding paragraphs.

5.1.1 Variation in deficit figures

Reports of the CAG have repeatedly highlighted the issue of variation in figures of RD and FD derived from the Annual Financial statements (AFS) and the audited UGFA, and those appearing in the “Budget at a Glance” (BAG). However, the mismatch in figures has continued during 2017-18 and 2018-19 as shown in **Table 5.1**.

Table 5.1: Variation in figures for deficits for the year(s) 2017-18 and 2018-19

(₹ in crore)

Actuals as per	Revenue Receipt	Revenue Expenditure	Revenue Deficit (RD)	RD as percentage of GDP	Total non-debt Receipt	Total Expenditure	Fiscal Deficit (FD)	FD as percentage of GDP
	1	2	3=2-1		4	5	6=5-4	
2017-18								
Budget at a Glance 2017-18	14,35,233	18,78,833	4,43,600	2.59	15,50,911	21,41,973	5,91,062	3.46
Annual Financial Statement/ Finance Account 2017-18	16,91,143	21,40,085	4,48,942	2.63	18,61,831	25,47,337	6,85,506	4.00
Variation in Revenue Deficit 2017-18		5,342		0.04	Variation in Fiscal Deficit 2017-18		94,444	0.54
2018-19								
Budget at a Glance 2018-19	15,52,916	20,07,399	4,54,483	2.39	16,65,695	23,15,113	6,49,418	3.42
Annual Financial Statement/ Finance Account 2018-19	18,06,463	22,61,571	4,55,108	2.39	19,31,699	27,15,761	7,84,062	4.12
Variation in Revenue Deficit 2018-19		625		0	Variation in Fiscal Deficit 2018-19		1,34,644	0.7

Source: Budget 2019-20 and 2020-21 (GDP for 2017-18 and 2018-19 as ₹1,70,98,304 crore and ₹1,89,71,237 crore respectively)

Annual Financial Statement (AFS) is a statement of receipts and expenditure of the Government presented to both the Houses of Parliament in accordance with Article 112(1) of the Constitution. As mentioned in CAG's Audit Report No.20 of 2018 on Compliance of FRBM Act, 2003 for the year 2016-17, in BAG, deficits were arrived at after netting of certain receipts against expenditure based on the premise that these are non-cash transactions. Details of transaction classes netted from the AFS are given in the reconciliation statements appended to the Receipt and Expenditure Budget. These transactions primarily consist of Departmental receipts of Railways, Defence, Posts, Departmental Commercial Undertakings, certain interest receipts, transfers/ contributions to NCCD/NDRF, contribution to NDRF, write off loans/waiver of interest, Public Debt & Ways and Means Advance repayments, external assistance for State Government Projects, and certain types of securities.

Analysis of the reconciliation statements of Receipt and Expenditure for 2017-18, shows that in the statement related to reconciliation of expenditure, an amount of ₹20,532.50 crore was netted from revenue expenditure on account of write off of loan/waiver of interest outstanding against fertilizer companies. However, in the statement related to reconciliation of receipts, only an amount of ₹15,855.12 crore was shown as netted against revenue receipts on this account, whereas the balance of ₹4,677.38 crore was shown as netted against capital receipts. In addition, securities issued to African/Asian Development Fund/International Development Association, and redemption of securities issued to Stressed Assets Stabilization Fund amounting to a total of ₹663.18 crore, was netted against revenue expenditure in the reconciliation statement relating to expenditure, but in the reconciliation statement relating to receipts these were netted against capital receipts. On account of the above, RD was understated in BAG by a total of ₹5,342 crore.

Examination of the above statements for 2018-19 shows that securities issued to African/Asian Development Fund/International Development Association (₹408.33 crore), Redemption of securities issued to Stressed Assets Stabilization Fund (₹110 crore) and Securities issued to African/Asian Development Fund (₹105.99 crore) were netted against revenue expenditure in the reconciliation statement relating to expenditure, but in the reconciliation statement relating to receipts these were netted against capital receipts. This resulted in RD being understated by ₹625 crore in BAG.

Audit also noted variations in figures of FD derived from AFS and UGFA and figures given in BAG for both the years, due to netting of capital receipts and expenditure with respect to "Ways and Means Advances" to FCI, "Receipt of External Assistance for State Government Projects", "Securities issued to ADB/IMF", issue of "Special Securities to PSBs" for recapitalisation. There was thus a variation in figures of FD between BAG and AFS of ₹94,444 crore and ₹1,34,644 crore for 2017-18 and 2018-19 respectively.

5.1.2 Variation in the amount of liabilities

In the Receipt Budget, a statement showing liabilities of the Central Government is appended as an Annexure. In addition, details of liabilities are also given in the Union Government Finance Accounts (UGFA).

Table 5.2 presents the variation in the position of liabilities of the Government at the end of FY 2017-18 and 2018-19, between the Receipt Budget and UGFA.

Table 5.2: Variation in the amount of liabilities for 2017-18 and 2018-19

(₹ in crores)

	Liabilities as shown in		Variation
	Receipt Budget	UGFA	
	2017-18		
Public Debt	66,51,365	66,51,365	0
National Small Savings, Provident Funds, Other Accounts	13,31,054	13,94,422	63,368
Reserve Funds and Deposits	2,52,758	2,52,758	0
Total liability	82,35,177	82,98,545	63,368
	2018-19		
Public Debt	73,44,902	73,44,902	0
National Small Savings, Provident Funds, Other Accounts	14,36,103	15,09,506	73,403
Reserve Funds and Deposits	3,02,510	3,02,510	0
Total liability	90,83,515	91,56,918	73,403

Source: Receipt Budget 2019-20 & 2020-21 and Statement No. 2 of Union Government Finance Accounts for 2017-18 & 2018-19

The gross liabilities on account of National Small Savings, Provident Funds, Other Accounts in Public Account as per UGFA 2017-18, was ₹13,94,422 crore. However, in the Receipt Budget, liabilities on account of National Small Savings, Provident Funds, Other Accounts liabilities, has been shown as ₹13,31,054 crore. Thus, there is a difference of ₹63,368 crore on account of non-inclusion of amount of investment of Post Office Insurance Fund through Private Fund Managers during that year, in the figure for liabilities in the receipt budget annexure. Similarly, in UGFA 2018-19, the total liabilities on account of National Small Savings, Provident Funds, Other Accounts liabilities is ₹15,09,506 crore. However, in the Receipt Budget, the National Small Savings, Provident Funds, Other Accounts liabilities has been shown as ₹14,36,103 crore. Thus, there is again a variation of ₹73,403 crore on account of non-inclusion of amount of investment of Post Office Insurance Fund through Private Fund Managers in the liabilities given in the Receipt Budget. Thus, the treatment of investment of Post Office Insurance Fund through Private Fund Managers is not consistent between the accounts and the budget documents.

Ministry stated (June 2020 and December 2020) that the variation in liabilities between UGFA and Receipt Budget is because the liability statement as brought out in the Receipt Budget for any reporting year depicts the 'net liability' of the Government after reconciliation with Union Government Finance Accounts. 'Net liability' is the net of credit balances and debit balances. This reply is not acceptable as it leads to understatement of liabilities as funds managed by private managers are also liabilities of the Government and should be suitably disclosed.

5.1.3 Deficit in operation of National Small Saving Fund (NSSF)

The National Small Saving Fund (NSSF) comprises all collections of small saving schemes and forms part of the Public Accounts. NSSF is administered by Ministry of Finance (Department of Economic Affairs) under National Small Savings Fund (Custody and Investment) Rules, 2001. The Fund is invested in the securities of the Central and State Governments and in such other instruments of Government Undertakings as specified in these rules. The NSSF accounts are kept in three parts with one-part recording receipts into and payments/investments from the fund; the second part recording investments of NSSF and the third part being the account for Income and Expenditure of NSSF.

The Income and Expenditure Account of the NSSF records the accumulated opening balance of deficit/surplus in this account, interest and other receipts and expenditure on interest payments and management costs during the year. The annual surplus/deficit in this account along with accumulated deficit/surplus is worked out. The final balance in the NSSF is worked out after adjusting the balance in the Income and Expenditure Account. **Table 5.3** shows the position of this account in each year from 2014-15 to 2018-19. From the table it is evident that barring 2016-17 when the fund showed an operational surplus, NSSF has been continually registering a deficit with the overall accumulated deficit of NSSF being ₹1,13,651.82 crore by the end of 2018-19.

Table 5.3: Income and expenditure Account of NSSF

(₹ in crore)

Year	Opening Balance (1st April)	Interest and other Income	Expenditure			Surplus/ deficit	Closing Balance (31st March)
			Interest payment	Management cost	Total Expenditure		
2014-15	(-) 79,376.06	72,019.12	74,862.93	8,487.69	83,350.62	(-) 11,331.50	(-) 90,707.56
2015-16	(-) 90,707.56	76,994.96	80,482.27	10,022.02	90,504.29	(-) 13,509.33	(-) 1,04,216.89
2016-17	(-) 1,04,216.90	90,902.60	78,220.77	9,458.86	87,679.63	3,222.97	(-) 1,00,993.93
2017-18	(-) 1,00,993.92	95,399.97	91,221.82	10,822.10	1,02,043.89	(-) 6,643.92	(-) 1,07,637.84
2018-19	(-) 1,07,637.84	1,08,783.81	1,03,784.85	11,012.94	1,14,797.79	(-) 6,013.98	(-) 1,13,651.82

Source: Union Government Finance Accounts

This accumulated deficit is a liability of the Government and would have to be made good by the Government in the future with budgetary support. This aspect is not transparently/adequately disclosed/elaborated in UGFA except by way of a footnote, and in the budget

documents related to Liabilities of the Government. As NSSF accounts are part of the Public Accounts this deficit/liability is also not taken into account while working out fiscal indicators. Ministry of Finance (June 2020 and December 2020) replied that that Small Savings Schemes, apart being an instrument of channelizing small savings for a productive purpose, also promote social welfare and security. As such, interest rates in such schemes are often higher than the market rates. It also provided reasons of losses and measures being adopted to reduce the same. The reply is silent on the issue of disclosure of the implications of deficits and for transparently flagging that these would need to be made good through budgetary support in the future thus impacting inter-generational equity.

There was also no disclosure that significant funds were being used to provide extra budgetary funding of expenditure of revenue nature e.g. loans to support FCI operations and other Government schemes such as PMAY-Urban, which would need to be serviced by Government through budgetary support, and being used for revenue nature, these were not likely to generate returns to match the cost of funds.

5.1.4 Lack of transparency in Direct tax receipt figure

In the AFS and UGFA, 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 receipts of the Union Government revealed that a substantial portion of tax collected is refunded every year, as detailed in **Table 5.4**.

Table 5.4: Direct Tax collection and Refunds

(₹ in crore)

Financial Year	Total Direct Tax collection	Refunds #	Direct Tax Collection*	Percentage of refunds to direct tax collection
2013-14	7,34,254	95,658	6,38,596	13.03
2014-15	8,13,287	1,17,495	6,95,792	14.45
2015-16	8,71,494	1,29,482	7,42,012	14.86
2016-17	10,22,695	1,72,894	8,49,801	16.91
2017-18	11,71,440	1,68,702	10,02,738	14.40
2018-19	13,19,321	1,81,603	11,37,718	13.76

* Source: Union Government Finance Accounts and CAG's Report No. 9 of 2019 and 11 of 2020 (Direct Taxes).
Refunds also include interest on refunds of taxes.

During the six-year period 2013-19, refunds of direct taxes ranged between 13.03 per cent and 13.76 per cent of the total direct tax collection. In FY 2017-18, the amount of refunds was ₹1,68,702 crore which included ₹17,063 crore paid as interest on refunds. Similarly, in FY 2018-19, amount of refunds was ₹1,81,603 crore including the interest on refunds amounting to ₹20,566 crore. Though the amount of refunds was substantial, no information on the same 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.

Further, as per Article 114(3) of the Constitution, no money shall be withdrawn from the CFI except under appropriation made by the Parliament. In this connection, it is stated that Central Board of Direct Taxes (CBDT) has not been accounting for interest on refunds of excess tax as expenditure but as reduction in revenue. Hence, it was not making any budget provision for the expenditure on interest for obtaining legislative approval as required by the Constitution.

This practice of incurring expenditure on interest receipts has continued despite the matter having been flagged repeatedly in Audit Reports of the CAG, the latest instance being the observations in Para 3.14 of Report No 4 of 2020 on the Union Accounts of 2018-19. However, no corrective action has been taken.

This issue was examined by the Public Accounts Committee (PAC). In its 66th Report (15th Lok Sabha 2012-13), the PAC had disapproved of withdrawal of moneys out of CFI for interest payments on income tax refunds without Parliamentary approval. Subsequently, in their follow-up Report (96th Report of 15th Lok Sabha 2013-14 dated 31 January 2014) after considering the revised opinion of the Ld. Attorney General of 06 May 2013 and later testimony to it, the Committee concluded that the Constitution leaves no doubt about the manner of authorization of expenditure or withdrawal of moneys from and out of the CFI and hence the Department of Revenue has no option other than seeking ex ante approval under Articles 114 and 115(1)(a) or seeking ex post facto approval of Parliament under Article 115(1)(b) of the Constitution.

Despite the position taken by PAC on the matter and the issue being repeatedly pointed out in the audit reports of the CAG, the practice of not making budget provision for interest on refunds in the Budget Estimates and not seeking Parliament's approval for the payments continued in the financial years 2017-18 and 2018-19. During these years expenditure on interest on refunds amounting to ₹17,063 crore and ₹20,566 crore was incurred but shown as reduction in revenue.

The Department in its replies (January 2017 and January 2019) to observations on Accounts based on the opinion of Ld. AG of 06 May 2013, contended that the refund of excess tax and interest thereon, is not an expenditure within the meaning of Article 112. The Department also stated that based on the opinion of the Ld. AG, the recommendations contained in the 96th Report of the PAC (15th Lok Sabha) had not been accepted.

Audit however, observed that PAC had already considered the opinion of the Ld. AG while making its recommendations and noted that the Ld. AG had deposed that "an opinion ultimately is an opinion and it is for the Committee to decide what the correct procedure is."

5.2 Transparency in disclosure forms mandated under FRBM Act

In compliance with Section 6 of FRBM Act, disclosure forms (six for 2017-18 and five for 2018-19), as detailed in **Annexure 1.1** are placed before the Parliament along with Budget.

Examination of these forms revealed inadequacy in disclosures, as discussed in succeeding paras.

5.2.1 Inconsistency in disclosure of arrears of Non-Tax Revenue

One of the disclosure forms viz. **Form D-2**, provides details of arrears of NTR. Receipt Budget 2019-20 and 2020-21 (Annex-6) provided details of arrears of non-tax revenue at the end of FYs 2017-18 and 2018-19.

CAG reports have repeatedly pointed out differences between amounts disclosed as interest receipts from State/Union Territory Government, Departmental Commercial Undertakings and Public Sector Undertakings in the Receipt Budget (**Form D-2**), vis-à-vis figures disclosed through UGFA for that year. Inconsistency and differences pertaining FYs 2017-18 and 2018-19 in **Form D-2** are detailed in **Table 5.5**.

Table 5.5: Inconsistency in disclosure of arrears of interest: 2017-18 and 2018-19

(₹ in crore)

Loaned entity	Interest arrears as per		Variation
	Form D-2	UGFA	
	2017-18		
State/Union Territory Government	6,553	2,816	3,737
Public Sector and other Undertakings	19,438	32,854	13,416
	2018-19		
State/Union Territory Government	6,464	3,215	3,249
Public Sector and other Undertakings	19,332	35,129	15,797

Source: Receipt Budget for 2019-20 and 2020-21 and Union Government Finance Account for 2017-18 and 2018-19

During audit, errors in compilation of arrears of NTR by various Ministries were also noticed and arrears were found to be understated by ₹10,483.87 crore. Ministry in reply to this observation (June 2020 and December 2020), confirmed the figures for understatement detected by audit.

5.2.2 Variation in disclosure of details in asset register

Disclosure **Form D-4** relates to physical and financial assets of the Government. Receipt Budget 2020-21 provides details of assets of the Union Government as at the end of reporting year 2018-19. As per the disclosure made by the Government, the cumulative total of assets at the end of the year 2017-18 and 2018-19 was ₹15,10,277.64 crore and ₹16,99,853.14 crore respectively. During audit, errors in compilation of assets by various Ministries were also noticed. Assets were found to be overstated by ₹5,90,875 crore. In addition, the following inconsistencies were noticed in the disclosure pertaining to asset registers.

5.2.2.1 Inconsistency in figures of loans to Foreign Governments

Examination of **Form D-4** revealed that a sum of ₹14,077.04 crore was shown as loans outstanding from Foreign Governments at the end of 2017-18. Similar information contained in the UGFA 2017-18, revealed that a sum of ₹13,433.02 crore was outstanding as loans from foreign Governments. Thus, there was a variation of ₹644.02 crore of loans outstanding from foreign Governments.

Similar examination of **Form D-4** for 2018-19 revealed that a sum of ₹14,093.67 crore was shown as loans outstanding from Foreign Governments whereas information contained in the UGFA 2018-19 revealed that a sum of ₹13,558.87 crore was outstanding as loans from foreign Governments. Thus, there was a variation of ₹534.80 crore of loans outstanding from foreign Governments.

5.2.2.2 Variation in figures of closing and opening balances of assets

On examination of **Form D-4** appended with Receipts Budget 2019-20 and 2020-21, variations were noticed in the closing and opening balances of assets, as depicted in **Table 5.6**.

Table 5.6: Variation in value of assets

	(₹ in crore)
Total assets at the end of Reporting year 2017-18 (closing figure)	15,10,277.64
Total assets at beginning of next Reporting year 2018-19 (opening figure)	15,07,161.28
Variation in closing and opening figures	3,116.36
Assets acquired during the year 2018-19	1,92,691.86
Total assets at the end of Reporting year 2018-19 (closing figure)	16,99,853.14

Source: Receipt Budgets for financial years 2019-20 and 2020-21.

From **Table 5.6**, it may be noticed that opening balance of assets for 2018-19 was less by ₹3,116.36 crore as compared to the carry-over balance of assets at the end of 2017-18. The Ministry explained (June 2020 and December 2020) that the same was due to revision in the opening balance on account of factors such as a) inclusion of “Railway Safety Fund” by Ministry of Railway, b) omission of investment in HEFA and c) reporting of assets by additional Missions in MEA.

The reasons for the variation disclosed by Government lack adequate transparency as instead of an item wise quantitative reconciliation of the variation of ₹3,116 crore, only instances were mentioned without quantification.

The Ministry further replied that footnotes are also provided below the statements to insure clarity and transparency. However, effort shall be made to insure greater comprehensiveness in the footnote of statement of asset register.

5.3 Audit Summation

Audit noticed variations in RD and FD figures between those depicted in the Budget at a Glance (BAG) and those depicted in the Union Government Finance Accounts (AFS) for both years, due to netting of certain receipts and expenditure in the BAG. The balances under National Small Savings Fund (NSSF) do not explicitly disclose the substantial accumulated deficit in the fund and significant amounts loaned for funding revenue expenditure of the Government which would have to be serviced through budgetary support. Further, there were inadequacies in disclosures in Form D-2 - Arrears of Non-Tax Revenue and D-4 - Asset Register.

Place: New Delhi
Dated: 30 June 2021



(MANISH KUMAR)
Director General of Audit
Finance & Communication

Countersigned

Place: New Delhi
Dated: 05 July 2021



(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

