

Press Release

CAG's Audit Report on Fiscal Responsibility and Budget Management Act, 2003 for the FY 2015-16 tabled in Parliament.

Audit Report of the Comptroller and Auditor General of India No. 32 of 2017 Union Government (Civil) – on compliance of Fiscal Responsibility and Budget Management Act, 2003 for the Financial Year (FY) 2015-16 was tabled in Parliament today.

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 public funds by moving towards a balanced budget.

Due to global economic crisis and adverse circumstances, the implementation of FRBM Act was put on temporary hold in February 2009. The FRBM Act, 2003 and Rules made thereunder, as amended from time to time, was meant to specify targets for effective revenue deficit to a period beyond 2019-20, citing structural changes in the revenue expenditure component of the centre and containing fiscal deficit to not more than three per cent of GDP by 31 March 2019, in view of the macro-economic need of higher public expenditure. Other stipulations and conditions regarding guarantees to be given, assumption of liabilities and borrowings from RBI by the Government were also included in the Act. Besides, the Act and Rules require the Government to lay in both the Houses of the Parliament four policy statements, viz. Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement, Macro-economic Framework Statement and Medium Term Expenditure Framework Statement, besides six disclosures in the prescribed forms.

An important aspect of the amendment in the Act ibid in May 2014 was introduction of Section 7A and Rule 8 of the amended Act, 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.

A Committee, constituted by the Government in May 2016 to review the working of the FRBM Act over last 12 years and to suggest the way forward, had submitted its Report in January 2017. The Committee had recommended repealing of the existing FRBM Act by adopting the new “Debt and Fiscal Responsibility Act” and had suggested a new roadmap for fiscal indicators.

The first Report of CAG on compliance of the provisions of FRBM Act in respect of FY 2014-15 was presented in Parliament in August 2016. The present report is the review by the CAG on compliance to the provisions of the FRBM Act by the Government for FY 2015-16.

Important audit observations relating to compliance of the provisions of the Act and Rules made there under, and also on other related topics as included in the Report are detailed below:

Deviation in performance from the Act and Rules

- For FY2015-16, in Budget, in respect of revenue and fiscal deficits, annual reduction targets were only 0.1 and 0.2 *per cent* of GDP respectively as against required reduction of 0.4 *per cent* for each. Further, in respect of effective revenue deficit, instead of annual reduction of 0.5 *per cent*, an increase of 0.2 *per cent* of GDP was estimated by the Government.

(Para 2.1)

- In Budget 2016-17, the target date of elimination of effective revenue deficit was deferred from March 2018 to March 2019, without corresponding amendment in the Act. Further, in Budget 2017-18, the target date of effective revenue deficit was deferred beyond FY 2019-20 and that of fiscal deficit to FY 2018-19 by the Government, without amending the Act.

(Para 2.2)

Progress in achievement of FRBM targets

- For FY 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 FY 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)

- As a result of deficiency in estimating the expenditure on grants for creation of capital asset, during FY 2015-16, the provision included in the Budget at a Glance for grants for creation of capital assets was underestimated by ₹ 18,827 crore, which has also impacted the correct estimation of effective revenue deficit.

(Para 3.4.4.2)

- 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 FY 2015-16.

(Paras 3.5.2 and 3.5.3)

Analysis of components of receipts and expenditure

- During the course of audit of accounts for FY2015-16 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 there under.
- Due to misclassification of expenditure of revenue nature as capital expenditure and *vice versa*, revenue deficit was understated by ₹ 1,583 crore during FY 2015-16.

(Para 4.3.1)

- A sum of ₹ 20,911 crore collected under levies and cess forming part of tax/non-tax revenue, was not transferred to earmarked funds. This led to understatement of revenue/fiscal deficit by an equivalent amount during FY 2015-16.

(Para 4.3.2)

- At the end of FY2015-16, total accumulated deficit in the operation of NSSF was ₹ 1,04,217 crore, out of which ₹ 13,509 crore pertains to FY 2015-16. These deficits are in the nature of loss to the Government which will have to be borne on revenue account, whenever the liabilities under NSSF are fully and finally repaid. However, these losses are being netted and accounted for in the Public Account. As a result, the deficit figure for the relevant year is not reflected fairly.

(Para 4.3.3)

- At the end of FY 2015-16, subsidy claims of ₹ 1,62,530 crore pertaining to fertilizer, food and petroleum were pending. Out of which, subsidy claims aggregating ₹ 1,45,637 crore related only to Food Corporation of India.

(Para 4.3.4)

- Short devolution out of net proceeds of taxes aggregating ₹ 24,942 crore to States was noticed during FY 2015-16, which had bearing on computation of deficits for the said year.

(Para 4.3.5)

- Due to absence of defined criteria for classification of expenditure as 'grants for creation of capital assets', there exists inconsistent and varying practices in the treatment of such expenditures. As a result, expenditure incurred on certain components of MGNREGS, MPLAD, Indira Awas Yojana and Goods and Services Tax Network were incorrectly classified as grants for creation of capital assets. This resulted in understatement of effective revenue deficit to that extent.

(Paras 4.4 and 4.5)

Analysis of projections in fiscal policy statements

- Projection for FY2015-16 included in Medium Term Fiscal Policy Statement in respect of gross tax revenue, outstanding liabilities and disinvestment varied significantly from the actuals indicating deficiencies in the process of making assumptions while preparing fiscal policy statements.

(Para 5.1)

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

(Para 5.2)

Disclosure and Transparency in fiscal operations

- During 2015-16, following issues of transparency were noticed by the Audit.
- 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 FY2015-16 but no corresponding disclosure was available in the Government accounts.

(Para 6.2)

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

(Para 6.3)

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

- 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.
