

## Chapter 1

### UNION GOVERNMENT FINANCES – AN OVERVIEW

**1.1** This chapter provides a broad perspective of the finances of the Union Government during 2003-04 and analyses critical changes in the major fiscal aggregates during 1985-2004.

**1.2** Table 1.1 summarises the position of the finances of the Union Government, covering its receipts, disbursements, deficits and borrowings (need and its accommodation) in the current year (2003-04).

**Table 1.1 Summary of the current year's operation**

*(Rupees in crore)*

Receipts		Derived Parameters		Disbursements	
<b>Consolidated Fund of India (CFI)</b>					
Revenue Receipt	339100	<b>Revenue Deficit</b>	Revenue Expenditure	440086	
Misc. Capital Receipts	16953	100986	Capital Expenditure	35401	
Recovery of Loans	69827	<b>Fiscal Deficit</b>	Loans and Advances	31330	
Total Non-Debt Receipts	425880	80937	Total Expenditure	506817	
Public Debt	538492	<b>Surplus in CFI</b>	Public Debt	430963	
Total CFI	964372	26592	Total CFI	937780	
<b>Public Accounts</b>					
Small savings	256531		Small savings	266475	
Reserves & Sinking Fund	21903		Reserves & Sinking Fund	19397	
Deposits	66457		Deposits	56714	
Advances	24865	<b>Deficit in Public Account</b>	Advances	24529	
Suspense account	-1064		Suspense account	22413	
Remittances	441	-22650	Remittances	2255	
Total Public Account	369133	<b>Increase in Cash</b>	Total Public Account	391783	
Opening Cash	3465	3942	Closing Cash	7407	
Public Account Surplus (Demand)		-22650	Deficit in (CFI)+ Increase in Cash		
Incremental Liabilities (Supply)		109834	Surplus of (Debt+ Small Savings+ RF+ Deposits)		
Incremental Liabilities (Demand)		109834	FD+ Increase in Cash +Net Disbursement of (Advances+ Suspense+ Remittances)		

**1.3** The year 2003-04 ended with a surplus of Rs. 26,592 crore in the Consolidated Fund of India. There was a deficit of Rs. 22,650 crore in Public Account as the disbursements exceeded the receipts. Though the fiscal deficit amounted to Rs. 80,937 crore, fresh liabilities amounted to Rs. 109,834 crore. After meeting the fiscal deficit, these were used for meeting the resource

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needs for additional disbursement under suspense/remittances etc and increases in the cash balances.

<b>Box 1.1 : Union Government funds and the Public Account</b>	
<p><b>Consolidated Fund</b> All revenues received by the Union government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled "The Consolidated Fund of India" established under Article 266 (1) of the Constitution of India.</p>	<p><b>Contingency Fund</b> Contingency Fund of India established under Article 267 (1) of the Constitution is in the nature of an imprest placed at the disposal of the President to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Parliament. Approval of the legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>
<p><b>Public Account</b> Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the connected disbursements are also made therefrom.</p>	

**1.4** Union Budget presents three sets of figures: (a) actuals for the preceding year, (b) revised estimates for the current year, and (c) budget estimates of the forthcoming year. The nearness of the actuals to the budget estimates indicates the quality of fiscal marksmanship. Several reasons account for the departure of the actual realisation from budget estimates. It may be because of unanticipated and random external event, or methodological inadequacies that may lead to under or over estimation of expenditure or revenue at the budget stage or it may at times be considered prudent to be conservative. Actual realisation of revenue and its disbursement depend on a variety of factors, some endogenous and others external, a fair degree of certitude, however, is always comforting. Table 1.2 provides a summary of budget estimates and actuals for some important fiscal parameters.

**Table 1.2: Union Government Finances 2003-04 - budget and actuals**

*(Rupees in crore)*

	Budget Estimates	2002-03 Actuals	2003-04		Deviation from Budget	Deviation* Per cent
			Actuals	Budget Estimates		
1	Total Receipts of the Union	1084328	1333505	1106118	227387	20.56
2	Revenue Receipts	299826	339100	324172	14928	4.60
	Tax revenue	160144	188582	187769	813	0.43
	Non-tax revenue	139682	150518	136403	14115	10.35
3	Miscellaneous Capital receipts	3151	16953	13200	3753	28.43
4	Recovery of Loans and Advances	38745	69827	20523	49304	240.24
5	Public Debt receipt	435371	538492	491836	46656	9.49

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Budget Estimates		2002-03 Actuals	2003-04		Deviation from Budget	Deviation* Per cent
			Actuals	Budget Estimates		
6	Public Account Receipts	307235	369133	256387	112746	43.97
7	Total Disbursement of the Union	1086211	1329563	1106118	223445	20.20
8	Revenue Expenditure	409591	440086	440676	-590	-0.13
9	Capital Expenditure	30497	35401	42947	-7546	-17.57
10	Loans and Advances	36222	31330	32785	-1455	-4.44
11	Repayment of Public Debt	339677	430963	367079	63884	17.40
12	Public Account Disbursement	270224	391783	222631	169152	75.98
13	Revenue Deficit	109765	100986	116504	-15518	-13.32
14	Fiscal Deficit	134588	80937	158513	-77575	-48.94

\* Deviation is estimated as (Actuals- Budget Estimates)/Budget Estimates x 100

**1.5** Revenue receipt exceeded the budget estimates by 4.6 per cent and better realisation of non-tax receipts contributed to this performance. Tax receipts as a whole were generally on target. Revenue expenditure was also maintained at the budgeted levels. Improved growth of revenue receipts resulted in a decline in revenue deficit. Actual revenue deficit was about 13 per cent less than the budget figures. A more than 240 per cent increase in recovery of loans and advances compared to the budget figures led to sharp reduction in fiscal deficit. This, however, should be viewed as a one time realisation because it leads to an equal reduction in assets base of the Union government. A decline in capital expenditure and loans and advances relative to the budget estimates also contributed to the reduction in fiscal deficit. Public account, which was expected to be in a surplus in the budget, actually turned out to be in deficit as disbursements exceeded the budget estimates by 76 per cent. On the whole, while fiscal marksmanship was evident on revenue receipts and revenue expenditure side, deviations in other parameters relative to the budget estimates were quite significant.

**Union Government Finances 1985-2004 - Some Key Parameters**

**Box 1.2 : Managing Funds : Constitutional Provisions**

Article 266 (3) of the constitution of India provided that “No moneys out of the CFI or the Consolidated Fund of State shall be appropriated except in accordance with the law and for the purposes and in the manner provided in the Constitution”. This provision read with **Articles 112 and 114**, culminated in the Appropriation Act after the Demands for Grants of financial year are voted by the Lok Sabha, and the connected Appropriation Bill is passed by the Parliament and assented to by the President of India. Also, Sections 2 and 3 of the Appropriation Act provide as under:

From out of the CFI, there may be paid and applied sums not exceeding those specified in column 3 of the Schedule amounting in the aggregate towards defraying the several charges which will come in course of payment during the financial year in respect of the services specified in column 2 of the Schedule.

The sums authorized to be paid and applied from and out of the CFI by this Act shall be appropriated for the services and purposes expressed in the Schedule in relation to the said year.

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**1.6** Figures for revenue and fiscal deficits as indicated/derived from the Finance Accounts have continued to be different from those being depicted in Budget at a Glance and some of the papers accompanying Budget Documents. This difference has been due to inclusion/exclusion of some of the transactions on revenue and expenditure side. While these are indicated in the accompanying documents of Budget papers, it may nonetheless be important to indicate these upfront. Table 1.3 below provides the difference in revenue and fiscal deficit as indicated/derived in Finance Accounts and as depicted in Budget at a Glance along with the necessary reconciliation transactions.

**Table 1.3: Reconciliation of Revenue and Fiscal Deficit as in Finance Accounts and in Budget at a Glance**

	2000-01	2001-02	2002-03	2003-04
<b>Deficits as per Finance Accounts</b>				
Revenue Deficit	86611	110303	109765	100986
Fiscal Deficit	120874	155833	134588	80937
<b>Deficit as per Budget at a Glance</b>				
Revenue Deficit	85234	100162	107880	98262
Fiscal Deficit	118816	140955	145072	123272
<b>Difference in the two Figures</b>				
Revenue Deficit	1377	10141	1885	2724
Fiscal Deficit	2058	14878	-10484	-42335
<b>Factors Explaining the Differences</b>				
Securities Issued to RBI/UTI/IDBI/Others (Revenue Account)	1377	10141	1885	2724
Securities Issued to IIBI/IFCI/RBI (Capital Expenditure)	<b>52</b>	<b>4737</b>	<b>384</b>	<b>-110</b>
Securities issued to IMF	629		1011	1262
Redemption of Securities issued to NSSF			-13765	-46211
<b>Combined Effect</b>	<b>2058</b>	<b>14878</b>	<b>-10485*</b>	<b>-42335</b>

\* Difference due to rounding Summary of balances

**1.7** A detailed analysis of the Union Government's finances covering revenue receipts, expenditure, fiscal imbalances and fiscal liabilities are contained in Chapters 2 to 5 of this Report. An overview of the key parameters is presented below.

**Summary of balances**

**1.8** Statement 12 of the Finance Account provides a summary of cumulative outcome of the Government finances in terms of availability and use of resources. This statement read with statement 5 of the Finance Account is akin to a Balance Sheet of the government. Table 1.4 provides the summary of the government finances during 1985-86 and 2003-04, the base year of the analysis and the current year.

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Table 1.4: Summary of Balances of Government Finances

(Rupees in crore)

Resource Use				Resource Availability			
	As on 31st March		CARG*		As on 31st March		CARG*
	1986	2004			1986	2004	
Capital Outlay	62064	433722	11.41	Internal Debt	71039	1141706	16.68
Loans & Advances	61766	254712	8.19	External Debt	18153	46124	5.32
<b>Resource Use in terms of Functions</b>				Small Savings	36859	241349	11.00
Social Services	3032	18064	10.42	Other Obligations	11433	92376	12.31
Agriculture & Allied	5596	9797	3.16	Fiscal Liabilities	137484	1521555	14.29
Irrigation and Energy	9122	55853	10.59	Cash Balances	-107	-7407	26.54
Industry & Minerals	32931	69646	4.25	Suspense Balances	-1260	-27960	18.79
Transport & Communication	19198	95709	9.34	Remittances	-1273	-3245	5.34
Other Economic Services	3012	67324	18.84	Advances	-511	-2840	10.00
Total Economic Services	69859	298329	8.40	Contingency Fund	50	50	0.00
Others	12219	175919	15.97	Availability of Funds	134383	1480153	14.26
Loans to States	38720	196123	9.43	<b>Resource Gap</b>	<b>-10553</b>	<b>-791719</b>	27.11
Total Assets	123830	688434	10.00	Resource Use	123830	688434	10.00

(\*Cumulative Annual Rate of Growth)

**1.9** While the net availability of funds of the Union government increased at an annual rate of 14.26 *per cent*, assets of the government comprising the capital expenditure and loans and advances increased at an average rate of 10 *per cent* only. On an average a negative spread in the growth of availability and use of resources was observed. Within the assets, capital expenditure, or the capital formation by the government directly witnessed a relatively higher growth during 1985-2004. “Loans and advances”, which is akin to capital formation through its parastatals increased at an average rate of 8.19 *per cent*. Investment or assets formation in agriculture and allied activities and industry and minerals recorded a much lower growth during this period. Investment in social services grew at 10.42 *per cent*. Expenditure on other economic services, which included investment/accommodation to financial institutions, had a moderately high growth. The other component, which grew faster than the average growth, was the expenditure on general services and others, including public works and defence. Resource gap measured as a difference between net availability of funds and resource use increased from around eight *per cent* of net funds availability as on 31 March 1986 to over 53 *per cent* as on 31 March 2004.

**Box 1.3 :Reporting Parameters**

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt, and revenue and fiscal deficits have been presented as percentage to the GDP at current market prices. The New GDP series with 1993-94 as base as published by the Central Statistical Organisation and indicated in Economic Survey 2003-2004 has been used.

For tax revenue, buoyancy estimates are given. The buoyancy indicates the responsiveness of a tax to percentage changes in the tax base. Here, buoyancies have been calculated with reference to the GDP series mentioned above.

For most series a trend growth during 1985-2004 has been indicated. Further, trend growth over the VIII Plan (1992-97) and the IX Plan (1997-2002) has also been indicated. While calculating these growth rates the first year of the Plan has been taken as the base year to estimate inter Plan growth rates. This process eliminates the "low base bias" of the year immediately preceding the plan. Annual growth has been indicated for the two most recent years, i.e. 2002-03 and 2003-04.

For most series, ratios with respect to GDP have also been indicated. As in the case of growth rates, average ratios have been used for the period 1985-2004 and Plan periods separately for the VIII and IX Plans. Annual ratios of the two most recent years have also been indicated.

For per capita expenditure on Social and Economic services, mid- year estimates of population as given by National Accounts Statistics, 2004 have been used. For converting the expenditure at 1993-94 prices GDP deflators (at market price) have been used.

## Revenue Receipts

**1.10** Table 1.5 indicates the rate of growth and relative share as percentage to GDP of the tax, non-tax and total revenue receipts (net of share of the States in Union taxes) during 1985-2004, the VIII and IX Plans (1992-1997 and 1997-2002 respectively) and the two most recent years.

**Table 1.5: Key Parameters of the Union Government Revenue Receipts**

*(per cent)*

Period	Gross Tax Revenue		Non-Tax Revenue		Total Revenue of the Union		GDP Growth
	A	B	A	B	A	B	
1985-2004	12.66	9.12	13.85	5.89	13.14	12.59	14.14
VIII Plan (1992-1997)	15.89	9.32	14.66	5.94	15.61	12.71	16.54
IX Plan (1997-2002)	9.00	8.68	8.00	6.06	8.12	12.40	10.43
2002-03	15.61	8.76	6.58	5.66	13.02	12.14	8.21
2003-04	17.61	9.17	7.76	5.43	13.10	12.23	12.25

*A: - Rate of growth*

*B: - Relative Share as percentage to GDP*

**1.11** It would be observed that the average annual trend rate of growth of revenue receipts (including the tax and non-tax receipts) was comparatively lower than the growth of GDP. There was a deceleration in the growth rates during the IX Plan (1997-2002), though these picked up in the current year. The ratio of tax receipts to GDP declined from a trend average of 9.32 *per cent*

during the VIII Plan (1992-1997) to 9.17 *per cent* in 2003-04. Total revenue receipts of the Union as percentage to GDP also declined to 12.23 *per cent* in the current year from an average of 12.71 *per cent* during the VIII Plan (1992-1997). The non-tax revenue of the Union Government also recorded a lower trend growth and its share relative to GDP declined to 5.43 *per cent* in the current year. While the average rate of interest on loans and advances was maintained above the average cost of borrowings, return on investment and recovery of user charges from social and economic services remained poor.

**1.12** Tax revenue (inclusive of the States' share) of the Union witnessed a buoyancy of 0.895 during 1985-2004 indicating that for each percentage point increase in GDP, increase in tax revenue was only 0.89 *per cent*. While direct taxes had a buoyancy greater than one, lower buoyancy of indirect taxes (both customs and excise duties), that accounted for nearly three fourths of the total tax revenue, resulted in overall lower buoyancy for the gross tax receipts.

### Expenditure

**1.13** The Union Government's total expenditure (Table 1.6) also reflected a similar position. Rate of growth of total expenditure declined from a long-term average of 12.47 *per cent* (1985-2004) to 8.86 *per cent* during the IX Plan (1997-2002) and further to 6.40 *per cent* in the current year. Total expenditure-GDP ratio also declined from a trend average of 19.81 during 1985-2004 to 18.28 *per cent* in the current year. Capital expenditure witnessed significant volatility, but average annual growth of this component of expenditure remained lower. Current year, however witnessed a significant acceleration in growth of capital expenditure. Relative to GDP, its share fluctuated but the rate of shift in its relative share was negative. This was also true of loans and advances. There continued to be a non-plan revenue deficit since 1990-91.

**Table 1.6: Key Parameters of the Union Government Expenditure**

*(per cent)*

Period	Revenue Expenditure		Capital Expenditure		Loans and Advances		Total Expenditure	
	A	B	A	B	A	B	A	B
1985-2004	14.12	16.12	7.21	1.64	6.28	2.05	12.47	19.81
VIII Plan (1992-1997)	14.64	15.51	-8.44	1.89	11.91	2.26	11.87	19.66
IX Plan (1997-2002)	10.40	16.36	9.22	1.37	-3.42	1.84	8.86	19.56
2002-03	9.06	16.59	-2.55	1.23	-6.19	1.47	6.92	19.29
2003-04	7.45	15.88	16.08	1.28	-13.51	1.13	6.40	18.28

A: - Rate of Growth

B: - Relative Share as percentage to GDP

### Fiscal Imbalances

**1.14** Fiscal imbalances not only continued to be persistent but were significant in volume. There was an increase in the revenue deficit/GDP ratio from an average of 2.80 *per cent* during the VIII Plan (1992-1997) to an

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average of 3.95 *per cent* during the IX Plan (1997-2002). Fiscal deficit-GDP ratio also increased from an average of 6.04 *per cent* during the VIII Plan to an average of 6.25 *per cent* during the IX Plan. There was, however, a moderate improvement in these parameters in the last two years. Reduction in the ratio of revenue and fiscal deficit to GDP was quite significant in the current year. Fiscal deficit declined to a level less than 3 *per cent* of GDP. A negative growth of fresh loans and advances and an accelerated growth of over 80 *per cent* in recovery of past loans contributed to this decline in fiscal deficit ratio. Relatively higher growth of revenue receipts would, however, be needed to sustain this improvement otherwise it may become a one-shoot phenomenon. The more disturbing trend, however, was a continuous increase in the ratio of revenue deficit to fiscal deficit. Revenue deficit as a percentage to fiscal deficit increased from an average of 46.26 *per cent* of fiscal deficit during the VIII Plan (1992-1997) to over 100 *per cent* in 2003-04. (Table 1.7)

**Table 1.7: Ratio of Revenue and Fiscal Deficit to GDP**

*(per cent)*

Period	Revenue Deficit	Fiscal Deficit	Revenue Deficit as % to Fiscal Deficit
1985-2004	3.53	5.90	59.77
VIII Plan (1992-1997)	2.80	6.04	46.26
IX Plan (1997-2002)	3.95	6.25	63.26
2002-03	4.44	5.45	81.56
2003-04	3.64	2.92	124.77

### Fiscal Liabilities

**1.15** The broad parameters of the aggregate fiscal liabilities of the Union Government are presented in Table 1.8 below.

**Table 1.8: Characteristics of the Union Government Fiscal Liabilities**

*(per cent)*

Period	Rate of Growth of Total Liabilities*	Total Liabilities/ GDP Ratio ( <i>per cent</i> )	Average Rate of Interest	Ratio of Debt Repayment** / Debt Receipts ( <i>per cent</i> )	Ratio of Assets to Liabilities
1985-2004	14.33	60.10	7.85	95.01	53.35
VIII Plan (1992-1997)	12.48	60.72	7.91	93.10	57.68
IX Plan (1997-2002)	11.85	59.08	9.06	94.70	50.90
2002-03	10.62	62.69	8.90	97.87	44.78
2003-04	7.20	59.87	8.28	105.33	41.48

\* Public Account liabilities since 1999-2000 exclude the liabilities on account of small savings to the extent of securities issued to NSSF by State Governments.

\*\* Debt repayment includes the principal and interest paid during the period

**1.16** During 1985-2004, aggregate fiscal liabilities of the Union Government remained a little over 60 *per cent* of GDP. Though the rate of growth in aggregate liabilities indicated a decelerating trend, the ratio of



liabilities to GDP did not benefit from this deceleration as in the later period GDP growth itself witnessed a deceleration in nominal terms. In the current year, however, a moderate growth in aggregate fiscal liabilities relative to GDP and a primary surplus, for the first time in the last thirty years led to a decline in ratio of fiscal liabilities to GDP by 2.82 percentage points. The average rate of interest on the outstanding liabilities continued to move upwards from an average of 7.91 *per cent* during the VIII Plan (1992-1997) to an average of 9.06 *per cent* during the IX Plan (1997-2002). There was a deceleration in average interest rate to 8.28 *per cent* in the current year, but due to a large debt overhang, any significant decline in average interest rate consequent upon its general southward trend is still to occur. Further, nearly the entire gross debt receipts were used for debt redemption, including the principal and interest, net flows turned negative in the current year. Larger revenue deficit was also eroding the assets back-up for the aggregate liabilities of the Union Government, which had declined to a little over 41 *per cent* by 2003-04.

**1.17** Table 1.9 indicates the position of unreconciled balances for the last five years. The net cumulative variation was narrowed to Rs. 25 crore as on 31<sup>st</sup> March 2004. The unreconciled balances were mainly due to (i) non-receipt/delayed receipt of bank scrolls; (ii) non-receipt/delayed receipt of clearance memos and inter-government adjustments and (iii) mistakes in statements/misclassification in accounts remaining unreconciled.

**Table 1.9: Unreconciled Balances**

*(Rupees in crore)*

Year	Deposits with RBI		
	According to Finance Accounts	According to RBI	Difference
1999-2000	2661	2223	438
2000-01	3858	3623	235
2001-02	5353	5144	209
2002-03	3470	3531	61
2003-04	7412	7387	25

**1.18** The Reserve Bank of India (RBI) is the banker of the government and other authorised public sector banks function as the RBI's agents while handling government transactions. In government books, certain transactions of receipts and payments, which cannot be booked to a final head of account due to lack of information about their nature or for other reasons, are booked in intermediate heads of account known as 'suspense heads' pending their final classification. Table 1.10 presents outstanding balances under suspense heads as on 31 March 2004. The quality of maintenance of accounts needs to be improved to ensure that the balances in the suspense heads are kept to the bare minimum and the reasons are suitably indicated in the Finance Accounts at respective places.

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**Table 1.10: Outstanding balances under major suspense heads**

*(Rupees in crore)*

Heads of account	Net Balance as on 31 March				
	2000	2001	2002	2003	2004
(a) Suspense (PAO Suspense)	Cr. 281.11	Dr. 318.75	Dr. 565.12	Dr. 1145.03	Dr. 1170.86
(b) Suspense Accounts (Civil)	Dr. 794.84	Dr. 506.94	Dr. 289.94	Dr. 650.41	Dr. 682.75
(c) Suspense Accounts (Postal)	Dr. 93.97	Dr. 100.99	Cr. 7.47	Dr. 172.12	Dr. 509.10
(d) Suspense Accounts (Defence)	Dr. 111.11	Cr. 628.67	Cr. 643.73	Cr 360.24	Dr. 304.40
1. Suspense Accounts (Railways)	Dr. 175.26	Dr. 372.79	Dr. 568.02	Dr 565.96	Dr. 857.58
2. Suspense Accounts (Telecom)	Dr. 1563.57	Dr. 923.75	Dr. 658.92	Dr 660.30	Dr. 680.91
3. Public Sector Bank Suspense	Dr. 806.43	Dr. 586.55	Cr. 51.91	Dr 537.48	Dr. 2524.20
4. Suspense Account for purchases abroad	Dr. 1895.20	Dr. 1675.43	Dr. 697.45	Dr 501.07	Dr. 473.31
5. Reserve Bank Suspense (HQ)	Cr. 173.52	Cr. 172.20	Cr. 172.26	Cr 173.20	Dr. 72.69
6. Reserve Bank Suspense (CAO)	Dr. 67.85	Dr. 38.64	Cr. 8.69	Cr 20.75	Cr. 246.06
7. Cash settlement Suspense	Dr. 222.18	Dr. 224.53	Dr. 206.97	Dr 228.80	Dr. 233.20
8. Discount sinking fund	Dr. 794.94	0	0	0	0
9. Others	Dr. 837.62	Dr. 1208.25	Dr. 1196.73	Dr 1182.14	Dr. 1174.62
<b>Total</b>	<b>Dr. 6908.34</b>	<b>Dr. 5155.75</b>	<b>Dr. 3299.09</b>	<b>Dr. 5089.12</b>	<b>Dr. 8437.56</b>

**1.19** Adverse balances arise largely due to accounting errors or accounting situations arising out of rationalisation of the classification of accounts or administrative re-organisation, which break up one accounting unit into many. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced. The Union finance accounts for the year 2003-04 indicated 49 cases of adverse balances, as shown in **Appendix-IA**. Out of these, six balances became adverse during the year 2003-04. Out of 43 old cases, two balances have been adverse since 1976-77 (prior to departmentalisation of accounts) and 41 balances from 1986-87 to 2002-03. The Controller General of Accounts stated in November 2004 that all items under adverse balances were under investigation and action was being taken in stages to liquidate the balances. It would be desirable to provide suitable explanatory memoranda in the Finance Accounts about the specific nature of the transactions leading to the adverse balances and progress of clearance in each case to improve the quality of accounts.

**1.20** Table 1.11 shows that there were large outstanding balances under the minor heads 'cheques and bills' in the Finance Accounts for 2003-04, which had the effect of overstating the government cash balance.

**Table 1.11: Outstanding balances under minor heads “Cheques and Bills” 2003-04**

*(Rupees in crore)*

1. Pre-audit cheques	Cr.	0.52
2. Pay and Accounts Offices Cheques	Cr.	6298.50
3. Departmental Cheques	Cr.	107.74
4. Treasury Cheques	Cr.	4.62
5. IRLA Cheques	Cr.	0.59
6. Telecommunication Accounts Office Cheques	Cr.	998.03
7. Postal Cheques	Cr.	3767.10
8. Railway Cheques	Cr.	1439.05
9. Defence Cheques	Cr.	3625.45
10. Electronic Advices	Dr.	1.71

**1.21** The head “Cheques and Bills” in the accounts is an intermediary accounting device for initial record of transactions, which are eventually to be cleared/withdrawn. Under the scheme of departmentalisation of accounts, payment of claims against government is made by the Pay and Accounts Officers (PAOs) of different Ministries/Departments by cheques drawn on branches of the RBI or PSU Banks accredited to the Ministry/Department. When claims are preferred in the appropriate bill form to the PAO/Departmental Officer, the payment is authorised through issue of cheques, after exercising the prescribed checks and recording of pay order by the PAO/Departmental officer. At the end of each month, the major head 8670-Cheques and Bills is credited by the total amount of the cheques delivered. On receipt of date-wise monthly statement and monthly statement of balances from Public Sector Banks and RBI Central Accounts Section, Nagpur, the head ‘8670-Cheques and Bills’ is minus-credited and credit is afforded to 8658-108-PSB Suspense or 8675-101 Deposit with Reserve Bank-Central Civil, as necessary.