

Chapter 2

COMMENTS ON ACCOUNTS

The comments relating to significant deficiencies in the presentation (accuracy, completeness and transparency) of the Union Accounts are discussed in the succeeding paragraphs. The comments arising from Appropriation audit are included in Chapters 7, 8 and 9 of this Report. The CAG's observations on regularity, economy, efficiency and effectiveness of Government spending are incorporated in Compliance and Performance Audit Reports being presented separately to the Parliament.

2.1 Non-inclusion of statements/information recommended by Twelfth Finance Commission in the Union Finance Accounts

The Twelfth Finance Commission (TFC) in their Report submitted to the Government in November 2004 had recommended for inclusion of the following eight additional statements/information in Union Government accounts for greater transparency and to enable informed decision making, pending transition from cash to accrual basis of accounting:

(i) Statement of subsidies given, both explicit and implicit, (ii) Statement containing expenditure on salaries by various departments/units, (iii) Detailed expenditure on pensioners and expenditure on government pensions, (iv) Data on committed liabilities in the future, (v) Statement containing information on debt and other liabilities as well as repayment schedule, (vi) Accretion to or erosion in financial assets held by the government including those arising out of changes in the manner of spending by the government, (vii) Implications of major policy decisions taken by the government during the year or new schemes proposed in the budget for future cash flows and (viii) Statement on maintenance expenditure with segregation of salary and non- salary portions.

These important statements have not been included in the Union Finance Accounts by the Government even after four years of the Commission's Report despite the matter being taken up by the office of the Comptroller & Auditor General with the Controller General of Accounts (CGA) in May 2007 and the Secretary, Department of Expenditure, Ministry of Finance in October 2008.

CGA has replied (November, 2008) that inclusion of the above additional statements in the Finance Accounts has been accepted in principle by the Government and the process of consultation is on in the Ministry of Finance to deliberate on the manner and form in which the additional information could be provided, within the existing system of cash based accounting. The CGA emphasised that inclusion of these additional statements in accounts would require necessary approvals and would be a time consuming exercise.

Since a period of four years has already elapsed after the Commission's recommendation, Ministry of Finance may set a specific time frame for inclusion of the above additional statements in the Union Finance Accounts.

2.2 Unascertainable unspent balances in the accounts of Implementing Agencies

In recent years, there has been a paradigm shift in the Central Government strategy for implementation of flagship programmes and other centrally sponsored schemes (CSS) for poverty alleviation, health care, education, employment, sanitation etc.,. Most of these schemes were earlier implemented on cost sharing basis with transfer of central share to State Government. The Union Government has now started transferring central plan assistance directly to state/district level autonomous bodies, societies and non-Governmental organisations for implementation of CSS without devolving funds through the state Government accounts. The State and District level implementing bodies keep these scheme funds in their accounts in banks outside Government Accounts.

For the year 2007-08, Union Government made a provision for transfer of central plan assistance of Rs. 51259.85 crore (as per revised estimates) directly to state/district level autonomous bodies and authorities, societies, non-governmental organisations, etc., for implementation of centrally sponsored schemes. Since the funds are not being spent fully by the implementing agencies in the same financial year, there remain substantial amounts of unspent funds in their accounts. The aggregate amount of the unspent balances in the accounts of the implementing agencies kept outside Government accounts is not readily ascertainable. The Government expenditure as reflected in the Accounts to that extent is, therefore, overstated.

2.3 Opaqueness in Government Accounts

There is a global trend towards greater openness in government finances. This is based on a belief that transparent budgetary and accounting practices can ensure that funds raised by the states for public purposes will be spent as promised by the Government, while maximising the benefits derived from spending. One crucial component of a transparent system of accounting is that the forms of account in which the receipts and expenditure of the Government are reported to the legislature, are constantly reviewed and updated so that they truly reflect receipt and expenditure on all major activities of the Government in a transparent manner for meeting the basic information needs of all the important stakeholders. Scrutiny of Union Government Finance Accounts 2007-08 disclosed that Rs. 20273.52 crore under 28 Major Heads of accounts (representing functions of the Government) was classified under the Minor Head '800-Other expenditure' in the accounts constituting more than 50 *per cent* of the total expenditure recorded under the respective Major Heads. This indicates a high degree of opaqueness in the accounts. Details of the

Major Heads such as Family Welfare, Housing, Power, Civil Aviation, Other Rural Development Programmes, Agricultural Financial Institutions, Flood Control and Drainage, Capital Outlay on Foreign Trade & Export Promotion etc., with substantial expenditure classified as 'Other Expenditure' are given in **Appendix-II-A**.

Some significant expenditure items such as Indira Awaas Yojana (Rs. 3885 crore), Mission Flexible Pool towards utilisation for projects for North-Eastern region and Sikkim (Rs. 3152 crore), subsidy for Haj Charters (Rs. 514 crore), construction of rural godowns (Rs. 70 crore), national fellowship for Scheduled Castes ((Rs. 78 crore) etc., are not depicted distinctly in the Finance Accounts but are rolled up in the minor head 'Other expenditure'.

Though the details of these expenditure are depicted at the sub-head (scheme) level or below in the Detailed Demands for Grants and corresponding head-wise Appropriation Accounts forming the basis of Union Government accounts, the details are not depicted in Finance Accounts as they get consolidated at minor head '800-Other expenditure'.

This shows that the existing structure of the Government Accounts does not truly reflect the current activities of the Government in these Ministries/Departments. It is, therefore, recommended that the Government may conduct a comprehensive review of the structure of Government Accounts to address this deficiency for achieving greater transparency in financial reporting.

2.4 Understatement of Balances under Universal Service Obligation Fund

Universal Service Obligation (USO) Fund (Major Head 8235-General & Other Reserve Funds, Minor Head 118) was set up in April 2002 for achieving universal service objectives of increasing tele-density in rural and remote areas as emphasised in the National Telecom Policy (NTP) 1999. The resources for meeting the universal service obligation are raised through a 'universal access levy', which is payable by all the telecom operators under various licences. The rate of levy has been fixed at five *per cent* of adjusted gross revenue of the licensee.

The USO Fund is administered by the Department of Telecommunications (DoT) and the levy received towards USO is first credited to the Consolidated Fund of India under the Major Head 1275-Other Communication Services and subsequently transferred to the USO Fund in the Public Account of India. It is a non-lapsable fund. The implementation of the universal service obligation for rural/remote areas is undertaken by fixed service providers, who are reimbursed net cost (i.e. annualised capital recovery plus operating expenses minus annual revenues) from the USO Fund.

A total Universal Service Levy of Rs. 20404.44 crore was collected during 2002-03 to 2007-08 by the DoT but a disbursement of only Rs. 6371.44 crore was made from the USO Fund during this period against claims of reimbursement received from the service providers concerned. Thus, the closing balance of the Fund as on 31 March, 2008 should be Rs. 14033 crore as against nil balance shown under the Head 8235-General & Other Reserve Funds, 118-Universal Service Obligation Fund in the Public Account of India. The closing balance of Universal Service Obligation Fund as on 31 March 2008 was, therefore, understated by Rs. 14033 crore.

The matter was also reported by the Comptroller & Auditor General of India in his Report No.PA-1 of 2008 (para 1.7.1.1) presented to the Parliament but no action has been taken by the Department to credit entire proceeds of levy to the USO Fund.

It is recommended that the DoT should transfer all the receipts on account of universal access levy to the Universal Service Obligation Fund in the same year before the closure of the financial year so that the Fund balance is correctly reflected in the Finance Accounts.

2.5 Overstatement of capital expenditure

Social and Infrastructure Development Fund (SIDF) was created in Public Account as Reserve Fund (Major Head 8235-General and Other Reserve Fund, Minor Head 200-Other Funds) in the year 2006-07 for earmarking funds for initiatives relating to social and infrastructure development such as upgradation of Industrial Training Institutes, training of farmers, employment of physically challenged, merit-cum-means scholarships, ground water recharge, social security through provision of death and disability insurance cover to rural landless households and support to various institutes of historical, cultural, economic and agricultural significance for infrastructure. Government transferred Rs. 6500 crore to this fund in 2006-07 and Rs. 6000 crore in 2007-08 in the last month of the respective financial year for expenditure in the subsequent financial years. The entire amount transferred from the Consolidated Fund to SIDF was booked as capital expenditure in the Finance Accounts for the years 2006-07 and 2007-08.

Examination of the expenditure of Rs. 3447.75 crore incurred during 2007-08 out of the fund transferred to SIDF in the Public Account in 2006-07 disclosed that expenditure of Rs. 1586.75 crore (**Appendix II-B**) was of revenue nature under the 'Major Head 2416-Agricultural Financial Institutions' as subsidy towards implementation of artificial recharge of ground water through dug wells and 'Major Head 2205-Art and Culture' towards celebration of 150th year of the First War of Independence, centenary year of Satyagraha Movement, grants-in aid to various cultural organisations. Capital expenditure in the Consolidated Fund of India, 2006-07 was, thus, overstated to the extent of at least Rs. 1586.75 crore. Similarly, revenue expenditure of similar nature

incurred out of Rs. 6000 crore transferred to SIDF in the year 2007-08 in the subsequent years, would also render the capital expenditure of Rs. 6000 crore booked in 2007-08 accounts overstated to that extent.

Further, creation of SIDF, a reserve fund, is also inconsistent with Ministry of Finance guidelines/instructions issued in January 2005 which stipulated that funds could be transferred from Consolidated Fund of India to the Public Account, only when there was surplus with the Government.

2.6 Public funds lying outside government accounts

Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA) are retaining their surplus funds generated through fee charges, penalties etc., aggregating to Rs. 1325.49* crore at the end of March 2008 outside the Government Accounts. This is in contravention of the instructions of Ministry of Finance, Department of Economic Affairs (DEA), which directed all ministries and departments of the Government in January 2005¹ to ensure that funds of regulatory bodies are maintained in the Public Account. Retention of funds by IRDA and SEBI outside government accounts is not only violative of government instructions but is also inconsistent with the Constitutional provisions. These bodies have been established by Acts of Parliament and are to be treated as 'state' within the meaning of the expression used in Article 12 of the Constitution of India. The moneys collected by these bodies, therefore, should be credited to Government account under Article 266 of the Constitution of India. The Department of Legal Affairs had also opined the same when Ministry of Finance sought its opinion in October 2002 on the issue of retention of funds by IRDA outside the Government account.

Further, IRDA was specifically directed earlier by the Ministry of Finance in July, 2002 to deposit its funds in the Public Account. No such specific direction has been issued to SEBI despite their continued violation of the Government's instructions.

Failure to deposit the funds by IRDA in the Public Accounts was reported in paragraph 5 of C&AG's audit report No.4 of 2004. Notwithstanding the assurance given to the Public Accounts Committee in the Action Taken Note by the Ministry of Finance in November 2004, that IRDA had been instructed to house IRDA fund in the Public Account/Consolidated Fund of India, the Ministry has not been able to secure compliance to its orders.

Further, paragraph 6.1 of C&AG's Audit Report No. CA 1 of 2008 had also highlighted retention of funds by SEBI outside the Government account as

* SEBI – Rs. 987.95 crore and IRDA- Rs. 337.54 crore

¹ Government of India, Ministry of Finance, Department of Economic Affairs (Budget Division) OM No. F.1(30)-B(AC)/2004 dated 07 January 2005

inconsistent with the Constitutional provisions and the orders of the Government.

Retention of funds by IRDA and SEBI outside Government Accounts is also not consistent with the accounting procedure followed by other similarly placed independent and regulatory bodies, such as Telecom Regulatory Authority of India, which are maintaining their accounts as part of Government Accounts. The correctness and completeness of Finance accounts of the Union Government for the year 2007-08, therefore, stands compromised to the extent of funds aggregating Rs. 1325.49 crore lying outside the Government account in contravention of Government's instructions and legal position.

2.7 Irregular withdrawal of funds

Ministry of Defence issued several sanctions (**Appendix II-C**) in the month of February and March 2008, withdrawing Rs. 2745 crore during the financial year 2007-08 for meeting specific expenditure during the next financial year i.e., 2008-09.

These sums were released as 'On Account Payment' for meeting committed liabilities for ongoing schemes, which would arise in the next financial year. Records of Principal Controller of Defence Accounts (Navy) and Controller of Defence Accounts, Bangalore confirmed that Rs. 2745 crore released to these Defence Public Sector Undertakings (DPSUs) in February and March 2008 had not been utilised by these DPSUs till 31st March 2008. Further, Rs. 1094 crore released during earlier financial years 2005-06 and 2006-07 were still lying unspent with these DPSUs[⊕].

2.8 Excessive releases as rolling advance

Though Rs. 589 crore paid by Ministry of Defence as Rolling imprest advance for a project in March 2007 had not been utilised by Mazagon Dock Limited (MDL), Ministry released a further sum of Rs. 1563 crore in quarterly instalments during 2007-08 without verifying whether the previous advances paid to the MDL had been spent by them as required under the contract (**Appendix II-D**). Ministry released the funds based on the recommendations of Naval Headquarters which in turn was responding to requests received from MDL. Thus, despite being fully aware of the amounts outstanding, the Defence Finance wing of the Ministry did not give cognisance to the information furnished by the Principal Controller of Defence Accounts (PCDA) at the time of giving financial concurrence for the release of funds to MDL. PCDA records show that rolling imprest advance of Rs. 1935.54 crore was still outstanding as of 31 March, 2008 against MDL.

[⊕] Parking large sums of public money outside Government Accounts vitiates the integrity of the financial reporting process.

2.9 Important factors affecting accuracy of accounts

Accuracy of Union Finance Accounts 2007-08 is adversely affected by factors like (i) large number of transactions under Suspense heads awaiting final classification, (ii) increasing number and magnitude of adverse balances under Debt, Deposit and Remittances (DDR) heads of accounts, and (iii) persistent outstanding balances on account of lack of timely action for their clearance.

Audit conducted a general review of outstanding balances under Debt, Deposit, Remittance and Suspense heads and also carried out a detailed examination of records pertaining to last five years in the office of CGA and four Principal Accounts Offices viz. Central Board of Direct Taxes (CBDT), Ministry of External Affairs (MEA), Controller of Aid Accounts and Audit (CAAA) and Department of Economic Affairs (DEA). These Pr.AOs were selected on the basis of concentration of balances and their accumulation over the years. The Audit findings are reported below:

2.9.1 Outstanding balances under major Suspense accounts

Certain intermediary/adjusting heads of accounts known as 'Suspense heads' are operated in government accounts to reflect transactions of receipts and payments which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by minus debit or minus credit when the amount under them is booked to their respective final heads of accounts. If these amounts remain uncleared, the balance under the suspense heads would go on accumulating and would not reflect Government's receipts and expenditure accurately.

The ledger for suspense balances is to be maintained by PAOs sub/ detailed head-wise, as may be necessary, and by Principal Accounts Offices minor head wise on the basis of figures furnished by the PAOs periodically. The CCA/ CA of concerned Principal Accounts Office is required to review the suspense balances and report to CGA for regular monitoring purpose.

The aggregate net balance under the Suspense Heads in the Union Finance Accounts including Civil, Defence, Railways, Posts and Telecommunications was Rs. 6524.85 crore (debit) as on 31 March, 2008. This balance comprised of Rs. 506.55 crore (credit) in respect of Civil Ministries, Rs. 3839.37 crore (debit) for Defence, Rs. 1151 crore (debit) relating to Railways, Rs. 300.78 crore (debit) for Posts and Rs. 606.57 crore (debit) for Telecommunication and Rs. 1133.68 crore (debit) in respect of Redemption of Government of India Compensation (Project Exports to Iraq) Bonds 2001. The Finance Accounts reflect the net balances under Suspense Heads and, therefore, the real magnitude of outstandings under these heads does not get reported in the annual accounts of the Government presented to the Parliament. The correct balances under these heads can be worked out only by aggregating the outstanding debit and credit balances separately under various Suspense

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Heads. Netting of debit/credit balances leads to significant understatement of Suspense balances in the Finance Accounts. This understatement takes place both at the minor head as well as major head level.

The position of suspense balances under major suspense heads for the last five years is given below:

(Rupees in crore)

Name of Minor Head	2003-04		2004-05		2005-06		2006-07		2007-08	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
101-PAO Suspense	2223.07	1052.21	1803.25	237.75	1720.37	1121.15	1844.33	692.30	2882.39	617.77
Net	(-) 1170.86		(-) 1565.50		(-) 599.22		(-) 1152.04		(-) 2264.62	
102-Suspense Account (Civil)	1003.51	320.76	1013.35	314.60	1013.92	308.14	1022.42	308.95	1087.28	10310.30
Net	(-) 682.75		(-) 698.75		(-) 705.78		(-) 713.47		9223.02	
107-Cash Settlement	249.75	16.55	253.25	16.04	318.75	16.57	383.18	16.57	362.14	16.58
Net	(-) 233.20		(-) 237.21		(-) 302.18		(-) 366.61		(-) 345.56	
108-PSB Suspense	2846.01	321.81	1324.66	280.08	1690.31	848.86	4979.42	1029.07	6517.28	782.19
Net	(-) 2524.20		(-) 1044.58		(-) 841.45#		(-) 3950.34		(-) 5735.09	
109-Reserve Bank Suspense (HQ)	259.05	186.36	259.05	185.07	261.29	195.48	259.05	185.11	11.37	190.89
Net	(-) 72.69		(-) 73.98		(-) 65.81		(-) 73.94		179.52	
110-Reserve Bank Suspense Central Accounts Office	53.97	300.03	60.07	380.70	73.22	312.55	116.12	294.59	209.18	48.57
Net	246.05		248.63		239.32		178.48		(-) 160.61	
115-Purchase etc., abroad	473.31	0.0001	1082.73	0.0001	1008.98	-	994.46	0.0001	536.65	.0001
Net	(-) 473.31		(-) 1082.73		(-) 1008.98		(-) 994.46		(-) 536.65	
129-Material Purchase Settlement	96.56	51.34	(-) 118.09	45.82	(-) 124.73	74.00	(-)127.62	96.17	156.31	107.84
Net	(-) 45.13		(-) 72.26		(-) 50.74		(-) 31.45		(-) 48.47	

From the above table it is seen that debit balances under PAO Suspense,

Suspense Account (Civil), PSB Suspense, Reserve Bank Suspense- Central Accounts Office, Material Purchase Settlement have increased in 2007-08 over the previous years. Similarly, credit balances under Suspense account (Civil) and Material Purchase Settlement have also increased in 2007-08 over the previous years. The year-wise break-up of the balances outstanding under the suspense minor heads was not maintained by CGA for effective monitoring of clearance of such balances.

PAO Suspense

This minor head is operated for the settlement of inter-departmental and inter-governmental transactions arising in the books of PAOs under the Union Government; PAOs of the union territories and the Accountants General. Transactions under this minor head represent either recoveries affected or payments made by an accounts officer on behalf of another accounts officer against whom the minor head "PAO Suspense" has been operated. Credit under the head is cleared by 'minus credit' when cheque is issued by the accounts officer in whose books initial recovery was accounted for. Debit under 'PAO Suspense' is cleared by 'minus debit' on receipt and realisation of cheque from the accounts officer on whose behalf payment was made. Outstanding debit balance under this head would mean that payments have been made by the PAO on behalf of other PAO, which are yet to be recovered. Outstanding credit balance would mean that payments have been received by the PAO on behalf of other PAO, which are yet to be paid.

In March 2008, the outstanding debit balance under this head was Rs. 2882.39 crore and under credit was Rs. 617.77 crore. The outstanding balances were mainly in respect of Ministry of Supply: Rs. 1122.58 crore (Dr); Ministry of Road Transport and Highways: Rs. 197.27 crore (Cr); Ministry of External Affairs: Rs. 235.93 crore (Dr); CBDT (Revenue): Rs. 1229.99 crore (Dr) indicating the payments made (Dr) or received (Cr) by these departments /ministries on behalf of other PAOs which were yet to be recovered/paid by them as on 31 March 2008. The heavy debit and credit balances under PAO suspense and their continuous accumulation indicated significant control deficiencies.

Test check of the accounts of four Principal Account Offices revealed that in MEA, Rs. 240.95 crore (Dr) and Rs. 5.01 crore (Cr) pertaining to the period 2000-2001 to 2007-08 were outstanding which included Rs. 33.80 crore (Dr) and Rs. 0.64 crore (Cr), which were pending settlement for more than five years. In DEA, (-) Rs. 1.70 crore (Dr) and Rs. 45.17 crore (Cr) pertaining to the period 1990-91 to 2007-08 were outstanding which included (-) Rs. 0.49 crore (Dr) pending for more than five years. The Pr.AOs did not provide any evidence regarding efforts made to clear the old balances.

Suspense Account (Civil)

This transitory minor head is operated for accounting of the transactions, which for the want of certain information/documents viz., vouchers, challans etc., cannot be taken to the final head of expenditure or receipt. This minor head is credited for recording receipts and debited for expenditure incurred. On receipt of the requisite information/documents etc., the minor head is cleared by minus debit or minus credit by per contra debit or credit to the concerned major/sub-major/minor heads of accounts. Outstanding debit balance under this head would mean payments made which could not be debited to final expenditure head for want of details like vouchers etc.,. Outstanding credit balance would mean amounts received which could not be credited to the final receipt head for want of details.

The outstanding balance under this minor head as on 31 March 2008 was Rs. 10310.30 crore (Cr) and Rs. 1087.28 crore (Dr) indicating that receipts and expenditures of Rs. 111397.58 crore, which were required to be handled individually for settlement, had not been booked to their final heads of account. The major balances outstanding pertained to Ministry of Home Affairs: Rs. 411.89 Crore (Dr); High Commission: Rs. 435.76 crore (Dr) and Department of Economic Affairs: Rs. 10209.35 crore (Cr). Test Check of the balances in four Principal Accounts Offices revealed that in MEA, Rs. 49.90 crore (Dr) and Rs. 28.51 crore (Cr) were outstanding at the end of the year 2007-08 out of which Rs. 10.64 crore (Dr) and Rs. 1.03 crore (Cr) were lying outstanding for more than five years. Further an amount of Rs. 2.4 crore (Dr) was lying outstanding for more than 20 years in the MEA. In the Department of Economic Affairs Rs. 0.59 crore (Dr) and Rs. 10209.95 crore (Cr) were outstanding at the end of the year 2007-08 which included Rs. 212.83 crore (Cr) lying outstanding since 1994-95. The departments did not furnish any reply on the efforts made to clear old outstanding balances.

Suspense account for purchases abroad

The minor head 'suspense accounts for purchases abroad' is operated in the books of Controller of Aid Accounts and Audit (CAA&A), Ministry of Finance (Department of Economic Affairs). The government advises the donor to make payments directly to the supplier abroad against the supplies made to the project authorities/ importers and an equal amount is kept under the suspense head till the payment is received from the concerned Line Ministry. The debit balance under this head indicates the amount, which is yet to be recovered from the importers/project authorities, although the Government has already made the payment for these imports.

In 2007-08, suspense accounts balance for purchases abroad was Rs. 536.65 crore. Major debtors as on 31st March 2008 were Helicopter Corporation of India Ltd. (Rs. 67.24 crore; Pawan Hans Ltd. (Rs. 57.44 crore); Pyrites, Phosphates and Chemicals Ltd. (Rs. 24.95 crore); Coal India Ltd. (Rs. 21.23

crore); and three Government Ministries (Rs. 268.20 crore). It was also observed that Rs. 265.40 crore was outstanding from different organisations since 1999. A list showing the details of amounts outstanding since 1999 in respect of major importers is given in **Appendix II-E**. It was noticed from the information made available by the department that subsequent payments had been made on behalf of various importers/project authorities while the payments for earlier purchases were still due from them. Concrete steps need to be taken by CAA&A for recovery of the outstanding amounts.

Public Sector Bank Suspense

In the government accounting system, the designated banks conduct government business on behalf of the Reserve Bank of India. When a cheque is issued for payment of a bill, the amount is debited to the final head of account. When the cheque is encashed by a public sector bank, it initially pays the amount from its own cash balance and then claims reimbursement from the Central Accounts Section (CAS), RBI Nagpur which maintains the account of each ministry/department. Similarly, when government receipts are paid into the designated/accredited bank, it passes on the proceeds to the Central Accounts Section, RBI Nagpur. As there is a time lag in booking of a Government transaction carried out by the bank, in government cash balances, the minor head 'Public Sector Bank Suspense' is operated in government books to account for the transactions awaiting settlement. On receipt of accounts from RBI (CAS), Nagpur the original booking under PSB Suspense is cleared by (-) credit/(-) debit, as the case may be. These amounts are not reflected in the cash balance of the Government.

The outstanding PSB balance for the year ending 31st March 2008 aggregated to Rs. 6517.28 crore (Dr) and Rs. 782.19 crore (Cr). The departments against which major balances were outstanding were CBEC: Rs. 752.37 crore (Dr); CBDT (Revenue): Rs. 3160.00 crore (Dr); Industrial Development: Rs. 705.19 crore (Dr); Ministry of Power: Rs. 607.54 crore (Dr) and Urban Development: Rs. 269.48 crore (Dr). The debit and credit balance under this minor head had increased over the years thus adversely affecting the correct disclosure of Government cash balances in the accounts. Efforts made for clearing the balances were called for but no reply was furnished to audit.

Test check of balances in four Principal Accounts Offices revealed that in CBDT (Revenue), balances of (-) Rs. 744.35 crore (Dr) and (-) Rs. 216.46 crore (Cr) at the end of the year 2007-08 were outstanding which included debit balance of Rs. 48.92 crore and credit balance of (-) Rs. 11.73 crore, which were pending for more than 20 years. In DEA, balance of Rs. 20.78 crore (Dr) and Rs. 1.54 crore (Cr) were outstanding pertaining to the period from 2004-05 to 2007-08. The departments did not furnish any reply on the efforts made to clear the old balances.

Reserve Bank Suspense, Central Accounts Office

This minor head is operated in the books of Union Government for payments of loans, grants-in-aid, share of income tax, share of Union Excise Duty to the State Governments. When the payment is authorised, the respective expenditure head is debited and credit is afforded to this head. On receipt of monthly statements of accounts from RBI adjusting the account of Union Government, the minor head is minus credited by crediting 8675-Deposits with RBI-101-Central Civil. At the time of repayment of loan and payment of interest thereon by the state government, this head is debited by crediting the loans/interest head. On receipt of monthly statement of accounts from RBI (CAS) Nagpur the head is minus debited by per contra debit to 8675-101-Deposits with RBI-101-Central Civil. The outstanding balance under this minor head as on 31 March 2008 was Rs. 209.18 crore (Dr) and Rs. 48.57 crore (Cr). The outstanding RBI (CAO) suspense balances were mainly against the Ministry of Supply: Rs. 92.52 crore (Dr) and Ministry of Minority Affairs: Rs. 54.77 crore (Dr). The CGA office did not furnish any reply about the nature, details, and pendency of these outstanding balances and the efforts made by it to clear them.

In C&AG's Audit Report No.1 of 2007, a mention was made in paras No. 1.18 to 1.24 regarding outstanding suspense balances in the Union Government Finance Accounts, but no Action Taken Note was furnished by the Ministry.

2.9.2 Increasing number and magnitude of adverse balances under DDR Heads

The adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced.

In the Finance Accounts of the Union Government for the year 2007-08, there are 69 cases of adverse balances under debt, deposit and remittances heads as given in **Appendix II-F**. Out of these, nine balances became adverse during the year 2007-08 and 60 cases are continuing to figure in the Finance Accounts from earlier years, which includes 29 cases outstanding for more than five years, 19 for more than 10 years and six cases are for more than 20 years old reflecting ineffectiveness in clearance of these balances by the government. Though the footnotes to the adverse balances in the Finance Accounts mentioned that they were under investigation, the findings of such investigation by the CGA and subordinate offices and the efforts made to clear them were not made available to Audit.

Adverse balances at the minor head level represent the aggregate effect of the balances of various account circles taken together. At unit/account circle's level, adverse balances appear in the books of PAOs and Pr.AOs also but

many of these adverse balances get eclipsed since these balances get aggregated when the accounts of the accounting circles are consolidated. For example, audit of the four selected Pr.AOs of CBDT, MEA, DEA & CAAA revealed that there were 25 heads of accounts with adverse balances at the end of year 2007-08, six of which have not been reflected in the 69 cases of adverse balances mentioned above. The adverse balances noticed during the audit of Pr.AOs of CBDT, MEA, DEA & CAAA are given in **Appendix II-G**. The observations on the adverse balances in Pr. PAOs are given below.

(i) Pr. Chief Controller of Accounts, MEA

Scrutiny of records in Pr.CCA, MEA disclosed that an adverse balance of Rs. 19.40 crore (Dr) was lying uncleared under the head 8443 – Civil Deposits – 113 ‘Deposits for purchases etc., abroad’ at the end of the year 2007-08 for more than 25 years. Out of the total outstanding amount of Rs. 19.40 crore, Rs. 13.94 crore pertains to Steel Authority of India Limited. Though on the advise of Ministry of Finance, a committee was formed by the Ministry of Steel in 2001-02 to settle the claim, there is no further progress on this front due to lack of response from SAIL. Further, an adverse balance of Rs. 30.33 crore (Dr) was appearing under the head 8443–Civil Deposits, 117-‘Deposits for work done for public bodies or private individuals’. Payments made by missions/posts on behalf of public bodies or private individuals are booked under this head. Debit balance under this head reflects that an amount of Rs. 30.33 crore has been spent/ booked by the missions on behalf of public bodies/private individuals in excess of the deposits under this head. The Pr.AO has stated that the adverse balance is due to misclassification and unsettled debit claim of Rs. 11.70 crore, which is due from Indian Council of Cultural Relations. Details of the rest of amount and the period since this amount was pending were not available with the Pr.AO.

(ii) Controller of Accounts - DEA

Scrutiny of records in Controller of the Accounts, DEA disclosed that an adverse balance of Rs. 294.12 (Cr) crore was lying under the head 7052 .02.101 – ‘Loans to Shipping Development Fund Committee’ at the end of the year 2007-08. The Principal Accounts Office stated in reply that the reason for adverse balance was incorrect classification of interest amount as principal amount. SDFC stood abolished with effect from 24 December 1986. In terms of Section 4 of SDFC (Abolition) Act, 1986, all assets and liabilities stood transferred to Central Government. Despite abolition of SDFC in 1986, loans outstanding against it is being incorrectly shown in the accounts. The Pr.AO, however, could not ascertain the reasons, details and efforts made to clear huge adverse balances of Rs. 150.54 crore at the end of the year 2007-08 under the heads 8013.01.101-‘Deposits Scheme for Retiring Government Employees’ (Rs. 54.70 crore); 8342.120-‘Miscellaneous Deposits’ (Rs. 91.87 crore) and 8449.120 – ‘Miscellaneous Deposits’ (Rs. 3.97 crore).

(iii) Controller of Aid, Accounts and Audit- CAAA

The adverse balances of Rs. 5615.89 crore in the accounts of Controller of Aid, Accounts and Audit under the major head 6002 –External Debts at the end of the year 2007-08 was due to exchange losses at the time of repayment of loans. The department stated that the matter of write-off of exchange losses annually instead of waiting for the entire period of loan till its closure was pending with the CGA.

(iv) Pr. Chief Controller of Accounts, CBDT

There was an adverse balance of Rs. 24.70 lakh under the head 7610-203-Loans to Government Servants. Pr. CCA stated that the matter had been taken up with the Zonal Accounts Offices for early settlement.

2.9.3 Non-reconciliation of ‘Deposits with the RBI’

The figures exhibited in the Finance Accounts represent those figures of expenditure and receipt, which have been in the books of various PAOs, which are subsequently consolidated. Each of such transactions also represents the receipts and payments booked by the Reserve Bank of India (RBI) in their books. At the end of the year the net effect of transactions in the government accounts is represented by ‘Deposits with the RBI’. This figure, which is both in the books of Government as well as in the books of RBI, should normally tally. The difference, if any, between these two figures should be reconciled and explained satisfactorily to ensure the accuracy of accounts. The civil accounts manual provides that the responsibility for effecting reconciliation will be that of the office of the CGA.

The difference between the book figure of balances lying with RBI as furnished by the Office of CGA and accounts figure as appearing in the Finance Accounts under the Head 8999-102-Deposits with Reserve Bank during the last five years is as under:

Table 2.3 Variation in book figure and account figure of RBD

(Rupees in crore)

Year	As per Finance Accounts Figures	As reported by RBI	Difference	Difference as per record of RBD Section	
2003-04	7411.95(Dr)	7387.12(Cr)	24.83(Dr)	-24.83(Dr)	*These figures pertain to Market Stabilisation Scheme
2004-05	79753.07(Dr)	15733.48(Cr)	64019.59(Cr)	191.57(Cr) *64211.16	
2005-06	65491.39(Dr)	[∞] 36341.39(Cr)	29150.00(Cr)	-87.90(Cr) *29062.10	
2006-07	94886.59(Dr)	[∞] 32073.80(Cr)	62812.79(Cr)	161.10(Cr) *62973.89	
2007-08	229639.47	60968.97	168670.50	278.08 (Dr.) *168392.42	

[∞] In the Finance Accounts for the years 2005-06 and 2006-07, the footnote below Statement No. 13 depicted closing balance as per RBI, CAS, Nagpur incorrectly as Rs. 3634139 (ths) credit and Rs. 3207380 (ths) credit.

The figures of un-reconciled difference as on 31 March, 2008 increased considerably compared to last year. The unreconciled differences mainly pertained to Department of Ocean Development* (Rs. 320.22 crore Dr); Ministry of Earth Science (Rs. 49.00 crore Cr); National Capital Territory of Delhi (Rs. 28.40 crore Cr), etc.,. Test check of records in CGA disclosed that the differences were lying unreconciled for many years reflecting inadequacy of timely efforts to reconcile the amounts. For example, the unreconciled differences of Rs. 7.62 crore (Cr) in respect of Department of Revenue pertained to the period prior to 1983-84 while that in the case of NCT of Delhi the unreconciled difference of Rs. 28.40 crore pertained to the period from 1977-78 to 2001-02. Further, the CGA office did not furnish the details of unreconciled amount of Rs. 16 crore appearing in its books in terms of the period to which this amount pertained to.

CGA stated that the difference was mainly due to the figures pertaining to Market Stabilisation Scheme (MSS) incorporated in the Finance Accounts but not included in the figure as reported by Reserve Bank of India. The other differences were due to non-receipt/late receipt of (i) clearance memo on inter-government adjustments from RBI; (ii) receipt/payment scrolls from accredited bank branches, and (iii) wrong put through/misclassification of bank transactions. CGA office stated in October 2008 that as a result of efforts made by it, 40 departments out of 63 departments had now less than one crore difference at the close of financial year 2006-07 and that efforts were being made to reconcile the remaining differences.

2.9.4. Outstanding balances under the head “Cheques and Bills”

This head is an intermediary accounting head for initial record of transactions, which are eventually to be cleared. Under the scheme of departmentalization of accounts, payment of claims against Government is made by Pay and Accounts Offices of different ministries/departments by cheques drawn on branches of RBI or accredited banks.

When claims are preferred in the appropriate bill to the PAO/departmental officer, the payment is authorized through issue of cheques, after exercising the prescribed checks and recording of pay order. 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 (DMS)/Monthly Statement of Balances from Public Sector Bank/RBI (CAS), Nagpur showing the payments made by them against the cheques issued, the head 8670-Cheques and Bills is minus credited and credit is afforded to 8658-108-PSB Suspense/8675-101-Deposits with Reserve Bank-Central Civil, as the case may be.

In the Finance Accounts for 2007-08, large balances are lying

* Now Ministry of Earth Science

outstanding under the following minor heads of “Cheques and Bills”

<i>(Rupees in crore)</i>	
Pre-audit cheques	Cr 0.47
Pay and Accounts Offices Cheques	Cr 14065.71
Departmental Cheques	Dr 44.72
Treasury Cheques	Cr 4.62
IRLA Cheques	Cr 0.59
Telecommunication Accounts Office Cheques	Cr 1240.80
Postal Cheques	Cr 4977.47
Railway Cheques	Cr 2310.24
Defence Cheques	Cr 4637.90
Electronic Advices	Cr 85.47

Receipt and Payment Rules, 1983 envisage that the cases of cheques remaining unpaid for a period of six months after the month of their issue, and not surrendered for renewal, are to be reversed and cancelled by minus crediting 8670-‘Cheques & Bills’ and minus debiting the functional major/minor head to which the expenditure was originally debited and the amount is to be written back in the accounts.

Such large outstanding amounts under different minor heads reflect that the accounting authorities are not taking necessary action as required to be taken under the rules. To the extent the amounts outstanding under the ‘Cheques and Bills’, the Government cash balance stands overstated. In reply, CGA in October 2008 stated that instructions were being issued to the concerned CCAs to write back the cheques outstanding for more than three months.

Test check of the four Principal Accounts Offices revealed that 5295 cheques amounting to Rs. 9.56 crore in CBDT and 1923 cheques amounting to Rs. 3.84 crore in Department of Economic Affairs had remained unpaid for more than six months but had not been cancelled by the Pr.AOs.

2.9.5 Review of balances not carried out by Principal Accounts Offices

As per Civil Accounts Manual, at the close of a financial year the PAOs shall review and verify the balances under various DDR heads and ascertain, wherever necessary, whether the correctness of the balances is accepted by the persons/parties by whom the balances are owned or to whom these are due and are required to furnish annually by 15 September each year, a detailed statement showing the unreconciled differences and the cases where acceptance of balances are awaited. The Principal Accounts Officer, in turn, is required to send a consolidated report for the ministry/ department as a whole to the Controller General of Accounts by 15 October each year purpose of conducting this review is to ascertain the quality of maintenance of various books of accounts and reconcile the figures of debt, deposits and remittances.

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In respect of civil departments, the review of balances for the year 2005-06, 2006-07 and 2007-08 was completed only in seven, 11 and nine departments respectively, out of a total 67 Principal Accounts Offices.

Failure to carry out review of balances and lack of timely action by the Pr. AOs is reflected in adverse balances lying outstanding for many years as, brought out in the preceding paragraphs.

It is recommended that the Ministry of Finance may put in place a more effective control mechanism for constant review and timely action for clearance/settlement of balances under DDR and Suspense heads to improve accuracy and quality of Government Accounts.