CHAPTER 5: FUND FLOW MANAGEMENT

5. Public spending on health care

The Mission aimed to annually increase allocation by the central government for the health sector by 30 per cent up to 2007-08 and by 40 percent from 2009-10. State governments were also required to increase their allocation on health by 10 per cent annually during the Mission period. Details of increase in expenditure/allocation on healthcare by the Ministry and the States was as under:

Table: 5.1 Government expenditure on healthcare including NRHM

(Rs. in crore)

Year	Union Government*		State Governments#		Total Union and State Governments	
	Expenditure	Percent increase over previous year	Expenditure	Percent increase over previous year	Expenditure	Percent increase over previous year
2004-05	8086.46		18771.00		26857.46	
2005-06	9650.24	19.34	22031.00	17.37	31681.24	17.96
2006-07	10948.24	13.45	25375.00	15.18	36323.24	14.65
2007-08	14410.37	31.62	31567.00 (RE)	24.40	45977.37	26.58
2008-09	18476.00 (RE)	28.21	36961.00 (BE)	17.09	55437.00	20.57

*** Source: Government of India Budget Documents**

 # Source: State Finances: A Study of Budgets of 2008-09 (Reserve Bank of India)

The NRHM also aimed at strengthening the financial management structure and accounting systems so as to conform to best practices and meet accounting and auditing standards, at all levels.

5.1 Parameters for release of grants

While implementing the NRHM, grants were to be allocated to States according to the norms developed on the basis of composite index incorporating population, disease burden, health indicators, state of public health infrastructure etc.

However, no such composite index for allocation of grants among the States was developed under the Mission. The Ministry continued to allocate grants among various States mainly on the population based state factor[21]. Even the existing formula was not applied equitably across the board during 2005-06 to 2007-08, with wide variations between the formulaic total grant to be released and that actually released. Moreover, the States relatively weaker on health and family welfare indicators received lesser grants and stronger States received larger grants during the first three years of the Mission is shown in Table No.5.2.

[21] Population of each state multiplied by 1.3 for eight Empowered Action Group (EAG) states, viz. Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Orissa, Rajasthan, Uttar Pradesh and Uttarakhand, by 1 for other than EAG states and by 3.2 for all eight North Eastern states.

Table 5.2: Excess/short release on the basis of formula

Special focus States	Less grants released by[22]		Other States	Excess grants released by	
	Rs. in crore	Percentage		Rs. in crore	Percentage
Bihar	-548.61	-29.30	Andhra Pradesh	153.68	11.67
Jharkhand	-87.93	-14.46	Gujarat	236.64	26.90
Uttar Pradesh	-30.77	-0.82	Kerala	60.59	10.94
Assam	-332.23	-22.42	Tamil Nadu	156.65	14.51
Manipur	-12.41	-9.37			
Meghalaya	-25.19	-19.65	*(Source: Information provided by the Ministry)*		
Tripura	-26.53	-14.90			

The core goal of the Mission is self evident in that it seeks to transform rural healthcare for the better. However, the respective state weightages in accordance with which funds were allocated were based on 'total population' and not on rural population.

The Ministry stated that the reason for releasing lesser grants to some high focus States was due to presence of substantial unspent balances with them. On the other hand, after assessing utilization of funds in States like Andhra Pradesh, Gujarat, Kerala and Tamil Nadu larger grants were released to them.

This indicated that high focus States are trapped in a vicious cycle wherein institutional deficiencies result in low absorptive capacity for utilization of funds leading to lesser release of grants to them. Release of funds also needs to be linked with utilisation, as the resources of the Government of India are limited.

5.2 Integration of health programmes under the NRHM

The NRHM framework had emphasised the need for horizontal integration amongst the various family welfare and disease control programmes for better coordination and convergent action. The Ministry consequently sought to amalgamate financial and fund flow and banking arrangements with effect from 1 April 2007. These guidelines also stipulated that the Finance Management Group (FMG) of the Mission was to transfer funds to SHSs for all programmes under the NRHM, receive Statements of Expenditure/ Financial Management Reports, audited accounts and UCs for them, thereby ensuring centralised financial management and data processing for all programmes under the Mission.

However, the Ministry was yet to effectively coalesce its functions and until December 2008 it was seen that the FMG was processing reports, releasing funds and monitoring the status only for three components of the Mission viz. the Mission Flexible Pool, the RCH Flexible Pool and the Immunisation Strengthening Programme under Routine Immunisation separately. The remaining programmes continued to be run by individual programme divisions without any coordination by the FMG.

The Ministry stated that NVBDCP was now releasing funds through FMG. The matter was being taken up with the remaining NDCPs to transfer their funds to the

[22] The less/excess release of grants is calculated by subtracting actual release of grants to the States under all components of the NRHM from funds required to be released derived by multiplying State weightage to total release of grants to all States.

SHSs for their respective programmes through the centralized arrangement of FMG-NRHM.

5.3 Banking arrangement under NRHM

In August 2004, the Ministry had proposed to undertake an e-banking initiative which envisaged transmission of funds down to the lowest level possible, with a Management Information System (MIS) which would provide all information regarding funds utilisation and report it online up to central level. The key feature of the e-banking initiative was that all transactions would take place electronically. The Ministry constituted a committee and seven banks were asked to provide solutions to meet proposed e-banking requirements. The committee analysed the proposals of these seven banks including the Bank of Baroda which is the accredited bank of the Ministry. The Ministry selected ICICI bank on the basis of the strength of their e-enabled branch transactions, technical prowess and the solutions suggested. The accredited bank, viz. Bank of Baroda was not found adequate for this task.

5.3.1 Subsequently, in June 2005, the Controller General of Accounts, Ministry of Finance instructed the Ministry to install a system which would enable quick electronic funds transfer, i.e. within 24-48 hours of amounts more than Rs. 10 crore to State, District level Autonomous Bodies/agencies etc. The system should also provide for getting reports back from banks on the credit of such amounts to the beneficiaries. The Ministry was to consult with the existing bankers on the mode of transmission of funds and, where required, an additional bank with higher technological capability may be used as an interface for faster transmission of funds. The Ministry, thereafter, intimated the Controller General of Accounts that ICICI bank had been appointed as the interface bank.

5.3.2 Review of the e-banking arrangements of the Ministry with the ICICI bank revealed that the overall objectives of the e-banking initiative had not been achieved and that there were certain shortcomings as briefly detailed below:-

- E-banking was to be started on a pilot basis in six States, viz. Gujarat, Goa, Jharkhand, Uttarakhand, Kerala and Rajasthan. The pilot was to be implemented in a phased manner initially in one State by end of January 2005 and subsequently to cover all the six States over a period of three months. Evaluation of pilot results was to be the basis for rolling out the e-banking project countrywide. Three of these States, i.e. Goa, Rajasthan and Jharkhand had not agreed for the pilot project either due to a thin network of ICICI branches or unwillingness to change their bankers. While the pilot project was started in Gujarat and Kerala, it was badly delayed. It took the bank more than three years to complete the project in Kerala and it was yet to be completed in Gujarat and Uttarakhand.

- Presently only 13 States/UTs were receiving funds through the ICICI bank. In the majority of these 13 States, ICICI bank only had a branch at the State level. The remaining 22 States/UTs were using the services of different banks to transfer funds electronically. Uttar Pradesh and Madhya Pradesh had started an e-banking initiative of their own with State Bank of India (SBI). Out of a total 612 districts countrywide, 441 districts had accounts with Public Sector banks.

- The Ministry had not carried out adequate consultations with the States while deciding to go ahead with the selection of ICICI bank. The sparse presence of ICICI bank in many States/Districts was a factor which led to the State Health Society to opt for other banks.
- Though the Ministry had assigned the e-banking and electronic funds transfer functions to ICICI bank, it was yet to enter into a formal agreement with the bank.
- Considerable funds remained with ICICI bank, both at State and District levels, till such time they were actually utilised. For example, in Kerala, the monthly balance in the ICICI bank account of the SHS ranged between Rs. 17.52 crore to Rs. 86.12 crore during 2007-08. Average monthly balance worked out to Rs. 49.52 crore.
- Again in Sikkim, ICICI bank offered free remittances up to Rs. 1 lakh provided that the balance in the account of the SHS was kept at a minimum of Rs. 50 lakh at any given time. In contrast, SBI allowed free remittances irrespective of the quantum of funds remitted. The Ministry had not negotiated favourable terms with ICICI bank though it transacted a substantial portion of the Ministry's business.
- The Ministry of Finance, in January 2008, had instructed that 60 *per cent* of funds under the control of Ministries/Departments (including funds distributed by them to the agencies) may be placed with Public Sector banks. Ministry/Departments were requested to issue instructions on these lines to State Government agencies and entities to which they distributed funds.

The Ministry stated that only 13 SHSs were using ICICI bank to keep their funds and that the remaining funds of the Ministry were kept in PSU banks. Therefore, the criterion of keeping 60 *per cent* of funds in PSU bank was fulfilled. It further stated that e-banking initiative is branch independent as the system is web-enabled and can function even at those locations where the partner bank does not have its branch as long as internet is available. Local branch is needed only in case of cash requirement for office expenses.

However, the Ministry of Finance's instructions apply equally to subordinate offices, attached offices and autonomous organisations mainly funded by government. The transaction of government business through a bank's web portal would require redefinition of control structures in respect of drawal and disbursement. Further, district societies and lower level entities would need to open a different bank account for cash requirements, which might result in multiplicity of bank accounts and diffusion of internal controls. Further one of the criteria for selection of banks for e-banking was branch coverage.

While e-banking was a necessary initiative taken by the Ministry, its implementation through the ICICI bank was not effective. The Ministry agreed in October 2008 that the implementation of the larger e-banking solution as envisaged, in the entire country, was not possible with only ICICI as the sole bank. The Ministry further stated in June 2009 that it would set up an expert committee with representatives from Ministry of Finance (Controller General of Accounts) and the Reserve Bank of India that would look into all aspects of the problem and reach a pragmatic and workable solution for transfer of funds and e-banking solutions for improving reporting of expenditure.

5.4 States' contribution to NRHM from their own resources/budget

As per NRHM framework, during the 11th Five Year Plan (2007-12), States were to contribute 15 *per cent* of the funds requirement of the Mission. During 2007-08 only 4 States/UT (Andhra Pradesh, Bihar, Gujarat and West Bengal) made the desired contribution of 15 per cent of State PIP from their own budget. Six States/UTs (Assam, Chhattisgarh, Haryana, Rajasthan, Sikkim and Chandigarh) also contributed to the NRHM from the State/UT budget, but their contribution remained between 0.54 to 13.59 *per cent*.

The remaining 18 States/UTs (Arunachal Pradesh, Jharkhand, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Punjab, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand, A&N Islands, D&N Haveli, Lakshadweep and Puducherry) did not contribute at all to the NRHM from their own budget during 2007-08. The Ministry too did not insist on the States/UTs contribution during 2007-08.

The Ministry stated that the States were directed to show their contribution in the State PIPs. Since 2008-09, the States were directed to transfer the 15 *per cent* State share to the State Health Societies from the State funds.

The reply of the Ministry should be viewed in the context that the direction for States to contribute their share for funds for the Mission was already a part of the NRHM Framework for implementation. Even in 2008-09, State/UT Governments of Manipur and Lakshadweep did not make any contribution while the contribution made by Arunachal Pradesh, Assam, Bihar, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Delhi, Goa, Jammu and Kashmir, Jharkhand, Karnataka, Kerala, Maharashtra, Meghalaya, Orissa, Puducherry, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand and West Bengal (24 States/UTs) was less than 15 per cent.

5.5 Release of funds

5.5.1 Excess release of Mission Flexi-pool funds to SHSs

During 2007-08 the Ministry incorrectly released Rs. 174.84 crore under the Mission Flexible Pool to four States due to deficient assessment of PIPs or non-observance of NPCC's records of proceedings[23] by the NRHM Finance Management Group. The details were as under:

(Rs. in crore)

Tamil Nadu	Funds released for supply of equipment to PHCs and Sub Centres. NPCC's condition that funds could be released only after charting out of requirements of equipment at health centres and convey of exact budgetary requirement by SHS was not observed.	5.00

[23] National Programme Coordination Committee (NPCC) was an apex committee that appraised the State PIPs and laid down conditions in its records of proceedings that were to be fulfilled before release of grants-in-aid to the SHSs.

	Funds released for supply of medicines to health facilities without fulfilment of NPCC's condition of receipt of the details of system of procurement from the SHS.	11.19
	Training component in capacity building of Rs. 5.55 lakh was wrongly calculated as Rs. 55.45 lakh.	0.50
	Despite catering to needs of quite unequal numbers of health centres, Rs.76.24 lakh each for Health Manpower Development Institute (HMDI) Villupuram and Salem were proposed for release.	
Uttar Pradesh	Rs. 26.78 crore for training of ASHA in the PIP was wrongly indicated as Rs. 28.78 crore in the budget summary.	2.00
	Under incentive for exceptional services (Sub Centre and PHC level Swasthya Puraskar Yojana) the proposed budget was wrongly calculated as Rs. 28 lakh instead of Rs. 21 lakh.	0.07
	The Ministry approved PIP for Rs. 337.33 crore in June 2007 against demand of Rs.425.81 crore. SHS submitted revised PIP for Rs. 269.60 crore on 21 August 2007. The Ministry, however, had neither taken any action on the revised PIP nor forwarded it to NPCC for their consideration and released first instalment of Rs. 268.38 crore in September 2007 i.e. after 27 days of receipt of revised PIP and the second instalment of Rs. 68.94 crore in December 2007. Thus funds were released in excess of the requirement demanded by the SHS through the revised PIP.	67.73
	Funds were released in March 2008 to the SHS as the second instalment of grant-in-aid for 2007-08. The Ministry did not take into account the unspent balance of Rs. 200.46 crore lying with the State Health Society as a relaxation had been obtained from the Ministry of Finance for non-adjustment of unspent balance of previous year's grant under the Mission Flexible Pool. However, as per the Ministry of Finance's orders, the dispensation for release of funds without considering unspent balance of the previous year was to be granted for releases made up to 31 December 2007, while Rs. 79.89 crore was released to the State in March 2008.	79.89
Andhra Pradesh	During 2006-07, the Ministry released the entire amount of budget proposal of Rs. 102.90 crore to the SHS, while the NPCC had approved the State PIP for Rs. 94.94 crore only and Rs. 1.40 crore was already lying as unspent balance (of 2005-06) with the SHS.	7.96
Tripura	Funds were approved by the Ministry for hiring one Multi Purpose Worker (Male) @ Rs.7,000 per sub-centre per month for 60 sub-centres for 12 months, while as per the NRHM framework, salary for MPW was to be provided exclusively by the State government.	0.50

The Ministry in March 2009 accepted the observations relating to excess release of Rs. 49.90 lakh to SHS Tamil Nadu and stated that these were due to a calculation error. Release of the same amount to the HMDI Salem and Villupuram despite different numbers of units attached to these HMDIs, was also accepted. However, the Ministry stated in December 2008 that release of Rs. 7.96 crore to SHS Andhra Pradesh was within the Mission Flexi-pool budget of the SHS. The reply is not tenable as the release of funds was over and above the PIP approved by the NPCC.

Regarding Uttar Pradesh, the Ministry stated that the State had sent a supplementary PIP and not the revised PIP; hence the releases made to the State were not irregular.

The reply of the Ministry is not acceptable. As per facts on record, the SHS Uttar Pradesh had sent a revised PIP of Rs. 269.60 crore in August 2007. The Ministry's reply had mentioned another supplementary PIP of Rs. 225.12 crore in January 2008 about which there is no audit comment. Further, release of Rs. 79.89 crore to the State in March 2008 was also irregular as there was an unspent balance of Rs. 200.46 crore available under the Mission Flexible Pool with the State and relaxation of Ministry of Finance for not considering unspent balance for releases under the

Mission Flexible Pool was only up to December 2007. Thus, there was an excess release due to lack of proper monitoring by the Ministry in accordance with Rule 209 of GFRs.

5.5.2 Excess release of annual maintenance grant for PHCs

Under the NRHM implementation framework, an annual maintenance grant (AMG) of Rs. 50,000/- per PHC was to be released to the SHSs. During 2006-07, the Ministry released Rs. 116.18 crore for 23236 PHCs but only 22669 PHCs were actually functioning as per Rural Health Statistics Bulletin 2006 (updated up to March 2006). Further, as per the RHS Bulletin, 3437 PHCs in 14 States did not possess their own building and were functioning in rented buildings. Since a primary objective of the Mission was to construct new infrastructure for healthcare centres, the release of maintenance grants for PHCs running in rented buildings and release for number of PHCs over and above the number mentioned in the RHS Bulletin resulted in an excess release of Rs. 20.02 crore (for 4004 PHCs).

Further, during 2006-07, the Ministry released Rs. 3.05 crore for 491 PHCs to SHS Assam as annual maintenance grant before receipt of the State PIP and finalisation of NPCC proceedings, instead of requirement of Rs. 2.46 crore as per the prescribed rate of grants. The Ministry further released Rs. 1.49 crore for remaining 149 PHCs at the rate of Rs. 1 lakh per PHC under RCH Flexi-pool in contravention to the norms. This resulted in excess release of Rs. 1.34 crore under AMG for PHCs.

The Ministry stated that the basic intention behind AMG and untied funds for PHCs was to maintain basic infrastructure facilities at PHCs for smooth day to day functioning of the centre. Further, the AMG was not only for the building but could be used for furniture, equipment, electrical fittings etc., AMG and untied funds were released for funding urgent yet discrete activities that need relatively small sums of money and for which it was thought that the community should decide whether the expenditure was to be undertaken or not, without going through the channels of approvals.

However, under the NRHM guidelines and implementation framework AMG were specifically meant for maintenance of physical infrastructure, while annual untied grant of Rs. 25,000 had been separately provided for minor repair works, electricity fittings etc. required at the PHCs located in rented buildings. It would be appropriate to have clear cut guidelines in respect of different funds[24] clearly indicating the purpose of the fund and its utilisation.

5.5.3 Excess release of RCH Flexi-Pool funds

As per the General Financial Rules 2005, when recurring grants-in-aid are sanctioned to the same organization for the same purpose, the unspent balance of the previous grant should be taken into account in sanctioning the subsequent grant.

While releasing funds to SHSs under the RCH Flexi-pool for 2007-08, advances paid by the societies were treated as expenditure and were deducted from the unspent

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[24] In respect of AMG, no separate guidelines were issued by the Ministry regarding purposes for which these can be used.

balance of the previous year resulting in excess release of Rs.525.57 crore (**Annex 5.1-A**).

Moreover, in March 2008, Rs.194.75 crore was released after taking into account Rs.93.93 crore as unspent balances up to 2006-07 pertaining to 23 States/UTs as on 1.1.2008. However as per the Ministry's information of February 2009 the unspent balance as per audited accounts of 2006-07 was Rs.438.34 crore. Thus Rs.337.04 crore was short accounted as unspent balance and an excess release of the same amount under the RCH Flexi-pool had been made in 2007-08 (**Annex 5.1-B**).

The Ministry stated that the excess release to States was due to considering unspent balances on the basis of Financial Management Reports (FMRs) which depicted inflated utilisation of funds by the States and not the audited reports, as the States did not send audited reports in time.

However, this was in violation of Rule 212 of the GFR, 2005 which stipulated that release of grants-in-aid in excess of seventy five per cent of the total amount sanctioned for the subsequent financial year shall be done only after the annual audited statement relating to grants-in-aid released in the preceding year are submitted to the satisfaction of the Ministry/Department concerned.

5.5.4 Rush of expenditure and unspent balance with the States

The NRHM implementation framework stipulates release of first instalment of grants-in-aid to the SHS by April/May and second instalment by September/October.

Eighteen *per cent* of the total releases under the Routine Immunization during 2005-06 and 20 to 61 *per cent* of funds released under Mission Flexi-pool during 2005-08 were made in the month of March as shown in the following table:

Table: 5.3 Releases in the month of March

(Rs. in crore)

Name of the Programme	Year	Total release of grant-in-aid	Release of grant-in-aid during March	Releases in March as a percentage of total release
Routine Immunisation	2005-06	150.78	26.81	17.78
Mission Flexible Pool	2005-06	962.13	591.66	61.49
Mission Flexible Pool	2006-07	2069.36	577.65	27.91
Mission Flexible Pool	2007-08	3149.97	614.18	19.50

(Source: Information provided by the Ministry)

Further, Rs. 20.31 crore under the National Programme for Control of Blindness during 2005-08 and Rs. 224.94 crore under the Mission Flexible-Pool during 2006-07 were sanctioned at the close of the financial year, whereas the amount was remitted in the next financial year.

The release of funds to the SHSs at the close of the financial year resulted in poor utilisation of funds by the SHSs as shown below:

Table 5.4: Utilization under the Mission

(Rs. in crore)

Programme	2005-06			2006-07			2007-08		
	Release	Expen diture	Expendi ture as percentage of release	Release+ Unspent balance	Expen diture	Expenditure as percent of release +unspent balance	Release+ Unspent balance	Expen diture	Expenditure as percent of release +unspent balance
Mission Flexible Pool	962.13	40.76	4.24	2990.73	417.43	13.96	5723.27	1490.67	26.05
RCH Flexible Pool	898.84	253.69	28.22	1996.85	883.69	44.25	2829.10	1883.09	66.56
Routine Immunisation	150.68	37.80	25.09	188.21	87.54	46.51	227.45	120.03	52.77
Total	**2011.65**	**332.25**	**16.52**	**5175.79**	**1388.66**	**26.83**	**8779.82**	**3493.79**	**39.79**

(Source: Information provided by the Ministry)

The substantial unspent balances retained by the SHSs were attributable to delayed release of grants-in-aid to them by the Ministry, resulting in a cycle of unspent balances year after year.

Unspent funds in Bihar

During 2005-08, the Ministry released grants-in-aid for 21 specific activities, in eight activities (Rs. 33.57 crore), no expenditure was incurred and in seven activities, out of Rs. 125.02 crore released by the Ministry only Rs. 22.30 crore were spent. These activities were related with preparation of Village Health Plan, District Action Plan, up-gradation of different level health care units, mass awareness about programmes of NRHM, procurement of medical kits, training of doctors, routine immunization etc.

The Ministry stated that during 2005-06, under Mission Flexible Pool, the bulk of the releases i.e. 61.5 *per cent* funds were during the last quarter because NRHM was launched on 12 April 2005 and the Cabinet approval was obtained in July 2006. In the year 2006-07, audit reports from the States were received very late which were to be scrutinised before the release of funds.

The reasons explained by the Ministry were only partially correct, as the expenditure as a percentage of funds available with the SHS remained low for all the three components of the programme mentioned in table 5.3 prepage in all years from 2006 to (March) 2008.

5.6 Non refund /adjustment of unspent balance under the old programmes

The launch of NRHM, RCH-II and Janani Suraksha Yojana (JSY) in 2005-06 resulted in the termination/merger of earlier operational programmes such as Empowered Action Group (EAG) Scheme, RCH – I Programme and National Maternity Benefit Scheme (NMBS) respectively.

The Ministry stated that an aggregate amount of Rs. 87.37 crore was lying as unspent balance with the EAG States under the EAG Scheme; Rs. 2.79 crore of the earlier RCH-I programme was lying unspent with 9 States/UTs[25] and Rs. 42.74 crore of

[25] A & N Islands, Arunachal Pradesh, Assam, Chhattisgarh, Orissa, Manipur, Meghalaya, Sikkim and Tripura.

NMBS scheme was lying unspent with 31 States (all States/UTs other than Sikkim, D & N Haveli, Chandigarh and Puducherry).

However as per information provided by the SHSs of 11 States/UTs (Assam, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Orissa, Punjab, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand and Puducherry) an unspent balance of Rs.133.28 crore pertaining to RCH-I were available with them. In districts of Assam and Himachal Pradesh alone, an unspent balance of Rs. 1.48 crore and Rs. 51 lakh pertaining to RCH-I respectively were found. Similarly, as per records in the Ministry, unspent balance with Uttarakhand under EAG scheme was Rs. 1.26 crore, while as per SHS records this amount was Rs.5.33 crore.

These wide differences in data regarding unspent balances under RCH-I available with the Ministry and as obtained from SHSs showed lack of monitoring and deficient financial control. The Ministry also did not attempt to obtain correct figures of unspent balances from the SHSs, so as to adjust these amounts from further releases under the NRHM.

The Ministry stated that they were insisting upon the States to refund the unspent balances of RCH Phase-I and NMBS.

The Ministry should reconcile and adjust the unspent balances under the lapsed programmes expeditiously.

5.7 Outstanding utilisation certificates

Programme wise status of outstanding UCs against funds released during 2005-08 indicated that UCs of Rs.3227.95 crore for Mission-Flexi-Pool were pending from 33 States/UTs[26] and UCs of Rs.841.82 crore were pending from 24 States/UTs[27] under RCH Flexi-pool as of October 2009.

UCs of Rs. 140.00 crore were pending from 26 States/UTs under Pulse Polio Immunisation Programme and UCs of Rs. 101.75 crore were pending under Routine Immunization from 28 States/UTs, as of 31 March 2009. Similarly, UC of Rs.29.08 lakh was pending from Kerala under the NLEP and UCs for Rs. 79.48 lakh was pending from Delhi, Goa and Kerala under the NVBDCP. Details of pending UCs are given in **Annex 5.2**. Further, there were cases of submission of incorrect UCs by SHSs of three States (**Annex 5.3)**.

It would thus appear that funds were released by the Ministry without considering the absorptive capacity of the SHSs and ensuring utilization of funds released earlier. The incorrect UCs issued to the Ministry by the SHSs before utilizing the funds presented an incorrect picture to the Ministry.

5.8 Management expenditure

To attain the desired outcomes and build up management capacity at each level, the NRHM provided funds for management costs up to 6 *per cent* of the total annual plan

[26] UCs were not pending from Assam and Nagaland.

[27] Andhra Pradesh, A & N Islands, Bihar, Chandigarh, D & N Haveli, Daman & Diu, Delhi, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Karnataka, Kerala, Lakshadweep, Maharashtra, Manipur, Meghalaya, Orissa, Tamil Nadu, Tripura, Uttar Pradesh, and West Bengal

approved for a State/district. The management expenditure included both the expenses related to the medical/para-medical staff and also other services such as financial management, improved community processes, logistics, collection and maintenance of data, use of information technology and improved monitoring and evaluation etc.

An analysis of expenditure on the management of the NRHM during 2005-08, showed that nine States/UTs had spent more than the prescribed funds on management expenditure. The details are in the following table:

Table 5.5: Management expenditure as per cent of total expenditure under the NRHM

States/UTs	Year	Management Expenditure as per cent of total expenditure	States/UTs	Year	Management Expenditure as per cent of total expenditure
Assam	2006-07	13.80	**Gujarat**	2005-06	18.07
Haryana	2007-08	12.00	**Madhya Pradesh**	2005-06	10.29
Manipur	2005-06	73.44		2006-07	7.75
	2006-07	34.78	**Punjab**	2005-06	6.36
	2007-08	20.63		2006-07	8.21
Rajasthan	2005-06	9.94		2007-08	12.75
	2007-08	7.83	**D & N Haveli**	2005-06	10.63
Lakshadweep	2005-06	19.35		2006-07	23.84
	2006-07	20.40		2007-08	18.02
	2007-08	9.00			

(Source: Information provided by SHSs)

All the components forming management expenditure had not been booked in the accounts of State Health Mission in Kerala and the SHS of Bihar and Karnataka failed to furnish component-wise expenditure so that these could not be analysed effectively in audit.

The Ministry stated that efforts are being made to impress upon the States to keep the management expenditure within the prescribed limit of six per cent.

5.9 Allocation of funds to the districts

The Ministry released substantial funds to the SHSs for implementation of the Mission in States. The Ministry stated that the rationale of opting for the society route, instead of prevalent treasury route under the centrally sponsored schemes, for transfer of funds was to minimise the time lag in funds transfer. However, in 11 States delay of nine days to 34 months was noticed in transferring the funds from the SHS to DHSs and from the DHS to health centres, as detailed in **Annex 5.4-A**. The delay in release of funds down the line and consequent delay in implementation of the Mission was inspite of creating a set of societies at the State and district level and incurring expenditure on their management as well as transferring funds from the Ministry to SHSs electronically.

Further, it was noticed that in 13 States/UTs (Andhra Pradesh, Assam, Bihar, Haryana, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Maharashtra, Punjab, Uttar Pradesh, Uttarakhand, Sikkim and Andaman & Nicobar Islands) funds were released by the SHSs to districts as a routine allocation of resources without assessing the likely utilization of resources**.** This resulted in considerable unspent balances at district/CHC/PHC/SC levels, details of which are given in **Annex 5.4-B.**

In Gujarat, Orissa and Uttar Pradesh, database in respect of category-wise (CHC, PHC and Sub Centre-wise) and year-wise position of funds allocated to CHC, PHC and Sub Centres was not maintained due to which the adequacy of allocation and spending efficiency of these institutions could not be examined in audit. Only in Tamil Nadu, funds allocations were based on the inputs received from the districts.

The Ministry stated that it was the responsibility of the States to allocate funds to districts based upon specific demands and inputs received from the districts.

The reply of the Ministry should be viewed in the light of the fact that it had set up autonomous health societies in the States and districts, incurred expenditure for their professional management and gave funds and instructions to them directly. Hence, the Ministry's role in encouraging the States to respond to district level needs and its own guidance by example through the societies needs to be strengthened.

5.10 Diversion of funds

As per rules, funds were required to be spent for the purpose for which they were intended. Any diversion of funds required approval of the competent authority.

However, during the year 2007-08 SHSs Bihar, Chhattisgarh and Madhya Pradesh incurred expenditure of Rs. 58.64 crore, Rs. 17.47 crore and Rs. 52.07 crore respectively, in excess of the funds available under their respective RCH Flexi-pool by diverting funds from the Mission Flexi-Pool without the approval of the Ministry. The Ministry stated that sometimes, diversion of funds takes place owing to delay in receipt of funds by the States from the Ministry for want of fulfilling the criteria for release of funds such as receipt of UCs/Audit Reports for the previous year etc. The Ministry stated that a probable reason for diverting funds from the Mission Flexible Pool in States is to tide over the immediate crisis i.e. payments under JSY and Compensation for Sterilization beneficiaries.

Moreover, in six States diversion of Rs.94.84 crore in 12 test checked cases at the SHS and the DHS level, on purposes other than the purposes for which the funds were originally sanctioned, was observed during 2006-08 (details in **Annex 5.5**).

The instances of diversion of funds, without obtaining the approval of the Ministry, indicated insufficient internal controls resulting in non-achievement of programme objectives.

5.11 Untied grants

5.11.1 Untied grants to health centres

As per NRHM framework, untied grants of Rs. 10,000, Rs. 25000 and Rs. 50000 were to be provided to every SC, PHC and CHC respectively. These resources were to be used for any local health activity in accordance with the guidelines issued by the Ministry.

As on 31 March 2008, Rs. 132.33 crore in untied grants was lying unspent at various CHCs, PHCs and Sub Centres in 29 States/UTs (State wise details in **Annex 5.6**). Substantial unutilized untied grants indicated that funds were released without having assessed the absorptive capacity of the health centres (State specific cases are given in **Annex 5.7-A**).

Incorrect use of untied grants, only furniture and equipment purchased: CHC Darshal, Jammu and Kashmir

Further, in eight States there were several instances of misuse of untied funds for the purposes that were barred under the guidelines on utilisation of untied funds, such as purchase of furniture, equipment, television, stationery, fuel etc. (details in **Annex 5.7-B**).

The Ministry stated that SHSs were expected to prepare their PIPs keeping in view their absorptive capacity. The concept of untied grants was introduced to evolve community participation and their absorptive capacity would not improve immediately. As regards misuse of untied grants, the Ministry stated that discrepancies were being brought to the notice of States.

5.11.2 Untied grants to Village Health and Sanitation Committee (VHSC)

As per the NRHM framework, every village with a population up to 1500 was to get an annual grant of up to Rs.10000 after constitution and orientation of Village Health and Sanitation Committees. The untied grant was to be used for household surveys, health camps, sanitation drives, revolving fund etc.

However, out of 32678 villages of sample districts in 10 States[28], untied grants were not released to 20839 villages during 2005-08. In Himachal Pradesh, Tripura, Uttarakhand, A&N Islands, D& N Haveli, Delhi and Lakshadweep no untied grant was released to the villages. In Orissa, Rs. 9.50 crore were released to all the 30 Zilla Swasthya Samities (ZSS) during December 2007 and March 2008 as untied grant for VHSCs despite non-formation of VHSCs and, therefore the funds remained unutilised with ZSS/CHCs. In West Bengal, VHSCs had not been formed and the Gram Unnayan Samitis (GUS) already existing were performing the functions of VHSCs. Out of Rs. 45.54 crore released to the P&RD Department during 2006-08 for payment of untied grants to 16770 GUS in 2006-07 and 28770 GUS in 2007-08, Rs. 32.31 crore were not released to 32310 GUS as of March 2008. In Kerala, untied grants were provided to wards instead of villages. During 2006-07, untied grants were provided to 18868 wards including 2729 urban wards. Therefore, there was excess release of untied grants of Rs.2.73 crore to DHSs on account of 2729 urban wards.

However, on the positive side the untied grants were released to all the 1193 sample villages in Manipur. In Sikkim, no untied grant was released to 452 VHSCs during 2005-07; however Rs. 45.90 lakh were released during 2007-08 to VHSCs.

In four States [West Bengal (81 out of 323), Gujarat (16 out of 48), Madhya Pradesh (971 out of 2765) and Chhattisgarh (4238)], separate bank account was not opened for

[28] Gujarat, Haryana, Jammu & Kashmir, Jharkhand, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Punjab, Rajasthan

VHSC funds. In Assam, Rs. 1.66 crore received from the Ministry for VHSC was diverted by the SHS for other purposes (Health Day).

The Ministry stated that untied grants @ Rs.10,000/- per VHSC was released to all State/ UT Governments. From 2007-08, the State/ UT Governments started reflecting their requirements for formation of VHSC in the annual PIPs and the funds were released accordingly. However, from the current financial year, it has been decided that the untied funds for all VHSC will be released for at least one VHSC per revenue village.

However, the Ministry's reply did not provide reasons for not releasing untied grants to villages where VHSCs had been formed. Nor did the Ministry clarify as to why grants-in-aid were released to the SHSs and/or DHSs without ensuring constitution and orientation of VHSCs in many cases.

5.12 Maintenance of accounts

5.12.1 Non-reconciliation of funds

There was a wide difference between funds released by the Ministry and the funds received by the SHSs in most of the States/UTs during 2005-08. During 2005-06, funds received by 21 SHSs were lesser by Rs. 883.05 crore than the figures of funds released shown by the Ministry, while figures of funds received by the SHS was higher by Rs. 13.12 crore in one State. Similarly during 2006-07 and 2007-08 funds received by 14 and 10 SHSs were less by Rs. 618.12 crore and Rs. 311.72 crore whereas figures of funds received by 7 and 10 SHSs was in excess by Rs. 55.24 crore and Rs. 322.96 crore respectively as compared to Ministry figures (details in **Annex 5.8-A**).

Further, in nine States there was considerable difference between the funds released by the SHS and received by the DHSs. During 2005-06, 2006-07 and 2007-08 figures of funds received by DHSs in five, five and four States were less by Rs. 5.22 crore, Rs. 10.31 crore and Rs. 13.13 crore respectively from the figures of the funds released by SHSs, whereas figures of funds received by DHSs in one, three and three States were in excess by Rs. 2.92 crore, Rs. 4.67 crore and Rs. 5.10 crore respectively **(Annex 5.8-B)**. There was no system of reconciliation of the fund flow from SHS to DHS in these States.

The Ministry stated that the reason for the difference was due to the fact that the funds released by the Ministry in March was accounted for in the next financial year by the SHSs whereas the Ministry accounted for it according to the date of sanction order issued. To overcome this problem, the concept of concurrent audit was introduced from 2007-08.

However, the release of grants-in-aid to the SHSs in March was a poor financial practice. The NRHM framework too stipulated that the second instalment of grants-in-aid should be released by September-October but this was not adhered to. Further, out of 26 States and 98 sample districts, the mechanism of concurrent audit by a chartered accountant was implemented only in 11 SHSs and 30 DHSs during 2007-08.

5.12.2 Discrepancy in accounts

The guidelines under the Mission prescribed double-entry bookkeeping system of accounting for the SHSs and DHSs, which were to be audited by chartered accountants.

However, in seven States/UT accounts audited by the chartered accountants were not maintained properly by the SHS and/or the DHS. Cases of discrepancy between opening balance of SHSs and DHSs, difference between cash balance depicted in accounts and bank pass book, inconsistency between opening balance of the current year and closing balance of the previous year etc. were observed by Audit. The State wise details are given in **Annex 5.9**, while findings of two States are given in the box.

Case study: Discrepancy in accounts

Karnataka

- There was a difference between the bank balance as reflected in the Annual accounts (Rs. (-) 314.66 lakh and the actual closing balances, as reflected in the pass books of the banks (Rs. 49.53 lakh) for the year 2005-06. Thus cash balance in banks had been understated in Receipts and Payment Account and the Balance sheet (assets side), to that extent.
- Though funds had been received from the Ministry and there were sufficient unspent grants, Rs.272.39 lakh was continued to be shown on the liability side of the Balance Sheet under the head 'Drawn from the Government of Karnataka State Treasury towards expenditure for the year 2005-06' pending receipt from the Ministry through RCH flexi-pool. The amount has not been refunded to the Government of Karnataka even after 2 years, and continued to be shown as liability.
- Due to not taking closing balance for 2005-06 as opening balance for 2006-07 under the heads 'RI strengthening' and 'Untied funds for sub-centres', the liabilities side of the Balance Sheet for the year 2006-07, had been understated to the extent of Rs.10.28 crore.
- Against interest earned Rs.747.72 lakh, only Rs. 622.71 lakh were shown received in the audited accounts for 2006-07. This had resulted in understatement of receipts by Rs. 125.01lakh in Receipt and Payment accounts and also the income in Income and Expenditure account.
- Loans and Advances of Rs. 10 lakh in the accounts of 2006-07 had been understated.

Bihar

- Four different opening balances as on 1 April 2005 were noticed in four different sets of documents of SHS detailed below:

Opening balance	**Amount (Rs. in crore) as on 01-04-2005**
As per SOE	47.66
As per annual account of 2005-06	45.12
As per financial statement	52.67
As per Bank account	43.78

- Discrepancies in the closing balance and succeeding opening balance of the three quarters SoEs resulted in keeping the net amount of Rs 46.48 crore out of the account of SHS.
- Advance of Rs.306.87 crore given to DHSs was not reduced from the total available fund. In the Financial Monitoring Report (FMR) pertaining to October 2007 to March 2008 submitted to the Ministry in May 2008, no closing and opening balance of the specific activity were mentioned.

The Ministry stated that the States/UTs were taking steps to ensure the maintenance of books of accounts in accordance with the procedure laid down by the Government and a mechanism of concurrent audit by chartered accountants had been laid down.

However, it was noticed that out of 26 States and 98 sample districts, mechanism of concurrent audit by a chartered accountant was implemented only in 11 SHSs and 30 DHSs during 2007-08.

The Ministry may consider strengthening the monitoring of maintenance of accounts by State units so that a system of proper checks and balances is institutionalised thereby reflecting a correct view of fund utilisation.

5.12.3 Loss of interest

As per the NRHM framework, funds were to be kept in interest bearing bank accounts. The SHS were required to provide details of interest accrued on unspent balances.

However, in two States, unspent funds were not kept in interest bearing accounts. In Assam, DHS Lakhimpur kept Rs.1.20 crore in current account. Similarly, in Bihar, SHS deposited Rs. 106.76 crore in March 2007 in non-interest bearing account and DHS, Bhojpur kept the NRHM funds in a current account and sustained an interest loss of Rs 37.42 lakh as of June 2008.

Further, the guidelines under the Mission had not mentioned the treatment of interest earnings on unspent balances. The Ministry neither monitored the amount of interest earned by the SHSs and DHSs during 2005-08, nor had a control over expenditure incurred therefrom. This led to unauthorised expenditure from the interest earned in States. In Rajasthan, interest earned on NRHM funds were used in November 2007 for payment of pending liabilities of Rs 3.09 crore of 2006-07 pertaining to micro nutrients for school health programme for Tribal Area under Mid Day Meal scheme which had no relationship with the NRHM activities till 2007-08.

This indicated ineffective controls at the SHSs and the DHSs. The Ministry also failed to prescribe clear guidelines on treatment of interest earnings despite the fact that substantial sums remained unspent at the State and the district level.

The Ministry stated that there is no guideline about treatment of interest in the GFRs.

The reply of the Ministry needs to be viewed in the light of the fact that the NRHM framework stipulated that the SHSs would provide details of interest accrued on unspent balances.

5.12.4 Improper maintenance of control registers

Every organisation is required to maintain proper control registers and subsidiary books of accounts for exercising check over expenditure and enforcing other administrative controls. However, it was observed that some of control registers and subsidiary books of accounts such as cash book, ledger, stock register, bank reconciliation statements, fixed deposit register etc. were not maintained at all or were not maintained in the prescribed form at the SHSs, the DHSs and health centres. Details of these cases are listed in **Annex 5.10**.

For such a major scheme, involving substantial funds; accounting procedures need to be streamlined and adopted comprehensively by all States.

The Ministry stated that the States/UTs have been informed of the discrepancies noticed by Audit and that they were taking steps to ensure that books of accounts are maintained properly.

Recommendations

- ***The Ministry may in consultation with the Planning Commission and the Finance Commission develop a criteria/weightage formula for funds release based on composite parameters of rural population, area, and existing status of health care infrastructure, demographic indicators, socio-economic indicators and disease burden and use of funds. The Ministry noted the recommendation.***
- ***The Ministry should review its interface banking arrangements in consultation with the Ministry of Finance. Interface banking should be preferred with Public Sector banks having maximum outreach and which offered the best possible terms, given the quantum of funds involved.***
- ***The SHSs should ensure that the UCs are obtained for actual expenditure and forwarded to the Ministry to facilitate smooth flow of funds.***
- ***Funds flow arrangement should be rationalised to ensure minimum unspent/excess amount is left outside government accounts.***
- ***The SHSs should assess the requirement of funds by the district/CHCs/PHCs/Sub Centres based on their specific demands and should ensure the distribution of funds under NRHM at the district and lower levels is need -driven.***
- ***SHSs should ensure that the untied funds are released and utilised as per the guidelines there is no diversion/misuse of these funds.***
- ***The Ministry may monitor interest earned on the unspent balances by the SHS and expenditure incurred therefrom through their audited accounts.***
- ***The SHSs should ensure proper maintenance of accounts and prescribe records to facilitate verification of expenditure and detection of cases of fraud, misappropriation or misuse of Mission funds.***