

Financial Management

7.1 Release of Funds

Analysis of the State-wise grants released under AIBP for Major/ Medium Irrigation Projects from 2005-06 to 2007-08 revealed that about 75 to 85 per cent of the total grant was released to just six States namely, Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra and Orissa, as summarised below:

Table 16 - States which availed majority of the Grants under AIBP during 2005-2008

(Rs. in crore)

State	Grant Released			Total
	2005-06	2006-07	2007-08	
Andhra Pradesh	311.38	816.42	987.77	2115.57
Maharashtra	167.39	340.70	885.76	1393.85
Gujarat	339.60	121.89	585.72	1047.21
Orissa	148.00	133.12	609.49	890.61
Karnataka	140.78	160.37	349.90	651.05
Madhya Pradesh	168.10	25.81	372.02	565.93
Sub total of Selected States	1275.25	1598.31	3790.66	6664.22
Total release to all States	1709.25	1884.22	4483.95	8077.42
Percentage to the total funds release in r/o selected States	75	85	85	83

7

However, the performance of these states, in terms of completion of projects was very poor, as summarised below:

Table 17 - Profile of completion of projects in six selected states.

	Maharashtra	Andhra Pradesh	Orissa	Gujarat	Madhya Pradesh	Karnataka	Total
Total projects taken-up during 1996-2008	55	32	17	15	14	10	143
No. of Completed Projects	17 ¹⁴	11	6	10	5	2	51
Percentage of completed projects	31	34	35	67	36	20	36
No. of Ongoing Projects	38	21	11	5	9	8	92

Clearly, these six states (Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra and Orissa) were cornering the major part of AIBP grants without corresponding performance in terms of project completion. State-wise list of Major and Medium Projects taken up/ongoing during 2005-08 is given in **Annexure-VI**.

✓ Recommendation - 9

Since AIBP is an Additional Central Assistance (ACA) programme, GoI may ensure equitable distribution of AIBP funds to states based on predefined criteria e.g. population dependent on agriculture, UIP yet to be fulfilled; and also past performance in completion/commissioning of projects and utilisation of targeted IP under AIBP.

7.2 Non-submission of Utilisation Certificates (UCs) and Statements of Expenditure (SOEs) by State Governments.

- In terms of the AIBP Guidelines, the second installment of the CLA/ Grant was to be released by the GoI only after submission of UCs in respect of the first installment. Audit scrutiny, however, revealed that in Gujarat, Himachal Pradesh and Karnataka (3 States) the second installments for the States were irregularly released by the GoI before submission of the UCs for the first installment.
- AIBP guidelines (1998-99 onwards) envisaged that the States would be required to submit audited statements of expenditure on the projects within nine months of the completion of the financial year. Further, the guidelines effective from December 2006 also envisaged the release of central assistance for the subsequent years would not be considered if audited Statements of Expenditure (SOEs) were not furnished within nine

¹⁴ None of the projects were commissioned

months. It was, however, observed that the audited SOEs in respect of each project were not being sent in support of the Utilisation Certificates (UCs) by the State Governments of Arunachal Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Mizoram, Nagaland, Rajasthan, Uttar Pradesh and West Bengal (12 States).

7.3 Non-conversion of Grant to Loan

As per the AIBP guidelines, if the State Government failed to comply with the agreed date of completion of the project, as mentioned in the MoU, the grant component released would be treated as loan and recovered as per the usual terms of recovery of central loan. It was however observed in audit that:

- In Andhra Pradesh, for five projects¹⁵ which were originally scheduled to be completed between March 2007 and March 2008, the CWC/MoWR gave extension of time up to March 2009 without invoking the above clause. In effect, the grant amount of Rs.230.88 crore or any part of it had not been converted into a loan as envisaged under the guidelines.
- In Rajasthan, the Narmada Canal and Gang Canal Modernisation Projects taken up under AIBP in 1998-99 and 2000-2001 respectively were to be completed within four years. The State Governments, however, extended the date of completion of these projects and fixed the revised targets for creation of irrigation potential. Resultantly, due to non-completion of phased targets of these projects within the prescribed period, the grant of Rs 166.20 crore (Rs 150.17 crore released in 2006-08 for Narmada Canal Project and Rs 16.03 crore in 2007-08 for Gang Canal Modernisation project) was required to be converted into a loan and recovered from the State as per the usual terms of recovery of Central loan. This was, however, not done, violating AIBP guidelines.
- In Himachal Pradesh, 18 minor irrigation projects in 4 divisions¹⁶ approved by the Government of India between July 2000 and October 2005 at a total cost of Rs. 9.67 crore could not be completed by the concerned divisions by the targeted date (between 3/2003 and 3/2008) of completion. Thus, the grant of Rs. 5.03 crore (between May 2006 and February 2007) was to have been converted as loan, with interest due of Rs. 1.44 crore at the rate of 13 per cent per annum. No such action was taken by the Ministry.

✓ Recommendation - 10

In order to encourage the defaulting State Governments to ensure timely completion of projects, GoI must apply the provision for conversion of grant to loan in all cases of serious slippages in completion schedule, as provided for in the MoU.

¹⁵ Welgellu Reservoir Project - Kadapa, Thotapalli Barrage Project - Vizianogaram, Alisagar Lift Irrigation Scheme - Nizamabad, Khomaram Bhim Project - Adilabad, and Railvagu Project - Adilabad

¹⁶ Baggi, Kullu-1, Padhar and Solan

7.4 Release of Funds by GoI at fag end of financial year

Analysis of the sanction orders issued by the Ministry of Finance (MoF) during 2003-04 to 2007-08 for release of funds to various States under AIBP revealed that huge quantum of funds were released during the last quarter, especially during the month of March of the relevant year as detailed below:

Table 18 - Percentage of funds released between 2003-04 and 2007-08

Year	Percentage of funds released during last quarter	Percentage of funds released during March
2003 - 04	75	54
2004 - 05	75	72
2005 - 06	55	55
2006 - 07	81	52
2007 - 08	59	55

Details of Sanctions issued between 2003-04 and 2007-08 are given in **Annexure-VII**.

As the funds were being released by the MoF at the fag end of the year, the State Governments were, consequently, releasing the funds to the implementing agencies very late. Resultantly, in order to show utilisation of the funds received, the implementing agencies were either misreporting their financial achievements, diverting the available funds for non AIBP purposes, or resorting to various irregular/unauthorised expenditures as discussed in the succeeding paragraphs.

7.5 Rush of Expenditure by State Governments

Due to release of funds at the fag end of the financial year by the MoF, the State Governments in turn released funds to the implementing agencies in the last quarter of the financial year in Arunachal Pradesh, Jharkhand, Kerala, Manipur, Orissa, Punjab, Rajasthan, Tripura, Uttar Pradesh, Uttarakhand and West Bengal (11 States). The details of rush of expenditure in the closing months of the financial years are given below:

Table 19 - Rush of Expenditure

State	Expenditure made in last quarter of the year (as percentage of the total Expenditure)	Expenditure made in last month (March) of the year (as percentage of the total Expenditure)
Andhra Pradesh	76 to 83 percent during 2003-08	69 to 73 percent during 2003-08
Jharkhand	—	21 to 80 percent during 2003-08
Kerala	100 percent in respect of Kallada Irrigation Project (KIP) during 2005-06 and 70 to 84 percent in respect of Muvattupuzha Valley Irrigation Project (MVIP) during 2003-06	—

State	Expenditure made in last quarter of the year (as percentage of the total Expenditure)	Expenditure made in last month (March) of the year (as percentage of the total Expenditure)
Manipur	—	23 to 67 percent in respect of Thoubal Multipurpose Project (TMP) and 50 to 100 percent in respect of MIPs
Orissa	61 percent during 2003-08 in respect of four major/ medium projects.	38 percent during 2003-08 in respect of four major/ medium projects
Punjab	35 to 100 percent during 2007-08 in respect of two medium projects	41 to 46 percent during 2007-08 in respect of two medium projects
Rajasthan	49 to 96 percent during 2003-08	18 to 61 percent during 2003-08
Tripura	33 to 61 percent during 2003-08 in respect of Khowai Medium Irrigation Project (KMIP)	14 to 46 percent during 2003-08 in respect of Khowai Medium Irrigation Project (KMIP)
Uttar Pradesh	—	53 to 81 percent
Uttarakhand	28 to 76 percent during 2003-08	11 to 44 percent during 2003-08
West Bengal	36 to 100 percent during 2004-08	32 to 100 percent during 2004-08

Recommendation - 11

In order to maintain the sanctity of the budgeting process, MoF/MoWR must ensure release of AIBP funds well in time, and not in the last quarter or in March.

7.6 Short and Delayed Release of funds by State Governments

For smooth implementation of the Projects, AIBP Guidelines stipulated that the GoI funds released by the MoF were to be further released by the State Governments, along with the State's share, to the implementing agencies within 15 days of the receipt of the GoI funds. However, the State Governments either did not release the funds within the stipulated period or did not release the entire GoI funds along with the requisite state share resulting in short release of funds in Arunachal Pradesh, Assam, Gujarat, Jammu & Kashmir, Kerala, Manipur, Mizoram, Nagaland, Punjab, Sikkim, Tripura, Uttar Pradesh, Uttarakhand and West Bengal (14 States). Details of cases of short/delayed release of funds by the State Government to the implementing agencies are given below:

Table 20 - Instances of short release/delayed release of GoI funds by State Governments

State	Short Release by State Government to implementing agencies	Delayed Release by State Government to implementing agencies
	Amount (Rs. in crore)	Details
Andhra Pradesh	4.64	Out of the total funds of Rs. 45.96 crore received from MoF, the State Government released only Rs. 41.32 crore to various divisions during 2007-08. The Department did not receive funds during the working seasons.
Assam	32.27	Short releases made by the State Government to project implementing authorities during 2003-08. Delays ranging from 37 to 376 days.
Gujarat	35.94	This includes short release of (i) Rs.3.33 crore by Government of India to the State Government, during 2003-08 in respect of five Projects ¹⁷ (other than SSP) and (ii) Rs.32.61 crore by the State Government to project implementing authorities during 2003-05 in respect of Bhadar-II. -
Jammu & Kashmir	-	- Delays ranging from 28 and 184 days during 2004-08.
Kerala	29.60	There was short release of funds by the State Government to project implementing authorities for Muvattupuzha Valley Irrigation Project (MVIP) during 2003-04, 2005-06 & 2006-07 and for Karapuzha Irrigation Project (KRP) during 2007-08. -
Manipur	3.47	There was short release of funds by the State Government to project implementing authorities during 2006-08 in respect of Minor Irrigation Projects. Delays ranging from 10 to 450 days in respect of Thoubal Multipurpose Project (TMP) and Minor Irrigation Projects.
Mizoram	-	- The State Government released funds, at the lag end of the year during 2003-08.
Nagaland	-	- Delays ranging from 10 to 210 days.
Punjab	-	- The State Government released an amount of Rs.10.50 crore for the project "Extension of Kandi Canal Stage II" in June 2005 though the amount was sanctioned in November 2002.

¹⁷ Mukteswar, Bhadar-II, Aji-IV, Brahmani and Ozai-II

State	Short Release by State Government to implementing agencies	Delayed Release by State Government to implementing agencies	
	Amount (Rs. in crore)	Details	
Sikkim	0.61	Against the receipt of Rs. 8.15 crore from Gol towards Central assistance for 2003-08 under AIBP schemes, the State Government did not provide the matching share which resulted in short release of State share.	The magnitude of delay could not be checked in audit as the State Finance Department did not maintain the date-wise release of funds by the Gol and corresponding allocation of resources by the State Government.
Tripura	–	–	Delays ranging from 11 to 130 days during 2003-07.
Uttar Pradesh	9.00	There was short release of funds by Engineer – in Chief/ Chief Engineer to various executing divisions of five selected projects during 2003-08.	–
Uttarakhand	–	–	Delays ranging from 35 days to 57 days during 2003-08.
West Bengal	–	–	Delays ranging from 32 days to 185 days during 2003-08.
Total	Rs. 115.53 crore		



Recommendation - 12

Gol may take up the matter with the concerned State Governments to avoid short release and delayed release of AIBP funds to the implementing agencies. Further, a system should be put in place for monitoring releases on a project-wise basis.

7.7 Diversion of Funds

7.7.1 Diversion of AIBP funds in Gujarat

Diversion of AIBP funds in respect of Sardar Sarovar Project (Gujarat)

Gol released Rs. 675.20 crore for extending irrigation benefits to drought prone area (DPA). Audit scrutiny revealed that ten branch canals¹⁸ were proposed to be developed under DPA. Sardar Sarovar Narmada Nigam Limited (SSNNL) provided utilization certificates to Gol, certifying that the funds provided under DPA were spent on the branch canals. However, the branch canals covered under DPA had already been constructed or were under construction, when the DPA component under AIBP was introduced. This implied that the SSNNL gave incorrect UCs to Gol, and the funds provided under DPA were used by it on works other than those covered under AIBP DPA.

¹⁸ Narsinghpura, Maliya, Vallabhipur, Viramgam I&II, Kharaghoda, Jijanuwada, Goriya, Rajpura and Amarapura

Audit scrutiny also revealed that during the period 2003-04 to 2004-05, against the actual expenditure of Rs. 1702 crore incurred by the SSNNL, the State Government reported an expenditure of Rs. 2987 crore to GoI. Thus, the State Government overstated expenditure incurred under AIBP.

7.7.2 Other Cases of Diversion of Funds

An amount of Rs. 280.00 crore received by the various implementing agencies were either parked in banks, utilised under other miscellaneous heads of accounts not related to AIBP or diverted for utilisation on non-AIBP works/ projects under the implementing agency, or given as advances not recovered/ adjusted etc. in Assam, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Manipur, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tripura and Uttar Pradesh (14 States). Details of such cases of parking and diversion of programme funds are given below:

Table 21 - Instances of Diversion of Funds

State	Amount (Rs. in crore)	Details
Assam	0.31	Diverted to meet expenditure of consultancy services and purchase of vehicle.
Haryana	15.34	<ul style="list-style-type: none"> ■ Executive Engineer, Construction Division No.17, Karnal diverted funds amounting to Rs. 10.51 crore, received in 2006-07, for payment of arbitration awards. ■ In Narwana Water Services Division, Rs. 4.83 crore was diverted during 2004-05 for construction of a link channel, which was not an approved AIBP component.
Himachal Pradesh	0.40	In 1 medium and 4 minor projects, funds were utilized between March 2006 and March 2008 on other schemes.
Jammu & Kashmir	2.02	Funds in respect of three test-checked schemes were diverted during the period 2003-04 to 2007-08 on activities not related to the programme of AIBP.
Jharkhand	10.50	In three projects (Panchkhero, Sonua and Upper Shankh Reservoir), funds were either advanced to Rehabilitation Officer without proper accountal, or parked in banks for periods ranging between 15 and 102 months.
Karnataka	8.80	In two projects (Upper Krishna Project – Stage II and Karanja Project), funds were diverted for incurring expenditure on non-AIBP components viz. payment for bills pertaining to earlier periods, maintenance of buildings & equipments, beautification works, etc.
Manipur	3.74	In Thoubal Multipurpose Project and MI Projects, funds were diverted for non AIBP components viz. construction of staff quarters, office building - wall fencing, approach road, purchase of vehicle, camera, stationery, petrol, repair works, payments to Work Charged & Muster Roll staff, payment of electricity bills etc.

State	Amount (Rs. in crore)	Details
Nagaland	0.29	Funds were diverted for purchase of vehicles, computers and furniture etc., which were not covered in the approved estimates.
Orissa	9.39	Funds were diverted towards execution of flood damage repair works, construction of road, purchase of shutters and purchase of material not required for immediate use in the work.
Punjab	15.12	Funds were either parked in Bank Accounts or diverted to other projects.
Rajasthan	182.25	<ul style="list-style-type: none"> ■ In the Narmada Canal Project, a payment of Rs 143.13 crore was made to Jodhpur Vidyut Vitran Nigam Limited (JVNL) for 33111 Kilowatt power line/sub-station, and the expenditure was booked irregularly on the Project, though there was no provision for such expenditure. ■ A payment of Rs 28.52 crore was made to the contractors during 2006-08 for the cost of sprinkler system, high density polyethylene (HDPE) pipelines, pump houses, sumps, motors, pumps etc., and irregularly charged to the project, though the entire cost of such works was to be borne by the WUAs, as per the project report. <p>In two other projects (IGNP Stage-II Project and Gang Canal Modernisation project), funds were diverted for maintenance and repair works, rehabilitation works taken up under World Bank funded projects and for making payment for works executed prior to inclusion of project under AIBP.</p>
Sikkim	0.25	Funds were diverted towards payment of salaries of work-charged employees, purchase of stock materials for works not covered under AIBP, and debris clearance which was not permitted under AIBP.
Tripura	0.94	In four divisions, AIBP funds was diverted towards payment of electricity consumption bills, flood protection works, maintenance works of different Deep Tube Well (DTW) and Lift Irrigation Schemes.
Uttar Pradesh	30.65	Funds were diverted at the level of Engineer-in-Chief / Chief Engineer to bear the expenditure of Computer Centre and its staff in E-in-C's office, for payment of bills not related to the division, and on works not sanctioned under the project.
Total	Rs. 280.00 Crore	

Recommendation - 13

Govt may recover the amounts diverted by the State Governments, if necessary, by making deductions from the next instalment of Plan Assistance to the defaulting State Governments.