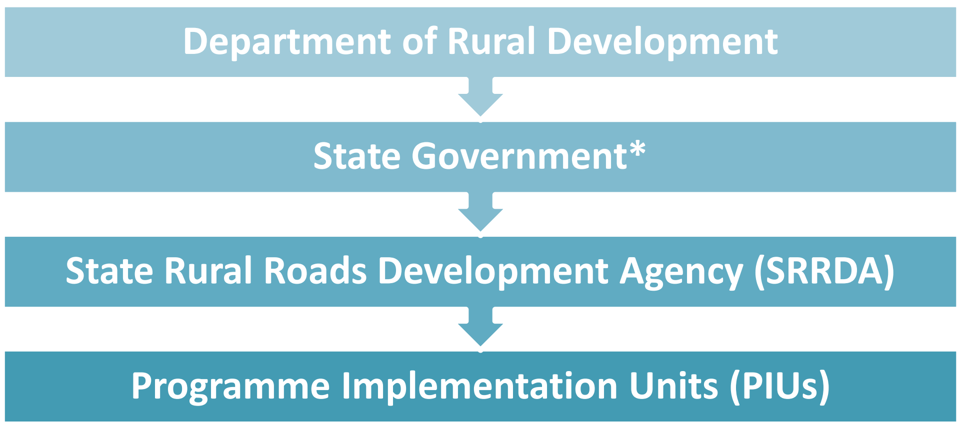
Chapter-5: Fund Management

5.1 Introduction

The Pradhan Mantri Gram Sadak Yojana (PMGSY) is a 100 *per cent* Centrally Sponsored Scheme and PMGSY-II[1] (launched in May 2013) is on cost sharing basis between the Centre and states in the ratio of 75:25 in normal areas and 90:10 in special areas[2]. Till 2013-14, Government of India released funds directly to the State Rural Road Development Agency (SRRDA). However, from 2014-15 onwards, funds are routed through the Consolidated Fund of State and the state governments are required to transfer these funds to SRRDA within three working days of receipt of funds.

Chart-5.1 below depicts the flow of funds under the PMGSY:

Chart -5.1: Fund Flow



* *From 2014-15 this stage was added and funds are now transferred to the State Consolidated Funds.*

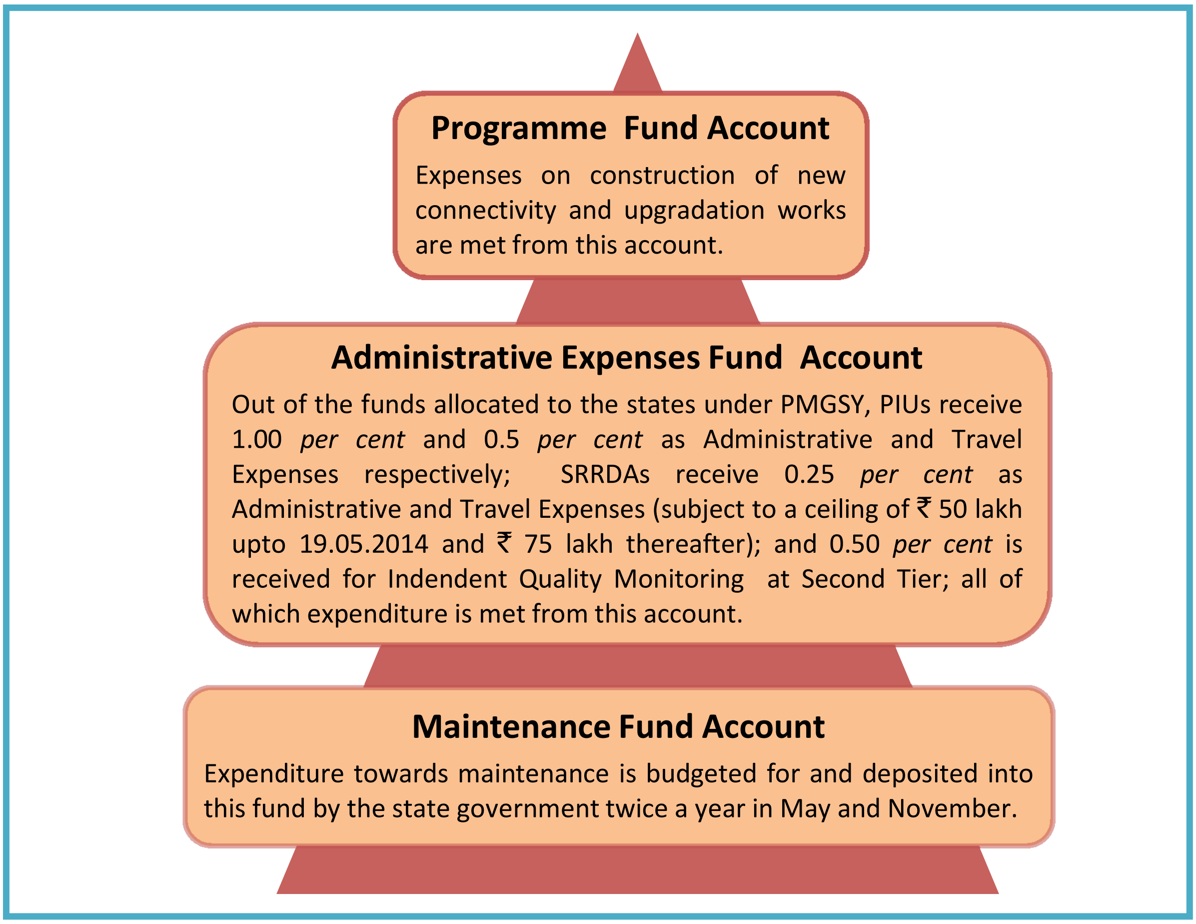
SRRDAs maintain three separate accounts under PMGSY *viz.*, programme fund account, administrative expenses fund account and maintenance fund account as detailed in **Chart 5.2:**

---

[1] Under PMGSY-II, the Ministry had released funds to only two states viz. Haryana and Karnataka amounting to ₹ 244.27 crore and ₹ 235.22 crore respectively upto March 2015.

[2] Special Category States-(11), DDP Areas, Schedule-V areas, BRGF districts and IAP districts.

Chart 5.2 : Accounts maintained by SRRDA



5.2 Progress during plan periods

At the time of launching of the programme, the Ministry estimated (December 2000) that ₹ 58,200 crore would be required for providing connectivity to 1.41 lakh habitations and upgrading the existing rural roads. Government of India (GoI) envisaged that habitations with population 1000 (500 in case of hill states, tribal and desert areas) and above were to be covered by the year 2003 and all eligible habitations by the year 2007 (Tenth Plan). Further, the number of eligible habitations was revised (March 2005), to 1,72,772 based on the actual survey conducted by the states.

To speed up the rural connectivity, Bharat Nirman a time bound programme, launched (February 2005) by GoI as a major business plan for augmentation of rural infrastructure which included rural road as its sub-set, envisaged all weather road connectivity to habitations of population of 1000 (500 in the case of hill states, tribal and desert areas) by the end of year 2009.

The overall physical and financial achievements of the programme during the plan periods were as given below:

Table - 5.1 : Physical & Financial Achievements during Plan Periods

Particular	Up to Tenth Plan (up to March 2007)		Eleventh Plan (2007-12)		Twelfth Plan* (2012-17)	
Financial Progress						
Released to states (₹ in crore)	22,610.65		78,833.00		19,708.75	
Expenditure (₹ in crore)#	21,012.04		70,470.98		38,020.39	
Physical Progress						
	Proposed	Achieved	Proposed	Achieved	Proposed	Achieved
No. of Habitations	42,736	36,605	78,304	47,809	31,039[3]	24,223
Length (in km)						
New Connectivity	95,960	86,716	1,65,244	1,22,855	62,761	66,397
Upgradation	83,757	33,862	1,92,464	1,07,069	57,957	19,420
Total	1,79,717	1,20,578	3,57,708	2,29,924	1,20,718	85,817

Source: Information provided by Ministry

* Figure for 2012-15 only

\# Figures of expenditure also included expenditure from state share, interest earned and previous unutilized balance

Thus, out of 1,78,184[4] eligible habitations, 1,08,637, were connected up to March 2015 and the Ministry planned to connect the remaining 69,547 habitations by March 2019.

---

[3] Under 12th plan period number of habitations proposed for connectivity was 51,732. For the years 2012-13, 2013-14 and 2014-15, the proposed habitations have been calculated on proportionate basis, i.e., 51,732 * 3/5 = 31,039.

[4] As of 12th FYP it was 1,72,772 (42,736 + 78,304 + 51,732) which was revised as 1,78,184 in the year 2013

5.3 Progress during last five years

5.3.1 Financial progress

During 2010-11 to 2014-15, year wise provision, release and utilisation of funds were as under:

Table-5.2 : Fund Provision and Utilisation

(₹ in crore)

Year	Budget		Release			Utilisation		
	Budget Estimates	Revised Estimates	States	NRRDA/ Others	Total	By states[µ]	By NRRDA/ Others[£]	Total
2010-11	12,000	22,000[§]	20,366.04	2,033.76	22,399.80[§]	14,910.98	2,101.94	17,012.92
2011-12	20,000	19,981	15,809.40	3,532.50	19,341.89	10,946.41	3,524.67	14,471.08
2012-13	24,000	8,885	4,388.93	4,495.07	8,884.00	8,386.75	4,545.17	12,931.92
2013-14	21,700	9,700[§]	5,360.23	4,444.74	9,804.97[§]	13,095.29	4,410.51	17,505.80
2014-15	14,391	14,200	9,959.59	4,228.80	14,188.39	16,538.35	4227.03	20,765.38
Total	**92,091**	**74,766**	**55,884.19**	**18,734.87**	**74,619.05**	**63,877.78**	**18,809.32**	**82,687.10**

Source: Information provided by Ministry

µ : also included expenditure from state share and interest earned.

£ : for repayment of loan and interest thereon.

§ : Excess release was due to re-appropriation of funds from saving of other schemes to PMGSY. However, this was not incorporated in the figures of Revised Estimates.

The state and year-wise details of release and expenditure are given in **Annex-5.1.**

It was evident from the above that during 2010-12, states did not fully utilize the Central assistance which led to its reduction during 2012-14.

The Ministry attributed the huge reduction at revised estimate stages during 2012-13 and 2013-14 mainly, due to availability of huge unspent balances with the states and slow pace of implementation of the programme.

5.3.2 Physical progress

The physical progress during last five years is depicted in **Table 5.3**:

Table-5.3 : Year-wise Physical Targets and Achievements

Year	Number of Habitations		Length (km)	
	Target	Habitation connectivity	Target	Length completed
2010-11	4,000	7,584	34,090	45,108.52
2011-12	4,000	6,537	30,566	30,994.50
2012-13	4,000	6,864	30,000	24,161.28
2013-14	3,500	6,560	26,950	25,316.39
2014-15	4,688	10799	21,775	36,339.48
Total	**20,188**	**38,344**	**1,43,381**	**1,61,920.17**

Source: Information provided by Ministry

The state and year-wise details are given in **Annex-5.2.**

Achievement of physical targets during the last five years was more than target. This indicated that targets were not realistically fixed. The Ministry stated (April 2016) that allocations had been changed substantially from budget estimate to revised estimate but the corresponding physical targets remained the same. The reply was not relevant as despite lower allocation, achievement was still higher as compared to targets.

5.4 Mismatch in financial reporting

As per the records of the Ministry (Table 5.2), Central release under the PMGSY in 29 states was ₹ 55,884.19 crore during 2010-15. However, these figures differ with the data collected from the state governments as given in **Table-5.4**.

Table-5.4: Mismatch in Financial Reporting

(₹ in crore)

Year	Information/data provided by the Ministry in respect of 29 states		Funds availability and expenditure by the states (data compiled from information provided by 29 states)						Difference	
	Releases to states	Expenditure	Opening balance	Central release	State release	Misc. receipts	Total	Expendi-ture	In release	In expendi-ture
2010-11	20366.04	14910.98	2984.73	19686.67	682.37	431.05	23784.82	15429.82	679.37	-518.84
2011-12	15809.40	10946.41	8355.00	16292.04	580.20	579.37	25806.61	10978.19	-482.64	-31.78
2012-13	4388.93	8386.75	14826.42	4303.41	531.65	1298.66	20960.14	9106.74	85.52	-719.99
2013-14	5360.23	13095.29	11850.42	5247.68	1376.74	707.74	19182.58	13697.69	112.55	-602.40
2014-15	9959.59	16538.35	5484.89	10076.37	1326.61	618.11	17505.98	16782.71	-116.78	-244.36
Total	**55884.19**	**63877.78**	**43501.46**	**55606.17**	**4497.57**	**3634.93**	**107240.13**	**65995.15**	**278.02**	**-2117.37**

Source: Information provided by the Ministry and the state governments

The state wise details of the programme fund showing opening balance, receipt of Central and state share, interest and expenditure during 2010-15 is given in **Annex- 5.3.1 to 5.3.5.**

Major variations in fund released and receipt were observed in the states of (**Bihar, Jharkhand, Odisha, Tripura** and **Uttar Pradesh (Annex-5.4.1)**. Similarly**,** major variations in figures of expenditure were observed in the states of **Andhra Pradesh, Assam, Bihar, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Tripura, Uttar Pradesh, Uttarakhand** and **West Bengal (Annex-5.4.2)**.

There is need for reconciliation of the data of the Ministry and states as it reflect lack of data integrity.

The Ministry accepted the facts of mismatch in financial reporting and replied that the reconciliation of figures was going on and majority of states have done this job. The reply of the Ministry is not satisfactory as the detail of reconciled data has not been provided.

5.5 Shortcomings in release of funds to states

The funds to the states are released in two equal instalments. While the first instalment is released at 50 *per cent* of the cleared value of projects (or annual allocation, whichever is lower), the release of second instalment is subject to utilisation of 60 *per cent* of the available funds and completion of at least 80 *per cent* of the road works awarded in the year previous to the preceding year and 100 *per cent* of the awarded works of all the years preceding that year and submission of the required documents.

Audit observed instances of non/short/delayed release of funds to the states. The Ministry attributed (February 2016) these to non availability of funds, non/late submission of documents by the states, non-fulfillment of the conditions laid down for release of second instalment by the states and slow progress of road works. Detailed analysis of non/short/delayed release of funds is provided in **Annex-5.5**.

The Ministry accepted (April 2016) the fact of short release and replied that works sanctioned to the states were two to three times their allocation resulting in spillover to subsequent years and reduction in the allocations in the revised estimate stage.

5.6 Delay in transfer of funds by state governments

As per the programme guidelines (as modified from time to time), from 2014-15 onwards, funds are released to the state Consolidated Fund with directions to transfer these funds to SRRDA's account within three days from the date of its receipt failing which the state government is liable to pay interest at 12 *per c*ent per annum for the period of delay beyond the specified period.

Audit observed that in 11 states (**Andhra Pradesh, Arunachal Pradesh, Assam, Jammu & Kashmir, Karnataka, Manipur, Meghalaya, Mizoram, Punjab, Rajasthan** and **Uttarakhand),** funds amounting to ₹ 2,693.89 crore released during 2014-15 were transferred to the SRRDAs with delays ranging from 7 to 202 days**.** As a result, the states were liable to pay interest of ₹ 50.37 crore to the SRRDAs. In three states (**Andhra Pradesh, Arunachal Pradesh** and **Karnataka),** funds amounting to ₹ 89.32 crore, received during 2014-15, were not transferred to the respective SRRDAs as of May/September 2015 (**Annex-5.6).**

The Ministry accepted (April 2016) the fact of delays in release of funds to SRRDAs and replied that after the rigorous intervention of the Ministry, the delay was being reduced considerably.

5.7 Non-release of fund under special allocation

Para 5.3 of the programme guidelines provide that in addition to the allocation to the states, a special allocation of up to five *per cent* of the annual allocation from the Rural Roads share of the Diesel Cess will be made available to the states sharing international borders, selected tribal and backward districts and extremely backward districts and Research and Development (R&D) Projects and innovation.

Audit observed that none of the eligible states got the special allocation under this provision.

5.8 Loss of interest

Para 13.1.4 of the OM provides that all funds over and above ₹ 0.50 crore in the Programme and Administrative Expenses Fund should be maintained in the bank as fixed deposit at an interest rate not below that of 91 day Treasury Bills. Audit observed that five states (**Jammu & Kashmir, Meghalaya, Mizoram, Sikkim** and **Tripura)**, failed to take the advantage of higher interest rates under this provision.

In **Punjab**, funds were kept in current account instead of savings account resulting in loss of interest of ₹ 1.21 crore.

The Ministry replied (April 2016) that it had pursued the matter with the states having surplus programme fund. It is evident however, that the efforts of the Ministry were ineffective.

5.9 Non-availing of income tax exemption on interest earned

SRRDA is a non-profit making body and is therefore eligible for exemption under Section-12 AA of the Income Tax Act.

It was observed that in six states {**Himachal Pradesh** (7.04 crore)**, Jammu & Kashmir** (7.62 crore)**, Odisha** (12.32 crore), **Punjab** (4.55 crore), **Tripura** (13.13 crore) and **Uttarakhand** (0.64 crore)}, SRRDAs did not seek the requisite exemption, as a result of which, TDS amounting to ₹ 45.30 crore on interest receipt was deducted by banks. SRRDA, **Tripura** also paid (March 2015) ₹ 0.72 crore as late fee on Income Tax as of March 2015.

The Ministry replied (April 2016) that it had pursued the matter with the states to prevail upon the banks not to deduct income tax. It is evident however, that the efforts of the Ministry were ineffective.

5.10 Diversion of funds

Diversion of funds from intended purposes reflects poor fund management besides reducing the fund availability for the desired purposes.

In eight states {**Haryana** (₹ 0.02 crore), **Karnataka** (₹ 3.48 crore)**, Kerala** (₹ 2.74 crore)**, Mizoram** (₹ 1.33 crore)**, Sikkim** (₹ 3.83 crore)**, Tamil Nadu** (₹.5.66 crore)**, Uttar Pradesh** (₹ 4.64 crore) and **Uttarakhand** (₹ 3.45 crore)**}**, programme fund of ₹ 25.15 crore was diverted towards maintenance fund, administrative expenses fund, activities such as testing of material, state government schemes, salary and wages and transportation of soil, plantation, restoration of damaged properties, etc., which were not covered under the programme.

In two states {**Rajasthan** (₹ 1.50 crore) and **Uttar Pradesh** (₹ 0.02 crore)}, ₹ 1.52 crore was utilized for land acquisition from the PMGSY funds in violation of the programme guidelines.

In five states {**Kerala** (₹ 7.25 crore)**, Manipur** (₹ 0.42 crore)**, Tamil Nadu** (₹ 0.44 crore)**, Tripura** (₹ 2.54 crore) and **Uttarakhand** (₹ 1.13 crore)}**,** administrative funds of ₹ 11.78 crore were diverted towards inadmissible items such as purchase of vehicles, payment of salaries and wages and purchase or construction of buildings, etc.

Case study: Bihar, Jharkhand, Tripura

According to para 12.3 of the programme guidelines, no agency charges will be admissible for road works taken up under this programme. In case Executing Agencies levy charges in any form, such as Centage charges (small fee levied by executing agencies), etc., it would have to be borne by the state government. Contrary to this, ₹ 368.79 crore had been borne by the Ministry as agency charges for three states, **Bihar, Jharkhand** and **Tripura**.

The Ministry replied (April 2016) that a special dispensation by way of engaging Central Public Sector Undertakings (CPSU) to augment execution capacity was allowed to these states through tripartite agreements amongst the Ministry, state government and CPSU, duly vetted and concurred by Ministry of Law and Internal Finance Department of the Ministry. However, audit observed that no such provision existed in the programme guidelines.

5.11 Discrepancies in accounts

As per the PMGSY Accounts Manual, SRRDAs are required to maintain a separate set of account books *viz*., Cash Book, Bank Authorisation, Transfer Entry Book, Ledger of debit and credit balances, PIU wise Programme Fund Register, PIU wise Bank Authorisation Registers and outstanding Bank Authorisation with PIUs Register for Programme Fund as well as Administrative Fund by using double entry system of accounting.

In **Andhra Pradesh**, cashbooks were not closed monthly in PIU, Anantapur. Closing balances were not attested by Drawing and Disbursing Officers in districts Vizianagaram and SPSR Nellore. Further, in PIU Anantapur, reconciliation was also not carried out from 2004-05 to date (July 2015).

In **Jammu & Kashmir**, requisite records of subsidiary accounts for 2010-11 to 2013-14 were not prepared at state/PIUs level and the Chartered Accountant finalized Balance Sheets without preparing the Receipt and Payment Accounts, Income and Expenditure Accounts and other subsidiary accounts.

In **Jharkhand**, cash book and audited accounts produced by NPCC showed that a sum of ₹ 54.25 crore, deducted from the contractor's bills during 2010-15 on accounts of Income Tax, Commercial Tax, Labour cess and Royalty' were not taken in the receipt of the cash book. Similarly, deductions made on account of security deposit were also not reflected in the cash book. The cash book was not closed monthly and closing balances were never worked out in the cash book. Further, cash books were not authenticated by competent authority. None of the test checked divisions prepared Bank Reconciliation Statements.

In **Karnataka,** while the annual accounts for March 2015 had a closing balance of ₹ 54.71 crore however, the details furnished by the PIUs showed this at ₹ 54.85 crore. None of the test checked divisions prepared Bank Reconciliation Statements.

In **Telangana**, in district Mahbubnagar, cash books were not closed daily and reconciliation was not carried out from 2010-11 to date (June 2015).

In **Uttar Pradesh**, reconciliation statements showed cases of amount credited by bank but not found in cash books; double debit by bank and cheques deposited in bank but not cleared. The discrepancies were not rectified due to which the annual accounts did not depict the true picture.

In **Uttarakhand,** important monthly books/schedules of accounts were not being maintained by the state nodal agency physically for preparation of its annual accounts (balance sheets and connected schedules) on the ground that these schedules of accounts were available in the OMMAS. However, the data of schedules in the OMMAS did not match with the audited balance sheets of the URRDA.

5.12 Blockage of funds

Audit observed that programme fund of ₹ 32.15 crore released to three Union Territories {**Andaman & Nicobar Islands** (₹ 8.31 crore)**, Dadra & Nagar Haveli** (₹ 13.84 crore**)** and **Delhi** (₹ 5 crore)} during 2001-05 were lying unutilized (March 2015). Out of ₹ 5 crore released in 2001-02, **Goa** utilized ₹ 0.44 crore and the unutilized amount accumulated to ₹ 9.91 crore with the interest earned during last 15 years.

In **Karnataka** (₹ 4.41 crore)**,** application fees collected from the contractor participated in bidding was kept in a separate bank account and was not depicted in annual accounts of the state nodal agency.

Conclusion

Fund released to states for implementation of the programme were considerably reduced during last three years (2012-15) due to unutilized balance with the states. There were instances of non/short/delayed release of programme funds. States sharing international borders did not avail the benefit of additional five *per cent* allocation under the programme. Programme funds were diverted and utilized on inadmissible items. Figures of release and expenditure under the programme maintained by the Ministry did not match with those maintained by the state governments.

Recommendations

i. State governments may ensure that funds released for specific purposes are not diverted.

ii. States should try to meet annual financial and physical targets and efforts should be made to optimise the retained excess or unutilised funds.

iii. Ministry may put a system in place to reconcile the data of funds released and expenditure with the states.