CHAPTER-III: FINANCIAL MANAGEMENT

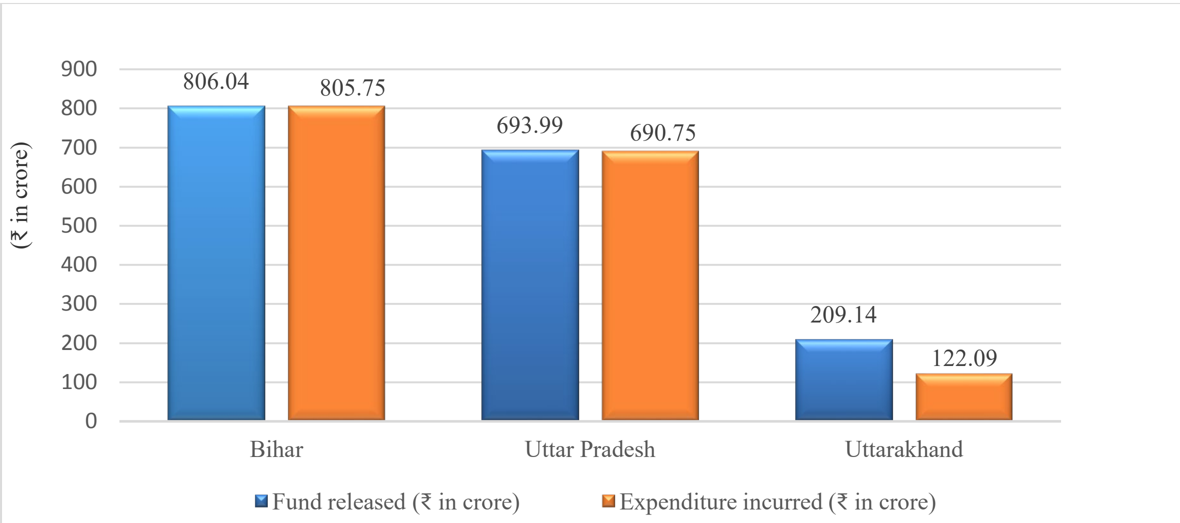
3. Financial Management

As per CCS Note 2010, the expenditure for construction of proposed roads was to be borne by the Central Government while expenditure on account of land acquisition (LA), utility shifting (US) and forest clearance (FC) and future maintenance of the roads was to be met by the State Governments from their own resources.

3.1 Release and utilisation of funds

HLEC had approved 27 DPRs of ₹ 3472.25 crore (including the revised cost of the DPRs) as of March 2021 **(Annexure-2)**. Based on the approval of HLEC, MHA released funds to States. During the period 2011-12 to 2020-21, MHA released funds aggregating ₹ 1709.17 crore to the States of Bihar, Uttar Pradesh and Uttarakhand, out of which, the States incurred expenditure of ₹ 1618.59[25] crore, leaving an unspent balance of ₹ 90.58 crore (five *per cent*). The State-wise position of utilisation of funds released for the period 2011-12 to 2020-21 is depicted in **Chart No. 3**.

Chart No. 3: State-wise funds released and expenditure incurred



Source: MHA

It can be seen from the above chart that though Bihar and Uttar Pradesh had been able to utilise the funds released to them, Uttarakhand had not been able to utilise 42 *per cent* of the funds released as of March 2021.

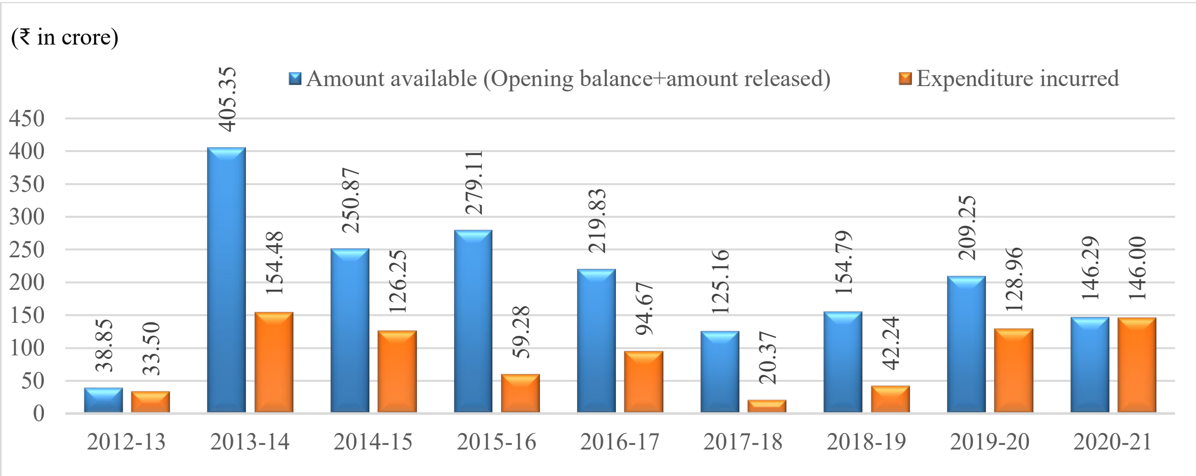
[25] In case of Bihar, MHA reported an expenditure of ₹ 805.75 crore. However, as per the monitoring reports of physical/financial progress of work, Bihar reported an expenditure of ₹ 808.05 crore resulting in a difference of ₹ 2.30 crore.

The audit findings related to release and utilisation of funds are discussed in the subsequent paragraphs.

3.1.1 Injudicious release of funds by MHA

The pace of expenditure by the States was slow as compared to funds released by MHA due to delay in acquisition of land and obtaining of forest/wildlife clearances by the States. MHA did not analyse the year-wise trend of expenditure of the States before releasing funds on the basis of requisition, resulting in unspent balance of funds lying with the States each year, as seen from the details given in **Chart No. 4**.

Chart No. 4: Funds available and expenditure incurred in Bihar



Source: MHA

It can be seen from the above that in Bihar, less than 50 *per cent* of the funds available were utilised during the years 2013-14, 2015-16, 2016-17, 2017-18 and 2018-19. For all the 13 DPRs involving 15 stretches of land of total length of 552.293 km, land was to be acquired or forest clearance was to be obtained or both were to be acquired/obtained before the approval of DPR or at the time of approval of DPR. Release of lump sum amount of ₹ 400 crore by MHA in 2013-14 without acquisition of land or forest/wildlife clearance was not prudent. The State was able to utilise ₹ 400 crore released in 2013-14 only by end of 2016-17. Thus, release of ₹ 154.49 crore in 2015-16 was unwarranted as the State already had an unspent balance of ₹ 124.62 crore at the end of 2014-15. Further, expenditure during the year 2015-16 was only ₹ 59.28 crore, which could have been met from the unspent balance of 2014-15. Similarly, an amount of ₹ 50 crore was released during the year 2018-19 even as the State Government already had an unspent balance of ₹ 104.79 crore. MHA was also aware that during the year 2015 and onwards, the construction work on 372.93 km at nine stretches came to a complete halt due to arbitration cases by the contractors, and this fact could have been factored in the subsequent release of funds to the State Government.

Requisition of funds in excess of requirement

Audit noted that SGoB requisitioned funds from GoI (April 2013 and August 2013) for civil work without assessing the actual requirement and kept these funds unutilised in the current account for different periods**.** On two occasions[26], more than ₹ 100 crore was blocked in the bank account for 12 to 17 months. Further, funds aggregating ₹ 100 crore received from the GoI in October 2013 were blocked in the bank account for 17 months as release of funds to the Divisions started only from February 2015.

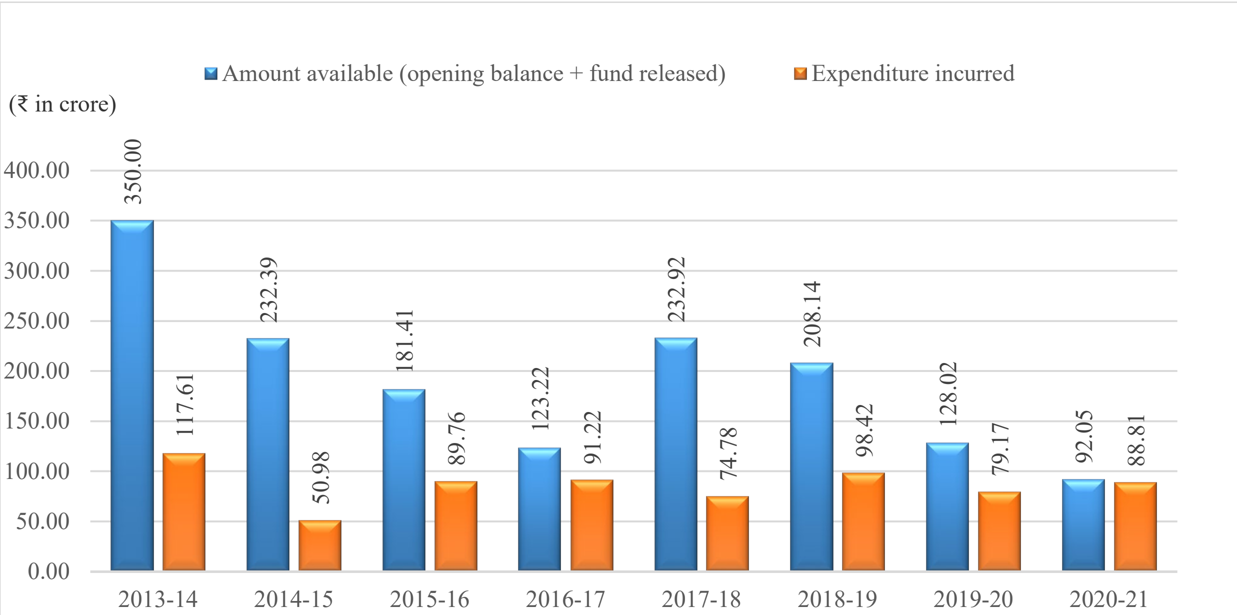
Requisition of funds in excess of requirement and parking the funds in the current account was not prudent management of funds as it not only blocked public money but also resulted in interest loss of ₹ 21.56 crore.

The Department replied that current account was opened in State Bank of India with the approval of the competent authority. Besides, MHA also did not instruct to keep funds in an interest-bearing savings account.

The RCD accepted the audit contention and attributed the reason for low utilisation of funds to non-availability of land for road construction. After February 2020, RCD deposited the unused balance fund in the interest bearing sweep account.

Thus, the funds requisitioned in excess of requirement not only resulted in idling of funds in current account in the bank but also resulted in loss of interest.

Chart No. 5: Funds available and expenditure incurred in Uttar Pradesh



Source: MHA

Similarly, in Uttar Pradesh, the gap between amount available and expenditure incurred was highest in 2013-14 followed by 2014-15 and 2015-16 and then in 2017-18 to 2018-19. As seen from **Chart No. 5** above, less than 50 *per cent* of the funds available were utilised during the years 2013-14 to 2015-16, 2017-18 and 2018-19. In the year 2013-14, ₹ 350 crore was released which the State utilised only in four years i.e. 2016-17. In view of this trend of expenditure, release of ₹ 200.92 crore in 2017-18 in two instalments was not prudent. Further, the State

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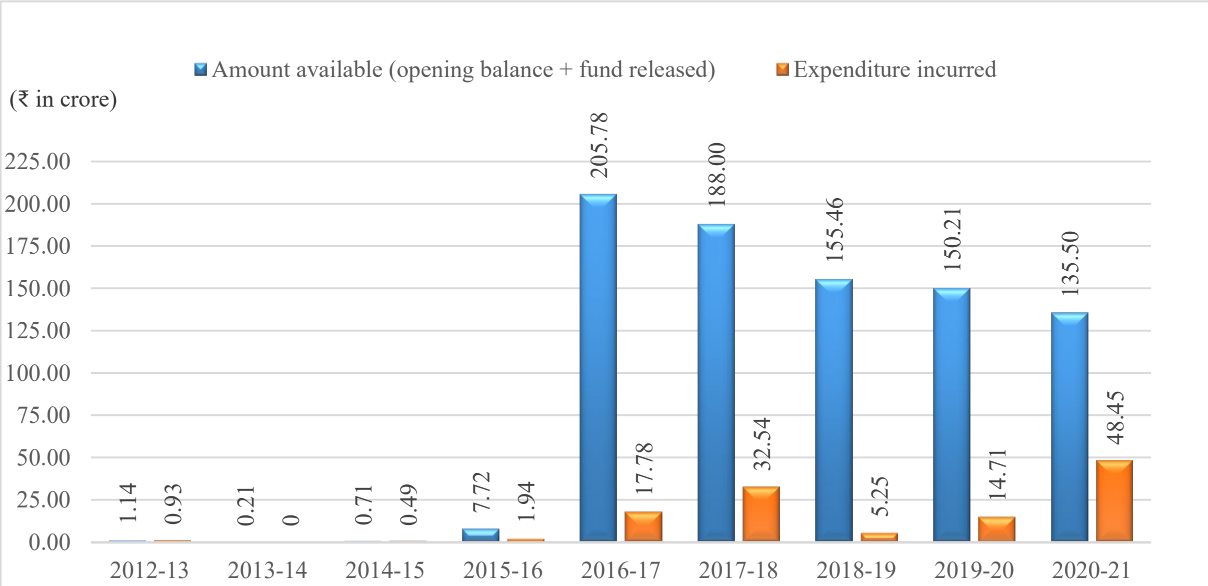
[26] Minimum balance ₹ 141.59 crore for the period October 2013 to September 2014 and minimum balance ₹ 109.08 crore for the period August 2015 to December 2016.

could only utilise this fund upto 2018-19. Thus further release of ₹ 50 crore in 2018-19 was injudicious in view of unspent balance of ₹ 158.14 crore available at the beginning of the year.

Chart No. 6: Funds available and expenditure incurred in Uttarakhand



Source: MHA

Out of the three States, utilization of funds in Uttarakhand was the lowest. As seen from **Chart No. 6** for the year 2013-14, expenditure was 'nil' whereas for the period 2015-16 to 2020-21, expenditure ranged from 3.38 to 35.76 *per cent*. In 2016-17, ₹ 200 crore was released for the stretch of 43 km of road of Thuligad-Rupaligad. Audit noticed that the State Government could utilise only ₹ 122.09 crore out of ₹ 209.14 crore as of March 2021. Hence, release of ₹ 200 crore in one installment was also injudicious in view of the trend of expenditure in earlier years as well as the fact that construction of road is done in stages for which proportionate amount can be released periodically.

Thus, even though the utilisation of funds by States was not able to keep pace with the release of funds, MHA continued further releases without taking cognizance of the status of utilisation, resulting in idling of funds.

MHA replied (January 2020) that in Uttarakhand funds had not been utilised due to litigation and non-finalisation of DPR of Pancheshwar Dam Project. MHA further stated (December 2020) that the main intent of MHA in releasing funds was to ensure that the progress of work should not be affected due to want of funds. MHA in exit conference (February 2021) added that now the release of funds has been streamlined and funds are being released on the basis of physical and financial progress of the work. MHA further added (December 2021) that in retrospect, it would have been better if funds had not been released to Government of Uttarakhand in anticipation of timely resolution of impediments.

3.1.2 Improper reporting of utilisation of funds by Bihar

As per Rule 239 of General Financial Rules 2017[27] Form 12-C prescribed for Utilisation Certificate (UC), the UC shall disclose separately the actual expenditure incurred and loans and advances given to suppliers of stores and assets which do not constitute expenditure at the stage.

Audit observed that expenditure (civil cost) reported in the UC by the SGoB to MHA did not exhibit correct financial progress. In five test-checked Divisions[28], the reported expenditure aggregated to ₹ 280.91 crore (2012-13 to 2019-20) against the actual expenditure of ₹ 177.44 crore**.** The reported expenditure included Mobilisation and Tools & Plant (T&P) advances aggregating ₹ 103.47 crore to agencies[29]. Besides, refund of ₹ 91.99 crore by contractors from the mobilisation advance after retaining them for more than five years, was also not depicted in the UCs submitted to GoI. The refund increased the cash balance with RCD, whereas the same was already reported as expenditure to GoI. Consequently, GoI was not informed of actual availability of funds with GoB.

RCD replied that earlier advances to contractors being shown as expenditure were for getting further allotment from MHA. However, the UC would be rectified in the current year after incorporating the amount of advances returned by the contractor.

On being pointed out by Audit, MHA (March 2021) directed State governments to provide the UCs strictly in accordance with the provisions of the GFR.

3.1.3 Irregular release of ₹ 2.34 crore by MHA

As per the MoU, the expenditure on shifting of utility services and afforestation charges were to be borne by the State Governments. Scrutiny of records in MHA revealed that HLEC in its 45th meeting (29 October 2018) and 47th meeting (28 January 2020) approved the revised estimates of three DPRs aggregating ₹ 195.81 crore and two DPRs aggregating ₹ 147.23 crore, respectively, which included the charges of utility shifting and afforestation aggregating ₹ 2.34 crore sent by SGoUP. The approval of utilities shifting charges aggregating ₹ 2.34 crore by MHA was, thus, irregular.

MHA accepted (December 2021) the audit observation and informed that the amount will be adjusted/recovered from future release of funds.

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[27] Earlier version i.e. Rule 212 of GFR 2005 laid down that a certificate of actual utilization of the grant received for the purpose for which it was sanctioned should be insisted upon.

[28] *Bettiah*, *Kishanganj*, *Madhubani*, *Motihari* and *Sitamarhi.*

[29] NKC Projects Private Ltd, JKM Infra Projects Ltd.

3.1.4 Non-accounting of interest earned

As per Rule 209 (6) (xi) of GFR, 2005 relating to 'Principles and Procedure for award of grants-in-aid', the stipulation in regard to refund of the amount of grant-in-aid with interest thereon should be brought out clearly in the letter sanctioning the grant.

MHA, while releasing grants to the States, in some of the sanctions incorporated a clause that "the amount sanctioned so far against the project is subject to the condition that interest earned on the unutilised amount, if any, would be deposited to the GoI (MHA) account". The State-wise position regarding stipulation of this condition in the financial sanctions under the project is given in **Table No. 5**.

Table No. 5: State-wise position of the financial sanctions

Name of the State	No. of sanctions included the stipulation
Bihar	No such condition was stipulated in any of the financial sanctions for release of funds aggregating ₹ 806.04 crore during the period 2012-13 to 2020-21.
Uttarakhand	Out of ₹ 209.14 crore released through five sanctions, no such condition was stipulated in four financial sanctions aggregating ₹ 9.14 crore.
Uttar Pradesh	Out of ₹ 693.99 crore released through nine financial sanctions, no such condition was stipulated in five financial sanctions aggregating ₹ 361.50 crore.

Source: MHA

MHA did not furnish any reason for non-stipulation of the said condition in all the financial sanctions for release of funds to States and stated that details regarding interest earned are not maintained in MHA.

Audit noted that State Governments of Uttar Pradesh and Uttarakhand earned interest aggregating ₹ 1.16 crore (up to December 2019) and ₹ 35.58 crore (up to March 2021), respectively but SGoU did not disclose the same in its utilisation certificates submitted to MHA. In case of Bihar, the Central funds were parked in current account, as outlined in Para 3.1.1 (Box).

The SGoUP intimated in utilisation certificate submitted in May 2019 about the interest earned aggregating ₹ 1.06 crore. MHA was instructed (May 2019) by its Integrated Finance Division that it may be ensured that all interest and other earning accrued by any organisation against amount released have been mandatorily remitted to Consolidated Fund of India.

On being pointed out by audit, MHA (March 2021) directed State Governments to provide the UCs strictly in accordance with the provision of GFR. However, MHA did not address the issue regarding the interest earned by the State Governments and also not take any action to direct the State Governments to deposit the interest earned as of March 2021. MHA further intimated (December 2021) that interest earned has been deposited/transferred to the Consolidated Fund of India by SGoUP.

3.1.5 Diversion of funds by State Governments

As per the CCS Note 2010 and MoU, State Governments would obtain the necessary clearances including forest/wildlife clearances wherever required and make payment for the charges of Net Present Value of land, compensatory afforestation etc. Audit noted that State Governments of Uttar Pradesh and Uttarakhand diverted ₹ 13.41 crore[30] to meet expenditure like afforestation payments, repair of causeways falling on the roads, and shifting of utility services which were against the norms of the CCS Note 2010 and MoU.

On being pointed out by audit, MHA (March 2021) directed State governments that the funds diverted may be reported to the Ministry for adjustment from further release of funds and States should ensure that no diversion of funds takes place in future.

3.1.6 Unadjusted advances and interest thereon

In Bihar, mobilisation advances and Plant & Machinery (P&M)/Equipment advances aggregating ₹ 103.47 crore[31] on interest basis were given to contractors during March 2013 to June 2014. In Uttar Pradesh, interest free mobilisation and equipment advances aggregating ₹ 84.85 crore[32] were given to contractors during May 2013 to March 2018. The details of advances and its recoveries are tabulated in **Table No. 6**:

Table No. 6: Details of advances and recoveries

(₹ in crore)

State	Nature of advance	Advance amount	Interest amount	Amount recovered		Amount recoverable	
				Advance	Interest	Advance	Interest
Bihar	Mobilisation	93.99	107.14	91.99	13.01	2.00	94.13
	P&M/Equipment	9.48	8.68	--	--	9.48	8.68
Uttar Pradesh	Mobilisation	31.81	--	23.88	--	7.93	--
	P&M/Equipment	53.04	--	38.66	--	14.38	--
Total		**188.32**	**115.82**	**154.53**	**13.01**	**33.79**	**102.81**

Source: MHA

As evident from above table, in Bihar, while Mobilisation advance of ₹ 91.99 crore was recovered (June 2018 to February 2020), P&M advance of ₹ 9.48 crore is yet to be recovered. Out of the total interest accrued on Mobilisation and P&M advance aggregating ₹ 115.82 crore,

30 Uttarakhand- ₹ 9.21 crore and Uttar Pradesh - ₹ 4.20 crore

31 ₹ 93.99 crore as Mobilisation advance + ₹ 9.48 crore as P&M advance

32 ₹ 31.81 crore as Mobilisation advance + ₹ 53.04 crore as P&M advance

only ₹ 13.01 crore was recovered leaving a balance of ₹ 102.81 crore to be recovered from the contractors (July 2020). The work was stopped for more than five years as land was not acquired and the contractor retained the fund of ₹ 103.47 crore for this period.

Ministry endorsed (August 2021) the views of the SGoB, which stated that recoveries of interest due on advances during retaining period would be made on the basis of award of the tribunal.

In Uttar Pradesh, ₹ 22.31 crore (₹ 7.93 crore + ₹ 14.38 crore) was pending for recovery as of December 2019. No time limit was prescribed for recovery of these advances in the Model Bid Document (MBD) and recoveries were linked with the progress of work. Misuse of mobilisation advances by contractors could not be ruled out.

The SGoUP replied (January 2020) that grant of Mobilisation advances/Equipment advances and recoveries thereof were done as per the contract conditions. The fact remains that provisions of MBD regarding interest-free mobilisation advances without a fixed schedule of recovery led to large unadjusted advances for years, which was also in violation of Central Vigilance Commission order (April 2007) that recovery should be time based and not linked with the progress of works.

3.2 Cost Escalation on account of slow progress of works

Due to the slow progress of construction of roads, the projects costs increased by ₹ 831.30 crore. The details are mentioned in **Table No. 7**:

Table No. 7: Escalation in civil cost

(₹ in crore)

Name of State	No. of stretches where cost was revised	Length of stretches in km	Original cost approved by HLEC	Revised cost approved by HLEC	Increase in the cost (percentage)
Bihar	11	337.55	995.67	1507.67	512.00 (51)
Uttar Pradesh	10	217.07	626.60	945.90	319.30 (51)
Total	21	554.62	1622.27	2453.57	831.30 (51)

Source: MHA

In Bihar, out of 15 stretches **(Annexure-4A** and **Annexure-4B)**, there was a cost escalation of ₹ 512 crore (51 *per cent*) in 11 stretches. In the remaining four stretches, the proposals of three[33] stretches for revision of cost estimates were under consideration as of March 2021.

In ten stretches (396.97 km) where the progress of work was only eight *per cent*, the cost escalation in eight stretches was ₹ 377.12 crore (52 *per cent*) and two stretches were under consideration for revision (with ₹ 181.89 crore of increased cost). In nine (372.93 km) out of

[33] In one stretch (*Dhabeli* to *Fatehpur*), no cost escalation

ten stretches, the work was stopped for almost five years (2015-2020) as the State Government failed to provide site free from encumbrance to the contractors. Though Audit noted that there was no increase/change in quantity and the specification on these stretches **(Annexure-4A)**, there was escalation in cost due to increase in the schedule of rates during the period 2011-12 to 2018-19.

Estimates prepared without actual site conditions led to increase of cost by ₹ 90.44 crore

HLEC had approved (2012) DPR of one stretch[34] (24.05 km) for ₹ 70.56 crore. SGoB had revised the cost of the project by ₹ 161 crore and the same had been approved by HLEC (2018). Hence, there was a cost escalation of ₹ 90.44 crore (128 *per cent* increase). The cost overrun was mainly due to increase in the scope of work such as provision of 1x30m additional bridge, increase in crust thickness, provision of additional RCC culverts etc., which indicated that the initial estimates approved by HLEC were not based on actual alignment of road.

Further, Audit noted that Chief Engineer, RCD, Bihar stated in the 64th Technical Committee (2018) that the preliminary estimate was prepared on the basis of Google map whereas the revised estimate was based on actual alignment of road based on SOR 2018 and also the stretch was a greenfield one, which led to increase in cost. The statement of Chief Engineer RCD confirmed that the earlier DPR (approved by HLEC in 2011) was not prepared by the SGoB on the actual site conditions and proper surveys.

The work had been stopped since 2017 and expenditure of ₹ 26.10 crore had been incurred. SGoB had retendered the work and the evaluation of bids was under examination as of March 2021.

In Uttar Pradesh, in 10 out of 12 stretches, there was a cost escalation of ₹ 319.30 crore (51 *per cent*) from 2013 to 2020, as detailed in **Annexure-5.** The reasons of the cost escalation were increase in the cost of material, labour and Tools & Plants; and also due to change of scope of work like provision of culverts, bridges, drain, reduction in length of road etc.

Thus, time overrun in the construction of roads on INB in Uttar Pradesh and Bihar in 21 stretches resulted in cost escalation of ₹ 831.30 crore (51 *per cent* of the original cost) as of March 2021.

MHA while accepting the audit observation stated (December 2021) that slow progress of road construction work was mainly due to delay in receiving statutory clearances, land acquisition and obtaining Forest & Wildlife clearances and the time overrun resulted into cost escalation.

[34] *Phlubaria Ghat* at *Lalbakiya River* to *Bahar* Village