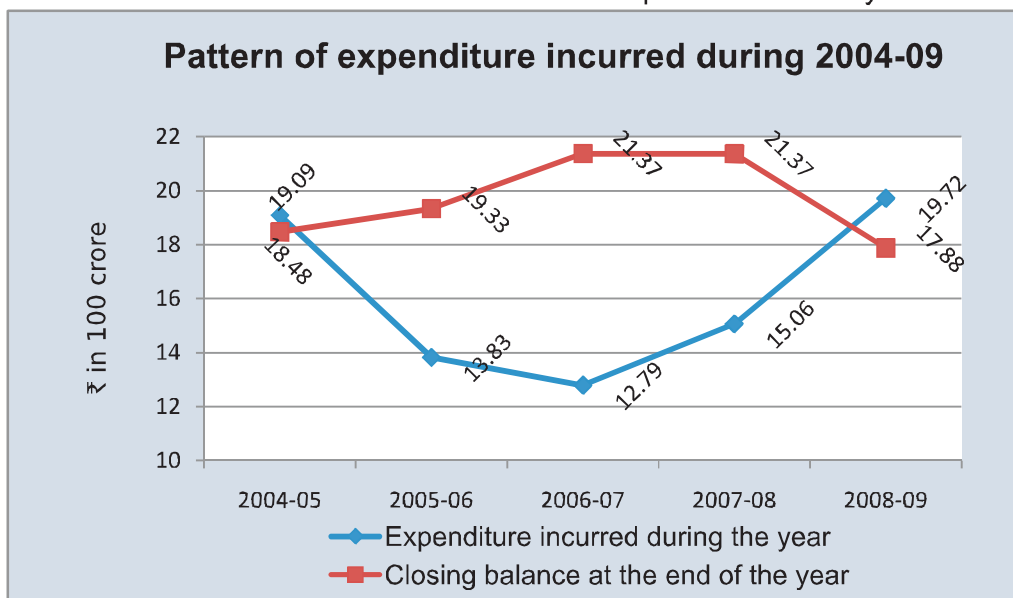


Funds Management

6.1 Pattern of funds utilisation

The expenditure incurred against funds available with the DAs country-wide during the last five years indicated that the utilization of funds ranged between 37.43 per cent and 52.44 per cent of the available funds as already detailed in paragraph 1.4.2 of this Report. The closing balance at the end of 2008-09 was reduced by 25.63 per cent vis-à-vis the opening balance at the beginning of 2004-05, from ₹ 1,909 crore to ₹ 1,788 crore indicating overall improvement in utilisation of funds. However, substantial balances ranging from ₹ 1,788 crore to ₹ 2,137 crore still remained accumulated in various bank accounts opened for the MPLADS by the DAs. These funds remained outside the Consolidated Fund of the Union and/or States.

Further, the graphical presentation of year-wise expenditure incurred during 2004-09 showed that to some extent the expenditure under the Scheme had a propensity to increase at the times close to elections, while during the intermediary period, funds tended to accumulate. The two peaks in the expenditure incurred during 2004-05 and 2008-09, were coterminous with the beginning and close of the 14th Lok Sabha and the pre-election years of the 15th Lok Sabha respectively. Consequently, the closing balances available with DAs increased between 2004-05 and 2006-07 and declined in 2008-09, as utilization increased. The acceleration of expenditure in the year close to



the elections indicated administrative lethargy during the period between two elections due to non-lapsable nature of unspent balances of previous years.

The Ministry stated that since the unspent balances, which included a sizeable amount of interest accrued, under the MPLADS were non-lapsable, these were bound to exist as the DAs kept 50 *per cent* of funds for each work with them for releasing the second instalment to the IAs. Further, the Ministry was strictly adhering to the guidelines while releasing the funds to the DAs, which were linked with the utilisation of previously released grants.

The reply of the Ministry is not as per the compendium on instructions/clarifications issued on MPLADS guidelines by the Ministry. The DAs were not required to keep funds for payment of second instalment to the IAs with them, as the same was to be paid after receiving the second instalment of MPLADS grants from the Ministry. Further, while the Ministry was generally adhering to criteria mentioned in paragraph 4.3 of the Scheme guidelines while releasing the funds to the DAs, the criteria itself could lead to substantial unspent balances. As per the guidelines, the second instalment of ₹ 1.00 crore for a particular year could be released if the total unspent funds with the MP were less than ₹ 1.00 crore. Further, the first instalment of ₹ 1.00 crore for a particular year could be automatically released if the second instalment of the previous year was released to the MP. This could lead to availability of unspent balance of anything less than ₹ 3.00 crore with an MP at a point of time.

6.2 Financial reporting and monitoring

6.2.1 Annual accounts and utilization certificates (UCs)

In order to implement the Scheme with a degree of accountability, the Ministry was to monitor the receipt of UCs and audit certificates from the DAs and review issues arising out of them so as to take necessary timely corrective action.

However, proper register/records were not maintained by the Ministry to watch the progress of receipt of the annual accounts and UCs from the DAs. The UCs, and audit certificates that were received, were simply kept on record and not analyzed by the Ministry to obtain an assurance regarding utilization of funds. The Ministry had also not conducted any review on issues arising out of audit certificates and UCs. Thus, a comprehensive picture of fund utilisation under the Scheme could not be ascertained by Audit.

It was also observed that the Ministry had been relaxing the condition of furnishing the UCs and Audit Certificates by the DAs before the release of second instalment of funds every year in a routine manner. In all such cases, second instalment was released to the DAs with the condition that first instalment of succeeding year would be released only on the receipt of these UCs.

The Ministry, while accepting the observation, stated that the decision to relax the condition was taken on the basis of release position vis-à-vis budget for the Scheme so as to ensure that the works recommended by the MPs and sanctioned by the DAs did not suffer for want of funds. The Ministry also stated that though it was maintaining register for UCs and Audit Certificates received from the DAs, there were chances that due to shortage of staff, the entries had not been made. Further, the Audit Certificates furnished by the DAs could not be examined properly because officials responsible for examining them did not have expertise in commercial accounting.

However, the reply of the Ministry should be seen in the context that under the MPLADS, most of the DAs always had sufficient funds, as the total unspent balance available with them at the end of the year during 2004-05 to 2008-09 ranged between ₹ 1,788 crore to ₹ 2,137 crore. The Ministry should have been aware of these unspent balances had they been monitoring the UCs and other Management Information System (MIS) from the States. Further, it was noticed that the relaxation was not made on the basis of specific requests from the DAs but with a view to show expenditure against the amounts budgeted. Also while there was no vacancy against the sanctioned posts in the MPLADS Division, the officials could have been suitably trained for carrying out the work entrusted to them. The Ministry failed to do so. Further, the register of UCs and Audit Certificates maintained by the Ministry did not contain information on pending UCs and Audit Certificates; as a result, it was not an effective tool for monitoring receipt of these certificates. Even after 17 years since implementation, no capacity building for effective monitoring was evident.

6.2.2 Incorrect reporting of financial progress by the DAs

Audit noticed that the DAs reported inflated figures of expenditure to the Ministry, by treating the amount released to the IAs as the final expenditure, without ascertaining the actual expenditure incurred.

In 12 districts of six States/UTs (Chhattisgarh, Jharkhand, Lakshadweep, Nagaland, Tripura and Sikkim), ₹ 100.17 crore was released as advance to the IAs for execution of works during the years 2004-09, out of which ₹ 65.18 crore only had actually been spent by the IAs. Instead of reporting the actual expenditure to the Ministry, the DAs depicted the entire advance of ₹ 100.18 crore as utilized in their UCs, thus inflating the figures of expenditure by ₹ 35 crore, and presenting an incorrect picture of fund utilization under the Scheme. The State-wise details are in **Annex 6.1**.

Scrutiny of MPRs and Annual Accounts in 21 constituencies including two RS MPs of ten States/UTs further disclosed that the DAs had reported lesser amounts of interest earned in their annual accounts and/or MPRs than those reported in the MPRs of the earlier months resulting in understatement of interest of ₹ 5.60 crore as given in **Annex 6.2**.

The Ministry stated that information on reported irregularities would be obtained from DAs for taking necessary action.

Chapter-6

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Case study: Incorrect reporting of financial progress by West Siang DA of Arunachal Pradesh

The nodal DA, West Siang reported inflated expenditure of ₹ 2.48 crore to the Government of India and the State Government on the basis of the funds released to the DAs without ascertaining the actual expenditure incurred by the IAs. The DA also stated (October 2009) that the fund released to the IA had to be treated as expenditure, since the actual expenditure statements were generally received after actual completion of work which took at least 4 to 12 months or above from the time of release of funds. However, the contention is not correct, as mere release of funds should not be treated as expenditure.

6.2.3 Discrepancies in figures in MPRs, UCs and annual accounts

Test check¹⁴ of Monthly Progress Reports (MPRs), annual accounts and UCs, however, showed a number of discrepancies in the figures detailed in these basic records for 30 constituencies in 11 States/UTs pertaining to the period from 2004-05 to 2008-09 as outlined below (details according to nature of discrepancy in **Annex 6.3**):

- In 20 cases, three different expenditure figures of the same financial year were mentioned in the three records, viz. the MPR, the annual accounts and the UCs.
- In two cases, expenditure figures of the annual accounts and the UCs did not match, in three cases expenditure figures of the annual accounts and the MPRs of March of the same financial year did not tally and in seven cases, expenditure figures of the UCs and the MPRs of March of the same financial year did not tally.
- In 22 cases, the closing balance of the annual accounts and the MPRs of March of the same financial year did not match; in five cases, the closing balance of the UCs and the MPRs of March of the same financial year and in 16 cases, closing balance of the UCs and the annual accounts of the same financial year did not match.
- In three cases, the figures of interest mentioned in the annual accounts did not match with the figures mentioned in the UCs of the same accounting period.

¹⁴ As the Ministry did not maintain records containing consolidated figures of MPRs, UCs and audited accounts, separate files of about 250 constituencies had been test checked by Audit.

- In two cases, the opening balance of the UC did not match with the closing balance mentioned in the annual accounts of preceding year.

The discrepancies in the MPLADS figures in three basic accounting records, which should invariably match, indicated weak internal controls at the DA's level. In this scenario there cannot be any assurance of the expenditure incurred, interest earned as also unspent balances with DAs and IAs. The Ministry has failed to scrutinize these records and take action, as required under the Scheme guidelines.

The Ministry stated that due to paucity of staff in the MPLADS Division, these discrepancies were not verified for the purpose of release of funds. Further, discrepancies in figures of MPRs, UCs and Annual Accounts would be ascertained from DAs for taking necessary action.

6.2.4 Deficient verification of MPRs resulting in excess release

While implementing the MPLADS, the second instalment of the annual grant amounting to ₹ 1.00 crore was to be released to the DAs subject to the condition that the unspent balance of funds of the MP concerned was less than ₹ one crore.

However, the Ministry released grants worth ₹ 18.00 crore to two Rajya Sabha MPs and six Lok Sabha constituencies of seven States/UTs in contravention of the scheme provisions, as detailed below:

- In 12 cases involving five LS constituencies and one case of RS MP (details in **Annex 6.4**), although the available balance in their corresponding MPRs was shown by the respective DAs, to be between ₹ 0.53 crore and ₹ 0.98 crore, audit test checks revealed that the actual balances available with the DAs ranged between ₹ 1.00 crore and ₹ 3.08 crore at corresponding points of time. The second instalment of ₹ 1.00 crore was released to these constituencies on the basis of incorrect information furnished in the MPRs.
- In the case of another RS MP (Bihar), the Ministry released the first and second instalments of 2004-05 and first instalment of 2005-06 in January-March 2008, despite having differences between the figures of unspent balance given in the UC and Annual Accounts for 2006-07 and the MPR for March 2007.
- In one constituency (Jaunpur, Uttar Pradesh), the unspent balance available with the DA was ₹ 1.88 crore as per the Monthly Progress Report (MPR) of October 2008, but the second instalment of ₹ 1.00 crore for 2008-09 was released in November 2008.
- In case of a RS MP (Jammu and Kashmir), a grant of ₹ 1.00 crore was released in September 2006 after the resignation of the MP in April

2006, which was not backed by any recommendation received from the MP up to the last day of his tenure.

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The Ministry stated that it should not be blamed for the incorrect information provided by the DAs. Despite the shortage of staff in the MPLADS Division, the Ministry had always tried to verify the main points as per guidelines, before releasing the funds hoping that information supplied by the DAs were correct.

The reply of the Ministry is not acceptable. As per the information provided by the Ministry, there was no shortage of staff vis-à-vis sanctioned strength in the MPLADS Division. Further, it was the responsibility of the Ministry to monitor the overall position of funds released, funds spent, receipt and verification of UCs and Audit Certificates and exercise due diligence in processing the proposals from the DAs before sanctioning and releasing funds. The failure to do so should be viewed as a serious lapse by the officials concerned.

6.2.5 Non submission of UCs for funds for natural calamities

The scheme guidelines stated that in the event of calamity of a severe nature in any part of the country, the MP may recommend works up to a maximum of ₹ 0.50 crore for the affected district.

Audit observed that 12 DAs of eight States (Himachal Pradesh, Haryana, Chhattisgarh, Madhya Pradesh, Meghalaya, Mizoram, Rajasthan and West Bengal), released ₹ 6.61 crore to Andaman and Nicobar Islands, Puducherry and Tamil Nadu (Kanyakumari) during 2005-07 for the tsunami rehabilitation works. However, the UCs for expenditure incurred from these funds had not been sent to the DAs releasing the funds by the DAs who had received the funds, as was required under the scheme guidelines.

The Ministry stated that information was being collected from the DAs concerned regarding non-submission of UCs from the IAs in respect of expenditure incurred for Tsunami rehabilitation work.

The failure to monitor the receipt of UCs pertaining to 2005-07 points to absence of internal control mechanism in this regard.

6.2.6 Non-submission of UCs by IAs

Under the MPLADS, the IAs were required to submit utilisation certificates (UCs) in the prescribed format to DAs after completion of the works for onward transmission to the Ministry.

However, IAs receiving advances from 80 DAs (63 per cent of sample) of 23 States/UTs, did not furnish UCs for ₹ 369.97 crore (41.32 per cent of the total funds released to IAs) pertaining to 19,540 works (41.10 per cent of total works), out of a total of 47,533 works, completed during the period 2004-09 (State-wise details in **Annex 6.5**). In three States (Assam, Jammu and

Kashmir and Maharashtra) IAs did not furnish any UC for the entire amount of advance released to them.

Further, in Assam UCs of ₹ 6.77 crore were not sent by seven districts to three nodal DAs out of ₹ 7.98 crore released to them during 2004-09.

The Ministry stated that it was the responsibility of the DAs to ask for UCs from the IAs and information on reported irregularities would be obtained from DAs for taking necessary action.

The Ministry, however, has failed to explain as to how it was accounting for funds released and processing further proposals for release in the absence of UCs.

6.3 Distribution of funds of ex-Rajya Sabha (RS) MPs

The scheme stipulates that the unspent balances under MPLADS left by the predecessor elected RS MPs in a particular State would be equally distributed amongst the successor RS MPs in that particular State¹⁵.

Audit revealed that unspent balances of ₹ 82.54 crore left by predecessor RS MPs in 10 states had not been distributed among the successor RS MPs of that State. The details are as given below:

Table 6.1: Non-distribution of funds of ex-RS MPs

(₹ in crore)

States/UTs	Amount	States/UTs	Amount
Maharashtra	39.67	Jammu and Kashmir	10.25
Gujarat	9.67	West Bengal	8.48
Haryana	8.46	Goa	1.85
Tamil Nadu	1.77	Orissa	1.26
Uttarakhand	1.08	Assam	0.05
Total			82.54

(Source: Files of State Nodal Departments)

In Chhattisgarh, the unspent balance of ₹ 0.62 crore left by predecessor RS MPs was to be equally distributed among five successor RS MPs. Instead, the DA Bilaspur distributed the unspent amount equally between only two RS MPs, Sh. Ramdhar Kashyap and Smt. Kamla Manhar, in contravention of the provisions of the scheme.

The Ministry stated that reasons for non-distribution of unspent funds left over by the ex-MPs (RS) was being obtained from the States concerned. Further, this issue was invariably being discussed in biennial MPLADS Review Meetings.

¹⁵ This distribution of unspent funds of ex-RS MPs to successor RS MPs is in addition to their entitlement of ₹ 2 crore per year.

6.4 Diversion of funds

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Funds were required to be spent for the intended purposes under the MPLADS but in seven States, ₹ 4.67 crore was diverted to other schemes of State and Central Governments by 22 DAs, as detailed in **Annex 6.6**.

While in Andhra Pradesh and Orissa, a portion of the MPLADS funds diverted to other schemes was subsequently recouped by the DAs, in the remaining States MPLADS funds had been spent for purposes other than those intended under the scheme. The diversion of funds indicated that internal controls and financial management needed to be strengthened at DA level and Ministry level.

The Ministry stated that the audit finding was being ascertained from the DAs concerned.

6.5 Release of advances in excess of prescribed limits

The MPLADS guidelines envisage that the DA may release advances up to 75 *per cent* (for projects sanctioned up to October 2005) and 50 *per cent* (for projects sanctioned after October 2005) of the estimated amount of a sanctioned work to the IA.

However in 13 States/UTs, 35 DAs gave advances of ₹ 80.00 crore for execution of 4,653 works where only ₹ 48.92 crore was admissible resulting in excess releases of ₹ 31.08 crore to the IAs (detailed in **Annex 6.7**). Out of these 13 States/UTs, in three States/UTs (Kerala, Lakshadweep and Madhya Pradesh), nine DAs released 100 *per cent* i.e. the sanctioned cost as advance.

Besides, in Andaman and Nicobar Islands, advances at the rate of 75 *per cent* of the sanctioned cost were released for 27 works during February 2006 to March 2006 by the DA to IAs resulting in excess release of ₹ 0.80 crore. The DA stated that due to delay in receipt of guidelines on MPLADS issued by the Ministry in November 2005, older guidelines were followed. This indicated lack of coordination between the Ministry and the DAs.

The Ministry stated that the audit finding was being ascertained from the DAs concerned for necessary action.

6.6 Refund of unspent balances by IAs

The MPLADS guidelines stipulate that the IAs refund to the DA, the unspent balance including interest, if any, at their disposal within one month of the completion of the work and close the bank account opened for the purpose. However, the Scheme guidelines did not incorporate any provision for refund of the unspent balances/advances available with IAs in cases where works could not be started by them due to various reasons.

Audit observed that in 24 States/UTs, unspent balances of ₹ 1.98 crore arising due to completion of works at lower than sanctioned cost and interest accrued on balances of ₹ 4.71 crore had not been refunded by the IAs after completion of the work. Further, in 12 States/UTs, ₹ 12.14 crore was lying with various IAs as unspent balances pertaining to 679 works which could not be taken up for implementation. State-wise details are given in **Annex 6.8**.

The DAs failed to follow up with the IAs to refund the unspent balances lying with them indicated deficient monitoring and accountal of funds. This resulted in blocking of funds and may also lead to misappropriation in cases of non-refund after completion of projects.

The Ministry stated that the audit finding was being ascertained from the DAs concerned for necessary action.

The fact that the Ministry was not aware speaks of poor monitoring and financial control.

6.7 Contingency Expenses

The MPLADS guidelines provide that the DA can utilize up to 0.5 *per cent* of the amount spent on completed projects in a year as 'contingency expenses'. However, the guidelines prohibit the DA from levying any administrative charges, salary, travel cost, etc., for their services in respect of preparatory work for implementation and supervision of projects/works.

It was, however, noticed that in 13 States/UTs, 35 DAs had utilized an amount of ₹ 1.30 crore on payment of honorarium/wages/travelling expenses of staff, refreshments for staff, electrification of office building, fuel for official vehicles, purchase of laptops, office furniture, supervision charges etc., which were inadmissible. Further, six DAs in five States had spent ₹ 0.29 crore on contingencies against the admissible amount of ₹ 0.17 crore thereby incurring excess expenditure on contingencies by ₹ 0.12 crore. Details are given in **Annex 6.9**.

The Ministry stated that the audit finding was being ascertained from the DAs concerned for necessary action, as this was a gross violation of the Scheme guidelines.

6.8 Improper maintenance of Accounts

6.8.1 Banking arrangements

The scheme envisaged that the DAs and the IAs open separate savings accounts for each MP in nationalized bank. A monthly bank reconciliation of the cash book and pass book balances was to be carried out. Scrutiny of records of DAs and IAs disclosed the following discrepancies:

- In 10 States/UTs¹⁶, seven DAs and 68 IAs had not maintained a separate bank account for each MP. Instead, their funds under the scheme were clubbed with funds in the accounts of other MPs.
- In seven States/UTs¹⁷, 55 IAs had clubbed funds available under MPLADS with the funds of other schemes making it difficult to segregate the interest accrued on MPLADS funds.
- In four States (Karnataka, Kerala, Maharashtra and Uttar Pradesh), 13 DAs and one IA had opened more than one account for each MP.
- In 15 States/UTs¹⁸, 4 DAs and 105 IAs had kept the scheme funds in accounts such as fixed deposits, current accounts, Personal Ledger Accounts, Government treasury, etc. instead of saving accounts in a public sector bank.
- In 16 States/UTs¹⁹, 45 DAs had not reconciled the figures of the cash book and bank pass-book as prescribed.
- DAs in West Bengal did maintain separate bank accounts for each MP but IAs did not do so. Instead, IAs maintained a single savings bank account for transactions involving MPLADS funds. In case of release of funds to institutions such as schools, colleges, clubs, societies, and other non-government organizations, where such institutions were the users as well as IAs, MPLADS funds were kept in the bank accounts of such institutions where funds from other sources were also deposited.

The Ministry stated that the audit finding was being ascertained from the DAs concerned regarding violation of the Scheme guidelines for necessary action.

6.8.2 Discrepancy in accounts

The DAs and IAs were to maintain the accounts of MPLADS funds, MP-wise. The cash book and other books of accounts were to be maintained as per the State/UT government procedure. The books of accounts were to be audited by chartered accountants or the local fund auditors or other statutory auditors, as per the procedure outlined by the State/UT.

¹⁶ Bihar, Haryana, Himachal Pradesh, Jammu and Kashmir, Orissa, Maharashtra, Meghalaya, Puducherry, Uttarakhand and Tamil Nadu.

¹⁷ Arunachal Pradesh, Bihar, Karnataka, Orissa, Tripura, Uttar Pradesh and Uttarakhand.

¹⁸ Arunachal Pradesh, Bihar, Daman and Diu, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and Uttarakhand.

¹⁹ Andaman and Nicobar Islands, Andhra Pradesh, Daman and Diu, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Mizoram, Nagaland, Orissa, Puducherry, Rajasthan, Uttar Pradesh and Uttarakhand.

A test check by Audit, however, showed the following discrepancies in accounts:

- In 14 States/UTs²⁰, Chartered Accountants had not periodically audited the accounts of various LS and RS constituencies of 40 DAs, as detailed in **Annex 6.10**. Audit of accounts of one DA each in two States/UTs [Jammu and Kashmir (Poonch) and Lakshadweep] had never been conducted since the inception of the Scheme.
- In 12 States/UTs²¹, 14 DAs and 56 IAs had not maintained MP-wise separate cash books, and five DAs and one IA had not maintained any cash book for scheme funds at all.
- In Jharkhand and Bihar, advance/temporary advance of ₹ 6.18 crore and ₹ 0.13 crore, given to eight and five departmental officers respectively were unadjusted, despite the transfer and/or superannuation of the officers concerned.
- In the six LS constituencies of Delhi, the Audit Reports of the CA stated that vouchers pertaining to expenditure of ₹ 1.52 crore were missing and the amount was certified on the basis of certificates issued by the DDOs/IAs concerned. The veracity of these audit reports was, therefore, doubtful. The Ministry stated that the matter had been taken up with the Municipal Corporation of Delhi (MCD) for fixing accountability for missing vouchers.
- DA Kamrup (Metro) in Assam could not produce vouchers of payment of ₹ 0.51 crore to a Club, an NGO and six registered societies between December 2007 and February 2009.

These lacunae in banking arrangements and accounting procedures indicated that internal controls at the DAs and the IAs as also in the Ministry were weak exposing MPLAD funds to the risk of misuse, fraud and corruption.

The Ministry stated that the reported irregularities were being ascertained from the DAs concerned for necessary action.

²⁰ Andhra Pradesh, Arunachal Pradesh, Daman and Diu, Dadra and Nagar Haveli, Gujarat, Jammu and Kashmir, Kerala, Lakshadweep, Nagaland, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand and West Bengal

²¹ Arunachal Pradesh, Daman and Diu, Gujarat, Haryana, Jammu and Kashmir, Karnataka, Maharashtra, Madhya Pradesh, Meghalaya, Nagaland, Orissa and West Bengal.

Recommendations

- *The Ministry should amend the paragraph 4.3 of the guidelines so as to delink the release of first instalment of a year from the release of the second instalment of the previous year. Instead, the first instalment or part thereof should be released considering the status of unspent balance and unsanctioned balance available in the account of DA for the MP concerned to minimise the accumulation of funds with DAs.*
- *The Ministry should maintain an MP-wise Grants-in-aid Register with details on funds released, status of receipt of MPRs, UCs and Audit Certificates in a computerised format with complete data validation and place it on the official website of the Ministry for monitoring the fund utilisation under the Scheme.*
- *The Ministry should build capacity of its MPLADS division by strengthening internal controls and financial discipline in release and expenditure under the Scheme for timely remedial action.*
- *The Ministry should ensure that DAs forward the UCs regularly. Fund flow should be linked to complete accounting of the funds released.*