

## Chapter - 3

# Financial Management

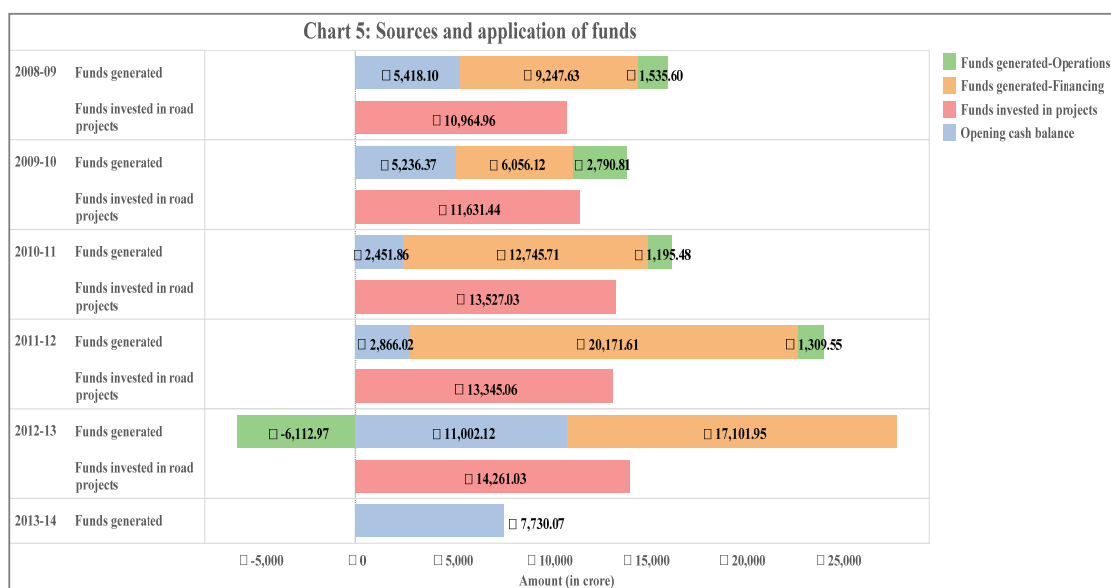
**3.1** A review of the funds received from all sources and application thereof revealed that at the end of each financial year, NHA was left with substantial unspent funds. Details for the last five years are in Table 5 and Chart 5 below.

**TABLE 5 - Sources and applications of funds**

(₹ in crore)

Year	Opening cash and bank balances	Funds generated from operations	Funds generated from financing activities			Funds invested in road projects etc.	Closing cash and bank balances
			Borrowings	Other than borrowings	Total funds generated		
2008-09	5418.10	1535.60	2304.01	6943.62	9247.63	10964.96	5236.37
2009-10	5236.37	2790.81	1550.64	4505.48	6056.12	11631.44	2451.86
2010-11	2451.86	1195.48	2465.83	10279.88	12745.71	13527.03	2866.01
2011-12	2866.01	1309.55	12511.52	7660.09	20171.61	13345.06	11002.11
2012-13	11002.11	(-) 6112.97*	2902.06	14199.89	17101.95*	14261.03	7730.06

\* Includes ₹ 6183.56 crore payable to Government for the period prior to 1 April 2010 on account of toll and negative grant etc. transferred to Capital account during the year 2012-13.



The fact that the NHAI was having large amounts of unspent money at the end of each financial year indicated its inability to invest the same efficiently in development of national highways. It also highlights the need for improving assessment of requirement as well as synchronisation of borrowings from the market with the requirement. Since NHAI has been issuing bonds which carry an interest rate of about eight *per cent*, such improvement will also avoid the unnecessary burden of payment of interest on borrowed funds.

### 3.2 Financing Plan:

To achieve the targeted length as per the work plan, a financing plan (FP) for National Highways for the years 2009-10 to 2030-31 taking into account the projected sources and application of funds was prepared by the B.K.Chaturvedi Committee and approved by GoI in 2009. The portion of Financing Plan for the last five years ending 2012-13 is in Table 6 below:

**TABLE 6- Financing Plan 2008-13**

(₹ in crore)

Year	Projected Construction expenditure as per FP based on B. K. Chaturvedi Committee	Percentage of actual work done/ awarded with reference to projected targets (refer Table 4 in Chapter II)	Actual project construction expenditure	Borrowing as per FP recommended by B. K. Chaturvedi committee	Actual borrowing	Percentage of actual borrowing to proposed borrowing
2008-09	-	-	-	1631	2304.01	141.26
2009-10	13,423.00	26.46	11529.88	5336	1550.64	29.06
2010-11	16,419.00	45.72	13618.53	7455	2465.83	33.08
2011-12	15,585.00	81.34	13280.01	9155	12511.52	136.66
2012-13	23,222.00	10.47	13996.28	21922	2902.07	13.24
<b>Total</b>	<b>68,649.00</b>		<b>52424.70</b>	<b>45499</b>	<b>20703.18</b>	<b>45.50</b>

NHAI did not spend the funds available as projected in the B.K Chaturvedi Committee Report. The length of roads awarded by NHAI was only 16036.81 km (refer Table 4 in Chapter II) as against 42391 km projected. Despite this, NHAI continuously resorted to borrowings, leaving it with surplus cash balance.

Reasons for non-achievement of targets (discussed separately in Chapter V) were delay in land acquisition, delay in obtaining required approvals from the concerned Ministries/ Departments/ local bodies like environment / forest clearances, ROBs/RUBs, utility shifting etc.

Figures of borrowings projected by B.K. Chaturvedi Committee and the amount actually borrowed by NHAI thereagainst, given in Table 6 above, showed a mismatch that ranged between (-) 13.24 *per cent* and (+) 41.26 *per cent*. In the absence of any work plan during 2008-09 and actual work done thereagainst, Audit was unable to comment on reasons for higher borrowings by 41.26 *per cent*. Further, despite shortfall by 18.66 *per cent* (refer Table 4 in Chapter II) in achievement of targeted length during 2011-12, the actual borrowing against approved borrowing was higher by 36.66 *per cent*. This was due to raising funds of ₹10,000 crore during the year through Tax Free Bonds under Section 10(15) (iv) (h) of the Income Tax (IT) Act. It was also noticed that at the end of 31 March 2012, out of total surplus fund of ₹ 11002.11 crore, an amount of ₹ 9928.31 crore was parked in fixed deposits with banks by NHAI. Further, despite availability of such a huge fund as well as shortfall of 89.53 *per cent* of work done/awarded, NHAI raised further funds of ₹ 2902.06 crore during 2012-13 through issue of bonds u/s 54 EC of the IT Act. At the end of 31 March 2013, an amount of ₹ 5933.59 crore was retained by NHAI in fixed deposits.

Audit is of the view that Government lost the opportunity to earn tax revenue to the extent of ₹ 135.87 crore considering Corporate Tax rate of 32.45 percent, on the surplus monies invested in fixed deposits at the rate of 9.85 *per cent* per annum out of funds borrowed through tax free bonds. NHAI had also paid ₹ 113.56 crore to the lead managers towards brokerage charges on the bond issue of ₹ 10, 000 crore raised during 2011-12.

There was need for a critical review of funds management by NHAI, by objectively linking the raising of funds with the progress of work and implementation of road projects.

The issue relating to huge cash balances at NHAI was discussed with the Secretary, MoRTH in the Exit Conference (July 2014) wherein the Management stated that NHAI follows a probabilistic model for determining the requirement of funds. During the Exit Conference the Secretary, MoRTH directed NHAI to base their financial plan on project wise analysis instead of on a simple statistical exercise. MoRTH in their reply of September 2014 have stated that the directions have been noted for taking necessary action at the time of finalising the Revised Budget of NHAI for 2014-15 and Budget Estimate 2015-16.

### 3.3 Accounting system in NHAI

NHAI's accounts are prepared neither fully on cash basis nor on accrual basis and as such its financial statements do not completely adhere to the Generally Accepted Accounting Principles (GAAP) and the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI). NHAI has certain characteristics of a government department as also that of a Public Sector Enterprise as is apparent from provisions of the NHAI Act, composition of its Board of Directors, delegation of powers, rules of business, etc. As per section 10 of the NHAI Act, the NHAI is to act on business principles.

Major deficiencies in the accounts of NHAI and comments on the Financial Statements for the year 2012-13 as pointed out by Audit are as follows:

1. NHAI has not capitalized any road project expenditure since it became operational in 1995 which is not in consonance with Accounting Standard-6 'Depreciation Accounting' as well as approved accounting format. At the end of 31 March 2013, an expenditure of ₹ 69280.44 crore was incurred by NHAI on completed road projects (218 EPC & 20 BOT annuity projects). These roads have already been put to use by the general public and toll is being collected on 224 of these stretches. However, it was seen in audit that in contravention of Accounting Standard-6, these were recorded in the balance sheet under the head 'expenditure on completed projects awaiting capitalisation / transfer' on which no depreciation was charged. The assets developed by NHAI have a defined life over which period they generate revenue by way of toll. There is a diminution in the value of the assets due to use and efflux of time and at the end of the period, the stretch of National Highway needs to be upgraded with fresh investments of funds. The depreciation as per prescribed rate of 5 *per cent* p.a., as per the NHAI policy for the year 2012-13 alone works out to ₹ 3116.32 crore and the same for the previous four years has been worked out at ₹ 6954.04 crore. In the absence of year wise details of project completed, the exact amount charged is not workable due to which audit is unable to quantify the amount by which the assets are overstated.
2. Interest on funds borrowed for the road projects can be capitalized till such time as the assets are not completed and put to use. After completion, the interest and other expenditure is to be charged on revenue basis. However, it was seen in Audit that borrowing cost of ₹ 865.64 crore, surplus/deficit in the profit and loss account of ₹ 106.07 crore (deficit) and interest earned of ₹ 124.44 crore on investment in SPV (subsidiary companies), etc. have been appropriated to completed projects.
3. NHAI is required to prepare its annual report based on an approved format, giving a full account of its activities during the previous financial year. Further, NHAI rules provide for preparation of the profit and loss account and the balance sheet and such subsidiary accounts as may be prescribed in consultation with the C&AG. In order to provide information of activities to the Parliament, Ministry, investors and the interested public, it is necessary to prepare the Accounts / Financial Statements on the basis of GAAP. During accounts audit in 2012-13, it was seen that NHAI is not following the approved format of Annual statement of Accounts in true spirit. Expenditure and Income (other than establishment expenditure) are routed directly through balance sheet instead of through profit and loss account, thus deviating from the approved format, and therefore the Profit and Loss Account/Financial Statements does not disclose a true and fair view. Further, although the approved format for the balance sheet indicates only one head for ongoing projects i.e. 'Capital Work in Progress' under the fixed assets,

NHAI has created another head 'Expenditure on completed projects awaiting transfer/ capitalisation' which is not in consonance with the approved format.

4. Investment in two subsidiary companies, viz. M/s Moradabad Toll Road Company Limited and M/s Ahmedabad – Vadodara Expressway Company Limited, of ₹ 345.21 crore have been shown in the Annual Reports at cost instead of lower of cost and fair value.
5. Interest of ₹ 5894.66 crore on borrowed funds and interest earned of ₹ 5419.32 crore on unutilized borrowed funds have not been allocated to a particular project as per the provisions of Accounting Standard-16 'Borrowing Cost' and have merely been adjusted in fixed assets.
6. It was seen during audit that expenditure of ₹ 4493.96 crore incurred on NHs developed by NHAI from public funds and subsequently transferred to eleven concessionaires for up-gradation under BOT are still being shown as fixed assets in the NHAI books.
7. The amount of debt given to concessionaires by commercial banks is secured under the provisions of termination clause of concession agreements as per the guidelines of RBI. However, no contingent liabilities for the same were shown in the Annual Reports.
8. NHAI disclosed in the Notes on Account that Accounting Standards issued by ICAI (except for AS-15 'Employee Benefits', AS-17 'Segment Reporting' and AS-21 'Consolidated Financial Statements') have generally been followed, whereas, it was seen during audit that NHAI has deviated from the provisions of Accounting Standards and guidelines issued by ICAI.
9. Internal Audit of NHAI does not provide any formal assurance regarding the adequacy and effectiveness of internal control over financial reporting.
10. The system of obtaining balance confirmation certificate does not exist in NHAI.

**Recommendation 3:** NHAI may develop an effective financial management system so that inflow of funds can be synchronised with the requirement and avoid surplus/idle funds.