

CHAPTER-4

FINANCIAL MANAGEMENT

4.1 Introduction

The RKVY funds were to be provided to the States as 100 *per cent* grant by the Central Government. At least 75 *per cent* of the total allocation under RKVY is to be earmarked for specific projects/components/activities under Stream-I of RKVY. The balance (25 *per cent*) of the RKVY funds were to be provided under Stream-II for strengthening the existing state sector schemes relating to agriculture and for filling the resource gap under the State Plans.

The conditionalities pertaining to funding under Stream-I and Stream-II are given in the following table:

Table 4.1

Stream-I		Stream-II	
a)	The nodal agency shall satisfy itself that the project fulfills the objectives of RKVY before recommending DPRs to the SLSC.	a)	Assistance will be released to States in two equal installments. 50 <i>per cent</i> of the allocation will be released as first installment at the commencement of the Kharif season, in April.
b)	The nodal agency is authorized to hire consultants to prepare the DPRs for which it can spend upto five <i>per cent</i> of the funds.	b)	The release of the 2 nd installment would be considered on the fulfillment of the following conditions:
c)	If the DPR is prepared, found acceptance and been paid for, the balance amount of 95 <i>per cent</i> would be distributed as follows:	(i)	Utilisation certificates for the funds released upto the previous financial year.
(i)	45 <i>per cent</i> of the funds will be released as first installment to the State.	(ii)	Expenditure of at least 60 <i>per cent</i> of the available funds i.e. unspent balance of the previous year plus the release in the first installment.
(ii)	In case where the DPR is prepared by the nodal/implementing agency, 50 <i>per cent</i> of the funds will be released as first installment to the State.	(iii)	Submission of performance report in terms of physical and financial achievements as well as outcomes, on a regular basis, within the stipulated time frame.
(iii)	40 <i>per cent</i> of the balance funds will be released when a physical progress of at least 50 <i>per cent</i> of the milestones is informed to Ministry. The balance 10 <i>per</i>		

<p><i>cent</i> of the funds will be released when the project is completed and field verification is done by a designated agency of the Government of India.</p> <p>The Ministry amended (December 2008) the above clauses by stipulating that funds would be released to States in two equal installments during 2008-09. Thereafter same practice is continuing.</p>	
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Depending upon its needs, a State could choose to use its entire allocated RKVY funds under the Stream-I only. However, the reverse was not possible i.e. a State could not choose to lower its Stream-I allocation below *75 per cent*.

4.2 Release and utilization of funds

The Cabinet Committee on Economic Affairs approved an outlay of ₹ 25,000 crore for RKVY during the XIth Five Year Plan (2007-08 to 2011-12). For the XIIth Five Year Plan (2012-13 to 2016-17), an amount of ₹ 63,246 crore was approved.

During the review period (2007-08 to 2012-13), against an allocation of ₹ 32460.45 crore, an amount of ₹ 30873.38 crore was released and expenditure of ₹ 28083.89 crore was incurred in all the 28 States and seven UTs (excluding expenditure figures of UTs for the years 2010-11 and 2011-12).

The position of allocation, release and utilization of funds under the RKVY for the years 2007-08 to 2012-13 in respect of 27 States selected for review (except Mizoram and UTs) is shown in the chart given below: The State-wise and year-wise details are given in **Annex-XI**.



The expenditure under RKVY showed a steady increase from 2007-08 onwards until 2011-12. However, the expenditure during 2012-13 fell by 21.48 per cent over the level of 2011-12.

4.2.1 Non-reconciliation of figures

A) Non-reconciliation of figures of release and expenditure between Ministry and States

For the purpose of this performance audit, the figures of release and expenditure were also obtained by Audit from the 27 States. A comparison of these figures with the figures available with the Ministry is given in the table below:

Table 4.2

(₹ in crore)

Year	Figures reported by Ministry		Figures reported by States		Difference between figures reported by Ministry and States*	
	Release	Expenditure	Receipt	Expenditure	Receipt (Col. 4-2)	Expenditure (Col. 5-3)
1	2	3	4	5	6	7
2007-08	1246.39	1246.39	1191.47	912.65	(-)54.92	(-)333.74
2008-09	2875.54	2874.03	2942.76	2748.27	67.22	(-)125.76
2009-10	3756.53	3756.51	3780.14	3683.34	23.61	(-)73.17
2010-11	6715.28	6713.86	7070.76	6566.79	355.48	(-)147.07
2011-12	7696.12	7477.01	9838.32	8930.17	2142.20	1453.16
2012-13	8204.64	5870.72	9960.25	9075.31	1755.61	3204.59
Total	30494.50	27938.52	34783.70	31916.53	4289.20	3978.01

* Figures with (-) sign indicate less receipt/expenditure reported by States against figures of release/expenditure reported by Ministry while positive numbers indicate excess receipt/expenditure reported by States against figures of release/expenditure reported by Ministry.

The following points can be observed from the above table:

- The States reported excess receipt of grants by ₹ 4289.20 crore under the RKVY during 2007-08 to 2012-13.
- The States reported expenditure of ₹ 31916.53 crore whereas the Ministry reported expenditure of ₹ 27938.52 crore during 2007-08 to 2012-13 resulting in a difference of ₹ 3978.01 crore.

Thus, the integrity of data was questionable. The Ministry did not ascertain the reasons for mismatch to reconcile the figures. The Ministry replied (July 2014) that States' reporting of excess receipt appears to be a clerical mistake while the process of reporting expenditure by States is dynamic.

B) Non-reconciliation of figures of expenditure reported by Nodal Department to Ministry and booked under detailed head of RKVY by State

The expenditure incurred under budget head of RKVY should tally with the expenditure reported by the States to the Ministry. Audit observed that there were differences between the figures of expenditure reported by States to the Ministry and figures of expenditure booked under budget head of RKVY in the following States as tabulated below:

Table 4.3

(₹ in crore)

Sl. no.	Name of State	Year	Amount of expenditure booked under detailed head of RKVY	Amount of expenditure reported to Ministry	Differential amount (+ excess; -less) reported to Ministry
1.	Assam	2008-09 to 2011-12	595.81	667.12	(+)71.31
2.	Gujarat	2007-08 to 2012-13	2070.32	2180.55	(+)110.23
3.	Jharkhand	2008-09 to 2012-13	667.74	664.22	(-)3.52
4.	Nagaland	2007-08 to 2012-13	99.31	131.96	(+)32.65
5.	Odisha	2007-08 to 2012-13	1410.85	1240.64	(-)170.21
6.	Rajasthan	2008-09 to 2011-12	1577.60	1690.12	(+)112.52
7.	Tripura	2008-09 to 2012-13	237.93	214.07	(-)23.86
8.	Uttar Pradesh	2008-09 to 2012-13	2377.48	2493.29	(+)115.81
9.	Uttarakhand	2007-08 to 2011-12	172.88	173.24	(+)0.36
10.	West Bengal	2008-09 to 2012-13	1460.15	1483.80	(+)23.65
Total			10670.07	10939.01	

It can be seen from the above that out of ten States, seven States of Assam, Gujarat, Nagaland, Rajasthan, Uttar Pradesh, Uttarakhand and West Bengal reported excess expenditure of ₹ 466.53 crore whereas three States of Jharkhand, Odisha and Tripura reported short expenditure of ₹ 197.59 crore to the Ministry.

Some other state-wise specific findings are given below:

- In Arunachal Pradesh, reconciliation of expenditure incurred on implementation of the RKVY was never carried out since inception of the RKVY. The State government replied (September 2013) that figures were reconciled during a review meeting held on 28 September 2012 with the Ministry. However, no supporting documents were furnished to Audit.
- In Chhattisgarh, as per the information furnished by State Government, during the period 2007-08 to 2012-13, funds amounting to ₹ 262.98 crore were released by the Government of India under Stream-II of RKVY which were released in full to the implementing agencies. However, the Nodal Office reported allotment of ₹ 47.09 crore under Stream-II during the period 2007-13, leading to difference of ₹ 215.89 crore. This indicates absence of system for periodical reconciliation between figures of State Government and Nodal Office.

The Ministry replied (July 2014) that the matter was being taken up with the State Governments separately.

Recommendation 5: Reconciliation of expenditure figures is an important internal control exercise and must be carried out every year.

4.3 Observations on incentivizing the States

One of the main objectives of RKVY was to incentivize the States to increase public investment in agriculture and allied sectors. An analysis of the figures of total allocation and allocation for agriculture and allied sectors by the States* revealed the following points:

- Out of 27 States implementing the RKVY, in 12 States (Arunachal Pradesh, Chhattisgarh, Gujarat, Jammu and Kashmir, Jharkhand, Meghalaya, Rajasthan, Sikkim, Tamil Nadu, Uttar Pradesh, Uttarakhand and West Bengal), the allocation for agriculture and allied sectors did not increase in proportion to the total allocation during the period under review as can be seen from the following table.

Name of State	Percentage of allocation for agriculture and allied sectors to total allocation for the State					
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Arunachal Pradesh	6.38	5.72	5.99	6.51	5.30	5.73
Chhattisgarh	13.66	8.05	6.92	8.70	20.65	13.49
Gujarat	5.39	6.57	7.50	5.71	5.65	5.11
Jammu and Kashmir	4.20	3.75	3.85	4.16	3.13	3.62
Jharkhand	5.51	4.97	4.45	5.35	5.06	3.87
Meghalaya	11.02	9.59	12.96	17.05	11.15	10.76
Rajasthan	3.26	5.79	3.94	5.88	3.46	4.90
Sikkim	7.04	6.53	6.82	7.56	8.09	4.42
Tamil Nadu	5.80	5.65	5.50	3.57	3.64	5.10
Uttar Pradesh	8.05	6.26	6.88	6.28	6.59	5.91
Uttarakhand	11.27	12.36	8.36	7.89	7.86	8.04
West Bengal	3.49	4.45	4.61	3.72	2.56	2.17

Thus, in these States, the objective of RKVY to incentivize in order to increase investment in agriculture and allied sectors could not be achieved.

- In the remaining 15 States, the allocation for agriculture and allied sectors increased in proportion to the total allocation.

Recommendation 6: The Ministry must ensure that the States increase their budgetary allocation for agriculture and allied sectors in proportion to their total allocation so that the main objective of RKVY to incentivize the States is achieved.

* In four States of Kerala, Maharashtra, Tamil Nadu and West Bengal, figures of total expenditure and expenditure on agriculture and allied sectors have been taken into account due to non-availability of figures of allocation.

4.4 Outstanding Utilization Certificates

Though the RKVY guidelines prescribed for submission of UCs for Stream-II projects, no such condition was stipulated in the guidelines with respect to funds released by the Ministry to States under Stream-I. However, while issuing the administrative approvals and financial sanctions to States every year for implementation of the RKVY and for release of funds, the Ministry stipulates that States should furnish UCs in the prescribed proforma for the funds already released. Figures obtained by Audit from the Ministry indicated that UCs for an amount of ₹ 2610.07 crore released under Stream-I and Stream-II were wanting for the period 2008-09 to 2012-13 from 26 States (only Nagaland during this period had submitted required UCs for all five years for the period under review) as of September 2013. The details are given in **Annex-XII**.

4.4.1 Submission of incorrect UCs

Out of 27 States, scrutiny of records in 12 States revealed that incorrect UCs were submitted by the nodal department/agency to the Ministry and by the implementing departments/agencies to the nodal department/agency (State-wise details in **Annex-XIII**). In five States, the nodal departments submitted UCs to the Ministry without ensuring utilisation of funds. In seven States of Andhra Pradesh, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh, it was also observed that implementing agencies issued UCs to the nodal department without utilizing/partially utilizing the amount of grants received by them.

The Ministry replied (July 2014) that as of 30 June 2014, UCs for an amount of ₹ 301.89 crore were wanting for the period 2008-09 to 2012-13 and that all States would be asked to be extremely careful in this regard.

Recommendation 7: *To vouch that the funds have been utilised for the intended purpose, Ministry must link the funding with project based Utilisation Certificates in the format prescribed by the Ministry.*

4.5 Deviation in procedure of release of funds

As stated in para 4.1, the guidelines of the RKVY stipulate that in case of release of funds under Stream-I, the funds were to be released in three installments of 50:40:10 *per cent*. The last 10 *per cent* of the grants would be released when the project is completed and field verification is done by a

designated agency of the Government of India. The said designated agency was to be chosen by the Ministry at an appropriate time.

The Ministry amended (December 2008) the above clause by directing that funds under Stream-I would be released in two equal installments of 50 *per cent* each which was approved by the Planning Commission, subject to implementation of a web-based monitoring system by the Ministry. Audit observed that with this amendment, the most crucial clause of field verification of utilization of RKVY funds was omitted and the Ministry was dependant only on the project inputs entered by the States in RKVY website.

The Ministry replied (September 2013) that the said amendment was made to facilitate the States to complete the projects under Stream-I as many States found it difficult to provide funds from their own budgets for this purpose. The Ministry further stated that it was the responsibility of States to verify the physical progress of the RKVY. The reply is not acceptable as due to dilution of this clause, Ministry was left with no mechanism to physically verify the implementation of projects at field level and audit found discrepancies in the data being fed into the RKVY website by 15 States out of 27 (refer para 7.6.2 of the review).

4.6 Delay in release of funds at various levels leading to blocking of funds

Para 7.2.4 of the guidelines lays down that the nodal agency/department should ensure that the central assistance released under the RKVY is utilized in accordance with the approved SAPs and DAPs and that since the amounts of second installment of the allocation will depend upon the progress of utilization of funds by the States, the State should ensure that the funds released are utilized promptly, properly and progress reports are sent to the Ministry at the earliest.

Audit noticed several instances of delay in release of funds at various levels viz. from State Government to nodal agency and from nodal department/agency to implementing agency in 25 States as shown in **Annex-XIV**. In 20 States, the funds were released by State to nodal department/agency with delays ranging from one to 23 months. Similarly, in 17 States, funds were released by nodal department/agency to implementing department/agency with delays ranging between one to 34 months.

Some State-wise specific findings are tabulated below:

Table 4.4

Name of State	Audit findings
Jharkhand	During 2007-08, the State Government received ₹ 55.68 crore (including ₹ 1.90 crore for the preparation of DAPs) from the Ministry during November and December 2007 for the implementation of the RKVY. After approval (December 2007) of projects by SLSC, entire fund was sanctioned and allotted (March 2008) and drawn in advance by the nodal department. The nodal department transferred (30 March 2008) the entire fund to the nodal agency to implement the scheme in 2007-08. Due to delayed receipt of grants, the nodal agency could not release the same during 2007-08. The Ministry revalidated (May 2008) ₹ 1.90 crore for continuity of the activities for the preparation of DAPs and asked (May 2008) the State to furnish the proposal for revalidation of unspent amount of ₹ 53.78 crore along with UC by 10 June 2008. The nodal department failed to furnish the proposal and UC by due date. However, without revalidation of ₹ 53.78 crore from the Ministry, the nodal department issued (February 2009) allotment order for expenditure of this amount, leading to blocking of funds with State Government for 14 months.
Nagaland	The State Government released funds to the implementing departments directly instead of routing through nodal department for three years (2007-08 to 2009-10). From 2010-11 onwards, the funds were being released through nodal department. The delay in release of funds by the State for the first three years to implementing departments ranged from one to 26 months from the date of Ministry's release. Further, there was also a delay from one to six months in release of funds by the nodal department to the implementing departments for the years 2010-11 and 2011-12.

The National Institute of Rural Development (NIRD) in its evaluation report of December 2010 pointed out that the time lag between the allocation and release of funds at different levels should be kept minimum (within two months) as it had observed delays in the release of funds at different levels in Andhra Pradesh, Arunachal Pradesh, Jammu and Kashmir, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Odisha, Tamil Nadu, Uttar Pradesh and Uttarakhand. There was no evidence on record to suggest that the Ministry had taken any corrective action based on the NIRD's report.

The Ministry stated (July 2014) that the matter was being taken up with the State Governments.

4.7 Short release of funds and its implications on projects

Shortage of funds adversely affects the implementation of various projects taken up under the RKVY. Scrutiny of the records of State Governments relating to the release of funds disclosed that in three States there was short release of funds amounting to ₹ 154.65 crore for the period 2007-08 to 2012-13 as shown in the table given below.

Table 4.5

Name of State	Audit finding
(A) Short release of funds by Ministry to State	
Tripura	There was a short release of ₹ 18.85 crore against the total allocation during 2007-13 due to which 12 projects under Stream-I had to be dropped.
West Bengal	The Ministry did not release second installment for Stream-I projects amounting to ₹ 36.97 crore and ₹ 80.33 crore for the years 2010-11 and 2012-13 respectively due to delay in receipt of UCs. As a result, different components of various projects approved by the SLSC in 2010-11 were not taken up.
(B) Short release of funds by State to nodal department/agency	
Assam	Scrutiny of records revealed that during 2012-13, the nodal agency released ₹ 38.50 crore to three implementing agencies (Director of Fishery: ₹ 9.50 crore; Director of Animal Husbandry and Veterinary: ₹ 25.50 crore; Director of Dairy Development: ₹ 3.50 crore) in respect of 30 projects involving a project cost of ₹ 57.00 crore (Director of Animal Husbandry and Veterinary: 15 projects costing ₹ 37.00 crore; Director of Fishery: 4 projects costing ₹ 15.00 crore; Director, Dairy Development: 11 projects costing ₹ 5.00 crore). Reason for short release of funds of ₹ 18.50 crore was due to non-release of central assistance by State. As a result of short release of funds, the progress of the 26 projects was not up to the desired level while four projects could not be taken up at all during 2012-13.

4.8 Excess expenditure without approval of SLSC

Para 3.5 and 5.5 of the RKVY Guidelines stipulate that the SLSC is vested with the authority to sanction the projects under Stream-I of the RKVY and once the SLSC sanctions the projects, the Ministry will release funds either to the nodal department or to the nodal agency, as the case may be.

As such, any cost deviations thereof viz. excess expenditure over the cost sanctioned by SLSC, should also be approved by the SLSC. Audit examination revealed that in seven States, expenditure of ₹ 106.13 crore on 50 projects was incurred in excess of sanction without approval of SLSC (details in **Annex-XV**).

The Ministry stated (July 2014) that the matter was being taken up with the State Governments.

4.9 Irregularities in expenditure out of one *per cent* share of RKVY funds

Para 3.6 and 3.7 of RKVY guidelines prescribe that the Ministry may retain a proportion of one *per cent* of the RKVY funds at its level, so as to organize pan-India evaluations or for such administrative contingencies that may arise at various times. Similarly, states are permitted to use upto one *per cent* of their total RKVY funds for incurring administrative expenditure that includes payments to consultants, recurring expenses of various kinds, staff costs, etc. However, no permanent employment can be created, nor can vehicles be purchased. Audit scrutiny revealed under-utilisation of one *per cent* share by the Ministry and diversion of this allocation towards other purposes not connected with the RKVY scheme.

During the review period, an amount of ₹ 195.45 crore was allocated as one per cent out of which an amount of ₹ 75.96 crore (39 *per cent*) was incurred. The Ministry stated (July 2014) that expenditure under this allocation had been restricted to actual requirement. Scrutiny of the records of year-wise expenditure in Ministry and States revealed the following deficiencies:

- It was seen that ₹ 7.89 lakh was spent on journeys un-related to the RKVY.
- Out of the expenditure of ₹ 61.34 crore during 2011-12, an amount of ₹ 50.00 crore was allocated to Extension Division of the Ministry in March 2012 for Focused Publicity Campaign¹ and was released to All India Radio (₹ 2.99 crore), National Film Development Corporation Ltd. (₹ 39.13 crore) and Doordarshan (₹ 7.88 crore). A third-party evaluation of this campaign in four States revealed that there was no specific publicity campaign for various schemes, including RKVY. Thus, an amount of ₹ 50.27 crore out of the total expenditure of ₹ 75.96 crore representing 66 *per cent* was not incurred exclusively for RKVY.
- Scrutiny of the records in nine states revealed various instances of inadmissible expenditure of ₹ 7.65 crore out of the one *per cent* (details in **Annex-XVI**).
- In Assam, during 2008-09, against the permissible amount of ₹ 142.62 lakh towards administrative expenditure, the State Government incurred expenditure of ₹ 193.46 lakh as administrative expenses, which resulted

¹ The Ministry had launched a Central Sector Scheme “Mass Media Support to Agricultural Extension” during the Xth Plan Period. As part of this scheme, the Ministry launched a Focused Advertisement Campaign in July 2010 which would cut across all Divisions of the Ministry to create an awareness about the assistance available under its various schemes.

in excess expenditure of ₹ 50.84 lakh over the admissible amount of ₹ 142.62 lakh during 2008-09.

- In Arunachal Pradesh, one *per cent* of total RKVY fund for administrative costs was deducted by the Nodal Department and again one *per cent* of the balance deducted at different stages, i.e., by Allied Directorates (except Animal Husbandry and Veterinary Department) and District Implementing Agencies, leading to unauthorized excess deduction of ₹ 87.32 lakh from 2009-10 to 2012-13.

The Ministry stated (July 2014) that the matter was being taken up with the State Governments.

4.10 Parking of funds and interest earned thereon

As per instructions of the Ministry (April 2010), the interest earned on funds was to be counted towards grant-in-aid for respective RKVY fund. In 11 States, it was noticed that funds (₹ 759.03 crore) were parked in Personal Ledger accounts/ Personal Deposit Account/Savings Bank Account/Fixed Deposit Accounts/etc. (State-wise details in **Annex-XVII**). Further, it was also noticed in some States that interest earned on such funds parked was also lying unutilized in the banks. An analysis of the State-wise balances revealed that States were drawing funds from the Treasury to avoid lapse of funds and kept the same in bank accounts.

The Ministry stated (July 2014) that the matter was being taken up with the State Governments.

4.11 Diversion of funds

As per one of the conditions of the financial sanctions issued by the Ministry for the release of the RKVY grants to States, 'the grants should be utilized as per the guidelines of the RKVY' and States are required to furnish utilization certificate (as per format prescribed in Annexure-III of the RKVY guidelines) stating that 'the money was actually utilized for the purpose for which it was sanctioned'. In four States of Haryana, Maharashtra, Meghalaya and West Bengal, diversion of RKVY funds (₹ 114.45 crore) to other Schemes/agency were noticed (State-wise details in **Annex-XVIII**).

The Ministry stated (July 2014) that the matter was being taken up with the State Governments.

4.12 Other irregularities

In six States, instances of unadjusted advances, retention of cash balances, blocking of funds, infructuous expenditure to the tune of ₹ 76.47 crore were noticed. In Bihar and Madhya Pradesh, improper maintenance of records were noticed. State-wise details are mentioned in **Annex-XIX**.

4.13 Conclusion

It was noticed that the figures of releases and expenditure shown by the Ministry did not match with the data reported by the States indicating non-reconciliation of figures. As per Ministry's records as of September 2013, UCs for an amount of ₹ 2610.07 crore were wanting for the period 2008-09 to 2012-13 from 26 States. The current practice of projecting releases as expenditure by the implementing agencies and the nodal departments inflated the actual expenditure and distorted the position of financial performance. Delay in release of funds by State to nodal department/agency ranged from one to 23 months and that by nodal department/ agency to implementing department/agency ranged between one to 34 months. In seven States, expenditure of ₹ 106.13 crore on 50 projects was incurred in excess of sanction without approval of SLSC. The Ministry utilised only a meagre amount of ₹ 75.96 crore (39 per cent) out of the allocation of ₹ 195.45 crore for administrative expenditure. In 11 States, it was noticed that funds (₹ 759.03 crore) were parked in Personal Ledger accounts/Personal Deposit Account/Savings Bank Account/Fixed Deposit Accounts/etc. In four States of Haryana, Maharashtra, Meghalaya and West Bengal, diversions of RKVY funds (₹ 114.45 crore) to other Schemes/agency were noticed.