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**FINANCE DEPARTMENT
MANAGEMENT OF VARIOUS
RESERVE FUNDS**



FINANCE DEPARTMENT MANAGEMENT OF VARIOUS RESERVE FUNDS

4.1 Introduction

As per the List of Major and Minor Heads of Accounts, the Government can create Reserve Funds for specific purposes by setting aside certain amounts out of the Consolidated Fund of the State and the moneys in these funds are committed to the specified purposes.

4.2 Audit objectives:

Audit objectives were to assess:

- whether the creation and operation of funds were in accordance with extant rules/laws; and
- the accounting procedures were in order.

4.3 Audit criteria:

Followings were the sources of audit criteria adopted:

- Guidelines of various reserve funds;
- Budget estimates of respective years of the Government of Uttar Pradesh;
- Budget manual, financial rules and list of major & minor heads; and
- Government/departmental orders, manuals and circulars etc. issued from time to time in this regard.

4.4 Scope and methodology:

The records pertaining to the period 2009-14, of the office of the Principal Secretaries, Finance, Revenue & Public Works Department (PWD) and Engineer-in-Chief, PWD were examined during June and July 2014. On the basis of higher money value, out of 19 Reserve Funds¹, three operative² and two inoperative³ Reserve Funds were selected for audit.

The Exit Conference was held with the Principal Secretary, Finance Department on 1 December 2014 during which the audit findings and recommendations were discussed. Results of discussion/ replies given by the Government have been suitably incorporated at relevant places in the report.

¹ As per Finance Accounts of Uttar Pradesh.

² Sinking Fund, State Disaster Response Fund and State Roads Fund.

³ Zamindari Abolition Fund and Famine Relief Fund.

Audit findings

4.5 Financial status

Closing balances in Reserve Funds as on 31 March for the period 2009-14 are given in **Table 4.1** and details are in *Appendix-4.1*.

Table 4.1: Closing balances in Reserve Funds during 2009-14

Particulars	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14 ⁴
Total number of Reserve Funds, of which	20	20	19	19	19
(i) Reserve Funds Bearing Interest					
Number of Reserve Funds	3	3	3	3	3
Closing Balance	16,50.30	714.17	64.17	64.17	64.17
Investment Account	44.42	44.42	44.42	44.42	44.42
(ii) Reserve Funds Not Bearing Interest					
Number of Reserve Funds	17	17	16	16	16
Closing Balance	22,107.48	25,382.27	31,519.52	35,905.65	43,859.87
Investment Account	0.78	0.78	0.78	0.78	0.78
Total of closing balances (i and ii)	23,757.78	26,096.44	31,583.69	35,969.82	43,924.04
Total of investment account (i and ii)	45.20	45.20	45.20	45.20	45.20

(Source: Finance Accounts of respective years)

It was also noticed that out of 19 Reserve Funds (RFs), ten RFs were operative with closing balances of ₹ 43,865.49 crore and investment of ₹ 44.42 crore and nine RFs remained inoperative for four to 14 years⁵ with closing balances of ₹ 58.55 crore and investment of ₹ 0.78 crore at the end of 2014 (*Appendix 4.2A & 4.2B*).

GoUP replied (October 2014) that AG (A&E) has been requested (October 2014) to accord permission for closure of such Reserve Funds and to credit the balances in revenue. The fact remains that the purpose of creation of such Reserve Funds has been defeated.

4.6 Receipts and disbursements of select Reserve Funds

Based on the Finance Accounts of the Government, the opening and closing balances of select Reserve Funds together with the receipts and disbursements during 2009-14, is given in the table below:

⁴ Unapportioned balance of Reserve Fund bearing interest: ₹ 979.74 crore (Credit) & Investment: ₹ 44.42 crore and Unapportioned balance of Reserve Fund not bearing interest: ₹ 7006.92 crore (Credit) & Investment of ₹ 0.78 crore; total unapportioned balances of 19 Reserve Funds: ₹ 7986.66 crore (Credit) and Investment: ₹ 45.20 crore

⁵ Inoperation has been taken since reorganization of Uttar Pradesh on 9 November 2000.

Table 4.2: Receipts and disbursements of select Reserve Funds

(₹ in crore)

Particulars	Sinking Fund	State Disaster Response Fund ⁶	State Road Fund	Zamindari Abolition Fund ⁷	Balance in the Famine Relief Fund/ Investment of Famine Relief Fund	Total of balances in the Reserve Funds/ Investments of Reserve Funds
Opening balances (1 April 2009)	24,846.59	35.48	998.41	37.92 (debit)	9.31/0.78	25,851.87/0.78
Receipts (2009-14)	37,441.85	2,938.33	2,100.00	Nil	Nil	42,480.18
Disbursements (2009-14)	22,035.73	2737.91	940.96	Nil	Nil	25,714.60
Closing balances (31 March 2014)	40,252.71	190.89	2,157.45	7.08	9.31/0.78	42,617.44/0.78

(Source: Finance Accounts of respective years)

Table shows that substantial amounts were kept in RFs by GoUP and the share of three operative RFs (₹ 42,601.05 crore) stood at 97 *per cent* of all RFs (balances of ₹ 43,924.04 crore and investments of ₹ 45.20 crore; **Table-4.1**) at the end of 2014.

During discussion, Principal Secretary, Finance Department, accepted (December 2014) the facts.

4.7 Creation of Reserve Funds

Reserve Funds can be created by the Government with the concurrence of the competent authority for specific purposes by setting aside certain amounts out of the Consolidated Fund. Where there is a statutory obligation, relevant heads must be notified to the competent authority.

Audit sought for documents/information relating to the creation of selected RFs but Finance Department replied (July 2014) that it only deals with the Sinking Fund and neither any Rules have been framed nor records relating to the creation of Sinking Fund is available. Thus, it could not be ascertained as to whether selected funds were created by statutes or otherwise and had the required concurrence of the competent authority.

4.7.1 Non-creation of Guarantee Redemption Fund

According to the Uttar Pradesh Fiscal Responsibility and Budget Management Act, 2004, GoUP cannot give guarantee for any amount exceeding the limit stipulated under any rule or law of GoUP. Further, Reserve Bank of India (RBI) also proposed (May 2006) the constitution of Guarantee Redemption Fund (GRF) for servicing of contingent liabilities arising from invocation of guarantees. The status of guarantees given by GoUP during 2009-14 is given below:

⁶ Opening and closing balances differ by ₹ 45 crore due to proforma corrections.

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Table 4.3: Guarantees given by GoUP

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Maximum amount guaranteed	29,311	29,778	29,629	50,459	69,752
Outstanding amount of guarantees (including interest)	20,038	20,162	21,752	43,337	62,822

(Source: Finance Accounts of respective years)

It may be seen from the table above that at the end of 2013-14, the contingent liabilities arising out of maximum amount guaranteed was ₹ 69752 crore. It was observed that during 2009-10, guarantee of ₹ 55.50 crore was invoked. Nevertheless, GoUP neither enacted any law nor framed any rules for fixing the ceilings on the guarantees to be given by GoUP nor set up GRF for meeting contingent liabilities.

During discussion, Principal Secretary, Finance Department, accepted (December 2014) the facts that GoUP has not created GRF.

4.8 Operation of Reserve Funds

4.8.1 Operative Reserve Funds

4.8.1.1 Operation of Sinking Fund

GoUP operates a Sinking Fund (SF) for amortization of market loans under Major Head: 8222-Sinking Fund-01-101-Sinking Fund by way of book transfer from Major Head: 2048. It was observed that considerable amounts were transferred to SF without assessing its requirements as below:

Table 4.4: Financial status of Sinking Fund during 2009-14

(₹ in crore)

Year	Transferred to SF from MH: 2048	Market loans matured during the year	Repayments of market loans during the year	Excess transfer over requirement (col. 2 – col 4)
1	2	3	4	5
2009-10	4,866.62	2,633.82	2,643.24	2,223.38
2010-11	7,322.69	1,925.37	1,928.46	5,394.23
2011-12	8,626.61	2,996.24	2,997.05	5,629.56
2012-13	8,261.69	3,236.91	3,237.08	5,024.61
2013-14	8,364.24	2,945.98	2,946.09	5,418.15
Total	37,441.85	13,738.22	13,751.92	23,689.93

(Source: Finance Accounts of respective years and Finance Department, GoUP)

Table shows that transfers to SF were much more than requirements due to which the closing balance (Table: 4.2) inflated. It was, however, observed that GoUP has not made investments from SF.

During discussion, Principal Secretary, Finance Department, stated (December 2014) that on the basis of maturity of market loans, amounts are transferred into SF. The fact remains that excess amounts were transferred into SF.

The Government should transfer amounts into SF as per the requirements and frame rules for operation of SF immediately.

4.8.1.2 Non-observance of the recommendations made by RBI for creation of Consolidated Sinking Fund (CSF)

On the recommendations of the Twelfth Finance Commission (2005-10) and various committees⁸, RBI proposed (May 2006) a scheme of CSF which was to be constituted by GoUP. As per scheme, CSF was to be utilised as an Amortisation Fund for redemption of the outstanding liabilities (internal debt and public accounts liabilities). The minimum annual contribution was to be made at the rate of 0.5 per cent of outstanding liabilities at the end of the previous year beginning 2006-07 and the Fund was to be utilised from 2011-12 after a lock-in period of five years. The accretions to the fund was to be invested in Government of India securities and the interest accrued and accumulated in the Fund only was to be utilised towards the redemption of the outstanding liabilities of the Government. However, the GoUP did not set up CSF.

FD accepted (July 2014) the fact that CSF has not been created.

The Government should create Consolidated Sinking Fund and make investment for redemption of outstanding liabilities.

4.9 Operation of State Disaster Response Fund (SDRF)

4.9.1 Fund kept outside Government Account

According to SDRF Guidelines (September 2010), SDRF was to be created with the nomenclature “State Disaster Response Fund” in the Public Account under the Reserve Fund in the accounts of the State Government and the balance as on 31 March 2010 in CRF will be transferred to SDRF and CRF will cease to exist. Further, whenever such RFs or parts thereof are invested, the investment account will appear as a distinct sub-head, below the sub-head relating to the Fund. The records revealed that GoUP did not transfer the amounts to SDRF but kept ₹ 136.57 crore with maturity value of ₹ 154.58 crore (maturing upto 30 March 2018) pertaining to CRF in various bank accounts in the form of fixed deposits, which were not shown as a distinct sub-head, below the sub-head relating to the Fund in the Government Accounts.

GoUP replied (July 2014) that if required, GoUP would take decision to transfer the invested amount into SDRF. The fact remains that GoUP kept ₹ 136.57 crore with maturity value of ₹ 154.58 crore outside the Government Accounts.

The Government should transfer the funds of the Calamity Relief Fund into the State Disaster Response Fund as per Guidelines of the Government of India.

⁸ The Technical Group on Borrowings by States (Chairperson: Smt. S. Gopinath) and the Advisory Committee on Ways and Means Advances to States (Chairman: Shri M.P. Bezbaruah).

4.9.2 Irregular expenditure from SDRF

As per Para 17 of SDRF guidelines, SDRF is meant for the immediate relief from natural calamities and disaster preparedness, restoration, reconstruction and mitigation should not be a part of SDRF. Such expenditure is needed to be built into the State Plan Funds. However, expenditure incurred by GoUP on restoration of public properties during 2010-14 as below:

Table 4.5: Status of expenditure on restoration works from SDRF

(₹ in crore)

Year	Total expenditure	Expenditure on restoration of public property	Percentage
2010-11	618.33	320.07	52
2011-12	690.15	544.04	79
2012-13	510.88	367.98	72
2013-14	656.46	368.49	56
Total	2,475.82	1,600.58	

(Source: Revenue Department)

The table above shows that expenditure on restoration works ranged between ₹ 320.07 crore (52 per cent) and ₹ 544.04 crore (79 per cent) of the total expenditure during 2010-14.

GoUP stated (June 2014) due to the big size of the State and losses due to disasters, expenditure were incurred on restoration works. The reply was not acceptable as SDRF is meant for the immediate relief for meeting expenditure on account of natural calamities and expenditure on disaster preparedness, restoration, reconstruction and mitigation should not be a part of SDRF.

The Government should avoid expenditure from the State Disaster Response Fund on restoration works.

4.9.3 Non-investment of SDRF

As per Para 19 of the Guidelines of SDRF, GoUP was to invest the funds in one or more instruments⁹ and the interest earned thereon was to be credited to SDRF. Scrutiny revealed that ₹ 1,661.07 crore¹⁰ was contributed by GoI and GoUP during 2010-14, but no investment was made. Non-investment of the fund resulted in loss of interest.

GoUP accepted (July 2014) the fact and stated that investment out of SDRF has not been made.

The Government should invest funds in the instruments as mentioned in SDRF guidelines.

⁹ Central Government dated Securities, Auctioned Treasury Bills as well as Interest earning deposits and certificates of deposits with Scheduled Commercial Banks.

¹⁰ 2010-11: ₹ 385.39 crore; 2011-12: ₹ 404.66 crore; 2012-13: ₹ 424.89 crore; and 2013-14: ₹ 446.13 crore.

4.9.4 Accounting of SDRF

SDRF guidelines envisaged Major Head: 8121 (interest bearing) to operate SDRF by the State Governments, which had to pay interest at the rate applicable to overdrafts under overdraft Regulation Guidelines of RBI. However, records revealed that GoUP has been operating the fund under Major Head: 8235 (non-interest bearing) and not under prescribed Major Head: 8121.

GoUP replied (July 2014) that FD had allocated Major Head: 8235 for operation of SDRF. The reply was not correct as SDRF guidelines permit to operate the fund under Major Head: 8121 (interest bearing reserve funds).

The Government should operate SDRF under prescribed major heads of accounts (interest bearing Reserve Funds).

4.9.5 Expenditure booked under SDRF not shown as deduct under Revenue Expenditure Head

As per SDRF guidelines, the actual expenditure on relief works was to be booked only under respective minor heads within Major Head: 2245 and the expenditure to be charged to SDRF was to be shown as a negative entry under MH: 2245-05-901-deduct amount met from SDRF for relief expenditure. The status of CRF/ SDRF during 2009-14 was as under:

Table 4.6: Status of Calamity Relief Fund/ State Disaster Response Fund

(₹ in lakh)

Year	Grant-in-aid (75% GoI share)	Central + State Share (100 %)	Major Head 2245-05-101	Major Head - 8235-00-111-Receipts	Major Head - 8235-00-111-Disbursement	Deduct under MH-2245
2009-10	39,851.00 ¹¹	53,134.67	33,268.59	33,273.34	47,587.83	0.00
2010-11	55,426.50	73,902.00	38,539.00	38,539.00	53,021.37	0.00
2011-12	30,350.00	40,466.67	1,10,783.33	1,10,789.94	63,232.97	0.00
2012-13	32,367.00	43,156.00	61,458.00	62,458.00	47,041.57	0.00
2013-14	33,460.00	44,613.33	44,613.25	48,772.63	62,907.36	62,907.36

(Source: Finance Accounts of respective years)

The table shows that during 2009-13, expenditures booked under SDRF were not shown as negative entry under 2245-05-901, though required.

During discussion, Principal Secretary, Finance Department, stated (December 2014) that this procedure has been started in accounts from 2013-14. The fact remains that it was started only after being pointed out by audit.

4.10 Operation of State Road Fund (SRF)

4.10.1 Enhanced tax levied for SRF not transferred to the Fund

GoUP notified the State Road Fund Rules in January 2000 and imposed enhanced sales tax on diesel from 16 to 20 per cent and petrol from

¹¹ Contribution towards Calamity Relief Fund: ₹ 24951.44 lakh and Relief on account of Natural Calamity: ₹ 14899.56 lakh Total = ₹ 39851.00 lakh.

14 per cent to 20 per cent respectively to finance SRF. Accordingly, GoUP created (January 2000) SRF under Major Head: 8225.

The status of total Sales Tax *vis-à-vis* enhanced sales tax at the rate of four and six per cent respectively on diesel and petrol during 2009-14 is given below:

Table 4.7: Status of enhanced tax for SRF

(₹ in crore)

Year	Total Sales tax on diesel and petrol	Amount of enhanced tax to be transferred to SRF	Amount transferred to SRF	Balance amount (progressive)
2009-10	4,739.36	1,105.20	0.00	1,105.20
2010-11	5,956.97	1,405.21	0.00	2,510.41
2011-12	7,032.54	1,676.64	0.00	4,197.05
2012-13	8,088.44	1,922.35	0.00	6,119.40
2013-14	9,480.37	2,252.13	2,100.00	6,271.53
Total	35,297.68	8,361.53	2,100.00	

(Source: Commercial Tax Department and Public Works Department)

It would be seen from the table above that GoUP collected ₹ 8,361.53 crore on account of enhanced tax during 2009-14 but transferred ₹ 2,100.00 crore into SRF during 2009-14. However, GoUP again made SRF operational and credited ₹ 2,100 crore into the fund against ₹ 2,252.13 crore collected as enhanced tax during 2013-14 resulting in overall short credit of ₹ 6,271.53 crore during 2009-14.

During discussion, Principal Secretary, Finance Department, accepted the fact and stated (December 2014) that this fund has now been made operational from 2013-14.

The Government should transfer the cess collected from enhanced taxes on diesel and petrol into the State Road Fund every year to achieve the objectives of the fund.

4.10.2 Inadmissible expenditure from SRF

SRF was to be spent on maintenance and repairs of roads under Major Head 3054-Roads and Bridges. As per scheme, SRF Management Committee was responsible to assess the items and criteria for utilisation of SRF. Rules were amended in January 2013 and expenditure from SRF for capital nature under Major Head: 5054 was also allowed by the Government.

Scrutiny (June and July 2014) of the records of Engineer-in-Chief, Public Works Department revealed that in contravention to the scheme, GoUP spent ₹ 1,434.06 crore on works of capital nature under Major Head-5054 during 2009-12.

During discussion, Principal Secretary, Finance Department, stated (December 2014) that expenditure of capital nature was incurred as per the recommendations of SRF Management Committee. The reply was not

acceptable as the expenditure of capital nature works (Major Head: 5054) was admissible only after January 2013.

4.11 Inoperative Reserve Funds

4.11.1 Famine Relief Fund

The Uttar Pradesh Famine Relief Fund (FRF), established under the Uttar Pradesh Famine Relief Fund Act, 1936 is financed under Major Head-2245-Relief on account of Natural Calamities. Further, consequent upon the creation (1990-91) of CRF the balance at the credit of FRF was to be transferred to the newly created Fund.

Audit, however, observed that GoUP did not transfer the balance of ₹ 9.31 crore and investment of ₹ 0.78 crore¹² into CRF as of March 2014.

During discussion, Principal Secretary, Finance Department, accepted (December 2014) the fact and stated that effort would be made to transfer the balances into SDRF.

4.11.2 Zamindari Abolition Fund

The Uttar Pradesh Zamindari Abolition Fund (ZAF) was created in 1949. The deposits made by the tenants for the acquisition of *Bhumidhari* rights under the Uttar Pradesh Agriculture Tenants (Acquisition of Privileges) Act, 1949, were credited to the Fund. Since the abolition of *Zamindari*, the deposits made by *Sirdars* for acquisition of *Bhumidhar* rights under Uttar Pradesh Zamindari Abolition and Land Reform Act, 1950 are credited to the Fund.

Audit observed that ZAF remained inoperative prior to the reorganisation of Uttar Pradesh in November 2000 with an outstanding balances of ₹ 7.08 crore as of March 2014.

During discussion, Principal Secretary, Finance Department, stated (December 2014) that orders for closure of this fund was issued in March 2009 but due to non-apportionment of balances between Uttar Pradesh and Uttarakhand the fund could not be abolished.

4.12 Non-settlement of unapportioned balances of Uttar Pradesh and Uttarakhand

As per Section 47 of Uttar Pradesh Reorganisation Act, 2000, the balances lying in RFs of Uttar Pradesh created wholly out of appropriations from the Consolidated Fund of the existing State of Uttar Pradesh to the extent the balances have not been invested outside Government account, shall not be carried forward to similar RFs in the Public Account of the successor States.

Scrutiny of the records revealed that ₹ 8,031.86 crore (including investment: ₹ 45.20 crore), was lying unapportioned as on 31 March 2014 due to

¹² ₹ 0.38 crore prior to 1998-99 and ₹ 0.40 crore in 1998-99.

non- settlement of unapportioned balances between the Governments of Uttar Pradesh and Uttarakhand though in a state level meeting with AG (A&E) in July 2013, GoUP stated that settlement of unapportioned balances under RFs do not require the concurrence of Uttarakhand State but no action was taken by the Government. As a result, ₹ 8,031.86 crore in 19 RFs as on 31 March 2014 remained unutilised even after lapse of more than 13 years since reorganisation of the State.

GoUP stated (October 2014) that balances under RFs were not to be apportioned and AG (A&E) has been requested (October 2014) accordingly. The fact remains that due to inaction huge amounts were lying idle since November 2000.

The Government should augment the process of settlement of unapportioned balances lying unutilised since November 2000.

4.13 Conclusion

Financial status:

- Out of 19 Reserve Funds, nine Reserve Funds remained inoperative for four to 14 years.
- The share of three operative Reserve Funds stood at 97 per cent of all Reserve Funds.

Non-creation of Guarantee Redemption Fund:

- Despite recommendation of the Reserve Bank of India, the Government has not set up the Guarantee Redemption Fund though the guarantee was invoked in 2009-10.

Operation of Sinking Fund:

- The Rules for operation of Sinking Fund were not framed by the Government as a result the Government has been transferring amounts into Sinking Fund in excess of the requirements.
- Despite recommendations of the Twelfth Finance Commission and the Reserve Bank of India, the Government did not create the Consolidated Sinking Fund.

Operation of State Disaster Response Fund:

- The funds of the Calamity Relief Fund were not transferred into the State Disaster Response Fund.
- Most of the funds of the State Disaster Response Fund were spent on restoration works.
- Investments of the State Disaster Response Fund were not made.

Operation of State Road Fund:

- The enhanced tax collected on account of the State Road Fund was not transferred into the fund during 2009-13.
- The State Road Fund was irregularly spent on works of capital nature.

Inoperative Reserve Funds:

- Despite creation of the Calamity Relief Fund in 1990-91, the balances of the Famine Relief Fund were not transferred into it. Further, the Zamindari Abolition Fund was inoperative for 13 years.

Non-settlement of unapportioned balances:

- Even after a lapse of 13 years of reorganisation of Uttar Pradesh, the balances under the Reserve Funds were lying unapportioned between the states of Uttar Pradesh and Uttarakhand.



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ALLAHABAD
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17 JAN 2015

COUNTERSIGNED



(SHASHI KANT SHARMA)

Comptroller and Auditor General of India

NEW DELHI
THE 19 JAN 2015