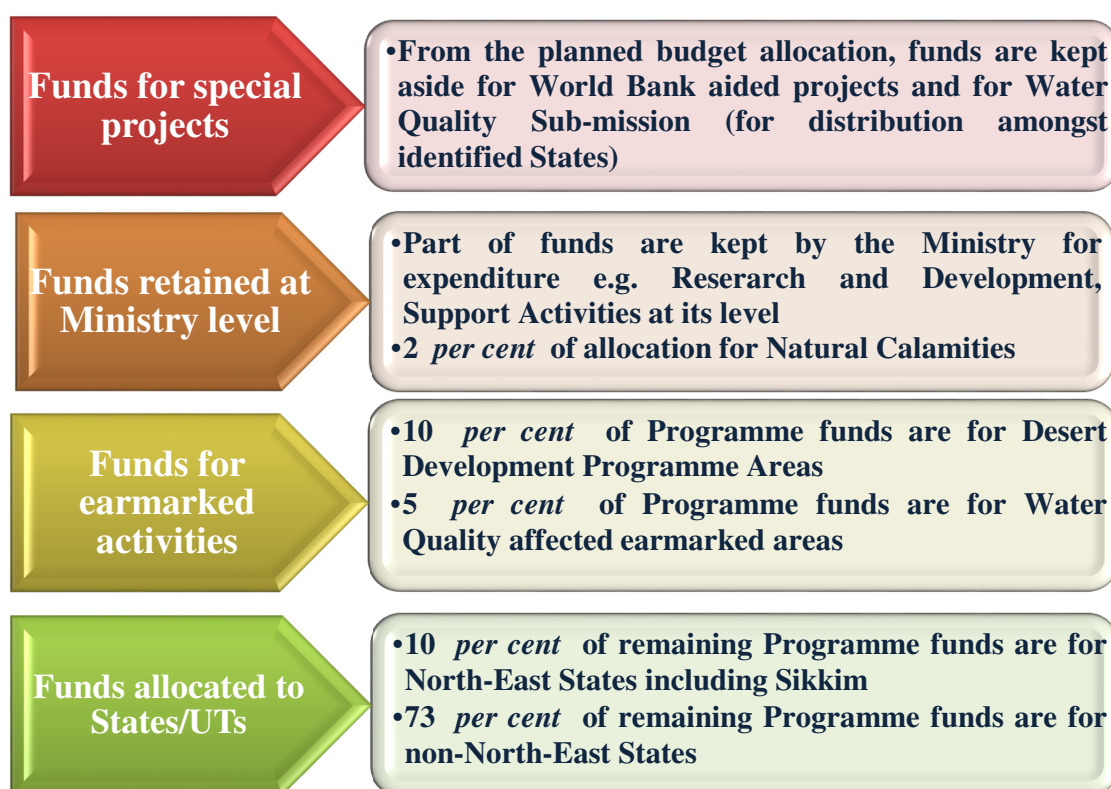


Chapter-III Fund Management

3.1 Introduction

NRDWP was implemented as a centrally sponsored scheme with cost being shared between the Central and State Governments. Within the planned budget allocation, funds are earmarked for specific categories such as World Bank Projects, Water Quality Sub-Mission, projects in the North East States and projects in Desert Development Programme States. The Ministry also retains funds for R&D and support activities and for natural calamities. The balance funds are thereafter allocated to States under six NRDWP components¹ on the basis of rural population based weightage criteria. The main categories under which allocation was earmarked are given in **Chart-3.1**:

Chart-3.1: Distribution of Budget Allocation



Source: Programme guidelines

¹ Coverage, Sustainability, Water Quality, Operation & Maintenance, Water Quality Monitoring & Surveillance, Support (Para 9.2 and 9.3 of the Programme guidelines).

3.2 Financial Performance

Programme guidelines laid down the pattern of component wise funding specifying Central and State share for each component. Following the 14th Finance Commission's recommendation for increasing devolution of funds to the States and based on the recommendations of the sub-group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes, the Ministry changed the funding pattern for various components of the Programme with effect from 1 April 2015. The original and revised funding pattern is given in **Table-3.1** below:

Table-3.1: Centre-State fund sharing pattern

Component	Original pattern		Revised pattern	
	Other States	NE/Himalayan States	Other States	NE/Himalayan States
Coverage, Water Quality, Operation and Maintenance	50:50	90:10	50:50	90:10
Sustainability, Support, Water Quality Monitoring and Surveillance (WQM&S)	100:0	100:0	60:40	90:10
Desert Development Programme, Natural Calamity	100:0	100:0	60:40	90:10
Earmarked Water Quality	50:50	90:10	50:50	90:10

Source: Programme guidelines

3.2.1 Funds allocation for NRDWP by Centre

During 2012-17, the total budget allocation made to the Ministry was ₹ 40,111 crore. Against this, the Ministry incurred an expenditure of ₹ 39,779 crore during this period of which releases to States was ₹ 39,501 crore. The year-wise details are given in **Table-3.2** below:

Table-3.2: Allocation of funds by the Central Government: 2012-17

(₹ in crore)

Year	Budget Estimates	Revised Estimates	Actual Expenditure [#]	Funds released by the Ministry to States*
2012-13	10,500	10,500	10,490	10,473
2013-14	11,000	9,700	9,697	9,640
2014-15	11,000	9,250	9,243	9,191
2015-16	2,611	4,373	4,370	4,265
2016-17	5,000	6,000	5,979	5,932
Total	40,111	39,823	39,779	39,501

Source: Records of the Ministry

Release to States + Ministry level expenditure

The Ministry expected that the decrease in budgetary allocation in the years 2015-16 and 2016-17 would be compensated by the enhancement in devolution of funds to the States based on the recommendations of the 14th Finance Commission and the increase

Performance Audit of National Rural Drinking Water Programme

in the States' share of the components of the Programme as effective from 1 April 2015. In addition, States were advised to explore alternative sources of funding from both domestic and external lending agencies to meet their resource requirements.

3.2.2 Deduction/cut in Central share to States

As part of measures to improve financial discipline² in transfer of funds to States, opening balance in excess of 10 *per cent* of the release in the previous year is required to be subsumed in the release of the first instalment during a year. Further, Central share of funds was also liable to cuts on account of reasons such as late receipt of proposals from State governments, less release of State's share and excess expenditure on operation and maintenance.

Audit observed that Ministry imposed cuts and reduced Central share by a total amount of ₹ 829.39 crore in the case of **13 States** due to reasons given above during the period covered by audit. These cuts were the highest in the case of **Rajasthan** (₹ 398.53 crore) and ranged between ₹ 50 crore and ₹ 80 crore in the case of **Assam, Bihar, Jharkhand, Karnataka** and **Maharashtra** and between ₹ 25 crore and ₹ 50 crore in **Andhra Pradesh** and **Himachal Pradesh**. The cut was ₹ 10 crore or less in the case of **Manipur, Odisha, Punjab** and **Telangana**.

3.2.3 Short/Non-release of State share

In 12 States, matching States share amounting to ₹ 1,178.76 crore was either not released or short released during 2012-17. Short or non-release of State share was more than ₹ 100 crore in the case of **Andhra Pradesh, Maharashtra** and **Uttarakhand** with the amount with respect to **Maharashtra** being the highest at ₹ 547.93 crore. In the case of **Assam, Bihar, Himachal Pradesh, Rajasthan** and **Telangana**, short/non release ranged between ₹ 40 crore and ₹ 100 crore. Short/ non-release was less than ₹ 10 crore in case of **Arunachal Pradesh, Mizoram, Nagaland** and **Sikkim**.

Analysis in audit showed that after change in the sharing pattern between Centre-State with respect to certain components, States did not release their matching share against Central share during 2015-17 under these components. Details are given in **Annexe-3.1**.

Ministry stated (February 2018) that due to late intimation about changed funding pattern (January 2016) to the States, some of the States could not make provision for the same in the financial year 2015-16. This reply is not tenable as many States did not release their share against Central share even in the next financial year.

² Ministry of Finance O.M. dated 13 May 2012

3.2.4 Release and utilisation of Central and State funds

The release and utilisation of Central and States share of funds for implementation of NRDWP during 2012-17 is detailed in **Table-3.3** below:

Table-3.3: Release and utilisation of Central and State funds: 2012-17

(₹ in crore)

Year	Opening Balance	Fund Released to State	Interest/ Recoveries	Available Fund	Expenditure	Closing Balance	
						Amount	Percentage of available fund
Central Release and Expenditure							
2012-13	3705	10473	207	14385	10081	4303	29.92
2013-14	4304	9640	105	14049	10937	3112	22.15
2014-15	3054	9191	57	12302	9788	2515	20.44
2015-16	2511	4265	86	6862	5325	1537	22.40
2016-17	1537	5932	30	7499	5393	2105	28.08
Total		39501	485	43691[#]	41524		
State Release and Expenditure							
2012-13	--	9151	--	9151	7325	1826	19.95
2013-14	--	9528	--	9528	8275	1253	13.15
2014-15	--	10188	--	10188	9090	1098	10.78
2015-16	--	7966	--	7966	6795	1171	14.70
2016-17	--	9432	--	9432	8159	1273	13.50
Total	--	46265	--	46265	39644		
Total Centre and State Release and Expenditure							
2012-13	3705	19624	207	23536	17406	6130	26.05
2013-14	4304	19168	105	23577	19212	4365	18.51
2014-15	3054	19379	57	22490	18878	3612	16.06
2015-16	2511	12231	86	14828	12120	2708	18.26
2016-17	1537	15364	30	16931	13552	3379	19.96
Total		85766	485	89956	81168	8788	9.77

Source: IMIS data of the Ministry

Note: [#] Available balance is equal to opening balance of 2012-13 plus total release during 2012-17 and interest received.

In respect of Central funds, there were variations in closing and opening balances during 2012-13 to 2015-16 in IMIS data.

IMIS data does not disclose availability of unspent balance under State share.

Thus, there were savings with respect to available funds in each year though the percentage of savings declined from 26.05 per cent in 2012-13 to 19.96 per cent in 2016-17. Overall, funds amounting to ₹ 8,788 crore, including ₹ 2,105 crore from Central share, remained unutilised at the end of March 2017.

Further, the overall availability of funds for the Programme decreased from ₹ 23,577 crore in 2013-14 to ₹ 16,931 crore in 2016-17 belying the expectations that States would be able to adequately compensate for the lower central allocation. Moreover, even the reduced allocations were not fully utilised. The decrease in availability of funds coupled with inability of the State Governments to utilise the reduced funds impacted the implementation of Programme both in terms of number of schemes taken up and completed from 2014-15 onwards as discussed in paragraph 4.2.4. State-wise

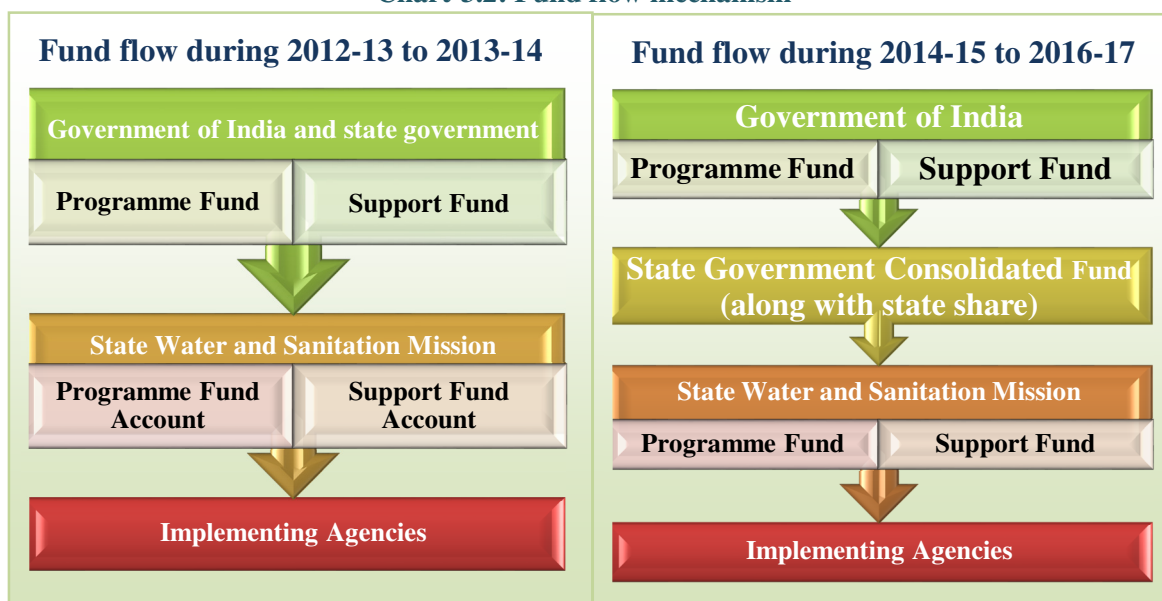
position of releases, utilisation and outstanding balance of Central and State share of funds during 2012-17 is at **Annexe-3.2**.

The Ministry in its replies to the Standing Committee(s) of Parliament on Rural Development on Demand for Grants³ stated that late submission of proposals for release of second instalments, late submission of utilisation certificates and excessive time taken in implementing the scheme at ground level were the main reasons for unspent balances. The Ministry added (August 2016) that reasons for unspent balance in States were administrative in nature and were issues of financial management.

3.2.5 Fund flow mechanism

Programme guidelines stipulate release of NRDWP funds directly to State implementing agencies. Accordingly, Government of India (GoI) released funds directly to the State Water and Sanitation Missions (SWSM) till 2013-14. However, from 2014-15 onwards, funds were being routed through the Consolidated Fund of the State with a stipulation that the State Governments would transfer these funds including State's share to SWSM within 15 working days of receipt of funds from the Centre. The flow of NRDWP funds to the States is depicted in **Chart-3.2**:

Chart-3.2: Fund flow mechanism



Source: Programme guidelines

Programme guidelines provide that SWSM shall maintain separate bank accounts for programme funds and support funds and the Ministry was to release programme funds⁴ and support funds⁵ into these accounts. Further, State Governments were to release their matching share to the SWSMs.

³ 2013-14 to 2016-17 and Reports on Action Taken on the recommendations thereon.

⁴ For components such as coverage, water quality, O&M and sustainability.

⁵ For bodies like WSSO, DWSM, BRCs, IEC, HRD, MIS and computerisation, R&D, etc., and WQM&S

In 16 States i.e. **Andhra Pradesh, Arunachal Pradesh, Bihar, Gujarat⁶, Jammu & Kashmir, Jharkhand, Karnataka, Kerala, Meghalaya, Odisha, Sikkim, Tamil Nadu, Telangana, Tripura, Uttar Pradesh and Uttarakhand⁷**, Central share was directly released to dedicated programme fund accounts and support fund accounts maintained by SWSM and the State share was also transferred to these accounts through State Budget till March 2014. From April 2014 onwards, the Central share was routed through the State Consolidated Fund to the dedicated accounts of SWSMs as part of restructuring of CSS.

In **Assam**, Central share was released to SWSM through the State Budget in 2014-15 whereas in the period 2015-17 it was released directly to work executing department without routing through SWSM. The State shares were directly released to work executing departments throughout the period 2012-17 which was a violation of Programme guidelines.

In **Goa**, while both Central and State shares were being directly credited to SWSM accounts up to 2013-14, from 2014-15 onwards both these shares were being released to work executing department without routing through SWSM.

In nine States of **Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Manipur, Mizoram, Nagaland, Punjab and Rajasthan**, while the Ministry was releasing the Central share directly to SWSM the State share was being released by the State to work executing departments without routing it through SWSM upto March 2014. From April 2014, the Central share was released to State Consolidated Fund which was thereafter along with the States' share being released to work executing divisions/implementing agencies without routing through SWSM.

Non-routing of funds through SWSMs especially after March 2014, was in contravention of the guidelines. It also undermined the SWSMs as an apex body in the State for guiding, coordinating and monitoring the project by reducing its control over programme finances.

Manipur and Rajasthan

State Governments transferred Central share directly to work executing department without routing them through SWSM since April 2014. As a result, dedicated accounts for programme fund and support funds of SWSM became non-operational and ₹ 66.03 crore (**Manipur** ₹ 1.01 crore and **Rajasthan** ₹ 65.02 crore) remained unutilised in these accounts (March 2017).

⁶ **Gujarat**, since 2014-15 provides fund to Gujarat Water Supply and Sewerage Board (GWSSB), Water and Sanitation Management Organisation (WASMO) and GJTI.

⁷ Except state shares for 2012-14.

Karnataka

Against the stipulation of operating two accounts for the Programme and support accounts, the State Government of **Karnataka** was operating 108 savings accounts in four different banks. Only two savings banks accounts *viz.* an account in Syndicate Bank, BWSSB Branch, Bengaluru (Programme Fund) and an account in Corporation Bank, Malleswaram Branch, Bengaluru (Support Activities Fund) were communicated to the Ministry for transfer of funds.

Of the remaining 106 accounts, seven accounts were opened (six in August 2010 and one January 2011) in Syndicate Bank, BWSSB Branch. Of these seven accounts, while three accounts were never operated the remaining four accounts received funds from the Programme fund account for payment to contractors.

In addition to the above, 98 accounts (97 in Syndicate Bank, BWSSB Branch and one in Andhra Bank) were opened in March 2011. In one of the 97 Accounts opened in the Syndicate Bank, ₹ 73 crore was transferred in the month of March in 2011, 2012 and 2013 from the four accounts opened in August 2010 referred to above. This amount was re-credited to the four accounts by June 2013. These transactions were not supported by any documentary authorizations which indicate that these transactions were carried out to inflate the expenditure and for parking of funds.

In other 96 accounts opened in 31 March 2011 in the name of district officers for various component of the Programme, ₹ 525 crore was transferred from four accounts opened in August 2010. However, after lapse of 11 days (11 April 2011), the entire amount along with interest was credited back to the respective four accounts.

In the account opened in Andhra Bank in March 2011, ₹ 90.42 crore was deposited (26 March 2011) after being withdrawn from the treasury by debiting Capital Expenditure-Rural Water Supply for release to various Zila Parishad for utilisation under the respective components. During November 2011 to April 2014, ₹ 5 crore was transferred (30 March 2013) to another bank account in Dena Bank and ₹ 0.73 crore was released to Zila Parishad for payment to contractor.

These transactions indicate that besides two main authorized accounts, funds were parked by the State Government in various unauthorized accounts.

Opening of multiple bank accounts and complicated inter-bank transactions indicated lapses in control over funds allocated for the Programme. A committee constituted (October 2015) by the State Government recommended (June 2016) a detailed reconciliation of these transactions which was still in progress (August 2017). Meanwhile, the balances of ₹ 612 crore in these accounts (except two main accounts) as of May 2016 were remitted back to the government.

3.2.6 Short-utilisation of funds available for NRDWP components

Funds of NRDWP are allocated for its six components and for specific areas, habitations and purposes as depicted in **Chart-3.3**.

Chart-3.3: Component-wise distribution of Programme Funds

Due to the wide variation between States in terms of the number of habitations with water quality problems and the number of partially covered habitations, guidelines provide flexibility in allocation of funds under the Coverage and Water Quality components up to 67 *per cent* of funds available for allocation to a State can be used under the Coverage and Water Quality components taken together. Similarly, ‘water surplus’ States have the flexibility to use a lower percentage of funds under the Sustainability component with proper justification.

The position of funds available and expenditure incurred under different NRDWP components during 2012-17 is detailed in **Table-3.4**:

Table-3.4: Expenditure incurred on NRDWP components: 2012-17

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Coverage + Water Quality + Sustainability + Operation & Maintenance						
Funds available	20,641.83	20,762.96	19,414.34	12,685.35	13,596.42	79,192.75
Central	Opening balance	2,751.58	3,346.31	2,227.56	1,541.16	793.12
	Release	8,653.08	7,926.60	7,191.58	3,235.39	3,912.95
	Interest, Other deposits/ recoveries, etc.	164.35	100.08	43.89	99.90	23.40
State (Release)	9,072.82	9,389.97	9,951.31	7,808.90	8,866.95	45,089.95
Expenditure	15,566.25	17,476.33	16,832.66	10,603.69	11,122.25	71,601.18
From available Central fund	8,250.80	9,226.28	7,927.99	3,983.38	3,656.46	33,044.91
From available State fund	7,315.45	8,250.05	8,904.67	6,620.31	7,465.79	38,556.27
Percentage utilisation of available funds	75.4	84.2	86.7	83.6	81.8	90.4
Component wise expenditure from Central fund						
Coverage	5,590.24	6,442.95	5,603.26	2,645.74	2,559.47	22,841.66
Water Quality	1,053.42	816.82	752.66	447.79	461.78	3,532.47
Sustainability	628.04	703.77	537.16	356.04	174.79	2,399.80
Operation & Maintenance	979.09	1,262.75	1,034.83	533.87	460.39	4,270.93
Support Activities						
Funds available	403.70	444.71	496.34	402.66	390.53	1,520.08
Central	Opening Balance	244.82	182.58	179.78	188.17	107.22
	Release	159.80	272.57	314.82	182.86	181.55
	Interest, etc.	7.11	4.49	3.71	3.27	2.43
State (Release)	0.00	2.18	1.41	31.86	107.20	142.65
Expenditure	229.14	268.5	311.35	273.84	251.77	1,334.60
From available Central fund	229.14	267.03	310.53	267.38	184.75	1,258.83
From available State fund	0.00	1.47	0.82	6.46	67.02	75.77
Percentage utilisation of available funds	56.8	60.4	62.7	68.0	64.5	87.8
Water Quality Monitoring and Surveillance (WQM&S)						
Funds available	209.27	229.84	262.69	206.11	170.38	804.19
Central	Opening Balance	92.07	102.69	74.19	94.84	67.38
	Release	117.20	127.15	188.30	110.87	101.99
	Interest, etc.	0.00	0.00	0.20	0.40	1.01
State (release during the year)	0.00	0.00	0.00	8.82	56.18	65.00
Expenditure	106.66	155.67	167.84	142.78	166.75	739.70
From available Central fund	106.66	155.67	167.84	138.79	122.84	691.80
From available State fund	0.00	0.00	0.00	3.99	43.91	47.90
Percentage utilisation of available funds	51.0	67.7	63.9	69.3	97.9	92.0

Source: IMIS data of the Ministry

Note: 1. Component wise State expenditure in respect of Coverage, Water Quality, Sustainability, Operation & Maintenance were not available in IMIS data.

2. In respect of Coverage and Support activity, variation in opening balance/closing balance were noted in all the financial years

It is evident that funds under the main components viz. Coverage, Water Quality, Sustainability and O & M remained unutilised to the extent of 13.3 to 24.6 per cent. Under Support activities, short utilisation of funds was between 32 and 43.2 per cent. Under-utilisation in WQM&S related activities was up to 49 per cent.

State-wise yearly position of expenditure under components of Coverage, Support Activities and WQM&S related activities is at **Annexes 3.3, 3.4 and 3.5**. It was observed that more than 85 *per cent* of the available funds were utilised by the States under Coverage, Water Quality, Sustainability and Operation & Maintenance in all States except **Gujarat, Himachal Pradesh, Jharkhand, Punjab and Rajasthan**. Utilisation of funds under Support Activities was above 85 *per cent* in all States except **Jammu & Kashmir, Madhya Pradesh, Rajasthan, Telangana and Uttar Pradesh** and under WQM&S in all States except **Karnataka, Madhya Pradesh, Meghalaya, Rajasthan and Uttarakhand**.

The Ministry stated (February 2018) that the re-structured NRDWP guidelines would give States more flexibility as it merges support, water quality monitoring and surveillance activities and the water quality earmarked component in the coverage component.

3.3 Utilisation of funds under focused schemes

The NRDWP provides for taking up focused Drinking Water Supply Schemes in DDP areas and areas affected by natural calamities.

3.3.1 Short-utilisation of funds under the Desert Development Programme

The Desert Development Programme (DDP) of the Department of Land Resources, Ministry of Rural Development, is under implementation in 235 blocks of 40 districts in seven States⁸. Under NRDWP, 10 *per cent* of funds are allocated for Rural Water Supply schemes in DDP areas to address extreme conditions of low rainfall and poor water availability in these areas. **Table-3.5** presents the position of funds released and expenditure incurred by the States under DDP during 2012-17.

Table-3.5: Release and Expenditure under Desert Development Programme

(₹ in crore)

Year	Opening balance	Release	Available funds	Expenditure	Percentage expenditure of available funds	Closing balance
	1	2	3=1+2	4	5=4/3	6=3-4
2012-13	451.21	1,050.00	1,501.21	1,170.70	78.0	330.51
2013-14	330.51	956.63	1,287.14	1,038.87	80.7	248.27
2014-15	122.83	925.00	1,047.83	991.12	94.6	56.72
2015-16	56.72	420.96	477.68	415.45	87.0	62.25
2016-17	62.35	496.28	558.63	383.21	68.6	175.43

Source: Format D1 of IMIS data

Note: Variation in the closing and opening balances in IMIS data was not clarified.

⁸ DDP covers an area of 4.58 lakh Sq. km involving population of 404.22 lakh.

As seen from above, funds allocated for utilisation for implementing schemes in the DDP areas remained unutilised at the end of each year. Substantial unutilised funds were lying with States such as **Andhra Pradesh** (₹ 37.52 crore), **Haryana** (₹ 16.40 crore) and **Rajasthan** (₹ 105.17 crore) as on March 2017.

Further, after change in funding pattern from April 2015, States⁹ had not released their share of funds under DDP during 2015-17. This has also been discussed in para 3.2.3 of this Report. Under-utilisation of available fund by the States defeated the purpose of earmarking and allocation of funds for a priority area identified for focussed attention.

3.3.2 Other State specific observations

Audit noted shortcomings in the management of funds for schemes under DDP due to stoppage of work mid-way, idling of funds and diversion of funds in the States of **Andhra Pradesh** and **Himachal Pradesh** as summarised below.

Andhra Pradesh: In DDP district Anantapuram, Gorantala Mandal was selected in July 2012 for implementing a pilot project with an estimated cost of ₹ 32.06 lakh and an agreement was executed with an agency to provide technical assistance to 16 GPs to prepare and implement village/GP water security plan. Subsequently in February 2014, a revised approval for the work was accorded for ₹ 54.25 lakh. However, due to changes sought in the DPR for the pilot project, the agency stopped (June 2014) the work after incurring an expenditure of ₹ 14.10 lakh which was rendered unfruitful.

Himachal Pradesh: Despite availability of unutilised funds of ₹ 3.28 crore since 2012-13, the Ministry released additional funds of ₹ 1.90 crore to the State during 2015-17. The entire amount of ₹ 5.18 crore thereafter remained unutilised at the end of financial year 2016-17. The Ministry stated (September 2017) that the State had been asked to refund the unspent amount. Similarly, in district Kinnaur, out of an amount of ₹ 0.55 crore for DDP works received in January 2012, ₹ 0.30 crore was lying un-utilised under a deposit head (August 2017) for non-DDP blocks. In Pooh Block, ₹ 0.73 crore pertaining to DDP funds were diverted for construction of flow irrigation schemes and maintenance of water supply schemes during 2012-13 to 2015-16.

3.3.3 Non-utilisation of funds under Natural Calamity

Ministry retains two *per cent* of the NRDWP funds for providing assistance to States for mitigating drinking water problems in rural areas for natural calamities. Funds under this head are allocated on the basis of recommendations of Central teams that visit the

⁹ Except Andhra Pradesh, Karnataka and Rajasthan which released their share during 2016-17

States in the wake of natural calamities. However, it was observed that States did not utilise funds provided to them for this purpose during 2012-17. Details are given in **Table-3.6:**

Table-3.6: Release and Expenditure under Natural Calamity

(₹ in crore)

Year	Opening balance	Release	Available funds	Expenditure	Percentage expenditure of available funds	Closing balance
	1	2	3=1+2	4	5=4/3	6=3-4
2012-13	164.88	83.85 ¹⁰	248.73	134.33	54.0	114.40
2013-14	115.41	95.63	211.04	97.36	46.1	113.68
2014-15	113.68	138.00	251.68	110.32	43.8	141.37
2015-16	141.13	57.60	198.73	126.85	63.8	71.89
2016-17	71.89	56.73	128.62	66.34	51.9	62.28

Source: Format D1 of IMIS data

Note: Variation in the closing and opening balances in IMIS data was noticed.

Thus, utilisation of funds allocated on account of natural calamities was only up to 64 per cent. Substantial unspent balances were noticed in the case of **Assam** (₹ 3.55 crore since 2015-16), **Karnataka** (₹ 3.85 crore since 2014-15), **Kerala** (₹ 15.00 crore prior to 2012-13), **Rajasthan** (₹ 5.22 crore since 2012-13), **Tamil Nadu** (₹ 7.96 crore since 2015-16) and **Uttarakhand** (₹ 19.74 crore since 2016-17¹¹) as on March 2017. Since funds under the component were being provided in the wake of natural calamities, their under-utilisation raises doubts about the efficacy and promptness of efforts for restoring and maintaining water supply in the aftermath of natural calamities.

The Ministry stated (February 2018) that States have been requested to send utilisation certificate, if already utilised, or refund the unspent funds lying with them.

¹⁰ Including ₹ 7.01 crore of other recoveries.

¹¹ Included ₹ 3.42 crore pertained to 2013-14

Bihar, Manipur, Nagaland and Sikkim

₹ 27 crore was provided to **Bihar** during 2008-09 under natural calamity component. Against this, the State utilised only ₹ 17.89 crore. However, information with regard to the remaining amount of ₹ 9.11 crore was not reported to the Ministry. The Ministry stated (September 2017) that State Government has been requested (April 2017) to furnish Utilisation Certificate and audit certificate for considering further release under this component.

In **Manipur**, Ministry released (September 2016) ₹ 1.23 crore for restoration of damaged rural drinking water supply system due to earthquake in January 2016. However, these funds were not released by the State Government (March 2017) for execution of works.

In **Nagaland**, PHED provided ₹ 24.18 lakh to Khonama village of district Kohima under Natural Calamity Fund during 2013-14. However, during joint physical verification, the departmental officials and the Water and Sanitation Committee members could not locate and identify the work executed.

Sikkim, which was hit by a major earthquake on 18 September 2011, was sanctioned ₹ 41.64 crore towards restoration of damaged rural water supply. Department stated that the entire funds received during 2011-12 was utilised by 2014-15. However, it was noticed that the Department had diverted ₹ 5.80 crore for other works that were not within the ambit of the Natural Calamity Fund. Further, 84 electro-chlorinators were procured at a cost of ₹ 1.18 crore for distribution to *Gram Panchayats* of South and West districts. Joint physical verification of eight *Gram Panchayats* showed (May 2017) that these were not put to use and were lying idle in dilapidated condition (May 2017).

3.4 Short-utilisation of Water Quality Funds

As per the Programme guidelines, five *per cent* of programme funds are earmarked for allocation to States with chemical contaminated quality affected habitations and bacteriological affected JE/AES¹² districts. The year wise position of utilisation of the funds earmarked for water quality affected habitations is given in **Table-3.7**.

Table-3.7: Utilisation of funds allocated under earmarked Water Quality
(₹ in crore)

Particulars	Available funds (2012-17)			Expenditure (2012-17)		
	Central	State	Total	Central	State	Total
Earmarked for						
Chemical	840.94	219.39	1,060.33	768.48	189.16	957.64
Bacteriological	310.72	520.53	831.25	318.47	290.99	609.46
Total	1,151.66	739.92	1,891.58	1,086.95	480.15	1,567.10

Source: IMIS data of the Ministry

¹² Japanese Encephalitis/Acute Encephalitis Syndrome (JE/AES)

During 2012-17, both Central and State funds earmarked for chemically and bacteriological affected habitations were utilised only to the extent of 82.8 per cent. State-wise position of release and expenditure of these funds is given in **Annexe-3.6**. Audit noted that more than 25 per cent of the available funds remained unutilised in six States {**Andhra Pradesh** (48.7 per cent), **Maharashtra** (38.7 per cent), **Odisha** (79.5 per cent), **Rajasthan** (32.4 per cent), **Tamil Nadu** (26.9 per cent) and **Uttar Pradesh** (26.9 per cent)} during this period.

3.5 Funds lying unspent under *Jalmani*

With the objective of providing children studying in water quality affected rural schools with safe and clean drinking water, ₹ 200 crore was provided to 29 States during 2008-10 under the programme *Jalmani*.

Audit observed that expenditure of ₹ 121.73 crore had been incurred on installation of 1.08 lakh standalone water purification systems by 2013-14. Thereafter, no expenditure on account of *Jalmani* was incurred and balances of ₹ 78.27 crore was outstanding with 20 States as of July 2017.

Ministry stated (February 2018) that the amount lying with States was reduced to ₹ 49.73 crore and efforts were being made to recover the unspent amount with interest and also obtain reasons for non-utilisation of funds.

3.6 Other financial irregularities

3.6.1 Delayed release of funds by the State Government

Programme guidelines¹³ stipulate that States shall release the entire Central share received along with the matching State's share to the implementing agency i.e. SWSM without any delay and in any case not later than 15 days after receipt of funds. Further, as per the conditions attached to the release of Central allocation, in case of any delay beyond stipulated period, a penal interest of 12 per cent per annum for the period of delay shall be transferred by the State Government to the implementing agency along with the principal amount.

Audit observed that transfer of Central share along-with State's matching share of ₹ 9,388.89 crore to the implementing agency was delayed by periods up to 478 days in 19 States. However, in none of these cases was penal interest transferred to the implementing agencies. State-wise details are given in **Annexe-3.7**.

In **Andhra Pradesh**, Central share of ₹ 26.62 crore received in March 2017 was not transferred along with State's matching share to SWSM as of May 2017. **Assam**

¹³ Para 17(s)

(₹ 120.16 crore) and **Goa** (₹ 0.25 crore) did not transfer Central share amounting to ₹ 120.41 crore to their implementing agency as of March 2017.

3.6.2 Non-accountal/loss of interest of ₹ 448.84 crore

Programme guidelines¹⁴ require that money accruing as interest in the programme and support accounts shall be credited to the same account and reflected as available funds in the Utilisation Certificate for the year.

Audit observed that ₹ 117.15 crore earned as interest in four States {**Andhra Pradesh** (₹ 4.31 crore¹⁵), **Assam** (₹ 0.20 crore), **Gujarat** (₹ 1.63 crore), **Karnataka** (₹ 111.01 crore)}, was neither accounted for in the respective accounts nor shown in utilisation certificates.

Audit also observed that the Programme suffered a loss of interest amounting to ₹ 331.69 crore in four States as discussed below:

In **Jammu & Kashmir**, ₹ 0.41 crore earned as interest on NRWDP funds was remitted into the treasury in August 2016 instead of accounting the same in NRDWP fund. In **Karnataka**, though the agreement with the implementing agency and the bank provided for investment of surplus funds in fixed deposits, this was not done leading to a loss of interest of ₹ 260.49 crore. In **Maharashtra**, funds transferred to Zila Parishad for operation and maintenance were not kept in a separate bank account as a result of which interest earned was not worked out and credited into the programme account. Further, interest of ₹ 0.08 crore earned by the works executing divisions was remitted to the State Government instead of crediting it into the programme account. In **Uttar Pradesh**, UP Jal Nigam kept programme funds and support funds in 11 bank accounts and earned interest of ₹ 70.71 crore during 2012-17. The interest earned was transferred to its revenue account and subsequently spent on establishment expenditure instead of being credited to the programme account for utilisation on the Programme.

3.6.3 Inadmissible expenditure and diversion of funds

As per Programme guidelines¹⁶, expenses such as cost escalation, tender premium, and items for which the State Government was responsible were not eligible for funding under NRDWP and were to be met by the State Government.

In **21 States**, programme funds amounting to ₹ 358.59 crore was diverted and utilised for ineligible purposes such as purchase of land, tender premium, office expenses,

¹⁴ Para 16.10

¹⁵ Includes ₹ 0.50 crore earned as interest by DWSPs and loss interest of ₹ 0.16 crore due to deposition of ₹ 2.70 crore in non-interest bearing account by RWS&S division, Kovvuru of West Godavari.

¹⁶ Para 16.5

creation of inadmissible assets, purchase of vehicles, renovation works and centage charges as detailed in **Annexe-3.8**.

As per the guidelines, **Odisha** which had average rainfall of less than 1,500 mm and was thus a water stressed State was not entitled to divert funds under Sustainability Component to coverage and water quality component. However, audit observed that ₹ 14.19 crore of Sustainability Component funds was diverted for coverage, water quality works and O & M during the period covered by audit.

In five States (**Arunachal Pradesh, Assam, Bihar, Gujarat and Telangana**), exemption from payment of excise duty amounting to ₹ 22.37 crore¹⁷ on purchase of pipes of more than 100 mm dia, was not availed leading to avoidable expenditure.

In **Odisha**, ₹ 1.50 crore was deducted by the bank towards TDS on the interest earned during 2013-14 as the State Authority did not obtain exemption from payment of income tax.

The diversion of funds indicated weak internal controls on the part of State Governments.

3.6.4 Audit of SWSM accounts

Programme guidelines¹⁸ stipulated that SWSM had to ensure that accounts were audited by a chartered accountant selected from a panel approved by the Comptroller and Auditor General of India within six months of the close of the financial year. This account would be supported by a statement of reconciliation with the work executing departments' accounts and a certificate of the chartered accountant as to its accuracy. Further, Utilisation Certificate should be submitted by the competent authority of the concerned Department.

Audit observed that discrepancies in SWSM Accounts such as non-matching figure of expenditure IMIS figures, non-maintenance of cash book, variation in opening and closing balances, inflated expenditure, non-segregation of expenditure from Programme Funds as detailed below:

Andhra Pradesh: Financial figures reported in the audit reports of the chartered accountant did not match with the IMIS figures. Further, the implementing agency (Rural Water Supply and Sanitation Department) did not maintain cash book for funds under the Programme. As such, the correctness of releases and expenditure and inter component transfer of programme funds were not verifiable.

¹⁷ **Arunachal Pradesh** (₹ 1.68 crore), **Assam** (₹ 12.71 crore), **Bihar** (₹ 6.04 crore), **Gujarat** (₹ 1.02 crore) and **Telangana** (₹ 0.92 crore)

¹⁸ Para 18

Bihar: Auditor's report was not as per the prescribed guidelines. There were variations in opening balance, receipt, expenditure and closing balance of the Central share as compared with the cash book and IMIS data.

Himachal Pradesh: Chartered Accountants in their Audit Reports for 2012-13 to 2015-16 pointed out that divisions were maintaining a common cash book and other records for all the transactions of the divisions without segregating transactions related to the Programme funds. Further, the Divisions were booking the entire expenditure under one component i.e. Normal Coverage and was not classifying expenditure under different components of the Programme.

Jharkhand: Accounts were not being prepared and audited by chartered accountants and bank reconciliation statements were also not being prepared.

Karnataka: Multiple bank accounts had been opened as discussed in case study under para 3.2.2 above, chartered accountants stated that the State Government did not submit details of these accounts and component wise fund flow statements during any of the years. Hence, the accounts were certified based on utilisation certificates and balance confirmation slips issued by the banks. Further, the format specified for utilisation certificates was not adhered in the State and did not have component wise details of achievements against targets.

Rajasthan: Only funds lying in the SWSM accounts was covered under audit by the chartered accountant. Hence, funds transferred to departmental executing agencies from April 2014 onwards without routing through SWSM accounts remained unaudited. Further, utilisation certificates furnished by the State Government did not show expenditure from the State's share of funds.

3.7 Unspent balance/blocking of funds

Test check of records of State Governments revealed that ₹ 304.02 crore was lying with SWSM and work executing agencies despite subsuming of earlier schemes (*Swajaldhara*) or completion of works as discussed below:

Gujarat:

Case 1: Water and Sanitation Management Organisation (WASMO) released ₹ 57.10 crore to GWSSB for undertaking water supply projects in seven villages of Rajkot Urban Development Authority area in March 2011 stating that it had never executed such a large scale project earlier. GWSSB, which was also executing project for State plan scheme, did not execute the work and refunded ₹ 46.53 crore till April 2017 and ₹ 10.92 crore (including interest) of NRDWP fund remained blocked with GWSSB.

Case 2: In three selected districts (Junagarh, Narmada and Panchmahal), 22 VWSCs did not refund the unspent amount of ₹ 0.15 crore after completion of assigned works.

Case 3: In two selected districts (Bhavnagar and Narmada), VWSCs withdrew ₹ 0.23 crore¹⁹ from the bank but they neither executed the work nor refunded the amount.

Himachal Pradesh:

Case 1: NRDWP funds of ₹ 44.77 crore was transferred (2010-11) to Himachal Pradesh Civil Supplies Corporation (HPCSC) for purchase of pipes and ₹ 41.66 crore was transferred to various divisions without specifying the works to be undertaken. The amount released for purchase of pipes was lying unadjusted as status of receipt of pipes and adjustment account from HPCSC was awaited (August 2017).

Case 2: In districts Shimla and Kinnaur, ₹ 0.16 crore lying in saving bank account of Executive Engineers since 2014-15 was not accounted for in closing balance of NRDWP.

Case 3: ₹ 0.98 crore pertaining to *Swajaldhara* programme which was mainstreamed in the NRDWP in 2009 was lying unutilised with DWSM Kangra district.

Jammu & Kashmir: In four Divisions,²⁰ ₹ 4.07 crore was lying unutilised with the bank since April 2014. The concerned Executive Engineers stated that the fact will be brought to the notice of Chief Engineer for utilising the funds.

Karnataka:

Case 1: Programme fund of ₹ 36.53 crore released to 19 Zila Panchayats for implementation of water supply scheme was lying in their respective bank accounts despite State Government instructions of March 2011 and May 2011 to remit back the unutilised amounts to Programme fund.

Case 2: In district Chamarajanagar, balance amount of ₹ 1.05 crore after completion of two water supply works in March/August 2013 was still to be recovered from Karnataka Rural Infrastructure Development Limited.

Uttar Pradesh: *Swajaldhara* scheme fund of ₹ 163.50 crore lying unutilised in two bank accounts of SWSM despite the scheme subsumed with NRDWP in 2009.

¹⁹ During 2005-06 ₹ 0.08 crore, 2008-09 ₹ 0.13 crore and 2010-11 ₹ 0.46 crore.

²⁰ Executive Engineers, GWD, Jammu; PHE division Leh; PHE division Kupwara and PHE division Kargil

3.8 Audit summation

The Central budget allocation for the Programme during 2012-2017 was ₹ 40,111 crore of which ₹ 39,501 crore was released to the States. The allocations for the Programme and releases to the States declined in the last two years of the period covered by audit. The expectation that States would be able to compensate for this reduction either through their own resources and the increased devolution of funds or by accessing internal or external funding agencies were not met. As a result, the overall availability of funds for the Programme decreased from ₹ 23,577 crore in 2013-14 to ₹ 16,931 crore in 2016-17. Moreover, even the reduced allocations were not fully utilised and the percentage of available fund that remained unutilised each year during the period 2012-17 ranged from 16 to 26 *per cent*.

Further, the stipulated fund flow mechanism was not followed in **11 States** where funds released by the Centre and the State were not routed through SWSM. In **four States**, the Programme suffered interest loss of ₹ 331.69 crore. There was diversion of funds amounting to ₹ 358.59 crore towards inadmissible items of expenditure in **21 States** while ₹ 304.02 crore was lying unspent/blocked at various levels in **five States** despite closure of schemes and completion of works.

Hence, the management of Programme funds suffered from under-utilisation, short release, diversion and blocking of funds. Further, the laid down fund flow mechanism was not adhered to as SWSMs were bypassed which undermined their role as an apex body for guiding and monitoring the Programme.