Chapter-2: Audit Approach and Organisation of Current Audit Findings

2.1 Audit approach

2.1.1 Audit objectives

The objectives of the performance audit were to ascertain whether:

- The systems and procedures in place for identification/preparation of Core Network as well as District Rural Road Plan were adequate and conformed to programme provisions;

- The road works were executed economically, efficiently and effectively;

- The allocation and release of funds under the PMGSY were adequate and timely so as to ensure optimum utilisation of funds;

- The existing monitoring system and quality control mechanism were adequate and effective in achieving the desired objective.

2.1.2 Audit methodology

The performance audit commenced with an entry conference with the Ministry of Rural Development (Ministry) on 27 April 2015, where the audit methodology, scope, objectives and criteria were discussed. Simultaneously, entry conferences were held in each state by the respective Principal Accountants General/Accountants General with the nodal department involved in the implementation of the programme. Thereafter, records relating to the programme were examined in the Ministry, NRRDA and the implementing agencies of the state governments between May 2015 and October 2015. A joint physical verification was also carried out using a structured questionnaire designed to verify the existence and condition of roads constructed/up-graded. After conclusion of audit and consolidation of audit findings, an exit conference was held with the Ministry on 13 April 2016 in which the draft audit findings were discussed. Exit conferences were also held at the state levels, where state specific findings were discussed. The Report has taken into account the replies furnished by the Ministry and programme implementing agencies at different levels.
2.1.3 **Source of audit criteria**

The main sources of audit criteria were the following:

- Guidelines of the programme and amendments issued by the Ministry;
- Annual Reports/Instructions/Guidelines issued by NRRDA;
- Outcome budget of the Ministry of Rural Development;
- Periodical reports/returns prescribed by state governments;
- Circulars/instructions issued by the Ministry;
- Reports of National and State Quality Monitors and National Level Monitors;

2.1.4 **Scope and coverage of performance audit**

This performance audit covered implementation of the scheme during the period from 2010-11 to 2014-15. It involved scrutiny of records of the Ministry, National Rural Road Development Agency (NRRDA), a nodal agency at Central level and implementing agencies in states. All UTs were excluded since no funds were released to them during the performance audit period.

2.1.5 **Audit sampling**

The following statistical framework was used for selection of sample:

**Stage-I**

- Each state was divided into geographically contiguous regions and samples were taken from each region to make the sample representative of the entire state;
- **25 per cent** of the districts from each region (subject to minimum of two) were selected using Probability Proportional to Size Without Replacement (PPSWOR) method to sort out districts on the basis of size of expenditure under PMGSY during the last five years.

**Stage-II**

- Within each selected district in stage-I, packages\(^1\) were selected based on the Simple Random Sampling Without Replacement (SRSWOR) method as given in Table 2.1.

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\(^1\) Package represents group of works put to tender in one lot.
Table-2.1: Criteria for selection of packages

<table>
<thead>
<tr>
<th>Total number of packages in selected districts</th>
<th>Packages selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 5</td>
<td>100 per cent of the packages</td>
</tr>
<tr>
<td>Above 5 and up to 10</td>
<td>50 per cent of total packages subject to minimum of five</td>
</tr>
<tr>
<td>Above 10</td>
<td>25 per cent of total packages subject to minimum of five</td>
</tr>
</tbody>
</table>

- 100 per cent of the works under each selected package were audited.

The audit sample covered is given in Chart-2.1 below:

Chart-2.1: Sample selection

29 states  176 districts  4,417 packages  Expenditure ₹ 7,734.93 crore

Details of the sample districts are given in Annex-2.1 and 2.2

2.2 Previous audit findings

Performance audit of the PMGSY for 2000-01 to 2004-05 was conducted between January 2005 and June 2005 and the audit findings were reported to Parliament in Report No. 13 of 2006 (Union Government-Civil).

The Public Accounts Committee (Fourteenth Lok Sabha), in their 72nd Report (2007-08) had made a number of observations/recommendations on the previous audit findings reported to Parliament in Report No. 13 of 2006 (Union Government-Civil). Further, the Committee (Fourteenth Lok Sabha) in their 82nd Report (2008-09) discussed the Action Taken Notes furnished (October
2008) by the Ministry on the recommendations and observations contained in their 72nd Report.

The present performance audit of PMGSY for the period 2010-11 to 2014-15 revealed that most of the deficiencies as pointed out in the earlier CAG’s Report persisted despite assurances rendered by the Ministry to the PAC as brought out in Table-2.2 below:

Table 2.2 : Status of the implementation of some important Observations/Recommendations of the Public Accounts Committee

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Recommendations of the Public Accounts Committee</th>
<th>Response of the Ministry</th>
<th>Status as per current audit report</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Replicate the modalities of social audit incorporated in the guidelines of National Rural Employment Guarantee Act (NREGA) scheme in respect of the PMGSY. (Recommendation No. 3)</td>
<td>The Ministry accepted the recommendation and stated that based on the Pilot project taken up in Karnataka and Odisha with the involvement of local NGOs for sample audit exercise and citizens monitoring of projects, decision would be taken to formulate appropriate methodology for social audit of PMGSY projects.</td>
<td>Concept of social audit has not been included in the programme guidelines. (Para 6.7)</td>
</tr>
<tr>
<td>2.</td>
<td>Fix a time frame for preparation and implementation of district/state-wise plans with a view to avoid duplication of expenditure on existing roads. (Recommendation No. 4)</td>
<td>The Ministry in their action taken note stated that Core Network of all states had been finalized and frozen except for Andhra Pradesh, Bihar, Kerala and West Bengal who requested for further marginal changes in Core Network.</td>
<td>Core Network has still not stabilised as 13,209 habitations not included earlier mainly due to inadequacies in surveys by the states were added in the Core Network. (Para 3.3.1)</td>
</tr>
<tr>
<td>3.</td>
<td>All cases of financial irregularities should be thoroughly probed into and appropriate action be taken against the persons concerned for their acts of omission and commission. (Recommendation No. 9)</td>
<td>States had been advised to fix responsibilities for the lapses and recover the amount within two months.</td>
<td>Instances of diversion of programme funds for inadmissible items and works persisted. (Para 5.10)</td>
</tr>
<tr>
<td>4.</td>
<td>A comprehensive GIS database of Rural Roads Information System should be created for each state, which can be shared at different levels and by different agencies involved in construction and maintenance of rural roads. Further, a Road Maintenance Management System may also be developed using GIS database, which will enable to sustain the road for a longer time with minimal efforts. (Recommendation No. 12)</td>
<td>Ministry had initiated the development of standalone and web based GIS database for Rural Roads Information System and selected Rajasthan and Himachal Pradesh as pilot states. All states had been advised to initiate steps to go in for GIS Data Based Management System which can be effectively used for Maintenance Management.</td>
<td>There was no development in creation of web based GIS database for Rural Roads Information System. (Para 3.4)</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry should devise ways and means to verify and cross check the works sanctioned under the scheme with that of state PWD</td>
<td>The Ministry accepted the recommendation and stated that mechanism had been introduced in July.</td>
<td>Dropping of proposals after being cleared by the Ministry on account of works executed by other states</td>
</tr>
<tr>
<td>Sl. No.</td>
<td>Recommendations of the Public Accounts Committee</td>
<td>Response of the Ministry</td>
<td>Status as per current audit report</td>
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<td>6.</td>
<td>Ministry should take appropriate steps to ensure that all the works taken up under the scheme invariably form part of the Core Network. <em>(Recommendation No. 14)</em></td>
<td>The Ministry accepted the recommendation and stated that rigorous checks would be applied to ensure that all the proposal form part of the Core Network.</td>
<td>In 12 states 109 road works were selected beyond Core Network. <em>(Para 3.6.4)</em></td>
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<td>7.</td>
<td>Ministry should take suitable steps to ensure that works undertaken in Phase III strictly conform to the guidelines and no inadmissible work would be undertaken. <em>(Recommendation No. 15)</em></td>
<td>The Ministry stated that it was taking steps to ensure that the works undertaken conform to the guidelines.</td>
<td>Habitations with ineligible path distance and population size were covered in the programme. <em>(Para 3.3.5)</em></td>
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<td>8.</td>
<td>Ministry should take up the matter with the states so as to fix responsibility on the concerned authorities for inordinate delay in finalisation of tenders. <em>(Recommendation No. 18)</em></td>
<td>The Ministry accepted the recommendation and stated that states had been advised to closely monitor the delays in tendering every month and in case of inordinate delays the action for fixing responsibility be taken.</td>
<td>In 14 states, 2,961 tenders were finalised with delays up to 974 days. <em>(Para 4.3.4)</em></td>
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<td>9.</td>
<td>Ministry should ensure that states sponsor only those project proposals where there is clear availability of land and necessary clearance from the forest department and other authorities are obtained so that the works are not abandoned or left incomplete mid way. <em>(Recommendation No. 20)</em></td>
<td>The Ministry accepted the recommendation and stated that instructions that a certificate of land availability must accompany the proposal for each road had been reiterated. Clear availability of land would be kept in view while sanctioning projects so that in future works are not dropped due to non-availability of land.</td>
<td>In 16 states, 910 works were dropped or abandoned midway due to land disputes. <em>(Para 4.2.2)</em></td>
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<tr>
<td>10.</td>
<td>The Ministry should constantly monitor the works undertaken by states and also review the contracting capacity of the states and strengthen the same so that corrective steps are taken whenever necessary to ensure the timely completion of the projects. <em>(Recommendation No. 21)</em></td>
<td>Ministry has made efforts to support the states to ensure completion of sanctioned projects within stipulated time schedule to avoid cost and time overruns.</td>
<td>In 26 states, 4,496 works were found to have been completed with delays ranging from one month to 129 months. <em>(Para 4.4.8)</em></td>
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<tr>
<td>11.</td>
<td>Closely monitor all cases of liquidated damages in coordination with states so that damages are fully recovered within a definite time period. The Ministry should impose penalties on the States concerned who fail to take prompt action</td>
<td>States have been asked to give more stress on contract management, monitor all works which are behind schedule and take action against the defaulting contractors, fix responsibility</td>
<td>In 16 states, in 459 works, recovery of liquidated damages of ₹ 131.50 crore was not imposed. <em>(Para 4.4.9)</em></td>
</tr>
</tbody>
</table>
### 2.3 Organisation of current audit findings

The audit issues have been analysed from a nation-wide perspective and summarized findings noticed at central and state level are mentioned in this Report.

Audit findings are reported in **six** different chapters. Chapter 3 brings out the Planning activity. Chapter 4 details the Programme Implementation and chapter 5 discusses the audit findings relating to Fund Management. Chapter 6 covers Quality Control, Monitoring and Evaluation of the programme. Chapter 7 contains the findings on joint physical verification of the roads constructed under the programme. Chapter 8 brings out IT audit of OMMAS.

Glossary has been placed at the end of this report.

### 2.4 Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Ministry, state governments, implementing departments and their officials, at various stages during conduct of the performance audit.