

## 5.1 Introduction

Section 22 of the Act lays down the funding pattern of the Scheme which is summarized in the table below:

**Table-9: Funding Pattern**

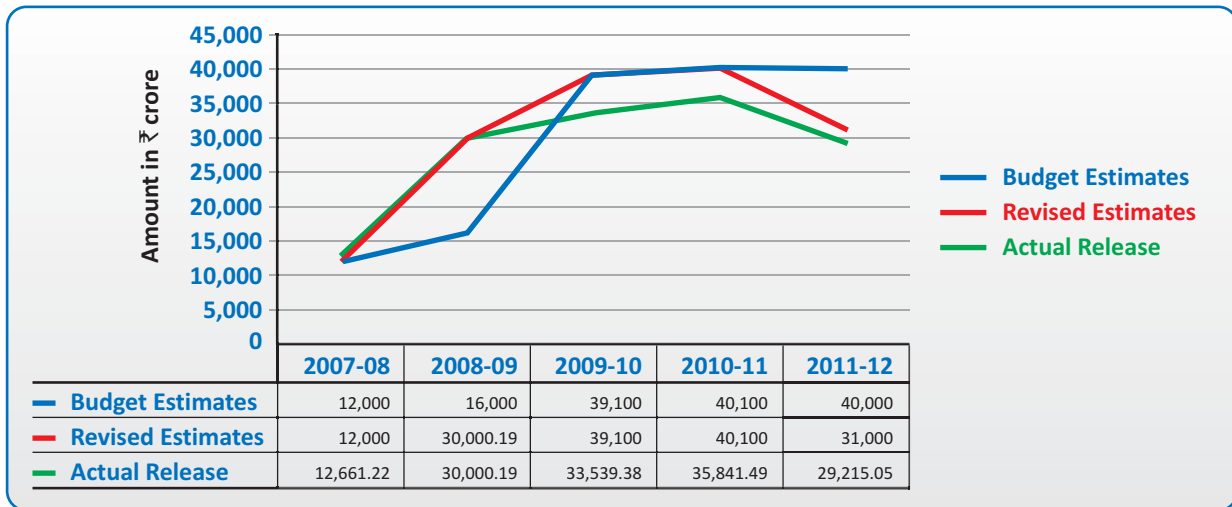
Central Share	State Share
Entire cost of wages for unskilled workers	-
75 per cent of the cost of material and wages for skilled and semi-skilled workers.	25 per cent of the cost of material and wages for skilled and semi-skilled workers.
Administrative expenses as may be determined by the Central Government including <i>inter alia</i> , the salary and allowances of Programme Officers and their support staff and work site facilities.	Unemployment allowance payable in case the state government cannot provide employment within 15 days of application.
Administrative expenses of the Central Employment Guarantee Council	Administrative expenses of the State Employment Guarantee Council.

Under section 21(1) of the Act the state government may, by notification, establish a fund to be called the State Employment Guarantee Fund (SEGF) for the purposes of the implementation of the Scheme. Central grants are released to State Employment Guarantee Fund or to districts (in case of states where such funds were not established). This fund was to be expended and administered as a revolving fund, with rules that govern and ensure its utilization according to the purpose of the Act. Grant from the Central Government and corresponding due from state share were to be credited to the state fund. According to the Operational Guidelines, it was the responsibility of the state government to establish State Employment Guarantee Fund.

## 5.2 Financial Position under the Scheme

The position of the Budget Estimates, Revised Estimates and Actual Expenditure by the Ministry for the period of audit was as shown in **Chart-8**.

Chart-8: Budget and Releases



Source: Ministry of Rural Development

As can be seen from the chart above, for the last three years there had been a consistent overestimation of the budgetary estimates of the expenditure to be made under MGNREGS. Further, the gap between the budget estimate and the actual expenditure had been increasing. In the year 2011-12, the actual expenditure was only 73 per cent of the budget estimate.

Operational Guidelines (para 8.4.1) stipulate release of Central funds to states in two tranches. In case of non-SEGF states, funds are released to MGNREGS account maintained in a district through concerned Chief Executive Officer of District Rural Development Agency. In case of states where SEGF has been established, funds are released to bank account of this fund maintained at state level from which funds are further released to districts in that state. The first tranche is proportional to the percentage of persondays projected for the first six months of the year (up to September) in the labour budget. However, it was not to exceed 50 per cent of the total amount approved in the labour budget.

The labour budget was to be submitted by state government to GoI latest by 31 January each year projecting the funds requirement for the succeeding financial year. After utilizing 60 per cent of the funds earlier released, the state government could apply to the Ministry for the next installment. Quantum of the subsequent release was based on the past performance in respect of persondays generated and funds utilised.

During audit it was observed that funds were released to states/districts in more than two tranches. States/districts had approached the Ministry for funds whenever their funds utilization reached 60 per cent of funds available with them. MGNREGS being a demand based Scheme, the funds were released in more than two tranches in order to meet the states' demand.

### 5.3 Unauthorised Release of Funds to States

The Operational Guidelines (paras 8.4.2, 8.4.3 and 8.4.4) along with the instructions issued (May 2010) by the Secretary, Rural Development stipulate conditions for the release of funds to the

states/UTs in two tranches. The first tranche was to be proportional to the percentage of persondays projected for the first six months of the year (up to September) in the labour budget. However, it was not to exceed 50 *per cent* of the total amount approved in the labour budget. After utilizing 60 *per cent* of the funds earlier released, the state governments were to apply to the Ministry of Rural Development for the next instalment (second tranche) out of the National Employment Guarantee Fund. The conditions for releases of tranches are given in the box below:

### (A) Conditions for release of first tranche include:

- District wise opening balance as on 1 April of the financial year, and district wise and month wise projections of the labour demand and fund requirement are to be considered.
- A certificate or the copy of the zila parishad's approval indicating the fulfilment of statutory provisions that have been taken care of while preparing the labour budget should be provided.
- Audit Report (AR) for the previous year should be provided.
- Chartered Accountant to certify in the Audit Report itself that he/she had seen, verified and was satisfied that Utilization Certificates and the Audit Reports of the districts were in order and no deviation from the prescribed financial norms by any of the districts had been observed. He/she had also seen and verified Bank Reconciliation Statements of the districts. He/she was also to certify that block-wise and agency-wise expenditure had been verified and no advances were shown as expenditure. Interest accrued had been shown separately and included in the programme availability.

### (B) Conditions for the release of second tranche:

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|------------------|--|
| <b>Physical</b>  | <ul style="list-style-type: none"> <li>■ Actual performance reported in the MIS/Monthly Progress Reports, compared with labour budget projections are considered.</li> </ul>   |
| <b>Financial</b> | <ul style="list-style-type: none"> <li>■ At least 60 <i>per cent</i> utilization (including opening balance).</li> <li>■ Conforms to the 60:40 wage material ratio in cost. Unskilled wage cost may be more than 60 <i>per cent</i> but material cost cannot exceed 40 <i>per cent</i>.</li> <li>■ Centre is informed in advance about wage rate change as it impacts Central share.</li> <li>■ Compliance with Ministry's instructions on Schedule of Rates as it impacts Central share.</li> </ul> |

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|---|---|
| <b>Administrative</b>                         | <ul style="list-style-type: none"> <li>■ Staffing as per Government of India's instructions to be in place.</li> <li>■ Monitoring and Vigilance: 100 per cent, 10 per cent and two per cent monitoring done at block/district/state levels and 100 per cent muster rolls to be verified.</li> <li>■ MIS to be fully operational. Submission of authentic Monthly Progress Reports.</li> </ul>   |
| <b>Transparency and public accountability</b> | <ul style="list-style-type: none"> <li>■ Social audit of all works, timely disposal of complaints and action against wilful defaulters, accounts to be opened in post offices/banks for wage disbursement.</li> </ul>   |
| <b>Other conditions</b>                       | <ul style="list-style-type: none"> <li>■ Utilization Certificate up till 31 March of the previous year including opening balance as on 1 April of the current financial year to be submitted.</li> <li>■ Certificate regarding release and receipt of the state share against the amount of the Central funds released so far, including copy of the order sanctioning the state share; and a certified copy of the bank statement indicating the credit of the state share. Submission of non-diversion and non-embezzlement certificate.</li> <li>■ Any other condition indicated.</li> </ul> |

As can be seen from the above box, the Ministry had prescribed detailed conditions for release of both the tranches. However, it was noted that the Ministry relaxed (February 2011) all conditions attached with the release of 2nd or subsequent tranche till 31 March 2011 except submission of UCs, reportedly in the better interest of the programme and to provide states some elbow time. The release for remaining two months (February and March) of the year 2011 was to be made on the basis of balance of projected labour budget. In addition to releasing the balance amount of the labour budget, the Ministry also decided to release an additional 10 per cent of the balance labour budget. This was done whether or not actual performance matched the labour budget projected up to the period of report.

It was seen that ₹ 1,960.45 crore was released during March 2011 alone. This included ₹ 161.84 crore towards additional 10 per cent released to Chhattisgarh (three districts ₹ 13.06 crore), Gujarat (₹ 27.94 crore), Madhya Pradesh (₹ 39.34 crore), Odisha (₹ 38.55 crore) and Uttar Pradesh (₹ 42.95 crore) without considering the past performance of these states and ensuring adherence to all the stipulated conditions for release.

The Operational Guidelines clearly state that the release of Central funds under the Scheme are to be based on states' proposals rather than on pre-determined allocations. Thus, the action of the Ministry to release funds in excess of the states' proposals by 10 per cent, without ensuring utilisation of previous tranche and checking on the past performance seemed inappropriate.

This also indicated that funds were released by the Ministry without considering the states' absorptive capacity.

The Ministry stated that it was decided to release additional 10 *per cent* to ensure sustainable float of funds with states towards meeting any eventuality and upsurge in the labour demand during the last quarter of 2010-11 and April 2011. Further, the release so made was well within the Budget Estimates/Revised Estimates and approved labour budget for states. There had not been any violation of GFRs as the relaxation was given to states on those conditions which were imposed by the Ministry itself.

The reply of the Ministry does not address the following issues:

- The action of the Ministry violated GFR 212(1) which requires submission of annual audited statement relating to grants-in-aid released during the previous year in case of release of grants-in-aid in excess of 50 *per cent* of the total amount sanctioned for the subsequent financial year.
- Evidence of any upsurge in labour demand or any demand for relaxation of conditionalities by the states was not available on record.
- The action of the Ministry resulted in accumulation of heavy unspent balances<sup>1</sup> with the states at the end of March 2011.

## 5.4 Release of Funds for subsequent financial year

The Ministry, in several cases, had released funds prematurely to different states/districts in a financial year for projected expenditure in the subsequent financial year. The release of the Central funds to the states/UTs without Parliamentary approval rendered the release of funds unauthorised. It was also noticed that such releases occurred at the end of the year as detailed in **Table-10**.

**Table-10: Releases for Subsequent Years**

( ₹ in crore)

Funds released in the financial year	Funds released for utilization during financial year	Amount released	Date of release	States/Districts
2008-09	2009-10	871.08	30.03.2009	94 districts
2009-10	2010-11	1,201.91	31.03.2010	78 districts
2011-12	2012-13	2,000.00	15.03.2012	27 states
<b>Total</b>		<b>4,072.99</b>		

<sup>1</sup> Chhattisgarh (Bastar- ₹ 43.88 crore, Korla- ₹ 24.97 crore and Raipur- ₹ 61.45 crore), Gujarat- ₹ 429.74 crore, Madhya Pradesh - ₹ 1,894.25 crore, Odisha- ₹ 407.70 crore and Uttar Pradesh ₹ 1,882.22 crore,

Thus, the Ministry unauthorisedly released funds amounting to ₹ 4,072.99 crore to the states/UTs. Audit further noted that the release on the same pattern for the financial year 2010-11 was objected to by the Integrated Finance Division (IFD) of the Ministry. The IFD did not concur to the release at the end of the year to avoid adverse comments from C & AG and the Standing Committee on Demands for Grants. Consequently, funds were not released during 2010-11.

The Ministry stated that for meeting the increase in labour demand and to ensure sufficient float of funds with the states during March and April 2011, funds were released during March 2011. Further, unpaid bills arising out of MGNREGS implementation during the second fortnight of March in a financial year were generally settled during the 1st fortnight of April of the subsequent financial year. Therefore, a float of funds was a must during April to settle the unpaid bills carried over from the previous financial year. Further, it was added that extant policy approved a reasonable float of funds with the states and the money released during March 2011 was already voted upon, the release of funds aiming at maintaining balance with the state was not unauthorized release and moreover, the float of funds available with states at the beginning of the next financial year was treated as unspent balance and deducted from the total entitlement towards first installment.

The reply of the Ministry does not take into account the fact that the release of funds at the end of the financial year to meet next year's expenditure violates the provisions of GFRs and budgetary principles requiring approval of Parliament. Parliamentary approvals are meant for a specific year and do not allow carry forward of unspent balances to subsequent years.

## 5.5 Excess release of funds by the Ministry without adjusting the unspent balance

According to Rule 209(6) (iii) of GFRs, when recurring grants are sanctioned to the same organisation for the same purpose, unspent balance of previous grants should be taken into account while sanctioning the subsequent grant. The Operational Guidelines also require that any unspent balances from the previous releases be adjusted while making any new release.

It was observed that during the year 2010-11, the Ministry released ₹ 6,733.25 crore to nine states without taking into account the unspent balances of ₹ 10,104.71 crore as on 31 March 2010 with these states. The details are given in **Annex-5 A**.

Similarly, during 2011-12, the Ministry released ₹ 2,440 crore on 1 April 2011 to four states without taking into account the unspent balance of ₹ 3,758.91 crore as on 31 March 2011. This is shown in **Annex-5 B**.

Thus, the release of ₹ 9,173.25 crore during 2010-11 and 2011-12 made in violation of the provisions of the GFRs and the Operational Guidelines, was irregular.

The Ministry in its reply stated that the unspent balance figures considered by Audit were audited figures. Receipt of a consolidated and audited UC indicating unspent balances of a state in a given financial year were generally submitted on or after the month of October in a subsequent

financial year. It was also added that releases objected to by Audit were towards the first instalment which was released based on provisional figure of unspent balance as reported by states during the beginning of the financial year. Audited figures were considered during the next financial year while releasing second and subsequent tranches. The Ministry had considered unspent balance figures as endorsed by the state and released the first instalments accordingly. Further, the funds so released by the Ministry had been utilized for programme implementation and accordingly accounted for during the annual audits. Therefore, the release of Central share should not be treated as 'excess release'.

The records however, indicated that the Ministry had not considered even provisional figures of unspent balances of ₹ 7,748.10 crore and ₹ 3,737.42 crore at the close of financial years 2009-10 and 2010-11 respectively. **(Annexes- 5A and 5B).**

## 5.6 Excess Release of Funds by the Centre

As per the funding pattern of the Scheme, the quantum of Central share is clearly specified under section 22(1) the Act. Audit, however, observed that in case of six states *viz.* Andhra Pradesh, Gujarat, Himachal Pradesh, Madhya Pradesh, Rajasthan and West Bengal the Ministry released funds of ₹ 2,374.86 crore in excess of the Central share. Some of the reasons for excess release were - Central liability not being restricted to what was due, release for pending liabilities which had already been adjusted, non adjustment of unspent balance, understatement of closing balance and releasing funds twice for the same period. This indicated that the checks and balances in places were inadequate. The details are given in the **Annex-5C**.

The Ministry in its reply stated that there was no incorrect calculation in respect of West Bengal, Himachal Pradesh and Andhra Pradesh. In respect of Gujarat acceptance of pending liabilities as claims and release thereof in 2010-11 and 2011-12 was not to be treated as irregular. This was because pending liability occurred due to sudden rise in labour demand and payables thereof towards generating excess wage employment in a given period. Further, the expenditure was in the nature of committed liability for which bills were raised but settlements/payments were due. Hence, while calculating eligibility, this amount was deducted from the total unspent balance reported by the states/districts.

The reply of the Ministry was not correct because in the case of Andhra Pradesh the Central release was not restricted to its maximum liability. In the case of Himachal Pradesh, unspent balance with it was not adjusted while releasing funds and in the case of West Bengal, releases were made twice for the same period. In respect of Gujarat, pending liabilities in both the years were first adjusted by reducing these from funds available with the state, but then added back at the time of final release. This is also established from the fact that Gujarat had demanded only ₹ 350 crore against which the Ministry released ₹ 492.02 crore.



## 5.7 Other Irregularities- Irregular Claim of Expenditure by Karnataka

The state government of Karnataka (via email) requested (8 March 2011) the Ministry to release additional ₹ 461.22 crore to adjust pending liability of financial year 2009-10. The Ministry accepted pending liability of ₹ 461.22 crore and after adjustment released ₹ 400 crore on 21 March 2011.

Audit however, noted that no such liability for ₹ 461.22 crore was shown by the state government in the UC or annual accounts for the year 2009-10. The state government had in fact shown unspent balance of ₹ 821.87 crore at the close of 2009-10. Thus, Ministry had accepted irregular claim of pending liability of ₹ 461.22 crore without proper verification of documents.

It was also noted that Karnataka had a fund balance of ₹ 1,084.37 crore as on 10 March 2011. A significant proportion of this amount was related to releases from the Centre. As the available funds were in excess of what was being demanded as a pending liability, the reason for releasing the additional amount was unclear.

The Ministry in its reply stated that Central liability was based on the labour demand; the entitlements were estimated by assessing persondays generated during a given year and the eligible Central share. In case of short release of Central share in a given year, the same was to be released during the succeeding year to liquidate pending payments.

The reply was not relevant to the facts of the case as this did not explain the action of the Ministry in accepting an irregular claim.

## 5.8 Short Release of State Share

Examination of the records of state governments relating to release of funds disclosed that in seven states there was short release by state government of their shares amounting to ₹ 456.55 crore for 2007-12. The details of short release are given in the **Annex-5 D**. The shortfall in states' share adversely affects the total availability of funds for the implementation of the Scheme thereby reducing the quantum of works taken up and employment generation planned in the labour budgets of the states/UTs.

The Ministry in its reply stated that the due state share was assessed by examining UCs and audit reports submitted by the states and in case of any short release made by the states towards its share, letters were written to states for immediate compliance. It was also added that matter was discussed in labour budget meetings, regional review meetings and Performance Review Committee Meetings from time to time.

The reply of the Ministry is not pertinent as it is silent with regard to specific cases pointed out by Audit.



### ***Case study: Short Release of State Share by Haryana***

As per policy of the Government of India, difference in minimum wages notified by state government and the Gol was to be borne by the state government from its own resources. The minimum wages prescribed by state government of Haryana were higher than that of Gol. Therefore, the amount of ₹ 10.06 crore on account of difference in minimum wages for the period January 2009 to March 2010 was required to be paid by the state government. Audit, however, observed that the difference in amount was adjusted out of the Central share. The Ministry in its reply to the proposal of the state government clarified that the additional burden of higher labour rate would have to be borne by the state government. However, the funds amounting ₹ 10.06 crore were not adjusted by the Ministry from subsequent releases to the state.

## **5.9 Delay in Release of State Share**

In terms of the Operational Guidelines (para 8.4.4), states' share was to be released within 15 days from the date of release of Central share by the Central Government. This provision was to ensure that funds were available with the implementing agency at the right time. Audit noted that in Andhra Pradesh, Arunachal Pradesh and Uttar Pradesh, the states' share was not released within the stipulated period of 15 days. Further, during tests check of records, it was seen that the release of states' share was delayed on a regular basis. The details of the delays noted in 13 additional states are mentioned in **Annex-5 E**.

The government of Punjab stated that the delay in release of state share was due to the receipt of Central share at the end of the year. The government of Himachal Pradesh stated that delay occurred due to the lengthy procedure of obtaining sanction for expenditure from the Finance Department. The replies were not convincing as better coordination at the state level could have ensured timely release of funds to implementing agencies.

The Ministry in its reply stated that for ensuring better and expeditious compliance on the matter, states were being instructed to adhere to the timelines given in the sanction orders.

## **5.10 Non-Creation of SEG Fund**

Under section 21(1) of the Act the state government may, by notification, establish a fund called the State Employment Guarantee (SEG) Fund for the purpose of implementation of the Scheme. The amount standing to the credit of the state fund should be expended and administered as a revolving fund in such a manner and subject to such conditions and limitations as may be prescribed by the state government for the purpose of implementation of this Act. The Operational Guidelines also provide for establishing similar revolving funds at the district, block and gram panchayat levels.

As of 31 March 2012, in 14 states and four UTs viz., Arunachal Pradesh, Assam, Chhattisgarh, Goa, Haryana, Jammu & Kashmir, Kerala, Manipur, Mizoram, Meghalaya, Nagaland, Sikkim, Tripura, Uttarakhand, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Lakshadweep and Puducherry, creation of the SEG Fund was either not notified or was not operationalised.

Further, in Maharashtra SEG fund was operationalised only in March 2012. In Madhya Pradesh SEG Fund was notified in April 2009 but guidelines were not formulated for its operation.

In Odisha, Audit noticed that the state had created (June 2006) a corpus fund by investing ₹ 3.90 crore out of the Scheme fund released by GoI in the Post Offices defeating the very purpose of creating a revolving fund. In Uttar Pradesh, the fund was established with delay of 42 months in September 2009 and that too without the notification by the state government.

In Madhya Pradesh, Maharashtra and Nagaland, the revolving funds at district, block and gram panchayat levels were yet to be established. In Jharkhand, the revolving fund was established at district level, but the same was yet to be established at block and GP levels. In Punjab in three out of six selected districts, revolving funds at district, block and gram panchayat levels were yet to be established. In Uttar Pradesh, the state government issued orders (August 2009) to operate/maintain block level accounts of MGNREGS as revolving funds and funds were also released accordingly but Rules for operation and maintenance of these funds were not framed. Subsequently, from November 2009 it was decided that funds would be credited directly from state fund to GPs and therefore maintenance of the revolving fund was discontinued.

In the absence of the revolving fund in the states/UTs, the GoI directly released the Central funds for MGNREGS to the implementing agencies i.e., District Programme Coordinators at the district level. The release of funds directly to the district implementing authorities led to deficiencies in control and monitoring of expenditure by the authorities at state level.

The Ministry in its reply stated that under section 21 of the Act it was not imperative to establish a SEG Fund. To ensure smooth flow of funds and to have an effective fund management system at state level, the implementing states were being asked to constitute respective SEG Funds. Direct fund release to districts in case of non-SEG Fund states did not hamper proper monitoring or state's control of expenditure of the districts under MGNREGS.

The Ministry should take up the issue with the concerned state governments to expedite the operationalisation of these funds.

## 5.11 Non transfer of funds from SGRY and NFFWP

As per Operational Guidelines, erstwhile schemes of National Food for Work Programme (NFFWP) and Sampoorna Grameen Rozgar Yojana (SGRY) programmes were to be subsumed in MGNREGS. The balance funds in these schemes were also to be transferred to MGNREGS.

Scrutiny of records in test checked districts of seven states viz. Bihar, Chhattisgarh, Jharkhand, Odisha, Rajasthan, Uttar Pradesh and West Bengal, revealed that ₹ 110.22 crore were yet to be transferred from the schemes of NFFWP and SGRY to MGNREGS. This resulted in idling of funds

under non-functional schemes which could be utilized in MGNREGS. This also raises the possibility of mis-utilisation of these funds. Further, in two states viz. Madhya Pradesh and Rajasthan, ₹ 11.72 crore was transferred with delays ranging from 5 to 60 months. The details of non-transfer and delayed transfer are given in the **Annex-5 F**.

The Ministry stated that states were being instructed to submit latest position on the issues.

### ***Case study: Irregular expenditure under SGRY funds***

In 2007-08, in Kamrup (Rural) and Karbi Anglong districts of Assam, implementing agencies spent ₹ 31.07 lakh out of SGRY fund on inadmissible works like extension of staff quarters, lifting Mid-Day Meal rice, Godown rent and purchase of RCC spun pipe, etc. instead of transferring the unutilised balance to MGNREGS account.

## **5.12 Utilisation of Interest Income**

Interest earned on the available funds is to be accounted for as receipt under the Scheme. Audit however, observed that in five states interest earned on the funds amounting to ₹ 1.26 crore were spent on non-permitted items or not accounted for in the cash books as receipt. The details are given in the **Annex-5 G**.

Audit further noted instances where funds were kept in current accounts, leading to loss of interest income. In the test checked districts of Jharkhand, ₹ 49.78 crore were kept in current accounts with different banks. Similar cases were noticed in Kerala (in two GPs, one each in Palakkad and Kottayam districts), Maharashtra (one block each in Sindhudurg and Nanded districts) and Mizoram (Lunglei-Hnathial and Lawngtlai-Sangau districts).

The Operational Guidelines provide that funds received from the Central and state government were not to be invested in fixed or term deposits. Contrary to this stipulation, in Belgaum ZP and Bangalore Rural ZP of Karnataka, funds amounting to ₹ 5.00 crore and ₹ 30 lakh, respectively, were invested in the form of term deposits.

The Ministry in its reply stated that states were being instructed to submit latest status on the issue.

## **5.13 Irregularities in management of Administrative Expenses**

Under section 22 (1) (C) of the Act, such percentage of the total cost of the Scheme as determined by the Central Government was to be incurred for administrative expenses, which could include the salary and allowances of the Programme Officer and his supporting staff, etc. Further, the Ministry clarified (August 2006) that administrative expenses were to be incurred on wages of Programme Officer, his staff, assistance to GPs, expenses on stationery, mobility (excluding purchase of new vehicles), travel, computerization, training, IEC activities, monitoring, social

audits and audit related expenses and worksite facilities. Further, it was also clarified that the Central Government would meet the expenses only to the extent of prescribed ceiling (four *per cent* up to March 2009 and six *per cent* thereafter). The expenses over and above the ceiling were to be borne by the state government.

### 5.13.1 Excess Administrative Expense

Scrutiny of records revealed that in 24 districts (13 *per cent* of all test checked districts) of eight states and two UTs viz. Bihar, Jharkhand, Kerala, Maharashtra, Nagaland, Odisha, Rajasthan, Uttar Pradesh, Dadra & Nagar Haveli and Lakshadweep, administrative expenditure in excess of the prescribed percentage amounting ₹ 32.04 crore during 2007-12 was incurred as mentioned in the **Annex-5 H**.

### 5.13.2 Inadmissible expenditure

In Churachandpur, Imphal East and Tamenglong districts of Manipur, ₹ 5.85 crore was incurred on inadmissible works such as construction works at Deputy Commissioner office and residential bungalow, construction of training hall, etc. out of the fund earmarked for administrative expenses. In Durg district of Chhattisgarh, ₹ 4.92 lakh were incurred from administrative head for furnishing of District Collectorate, payment of mobile bills, etc. In Bolangir and Bhadrak districts of Odisha, inadmissible expenditure of ₹ 14.41 lakh was incurred during 2007-12 towards purchase of generator, furniture, spare parts, payment of telephone bills, repair of office jeep and purchase of levelling machine.

Further, in the three test checked DPCs of Dimapur, Mon and Tuensang in Nagaland, Audit noted that the expenditure charged to administrative expenses included inadmissible items such as purchase of vehicles, civil works and computers. The three DPCs incurred an expenditure of ₹ 2.21 crore for the purchase of 36 vehicles during 2007-12. The items such as purchase of vehicles and transfer of funds to SEGC were distinctly shown in approved annual accounts. However, the government of Nagaland and the Ministry did not take any corrective action by taking cognizance of the reported facts. This indicated failure of internal controls. Further, it was observed in the three test checked DPCs in Nagaland that an expenditure of ₹ 59 lakh for construction of new buildings was incurred though it was inadmissible in MGNREGS.

## 5.14 Expenditure on Inadmissible Items and Diversion of Funds

As per the Operational Guidelines (para 8.4.4), funds allocated for MGNREGS should not be diverted or used for other purposes. However, test check of records revealed that funds amounting ₹ 25.96 crore were incurred on inadmissible items in 12 states. These are mentioned in **Annex-5 I**.

Further, ₹ 135.02 crore in five states were diverted to purposes other than specified under the Scheme. State specific findings are detailed in the **Annex-5 J**.

The Ministry in its reply stated that states were being instructed to submit latest status on these issues and in case of any inadmissible administrative expenses, the states would be asked to recoup such amount to MGNREGS account.

### **Case Study: Diversion for State Scheme**

To promote better participation of women, state government of Rajasthan launched Amrita Devi Bishnoi Yojana as an incentive scheme for women, who had completed 100 days in MGNREGS. The expenditure of ₹ 48.35 lakh incurred for this purpose was borne by the state government from the state share during 2008-09. Audit noted that MGNREGS had no provision to finance such state specific initiatives. Thus, the action of the state government amounted to diversion of funds.

## **5.15 Unaccounted Expenditure or Misappropriation of Funds**

Audit also noted financial irregularities in the procedures for payment of wages or material. In eight states, there were cases of suspected misappropriation of funds as no supporting vouchers relating to payments were available on record. This had a financial implication of ₹ 128.23 crore. In addition clear misappropriation cases with a financial implication of ₹ 5.05 crore were observed in four states *viz.* Assam, Punjab, Rajasthan and Uttar Pradesh. In these cases either departmental inquiry had been instituted or the matters were *sub-judice*. The details of suspected misappropriation cases are given in the **Annex-5 K**.

The Ministry in its reply stated that states were being instructed to submit latest status on the issues and in case of any misappropriation of funds or unaccounted expenditure out of programme fund, the states would be asked to recoup such amount to MGNREGS account.

## **5.16 Monthly Squaring of Accounts**

The Operational Guidelines (para 8.6) provide for the practice of 'Monthly Squaring' of accounts so that the risk of financial 'leakages' is reduced, and both transparency and accuracy in fund management are ensured. This consists of procedures for verifying that all the money released under MGNREGS is accounted for under the three heads *viz.* money held in bank accounts at various levels, advances to implementing or payment agencies and vouchers of actual expenses. Further, the details of the monthly squaring of accounts should be put on the website of MGNREGS for transparency.

Audit noted that the monthly squaring of accounts was not carried out uniformly in the test checked districts, blocks and gram panchayats of nine states *viz.* Bihar, Gujarat, Himachal Pradesh, Jharkhand, Kerala, Madhya Pradesh, Manipur, Sikkim and Uttar Pradesh. In the case of Uttar Pradesh it was observed that in 16 out of the 18 test checked districts, funds were not accounted for, on monthly basis as required under the Scheme. Sikkim had not yet introduced the system of reconciliation.

The Ministry in its reply stated that states were being instructed to submit latest status on the issue.

## 5.17 Prescribed Format of Accounts

As per the Act, the state government is authorized to prescribe format of accounts to be maintained at district, block and gram panchayat levels. Audit noted that no format of accounts was prescribed by the state governments of Assam, Haryana, Maharashtra, Tripura, Uttar Pradesh and Andaman & Nicobar Islands. In Maharashtra, the state government issued (April 2012) instructions to chartered accountants to formulate an accounting system to maintain uniformity in accounting formats, but had not yet prescribed any format of accounts.

MGNREGS, though implemented in different states, can be thought of as a single accounting entity. This is also important for ensuring consolidation and uniformity of the accounts prepared by the various implementing agencies. In such a scenario, the Ministry may take the lead and prepare a model set of accounts which can be adopted by all the states.

The Ministry in its reply stated that suggestions had been noted for implementation.

### **Recommendations:**

- *Monthly squaring of accounts is an important control over utilization of funds. Progress of monthly squaring of accounts should be checked during release of funds by the Ministry.*
- *In the interest of uniformity and for easier consolidation of accounts, the Ministry may consider developing a model format of accounts.*
- *Ministry of Rural Development should invariably ensure compliance with required rules and prescribed guidelines for transparency in release of funds.*