

## **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;
- Operations Manual, Accounts Manual, Rural Road Manual, etc., of the programme;
- 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<sup>1</sup> were selected based on the Simple Random Sampling Without Replacement (SRSWOR) method as given in **Table 2.1**.

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<sup>1</sup> Package represents group of works put to tender in one lot.

**Table-2.1: Criteria for selection of packages**

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

- 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**



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 72<sup>nd</sup> 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 82<sup>nd</sup> Report (2008-09) discussed the Action Taken Notes furnished (October

2008) by the Ministry on the recommendations and observations contained in their 72<sup>nd</sup> 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**

Sl. No.	Recommendations of the Public Accounts Committee	Response of the Ministry	Status as per current audit report
1.	Replicate the modalities of social audit incorporated in the guidelines of National Rural Employment Guarantee Act (NREGA) scheme in respect of the PMGSY. <b>(Recommendation No. 3)</b>	The Ministry accepted the recommendation and stated that based on the Pilot project taken up in <b>Karnataka</b> and <b>Odisha</b> 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.	Concept of social audit has not been included in the programme guidelines. <b>(Para 6.7)</b>
2.	Fix a time frame for preparation and implementation of district/state-wise plans with a view to avoid duplication of expenditure on existing roads. <b>(Recommendation No. 4)</b>	The Ministry in their action taken note stated that Core Network of all states had been finalized and frozen except for <b>Andhra Pradesh, Bihar, Kerala</b> and <b>West Bengal</b> who requested for further marginal changes in Core Network.	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. <b>(Para 3.3.1)</b>
3.	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. <b>(Recommendation No. 9)</b>	States had been advised to fix responsibilities for the lapses and recover the amount within two months.	Instances of diversion of programme funds for inadmissible items and works persisted. <b>(Para 5.10)</b>
4.	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. <b>(Recommendation No. 12)</b>	Ministry had initiated the development of standalone and web based GIS database for Rural Roads Information System and selected <b>Rajasthan</b> and <b>Himachal Pradesh</b> 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.	There was no development in creation of web based GIS database for Rural Roads Information System. <b>(Para 3.4)</b>
5.	Ministry should devise ways and means to verify and cross check the works sanctioned under the scheme with that of state PWD	The Ministry accepted the recommendation and stated that mechanism had been introduced in July	Dropping of proposals after being cleared by the Ministry on account of works executed by other state

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	department before embarking on the execution of the projects, so that there is no duplication/overlapping. <b>(Recommendation No. 13)</b>	2008 to obtain certificate from the executing agency that proposal submitted under the PMGSY was not funded/implemented under any other scheme. This mechanism was expected to eliminate duplication/overlapping of project proposals.	agencies, roads transferred to other departments, roads constructed under other state schemes, etc., persisted. <b>(Para 4.2.2)</b>
6.	Ministry should take appropriate steps to ensure that all the works taken up under the scheme invariably form part of the Core Network. <b>(Recommendation No. 14)</b>	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.	In 12 states 109 road works were selected beyond Core Network. <b>(Para 3.6.4).</b>
7.	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. <b>(Recommendation No. 15)</b>	The Ministry stated that it was taking steps to ensure that the works undertaken conform to the guidelines.	Habitations with ineligible path distance and population size were covered in the programme. <b>(Para 3.3.5)</b>
8.	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. <b>(Recommendation No. 18)</b>	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.	In 14 states, 2,961 tenders were finalised with delays up to 974 days. <b>(Para 4.3.4)</b>
9.	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. <b>(Recommendation No. 20)</b>	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.	In 16 states, 910 works were dropped or abandoned midway due to land disputes. <b>(Para 4.2.2)</b>
10.	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. <b>(Recommendation No. 21)</b>	Ministry has made efforts to support the states to ensure completion of sanctioned projects within stipulated time schedule to avoid cost and time overruns.	In 26 states, 4,496 works were found to have been completed with delays ranging from one month to 129 months. <b>(Para 4.4.8)</b>
11.	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	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	In 16 states, in 459 works, recovery of liquidated damages of ₹ 131.50 crore was not imposed. <b>(Para 4.4.9)</b>

Sl. No.	Recommendations of the Public Accounts Committee	Response of the Ministry	Status as per current audit report
	against the contractors where the work has behind schedule. <b>(Recommendation No. 22)</b>	in case liquidated damages are not levied or recovered.	
12.	The Ministry should explore all possibilities for setting up and maintenance of Quality Control Laboratories in all states for the periodical test of raw materials used at different stages of roads constructed by the contractors so as to ensure that quality of roads constructed conform to the specified standards. <b>(Recommendation No. 23)</b>	NRRDA has developed a mechanism to monitor operationalisation of first tier of quality mechanism. The issue of non-establishment of field laboratories is monitored and taken up with the states during the discussions in various review meetings.	In 12 states, instances of non establishment of field laboratories, non-availability of equipment, non-deployment of trained manpower and non-conducting of required tests were observed. <b>(Para 6.1.1)</b>
13.	The Ministry should review the functioning of OMMS with a view to remove the deficiencies by evolving a practicable action plan. The accounting module of OMMS should be urgently implemented that would provide additional tool to strengthen the financial management of the scheme. States should take necessary steps to update the online information and wherever OMMS has not been installed, the Ministry should take necessary steps to install the system immediately. <b>(Recommendation No. 26)</b>	An overall review of the functioning of the OMMAS was carried out in consultation with the states. The deficiencies in the system were assessed and an action plan has been prepared. The software issues have been addressed by C-DAC. The performance of the states in updating data in OMMAS is being reviewed regularly.	Monitoring of programme through OMMAS was still ineffective as data fed into the system was not updated or reliable. <b>(Chapter 8)</b>

### 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.