

Chapter III

Planning and Financial Management

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The assessment of demand for employment under MGNREGS was deficient as the bottom-up approach in preparation of Labour Budget was not followed with the result that the participatory and community level involvement of Grama Panchayats in selection and prioritisation of works was not ensured. Baseline survey of job card holders to assess the quantum and timing for demand of employment, which was to be completed by 2013-14, was yet to be carried out affecting preparation of realistic development plans under the Scheme. These deficiencies led to large variation in demand for employment recorded as Person Days in the approved labour budget to that consolidated at Grama Panchayat level. Apart from the above deficiencies, there was delay in submission of Labour Budget at various levels of Panchayat Raj Institutions.

Non-adherence to the Operational Guidelines, 2013, against the State's reservation policy for contractual employment – including adequate representation for women, Scheduled Castes (SCs), Scheduled Tribes (STs), and disabled persons was noticed in the recruitment of MGNREGS staff. The recruitment of contractual staff through outsourced agencies, resulted in inadequate representation of women, SCs, STs, and disabled individuals in the MGNREGS staff recruitment.

There was shortfall of outsourced manpower available under the Scheme. Audit observed that contracts for outsourcing of manpower services were extended unauthorisedly without calling fresh tenders. Further, the Department incurred excess service charges on account of the failure to avail the most competitive rates while re-assigning the contracts among the manpower agencies providing services in other districts. Audit also observed shortfall in conduct of capacity building training programmes under the Scheme.

Expenditure under the wage component of the Scheme showed declining trend during 2022-23 and 2023-24. The Department also failed to utilise the entire amount released under material component as the fund were released at the fag end of the year. The delay by State Government in release of central and state share to the State Employment Guarantee Fund entailed a penal interest of ₹36.26 crore. Audit also observed inadmissible expenditure of ₹32.78 crore under the administrative head of the Scheme.

Aadhaar mapping with the accounts of 3.11 lakh out of 84.98 lakh active workers was pending (March 2024) at the State level due to which no assurance could be drawn about the preparation of wage lists and payments made to these active workers.

Pendency of ₹35.10 crore was observed in respect of payment of wage and material transactions which were rejected and later regenerated. The calculation of compensation for delayed payment of wages was carried out capturing the delays up to the date of signing of second signatory to the Fund Transfer Orders rather than accounting the entire delay till the wages were credited to the accounts of the beneficiaries. Audit also noticed rejection of delayed compensation amounting to ₹3.29 crore by Programme Officers on incorrect grounds.

The most important and distinguishing feature of MGNREGS (also referred to as Scheme), is the provision of work on demand by wage-seekers and work provided as their legal right. MGNREGS is a demand driven public wage employment programme where works are opened and jobs offered whenever there is a demand for work. This necessitates prior assessment of the quantum and timing of work likely to be demanded. Concomitantly, a shelf of projects is to be prepared and prioritized to meet this demand. This matching of demand and supply of work is the process of planning under the Scheme which is to be achieved through the preparation of a Labour Budget. Capacity building and technical support of rural development functionaries/agencies and Panchayat Raj Institutions (PRIs) is also important in effectively implementing the Scheme.

3.1 Preparation of Labour Budget

Development Plan is an Annual Plan for MGNREGS to be prepared by every Gram Panchayat (GP) after considering the recommendations of Gram Sabha and Ward Sabhas. This involves identification of projects and preparation of Labour Budget (LB) estimate. As per the provisions under Sections 13 to 16 of the MGNREGA, the District Programme Coordinator (DPC) has to ensure strict adherence to the principle of bottom-up approach from the stage of planning to approval of the selected shelf of projects in the district. The assessment of need for asset creation through MGNREGS is to be undertaken at the community level, by the GP through participatory processes. The outputs of these processes need to be consolidated at the GP level and presented before the Gram Sabha for approval.

The Labour Budget should comprise a month-wise anticipated quantum of demand for work along with a plan that outlines the quantum and schedule of work to be provided for those who demand work. NREGASoft (referred also as MIS) contained separate links for entering Labour Budget, one for labour projection and the other for works. The entry made in this regard to the Labour Budget at GP will get aggregated at different levels. The consolidated Labour Budget will be submitted to the Empowered Committee chaired by Secretary, Ministry of Rural Development (MoRD). The Empowered Committee will discuss the projected Labour Budget with the Secretary of the Rural Development and Panchayat Raj (RDPR referred as Department) of the concerned State and a final Labour Budget for the whole State will be agreed to. The approved Labour Budget will be disaggregated district and month wise and entered in the MIS appropriately.

Audit observed various shortcomings in preparation of Labour Budget during the period from 2019-20 to 2023-24 as discussed in the succeeding paragraphs.

3.1.1 Non-conducting of Baseline survey

Paragraph 6.2 (i) and (ii) of Operational Guidelines, 2013 stipulated that a survey of job card holders was to be mandatorily conducted in every GP to prepare a base line to assess the quantum and timing of demand for employment. Expert institutions were to be empanelled separately in each State to finalize the framework and methodology. The pilots for baseline survey were to be done in

2012-13 so that the surveys for all GPs were completed in 2013-14. Moreover, reassessment of the base year for the Labour Budget should be done once every five years to account for changes in the local pattern of livelihoods and opportunities for work in production activities.

Audit observed that neither baseline survey was conducted nor expert institutions were empanelled within the prescribed time frame *i.e.*, before or after 2013-14. It was also observed that the baseline survey was not conducted during the audit period from 2019-20 to 2023-24 and no reassessment of base year for the Labour Budget was undertaken. In the absence of survey, GPs could not ascertain the actual demand of work from the beneficiaries, nature of works to be carried out and timing of demand for employment due to which a realistic development plan could not be prepared at the grassroots level. This was evident from the comparison of category-wise number of works and estimated person days included in MIS Report **R2.1.2**³(Work Planning) with the plans projected by test-checked ZPs to the Department. The number of works included in the plans prepared by ZPs ranged between 32 *per cent* and 215 *per cent* of works included in MIS whereas estimated person days were only 0.32 *per cent* to 11.57 *per cent* of those included in MIS **R2.1.2** (Details are given in **Appendix 3.1**).

Similar variations were noticed on comparison of work demand pattern (MIS Report **R3.1**) with employment provided pattern (**R5.1.4**). The comparison showed that number of households provided employment (month-wise) in test-checked districts/State was consistently less than the month-wise demand. The shortfall over the period of five years (2019-20 to 2023-24) ranged between 15 *per cent* and 25 *per cent*.

The State Government stated (May 2025) that though expert institutions were not empanelled, baseline survey had been conducted regularly. The reply is not acceptable as no documentary evidence were furnished and it is contrary to the replies furnished earlier by the Commissioner, MGNREGS (December 2024) and test-checked units (July-September 2024) wherein it was stated that the baseline surveys had not been conducted.

3.1.2 Non-adherence to bottom-up approach in preparing Labour Budget

MoRD has instructed (September 2020) that Labour Budgets should be reviewed at all levels of scrutiny *viz.*, Block, District and State level to arrive at a realistic assessment and should be submitted both online as well as in suggested booklet formats.

As seen from MIS Reports **R2.1.3** (Status of Labour Budget) and **R2.1.1** (Month-wise Labour Person days Projection Report), labour projections were not submitted online⁴ during the period from 2021-22 to 2023-24⁵ in any of the

³ MIS Report R2.1.2 contains the number of works and person days projected by GP for a particular financial year which, when consolidated at ZP level, provides such data for the district (accessed on 16.11.2024).

⁴ Except Koratigere GP of Shikaripura Taluk, Shivamogga District which submitted it during 2022-23.

⁵ Data was accessed on 16.11.2024 and data for the years 2019-20 and 2020-21 were not available on MIS.

test-checked districts. Further, test-checked districts (except Mandya) did not compile Labour Budget proposals received from TPs/GPs. Even the office of the Commissioner, MGNREGS did not maintain records related to compilation of Labour Budget proposals received from the districts. The procedure being followed was that the CEOs of ZPs made presentations to the Commissioner, MGNREGS for finalisation of Labour Budgets. However, in the absence of the prescribed procedure, the basis adopted for projecting person days by the test-checked ZPs and the State Government was not verifiable.

Only one test-checked ZP (Mandya) had compiled labour projections received from GPs/TPs. While conduct of such exercise by ZP, Mandya was appreciable, the fact, however, remained that the person days projected by ZP, Mandya to State Government was less than the person days as per the consolidated plan of GPs/TPs. The shortfall ranged from 17.58 lakh to 155.07 lakh person days during 2019-20 to 2023-24. (Table 3.1).

Table 3.1: Variations in projection of person days (PDs) in Mandya District

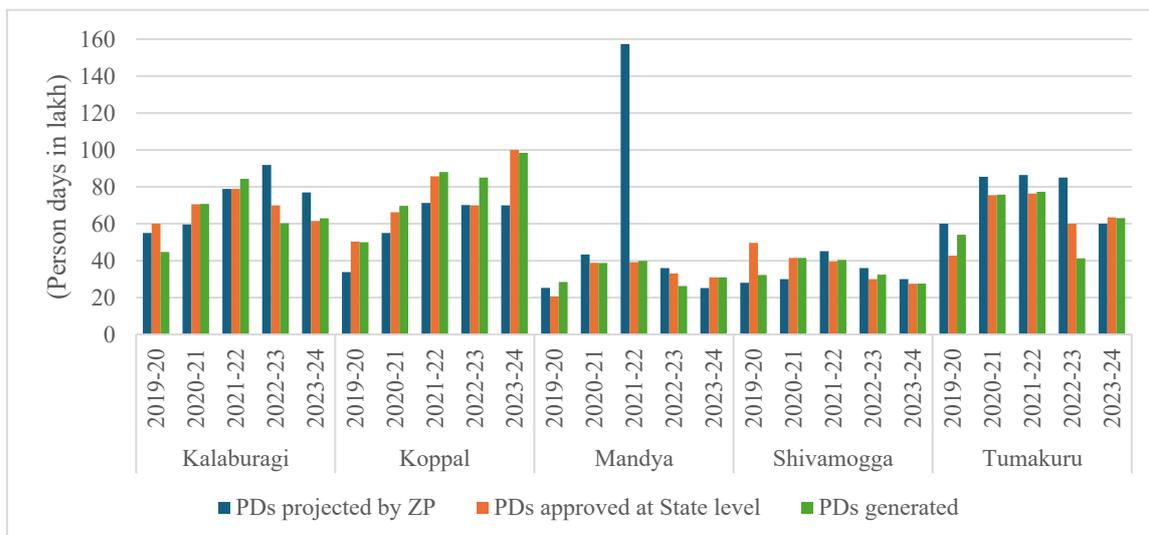
(person days in lakh)

Year	PDs as per consolidated plans of GPs/TPs	PDs projected by ZP	Difference
2019-20	110.98	25.30	85.68
2020-21	95.03	43.34	51.69
2021-22	174.96	157.38	17.58
2022-23	170.93	35.97	134.96
2023-24	180.20	25.13	155.07

Source: Information furnished (September 2024) by the Department

In addition to the above, Audit noticed that there were differences in the person days approved by the State Government as compared with the person days projected by test-checked districts. The variations ranged from 25 per cent to 177 per cent during the period from 2019-20 to 2023-24 in the test-checked districts (Appendix 3.2). Audit also observed that the actual person days generated was 25 per cent to 148 per cent of the projected person days. The reason for the variation was due to the allocation of Labour Budget to the Districts after receiving the allocation from MoRD rather than following the prescribed procedure of compilation of Labour Budgets received from GPs. The large variation between the person days projected by ZPs and person days approved at the State level indicate non-adoption of bottom-up approach in the planning process. Chart 3.1 depicts the inconsistencies between the person days proposed by ZPs, approved at the State level and person days generated during the period from 2019-20 to 2023-24.

Chart 3.1: PDs proposed, approved and generated in the test-checked districts



Source: Information furnished by the Department

The State Government accepted (May 2025) that month-wise labour budget projections from districts were not followed and demand for unskilled labour in terms of person days was presented to MoRD on the basis of presentations made by ZPs. It was also stated that preparation of action plans would be streamlined with the introduction of End2End Action Plan Module⁶ from the year 2025-26.

3.1.3 Gaps in projected and achieved person days at State level

The details of person days (PDs) proposed, approved and generated at the State level during the period from 2019-20 to 2023-24 are given in **Table 3.2**:

Table 3.2: PDs proposed, approved and generated at the State level

(PDs in crore)

Year	Estimated PDs as per MIS R2.1.2	PDs projected in LB	PDs approved by GoI	PDs actually generated	Revised approval of PDs by GoI
(1)	(2)	(3)	(4)	(5)	(6)
2019-20	NA	14.00	12.00	11.19	-
2020-21	NA	15.00	13.00	14.80	14.65
2021-22	2933.18	18.00	13.00	16.32	16.00
2022-23	1852.25	16.00	13.00	12.58	-
2023-24	1245.02	13.80	13.00	13.89	14.00

Source: Information furnished (June 2024) by the Department and MIS Report R2.1.2 dated 16.11.2024
NA: Not available

It could be seen that:

- There were huge differences in person days estimated as per MIS report **R2.1.2** and those projected by the State Government. As a result, no assurance could be drawn on the correctness of data included in MIS.
- The number of person days approved by GoI (column 4) was less than those projected by the State Government (column 3). The short approval

⁶ The workflow system developed for monitoring the applications received at GP level and timely approval of action plans.

ranged from 0.80 crore person days (2023-24) to 5.00 crore person days (2021-22). Possibility of this reduction to match it to the availability of funds could not be ruled out.

- During the period from 2019-20 to 2022-23, the State Government could not generate the projected person days in the Labour Budget. The shortfall in achievement of projected person days ranged between 0.20 crore person days (2020-21) and 3.42 crore person days (2022-23).
- The Labour Budget can be revised at any point of time of the financial year in case the performance of a State exceeded the approved Labour Budget. Despite this, excess generation of person days for the years 2020-21 (0.15 crore PDs) and 2021-22 (0.32 crore PDs) was not approved by GoI (June 2024). As a result, payments aggregating ₹133.73 crore⁷ beyond the approval of GoI were made for the years 2020-21 and 2021-22.

The State Government accepted (May 2025) that approval for the excess person days generated during the years 2020-21 and 2021-22 was not obtained and issues regarding inconsistencies in Report R2.12 had been raised with NIC.

3.1.4 Delays in submission of Labour Budget

Paragraph 6.8 of AMC, 2019-20 suggested the timelines for the planning process which is depicted in **Appendix 3.3**.

Audit observed that there were delays in preparation and approval of Labour Budget at every level in test-checked GPs as detailed in **Table 3.3** below:

Table 3.3: Delays in approval of Labour Budget of 40 test-checked GPs

Particulars	2019-20	2020-21	2021-22	2022-23	2023-24
No. of GPs with LB approval by GP after due date	11	10	14	17	16
No. of GPs with LB approval by TP after due date	28	29	28	28	24
No. of GPs with LB approval by ZP after due date	32	32	32	32	32
No. of GPs with LB approval by ZP after State approval	32	32	32	32	22

It could be seen that during 2019-20 to 2023-24:

- GPs ranging from 10 to 17 had approved their Labour Budgets after the due date (5th December).
- Labour Budgets of GPs ranging between 24 and 29 were approved by respective TPs after the due date (20th December).
- Similarly, there were delays in approval of Labour Budgets in 32 out of 40 test-checked GPs by the respective ZPs. In majority of these cases, ZPs had accorded approval after the Labour Budget had been approved by the State Government.

⁷ 0.15 crore × ₹275 (wage rate for 2020-21) + 0.32 crore × ₹289 (wage rate for 2021-22) = ₹133.73 crore

- Due date for submission of Labour Budget to Central Government was 10th February whereas there were delays ranging from 10 to 42 days⁸ during the period from 2019-20 to 2023-24.

The State Government accepted (May 2025) the audit observation and stated that the introduction of End2End Action Plan Module from the year 2025-26 would ensure timely approval of Labour Budget.

Thus, the Department's adoption of a top-to-bottom approach instead of a bottom-to-top approach in preparing Labour Budget led to meagre participation of PRIs in the preparation of Labour Budget. This resulted in denial of the right of workers to participate in Grama Sabhas and decide the nature/priority of works to be taken up under MGNREGS.

Beneficiaries' response on Gram Sabha meetings

The questions on Gram Sabha meetings received a mixed response from the sampled beneficiaries during the survey. While 57 *per cent* beneficiaries stated that they had attended Gram Sabha meetings held in their villages, 12 *per cent* beneficiaries stated that holdings of Gram Sabha meetings were not adequately advertised in the village. Though, 299 beneficiaries (75 *per cent*) claimed that details of the MGNREGS works were painted or written on the Panchayat Office building walls and notice boards, only 39 beneficiaries (10 *per cent*) stated that selection of MGNREGS works were largely discussed in the Gram Sabha meetings and works were prioritised as per requirement.

Recommendation 1: The State Government should ensure the bottom-up approach in planning for MGNREGS ensuring the wholesome participation of all three tiers of Panchayat Raj Institutions in the planning process. Action may also be taken to get approval for the person days generated in excess of the approved labour budget.

3.2 Status of manpower for MGNREGS

Section 18 of the MGNREGA stipulates that the State Government should make available to the District Programme Coordinator (DPC) and Programme Officer (PO) necessary staff and technical support for effective implementation of the Scheme. Supporting staff could also be hired, on a contractual basis, to provide professional services at the State level. The recruitment policy for the functionaries would be decided by the State Government. Paragraph 4.6.7 of the Operational Guidelines, 2013 mandated that the reservation policy of the State for contractual employment should be followed in the recruitment process and the MGNREGS staff should be adequately represented by women, SCs, STs, disabled, *etc.*

Audit observed that recruitment of contractual staff was done through outsourced agencies and no reservation policy was followed for such contractual recruitment. As a result, adequate representation of women, SCs,

⁸ Labour Budgets for the years from 2019-20 to 2023-24 were submitted by the State Government to MoRD on 20.02.2019 (10 days delay), 21.02.2020 (11 days delay), 04.03.2021 (22 days delay), 07.03.2022 (25 days delay), 24.03.2023 (42 days delay) respectively.

STs, disabled, *etc.*, though envisaged in the Operational Guidelines, could not be ensured.

Audit also observed that shortfall of available staff (outsourced/honorarium) against the sanctioned strength ranged between 7 *per cent* and 29 *per cent* in five test-checked districts.

Major shortage (more than 25 *per cent*) was noticed in respect of key posts such as Technical Assistants (Horticulture, Agriculture, Forest, Sericulture), Gram Kayak Mitra, Administrative Assistant, Data Entry Operators *etc.* Vacancies in such posts related to critical areas of functioning would have an adverse effect on implementation of Scheme.

The State Government accepted (May 2025) the audit observation and stated that requirement of the staff would be assessed and selection would be done accordingly.

3.3 Lack of preference to women and differently abled in appointment of mates

Paragraph 7.11.1 of Operational Guidelines, 2013, provided for appointment of mate for helping the *Gram Rozgar Sahayak* (GRS) in managing worksite facilities including taking attendance of the workers. It further stipulated that preference in appointment of mates should be given to women workers or differently abled persons who were adequately trained for performing the duties prescribed. The remuneration of mates should be based on person days of his/her work, calculated at a wage rate equal to that of a semi-skilled labour and should be included in the cost estimate under the material component of the Scheme (Paragraph 4.12 (vi)).

Scrutiny of information furnished by test-checked GPs showed that no mates had been appointed (March 2024) in five⁹ GPs. In remaining 35 GPs, 730 mates were appointed, out of which 196 (27 *per cent*) were women and only two (0.27 *per cent*) were differently abled. It was also seen that remuneration to mates was paid only in three (Mudagandoor, Chikkarasinakere and Hirolli) out of these 35 GPs. In 32 GPs mates were appointed, but the remuneration was either not paid or details were not furnished to Audit. Thus, lack of preference to women workers/differently abled persons in appointment of mates contravened the provisions of Operational Guidelines and non-payment of remuneration would disincentivize the appointed mates.

The State Government accepted (May 2025) the audit observation and stated that special drive was conducted during 2024-25 to register active mates with special consideration to women workers.

Recommendation 2: The Department should take action to fill the vacant posts under MGNREGS following the reservation policy and providing adequate representation to women and differently abled persons.

⁹ Dasarighatta, Gyarahatta, Hindiskere and Sarthavalli (Tiptur Taluk); Hadavanahalli (Turuvekere Taluk)

3.4 Outsourcing of Manpower services

Discrepancies in hiring of manpower services are discussed in succeeding paragraphs.

3.4.1 *Irregular and unauthorised extension of contracts for outsourcing of manpower services*

Section 4(e) of KTPP Act mandated that tender process should be followed whenever the value of goods/services exceeded Rupees one lakh (enhanced to Rupees five lakh with effect 27 April 2020).

Scrutiny of records showed that the office of the Commissioner, MGNREGS had invited (October 2012) tenders from manpower agencies for outsourcing the services of 2,920 personnel under MGNREGS in 29 districts. Consequent to tender evaluation, 14 agencies were selected for 29 districts. Letters of Intent in five test-checked districts were issued on 29 January 2013. In terms of Clauses 11 and 2 (viii) of the Request for Proposal (RFP), the period of contracts was up to 31 July 2016 (including extended period of one year).

Consequent to the Department's proposal, the Cabinet approved (August 2016 and March 2018) extension of time to the existing agencies up to 30.06.2018 and instructed to immediately call for fresh tenders. However, tender notifications issued during May 2018, June 2019 and December 2021 in this regard were cancelled citing administrative reasons. As a result, agencies appointed during January 2013 (including reassigned agencies) continued to provide manpower services in five test-checked districts and were paid amount aggregating ₹86.67 crore during the period from 2019-20 to 2023-24. This was irregular and unauthorised for the following reasons:

- Period of contracts as per RFP was extendable up to 31 July 2016 only. Thereafter fresh tenders were to be invited in terms of provisions of KTPP Act. The non-compliance resulted in Department losing the opportunity to avail competitive rates.
- The Karnataka Government (Transaction of Business) Rules, 1977 mandated that Cabinet approval was compulsory in case the revised cost of procurement of goods and services exceeded ₹10 crore (Rule 20 read with Clause 15A of the First Schedule). Further, Paragraph 15(4) of Karnataka Financial Code, 1958 stipulated that no authority should sanction any expenditure which was likely to involve expenditure beyond its own powers of sanction.

There was no time extension approval from the Cabinet for the period beyond 30 June 2018 and instructions (August 2016 and March 2018) of the Cabinet to appoint the agencies through fresh tenders were not complied with.

- In case of cancellation of a contract, RFP contained a clause (Clause 2(xii)) to assign it to any manpower agency working in another district. This assignment was to be on the identical terms and conditions as applicable in the cancelled contract and was to continue for a maximum period of six months, during which the Department was to invite fresh tender.

Contracts in test-checked districts (except Koppal) were re-assigned to other agencies during November 2017 to January 2022. Instead of the stipulated six-month period, the re-assigned contracts continued till date (October 2024). This contravened the Clause 2(xii) of RFP.

In view of the above, the amount of ₹86.67 crore paid to the outsourced agencies was irregular as the extension of their services was against the Cabinet decision besides being violative of the provisions of KTPP Act.

The State Government accepted (May 2025) the audit observation and stated that proposal to seek approval of the Cabinet would be submitted shortly.

3.4.2 Failure to avail the most competitive rates while re-assigning the tenders

Clause 2(xii) of RFP provided that in-case of re-assignment of contract to agencies providing services in other districts, the condition of RFP for restricting assignment of more than five districts to a single manpower agency would not be applicable.

Scrutiny of records in Tumakuru ZP showed that there was a complaint against the agency (M/s TDS Management Consultants Pvt Ltd) about non-remittance of EPF and ESI contribution to the concerned head of account. The Department initiated (03 May 2018) action against the agency to terminate the contract and re-assign the work. Offers were invited (08 May 2018) from six manpower agencies who were already providing services in neighbouring districts. Accordingly, the offer of M/s Invensis Technologies Pvt. Ltd. was accepted and Contract agreement executed (June 2018) at the accepted service charge of 6.5 *per cent*.

Scrutiny of proceedings and comparative statement showed that another agency (M/s BKR Security Agencies which was already working in five districts) had offered service charge of 1.5 *per cent*, but its offer was rejected citing Clause 2(xi) of RFP which prohibited allotment of more than five districts to a single agency. This rejection was incorrect as re-assignment of contract was governed by Clause 2(xii) which clearly stated that condition of RFP for not allotting more than five districts to a single manpower agency would not be applicable in case of re-assignment. It may also be noted that Shivamogga ZP had re-assigned the manpower contract to M/s BKR Security Agencies in January 2022 supporting the audit contention that limit of five tenders was not applicable in such cases.

Similarly, in Mandya district, the contract of existing agency (M/s Dexterity Projects (P) Ltd.) was terminated (November 2019) and entrusted (June 2020) to M/s Invensis Technologies Private Ltd at its offered service charge of seven *per cent*. There was no documentary evidence to suggest that CEO ZP, Mandya had invited offers from agencies working in nearby districts. As a result the Department could not avail the manpower services offered by M/s Megha Services Bureau in the nearby district of Mysuru at the service charge of four *per cent*.

Thus, incorrect rejection of the lowest offer (1.5 *per cent*) of M/s BKR Security Agencies by CEO, ZP, Tumakuru and failure of CEO, ZP, Mandya to avail the most competitive offer from nearby district of Mysuru (M/s Megha Services

Bureau) resulted in avoidable expenditure of ₹121.53 lakh and ₹35.19 lakh respectively during the period from 2019-20 to 2022-23.

The State Government stated (May 2025) that CEO, ZP, Mandya would be instructed to submit the compliance and reiterated that offer of M/s BKR Security Agencies in Tumakuru was rejected as per conditions of Clause 2(xii). The reply in respect of Tumakuru ZP is not acceptable as limit of five districts to a single agency was not applicable in case of re-assignment as detailed above.

3.4.3 Avoidable expenditure on payment of Goods and Services Tax for exempted service

The Government of India, Ministry of Finance (Department of Revenue) notified (June 2017)¹⁰ that the supply of services including 'Pure Services'(excluding works contract service or other composite supplies involving supply of goods) provided to the Central Government/State Government/Union territory/Local Authority/Governmental authority by way of any activity in relation to any function entrusted to a Panchayat under article 243G (11th Schedule) of the Constitution, is exempt from Central tax leviable with effect from 1 July 2017.

The 73rd Constitutional amendment envisaged transfer of 29 functions listed in the 11th Schedule of the Constitution of India to the PRIs. This was also covered in the Karnataka Panchayat Raj Act, 1993. The State Government transferred all the 29 functions as listed in the 11th Schedule to the PRIs by devising (November 2016) an activity map. 'Poverty alleviation programme' (Entry 16 of 11th Schedule) was one of the 29 functions which *inter alia*, included implementation of poverty alleviation and employment guarantee programmes. Thus, supply of outsourced manpower services for MGNREGS, one of the flagship schemes for poverty alleviation and employment guarantee, was exempt from levy of Central and State Goods and Services Tax (GST) as it was pure service (i.e. it did not involve any supply of goods) and was by way of an activity in relation to a function entrusted under article 243G.

Audit observed that, despite the availability of enabling provisions, the Department did not avail the benefit of GST exemption. The office of the Commissioner, MGNREGS and the test-checked five districts made payments to the manpower agencies towards wages of the outsourced staff as per the bills claimed by them, which was inclusive of 18 *per cent* GST. This resulted in avoidable expenditure of ₹15.43 crore on payment of GST during the period from 2019-20 to 2023-24 (**Appendix 3.4**).

The State Government stated (May 2025) that there was ambiguity in the notification regarding payment of GST on outsourced services and clarification would be sought from the Commercial Taxes Department.

3.5 Status of capacity building activities conducted for MGNREGS

Capacity building and technical support of all functionaries/ agencies and PRI officials and awareness generation of potential and existing workers formed the most strategic aspect in effectively implementing MGNREGS. Paragraphs

¹⁰ Notification No. 12/2017- Central Tax (Rate) dated 28 June 2017

5.2.2 and 5.2.4 of Operational Guidelines, 2013 stipulated that each State would set up Human Resource Development and Capacity Building Divisions at State level as well district levels.

Audit observed that district-level Human Resource Development and Capacity Building Divisions were not set up in test-checked districts. At the State level, Abdul Nazir Sab State Institute of Rural Development, Mysuru (ANSSIRD) organised capacity building activities under MGNREGS. The details of training programmes planned and conducted at ANSSIRD is detailed in **Table 3.4**.

Table 3.4: Details of training programmes planned and conducted

Year	Total training programmes planned	Total training programmes conducted	Total number of trainees proposed for training	Total number of trainees attended training
2019-20	16	8	7411	2592
2020-21	16 (13+3*)	12 (9+3*)	15859	5749
2021-22	16 (15+1*)	10 (9+1*)	16166	12985
2022-23	25 (19+6*)	16(10+6*)	23710	18254
2023-24	16 (14+2*)	13 (11+2*)	30485	21612
Total	89 (77+12*)	59 (47+12*)	93631	61192

* Additional programmes as directed by Commissioner, MGNREGS

Source: Information furnished (September 2024) by the Department

During the period 2019-20 to 2023-24, as against 89 training programmes¹¹ planned, ANSSIRD conducted only 59 programmes (shortfall of 34 *per cent*). It was also seen that there was shortfall to an extent of 35 *per cent* in number of participants to be trained in these 59 programmes as only 61,192 participants attended the training against the targeted 93,631 participants for 89 programmes. Major programmes with less participation were capacity building of Information Education and Communication coordinator as knowledge bank, role of line department officials in effective implementation of MGNREGS, enhancement of the capacity of PDOs in preparation of NRM based Labour Budget and operations in MIS, *samvadha* programme, etc. As against the available funds of ₹12.49 crore¹² during the period from 2019-20 to 2023-24, ANSSIRD spent ₹9.13 crore (73 *per cent*) towards training programmes.

Thus, more concerted efforts are needed to utilize the training programmes and further conduct all the programmes planned to enable trained personnel to implement the Scheme in the manner intended.

The State Government accepted (May 2025) the audit observation and stated that efforts would be made to increase the capacity building by identifying new training programmes and institutes for more exposure.

¹¹ 77 approved training programmes and 12 additional programmes approved by Commissioner, MGNREGS

¹² Opening Balance of ₹3.16 crore + Releases of ₹8.19 crore and interest of ₹1.14 crore

Financial Management

Section 22 of the MGNREGA provides the framework for the funding pattern. Funds are released to the States/UTs normally in two tranches based on agreed Labour Budget (LB), opening balance, pending liabilities of the previous financial year, if any, and overall performance. The fund sharing pattern for MGNREGS between Centre and State is already depicted in **Chart 1.3**.

3.6 Financial position

Details of funds released and expenditure incurred under MGNREGS during the period 2019-20 to 2023-24 are indicated in **Tables 3.5** and **3.6**:

Table 3.5: Details of funds released and expenditure incurred during the period from 2019-20 to 2023-24

Year	OB	Releases for wages	Central releases		State material	Misc. Receipt	Total fund availability	Expenditure	CB
			Material	Admin					
2019-20	236.91	2,690.18	1,596.43	68.68	139.03	16.19	4,747.42	4,553.98	193.44
2020-21	193.34	4,251.06	1,370.62	70.07	365.89	36.20	6,287.18	5,817.81	469.37
2021-22	469.37	4,527.38	936.28	149.42	723.48	23.21	6,829.14	6,275.31	553.83
2022-23	553.83	3,911.00	2,147.07	295.02	395.29	20.57	7,322.78	6,688.73	634.05
2023-24	634.05	3,794.03	1,502.62	118.41	500.87	17.35	6,567.33	6,298.54	268.79
Total		19,173.65	7,553.02	701.60	2,124.56	113.52		29,634.37	

Source: Information furnished (May 2024) by the Department and CA Reports

Table 3.6: Details of expenditure incurred (component-wise)

Year	Wages	Material	Administrative	Other expenditure	Total
2019-20	2,691.06	1,774.64	88.28	-	4,553.98
2020-21	4,143.03	1,476.16	158.83	39.79	5,817.81
2021-22	4,635.80	1,412.95	183.44	43.12	6,275.31
2022-23	3,865.81	2,585.00	227.61	10.31	6,688.73
2023-24	3,839.22	2,245.15	190.47	23.70	6,298.54
Total	19,174.92	9,493.9	848.63	116.92	29,634.37

Source: Information furnished (July 2024) by the Department and CA Reports

It could be seen the total expenditure incurred under MGNREGS increased during the period from 2019-20 to 2022-23 and declined thereafter by ₹390.19 crore (6 per cent). Expenditure under material component showed inconsistent declining and rising trends. It decreased during the initial three years (2019-20 to 2021-22), increased during the year 2022-23 and declined thereafter by 13 per cent. Wage expenditure during the year 2022-23 had decreased by ₹769.99 crore (17 per cent) compared to the previous year though the total expenditure had increased during the same period.

Audit also observed that despite the availability of funds under material component, the Department failed to utilise the entire amount. This was partly due to release of funds at the fag end of the year. It was seen that ₹566.91 crore for the year 2022-23 was released/credited on 28 March 2023 and ₹258.04 crore for the year 2023-24 was credited on 31 March 2024.

The State Government accepted (May 2025) the audit observation and attributed the increase in wage expenditure (2021-22) to migration of population towards rural areas during Covid-19 pandemic.

3.7 Delay in release of funds and non-payment of interest

MoRD, GoI, issued sanction orders from time-to-time for releasing central assistance towards material and administrative component for implementation of MGNREGS. On its receipt, the State Government was to transfer these funds along with the State share (*i.e.* 25 *per cent* share of material component) to the State Employment Guarantee Fund (SEGF) for programme implementation within 3 days (for the years 2019-20 and 2020-21)/15 days (for the years 2021-22 to 2023-24) positively. Else, the State Government was liable to pay interest at the rate of 12 *per cent* (for the year 2019-20, 2020-21 and 2023-24) per annum for delay in release of funds. There were no such instructions in sanction orders pertaining to the years 2021-22 and 2022-23.

Scrutiny of records showed that out of ₹10,379.17 crore released (material and administrative component) during the period from 2019-20 to 2023-24, an amount of ₹6,699.25 crore (65 *per cent*) was released by the Finance Department, GoK, with delays ranging from 1 to 146 days. As per the instructions of GoI, the State Government was liable to pay interest of ₹36.26 crore at the rate of 12 *per cent* per annum for delay in release of funds for the years 2019-20, 2020-21 and 2023-24 (detailed in **Appendix 3.5**).

The State Government accepted (May 2025) the audit observation and attributed the delays to established administrative procedures, holidays, *etc.*

3.8 Inadmissible administrative expenses

3.8.1 Inadmissible expenditure towards salary of Clerk-cum-DEOs

As per Paragraph 12.5.5 (ix), the permissible activities under administrative expenditure included expenses incurred on additional dedicated staff in key functional areas of the Scheme and at the GP/Block/District levels. Paragraph 12.5.6 (Expenses not allowed under administrative costs) stipulated that salaries/remuneration of functionaries already engaged by the Government/ PRIs/ any other implementing agency should under no condition be booked under the administrative costs of MGNREGS.

Department of Rural Development and Panchayat Raj, GoK (RDPR), requested (June 2020) Commissioner, MGNREGS to release funds to meet the salary expenses of 4,959 Clerk-cum-Data Entry Operators (DEOs) working at Gram Panchayats (GPs). Accordingly, the Government issued (02 November 2020) an order to release an amount of ₹62.99 crore in two instalments under the administrative cost of MGNREGS.

In accordance with the Government Order, Commissioner, MGNREGS released (24 November 2020) first instalment of ₹31.50 crore to the Secretary, RDPR. The second instalment was not released citing lack of funds and approval was accorded (August 2022) to withdraw the Government Order authorising the payment of salary under MGNREGS.

Audit observed that these DEOs were not dedicated staff to MGNREGS and were already engaged by PRIs. It was, therefore, the responsibility of RDPR Department to pay their salary/remuneration. It was also evidenced by the fact

that salary of these DEOs for the year 2021-22 was borne out of Government funds and own resource of GPs. Thus, the expenditure of ₹31.50 crore was not admissible under MGNREGS.

3.8.2 *Inadmissible expenditure towards expenses not related to MGNREGS*

Similarly, Paragraph 12.5.5 enlisted the permissible activities under administrative expenditure which specified that the office expenses must be related to MGNREGS.

Audit observed that expenditure of ₹1.28 crore incurred out of administrative fund at office of the Commissioner, MGNREGS was unrelated to the Scheme. Some of these activities were travel expenses for election duty, expenditure for other schemes of RDPR, *etc.* (detailed in **Appendix 3.6**).

The State Government stated (May 2025) that expenditure was made with the approval of competent authorities. The fact remains that these expenses were not admissible as per Scheme guidelines. During the Exit Conference (May 2025), the ACS assured that action would be taken to recoup the amount.

Recommendation 3: The State Government should take action to recoup the inadmissible expenditure incurred under MGNREGS.

3.9 Status of Aadhaar Based Payments

Paragraph 14.2 of AMC, 2019-20 provided that the account details of the beneficiaries would be updated regularly in the MIS. In order to enable Aadhaar Based Payments System (ABPS), Aadhaar seeding and its mapping at National Payments Corporation of India (NPCI) Mapper by the banks was essential. The Standard Operating Procedure (SoP) was issued (March 2017) by the Central Government for expediting Aadhaar seeding in bank accounts of MGNREGS workers.

Audit observed that despite a lapse of seven years from the issue of SoP, Aadhaar mapping with the accounts of 3.11 lakh workers out of 84.98 lakh active workers was pending (March 2024) at the State level. In the absence of mapping of bank accounts, no assurance could be drawn about the preparation of wage lists and payments made to these active workers.

The State Government stated (May 2025) that issues would be resolved and the pending mapping would be completed.

3.10 Outstanding liabilities

With a view to streamline the fund flow system and to empower the State Governments/grass-root implementation agencies to deliver entitlements as per the objectives of the MGNREGA, the Central Government introduced (May 2016) National Electronic Fund Management System (Ne-FMS) for wage payments. As per the instructions, the wage component of MGNREGS, which was entirely the responsibility of GoI, was to be operated as a central sector scheme and the material/administrative components were to continue to be

operated as centrally sponsored scheme, to be released to the State Consolidated Fund. One of the duties of the CEO, ZP and EO, TP was to ensure timely processing of all Fund Transfer Orders(FTOs) for payments

Audit observed that an amount of ₹780.91 crore was outstanding (May 2024) for payment in respect of unskilled wages, semi-skilled/skilled wages, material and taxes for the period from 2019-20 to 2023-24. The details are given in **Table 3.7** below:

Table 3.7: Details of outstanding payments (May 2024)

(₹ in crore)

Year	Unskilled wage	Semi-skilled/Skilled wages	Material	Tax	Total	PDs corresponding to outstanding unskilled wages
2019-20	2.22	0.31	13.73	0.15	16.41	89,157
2020-21	2.66	0.76	19.52	0.18	23.12	96,727
2021-22	2.25	0.99	39.72	0.52	43.48	77,855
2022-23	3.22	1.36	122.70	3.86	131.14	1,04,207
2023-24	20.17	4.20	520.15	22.24	566.76	6,38,291
Total	30.52	7.62	715.82	26.95	780.91	10,06,237

Source: Information furnished by the Department (17.05.2024)

It could be seen that unskilled wages to an extent of ₹30.52 crore were pending for one to five years. In terms of days worked, it implied that wages for 10.06 lakh person days were yet to be paid. In case these were genuine, denial of wages would have an adverse impact on the sustenance of rural poor who depended on these payments for their livelihood. Similarly, the Department had not cleared the dues of ₹723.44 crore on material (including semi-skilled/skilled wages) for period ranging from one to five years. Non-payment of dues to workers/suppliers over unduly long periods not only indicated ineffective oversight mechanism but also raised the possibility of ghost workers and fake bills. These liabilities require detailed investigation and early resolution.

It was also seen that there was discrepancies in figures of pending wage payments when compared with the details contained in MIS Reports¹³ **R14.6** (Timely payment status overall) and **R7.2.2** (Labour material ratio analysis). As per these reports, outstanding wage payment during the period from 2019-20 to 2023-24 aggregated ₹133.04 crore which was significantly more than the details of outstanding wages (₹30.52 crore) furnished by the Department. The Department acknowledged the difference and stated that e-ticket had been raised with NIC to resolve the discrepancy (September 2024).

One of the reasons for failure to clear these outstanding liabilities was rejection of transactions attributable to reasons such as de-seeding of Aadhaar number from NPCI mapper, incorrect/closed bank account, non-mapping of Aadhaar, invalid bank identifier, mismatch in IFSC code of bank account, etc. Empowered Committee of MoRD had instructed (December 2020) the State Government to give special emphasis on regeneration of transactions. It was directed to regenerate rejected transactions within two days.

¹³ As on 26 August 2024

The status of transactions rejected, and action taken thereon in respect of wage and material components is given in **Appendix 3.7**. It was observed that out of 6,76,244 total rejected wage transactions, 6,18,281 transactions (91 *per cent*) had been regenerated. Out of regenerated transactions, wage payment of ₹11.66 crore was pending (August 2024).

In respect of material component, transactions worth ₹477.62 crore (1,06,941 transactions) had been rejected. Though 93,677 transactions were regenerated, payment of ₹23.44 crore pertaining to 6,132 transactions was pending (August 2024). Further, 7,132 transactions worth ₹11.27 crore, pertaining to the period from 2019-20 to 2023-24 were still pending for regeneration (August 2024). Such instances of rejected transactions not only indicated deficiencies in regular verification and updating of bank accounts but also contravened the directions (December 2020) of MoRD.

The Department stated (August 2024) that rejected transactions were being monitored/reviewed regularly and the beneficiaries were intimated through oral communication by the field staff. While the efforts made by the Department in regenerating the rejected transactions are appreciated, the fact remains that rejection of wage payment transactions would lead to delays in payment of wages. Further, there was no automated system instituted for informing the beneficiary about the rejected/failed transaction.

The State Government accepted (May 2025) the audit observation and stated that necessary steps had been taken to clear wage and material transactions and ensure completion of long pending works.

Recommendation 4: Action should be taken to reduce the pendency in regeneration of failed transactions and repayment to the beneficiaries in respect of Aadhar based payments. Department may devise automated system to update the beneficiaries regarding status of failed transactions/pending payments.

3.11 Delay in wage payments and unjustified rejection of delay days for compensation

The MGNREG Act under Section 3(3) entitled the beneficiary to receive their daily wages on a weekly basis and in any case not later than a fortnight after the date on which such work was done. Paragraph 29 of Schedule II of the Act, *inter alia*, stipulated that in case the payment of wages was not made within fifteen days from the date of closure of the muster roll, the wage seekers should be entitled to receive payment of compensation for the delay, at the rate of 0.05 *per cent* of the unpaid wages per day of delay beyond the sixteenth day of closure of muster roll. The Act also mandated that computer system should have a provision to automatically calculate the compensation payable based on the date of closure of the muster roll and the date of deposit of wages in the accounts of the wage seekers. The State Government was liable to pay the compensation upfront after due verification within the time limits as specified above and recover the compensation amount from the functionaries or agencies who were responsible for the delay in payment.

To meet the objective of making the timely payments (within 15 days of closure of e-Muster) to the Scheme beneficiaries, it was essential that all stakeholders in this system adhered to the timelines advised. The stakeholders involved were: **(Stage-I) Field functionaries (State level)** involved up to generation of FTOs, **(Stage-II) MoRD Officials** involved in release of fund order and **Agencies (PFMS/Banks/NPCI/DoP/NIC-DRD)** involved in the movement and processing of FTOs and ultimate crediting into the accounts of beneficiaries. To track/fix responsibility on various functionaries and apportion recoveries as per delays, the State Government prescribed (January 2019) the timelines as detailed in **Appendix 3.8**.

Scrutiny of MIS reports and information furnished by the Department showed that provisions of the Act regarding timely payment of wages and payment of compensation for delayed payment of wages were not adhered to as detailed in subsequent paragraphs.

- i) There were no MIS reports in public domain which could give the consolidated status of payment of wages up to **Stage-II** *i.e.* till the actual credit of wages to the beneficiaries. There was a Report – **R14.5** (Delayed Payment (Stage 1) of Financial Year) which tracked the status till signature of FTOs by 2nd signatory (Stage-I) only and not the actual credit date.
- ii) Information furnished (August 2024) by the Department showed that wages aggregating ₹19,231.31 crore were paid and wages of ₹133.04 crore were pending for payment. Scrutiny of timely payment status (overall) reports showed that ₹9,499.43 crore (49 *per cent*) was paid within the mandated period of 15 days whereas there were delays in wage payment of ₹9,864.92 crore (51 *per cent*). Year-wise delays ranged from 26 to 70 *per cent* as detailed in **Table 3.8**:

Table 3.8: Details showing wage payments

(₹ in crore)

Year	Total wage payable (R7.2.2)	Total wage payment	Payment within 15 days (%)	Delayed wage payment		
				Payment beyond 15 days	Pending wage payment	Total (%)
2019-20	2,746.61	2,735.41	841.87 (31)	1,893.54	11.20	1,904.74 (69)
2020-21	4,009.01	3,923.17	2,979.23 (74)	943.94	85.84	1,029.78 (26)
2021-22	4,634.99	4,621.98	2,020.76 (44)	2,601.22	13.01	2,614.23 (56)
2022-23	3,780.36	3,771.41	2,389.99 (63)	1,381.42	8.95	1,390.37 (37)
2023-24	4,193.38	4,179.34	1,267.58 (30)	2,911.76	14.04	2,925.80 (70)
Total	19,364.35	19,231.31	9,499.43 (49)	9,731.88	133.04	9,864.92 (51)

Source: Information furnished by Department (MIS Reports 'R14.6-Timely payment status overall' and 'R7.2.2-Labour material ratio analysis' dated 26.08.2024)

Further scrutiny of delayed wage payments (₹9,731.88 crore) showed that wages aggregating ₹7,915.44 crore were paid after 16 to 60 days, wages of ₹1,582.72 crore were paid between 61 to 90 days and wages of ₹233.72 crore was paid after a gap of three months (90 days) from the date of closure of muster rolls (detailed in **Table 3.9** below):

Table 3.9: Delays (period-wise) in wage payments

Year	(₹ in crore)				
	Wage payment beyond 15 days	Between 16-30 days	Between 31-60 days	Between 61-90 days	More than 90 days
2019-20	1,893.54	503.48	948.02	378.60	63.44
2020-21	943.94	556.28	338.93	33.20	15.53
2021-22	2,601.22	1,017.85	1,157.88	360.66	64.83
2022-23	1,381.42	910.24	441.57	14.54	15.07
2023-24	2,911.76	662.76	1,378.43	795.72	74.85
Total	9,731.88	3,650.61	4,264.83	1,582.72	233.72

Source: Information furnished by Department (MIS Report 'R14.6-Timely payment status overall' dated 26.08.2024)

Delays were attributable to issues such as expiry/loss/damage of Digital Signature Certificates, technical issue with server, *etc.* The fact, however, remains that delay in payment of wages negated the very purpose of providing guaranteed employment and wages under the Act.

- iii) **Short payment of delayed compensation due to incorrect calculation:** In case of delay in payment of wages, NREGASoft (MIS Report **R14.1**-Delayed Compensation) had a provision to calculate the total compensation payable. The compensation was to be paid after due verification. Every Programme Officer was to decide, within 15 days from the date that the delay compensation became due, whether the compensation that had been calculated by the NREGASoft was payable or not. The compensation was not payable in cases of (i) Natural Calamities, (ii) Compensation not due i.e. wages had been paid in time but details not entered in MIS, *etc.* In all cases of rejection, the Programme Officer was to give detailed reason(s) for rejection on NREGASoft. The amount approved for compensation was to be met from the State Employment Guarantee Fund (SEGF) upfront and recovered later from the functionaries / agencies responsible for the delay.

Audit observed that the amount of compensation was calculated till the date of second signature of FTOs and not till the date on which wages were actually transferred to the beneficiaries' accounts. Thus, it captured partial delays only.

Moreover, delays were calculated only in cases where FTOs were signed after 15 days (T+15) and not T+8 days as prescribed in the Government Order. This resulted in partial calculation of delays and also exclusion of those eligible cases where FTOs signed within 15 days of closure of muster rolls but the wages were credited after 15 days. To illustrate this, Audit analysed 761 NMRs of 400 test-checked works and observed that delays in 373 (96 per cent) out of 389 delayed NMRs were not captured in MIS. As a result, the delayed compensation was shown as ₹0.02 lakh

(one *per cent*) though the actual payable compensation in these 389 NMRs was ₹1.62 lakh. Details are given in **Appendix 3.9**.

Thus, the delay calculation was carried out in violation of Government orders resulting in lesser compensation being paid to the beneficiaries than actual entitlement.

- iv) **Erroneous rejection of eligible compensation claim of beneficiaries:** The NREGASoft had calculated delayed compensation payable (2019-24) as ₹377.12 lakh for 390.11 lakh days of delay. Programme Officers had rejected delayed compensation for 380.55 lakh days (98 *per cent*), for which detailed reasons were not available in public domain (NREGASoft). Out of 390.11 lakh days, 329.06 lakh days (84 *per cent*) were rejected on the ground of ‘Compensation not due’ (detailed in **Table 3.10** below). Audit noted that rejection on this ground was incorrect as it was applicable in cases where wages had been paid but details were entered in MIS later. Under the current Ne-FMS system, wage payments could not be processed without the data entry in MIS.

Table 3.10: Details of incorrect rejection of delayed compensation

Year	Delayed compensation		Rejection Reason (in days)			Percentage of total rejection	Percentage of rejection under Compensation not due	Approved delay compensation in ₹ (Percentage)
	Payable (in delay days)	Payable amount (in ₹)	Natural calamities	Compensation not due	Total rejected			
2019-20	1,07,19,484	1,05,48,787	12,77,233	93,02,696	1,05,79,929	99	87	2,95,830 (3)
2020-21	82,91,985	82,33,486	10,89,072	70,31,136	81,20,208	98	85	2,15,362 (3)
2021-22	64,84,934	63,31,256	7,64,847	55,93,192	63,58,039	98	86	1,46,212 (2)
2022-23	87,10,393	80,12,918	12,93,735	72,88,419	85,82,154	99	84	1,62,272 (2)
2023-24	48,04,226	45,86,098	7,24,195	36,90,331	44,14,526	92	77	31,787 (1)
Total	3,90,11,022	3,77,12,545	51,49,082	3,29,05,774	3,80,54,856	98	84	8,51,463 (2)

Source: MIS Reports ‘R14.1-Delayed Compensation’ dated 05.09.2024

Consequent to this erroneous rejection, approved compensation was only ₹8.51 lakh (2 *per cent* of payable amount of ₹377.12 lakh). Against this, compensation paid was ₹4.45 lakh and an amount of ₹4.06 lakh (48 *per cent*) was pending payment (May 2024). Audit further observed that out of the compensation paid, an amount of ₹1.51 lakh has only been recovered from the functionaries responsible. Details of compensation borne by the State Government were not furnished by the Department (September 2024).

The State Government accepted (May 2025) the audit observation and stated that instructions had been issued to all the ZPs to initiate recoveries from the concerned officers.

Recommendation 5: The Department should scrupulously adhere to the Government instructions regarding the calculation of delayed compensation and take action to re-examine the erroneous rejection of delayed compensation.