

Chapter - 3
Financial Management

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Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is a centrally sponsored demand driven employment programme, implemented on a cost sharing basis between Government of India (GoI) and State Government. Release of Central share or funds are based on the projection of labour demand¹ in the Labour Budget (LB). The State Government also bears the compensation for delayed payments of wages to the workers, unemployment allowance and administrative expenses of the State Employment Guarantee Council.

3.1 Funding Pattern

Central Share (CS) of funds under the scheme is normally released in two tranches. While release of 1st tranche of CS is based on proportionate fund requirement as per the agreed LB to take care of requirement for the first six months of the financial year subject to a maximum of 50 *per cent* of the total fund required for a whole year, the release of 2nd tranche is based on unspent balances and actual performance against the agreed LB during the year. The sharing ratio between GoI and State under the various components of the scheme is given in **Table-3.1** below:

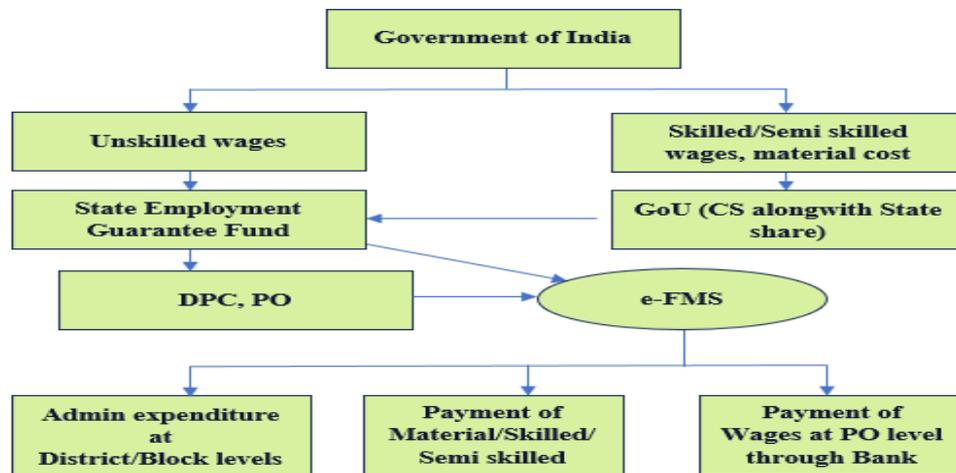
Table-3.1: Funding pattern

Details of component	Central share	State share
Wages for unskilled manual workers	100 <i>per cent</i>	Nil
Wages for skilled and semi-skilled workers & material cost	75 <i>per cent</i>	25 <i>per cent</i>
Unemployment allowance	Nil	100 <i>per cent</i>
Administrative Expenditure	100 <i>per cent</i> of Salary and allowance of supporting staff, administrative expenditure of Central Council & other expenditure as may be decided by Central Council	100 <i>per cent</i> expenditure of State Council

Source: MGNREGS Operational Guidelines, 2013.

The fund flow under the scheme is given in **Chart-3.1** below:

Chart-3.1: Fund flow under MGNREGS



¹ Agreed to between GoI and State Government.

Funds of unskilled wages are transferred by the GoI directly in the nodal bank account of State Employment Guarantee Fund (SEGF). GoI also releases 75 per cent of the expenditure of skilled, semi-skilled and material cost to Government of Uttarakhand (GoU). The GoU releases the funds to the SEGF after including its share.

The funds released and expenditure incurred there against during 2019-24 are given in **Table-3.2** below:

Table-3.2: Funds released and expenditure

(A) Under wages component

Year	Opening Balance	Fund Received from GoI	Interest	Total fund available	Expenditure	Interest returned to GoI	Closing Balance
1	2	3	4	5 (2+3+4)	6	7	8 (5-6-7)
(₹ in lakh)							
2019-20	30.29	32,165.62	2.59	32,198.50	32,165.62	31.98	0.90
2020-21	3.48 ²	71,423.51	2.28	71,429.27	70,328.72	0.82	1,099.73 ³
2021-22	1,099.73	51,063.67	7.28	52,170.68	52,159.94	7.28	3.46
2022-23	3.46	43,781.47	3.68	43,788.61	43,328.53	2.89	457.19 ⁴
2023-24	457.19	35,571.62	3.32	36,032.13	36,023.50	0.00	8.63
Total		2,34,005.89	19.15		2,34,006.31	42.97	

Source: Balance Sheet & Audited Utilisation certificate.

(B) Under Material and Admin components

Year	Opening Balance	Released fund		Interest	Total Available fund	Expenditure			Interest returned to GoI	Total Expenditure	Closing Balance
		GoI Share	State Share			Material		Admin exp.			
						GoI Share	State Share				
1	2	3	4	5	6 (2+3+4+5)	7	8	9	10	11 (7+8+9+10)	12 (6-11)
(₹ in lakh)											
2019-20	92.12	14,895.10	3,830.81	48.88	18,866.91	11,965.67	3,988.82	2,789.93	-	18,744.42	122.49
2020-21	122.49	17,309.49	6,904.06	42.44	24,378.48	15,717.95	5,239.32	3,230.18	-	24,187.45	191.03
2021-22	191.03	9,667.15	3,222.38	58.13	13,138.69	9,181.11	3,060.37	849.50	19.89	13,110.87	27.82
2022-23	27.82	40,317.88	12,642.16	105.14	53,093.00	3,2177.44	10,725.81	4,583.98	69.19	47,556.42	5,536.58 ⁵
2023-24	5,536.58	16,667.39	4,800.40	61.78	27,066.15	17,530.52	5,843.51	3,004.40	-	26,378.43	568.02*
Total		98,857.01	31,399.81	316.37		86572.69	28,857.83	14,457.99	89.08	1,29,977.59	

Source: Balance Sheet & Audited Utilisation certificate.

*₹119.70 lakh transferred to other Single Nodal Account.

Scrutiny of records at State MGNREGS Cell, revealed that:

While releasing the CS in respect of material and admin components between 2019-20 and 28 August 2020, the GoI had instructed that the State Government must transfer fund along with the State share to the SEGF for programme implementation within three days from the date of receipt of fund. In case of transfer beyond this period, the State Government would be liable to pay interest at the rate of 12 per cent per annum for the delayed period. The condition was revised in November 2020 by the GoI, according to which the central share and the corresponding state share would be released by the State to the concerned State Nodal Account within a maximum period of 15 days from the receipt of Central Funds.

² Reason for difference between closing balance of 2019-20 and opening balance of 2020-21 was not provided to audit.

³ ₹ 1089.99 lakh released by GoI on 31 March 2021.

⁴ ₹ 1369.87 lakh released by GoI on 24 March 2023.

⁵ GoI released ₹ 3508.49 lakh on 25 March 2023 and corresponding State share of ₹ 885.24 lakh was released by the State on 31 March 2023.

Audit found significant lapses in the timely transfer of funds from the State Government to the SEGF. Despite clear instructions that funds should be transferred within a specified period to avoid financial penalties, the State Government delayed the release of both the Central and State shares with delays ranging upto 85 days in release of Central share and upto 111 days in release of State share. (*Appendix-3.1*). Consequently, the State was liable for interest payments amounting to ₹ 203.43 lakh for the delayed release of both the Central and corresponding state share in respect of fund provided by GoI between 2019-20 and 2020-21 (up to 28 August 2020). However, no record suggests that the State MGNREGS Cell took any action to address or raise this demand.

Further, due to delay in release of GoI share as well as State share, there were instances of delay in payment of wages of skilled/semiskilled labour and in material payment as discussed in *Paragraph-5.8 of Chapter-5*.

During Exit Conference (January 2025), Secretary, RDD confirmed that funds have been released on time from 2023-24 onward. This statement aligns with and reinforces the audit observation.

3.2 Fund not released as per requirement

As per section 3(3) of the Act, payment to the workers should be made within 15 days of work done.

GoI released ₹ 2340.07 crore against the required fund of ₹ 2373.56 crore for wage payment of unskilled labour for persondays generated during 2019-24 (as can be seen from the **Table-3.3** below) whereas liability of ₹ 55.60 crore had also persisted on 1st April 2019.

Table-3.3: Persondays (PDs) Generated and Fund released under wages component

Year	No. of PDs Generated (in crore)	Fund required for payment of PDs Generated (number of PDs generated*wage rate ⁶)	Fund released by GoI for payment of wages
(₹ in crore)			
2019-20	2.06	374.92	321.66
2020-21	3.04	611.04	714.24
2021-22	2.43	495.72	510.64
2022-23	2.06	438.78	437.81
2023-24	1.97	453.10	355.72
Total	11.56	2373.56	2340.07

Source: NREGASoft & Audited utilisation certificate.

Due to not releasing of sufficient fund in respect of wages component, there were outstanding liabilities of ₹ 79.48 crore on 31 March 2024 at the State level, as reported by Department.

Audit, however noticed that actual outstanding liability of unskilled labour as on 31st March 2024 should be ₹ 89.09 crore [₹ 55.60 crore + ₹ 33.49 crore (₹ 2373.56 crore - ₹ 2340.07 crore)] whereas the Department has reported it as ₹ 79.48 crore, indicating a flaw in financial management.

⁶ Year wise wage Rate: 2019-20: ₹ 182 per day, 2020-21: ₹ 201 per day, 2021-22: ₹ 204 per day, 2022-23: ₹ 213 per day and 2023-24: ₹ 230 per day.

Furthermore, an amount of ₹ 122.40 crore was also outstanding in respect of semi-skilled/skilled wages, material, and taxes as on 31 March 2024 at the State level as detailed in **Table-3.4** below:

Table-3.4: Outstanding liabilities as on 31 March 2024

Year	Semi-skilled/ skilled wages	Material	Tax	Total
(₹ in lakh)				
2019-20	10.65	22.50	0.01	33.16
2020-21	12.22	29.83	0.06	42.11
2021-22	182.13	107.10	0.39	289.62
2022-23	109.58	385.50	1.74	496.82
2023-24	1,465.83	9,764.88	148.04	11,378.75
Total	17,80.41	10,309.81	150.24	12,240.46

Source: Utilisation Certificate of financial year 2023-24.

It can be seen from the above table that the Department did not clear dues of ₹ 122.40 crore which included ₹ 17.80 crore in wages owed to semi-skilled/skilled labourers.

The significant short release of the required funds not only highlight the Department's lack of proactiveness but also risks undermining the overall effectiveness of the scheme. Furthermore, the non-payment of dues to suppliers for long periods might result in them losing interest in the scheme.

While acknowledging the facts the Secretary, RDD explained during Exit Conference (January 2025) that due to insufficient fund released by the GoI, liabilities were created.

3.3 Financial burden of ₹44.46 crore not borne by the State Government

As per Section 3(4) of MGNREGA, the Central or State Government may, within their economic capacity, provide additional employment to adult household members beyond the guaranteed period. In response to the COVID-19 pandemic, the Government of Uttarakhand allowed (February 2021) an additional 50 days of employment for households that completed 100 days of work in 2020-21, with the payment to be covered by the State Government.

However, the audit revealed that 20,361 households were provided with 23.37 lakh persondays of employment beyond 100 days during 2020-21, for which ₹ 44.46 crore⁷ was paid from GoI funds, contrary to the requirement that the State should have covered this expense from its own resources.

Thus, the GoU did not fulfill its financial obligation to provide funds for the additional 50 days of employment under MGNREGS, resulting in an improper use of GoI funds. This oversight highlighted the need for better financial planning and accountability to ensure compliance with the guidelines.

During Exit Conference (January 2025), Secretary, RDD stated that an amount of ₹ 10 crore was provided by the GoU for the payment of employment for over 100 days, of which ₹ 2.51 core was utilised. However, the matter will be examined, and the necessary updates will be provided.

⁷ No. of persondays (23.37 lakh) x wage rate (₹ 201 per day) = ₹ 46.97 crore – ₹ 2.51 crore (paid by the state from its own fund) = ₹ 44.46 crore.

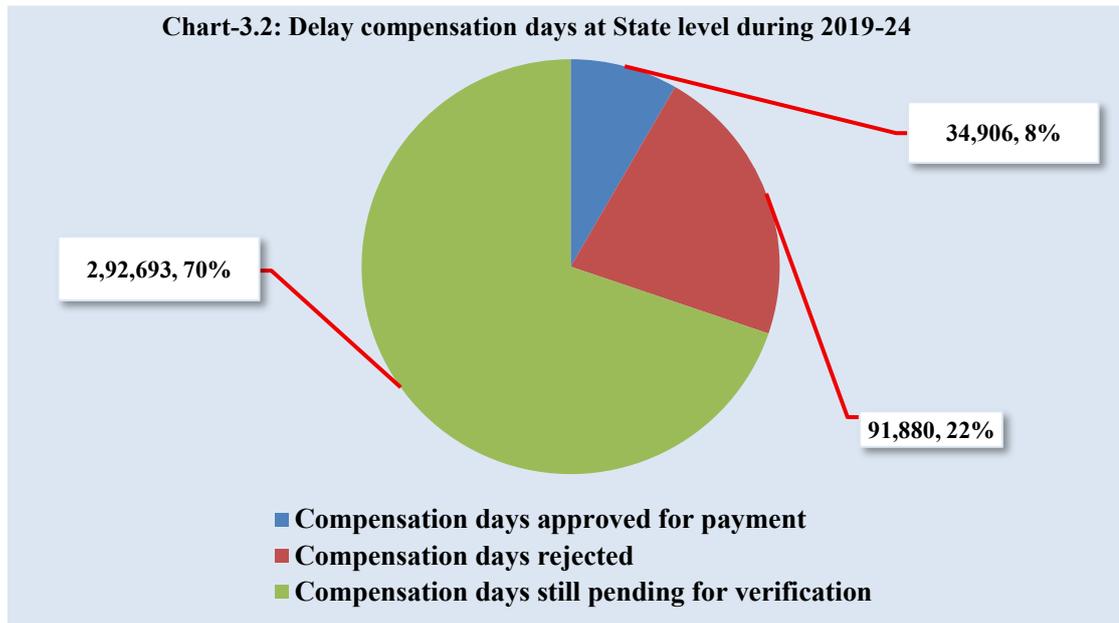
3.4 Compensation for delayed payments to workers

Paragraph 29 of Schedule II of the Act provided for payment of compensation at a rate of 0.05 *per cent* of the unpaid wages per day for the duration of the delay beyond the 16th day of the closure of the Muster Roll (MR).

Further, as per Paragraph 9.8.1 of the Master Circular issued by GoI, NREGASoft has a provision to calculate⁸ the total compensation payable. Paragraph 9.8.2 of the circular provisioned that every Programme Officer (PO) will, within 15 days from the date that the delay compensation becomes due, decide whether the compensation that has been calculated by the NREGASoft is payable or not. In case of rejection, the PO will give detailed reason(s) for rejection on NREGASoft and maintain record of the same for future verification.

An analysis of NREGASoft data revealed that despite the vast number of delay compensation days, only a minimal percentage of these were approved for payment as detailed below, indicating a systemic failure.

- At the state level, a total of 4,19,479 days of delayed payments were noticed during 2019-2024. Of these, only 34,906 compensation days (eight *per cent*) were approved for payment, while 91,880 days were rejected due to natural calamities or because of compensation not due (*Appendix-3.2*). The remaining (2,92,693 days) compensation days are still pending for verification as detailed in **Chart-3.2** below:



- The analysis of NREGASoft data of selected Blocks for the period 2019-24 revealed that wage payments were delayed for 16,530 days, but only 70 compensation days were approved. Additionally, 3,304 days were rejected due to natural calamities or because compensation was not due. Furthermore, out of the delayed compensation amounting to ₹ 0.18 lakh, ₹ 0.15 lakh remains to be verified (*Appendix-3.3*).

⁸ Considering: (a) Date of uploading of FTO for payment of wages in the account of worker. (b) Date of closure of MR. (c) The duration of such delay. (d) Total wage payable. (e) Rate of Compensation.

Analysis of payment to workers involved in selected works:

Audit identified significant delays in wage payments, highlighted by the analysis of Muster Rolls (MRs) from the selected works of the test-checked GPs, which deprived workers of their legal entitlement to timely compensation. An examination of 1,232 MRs across 160 selected works revealed that payments for 411 MRs (33 per cent), involving 2,946 labourers, were delayed by four to 157 days with an average delay of 31 days, resulting in a total of 12,697 delayed days and an entitlement to delayed compensation of ₹ 1.02 lakh.

The beneficiary survey also corroborated these findings. Out of 200 beneficiaries, 122 (61 per cent) beneficiaries stated that they could not get payment of wages within the prescribed limit of 15 days from the date of completion of work. This not only would have caused financial hardship for the workers, who rely on these wages for their livelihood, but also undermined the fundamental objective of the MGNREGS to provide timely financial assistance to those in need. Thus, failure to address the issues continued to defeat the purpose of MGNREGS and diminished its impact on the most vulnerable sections of society.

In Exit Conference (January 2025), the Secretary, RDD accepted the facts and stated that due to delay/short releases of GoI fund, payment to the workers was not made on time in some cases.

3.5 Unemployment allowance

Paragraph 3.2 of the Operational Guidelines, 2013, stipulates that the application form for work should include a counterfoil receipt on which the date can be recorded and the dated receipt⁹ should be issued immediately upon submission of the application.

Additionally, Paragraph 3.5 of the Guidelines states that if an applicant does not receive employment within fifteen days of submitting their application, or from the date employment was sought, whichever is later, they are entitled to a daily unemployment allowance¹⁰.

Further, Paragraph 10.3.6 of Operational Guidelines, 2013 also mandates that an Employment Register to be maintained in a prescribed format at the GP level by the Panchayat Secretary and at the Block level by the PO and other implementing agencies.

Audit observed significant non-compliance with these guidelines. The register of demand for work was not maintained in any of the selected GPs, making it impossible to compare the work demanded with the work offered and consequently, to calculate the unemployment allowance. Furthermore, the NREGASoft data indicated that no unemployment allowances were disbursed in the State during 2019-2024.

In reviewing selected works files from the selected GPs, it was found that:

⁹ Refusal to accept work applications and provide dated receipts is considered a violation under Section 25 of MGNREGA.

¹⁰ This allowance must not be less than one-fourth of the wage rate for the first 30 days and no less than one-half of the wage rate for the remaining period of the financial year.

- None of the test-checked GPs provided dated receipts to the applicants. A beneficiary survey of 200 individuals confirmed that none had received dated receipts.
- The column for the date from which the employment would be sought by the applicant was not filled in any of the applications available in test-checked work files.
- Applications for work demand were submitted collectively in all cases, with up to 156 people listed on a single application form.
- The names of the applicants in an application form were written in the same handwriting on the application form which indicates that the application form might be filled out at the time of work assigned.
- Analysis of 386 application forms used in the execution of selected works revealed that in 120 application forms (33 *per cent*), the date on which the application was submitted was not recorded, making it impossible for the audit to ascertain any delays in providing employment for these cases (*Appendix-3.4 A*).
- The signatures of applicants in 71 application forms were not available (*Appendix-3.4 B*).
- Examination of the application forms with recorded dates revealed instances where employment was provided to job seekers more than 15 days after their application date, making them eligible for unemployment allowances, which, however, were not disbursed (*Appendix 3.4 C*).
- Further analysis revealed that 203 labourers had sought employment but the muster rolls generated by the POs concerned had not included their names. As such, they were deprived of the employment as well as the unemployment allowance. (*Appendix 3.4 D*).

This was substantiated during a beneficiary survey, where 129 out of 200 beneficiaries indicated that they were informed only when work was scheduled to be done. Thus, it cannot be ruled out that applications for work were filled at the time employment was provided, thereby avoiding the opportunity for state funded unemployment allowances as outlined in the MGNREGS Operational Guidelines, 2013.

In the Exit Conference (January 2025), the Secretary, RDD committed to issuing of instructions to provide dated receipts and to ensure that eligible beneficiaries receive unemployment allowances, if due.

3.6 Inadmissible expenditure

As per paragraph 12.5.2 of Operational Guidelines, 2013 to enable the States/UTs for augmenting human resources and developing capacity for critical activities, the Central Government provides up to 6 *per cent* of the total expenditure on MGNREGS in a financial year as administrative expense¹¹. Further, Paragraph 12.5.6 provides that expenditure should not be incurred on Specific¹² items.

¹¹ The funds should have been spent on permissible activities like Training, Information Education Communication (IEC) activities, MIS, quality management, *etc.*

¹² (i) Purchase of vehicles and repair of old vehicles; (ii) Civil works; (iii) Salaries/ remuneration of functionaries already engaged by the Government/ PRIs/ any other implementing agency; and (iv) Material procurement for works.

Audit noticed that the administrative fund was utilised for the payment of various inadmissible items at State and selected Block level as discussed below:

- A payment of ₹ 21.17 lakh was made for a vehicle hired for the Section Officer of Rural Development posted in the Secretariat, Government of Uttarakhand, Dehradun even though he was not entitled to use the vehicle.
- In Narendra Nagar Block, ₹ 0.25 lakh was incurred towards repair of office vehicle.

Thus, an amount of ₹ 21.42 lakh was incurred from the administrative fund on items which were not admissible.

In its reply, the Department stated that the vehicle was provided to the Secretariat staff of Rural Development Department on a pool basis, rather than being assigned exclusively to the Section Officer. Observation related to repair of office vehicle was accepted by the Block. Reply of the Department is not tenable as providing the vehicle to non-eligible officials was not as per rule.

3.7 Diversion of fund

As per paragraph 10.1.6.1 of the master circular issued by the GoI, up to 0.5 *per cent* of the administrative fund shall be earmarked for the State's Social Audit. The funds for the Social Audit Unit (SAU) will be released from the Ministry of Rural Development, GoI to the SAU's independent bank account through the respective State Government.

Audit noticed that an amount of ₹ 5.00 crore was transferred in November 2022 as a loan from the labour component of the MGNREGS fund to SAU for the payment of honorariums to the agency's personnel and other resources, as well as to facilitate the social audits which was contrary to the GoI instructions. Further, the amount has not yet been returned by the SAU to the State MGNREGS Cell, Dehradun.

While accepting the audit observation during the Exit Conference (January 2025), Secretary, RDD stated that the GoI did not release adequate funds to Uttarakhand Social Audit Accountability and Transparency Agency (USAATA), making it difficult to adjust the released funds.

3.8 Conclusion

There were instances of delayed release of funds by the State Government to the SEGF. The State Government transferred its liability to the GoI. Further, the instances of late payment of wages to the unskilled workers, non-payment of unemployment allowances, expenditure on inadmissible items and diversion of funds related to the wages component were also noticed.

3.9 Recommendations

1. *A robust monitoring mechanism should be established to ensure compliance with the timeline for fund transfers as prescribed by GoI guidelines. Automated alerts should be developed within the treasury and SEGF systems to flag impending deadlines for fund transfers.*
2. *Automated processes in NREGASoft should be implemented to calculate, verify, and release delay compensation without manual intervention. Programme Officers should be trained on using NREGASoft effectively and maintaining accurate records of delay compensation approvals/rejections.*
3. *Responsibility should be fixed for inadmissible use or diversion of funds. A mechanism for periodic reviews of liability clearance, fund utilisation and reconciliation of accounts should be established to ensure funds are used strictly as per the MGNREGS guidelines and independent audits should be assured.*

