

# Chapter - 5

## Financial management

### 5.1 Funding of the Scheme

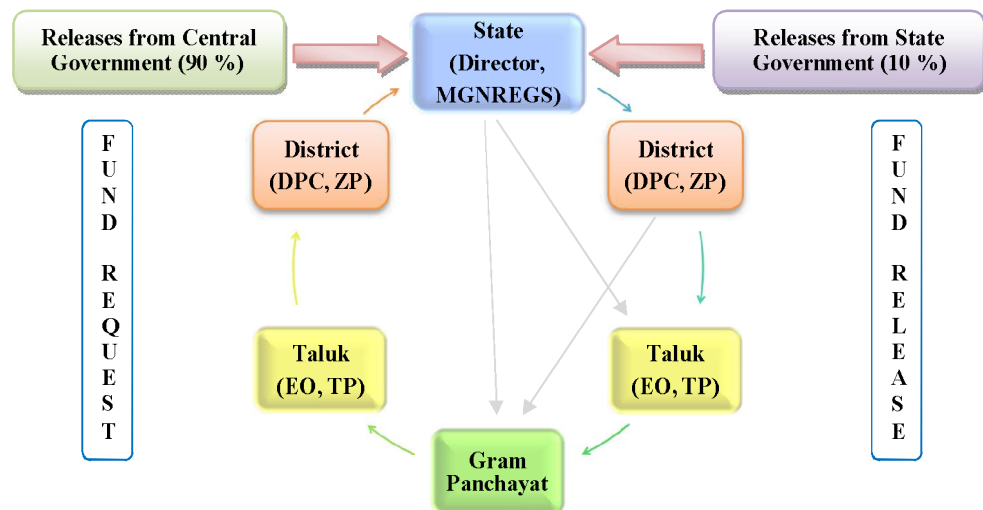
Funding under the Scheme is regulated by the 'National Employment Guarantee Fund Rules 2006' and the 'Karnataka State Employment Guarantee Fund Rules, 2008'. The MGNREGS is a Centrally Sponsored Scheme (CSS) with the cost sharing between the Centre and the State in the ratio of 90:10. The funding pattern of the Scheme is summarised in **Table 1 (Paragraph 1.3)**.

The Operational Guidelines stipulate release of Central funds to the State in two tranches. The first tranche is proportional to the percentage of persondays projected for the first six months of the year (up to September) in the labour budget but should not exceed 50 per cent of the total amount approved in the labour budget.

### 5.2 Fund flow

As envisaged in the Act, the State Government framed (July 2008) the Karnataka State Employment Guarantee Fund Rules, 2008 and SEGF was registered (March 2009) as a society under the Karnataka Societies Registration Act, 1960. This fund was to be administered and expended as a revolving fund. The releases from the GoI and the State Government for implementation of the Act were parked in the bank account of this fund and distributed subsequently as advances to PRIs. The fund flow of the Scheme is depicted in **Chart 7**.

**Chart 7: Fund flow under MGNREGS**



The GPs could receive funds either directly from the fund at the State level or from ZP or from the TP. Thus there was no uniformity in flow of funds to GPs which resulted in inadequate monitoring of the GP accounts.

The State Government explained (January 2013) that initially the funds were released directly to GPs from the State fund. At times, due to dearth of funds, the amounts were released to ZPs for need based transfer to GPs. Thus uniformity in flow of funds could not be maintained because it led to locking up of funds. The situation would improve as electronic Funds Management System (eFMS) was being introduced throughout the State.

The fact remained that there was lack of monitoring and uniformity in flow of funds during the period of audit.

### 5.3 Financial position

**5.3.1** As per the information furnished (January 2013) by the RDPR department, the financial position for the period of audit was as shown in **Table 5**.

**Table 5: Financial position under MGNREGS for the years 2007-12**

(₹ in crore)

Year	Opening Balance	Releases		Misc. receipts	Total fund availability	Expenditure	Closing Balance
		Central Govt	State Govt				
2007-08	124.63	268.52	25.54	0.56	419.25	236.51	182.74
2008-09	250.71	399.39	54.90	22.33	727.33	373.61	353.72
2009-10	353.42	2,407.08	253.72	24.58	3,038.80	2,216.93	821.87
2010-11	821.87	1,941.55	143.53	49.46	2,956.41	1,860.47	1,095.94
2011-12	1,095.93	662.88	159.06	37.82	1,955.69	1,640.99	314.70
<b>Total</b>	<b>2,646.56</b>	<b>5,679.42</b>	<b>636.75</b>	<b>134.75</b>	<b>9,097.48</b>	<b>6,328.51</b>	<b>2,768.97</b>

Source: As furnished by the RDPR department

The expenditure incurred under the Scheme increased significantly during the year 2009-10 and declined thereafter. The decline in expenditure would have an aggravated effect on employment generation in view of the progressive increase in wage rates over the years.

Audit noted that there were differences between the closing balance and opening balance adopted for the succeeding year which were attributed (June 2013) to carry forward of unspent balances of closed schemes viz., SGRY and NFFWP. As per the statement furnished (July 2012) by RDPR department on an earlier occasion, the total availability of funds during 2007-12 was ₹9,065.71 crore and expenditure incurred was ₹6,271.82 crore. It was also seen that there were huge differences in reporting of funds availability and expenditure at the district levels as detailed in **Appendix 5** and **Appendix 6** respectively. The RDPR department did not have any independent data other than the MIS data. The reasons for the variation were not furnished.

**5.3.2** The details of releases, expenditure and unspent balances of test-checked districts during 2007-12 as per MIS are given in **Table 6**.

**Table 6: Financial position in test-checked districts for the years 2007-12**

(₹ in crore)

Year	Opening Balance	Releases	Miscellaneous receipts	Total fund availability	Expenditure	Closing Balance
2007-08	20.09	90.85	0.00	<b>110.94</b>	<b>37.80</b>	73.14
2008-09	78.63	101.93	0.00	<b>180.56</b>	<b>80.94</b>	99.62
2009-10	107.98	454.01	6.55	<b>568.54</b>	<b>573.24</b>	-4.70
2010-11	123.43	477.80	1.57	<b>602.80</b>	<b>513.38</b>	89.42
2011-12	120.36	334.90	2.95	<b>458.21</b>	<b>544.18</b>	-85.97
<b>Total</b>		<b>1,459.49</b>	<b>11.07</b>	<b>1921.05</b>	<b>1,749.54</b>	

Source: MIS and Annual Reports (2007-08 and 2008-09), RDPR department

Audit observed that there were negative closing balances during the years 2009-10 and 2011-12 due to booking of anticipated expenditure (expenditure in pipeline). The State Government stated (June 2013) that these discrepancies were rectified.

#### 5.4 Transfer of funds

##### 5.4.1 Differences in amounts transferred to PRIs

The funds were transferred to the concerned ZPs/TPs/GPs through Scheduled Banks and Rural Banks through electronic means<sup>8</sup> from the fund account directly by the State Bank of Mysore (G-seva branch), Bangalore on the advice of the RDPR department. A review of the Scheme records and Chartered Accountants (CA) reports for the years 2009-11 showed that there were differences in the funds transferred and fund accounted for as shown in **Table 7**.

**Table 7: Differences in funds transferred**

(₹ in crore)

Year	As per SEGF Accounts	As per CA reports of ZPs	Difference
2009-10	2,364.23	2,358.88	5.35
2010-11	1,922.93	1,920.40	2.53

Source: Scheme records and CA reports for the years 2009-11

During 2009-10, ₹7.06 crore was transferred to nine ZPs<sup>9</sup> from State Fund but as per CA reports of ZPs but only ₹2.16 crore was credited to their bank accounts. The balance of ₹4.90 crore was not credited.

Gulbarga ZP had accounted (2009-10) ₹1.25 crore as other receipts received on-line from the State Government though there was no corresponding transfer from the State fund.

<sup>8</sup> National Electronic Fund Transfer (NEFT) and Real time Gross Settlement (RTGS)

<sup>9</sup> Bangalore Rural, Belgaum, Bellary, Bijapur, Chikkaballapur, Hassan, Ramanagara, Shimoga and Tumkur

A sum of ₹1.85 crore transferred (2009-10) from SEGF account to nine ZPs<sup>10</sup> was not credited to their bank accounts. Further, huge variations were noticed in the test-checked GPs between the balances exhibited in the cash book and the balances exhibited in the MIS.

The State Government attributed (January 2013) these to wrong account numbers, incorrect IFSC<sup>11</sup> and stated that action had been taken to get the correct account numbers and switch over to MIS based electronic payment system.

#### 5.4.2 Non-reconciliation of balances in the Fund

Scrutiny of the SEGF cash book and bank pass sheets for the period from 2009-10 to 2011-12 at the State level showed that huge amounts transferred to the bank accounts at districts had been credited back to the Fund due to a variety of reasons such as wrong account number, wrong IFSC, etc. The details of the amounts credited back to the fund account are given in **Table 8**.

**Table 8: Details of amounts credited back to the Fund**

(₹ in crore)

Year	Total amount transferred	Total amount credited back to the Fund	Percentage
2009-10	2,364.23	125.70	5.32
2010-11	1,922.93	171.35	8.91
2011-12	1,410.82	144.78	10.26
<b>Total</b>	<b>5,697.98</b>	<b>441.83</b>	<b>7.75</b>

Source: Information collected from the CA reports and pass sheets

The State Government stated (January 2013) that amounts were credited back due to wrong account numbers, incorrect branch codes and non communication of RTGS returns by the bank representatives. It was also stated that action had been taken to obtain the details of RTGS returns and bank authorities had been instructed not to re-transfer the amounts without the knowledge of the Directorate, MGNREGS. The fact, however, remained that implementing agencies were deprived of the funds required for taking up the works as per the approved plans which would have adversely impacted the implementation of the Scheme.

The SEGF balances as per the cash book had never been reconciled with those of the bank pass sheets. The differences between the closing balances as per cash book and bank pass sheet during 2009-12 are shown in **Table 9**.

**Table 9: Differences between cash book and bank pass sheet**

(₹ in crore)

Year	Balance as per		Difference
	Cash book	Bank pass sheet	
2009-10	395.78	404.02	(-) 8.24
2010-11	582.82	589.98	(-) 7.16
2011-12	0.76	13.43	(-) 12.67

Source: Cash books and bank pass sheet

<sup>10</sup> Bagalkote, ChamaraJanagar, Dharwad, Gadag, Gulbarga, Kodagu, Mandya, Mysore and Uttara Kannada

<sup>11</sup> IFSC- Indian Financial System Code under which each bank branch is assigned unique code

The State Government stated (January 2013) that the differences between bank pass sheet balances and the cash book balances occurred primarily due to non-reconciliation of GPs' accounts with their respective banks. Instructions had been issued for regular reconciliation of GP accounts with balances at banks. It was also stated that the differences between the bank pass sheet balances and cash book balances were arrived at and a decision was taken (August 2012) to raise the cash book balance. Accordingly, entries were made in the cash book.

The reply was not acceptable as documentary evidence in support of the reply was not produced and adopting the bank pass sheet balances in the cash book without reconciliation was not only highly objectionable but was also fraught with the risk of misappropriation.

#### **5.4.3 Non-reconciliation of funds transferred within PRIs**

Scrutiny of financial statements of ZPs showed transfer of funds within the PRIs on a substantial scale. Such transfer of funds from ZPs to TPs, from TPs to GPs and *vice versa* needed to be properly tracked and reconciled to ensure that there were no missing credit/transfers. Proper controls and tracking system were not in place as seven ZPs had transferred ₹99.14 crore and eight ZPs had transferred ₹178.47 crore to other ZPs during 2009-10 and 2010-11 respectively, without the approval of RDPR department. Further, during 2010-11 eight ZPs did not account for inter-ZP transfer of funds correctly, resulting in short and excess accounting of receipts of ₹47.96 lakh and ₹83.42 lakh, respectively.

The State Government stated (January 2013) that the State fund was created during 2009-10 and districts were asked to return the amount to the State fund as there was delay in getting funds from the Centre. Thus, seven districts had transferred a total sum of ₹99.14 crore to the State fund account. It was also stated that the concerned ZPs had been directed to reconcile the figures. The reply was not acceptable as the failure pointed out in audit was one of unauthorised inter-ZP transfer of funds.

**5.4.4** In respect of nine GPs<sup>12</sup> in Shirahatti taluk (Gadag district), discrepancies ranging from ₹0.43 lakh to ₹44.12 lakh were noticed between the figures of receipts/expenditure exhibited in the MIS and cash book.

The State Government stated (January 2013) that discrepancies had since been rectified in the MIS and cash book. However, documentary evidence in support of the reply was not produced.

### **5.5 Irregular investment of funds**

According to the Operational Guidelines, funds received from Central and State Government are to be kept in Savings Bank account only and these are not to be invested in fixed or term deposit. However, Belgaum ZP had invested ₹ five crore in term deposit during 2008-09 and Deputy Conservator

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<sup>12</sup> Adarakatti, Balehosur, Bannikoppa, Bellatti, Doddur, Koganur, Magadi, Shigli and Vadavi

of Forest, Social Forestry under Bangalore Rural, ZP had kept ₹30 lakh in fixed deposits during 2010-11.

The State Government stated (January 2013) that such instances happened at the initial stage of Scheme implementation. The said amounts were subsequently withdrawn from the fixed deposit and proceeds were credited to MGNREGS account of the respective districts. It was also stated that such practice had been strictly stopped and there was no such case since then.

### 5.6 Non-remittance of statutory recoveries

The CA had observed in the annual accounts of SEGF account for the year 2009-10 that out of ₹5.09 crore recovered towards statutory deductions (Income tax, royalty, etc.) by the implementing agencies, only ₹3.17 crore was remitted to the concerned heads of accounts, resulting in non-remittance of ₹1.92 crore.

The State Government stated (January 2013) that action would be taken to remit the statutory recoveries.

### 5.7 Financial audit

The Operational Guidelines stipulate that the accounts of MGNREGS should be audited by the Local Fund Auditors or the CAs and the Utilisation Certificate (UC) along with the Audit Report of the previous year should be submitted by the State Government to the GoI latest by 30 September next year. The State Government had appointed CAs for the audit of accounts of ZPs (including TPs and GPs) and also for SEGF account. There were delays in submission of UCs and Audit Reports of the fund account for the years 2009-10 and 2010-11. These were submitted to the GoI by the RDPR department during February 2011 and January 2012 respectively.

The State Government stated (January 2013) that the delay was due to verification and consolidation of financial statements/UCs submitted by the implementing agencies.

The reply was not acceptable as the implementing agencies were required to close the annual accounts within three months from the closure of the financial year, as stipulated in ZP (Finance and Accounts) Rules, 1996.

### 5.8 Drawal of funds on self cheques

The codal provisions<sup>13</sup> prohibit the drawal of Scheme funds through self cheques. It was, however, seen that an amount of ₹19.30 lakh was drawn on self cheques in three<sup>14</sup> test-checked GPs. Drawal of funds on self cheques was fraught with the risk of misuse.

<sup>13</sup> Paragraph 72 of Karnataka Financial Code

<sup>14</sup> GP Honnavara (Hassan ZP) – ₹2.02 lakh; GP Hosur Sampekatte (Shimoga ZP) – ₹12.55 lakh; and GP Manur (Bijapur ZP) – ₹4.73 lakh

### 5.9 Unaccounted expenditure

The Operational Guidelines provide for the practice of ‘monthly squaring of accounts’ to reduce the risk of financial leakages, and to promote transparency and accuracy in fund management. This consists of verifying that all the money released under MGNREGS is accounted for under the three heads viz., money held in bank accounts at various levels, advances to implementing or payment agencies, and vouchers of actual expenses. Audit scrutiny showed that GPs, Manur and Chattaraki of Sindagi taluk (Bijapur district) had issued cheques aggregating ₹12.61 lakh to four individuals during May 2009 to March 2010. However, no documents were available in support of these payments. The possibility of misappropriation cannot be ruled out.

Eight cheques aggregating ₹8.13 lakh issued (March 2011) by GP, Rampura, Sindagi taluk, Bijapur district had been credited by the bank to a suspense account, instead of paying to the parties concerned. Verification of the cash book for the period did not indicate the payees and the purposes for which these cheques had been issued. Only the cheque numbers and the amounts had been written in the cash book. In the absence of these details, Audit could not verify the purpose for which these cheques had been issued.

As seen from the pass book of the bank account of GP, Tirumani, Gudibande taluk, Chikkaballapur district, a sum of ₹9.48 lakh had been transferred to unknown accounts in 15 transactions during 2010-12. However, these transactions had not been entered in the cash book of GP and also no supporting documents were furnished to Audit. The possibility of misappropriation of Scheme funds could not be ruled out. The Secretary of the GP accepted (May 2012) that records in support of these transactions were not available in the GP.

The State Government stated (January 2013) that action had been initiated to recover the amount. It was also stated that the amount of ₹8.13 lakh credited to a suspense account in GP, Rampura of Sindagi Taluk had been transferred to the respective parties’ accounts and reply from the Chief Executive Officer (CEO), ZP, Chikkaballapur was awaited. However, instructions had been given to take action in the matter. It was further stated that Karnataka was switching to full scale electronic payment system *i.e.* eFMS, whereby such cases would be eliminated.

The reply was silent as to why a suspense account was required at all and details of clearance of the balances from the suspense account were not made available to Audit.

Audit also pointed out that the expenditure charged to administrative expenses in RDPR department included travel expenses (flight tickets) of ₹11.79 lakh towards MGNREGS mela conducted (February 2011) at Delhi, for which tickets and boarding passes were not made available to it. The fact remains that audit could not vouchsafe the expenditure in the absence of supporting documents. The State Government accepted (January 2013) this fact.

### 5.10 Unauthorised administrative expenses

The Act provides for incurring of administrative expenses on items contingent to administration and monitoring of the Scheme. Audit noted in RDPR department and two test-checked ZPs (Bijapur and Chikkaballapur) that expenditure of ₹30.45 lakh<sup>15</sup> was incurred on items such as tour expenses, purchase of computers, furniture, *etc.*, which were not part of the Scheme contingencies.

The State Government stated (January 2013) that the expenditure was incurred with the approval of the competent authority. The reply was not acceptable as administrative expenses are to be confined to only those items which bear a direct and logical link to the objectives of the Scheme.

### 5.11 Non-transparency in procurement

As per Karnataka Transparency in Public Procurements Act, 1999 (KTPP Act) purchases exceeding ₹ one lakh should be made on tender basis. In contravention, purchase of computers, laptops and other peripherals amounting to ₹12.54 lakh was made by ZP, Chikkaballapur without calling for tenders.

The State Government stated (January 2013) that purchases in Chikkaballapur district were made at different stages, based on the requirement. Hence all the purchases were not made at a single stretch. The reply was not acceptable as the provisions of KTPP Act were not followed.

Scrutiny of records of ZP, Chamarajanagar showed that 41 GPs had purchased 1,452 name boards during 2010-11 at a cost of ₹31.22 lakh without following the prescribed purchase procedure besides making an excess payment of ₹17.76 lakh. It was also seen that five kits had been purchased by five GPs during 2010-11 at a cost of ₹2.22 lakh without following prescribed purchase procedure. CEO, ZP, Chamarajanagar found (December 2011) that the rate paid for these kits was very high and fixed a lower rate, necessitating recovery of ₹1.28 lakh from the persons responsible for irregular purchases.

The State Government stated (January 2013) that a sum of ₹16.55 lakh had been recovered and action would be taken to recover the balance of ₹2.49 lakh. It was further stated that entire expenditure under MGNREGS (including administration) was planned to be brought under eFMS which would resolve such issues in future.

### 5.12 Doubtful payments

Four test-checked taluks debited an expenditure of ₹2.13 crore<sup>16</sup> to the material component under the Scheme during 2009-12; however, none of the

<sup>15</sup> Bijapur-₹14.18 lakh; Chikkaballapur-₹10.88 lakh; RDPR department-₹5.39 lakh

<sup>16</sup> Bagepalli (Chikkaballapur district)- ₹10.75 lakh, Belur (Hassan district)- ₹86.59 lakh, Devdurga (Raichur district)- ₹5.16 lakh and Gudibande (Chikkaballapur district)- ₹110.55 lakh



selected GPs had maintained stock and issue register of materials and supporting vouchers for having made the purchases. In the absence of these, the genuineness of materials purchased or utilised on works could not be assessed in audit.

In Gudibande taluk, ₹93.30 lakh had been paid to only one supplier and ₹31.28 lakh in GP, Varlakonda was disbursed (2009-11) to two Bill Collectors working in the GP office. No supplies had also been received from these persons as there were no supporting vouchers for materials supplied. Further, these two Bill Collectors had also been engaged as labourers in four works executed during 2009-10 and wages of ₹0.36 lakh credited to their accounts.

The State Government stated (January 2013) that the GPs of Belur taluk had maintained stock register of materials, but no register was maintained in respect of purchases made locally. The reply of the department is, however, silent about the supporting vouchers for purchases made which is mandatory for ensuring the genuineness of purchases.

It was seen from the CA's report of ZP, Bidar that vouchers for an expenditure of ₹2.90 crore, incurred during the year 2010-11, had not been furnished for verification.

The State Government stated (January 2013) that instructions had been issued to the CEO, ZP to take necessary action.

### **5.13 Points noticed in Information System audit–Financial management**

The details of the bills relating to procurement of material are also captured on the MIS. The audit observations in this regard are as follows:

- In 4,004 material bills relating to 2011-12, payment of ₹13.79 crore had been made for materials where bills were not available in the material purchases table.
- The product of rate and quantity did not match the amount for individual items in 3,562 material bills. The amount in 2,362 bills was lower than the product of rate and quantity by ₹198.55 crore and higher than the product of rate and quantity by ₹39.20 lakh in the case of the remaining 1,200 bills.

In the test-checked districts, the amount in 642 bills was lower than the product of rate and quantity by ₹41.40 crore and higher than the product of rate and quantity by ₹14.44 lakh in another 370 bills.

- Though MIS has provision for entering the names of the suppliers which facilitate availability of details of vendor-wise payments and the monitoring of such payments, the vendors' details had not been entered in 12.41 lakh bills involving ₹1,717.17 crore. Instead, the vendor's ID has been entered as 'local'. Of these bills, the vendor's ID had been edited and changed to 'local' in 8.50 lakh bills for which an amount of ₹1,290.93 crore had been paid.

In the test-checked districts, vendors' details had not been entered in 3.32 lakh bills involving ₹446.45 crore.

The State Government stated (January 2013) that in case of materials purchased from departments like Horticulture, Forest, *etc.*, the vendor name was considered as local. The reply was not acceptable as the authenticity of purchases and payments made could not be ensured in the absence of vendor's details.

- In eight test-checked districts, there were 555 bills for supply of materials, for which ₹1.63 crore had been paid during 2009-12. These had been deleted from the MIS after payment. These deletions had been made after 0 to 379 days of payment.
- In respect of 1,819 material bills, payment of ₹6.69 crore had been entered in the MIS towards supply of materials in eight test-checked districts but the unique codes of works against which these payments were entered could not be traced to works master table or materials purchase table. As a result, the genuineness of the payments could not be assessed in audit.