

Audit Approach, Previous Performance Audit Findings and Organisation of Current Audit Findings

2.1 Audit Approach

2.1.1 Audit Methodology

The Ministry of Rural Development (the Ministry) made a request for audit of the Scheme in November 2011. Considering the importance, financial outlay and impact of the Scheme, a performance audit was conducted. After preparation of audit guidelines, the performance audit commenced with an entry conference with the Ministry on 1 May 2012, where the audit methodology, scope, objectives and criteria were discussed.

In order to assess the economy, efficiency and effectiveness of processes related to the implementation of MGNREGS, the audit procedure included inspection of various records, procedures and also physical inspection of selected works at the gram panchayat (GP) level. A beneficiary survey was also conducted with the help of a structured questionnaire designed to capture the perception of the beneficiaries about the Scheme. The audit was conducted at the block, district and state level and also at the Ministry of Rural Development. After the conclusion of audit and the consolidation and analysis of audit findings, an exit conference was held with the team of the Ministry headed by Minister of Rural Development on 24 December 2012, in which the draft audit findings and recommendations were discussed. In addition, exit conferences were also held with the state governments, where the state-specific findings were discussed.

2.1.2 Audit Objectives

Performance audit was undertaken to ascertain whether:

- Structural mechanisms were put in place and adequate capacity building measures were taken by the Central and state governments for implementation of the Act;
- Procedures for preparing perspective and annual plan at different levels for estimating the likely demand for work, and preparing shelf of projects, were adequate and effective;
- Funds were released, accounted for and utilised by the Central and state governments in compliance with the provisions of the Act and other extant rules;
- Process of registration of households, allotment of job cards, and allocation of employment in compliance with the Act and rules was effective;

- Primary objective of ensuring the livelihood security was provided by giving 100 days of annual employment to households in rural areas on demand and wages as declared, were paid;
- MGNREGS works were efficiently and effectively executed in a time-bound manner and in compliance with the Act and Rules, and durable assets were created, maintained and accounted for;
- Convergence of the Scheme with other rural development programmes as envisaged was effectively achieved in enhancing the employment opportunities under MGNREGS;
- All required records at various levels were properly maintained and MGNREGS MIS data was accurate, reliable and timely;
- Transparency was maintained by involving all stakeholders in various stages of its implementation; and
- Effective mechanism at Centre and state level existed to assess the impact of MGNREGS on individual households, local labour market, migration cycle and efficacy of assets created.

2.1.3 Audit Criteria

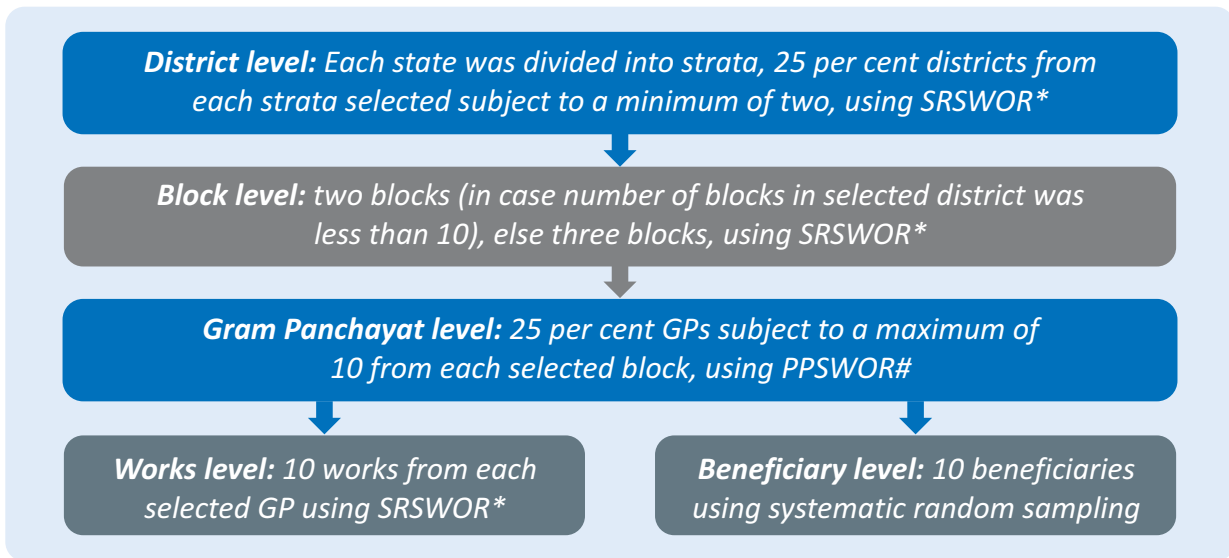
The main sources of audit criteria for the performance audit were:

- National Rural Employment Guarantee Act-2005 (the Act) and amendments thereto;
- Operational Guidelines 2006 and 2008 issued by Ministry of Rural Development, GoI;
- The National Employment Guarantee (Central Council) Rules, 2006;
- The National Employment Guarantee Fund Rules, 2006;
- The Mahatma Gandhi National Rural Employment Guarantee Audit of Schemes Rules, 2011;
- Circulars issued by MoRD regarding the Scheme;
- Guidelines/checklist for internal monitoring by states;
- Scheme Rules, Schedule of Rates and performance indicators framed by state governments/UTs; and
- General Financial Rules (GFRs), 2005.

2.1.4 Audit Scope and Sample

The performance audit covered activities under the Scheme from 2007-08 to 2011-12 in 28 states and four Union Territories. The sample was selected using stratified multi stage sampling design i.e., selection was at district, block, gram panchayat (GP), works and beneficiary level. The sampling plan used is shown in **Chart-6** below.

Chart-6 : Sampling Plan



*SRSWOR: Simple Random Sampling Without Replacement

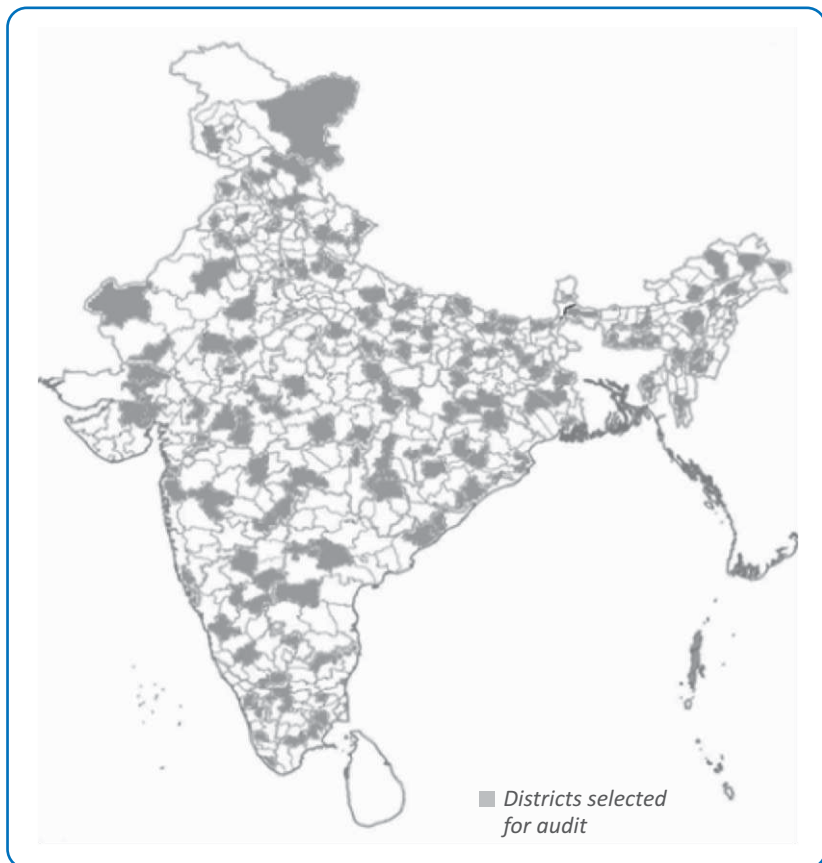
PPSWOR: Probability Proportional to Size Without Replacement

As a result of the sampling plan, the total sample size was as follows:

- 28 states and four Union Territories;
- 182 districts;
- 458 blocks within the selected districts; and,
- 3,848 GPs¹ in the selected blocks.

Details of the sample selected are given in **Annexes-2A and 2B**. The coverage of the districts is depicted in the map below. The districts shaded in gray were selected under the sample plan.

Map : 1 Selected districts under sample plan



¹ Village development board (VDB) in Nagaland, village council (VC) in Mizoram, village dweep panchayat (VDP) in Lakshadweep, are equivalent to gram panchayat (GP) in other states/UTs

2.2 Previous Audit Findings

Performance audit of MGNREGS for the period February 2006 to March 2007 was conducted in 2007-08 and the findings reported to Parliament through Report No. PA 11 of 2008 (Union Government - Performance Appraisal). The main findings were as follows:

- According to the Ministry's figures, 3.81 crore households had registered under the Act. Out of these, while 2.12 crore households had demanded employment, 2.10 crore households were provided employment during 2006-07. However, the Ministry's figures cannot be said to be very reliable or verifiable, as the record maintenance particularly at the GP level, was poor. There was a high probability of only partial capture of the demand for work.
- The applications for work were to be submitted primarily at the gram panchayat, though the applications for work could also be submitted to the Programme Officer of the block. Besides, 50 *per cent* of the works were to be allotted to GP. It was therefore crucial to maintain proper records of employment demanded, employment provided, number of days of employment generated, entitlement for employment allowance, etc. It was noticed that the maintenance of basic records at the GP and block levels was poor, as a result of which the authenticity of the figures of employment demanded, employment provided, number of days of employment generated, entitlement for employment allowance, etc. could not be verified in audit. Significant deficiencies were also noticed in maintenance of muster rolls.
- Photographs on job cards represent an important control against fraud and misrepresentation. There were significant delays in affixing photographs on the job cards.
- As the applications for demand for work were not documented or dated, and dated receipts for such applications were not issued in most cases, the eligibility of rural households for unemployment allowance, in these cases, was unverifiable.
- There were several cases of delayed payment of wages, for which no compensation was paid. There were also instances of non-payment of unemployment allowance which became due to the employment seekers.
- Deficiencies were noticed in the set up of implementing machinery, particularly at the block and GP levels like non-appointment of full-time Programme Officers and non-appointment of Gram Rozgar Sewaks. This insufficiency of manpower, particularly at GP level, had adverse impact on the maintenance of records at GP level, which made it difficult to verify compliance with the legal guarantee of 100 days of employment on demand.
- There were deficiencies in the planning process, particularly in the preparation of five years district perspective plans (DPPs).
- Most states had not prepared district-wise Schedule of Rates and had adopted the Schedule of Rates of PWD/Rural Development Department, which may not necessarily

ensure minimum wages for seven hours of work by labourers of weaker build like women in difficult geomorphological conditions.

- The systems for financial management and tracking were deficient, with significant cases of failure to conduct monthly squaring and reconciliation of accounts. Several instances of diversion and misutilisation of funds and non-rendering of utilisation certificates and expenditure details were noticed.
- The status of inspection of works at the state, district and block levels was poor, and most states had not designated State and District Quality Monitors. Also, in most cases, gram sabha was not held twice a year to conduct Social Audit Forums.

2.3 Action taken reported by the Central and State Governments on the Observations/Recommendations as reported (February 2011) by Ministry of Rural Development to the Public Accounts Committee based on the findings of the CAG's Performance Audit Report:

- All state governments had constituted State Employment Guarantee Council (SEGC) and formulated State Rural Employment Guarantee Scheme as per provisions of MGNREGA.
- The Ministry constituted different working groups to recommend measures to strengthen implementation of the Scheme. The deficiencies brought out by Audit would be taken care of by these working groups. On submission of the reports by the working groups Ministry would take necessary follow up action and wherever considered necessary appropriate amendments in the Act as well as Operational Guidelines would be made.
- Government of India had approved enhancement of administrative expenses from four to six *per cent* of the annual cost of implementing MGNREGA. The state governments had also been advised to utilize enhanced administrative expenses in a way that responds to the needs of the districts.
- State governments had been allowed to engage staff on contractual basis as per the requirements.
- Format for National Level Monitors (NLMs) monitoring had also been prescribed and updated regularly to capture all relevant statutory information as per feedback received from different sources.
- The Ministry had also taken up the issue of strengthening Information, Education and Communication (IEC) activities through All India Radio.

- Working Group on Wages would look into issues related to non-payment of minimum prescribed wages under the Act. Appropriate steps would be taken by the Ministry on receipt of recommendations of the group.
- The Ministry had taken up the issue of inadequate staff with both Department of Posts (DoP) and Department of Financial Services (DFS). The Planning Commission had sanctioned funds to DoP to strengthen its infrastructure including engaging staff in rural post offices to cope with the increased quantum of work regarding disbursement of wages to the workers under MGNREGA.
- Ministry had permitted state governments to explore the possibility of engaging business correspondents in inaccessible areas where outreach of post offices and banks was not available.
- Regarding per account payment to Department of Posts, pursuant to the Ministry's initiative, Ministry of Finance had effected changes in Post Office Saving Accounts (Second Amendment) Rules, 2008 and accordingly no deposit was required for opening of single/joint account of the workers of MGNREGS.
- Appropriate measures would be taken to amend the Operational Guidelines on receipt of recommendations of the working groups regarding measurement of work.
- NLM Division in the Ministry would be advised to ensure that National Level Monitors cross verify Monthly Progress Reports (MPRs) furnished by Programme Officers along with documents furnished by GPs to POs during their visits.
- Conducting of social audit as per the statutory provisions was prescribed as one of the conditions before release of funds to the state governments on the basis of projections outlined in the labour budget. Financial Rules, 2009 would also include conducting of social audit as per the statutory provisions as one of the conditions for release of Central funds to the state governments/union territories.
- Ministry had also instructed state governments/UTs to set up the office of Ombudsman to effectively and expeditiously deal with grievances. Progress in this regard was being regularly monitored.
- As part of transparency and accountability, Ministry had selected 61 eminent citizens for independent monitoring of the Mahatma Gandhi NREGA.
- The states would once again be advised to conduct prescribed level of inspections as well as constitute vigilance monitoring committee wherever it was not constituted.
- In addition, National Level Monitors would also be asked to ascertain compliance with the prescribed level of inspection by the state governments.
- The Ministry would conduct a study of best and good practices in states to explore the possibilities of their replication in the states/UTs. These would be shared with states and posted on NREGA website.

- The Ministry would conduct comprehensive review to examine reasons for wide variation in implementation in consultation with states and take appropriate corrective/remedial measures.
- The Ministry in consultation with Ministry of Finance had extended the benefits of the Janashree Bima Yojana to the MGNREGS workers and states had been advised to take necessary action to cover workers under the Janashree Bima Yojana.
- The Ministry would examine the recommendation of the Committee to suitably enhance the *ex gratia* amount and effect necessary amendment in the MGNREGA.

2.4 Organisation of Current Audit findings

The audit issues have been analysed from a nation-wide perspective and only brief, summarized information on findings in different states are provided. Audit findings are reported in 14 different chapters. Chapters 1 and 2 of this Report give a brief overview, and the audit methodology adopted to arrive at the audit findings. In chapter 3 we have narrated the audit findings related to planning aspects of the Scheme. Chapter 4 details the lapses in capacity building under the Scheme and chapter 5 brings out irregularities in financial management of the Scheme. Chapter 6 highlights the lacunae in processes relating to issue and maintenance of job cards and chapter 7 gives the picture under the employment generation objective. Chapter 8 deals with the lapses observed in execution of works taken up by the states under the Scheme. Chapter 9 covers the convergence aspects of the Scheme. Chapter 10 deals with the lapses in maintenance of records and chapter 11 highlights the lapses in the monitoring and evaluation of the Scheme. A separate chapter 12 has been devoted to findings related to the IT audit of NREGASoft/MIS. Chapter 13 relates to the findings of the interviews with the beneficiaries. Chapter 14 outlines the conclusions of the performance audit. State-specific highlights are given in **Annex-13**. In this annex summary of findings pertaining to a particular state have been presented for all 28 states and four UTs.

2.5 Acknowledgement

Audit acknowledges the cooperation and assistance extended by the Ministry, state governments, implementing departments and their officials, Panchayati Raj officials, Central Employment Guarantee Council and State Employment Guarantee Councils at various stages during conduct of the performance audit.

