

CHAPTER - V

GENERAL SECTOR

5.1 Introduction

This Chapter of the Audit report for the year ended 31 March 2013 deals with the findings on audit of the State Government units under General Sector.

The names of the State Government departments and the total budget allocation and expenditure of the State Government under General Sector during 2012-13 are given below:

Table No. 5.1.1

(₹ in crore)

Name of the departments	Total Budget allocation	Expenditure
State Legislature	43.84	38.93
Head of State	4.23	4.23
Council of Ministers	9.98	9.83
Law & Justice	37.41	35.76
Election	21.45	21.32
Public Service Commission	4.57	4.41
Civil Secretariat	116.66	116.06
District Administration	173.75	113.55
Treasuries and Accounts	28.79	28.11
Police	874.74	849.33
Police Engineering Project	123.06	57.98
Village Guards	40.93	35.49
Jails	28.09	26.68
Stationery & Printing	16.10	15.09
Public Works(Housing)	103.89	133.25
CAWD	58.24	56.79
Mechanical Engineering	33.30	33.70
Home Guards	18.79	18.29
Vigilance Commission	4.51	4.48
Administrative Training Institute	4.97	4.75
Fire and Emergency Services	18.90	13.97
State Guest Houses	9.88	10.02
State Information Commission	1.25	1.23
Finance Department	3527.44	3502.20
Land Revenue	0.72	0.62
State Excise	15.61	15.60
Sales Tax	17.95	14.60
Taxes on Vehicles	13.64	14.71
State Lotteries and Small savings	2.0	2.0
Total number of departments=29	5354.69	5182.98

5.2 Planning and Conduct of Audit

Audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stake holders.

After completion of audit of each unit on a test check basis, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled based on reply/action taken or further action is required by the auditee for compliance. Some of the important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit reports, which are submitted to the Governor of State under Article 151 of the constitution of India for being laid on the table of the Legislature.

During the year, test-check of audits involving expenditure of ₹1288.69 crore (including funds pertaining to previous years audited during the year) of the State Government under General sector were conducted. This chapter contains findings of audit on Procurement and Distribution of Ration in Police Department and three compliance audit paragraphs.

HOME (POLICE) DEPARTMENT

5.3 AUDIT ON PROCUREMENT AND DISTRIBUTION OF RATION

Highlights:

Estimation and provisioning were not commensurate with the actual feeding strength which had resulted in excess expenditure of ₹ 29.20 crore without corresponding benefits to the personnel. There were instances of payments without actual receipt of materials by the Police Central Store and in the selected units.

(Paragraphs 5.3.6.1 to 5.3.6.7)

Budgeting was unrealistic as in all the years from 2008-09 to 2012-13 the actual expenditure exceeded the original budget ranging from 19 *per cent* to 91 *per cent*. The actual expenditure also exceeded the revised estimates by 77 *per cent* and 40 *per cent* in 2011-12 and 2012-13 respectively.

(Paragraph 5.3.7)

Against the actual liability of ₹ 12.16 crore for procurement of ration during 2008-09 to 2011-12, an amount of ₹ 16.45 crore was incurred resulting in fictitious clearance of liability to the tune of ₹ 4.29 crore.

(Paragraph 5.3.7.1)

The contracts were awarded based on limited tender involving very few contractors. Hence, competitive rates were not obtained which indicate possibility of cartelization.

(Paragraphs 5.3.8.3)

The Department did not devise any system for evaluation of the quality and quantity of ration supplied to the personnel. Audit survey indicated that the personnel were not fully satisfied with the quality of ration issued and the frequency of issue was also found to be erratic. The samples of dry rations were never sent to the laboratory for testing. The storage facilities in all the selected units were found to be in dilapidated condition.

(Paragraphs 5.3.9.1 to 5.3.9.4)

5.3.1 Introduction

The Government of Nagaland, Home Department was providing free ration to the personnel till January 1993. It was thereafter dis-continued and a monthly ration allowance paid in lieu of free ration. However, the Government re-introduced the scheme for providing rations to the armed personnel from April 1998¹. The Director General of Police is entrusted with the responsibility of providing rations to the Nagaland Armed Police and the India Reserve Battalion by engaging contractors for supply of ration items. The items of rations are divided into two categories namely dry and wet. Dry items comprise of rice, atta, dal, sugar, tealeaf, ghee and dry chilly etc., whereas items like vegetables, meat, milk etc., constitute wet rations. It was the primary responsibility of the Home (Police) Department to provide wholesome and nutritious food to armed personnel to meet their calorific and nutritional requirements. While the Commandants were authorised to procure 12 dry and wet items at their level, four major items such as milk powder, vegetable ghee, dry chilly and tealeaf were procured centrally by the Police Headquarter. During the period from 2008-09 to 2012-2013, an amount of ₹ 167.58 crore was spent for procurement of rations.

5.3.2 Scope of Audit

The Audit was carried out in the Office of the Director General of Police and four Battalion Headquarters of the Nagaland Armed Police² and two India Reserve Battalions³ out of 15 Armed Battalions. Besides, records maintained in the Central Store and the Nagaland Armed Police Training Centre was test checked. The selection of Battalions was determined through sampling considering the factors like feeding strength and the proportion of expenditure incurred. An entry conference was held on 18 April 2013 which was attended by Deputy Inspector General of Police and officials from the Home Department. On completion of the audit, an exit conference attended by the Special Secretary Home, Government of Nagaland, Inspector General of Police (Hqr) and Officers of the Department was held on 23 September 2013 to discuss the findings of audit. The report was finalised after incorporating the replies of the Department at appropriate places.

¹ Vide Notification No.FIN/ROP/1/1998 dated 19 February 1998

² 1st NAP, 2nd NAP, 6th NAP and 7th NAP

³ 9th IRB and 13th IRB

5.3.3 Audit Objectives

The audit of the Procurement of Rations was carried out to assess whether:

- the system of provisioning of rations ensured realistic estimation of requirement without significant over or under procurement and stocking;
- budget estimates were reliable and the financial management was adequate and effective;
- the management of contracts was done in an efficient manner to ensure effectiveness and economy without compromising the quality.
- there exist an effective and well defined distribution system as per the prescribed scales, variety and qualitative standards. The storage facilities are adequate and were also in good condition.

5.3.4 Audit Criteria:-

The audit objectives were bench- marked against the criteria obtained from the following sources:

- Financial Rules
- Instructions/circulars/orders issued by the Government
- Police manuals
- Tender documents
- Quarterly and annual returns of the commanding officers

5.3.5 Acknowledgement

The Accountant General (Audit), Nagaland gratefully acknowledges the co-operation extended by the officers of the Director General of Police and the Commanding Officers.

5.3.6. Audit Findings

5.3.6.1. Provisioning and estimation of ration

Objective :1-The system of provisioning ensured realistic estimation of requirement for rations without significant over or under procurement and stocking.

Provisioning is the process of estimation of the annual demand for rations for which procurement is made. In view of the large feeding strength coupled with limited shelf life of the rations provided, correct estimation of requirement is a very important task. Realistic provisioning becomes extremely important from the point of view of inventory management as unrealistic provisioning can lead to over provisioning, which in turn causes wastage and leads to excess expenditure. The primary parameters for provisioning is the annual feeding strength taking into account the level of posted strength such as personnel on leave, retirement and the closing stock. During audit we found that the provisioning was done without considering the opening balance of stock, personnel on leave and personnel due for retirement.

During the period from 2008-09 to 2012-13 the total feeding strength in Nagaland Armed Police worked out to 2,82,86,449 mandays. However, during the same period estimation of funds was done taking into account the feeding strength as 2,88,62,375 which was in excess by 5,75,926 mandays as detailed in the table below:-

Table No. 5.3.1

Year	Feeding strength taken for estimation of funds	Actual Feeding strength	Excess feeding strength
2008-09	5182635	4983416	199219
2009-10	5919935	5651623	268312
2010-11	5919935	5844898	75037
2011-12	5919935	5896249	23686
2012-13	5919935	5910263	9672
Total	28862375	28286449	575926

Source: Departmental figure

The impact due to excess projection of mandays are discussed in the succeeding paragraphs.

The Department stated (September 2013) that the feeding strength projected is the sum average.

A. Dry Ration

5.3.6.2 Centrally procured dry ration

As per scale of ration per personnel per day the requirement of centrally procured dry rations such as Milk Powder, Ghee, Tea Leaf and Dry Chilly for the entire 16 units for the period from 2008-09 to 2012-13 is worked out as under:-

Table No. 5.3.2

Year	Centrally procured dry Ration		
	Quantity procured (in MT)	Quantity actually required (in MT)	Difference in quantity
2008-09	415.04	525.75	(-)110.71
2009-10	1363.04	596.25	766.79
2010-11	621.68	616.64	5.04
2011-12	958.01	622.05	335.96
2012-13	750.23	623.53	126.70
Total	4108	2984.22	1123.78

Source: Departmental records

As could be seen from the table above, against the actual requirement of 2984.22 MT dry ration during the last five years, the Department procured 4108 MT valued at ₹ 44.95 crore resulting in excess procurement of 1123.78 MT dry ration valued at ₹ 11.54 crore.

The Department in reply (September 2013) stated that the feeding strength projected by the Department stands correct. The reply is not based on facts and therefore, not acceptable as the actual monthly feeding strength obtained from all the 16 units is less than that projected by the Department.

5.3.6.3 Dry ration procured by units

During the period from 2010-13, the seven selected units required 4884.85 MT of three dry ration items such as Rice, Atta and Sugar. Against the requirements, the selected units procured 5073.40 MT resulting in excess procurement by 188.55 MT as detailed below:-

Table No. 5.3.3

Year	Dry Ration procured by units		
	Quantity procured (in MT)	Quantity actually required (in MT)	Difference in quantity
2010-11	1615.08	1600.61	14.47
2011-12	1738.41	1652.83	85.58
2012-13	1719.91	1631.41	88.50
Total	5073.40	4884.85	188.55

Source: Departmental records

The excess procurement of dry rations by the seven selected units resulted in excess expenditure of ₹ 4.25 crore.

The Department in reply (September 2013) stated that the feeding strength projected by the Department stands correct and also the feeding strength is never static considering the last ration certificates (LRCs) issued and received by the units and to base any findings on the feeding strength of one month would be erroneous and faulty. But the fact remains that the observation was based on the feeding strength of all the battalions for all the months in a year and was not based on the feeding strength of one month as mentioned by the Department in their reply.

B. Wet Ration

5.3.6.4 Shortfall in procurement

Similarly, the requirement and procurement of six wet ration items i.e. Dal, Potato, Onion, Fresh vegetables, MOH/Khasi and Pork in seven selected units during 2010-2013 were assessed in audit which revealed the following as detailed in **Appendix 5.3.1**.

As could be seen from the **Appendix 5.3.1** during the year 2010-13, against the requirement of 3552.66 MT of six wet ration items by five (6th NAP, 7th NAP, 9 IRB, 13 IRB and NAPTC) out of the seven selected units, only 3419.33 MT were procured resulting in shortfall of 133.33 MT. Thus, the possibility of the personnel being deprived of their entitled scale of wet ration cannot be ruled out.

In reply (September 2013) the Department while assuring that the matter will be looked into to ensure correct provisioning and procurement in future stated that the personnel availing leave, retirements and last ration certificates issued to other units should be considered.

The fact remains that assessment by the Department were done on static feeding strength whereas, audit assessments of the actual requirements were done purely on the basis of personnel available in respect of the seven test checked units after

considering the LRCs received from other units and also LRCs issued by the respective units to other units.

5.3.6.5 Excess procurement

During 2010-13, two out of the seven selected units procured excess wet rations as detailed below:-

Table No. 5.3.4

(Quantity in metric Tonnes and ₹ in lakh)

Name of the Battalion		Name of the items																		
		DAL			Potato			Onion			Veg			MOH Khasi			Pork			
Year	Required	Purchase	Shortfall/Excess	Required	Purchase	Shortfall/Excess	Required	Purchase	Shortfall/Excess	Required	Purchase	Shortfall/Excess	Required	Purchase	Shortfall/Excess	Required	Purchase	Shortfall/Excess		
1NAP	2010-11	30.01	28.46	-1.55	38.84	36.30	-2.54	19.42	18.16	-1.26	88.27	82.37	-5.90	35.31	32.45	-2.86	26.48	24.82	-1.66	
	2011-12	31.92	32.11	0.19	41.31	53.40	12.09	20.66	29.69	9.03	93.89	104.93	11.04	37.56	39.29	1.73	28.17	30.98	2.81	
	2012-13	33.16	41.40	8.24	42.91	53.14	10.23	21.45	26.54	5.09	97.52	120.72	23.20	39.01	48.61	9.60	29.26	36.10	6.84	
Sub-Total		95.09	101.97	6.88	123.06	142.84	19.78	61.53	74.39	12.86	279.68	308.02	28.34	111.88	120.35	8.47	83.91	91.90	7.99	
2NAP	2010-11	21.17	26.35	5.18	27.40	34.05	6.65	13.70	17.02	3.32	62.26	88.68	26.42	24.91	35.47	10.56	18.68	23.22	4.54	
	2011-12	22.53	42.10	19.57	29.16	49.27	20.11	14.58	24.90	10.32	66.27	103.00	36.73	26.51	57.50	30.99	19.88	36.29	16.41	
	2012-13	23.20	38.20	15.00	30.02	58.83	28.81	15.01	27.20	12.19	68.23	124.75	56.52	27.29	48.70	21.41	20.47	43.20	22.73	
Sub-Total		66.90	106.65	39.75	86.58	142.15	55.57	43.29	69.12	25.83	196.76	316.43	119.67	78.71	141.67	62.96	59.03	102.71	43.68	
Grand Total of six items		161.99	208.62	46.63	209.64	284.99	75.35	104.82	143.51	38.69	476.44	624.45	148.01	190.59	262.02	71.43	142.94	194.61	51.67	
Total of six items for three years in respect of two units												Actual requirement			Actually procured			Difference		
												1286.42			1718.20			431.78		

Source: Departmental records

As would be seen from above, against the requirement of 1286.42 MT of six wet ration items by the two units (1st NAP and 2nd NAP), 1718.20 MT were procured resulting in excess procurement of 431.78 MT involving ₹ 1.98 crore.

The Department in its reply (September 2013) stated that initially LRCs for personnel deployed in Delhi were issued against 1st and 2nd NAP. The reply is not acceptable as the requirements were assessed purely on the feeding strength of the units on that particular day/month which is inclusive of the LRCs received from other units and excluding LRCs issued by respective units. The feeding strength obtained from the 1st and 2nd NAP also did not indicate any abnormal increase in the feeding strength during that period.

5.3.6.6 Payment without actual receipt

The Director General of Police centrally procures four dry items as per the feeding strength of each respective battalion. Test check of records revealed that the Director General of Police procured 4107.99 MT of four items involving a total expenditure of ₹ 44.69 crore for the units during the last five years as detailed below:-

Table No. 5.3.5

(Quantity in Metric Tonnes)

Year	Total Quantity procured and paid as per bill				Quantity actually received by the Police Central Store, Chumukedima.			
Year	V.Ghee (Rasoi/Jindal)	Milk Powder (Gold/Nova)	Tea Leaf	Dry Chilly	V.Ghee (Rasoi/Jindal)	Milk Powder (Gold/Nova)	Tea Leaf	Dry Chilly
2008-09	191.46	134.15	33.53	55.89	311.73	178.87	44.12	69.89
2009-10	670.75	367.10	77.22	247.97	325.93	89.14	34.98	81.38
2010-11	248.92	265.56	40.20	67.00	355.08	196.66	53.28	88.80
2011-12	503.30	242.11	101.60	111.00	355.34	196.81	53.28	88.80
2012-13	425.16	225.83	32.64	66.60	353.95	196.08	53.28	88.80
Total	2039.59	1234.75	285.19	548.46	1702.03	857.56	238.94	417.67
Total of four items	4107.99				3216.20			

Source: Departmental records

As could be seen from the above table, against the total procurement of 4107.99 MT of four items of dry ration, only 3216.20 MT of these four items valued at ₹ 33.26 crore were received by the Officer-in-Charge, Police Central Store (PCS). This resulted in excess payment of ₹ 11.43 crore without actual receipt of 891.79 MT of dry ration.

The Department in its reply (September 2013) stated that payments were made inclusive of the liability from the preceding financial year.

The reply is not acceptable as the total receipts during the year should be equal to the quantity actually paid as certified in the body of the supplier's bill even though payments were made in the subsequent year.

5.3.6.7 Discrepancy between issue by PCS and receipt by the units.

Out of 3216.20 MT received by the Officer-in-Charge, PCS, Chumukedima during 2008-09 to 2012-2013, a total of 1411.74 MT dry ration were distributed to the seven units test checked as per issue register of the Officer-in-Charge, PCS. Cross verification of the stock register maintained by the test checked units however, revealed that 1478.75 MT of these items were actually received by the seven units as detailed below:-.

Table No. 5.3.6

(Quantity in Metric Tonnes)

Year	Quantity issued by PCS to the seven selected units				Quantity actually received by the selected seven units.			
	V.Ghee (Rasoi/Jindal)	Milk Powder (Gold/Nova)	Tea Leaf	Dry Chilly	V.Ghee (Rasoi/Jindal)	Milk Powder (Gold/Nova)	Tea Leaf	Dry Chilly
2008-09	130.13	80.23	21.67	32.56	138.90	88.51	18.31	36.48
2009-10	146.37	76.97	25.96	33.87	173.16	88.20	22.57	37.18
2010-11	131.18	74.95	22.71	37.93	134.65	82.90	21.24	36.65
2011-12	153.54	83.37	22.96	39.37	153.01	83.23	21.25	36.10
2012-13	150.86	86.58	23.56	36.97	154.39	90.39	23.68	37.95
Total	712.08	402.10	116.86	180.70	754.11	433.23	107.05	184.36

Source: Departmental records

As could be seen from the table above, there is inconsistency between the items issued by the PCS and actually received by the test checked units as discussed below:-

- (i) During the last five years, the PCS actually issued 712.08 MT of Ghee against which the seven test checked units recorded receipt of 754.11 MT i.e. excess of 42.03 MT. Similarly against the actual issue of 402.10 MT of Milk Powder by the PCS, the seven test checked units recorded receipt of 433.23 MT i.e. excess of 31.13 MT. The seven test checked units also recorded an excess receipt of dry chilly by 3.66 MT.
- (ii) In respect of Tea Leaf against the actual issue of 116.86 MT by the PCS, the seven test checked units recorded receipt of 107.05 MT resulting in short receipt of 9.81 MT.

The discrepancies in distribution and receipt inter-alia indicated absence of proper accounting and management system in the Department.

The Department in reply (September 2013) stated that there is no discrepancy between issue by the PCS and receipts by the units. The Department further stated that due to law and order problem loans are provided for emergency duties. The Department also stated that failure of the units to keep proper records resulted in understatement/overstatement of ration actually issued.

The reply is factually incorrect as there were visible discrepancies between quantity issued by PCS and received by the units. Further the stock ledger of the PCS and the units indicated that loans given to the units were subsequently adjusted after deducting the quantity of loan given as and when rations were issued in the following months. As such, the discrepancies are not a result of the loan given but due to system failure.

5.3.7. Budgeting and financial management

Objective 2:-Budget estimates were reliable and the financial management was adequate and effective.

According to Note 3 of Appendix 3 under Rule 48 of General Financial Rules 2005, which is also being followed by the Government of Nagaland, the framing of the revised estimates for the current year should always precede estimation for the ensuing year. The revised estimate should be framed with great care to include only those items which are likely to materialise for payment during the current year. The budget estimates for the ensuing year should be prepared on the basis of what is expected to be paid under proper sanction during the ensuing year including arrears of previous years, if any.

While the actual feeding strength increased by 668207 and 193275 mandays over the previous year in 2009-10 and 2010-11 due to raising of two battalions, the feeding strength increased marginally by 51351 and 14014 mandays over the previous year in 2011-12 and 2012-13.

However, the position of budget estimates and the expenditure showed a mixed trend not commensurate with the feeding strength during the period covered in audit as shown below:-

Table No. 5.3.7

(₹ in crore)

IYear	Original Budget	Revised Budget	Actual Expenditure (₹ in crore)	Excess(+)Savings(-) over revised estimates	Percentage increase of expenditure over the original budget
2008-09	17.93	21.00	21.25	(+) 0.25	19
2009-10	20.52	39.26	39.26	0	91
2010-11	20.52	32.03	32.03	0	56
2011-12	20.52	20.52	36.34	(+) 15.82	77
2012-13	27.62	27.63	38.70	(+) 11.07	40
	107.11	140.44	167.58	(+) 27.14	57

Source:- Demands for Grants and Appropriation accounts

In all the years from 2008-09 to 2012-13 the actual expenditure incurred exceeded the original budget ranging from 19 to 91 *per cent* indicating that budgeting was unrealistic.

During the year 2011-12 and 2012-13 there was substantial increase of expenditure over the revised estimates by ₹ 15.82 crore (77 *per cent*) and ₹ 11.07 crore (40 *per cent*). The variations in expenditure were due to nominal increase in prices, incorrect estimation coupled with un-necessary excess procurement which contributed to increase in actual expenditure as discussed in paragraph 5.3.6.1 and in succeeding paragraphs.

The Department while accepting the facts (September 2013) stated that the budget provided by the Government was always less than the original projection and hence, this problem arose.

5.3.7.1 Fictitious liability

According to Rule 53 of General Financial Rules 2005, in order to maintain proper control over expenditure, a Controlling Officer should obtain from the spending authorities liability statements in Form GFR 6 every month, starting from the month of October in each financial year. The Controlling Officer should also maintain a Liability Register in Form GFR 6.

The Department did not maintain a liability register in Form GFR-6 as laid down in the rules. The position of liability cleared during the period from 2008-13 is detailed below:-

Table No. 5.3.8

(₹ in crore)				
Year	Actual opening balance of liabilities of previous year (₹ in crore)	Liability for the year as per departmental record (₹ in crore)	Actual liability with reference to fund availability and feeding strength for the year	Difference between actual liability and liability created (Col 3-Col.4)
1	2	3	4	5
2008-09	0	7.30	7.13	(+)0.17
2009-10	7.13	0	0	0
2010-11	0	3.60	0.65	(+)2.95
2011-12	0.65	5.55	4.38	(+)1.17
Total	7.78	16.45	12.16	4.29
2012-13	4.38	7.22	2.77	+4.45 (Liability for the year yet to be cleared)

Source: Departmental record

As could be seen from the table above, against the actual liability of ₹ 12.16 crore during 2008-09 to 2011-12 an amount of ₹ 16.45 crore⁴ was cleared by the Department which resulted in fictitious clearance of liability to the tune of ₹ 4.29 crore.

In addition, during 2012-13 the actual liability worked out to ₹ 2.77 crore. However, the Department furnished records indicating that the liability for that year was ₹ 7.22 crore which was in excess by ₹ 4.45 crore. Thus, an additional liability of ₹ 4.45 crore was created.

However, the veracity of the purported liabilities could not be vouchsafed as records indicating the period and details could not be made available. The liability created was also not justified as the arrears of the previous year were already included in the revised estimates for the ensuing year.

The Department in reply (September 2013) stated that the records were inadvertently misplaced during re-organisation of the rooms and therefore, efforts were being made to trace the missing files. If the records are traced, it would be made available to audit at a later date.

The fact however, remains that liability for 2008-09 to 2011-12 amounting to ₹ 16.45 crore was cleared without any supporting records. The matter needs further investigation.

⁴ ₹ 7.30 crore + ₹ 3.60 crore + ₹ 5.55 crore

5.3.8 Contract Management

Objective 3:- The management of contracts was done in an efficient manner to ensure effectiveness and economy without compromising the quality.

5.3.8.1 Bulk purchase.

While the Director General of Police procures four items of dry ration for the entire armed battalions, wet rations were procured in a decentralised manner by the respective Commanding Officers at their level after inviting tenders. Notice Inviting Tenders (NITs) for procurement of four centrally procured items were issued from time to time by the PHQ. On receipt of the tender papers from the interested firms it was examined by the State Level Purchase Board (SLPB) and the suppliers were selected based on the recommendation of the SLPB.

Scrutiny of NITs revealed that Brands for Vegetable Ghee and Milk Powder were pre-determined which was evident from the fact that brands were indicated in the NITs. However, instead of procuring directly from the manufacturer, the Department procured the materials from local firms. Thus, the Department failed to avail the benefits of bulk purchase.

The Department in reply (September 2013) stated that bulk purchase from the manufacturers was not possible as the manufacturers insist for advance payment.

The fact remains that sufficient funds were provided by the Government for the purpose and therefore, placement of funds should be made by the Department in advance for the interest of State exchequer. Besides, the Department did not initiate any efforts to procure the material from the manufacturers at least in a staggered manner.

5.3.8.2 Transparency in bidding process

The Government of Nagaland, Home Department issued an office order⁵ directing the DGP and the Commanding Officers to submit the quotations without recommending any bidders/firms for supply of dry and wet ration. Accordingly, on receipt of the quotations from the interested firms, the commanding officers prepared the comparative statements and submitted the same without any recommendations to the Government through DGP for approval.

As the Commanding Officers were directed not to recommend any firm irrespective of being the lowest bidder, the mechanism of entrusting the commanding officers of calling for quotations was more of a formality. Further, finalisation of tenders at the Government level yielded no tangible results as instances of variation of accepted rates were noticed as discussed in Paragraphs **5.3.8.3 (B)** and **5.3.8.4**.

The Department accepted the facts (September 2013).

⁵ No.POL/GEN/1/RTN/98 dated 3 February 2009.

5.3.8.3 Selection of Suppliers

A. Centrally procured items

- (i) During the year 2008-09 out of four participants for supply of vegetable ghee, three firms were awarded the supply order on the rate quoted by L1 at ₹ 75 including two firms (L2) who quoted the same rate at ₹ 91.
- (ii) Similarly, in 2012-13 out of seven firms who participated in the bid for supply of vegetable ghee, the supply order was issued to six L2 bidders after rejecting the L1 bidder. The L1 bidder was rejected on the ground that he had not mentioned the name of the brand to be supplied in the tender papers.
- (iii) During 2010-11 out of 12 firms who participated in the bid for supply of vegetable ghee, the supply order was awarded to four firms who quoted the second lowest uniformly at ₹ 75 instead of the firm who quoted the lowest ₹ 72 without assigning any reason. This resulted in avoidable excess expenditure of ₹ 15.53 lakh. Similarly, out of ten bidders, three firms who quoted the third lowest at ₹ 171 were selected for supply of Milk Powder instead of the L1 and L2 who quoted at ₹ 155 and ₹ 162 respectively without assigning any reasons. This resulted in avoidable excess expenditure of ₹ 47.80 lakh.
- (iv) During 2012-13, ten firms participated in the bid for supply of Milk Powder. Of which one firm quoted the lowest at ₹ 171, the second and the third lowest quoted ₹ 180 and ₹ 190 respectively and the remaining seven firms quoted at same rate of ₹ 190.90. The L1 bidder was rejected on ground that the brand name was not specified in the tender papers. The supply works were awarded to all the remaining nine firms at ₹ 190.90 quoted by the highest seven bidders instead of the L2 rate. This resulted in avoidable excess expenditure of ₹ 28 lakh.

The contracts were awarded based on limited tender involving very few contractors. Hence, competitive rates were not obtained which indicate possibility of cartelization.

The Department in reply (September 2013) stated that quotations below market rate were summarily rejected.

The reply was not acceptable as no survey was conducted to assess the market rate. Besides, there were no records which indicated that the bidders were rejected on the ground that the rates quoted were below the market rate.

B. Ration procured by units

The Government authorised (January 2006) the Commanding Officers to procure three items of dry ration viz., Rice, Atta and Sugar directly from the open market as per the rate approved by the Deputy Commissioner (DC) of the District. However in 2012-13, the then Hon'ble Home Minister on the basis of an application received from a firm recommended for procurement of rice from a single contractor at a uniform rate of ₹ 20.50 stating that the firm will deliver the ration to the battalion

headquarters. Accordingly, the supply order was issued (June 2012) to the firm as recommended by the then Hon'ble Home Minister without mentioning that the material should be supplied to the battalion headquarters. In the same month (June 2012) the DGP however directed all the Unit Commanders to lift rice from the supplier based at Dimapur which indicated that rice was not delivered to battalion headquarters as recommended.

Audit observed that during the same period seven battalions based at Dimapur district were procuring rice at DC approved rate of ₹ 18. Thus, the Department incurred an avoidable excess expenditure of ₹ 11.51 lakh. This also indicates that the process of selection of suppliers was not transparent.

The Department in reply (September 2013) stated that since it was a directive of the Government, it had no comments.

5.3.8.4 Variation in rates

According to para IV of the minutes of the meeting (March 2010) of the State Level Purchase Board constituted by the Government, the rates of ration for units based in Chumukedima should be uniform. There are presently four battalion's viz. 1st NAP, 13th IRB, 15th IRB and NAPTC which are based in Chumukedima.

During scrutiny of records it was noticed that the rates of rations procured directly by these four unit commanders varied though they were stationed in the same locality which resulted in excess payment of ₹ 41.60 lakh as detailed in **Appendix-5.3.2**.

The Department accepted (September 2013) the observations pointed out by audit.

5.3.8.5 Procurement of Liquefied Petroleum Gas (LPG)

During the period covered by audit altogether six companies of Armed Police drawn from different battalion were deployed in Delhi for security duties. The personnel posted to Delhi were provided LPG in lieu of firewood.

Audit scrutiny revealed that five local suppliers were awarded the work for supply of LPG even though those firms do not possess valid licence to supply LPG in Delhi. LPG being a controlled commodity can be supplied only by authorised dealers of the LPG producing companies where the prices are also decided by the Government of India. As the supply works were awarded to unauthorised dealers at higher rates without considering the prevalent GOI approved rates, the Department incurred an avoidable excess expenditure of ₹ 27.43 lakh.

The Department while accepting the facts (September 2013) stated that procurement of LPG was done from private firms as the deployment of the personnel was unplanned and sudden with no time to prepare the groundwork. The Department further stated that arrangements were being made to procure the LPG from authorised firms.

The fact however, remains that the Department continued to procure LPG from unauthorised firms since February 2009 till December 2012 and therefore, the reply that there was no time to prepare the groundwork was not tenable.

5.3.8.6 Error in computation

During scrutiny of the bills and vouchers for the period from 2010-11 to 2012-13, it was seen that an amount of ₹ 40.42 crore was drawn in 20 bills for procurement of 1123.10 MT of dry and wet ration. Further scrutiny of the sub-vouchers revealed that against the actual payable amount of ₹ 9.25 crore in respect of 99 sub-vouchers, the suppliers were paid ₹ 10.29 crore by inflating the actual payable amount which resulted in excess payment of ₹ 1.04 crore (**Appendix-5.3.3**).

The Department in reply (September 2013) stated further reply would be furnished after examining the bills thoroughly. It was also assured that in the event of any excess payments, it would be recovered from the suppliers concerned.

5.3.9 Delivery, Monitoring and Infrastructure.

Objective 4:- Whether there exist an effective and well defined distribution system and monitoring as per the prescribed scales, variety and qualitative standards. Whether the storage facilities were adequate and are in good condition.

As per the existing scale of ration followed by the Home (Police) Department, both wet and dry ration were to be provided daily. In respect of Meat on Hoof (MoH) and Pork, the personnel were entitled for 250 grams of MoH and 150 grams of pork every alternate day.

5.3.9.1 Survey

The Department had not devised any system to obtain periodic feedback from the personnel regarding the quality and quantity of rations distributed to them.

In an attempt to assess the satisfaction level of the personnel and the quality of rations provided, audit devised a survey format and 259 forms were issued to the personnel in seven selected units. The details of the survey report is given below:-

Table No. 5.3.9

Sl. No	Particulars	A				B			
		Percentage of respondents on Quality of products				Percentage of respondents on Frequency			
		Very good	Good	Average	Poor	Every day	Alternate days	Once in 15 days	Once in a month
1	Rice	3	76	21	0	43	15	1	32
2	Atta	7	56	23	12	43	15	0	29
3	Dal	0	53	39	8	44	14	0	31
4	Ghee	0	28	56	14	44	14	0	25
5	Milk Products	0	23	56	15	44	11	0	22
6	Eggs	7	59	8	0	0	14	24	17
7	Khasi/ Goat/ MoH	12	21	14	8	0	29	25	0
8	Pork	13	58	19	0	13	15	36	19
9	Tinned Fish	0	41	15	6	0	14	21	10
10	Fresh Vegetables	3	41	42	7	38	12	23	14

Source: Survey reports obtained from personnel

- (i) As could be seen from the above table, the maximum of 7 *per cent* of the respondents reported that the dry rations provided were very good and 23 to 76 *per cent* graded as good while 8 to 15 *per cent* graded as poor. In respect of wet ration the maximum of 13 *per cent* graded the quality as very good, 21 to 59 *per cent* graded as good and 6 to 8 *per cent* graded as poor.
- (ii) As regards the frequency of issue to the personnel, out of six dry and wet rations i.e. rice, atta, dal, ghee, milk powder and fresh vegetables which were to be issued daily only 38 to 44 *per cent* of the respondents reported receipt of the items daily, 11 to 15 *per cent* reported receipt every alternate day and 14 to 32 *per cent* reported receipt once in a month.
- (iii) In respect of MoH and pork 15 to 29 *per cent* respondents reported receipt every alternate day, 25 to 36 *per cent* reported receipt once in 15 days and 19 *per cent* reported receipt once in a month.

It appears from the above that there is a need to improve the quality of rations issued to the personnel to enhance the satisfaction level. Besides, there is also a need to improve the frequency of issue of food items.

- (iv) Though there was a provision for substitute item such as chicken, eggs and tinned fish in lieu of pork and MoH in the tender documents, the rate quoted by the suppliers in respect of eggs and tinned fish were lower than the rate of pork and MoH. Audit observed that the bills drawn by the units do not indicate procurement of tinned fish and eggs and no expenditure was incurred for procurement of those two items. However, during visits to the store of the selected units it was seen that tinned fish and eggs were provided (*photographs 1 to 4*) to the personnel in lieu of MoH and Pork which could be substantiated by the facts that 7 *per cent* graded the quality of eggs as very good and 59 *per cent* graded as good. In respect of tinned fish 41 *per cent* graded as good. In respect to the frequency in issue of eggs and tinned fish, 14 *per cent* reported receipt every alternate day, 21 to 24 *per cent* reported receipt once in 15 days and 10 to 17 *per cent* reported receipt once in a month.

The Department (September 2013) stated that changes would be adopted after conducting departmental survey.

(Photographs 1 to 4 – refer paragraph 5.3.9.1.(iv))

Photograph 1 taken on 30-05-2013

Photograph 2 taken on 30-05-2013

Tin fish stored at battalion store 13 NAP (IR)



Photograph 3 taken on 23-04-2013

Photograph 4 taken on 23-04-2013

Eggs and tin fish at 2 NAP



5.3.9.2 Distribution of fresh vegetables

While Audit would like to acknowledge that the volumes, local conditions and seasonal factors affect the availability of vegetable, it is also important to ensure that the bare minimum prescribed mix of vegetables are provided to the personnel to meet their calorific and nutritional requirements so as to enhance their performance. However, the stock registers maintained by the units did not reveal the quantity, variety and type of fresh vegetables indented and supplied by the suppliers. Therefore, audit could not decisively conclude that fresh rations in the prescribed mix and scale were being provided to the personnel.

The Department in reply (September 2013) assured to ensure that vegetables as prescribed under rules shall be distributed to the personnel.

5.3.9.3 Quality control issues

According to sub-clause v of clause 3 of the Agreement, the supplies must be of best quality and as per Government approved samples. Clause X of the terms and conditions of supply stipulated that Vegetable Ghee and Milk Powder should be supplied within three months from the date of manufacture and should have at least six months validity period for consumption at the time of inspection by the Line Committee.

- (i) While the Department constitutes Line Committee for each financial year to evaluate and assess the quality and quantity of ration supplied before

Audit Report for the year ended 31 March 2013

accepting from the firms, the suppliers bill do not indicate the brand name, batch number, date of manufacture etc. in respect of vegetable ghee and milk powder (*photographs 5 to 8*). As such audit could not authenticate the certification by the Line Committee that the same brand indented was actually supplied during their shelf life.

(Photographs 5 to 8 –refer paragraph 5.3.4.3)

Photograph No. 5 taken on 27-04-2013

Vegetable Ghee label defaced lying at NAPTC store



Photograph No. 6 taken on 27-04-2013

Expired vegetable ghee stored at NAPTC store



Photograph No. 7 taken on 27-04-2013

Milk Powder – without date of manufacture



Photograph No. 8 taken on 27-04-2013



- (ii) Audit also observed that the Line Committee conducts verification of the quality, quantity and specifications of the items supplied by the suppliers and recommends for acceptance. Instances came to notice of audit that the total quantity of materials verified by the Line Committee in a given day ranged between 37.51 MT to 269.14 MT. However, it was observed that the Police Central Store was not equipped with infrastructure such as Weigh Bridge or other heavy duty weighing facilities. As such in the absence of proper weighing facilities the Line Committee could not have actually weighed the entire consignment received by them in a single day which raises doubt of the veracity of the certificates regarding quantity received. This issue was substantiated by the fact that there were short receipt of ration items as discussed in paragraph 5.3.1.5 and 5.3.1.6.
- (iii) The Department neither enlisted subject specialist as member in the Line Committee nor were the samples of the ration items supplied sent to any laboratory for testing. In the absence of scientific examination, the quality of the items supplied to the personnel remained un-confirmed.

- (iv) According to clause 6 of the terms and conditions of contract, Pork/MoH supplied should accompany certificate from competent authority that the animal is free from illness and fit for human consumption. However, none of the units test checked obtained/ maintained any records about quality test by Veterinary authorities or any other competent authorities. As such, the quality of pork and MoH supplied could not be authenticated by audit.

The Department in reply (September 2013) stated that the main function of the line committee was to ensure selection of the correct brand in the bidding process. The reply is not acceptable as the line committees constituted by the Department had certified in all occasions that the exact quality and quantity of ration intended were received.

5.3.9.4 Infrastructure for storage and distribution

Dry ration items procured centrally were supplied quarterly and other dry items were procured monthly by the units. Wet ration items were procured on weekly and fortnightly basis and stored in the battalions and company stores.

During physical verification of the stores it was observed that none of the seven units test checked had adequate storage facilities at battalion and company levels. The available storage facilities were in a dilapidated condition due to lack of maintenance. A few illustrative cases are shown in the photographs 9 to 12 below:

(Photographs 9 to 12 – refer paragraph 5.3.9.4)

Photograph No. 9 taken on 27-04-2013 – Roof Ceiling at NAPTC



Photograph No. 10 taken on 07-05-2013 - Roof Ceiling at NAP 1



Photograph No. 11 taken on 27-04-2013
Roof Ceiling at NAPTC



Photograph No. 12 taken on 15-05-2013
Seepage in the floor at PCS



This poor storage facility exposes the scope of the ration to rot as well as deteriorate the quality of the rations.

The Department accepted the facts (September 2013) and stated that the resources made available to the Department for repair and renovation was limited. However, efforts are being made to repair the storage facilities.

5.3.9.5 Conclusion

Audit observed that the estimation and provisioning were not commensurate with the actual feeding strength which had resulted in injudicious excess expenditure of ₹ 29.20 crore⁶ without corresponding benefits to the personnel. There were instances of payments without actual receipt of materials by the PCS and in the selected units.

Budgeting was unrealistic as the actual expenditure incurred exceeded the original budget ranging from 19 per cent to 91 *per cent* during 2008-09 to 2012-13. The Department not only incurred an amount of ₹ 4.29 crore on clearance of fictitious liability but also created an additional committed liability of ₹ 4.45 crore for the future.

The bidding process was not transparent and biased as the lowest bidders were not awarded the supply works resulting in avoidable excess expenditure of ₹ 1.72 crore⁷. The contracts were awarded based on limited tender involving very few contractors. Hence, competitive rates were not obtained which indicate possibility of cartelization.

The Department did not devise any system for evaluation of the quality and quantity of ration supplied to the personnel. Audit survey indicated that the personnel were not fully satisfied with the quality of ration issued and the frequency of issue was also found to be erratic. The samples of dry rations were never sent to the laboratory for testing. The storage facilities in all the selected units were found to be in dilapidated condition.

5.3.9.6 Recommendations

- Steps should be taken to strengthen the procurement procedures so that wide variations between the actual requirement and procurement are avoided.
- Action needs to be taken to review the budgetary process to enable the Government for efficient and effective financial management. Expenditure against liability should be strictly monitored and liability register should be maintained for effective control of expenditure.
- The bidding process should be made transparent and competitive. Market survey should also be conducted periodically to assess the reasonableness of the rates quoted by the bidders. Excess payments made to the supplier due to erroneous computation needs to be recovered.
- The Department should devise a system to obtain periodical feedback from the personnel and remedy any shortcomings. The quality of ration needs to be

⁶ ₹ 11.54 crore + ₹ 4.25 crore + ₹ 1.98 crore + ₹ 11.43 crore.

⁷ ₹ 91 lakh + ₹ 11.51 lakh + ₹ 41.60 lakh + ₹ 27.43 lakh

improved and the frequency of distribution should be regulated. The samples should be periodically tested. Storage facilities need immediate repairs and renovations.

HOME (PRISONS) DEPARTMENT

5.4 Excess procurement

The Director General of Prisons procured 5658.02 quintals of rice valued at ₹ 1.21 crore in excess of the actual requirement during 2009-10 to 2012-13 and distributed to various prisons in Nagaland.

As per Assam Jail Manual which is also followed by the Department of Prisons, Nagaland, the prescribed scale of rice per convict per day is 600 grams. As per the information furnished by the Director General (DG) of Prisons, 11 District/Sub jails and one Central jail in Nagaland had a total feeding strength of 795298 prisoners during 2009-2010 to 2012-13 (upto December 2012). Thus, the total requirement of rice for feeding the entire prison population during the period was 4771.79⁸ quintals. Rice required by the 12 jails in Nagaland was supplied by the Rice Handling Agents (RHAs) appointed by the Government at the rate fixed by the Government annually. In the absence of adequate storage facilities in jails, the supplies were made monthly/quarterly by the RHAs.

Scrutiny of records (March 2013) of the DG, Prisons revealed that the Department procured 10429.80 quintal of rice valued at ₹ 2.08 crore during 2009-10 to 2012-13 against the actual requirement of 4771.79 quintals of rice from the rice handling agents appointed by the Government at the rate fixed by the Government against 11 District/Sub jails as shown below:

Table No. 5.4.1

Year	Feeding strength for the year	Actual requirement @ 0.600 Kg/prisoner/day	Quantity procured (in Kilograms)	Quantity procured in excess of requirement	Money value for the excess quantity (in ₹)
2009-10	242229	145337	245200	99863	1932806
2010-11	235709	141425	282630	141205	3035647
2011-12	212483	127490	289850	162360	3506198
2012-13 (upto October 2012)	104877	62926	225300	162374	3587640
Total	795298	477178	1042980	565802	12062291

Thus, it is evident from the above table that the Department procured excess quantities of rice⁹ every year without assessing the actual requirement, which resulted in a consolidated excess procurement of 5658.02 quintals of rice valued at ₹ 1.21 crore during the 2009-10 to 2012-13. As the jails lack adequate storage facilities, the supply and utilisation of rice during the above period remains doubtful.

⁸ 795298X0.600 kg/100

⁹ excess quantity ranging from 69 per cent to 258 per cent

In reply (July 2013) the Department stated extra quantities were indented in advance by the Department and stored at respective jails for emergency usage during natural calamities and road blockage. It was also stated that the Department was compelled to store sufficient quantities even though there was shortage of storage facilities and due to this reason huge quantities were also damaged and lost.

The reply of the Department is not tenable as test check of records of three¹⁰ jails revealed short supply of 1942.50¹¹ quintals (35 per cent) of rice out of the total procurement of 5621.50 quintals of rice against those jails. In addition to the shortage, District Jail Kohima reported/accounted 440.48 quintals (38 per cent) as wastage without assigning any specific reasons. This indicates that there was huge difference between quantities actually supplied and paid for.

HOME (POLICE) DEPARTMENT

5.5 Fictitious payment

The Project Engineer, Police Engineering Project, Chumukedima fictitiously paid ₹ 1.76 crore to a contractor against three items of work which were not executed. In addition to this, ₹ 0.10 crore was also paid to the contractor in excess of the bill amount.

A. The Chief Engineer, Police Engineering Project (PEP) awarded (September 2010) 'construction of Officer's Mess at Chumukedima' to a contractor¹² at a total cost of ₹ 3 crore as per Schedule of Rate 2010. The construction of Officer's Mess *inter-alia* included construction of boundary wall, retaining wall and cement concrete pavement besides other items.

Scrutiny (May 2013) of records such as Measurement Book (MB) and Running Account (RA) bill in the office of the Project Engineer (PE), Police Engineering project, Chumukedima, revealed that the contractor commenced the work in September 2010 and completed in April 2012. The contractor was also paid (March 2011 to March 2012) an amount of ₹ 3 crore in three RA bills as detailed below:

Table No. 5.5.1

Details of Running bill	Voucher No and Date	Bill amount (₹ in lakh)
First RA bill	143 of 31-3-11	132.20
Second RA bill	7 of 22-6-11	95.00
Third and Final bill	36 of 29-3-2012	73.11
Total		300.31

¹⁰ District Jail Kohima, Central Jail Dimapur & Sub-Jail Dimapur.

¹¹ District Jail Kohima – 338 qtls, Central Jail Dimapur-883 qtls & Sub-Jail Dimapur – 721.50 qtls

¹² M/s Magnum Enterprises, Dimapur

However, during visit (May 2013) audit could not find any construction of boundary wall, retaining wall and cement concrete pavement, though the measurement of those items were recorded in the MB and an amount of ₹ 1.76¹³ crore was paid as per final bill. In reply to the query (May 2013), the PE confirmed that no construction work in respect of the three items had been taken up till May 2013.

Hence, it is evident that the PE fictitiously paid ₹ 1.76 crore without actual execution of work.

B. As per the Final bill, total value of the work done by the contractor was ₹ 300.31 lakh of which ₹ 227.20 lakh was paid to him on two RA bills and the contractor was entitled for payment of ₹ 73.11 lakh only as shown in the table above. However, the contractor was paid (March 2012) ₹ 83 lakh¹⁴, resulting in an excess payment of ₹ 9.89 lakh.

Thus, the PE made a fictitious payment of ₹ 1.76 crore against unexecuted items of work besides making an excess payment of ₹ 0.10 crore.

The Government stated (August 2013) that reply of the P.E was thoroughly examined and found that there was no fictitious payment or misuse of funds. The only loophole on the part of the P.E was that he had shown all the unforeseen works carried out on emergency basis against the Construction of Officers Mess for which payment was made to the same contractor. It was further stated that the P.E was asked to streamline execution of works to avoid such lapses in future. No reason was stated for excess payment of ₹ 0.10 crore.

The fact however, remains that ₹ 1.76 crore (59 per cent of total amount) sanctioned for construction of Officers Mess was paid to the contractor by recording false measurement of three items of work which were not executed. Moreover, the unforeseen works against which the money was paid and who authorised the P.E to incur expenditure on unforeseen works from the fund sanctioned for a specific work was also not furnished. The action of the P.E in booking of expenditure on unsanctioned works against sanctioned items of work was also an attempt to suppress the factual position from the authorities who actually authorised the expenditure.

¹³ Boundary wall -₹ 86.00 lakh, Retaining Wall-₹ 48.42 lakh and Concrete pavement-₹ 41.64 lakh

¹⁴ Voucher No 36 dtd 29/03/12

HOME (POLICE) DEPARTMENT

5.6 Undue financial aid to contractor

The Project Engineer, Police Engineering Project Chemukedima extended undue benefit of ₹ 3.82 crore to a contractor on account of additional cost escalation, short deduction of Works contract Tax and non deduction of Income tax at source.

A. Irregular payment of additional escalation

The work for construction of Permanent Headquarter for 9th Nagaland Armed Police (India Reserve) Battalion at Saijang consisting of eight different types¹⁵ of residential buildings was awarded¹⁶ (February 2006) to M/s Singh Construction on Turn Key Basis at a negotiated item rate without calling for open tenders at a total cost of ₹ 39.95 crore. The negotiated item rates were 85 *per cent* above Nagaland Schedule of Rates (SOR) 2004 for all items. Subsequently, the Department reverted the Turn-Key basis contract into a normal contract¹⁷ (June 2007) due to the objection raised by the Nagaland Contractors and Supplier's Union. As per the new terms and conditions of contract, the contractor was allowed to execute works at 20 *per cent* above SOR 2004 and also entitled for escalation of cost as per RBI price index for the remaining portion of the amount to be paid w.e.f. from 2006-07 onwards.

Scrutiny (May 2013) of records¹⁸ of the Project Engineer (PE), Police Engineering Project, Chemukedima revealed that the work commenced in March 2006, was completed in October 2008 and the contractor claimed ₹ 39.34 crore (the amount of work done ₹ 32.54 crore and cost of escalation ₹ 6.80 crore) of which an amount of ₹ 39.04¹⁹ crore was paid by the PE in eight bills between April 2006 and December 2010.

Further scrutiny of escalation bills revealed that the admissible cost of escalation to be paid to the contractor on the value of work executed (₹ 32.54 crore) was only ₹ 4.73 crore²⁰. However, the PE irregularly paid ₹ 2.07 crore as additional escalation charges which was contrary to the terms of the work order (Work Order stipulates that the payment shall be released as per availability of fund).

¹⁵ Barracks-11nos;D/Hall and Kitchen-16 nos; Bath & Latrine-16 nos;Type 1 Quarter-134 nos;Type II-60nos;Type IV-18 nos; Type V-6 nos and Type VI-3 nos.

¹⁶ CE/PP/TECH/TURN-KEY/IRB-9/2005-06/25 Dated 20-February 2006.

¹⁷ CE/PP/T-IRB/HUDCO/Saijang/2007-0878 dated 29 June 2007

¹⁸ Measurement Books and Running account Bills, etc

¹⁹ 1st RA- ₹ 3.00 crore, 2nd RA- ₹ 5.73 crore, 3rd RA- ₹ 4.13 crore (₹ 2.07+₹ 2.06 crore), 4th RA- ₹ 19.68 crore & Escalation bills(3Nos)- ₹ 6.50 crore

²⁰

SI No of Running Account Bill	Value of work done (in Rupees)	Period of escalation (From-March 06)	Admissible amount of Escalation as per RBI index (claimed in 4 th RA bill) (Amount in Rupees)			
			Escalation on material	Escalation on labour	Escalation on POL	Total
2 nd RA bill	59756692	03/06to 08/06	1323920	613929	161333	2099182
3 rd RA bill	72182724	03/06 to 08/07	2178153	1198069	29380	3405602
4 th & Final bill	157377736	03/06 to 08/08	30659038	10119588	978498	41757124
Total Amount of escalation						47261908

Thus, the Department paid an excess amount of ₹ 2.07 crore to the contractor due to faulty calculation of cost escalation which needs to be recovered.

B .Short deduction of works contract Tax

Section 92(3) of the Nagaland Value Added Tax (NVAT) Act, 2005 read with the NVAT Rules, 2005, as amended from time to time provides that tax on work contracts should be deducted at source from the contractor's bill at the rate of four per cent on the value of work done, after allowing deduction of 25 per cent on account of labour and other charges. With effect from 24 October 2008, the rate was revised to four per cent without any deduction whatsoever. The NVAT rules further provide that the person making such deductions at source (Drawing and Disbursing Officer) shall deposit the whole amount within ten days from the expiry of each calendar month, into Government Treasury or designated bank through challan.

The contractor executed works valued at ₹ 39.34 crore and as per the above provisions of NVAT Act, 2005 an amount of ₹ 140.52 lakh was to be deducted from the contractor's bill as Work Contract Tax (WCT). However, the division deducted only an amount of ₹ 43.20 lakh resulting in short deduction of ₹ 97.32 lakh as shown below:

Table No. 5.6.1

Sl. No.	Description	Value of work done (₹ in crore)	Rate of WCT	Amount of WCT (₹ in lakh)	Amount deducted (₹ in lakh)	Short deduction (₹ in lakh)
1	Amount of bills paid upto October 2008	16.80	3 per cent	50.40	43.20	7.20
2	Amount of bill paid after 24/10/2008	22.54	4 per cent	90.12	0.00	90.12
Total		39.34				97.32

Thus, by not deducting the work contract tax at source from contractor's bill while releasing the payment, the PE extended an undue benefit of ₹ 97.32 lakh to the contractor resulting in a loss to the exchequer to that extent.

C. Non-deduction of Income Tax at source.

According to Section 194 C of the Income Tax Act any person responsible for paying any sum to any resident (hereafter in this section referred to as the contractor) for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a specified person shall at the time of credit of such sum to the account of the contractor or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to—

(ii) two per cent where the payment is being made or credit is being given to a person, of such sum as income-tax on income comprised therein.

(iii) Where any sum is paid or credited for carrying out any work mentioned in sub-clause (e) of clause (iv) of the *Explanation*, tax shall be deducted at source.

During scrutiny of records of the PE, it was seen that the contractor was paid ₹ 39.04²¹ crore against the construction work. Further scrutiny revealed that the income tax of ₹ 0.78 crore at the rate of 2 per cent which was required to be deducted at source was not deducted by the PE during payment. This resulted in undue benefit of ₹ 0.78 crore to the contractor. Non-deduction of income tax at source in violation of the Income Tax Act is fraught with the risk of escaping notice of the tax assessing authority, Government of India.

Thus, there was a consolidated undue benefit/excess payment of ₹ 3.82²² crore to the contractor in three cases against the project.

In reply (September 2013), the Government stated that the reply furnished by the PE was thoroughly examined by the Government and the State Government has agreed with the reply that there was no irregular payment of additional escalation as the contractor had completed the work within the stipulated time. Regarding short deduction of WCT, the Government stated that short deduction, if any will be deducted from the final bill payment. As for non- deduction of Income Tax, the Government stated the question does not arise since the firm had produced the Income Tax clearance certificate at the time of payment. However, the reply from the PE was not forwarded.

The reply is not tenable as there was no provision for providing escalation for delay in payment of a portion of bill amount in the work order or in Public works Account Code. The claim of the Government that the short deduction, if any, would be deducted from the final payment also hold no substance as the balance amount to be paid to the contractor was only ₹ 30 lakh. The Government's claim about submission of Income Tax clearance Certificate by the contractor at the time of payment was also not true as the Income Tax clearance certificate indicate only the amount of tax paid by the contractor prior to that and it would never include a payment which was due to Contractor. Moreover, the clearance certificate was not shown to audit.

²¹ ₹ 32.54 crore paid upto Final Bill/4th RA Bill+ cost of escalation ₹ 6.50 crore

²² ₹ 2.07 crore+₹ 0.97 crore+₹ 0.78 crore