

**Report of the
Comptroller and Auditor General of India
on
Social, Economic, Revenue and General Sectors
for the year ended 31 March 2016**



GOVERNMENT OF NAGALAND
Report No. 1 of 2017

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PREFACE

1. This Report for the year ended March 2016 has been prepared for submission to the Governor of Nagaland under Article 151(2) of the Constitution of India.
2. The Report contains significant results of the performance audit and compliance audit of the Departments of the Government of Nagaland under the Social, Economic, Revenue and General Sectors including the Departments of School Education, Nagaland State Lotteries, Tourism, Motor Vehicle Department, Nagaland State Transport, Finance, Treasuries and Accounts, Public Works, Fisheries etc.
3. The cases mentioned in this Report are those which came to notice in the course of test audit during the year 2015-16 as well as those which came to notice in earlier years, but could not be reported in the previous Reports; instances relating to the period subsequent to 2015-16 have also been included, wherever necessary.
4. The audits have been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This Report is arranged in six chapters. **Chapter I** deals with Social Sector contains Performance Audit of *Implementation of Right to Education Act, 2009* and three Compliance Audit paragraphs. While **Chapter II** deals with Economic Sector (other than Public Sector Undertakings) besides two Performance Audits viz., *Creation, Maintenance and Management of Tourism Infrastructure* and *Activities of Nagaland State Transport Department* and also contains four Compliance Audit paragraphs; **Chapter III** deals with Economic Sector (Public Sector Undertakings). **Chapter IV** dealing with Revenue Sector contains two Performance Audits viz., *Nagaland State Lotteries* and *Computerisation of Motor Vehicles Department* and three Compliance Audit paragraphs. **Chapter V** deals with General Sector features two Compliance Audit paragraphs, whereas **Chapter VI** deals Follow-up on audit observations.

According to the existing arrangements, copies of the draft audit paragraphs and draft performance audits were sent to the Secretary of the departments concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies were not received from the Secretaries of the Departments concerned in respect of six audit paragraphs.

CHAPTER-I: SOCIAL SECTOR

Performance Audits

Implementation of Right to Education Act, 2009

To make elementary education a fundamental right to all children, Article 21-A was inserted through the 86th Constitutional Amendment Act 2002, and subsequently the Right of Children to Free and Compulsory Education Act or Right to Education Act (RTE) Act 2009 was enacted by Parliament. The Right of Children to Free and Compulsory Education (RTE) Act came into operation with effect from 01 April 2010. In Nagaland, the Right to Education (RTE) Rules were notified on 21 March 2011 and implementation of the Right to Education Act commenced from 2011-12. The Performance Audit of Right to Education Act (RTE) Act 2009 covering the period from 2011-12 to 2015-16 was taken up during May 2016 to September 2016. The major points noticed were:

Highlights

- *One of the setback faced by the State in implementation of Right to Education was the lack of accuracy of child population since household survey to ascertain the actual elementary school going child population was not conducted by the concerned authority*

(Paragraph 1.3.8.1)

- *In contravention to the Act, collection of fees of ₹ 30.03 lakh from the children in the three test checked districts occurred as School Grant was not released.*

(Paragraph 1.3.8.11)

- *A total of 10,690 teachers (65 per cent) in Government schools were yet to be trained thus compromising the quality of education in the State.*

(Paragraph 1.3.8.15 (ii))

- *Avoidable expenditure of ₹ 11.96 crore was incurred due to excess procurement of school uniforms.*

(Paragraph 1.3.8.17.2)

Compliance Audit Paragraphs

The Additional Director, Department of Municipal Affairs Cell arbitrarily altered the specification of the Roto Crates and extended undue benefit to the Supplier. Further, the Additional Director also paid the full amount of ₹ 1.11 crore to the supplier without actual receipt of the material.

(Paragraph 1.4)

An amount of ₹ 5.08 crore received as compensation from National Institute of Technology for the standing building and land was not deposited into Government Account and was irregularly diverted bypassing the legislative financial control and accountability.

(Paragraph 1.5)

The Director, Health and Family Welfare, paid ₹ 36.66 lakh without actual supply/ procurement of seven medical equipment. Besides, the Department paid ₹ 17.19 lakh for two items not sanctioned by the Competent Authority.

(Paragraph 1.6)

CHAPTER-II: ECONOMIC SECTOR

Performance Audits

Creation, Maintenance and Management of Tourism Infrastructure.

The Department of Tourism, Government of Nagaland in its pursuit to promote tourism industry in the State, took up infrastructure development activities and strengthening of the existing infrastructure including Tourist Rest Houses, Wayside Amenities, Tourist Lodges, Integrated Tourist Travel Destinations, Integrated Tourist Travel Circuits, Rural Tourism projects etc. A performance audit of Creation, Maintenance and Management of Tourism Infrastructure in Nagaland covering the period 2011-16 was conducted during June 2016 to September 2016. Some of the major observations are as follows:

Highlights:

The State Government had not prepared Tourism Master Plan and Perspective plans as envisaged in Nagaland Tourism Policy 2001. In the absence of Tourism plan, the assets were created in an ad-hoc manner. There were numerous instances of irregularities in the execution of project.

(Paragraph 2.3.8.1 to 2.3.8.2)

The procedures for identification of tourist destinations and tourist circuits were not followed and therefore the infrastructure projects were randomly selected.

(Paragraph 2.3.8.3)

Two projects (viz. Mega Destination Dimapur and Tourist Destination at Chesezu) were abandoned after incurring a total expenditure of ₹15.95 crore.

(Paragraph 2.3.15)

In absence of proper safeguard, 16 infrastructure developed by the Tourism Department through funding from GoI were illegally occupied by private individuals without executing deed of agreement with the Department.

(Paragraph 2.3.21.3)

The monitoring and internal control mechanism were inadequate and needs to be strengthened.

(Paragraph 2.3.22)

Activities of Nagaland State Transport Department

The Nagaland State Transport was set up in December 1964 as a utility service Department with the objective to provide well-coordinated, reliable and affordable transport facility to the people of Nagaland. The State of Nagaland being land-locked with hilly terrains, road transport is the main means of transport providing both passenger and goods services. Therefore, the role of Nagaland State Transport Department is of paramount importance as the socio-economic development of Nagaland mainly depends on road transport. This performance audit on the activities of Nagaland State Transport Department was carried out from May 2016 to September 2016. Highlights of the Performance Audit are:

Highlights

Planning process of the Department was inadequate as comprehensive study to assess the operational requirements to cater to the growing demands of public transport was not carried out.

(Paragraph 2.4.8.1)

The Department diverted funds from the revenue receipts to meet Departmental expenditure, which was irregular.

(Paragraph 2.4.9.4)

The Department claimed subsidy from Government of India for 703 chartered services used by VIPs and Government officials on subsidized rates.

(Paragraph 2.4.9.7)

Helipad constructed at Alichen could not be put to use due to obstruction by Hydro-Electric Tower.

(Paragraph 2.4.9.9)

Construction of Inter State Bus Terminal at Kohima at a cost of ₹ 8.92 crore could not be completed due to non-settlement of land dispute.

(Paragraph 2.4.9.10)

Compliance Audit Paragraphs

The Executive Engineer, Public Works (Roads and Bridges) Division, Dimapur made excess and inadmissible payment of ₹ 8.01 crore to a contractor by arbitrarily increasing the rates of three items of work.

(Paragraph 2.5)

The Block Development Officer, Ghatashi transferred an amount of ₹ 2.53 crore to two private bank accounts out of the fund of ₹ 8.69 crore received under MGNREGS during 2013-14 and possibility of misappropriation of ₹ 2.53 crore could not be ruled out.

(Paragraph 2.6)

The Department of Fisheries obtained the fund of ₹ 4.99 crore from Government of India on the basis of doubtful beneficiaries list and the full amount was paid to an individual who was not among the eligible beneficiary. Out of which ₹ 1.77 crore was paid without actual execution of civil works.

(Paragraph 2.7)

An amount of ₹ 50.74 lakh received as compensation from National Highway Authority of India through the Deputy Commissioner, Dimapur was not deposited into Government account and thus the possibility of the amount being misutilised/ misappropriated could not be ruled out.

(Paragraph 2.8)

CHAPTER-III: ECONOMIC SECTOR (Public Sector Undertakings)

Investment in State Public Sector Undertakings

As on 31 March 2016, the investment (Capital and long term loans) in six State Public Sector Undertakings (SPSUs) was ₹ 111.96 crore. As on 31 March, 2016, 91.89 per cent of the total investment in SPSUs was in five working SPSUs and remaining 8.11 per cent was in one non-working SPSU.

(Paragraph 3.1.6 and 3.1.7)

Arrears in finalisation of Accounts

The Backlog of accounts of working SPSUs had reduced from 46 accounts (2011-12) to 20 accounts (2015-16). None of the SPSUs, however, had made their accounts up-to-date as on 30 November 2016.

(Paragraph 3.1.10)

Performance of State PSUs

As per the latest finalised accounts of five working SPSUs as of November 2016, overall loss of SPSUs was ₹ 4.50 crore.

(Paragraph 3.1.15)

CHAPTER-II: REVENUE SECTOR

Performance Audits

Nagaland State Lotteries

Lottery means a scheme for raising money for Government, Charity etc., in which tickets are sold and draw is held for distribution of prizes by lot or chance to those persons who participated by purchasing tickets. In order to regulate the scheme of lottery the Government of India enacted the Lotteries (Regulation) Act, 1998. The Government of India has enacted the Lotteries (Regulation) Rules 2010, which provides for matters relating to organisation of lottery, appointment of Distributor or Selling agent and procedure to prohibit the sale of lottery tickets; the Government of Nagaland notified the rules framed by the Central Government in its official Gazette on 2 June 2010 outlining the purpose, scope, limitation and methods. Performance audit of Nagaland State Lotteries covering the period from April 2010 to March 2016 was conducted. Some of the major audit findings noticed are as follows.

Highlights

The selection of distributor for conducting of lotteries was not transparent which led to a court case. Further, instead of sale proceeds as per the Rules the distributor had to pay Minimum Guaranteed Revenue (MGR).

(Paragraph 4.2.10)

Against the total sale proceeds of ₹ 17,653.76 crore the share of the State Government in the form of MGR was only ₹ 56.93 crore (1.24 per cent) of the total sale proceeds whereas the distributor's share was ₹ 4522.24 crore (98.67 per cent) during 2010-11 to 2015-16.

(Paragraph 4.2.11)

As unsold tickets were not identified and segregated, the possibility of an unsold ticketed (lying with the distributor) winning a draw was high. This was especially true of Online lotteries.

(Paragraph 4.2.13.1)

Location of central server outside the state was against the Rule and agreement with the distributor.

(Paragraph 4.2.13.2)

Profit and Loss Accounts of the distributor revealed that there was a receipt of ₹ 10.73 crore (from 2010-11 to 2014-15) as income from the unsold tickets.

(Paragraph 4.2.14)

Computerisation of Motor Vehicles Department

The Government of India implemented the ‘Vahan’ and ‘Sarathi’ software systems developed by the National Informatics Centre (NIC) in all the States in order to have a national database of registered vehicles and driving licences issued and for providing valuable data to the Central Government security agencies. The ‘Vahan’ and ‘Sarathi’ software introduced by the Government of India on an Oracle platform was implemented in the State in phased manner with support from NIC Nagaland. Online issue of National Permit System (NPS) was implemented on September 2010 at the Office of the Transport Commissioner (State Transport Authority), Nagaland, Kohima. Performance audit of Computerisation of Motor Vehicle Department covering the period 2011-16 was conducted between May 2016 and July 2016. Some of the major audit findings are as follows.

Highlights

The Department did not formulate and adopt any Information Technology policy and therefore the risk involved in record keeping of personal data, statutory documents, revenue collection and data security, were not ensured.

(Paragraphs 4.3.8.1)

The Department had not completely migrated to the more advanced system of Vahan and Sarathi from the old legacy system to provide smooth interface with the data of Regional Transport Officers and District Transport Officers while issuing authorisation for national permits and collection of taxes/fees by State Transport Authorities. The Department also did not incorporate provision for validation checks in the software to compulsorily capture statutory fields at the time of data entry.

(Paragraphs 4.3.8.2)

Non-utilisation of complete permit module resulted in irregular issue of permits for goods and passenger vehicles and also resulted in underutilisation of the Vahan database for integration with databases across India.

(Paragraphs 4.3.10)

Instances of short remittance of revenue to Government account ranging from ₹ 1.06 lakh to ₹ 2.55 crore in the selected districts were noticed. As of March 2016, a revenue of ₹ 8.37 crore was retained in the bank account of Axis bank in contravention of the terms of agreement.

(Paragraphs 4.3.14.2 and 4.3.14.3)

Compliance Audit Paragraphs

Acceptance of returns filed by the dealers and assessment of tax without proper verification by the Assessing Authority resulted in evasion of tax amount of ₹ 5.65 crore.

(Paragraph 4.4)

Five dealers submitted incorrect tax returns and evaded tax payment of ₹ 2.71 crore. The Assessing Authority also assessed the tax returns without cross verifying with the utilisation certificate of “C” forms and the applicable rate of taxes.

(Paragraph 4.5)

Failure of the Department of Taxes to cross verify the utilisation of “C” Forms from the selling States and initiate re-assessment resulted in loss of revenue of ₹ 1.30 crore to the Government. The Assessing Authority also did not scrutinise the returns filed by the dealer and invoke relevant provisions of the Nagaland VAT Act and Rules which resulted in evasion of tax of ₹ 0.82 crore.

(Paragraph 4.6)

CHAPTER-V: GENERAL SECTOR

Compliance Audit Paragraphs

An amount totalling to ₹ 5.58 crore was fraudulently withdrawn from Treasuries at Zunheboto and Dimapur by duplicating the pension payment authorisation letters and admitting multiple claims in respect of the same pension payment orders and same person for the same period

(Paragraph 5.3)

Failure of the Drawing and Disbursing Officers and Treasury Officers in exercising the statutory checks prescribed under various rules resulted in fraudulent withdrawal of ₹ 1.96 crore.

(Paragraph 5.4)

CHAPTER – I
SOCIAL SECTOR

CHAPTER - I

SOCIAL SECTOR

1.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2016 deals with the findings on audit of the State Government units under Social Sector.

The departments of the State Government under Social Sector and their total budget allocation vis-a-vis expenditure during 2015-16 are given below:

Table No. 1.1.1

₹ in crore

Sl. No	Name of the Departments	Total Budget Provision	Expenditure
1	School Education	1418.35	1077.04
2	Technical Education	34.82	17.25
3	Higher Education	209.97	118.30
4	SCERT	49.30	46.81
5	Youth Resources and Sports	38.89	36.17
6	Art and Culture	19.72	19.66
7	Health and Family Welfare	606.54	489.76
8	Water Supply & Sanitation	302.60	182.82
9	Urban Development	139.96	52.39
10	Municipal Affairs	63.17	18.47
11	Information and Public Relations	28.08	27.67
12	Labour	8.70	8.36
13	Employment and Training	65.07	35.43
14	Social Welfare	212.71	170.34
15	Women Welfare	9.47	9.45
Total		3207.35	2309.92

Source: Appropriation Accounts

1.2 Planning and Conduct of Audit

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

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 for compliance is advised. Some of the important audit observations arising out of the Inspection Reports are processed for inclusion in the Audit Report, Audit Report and it is submitted to the Governor of the

State under Article 151 of the Constitution of India for being laid on the table of the Legislature.

During the year, an expenditure involving ₹ 1738.07 crore (including funds pertaining to previous years audited during the year) of the State Government under Social sector were test checked. This Chapter contains findings on the performance audit of 'Implementation of Right of Children to Free and Compulsory Education Act, 2009' and three compliance audit paragraphs.

Performance Audit

SCHOOL EDUCATION DEPARTMENT

1.3 Implementation of Right to Education Act, 2009

To make elementary education a fundamental right to all children, Article 21-A was inserted through the 86th Constitutional Amendment Act 2002, and subsequently the Right of Children to Free and Compulsory Education Act or Right to Education (RTE) Act 2009 was enacted by Parliament. The Right of Children to Free and Compulsory Education (RTE) Act came into operation with effect from 1st April 2010. In Nagaland, the RTE Rules were notified on 21st March 2011 and implementation of the RTE Act commenced from 2011-12. *Sarva Shiksha Abhiyan* (SSA), a major flagship programme of Government of India (GoI) to universalize elementary education in the country, was the main vehicle for the implementation of the RTE Act. The Performance Audit of Right of Children to Free and Compulsory Education Act or Right to Education Act 2009 covering the period from 2011-12 to 2015-16 was taken up during May 2016 to September 2016.

Highlights

- *One of the setback faced by the State in implementation of RTE was the accuracy of child population since household survey to ascertain the actual elementary school going child population was not conducted by the concerned authority*

(Paragraph 1.3.8.1)

- *In contravention to the Act, collection of fees of ₹ 30.03 lakh from the children in the three test checked districts occurred as School Grant was not released.*

(Paragraph 1.3.8.11)

- *A total of 10,690 teachers (65 per cent) in Government schools were yet to be trained thus compromising the quality of education in the State.*

(Paragraph 1.3.8.15 (ii))

- *Avoidable expenditure of ₹ 11.96 crore was incurred due to excess procurement of school uniforms.*

(Paragraph 1.3.8.17 2)

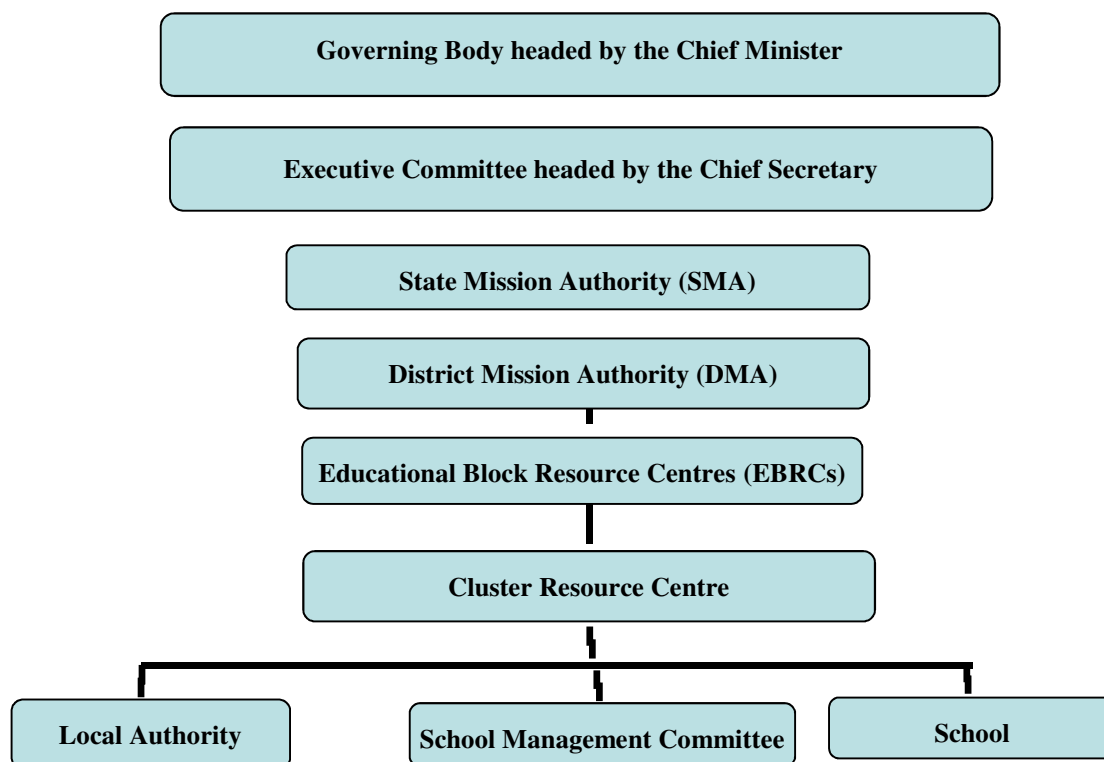
1.3.1 Introduction

The RTE Act provides that all children in the age group of 6 to 14 years have a right to free and compulsory education in a neighbourhood school till completion of Elementary Education.

Free education is defined as ‘removal of any financial barrier by the state that prevents a child from completing eight years of schooling’ and ‘Compulsory Education’ means obligation of the appropriate Government to provide free elementary education and ensure compulsory admission, attendance and completion of elementary education to every child in the age group of six to fourteen years. The RTE Act has also brought in new monitoring mechanisms to ensure that child rights under the Act are protected and they were brought within the ambit of constitutionally created independent bodies like the National and State Commissions for protection of Child Rights.

The implementation of the RTE Act in Nagaland is supervised by the Governing Body headed by the Chief Minister and assisted by the Executive Committee with the Chief Secretary as Chairman. The main vehicle for implementing the provision of the RTE Act is the *Sarva Shiksha Abhiyan (SSA)*.

1.3.2 Organizational set up



1.3.3 Audit Objectives

The performance audit was carried out to assess whether:

- the RTE Act achieved its objective to make elementary education a fundamental right for all children between ages of 6 to 14 years within three years from the roll out of the Act.
- the funds allocated were utilized in an economic and efficient manner, and
- the RTE Act was implemented and monitored in a planned manner.

1.3.4 Scope of Audit

The performance audit was conducted from May to September 2016 covering the period from 2011-12 to 2015-16. The records of the State Mission Authority (SMA), Directorate of School Education, State Council of Educational Research and Training (SCERT); three out of eleven District Institute of Educational Training (DIET), three out of eight District Mission Authority (DMAs) and 12 Educational Block Resource Centres (EBRCs) of three sample district viz., Dimapur, Mon and Kohima out of 46 EBRCs in the State; and 90 schools in the sample districts were selected through Simple Random Sampling without Replacement (SRSWOR) method.

1.3.5 Audit Methodology

Audit methodology includes examination of records, issue of audit queries/ observations, joint physical verification and photographic evidences wherever relevant.

The Entry Conference was held on 19 April 2016 with the officers of the Department wherein the audit objectives, methodology, criteria and scope of audit were discussed. The report was issued in September 2016 and the Exit Conference was held on 07 October 2016. The replies and views expressed by the department have been considered and appropriately incorporated in the Report.

1.3.6 Audit criteria

Audit findings were benchmarked on the following criteria:

- Right to Education Act, 2009 and RTE Rules, 2010.
- State Right to Education Rules, 2010.
- Annual Work Plan and Budget approved by Project Approval Board.
- Manual on Financial Management and Procurement.
- Audited Statement.
- Notification, instruction and circulars issued by Ministry of Human Resource Development (MHRD) and State Government.
- Annual and quarterly Report of State Mission Authority.
- Records maintained at the school level.

1.3.7 Acknowledgment

We acknowledge the cooperation and assistance extended to us by the Department during the conduct of audit.

Audit findings

The audit findings are discussed in the following paragraphs.

1.3.8.1 School mapping and identification of school going children and out of school children.

As per Section 5 (2) of the Nagaland Right of Children to Free and Compulsory Education Rules 2010 (State RTE Rules 2010), the school mapping exercise and identification of all school going children and out of school children, including children in remote areas, children with disabilities, children belonging to disadvantaged groups, children belonging to weaker sections shall be undertaken, within a period of one year from the appointed date and every year thereafter and updated up to 30 October of each year. Further, as per Rule 6 of the State RTE Rules 2010, the Local Authority (Village Council/Municipal Council) shall maintain a record of all children, in its jurisdiction, through a household survey, from their birth till they attain the age of 14 years. These records shall be updated every year and shall be made available in the public domain and use it to ensure and monitor admission, attendance and completion of elementary education by every child residing within its jurisdiction.

It was noticed that the Local Authorities in which 90 sample schools were located had not conducted any household survey. Village/School Education Register as required was not maintained. Therefore, there were no records of children up to the age of 14 years residing within the jurisdiction of these schools. This fact was also confirmed during joint physical verification (May-August 2016).

Thus, in the absence of household survey and non-maintenance of Village/School Education Register, the identification of children belonging to the weaker sections/disadvantaged groups, children requiring special facilities/residential facilities on account of migration and sparse population, out of school children, age appropriate admission, disabilities etc. could not be identified.

As per the Department's own admission, one of the setback faced by the State in implementation of RTE was the accuracy of child population since household survey to ascertain the actual elementary school going child population was not conducted by the concerned authority.

SMD, SSA in reply (October 2016) stated that the format to capture the records of children up to the age of 14 years was devised for issue to the Local Authority. However, due to fund constraint trainings to SMC/VEC could not be conducted and therefore, the format was not distributed.

1.3.8.2 Preparation of database of school going children

The preparation of database of school going children was done through Data Capture Format (DCF) of the Unified District Information System for Education (U-DISE) software. The DCFs are issued to all the schools to be filled and certified by the Head/Principal of the School that the data is correct. These forms are submitted by the schools to the respective EBRCs for scrutiny which are then submitted to the DMAs. After the information is compiled in the U-DISE software and a consistency check is carried out, the data is then submitted to the SMA for final compilation. Thus, the complete data of children enrolled in schools is collected from all schools within the state using the U-DISE software.

To improve the quality and reliability of data, the U-DISE data was required to be sample checked and validated by an independent agency from 2006-07 onwards. However, it was observed that in Nagaland, the U-DISE data was not checked and validated by an independent agency during 2012-16 though fund for the purpose was available.

The details number of children attained the age of enrolment, number of children actually enrolled and number of children dropped-out in the State as per information provided by SMD, SSA is detailed in the table below:

Table 1.3.1

Year	No. of children attained the age of enrolment			No. of children enrolled			Difference (in percent)	No. of drop-out children			Percentage of drop-out
	Primary	Upper primary	Total	Primary	Upper primary	Total		Primary	Upper primary	Total	
2011-12	252,595	119,488	372,083	229,722	92,455	322,177	49,906 (13.41)	8,906	10,210	19,116	5.93
2012-13	296,590	133,414	430,004	252,422	90,455	342,877	87,127 (20.26)	6,188	5,320	11,508	3.36
2013-14	243,973	115,692	359,665	238,425	94,705	333,130	26,535 (7.38)	4,020	3,637	7,657	2.30
2014-15	224,605	145,996	370,601	205,127	99,986	305,113	65,488 (17.67)	5,208	4,123	9,331	3.06
2015-16	217,464	139,290	356,754	199,071	90,244	289,315	67,439 (18.90)	4,028	4,729	8,757	3.02

(Source: Departmental figures)

The following can be seen from the above table:

- (i) The enrolment in the State showed a decreasing trend except during the year 2012-13 when it witnessed an increase over previous year.
- (ii) The percentage of eligible children not enrolled ranged between 7.38 per cent and 20.26 per cent. It stood at 18.90 per cent during 2015-16.
- (iii) The percentage of drop-out reduced from 5.93 in 2011-12 to 3.02 in 2015-16.

In the absence of credible data audit could not assess the extent to which the State Government was able to achieve the objective. However, from the information made available it could be seen that the objective of the RTE Act to make elementary education a fundamental right for all children between the age group of 6 to 14 years could not be fully achieved in Nagaland.

Cross examination of school report card data for the year 2012-16 with the actual records of 90 sample schools in three districts revealed discrepancies. The comparison of students enrolled as per School records and the U-DISE report card is given in the following table.

Table 1.3.2

Year	No. of schools	No. of students enrolled		Difference (+) Excess / (-) Less as per school records
		As per School records	U-DISE/report card	
2012-13	14 (Class I to V)	1605	1895	(-) 290
	55 (Class VI to VIII)	5008	2734	(+) 2274
2013-14	23 (Class I to V)	1524	1993	(-) 469
	44 (Class VI to VIII)	4226	2762	(+) 1464
2014-15	18 (Class I to V)	1603	1735	(-) 132
	50 (Class VI to VIII)	4976	3564	(+) 1412
2015-16	20 (Class I to V)	1993	2358	(-) 365
	49 (Class VI to VIII)	5630	4509	(+) 1121

(Source: Schools figures/U-DISE)

It can be seen that in all the years, the enrolment figures in the sample schools did not match with the figure given in U-DISE.

The State Mission Director (SMD), SSA while accepting the facts (October 2016) stated that the discrepancy in the data may be due to duplication/inflated figure projected in Census 2011 and therefore, the accurate figure can be ascertained only after conduct of household surveys. Further it was stated that collection of data for U-DISE commences from 30 September every year as per directives from the Ministry. However, sample surveys are conducted only in some selected schools due to myriad factors which effects consolidation of accurate data. SMD further added that many Government schools maintains different sets of enrolment records to avail benefits from Government which results in data discrepancies.

The reply is not acceptable and it shows the State Government is aware of the discrepancies and yet instead of correcting the U-DISE data it is formulating the planning of SSA on faulty data. The State Government should validate the U-DISE data, remove discrepancies and ensure that Government schools do not misreport figures to avail benefits under the Scheme.

1.3.8.3 Enrolment of children in government schools.

The enrolment of children in Government schools compared with the enrolment in the state is given in the following table:

Table 1.3.3

Year	No. of children enrolled in Government schools			Total enrolment in the state	Percentage of enrolment in Govt. schools
	Primary	Upper primary	Total		
2011-12	1,07,441	34,378	1,41,819	3,22,177	44.02
2012-13	1,22,980	31,087	1,54,067	3,42,877	44.93
2013-14	1,12,429	31,648	1,44,077	3,33,130	43.25
2014-15	98,067	35,849	1,33,916	3,05,113	43.89
2015-16	92,969	34,053	1,27,022	2,89,315	43.90

(Source: Departmental figures)

From the above table, it can be seen that during audit period the average enrolment of children in Government schools in the State was less than 50 *per cent*. This indicated that majority of the school going children were dependent on private schools.

1.3.8.4 25 per cent reservation for weaker and disadvantaged children

Section 12 (1) (c) of the RTE Act 2009 stipulated that 25 *per cent* reservation should be implemented while admitting students to Class I. Also, the Supreme Court, in its judgement (12 April, 2012), upheld the Constitutional validity of the RTE Act 2009, which mandates a minimum of 25 *per cent* free seats for children belonging to weaker sections and disadvantaged groups in all private un-aided primary schools in particular.

However, in the RTE Rules framed by the State Government, no specific provision in this regard was made.

SMD, SSA in reply (October 2016) stated that the State has already made provision for 25 *per cent* reservation for weaker and disadvantage children in the State rules, however, separate notification was yet to be issued and added that the draft notification is under preparation which will be approved in the forth-coming Executive Committee meeting.

The fact, however, remains that there was no specific provision in the State Rule regarding 25 *per cent* reservation but only provision regarding reimbursement of expenditure had been made. Provision of 25 *per cent* reservation was all the more relevant as more than 50 *per cent* of eligible children are enrolled in private schools.

1.3.8.5 National Child Labour Project

National Child Labour Project (NCLP) was implemented by the District Administration in Dimapur district where the working children were identified and enrolled in the NCLP for providing non formal education. As per the information provided by Directorate of Labour, during the period 2011-16, a total of 8,600 working children in the age group of 6 to 14 years were enrolled in schools under this scheme. However, the Directorate of Labour, Government of Nagaland stated that no survey had been conducted on the prevalence of child labour in the state.

It was also observed that the Department of Education did not have any information on the number of working children being provided non-formal education under NCLP scheme in the State. Thus, there was no coordination with the State Education Department for facilitating the enrolment of children passing out of the Special Schools/Rehabilitation Centres into the main stream education system.

1.3.8.6 Availability of neighbourhood schools

As per State RTE Rules 2010, neighbourhood school means “any school in a habitation that can be easily accessed or located within walking distance”. Further, as per Amendment to Rule 4, Primary Schools should be located within a walking distance of two Km and a minimum of 25 Children in the age group of 6 to 11 years available and willing for enrolment in the school. Upper Primary Schools should be located within a walking distance of three Km from the neighbourhood with a minimum of 25 children in Class –V of the feeding primary schools, taken together, available and willing for the enrolment in that school.

From the records made available to audit it was noticed that there were 2066 identified habitations in the State. Examination of records revealed that out of these habitations, 1800 habitations had Primary Schools and 1465 habitations had Upper Primary Schools. However, 164 habitations, which were eligible to have a Primary Schools as per norms were not provided with Primary School. Likewise, 125 habitations, which were entitled to have an Upper Primary School were not provided with Upper Primary School. Thus, 4656 number of children in age group 6-14 years belonging to the habitations that were eligible to have Primary/Upper Primary Schools were deprived of free and compulsory education in the neighbourhood as envisaged in the Act. Also, there were nothing on the record how these 4656 children and also 5249 children (in the age group 6-14 years) belonging to habitations eligible for Primary/Upper Primary Schools were being provided with free and compulsory education.

SMD, SSA while accepting the facts stated (October 2016) that the State is yet to operationalise 97 new Primary and 41 upgraded Upper Primary Schools approved by Project Approval Board (PAB) of GoI.

1.3.8.7 Availability of basic infrastructure

As per Section 19 and 25 of the RTE Act, the State Government should provide infrastructure including school building, teaching staff and learning equipment. An all-weather school building should consist of the following:

- At least one classroom for every teacher and an office-cum-store-room-cum-Head teacher’s room
- Barrier free access
- Separate toilets for boys and girls
- Safe and adequate drinking water facility for all the children
- A kitchen where mid-day meal is cooked in the school

- Playground and
- Arrangement for securing the school building by boundary wall or fencing

During joint physical verification of 90 sample schools in Mon, Dimapur and Kohima districts, the following shortfalls was observed. These facts have been confirmed by the respective school authority.

- (a) 36 schools (40 *per cent*) did not have separate toilets for boys and girls
- (b) 67 Schools (74.44 *per cent*) did not have safe drinking water facility
- (c) 29 Schools (32.22 *per cent*) did not have a kitchen for cooking mid-day meal in the school
- (d) 76 schools (84.44 *per cent*) did not have a playground and
- (e) 78 schools (86.67 *per cent*) did not have boundary wall or fencing.

SMD, SSA in reply (October 2016) stated that (i) many toilets constructed in the past has now become dysfunctional and the funds for construction of toilets were being sought; (ii) the proposal for providing drinking water facility and boundary wall (2016-17) was not accepted by GoI; (iii) all new school buildings under SSA has inbuilt kitchen facilities and for the existing old schools, funds are being provided under Mid-day Meal scheme (iv) playground could not be provided due to want of space.

The fact remains that a high percentage of schools in sample districts did not have the basic facilities indicating that the objective of RTE Act was not fully achieved.

1.3.8.8 School Development Plan

In Nagaland, a school shall be managed by the existing Village Education Committee/ Ward Education Committee/ Town Education Committee/ Common Education Committee constituted under Nagaland Communication Act, 2002, which shall prepare a School Development Plan (SDP) at least three months before the end of the financial year as stipulated in Rule 13 of the State RTE Rules 2010. SDP shall be a three year plan comprising of three annual sub-plans. SDP shall contain (a) estimate of class-wise enrolment, (b) requirement of additional teachers, (c) requirement of additional infrastructure and (d) financial requirement. The SDP shall be the basis for subsequent plans and release of grants by the Government or Local Authority.

Examination of records revealed that none of the 90 sample schools in the three sample districts had prepared SDPs and therefore did not have year-wise target of enrolment in the schools. It was also observed during joint physical verification that some of the Village Education Committee members were totally unaware about the preparation of SDPs. Also, the Local Authority did not have any record of children from birth till the age of 14 years, under their jurisdiction and therefore could not set the targets for enrolment in school.

SMD, SSA in reply (October 2016) stated that the format for SDP was developed and got printed, however, due to fund constraint training for its use was not imparted. SDP was being taken up on pilot basis covering 25-30 schools from each EBRC.

1.3.8.9 Pre-school education

Section 11 of the RTE Act provides that with a view to prepare children above the age of three years for elementary education and to provide early childhood care and education for all children until they completed the age of six years, the Government may make necessary arrangement to provide free pre-school education for such children. The State RTE Rules, however, was silent on this section.

Examination of records revealed that there are 300¹ elementary schools without pre-primary section as per U-DISE for 2015-16. It was, however, stated that the Department of Social Welfare are imparting pre-primary education in the State through the Anganwadi Centres.

1.3.8.10 Special training of children

As per Rule 6 of the State RTE Rules 2010, the SMC/VEC of a school owned and managed by the appropriate or Local Authority shall identify out of school children (OoSC) and children requiring special training and arrange such training in the following manner:

- a) The special training shall be based on specially designed, age appropriate learning material, approved by the Academic Authority SCERT.
- b) The training shall be provided in classes held on the premises of the school or through classes organized in safe residential facilities.
- c) The training shall be provided by teachers working in the school, or by teachers specially appointed or engaged for the purpose.
- d) The duration of the said training shall be for a period of three months which may be extended based on periodical assessment of learning progress.

The children shall, upon induction into the age appropriate class, after special training, continue to receive special attention by the teacher to enable them to successfully integrate with the rest of the class, academically and emotionally. One of the main role of the SMCs is the identification of OoSC and supporting the special training centre for their smooth transition.

Examination of records revealed that, special trainings of OoSC were provided in centres run by SMC/VEC/NGOs and were not school-based special training as envisaged in the RTE Rules. Further, no training was imparted to the SMC/VEC by the State Government for conducting special training of the drop-out children. In the absence of records, it could not be ascertained whether NGOs who were imparting special training to OoSC were trained for imparting such training. Also, there was

¹ Govt. Primary schools-201, Govt. Middle Schools-99

no record to indicate that these OoSC children who were trained by SMC/VEC/NGOs were absorbed in the mainstream schooling.

The Department also admitted the fact that the collection of data of OoSC is poor as the populace was not forthcoming on providing information. The fact that the State was yet to conduct school based special training was also highlighted in Appraisal Report 2016-17 submitted to GoI by the Department.

SMD, SSA in reply (October 2016) accepted the facts.

1.3.8.11 Collection of fee

Section 3(2) of the RTE Act 2009 stipulated that a school shall provide free and compulsory elementary education to all children. “Free Education” as per the State RTE Rules 2010, means no child shall be liable to pay admission, tuition, examination and any other fees which may prevent him or her from pursuing and completing elementary education and includes providing text books, one time writing materials with minimum requirement in an academic year and uniforms as prescribed by the implementing authority from time to time.

Examination of records revealed that admission fees amounting to ₹ 30.03 lakh was collected from the children in 58 Government schools² (out of 90 sample schools) as detailed below:

Table 1.3.4

in Rupees

District	Year-wise collection of fees					Total
	2011-12	2012-13	2013-14	2014-15	2015-16	
Dimapur	1,04,088	2,04,750	2,32,323	2,92,375	3,40,633	11,74,169
Mon	1,67,225	1,67,825	1,84,725	2,92,875	3,03,375	11,16,025
Kohima	93,202	1,18,950	1,43,060	1,72,700	1,84,400	7,12,312
Grand Total						30,02,506

(Source: Schools figures)

On this being pointed out, the head teachers/teacher-in charge of schools stated that the schools did not receive the school grant, maintenance grant and teachers’ grant for the last three years 2013-16 and therefore were compelled to collect fee for the smooth functioning/maintenance like repairing of benches/desks, windows, printing of progress cards, printing of question papers, purchasing of stationery items etc. for the schools. The fact however remains that collection of fees from the children was in contravention to the RTE Act.

SMD, SSA while accepting the facts stated (October 2016) that the school grants, maintenance grants and the teacher’s grants were either not approved or not released due to fund constraints.

² 24 in Dimapur, 13 in Mon and 21 in Kohima

1.3.8.12 Creation of schools

During the period from 2010-16, creation of 895 new schools were approved by GoI. The year-wise number of schools is detailed in the following table.

Table 1.3.5

Year	Primary Schools	Upper Primary Schools	Total
2011-12	139	56	195
2012-13	24	59	83
2012-13*	51	4	55
2013-14	97	41	138
Total	311	160	471

(Source: Departmental figure) * Dilapidated Building Construction

Out of these 471 schools, 119 schools were to be created in the three sample districts. Examination of records revealed that only 106 new schools were created. It was noticed in audit that there was short release of funds to the extent of ₹ 2.09 crore by the SMA. As a result, 13 schools (**Appendix-1.3.1**) could not be completed (September 2016). Though there was no cost overrun, undue delay in completion of these schools deprived the basic facilities to the children.

Joint physical verification (May to August 2016), in the selected districts revealed the following:

(i) GMS Vihokhu village, Dimapur District.

The PAB (2010-11) approved creation of new school building at Vihokhu village at an estimated cost of ₹ 15.70 lakh. It was observed that the full amount including the non-scheduled items (₹ 0.90 lakh) was released (September 2012) to the SMC. However, during joint physical verification it was found that the building was yet to be completed even after a lapse of five years from commencement of the work as shown in the photograph below:

**Incomplete Building- GMS Vihokhu**

(ii) GPS Bungsang, Dimapur District

The GPS building at Bungsang was approved by PAB (2012-13) for ₹ 0.15 crore. The entire amount was released, however the school building is still incomplete as shown in the following photograph.



Incomplete Building- GPS Bungsang

SMD, SSA in reply (October 2016) stated that all the incomplete buildings are expected to be completed in November 2016 and added that GMS building at Vihokhu, Dimapur has since been completed.

1.3.8.13 Pupil teacher ratio

Section 25 of the RTE Act 2009 stipulated that within three years from the commencement of this Act, the appropriate Government and the Local Authority shall ensure maintenance of the Pupil – Teacher Ratio (PTR) as specified in the schedule in each school. The Act envisaged minimum of two teachers at primary level and at least one teacher for each class at upper primary level. Further, Section 20 of the State RTE Rules 2010 provided that for maintaining the pupil teacher ratio, the sanctioned strength of teachers in every school shall be notified by the State Government and shall, within three months of such notification, redeploy teachers from schools having strength in excess of the sanctioned strength prior to the notification.

It was noticed that no steps were taken by the State Government to rationalise teachers as per RTE norms. Despite repeated assurance given each time during the meetings held by GoI while approving the Annual Plan of the SSA for the State, yet action was not taken to rationalise the deployment of teacher. In the meeting considering the Annual Plan for 2015-16, it was noted that the State was still having 48 Primary and 36 Upper Primary Schools with a single teacher.

Interestingly, it was noticed during joint physical verification of schools in Kohima that there were three schools where only one to four children were on the roll whereas two to five teachers were posted in these schools as indicated in the following table.

Table No.1.3.6

Sl. No.	Name of School	No of students	No. of teachers
1	GPS Lower Nagabazar	2	5
2	GPS Thechuma Basa	1	2
3	GPS Tuophema Lower	4	4

Thus, it is apparent that rationalization of teachers through redeployment was not carried out in the State even after a lapse of six years of implementation of RTE Act.

1.3.8.13 Deployment of teachers for non-educational purposes

Section 25 (2) and 27 of the RTE Act stipulated that for the purpose of maintaining the PTR, no teacher posted in a school shall be made to serve in any other school or office or deployed for any non-educational purposes other than decennial population census, disaster relief duties or duties relating to elections to the local authority or the State Legislatures or Parliament, as the case may be.

Examination of records revealed that 457 teachers, whose salary was paid under SSA, were posted to offices of the Directorate of School Education, District Education Officers (DEOs) and Sub-Divisional Education Officers (SDEOs) in the State which was in contravention of the provision of the RTE Act. 2009.

Further, during joint physical verification of 90 sample schools, it was noticed that private teachers were engaged in 15 schools³ and salaries of these teachers was paid by the village authorities.

1.3.8.14 Recognition of schools

As per Section 18 (1) of the RTE Act 2009, no school, other than a school established, owned or controlled by the Appropriate Government or the Local Authority, after commencement of the Act, be established or function, without obtaining certificate of recognition from such Authority, by making an application in such form and manner, as may be prescribed. The certificate of recognition shall be granted only to school which fulfils norms and standards specified in the Act.

Examination of records revealed that, the State Recognition Rules which was required to be framed within three months of the notification of the State RTE Rules had not been framed even after a lapse of five years.

It is not clear in the absence of such rules how the recognition to schools was being given. No reply was furnished by the concerned authority.

³ GPS Chingkhao wotok-1, GPS Chenwetnyu Koiso C-2, GPS Chenloiso Longkhao B-4, GMS Lokhao-1, GMS Lapa Lampong-2, GMS Metha Colony Ward 23-1, GMS Jharnapani-3, GPS Veerzoma-1

1.3.8.15 Appointment, Qualifications and training of teachers

(i) Appointment of unqualified teachers

As per the norms of National Council for Teacher Education, the minimum qualifications required for appointment of teachers are:

- (a) Two-year Diploma in Elementary Education for classes I to VIII; and
- (b) One-year Bachelors in Education for classes VI to VIII.

The Ministry of Human Resource Development (MHRD) through a notification (September 2012) relaxed the above norms for the State of Nagaland which was valid for a period up to 31 March, 2014, subject to fulfilment of following conditions:-

- The State Government shall conduct the Teacher Eligibility Test (TET) and only the qualified candidates were to be considered for appointment as a teacher in classes I to VIII;
- The State Government and other school managements shall ensure that the teachers employed or engaged by them who do not possess the minimum qualifications required shall acquire the minimum qualifications within five years.
- the State Government and other school managements shall ensure that the teachers who were appointed under the relaxed qualification norms acquire the minimum qualification specified in the said notification within a period of two years from the date of appointment;

Examination of records revealed that the State Government conducted TET twice only on 14 December 2013 and 9 July 2016. However, the State Government did not conduct any TET for teachers who were appointed under SSA during the years 2011 and 2013 in contravention of the MHRD notification.

(ii) Training of Teachers

State Council of Education Research and Training (SCERT) is committed to planning, implementation, evaluation of academic programs and teacher education at all levels of school education

Examination of records of the Mission Director, SSA, revealed that there were 16,551 teachers in Government Primary and Middle Schools in the State. It was noticed that 5861 (35 *per cent*) teachers were trained and 10690 (65 *per cent*) were yet to be trained.

The teacher's profile in the selected districts were as indicated below:

- (a) In Mon district, out of 132 teachers, 59 were trained (45 *per cent*)
- (b) In Dimapur district, out of 385 teachers, 127 were trained (33 *per cent*); and
- (c) In Kohima district, out of 248 teachers, 149 (60 *per cent*) teachers were trained.

It was observed that in addition to training of teachers within the State at District Institution of Education and Training, which is responsible for imparting induction

training for newly recruited teachers as well as untrained teachers, an effort was made by SCERT to impart training to untrained teachers through Open and Distance Learning mode in collaboration with the National Institute of Open Schooling (NIOS). The duration of the course was for two years commencing from 2014.

Training of 1900 untrained teachers under NIOS was approved by GoI and ₹ 1.14 crore was released (March 2014) to SCERT for the purpose. It was observed that 1575 teachers got enrolled for admission for first year of the two year course. It was, however, observed that the number of enrolment in the second year was only 1323 teachers. Reasons for drop in the enrolment for the second year was neither on record nor was stated. Thus, out of 1900 untrained teachers targeted to be trained through Open and Distance Learning mode, only 1575 got enrolled for training in the first year of which only 1323 teachers got enrolled for the second and final year of the training. Information on how many teachers completed the training was not made available. The prospect for imparting distance learning to the remaining untrained teachers through NIOS in the subsequent years was also lost as the State Government cancelled the MoU with NIOS.

The presence of high number of untrained teachers will have an adverse impact on the quality of education in the State.

SMD, SSA in reply (October 2016) stated that efforts are being made to provide trainings to the untrained teachers. The SMD also highlighted the indifference of the teachers and insufficient study centres as some of the main problems for low turnout of untrained teachers for training.

1.3.8.16 State Institute of Education Management & Administrative Training (SEIMAT)

The objective of setting up SEIMAT was to provide training to various functionaries such as the District Education Officers, Sub-Divisional Education Officers, Sub-Inspector of Schools, Principals/Headmasters/Head teachers etc. as most of the educational administrators required professional experiences in planning and management of educational institutions.

Examination of records revealed that GoI approved an amount of ₹ 2.20 crore during 2012-13 for Civil Works including construction of building, furniture etc. It was observed that the construction of the building commenced in October 2012 and was completed in November 2015 as per the completion report furnished by the Executive Engineer, Education Division Nagaland.

It was, however, observed that though the designated building of SEIMAT was completed (November 2015); the training programme had not commenced and therefore the objective of providing training to various functionaries of the Government Schools in Nagaland was not achieved.

SCERT in reply (October 2016) stated that training programmes could not be conducted as the funds provided under non-plan was not sufficient.

1.3.8.17 Distribution of text books and uniforms

Section 3(2) of the RTE Act 2009 stipulated that a school shall provide free and compulsory elementary education to all children which inter alia includes providing free text books and uniforms. As per direction of the MHRD (June 2011), procurement of uniforms will be decentralized to the school level. Further, the Ministry emphasized that procurement of uniforms should be made under the limited tender method in terms of Para 118 of the Manual since the estimated cost at the school level will be within the financial ceiling of less than ₹ 0.23 crore prescribed for limited tender.

1.3.8.17.1 Distribution of text books

Examination of records revealed that the receipt and issue register of text books and uniforms were not maintained in the schools. During interaction with the head teacher/teacher-in charge of 90 sample schools the following facts emerged which were confirmed by written replies furnished by them:

- Delay in receipt of books and uniforms
- Distribution of books were based on previous enrolment data, and therefore the number of books were not sufficient.
- Poor/inferior quality of books received
- During the academic year 2016 cloth was distributed instead of stitched uniforms and therefore many poor students could not afford the stitching charges.

From the deficiencies pointed out above, it is evident that there was inadequate planning, coordination and implementation in provision of free textbooks and uniforms.

Further examination of records at the Directorate level revealed that the fund approved by PAB during the current year for purchase of free text books were utilised for the purpose only in the subsequent year. The requirement of books were assessed based on the data of enrolment furnished by SDEOs and DEOs in the State. The comparative statement showing the year-wise number of text books procured and actual enrolment as per the U-DISE figure is given below:

Table 1.3.7

Year	Number of text books set procured	Number of students entitled for text books	Excess (+)/ Shortage (-)
2011-12	260,364	189,938	(+) 70,426
2012-13	277,047	248,249	(+) 28,798
2013-14	223,353	247,726	(-) 24,373
2014-15	230,078	227,794	(+) 2,284
2015-16	239,133	209,347	(+) 29,786
Total	1,229,975	1,123,054	(+) 1,06,921

(Source: Departmental figures/U-DISE)

As seen from the table above, the Department purchased books in excess of the actual requirement every year except in 2013-14 and during the last five years a total of 106,921 books were procured in excess. Despite purchase of excess text books, some schools reported insufficient receipt of text books. This indicated that the data furnished by SDEOs/DEOs were not reliable and also points towards inadequate monitoring mechanism in the Department.

SMD, SSA while accepting the facts stated (October 2016) that the matter has been noted for compliance.

1.3.8.17.2 Distribution of uniforms

During the examination of the records it was observed that the procurement of uniforms has not been decentralized as mandated by the Manual, instead the uniforms were procured by the SMA (except in 2014-15) and distributed to the districts for further distribution to the blocks/schools. No uniforms were purchased during 2015-16. The details of approval by GoI, date of issue of supply order, name of suppliers, actual amount incurred and date of supply of uniform are given in the following table.

Table 1.3.8

Year	Amount approved by GoI (₹ in lakh)	No. of Students	Date of Supply order	Name of the supplier	Actual cost Incurred (₹ in lakh)	Date of supply
2011-12	815.31	203,827	09.11.2011	M/s Baid Brothers, New Delhi. & M/s I Kraft, Dimapur	1299.64	25.04.2012 to 02.05.2012
2012-13	758.97	189,743	12.11.2012	M/s. I Craft, Dimapur	1342.34	3/2013 to 08.07.2013
2013-14	777.54	194,386	21.12.2013	M/s. I Craft, Dimapur	1227.51	N/A
2014-15	765.52	191,879	NA	NA	765.52	NA

(Source: Departmental figures)

As seen from the above table, the fund approved by PAB for procurement of uniforms were not sufficient to cover the cost. To meet the additional expenditure for procurement of uniforms, ₹ 15.14 crore was diverted from the fund meant for Special Training under SSA. Further, it was seen that the uniforms were supplied and delivered to the districts and the EBRCs after a delay ranging from 20 days to five months. This delay in delivery of the uniforms subsequently resulted in delay in distribution to the students. It was further observed from the U-DISE data that the actual number of students enrolled in Government schools was only 573,879 during the year 2011-15. However, the Department procured uniforms for 779,835 students by inflating the enrolment figure. This resulted in avoidable excess expenditure of ₹ 11.96 crore towards the purchase of uniforms.

SMD, SSA in reply (October 2016) stated that the PAB approves as per the figures of students enrolment based on U-DISE and therefore there should not be a mismatch.

The fact, however, remains that as per U-DISE which was compiled by the Department only 573,879 students were enrolled during 2011-15. The Government needs to ensure that adequate number of uniforms are procured and distributed timely to the students.

1.3.9 Financial Management

1.3.9.1 Budget & Expenditure

The details of budget allocation and expenditure are detailed below:

Table 1.3.9

₹ in crore

Year	Opening balance	Funds released		Other receipts	Total fund available	Expenditure	Percentage of expenditure
		GoI	State Govt.				
2011-12	47.39	97.98	10.89	2.67	158.93	130.20	82
2012-13	28.73	112.32	8.56	2.46	152.07	120.32	80
2013-14	31.75	158.03	14.72	0.97	205.47	165.09	80
2014-15	40.38	205.69	20.95	2.55	269.57	143.71	54
2015-16	125.86	87.40	8.00	0.65	221.91	98.48	44

(Source: Departmental figures)

From the table above, it can be seen that the percentage of expenditure with respect to the actual fund available during 2011-16 ranged between 44 per cent and 82 per cent.

It was further noticed from the records that the State Mission Authority, SSA retained a cash balance ranging from ₹ 0.51 crore to ₹ 40.82 crore in bank account as on 31 March of a particular year. It was further noticed that the DMA also retained cash balance in bank accounts ranging from ₹ 5.03 crore to ₹ 16.38 crore. Thus, it indicates that the Department was unable to absorb the funds provided by the Government and also indicated weak financial management.

SMD, SSA in reply (October 2016) stated that retention of heavy cash balance at the end of March was due to delay in release of funds by the Government.

1.3.9.2 Delay in release of funds

According to paragraph 91.2 of Financial Management and Procurement Manual (FMPM), the State was required to release its share within 30 days of the receipt of the central contribution as per the approved sharing arrangement. The State Society will release the funds to districts within 15 days of receipt from GOI and the State Government. The districts would then advance the funds on the basis of annual work plans and objectives as approved by the PAB within 15 days of receipt from the State Society

Examination of records revealed that during 2010-11 to 2013-14, the funds were directly credited by GoI to the State Implementing Agency. However, from 2014-15 the funds were released through the State Government, which in turn disbursed the fund electronically to the State Implementing Agency. It was noticed that there were delays in release of funds to the implementing units. These delays in releases of Central share and the State matching share resulted in short release of Central share. The delay in release of funds by the State Government and subsequent delay in release of funds by SSA resulted in delayed payment of salary to the teachers and construction of school building remaining incomplete.

1.3.9.3 Outstanding advances

As per paragraph 74 and 75 of the FMPM, all funds released to the districts and sub-district level units are initially classified as advances and the same is indicated in the books of account. These advances shall be adjusted based on the expenditure statements/utilization certificates received by the State Implementation Agency. Advances, if not actually spent for which accounts have not been settled, should be shown as advances and not as expenditure. The advances released to VECs/SMCs for undertaking certain activities such as civil works/Teaching Learning Equipment (TLE) and remaining unspent amount at the end of the year was carried over to next year as spill over activities based on the approval of the PAB. The prescribed timeline for submission of UCs/documentation is one month after the close of each quarter and one month after the close of the financial year.

Examination of the accounts of the SMA revealed that there were unadjusted advances at the end of each financial year as detailed below:

Table 1.3.10

₹ in crore

Year	Unadjusted Advances				Total
	SMA		DMA		
	Civil works	Other advances	Civil works	Other advances	
2011-12	0	0.43	14.66	0.11	15.20
2012-13	0	0.33	19.61	0.56	20.50
2013-14	0.50	0.33	20.79	20.39	21.82
2014-15	0.82	0	27.19	0.18	28.19
2015-16	Accounts not yet finalized				

(Source: Departmental figures)

As seen from the table, advances ranging from ₹ 15.20 crore to ₹ 28.19 crore remained unadjusted.

Further, it was observed that SCERT did not submit the Utilization Certificates for ₹ 3.09 crore transferred during the year 2013-14 for imparting induction training for newly recruited teachers and untrained teachers for a period of two years stating that the Utilization Certificates could not be submitted as the trainings were ongoing.

SMD, SSA in reply (October 2016) stated that outstanding advances were mainly on civil works and therefore the SMA is contemplating to regularize such advances within one month.

1.3.9.4 Non accounting of interest earned on grant

As per Para 91.5 of Manual on Financial Management and Procurement, the interest accrued on the funds received from GoI and the concerned State Government for the implementation of SSA is to be accounted for in the financial accounts at all levels. This cannot be utilized for any other purpose except as part of the approved AWP& B of SSA. The interest accrued in a year shall be taken into account against the release

of GoI's share and the State Government's share respectively in the next financial year.

Examination of records of the SMA revealed that a total of ₹ 6.39 crore was earned as interest, out of which ₹ 1.81 crore pertains to three selected districts during 2009-15. However, the amount of interest earned was kept separately and not shown as receipt and incorporated in AWP & B.

SMD, SSA accepted the facts (October 2016).

1.3.10 Management, Monitoring and Evaluation

Implementation of the RTE Act 2009 is being monitored at the National Level by MHRD and in the State level by the respective State Government. In Nagaland, a Governing Body and Executive Body at the State level and District Education Committee and District Level Monitoring Committee at the District Level was constituted (January 2010). However, during the period covered in audit only one Governing Body meeting was held on 16.04.2010, while the Executive Body met once every year.

1.3.10.1 Functioning of State Advisory Council

Section 34 of RTE Act 2009 stipulated that the State Government shall constitute, by notification, a State Advisory Council (SAC) consisting of such number of Members, not exceeding fifteen, as the State Government may deem necessary, to be appointed from amongst persons having practical knowledge in the field of elementary education and child development. The function of the SAC shall be to advise the State Government on implementation of the provisions of the Act in an effective manner. Accordingly, SAC with 14 members was constituted (16.05.2010) in the State. However, the Department did not furnish the details and number of the meetings of the council held. Thus, the outcome for constitution of SAC by the State Government on implementation of the provisions of the Act could not be assessed.

SMD, SSA in reply (October 2016) stated that it has been noted for compliance.

1.3.10.2 Research, Evaluation, Monitoring and Supervision (REMS)

The year-wise funds approved by PAB and expenditure under Research, Evaluation, Monitoring and Supervision (REMS) is given below:

Table 1.3.11

Year	Amount approved (₹ in lakh)	Expenditure (₹ in lakh)	Percentage of expenditure against approved amount
2011-12	32.16	19.52	61
2012-13	36.08	19.74	55
2013-14	41.10	33.00	80
2014-15	35.88	5.00	14
2015-16	22.95	0.00	0
Total	168.17	77.26	46

(Source: Departmental figures)

As seen from the above table, the overall percentage of expenditure against the approved outlay under REMS was only 46 *per cent*. It was also noticed that there was no expenditure under REMS at district level during 2012-16. Performance Indicators for Elementary School Teachers (PINDICs)⁴ a component of REMS had already been developed by NCERT. However, the process of assessing the performance of teachers through the use of PINDICs had not commenced in the State. It was also stated by SCERT that it had not designed the school quality assessment as entrusted to it under RTE Act.

SMD, SSA in reply (October 2016) stated that capacity workshop on PINDICs for Trainer of Teachers, District Project Assistants and EBRC coordinators was conducted by Resource person from NCERT, New Delhi in June 2016 and that use of PINDICs format developed by NCERT shall commence from this year onwards.

1.3.10.3 Monitoring by State Commission for Protection of Child Right

Nagaland State Commission for Protection of Child Right (SCPCR) was constituted in April 2013 after three years of the commencement of the RTE Act, 2009.

Child helpline as envisaged in RTE Act was not provided by the SCPCR. Nagaland SCPCR stated in reply to an audit enquiry that it had not taken up any survey of school children as provided in the approved AWP & B due to non-release of fund and provision of appropriate staff. This has resulted in poor/deficient monitoring by SCPCR.

SMD, SSA in reply (October 2016) stated that it has been noted for compliance.

1.3.10.4 Technical Supervision of Civil Works

The SMA appointed a consultant for preparation of technical estimates and plans. Besides, SMA has one Project Engineer who is assisted by two Junior Engineers. At the block level, no technical staffs were posted and the construction works were supervised by the Block Resource Centre (BRC) coordinators. As these coordinators do not possess the requisite professional qualifications, the technical support needed during the construction could not be provided to the Village Education Council (VECs) for implementation of civil work.

SMD, SSA in reply accepted the facts (October 2016).

1.3.10.6 Conduct of evaluation study/impact assessment

No evaluation study/impact assessment of free and compulsory education of the children between the age of 6 to 14 years either by State Government or through any external agency was conducted in the State of Nagaland as envisaged in the Act.

SMD, SSA in reply (October 2016) stated that the SMA had completed five Research Studies though it was not specifically on free and compulsory education.

⁴ PINDICs are used by teachers for assessing their own performance and to make continuous efforts to reach the highest level. Self-assessment by the teacher is done at least twice in a year, one ending first quarter and second ending third quarter.

1.3.11 Conclusion

Household survey to identify children belonging to the disadvantaged and weaker sections was not conducted. There were still 164 eligible habitations without Primary Schools and 125 eligible habitations without Upper Primary Schools. During the audit period, the average enrolment of children in Government Schools in the State was less than 50 *per cent* though Government schools constitute 73 *per cent* of the total schools in the State indicating that the objective of free and compulsory education as envisaged by RTE Act was not fully achieved. The provision for 25 *per cent* reservation for weaker and disadvantaged children was not implemented in the state. Contrary to the provisions of RTE Act collection of admission fee by schools was noticed in audit.

In three selected districts, 40 *per cent* of schools did not have separate toilets for girls, 74 *per cent* of schools did not have safe drinking water facilities and 32 *per cent* of schools did not have kitchen for cooking Mid-day Meal.

A total of 457 teachers were posted in offices under the establishment of the Directorate, District Education Officers and Sub-Divisional Education Officers in contravention to RTE Act. As of September 2016, there were 10,690 untrained teachers in the State.

During 2011-16, the percentage of expenditure with respect to the actual available fund ranged between 44 *per cent* and 82 *per cent*. The State Mission Authority retained cash balance ranging from ₹ 50.70 lakh to ₹ 40.82 crore in the bank account.

Though the State Government constituted Governing Body and State Advisory Committee for the purpose of monitoring and also advises the Government on the implementation of RTE Act, the impact for constitution of these bodies could not be assessed as details of their meeting and the minutes were not provided.

1.3.12 Recommendations

The recommendations are:

- Household survey as envisaged in the Act should be conducted and the needs of the children identified and assessed to ensure the RTE Act is implemented properly.
- The State Government should make sincere efforts to impart training to all untrained teachers expeditiously.
- The Government should make effort to rationalize the posting of teachers by redeployment to meet the requirement of teachers as prescribed in the Act.
- The School grants should be released on time to ensure that no fees are collected from the children.
- The State Government needs to ensure that adequate number of uniforms and textbooks are procured and distributed timely to the students

Compliance Audit paragraphs

DEPARTMENT OF MUNICIPAL AFFAIRS

1.4 Payment without supply of materials

The Additional Director, Department of Municipal Affairs Cell arbitrarily altered the specification of the Roto Crates and extended undue benefit to the Supplier. Further, the Additional Director also paid the full amount of ₹ 1.11 crore to the supplier without actual receipt of the material.

According to Rule 137 of the General Financial Rules, every authority delegated with the financial powers of procuring goods shall be responsible and accountable to bring efficiency, economy and transparency in matters relating to public procurement. The procedure to be followed in making public procurement must inter-alia conform to the specifications in terms of quality, type etc., and also quantity of goods to be procured, should be clearly spelt out keeping in view the specific needs of the procuring organisations. The specifications so worked out should meet the basic needs of the organisation without including superfluous and non-essential features, which may result in unwarranted expenditure.

The Department of Municipal Affairs, Government of Nagaland invited quotations (May 2014) from registered contractors and suppliers for supply of Roto Crates for use in solid waste management. A purchase committee of three members with Additional Director, Municipal Affairs Cell, Urban Development as the Chairman recommended a Supplier⁵, being the lowest bidder, for supply of 1611 Roto Crates (Model: RFLB 150 L1)⁶ having a capacity of 100 litre at a cost of ₹ 6905 per unit.

Examination of records (March 2016) revealed that the Additional Director asked (April 2015) the Supplier to supply Roto Crates (Model: RFLB 60 L1) having a capacity of 60 litre instead of the approved model of 100 litre capacity, at the same rate (₹ 6905 per unit). However, no formal supply order indicating the terms and conditions of the supply and regulating the payments was issued to the Supplier. The Supplier was asked to submit the bill for payment, which was to be released after receipt of funds from the State Government. No reasons for change in specification was on record and also no approval from the competent authority was obtained.

As per the price list submitted (June 2014) by the Supplier, the price of Model RFLB 60 L1 was ₹ 2327 per unit. Thus, by altering the specification the Additional Director Municipal Affairs Cell, Urban Development extended an undue benefit of ₹ 0.74 crore to the Supplier.

Further, it was noticed in audit that the Supplier was paid (24 April 2015) the full amount of ₹ 1.11 crore (₹ 6905 *1611) in advance by the Additional Director on the

⁵ Shri. Neiphrelie Mechulho

⁶ These bins are useful in storage, collection and safe disposal of waste at individual and community level.

basis of a letter of assurance given by the Supplier. It was also observed that the Supplier did not supply the Roto Crates and therefore, the Department issued (September and October 2015) a notice asking the Supplier to repay the full amount and also explain why his firm should not be blacklisted.

To ascertain the position of supply and distribution of Roto Crates, documentary evidence, was sought from the Department (June 2016). The Department in their reply (June 2016) stated that all the records/files relating to the issue had been seized by the Vigilance Commission. In order to verify the reply furnished by the Department, the matter was taken up with the Vigilance Commission which confirmed that the Roto Crates had not been supplied till June 2016.

Thus, the officials of Department of Municipal Affairs irregularly not only changed specification of the item (Roto crates) but also paid the full amount of ₹ 1.11 crore as advance to the Supplier (April 2015) in violation of extant rules resulting potential loss of public money and undue financial benefit to the Supplier .

In reply the Government stated (August 2016) that 120 Roto Crates (less than 10 *per cent* of the quantity ordered) has since been received in the month of July 2016. The Government was, however, silent regarding change in specification because of which undue benefit was extended to the Supplier as well as payment of entire amount in advance without taking precaution to safeguard the interest of the State. The fact, however, remains that the supplier was paid in full without actual receipt of the material, which is yet to be supplied.

TECHNICAL EDUCATION DEPARTMENT

1.5 Undermining of legislative financial control.

An amount of ₹ 5.08 crore received as compensation from National Institute of Technology for the standing building and land was not deposited into Government Account and was irregularly diverted bypassing the legislative financial control and accountability.

According to Appendix-11 read with General Financial Rule 278, all property and assets including land and building shall vest with the State Government including the liability to dispose them by sale, mortgage etc., and the proceeds thereof shall be credited to the revenues of the respective State Governments.

Rule 6(1) of the Receipt and Payment Rules, 1983 also stipulated that all money received by or tendered to Government officers on account of revenues or receipts or dues of the Government shall, without undue delay, be paid in full into the accredited bank for inclusion in Government Accounts. Money received as aforesaid shall not be utilized to meet departmental expenses. Rule 9 of the Central Treasury Rules further stipulated that a Government officer may not, except with the special permission of

the Government, deposit in a bank, other than the Reserve Bank or its agent for the purpose of Government transactions.

Examination (July 2015) of the records of the Director, Technical Education revealed that 300 acres of land meant for Office Complex campus of Deputy Commissioners at Chumukedima along with existing infrastructure was officially handed over by the State Government to National Institute of Technology (NIT) on 16 January 2012. The book value of the structures was assessed at ₹ 5.08 crore as per Nagaland State PWD Schedule of Rates and the full amount was paid by the Director, NIT through cheque⁷ to the Commissioner & Secretary, Department of Higher and Technical Education. It was observed that the money received as compensation for the land and buildings was not accounted in the Cash Book of the Director of Technical Education nor was it deposited into Government account.

On further scrutiny of records, it was noticed that the cheque received by the Commissioner & Secretary, Department of Higher and Technical Education was deposited (18 July 2013) in State Bank of India (Current Account 30045675060) of Director of Technical Education, Nagaland. The entire amount was transferred (27 July 2013) to Axis Bank (Current Account 912010060359987) of Director of Technical Education, Nagaland and was again transferred (12 August 2013) to another account in the same bank (913020035971224). None of these accounts were opened with the concurrence of Accountant General (A&E) as required under extant rules.

Further, it was noticed that the Commissioner & Secretary Department of Higher and Technical Education, Government of Nagaland accorded (July 2013) administrative approval for utilization of compensation received towards 13 works without obtaining concurrence or sanction from the Finance Department.

Thus, ₹ 5.08 crore received as compensation was irregularly deposited in the accounts of the Director, Technical Education instead of remitting to the Government account and was utilised for execution of 13 works. Such practice of diversion of revenue undermines legislative financial control and accountability.

The Department while accepting the receipt of the money stated (September 2016) that the money was transferred to the accounts of the Director and re-transferred to a new account specifically opened for utilization of the fund as per the administrative approval.

The Government reply is silent about the gross violation of the extant rule in not depositing the money into the Government account and incurring expenditure by diverting Government revenue as a result bypassing the legislative financial control and accountability.

⁷ Cheque No. 439136 dated 28.06.2013

HEALTH AND FAMILY WELFARE DEPARTMENT

1.6 Payment without receipt of equipment

The Director, Health and Family Welfare, paid ₹ 36.66 lakh without actual supply/procurement of seven medical equipment. Besides, the Department paid ₹ 17.19 lakh for two items not sanctioned by the Competent Authority.

Department of Health and Family Welfare, Government of Nagaland forwarded a proposal for inclusion of the Scheme “Up-gradation of Equipment Infrastructure at Aine Nursing Home and Diagnostic Centre, Jalukie, Peren District” in June 2012 to North Eastern Council (NEC), Shillong under the State prioritised list of projects for the year 2012-13.

Accordingly, NEC accorded administrative approval (November 2012) for ₹ 4.91 crore for procurement of 57 equipment and sanctioned ₹ 1.75 crore⁸ as the first instalment. According to the terms and conditions of the sanction all the approved equipment and machineries were to be procured by the Managing Director of Aine Nursing Home and Diagnostic Centre after observing all codal formalities as per laid down provisions of the General Financial Rules under the supervision of Health & Family Welfare Department. No deviation or revision of cost from the approved list of items was to be allowed without prior approval of NEC.

Examination of vouchers (April 2015) in central audit section revealed that the Principal Director, Health and Family Welfare had drawn⁹ ₹ 1.75 crore and paid to M/s K. Sumi & Marketing Company, Kohima against the bill submitted by the firm for supply of 33 Hospital/Surgical equipment.

To ascertain the genuineness of the procurement, a joint physical verification with the representatives of the Department and the Nursing Home was carried out in February 2015. During the verification, it was noticed that out of the 33 equipment for which the payment was released, only 26 equipment valued at ₹ 1.38 crore were actually received at Aine Nursing Home and Diagnostic Centre. The details of seven equipment not found received are given below:-

Table No 1.6.1

Sl. No.	Name of the equipment	Amount (₹)
(i)	Laser Scan Touch Screen EM Model – Qty. 1	9,54,654
(ii)	Coagulator Analyser – Qty. 1	3,34,129
(iii)	Deep Freezer for Reagent – Qty. 2 @ ₹ 47,732	95,464
(iv)	Binocular Microscope – Qty. 1	38,186

⁸ Vide Sanction Order No NEC/MED/NGL/90/11 dated 12.11.2012

⁹ Vide Bill No.358 dated 6-11-2013

Sl. No.	Name of the equipment	Amount (₹)
(v)	Holter – Qty. 1	8,59,189
(vi)	Treadmill Test (TMT) – Qty. 1	8,11,456
(vii)	Incubator for Infant – Qty. 2 @ ₹ 2,86,396	5,72,792
Grand Total		36,65,870

Further, cross verification of the paid vouchers with the approved list of equipment revealed that two items (Laser Scan Touch Screen EM Model-₹ 9.55 lakh and Automated Haematology Analyser-₹ 7.64 lakh) worth ₹ 17.19 lakh was not sanctioned by NEC.

Thus, ₹ 36.66 lakh was paid without actual supply/procurement of seven medical equipment. Besides, the Department had also submitted incorrect utilisation certificate to NEC for the entire amount of ₹ 1.75 crore.

The Department in reply (July 2016) stated that supply order in respect of four items pointed out by the Audit Sl. No. (i) to (iv) was placed and accordingly payments were made and in respect of remaining three items no supply order was placed and no payment has been made. The reply is silent as to why the payment was not released after ascertaining the actual receipt of the items.

The reply is not acceptable as the vouchers on which payment of ₹ 1.75 was released *inter-alia* indicate four items that were not actually supplied and two items, which were not sanctioned.

CHAPTER – II
ECONOMIC SECTOR

CHAPTER - II

ECONOMIC SECTOR

2.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2016 deals with the findings on audit of the State Government units under Economic Sector.

The departments and the total budget allocation vis-a-vis expenditure of the State Government under Economic Sector during 2015-16 are given below:

Table No. 2.1.1

₹ in crore

Sl. No.	Name of the departments	Total Budget Provision	Expenditure
1	Agriculture	140.14	136.80
2	Horticulture	83.01	45.34
3	Soil and Water Conservation	47.65	45.64
4	Veterinary and Animal Husbandry	91.28	84.20
5	Fisheries	42.19	33.43
6	Land Resources	109.40	49.69
7	Cooperation	18.09	18.05
8	Civil Supplies	22.15	19.31
9	Rural Development	685.59	261.96
10	SIRD	8.91	4.59
11	Sericulture	26.84	20.89
12	Land Records and Survey	18.69	17.91
13	Irrigation and Flood Control	259.99	127.38
14	Power	419.33	433.28
15	New and Renewable Energy	9.92	9.72
16	Industries and Commerce	80.40	74.51
17	Geology and Mining	27.69	27.37
18	Roads and Bridges	573.37	669.87
19	Science & Technology	3.89	3.77
20	Tourism	35.87	23.31
21	Planning and Coordination Department	691.10	165.52
22	Evaluation	8.02	7.77
23	Department of Under Developed Areas	69.67	63.46
24	Information Technology & Communication	13.75	6.76
25	Forest, Ecology, Environment and Wildlife	76.49	67.18
26	Road Transport	77.61	77.83
Total		3641.04	2495.54

Source: Appropriation Accounts

2.2 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 for compliance is advised. Some of the important audit observations arising out of the Inspection Reports are processed for inclusion in the Audit reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature.

During the year, an expenditure involving ₹ 2027.57 crore (including funds pertaining to previous years audited during the year) of the State Government under Economic Sector were test checked. This chapter contains findings on two Performance Audit viz., ‘Creation, Maintenance and Management of Tourism Infrastructure in Nagaland’ and ‘Activities of Nagaland State Transport Department’. Besides, four compliance audit paragraphs also features in the Chapter.

Performances Audits

DEPARTMENT OF TOURISM

2.3 Creation, Maintenance and Management of Tourism Infrastructure.

The Department of Tourism (DoT), Government of Nagaland (GoN) in its pursuit to promote tourism industry in the State, took up infrastructure development activities and strengthening of the existing infrastructure including Tourist Rest Houses, Wayside Amenities, Tourist Lodges, Integrated Tourist Travel Destinations (ITTD), Integrated Tourist Travel Circuits (ITTC), Rural Tourism projects etc. A Performance Audit of “Creation, Maintenance and Management of Tourism Infrastructure in Nagaland” was conducted during June to September 2016. The number of tourist visiting Nagaland, both domestic and foreign, has witnessed increase during last five years. However, serious lapses in creation of tourist infrastructure and several instances of irregularities in the execution of the projects and also misappropriation of funds provided by Government of India (GoI) were noticed. Some of the major observations are given below:

Highlights:

The State Government had not prepared Tourism Master Plan and Perspective plans as envisaged in Nagaland Tourism Policy 2001. In the absence of Tourism plan, the assets

were created in an ad-hoc manner. There were numerous instances of irregularities in the execution of project.

(Paragraph 2.3.8.1 to 2.3.8.2)

The procedures for identification of tourist destinations and tourist circuits were not followed and therefore the infrastructure projects were randomly selected.

(Paragraph 2.3.8.3)

Two projects (viz., Mega Destination Dimapur and Tourist Destination at Chesezu) were abandoned after incurring a total expenditure of ₹15.95 crore.

(Paragraph 2.3.15)

In absence of proper safeguard, 16 infrastructure developed by the Tourism Department through funding from GoI were illegally occupied by private individuals without executing deed of agreement with the Department.

(Paragraph 2.3.21.3)

The monitoring and internal control mechanism were inadequate and needs to be strengthened.

(Paragraph 2.3.22)

2.3.1 Introduction

Tourism is fast emerging as an important sector in Nagaland. The striking natural beauty, history, distinct culture and the mysticism associated with the customs and ways of the tribes have been the source of great attraction and curiosity to people all over the world which entices thousands of domestic as well as international tourist every year. Each tribe that inhabits this exotic hill state has plethora of festivals which are famous for its music and traditional dances because of which the state of Nagaland is known as the “land of festivals”.



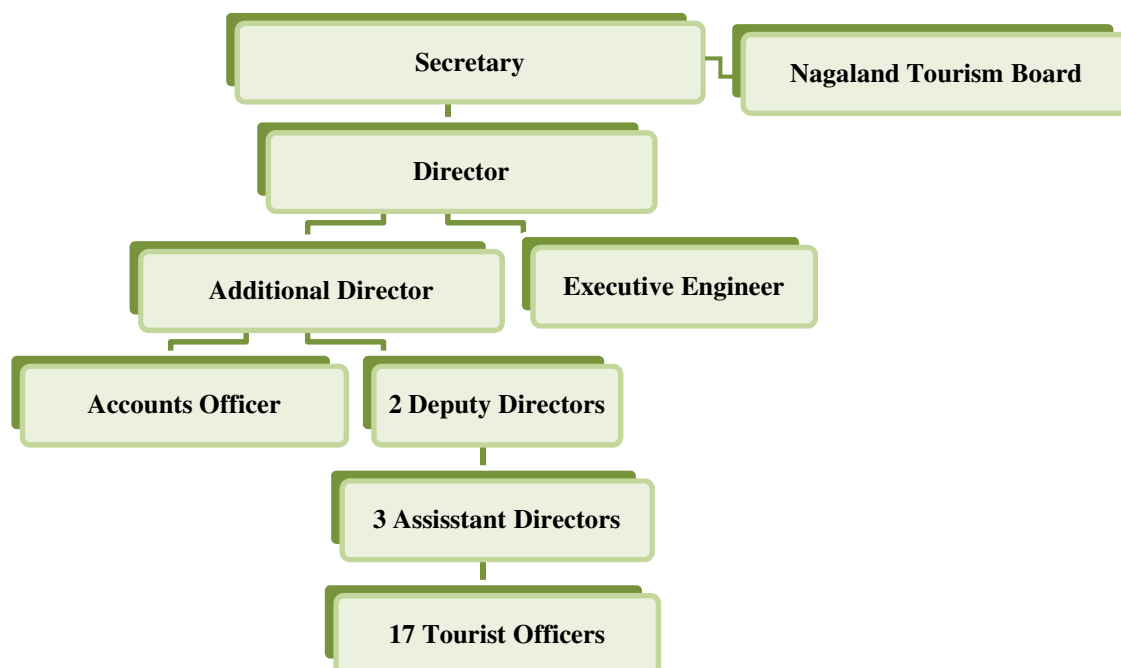
Tourism in North East India in general had suffered on account of years of insurgency and the resulting security concerns. However, considering the immense potential of tourism as an important industry, the Government of India (GoI) and the State Government have been funding several tourism projects for creation of infrastructure, promotion and marketing of tourism. This performance audit was conducted with the main focus

on creation, maintenance and management of tourism infrastructure in Nagaland.

2.3.2 Organisational set-up.

DoT, GoN is the nodal agency responsible for development of tourism sector in the State. The Secretary, DoT, GoN is the Administrative Head of the Department. The Director of Tourism is the Head of the Department who is responsible for all tourism related activities. The Director is assisted by one Additional Director, two Deputy Directors, three Assistant Directors, 17 Tourist Officer and one Accounts Officer at the Directorate level. The Directorate has also an Engineering Wing which is headed by an Executive Engineer.

Organogram of the Department is depicted below:



2.3.3 Scope of audit

The Performance Audit covered the period from 2011-16. The main focus of audit was on the efforts made by the DoT, GoN on Creation, Maintenance and Management of Tourism Infrastructure in Nagaland. The audit covered the offices of the Directorate of Tourism, Engineering wing of the Department, records maintained in the tourist lodges owned by the Government and the proprietors (private parties) to whom the facilities were leased out to run and maintain the infrastructures.

During the period covered in audit, the Department took up 62 projects, out of which 21 projects were selected for test-check. In addition to 21 projects selected two projects (out of nine spilled over projects taken up prior to 2011) were also selected for examination. Out of the 23 selected projects, four projects were selected from Integrated Tourist Travel Destination (ITTD); four projects from Integrated Tourist Travel Circuit (ITTC); four projects from Rural Tourism programme and 11 projects were drawn out from different other programmes.

2.3.4 Audit objective

The objectives of the Performance Audit were to assess whether:

- (i) there were adequate plans to address the requirement and management of infrastructure for tourism development in the state.
- (ii) the infrastructure projects for promotion of tourism were financed and executed in an economic, efficient and effective manner.
- (iii) the monitoring mechanisms were adequate and effective to assess and evaluate its desired performance.

2.3.5 Audit methodology

Audit methodology adopted were examination of records, issue of audit queries/observations, examination of responses to audit, joint physical verification, photographic evidences wherever relevant. The draft report was issued to the Government in October 2016.

The Performance Audit began with an Entry Conference held on 28 June 2016 with the officers of the Department wherein the audit objectives, methodology, criteria and scope of audit were discussed. The Exit conference was held on 18 October 2016 and the replies and views expressed by the Department during the exit conference were considered and appropriately incorporated in the Report.

2.3.6 Audit criteria

The findings were benchmarked against the following criteria:

- National Tourism Policy, Nagaland Registration of Tourist Trade Act.
- Guidelines, Circulars and various Orders issued by the Ministry of Tourism, Government of India/State Government.
- General Financial Rules.
- Receipt and Payment Rules.
- Nagaland Public Works Code and Manual.
- Prescribed monitoring mechanism.

2.3.7 Acknowledgement

Indian Audit and Accounts Department would like to place on record its appreciation for the co-operation and assistance accorded by the Department during audit.

Audit Findings.

The audit findings are discussed in the paragraph that follows:

2.3.8 Planning.

2.3.8.1 Nagaland Tourism Policy

The State Government introduced the Tourism Policy in 2001. The prime objectives of the policy were:

- provide a plan for development of domestic and international tourism,

- identification of tourism potential areas and development of these resources,
- strengthening of the existing and viable infrastructures on a selective and intensive basis for maximum benefit,
- prepare and implement master plans to integrate development and marketing of identified circuits,
- creation and providing necessary infrastructural facilities such as power, water, roads, transportation etc.

Examination of the implementation of the Tourism Policy revealed the following.

2.3.8.2 Non-Preparation of Master Plan and Perspective Plans.

One of the prime objective of the Tourism Policy of Nagaland 2001 was to prepare master plan to integrate developmental activities and marketing of identified tourism circuits. It was observed that the Department did not prepare a master plan, perspective plan, annual action plan and the road map for prioritising and identifying viable areas for development. In the absence of master plan the developmental activities were undertaken in an *ad-hoc* manner leading to creation of assets in a haphazard way and compromise in the quality of construction. As a result the assets created were not being put to use for the purposes for which they were created, assets created were occupied by the land owners in the absence of clear agreement regarding use of the assets created on private land, etc. Details of such cases noticed in sample selected are discussed in the subsequent paragraphs while discussing the relevant programme/project.

2.3.8.3 Identification of Tourist Potential areas and selection of projects.

A Tourist Travel Destination is a place which is identified considering the interest of the tourists. Being eligible for the scheme, the destination should be among the most tourist visited sites in the State or a recognized heritage monument whereas, a tourist circuit is defined as a route on which at least three major tourist destinations are located such that none of these are in the same town, village or city and at the same time are not separated by a long distance. It should have well defined entry and exit point. The main purpose of identifying these places is to attract and motivate the tourist who enters at the entry point to visit all the places identified on the circuit.

During 2011-16, DoT, GoN identified 14 Integrated Tourist Travel Destinations (ITTDs) and 13 Integrated Tourist Travel Circuits (ITTCs) for development.

Examination of records revealed that no procedures or guidelines for selection of the potential tourist areas were formulated. Out of four ITTDs (out of 14) and four ITTCs (out of 13) test-checked in detail, it was observed that they were randomly selected for development without any survey, feasibility study, analysis of the data of tourist inflow and relevance of the location before development of infrastructures in those areas.

The Department in reply (November 2016) stated that it is yet to come up with Tourism Policy related to civil asset creation management. It was further stated that the points raised by Audit shall be communicated to the Government while framing tourism guidelines and procedures in selection of projects.

2.3.8.4 Nagaland Tourism Council and subsidiary bodies.

For effective co-ordination between various government departments and agencies for developing tourism industry and to make appropriate policy decisions to boost the tourism sector, Nagaland Tourism Policy envisaged constitution of Nagaland Tourism Council. It also envisaged constitution of Coordination Committee for inter departmental coordination and establishment of District Level Coordination Committee to coordinate and regulate tourism activities at the district/village level.

The State Government constituted Nagaland Tourism Board (October 2009) instead of Nagaland Tourism Council. However, no record relating to the functioning of the Board were made available to audit. The District Level Coordination Committee to coordinate and regulate tourism activities at the district/village level was not constituted. The State Government through a notification (January 2016) reconstituted Nagaland Tourism Board as Nagaland Tourism Council (Apex Body) with the Chief Minister as its Chairman and subsidiary committees at state and district level. However, records on the actual functioning of these councils and committees were not made available to audit.

2.3.9 Execution of projects.

Examination of records revealed that the Department took up 62 projects during 2011-16 at a total cost of ₹ 299.34 crore. Further, there were nine spill-over project at approved cost of ₹ 41.66 crore. Detailed examination of 23 selected projects (including two spilled over project) and joint physical verification revealed the following:

- (i) As of September 2016, out of 62 projects sanctioned during 2011-16, 49 projects were scheduled for completion by March 2016. However, only 18 projects were actually completed. It was noticed that all nine projects (₹ 41.66 crore) sanctioned prior to 2011-12 had now been completed.
- (ii) 65 components of works in 14 projects of which payment of ₹ 8.85 crore was made were not actually executed. Thus, the Department paid an amount of ₹ 8.85 crore without execution of works.
- (iii) 16 components of work in eight projects at a cost of ₹ 1.83 crore was short executed by compromising the plinth area and the facilities of the approved items.
- (iv) 44 component of works in nine projects at a cost of ₹ 9.52 crore were executed in other locations/village than was originally approved.
- (v) 16 infrastructure created were illegally occupied by private individuals without executing deed of agreement.

2.3.9.1 Technical sanction for the projects

Technical sanction is done to ensure that the proposals are technically sound and the estimates are accurate. As per the Central Public Works Department/ State Public Works Department norms, after administrative approval and expenditure sanctions, technical sanctions are to be obtained from a competent authority based on detailed

estimates which is a pre-condition to take up any work. It was observed that except in two¹ out of 23 selected projects, the projects were executed without observing the procedures of obtaining the technical estimates of the competent authority. As a result the projects were executed in disorganised way leading to irregularities in the execution of the work. Instances of irregularities noticed in the execution of the work are discussed in detail in the succeeding paragraphs against individual projects.

While accepting (November 2016) the audit observation, the Department stated that corrective measures will be taken and NPWD norms will be followed.

2.3.10 Integrated Tourist Travel Destinations (ITTDs)

Examination of the implementation of four ITTDs projects in the State revealed the following:

2.3.10.1 Integrated Tourist Travel Destination, Kewhira, Kohima

MoT, GoI sanctioned (September 2011) an amount of ₹ 5.00 crore for development of 'ITTD, Kewhira, Kohima'. The sanction included development/construction of 14 components of work. ₹ 4.00 crore was released as first instalment (80 per cent).

It was noticed that the Department issued work orders for 20 components of works for execution by splitting the sanctioned amount and included six additional works which were not originally included in the approved sanction of the MoT. The following deficiencies were noticed:

(i) Construction of Budget Accommodation:

As per the sanction, an amount of ₹ 2.52 crore was meant for construction of budget accommodation. Instead of constructing one integrated budget accommodation at Kohima, the Department decided to construct six budget accommodations at different locations by splitting up the sanction into six parts. As per records, ₹ 1.27 crore has so far been incurred on construction of five budget accommodations as detailed below.

Table No.2.3.1

Particulars of work	Work order cost	₹ in lakh
		Expenditure so far
Construction of budget accommodation Part I	38.12	31.40
Construction of budget accommodation Part II	38.12	27.57
Construction of budget accommodation Part III	38.12	38.04
Construction of budget accommodation Part IV	38.12	30.04
Construction of budget accommodation Part V	38.12	Work had not commenced
Construction of budget accommodation Part VI	67.80	67.80

It was also observed that construction of budget accommodation Part I and II were clubbed as one component and construction was stated to be in progress.

A joint physical verification along with departmental official was conducted and following facts emerged:

¹ State Institute of Hotel Management and Catering Phase II and Development of Sungkotenem Lake at Mopunchuket in Mokokchung District

- A five storey building under construction as shown in the following photograph was shown as the building of budget accommodation Part I and II at New Secretariat, Kohima by the departmental official.



Photograph of Under construction building at New Secretariat claimed as budget accommodation

However, as per measurement book and paid bills, items of work such as brick work in super structure, flooring with ceramic tiles, CGI sheet roofing, wood work, steel windows, full panelled shutters, etc. have already been executed and payment have been made for them. However, the under construction building at New Secretariat shown as budget accommodation Part I and II was just super structure. During joint physical verification, the Junior Engineer stated that the building was constructed/upgraded in collaboration with other departments. However, no records/documents in support of the claim were made available to Audit.

The location of construction of budget accommodation Part IV (₹ 30.04 lakh) was changed to Christian Prayer Centre at Chathe, Dimapur. However, during joint physical verification, the Chairman of the Prayer Centre stated that no building was constructed in and around the Prayer Centre by the Department.

- Construction of budget accommodation Part VI at Kewhira, reported as completed at a cost of ₹ 67.80 lakh could not be located during joint verification.

Thus, the possibility of misappropriation of ₹ 97.84 lakh (₹ 30.04 lakh + ₹ 67.80 lakh) without actual execution of the above works could not be ruled out. The Government needs to investigate these expenditure and fix responsibility.

The Department stated (November 2016) that ₹ 67.80 lakh for budget accommodation Part I and II were utilised for the construction of the stated building and further work was in abeyance due non-release of final instalment from MoT, GoI. Further, the Department iterated that budget accommodation Part IV has been constructed at Christian Prayer Centre at Chathe, Dimapur. No reply was furnished regarding budget accommodation Part VI at Kewhira.

The reply of the Department establishes the fact that items of work such as brick work, flooring, roofing, wood work, etc. relating to budget accommodation Part I and II recorded as completed in the measurement book and accordingly payment made were not actually executed and were fictitious. The possibility of misappropriation of the expenditure claimed to have been incurred on construction of budget accommodation under Part I and II could not be ruled out.

As regards budget accommodation Part IV constructed at Christian Prayer Centre at Chathe, Dimapur nothing was physically available during joint physical verification carried out in the presence of departmental representative. Also, the Department's silence about budget accommodation Part VI at Kewhira confirms that actually no construction has taken place on which ₹ 67.80 lakh have been incurred. The Department should institute an enquiry and disciplinary action taken against official involved in siphoning off the funds.

(ii) Construction of Open Air Theatre with dressing room facilities

₹ 33.00 lakh was allocated for construction of Open Air Theatre with dressing room facilities and parking areas at Kewhira. It was, however, observed that the funds was utilised for construction of office building for the Tourist Officer at Kohima without approval of the competent authority and sanction from MoT, GoI.

The Department accepted (November 2016) the audit observation and stated that diversion was carried out as per the necessity.

(iii) Construction of Tourist Reception Centre

As per the sanction order, one Reception Centre at a cost of ₹ 36.00 lakh was to be constructed at Kewhira. It was seen that the work order was issued for construction of two Reception Centres at Pfuchama Village in Kohima district (₹ 12.00 lakh) and Chathe (₹ 13.00 lakh) in Dimapur.

It was noticed during joint physical verification that

- (i) Tourist Reception Centre at Chathe, Dimapur was not constructed.
- (ii) Tourist Reception Centre constructed at Pfuchama Village in Kohima district was located in an interior village and being used as hostel for school going children.

Thus, the Department deviated from the initial scope of the project without obtaining prior permission of MoT, GoI. The possibility of misappropriation of ₹ 13.00 lakh meant for construction of the Tourist Reception Centre at Chathe could not be ruled out.

The Department in reply stated (November 2016) that Tourist Reception Centre at Chathe has been constructed but did not provide any documentary evidence in support of its assertion. As regards Tourist Reception Centre Pfuchama it was stated that since the building was lying unutilised it was handed over to villagers for upkeep.

(iv) Payment without actual execution:

Seven components of works costing ₹ 60.00 lakh was reported to have been taken up and completed as detailed in the following table.

Table No.2.3.2

₹ in lakh

Sl. No.	Name of the Components	Approved cost	Expenditure
1	Furniture and Furnishing Part- I	8.18	6.56
2	Construction of Compound Wall	18.06	14.04
3	Internal Pavement	7.48	14.50
4	Construction of public toilet	19.44	14.72
5	Trekking Route Intermediate Rest Camp	3.64	2.92
6	Construction of Decomposed Yard	3.97	3.18
7	Construction of Retaining wall	5.83	4.68
Total		66.60	60.60

However, during joint physical verification, the above seven components of works as claimed by the Department as completed could not be located or found executed. Thus, the Department paid ₹ 60.00 lakh without actual execution of works and possibility of misappropriation cannot be ruled out.

The Department in reply stated (November 2016) that work related to the components at Sl. No. 1, 3, 4 and 5 of Table No.2.3.2 were yet to be taken up and iterated that work relating to components at Sl. No. 2, 6 and 7 has been executed. The reply is acceptance of fact that payment for four out of seven components was made despite no work was actually executed and no documentary evidence was furnished in respect of work claimed have been completed, which could not be located during joint physical verification in which representative of the Department was also involved.

2.3.10.2 Integrated Travel Tourism Destination, Tsiesema, Kohima

MoT, GoI, sanctioned ₹ 4.92 crore (September 2012) for 16 components of works under '*ITTD Tsiesema, Kohima*', out of which an amount of ₹ 3.94 crore was released. The Department, however, issued work order for construction of 21 components by splitting up the amount sanctioned. As per records the physical progress was 80 per cent as of March 2016 and the work was yet to be completed. The following deficiencies were noticed.

(i) Construction of Budget Accommodation

As per MoT, GoI sanction (September 2012), ₹ 2.06 crore was meant for construction of one budget accommodation with a total plinth area of 705 sq.mt. However, the Department constructed three budget accommodations (located at Kigwema, Tsiesama and Kisa) at a total cost of ₹ 1.56 crore (at the rate of ₹ 52.00 lakh for each location). Examination of the running bills revealed that ₹ 1.47 crore was paid for construction of these three budget accommodations. One of the budget accommodations constructed at

Kigwema at a cost of ₹ 52.00 lakh including electrification was lying idle since April 2014 as shown in the following photograph.



The remaining two budget accommodations had not been completed even after four years and incurring cumulative expenditure of ₹ 95.00 lakh.

The Department in reply (November 2016), stated that final instalment is yet to be released by the MoT, GoI and hence work could not be completed.

The fact, however, remains that the funds were not released by MoT, GoI as the Department did not fulfil the terms and conditions of the sanction of submitting completion/commissioning certificate as per the original plan, drawing etc. approved by the MoT, GoI.

(ii) Construction of Tourism Reception Centre at NH-29:

Another component of ITTD, Construction of Tourism Reception Centre at Tsiesema, Kohima was completed at a cost of ₹ 28.00 lakh. It was noticed during joint physical verification (August 2016), that one room was being used as a grocery shop by a private party and the remaining portion of the building was lying idle.

The Department in reply (November 2016) stated that the contractor had engaged his labourers for up-keep of the building as the final payment was not made.

The reply of the Department is not acceptable as the final payment was released in August 2014 to the contractor and also part of the building is being utilised by a private individual for commercial purpose, which was irregular.

(iii) Construction of Cafeteria:

Construction of three cafeteria at a cost of ₹ 1.06 crore (Tsiesama: ₹ 63.00 lakh, Sepfuzou: ₹ 22.00 lakh and Kewhira: ₹ 22.00 lakh) was taken up by the Department in Kohima district. In the audit scrutiny following aspects emerged.

(i) For construction of cafeteria at Tsiesema an amount of ₹ 63.00 lakh was released. However, there was no record about the construction. Also, during joint physical verification the infrastructure created could not be located.

The Department in reply (November 2016) stated that it was constructed at Gariphema.

The reply of the Department is not acceptable as the departmental representative was part of joint physical verification and any change in the location would have been known to him and the departmental representative could have taken the team to changed location. As such, the possibilities of misappropriation of the entire amount of ₹ 63.00 lakh released for construction of cafeteria at Tsiesema could not be ruled out.

(ii) The construction of cafeteria at Sepfuzou was completed at a cost of ₹ 22.00 lakh but was illegally occupied by the land owner.

Accepting the fact the Department in its reply (November 2016), stated that cafeteria at Sepfuzou is occupied by the contractor for his labourers as final payment was not made. The fact, however, remains that the infrastructure is being used by the land owner as a residence. Further, the reply is silent as to why the final payment was not made to the contractor and the infrastructure put to use for the purpose of which it was created.

(iii) The construction of Cafeteria at Kewhira taken up (January 2013) under the project at a cost of ₹ 22.00 lakh was completed in June 2014. Joint physical verification however, revealed that the cafeteria was located at a far flung and un-inhabited area without an all-weather approach road to access the location. The condition of the buildings also indicated that the infrastructure had not been utilized for the purpose for which it was created as seen in the photographs.



The Department in reply (November 2016) stated that the cafeteria was constructed with an intention of developing the area into a picnic spot for the tourist as well as the locals. The fact remains that the infrastructure developed is not accessible and more over not being put to use.

2.3.10.3 Development of Tourist Destination-Naga Heritage Phesama

The project “*Development of Tourist Destination-Naga Heritage Phesama*” consisting of 19 components was sanctioned (November 2010) by the MoT, GoI at a cost of ₹ 4.79 crore and was completed in July 2013. It was noticed that one of the components of the project ‘*Construction of cafeteria with kitchen and toilet facilities*’ was taken up at a cost of ₹ 7.00 lakh and the project was shown as completed. However, during joint physical verification (August 2016), it was found that the infrastructure was constructed in a private farm house.

The Department in reply (November 2016) stated that the facilities were constructed on private land where it was feasible or in a potential area. The facts remains that no deed of agreement was entered into with the private land owner and the facilities constructed by the Department were actually used by land owner for his private purposes.

2.3.10.4 Jotsoma-Pholami-Tutukenjan-Akhegwo-Losami-Lozaphuhu

Under the project '*Jotsoma-Pholami-Tutukenjan-Akhegwo-Losami-Lozaphuhu*', construction of budget accommodation at Kire Farm was taken up (April 2012) at a cost of ₹ 22.00 lakh which was completed in August 2012. Joint physical verification (August 2016) revealed that the building was constructed on a private land where the owner runs a poultry cum hatchery unit in the constructed building as shown in the following photographs



The Department in reply (November 2016) stated that the facilities were constructed on private land where it was feasible or in a potential area and also stated that the department is in custody of the building developed. The fact remained that the facilities constructed by the Department were actually used by the private land owners and as evident from the photographs it was not used for the purpose for which it was built.

From the above instances it was apparent that there was lack of planning as many of the tourist infrastructure claimed to have been created could not be located during joint physical verification. In case, wherever located, these assets were not being put to use for the purpose for which they were created and in many cases they were either being utilised by the private individuals or not being utilised.

2.3.11 Integrated Tourist Travel Circuit

Examination of records in respect of four selected ITTCs projects revealed the following irregularity:

(i) MoT, GoI sanctioned (December 2009) ₹ 6.17 crore for *Integrated Tourist Travel Circuit Jalukie-Thilixu-Tuli*. The amount was released in two² instalments. The following deficiencies were observed.

- Construction of Tourist Reception Centre at Jalukie was completed in December 2011 at a cost of ₹ 44.00 lakh at New Peren instead of Jalukie. Thus, the

² First instalment of ₹ 4.93 crore (December 2009) and Second instalment of ₹ 1.24 crore (in turn released by State Government ₹ 0.60 crore in June 2013 and ₹ 0.64 crore in February 2014)

Department deviated from original location without obtaining prior approval of MoT, GoI. It was also seen that the infrastructure was lying idle since its completion.

- Construction of Japanese Bridge at Thilixu was done on private land³ on a natural water body.
- Three components viz., Tourist Reception Centre (₹ 79.00 lakh), Tourist Accommodation Twin Cottage (₹ 59.00lakh) and Restaurant with kitchen and toilet facilities (₹ 30.00lakh) at Thilixu was to be constructed with approved plinth area of 850 sq. metre. Out of the funds sanctioned for the purpose an amount of ₹ 1.49 crore had already been spent on construction. It was, however, observed during joint physical verification that the building was constructed on private land⁴ at Thilixu and it was being occupied by the land owner. The photograph of the tourist infrastructure is as below.



Photograph of Tourist building at Thilixu illegally occupied by land owner

It was further observed that the total plinth area of the building was only 460 sq. metre instead of 850 sq. metre. Thus, the plinth area of 390 sq. metre was compromised however, there was no proportional reduction in the cost of construction resulting in undue favour to the contractor.

The Department while accepting (November 2016) the construction of the facilities on private land stated that MoU with the owner of the land is under process.

2.3.12 Development of Sungkotenem Lake at Mopungchuket, Mokokchung.

Mopungchuket village in Mokokchung was recognized as one of the Tourist Village by the State Government. The NEC sanctioned (February, 2012) the project for Development of Sungkotenem Lake at Mopungchuket at a cost of ₹ 3.51 crore to be shared in the ratio of 90:10 between GoI (₹ 3.16 crore) and State Government (₹ 0.35 crore). Accordingly, NEC released the funds of ₹ 2.84 crore in three instalments and the State share of ₹ 0.27 crore was also released in two instalment.

Examination of records revealed that the work consisting of 13 components was awarded (June, 2012) to M/s A.N.K Construction, Kohima at a cost of ₹ 3.19 crore with

³ Teak Plantation of the contractor M/s K.Y. Chishi

⁴ Residential compound of a senior bureaucrat of Government of Nagaland

a stipulation to complete the work within 18 months. An amount of ₹ 3.11 crore was drawn for execution of eight components of works and the contractor was paid ₹ 2.99 crore.

Joint physical verification of the eight executed components of works revealed the following deficiencies:

(i) Approach road

As per records, the construction of approach road measuring 5075 sq. metre including earth excavation, granular sub-base and black topping inclusive of cost of providing and laying prime coat, tack coat with bitumen, bituminous Macadam and surfaces dressing etc. was executed. ₹ 30.00 lakh was paid to the contractor for execution of this component of the work. However, the work has not been actually executed.

This fact was also confirmed by the Junior Engineer stating that the amount was diverted for construction of RCC footpaths/footsteps inside and around the lake. It was, however, observed during the joint physical verification that the foot paths already existed before the commencement of this project. Thus, an amount of ₹ 30.00 lakh was paid to the contractor without actual execution of work.

While furnishing reply, the Department submitted a certificate (November 2016) from the Mopungchuket Village Council stating that construction of approach road and footpath had been carried out by the Department. However, the certificate obtained from the Village Council is not acceptable as the officer in-charge (Section Officer-II) confirmed during physical verification and certified that the sanctioned amount for black topping of the approach road was diverted for construction of RCC footpath and footsteps. State Government needs to verify actual utilisation of the money.

(ii) Tree guards.

An amount of ₹ 16.00 lakh was paid to the contractor for landscaping and horticulture, out of which an amount of ₹12.00 lakh was paid for providing and fixing tree guards (MS flat iron guard 60 cm diameter and 2 metre height). However, during joint physical verification no tree guards were found erected. Thus, the Department paid ₹ 12.00 lakh against unexecuted work.

The Department accepted (November 2016) non-erection of tree guards and stated that the work will be carried out after the final instalment is released by the NEC.

The reply is not acceptable as the bill had been drawn and paid to the contractor showing the work has been actually executed.

(iii) Construction of Main Building.

The Department took up construction of main building including Ethnic food kiosk/cafeteria/conference hall at Sungkotenem (₹ 1.11 crore) with the approved plinth area of 6300 sq. ft. and the contractor was paid ₹ 0.97 crore. However, during joint physical verification, it was noticed that the plinth area of the building was only

4102 sq. ft. Thus, the contractor was paid ₹ 31.00 lakh for short execution of 2198 sq. ft. of plinth area.

While accepting (November 2016) the short execution, the Department stated that site levelling work was not incorporated in the work order and hence, plinth area was compromised. The reply is not acceptable as no record regarding to preparation of estimates for this work was produced to audit, hence the requirement/cost could not be verified in audit. Even this work as well as reduction in plinth area was not approved by the competent authorities.

2.3.13 Construction of Institute of Hotel Management and Catering, Dimapur

The Institute of Hotel Management and Catering at Dimapur, Nagaland aimed at establishing one of the premier institutes in the country offering education, training, research and consultancy in the field of hospitality, tourism, travel, catering and allied sectors. The main objective of setting up the institute was to strive hard towards the human resource development in hotel management and hospitality in tourism sectors. The intake capacity of the proposed institute was 150 student each year for the three year Diploma/Degree course and intake of 30 student each for any of four short course *i.e.*, food production, food and beverage services, accommodation, operation, bakery and confectionary, front office operation, Housekeeping etc. Total strength of student would be 450 student in three year diploma and 120 students in craft level course. Projected strength of faculty was 32 including Principal and part time faculties.

In the Detail Project Report, the works was proposed to be taken up in phases and in Phase-I; Boys Hostel, Girls Hostel, Principal Quarter, Teaching Staff Quarter, Engineering Staff Quarter were proposed. The Detail Project Report proposed a built up area of 41,280.94 sq. ft. during the year 2004-05.

MoT, GoI accorded administrative and financial sanction for setting up Institute of Hotel Management and Catering at Dimapur (December 2007) at a total cost of ₹ 12.69 crore, out of which ₹ 10 crore was central financial assistance and the remaining ₹ 2.69 crore was State share.

Examination of records revealed that GoI released ₹ 8.00 crore for construction of civil works in three instalments⁵ during 2007-12. The State Government also released its share (September 2012). The project was stipulated to be completed within 18 months. Since the project could not take off in time due to non-availability of land and there was escalation in cost, it was felt that the project could not be completed within the initial sanctioned amount. Therefore, the Department proposed to NEC for additional fund of ₹ 5.00 crore to complete the project. Accordingly, the NEC sanctioned (March 2013) ₹ 4.98 crore for the purpose. 90 *per cent* was share of NEC and balance 10 *per cent* was to be borne by the State Government. While ₹ 3.64 crore⁶ had been released by NEC as of March 2016, the State Government has not released its share.

⁵ First instalment of ₹ 4.00 crore dated 24/12/2007, second instalment of ₹ 3.00 crore dated 13/3/2010, third instalment for ₹ 1.00 crore on 6/6/2012 = ₹ 8.00 crore.

⁶ ₹ 0.85 crore on 26/03/2013, ₹ 1.79 crore on 27/02/2014 and ₹ 1.00 crore on 17/03/2015

As per the Utilisation Certificate furnished to NEC (November 2015), the construction of the main building had not been fully completed. It was also observed that the building for official accommodation of the Principal had started to rot even before the infrastructures are taken over by the Government indicating poor quality of works.



Following irregularities were also noticed.

(i) External Electrification

The Department incurred an expenditure of ₹ 27.00 lakh for erecting 500 KVA transformer (₹ 20.00 crore) and 11 KVA Low Tension (LT) line (₹ 7.00 lakh). However, the LT lines were not erected in the premises of the institute which was confirmed during the joint physical verification (August 2016).

(ii) Approach road and security fencing

For construction of approach road and security fencing, DoT, GoN received ₹ 3.17 crore for execution of six⁷ items of work (June 2012). All the works were stated to have been completed as per records. However, joint physical verification of the site revealed that the following works were either incomplete or not executed.

- The work for construction of two gates (Entry and Exit) valued at ₹ 31.00 lakh was not executed.
- As per the entries recorded in the Measurement Book, 1380 metres road with a carriage way of 5 to 5.6 metre width was to be constructed. Joint physical verification, however, revealed that only 600 metre with an the average width of 3.5 metre was constructed, out of which 260 metre only was black topped and the

⁷ Construction of two gates for entry & exit (₹ 0.31 crore), Construction of side drain + One Hume pipe culvert (₹ 0.38 crore), Construction of security fencing (₹ 0.94 crore), filling of low lying areas (₹ 0.24 crore), Metalling & carpeting of Approach Road Part- I (₹ 0.57 crore), Metalling & carpeting of Approach Road Part- II (₹ 0.57 crore),

remaining length of road of 340 metre was left with Water Bound Macadam (WBM). Thus, ₹ 85.00 lakh⁸ was paid without completion of works.

The Department accepted (November 2016) the delay in completion of the project. Regarding non-erection of transformers and LT lines, it was stated that the external electrification work of the Institute is a deposit work and matter will be followed up with the Power Department for early installation. Department also accepted the non-construction of security gate and short execution of approach road and assured that the works will be carried out in due course.

2.3.14 Construction of Wayside Amenities.

The objective for construction of wayside amenities were to provide a safe and comfortable road travel by providing hygienic food, safe drinking water, proper sanitation facilities to have an ambience of relaxation and to promote Nagaland as a tourist friendly destination. It also aims at generating employment and enhancement of entrepreneurship skills among the people living in the region.

MoT, GoI sanctioned ₹ 7.70 crore (September 2011) for construction of 10 Wayside Amenities along NH 29 from Dimapur to Khuzama (four in Dimapur District and six in Kohima District). As per the approved DPRs, these Wayside Amenities should have plinth area of 220 sq. metre in respect of Dimapur district and 200 sq. metre for Kohima district and included 17 items of work⁹.

The Department stated that 11 Wayside Amenity Centres between Dimapur to Khuzama along NH.29 was constructed from the funds sanctioned by MoT, GoI and the full amount was paid.

Joint physical verification of nine Wayside Amenity Centres out of ten, (one Centre was demolished during National Highway construction), however, revealed that the Department had compromised the plinth areas of nine amenity buildings and some of the facilities such as providing Water Supply & Sanitary, electrification, Naga aesthetic finish, Tiles floor, Water tank, Motor pump, Over Head Tank, Parking, Fitting and fixing of glow sign, Parking and drive way, Waste bin and Compound wall etc., to be provided were not executed at these Amenity Centres. The value of plinth areas compromised and non-execution of some of the items of work was ₹ 3.00 crore.

The Department in reply (November 2016) stated that the consultant did not incorporate the site development and retaining wall with stone boulder filling while preparing the DPR. This prompted the Department to compromise the plinth area and non-execution of minor components.

⁸ Cost of unexecuted work of Construction of 2 gates for entry & exit (₹ 0.31 crore) and Metalling & carpeting of Approach Road Part- II (₹ 0.57 crore),

⁹ Facilities items of works such as basic civil cost, providing Water Supply & Sanitary, Electrification, Ramp for physically challenge person, Naga aesthetic finish, Tiles floor, Water tank, Motor pump, Over Head Tank, Parking, Fitting and fixing of glow sign, Aquaguard water purifier, Hand blower, Parking and drive way, Waste bin, Compound wall and Cattle trap.

Further, scrutiny of records revealed that Amenity Centre at Kohima was claimed to have been constructed at a cost of ₹ 1.07 crore out of the fund received in September 2011. However, the Amenity Centre was already funded under the project 'Tourist Destination at Kigwema - Mt. Suro Eco-Adventure 2009-10'. Thus, the claim of the Department that the Amenity Centre at Kohima was constructed at a cost of ₹ 1.07 crore through the funds received in September 2011 was not correct.

The Department in reply (November 2016) stated that work order for ₹ 18.00 lakh under the project 'Tourist Destination at Kigwema - Mt. Suro Eco-Adventure 2009-10' for the Amenity Centre at Kohima was incorporated with construction of Wayside Amenity Centres funded in September 2011. The reply is not acceptable as the corresponding amount received under 'Tourist Destination at Kigwema - Mt. Suro Eco-Adventure 2009-10' was not surrendered.

2.3.15 Abandonment of work.

2.3.15.1 Mega Destination, Dimapur.

The project Mega Destination, Dimapur was taken up with an objective to cater to the needs of the tourists so that visitors get hygienic and comfortable stay at Dimapur. The project included 43 double bed rooms, 8 family rooms, dormitory, saloons, banquet hall, conference hall etc. The MoT, GoI accorded sanction of ₹ 23.70 crore (January 2012) for the project and released ₹ 11.85 crore as of March 2016 out of which an expenditure of ₹ 11.85 crore was incurred. As per the terms and conditions of the sanction, the project was to be completed within 36 months from the date of sanction (December 2014). However as per the UCs submitted by the Department to GoI, the physical progress reported was 80 per cent. It was further observed during the joint physical verification that the construction works had stopped since April 2013. The present status of the project is as shown in the following photographs.



Photograph of abandoned construction of the Mega Destination Dimapur



Photograph of Artificial thatch lying idle in the store room

It can also be seen that the artificial thatch procured at a cost of ₹ 40.00 lakh for use in Mega destination Dimapur (January 2013) could not be utilised and dumped in the store room of the Tourist Lodge Dimapur.

The Department while accepting the facts (November 2016) also stated that only 50 per cent of the sanctioned amount was released and the same was utilised. The fact

however, remains that the funds were not released by GoI as the Department did not fulfil the terms and conditions of the sanction of submitting completion/commissioning certificate as per the original plan, drawing etc., approved by the Central Government.

2.3.15.2 Tourist destination at Chesezu

The Department submitted a proposal for a tourist destination project (₹ 5.00 crore) at Chesezu village in Phek district in memory of Netaji Subhash Chandra Bose. Accordingly, the proposal was approved (September 2011) which included 16 components of works such as budget accommodation, ethnic food hut, tourist interpretation centre, public toilets, etc. GoI had released 4.00 crore (September 2011) and an expenditure of ₹ 4.10 crore had been incurred. It was, however, observed during joint physical verification that the work had since been abandoned after completion of 80 per cent physical progress (July 2013).

The Department in reply (November 2016) stated that 20 per cent of the project cost is yet to be received and hence work has been kept in abeyance. The fact is that the work has been abandoned making expenditure of ₹ 4.10 crore unfruitful.

2.3.16 Development of Pfutsero Lake

NEC accorded sanction for the project “*Development of Pfutsero lake*” at a cost of ₹ 3.89 crore including construction of buildings, cottages, sanitation and waste bin and protection works. Examination of the records revealed that as per the utilization certificate an amount of ₹ 2.78 crore was released against the project including the state share and the entire funds of ₹ 2.78 crore was spent. It was, however, observed that the work had stopped after a physical progress of around 70 per cent (July 2013). It was found during joint physical verification (September 2016) that only the main building was constructed and the lake was not maintained.



Photograph showing the main building and the lake

It was further seen that excessive sediments and sewage were flowing to the water body from the catchment area. It was also noticed that the project was developed on a private land and therefore the interest of the Government was not served.

The Department did not furnish specific reply on the issue.

2.3.17 Idle assets

The Convention Centre Dimapur was constructed at a cost of ₹ 4.57 crore (September 2012) with the funds sanctioned by MoT, GoI to provide a platform for organizing conferences, seminars and training sessions to disseminate knowledge and technical skills. The components of the Convention Centre consisted of reception, office, lounge, restaurant, kitchen, pantry, store, business centre, conference hall, executive rooms, etc.

Examination of records revealed that construction of convention centre was completed in January 2014 but was lying idle.



Photograph of the Convention Centre, Dimapur lying idle.

It was also observed during physical verification (September 2016) that the Convention Centre was completed without adequate facilities such as, reception centre, lounge, business centre, conference room.

The Department in reply (November 2016), stated that though the size of the facilities were compromised, all the facilities were provided to the Convention Centre. The fact remains that some facilities were not provided which was also confirmed in writing by the departmental officers during joint physical verification.

2.3.18 Implementation of Rural Tourism

Rural tourism is a type of tourism that showcases the rural life, art and culture, and heritage at rural location and to support the local community economically and socially as well as to enable them to interact with the tourists. Rural tourism project gives an opportunity to the tourists to experience people, events, culture, cuisines and crafts that are not available in urban areas. The process of community participation in rural tourism assets bring about awareness of the benefits of tourism for socio economic uplift of the villages.

Examination of records revealed that during 2011-16 an amount of ₹ 26.25 crore was sanctioned under Thirteenth Finance Commission (Rural Tourism) for development of Rural Tourism in Nagaland. Out of the amount sanctioned the Department received ₹ 24.04 crore after deduction of an amount of ₹ 2.21 crore as Departmental charges. Accordingly, the Department took up construction of 54 Tourist Reception Centres at various places in Nagaland and 50 Tourist Reception Centres were reported to have been completed and four were under progress.

14 components of work (₹ 6.31 crore) were selected for examination and physical verification. It was observed that the plinth area of the infrastructure were compromised resulting in short execution of components to the tune of ₹ 0.86 crore. The Department also did not provide funds for furnishing of the Tourist Reception Centres. As a result all Tourist Reception Centres remained non-operational.

It was also noticed that five¹⁰ Tourist Reception Centres were occupied by the land owners as private residence and the Tourist Reception Centre at Tesophenyu was being used as Guest house by the Church Council without payment of rent to the Department. Besides, two¹¹ selected Tourist Reception Centres were also found to be constructed on private land without executing any Deed of Agreement.

The Department in reply (November 2016) stated that the amount of ₹ 0.86 crore was earmarked for electrification of 14 projects. It also added that the issue of furnishing and illegal occupation of the Tourist Centre would be taken up with the Government to resolve the matter. The claim of the Department that the amount of ₹ 0.86 crore was earmarked for electrification was not acceptable as the projects were found to be electrified during joint physical verification and also expenditure on electrification had already been made.

2.3.19 Utilisation of Tourist assets for non-tourism purposes.

As per clause 6 and 7 of the terms and condition of the sanction, the State Government was required to provide an undertaking that the facility and the land on which the assets were created shall not be transferred/sold/alienated without the approval of GoI and the assets should be used only for tourism purposes.

It was observed during joint physical verification that 32 infrastructure at a cost of ₹ 11.77 crore were either leased out or occupied by private individuals in contravention of the terms and condition of the sanction. The photographs of the assets under illegal occupation are shown in below.

	
<p>Photograph of the building occupied by North-East India Academy of Performing Arts at Dimapur.</p>	<p>Photograph of a restaurant at Jakahama (Kohima district) occupied by the land owner.</p>

¹⁰ Viyito, Pugaboto, Pushito, Phiro, Dhansiripar

¹¹ Tourism Reception Centres at Dhansiripar and Tesophenyu.

2.3.20 Tourist Lodge, Dimapur.

The Tourist Lodge, Dimapur located adjacent to old Nagaland State Transport bus station, taxi stand and railway station established during 1980's is the only commercial establishment run by the Department. The management of the Tourist Lodge is under the administrative control of the District Tourism Officer, Dimapur and assisted by 13 regular departmental staffs. The Tourist Lodge consisting of 21 rooms of different categories was closed down for renovation and restarted its business from December 2015.



Photograph of Tourist Lodge, Dimapur

Examination of records revealed that the occupancy rate of the tourist lodge was very low ranging from 16 *per cent* to 37 *per cent* of its capacity in a month. The tourist lodge incurs monthly loss ranging from ₹ 0.82 lakh to ₹ 2.17 lakh.

It was further observed that the catering service of the Lodge was leased out (December 2015) to a private party without inviting open tender. The permit for catering was also issued without executing formal deed of agreement and without a fixed monthly rent to be paid by the lessee. The Department did not furnish any reply on the issue.

2.3.21 Financial Management

For a successful execution and timely completion of any project, adequate funds should be provided and released to ensure smooth progress of work. The main source of funding for the development of tourism in the State was from GoI (100 *per cent*), NEC assistance (90:10) and from State Plans. The funds position in respect of projects undertaken by the Department during 2011-16 is shown in the table below:

Table No.2.3.3

(₹ in crore)

Year	Opening Balance	Receipt	Total fund available	Total expenditure	Closing balance
2011-12	60.77	50.68	111.45	55.15	56.30
2012-13	56.30	57.18	113.48	64.81	48.67
2013-14	48.67	44.66	93.33	44.74	48.59
2014-15	48.59	19.59	68.18	52.64	15.54
2015-16	15.54	26.35	41.90	21.32	20.58

(Source .Departmental figure)

As can be seen from the table above, out of the available fund of ₹ 259.23 crore¹² the actual expenditure was ₹ 238.66 crore (92 per cent).

2.3.21.1 Short release of state share:

Examination of records revealed that during the period 2011-16, the NEC sanctioned an amount of ₹ 33.37 crore for implementation of nine projects out of which an amount of ₹ 23.40 crore (70 per cent) was released by the State Government. It was noticed that against the State share of ₹ 2.34 crore, the State Government released only ₹ 1.58 crore as matching share resulting in short release of ₹ 0.76 crore.

The Department in reply stated (November 2016) that the matter has been taken up with the Government.

2.3.21.2 Outstanding Rent

Deed of Agreement (DoA) between the Department and the lessee are entered into in respect of assets like wayside amenities, cafeteria, budget accommodation, lodges, etc. given out on rent for running these facilities. As per DoA, if the lessee failed to pay monthly rent for a period of three months consecutively, the Government will recover the amount of rent from the Security Deposit Receipt (SDR) automatically and there would be no further requirement to give three months' notice for termination of the lease license, as the licensee had breached the conditions of the License.

Examination of records revealed that 52 assets (13 private and 39 community assets) created by the Department were leased out on rent. However, 36 lessee (three assets under private and 33 assets under community management) had not paid the agreed rent totalling to ₹ 4.00 lakh for periods ranging from four to 144 months. Though a reminder was served to the lessee, the Department had not taken action either to recover the rent or for terminating the license as per the DoA.

The Department did not offer any comment on the issue.

2.3.21.3 Un-authorized occupation and loss of rent.

During joint physical verification of the infrastructure created by the Tourism Department, it was seen that 16 infrastructure were illegally occupied by private individuals without executing DoA with the Department. Out of the 16 illegal occupants, 15 of them were occupied by the land owners and one occupant obtained temporary permit from the Department.

The Department did not offer any comment on the issue.

2.3.21.4 Injudicious fixation of Rent

Examination of records revealed that Tourist Lodges/Resorts constructed through funding by GoI were rented out to private individuals on rent for running them. It was noticed that the Department had rented out only six infrastructures by inviting open

¹² Total available fund includes the opening balance of ₹ 60.77 crore plus the receipts during the last five years of ₹ 198.46 crore.

tender and the remaining Tourist Lodge/Rest House/Resort/Cafeteria/Amenity Centres, were allotted to individuals without observing any formalities and arbitrarily fixed the monthly rent/fee at the nominal rate.

It was also observed that the Mid-way Resort, Tsiepama and Tourist Resort, Chedema were leased out to private parties through 'Short Open Tender'. The Tender document did not specify any clause to allow 'Rent Holiday'. However, the DoT, GoN allowed 'Rent Holiday' to the two resorts for a period of two years each from the date of signing the Agreement on the ground that the operation of the resort would involve heavy investment and neither of the resorts would be commercially viable immediately. The lessee of the Mid-way Resort, Tsiepama was allowed three years additional Rent Holiday at the request of the Lessee. Thus, a total revenue of ₹ 24.86 as rent was waived-off due to allowing Rent Holiday.

The Department did not offer any comment on the issue.

2.3.21.5 Subletting of Tourism Infrastructure by the Lessee

Examination of records revealed that the Wayside Amenity Patkai Bridge, Dimapur and Wayside Amenity, Pherima were leased out on a monthly rent of ₹ 600/- and ₹ 400/- respectively without inviting tender. However, in both cases, it was observed that a Deed of Agreement was executed with the Department. It was, further, observed that both the infrastructure were sub-let by the lessee to other persons at a higher monthly rent of ₹ 2000/- and ₹ 8000/- per month respectively in violation of the Deed of Agreement. This indicated that the locations were commercially viable and had potential of earning higher rent. Had the Department resorted to leasing of the infrastructure after inviting tender, it would have fetched more revenue to the Department.

The Department did not offer any comment on the issue.

2.3.21.6 Engagement of consultants.

An important activity before implementation of any project is to prepare a Detailed Project Reports (DPRs) after conducting feasibility study consisting of survey, technical specifications, plans and drawings and detailed estimate of each item of work.

Examination of records revealed that M/s Luit Valley Engineering Pvt Ltd, Guwahati, Assam was appointed as consultant against 57 works for a total value of ₹ 218.40 crore for consultancy and architectural services. It was noticed that the procedures such as inviting of tender/quotation, selection from the empanelled architects by the GoI etc., were not followed by the Department.

Further, as per the scope of work, the preparation of detailed project report (DPR) of a project would include site visits, collecting information on socio-economic activities, interaction with various government departments to get the feedback on the project, preparation of preliminary concept note, working drawing and technical specification including the non-scheduled of items, electrical design and site coordination of works. However, DPRs were not prepared properly resulting in deviation from the approved

DPRs during actual implementation as brought in the previous paragraphs such as change of location, change in quantity in various items of work, etc.

It was also observed that an amount of ₹ 10.92 crore was paid to the consultant which constitute 5 *per cent* of the project cost as against the GoI prescribed rate of 2 *per cent*. Thus, the consultant was paid an excess amount of ₹ 6.55 crore.

The Department in reply (November 2016) stated that consultants were engaged with the approval of the Government and fee structures of the consultants were decided and approved by the Government.

However, the fact remains that the consultant was paid 5 *per cent* of the project cost as against the GoI prescribed rate of 2 *per cent* resulting in excess payment of ₹ 6.55 crore. Despite shortcomings in the preparation of DPRs, entire consultancy fee was paid to the consultant.

2.3.22 Internal control, Monitoring and Evaluation.

Internal controls and monitoring mechanisms provide reasonable assurance to the management whether financial interests and assets of the organization were safeguarded, and whether reliable information on the functioning of the organization were available to facilitate necessary interventions when called for.

Examination of records revealed the following.

2.3.22.1 Nagaland Tourism Board

As per the Nagaland Tourism Board rules and regulation framed by the Government, the Governing Body were required to meet at least once in every year. However, there were no records regarding the meetings/activities of the Board.

2.3.22.2 State/District Level Monitoring Committee

The general terms and conditions of the MoT, GoI sanction orders envisaged that a monitoring committee should be constituted to provide regular feedback to GoI on the progress of implementation. Further, as per NTP committees both at the State and the district level to regulate the operation and management of all tourist infrastructures should be constituted. No such committees at any level was constituted.

2.3.22.3 Monitoring by Ministry of Tourism

It was also noticed that MoT inspected some projects, however the actual number of such visits, reports of the monitoring team and action taken by the DoT, GoN on such monitoring reports were not maintained.

2.3.22.4 Inspection of Hotels

The Tourist Officers were required to inspect the hotel and other infrastructures periodically to oversee that adequate facilities are being provided to the tourists. However, there was no documentary evidence to show that such inspections were carried out.

2.3.22.5 Monitoring of Expenditure

DoT also did not monitor the expenditure, the physical and financial progress of the projects. It was also observed that there were delays in submission of quarterly progress reports on implementation of the projects to the Ministry. Due to lack of monitoring of expenditure, large instances of payments made without execution of work, deviation from the approved scope of work, etc. were noticed as brought out in the earlier paragraphs (*Paragraph Nos. 2.3.9.1, 2.3.11, 2.3.13, 2.4.16 and 2.3.18*).

2.3.22.6 Asset Management

Asset management is a systematic process of deploying, operating, maintaining, upgrading and disposing of assets cost effectively. An asset register is a way to track details of assets of the Department. It includes the value, date of construction or acquisition, location and present status.

It was noticed that the Department did not maintain any records/register. In the absence of these records, the detailed information of the assets created/owned by the Department could not be ascertained. Several such instances wherein the assets created could not be located or stated to have been shifted as highlighted in earlier paragraphs (*Paragraph Nos 2.3.9.2 to 2.3.9.4, 2.3.10, 2.3.12 and 2.3.19*).

Department in reply (November 2016) stated that asset register would be maintained henceforth.

2.3.23 Nagaland Registration of Tourist Trade Act.

Nagaland Registration of Tourist Trade Act and Rules was intended for regulation and promotion of tourism in the State by way of registration of persons/firms/agencies dealing with tourism activities to ensure coordinated and regulated development of tourism in the State. DoT, GoN had introduced (September 2000) Nagaland Registration of Tourist Trade Act (NRTTA) and Nagaland Registration of Tourist Trade Rules (NRTTR) in May 2001. As per NRTT Act, registration of dealers, hotel keepers, and travel agents were necessary to carry out their business in the notified area on a payment of prescribed fee.

Examination of records revealed that the Department did not notify any area as tourist area and also did not register any dealer/hotel/travel agent and did not realize any fee. However, it was observed that the Department publicised a list of hotels, homestays and tour operators in the brochures and tourist literatures.

2.3.24 Nagaland as a Tourist Destination

Effective marketing of tourism of an area is essential in order to inform prospective tourists what the area has to offer as well as to persuade them to visit it.

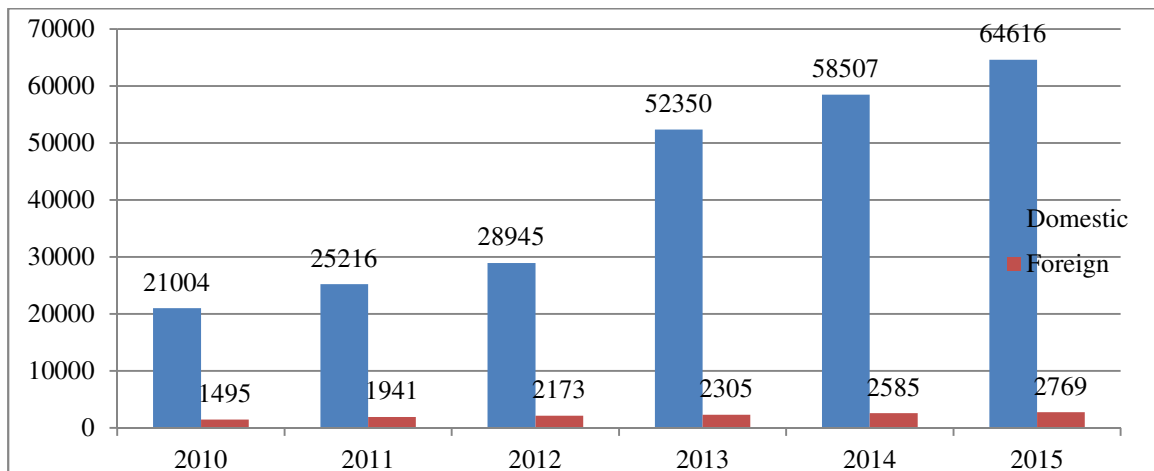
Examination of records revealed that the Department resorted to marketing of Tourism by way of producing publicity materials such as brochures, tourist literatures, hand-outs, audio visual materials, periodicals, hoardings internet etc. It can be seen that except internet all other modes of marketing had its limitations as the information will be available to the people only when they reach Nagaland. It was noticed that the

official portal of the Tourism Department Nagaland contains the information of how to reach Nagaland, information on hotels in Dimapur and Kohima, details of hornbill festival of Nagaland and tour operators. However, it did not disclose any of the tourist destinations or Integrated Tourist Travel Circuit constructed by the Department and travel tips to reach there.

The Department did not offer any comment on the issue.

2.3.25 Impact of Tourism policy and Tourist inflow

The inflow of tourists both domestic & foreign showed a steady increase during the last five years as given below:



(Source. Departmental figure)

The inflow of domestic tourist increased from 25216 in 2011 to 64616 in 2015 representing 156 per cent increase, the inflow of foreign tourist also increased from 1941 in 2011 to 2769 in 2015 (42.66 per cent).

2.3.26 Conclusion

The State Government is yet to formulate the Tourism Master Plan or Perspective Plan of prioritizing action and the vision for holistic development of tourism. The procedures for identification of tourist destinations and tourist circuits were not followed. The infrastructure projects were randomly selected. As a consequence, the assets were created in an ad-hoc manner. There were numerous instances of irregularities in the execution of project. 15 infrastructures developed by the Tourism Department through funding from GoI were illegally occupied by private individuals without executing Deed of Agreement with the Department. The Department also paid ₹ 19.63 crore for un-executed items of works. Two projects taken up under Integrated Tourist Travel Destination were abandoned after incurring an expenditure of ₹ 15.95 crore. The State Institute of Hotel Management, Dimapur was yet to be functional even after nine years and investment of ₹ 17.69 crore. The Convention Centre at Dimapur constructed at a cost of ₹ 4.57 crore and reported to be completed in March 2013 was lying idle as all the facilities as approved were not provided. The Department did not maintain any records/register and therefore the detailed information of the assets created/owned by the Department could not be ascertained.

2.3.27 Recommendation

It is recommended that:

- The Department should give emphasis to planning and prepare the short and long term action plans for prioritizing activities for a holistic development and growth of tourism sector in the State.
- The Department should make effort to review all completed projects lying idle and take necessary steps to utilise the tourist infrastructure for the purpose it was created.
- The Department should put in place robust financial controls in order to prevent persistent financial irregularities such as diversion of funds, excess payments, payment without execution of works etc.
- Monitoring mechanism for various infrastructure projects taken up for tourism development should be strengthened for timely completion and utilisation of the completed projects.

NAGALAND STATE TRANSPORT DEPARTMENT

2.4 Activities of Nagaland State Transport Department

The Nagaland State Transport (NST) Department was set up on 18 December 1964 as a utility service Department with the objective to provide well-coordinated, reliable and affordable transport facility to the people of Nagaland. The State of Nagaland being land-locked with hilly terrain, road transport is the main means of transport for providing both passenger and goods services, notwithstanding introduction of helicopter services in the State. Therefore, the role of NST Department is of paramount importance as the socio-economic development of the State mainly depends on road transport. This performance audit on the activities of NST was carried out from May 2016 to September 2016. Highlights of the Performance Audit Report are:

Highlights

Planning process of the Department was inadequate as comprehensive study to assess the operational requirements to cater to the growing demands of public transport was not carried out.

(Paragraph 2.4.8.1)

The Department diverted funds from the revenue receipts to meet Departmental expenditure, which was irregular.

(Paragraph 2.4.9.4)

The Department claimed subsidy from Government of India for 703 chartered services used by VIPs and Government officials on subsidized rates.

(Paragraph 2.4.9.8)

Helipad constructed at Alichen could not be put to use due to obstruction by Hydro-Electric Tower.

(Paragraph 2.4.9.9)

Construction of Inter State Bus Terminal at Kohima at a cost of ₹ 8.92 crore could not be completed due to non-settlement of land dispute.

(Paragraph 2.4.9.10)

2.4.1 Introduction

The NST Department provides passenger bus services as a public utility, connecting the State capital with the district headquarters and rural areas where the private operators do not operate. NST also provides subsidized helicopter services from Dimapur to nine district headquarters. During audit period, the contract for operation of Helicopter service was given to three private operators¹³. The concomitant activities of the Department include infrastructure development and development of railway and civil aviation (for small aircraft services) network within the State of Nagaland.

As on 31st March 2016, the NST Department had a fleet strength of 214 buses (including super deluxe, deluxe and mini buses), one Recovery Van and one Truck and it operated buses on 76 routes with 96 scheduled services. The Department has one Central Workshop located in Dimapur, two Divisional Workshops at Kohima and Mokokchung and nine station workshops. The State helicopter service undertaken in collaboration with aviation companies operates weekly helicopter services at a subsidized rate¹⁴ (75 per cent) to the nine¹⁵ district headquarters of Nagaland.

2.4.2 Organisational set-up.

The Commissioner and Secretary, Department of Transport is the administrative head of the Department. The General Manager (GM) NST is the head of the Department who is responsible for all public transport related activities. He is assisted by one Additional General Manager and two Joint GMs.

The Engineering wing of the Department is headed by Additional Chief Engineer assisted by one Executive Engineer.

2.4.3 Scope of audit and sample

The Performance Audit covered the activities of NST from the period from 2010-11 to 2015-16. The audit covered the offices of the General Manager NST, Enforcement Cell, Engineering wing of the Department, Central Workshop, Drivers Training Institute, Dimapur, two Divisional Offices, two Divisional workshops and five Operating Stations in selected division through Simple Random Sampling Without Replacement (SRSWOR) method.

¹³ M/s King Rotors (February 2010 to September 2013), M/s Thumbby Aviation (September 2013 to April 2015) and M/s Pawan Hans Ltd (June 2015 to March 2016).

¹⁴ Provided by the Ministry of Home Affairs

¹⁵ Kohima, Dimapur, Mokokchung, Wokha, Tuensang, Zunheboto, Mon, Kiphire and Phek

2.4.4 Audit objective

The objectives of the Performance Audit were to assess whether -

- the Department has a system to provide well-coordinated, affordable and reliable transport services in the State.
- the funds allocated were sufficient and utilized economically, efficiently and effectively to achieve its goals and the revenue/fares were fixed/collected at prescribed rates.
- the Monitoring mechanisms were adequate and effective.

2.4.5 Audit methodology

Audit methodology adopted were examination of records, issue of audit queries/ observations, examination of responses to audit, joint physical verification, photographic evidences wherever relevant. The draft report was issued to the Government in October 2016.

The Performance Audit began with an Entry Conference held on 18 May 2016 with the officers of the Department wherein the audit objectives, methodology, criteria and scope of audit were discussed. Audit also interviewed 112 commuters randomly at selected stations for their feedback on adequacy of facilities provided by the Department. The Exit conference was held on 10 November 2016 and the replies and views expressed by the Department during the exit conference were considered and appropriately incorporated in the Report.

2.4.6 Audit criteria

The findings were benchmarked against the following criteria:

- Motor Vehicle Act 1988 and Central Motor Vehicle Rules 1988 and Amendment Rules 2015.
- The State specific Acts and Rules as amended from time to time.
- Notification/orders and guidelines issued by the Government from time to time.
- Perspective Plan and Annual Action Plan.
- Training calendar.
- Data/information collected from the State Transport Authority, Directorate and subordinate offices.

2.4.7 Acknowledgement

Indian Audit and Accounts Department express our appreciation for the co-operation and assistance accorded to us by the Department at all levels during audit.

Audit Findings.

The Audit findings are discussed in the succeeding paragraphs:-

2.4.8 Providing well-coordinated, affordable and reliable transport services

2.4.8.1 Planning.

Planning is an important tool for any organization to understand and organize various activities required to achieve a desired goal. The planning process involves assessment of the existing and additional requirements collected through various methods like survey and assessment of the available resources/funds in order to prepare a comprehensive perspective/annual plans to achieve the desired goals.

General Manager, NST prepares annual action plan, for entire state, outlining operation of its fleet during the ensuing year. Audit however observed that while preparing these annual action plans, planning processes such as survey, feasibility study and assessment of requirements were not undertaken. The following deficiencies were noticed in these action plans:

(i) Assessment of operational requirement.

The adequacy of the fleet is key to achieving the Department's objective of providing optimum passenger bus services to the people. To meet the growing demand for public transport services, it is imperative that the Department maintains an adequate fleet to provide service on all the established routes.

Examination of records revealed that the Department had not carried out comprehensive survey or assessment to ascertain the operational requirements, total number of operational routes and the fleet strength available with the Department. However, case to case surveys on specific routes were being undertaken in response to a particular public demand. It was also seen that the Department did not maintain the database of the routes being operated and asset register including fleets, buildings, land etc. and therefore the information provided by the Department about fleet position and other assets owned by the Department varied from time to time e.g. the Department initially furnished details of operating 76 routes and 96 scheduled services as on March 2016 but in November 2016, the Department stated the position of routes as 155 notified routes out of which routes in operation were stated as 91. Fleet position also varied from 214 buses, recovery van and one truck to 217 buses, one recovery van, one truck and one ambulance. In this report fleet position (furnished in November 2016) of 214 buses, one recovery van and one truck has been taken.

Thus, in absence of the comprehensive surveys or assessments at the planning stages for requirement of operations of the Department, the adequacy or otherwise of the annual action plans could not be examined in audit.

The Department in its reply (November 2016) stated that route surveys were carried out only on receipt of demand from the public for bus services.

The reply of the Department confirms that the Department had not carried out comprehensive survey or assessment to ascertain the operational requirements within the State.

(ii) Planning for safety standards

The difficult terrain, abysmal road condition of the state and also the conditions of buses operated by the Department makes it necessary that all stations and substations are prepared for any emergency arising due to breakdown of bus and accidents and other exigencies.

Examination of records revealed that except the central workshop in Dimapur which has one functioning breakdown vehicle, none of the divisional workshops and station workshops had breakdown vehicle, ambulances or mobile workshops. Although the rate of accidents of NST buses was not very high, yet the Department should be prepared for emergency situations.

The Department in its reply (November 2016) accepted the fact and stated that due to shortage of funds the Department was unable to provide breakdown vehicles to the divisional workshops and stations.

(iii) Supply chain management

The Department has one central workshop, two divisional workshops and nine stations workshops for maintenance and servicing of its fleets. The minor repairs were carried out in the station workshop and major repairs were required to be carried out in the divisional workshop to which it was attached and only when the work was beyond the capability of the division workshop, it was required to be taken to the central workshop at Dimapur.

It was observed that, although there were sufficient number of technical personnel in the divisional workshops and station workshops, almost all the vehicles were sent to the central workshop, Dimapur for repairs and maintenance instead of getting the repairs done at respective divisions/stations due to poor supply chain management of spares resulted in insufficient spare parts at the station and divisional workshops.

Joint physical verification (August 2016) of the divisional workshops (Kohima and Mokokchung), revealed that none of the buses attached to the divisions were brought to the divisional workshops for repairs. All repair works which could not be done in the station workshops were directly taken to the central workshop, Dimapur. It was also seen that, in the two divisional workshops, only 30 to 77 *per cent* of the indented items were provided.

It was observed that the system followed for placing indents was not streamlined. The divisional and the station workshops place the indents for spares parts on the central workshop on need basis and the central workshop on receipt of the indents places the supply order on the authorised agents and then issues to the workshops. This system not only delays the repair and maintenance work at the divisional and station workshops but also results in disruption of service and addition of burden at central workshop.

The Department stated (November 2016) that breakdown vehicles enroute were towed to workshops and there were no serious accidents during the last few years.

The fact is that the division workshops are not being properly utilized leading to overburdening of the Central workshop for repairs and maintenance.

2.4.8.2 Fleet position

The fleet size of the Department consisted of 214¹⁶ buses, one recovery van and one truck as on March 2016, out of which only 117 buses and one recovery van were in operation. Remaining 97 buses and one truck were either proposed for condemnation/uneconomical for running or were lying in central workshop for repairs.

In November 2016, the Department stated that the State had 155 notified routes out of which 91 routes were in operation and 64 routes were under suspension due to shortage of fleet, bad road condition and also due to non-availability of passengers. Further, 23 routes out of 64 routes were withdrawn due to route overlapping. The shortfall in services was attributed to insufficient operational buses by the Department.

It is pertinent to mention here that the Department did not maintain proper record of fleet and number of notified routes/routes operated as was clear from the above fact that the Department furnished different position of fleet size and routes. The different figures mentioned in the Department's reply were also without any supporting documents.

2.4.8.3 Demand for NST Services

Roadways are the main mode of public transport system in the State. However, the abysmally poor road conditions within the state and poor economic viability has resulted in non-participation of private mass transportation systems and therefore there was minimum to no connectivity of private transport services in remote villages. This has resulted in greater demand for public mass transportation through NST bus services.

An analysis of the records produced to audit showed that the demands made by the public for NST buses and provision of services during the last five years is shown in the following table.

¹⁶ Excluding three staff buses attached to DTI

Table No.2.4.1

Year	Demands made by public	Routes surveyed	Routes approved	Routes operated
2011-12	12	8	5	5
2012-13	10	1	1	1
2013-14	18	4	3	1
2014-15	9	4	2	0
2015-16	5	1	0	0
	54	18	11	7

Source: Compiled from records furnished by the Department

It can be seen from above, that out of 54 demands for operation of routes, 11 routes were approved and notified by the Government but only seven routes were put to operation. Further, as on March 2016, there was only one out of the seven which was in operation. Thus, the routes operated were far less than the demands made by the public.

The Department stated (November 2016) that out of 54 demands received, 35 routes were surveyed of which 17 were approved and 13 routes were operational. 4 routes were suspended due to bad road condition and shortage of fleet.

The fact remained that the number of routes operated by the Department against the public demand remained very low. The reply of the Department was also not supported by documentary evidence hence could not be verified in audit.

2.4.8.4 Facilities at Stations

The basic facilities should be made available to the passengers in all the stations providing public services. Joint physical verification of the 12 stations/sub-stations revealed that that none of the stations provided basic facilities such as display of scheduled departure/ arrival/delay, public announcement system, waiting rooms, basic amenities like toilets, drinking water etc. We also interviewed 112 commuters at the selected stations and found that despite the limited facilities provided by the Department, 99 passengers stated that they prefer travel by NST buses due to cheap fares and safety. However 34 passengers expressed their dissatisfaction regarding timings, notifications, cancellations etc.

In reply (November 2016), the Department stated that fare chart along with destination and daily derailment chart were displayed in all the stations and basic amenities like toilets, waiting hall were provided.

The reply of the Department, however, was not corroborated during joint physical verification conducted in the selected stations.

2.4.9 Financial Management

2.4.9.1 Budget Provision and Utilisation

The position of Budget and Expenditure for the last five years are shown below:

Table No.2.4.2

(₹ in lakh)

Years	Plan	Non-Plan	Total	Utilisation	Excess/saving
2011-12	885.45	5,506.46	6,391.91	6,386.48	(-) 5.43
2012-13	2,148.44	5,607.60	7,756.04	7,395.22	(-) 360.82
2013-14	247.16	6,312.47	6,559.63	6,559.14	(-) 0.49
2014-15	1,300.65	6,701.46	8,002.11	7,837.25	(-) 164.86
2015-16	475.46	5,684.80	6,160.26	5,959.96	(-) 200.30
Total	5,057.16	29,812.79	34,869.95	34,138.05	(-) 731.90

From the above table it can be seen that the Department could not fully utilise the funds in all the years. The savings of the Department ranged between ₹ 0.49 lakh (2013-14) to ₹ 360.82 lakh (2012-13). The savings for the years 2012-13, 2014-15 and 2015-16 were mainly due to retention of plan fund in civil deposit which was released in subsequent months.

2.4.9.2 Revenue target and achievement

Table No.2.4.3

Year	Target	Achievements				Percentage of achievement
		Bus (passengers)	Helicopter Services	Rent, lease, etc.	Total	
2011-12	1634.59	1130.07	153.60	12.37	1296.04	79
2012-13	1737.46	1032.65	642.51	12.95	1688.11	97
2013-14	1693.46	1090.91	109.33	12.17	1212.41	72
2014-15	2151.73	1184.23	102.37	12.47	1299.07	60
2015-16	2067.36	1066.70	169.52	17.76	1253.98	61
Total	9284.60	5504.55	1177.33	67.71	6749.59	73

Source: Compiled from the records of the Department

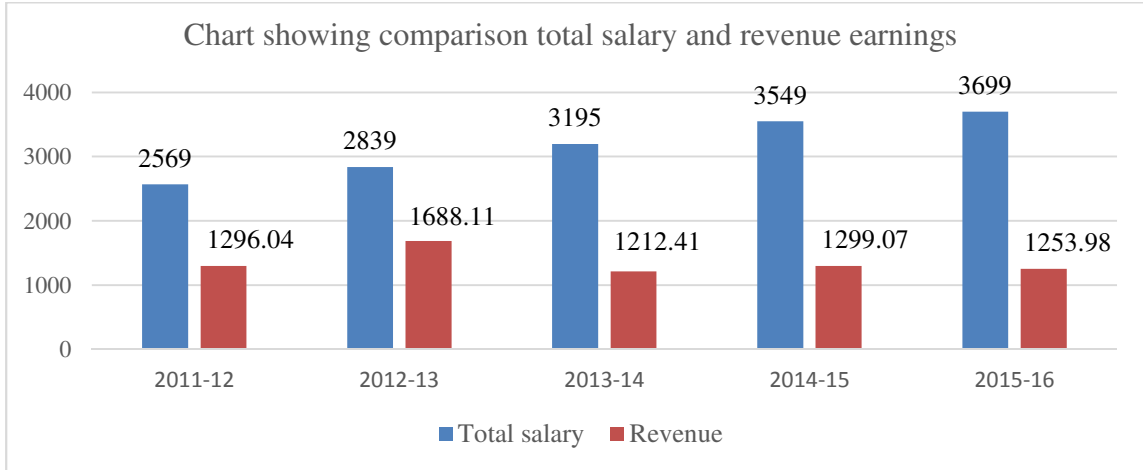
From the table it can be seen that the revenue targets were not achieved during the last five years.

The Department accepted (November 2016) the facts that the revenue targets could not be achieved and stated that it was due to cancelation of schedules of various reasons such as landslides, *bandhs* and certain unavoidable circumstances which were beyond control.

The Departments reply is not fully correct as the revenue loss is not exclusively due to landslides and bandhs but other reasons within its control which was pointed out in paragraph number 2.4.9.5.

2.4.9.3 Comparison of Salary and Revenue Earnings

An analysis on the revenue earnings of the Department and total salary expenses in the last five years revealed that the revenue earning was decreasing whereas the expenditure on salary was increasing as depicted in the chart below :-



It can be seen from the above that the expenditure on salary and allowances of the employees far exceeded the revenue of the Department in all the five years. The expenditure on salary had increased from ₹ 25.69 crore in 2011-12 to ₹ 36.99 crore in 2015-16 whereas the revenue receipts from operation of the services decreased from ₹ 12.96 crore in 2011-12 to ₹ 12.54 crore in 2015-16. This indicated that the Department had not been able to improve its operating efficiency during the last five years commensurate with the increased salary over the same period.

Accepting the fact, Department stated (November 2016) that decline in revenue is due to depleted fleet strength and over-aged buses. However, the Department's reply was silent on substantial increase on salary expenditure thereby widening the gap between operational cost and revenue from operations.

2.4.9.4 Revenue from operations

As per Rule 6 of Receipt and Payment rules, all money received by or tendered to Government officers on account of revenues or receipts or dues of the Government shall, without undue delay, be paid in full into the accredited bank for inclusion in Government Account. Further, moneys received as aforesaid shall not be utilised to meet departmental expenditure nor otherwise kept apart from the accounts of the Government.

Examination of records of the five selected stations revealed that the revenue realized from operations of the Department were utilized for meeting departmental expenditure such as fuel for operation of bus services and workshop, payment of electric bills and for other petty expenditure. It was seen that diversion of revenue for meeting other expenditure terming it as "Emergency local purchase", was in practice. Audit observed that the Department had instructed the station-in-charges to procure HSD on loan

locally on emergency situations. The revenue so utilised were recouped by the Department after several months by submitting the bills to GM by the stations.

Analysis of five selected Stations on diversion of revenue for expenditure is shown below:

Table No.2.4.4

₹ in lakh

Expenditure met from Revenue during 2011-16 in 5 station								
Name of station	Year	HSD	Electric charges	Spare part	Others	Total	Amount Recouped	Balance
Kohima	2011-16	142.73	2.46	0.84	2.02	148.06	148.06	0.00
Dimapur	2011-16	199.06	11.48	0.00	4.69	215.24	213.71	1.53
Mokokchung	2011-16	82.97	2.65	0.00	0.98	86.60	57.80	28.80
Zunheboto	2011-16	14.68	0.00	0.00	0.00	14.68	14.68	0.00
Phek	2011-16	0.00	0.12	0.00	0.00	0.12	0.00	0.12
Total		439.45	16.71	0.84	7.70	464.69	434.25	30.45

It can be seen from the table that out of ₹ 4.64 crore diverted from revenue for various purpose, an amount of ₹ 0.30 crore is yet to be recouped by the Department to Government accounts. Further, it was observed that the local purchases of 6470 litres of Diesel made by the SS, Zunheboto during May 2014 and June 2014, amounting to ₹ 3.6 lakh, were not supported by any bills or Actual Payment Receipts (APR).

The Department accepted (November 2016) the audit finding and stated that it had to resort to such situation due to compelling circumstances in order to avoid suspension of services.

The fact remained that diversion of revenue for meeting administrative expenditure violated the provisions of Rules.

2.4.9.5 Loss of revenue due to cancellation of services

An analysis of the loss incurred by the selected five stations in the last five years due to suspension/cancellation of bus service is tabulated below:

Table No.2.4.5

Name of Station	Loss due to suspension of service (in km)					Total km (To & fro)*2	Rate per passenger /km for semi deluxe	Revenue Loss (₹ in lakh)	Average occupancy in a semi deluxe bus (at 40 %)	Total revenue loss (₹ in lakh)
	2011-12	2012-13	2013-14	2014-15	2015-16					
Dimapur	348,454	311,086	264,983	377,110	*	26,03,266	0.941	24.50	14	342.95
Mokokchung	13,660	13,141	25,746	37,756	39,038	2,58,682	0.941	2.43	14	34.08
Phek	*	27,423	18,683	21,598	11,740	1,58,888	0.941	1.50	14	20.93
Kohima	135,218	*	157,115	143,997	198,202	12,69,064	0.941	11.94	14	167.19
Zunheboto	155,713	143,420	93,030	71,715	15,569	9,58,894	0.941	9.02	14	126.32
Total								49.39		691.48

* Data for 2011-12 (Phek), 2012-13 (Kohima) and 2015-16 (Dimapur) not available/provided.
Source: Compiled from records furnished by Department

From the table above it can be seen that the Department incurred a revenue loss of ₹ 6.92 crore by way of cancellation of schedules and trips in the five selected stations (excluding cancellations due to bandhs, landslide, roadblocks etc.) during the period from 2011-12 to 2015-16. The reasons for cancellation was not on record

While accepting (November 2016) the facts, the Department stated that services were suspended or cancelled mainly due to shortage of vehicles, bad road condition, bandhs, low traffic flow, natural occurrence like landslide/roadblock which was beyond the control of the Department causing revenue loss.

The fact remained that the cancellations due to reasons like shortage of vehicles, bad road conditions; bandhs etc., was ignored while calculating the revenue loss. The reasons for cancellations were not on record.

2.4.9.6 Diversion of fund

The Department received an amount of ₹ 0.50 crore¹⁷ for renovation and up gradation of the fleet during 2014-15 and 2015-16 under a negotiated loan from the Housing and Urban Development Corporation (HUDCO). Examination of records revealed that the Department utilised only ₹ 0.30 crore for up-gradation of the fleet and diverted ₹ 0.20 crore for purchase of three Boleros which are being used by the Department.

In reply (November 2016), the Department stated that they did not receive sanction under normal Plan Fund though ₹ 0.30 crore was earmarked under fleet acquisition for renovation of buses and purchase of one Bolero during 2014-15. Renovation of buses and purchase of one Bolero carried out during 2015-16 was out of normal Plan Fund, spilled-over in 2014-15 amounting to ₹ 0.20 crore. The reply was silent about purchase of the other two Boleros.

The reply of the Department is not acceptable as the drawal authority issued by the Government for ₹ 0.20 crore was for renovation of buses only which were to be utilised for passenger traffic rather than purchase of Boleros not utilised for passenger traffic. Moreover, the Government was liable to pay interest on the loan which was diverted for purchase of vehicles not meant for passenger traffic.

2.4.9.7 Acquisition of fleet

To provide smooth and sustained operation of public transport system, it is important to maintain as well as acquire new fleets. Examination of records revealed that the Department proposed to avail a negotiated loan¹⁸ of ₹ 3.89 crore (₹ 3.00 crore as loan and ₹ 88.80 lakh as State's share) and ₹ 5.24 crore (₹ 4.50 crore as loan and ₹ 74.09 lakh as State's share) from HUDCO for acquisition of fleet during 2011-12 and 2012-13 respectively. Accordingly, HUDCO sanctioned ₹ 3.00 crore (March 2012) for purchase

¹⁷ During 2014-15 (₹ 30.00 lakh) and 2015-16 (₹ 20.00 Lakh)

¹⁸ Under provisions of Article 293(3) of the Constitution of India; a State may not without consent of Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or in respect of which a guarantee has been given by the Government of India.

of 16 buses and ₹ 4.50 crore (March 2013) for purchase of 22 new buses. However, the State Government did not release its matching share.

Audit observed that the Department purchased only 14 buses¹⁹ during 2011-12 and 20 buses²⁰ during 2012-13. It was also seen that the Department did not follow the procedure of floating tender for the purchases, but resorted to open quotation submitted by dealers of TATA motors. When HUDCO objected to the reduction in procurement of the number of buses, the Department stated that the reduction in the procurement of buses was due to deduction of frontend fee and service tax by HUDCO amounting to ₹ 1.65 lakh and ₹ 2.53 lakh respectively from both the loans.

Audit, however, observed that the reduction in procurement of buses was not due to frontend fee and service tax by HUDCO, but due to non-release of state share (₹ 88.80 lakh during 2011-12 and ₹ 74.09 lakh during 2012-13) as per the agreement with HUDCO and non-observance of competitive bids to optimise procurement rates of chassis which led to increase of cost per unit, than what was actually projected.

The Department stated (November 2016) that tenders are floated at national level for procurement of bus body and the chassis are procured directly from M/s. Tata Motors Pvt. Ltd.

The reply of the Department was, however, silent on reasons for reducing the number of buses procured during 2011-12 and 2012-13.

2.4.9.8 State Helicopter services

The State Helicopter Service in collaboration with aviation companies operates weekly helicopter services at subsidized rate (75 per cent) in nine²¹ District Headquarters of Nagaland. The subsidized cost is borne by the Ministry of Home Affairs (MHA), Government of India (GoI). During the last five years, the Department earned a revenue of ₹ 11.77 crore from Helicopter services, which included revenue from both scheduled services and chartered services.

MHA had reiterated (March 2012) that the subsidy scheme for operation of Helicopter services is primarily meant for carrying common passengers and only in cases of absolute necessity, not more than 25 per cent of the flying hours are to be used for VIP movements. Further, the usage of helicopter services by VIPs and/or officials from the Central Government, the expenditure is to be borne by the Ministry/Department concerned.

Audit observed that, apart from the scheduled services for which flying hours were allotted, the Department also operated chartered services on the same subsidized rates. On further examination, it was observed that 39 to 60 per cent of the chartered services were used by VIPs and Government officials on subsidized rates and these were included in the claim for subsidy from GoI. Analysis of the claims for

¹⁹ Vide drawal authority No.71 dated 22-3-2012

²⁰ Vide drawal authority No.Bud/8-56/2012-13/GF/456 dated 23-3-2013

²¹ Kohima, Dimapur, Mokokchung, Wokha, Tuensang, Zunheboto, Mon, Kiphire and Phek

reimbursement made by the Department from GoI during the period of audit revealed that chartered services operated for VIPs and other ineligible Government officials were also included in the claims for reimbursements as shown below:

Table No.2.4.6

Period	VIP and other Govt officials			Hired by Public			Total hired	
	Number of trips	Amount	Per-centage	Number of trips	Amount	Per-centage	Number of trips	Amount
2011-12	170	53,50,000	59.65	115	29,95,000	40.35	285	83,45,000
2012-13	101	49,11,315	39.45	155	46,54,875	60.55	256	95,66,190
2013-14	141	52,69,084	59.00	98	29,20,381	41.00	239	81,89,465
2014-15	154	62,35,470	57.46	114	33,80,270	42.54	268	96,15,740
2015-16	137	48,50,800	56.38	106	26,14,025	43.62	243	74,64,825
Total	703	2,66,16,669	54.45	588	1,65,64,551	45.55	1,291	4,31,81,220

Source: Compiled from data furnished by Department

As can be seen from the table above, the chartered services for VIPs and other Government officials ranged between 39.45 *per cent* to 59.65 *per cent* of the total hired services during the period from 2011-12 to 2015-16 instead of the stipulated ceiling of 25 *per cent* put by the MHA for reimbursement of subsidy. Thus, subsidy which was primarily meant for carrying common passengers was extended to VIPs and other Government officials in excess of the stipulations as detailed above.

Further examination of the claims submitted by the Department to the GoI for reimbursement of subsidy revealed that the Department had submitted claims of ₹ 44.25 crore²² (includes scheduled services) during the last five years to the MHA, where as it was entitled to a claim of only ₹ 20.87 crore. GoI has not reimbursed the subsidy claim from January 2010 till 31 March 2016.

The Department stated (November 2016) that the *percentage* of occupancy of seats by VIPs was 8 *per cent* and not as observed by Audit. The Department further stated that GoI had released subsidy amounting to ₹ 8.02 crore for the period from February 2010 to August 2011 and the same has been deposited to the treasury.

The reply of the Department is not acceptable as the average number of chartered services operated for VIPs during last five years was 54.45 *per cent* and not 8 *per cent* as claimed by the Department.

2.4.9.9 Construction of Helipad at Alichen



The Department constructed (May 2012) a helipad at Alichen at a cost of ₹ 0.66 crore which was certified as complete (May 2012) and was ready to put for use.

It was observed that while selection of plot for construction of the helipad the Department of Land Records and Survey in its report stated that the plot is obstructed by Hydro-electric transmission tower and unless it is removed the landing and take-off from the helipad cannot take place. As a result, even after certificate of completion was

²² From April 2011 to March 2016

issued (May 2012) for operation of the helipad, it has not been put to use so far. A joint physical verification²³ of the helipad revealed the following.

- The services from the helipad are yet to commence (March 2016) even after a lapse of 46 months from the issue of certificate of completion. The pavement, approach road and waiting shed has been covered by overgrowth.

	
<p>Helipad unused and covered with grass and weeds. HT Electric tower adjacent to it</p>	<p>Approach road covered by overgrowth</p>

- The waiting shed is not accessible as no approach road was constructed.
- The Divisional Manager, Mokokochung stated that the helipad could not be cleared for passenger air traffic as 132 KV High Tension Transmission line situated near to the helipad was not relocated.

Supply order amounting to ₹ 1.5 lakh was issued (January 2012) to M/s R. J Associates for supply of furniture and fittings for furnishing the waiting hall at Helipad at Alichen. It was observed that none of the items were supplied so far (March 2016).

Thus, the project was executed in arbitrary manner without prior clearances, survey of site which resulted in blockade of the funds spent on its construction. Moreover, the helipad could not be put into use even after 46 months of its completion, thereby depriving the common people access to the helicopter services.

The Department replied (November 2016) that maintenance works such as jungle clearance would be carried out before it is put in use. Shifting of the 132 KV Hydroelectric Tower has been initiated with the concerned Department for which an amount of ₹ 0.25 crore would be required. Regarding supply of furniture and fittings, the Department stated that the materials were not delivered since the helipad was not operational.

The reply of the Department confirms the observation of audit that, due to negligence of the Department the helipad could not be put to use. Further, additional expenditure would be required to put it into operational condition.

2.4.9.10 Construction of Inter State Bus Terminal, Kohima

The project Construction of Inter State Bus Terminus (ISBT) at Kohima funded by NEC at the cost of ₹ 9.12 crore was taken up the NST Department in December 2006.

²³ on 5-9-2016

The major component of work viz., construction of main terminus building, internal electrification, parking yard and approach road, supply of furniture etc. at the cost of ₹ 8.92 crore was completed in May 2015.

However, some minor items of work valued at ₹ 0.20 crore, like maintenance of approach road and restoration of water supply construction were yet (November 2016) to be completed due to land dispute on the construction site and hence the Bus Terminus could not be commissioned even after 18 months from the completion of construction of the major works of the Bus Terminus.

Thus, due to land dispute the very purpose of constructed ISBT at Kohima remained unutilized and hence the benefit from it could not be extended to the stakeholders.

The Department accepted (November 2016) the fact that due to land dispute the work could not be completed.

2.4.9.11 Construction of Inter-State Bus and Truck Terminus (ISBTT) at Peren.

Ministry of DoNER sanctioned an amount of ₹ 8.74 crore for construction of ISBTT at Peren and released²⁴ an amount of ₹ 4.94 crore for the same. The work was to be completed within 18 months from the commencement of work (April 2014). The Finance Department Government of Nagaland also released its matching share²⁵ of ₹ 0.55 crore. Out of the total amount released an amount of ₹ 2.50 crore was kept in civil deposit.

The work was awarded to M/s S. Solo Engineering, Dimapur being the lowest bidder. An examination of the Running Account Bills and Measurement Book (MB) revealed that an amount of ₹ 1.20 crore was paid to the contractor²⁶ against execution of 28 items of work on the basis of measurements in MBs which was certified by Junior Engineer, Executive Engineer and General Manager NST. It was however observed during joint physical verification that 28 items of work against which the payments were made on Running Accounts bills had not been executed at all. Thus, the Department had apparently made fictitious entries in the MB and made the payments on these fictitious entries without actual execution of works. There was nothing on record to indicate that the Department had ordered an enquiry which indicated failure of Internal Controls.

In reply (November 2016), the Department while accepting the fact stated that the contractor has been instructed to accelerate the execution of the works and complete the project within the revised target date of completion (March 2017). No reply was received regarding initiating any enquiry.

2.4.9.13 Operation of Indigo Airlines service in Nagaland:

Government of Nagaland entered into a Memorandum of Understanding (MOU) with M/s Interglobal Aviation Ltd (IndiGo) for operating its services in Nagaland by providing certain “incentives” including:

²⁴ vide No. F.No 135/2011-NLP(NL) dated 02/11/2012 and NLCPR/ sanction No. 108/Year 2014-15 dt. 18.12.14

²⁵ vide bud/2-56/2012-13 dt. 5.2.13 (being 1st instalment) and TPT/NST-119/2012(Pt) dt. 15.2.15 (State Share),

²⁶ Against RC bills (i) 62 of 13-2-2014 (ii) 72 of 25-3-2015 (iii) 45 of 17-12-2015

- refund by GoN to IndiGo, the full value of VAT payable by IndiGo to the oil marketing companies on the Aviation Turbine Fuel purchased in the State of Nagaland,
- if on any flight to and/or from Dimapur, the occupancy is less than 100 seats, the GoN shall pay Indigo a total amount of ₹ 4000 per unutilised seat, and
- GoN shall deposit an amount of ₹ 50 lakh by opening of the escrow account, which will be adjusted against the amount to be paid by GoN to Indigo towards the incentives.

Examination of records revealed the following:

a. Indigo passenger tickets include fuel charges, taxes etc. whereas GoN is reimbursing the VAT on fuel supplied to Indigo which was an undue benefit to the company as the tax amount was already levied on the passengers. The Department had incurred an expenditure of ₹2.57 crore towards reimbursement of VAT on fuel charges during the period from December 2014 to June 2016 which was not proper.

b. Indigo operates its services from/to Dimapur and Kolkata and also to other sectors in India. It was seen that the Company refuels about 12,000 to 15,000 litres of Aviation Turbine Fuel from Dimapur whereas, it requires only 4,000 litre (for A320) to cover 55 minutes of air time (i.e. air time distance between Dimapur and Kolkata) and claims reimbursement on taxes on fuel on any quantity of fuel uplifted from Dimapur.

It was also observed that an amount of ₹ 7.95 lakh was sanctioned for the purchase of a vehicle (July 2015) for transporting IndiGo Staff Members, although such a provision was not incorporated in the MoU. Further, the guaranteed tax of ₹ 0.50 crore deposited in the escrow account also had not been adjusted.

The Department while accepting the facts stated (November 2016) that the Government had to offer certain relaxations and incentives to attract the Indigo Airlines. Nevertheless, the matter raised by audit has been taken up with the Government and the Indigo Airlines Authorities and necessary clarifications would be intimated on receipt of decision from the Government.

2.4.9.14 Misappropriation of Government Revenue:

It was observed that revenue received from activities of NST of Zunheboto Division were utilised for meeting expenditure and also misappropriated by persons handling cash of the Government. Analysis of revenue deposits in the last five years (2011-15) indicated that an amount ranging between ₹ 1365 and ₹ 48, 065 was retained by the staff handling the cash (43 instances) for a period ranging between nine months and 46 months. Further, it was noticed that in eight instances, station superintendents retained amounts (ranging between ₹ 20,000 and ₹ 3,14,000) out of revenue receipts on the plea of giving it as loans to the staff on different occasions during the last five years. Audit could not ascertain the position of repayment of these loans as no such record was made available to audit.

Moreover, an official, who was performing the duty of cashier upto February 2015, had retained an amount of ₹ 9.53 lakh of which an amount of ₹ 0.20 lakh was recovered and the balance ₹ 8.91 lakh remained unadjusted so far (August 2016).

Further, it was observed that the opening balance of the cash book in August 2014 was understated by ₹ 11,140 and in December 2014 by ₹ 95,153. Thus, an amount of ₹ 1,06,293 remained outside the Government account and the possibility of the amount being misappropriated cannot be ruled out.

The Department stated (November 2016) that actions have been initiated to deduct such loans from the monthly salary of the defaulting individuals.

The Department was silent on action initiated to prevent such misappropriation of revenue by officials.

2.4.10 Monitoring and Internal Control mechanism

2.4.10.2 Performance Analysis:

In order to fulfil the Department's objective to provide passenger bus services, to accelerate the process of socio-economic development of the State, the Department should have provided a well-connected network of services in the rural sector of the State apart from connection the district headquarters to the State Capital and its commercial district of Dimapur.

Audit analysed the services offered by the Department in the rural areas of the State, especially the services operated within the selected districts. Analysis of services operated per day is shown in table below:

Table No.2.4.7

Sl. No.	Name of station	No of interstate Service	No of Inter-District Service	No of Rural Service	Total	Percentages	
						Rural	Inter-district
1	Mokokchung	0	4	4	8	50	50
2	Kohima	1	12	12	25	48	48
3	Zunheboto	0	2	3	5	60	40
4	Dimapur	1	15	10	26	38	58
5	Phek	0	2	0	2	0	100
Total		2	35	29	66	44	53

Source: Compiled from records of the Department

It can be seen from the above table that 44 per cent of services were operated within the district, whereas 53 per cent of services were concentrated on inter district connectivity. Most of the services were operated between Dimapur to Kohima and Mokokchung. Further, it was seen that services operated in rural areas were mostly concentrated in Kohima (18 per cent) and Dimapur (15 per cent), whereas services in remaining three selected remote districts were lower (11 per cent).

Thus, the achievement of the objective of Department of providing a well-coordinated and reliable transport facility to the people of the state, especially the remote areas was not adequately addressed.

The Department stated (November 2016) that bad road conditions along with short intra-district services and sparse traffic resulted in loss of revenue.

Though the Departmental reply regarding bad road conditions was a fact, yet non-provision or poor connectivity of the rural areas was defeating one of the main objectives of the Department i.e. providing of bus services to the rural /inter-district sectors.

2.4.10.3 Operation of service without Conductors:

Under Chapter III of Section 29 of Motor Vehicles Act 1988 “No person shall act as a conductor of a stage carriage unless he holds an effective conductor’s license issued to him authorising him to act as such conductor, and no person shall employ or permit any person who is not so licensed to act as a conductor of a stage carriage.” and Section 29(2) “A State Government may prescribe the conditions subject to which sub-section (1) shall not apply to a driver of a stage carriage performing the functions of a conductor or to a person employed to act a conductor for a period not exceeding one month.”

Audit verification of the four selected Stations revealed that buses were operated without conductors and the drivers of the buses functioned as conductors also. Table below shows percentage of services that were operated without conductors.

Table No.2.4.8

Sl. No.	Name of station	Percentage of Services operated without conductors in five years				
		2011-12	2012-13	2013-14	2014-15	2015-16
1	Mokokchung	9.67	6.53	6.21	5.71	4.13
2	Phek	NA	59.50	53.72	50.34	54.07
3	Kohima	37.71	NA	44.24	45.19	38.67
4	Zunheboto	8.68	18.84	26.50	7.12	6.05

Source: Compiled from records of the Department

From the table above it can be observed that the percentage of services operated in the four stations without conductors during the last five years ranged between 4.13 *per cent* and 59.50 *per cent*.

The Department in reply stated (November 2016) that disciplinary action would be taken under relevant Service Rules against the absentee conductors.

2.4.10.4 Operation of buses with irregular registration number

Under Chapter IV Section 39 of Motor Vehicles Act 1988 “No person shall drive any motor vehicle and no owner of a motor vehicle shall cause or permit the vehicle to be driven in any public place or in any other place unless the vehicle is registered in accordance with provision in the Act and the certificate of registration of the vehicle

has not been suspended or cancelled and the vehicle carries a registration mark displayed in the prescribed manner”.

During 31 March 2011, the Department received sanction for ₹ 2.00 crore for procurement of buses under negotiated loan during 2010-11. Accordingly, the Department received 12 buses from Tata Motors during 2011 out of which registration certificate of two buses Reg. No. of NL-11 2228 and NL-11 2229 was not furnished to Audit. Physical verification revealed that these two buses were being operated from Kohima and Dimapur stations of the Department.

Further verification of the database of vehicle registration of Transport Department, revealed that the buses operated by the Department under Numbers NL-11 2228 and NL 11 2229 were actually registered under the ownership of Directorate of Higher & Technical Education and Directorate of Health & Family Welfare Department. This indicated that, the Department was operating the two buses with irregular registration which was a violation of the Motor Vehicles Act.

The Department stated (November 2016) that the registration of the vehicles would be regularised at the earliest.

2.4.11 Conclusion

The planning process in the Department was inadequate as comprehensive surveys and feasibility studies were not carried out while preparing five year plans or annual operation plans for efficient assessment of operational requirements, preparedness for emergencies, fleet management, facilities at stations and supply chain management for spares in the workshops. The Department did not follow the established canons of financial propriety while entering in to MOUs with civil aviation companies for air transportation and entitlement of helicopter subsidy. There were delays in completion of projects, non-settlement of land disputes, etc.

2.4.12 Recommendation

The recommendation of the audit are:

- The Department should lay emphasis on planning with adequate focus on surveys and feasibility studies to assess operational and infrastructure requirements realistically.
- The Department should resolve outstanding disputes and other bottlenecks for optimal utilisation of the infrastructures created.
- The Department should put in place effective controls and monitoring mechanisms to prevent leakage, diversion and wilful misappropriation of revenue.

COMPLIANCE AUDITS

PUBLIC WORKS (ROADS & BRIDGES) DEPARTMENT

2.5 Excess payment to contractor

The Executive Engineer, Public Works (Roads and Bridges) Division, Dimapur made excess and inadmissible payment of ₹ 8.01 crore to a contractor by arbitrarily increasing the rates of three items of work.

The Ministry of Development of North Eastern Region (DONER) sanctioned (August 2010) an amount of ₹ 29.41 crore for the Up-gradation of the Dimapur-Nuiland Road to a Major District Road, covering a distance of 28 Km under the Non Lapsable Central Pool of Resources (NLCPR). Accordingly, the Public Works Department (PWD) awarded (August 2010) the work to M/s National Construction at ₹ 29.41 crore at par with Nagaland Public Works Department (NPWD) Schedule of Rates (SOR) 2008. As per clause 12 of the terms and condition of the contract, no price escalation/enhancement of rate was to be allowed.

Examination of records (November 2015) of the Executive Engineer, PWD (R&B) revealed that the Executive Engineer, PWD, (R&B) Dimapur Division submitted (14 July 2011) a proposal for revision of the estimate of the project cost to ₹ 39.90 crore only nine days before actual completion of the work (23 July 2011) on grounds of variation in quantities of work during execution. Accordingly, the value of the work order was enhanced, through a corrigendum issued (21 July 2011) by the Chief Engineer, PWD (R&B). The contractor was paid ₹ 39.90 crore in four instalments as indicated below:

Table: 2.5.1

(i)	Mobilisation Advance vide Vr. No 3 of 18 October 2010	₹ 11,53,37,000/-
(ii)	1 st Running Account Bill vide Vr. No 10 of 31 March 2011	₹ 11,00,00,000/-
(iii)	2 nd Running Account Bill vide Vr. No 6 of 22 December 2011	₹ 5,59,38,000
(iv)	Final bill vide Vr. No. 3 of 25 March 2015	₹ 11,77,60,000/-

On detail examination of revised Bill of Quantity (BOQ), it was observed that the quantities in respect of three items of work were increased while the quantities of six items of work were reduced. The revised project cost for the revised quantity of work as per original approved rates works out to ₹ 31.89 crore (**Appendix-2.5.1**). However, it was noticed that in the revised BOQ the rates of three items (Granular Sub Base (GSB), Water Bound Macadam (WBM) Gr. II and III) was arbitrarily increased by ₹ 960 each over and above the approved SOR. As a result, the project cost was increased to ₹ 39.90 crore and the amount was accordingly paid to the contractor. The excess amount of ₹ 8.01 crore was paid to the contractor on account of enhancement in the rates are as shown in the following table.

Table: 2.5.2

Sl. No.	Item of work	Rate as per (in ₹)		Difference (in ₹)	Quantity as per revised BOQ	Amount paid	Amount payable	Excess payment
		original BOQ	revised BOQ					
1	Granular Sub Base	1464	2424	960	64,941.13	1574.17	950.74	623.43
2	WBM Gr. II	1659	2619	960	7,999.85	209.52	132.72	76.80
3	WBM GSB Gr. III	1797	2757	960	10,533.10	290.40	189.28	101.12
Total						2074.09	1272.74	801.35

Source: Departmental figure

Thus, the Department flouted the terms and conditions of the contract by enhancing the rates of three items of works above SOR, which resulted in excess and inadmissible payment of ₹ 8.01 crore to the contractor.

The Government in reply (August 2016) stated that the project cost was revised as per the revised BOQ and measurement as well as the bills were prepared taking those aspects into account. However, the Government was silent on how the rate of three items of works was enhanced arbitrarily.

RURAL DEVELOPMENT DEPARTMENT

2.6 Suspected misappropriation of MGNREGS fund

The Block Development Officer (BDO), Ghatashi transferred an amount of ₹ 2.53 crore to two private bank accounts out of the fund of ₹ 8.69 crore received under MGNREGS during 2013-14 and possibility of misappropriation of ₹ 2.53 crore could not be ruled out.

As per Operational Guidelines of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), separate bank accounts are to be opened for managing funds under the Scheme at the State, District, Block and Panchayat (village) levels. The funds received from Government of India or the State Government by the District Rural Development Agency (DRDA) are to be transferred to the Blocks/Panchayats by bank transfer.

Examination (August 2014) of records in the office of the Block Development Officer (BDO), Ghatashi revealed that the Project Director (PD)-cum-District Programme Coordinator (DPC), MGNREGS, Zunheboto sanctioned and remitted an amount of ₹ 8.69 crore between July 2013 and March 2014 for implementation of various works under the scheme to BDO, Ghatashi Block. As per entries made in the cash book the entire amount was shown as paid to all the 22 Village Development Boards (VDBs). However, examination of the bank statement revealed that only an amount of ₹ 5.14 crore was credited to the VDBs account. Out of the remaining amount, ₹ 1.02 crore was drawn in cash and balance ₹ 2.53 crore was transferred to two private bank accounts.

In order to authenticate the transfer of funds to individual accounts, the details of transactions were obtained from the State Bank of India, Zunheboto Branch which revealed that the BDO transferred ₹ 1.07 crore to his personal account and ₹ 1.45 crore was transferred to an account of Shri. Vika Swu as detailed below.

Table No. 2.6.1

Sl. No	Date	Cheque no	Name of the Bank and Account No	Name of the A/C holder	Amount
1	29-03-2014	123160	SBI Zunheboto 30722825724,	Vikheto Kits	25,00,000
2	29-03-2014	123161			25,00,000
3	29-03-2014	123162			25,00,000
4	29-03-2014	123163			25,00,000
5	29-03-2014	123164			7,48,790
Sub-Total					1,07,48,790
1	20-01-2014	123153	Bank of Baroda, Dimapur Branch 10170100036558	VikaSwu	41,66,490
2	20-01-2014	123155			80,70,480
3	20-01-2014	123157			22,99,860
Sub-Total					1,45,36,830
Grand Total					2,52,85,620

Thus, in violation of the guidelines and contrary to the recordings made in the cash book, an amount of ₹ 2.53 crore was transferred to two private bank accounts.

In reply (May 2016) the Government stated that the fund was temporarily parked in two individual accounts due to unavoidable circumstances as explained by the BDO. It enclosed copies of reply of District Rural Development Authority, Zunheboto forwarding the explanation of BDO, Ghathashi for transfer of funds into individual accounts. As per explanation provided by BDO, Ghathashi the funds were temporarily transferred to facilitate purchase of materials required for work which were not available at the local market and were required to be arranged from Dimapur/Zunheboto. BDO, Ghathashi also stated that amount temporarily transferred was paid in full to the respective VDBs in cash and attached Actual Payment Receipts (APRs) in support of his claim.

The explanation of the BDO, Ghathashi as well as the Government is not acceptable as the APRs provided in support of the claim that the amount temporarily transferred was paid in full to respective VDBs in cash in fact pertained to ₹ 1.02 crore drawn in cash by the BDO and not in respect of the amounts transferred to individual accounts. Further, to corroborate the replies of the Government, the actual transaction of the two bank accounts and the accounts of the VDBs were obtained from the bank authorities which revealed that an amount of ₹ 2.53 crore transferred to these two accounts were never credited to the accounts of the VDBs nor reverted back to Government account. Rather, it was observed that ₹ 1.07 crore parked in the bank account of Shri. Vikheto Kits was transferred to the accounts of Shri. Vika Swu (Bank of Baroda, Dimapur) on 02 April 2014 through Real Time Gross Settlement (RTGS).

Thus, an amount of 2.53 crore meant for implementation of MGNREGS was kept out of government account and its utilisation for the scheme seems doubtful. The

possibility of misappropriation cannot be ruled out. The Government needs to investigate these transactions.

DEPARTMENT OF FISHERIES

2.7 Fraudulent payment

The Department of Fisheries obtained the fund of ₹ 4.99 crore from Government of India on the basis of doubtful beneficiaries list and the full amount was paid to an individual who was not among the eligible beneficiary. Out of which ₹ 1.77 crore was paid without actual execution of civil works.

The Department of Fisheries, Government of Nagaland submitted a proposal to the Ministry of Development of North Eastern Region (DoNER), Government of India (GoI) (September 2012) for construction of community based fishery ponds at Beiswampui, Peren District at an estimated cost ₹ 5.00 crore, The project was to be executed by the villagers themselves. The proposal had a list of 51 beneficiaries submitted by the Village Chairman which was counter signed by the Deputy Commissioner, Peren, as genuine. The beneficiary list also included the Electoral Photo Identity Card (EPIC) number of each beneficiary assigned by the Election Commission of India. The proposal *inter-alia* included construction of 47 fishery ponds covering an area of 142,500 sq.mt costing ₹ 4.65 crore.

Accordingly, the Ministry of DoNER accorded administrative approval (December 2012) for 'Construction of community based fishery ponds at Beiswampui, Peren District' at an estimated cost of ₹ 4.99 crore to be shared in the ratio of 90:10 between the Centre and the State.

Examination of records (February 2016) of the Director, Fisheries revealed that the Ministry as well as the State Government released the funds in three instalments as given below:

Table No.2.7.1

₹ in crore

Sl. No	Instalment No.	NEC Share	State Share
1	1st Instalment	1.50	0.17
2	2nd Instalment	1.50	0.17
3	3rd Instalment	1.49	0.16
	Total	4.49	0.50

It was also noticed that the Department submitted Utilisation Certificate, Quarterly Progress Report and Completion Certificate to the Government certifying that the works were fully completed. Further scrutiny of the records revealed the following irregularities.

(A) Incorrect beneficiary list

To establish the genuineness of the beneficiary list submitted to the Ministry, the EPIC numbers and the electoral roll of 2013 were obtained from the Chief Electoral Officer,

Nagaland and the District Election Officer, Peren. Cross examination of the electoral roll of 2013, New Beiswampui Village under 6th Assembly Constituency-Tenning revealed that:

- Out of 51 beneficiaries, the names of 14 beneficiaries did not feature in the electoral roll.
- EPIC numbers of 37 other beneficiaries submitted to the Ministry also did not match with the actual EPIC numbers allotted by the Election Commission of India.

Thus, the Department submitted a project proposal to the Ministry containing the names of beneficiaries which was incorrect and inflated.

(B) Payment to an ineligible beneficiary

The Department paid the entire amount of ₹ 4.99 crore to one Shri. K. Francis Zeliang, in cash against three undated Actual Payee Receipt. However, it was noticed that the name of Shri. Francis Zeliang did not appear in the beneficiary list approved by the Ministry.

Thus, an amount of ₹ 4.99 crore was paid to a person who was not among the intended beneficiaries. The prospect of the fund being utilised for benefit of an influential individual rather than the community cannot be ruled out.

(C) Fictitious payment

Examination of the Detailed Project Report (DPR) revealed that altogether 47 fishery ponds covering an area of 142,500 sq.mt was to be constructed at a total cost of ₹ 4.65 crore. However, Joint physical verification of the project (June 2016) revealed that only 36 fishery ponds of different sizes covering total area of 91,631 sq.mt existed on the project sites. Out of the 36 fishery ponds existed on the project sites, three ponds measuring approximately 3240.02 sq.mt were natural water bodies. As such, ₹ 0.11 crore stated to have been spent on construction of these three ponds were actually not incurred as no civil work was involved for construction of these ponds.



Photographs showing the natural water bodies

Thus, total quantum of civil works actually executed in respect of 33 fishery ponds, therefore, works out to 88,391 sq.mt which would likely to cost ₹ 2.88 crore for civil work. Thus, the Department paid ₹ 1.77 crore without actual execution of civil works in respect of 11 fishery ponds yet to be constructed and three natural water bodies on

which no money was required to be spent on civil works. During physical verification the Project in-charge stated that the work was still in progress and more fishery ponds would be constructed.

Thus, the Department of Fisheries obtained funds of ₹ 4.99 crore on fictitious beneficiaries which was paid to an individual who was not among the eligible beneficiary. Out of which an amount of ₹ 1.77 crore was paid without actual execution of the complete items of civil works.

While accepting the facts, the Department as well as the Government stated (July 2016) that the villagers authorised the individual to receive the payment. In regard with the mismatch of the EPIC number, it was stated that it may be due to updation of the EPIC numbers.

The reply is not acceptable as there was nothing on record to show that the beneficiaries authorised the individual to receive funds on their behalf. Also, the mismatch in EPIC numbers could not have been due to updation as both the old and the new EPIC numbers obtained by audit from the Chief Election Office did not tally with the beneficiary list submitted to the Ministry.

TOURISM DEPARTMENT

2.8 Misutilisation/misappropriation of Government revenue

An amount of ₹ 50.74 lakh received as compensation from National Highway Authority of India through the Deputy Commissioner, Dimapur was not deposited into Government account and thus the possibility of the amount being misutilised/misappropriated could not be ruled out.

As per Appendix-11 read with Rule 278 of the General Financial Rules, all property and assets, which include land and buildings, and which vests in the State Government under Articles 294 and 295 of the Constitution or otherwise shall be at the disposal of the respective State Government, who will be at liability to dispose them by sale, mortgage etc. and the proceeds thereof shall be credited to the revenues of the respective State Governments.

Rule 6(1) of the Receipt and Payment Rules, 1983 also stipulated that all money received by or tendered to Government officers on account of revenues or receipts or dues of the Government shall, without undue delay, be paid in full into the accredited bank for inclusion in Government Accounts. Money received as aforesaid shall not be utilized to meet departmental expenses. Rule 9 of the Central Treasury Rules further stipulated that a Government officer may not, except with the special permission of the Government, deposit in a bank, other than the Reserve Bank or its agent for the purpose of Government transactions.

Examination of records (July 2015) of the Director, Tourism revealed that two amenity centres (located at Kukidolong and Piphema village), constructed through the funds received from GoI on land acquired by the Department of Tourism (DoT), Government

of Nagaland (GoN) was within the demarcated area for expansion of four lane National Highway 39. Accordingly, the DC, Dimapur through Public Notification No.REV-13/93-D Dated 28 September 2014 notified the affected land owners to be physically present to collect the compensation.

Evidence collected from the office of the Deputy Commissioner (DC), Dimapur revealed that compensation totalling to ₹ 50.74 lakh was paid (October and November 2014) by the DC through two cheque²⁷ for two amenity centres. However, ₹ 50.74 lakh received as compensation was neither accounted for nor deposited into Government account by the DoT, GoN. While cheque for ₹ 25.66 lakh in respect of Amenity Centre, Kukidolong was drawn in favour of DoT, GoN, another cheque for ₹ 25.08 lakh in respect of Amenity Centre, Piphema was drawn in favour of Emanity House Piphema Council. Though both amenity centres were constructed on the land belonging to the DoT, GoN reasons as to why the compensation cheque in respect of Amenity Centre, Piphema was allowed to be collected by Chairman of Piphema village was not on record.

The possibility of misutilisation/misappropriation of the compensation received could not be ruled out.

In reply, the Department stated (June 2016) that the amount of ₹ 25 lakh was utilised during departmental trip to China for attending International Travel Mart and the whereabouts of the balance amount remain unknown to the department and the case is under investigation by the State Vigilance Commission.

The reply is not acceptable as Government revenue should be deposited into the account of the Government and its appropriation should pass through the regular process of budgeting and appropriation by the Legislature which was not done resulting in misutilisation and probable misappropriation.

²⁷ Cheque No.792101 for ₹ 25,66,457 and cheque 792091 for ₹ 25,07,925

CHAPTER – III
ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS)

CHAPTER - III

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

3.1 Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consists of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2016, there were 6 (Six) SPSUs in Nagaland. Of these, no Company was listed on the stock exchange(s). During the year 2015-16, neither any SPSU was incorporated nor closed down. The details of the SPSUs in Nagaland as on 31 March 2016 are given below.

Table 3.1

Type of SPSUs	Working SPSUs	Non-working SPSUs*	Total
Government Companies ¹	5	1	6
Statutory Corporations	0	0	0
Total	5	1	6

*Non-working SPSUs are those which have ceased to carry on their operations

The working SPSUs registered a turnover of ₹ 6.23 crore as per their latest finalised accounts as of September 2016. This turnover was equal to 0.03 *per cent* of State Gross Domestic Product (SGDP) for 2015-16. The working SPSUs incurred aggregate loss of ₹ 49.28 crore as per their latest finalised accounts (September 2016). They had employed 576 employees at the end of March 2016.

As on 31 March 2016, one SPSU (Nagaland Sugar Mills Company Limited) with an investment of ₹ 5.89² crore was not working for the last 16 years (Since 1999-2000). The investments in non-working SPSUs do not contribute to the economic growth of the State.

3.1.2 Accountability framework

The audit of the financial statements of a Company in respect of financial years commencing on or after 01 April, 2014 is governed by the provisions of the Companies Act, 2013. However, the audit of a company in respect of financial years that commenced earlier than 1st April, 2014 continued to be governed by the Companies Act, 1956.

According to Section 2 (45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid-up capital is held by the Central and/or State Government (s) and includes a subsidiary of a Government Company. The

¹ Government companies include Other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

² As per latest figures furnished by the Company

process of audit of Government companies under the Act is governed by respective provisions of Section 139 and 143 of the Act.

3.1.3 Statutory Audit

The financial statements of a Government Company (as defined in Section 2 (45) of the Companies Act, 2013) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (C&AG) as per the provisions of Section 139 (5) or (7) of the Companies Act. These financial statements are also subject to supplementary audit to be conducted by C&AG within 60 days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act.

Further, the Statutory Auditors of any Other Company³ owned or controlled, directly or indirectly, by the Central and/or State Government (s) are also appointed by C&AG as per the provisions of Section 139 (5) or (7) of the Act.

As per the provisions of Section 143 (7) of the Act, the C&AG, in case of any Company (Government Company or Other Company) covered under sub-section (5) or sub-section (7) of Section 139 of the Act, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company (Government Company and Other Company) and the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit.

Audit of Statutory Corporations is governed by their respective legislations. There is no Statutory Corporation in Nagaland.

3.1.4 Role of Government and Legislature

The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the C&AG, in respect of State Government Companies and Separate Audit Reports in case of Statutory Corporations are to be placed before the legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of C&AG are submitted to the Government under Section 19A of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

³ Other company as referred to in Section 1359(5) & 139(7) of the Companies Act 2013

3.1.5 Stake of Government of Nagaland

The State Government has huge financial stake in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the SPSUs from Financial Institutions.

3.1.6 Investment in State SPSUs

As on 31 March 2016, the investment (capital and long-term loans) in Six SPSUs⁴ was ₹ 111.96 crore as detailed below.

Table No.3.2

₹ in crore

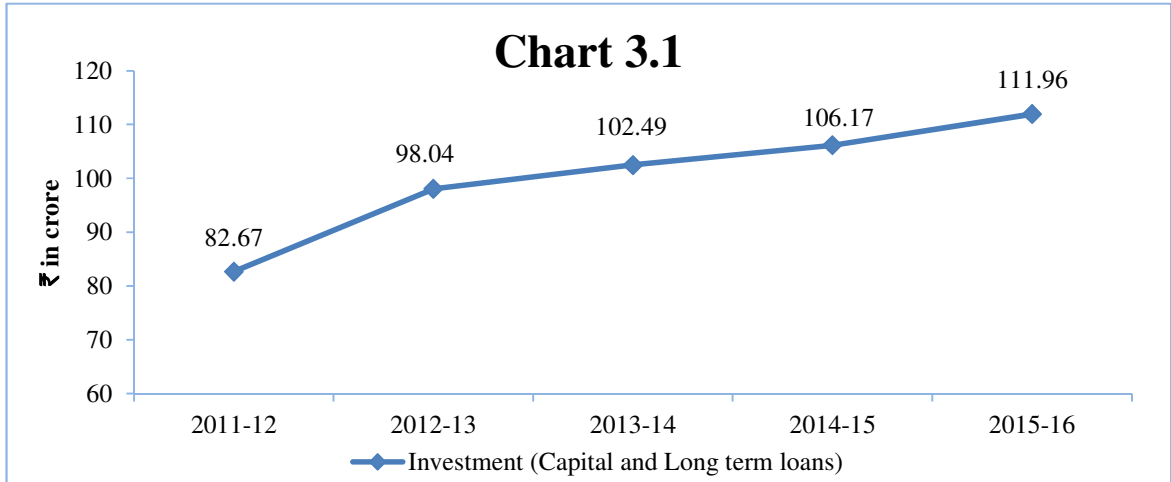
Type of SPSUs	Government Companies			Grand Total
	Capital*	Long Term Loans	Total	
Working SPSUs	35.95	66.93	102.88	102.88
Non-working SPSUs	5.89	3.19	9.08	9.08
Total	41.84	70.12	111.96	111.96

*includes ₹6.78 crore from sources other than State Government

Out of the total investment of ₹ 111.96 crore in SPSUs as on 31 March 2016, 91.89 per cent was in working SPSUs and the remaining 8.11 per cent in non-working SPSUs. This total investment consisted of 37.38 per cent towards capital and 62.62 per cent in long-term loans. The investment has grown by 35.41 per cent from ₹ 82.67 crore in 2011-12 to ₹ 111.96 crore in 2015-16 as shown in the graph below.

⁴ There are no statutory Corporations in Nagaland

Total investment in SPSUs



3.1.7 Summary of Investments

The sector wise summary of investments in the State PSUs as on 31 March 2016 is given below:

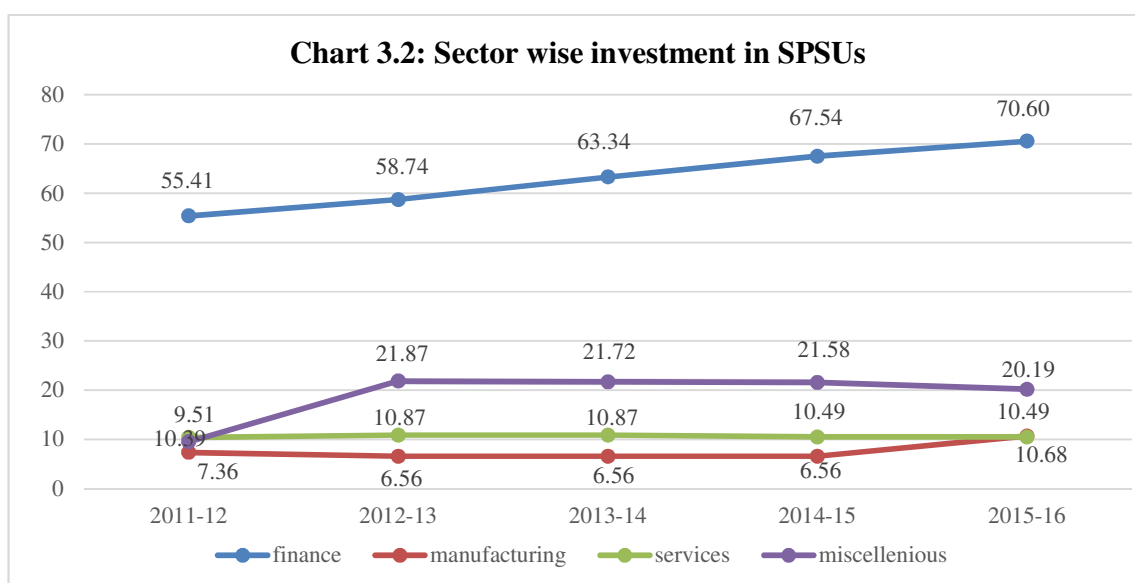
Table 3.3

₹ in crore

Name of Sector	Government Companies/Corporations ⁵		Total Investment (₹ in crore)
	Working	Non-Working	
Manufacturing	1.60	9.08	10.68
Finance	70.60	0	70.60
Miscellaneous	20.19	0	20.19
Service	10.49	0	10.49
Total	102.88	9.08	107.84

The investment in four significant sectors and percentage thereof at the end of 31 March 2012 to 31 March 2016 is indicated in the following line chart.

⁵ There was no Statutory Corporation in Nagaland as on March 2016



It may be noticed that investment of the State Government in finance sector was highest during the last five years whereas the investment in manufacturing and service sectors remained consistently low during last five years. However, the investment in manufacturing sector inspite of being consistently low during last five years recorded a noticeable increase of ₹ 4.12 crore in 2015-16 (i.e. an increase of 63 per cent) as compared with the previous year.

3.1.8 Special support and returns during the year

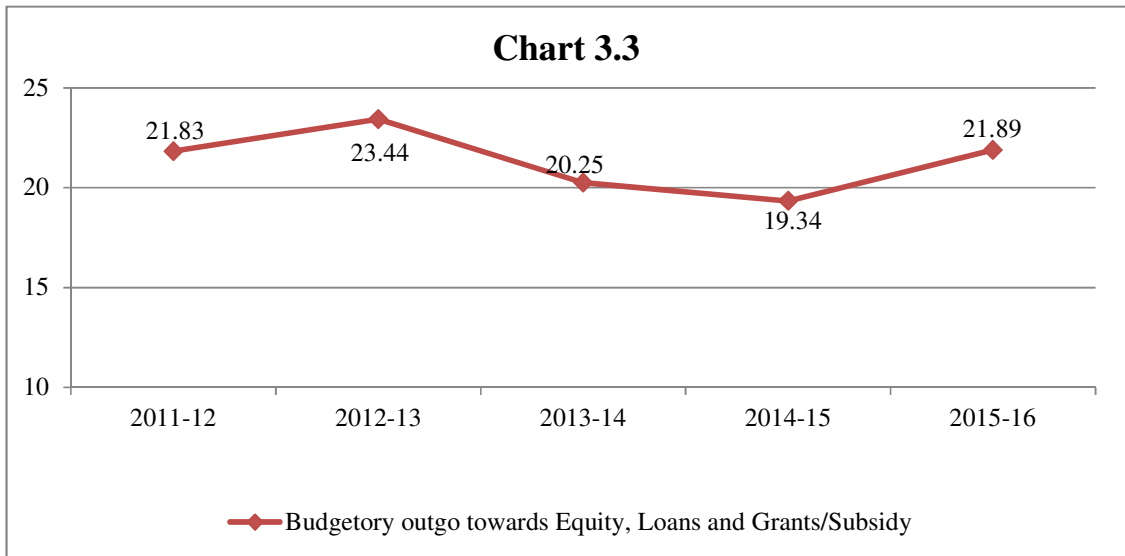
The State Government provides financial support to SPSUs in various forms through annual budget. The summarized details of budgetary outgo towards equity, loans, grants/subsidies, loans written-off and interest waived in respect of SPSUs are given below for three years ended 2015-16.

Table 3.4

₹ in crore

Sl. No	Particulars	2013-14		2014-15		2015-16	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	1	4.25	0	0	0	0
2.	Loans given from budget	0	0	1	8.68	1	5.64
3.	Grants/Subsidy from budget	4	16.00	3	10.66	4	16.25
4.	Total Outgo (1+2+3)		20.25		19.34		21.89
5.	Waiver of loans and interest	0	0	1	4.48	1	2.57
6.	Guarantees issued	0	0	1	4.48	1	5.64
7.	Guarantee Commitment	1	6.55	1	8.68	1	15.00

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in a graph below.



The chart above indicated that the year-wise budgetary outgo of the State Government towards equity, loans and grants increased from ₹ 21.83 crore in 2011-12 to ₹ 23.44 crore in 2012-13. However, the budgetary outgo decreased during 2013-14 and 2014-15, In 2015-16 the budgetary support provided to SPSUs had marginally increased by ₹ 2.55 crore to ₹ 21.89 crore as compared with 2014-15.

During the year 2015-16, the Government waived the loan of ₹ 2.57 crore and issued a guarantee of ₹ 5.64 crore to Nagaland Industrial Development Corporation Limited.

In order to enable SPSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee. However, the State Government had not framed any rules regarding extending guarantee for the same. The guarantee commitment had increased from ₹ 8.68 crore in 2014-15 to ₹ 15.00 crore in 2015-16. Further, no SPSU paid guarantee fee to the State Government during 2015-16 as there was no demand from the Government.

3.1.9 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not match, the concerned SPSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2016 is given in the following table.

Table 3.5

₹ in crore

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	97.90	33.92	63.98
Loans	0	0.81	-0.81
Guarantees	48.95	20.64	28.31

Audit observed that there were differences between two set of figures i.e. figures of State Finance Accounts and figures shown in Accounts of SPSUs. The differences were not reconciled since 2010-11.

3.1.10 Finalisation of accounts

The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96 (1) of the Act. Failure to do so, may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the legislature as per the provisions of their respective Acts.

The table below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2016.

Table 3.6

Sl.No	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Number of Working PSUs/other companies	5	5	5	5	5
2	Number of accounts finalised during the year	34	21	17	6	2
3	Number of accounts in arrears	46	30	18	17	20
4	Number of Working PSUs with arrears in accounts	5	5	5	5	5
5	Extent of arrears (numbers in years)	1 to 13	1 to 9	1 to 5	1 to 5	1 to 6

It can be observed that the number of accounts in arrears has decreased from 46 in 2011-12 to 17 in 2014-15, however, the arrears increased to 20 in 2015-16 as compared with the previous year. Only two SPSUs (NIDC & NSMDC) finalised one account each during 2015-16, the remaining three SPSUs did not finalise any accounts inspite of repeated reminders issued at the end of each quarter. None of the SPSUs, had updated their accounts as on 30 September, 2016.

All the SPSUs need to take effective measures for early clearance of the backlog and make their accounts up-to-date. SPSUs should ensure finalisation of at least one year

accounts by 30 September each year so as to restrict further accumulation of accounts backlog.

In addition to above, the accounts of one non-working SPSU pertaining to the years 1977-78 to 1980-81 was finalised during the year. However, the non-working SPSU had arrears of accounts for 34 years.

The administrative departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these SPSUs within the prescribed period.

In view of above state of affairs, it is recommended that the Government should monitor and ensure timely finalisation of accounts in conformity with the provisions of the Companies Act, 1956 and orders of the Ministry of Corporate Affairs from time to time.

3.1.11 Arrears in finalisation of Accounts of working SPSUs

The State Government had invested ₹ 142.04 crore in five SPSUs {equity: ₹ 0.85 crore (one SPSUs), loans: ₹ 5.64 crore (one SPSU) and grants ₹ 135.55 crore (five SPSUs)} during the years for which accounts have not been finalised as detailed in **Appendix-3.1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such SPSUs remained outside the control of State legislature.

3.1.12 Arrears in finalisation of Accounts of non-working SPSUs

In addition to above, as on 30 September 2016, there were arrears in finalisation of accounts by one non-working SPSU whose accounts were in arrears for 34 years.

Table 3.7

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
One - Nagaland Sugar Mill Company Ltd.	1981-82 till date	34

3.1.13 Impact of non-finalisation of accounts

As pointed out above (**Paragraph 3.1.10 to 3.1.12**), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of SPSUs to the State GDP for the year 2015-16 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

3.1.14 Performance of SPSUs

The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix 3.1.2**. A ratio of SPSU-turnover to State GDP shows the extent of SPSU-activities in the State economy. Table below provides the details of working SPSU turnover and State GDP for a period of five years ending 2015-16.

Table 3.8

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover*	5.36	6.75	5.98	6.26	6.23
State GDP	13,859	15,676	17,749	20,099	20,524
Percentage of Turnover to State GDP	0.04	0.04	0.03	0.03	0.03

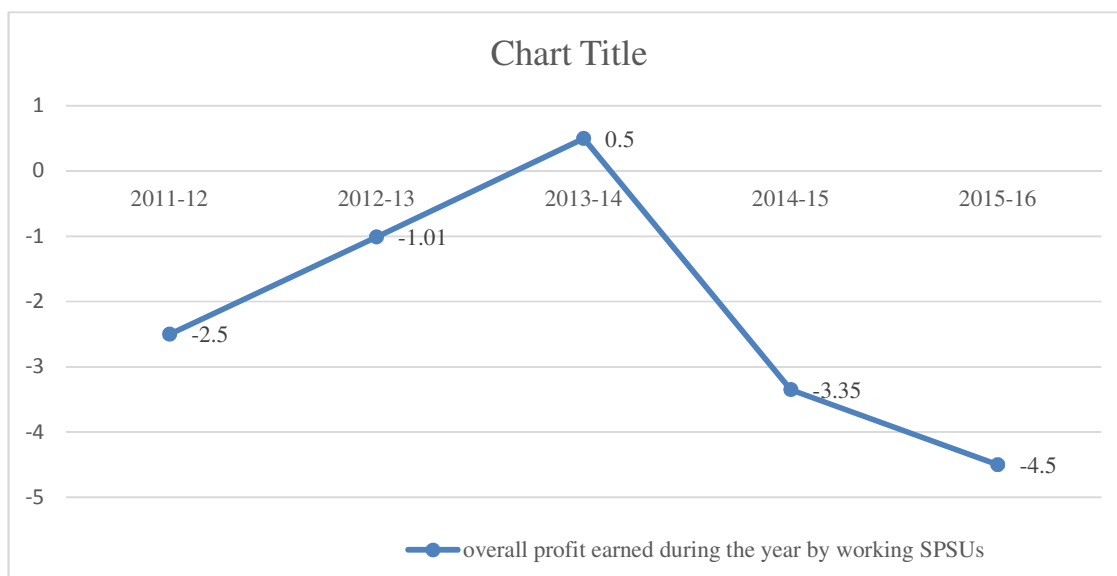
**Turnover as per the latest finalised accounts as of 30 September of the respective years*

From the table, it can be seen that there was no substantial change in the percentage of SPSUs turnover to State GDP during the last five years.

3.1.15 Overall Profit/Loss of SPSUs

Overall profit and losses earned/incurred by State working SPSUs during 2011-12 to 2015-16 are given in chart below.

Chart 3.4: Profit/Loss of working SPSUs



It could be seen from the chart above that overall losses incurred by the working SPSUs had increased from ₹ 2.50 crore in 2011-12 to ₹ 4.50 crore in 2015-16. Except during 2013-14 when there was a slight increase in profits, none of the working SPSUs had

made profit from their operations during the year. The two PSUs namely Nagaland Industrial Development Corporation Limited (NIDC) and Nagaland State Mineral Development Corporation Limited (NSMDC) which finalised their accounts during the year showed an increasing trend in the net loss. The figures for the other three PSUs had not been updated as no accounts were finalized during the year. Hence, increase in the net loss indicates loss incurred by the two SPSUs only.

3.1.16 Key Indicators

Some other key parameters of SPSUs are given below.

Table 3.9

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (Per cent)	Nil	0.63	5.02	Nil	Nil
Debt	47.69	61.46	61.66	65.26	70.12
Turnover ⁶	5.36	6.75	5.98	6.26	6.23
Debt/Turnover Ratio	8.90:1	9.11:1	10.31:1	10.42:1	11.26:1
Interest Payments					
Accumulated Profits/Losses	(48.53)	(51.38)	(49.35)	(51.84)	(49.28)

(Above figures pertain to all SPSUs except for turnover which is for working SPSUs).

From the above it can be noticed that the debt-turnover ratio of SPSUs had increased consistently due to increase in the long term borrowings of SPSUs. The accumulated losses of SPSUs had decreased slightly during 2015-16. There was, however, no return on capital employed during 2011-12, 2014-15 and 2015-16. The losses of SPSUs are generally due to deficiencies in management, planning, running their operations and monitoring.

Thus, appropriate steps are needed to be taken for better management, operation and monitoring of the activities of the working SPSUs to arrest the gradual deterioration of their financial results.

3.1.17 Paid-up share capital

The State Government has not formulated any dividend policy under which all SPSUs could have been required to pay a minimum return on the paid up share capital contributed by the State Government.

⁶ Turnover of working SPSUs as per the latest finalised accounts as of 30 September of the respective year.

3.1.18 Winding-up of non-working SPSUs

There was one non-working SPSU⁷ as on 31 March 2016. The number of non-working SPSUs (companies and corporations) at the end of each year during past five years are given in the following table.

Table 3.10

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
No. of non-working companies	1	1	1	1	1
No. of non-working corporations	0	0	0	0	0
Total	1	1	1	1	1

3.1.19 Closure of non-working SPSUs

The stages of closure in respect of non-working SPSUs are given below:

Table 3.11

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working SPSUs	1	0	1
2.	Of (1) above, the No. under			
(a)	Liquidation by Court (liquidator appointed)	0	0	0
(b)	Voluntary winding up (liquidator appointed)	0	0	0
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	1*	0	1

**the liquidation process of one non-working company had not started as on September 2016.*

During the year 2015-16 no company was finally wound up.

3.1.20 Accounts Comments

Two working Companies forwarded one year audited accounts each to AG (Audit) during the year 2015-16. Non-Review Certificate was issued with respect to one accounts and one account was selected for supplementary audit.

During the year, the Statutory Auditors had not given unqualified certificates for any accounts.

⁷ Nagaland Sugar Mills Company Limited Dimapur

Response of the Government to Audit.

3.1.21. Performance Audits and Paragraphs

For the Report of the C&AG of India for the year ended 31 March 2016, no performance audit/audit paragraph was issued to the Government/Management.

Follow up action on Audit Reports

3.1.22 Replies outstanding

The Report of the C&AG of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Nagaland did not issue any instruction to any Administrative Departments to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the C&AG of India within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the COPU.

Table 3.12

Year of the Audit Report (Commercial/SPSUs)	Date of placement of Audit Report in the State Legislature	Number of Paragraphs in the Audit Report	Number of Paragraphs for which explanatory notes were not received (as on 30 Sept 2016)
2011-12	18 July 2013	1	0
2012-13	25 July 2014	1	0
2013-14	17 March 2015	1	0
2014-15	19 March 2016	0	0
Total		3	0

3.1.23 Discussion of Audit Reports by Committee on Public Undertakings.

The status as on 30 September 2016 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as under:

Table 3.13

Period of Audit Report	Number of reviews/paragraphs as on September 2016			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2012-13	0	1	0	0
2013-14	0	1	0	0
2014-15	0	0	0	0
Total	0	2	0	0

3.1.24 Recommendations of COPU

It is recommended that the Government may ensure; (a) sending of replies to IRs/explanatory Notes/draft paragraphs/performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/outstanding advances/overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

3.1.25 Disinvestment, Restructuring and Privatisation of SPSUs and any reforms in power sector

There was no instance of disinvestment, restructuring and privatization of SPSUs during the year under Report.

CHAPTER – IV
REVENUE SECTOR

CHAPTER - IV

REVENUE SECTOR

4.1 General

4.1.1 Trend of revenue receipts

The Tax and Non-tax revenue raised by Government of Nagaland (GoN) during the year 2015-16, the State's share of net proceeds of divisible Union taxes and Grant-in-aid received from the Government of India (GoI) during the year and the corresponding figures for the preceding four years are mentioned below:

Table-4.1.1

₹ in crore

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
I	Revenue raised by the State Government					
	• Tax revenue	303.88	339.95	333.39	388.60	427.10
	• Non-tax revenue	232.95	207.17	216.57	270.61	256.39
	Total-I	536.83	547.12	549.96	659.21	683.49
	Percentage of increase over previous year	30.79	1.92	0.52	19.86	3.68
II	Receipt from the Government of India					
	• States share of net proceeds of divisible Union taxes	803.20	917.14	1,001.27	1,062.69	2,540.72
	• Grants-in-aid	4,246.35	4,740.03	4,946.67	5,929.04	4,819.36
	Total-II	5,049.55	5,657.17	5,947.94	6,991.73	7,360.08
III	Total receipts of the State Government (I+II)	5,586.38	6,204.29	6,497.90	7,650.94	8,043.57
	Percentage of I to III	10	9	8	9	8

Thus, growth of revenue during 2015-16 over previous year was at 3.68 *per cent* against 19.86 *per cent* in the year 2014-15. Further, during the year 2015-16, the revenue raised by the State Government (₹ 683.49 crore) was eight *per cent* of the total revenue receipts against nine *per cent* in the preceding year. The balance 92 *per cent* of receipts during 2015-16 was from GoI.

4.1.2 The following table presents the details of Tax revenue raised during the period 2011-12 to 2015-16.

Table-4.1.2

							<i>₹ in crore</i>
Sl. No.	Head of revenue	2011-12	2012-13	2013-14	2014-15	2015-16	Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15
1	Sales Tax/VAT	231.12	257.21	250.20	294.29	328.58	(+)12
2	State Excise	3.36	3.73	4.86	4.70	5.12	(+)09
3	Stamps and Registration Fees	1.85	1.58	1.77	1.93	2.04	(+)06
4	Taxes and duties on Electricity	0.04	0.05	0.04	0.03	0.06	(+)100
5	Taxes on vehicle	34.58	41.59	36.15	46.46	53.09	(+)14
6	Taxes on Goods and Passengers	4.85	6.71	10.79	9.73	5.88	(-)40
7	Other taxes on Income and expenditure	27.03	27.22	28.30	27.95	29.65	(+)06
8	Other taxes and duties on Commodities and Services	0.37	1.14	0.58	2.77	1.93	(-)30
9	Land Revenue	0.68	0.72	0.70	0.74	0.75	(+)01
	Total	303.88	339.95	333.39	388.60	427.10	(+)10

The reasons for variations over the previous year were not reported by the departments though called for.

4.1.3 The following table presents the details of Non-tax revenue raised during the period from 2011-12 to 2015-16.

Table-4.1.3

							<i>₹ in crore</i>
Sl. No.	Head of revenue	2011-12	2012-13	2013-14	2014-15	2015-16	Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15
1	Interest Receipts	9.62	5.90	7.62	7.23	5.19	(-)28
2	Housing	4.38	5.12	5.13	5.01	5.36	(+)07
3	Water Supply & Sanitation	1.62	1.74	1.95	1.95	2.43	(+)25
4	Forestry and Wildlife	8.87	7.76	8.81	9.68	8.80	(-)09
5	Education, Sports, Art and Culture	12.16	45.57	67.83	103.56	76.52	(-)26
6	Miscellaneous General Services	29.01	6.60	6.57	13.08	13.43	(+)03
7	Power	94.28	102.83	88.31	98.91	111.10	(+)12
8	Medical & Public Health	0.21	0.35	0.55	0.52	0.59	(+)13
9	Co-operation	3.54	1.13	2.45	0.98	0.18	(-)82
10	Public Works	0.69	0.18	0.40	0.11	0.23	(+)109
11	Police	30.65	7.34	3.37	1.45	1.68	(+)16
12	Other Administrative Services	2.38	3.22	2.73	4.03	2.55	(-)37
13	Crop Husbandry	0.20	0.16	0.27	0.10	0.08	(-)20
14	Others	35.34	19.27	20.58	24.00	28.25	(+)18
	Total	232.95	207.17	216.57	270.61	256.39	(-)05

The reasons for variations over the previous year were not stated by the departments (December 2016).

4.1.4 Variation between the budget estimates and actuals

The variation between the budget estimates and actuals of revenue receipts under the principal heads of Tax and Non-tax revenue for the year 2015-16 are mentioned in the following table:

Table-4.1.4

Sl. No.	Head of revenue	Budget estimates (₹ in crore)	Actual receipts (₹ in crore)	Variation increase (+) decrease (-)	Percentage of variation
Tax Revenue					
1	Sales Tax/VAT	332.78	328.58	(-)4.20	(-)01
2	State Excise	4.90	5.12	0.22	04
3	Stamps and Registration fees	1.98	2.04	0.06	03
4	Taxes on vehicles	46.00	53.09	7.09	15
5	Taxes on Goods and Passengers	12.10	5.88	(-)6.22	(-)51
6	Land revenue	0.89	0.75	(-)0.14	(-)16
Non-tax Revenue					
7	Interest Receipts	4.40	5.19	0.79	18
8	Other Administrative Service	3.00	2.55	(-)0.45	(-)15
9	Medical & Public Health	0.62	0.59	(-)0.03	(-)05
10	Public Works	0.88	0.23	(-)0.65	(-)74
11	Forestry & Wildlife	14.37	8.80	(-)5.57	(-)39
12	Education, Sports, Art and Culture	40.21	76.52	36.31	90
13	Power	100.00	111.10	11.10	11.10

Source: Budget document and Finance Account for the year 2015-16.

The reasons for variations over the previous year were not stated by the departments (December 2016).

4.1.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2016 in respect of principal Heads of Revenue as reported by the departments was ₹ 9.78 crore of which ₹ 2.44 crore (24.95 per cent) was outstanding for more than five years as per details mentioned in the following table:

Table-4.1.5

Sl. No.	Head of Revenue	Amount outstanding as on 31 March 2016	Amount outstanding for more than five years
1	Taxes/ VAT on Sales, Trades etc.	9.78	2.44

₹ in crore

4.1.6 Arrears in assessment

The details of Sales Tax/VAT assessment cases pending at the beginning of the year 2015-16, cases which were due for assessment during the year, cases disposed of

during the year and number of cases pending at the end of the year 2015-16 as furnished by Commissioner of Taxes are mentioned in the following table:

Table-4.1.6

Head of Revenue	Opening Balance as on 1st April 2015	New cases due for assessment during 2015-16	Total assessment due	Cases disposed of during 2015-16	Balance at the end of the 31st March 2016	Percentage of cases disposed to the total assessment due
1	2	3	4	5	6	7 (5 to 4)
Taxes /VAT on Sales, Trades etc.	1,833 ¹	8,997	10,830	5,004	5,826	46

The arrear in assessment increased from 1833 to 5826 cases with the addition of another 8997 cases which became due for assessment during the year 2015-16 and 5004 cases got disposed during the year. The percentage (46) of cases disposed during the year was lesser than the previous year (60 *per cent*) which needs to be improved.

4.1.7 Response of the Departments/Government towards audit

The Accountant General (Audit), Nagaland conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the IRs incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the Heads of the Offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of the Offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Accountant General (Audit) within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of the Departments and the Government.

IRs issued upto June 2016 disclosed that 228 Paragraphs involving ₹ 73.37 crore relating to 76 IRs remained outstanding as mentioned in the following table along with the corresponding figures for the preceding two years.

Table-4.1.7

	June 2014	June 2015	June 2016
Number of outstanding IRs	94	74	76
Number of outstanding audit observations	352	226	228
Amount involved (₹ in crore)	82.58	50.62	73.37

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amount involved are mentioned in the following table:

¹ Opening balance taken as per the revised figure furnished by the Department.

Table-4.1.8

Sl. No.	Name of Department	Name of Receipts	No. of outstanding IRs	No. of Outstanding Audit Observations	Money Value involved (₹ in crore)
1.	Finance	Taxes/VAT on Sales, Trade etc	30	137	65.42
2.	Finance	Miscellaneous General Services/Lottery	03	16	2.59
3.	Transport	Taxes on Vehicles/ Taxes on Goods & Passengers	25	48	4.21
4.	Forest & Environment	Forest & Wildlife	18	27	1.15
Total			76	228	73.37

In respect of four IRs, even the first reply was not received which was required to be received within one month from the date of issue of the IRs (December 2016). This large pendency of IRs due to non-receipt of replies is indicative of the fact that the Heads of offices and Heads of departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the Accountant General in the IRs.

It is recommended that the Government takes suitable steps to install an effective procedure for prompt and appropriate response to audit observations within prescribed time schedules and also to take action to recover loss/outstanding demand in a time bound manner.

4.1.7.1 Departmental Audit Committee Meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, Departmental Audit Committees are constituted by the Government. These Committees are chaired by the Secretaries of the concerned Administrative Department and attended by the concerned officers of the State Government and officers of the Accountant General (Audit). The Audit Committees need to meet regularly in order to expedite clearance of the outstanding audit observations.

During 2015-16, no Audit Committee meeting was convened to clear the outstanding audit observations.

The Government may ensure holding of frequent meetings of these committees for ensuring effective action on the audit observations leading to their settlement.

4.1.7.2 Response of the Departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the C&AG of India are forwarded by the Accountant General (Audit) to the Principal Secretaries/Secretaries of the concerned departments, drawing their attention to audit findings and requesting them to send their response within six weeks.

The fact of non-receipt of the replies from the departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Three draft paragraphs were sent to the Principal Secretaries/Secretaries of the respective departments by name during August 2016. The Principal Secretaries/Secretaries furnished replies (November 2016) in respect of two draft paragraphs which has been suitably incorporated.

4.1.7 3 Follow up on Audit reports - summarised position

The internal working system of the Public Accounts Committee (PAC), notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee.

However, *suo-moto* explanatory notes were not furnished to Accountant General (Audit) by the departments and were also not received through Nagaland Legislative Assembly Secretariat in respect of paragraphs/reviews appeared in the Audit Reports. Hence, status on delay of submission of explanatory notes cannot be commented upon.

During 2015-16, one PAC meeting was held and no Action Taken Notes were received.

4.1.7 4 Compliance with the earlier Audit Reports

In the Audit Reports 2009-10 to 2014-15, cases of under assessments, evasion/non/short levy of taxes/penalty, loss of revenue, failure to raise demands etc., involving ₹ 19.72 crore were reported. As of March 2016, the departments concerned have accepted observations of ₹ 2.24 crore and recovered ₹ 0.33 crore which was 14.73 *per cent* of accepted money value. Audit Report wise details of cases accepted and recovered are given in the following table:

Table-4.1.9

₹ in crore

Year of Audit Report	Total Money Value	Accepted money value	Recovery made
2009-10	0.23	0.16	0.16
2010-11	7.99	0.43	0.00
2011-12	0.20	0.00	0.00
2012-13	1.20	0.17	0.17
2013-14	8.46	1.23	0.00
2014-15	1.64	0.25	0.00
Total	19.72	2.24	0.33

4.1.8 Analysis of mechanism for dealing with the issues raised by Audit

In order to analyse the system of addressing the issues highlighted in the IRs/Audit Reports by the Department/Government the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last five years in respect of one Department is evaluated and included in each Audit Report.

The succeeding paragraphs 4.1.8 (a) and 4.1.8 (b) discuss the performance of Taxation Department in dealing with the cases detected in the course of local audit conducted during the last ten years and also the cases included in the Audit Reports for the years 2005-06 to 2014-15.

4.1.8 (a) Position of Inspection Reports (IRs)

A summarised position of IRs issued during the last ten years, paragraphs included in these Reports and their status as on 30 June 2016 are given in the following table:

Table-4.1.10

₹ in crore

Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
2005-06	20	45	10.01	-	-	-	-	-	-	20	45	10.01
2006-07	20	45	10.01	-	-	-	-	-	-	20	45	10.01
2007-08	20	45	10.01	-	-	-	0	6	11	20	39	9.90
2008-09	20	39	9.90	-	-	-	0	5	0.01	20	34	9.89
2009-10	20	34	9.89	1	1	0.06	-	-	-	21	35	9.95
2010-11	21	35	9.95	-	-	-	1	2	0.03	20	33	9.92
2011-12	20	33	9.92	2	21	9.87	-	-	-	22	54	19.79
2012-13	22	54	19.79	1	3	0.77	-	-	-	23	57	20.56
2013-14	23	57	20.56	1	7	1.00	-	-	-	24	64	21.56
2014-15	24	64	21.56	1	20	21.30	0	11	6.64	25	73	36.22
2015-16 Up to 06/2016	25	73	36.22	1	22	26.44	0	0	0.80	26	95	61.86

Audit reminded the Department periodically to furnish the replies to the outstanding audit observations.

4.1.8 (b) Assurances given by the Departments/Government on the issues highlighted in the Audit Reports

4.1.8 (b) (i) Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years and those accepted by the departments and the amount recovered are mentioned in the following table:

Table-4.1.11

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered (₹ in crore)	Cumulative position of recovery of accepted cases
	Number	Money value (₹ in crore)	Number	Money value(₹ in crore)		
2010-11	-	-	-	-	-	-
2011-12	1	0.20	-	-	-	-
2012-13	2	0.53	2	0.17	0.17	0.17
2013-14	2	8.46	-	-	-	-
2014-15	3	1.64	3	0.25	-	-
Total	8	10.83	5	0.42	0.17	0.17

From the above table, it is seen that during the last five years, an amount of ₹ 0.42 crore was accepted and ₹ 0.17 crore was recovered by the Department.

4.1.8 (b) (ii) Action taken on the recommendations accepted by the Departments/ Government

The draft Performance Audit (PAs) conducted by the Accountant General (Audit) are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. These PAs are also discussed in the exit conference and the Department's/Government's views are included while finalising the PAs for the Audit Reports.

During the period 2010-11 to 2014-15, one Performance Audit i.e. "Utilisation of declaration of forms in Inter State Trade" on the Finance (Taxation) Department featured in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2011. Five recommendations were made by Audit for consideration by the Government. The report was discussed by the Public Accounts Committee (PAC) of the State Legislative Assembly, however, neither the Action Taken Notes of the Department nor the recommendations of the PAC had been received.

4.1.9 Audit Planning

The unit offices under various departments are categorized into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis, which *inter alia* include critical issues in Government revenues and tax administration *i.e.* budget speech, reports of the Finance Commission (State and Central), statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during the past five years *etc.*

During the year 2015-16, there were 75 auditable units, of which 14 units were planned and 12 units had been audited, which is 16 *per cent* of the total auditable units.

4.1.10 Results of Audit

4.1.10 (a) Position of local audit conducted during the year

Test check of the records of 6 units of Transport and Finance (Taxes) departments conducted during the year 2015-16 revealed under assessment/short levy/loss of revenue/non-realisation of outstanding revenue aggregating ₹ 27.43 crore in 53 cases.

4.1.10 (b) Coverage of this Report

This Report contains findings on Performance Audits of 'Nagaland State Lotteries' and 'Computerisation of Motor Vehicles Department' and three compliance audit paragraphs involving financial effect of ₹ 10.48 crore. The audit findings are discussed in succeeding paragraphs.

Performance Audit

FINANCE DEPARTMENT/DIRECTORATE OF LOTTERIES

4.2 Nagaland State Lotteries

4.2.1 Introduction:

Lottery means a scheme for raising money for Government, charity etc., in which tickets are sold and draw is held for distribution of prizes by lot or chance to those persons who participated in it by purchasing tickets. Lotteries organised by Government of India or the Government of a State is a Union subject². However, the tax on sale of such lotteries is a State subject.

In order to regulate conduct of lottery, Government of India (GoI) enacted the Lotteries (Regulation) Act, 1998. In April 2010, GoI enacted Lotteries (Regulation) Rules 2010, which provides for organisation of lottery, appointment of distributor or selling agent and procedure to prohibit the sale of lottery tickets by the Central Government. The Government of Nagaland notified the rules framed by the Central Government in its official Gazette on 02 June 2010 outlining the purpose, scope, limitation and methods for conducting of lotteries.

Highlights:

The selection of distributor for conducting of lotteries was not transparent which led to a court case. Further, instead of sale proceeds as per the Rules the distributor had to pay a Minimum Guaranteed Revenue.

(Paragraph 4.2.10)

Against the total sale proceeds of ₹ 17,653.76 crore the share of the State Government in the form of MGR was only ₹ 56.93 crore (1.24 per cent) of the total

² Entry 40 of the List I – Union list in the Seventh Schedule to the Constitution of India

sale proceeds whereas the distributor's share was ₹ 4522.24 crore (98.67 per cent) during 2010-11 to 2015-16.

(Paragraph 4.2.11)

As unsold tickets were not identified and segregated, the possibility of an unsold ticketed (lying with the distributor) winning a draw was high. This was especially true of Online lotteries.

(Paragraph 4.2.13.1)

Location of Central Server outside the state was against the Rule and agreement with the distributor.

(Paragraph 4.2.13.2)

Profit and Loss Accounts of the distributor revealed that there was a receipt of ₹ 10.73 crore (from 2010-11 to 2014-15) as income from the unsold tickets.

(Paragraph 4.2.14)

4.2.2 Evolution of the scheme of lotteries in Nagaland:

With the objective to generate revenue of the Government for developmental activities 'Nagaland State lotteries' was introduced in September 1971 and the Directorate of State Lottery was established in the year 1972 under the supervision of the Finance Department to conduct and monitor the lotteries. The Government of Nagaland (GoN) had entered into an agreement with a distributor³ in March 2010 to conduct draws of lotteries. Some of the important terms and conditions of the agreement are given in **Appendix 4.2.1**. The agreement expired in August 2012. GoN invited fresh tender on 10 December 2011 for selection of distributors. However, due to court case pertaining to selection of distributors there were no lottery draws during September 2012 to September 2013 which is discussed at **Paragraph No. 4.2.9**. However, the State Government resumed (30 September 2013) operation of lottery draws through an interim agreement with the distributor.

4.2.3 Organisatiuonal Structure

The Directorate of Nagaland State lotteries functions directly under supervision of the Finance Department. The day to day running of Nagaland State lottery is looked after by the Directorate, the Finance Department exercises overall control over it and is involved in most of the important functions like notification, tendering, selection of distributors, approval of schemes, fixation of revenue target *etc.* The Directorate is headed by a Director, who is assisted by a Deputy Director and other subordinate staff. An Officer on Special Duty (OSD) in the rank of Secretary is designated under the Finance Commissioner to supervise the activities of the Directorate.

³ M/s Future Gaming Solutions India Pvt Ltd

4.2.4 Rationale for taking up audit:

Rule 3 (20) of the Lotteries (Regulation) Rules empowers the Central Government to conduct an audit of any lottery or lottery scheme organized by any State through the Comptroller and Auditor General of India. Accordingly, to examine the procedures as laid down in the Lotteries Regulation Act 1998, the Lotteries Regulation Rules 2010, the Nagaland Lotteries Regulations (Rules), 2010 and the overall functioning of the Department, a performance audit of Nagaland State lotteries was conducted covering the period from April 2010 to March 2016.

4.2.5 Statutory conditions regulating lotteries:

As per the Lotteries (Regulation) Act, 1998:–

Lottery– means a scheme, in whatever form and by whatever name called, for distribution of prizes by lot or chance to those persons participating in the chances of a prize by purchasing tickets {Section 2(b)}.

Bumper draw of a lottery– means a special draw of lottery conducted on or during any festival or other special occasion wherein the prize money offered is greater than the prize money offered in the case of other ordinary draw of lotteries {Section 2 (a)}.

The Law/Act/ governing the organizing, conducting or promoting of lottery includes:

- *The prizes shall not be offered on any pre-announced number or on the basis of a single digit {Section 4 (a)};*
- *The State Government shall print the lottery tickets bearing the imprint and logo of the State {Section 4(b)};*
- *The State Government shall sell the tickets either itself or through the Distributors or selling agents {Section 4 (c)};*
- *The State Government itself shall conduct the draws of all lotteries {Section 4 (e)};*
- *The number of bumper draws in a year shall not be more than six in a calendar year {Section 4 (j)};*
- *Any State Government has the power to prohibit the sale of tickets within the State, of a lottery organized, conducted or promoted by other State (Section 5);*
- *Section 7(1) to 7(3) of the Lotteries (Regulation) Act provides that organizing/ promoting/conducting any lottery by any Department of the State Government in contravention of the provisions of the Act or sale, distribution or purchase of the tickets of such lottery by any person or agent or Distributor, shall be punishable with rigorous imprisonment for a term which may extend to two years or with fine or with both.*

Other main provisions of the Lotteries (Regulation) Rules, 2010 and Nagaland Lotteries (Regulation) Rules, 2010 which regulates the lotteries in the State are given at **Appendix 4.2.1.**

4.2.6 Audit Objectives:

The audit on Nagaland State lotteries was conducted to determine whether:

- i. Procedures laid down in the Lotteries (Regulation) Act, Rules and the State specific Rules, and terms and conditions of the agreement with the distributor were followed in letter and spirit while organising lotteries by the States;
- ii. Revenues from the lotteries accrued to the State Governments were properly assessed and got remitted through the distributors/selling agents and taxes on income wherever applicable had been deducted at source and remitted into proper head of accounts;
- iii. All records relating to printing, sale, and return of unsold tickets were maintained by the Directorate of Lotteries as well as the distributors/selling agents;
- iv. The internal control mechanism was adequate, effective and
- v. The revenue generated was being used for the prescribed purposes.

4.2.7 Audit Criteria:

Audit findings were benchmarked against the following criteria:

- The Lotteries (Regulation) Act 1998;
- The Lotteries (Regulation) Rules 2010;
- Nagaland Lotteries (Regulation) Rules 2010;
- Competition Act 2002 (amendment in 2009);
- Supreme Court/High Court judgements;
- Agreements made with the distributors/selling agents and
- Notification/orders issued by the State and Central Governments from time to time.

4.2.8 Scope and methodology of Audit

The Performance Audit of Nagaland State lotteries covered the period from April 2010 to March 2016. The methodology consisted of issue of questionnaires and examination of records/reports etc. in the Finance Department; Directorate and distributors/selling agents. During the audit coverage period (2010-11 to 2015-16), tickets of Nagaland State lotteries were marketed in the following states:

- 1 West Bengal (Paper lottery)
- 2 Punjab (Online lotteries)
- 3 Maharashtra (Paper and Online lotteries)
- 4 Sikkim (Online lotteries)

Audit team inspected the markets at Kolkata (West Bengal) and Mohali (Punjab), printing press at Hyderabad and Data Centre at Bengaluru. An entry conference with the Officer on Special Duty (OSD) and Director of Nagaland State lotteries was held on 19 January 2016 wherein the audit objectives and criteria were discussed. The draft report was issued in May 2016. An exit conference was held on 17 August 2016 with the representatives of the Department and the Government. The replies furnished by the Government as well as the views expressed during the exit conference has been appropriately incorporated in respective paragraphs of the report.

4.2.9 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation extended by the Finance Department and the Directorate of Nagaland State lotteries in providing necessary information and records during Audit.

Audit Findings

The audit findings are discussed in the following paragraphs.

4.2.10 Tendering process

Section 4(c) of the Lotteries (Regulation) Act 1998 envisaged that the State Government shall sell the lottery tickets either itself or through distributors or selling agents. Rule 4(1) of Lotteries (Regulation) Rules 2010 envisaged that the Organising State may specify qualifications, experience and other terms and conditions for appointment of distributors or selling agents. Further Rule 2 (h) of the Rules stipulates that “sale proceeds” means the amount payable by the distributor to the Organising States in respect of sale of tickets calculated at the face value printed on each ticket in respect of lotteries of a particular draw or scheme or both.

The basic principle for any tendering process is to have a fair and transparent selection system. The Government should explore all available means to ensure that the participants in tenders are genuine and do not engage in collusive bidding which undermines the very purpose of selection through notice inviting tender (NIT).

The agreement with the distributor⁴ (which was in effect since March 2010 and extended through an Extension Deed and Amendment Deed executed on 30-3-2010 and 22-9-2010 respectively) was to expire in August 2012, GoN invited fresh NIT⁵ for selection of two distributors for five years period. In response to the tender notice, four companies submitted their quoted rates as shown in the following table:

⁴ M/s Future Gaming Solutions India Pvt Ltd
⁵ 10-12-2011

Table No.4.2.1

in ₹

Sl No.	Name of the Company	Minimum Guaranteed Revenue (MGR) ⁶ for Normal draw	MGR for Bumper draw
1	Gaming India distributor Ltd	35,000 (1 st and 2 nd years) 36,000 (3 rd year) and 50,300 (4 th and 5 th years).	1,59,00,000
2	Pooja Fortune Pvt. Ltd.	21,000	Not quoted
3	Divyajyoti distributors Pvt. Ltd	15,100	5,00,600
4	Future Gaming Solutions India Pvt. Ltd	12,005	5,00,500

The Government selected (March 2012) two distributors (M/s Gaming India distributor Ltd and M/s Future Gaming Solutions India Pvt. Ltd.) for both paper and Online lotteries.

Examination of the selection process of the distributors revealed the following:

4.2.10.1 Collusive bidding

According to clause (d) of Section 3 of Competition Act 2002 (amendment in 2009) “any agreement, between enterprises or persons referred to in sub-section (3) engaged in identical or similar production or trading of goods or provision of services, which directly or indirectly results in bid rigging or collusive bidding, shall be presumed to have an appreciable adverse effect on competition.”

Further, the Act defines Cartel as: “Cartel includes an association of producers, sellers, distributors, traders or service providers who, by agreement amongst themselves, limit, control or attempt to control the production, distribution, sale or price of, or, trade in goods or provision of services.”

Cross examination of the profile of these Companies which participated in the bidding revealed the following:

- Managing Director of M/s Future Gaming Solutions India Pvt. Ltd. and M/s Divyajyoti distributors Pvt. Ltd. were the same person.
- One of the Board members of M/s Divyajyoti distributors Pvt. Ltd. was also the Managing Director of M/s Pooja Fortune Pvt. Ltd.
- M/s M.J. Associate is an associate of both M/s Future Gaming Solutions India Pvt. Ltd. and M/s Gaming India distributors Ltd.
- The Financial Accounts of M/s M.J. Associate was signed by MDs of Future Gaming and Gaming India as partners.

⁶ Minimum Guaranteed Revenue (MGR) is amount payable by the distributor to the State Government for each draw,

From the tender documents it was established that the three companies who participated in the tender were of the same group and the fourth company had business association with the three companies. It was therefore evident that the tenders submitted by these companies were in collusion. However, instead of declaring the companies, who engaged in collusive bidding, as disqualified, the Government awarded the contract to M/s Gaming India distributors Pvt. Ltd. and M/s Future Gaming Solutions India Pvt. Ltd. as per the recommendation of the Screening Committee.

Examination of the evaluation of the NIT revealed that one of the firms i.e., M/s Gaming India distributor Pvt. Ltd. did not fulfill the criteria given in the tender notice as there was no evidence of payment of Income Tax as a company as well as experience certificate fulfilling the condition of having sufficient experience and possessing good knowledge in lottery business. This decision of the Government led to litigation by M/s DivyaJyoti Distribution Pvt. Ltd. in the court of law. Resultantly, the Hon'ble Court directed (July 2012) the State Government not to enter into any agreement with M/s Gaming India distributor Pvt. Ltd. and M/s Future Gaming solution India Pvt. Ltd.

Thus, due to selection of distributors which was not transparent led to court case and suspension of lottery draws during September 2012 to September 2013. Further, M/s Future Gaming Solutions India Pvt. Ltd. who had engaged in collusive binding was engaged by executing an interim contract with the State Government for all draws from 30 September 2013 till date of audit.

The Department in reply (August 2016) stated that the Government had selected M/s Gaming India distributor Pvt. Ltd., for having quoted the highest rate and M/s Future Gaming solution India Pvt. Ltd., on being found to be the most experienced and for having an immaculate track record. The Government also admitted that the Hon'ble High Court quashed the selection of M/s Gaming India distributor Ltd. as it was ineligible and directed to invite a fresh tender.

The Government did not follow the Hon'ble Court order to invite fresh tender. Moreover, the reply is not acceptable as the Department/Government did not scrutinize the profiles of the company diligently to prevent collusive bidding and the selection of the distributors was not transparent which led to a court case and consequently Government suffered a revenue loss during the intervening period of 13 months.

4.2.10.2 Absence of due diligence

The State Government selected Gaming India distributor Pvt. Ltd., and Future Gaming Solution India Pvt. Ltd., for distributorship stating that the Screening Committee had recommended the two firms for conduct of lotteries on the following rates of MGR:

Normal lottery ₹ 35,000 per draw

Bumper lottery ₹ 7,50,000 per draw

However, the basis for fixation of above rate of MGR for both normal and bumper lotteries were not recorded. The concept of MGR does not exist in the Rule which only elaborates sale proceeds from sale of ticket. This resulted in undue financial benefit to the distributor at the cost of State's proceed which is discussed in **Paragraph No. 4.2.11.3.**

4.2.10.3 Lottery schemes

Section 4(h) of Lotteries (Regulation) Act 1998 states that no lottery shall have more than one draw in a week.

Though the Lotteries (Regulation) Act 1998 envisaged one draw a week for a scheme, it does not impose a ceiling on the number of schemes that can be operated in a week. The Lottery Rules 2010, however, allowed maximum twenty four draws from all the lottery schemes put together per day except bumper draws by an organising state i.e a maximum of 168 (24 x 7) different schemes in a week can be conducted in a week. Taking benefit of these situations, same/similar lottery schemes by suffixing or prefixing sub-names words/terms⁷ under 18 lottery group/set name were operated every day of the week during the audit coverage period, thereby compromising the spirit of the Act to limit the number of draws. As the Government was not in a position to monitor effectively all the lottery schemes in a week lottery became an unregulated business which is discussed at **Paragraph No. 4.2.11.**

The Department in reply (August 2016) stated that the names of the lottery schemes are proposed in such a way that the players can remember them easily. No draws are conducted on daily basis and each draw is conducted only on a weekly basis and there was no instance of draws exceeding 24 in any single day.

The fact however remains that the Government could not effectively monitor the lottery schemes. Moreover, the same scheme name of draws were being held daily by prefixing or suffixing the words/terms as sub names, which was against the Act. The details of number of weekly draws operated both paper and Online are given in **Appendix 4.2.2.**

4.2.11 Revenue receipt by the State Government from lotteries

4.2.11.1 Assessment of Revenue from lotteries

As per rule 3 (17) of the Lotteries (Regulation) Rules, 2010, the Organising State shall ensure that proceeds of the sale of lottery tickets, as received from the distributors or

⁷ **Examples:- Scheme Name: Nagaland Super Cards, prefixing/suffixing sub-names on**
Mondays :Pragati, Dawn, Aries, Puppy, Pottasium, Barzona, Takj, Tarachand, Tajdar, Sharla, Shaw, Shell, Shirley **Tuesday** : Ranjani, Dusk, Tarus, Kitten, Sodium, Dextor, Tallen, Tarakan, Talib, Safari, Sahara, Sally, Sam **Wednesday** : Bairavi, Morning, Gemini, Calf, Calcium, Bradford, Tamkinat, Tarang, Tamal, Fairfax, Faith, Falk, Fancy; **Thursday** : Naatai, Afternoon, Cancet, Foad, Ammonium, Jersey, Tanay, Tarik, Tanimay, Tiffany, Tiger, Tilly, Tina; **Friday** : Hindolam, Evening, Leo, Chick, Sulphur, Murraygrey, Tanuj, Tarit, Tanveet, Walden, Walker, Wallace, Wally; **Saturday** : Vasantaa, Night, Virgo, Infant, Magnesium, Redpoll, Tapan, Tausiq, Tapas, Tab, Tacey, Tad, Taima; **Sunday**:Mohanam, Midnight, Libra, Lamb, Phosphorous, Sussex, Tapomay, Tejas, Tarakanth, Mabel, Mace, Maddox, Maddy.

selling agents or any other source, are deposited in the Public Ledger Account or in the Consolidated Fund of the Organising State. Further, Para 4.2 (ii) of GoI letter⁸ instructed all the State Governments to ensure that the entire sale proceeds of the lottery tickets, as received from the distributors or selling agents are first credited into the Treasury/Public Ledger Account/Consolidated Fund of the Organising State without any deduction etc. Payments of commission to distributors/sole selling agents etc. and other sundry payables should be made after the entire proceeds are deposited in the Government Accounts.

“Sale Proceeds” is defined in Lotteries (Regulations) Rules, 2010, as “the amount payable by the distributor to the Organizing State in respect of sale of tickets calculated at the face value printed on each ticket in respect of lotteries of a particular draw or scheme or both”.

However, Clause 7.5 of the Interim agreement made by the GoN with the distributor⁹, stipulated that the distributor shall purchase the lottery tickets from the Government and payments shall be made by the distributor to the Government for such tickets.

As per Rule 3(10) the Organising State shall charge a minimum amount of five lakh rupees per draw for bumper draw of lottery and, for all other forms of lottery, a minimum amount of ten thousand rupees per draw.

Examination of records revealed that the provision of Rule 3(10) fixing the minimum charges on lottery for sale proceed realisable from sale of tickets was misinterpreted when the Addendum Deed was initially executed (7 April 2010) with M/s Future Gaming solutions India Pvt. Ltd., which continued in the subsequent NIT (10 September 2011). The bid document was designed on the above assumption of minimum rate of sale proceed per draw per scheme basis for paper/online/bumper lottery and the tenders were invited on the basis of MGR instead of Commission payable to distributors. This wrong interpretation of Rule 3 (10) by the Department for fixing the MGR instead of sale proceeds led to execution of agreement contrary to the provisions of the Lottery Rules and resulted in huge loss to the State exchequer and undue windfall gain to the distributors at the cost of the state Government.

The entire sale proceeds of ₹ 17,653.74 crore during 2010-16 was not credited directly into the Consolidated Fund of the State violating the Lottery (Regulations) Rules 2010 and GoI order. The revenue for the State in the form of MGR was only ₹ 56.93 crore (0.32 *per cent*) out of the total sale proceeds of ₹ 17,653.74 crore as discussed in **Paragraph No. 4.2.11.3.**

4.2.11.2 Loss of revenue to the Government

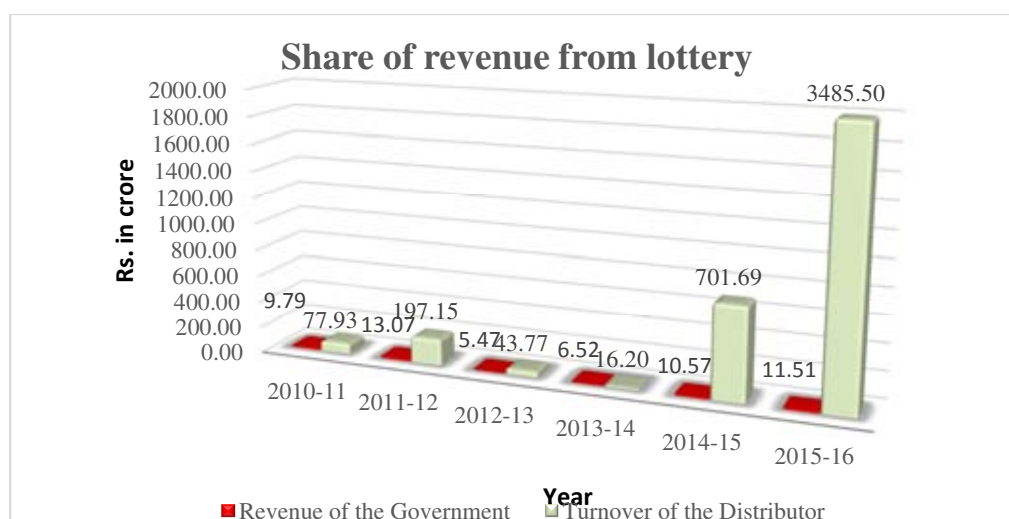
As per para C 19 of the Annexure to the Nagaland Lotteries (Regulation) Rule 2010, the distributor shall lift all the printed lottery tickets at the whole sale/discounted price to be mutually agreed and decided upon by the Director and the distributor, in such advance period as may be laid down in the agreement.

⁸ No.F.No.V.17013/2/2011 CSR-1 dated 2 August 2011

⁹ M/s Future Gaming and Hotel Services Pvt. Ltd.

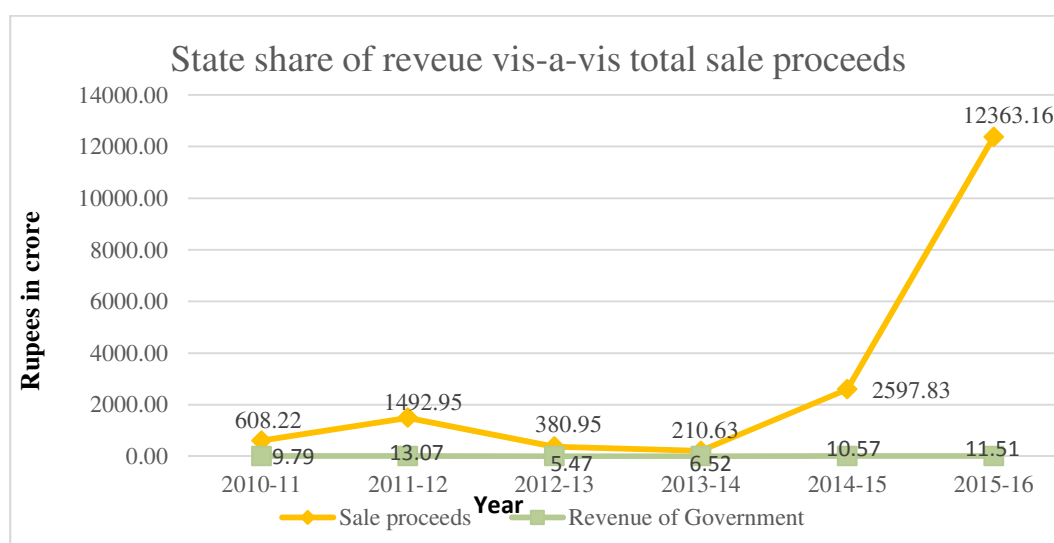
Examination of records revealed that the Department delivered all the tickets to the distributor on all sold basis for a fixed MGR of ₹ 15,000 per draw in contravention of the Government orders. It was also noticed that the distributor deposited the amount of the MGR (calculated on the basis of number of draws per day) to the Consolidated Fund of the State and not the actual Sale proceeds as discussed in the preceding Paragraph. This was not correct as MGR was the minimum guaranteed revenue. This clause should not have prevented the government from the full revenue earned through sale of tickets which should have been credited to Government accounts.

The ratio of share between the Government and the distributor is depicted in the bar chart below:



As seen from the above chart, the ratio of revenue share between the State Government and the distributor during 2010-11 was 1:8 which increased at 1:303 in 2015-16.

The Chart given below depict the state share of revenue with respect to total sale proceeds.



As can be seen from the chart, the total sale proceeds of tickets rose steeply from ₹ 608.22 crore in 2010-11 to ₹ 12363.16 crore in 2015-16, however the revenue of

the Government increased marginally from ₹ 9.79 crore in 2010-11 to ₹ 11.51 crore in 2015-16. The marginal increase was due to conduct of four bumper lottery draws during 2015-16, for which MGR was @ of ₹ 7,50,000 per draw received by the State Government.

4.2.11.3 Windfall gain to the distributor due to MGR

Government of Nagaland fixed the Minimum Guaranteed Revenue (MGR) at ₹ 15,000 per draw in April 2010 (for normal lottery) through an Amendment Deed with M/s Future Gaming Solutions India Pvt Ltd. to conduct both paper and Online lottery in the states of Punjab, West Bengal and Maharashtra.

Audit observed that the Government issued a notification¹⁰ to extend the tenure of M/s Future Gaming Solutions India Pvt. Ltd. for one month w.e.f. 1 August 2012 to 31 August 2012 and raised the MGR from ₹ 15,000 to ₹ 35,000 per draw. The order of the Government was not accepted by the Company, citing the Deed of Agreement with the Government which had fixed the MGR at ₹ 15,000. It was noticed in audit that the Government failed to take legal opinion on this matter and issue an Addendum to the Agreement or renew the deed of agreement while extending the tenure without raising the MGR to ₹ 35,000.

However, it was observed that before the court issued its verdict, M/s Future Gaming Solution India Pvt, Ltd., submitted a proposal (August 2013) to the Government for an interim arrangement to allow them to commence sale of Nagaland lotteries with immediate effect, quoting the MGR at ₹ 15,000 for normal lottery and ₹ 7,50,000 for bumper lottery. Accordingly, the Government approved an interim arrangement (26 September 2013) with M/s Future Gaming Solution India Pvt. Ltd with MGR of ₹ 15,000 for normal lottery and ₹ 7,50,000 for bumper lottery despite the Court's order (4 September 2013), directing the state Government to select the distributors through fresh tender.

It was also observed that the same Company had accepted the MGR of ₹ 35,000/draw when the distributorship was initially awarded on 16 January 2012. Therefore, the interim arrangement of fixing MGR for normal lottery at ₹ 15,000 per draw was not justified. It is also pertinent to mention here that the same Company was paying MGR at the rate of ₹ 36,000 per draw to Sikkim State Government during the same period. Interestingly, M/s Gaming India distributor, Ltd., who had quoted ₹ 35,000 per draw in their tender, also applied for award of the distributorship of the Nagaland State lotteries during the interim period but the Department neither considered the request nor negotiated with the two firms to fix the MGR to at least ₹ 35,000 per draw.

Moreover, due to fixing of the MGR at ₹ 15,000 per draw instead of ₹ 35,000 per draw during the interim period of September 2013 to March 2016 resulted in revenue loss of ₹ 37.80 crore as shown in the following table.

¹⁰ No.Fin/Lot-01/2009(vol-) dated 27th July 2012

Table No.4.2.2

₹ in crore

Year	Total No. of Normal draws	Total Revenue earned (at MGR @ ₹ 15,000 per draw)	Total Revenue that could have earned (at MGR @ ₹ 35,000 per draw offered by M/s Gaming India distributor Ltd)	Revenue loss
2013-14	4344	6.52	15.20	8.68
2014-15	7046	10.57	24.66	14.09
2015-16	7514	11.27	26.30	15.03
Total	18,904	28.36	66.17	37.80

Details in Table (a) and Table (b) of Annexure-2

An analysis was made on the turnover and profit of both the Government and the distributor for the last five years which is tabulated below:

Table No.4.2.3

(₹ in crore)

Year	Number of tickets sold (in crore)	Total Sale proceeds of tickets (₹)	Total Number of draws	Total Prize money pay off (₹)	Expenditure on Printing and Advertisement (₹)	Lottery tax to other states (₹)	Turnover of distributor (₹)	Total Proceeds (₹)	Revenue received by State Govt.(MGR) (₹)	Percentage of Govt. Revenue to Proceeds	Percentage of distributor's share to proceeds
2010-11	304.11	608.22	6528	514.81	0.16	5.53	77.93	87.72	9.79	11.16	88.84
2011-12	709.26	1492.95	8712	1257.86	2.03	22.84	197.15	210.22	13.07	6.22	93.78
2012-13	183.37	380.95	3648	331.24	0.14	0.32	43.77	49.25	5.47	11.11	88.89
2013-14	90.02	210.63	4344	172.22	0.19	15.51	16.19	22.71	6.52	28.69	71.29
2014-15	583.31	2597.83	7046	1835.92	10.71	38.94	701.69	712.26	10.57	1.48	98.52
2015-16	2590.95	12363.16	7518	8717.06	53.50	95.59	3485.50	3497.01	11.51	0.33	99.67
Total	4,461.02	17,653.74	37,796	12,829.11	66.74	178.72	4,522.24	4,579.17	56.93	1.24	98.76

Source: Compiled from data provided by Directorate of Lotteries (Details in Annexure -4.1.2 a & b)

As can be seen from the above, against the total sale proceeds of ₹ 17,653.76 crore the share of the State Government in the form of MGR was only ₹ 56.93 crore (1.24 per cent) of the total sale proceeds whereas the distributor's share was ₹ 4522.24 crore (98.67 per cent) during 2010-11 to 2015-16. Thus, it indicated that the operation of lottery by the State Government was more beneficial to the distributor than the Government.

The Government in reply (August 2016) stated that the revenue of the Government as per the agreement was not reduced. The MGR was net revenue to the Government as all other expenses like printing, advertisements, Lottery tax to other States, etc. were paid by the distributor. Further, it was stated that the quoted rate of ₹ 35,000 per draw made by M/s Gaming India distributor Ltd. was highly unrealistic and complying with the court order would have rendered the Department to remain idle without earning any revenue for six months or so to complete the entire process of fresh tender.

The reply of the Department is not acceptable as MGR was the minimum amount to be paid to the Government and it should not have prevented payment due to the government beyond this amount. Moreover the contention that MGR of ₹ 35,000 per draw was highly unrealistic is not acceptable as the company (M/s Future Gaming & Hotel Services Ltd.) had already accepted the MGR of ₹ 35,000 per draw when the distributorship was initially awarded on 16 January 2012. Besides, the same company was paying higher MGR at the rate of ₹ 36,000 per draw per day to the State of Sikkim during the same period. Moreover, 98.76 per cent earned by the distributor was arrived at after deduction of all the expenses.

4.2.11.4 Violation of Lottery (Regulation) Rules, 2010 led to revenue loss to the Government.

Audit also noticed that the MGR received by the State Government was the net revenue from lottery as all other expenses were borne by the distributors which was against the Act/Rules. Non-taxable prize money and charges to other States were paid by the distributor without producing vouchers for reimbursement from the Government. The value for taxable prize money, cost of printing charges, advertisement cost and draw expenses were deposited by the distributor in separate bank accounts¹¹ operated by the Director of the Department and subsequently disbursed by the Department to meet the respective expenditure from these bank accounts. The balance of sale proceeds were accounted as the earnings of the distributor/area distributor/agents.

The Government in reply stated that (August 2016) regular payment of MGR by the distributor as per the agreement does not result in any revenue loss. The entire sale proceeds after payment of MGR was the earnings of the distributor was misconceived as numerous expenses met by the distributor like printing charges, draw expenses, promotional expenses, commissions to stockiest, sub-stockiest, charges to other States where tickets were marketed etc. had to be taken into account before calculating actual revenues.

The reply is not acceptable as the findings of audit were based on Government instructions, provision of the Act and Rules and agreements executed with the distributor. Also, the net amount of the distributor was arrived at after taking into account all the deductions and expenses.

4.2.12 Draw process of Paper lottery

4.2.12.1 Lottery as gambling

Lottery as a subject is listed at entry 40 of the List I - Union list and entry 62 of the List II - State List of the seventh schedule to the Constitution of India while “Betting and Gambling” is listed separately as entry 34 of the State list. Thus, the Constitution had distinguished lottery from gambling activity.

¹¹ (1) Axis Bank A/c Nos.911010051345554, (2) 911010056176010,(3)Vijaya Bank A/c Nos 810101011003509, (4) 81010101004336, (5) UCO Bank A/c No.08990110014097

Further, section 2(b) of the Lotteries (Regulation) Act 1998 defines “Lottery” as a scheme, in whatever form and by whatever name called, for distribution of prizes by lot or chance to those persons participating in the chances of a prize by purchasing tickets.

During joint inspection of sale of paper lottery tickets at Kolkata, it was noticed that Nagaland paper lottery tickets were sold in a bulk bearing book number 4-6-8-9-20-40 etc., and the players selects a bunch of booklet having the same numbers but different series based on their special numbers.

Nagaland State lotteries sold in bunch of same numbers; bunch numbered 6 and 20 shown below:



The selection of the numbers are predetermined by the players themselves based on previous draw results, their hunch or intuition, lucky numbers, important dates etc. The idea is to purchase similar number of bulk tickets and keeping a scope to maximise their gain by winning multiple prizes. In all these activities, the players take calculated risk in the hope of getting larger pay-outs as in a gambling.

Except for the first prize (which was declared on the entire series of seven numbers), winners for second prize were declared on the last five numbers of any series and for the third prize onwards to sixth prize, winners were declared on the last four digits of any series. Prize money for first prize was ₹ one lakh and from second to sixth it ranged from ₹ 9500 to ₹ 130. Multiple number combinations were declared winners for third to sixth prize. A sample result of Nagaland lottery is shown alongside:

NAGALAND STATE LOTTERIES	
EVE RESULT 18/02/2016	
NAGALAND STATE LOTTERIES DEAR FAITHFUL EVENING 43rd Draw at 18/02/2016 M.R.P.f.5/-	
1st Prize	₹ 1,00,000/- 63L 38210
2nd Prize	₹ 9,500/- 52167
3rd Prize	₹ 9,000/- 01934 03068 10363 14697 16585 27609 31056 61010 86052 87954
4th Prize	₹ 500/- 1513 1546 1650 2227 2855 4431 4616 6257 8843 9908
5th Prize	₹ 300/- 0364 2214 2288 6531 6982 7500 7552 7781 9139 9449
6th Prize	₹ 130/-
0165 0714 1704 2779 3949 4763 5419 7291 8025 8899 0257 0830 1967 2888 4043 4805 5466 7334 8067 8949 0301 0864 2004 3160 4185 4816 5662 7481 8147 8963 0320 0910 2038 3208 4219 4866 5687 7490 8169 9019 0362 0979 2050 3305 4354 5044 5939 7625 8254 9198 0485 1283 2391 3600 4356 5047 5940 7634 8334 9542 0564 1521 2501 3649 4511 5120 6558 7676 8337 9586 0600 1574 2509 3756 4518 5171 6582 7925 8352 9594 0689 1615 2594 3857 4573 5173 6824 7970 8426 9770 0698 1684 2754 3866 4680 5268 6842 7992 8703 9869	
ISSUED BY: THE DIRECTOR, NAGALAND STATE LOTTERIES	
EVE RESULT 18/02/2016	
Result of Draw No.43 of Nagaland State Lottery dated 18-2-2016	

It was observed that the manner in which Nagaland State lottery is being organised at present, distorts the distinction between an equal opportunity scheme and gambling. The system of sale of bulk tickets and multiple tickets in same number with different series is rather being organized as gambling and not as lottery as defined.

The matter was referred to the Government, however, no reply has been received (December 2016).

4.2.13 Online lottery

As per Rule 2(1)(e) of Lottery(Regulations) Rules 2010, "Online lottery" means a system created to permit players to purchase lottery tickets generated by the computer or Online machine at the lottery terminals where the information about the sale of a ticket and the player's choice of any particular number or combination of numbers is simultaneously registered with the Central Computer Server.

Audit observed the following deficiencies in the conduct of Online lottery:

4.2.13.1 Draw process of Online lottery

Section 4 (a) of Lottery (Regulations) Act 1998 stipulated that “prizes shall not be offered on any preannounced number or on the basis of a single digit”.

Further Rule 14 of Lottery (Regulations) Rule 2010 laid down that “An Organising State shall not offer a prize on a lottery ticket or in an Online lottery on the basis of single, double or triple digit in any form or combination”.

Lottery draws of the Nagaland State Online lottery were to be conducted within the premises of the Directorate of Lottery under the supervision of an Officer of the Department and two judges.

Audit observed that no specific stoppage time for sale of Online tickets before the actual draw was fixed by the Department and the Online draw was done through a computer programme by random draws and the tickets were sold till the last moment before the draw. No sale reports were generated before the draw and there were also no records at the disposal of the Government officer/judges to verify that the lottery draw was conducted on sold tickets only.

Examination of the serial numbers of the Online lottery tickets revealed the composition of the ticket number as follows:

Series No.	1 st letter	2 nd symbol	3 th letter	4 th digit	5 th to 8 th digits			
A/B/C	J/K/Q	♠♣♥♦	A/B	1-4	0-9	0-9	0-9	0-9

For example, a first prize winning number can be AJ B20354 or CK A41234.

It was noticed during the joint physical inspection of the market, at the Point of Sale (PoS), the players could choose only the letters/symbols/ number from the 1st to 4th letter/digit of any series (suffixing one numeral from 1 to 4 at the end), for which second prizes are awarded. The software in the terminals did not display the four digit number sequences under 5th to 8th digits. For the first prize the complete set of the number i.e. all the 8 letter/digits



Online Lottery draw from the computer of Directorate of Lotteries, Nagaland in respect of Online Lotteries

were to be considered. However, since the players cannot opt for the numbers under 5th to 8th digits and therefore it is obvious that they do not play for the 1st prize. When the tickets are printed the software automatically generates the numbers under the 5th to 8th digits to form randomly generated number from 0001 to 9999.

According to information furnished by the distributor, the average number of tickets sold per Online lottery draw worked out to 4,33,892 tickets¹² whereas 36,00,000 combination of tickets could be generated from the entire 8 digits including the number sequence from 0001 to 9999 in one single draw. The players were allowed to choose only for the first 4 combination of letters and symbols/digit but were not allowed to select the numbers under the 5th to 8th digits of the ticket number whereas the draws for the 1st prize were held for entire 36,00,000 combinations with the 8 digit combination of all the tickets including random generated numbers from the 5th to 8th digits. Audit noticed that draws were conducted on the entire range of 36,00,000 tickets without considering the number of tickets sold and unsold, as no system exists to filter sold/unsold tickets before the draw. Thus, the chances of winning of prizes falling on an unsold ticket was extremely high as all 36,00,000 combinations were never sold out in a single draw (1 out of 36,00,000 is the probability of 1st prize winning number, whether there is 100 per cent sale of tickets or not).

Further, draws for second prize to the last prize are drawn using only the 1st to 4th letter/symbol/digit combinations suffixing a single digit from 1 to 4. For example, a second prize winning number can be:

AJ□B2 or AJ□ A1 or BK□ A4

Therefore, draws for the second prizes onward was done on a single digit with combination of letters and symbols prefixed, which was in violation of Rule 14 Lottery (Regulations) Rules 2010 and section 4(a) of the Act.

¹² Calculated on an average of last 5 years.

Thus, the system adopted for Online tickets violated the Act and Rules and rendered the scope of winning almost impossible as the actual sequence were never sold.

The Government in reply stated (August 2016) that there were huge transactions involved in any Online draw and to verify them before each draw was not practically viable. The software in the PoS was designed for easy purchase/sales in the market and the player could select any eight digits number as per his wish in the terminals in a separate screen. It was not correct that players were not allowed to play for all 8 digits as the operators used different screens for selection of combinations as per the player's preference.

The reply of the Department is not acceptable as the Department did not know the number of PoS used by the distributor. Although it was obligatory on the part of the Government to check systems and procedures in the PoS, it was observed that there was no control of the State government on the system of online lotteries since actual physical and financial database were inaccessible to the State Government. Moreover, the State Government did not provide system test certificate of the software used for Online lottery that players could select any eight digits number as per their wish in the terminals and the players were allowed to choose only the first four combination of letters/symbols and digits. In the PoS, Mohali audit along with departmental officials in a joint verification, observed that there was no system in the software to segregate the sold tickets to limit the lottery draw on sold tickets only and the players were allowed to choose only first four combination of letters/symbols and digits. Government needs to verify the system and procedure being followed by PoS to ensure that all the 8 digit numbers could be chosen by the buyer of lottery ticket.

4.2.13.2 Conduct of Online lottery without Server database

As per Rule 2(1)(b) of the Regulations, "Central Computer Server" means a system of multiple computers at a central location under the direct control of the Organising State that accepts, processes, stores and validates the Online lottery transactions or otherwise manages, monitors and controls the entire system of Online lottery.

Further, as per Clause 14.4 of the Agreement with the distributor, for Online lotteries, the Central Server should be located within the geographical limits of the State of Nagaland and the Information and Technology Department and the lotteries of the State of Nagaland shall have free access to the server.

The State Government did not furnish any documents in respect of maintenance of database of Online lottery conducted prior to 10 May 2015. As no records were shown to audit it appears that the stated distributor did not have a server-based database of Online lottery conducted prior to 10 May 2015. Further, audit noticed that neither the Central Computer Server was located within the geographical area of the State nor the State Government had free access to the server in violation of the Rules and agreement.

An agreement was executed (10 May 2015) by the distributor in May 2015 (M/s Fortune Enterprise, Mumbai and M/s Net4India, New Delhi) for hosting the database of Nagaland lottery and to allow M/s Fortune Enterprise to utilize "a certain

pre-agreed space” or “area” occupied by M/s Net4India from M/s Tata Communications Services Ltd.

The agreement did not state the relationship between the distributor and M/s Fortune Enterprise nor does it state that M/s Fortune Enterprise will be utilizing Datacenter for hosting the database of Nagaland lottery. Moreover, this agreement was executed only on 10 May 2015, whereas Online lottery of Nagaland was being conducted by the distributor since May 2010.

The Department in reply (August 2016) stated that physical location of the server was not located within the state but kept at Data Centre (Central Server) in the premises of renown M/s Tata Communication Services, Bangalore with three tier security system.

The fact however remains that having the Central Server outside the state was against the provision of the agreement and also this arrangement was done only after 10 May 2015. There is nothing on record to show the system being followed before May 2015.

4.2.13.3 Mirror Server not installed

A mirror server is a file server that contains a duplicate set of files, so that the site or files are available from more than one place. As per para C (2) of the Annexure to the Nagaland Lotteries (Regulation) Rules 2010 a Mirror Server shall be monitored in the Directorate of Nagaland State Lotteries by the Director or his authorized officer.

According to Clause 14.5 of the agreement entered between the Government and distributor for effective monitoring and security in case of Online lotteries, the distributor shall also maintain a mirror server to have a ready backup of the data and the mirror server should be updated simultaneously with the Central Server.

Joint physical verification of the Server placed in the Directorate revealed that the Server was not configured as a Mirror Server but just a LAN server with Internet connection. There was neither a database in the server nor was any database applications installed on it. However, the server was configured to access a remote server placed in an unknown location through web browser for printing customized tailor-made reports on Online lotteries. The two servers placed with the Department were only used for printing custom made reports by accessing a Remote Server.

The Department accepted (August 2016) the audit observation and stated that installations of new mirror servers are being made and is expected to be functional within the month of August 2016. However, the facts remains that no Mirror Server had been installed in the Directorate till date (December 2016).

4.2.13.4 Periodical backups of database

During joint physical inspection of the servers installed in the Directorate, it was noticed that the Servers did not have any database of the Online lottery. The Department stated that backups are maintained by the Directorate in flat files¹³ but could not furnish copies of the backups of the database to audit. It was also observed

¹³ Text file (csv format)

that the Server placed in the Department, was not configured as a mirror server, and therefore the Government/ Department did not have access to the database or create backups of database of Online lottery. As the Data Centre (Central Server) was also not within the geographical limits of the State, the Government remains inaccessible to its own database and the actual physical and financial status of the Online lottery.

The Department in reply (August 2016) stated that the distributor had submitted the copy of the backup of all the data of the audit period.

The reply is not acceptable as the observation was on maintenance of periodical backups by the Department. Incidentally, the backup data provided by the distributor to audit also could not be restored. The server installed in the Department did not have a database system. This is indicative of the facts that the claim made by the Department that backups of database were provided by the distributor to the Department not factually correct.

4.2.13.5 Software for conduct of Online lottery

Examination of the Information Technology (IT) systems for Online lottery revealed that the distributor uses a custom developed software for conduct of lottery, reporting and for draw by engaging M/s Acentech, Mumbai. Audit observed that the distributor did not submit the User Requirement Specification (URS) and Software Requirement Specification (SRS) to the Government for verification and approval. The State Government did not test the system nor provide the System Test Certificate (STC) to the distributor for using the software for Online lottery. As a result audit could not draw an assurance that the software being used by the distributor protected the interest of the State. Thus, the Government by not certifying the software as well as the technical documents, provided an opportunity to the distributor to develop the software to suit his interest.

Further, joint physical verification (24 February 2016) of Online lottery sales at Mohali, Punjab, revealed that the sale of Online lottery was carried out from Hard Disk of PCs connected to the net. In such a scenario, it was possible to customize the software in selected terminals of the geographically distributed PoS to query from its own database installed in the PC and conduct the sales of tickets offline, which would not be reflected in the Central Server database. Thus, it could not be ruled out that Online lotteries were conducted offline using Personal Computer (PC) terminal since May 2010 to 10 May 2015.

The Department in reply (August 2016) stated that the software was exclusively developed for Online lottery operations and hence the design and operations fit perfectly for the purpose it was designed. Various PoS were set up in the market which are connected to the Central Server and communicate each and every transaction, adding relevant data to the database and then on the tickets printed. The draws of the Online lotteries are conducted in the Directorate in the presence of the Government appointed Judges so that the distributor would not take any undue advantage over the draws in anyway.

The reply is not acceptable as the distributor did not have a server-based database of Online lottery conducted prior to 10 May 2015. It was also not possible for the Department to certify the software and its capability without examining the design and operations as the State Government did not provide the STC for using the software of Online lottery.

4.2.13.6 Deficiency in Audit trail of internal access controls

Joint inspection (22 February 2016) of the Data Center (Central Server) at Bengaluru where the database of the Department is hosted was carried out to verify the various internal controls in the Data Centre.

The Data Centre provided three layers foolproof security as far as Physical Access is concerned. However, it does not provide any audit trail to verify the adequacy of internal controls like, Logical Access Controls, Remote and Virtual Access Controls, Input Controls, Output Controls etc., to the database. Since access to the Data was provided to an IT consultant, M/s Acentech (placed in Mumbai) through remote access without defining the privileges/roles granted to the consultant, audit could not draw an assurance regarding the integrity of the Online data. Moreover, there was no audit trail to access the internal controls built into the system. Further, the Data Centre being a third party organization, with whom the Government had not made any agreement, audit was denied access to server logs and other documents relating to breakdown or disruption of server systems, access controls to database, remote servers, etc.

It was also observed that the database of Online lottery consists of details of Online sales, through which reports on sales and income generated on sale of Online tickets are printed by the distributor. Therefore, providing full privilege to the IT Consultant (who works for the company) render the database susceptible to modifications to the advantage of the distributor.

The Department in reply stated (August 2016) that the 3-tier Data Centre of M/s Tata Communication Services is well known for its high standards and adequate security measures. The premises are totally under high security and no unauthorized persons can gain entry into the data enter.

The reply of the Department that the database was kept under a fool-proof security is not acceptable as the Department had not accessed the database or conducted audit on the Online lottery system. Further, the Department was silent on the adequacy of internal controls like, Logical Access Controls, Remote, Virtual Access Controls, Input Controls, Output Controls etc. to the Server and its database.

4.2.13.7 Non availability of experienced IT personnel or support

Organising of Online lotteries require the services of an expert on Information and Communication Technology (ICT) to handle the complex operations and to safeguard Government's interest.

Audit observed that the Online distributors used IT solutions of their own choices and convenience without the approval or knowledge of the Government for running their respective lottery schemes. Audit also observed that there was no regular

officer/official in the Lottery Directorate having adequate knowledge of the operating systems, programme software and applications and communication technology used in running the Online lottery schemes to regularly monitor the draw process. The entire Online lottery draw process was handled by representatives of the distributor in a draw room of the Directorate. Thus, the Directorate was not in a position to monitor the functioning of Online lotteries or issue specific instructions regarding the quality, make and the uniformity of ICT applications to be used from time to time.

The Government in reply stated (August 2016) that appointment of experienced IT personnel in the Department would be examined. However, the fact remains that conduct of Online lotteries without any IT personnel in the Directorate failed to safeguard the interest of the State.

4.2.14 Claim of prizes on unsold tickets

As per Rule 4(5) of Lotteries (Regulations) Rules 2010, the distributors or selling agents shall return the unsold tickets to the organising State with full accounts along with the challans of the money deposited in the Public Ledger Account or in the Consolidated Fund of the Organising State through the sale of tickets.

Paragraph 4.6 and 4.7 of the agreement also stipulated that the distributor shall prepare and submit a statement showing the number and the aggregate value of all the tickets sold per draw before the draw is conducted. The unsold tickets shall be returned by the distributor to the Director, Nagaland State lotteries to be excluded from the draw.

During joint physical verification (February 2016) of the godown of the distributor at Kolkata, it was noticed that huge quantity of unsold tickets in respect of Nagaland State lotteries were dumped in the godown without being reported or returned to the State. It was also seen from the records that an amount of ₹ 1.44 crore (excluding TDS of ₹ 61.97 lakh) as prize money during 2010-16 were paid to the agents, distributor/sub-distributors/selling agents on unsold tickets (of taxable prize money) directly by the directorate office.

Further, cross examination of the Profit and Loss Accounts of the distributor revealed that there was a receipt of ₹ 10.73 crore (from 2010-11 to 2014-15) as income from the unsold tickets which was against the provisions of the Lottery Act and Rules.

The Government in reply stated (August 2016) that the agents appointed by the distributor for selling of lottery tickets in the market were in effect the end purchasers of lotteries. They purchase the lotteries in bulk on payment of the price of the lottery tickets thereby assuming the risks incidental thereto and such lottery tickets purchased by the agents from the distributor are deemed to have been fully sold. There is no system of return of unsold tickets to the distributor from stockiest, sub-stockiest, retailers, etc. Therefore, there are no unsold tickets from the perspective of the State Government and the claim of ₹ 10.73 crore as per accounts of distributors is not based on actual facts.

The reply is not acceptable as it contradicts the provisions of the Lottery (Regulation) Rules 2010 and the conditions of the terms of agreement. The distributor also did not

remit the amount from unsold prize winning tickets to the Government and therefore in effect participated in the draw which violated the provision of the Rules. Hence, the amount of ₹ 10.73 crore retained by the distributor as prize money from the unsold tickets should be deposited to Government account.

4.2.15 Printing of tickets without inviting rates of quotation from empaneled Printers

As per Rule 3 (5) the paper lottery tickets and the stationery on which the Online lottery tickets are issued shall be printed by the Organising State at a Government Press or any other high security press included in the panel of the Reserve Bank of India or the Indian Banks' Association, Mumbai.

The Government of Nagaland engaged the following Security press from the panel of the Indian Banks' Association, Mumbai for printing lottery tickets:

1. M/s Sreenidhi Secure Print (P) Ltd, Hyderabad
2. M/s Nutech Security Printers, New Delhi
3. M/s Gemini Graphics, Bengaluru

Examination of records revealed that the name of printing press were proposed by the distributor for approval of the Government for all the lottery scheme. The printing cost was borne by the distributor. Thus, the Government has only a token role in the selection of Printers for printing of the tickets which violated the spirit of the Rule.

4.2.16 Distribution of lottery tickets

According to Clause 4.7 of the Agreement, the Agent and/or any of his sub-agents or retailers shall not be involved in receipt or dispatch of the lottery tickets or stationeries from the Government Press/Security Press.

During joint inspection of the printing press and Nodal Officer, Kolkata, it was observed that:

- the Department does not have an office or godown of its own in Kolkata to receive the huge volume of printed tickets;
- the printed lottery tickets were directly delivered to the area-distributors of the paper lottery ;
- the distributor submitted a copy of delivery challans to the Government official for onward submission to the Directorate does not guarantee transparency and accountability.
- in Mumbai, also when paper lotteries were conducted (2013-14), no Government representative was posted to oversee or receive the printed lottery tickets, indicating that the printed lottery tickets were delivered directly to the distributor/area distributors;

These were the serious lapse on the part of the Government as printed tickets should have been delivered to the Government representative only with adequate facility/manpower to receive and verify the tickets. This indicated that the

Government had no control over the number of tickets printed nor on the quality of the tickets.

The Government in reply stated (August 2016) that the tickets are distributed by the distributor throughout the market with their well-established network of stockists, sub-stockists, agents, sub-agents, retailers/sellers etc., as it involved huge manpower, time and cost.

The reply of the Government confirms the fact that adequate control over receipt and delivery of lottery tickets by the Government from the printing press to the distributor was not adhered to. Moreover, Government representative was posted only in Kolkata (West Bengal) and not to other states where Nagaland State lottery tickets were sold conducted.

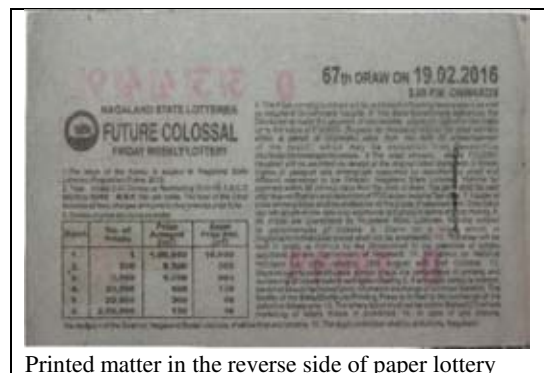
4.2.17 Form, size and design of Paper lottery tickets

According to Para C (6) of Annexure to Nagaland Lotteries (Regulation) Rules 2010 states that “The printed tickets for a particular draw shall bear the imprint and logo of the State Government, distinctive number, the date/time of draw and the sale price of the ticket/maximum retail price (MRP) and facsimile signature of Director, Nagaland State lotteries. On the reverse side of the tickets, there shall be a printed information in English/Hindi or any Regional language showing prize structure and such other essential details and conditions as the State Government may consider necessary for the purchasers. Such terms and conditions which appear on the lottery tickets shall be determined by the State Government through the Director.”

Examination of the tickets revealed that the size of the fonts of the information printed on the back side of the paper lottery tickets of Nagaland State lottery marketed in West Bengal were in fine prints which were barely legible even to a person of normal vision as shown in the photograph.

Further, it was observed that the reverse side of the tickets did not contain address, contact number and website address of the Directorate for easy reference of the customers.

Thus, the customers were deprived the opportunity to read the information of the lottery schemes printed on the reverse side of the ticket



Printed matter in the reverse side of paper lottery

Audit further observed that the name of the organising State and its logo were given less importance in comparison to the name of the lottery scheme as evident from the size of the fonts and logos. Audit also noticed that the lottery tickets of Nagaland and Mizoram were so similar to one another that they could not be easily distinguished as shown in the following photographs.

<p>Nagaland State Lottery: Dear Gentle Evening Sunday Weekly Lottery</p>	<p>Mizoram State Lottery: Dear Gentle Sunday Weekly Lottery</p>

As different state lottery tickets were printed in the same printing presses, the bidders were proposing similar design and size to minimize printing cost. This indicates that the design and size of the paper lottery were determined by the distributor and the printing presses and the Department merely approves whatever designs the distributor proposed.

Thus, the Nagaland State lottery tickets were not differently designed from the other state lottery tickets and the players were not able to recognize the tickets distinctly from other state lottery tickets. As a matter of fact, there was nothing on record to indicate that the Directorate had taken any action to ensure that the unique identity of Nagaland state lottery ticket was maintained.

4.2.18 Commission to distributors/selling agents

As per the Lotteries (Regulation) Act 1998, the rate of commission payable to the distributors for marketing the lottery of the State was required to be fixed by the State Government. Income Tax¹⁴ from the commission at the rate of 10 per cent was also required to be deducted at source by the Directorate before payment of commission and credit the sum so deducted to the credit of the Central Government.

It was observed that, the State Government, instead of fixing the rate of commission, fixed the rate of MGR to be received from the distributors per draw. In this scenario, the net revenue from the sale of lottery ticket after printing cost, prize pay-out, cost of publication of result, charges given to other States, and MGR etc., was retained by the distributors.

The Government in reply stated (August 2016) that the Financial Statements and Income tax assessment details are required from the distributor only during tender process and these are not submitted by the distributor annually. The Government further stated that to earn revenue the State depended upon the distributor to sell its ticket in West Bengal, Punjab, Maharashtra, etc. as it did not have any market of its own within Nagaland. For the purpose of marketing, vast expertise, numerous establishments and enormous expenses were involved. In order to safeguard the revenue being spent for organising the lottery, the Government decided to opt for

¹⁴ Section 194G of Income Tax Act, 1961

fixed MGR. This ensured that the Government had a steady flow of funds whether the lotteries were marketed or not.

The reply is not acceptable as the decision of the Government to resort to MGR instead of commission basis violated the provision of the Lotteries (Regulation) Act 1998. The replies are also indicative of the fact that the amount retained by the distributor is not known to the State Government. The State Government also did not ascertain the net amount of revenue accrued to the distributors and failed to deduct Income Tax at source as per the Act.

4.2.19 Prizes of Online tickets kept at ₹ 10,000 and below to avoid Income Tax

According to Section 198B of the Income Tax Act, 1961, the State Government was required to deduct 30 per cent Income Tax at source on any prize money in excess of ₹10,000 and other winnings from games, lotteries etc.

Examination of records revealed that all the Online lottery schemes (including the fixation of prizes) were approved by the Government as proposed by the distributor without any alteration. It was also observed that the maximum prize money in respect of all the Online lottery schemes sanctioned/approved were fixed at a maximum of ₹ 10,000 for the first prize.

A condition was imprinted on the Online ticket that only prize money valued more than ten thousand rupees was required to be claimed from the concerned Government. All the 1st prizes of the Online lotteries were kept at ₹ 10,000 and the other prizes were ranged between ₹ 9000 and ₹ 40. The percentage of total prize money vis-à-vis total sales of Online tickets during 2010-11 to 2015-16 is given in below:

Table No.4.2.4

₹ in crore

Year	Total Sale proceeds of online tickets	Total number of Draws	Total Prize money payoff	Percentage of Prize payoff to Total sale proceeds
2010-11	607.34	6,474	514.21	84.67
2011-12	1,289.68	8,180	1,107.19	85.85
2012-13	366.34	3,584	320.63	87.52
2013-14	172.11	4,123	143.27	83.24
2014-15	217.43	6,723	179.02	82.33
2015-16	496.26	4,626	415.33	83.69
Total	3,149.16	33,710	2,679.65	85.09

Source: Compiled from data furnished by Directorate of Lotteries

As can be seen from the above, the total prize payoff ranged from 82.33 to 87.52 per cent of the total sale proceeds. However, the maximum prize money was fixed at ₹ 10,000 resulted in non- payment of Income Tax. This also permitted the distributors to claim the first prize from unsold winning tickets without TDS as discussed in Paragraph No.4.2.14

The Government in reply stated (August 2016) that as per the Income Tax Act, 1961, income tax is applicable only on prize money exceeding ₹ 10000. The Lotteries (Regulation) Rules, 2010, Clause 3(9) stipulated that “the first prize in any lottery scheme shall not be less than ten thousand rupees”. All schemes are formulated without violation on this score.

The reply is not acceptable as the first prize were kept at ₹ 10,000 and the total prize pay-out ranged from 82.33 to 87.52 *per cent* of the sales proceeds to avoid deduction of Income Tax at source on prize money from winners.

4.2.20 Inadequate supervision of lottery in the states where lottery is conducted

As per Rule 3 (15), Rule 3 (21) of Lottery Rules, it is the responsibility of the Organizing State to effectively supervise the conduct of lottery till publication of results and to ensure that the distributor/Agents engaged by the Organizing State acts in conformity to the provisions of Acts and Rules.

GoN conducts lottery in the states of West Bengal, Maharashtra, Punjab and Sikkim. The lottery tickets are printed in Hyderabad and Delhi.

During joint physical verification (18 February 2016) of the nodal office at Kolkata, it was observed that one State Government official was posted as Nodal Officer with no other supporting staff. The responsibility of the official was to receive the consignment of paper lottery tickets from the Printers and deliver them to the area distributors as per printing order issued by the Department as well as maintenance of records of receipt and delivery. A large quantity of consignment is received (around 52 crore of lottery tickets per week) and therefore it is practically impossible for a single person to verify the quantity/quality of the lottery tickets received by the nodal office. Thus, the duty of the official is practically limited to record keeping as per print order. Monitoring of lottery draws conducted by the agencies or inspection of records maintained by the area distributor/stockiest or agencies was not conducted at any level. Further, joint inspection of Online lottery at Mohali, Punjab and the Printing Press¹⁵ in Hyderabad, revealed that no officers from the Government were available to inspect the proper conduct of the lottery and printing of tickets on regular basis.

The Government in reply stated (August 2016) that inspection and verification are carried out by the Department periodically in States where Nagaland State lottery tickets are being sold. Regular monitoring will require an establishment to be put in place which will involve a huge expenditure negating the very purpose of conducting lotteries.

The reply is not acceptable as the Lottery Regulations Rules clearly states that it is the responsibility of the Department to oversee the conduct of lottery till publication of results.

¹⁵ M/s Sreenidhi Printers

4.2.21 Internal Control

Internal control is an integral function of an organisation which ensures achievement of the objectives of the organisation. It is intended to provide reasonable assurance of proper enforcement of Acts and Rules.

The internal control system in the Department was found inadequate and ineffective as the mandatory returns such as unclaimed prize money, sales report, audited accounts were not prepared by the Department. The accounts/records submitted by the distributor/area distributor *etc.* were also not inspected or verified. As a result, the practice of non-preparation of sale report/audited accounts/unclaimed prize continued unabated.

Monitoring of the activities of the distributors or their sub-agents to detect illegalities/irregularities was found lacking as occasional surprise checks and physical verification of records of distributors and printers were never carried out. It was noticed that the distributors paid the draw charges in advance to the States where the State lottery were marketed but the certificates issued by the concerned State authorities were not submitted to the Directorate.

The Government in reply stated (August 2016) that the distributor submitted the sales reports, unclaimed prize money, audited accounts, the tax paid challans and certificates regularly and was also monitoring the sales and related activities. The State Government was also intimating the concerned State Governments where the Nagaland State lotteries were being marketed with the details of the games, distributor and sub-distributors, the person liable for payment of taxes and other charges.

The reply of the Department is not acceptable as there were no records of verification to authenticate the correctness of the accounts/records submitted by the distributor.

4.2.21.1 Financial and System audit

Rule 3(19) of Nagaland Lotteries (Regulation) Rules 2010 stipulated that every Organising State shall conduct an annual financial and systems audit of the various lottery schemes organised by it including Online lottery. In addition, according to para C (25) of Annexure to Nagaland Lotteries (Regulation) Rules 2010, the State Government/Director may appoint a locally based renowned firm/company of Chartered Accountants and technical experts for the purpose of conducting annual financial and system audit.

Examination of records revealed that the Department did not conduct any financial and system audit of the lottery schemes organized by the State during 2010-11 to 2015-16. Instead the Department relied upon the statements furnished by the distributor on the number of draws conducted and MGR payable per draw. The Department also did not initiate to conduct an IT Audit of the installations by the IT, Departments on Online lottery.

Thus, the Department was unaware of the daily sale proceeds and annual sale proceeds of the distributor, the total number of tickets sold/unsold, actual price payoff, total expenditure on conduct of lottery and compare with the MGR received by the State.

4.2.21.2 Internal Audit wing

The Directorate did not have an internal audit wing. The Government also had not appointed any personnel or entrusted any State Government Departments to conduct internal audit to evaluate the functioning of the lottery schemes.

The Government in reply (August 2016) stated that the rule provisions to appoint local auditor was a major obstacle as no renowned firm/company existed in Nagaland.

The reply is not acceptable, as the Department could not provide any documentary evidence of the attempt made by the Government (by way of advertisement on dailies or otherwise) to find a locally renowned firm/company of Chartered Accountants and Technical Experts for conduct of financial and system audit.

4.2.21.3 Conduct of lottery without specific scope and purpose

Rule 3 (2) of Lotteries (Regulation) Rules 2010 states that the State Government may organise a lottery or lotteries if it so decides by issuing a notification in its Official Gazette outlining the purpose, scope, limitation and methods thereof. However, the Government of Nagaland introduced lotteries with the objective to generate of revenue of the Government for developmental activities and specific scope or purpose was not defined.

Examination of the records revealed that the MGR received from the sale of lotteries was deposited in the Consolidated Fund of the State. The rules framed by the Government of Nagaland regarding conduct of lotteries and the notifications published in the Official Gazette approving the conduct of the lottery inconspicuously mentioned that the proceeds shall be deposited into the Consolidated Fund. The fund intended to be appropriated from the revenue of lotteries for developmental activities were not clearly defined. Thus, it is clearly established that the conduct of lottery by the Government was not for any targeted social or developmental schemes.

The Government in reply stated (August 2016) that the revenue generated from organizing lotteries was deposited in the Consolidated Fund which was utilized for various developmental activities. It further stated that it was difficult to precisely earmark a particular defined activity for utilization of the revenue generated from lotteries as the State is faced with extremely short on resources for generation of revenue.

The reply is not acceptable as para "C" of the Annexure to the Nagaland Lotteries (Regulations) Rules 2010 clearly stated that the main purposes and scope of organizing the lotteries is to earn additional revenue of the State for developmental activities. The targeted developmental activities were not defined and revenue

intended to be earmarked from the conduct of the lotteries were not clearly stated while approving each scheme.

4.2.22 Conclusion

The Nagaland State lotteries was introduced to earn revenue for developmental activities. There was irregularities in selection of distributors which led to litigation in court case and suspension of lottery draw for 13 month. Running of Nagaland lotteries was mainly controlled by the distributor while the State Government was left with its revenue to Minimum Guaranteed Revenue (MGR) per draw in violation of the Lotteries (Regulation) Rules 2010.

The distributor made huge profit from the sale proceeds of Nagaland State lotteries whereas revenue of the State Government was in the form of MGR only. The rate of MGR had not been revised or reviewed since May 2010. Out of the total sales of ₹ 17,653.76 crore during 2010-16 the distributor deposited only ₹ 56.93 crore being MGR to the Consolidated Fund of the State. The distributor neither deposited the balance amount of ₹ 17,596.83 crore to the Consolidated Fund of the State nor it was demanded by the State Government. Against the revenue accrued to the distributor ₹ 4,522.24 crore (26 *per cent* of gross sale) during 2010-16 the Government received ₹ 56.93 crore (0.32 *per cent* of gross sale). The main factor contributing to this was fixing the revenue realizable from the lotteries per draw at the MGR which had no relation with the volume of sale of tickets. Thus, due to conduct of lottery on the basis of MGR, the distributor revenue was without bounds while the Government revenue was capped to MGR formula. This resulted in loss of revenue and undue financial benefit to the distributor. In violation of Act and Rules the entire sale proceeds calculated at face value of the tickets was not deposited to the Consolidated Fund of the State without any deduction.

The State had not verified the system being used by the distributor to conduct the online lotteries as a result audit could not draw an assurance that they were adequate. Physical location of the Central Server of online lotteries was not located within the State. The Data Centre (Central Server) does not provide any audit trail to verify the adequacy of internal controls. Online lotteries were not properly monitored due to absence of Information Technology personnel in the Department. Unsold tickets were not excluded from being part of draw resulting in claim of prize from unsold tickets. The maximum prize money of Online lotteries were fixed by the distributor at ₹ 10,000 or below to avoid payment of Income tax. Monitoring and internal control system of the Department was inadequate as no vital records such as unclaimed prize money, sales report etc., were not prepared by the Department. The Department did not conduct any financial and system audit of lotteries in violation of the Nagaland Lotteries (Regulation) Rules 2010. The utilization of revenue generated from Nagaland lotteries for developmental activities were not clearly defined in the Rule.

4.2.23 Recommendations

For effective running of the State lotteries and to safe guard financial interest of the State, the State Government may ensure to:

- to retender for selection of distributors and allocated the job for conducting of lotteries as per Act and Rules;
- deposit the entire sale proceeds calculated on the face value of the tickets in the Consolidated Fund of the State without any deduction and deposit unclaimed prize money to the Government Accounts in time;
- Central Server should be under the direct control of the State Government and the activities of online lotteries should be effectively monitored;
- strengthen monitoring and internal control by appropriate measure like conducting of financial and system audit annually and set up Internal Audit wing in the Directorate; and
- define clearly the purpose of conducting lotteries by evolving the mechanism to allocate funds necessarily to the intended purposes out of the revenue generated from lotteries in the annual budget of the State

MOTOR VEHICLES DEPARTMENT

4.3 Computerisation of Motor Vehicles Department

The Motor Vehicles Department in the State of Nagaland was established in 1963 as per section 133-A of the Motor Vehicle Act, 1939. The Department is governed by the Central Motor Vehicles (MV) Act 1988, the Central Motor Vehicles Rules 1989, the Nagaland Motor Vehicles Taxation Act 1967 and the Nagaland Passengers and Goods Taxation Act 1967. For effective implementation and integration of the data the Transport Department introduced (1996) Computerisation of Motor Vehicles in Nagaland in a DOS based FoxPro database application on Novell Software developed by M/s NagaSoft, Kohima. By the year 1997, all RTOs/DTOs were fully computerised using this application software till 2008. From July 2008, the software packages of 'Vahan' and 'Sarathi' software introduced by GOI on an Oracle platform was implemented in the Regional Transport Office (RTO), Kohima and subsequently in October 2009 in all the seven Regional Transport Officers/District Transport Offices (DTOs), with support from NIC Nagaland. Online issue of National Permit System (NPS) was implemented on September 2010 in the Office of the Transport Commissioner, Nagaland, Kohima.

Performance Audit for the period from April 2011 to March 2016 on computerisation of the Motor Vehicles Department revealed inadequacies in implementation of IT software, planning, management, training, monitoring and internal control of computerization as brought out in this Report.

Highlights

The Department did not formulate and adopt any IT policy and therefore the risk involved in record keeping of user data, statutory documents, revenue collection and data security, were not ensured.

(Paragraphs 4.3.8.1)

The Department had not completely migrated to the more advanced system of Vahan and Sarathi from the old legacy system to provide smooth interface with the data of Regional Transport Officers and District Transport Officers while issuing authorisation for national permits and collection of taxes/fees by State Transport Authorities. The Department also did not incorporate provision for validation checks in the software to compulsorily capture statutory fields at the time of data entry.

(Paragraphs 4.3.8.2)

Non-utilisation of complete permit module resulted in irregular issue of permits for goods and passenger vehicles and also resulted in underutilisation of the Vahan database for integration with databases across India.

(Paragraphs 4.3.10)

Instances of short remittance of revenue to Government account ranging from ₹ 1.06 lakh to ₹ 2.55 crore in the selected districts were noticed. As of March 2016, a revenue of ₹ 8.37 crore was retained in the bank account of Axis bank in contravention of the terms of agreement.

(Paragraphs 4.3.14.2 and 4.3.14.3)

4.3.1 Introduction

The Motor Vehicle Department introduced Computerisation of Motor Vehicles in Nagaland in the year 1996 in a DOS based FoxPro database application for capturing data such as issuance of driving licences, certificate of fitness for transport vehicles, registration of motor vehicles and granting regular and temporary permits to the vehicles, collection of taxes and fees. The Department in 2008 decided to implement 'Vahan' and 'Sarathi' software systems developed by the National Informatics Centre (NIC) in order to have a national database of registered vehicles and driving licences issued and for providing valuable data to the Central Government security agencies. In spite of the decision to implement Vahan and Sarathi in 2008, Audit noticed that even after eight years of its implementation the Department continued to operate the old software (2016). It was also noticed by audit that both old and new software were used ignoring the quality controls for data such as data integrity, data security, correctness of data and usage of data. This resulted in under achievement of the benefits of computerisation.

4.3.2 Overview of the IT application systems

In 1996 the Motor Vehicle Department commenced introduction of computerised system in capturing data, issuing licences, certificates etc., in a FoxPro database

application. Thereafter, Vahan and Sarathi an Oracle platform was introduced by GoI in July 2008.

FoxPro:-It is a database management system and a relational database management system which extensively supports multiple relationships between multiple database files.

Vahan: It is an application developed by NIC Headquarters, Delhi for registration of Vehicles and collection of road tax, issue various certificates and permits and record fitness of vehicles by the RTA/RTO.

Sarathi: It is an application developed by NIC Delhi for issue of Learner's driving licenses, Permanent driving licenses, conductor's licenses and Driving School licenses.

National Permit System: It is an electronic system for grant of National Permit and was developed in consultation with the NIC and operates in web-based environment with a central server in Delhi.

All offices of the Department were provided the facility of separate LAN systems functioning under three tier architecture (Database Server, Application Server and clients) for Vahan and a two tier architecture for Sarathi on a Client-Server relationship architecture. The database server runs on a Linux Server with Oracle 10g database and Windows OS on application Servers and Clients. System support is provided by NIC, Nagaland for customization and modifications of Vahan and Sarathi according to local requirements. Smart Card based registration certificates and driving licenses are being printed and activated using web page application namely Key Management System (KMS) software.

The comparison of functions of FoxPro and Vahan/Sarathi are as follows.

FoxPro	Vahan and Sarathi
<ul style="list-style-type: none">• Collection of authorisation fees of National Permit• counter-signature of temporary permits,• collection of goods tax,• passenger tax,• late fines for inter-State vehicles and all Nagaland tourist taxi/bus permits	<ul style="list-style-type: none">• registration of Vehicles• collection of road tax,• issue of various certificates and permits• fitness of vehicles• issue of Learner's driving licenses• Permanent driving licenses,• conductor's licenses and Driving School licenses

The old system under FoxPro and the new system under Vahan and Sarathi are running simultaneously in the Department.

4.3.3 Organisational setup

The Secretary to the Government of Nagaland (GoN), Transport & Communication Department is the Administrative Head of the Motor Vehicles Department and the Transport Commissioner (TC) as the Head of the Department. There are two Regional Transport Officers (Kohima & Mokokchung) and six District Transport Officers (Dimapur, Phek, Mon, Tuensang, Zunheboto & Wokha) in the state.

4.3.4 Audit objectives

The objectives of Performance Audit on the Computerisation of Motor Vehicles Department were to assess whether:

- The IT applications of Vahan, Sarathi and National Permit System were implemented fully in all the RTOs and DTOs of the State.
- Adequate IT controls existed to ensure data integrity, data security and data accuracy.
- Funds sanctioned for computerisation were utilised economically and efficiently and revenue collection thereof deposited into Government account without undue delay and leakages.
- Appropriate monitoring and internal control mechanism was in place at all levels to monitor the implementation of the IT systems.

4.3.5 Audit Criteria

The Performance Audit was carried out based on the following criteria:

- Motor Vehicles Act 1988 (MV Act)
- Central Motor Vehicles Rules 1989
- Nagaland Motor Vehicles Taxation Act 1967
- Nagaland Passengers & Goods Taxation Act 1967
- IT Act 2000 (As amended by IT (Amendment) Act 2008) of GOI.
- Notifications, circulars and orders issued by the GOI and GON from time to time.
- Operational guidelines of Vahan, Sarathi & National Permit System developed by NIC.

4.3.6 Audit Scope and Methodology

Audit covered the offices of the Transport Commissioner, all the two RTOs (Mokokchung & Kohima) and two DTOs (Dimapur & Phek) out of six DTOs selected on the basis of Simple Random Sampling Without Replacement (SRSWOR) method during May 2016 to July 2016. The Audit methodology included checks on validation of data integrity, data processing, reporting and security controls using the Computer Assisted Audit Technique Tools like IDEA, MS Access, MS Excel etc. The Performance Audit on Computerisation of Motor Vehicle Department for period 2011-16 was covered. An entry conference was held (6 May 2016) with the Transport Commissioner, Departmental Officers and NIC Nagaland to discuss the audit scope and methodology, criteria and objectives. The draft report was issued to the Department in September 2016. An exit conference was held with the Departmental Officers on 10 November 2016 to discuss the findings of audit. The views expressed during the exit conference and the replies furnished by the Department were considered and suitably incorporated in the report.

4.3.7 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Motor Vehicles Department, Government of Nagaland and NIC for providing necessary information and records to audit.

Audit findings

The findings of audit are discussed in the following Paragraphs:-

4.3.8 IT applications of FoxPro, Vahan, Sarathi and National Permit System

4.3.8.1 IT Policy and framework

IT policy is a comprehensive document to be developed by a user Department while implementing computerization. It includes security, purchase, user level definition backups and disaster recovery policy, password policy, copy right laws, privacy legislation of personal data, data protection, business continuity policy for efficient upgradation and modification in software packages, stock management etc.

Examination of records revealed that the Department did not formulate nor adopt any IT Policy for planning and implementation of the principle of action proposed to achieve the computerised functions and its objectives and to mitigate the risk of data management. Thus, the Department failed to specify and ensure capturing of complete data, proper record keeping and statutory documents, interlinking of database, data security and revenue collections etc.

The Department in reply (October 2016) stated that the IT policy is under draft stage.

4.3.8.2 FoxPro Application and Vahan and Sarathi modules in the State

Chapter V of Motor Vehicle Act 1988 empowers the State Transport Authority (STA) to authorise issue of National Permits, counter-signature of temporary permits, collection of goods tax, passenger tax, late fine etc., for inter-State vehicles and all Nagaland tourist taxi/bus permits. The current version of Vahan (2.0) has the modules for vehicle registration, fitness, taxation, permit, pollution under control certificate, trade license and enforcement whereas Sarathi (1.0) has the modules for driving license, learner's license, conductor's license and driving school license.

Examination of records revealed the following:

- **Fox Pro application software:**-Though the use of FoxPro application software was to be discontinued from the date of implementation of Vahan and Sarathi, the Department continued to use the FoxPro software developed by M/s NagaSoft, Kohima for the functions undertaken by STA for collection of authorisation fees of National Permit, counter-signature of temporary permits, collection of goods tax, passenger tax, late fine etc., for inter-State vehicles and all Nagaland tourist taxi/bus permits. Incidentally, the use of outdated database and deficiencies in the FoxPro application and instances of data manipulation was pointed out in the Audit Report of the Comptroller &

Auditor General of India- Government of Nagaland for the year ending 31 March 2008. However, no tangible action was initiated to address these issues.

Analysis of data captured in the FoxPro further revealed the following deficiencies:

- There was no validation check on date of receipt leaving a scope for entering incorrect dates in this field.
- There was no input validation check in any of the fields in the system as a result some fields were not captured while making data entry.
- There is no user hierarchy system for validation and approval of data entry thereby enabling possible entry of incorrect or unauthorised data.
- Database of daily receipts in respect of 69 records (26 June 2013) and 164 records (18 November 2014) from the database of national permit authorisation were deleted.
- Free access of the account with administrator rights (super user) were provided to the data entry level.

Thus, the Department continued to use the FoxPro software without adequate and requisite IT controls inspite of Government decision to implement Vahan and Sarathi. This led to capturing of incorrect date in the field, incomplete fields and entry of incorrect and unauthorized data.

Vahan and Sarathi: As per Section 47 of Chapter III, Central Motor Vehicle Rules 1989, certain documents such as valid insurance certificate, address proof documents, vehicles documents etc. are made compulsory for vehicle registration and issuance of driving license. In addition, IT applications should have in-built controls which automatically rejects data entry if such mandatory information are not captured. The Department issues Pollution Under Control Certificate (PUC) in Vahan software environment, however, permits, trade license and the enforcement module are being issued using FoxPro Software as a result the modules prescribed by GoI remained underutilized and also the mandatory information was not captured during registration of vehicles and issue of driving license as discussed below:

- Out of 80,349 vehicles¹⁶ registered in four districts during 2011-16, only 167 PUCs¹⁷ were found to be issued through Vahan software.
- Out of 6202 permit fees¹⁸ for goods and passengers vehicles realised and captured in Vahan software, only 74 certificates¹⁹ were found to be generated from the software indicating issue of permits using the old system or manually.

¹⁶ 31,857 vehicles (DTO Dimapur) + 1670 vehicles (DTO Phek) + 8653 vehicles (RTO Mokokchung) + 38,169 vehicles (RTO Kohima) = 80,349 vehicles

¹⁷ 140 certificates (DTO Dimapur) + NIL (DTO Phek) + 8 certificates (RTO Mokokchung) + 19 certificates (RTO Kohima) = 331 certificates

¹⁸ 4267 permit fees (DTO Dimapur) +145 permit fees (DTO Phek) +329 permit fees (RTO Mokokchung) + 1461 permit fees (RTO Kohima) = 6202 permit fees

¹⁹ 22 (DTO Dimapur) +NIL (DTO Phek) + 49 (RTO Mokokchung) + 3 (RTO Kohima) = 74

- No records were entered under the module of Enforcement in Vahan indicating non-utilisation of the module in all four test checked districts.
- The module under Sarathi for issue of conductor's license was not utilised at all in all the four test checked districts.
- It was observed that the modules and features provided under Vahan and Sarathi were not fully utilised which resulted in capturing of incomplete data in the database and irregularities in issuing of permits and PUCCs.
- Out of 80,349 vehicles registered during 2011-16 in four selected districts, the date of purchase of 899 vehicle was not captured (**Appendix-4.3.1**).
- Out of 77,168 records of driving licenses issued in four selected districts during 2011-16, Pin Codes in permanent address of 366 applicants, PIN Codes in temporary address of 8190 applicants and identification mark of 1153 applicants were not captured (**Appendix-4.3.1**).

Though the Department decided to migrate to more advanced system of Vahan and Sarathi, provisions for compulsory and uniform applicability of the software was not made. The Department also did not lay down adequate IT controls nor incorporate provision for validation checks in the software to compulsorily capture statutory fields at the time of data entry and provisions for audit trail. This led to capturing of partial, incomplete and incorrect data coupled with potential loss of revenue as discussed in paragraphs **4.3.14.1 to 4.3.14.3**.

The Department in reply (October 2016) stated that the process for up-gradation or replacement of the legacy application has started. The Department further stated that the date of purchase of vehicles was not captured during the initial stage of digitalization. However, it has now been made mandatory. The Department also stated that all offices have been notified to mandatorily include the pin code.

The fact remains that the Vahan software were partially or under-utilised and the permits were issued manually.

4.3.9 IT controls, data integrity, data security and data accuracy

IT applications should have in-built controls which automatically check whether the data entered is accurate and valid. The accuracy of data input to a system can be controlled by incorporating computerised validation checks on the data presented to the system. As discussed in paragraph **4.3.8.1 and 4.3.8.2**, the Department did not formulate and adopt IT policy for planning and implementation of computerised functions and also continued to use the outdated software application instead of the comprehensive software application of Vahan and Sarathi. Audit therefore made an attempt to analyse the data in four selected districts which revealed that incorrect data were entered into the system due to lack of validation checks in the software. Instances of such incorrect and unusual data are discussed below:

- **Incorrect city name:** Out of 80,349 vehicles owner records in four selected districts, 56,052 (70 per cent) records with incorrect name of the city under

temporary address column and 45,287 (56 per cent) incorrect name of the city in permanent address were captured in the database.

- **Incorrect PIN Code:** 325 instances of incorrect PIN Code were captured in temporary address and 10681 records have incorrect PIN Code in permanent address (**Appendix-4.3.2**).
- **Incorrect pin code in driving licenses:** Out of 77,168 driving licenses issued in four selected districts, 8810 had incorrect PIN Code in the temporary address and 67 cases of incorrect PIN Code was recorded in permanent address.
- **Incorrect timing for issue of fitness:** Out of 88,631 records of fitness testing captured in four selected districts, 1303 vehicles were recorded as tested during 6 pm to 6 am of a particular day (**Appendix-4.3.2**).
- **Incorrect registration of vehicle:** Out of 36,959 vehicles already registered in other States and brought to Nagaland for re-assignment of new number, in 9555 vehicles, the old registration number assigned by other States were not captured in the database (**Appendix-4.3.2**).
- **Incorrect identification marks:** 2446 cases of incorrect identification marks were recorded in the database (**Appendix-4.3.2**).
- **Incorrect blood group:** In 1131 cases non-existent blood group *e.g.* Blood group 'U' were recorded (**Appendix-4.3.2**).

Thus, it was observed that there was no validation checks to reject entry of incorrect and inaccurate data rendering the data incomplete and unusable at both State and National Registers of Transport Department.

The Department while accepting the facts stated (October 2016) that necessary instruction has been issued to all the offices to mandatorily include the PIN code, identification mark and blood group in the addresses of the vehicle owners. The anomaly in the timing of fitness tests were due to failure of the CMOS Battery, which has now been rectified. It was also stated that the irregularity in vehicles having old and new registration numbers was due to a technical problem which has been resolved with the help of NIC officials.

4.3.10 Capturing of permits issued through the system

Section 66 of Central Motor Vehicle Act 1988 (Necessity for permits) states that no owner of a motor vehicle shall use or permit the use of the vehicle as a transport vehicle in any public place whether or not, such vehicle is actually carrying any passengers or goods save in accordance with the conditions of a permit granted or countersigned by a Regional or State Transport Authority or any prescribed authority authorising him the use of the vehicle in that place in the manner in which the vehicle is being used.

Analysis of data in four selected districts revealed that though the RTO/DTOs were realising permit fees through Vahan software for passengers and goods vehicles,

essential details such as permit number, type of permit and permit validity were not captured in the Vahan database rendering the data incomplete as detailed below:

Table No.4.3.1

Districts	No. of transport vehicles (excluding Government vehicles)		Total number of permit details captured in Vahan database
	Registered during 2011-16	Number of permit fees realised through Vahan	
Kohima	26,572	1,461	3
Mokokchung	6,143	329	49
Dimapur	6,763	4,267	22
Phek	721	145	0
Total	40,199	6,202	74

As can be seen from the table above out of 40,199 registered transport vehicles in these four districts during 2011-16 only 6202 (15.43 *per cent*) permit fees were realised through Vahan and 74 records of essential information for issue of permits were entered in the Vahan database.

Non-utilisation of complete permit module resulted in irregular issue of permits for goods and passenger vehicles and also resulted in underutilisation of the Vahan database. As a result, integration with databases across India was also impacted. Details of transport vehicles plying without permits or expired permits also could not be generated by the software. This would have aided the enforcement wing in effective control on these vehicles. Besides, the very purpose of computerisation and its benefits in implementation was not availed by the Department.

The Department in reply assured (October 2016) that the matter would be rectified with the support of the NIC.

4.3.11 Transport vehicles without fitness certificate

As per Section 56 of the Motor Vehicle Act 1988, every transport vehicle should carry an effective certificate of fitness issued by the prescribed authorities or by any authorised testing stations specified by the State Government. This certificate of fitness in respect of a transport vehicle granted under section 56 shall be in Form 38 and such certificate when granted or renewed shall be valid for the period as indicated: (a) two years for new transport vehicles and (b) one year for renewal of certificate of fitness.

Database of Vahan in four selected RTOs/DTOs were analysed and it was found that 5836 transport vehicles out of 40,199 registered during 2011-16 were plying without a valid fitness certificate as detailed in the following table:

Table No.4.3.2

Sl. No.	Districts	No. of transport vehicles	
		Registered during 2011-16	Plying with Expired Fitness Certificate
1.	Kohima	26,572	2,012
2.	Mokokchung	6,143	1,142
3.	Dimapur	6,763	2,252
4.	Phek	721	430
	Total	40,199	5,836

As illustrated in the above table, out of 40,199 transport vehicles registered during 2011-16, fitness certificate of 5836 transport vehicles (14.51 *per cent*) had expired but were not renewed. These vehicles were still plying which was a violation of MV Act. This indicated that the enforcement wing of the Department did not utilise the information available in the Vahan database to detect and penalise those transport vehicles plying without valid fitness certificate. The Department also failed to effectively use the system and enforce the provisions of the Act. The data captured in the system were also incomplete and incorrect which led to leakage of revenue as discussed in paragraph 4.3.14.1 and 4.3.14.2.

The Department, while accepting (October 2016) the facts, stated that fitness certificates had to be manually issued outside the application as the Department does not possess required infrastructure for vehicle inspection and certification. The upgraded version of the application would address this matter.

The fact however remains that there was already a provision in Vahan software to capture the data of all vehicles and therefore the database should have been effectively used.

4.3.12 Statutory provisions for imposing penalty on delayed registration

Section 43 of the Motor Vehicle Act 1988 stipulates that the owner of a motor vehicle may apply to the registering authority to have the vehicle temporarily registered with a validity period for a maximum of one month. Section 47 & 48 of Central Motor Vehicle Rules 1989 also stipulated that an application for registration of a motor vehicle shall be made in Form 20 to the registering authority within a period of seven days from the date of taking delivery of such vehicle, excluding the period of journey.

Analysis of the Vahan database revealed that out of 80,349 vehicles registered in four selected districts, 24,751 vehicles were registered after a delay of 30 days as shown in the following table.

Table No.4.3.3

Districts	Total number of vehicles (2011-16)	No. of vehicles registered after delay of				Total
		1-6 months	6-12 months	1-2 years	More than 2 years	
Kohima	38,169	7,537	859	423	285	9,104
Mokokchung	8,653	1,562	313	247	320	2,442
Phek	1,670	425	165	153	133	876
Dimapur	31,857	8,463	2,517	910	439	12,329
Total	80,349	17,987	3,854	1,733	1,177	24,751

It can be seen from the table that 17,987 vehicles were registered after a delay of one to six months, 3854 vehicles after a delay of six to twelve months, 1733 vehicles after a delay of one to two years and 1177 vehicles after a delay of more than two years.

The Department accepted (October 2016) the facts and assured that necessary steps were being taken to impose penalty on defaulters.

4.3.13 Inbuilt mechanism for vehicle registration

Section 40 of the Motor Vehicle Act 1988 requires every owner of a motor vehicle to register his/her vehicle in the jurisdiction of the registering authority where he has the residence or place of business or where the vehicle is normally stationed. Thus, as per the provision of the Act, the Registering Authority is responsible to process only those applications for registering the vehicles whose owner's residence or place of business fall under their jurisdiction.

Examination of Vahan database revealed that the system did not have an in-built mechanism to ensure that the temporary or permanent address of the vehicle owner was within the jurisdiction of the registering authority. It was also observed that the address of the vehicle owners were captured even though the addresses provided were outside the jurisdictions of the registering authorities or from outside the State. Data analysis of the four selected districts revealed that during the period from 2011-16, 1727 registered vehicles belonged to districts outside the registering authority and 421 vehicles owners were from outside the State as detailed in the following table.

Table No.4.3.4

District	Total number of vehicles (2011-16)	Other districts of Nagaland	Outside the State	Total
Kohima	38,169	1,239	130	1,369
Mokokchung	8,653	396	76	472
Phek	1,670	40	195	235
Dimapur	31,857	52	20	72
Total	80,349	1,727	421	2,148

As can be seen from the above table, registration of 2148 vehicles whose address of the vehicle owners or where the residence/place of business of the owner or where the vehicle is normally stationed were outside the jurisdiction of the registering authority.

Thus, registration of vehicles whose addresses fall outside the jurisdiction of the respective RTO/DTOs without capturing the correct addresses of the vehicle owners violated the provision of the Act. Besides, the Department failed to control and detect incorrect registration and also compromised the objective of issuing demand notice to the defaulters and tracking of owners of the vehicles for law enforcing agencies.

The Department in reply (October 2016) stated that all efforts would be made to enable the owners to seek registration or submit application for grant of licenses in their own areas.

4.3.14 Fund management

4.3.14.1 Payment of goods and tax by commercial/transport vehicles

As per Section 3 of the Nagaland Passengers and Goods Taxation Act 1967, there shall be levied, charged and paid to the State Government a tax on all fares in respect of all passengers and goods carried in a taxable vehicle²⁰. Further as per Section 9 of this Act, if the prescribed authority is satisfied that the owner is liable to pay tax in respect of any period but has failed to pay the tax, the said authority may after giving the owner a reasonable opportunity of being heard, assess the amount of tax if any, due from the owner and also direct that the owner shall pay in the prescribed manner.

Analysis of Vahan database in four selected districts revealed that out of 64,558 commercial/transport vehicles registered during the last ten years²¹, 36,040 vehicles defaulted in payment of goods/passengers tax amounting to ₹ 5.64 crore and 45,631 vehicles defaulted payment of road tax of ₹ 17.25 crore. However, there was no record to indicate that the Department had taken action to realise the tax from the defaulters. The enforcement wing also did not utilise the information from Vahan software to compound those vehicles. This resulted in potential revenue loss of ₹ 22.89 crore²² (Appendix-4.3.3).

The Department stated (October 2016) that “Demand Notice” would be served to all defaulters and followed up in collaboration with the District Administration.

4.3.14.2 Non-capturing of transaction

Rule No. 6 (1) of Receipt & Payment Rules 1983 states that all moneys received by or tendered to Government Officers on account of revenues or receipts or dues of the Government shall, without any undue delay, be paid in full into the accredited bank for inclusion in Government account. The RTOs/DTOs receive Government revenue in the form of road tax, goods tax, passenger tax, registration of vehicles, permit fees, fitness fees etc. which are computerised and received through Vahan application software. At the end of each day’s transaction, summary sheets for ‘cash receiving users’ were printed in a separate sheet from the software and the total amount

²⁰ All commercial transport vehicles including passengers and goods

²¹ Life span of transport vehicles was considered for ten years i.e. from April 2006 to March 2016

²² Tax defaulting amount was calculated as per the rate of tax paid last

reflected in the summary sheets were accounted for in the cash book as Government revenue receipts for the day.

Examination of the summary sheets and daily revenue receipts recorded in the cash book in the four selected RTOs/DTOs along with the revenue receipts generated and extracted by audit from Vahan database revealed that there was a difference of ₹ 5.28 lakh²³ between the two records. Thus, the revenue of ₹ 5.28 lakh collected through Vahan was not deposited into Government account and the possibility of misappropriation cannot be ruled out.

The Department in reply stated (October 2016) that two RTO (Dimapur and Mokokchung) and DTO, Phek had deposited an amount of ₹ 5.09 lakh to the treasury.

The fact remains that an amount of ₹ 0.19 lakh still need to be recovered and deposited into Government account. The Department was also silent on initiating disciplinary action for temporary misappropriation of Government revenue.

4.3.14.3 Irregularities in remittances of revenue collected by the Department

Rule No. 6 (1) of Receipt & Payment Rules 1983 states that all moneys received by or tendered to Government Officers on account of revenues or receipts or dues of the Government shall, without any undue delay, be paid in full into the accredited bank for inclusion in Government account. Money received as aforesaid shall not be utilised to meet departmental expenditure nor otherwise kept apart from the accounts of the Government.

The Motor Vehicles Department, Nagaland entered (September 2011) into an agreement with Axis Bank Ltd. for collection of cash, cheques or demand drafts etc. from the office premises of Regional Transport Officers/District Transport Officers in Kohima, Dimapur, Mokokchung and Transport Commissioner's Office on every working day. As per Clause A (2) of the agreement, Axis Bank will remit the collection of the first to fourteenth day of the month on the 15th of each month and the balances from the 15th till the month end would be remitted on the 1st day of the subsequent month. For the month of March, the amount would be deposited on the 31st March itself through treasury challan to the designated Government account in the State Bank India.

Examination of revenue collected and deposited by the Department into Government account revealed that there were short remittances into Government account ranging from ₹ 1.06 lakh to ₹ 2.55 crore in respect of Dimapur, Kohima and Mokokchung districts as shown in the **Appendix – 4.3.4**. It was also noticed that as on 31 March 2016, the Department had a closing balance of ₹ 8.37 crore²⁴ in Axis Bank accounts even though the full amount was required to be remitted into Government account as per the agreement.

²³ ₹ 3.23 lakh (DTO Dimapur) + ₹ 1.43 lakh (RTO Mokokchung) + ₹ 0.62 lakh (DTO Phek) = ₹ 5.28 lakh

²⁴ ₹ 0.83 crore (DTO Dimapur)+ ₹ 5.88 crore (RTO Kohima)+ ₹ 1.66 crore (RTO Mokokchung) = ₹ 8.37 crore

The Department in reply stated (October 2016) that the onus of depositing the revenue into Government Treasury lies with the Axis Bank.

The fact remains that the Department has to monitor and ensure that the bank carries out the provisions of the agreement. Moreover, no action was taken by the Department against the bank for the delay in depositing the revenue in Government account.

4.3.15 Monitoring and Internal Control Mechanism

4.3.15.1 Inadequate training and lack of training needs analysis

Computerisation in Motor Vehicles Department in the state of Nagaland commenced in the year 1996 by adopting a DOS based FoxPro database application which has since migrated to a more advanced system of Vahan and Sarathi based on an Oracle database platform. Computerisation requires imparting of computer and software operating knowledge to the user clients by way of conducting trainings at regular intervals.

Examination of records revealed that the Department did not conduct Training Needs Analysis (TNA) of the staff who were assigned to operate these software packages. The Department also did not formulate any annual training calendar for imparting training to the staff at regular intervals.

Thus, deficient training opportunities and development of IT skills of the staff operating the system resulted in wrong data entry, capture of incomplete information and under-utilisation of features/provisions of the application software.

The Department in reply stated (October 2016) that imparting training to staffs is being contemplated.

4.3.15.2 Lack of monitoring and internal control mechanism

An independent and effective internal control mechanism under the direct control of the Head of the Department is essential for ensuring compliance and adherence to provisions of Act/Rules regarding assessment of duties and overall functioning of the system. Computerisation in Motor Vehicles Department was introduced to ensure effective and smooth functioning of the day to day activities and to ensure that revenue leakage do not occur.

The Department did not have an effective internal control mechanism. Examination of records revealed that there was no mechanism for monitoring and inspection of various offices by the Senior Management. It was also observed that no IT Policy was adopted by the Department for effective monitoring and internal control of IT systems. The Department did not conduct any internal audit of the IT system and revenue collection thereof. Non-utilisation of enforcement module in Vahan and Sarathi also indicated ineffective utilisation of computerised data by the enforcement wing. Reporting mechanism of technical failure and system deficiencies for quick redressal and documentation of the problems faced by the user clients in different district offices was also not adequate

Irregularities in data capturing, IT infrastructure management and deficiencies in revenue collection were indicative of inadequate monitoring and internal control mechanism in the Department.

The Department in reply stated that (October 2016) the issue is being considered under IT policy which is in process of finalisation.

4.3.15.3 Physical access to IT facilities and damage by natural disaster due to improper maintenance of server rooms/IT Infrastructure

The objective of physical and environmental controls is to prevent unauthorized access and interference to IT services. To meet the objective, the computer equipment and the information they contain and control should be protected from unauthorized users. They should also be protected from environmental damages caused by fire, water (either actual water or excess humidity), earthquakes, electrical power surges or power shortages. The entity's IT security policy should include consideration of physical and environmental risks.

On verification of the IT Infrastructures at the Transport Commissioner's Office and test check of selected RTOs/DTOs, it was noticed that entry to the Server rooms and other IT facilities were not restricted. In TC's Office, many damaged and unused batteries, UPS, desktops, printers, network cables etc., were haphazardly dumped inside the server room. In RTO Kohima and RTO Mokokchung, no separate room was allocated for the servers and they were accommodated in the common office space accessible by any person and susceptible to damage and theft. In DTO Dimapur, the server room could be accessed by even the non IT staffs and clients. It was also found that many files were dumped in the server room of DTO Dimapur. Moreover, unused IT equipment were stored in the unused toilets and bathrooms of the TC Office and RTO Kohima resulting in possible risk to damage by water and moisture. Security devices like CCTV and intruder alarms were not installed in any of the offices. Fire extinguishers installed in the four selected offices were outdated which were manufactured in the year 2000 without any further refilling and maintenance.

The above instances indicated that effective measures to prevent unauthorised physical access to server rooms, installation of necessary equipment for prevention of damages by environmental factors and natural disasters were not ensured.

The Department in reply (October 2016) stated that it is actively considering steps to prevent access by unauthorized person to sensitive areas of IT installation.

4.3.16 Conclusion

Though the functions of the Department had been computerised, no IT policy for effective planning, management, training, monitoring and internal control of computerisation was formulated. Instead of migrating to Vahan and Sarathi, the Department continued to use the outdated FoxPro database. Modules prescribed under Vahan and Sarathi such as enforcement, permit, PUCC, trade license and conductor's license were not being used by the Department. There were several deficiencies in

validation checks of software application which resulted in capturing of empty fields, incorrect data like insurance details, permit details, vehicles owner's details etc. The Department failed to incorporate statutory provisions regarding jurisdiction of registering/licensing authority and realisation of penalty for delay in registration. There were instances of default in payment of road tax, renewal of road tax and goods and passengers' tax. 5836 transport vehicles were also plying without valid fitness certificate. The Department kept revenue amounting to ₹ 8.37 crore outside Government account.

4.3.17 Recommendations

The recommendations of audit are:-

- The Department may endeavour to implement all the modules of Vahan and Sarathi to make the State and National Register database complete.
- Effective data validation checks should be incorporated in the software and essential information as provided in the Acts and Rules made mandatory to capture valid, correct and accurate data.
- Efforts should be made to strengthen the enforcement wing and reports generated from Vahan for taking penal action on vehicles plying without valid fitness certificate, permits and tax defaulting vehicles.
- The Department should formulate and adopt an effective IT Policy for planning, management, training, monitoring, physical and environmental control, data security and internal control of computerization.

Compliance Audit

FINANCE (TAXATION) DEPARTMENT

4.4 Evasion of Tax

Acceptance of returns filed by the dealers and assessment of tax without proper verification by the Assessing Authorities resulted in evasion of tax of ₹ 5.65 crore.

Rule 28 of the Nagaland VAT Rules stipulated that every dealer registered under the act shall furnish Annual Returns containing information in respect of gross purchases including exemption, non-taxable purchases, gross sales including export sales, inter-state sales and consignment transfers, total tax due including interest and penalty less tax credit during the assessment year and tax payable and paid. Section 58 of the Act further states that where in any particular year, the gross turnover of a dealer exceeds rupees forty lakh, then such dealer shall get his accounts, in respect of that year audited by an accountant²⁵ within six months from the end of that year and obtain a report of such audit in the prescribed form duly signed and

²⁵ Chartered Accountant

verified by such accountant and setting forth such particulars as may be prescribed. A true copy of such report shall be furnished by such dealer to the Commissioner by the end of the month after expiry of the period of six months during which the audit would have been completed. Further, as per Section 49 of the NVAT Rules 2005, if the dealer fails to pay the amount of tax by the due date interest at 2 per cent per month is payable on the balance amount of tax.

Examination of records (July 2016) of the Superintendent of Taxes, Dimapur (Ward-B and D) under Assistant Commissioner of Taxes (ACT), Dimapur revealed the following:-

4.4.1 A dealer (M/s Nagaland Iron Store, TIN-13500167077 of Ward-D, Dimapur) dealing in hardware items purchased goods value at ₹ 35.76 crore during 2012-13 through utilization of 60 “C” forms²⁶ (259 invoices). However, the dealer declared the gross turnover of ₹ 26.68 crore only and the Assessing Authority (AA) accepted the returns filed by the dealer and assessed the tax payable for ₹ 1.60 crore (**Appendix-4.4.1**). Thus, the dealer concealed the turnover by ₹ 9.08 crore and evaded tax payment of ₹ 3.18 crore. In addition, the dealer is also liable to pay interest of ₹ 2.73 crore for the period from May 2013 to November 2016.

4.4.2 Total sales turnover of ₹ 7.83 crore was declared by 17 dealers for the year 2013-14 with a consolidated opening balance of ₹ 3.07 crore and the two AAs of ward B and D accepted the returns filed by these dealers and assessed the tax payable for ₹ 41.12 lakh. Audit cross verified the utilization of “C” form” from the Tax Information Exchange System (TINXSYS) website which revealed that these 17 dealers purchased goods valued at ₹ 23.36 crore during 2013-14 through 536 “C” forms (4026 invoices) and the dealers declared a closing balance of ₹ 10.20 crore during the assessment period. Therefore, the actual sales turnover during the year was ₹ 16.23 crore. Thus, these 17 dealers concealed sales turnover by ₹ 8.40 crore and evaded tax payment of ₹ 65.42 lakh (**Appendix-4.4.2**). In addition, these dealers were also liable to pay and interest of ₹ 41 lakh for the period from May 2014 to November 2016.

4.4.3 Similarly, 21 dealers declared a total sales turnover of ₹ 15.76 crore for the year 2014-15 with a consolidated opening balance of ₹ 8.51 crore and the two AAs of ward B and D accepted the returns filed by these dealers and assessed the tax payable for ₹ 88.25 lakh. Audit cross verified the utilization of “C” forms from TINXSYS website which revealed that these 21 dealers purchased goods valued at ₹ 30.56 crore by utilising 531 “C” forms (5183 invoices) and the dealers declared a closing balance of ₹ 17.22 crore during the assessment period. Therefore, the actual sales during the year was ₹ 21.84 crore. Thus, these dealers understated sales turnover by ₹ 6.09 crore and evaded tax payment of ₹ 46.28 lakh (**Appendix-4.4.3**). In addition, these dealers were also liable to pay and interest of ₹ 18 lakh for the period from May 2015 to November 2016.

²⁶ “C” form is a certain type of forms which was prescribed under Central Tax Rule, 1957 for making inter-state purchase

4.4.4 During 2011-12, a dealer (M/s Nagaland Iron Store TIN No. 13500167077 and CST No.13500121106) disclosed Central Sales Tax sales for goods worth ₹ 12.05 crore against “C” forms furnished by a dealer based in Manipur (M/s United Trading, Motbung, Senapati District, Manipur bearing TIN 14920261124 and CST 14920250212).

Examination of the tax return filed by the dealer and the assessment files revealed that the Assessing Authority (AA) accepted the Central Sales Tax (CST) sales of ₹ 12.05 crore by utilising three²⁷ “C” forms as claimed by the dealer which was issued (6 September 2011) by the Department of Taxes, Government of Manipur for purchase of goods from M/s Nagaland Iron Store. Accordingly, the AA allowed exemption for interstate sale and assessed CST of ₹ 24.10 lakh.

In order to authenticate the actual transaction of inter-state sales and the tax assessment the Accountant General (Audit), Manipur was requested to verify the “C” forms. Accordingly, the Accountant General (Audit), Manipur through the Commissioner of Taxes, Manipur confirmed that the dealer M/s United Trading was registered as a dealer only on 29 September 2011 and therefore no “C” forms were issued to them prior to the registration. Thus, the dealer (M/s Nagaland Iron Store) registered in Nagaland submitted unauthenticated “C” forms and evaded tax payment of ₹ 1.36 crore on total CST sales of ₹ 12.05 crore as detailed in the following table:

Table No.4.4.1

Particulars	Amount (in ₹)
Central Sales Tax sales turnover declared by dealer during 2011-12	12,05,33,110
Tax paid @ 2 per cent (CST)	24,10,000
Tax payable @ 13.25 per cent	1,59,70,637
Tax due	1,35,60,637
Interest @ ₹ 271213 per month from May 2012-November 2016	1,49,16,715
Total due	2,84,77,352

The above table shows that the dealer is liable to pay tax of ₹ 1.36 crore. In addition, the dealer is also liable to pay ₹ 1.49 crore as interest on the tax amount evaded by him for the period from May 2012 to November 2016.

Thus, by accepting the returns filed by the dealers and assessment of tax without proper verification by the AAs resulted in evasion of tax amount of ₹ 5.65 crore²⁸. In addition, an amount of ₹ 4.81 crore²⁹ was also leviable from the dealers as interest.

The matter was reported to the Department as well as the Government (August 2016) and no reply was received (December 2016).

²⁷ 95C0259284 (₹ 13052528/-), 95C0259285(₹ 63839654/-), 95C0259286(₹ 43640926/-)

²⁸ ₹ 3.18 crore + ₹ 0.65 crore + ₹ 0.46 crore + ₹ 1.36 crore

²⁹ ₹ 2.73 crore + ₹ 0.41 crore + ₹ 0.18 crore + ₹ 1.49 crore

4.5 Incorrect application of tax rates

Five dealers submitted incorrect tax returns and evaded tax payment of ₹ 2.71 crore. The Assessing Authority also assessed the tax returns without cross verifying with the utilisation certificate of “C” forms and the applicable rate of taxes.

Rule 28 of the Nagaland VAT Rules stipulated that every dealer registered under the act shall furnish Annual Returns containing information in respect of gross purchases including exemption, non-taxable purchases, gross sales including export sales, inter-state sales and consignment transfers, total tax due including interest and penalty less tax credit during the assessment year and tax payable and paid. The Assessing Authority (AA) is also required to consider all aspects during scrutiny to avoid any mistake, cross verify the items of inter-state purchase of goods through utilisation of “C” forms and the rate of taxes applicable in respect of those items submitted by the dealers. Further, as per Section 49 of the NVAT Rules 2005, if the dealer fails to pay the amount of tax by the due date interest at 2 *per cent* per month is payable on the balance amount of tax.

Examination (August 2016) of the Tax Return files and the assessment records for the years 2013-14 and 2014-15 of two Superintendent of Taxes (Ward-B and D) under the Assistant Commissioner of Taxes (ACT), Dimapur revealed that these two AAs accepted the assessment of tax returns submitted by five dealers without proper verification of the Gross Turn Over (GTO), cross verification of the items of inter-state purchase of goods through utilisation of “C” forms and the rate of taxes applicable in respect of those items submitted by the dealers. Further examination of records revealed evasion of tax as discussed below:-

4.5.1 Audit cross verified the utilisation of “C” Forms from the TINXSYS website with the returns filed by the dealers revealed that two dealer (M/s S.K enterprises and M/s Hindustan Trade Agency) purchased cosmetic goods and tobacco products valuing ₹ 21.67 crore from another State by utilising 24 “C” Forms (464 invoices). The entire interstate purchase of goods by the dealers were taxable at the rate of 13.25 *per cent*, 15 *per cent* and 18 *per cent*. The total turnover of these two dealer for 2013-14 and 2014-15 was ₹ 19.64 crore (excluding closing balance of ₹ 2.77 crore). However, the AA of ward-B assessed the tax on total turnover of ₹ 14.59 crore as declared by the dealers and assessed the tax payable at lower rates for an amount of ₹ 1.06 crore whereas the actual tax payable by the dealer was ₹ 2.90 crore. The understatement of the turnover by ₹ 5.05 crore by the dealers and acceptance of lower rate by the AA resulted in evasion of tax of ₹ 1.84 crore (**Appendix – 4.5.1**). In addition, an amount of ₹ 82 lakh @ 2 *per cent* for the period from May 2014 to November 2016 was payable by the dealer as interest (**Appendix-4.5.1**).

4.5.2 A dealer (M/s Super Tyre bearing TIN-13502034026) purchased tyres and tubes valued at ₹ 2.13 crore during 2014-15 through utilisation of 10 “C” Forms (321 invoices) which were taxable at 13.25 *per cent*. As per the returns submitted by

the dealer for the year 2014-15 the opening balance was shown as ₹ 9.91 lakh and the dealer declared the sales turnover of only ₹ 84.92 lakh out of which ₹ 77.95 lakh was declared by the dealer as taxable at the rate of 4.75 per cent and only ₹ 6.97 lakh taxable at the rate of 13.25 per cent. Further, the dealer declared closing balance of ₹ 1.10 crore and damaged goods worth ₹ 31.84 lakh. The AA of ward-D accepted the returns filed by the dealer and accordingly assessed the tax payable for ₹ 4.63 lakh.

As the entire goods was taxable at 13.25 per cent assessment of sale for ₹ 77.95 lakh at 4.75 per cent was incorrect. Acceptance of ₹ 31.84 lakh as damaged goods declared by the dealer is also not admissible as no supporting documents i.e. certificate from the Tax Authorities was furnished along with the returns. Thus, the dealer evaded tax of ₹ 10.85 lakh³⁰. In addition, the dealer was liable to pay interest of ₹ 3.77 lakh for the period from May 2015 to November 2016.

4.5.3 A dealer (M/s SD Enterprises bearing TIN-13502307040) registered for dealing with taxable as well as non-taxable items purchased goods for ₹ 7.10 crore during 2014-15 to 2015-16 from outside the State through utilisation of 50 “C” forms (411 invoices). The dealer declared goods valued at ₹ 3.64 crore as non-taxable and the remaining amount of ₹ 3.46 crore as taxable at the rate of 4.75 per cent and 5 per cent as detailed below:-

Table No.4.5.1

Sl. No	Particulars	2014-15	2015-16	Total
1	Purchases declared by the dealer @ 4.75%	1,43,45,300	1,81,40,200	3,24,85,500
2	Purchases declared by the dealer @ 5 %	0	20,65,000	20,65,000
3	Non Taxable purchases declared by the dealer	1,24,23,092	2,39,99,956	3,64,23,048
4	Total purchase	2,67,68,392	4,42,05,156	7,09,73,548
5	Goods returned	24,80,500	36,40,500	61,21,000
6	Goods expired/damaged/closing stock	56,24,800	84,38,930	1,40,63,730
7	Sub-total (Sl.No 4 (-) 5 (-) 6)	1,86,63,092	3,21,25,726	5,07,88,818
8	Tax leviable @ 13.25%	24,72,860	42,56,659	67,29,519
9	Tax paid	2,99,397	4,10,012	7,09,409
10	Tax Short Levied	21,73,463	38,46,647	60,20,110

The AA of ward-D accepted the returns filed by the dealer and assessed the tax payable for ₹ 7.09 lakh. Cross examination of the utilisation of “C” Forms by audit from the TINXSYS website however revealed that the entire goods valued at ₹ 7.10 crore purchased by the dealer was taxable at 13.25 per cent. Thus, the dealer by understating the taxable turnover evaded tax payment of ₹ 60.20 lakh. In addition, the dealer was liable to pay interest of ₹ 13.65 lakh³¹ from May 2014 to November 2016.

4.5.4 A dealer (M/s Bendangtola Enterprises, TIN-13040918052) purchased cushions, mattress and pillows etc. for an amount of ₹ 5.85 crore through utilisation of

³⁰ (₹ 77.95 lakh + (₹ 31.84 lakh) x 13.25 per cent – (₹ 77.95 lakh) x 4.75 per cent = ₹ 14.55 lakh - ₹ 3.70 lakh

³¹ ₹ 21.73 lakh * 2 * 19/100 = ₹ 8.26 lakh + ₹ 38.47 lakh * 2 * 7/100 = ₹ 5.39 lakh

36 “C” forms (475 invoices) during 2013-14 and 2014-15 which were taxable at 13.25 per cent. Audit cross verified and confirmed the utilisation of “C” Forms” from TINXSYS website that the entire goods valued was taxable at 13.25 per cent.

However, the dealer declared the sales turnover of ₹ 5.03 crore only and the AA of ward-D accepted the returns filed by the dealer and assessed the tax payable to ₹ 14.82 lakh as detailed below:-

Table No.4.5.2

Particulars	2013-14	2014-15	Total
Gross sales	2,72,18,326	2,30,36,017	5,02,54,343
CST 2%	1,49,35,296	1,55,05,547	3,04,40,843
Tax assessed @ 4.75%	1,15,90,760	6740,230	1,83,30,990
Tax assessed @13.25%	6,92,270	7,90,240	14,82,510
Closing stock	41,07,342	48,42,115	89,49,457
Total tax assessed	9,40,993	7,34,979	16,75,972

Thus, the dealer sales turnover was understated by ₹ 0.82 crore. The AA also assessed the tax at lower rate of tax of 4.75 per cent for an amount of ₹ 1.83 crore which was actually taxable at 13.25 per cent which resulted in evasion of tax payment of ₹ 15.58 lakh³². In addition, the dealer is liable to pay ₹ 8.29 lakh³³ as interest for the period from May 2014 to November 2016.

Thus, the five dealers submitted incorrect tax returns and evaded tax payment of ₹ 2.71 crore. The Assessing Authorities of Ward-B and D under ACT, Dimapur also assessed the tax returns without cross verifying with the utilisation certificate of “C” forms and the applicable rate of taxes as per Rules. The dealers are required to pay additional tax of ₹ 2.71 crore and are also liable to pay interest of ₹ 1.08 crore (up to November 2016) on the tax amount evaded by them.

The Government while accepting the facts (November 2016) stated that show cause notices have been issued to all the dealers.

4.6 Loss to the Government

Failure of the Department of taxes to cross verify the utilisation of “C” Forms from the selling States and initiate re-assessment resulted in loss of revenue of ₹ 1.30 crore to the Government. The Assessing Authority also did not scrutinise the returns filed by the dealer and invoke relevant provisions of the NVAT Act and Rules which resulted in evasion of tax of ₹ 0.82 crore.

Section 32 of the Nagaland Value Added Tax (NVAT) Act requires that the Assessing Authority (AA) on the basis of the information contained in the Return filed by the dealer scrutinises the correctness of the tax assessed by the dealer. For this purpose,

³² Tax payable at 13.25 per cent ₹ 24.29 lakh (-) Tax payable at 4.75 per cent-₹ 8.71 lakh

³³ ₹ 9.85 lakh * 2 *31/100 + ₹ 5.73 lakh *2*19/100

the AAs may require the dealer to produce any account details, documents or any other evidences as may be deemed necessary for such scrutiny. Further, as per Rule 49 of the NVAT Rules 2005, interest at 2 *per cent* per month is payable on the balance amount of tax. Further, as per sub-section (2) of Section 39 of NVAT Act, no re-assessment can be made after expiry of five year from the last day of the assessment year.

Examination of records (July 2016) of the Superintendent of Taxes (ST), Ward-D, Dimapur revealed that a dealer (M/S Karnex Trading Co. bearing TIN NVAT-1304009013 and CST-304000817) disclosed purchase turnover of ₹ 10.45 crore, during the period of 2009-10 to 2011-12 as detailed below:-

Table No.4.6.1

Tax period	2009-10	2010-11	2011-12
Opening Stock	14,68,093	6,93,753	4,90,160
Purchases	2,29,76,150	5,94,27,797	2,20,88,490
Sales	2,46,16,630	6,18,71,580	2,34,49,110
Closing stock	6,93,753	4,90,160	0
Tax paid	27,37,866	66,50,000	20,00,000

Examination of the tax returns filed by the dealer and the assessment files revealed that the Assessing Authority (AA) issued 157 “C” forms to the dealer for importing goods into the State of Nagaland. To authenticate the actual value of goods purchased by the dealer, audit forwarded details of 22 “C” forms to the Accountant General (Audit), Assam and seven “C” forms to the Principal Accountant General (Audit), New Delhi for verification. The results of the verification report received from the two Audit Offices and our examination of records of the ST revealed the following:

(A) Loss of revenue

During 2009-2010, the dealer purchased goods from Assam valued at ₹ 4.74 crore through utilization of five “C” forms against which the dealer disclosed only ₹ 0.40 crore in the counterfoils submitted to the Tax Authority which were taxable at the rate of 4 and 12.5 *per cent*. Thus, the dealer concealed the purchase turnover of ₹ 4.34 crore and evaded tax payment of ₹ 0.54 crore (*at the rate of 12.5%*). As the permissible period for re-assessment had expired on 31 March 2016, there is no future scope for recovery of the tax amount evaded by the dealer and therefore, an amount of ₹ 0.54 crore was a loss to the Government.

(B) Evasion of Tax

During 2010-12 the dealer purchased goods from Assam and Delhi valued at ₹ 6.61 crore³⁴ taxable at the rate of 12.50 *per cent* and 13.25 *per cent* by utilizing eleven “C” Forms. However, the dealer declared the purchase of goods in his tax returns as ₹ 0.21 crore³⁵ against eleven “C” Forms. Thus, the dealer understated the total purchase

³⁴ 2010-11= ₹ 4.58 crore and ₹ 2.03 crore in 2011-12

³⁵ 2010-11= ₹ 0.13 crore and ₹ 0.08 crore in 2011-12

turnover by ₹ 6.41 crore and evaded tax payment of ₹ 0.82 crore (12.50 *per cent* on ₹ 4.45 crore and 13.25 *per cent* on ₹ 1.95 crore). In addition, the dealer is liable to pay ₹ 1.03 crore as interest for the period from May 2011 to November 2016.

Thus, due to the failure of the department to cross verify the utilisation of “C” Forms from the selling States and initiate re-assessment resulted in loss of revenue of ₹ 0.54 crore to the Government. Also the failure of the Assessing Authority to scrutinise the returns filed by the dealer and invoke relevant provisions of the NVAT Act and Rules resulted in evasion of tax of ₹ 0.82 crore. The dealers are also liable to pay interest of ₹ 1.03 crore on the amount of tax evaded (November 2016).

The Government while accepting the facts (November 2016) stated that show cause notice have been issued to the dealers.

CHAPTER – V
GENERAL SECTOR

CHAPTER - V

GENERAL SECTOR

5.1 Introduction

This Chapter of the Audit report for the year ended 31 March 2016 deals with the findings on audit of the State Government units under General Sector.

The departments and the total budget allocation vis-a-vis expenditure of the State Government under General Sector during 2015-16 are given below:

Table-5.1.1

₹in crore

Sl.No	Name of the Departments	Total Budget Provision	Expenditure
1	State Legislature	24.08	22.85
2	Head of State	6.13	6.13
3	Council of Ministers	12.58	12.53
4	Law & Justice	61.74	39.38
5	Election	12.29	13.10
6	Public Service Commission	6.16	5.53
7	District Administration	141.23	140.46
8	CAWD	19.05	30.52
9	Treasuries and Accounts	37.18	33.82
10	Village Guards	32.96	32.57
11	Jails	36.99	36.73
12	Vigilance Commission	6.93	6.90
13	State Guest Houses	17.27	17.06
14	Rajya Sainik Board	3.40	3.13
15	Relief & Rehabilitation	1.30	1.28
16	Civil Secretariat	160.02	133.70
17	Police	1119.54	1107.96
18	Stationery & Printing	23.84	23.39
19	Administrative Training Institute	4.93	4.43
20	Statistics	36.21	29.74
21	Legal Metrology and Consumer Protection	10.46	12.69
22	Home Guards	19.90	18.21
23	Fire and Emergency Services	23.46	23.37
24	Parliamentary Affairs	1.04	1.04
25	State Information Commission	1.68	1.38
Total		1820.37	1757.90

Source: Appropriation Accounts

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 stakeholders.

After completion of audit of each unit on a test check basis, Inspection Reports (IRs) 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 for compliance is advised. 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, an expenditure involving ₹ 1642.57 crore (including funds pertaining to previous years audited during the year) of the State Government under General sector were test checked. This chapter contains two compliance audit paragraphs.

FINANCE DEPARTMENT (Directorate of Treasuries & Accounts)

5.3 Fraudulent payment of pensions

An amount totalling to ₹ 5.58 crore was fraudulently withdrawn from Treasuries at Zunheboto and Dimapur by duplicating the pension payment authorisation letters and admitting multiple claims in respect of the same pension payment orders and same person for the same period.

As per sub rule 2 of Rule 85 of Central Civil Service (Pension) Rules, 1972 pension fixed at monthly rates shall be payable monthly on or after the last working day of the month to which the pension relates except for the month of March when it shall be payable on or after the first working day of April. Pension is payable against Pension Payment Orders (PPOs) bearing unique number for each pensioner issued by the Pension Branch of the office of the Accountant General (A&E), Nagaland, Kohima against individual pensioners.

As per the existing arrangement, the monthly checklist of pension authorities (PPO, GPO and CPO) prepared by the Office of the Accountant General (A&E), Nagaland are handed over personally to the Treasury Officers concerned. The specimen signatures of Senior Accounts Officers and Accounts Officers authorised to sign the pension authorities are also available with the Director of Treasuries and Accounts, Nagaland.

Examination of the appropriation accounts revealed that the expenditure on Pensions and Other Retirement benefits increased by ₹ 210.04 crore from ₹ 695.11 crore in 2013-14 to ₹ 905.15 crore in 2014-15. To ascertain the genuineness of the expenditure, 27,612 pension payment vouchers in respect of Zunheboto Treasury and 38,477 pension payment vouchers in respect of Dimapur Treasury received (November 2015 to January 2016) from the Accountant General (A&E), Nagaland were examined in audit which revealed the following instances of fraud as discussed in the succeeding paragraphs.

5.3.1 Fake gratuity and commutation of pension

During February 2013 to October 2015, the Accountant General (A&E), Nagaland authorised 367 new pension cases in respect of the Senior Treasury Officer (STO), Zunheboto. Examination of pension payment vouchers however revealed that the STO admitted and paid for 382 new cases. Cross examination of the pension authorization records maintained by the Accountant General (A&E) revealed that the authority on which the STO admitted 15 new cases (**Appendix-5.3.1**) were not authorized by the issuing authority. Thus, an amount of ₹ 1.53 crore was drawn on fake/fabricated authorization letters in respect of 15 cases.

5.3.2 Fraudulent Pension Arrear

Examination of the paid vouchers relating to the months of July 2014 to January 2016 revealed that pension arrears amounting to ₹ 16.63 lakh in respect of four pensioners was paid twice and one pensioner thrice on fake/fabricated authorisation. (**Appendix-5.3.2**).

5.3.3 Multiple drawal of pension on same Pension Payment Order

5.3.3.1 Fraudulent payment at Zunheboto Treasury

Audit of the pension payment vouchers of Senior Treasury Officer, Zunheboto for the period of April 2013 to March 2016 revealed that 1587 pension payments involving ₹ 2.76 crore was drawn twice against the same PPO, month and person. Similarly, 153 pension payments involving ₹ 0.53 crore was drawn thrice, 21 pension payments involving ₹ 0.11 crore was drawn four times, four pension involving ₹ 0.03 crore was drawn in five times and three pension involving ₹ 0.01 crore was drawn in six times against the same PPO, month and person (**Appendix-5.3.3**).

Thus, an amount of ₹ 3.44 crore was fraudulently drawn against the same PPO, person and month on multiple occasions.

5.3.3.2 Fraudulent payment at Dimapur Treasury

Audit of the pension payment vouchers of Senior Treasury Officer, Dimapur for the period of April 2013 to March 2016 revealed that 256 pension payments involving ₹ 44.04 lakh was drawn twice and in one case an amount of ₹ 0.22 lakh was drawn thrice against the same PPO, month and person (**Appendix-5.3.4**).

Thus, an amount of ₹ 44.26 lakh was fraudulently drawn at Dimapur Treasury.

An amount totalling to ₹ 5.58 crore was fraudulently withdrawn in Treasuries at Zunheboto and Dimapur by fabricating and duplicating the pension payment authorisation letters and admitting multiple claims in respect of the same pension payment orders and same person for the same period.

The Finance Commissioner, Government of Nagaland while acknowledging the laudable efforts made by Audit in this matter (August 2016); stated that the two Treasury Officers have been placed under suspension.

5.4 Fraudulent Drawal of Pay and allowances

Failure of the Drawing and Disbursing Officers (DDOs) and Treasury Officers in exercising the statutory checks prescribed under various rules resulted in fraudulent drawal of ₹ 1.96 crore.

Sub-clause 3 of Rule 66 of the Receipt and Payment Rules 1983 stipulates that entries in all money columns of the pay bills are to be totaled separately under each section and part, to arrive at the total entitlements as well as net payable after statutory deductions. Section wise totaling of the pay bills must be checked by the DDO's himself or by a responsible official other than the person who prepared the bill. Treasury Rules further prescribe the checks to be exercised by the Treasury Officer (TO) before accepting the claim and to record the omission or correction and to limit the payment admissible in respect of each bill presented by the DDO's of the establishment.

Audit of vouchers received from the Treasury Officers are carried out to examine whether the vouchers are as per the prescribed form, individual amounts detailed in the vouchers add up to the totals and the withdrawal of Government money are in accordance with the prescribed rules. 20 *per cent* of vouchers received from the Treasury Officers were selected on the basis of simple random sampling for test check in Audit.

Audit scrutiny of the paid vouchers of six departments for the period from January 2014 to October 2015 revealed irregularities as detailed in the succeeding paragraphs.

5.4.1 School Education Department

Fraudulent withdrawal of ₹ 96.74 lakh was done by the official of four DDOs of the School Education Department by presenting false bills, inflating the net total of the bill, double drawal etc. as discussed below:

5.4.1.1 Sub-Divisional Education Officer Mangkolemba

5.4.1.1.1 The pay scale and the grade pay of 23 teachers was inflated by ₹ 10,000 which resultantly increased the allowances payable to those teachers by ₹ 63.63 lakh (**Appendix-5.4.1 Item No. (i) Sub Total (A)**) in excess of the actual amount admissible to the teachers.

5.4.1.1.2 Cross examination of the employee list furnished by the Department with the paid vouchers revealed that the Sub-Divisional Education Officer (SDEO), Mangkolemba fraudulently drew an amount of ₹ 15.89 lakh for 73 non-existent employees (**Appendix-5.4.1 Item No. (i) Sub Total (B)**).

5.4.1.2 Sub-Divisional Education Officer Dimapur

An amount of ₹ 4.89 lakh was drawn twice for the same two months in respect of 10 teachers, ₹ 0.82 lakh in respect of one teacher was drawn twice for the same three months in December 2015 and ₹ 5.40 lakh in respect of six teachers was drawn twice for the same four months in September 2015 against the pay and allowances of Sarva Shiksha Abhiyan (SSA) teachers. Thus, an amount of ₹ 11.11 lakh (**Appendix-5.4.1 Item No. (ii)**) was drawn fraudulently by drawing pay and allowances twice to four times in respect of the same employee and for the same month.

5.4.1.3 Sub-Divisional Education Officer Peren

An amount of ₹ 1.33 crore (including deduction of ₹ 6.00 lakh towards GPF, professional tax etc.) was withdrawn in four bills as pay & allowances in respect of 358 staffs for the month of April 2015 and July 2015. On examination it was noticed that the gross amount of these bills worked out to ₹ 1.30 crore and the actual net admissible amount after deduction should be ₹ 1.24 crore resulting in excess amount of ₹ 3.17 lakh (**Appendix-5.4.1 Item No. (iii)**)

5.4.1.4 Sub-Divisional Education Officer Niuland

An amount of ₹ 26.88 lakh was drawn in six bills in respect of 23 SSA teachers appointed during January 2015 to November 2015. Cross verification of the appointment orders with the paid vouchers revealed that the pay and allowances were paid for the full month without considering the actual date of appointment or joining which resulted in excess payment of ₹ 2.94 lakh (**Appendix-5.4.1 Item No. (iv)**).

Thus, misappropriation of ₹ 96.74 lakh took place in the Education Department under four DDOs by inflating the net amount, double drawal and fraudulent drawal against non-existent employees.

The matter was referred to the Department and the Government (August 2016); no reply had been received (December 2016).

5.4.2 Department of Veterinary and Animal Husbandry

According to Rule 194 A (read with clause 4) of the Fundamental Rules and Supplementary Rules, the right of a Government Servant to travelling allowances including daily allowance is forfeited or deemed to have been relinquished if the claim for it is not preferred within one year from the date on which it became due.

It was also observed that two DDOs¹ of the Department of Veterinary and Animal Husbandry had drawn an amount of ₹ 49.57 lakh as Travelling Expenses (TE) through 23 bills during the financial years 2013-14 and 2014-15. Examination of records revealed that the sub-allocation of budget under Travel Expenses head during 2013-14 and 2014-15 in respect of the two DDOs were ₹ 1 lakh each. However, the District Veterinary and Animal Husbandry Officer, Zunheboto had drawn an amount of ₹ 22.77 lakh by presenting eight TA bills in March 2015 on behalf of 185 staffs for the years January 2011 to February 2015. Similarly, the District Veterinary and Animal Husbandry Officer, Phek drew ₹ 8.25 lakh (six bills for 34 staffs) in March 2014 and ₹ 18.54 lakh (nine bills for 88 staffs) in March 2015 for journey which were performed during May 2012 to March 2015. An amount of ₹ 46.57 lakh spent towards travelling allowances was without budgetary provisions and therefore the fund was diverted from other head of accounts where there was a saving.

Thus two DDOs of the Veterinary and Animal Husbandry Department irregularly incurred an amount of ₹ 49.57 lakh towards travelling allowances without budgetary provisions.

The two District Veterinary and Animal Husbandry Officer in reply (August 2016) stated that the annual funds allocated under Travelling Allowances were too less to cover the expenses. Therefore, Travelling Expenses claims were kept pending for many years which were settled only during the financial year 2014 and 2015.

The fact remains that Government did not provide additional fund under Travelling Expenses to cover the backlog as claimed by the two DDOs.

5.4.3 Department of District Administration

5.4.3.1 Additional Deputy Commissioner (ADC), Niuland had drawn an amount of ₹ 37.99 lakh as pay and allowances of 95 Grade III employees for the month of January 2014 to June 2014. Detailed scrutiny of the pay bills revealed that the pay and allowances of the above employees was already paid as their regular pay

¹ District Vety. & A.H Officer Zunheboto & Phek

and allowances for those months. Thus, an amount of ₹ 37.99 lakh was fraudulently drawn by presenting 12 false bills.

Deputy Commissioner, Dimapur in reply (Sept 2015) stated that an Enquiry Committee was set up by the ADC, Niuland which disclosed the fact that an excess amount of ₹ 31,34,453 were drawn under the head 'Salaries & Wages' for the period from January to June 2014. The Head Assistant-cum-Cashier of the establishment admitted the wrongdoing and stated that it was done with the knowledge and understanding of the then ADC, Niuland and the Sr. Treasury Officer, Dimapur.

The reply of the Department confirms the collusion between the DDO and the Treasury Officers in committing the fraud. However, the Department was silent on initiating punitive action against the offenders.

It is therefore recommended that appropriate action be initiated against the officials and the excess amount recovered and deposited into Government account.

5.4.3.2 Sub-Divisional Officer (Civil) Akuluto had drawn an amount of ₹ 4.93 lakh as travelling allowances during 2014-15. Examination of the revised sub-allocation of budget by the Department of District Administration revealed that the establishment was provided ₹ 1.20 lakh under travel expenses head. However, the SDO (Civil) incurred ₹ 4.93 lakh which resulted in excess expenditure of ₹ 3.73 lakh over the budget provision.

5.4.4 Public Works Department (R&B)

5.4.4.1 Executive Engineer (EE), PWD (R&B) division Longleng drew an amount of ₹ 8.21 lakh pertaining to 25 employees for the month of October 2014 which was not included in the incumbency list of the division. Detailed examination of the pay bills of the preceding and succeeding months also revealed that the names of these 25 employees were not included. Thus, the EE, Longleng presented a fraudulent pay bill which resulted in misappropriation of Government money of ₹ 8.21 lakh.

The Department in reply (November 2016) stated that the process of recovery of the amount from the Executive Engineer and the cashier had been initiated. An amount of ₹ 5.50 lakh had already been recovered and deposited into Government account through two treasury challan and the balance amount shall be recovered at the earliest.

The reply that an amount of ₹ 5.50 lakh is deposited into Government account is not accepted as the treasury challan do not bear the signature and seal of the bank authority to authenticate the actual receipt of the money by the bank. Therefore the full amount of ₹ 8.21 lakh needs to be recovered from the defaulting official(s) and deposited into Government account.

5.4.4.2 Executive Engineer, PWD (R&B) division Naginimora drew an amount of ₹ 8.45 lakh in two bills as dearness allowances arrear for 45 employees. Cross examination of the names of employees revealed that an amount of ₹ 0.91 lakh was drawn twice in favour of five person for the same month. Thus, the EE, Naginimora fraudulently drew an amount of ₹ 0.91 lakh.

The Department in reply (August 2016) stated that necessary steps are being taken to recover the amount.

5.4.5 Department of Sericulture

An amount of ₹ 0.99 lakh was drawn (March 2015) by the Assistant Sericulture Officer (ASO), Zunheboto being house rent arrear in respect of nine employees pertaining to various period between June 2012 and February 2015. Cross examination of the pay bills drawn earlier revealed that all the nine employees were paid their entitled house rent allowances and therefore the question of arrear did not arise. Thus, the ASO fraudulently drew an amount of ₹ 0.99 lakh as house rent arrear.

The Department accepted (October 2016) the facts and deposited the full amount of ₹ 0.99 lakh into Government account through the treasury. However, the Department was silent about initiating disciplinary action against the defaulting officials for the misuse of Government money.

5.4.6 Nagaland State Transport (NST) Department

Assistant General Manager (AGM), NST, Zunheboto drew an amount of ₹ 27.64 lakh (including deduction of ₹ 2.52 lakh towards GPF, professional tax etc.) in nine bills as pay & allowances in respect of 114 staffs for the month of March 2015 to May 2015. On examination it was noticed that the gross amount of these bills worked out to ₹ 26.40 lakh and the actual net admissible amount after deduction was ₹ 23.88 crore. Thus, the AGM inflated the total of the pay and allowances and drawn an excess amount of ₹ 1.24 lakh.

In reply (November 2016) the AGM stated that the amount had been deposited to the treasury through challan.

The reply is not accepted as the treasury challan do not bear the signature and seal of the bank authority to authenticate the actual receipt of the money by the bank. Therefore the amount of ₹ 1.24 lakh needs to be recovered from the defaulting official and deposited into Government account. The action of the DDO to misguide and manipulate the misappropriation by submission of fabricated challan is furthermore an act unbecoming of an officer which needs stringent action.

The above instances of fraudulent drawals and excess expenditure over the budget provisions by 12 DDOs indicated failure on the part of the DDOs and Treasury

Officers to exercise internal controls/non-adherence to prescribed rules and procedures. It is also pertinent to mention that over the years, similar nature of misappropriation by the DDOs in collusion with the Treasury Officers were highlighted in the Audit Reports of the Comptroller and Auditor General of India, Government of Nagaland. However, these malpractices continue to exist which indicated that no tangible action had been initiated by the Government.

Therefore, considering the seriousness of the matter and the identical modus operandi being adopted by the DDOs and the Treasury Officers it is recommended that recovery of the amount involved along with disciplinary action may be initiated against the defaulting officers.

CHAPTER – VI
FOLLOW UP OF AUDIT
OBSERVATIONS

CHAPTER – VI

FOLLOW UP OF AUDIT OBSERVATIONS

6.1 Response of the departments to the recommendations of the Public Accounts Committee (PAC)

Finance Department issued instructions to all departments to submit Action Taken Notes (ATNs) on various suggestions, observations and recommendations made by Public Accounts Committee (PAC) for their consideration within 15 days of presentation of the PAC Reports to the Legislature. The PAC Reports/recommendations are the principal medium by which the Legislature enforces financial accountability of the Executives to the Legislature and it is appropriate that they elicit timely response from the departments in the form of ATNs.

As of December 2016, out of 1423 recommendations of the PAC, made between 1990-91 and 2015-16, 880 ATNs in respect of the recommendations had been submitted to the PAC and discussed.

6.2 Monitoring

The following Committee had been formed at the Government level to monitor the follow up action on Audit related matters. State Level Audit and Accounts Committee had been formed (June 2008) at the State level under the Chairmanship of the Chief Secretary to monitor the response and corrective action on the findings reported by audit, to review and oversee the working of Departmental Audit and Accounts Committee and also to hold meetings once in six months.

During 2015-16, no State Level Audit and Accounts Committee meeting was convened.

6.3 Outstanding Inspection Reports

The Accountant General (Audit), Nagaland conducts periodical inspection of the Government departments to test-check the transactions and verify the maintenance of important accounts and other records as prescribed under the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the Heads of the Offices inspected with copies to the higher authorities for taking prompt corrective action.

The Heads of the Offices/Government are required to promptly comply with the observations contained in the Inspection Reports, rectify the defects and omissions and report compliance through initial reply to the Accountant General (Audit) within one month from the date of issue of the Inspection Reports. Serious irregularities are reported to the Heads of the departments and the Government.

The position of outstanding Inspection Reports pertaining to Civil (Expenditure audit including that of Works, Forest and Autonomous Bodies), Revenue (Audit of Revenue Departments) and Commercial (Audit of Public Sector Undertakings) audit as of September 2016 is shown in the following table.

Table-6.1

Year	Civil*		Revenue		Commercial	
	Number of Inspection Reports	Number of Paragraphs	Number. of Inspection Reports	Number of Paragraphs	Number of Inspection Reports	Number of Paragraphs
Upto 2011-12	319	1905	44	132	11	43
2012-13	123	816	6	13	2	11
2013-14	215	1310	15	43	1	10
2014-15	205	1111	4	16	2	26
2015-16	138	714	6	52	2	10
Total	1000	5856	75	256	18	100

* *including Works, Forest and Autonomous Bodies*

This large pendency of Inspection Reports is indicative of absence of adequate action to rectify the defects, omissions and irregularities pointed out through Inspection Reports by the Heads of offices and Heads of the departments.

It is recommended that the Government look into the matter and streamline the system to ensure proper response to audit observations. Action may be taken against the officials who fail to send replies to Inspection Reports/paragraphs as per prescribed time schedule and the losses/outstanding advances/overpayments may be recovered in a time bound manner.


6.4 Departmental Audit Committee Meetings

In order to expedite the settlement of the outstanding audit observations contained in the IRs, departmental audit committees have been constituted by the Government.

Departmental audit committees are chaired by the Secretaries of the concerned administrative departments and the meetings are attended by the concerned officers of the State Government and officers from the office of the Accountant General (Audit).


During 2015-16, no audit committee meeting was convened to clear the outstanding audit observations.

Kohima
The 01 March 2017


(A P Chophy)
Accountant General (Audit)
Nagaland

Countersigned

New Delhi
The 01 March 2017


(Shashi Kant Sharma)
Comptroller and Auditor General of India

APPENDICES

Appendix – 1.3.1
Statement showing position of schools in Mon, Dimapur and Kohima
(Paragraph reference: 1.3.8.12)

Year	Districts	No. of building to be constructed		Total unit cost (₹ in lakh)		Total cost released (₹ in lakh)		No. of incomplete buildings	
		GPS	GMS	GPS	GMS	GPS	GMS	GPS	GMS
2011-12	Mon	26	0	424.32	0	290.11	0	0	0
	Dimapur	28	0	310.69	0	270.85	0	2	0
	Kohima	8	8	98.77	119.72	92.60	102.83	3	6
2012-13	Mon	17	4	278.05	86.13	275.60	82.90	1	0
	Dimapur	27	0	403.09	0	403.09	0	0	0
2013-14	Dimapur	1	0	25.48	0	19.11	0	1	0
Total		107	12	1,540.40	205.85	1,351.36	185.73	7	6

(Source: Departmental figures)

Appendix- 2.5.1

Statement showing the details of variation in quantities of work as per revised Bill of Quantity
(Paragraph reference: 2.5)

Sl. No.	Item of work	Unit	Rate as per original BOQ and work order (in ₹)	Quantity as per original BOQ and work order	Quantity as per revised BOQ and final bill	Difference in Quantity between original and revised (Col 6-5)	Actual Revised cost (Col 4 * 6) (₹ in lakh)	
1	2	3	4	5	6	7	8	
1	Filling	Cum	366	2,03,674	2,76,393.00	72,719.00	1011.60	
2	Box cutting	Cum	159	79,079	44,572.00	(-) 34,507.00	70.87	
3	Granular Sub Base	Cum	1,464	25,578	64,941.13	39,363.13	950.74	
4	WBM Gr. II	Cum	1,659	12,128	7,999.85	(-) 4,128.15	132.72	
5	WBM GSB Gr. III	Cum	1,797	24,255	10,533.10	(-)13,721.90	189.28	
6	Tack coat	Sqm	13	1,61,700	1,56,654.60	(-) 5,045.40	20.37	
7	Premix coat	Sqm	139	1,61,700	95,355.80	(-) 66,344.20	132.54	
8	seal coat	Sqm	67	1,61,700	1,56,695.80	(-) 5,004.20	104.99	
9	Water ways (1x1000 DIAHPC; 24 Nos. 3x1000 DIA HPC: 4 Nos.)	Lumpsum						276.91
10	Lead stone aggregate	Cum	(Aggregate for four items)	61,961	64,258.4	2,297.4	299.00	
Total							3189.02	

Appendix-3.1.1
Statement showing Investments by State Government in State Public Sector Undertaking's whose accounts are in arrears
(Paragraph reference: 3.1.11)

(Figures in columns 4 & 6 to 8 are in ₹ in crore)

Sl. No.	Name of the Public Sector Undertaking	Year up to which accounts finalised	Paid up capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
1	2	3	4	5	6	7	8
A	Working Government Companies						
(i)	Nagaland Industrial Development Corporation (NIDC)Ltd.	2014-15	23.20	2015-16	0	5.64	0.80
(ii)	Nagaland State Mineral Development Corporation (NSMDC)Ltd.	2013-14	1.60	2014-15 to 2015-16	0	0	10.08
(iii)	Nagaland Hotels (NHL) Ltd.	2010-11	0.40	2011-12 to 2015-16	0	0	5.72
(iv)	Nagaland Industrial Raw Materials & Supply Corporation (NIRMSC)Ltd.	2009-10	1.23	2010-11 to 2015-16	0	0	86.87
(v)	Nagaland Handloom & Handicrafts Development Corporation (NHHDC) Ltd.	2009-10	6.31	2010-11 to 2015-16	0.85	0	32.08
	Total A (Working Government Companies)		32.74		0.85	5.64	135.55
B	Working Statutory corporations						
	NIL						
	Total B (Working Statutory Corporations)						
	Grand Total (A+B)		32.74		0.85	5.64	135.55

* Note: There are no Statutory Corporations in the state of Nagaland

Appendix 3.1.2

Summarised financial results of Government Companies for the latest year for which accounts are finalized.

(Paragraph reference: 3.1.14)

(Figures in column 5(a) to (6) and (8) to (10) are ₹ in crore)

Sl. No	Sector & Name of the Company	Period of accounts	Year in which finalized	Net Profit (+)/Loss (-)				Turnover	Impact of accounts comments	Paid up Capital	Accumulated Profit (+)/ Loss(-)	Capital Employed @	Return on Capital Employed #	Percentage of return on Capital Employed
				Net Profit/ Loss before interest & depreciation	Interest	Depreciation	Net Profit/ Loss							
1	2	3	4	5(a)	5(b)	5(c)	5(d)	6	7	8	9	10	11	12
A. Working Government Companies														
Finance														
1	Nagaland Industrial Development Corporation Ltd, Dimapur	2014-15	2016-17	-0.95	1.42	1.14	-3.51	1.62		23.20	-29.65	52.86	-2.09	
	Sector wise total			-0.95	1.42	1.14	-3.51	1.62	0	23.20	-29.65	52.86	-2.09	0
Manufacturing														
2	Nagaland State Mineral Development Corporation Ltd., Kohima	2013-14	2015-16	-0.06	0.39	0.92	-1.37	0.40	0	1.60	-6.87	28.82	-0.98	0
	Sector wise total			-0.06	0.39	0.92	-1.37	0.40	0	1.60	-6.87	28.82	-0.98	0

Sl. No	Sector & Name of the Company	Period of accounts	Year in which finalized	Net Profit (+)/Loss (-)				Turnover	Impact of accounts comments	Paid up Capital	Accumulated Profit (+)/ Loss(-)	Capital Employed @	Return on Capital Employed #	Percentage of return on Capital Employed
				Net Profit/ Loss before interest & depreciation	Interest	Depreciation	Net Profit/ Loss							
Services														
3	Nagaland Hotels Ltd, Dimapur	2010-11	2015-16	0.15	0	0.25	-0.1	3.81	0	0.4	-9.45	11.43	-0.1	0
	Sector wise total			0.15	0	0.25	-0.1	3.81	0	0.4	-9.45	11.43	-0.1	0
Miscellaneous														
4	Nagaland Handloom & Handicrafts Development Corporation., Ltd	2009-10	2013-14	0.16	0.16	0.14	-0.14	0.28	0	0.83	-4.16	16.60	0.02	0.12
5	Nagaland Industrial Raw Materials Supply Corporation Ltd., Dimapur	2009-10	2014-15	0.64	0	0.02	0.62	0.12	0	0.10	0.85	1.24	0.62	50.00
	Sector wise total			0.80	0.16	0.16	0.48	0.40	0	0.93	-3.31	17.84	0.64	50.12
	Total A (All sector wise working Government Companies)			-0.06	1.97	2.47	-4.50	6.23	0	26.13	-49.28	110.95	-2.53	50.12

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Sl. No	Sector & Name of the Company	Period of accounts	Year in which finalized	Net Profit (+)/Loss (-)				Turnover	Impact of accounts comments	Paid up Capital	Accumulated Profit (+)/ Loss(-)	Capital Employed @	Return on Capital Employed #	Percentage of return on Capital Employed
				Net Profit/ Loss before interest & depreciation	Interest	Depreciation	Net Profit/ Loss							
B.. Non-working Companies														
Manufacturing														
6	Nagaland Sugar Mills Company Ltd., Dimapur	1980-81	2016-17	0.71	0	0.16	0.55	2.10		1.65	3.82	0.24	0.55	
	Sectorwise total			0.71	0	0.16	0.55	2.10	0	1.65	3.82	0.24	0.55	0
	Total B (All sector wise non-working Government Companies)			0.71	0	0.16	0.55	2.10	0	1.65	3.82	0.24	0.55	0
	Grand Total (A+B)			0.65	1.97	2.63	-3.95	8.33	0	27.78	-45.46	111.19	-1.98	50.12

#Return on Capital Employed has been worked out by adding back the interest charged to Profit and Loss account to net profit/Loss figure

@ Capital employed represents shareholders' fund plus long term borrowing.

Appendix- 4.2.1
(Paragraph reference: 4.2.5)

Statement showing the important and relevant terms and condition of agreement

Clause 7.1: The Distributor shall pay to the Government a Minimum Guaranteed Revenue (MGR) for 24 Lottery draws; Online or paper or both, per day irrespective of their sales as per rates shown below:-

- a) Weekly lotteries per draw: ₹ 15,000
- b) Bumper Lotteries per draw: ₹ 7,50,000

Clause 7.2 The Distributor shall deposit the Sale proceeds of each draws conducted for the month ended on or before 7th of every succeeding month to the Government account.

Clause 7.4 The Distributor shall submit daily sales report the on same day or next day.

Clause 7.5 The Distributor shall purchase the Lottery tickets from the Government and payments shall be made by the Distributor to the Government for such tickets.

Clause 8.2 All prizes above ₹ 10,000/- shall be made by the Government after deducting prescribed Income Tax at source as applicable from time to time.

Clause 8.3 The Distributor is authorized to make payment of prizes up to ₹ 10,000/- to the prize winners on behalf of the Government and the Distributor can settle the account with the Government within a period of 120 days from the date of draw.

Clause 8.4 The prize money remaining unclaimed within the time specified or not otherwise disbursed shall be deemed to have been forfeited to the Government and no claim shall be entertained/allowed thereafter.

Clause 14.4 For Online lotteries, the Central Server should be located within the geographical limits of the State of Nagaland and the IT Department and the Lotteries of the State of Nagaland shall have free access to the server.

Clause 14.5 The Distributor shall maintain a mirror server to have a ready backup of the data and the mirror server should be updated simultaneously with the Central server.

The Lotteries (Regulation) Rules, 2010, *inter-alia* stipulates:

- A State Government may organize Lottery(ies) by issuing a notification in the official gazette outlining the purpose, scope, limitations and methods thereof along with other information¹;
- The organizing State may sell the tickets itself or by engaging Distributors or selling agents following prescribed procedures;
- The Organising State shall charge a minimum of ₹ 5 lakh per draw for bumper draw of Lottery and for all other forms of Lottery a minimum of ₹ 10,000 per draw;
- The State Government under whose jurisdiction the Lottery tickets are being sold shall be entitled to charge a minimum amount of ₹ 2,000 per draw from the organizing State but the maximum shall not exceed the amount charged by the State Government from its own lotteries;
- The organizing State shall keep records of the tickets printed, issued, sold and that remaining unsold, the prize winning tickets along with the amount of prize or prizes in respect of each draw;
- Every organizing State shall conduct an annual financial and systems audit of the various Lottery schemes organized by it including Online lotteries;
- The organizing State shall devise suitable means and procedures to effectively supervise the conduct of the Lottery including the process of draws and all steps till publication of results to avoid any malpractices;
- The Distributors/selling agents (if there is any) shall maintain records of the tickets obtained from the organizing State, tickets sold and those which remain unsold up to the date and time of draw along with other details as may be specified by the organizing State;

¹Name, price of tickets, total number of tickets printed in case of paper lottery, gross value of the tickets printed, name(s) of the Distributors or selling agents with their addresses and contact information, prize structure, the amount offered as prize money, periodicity and place of the draw and the procedure for drawing the prize winning tickets or prize winners.

- The organizing State shall pay to the Distributors or selling agents any commission due to them and the prize amounts disbursed by the Distributors or selling agents to the winners, if any, out of the money so deposited in the Public ledger Account (PLA) or in the Consolidated Fund (CF) of the organizing State;
- The Distributor or selling agents shall return the unsold tickets to the organizing State with full accounts along with the Challans of the money deposited in the PLA or CF of the organizing State. The unsold tickets shall be retained by the State for such period as may be specified and then be destroyed in the manner prescribed.

Nagaland Lotteries (Regulation) Rules, 2010 stipulates:

Annexure to Nagaland Lotteries (Regulation) Rules, 2010 includes the following terms:

- **‘Ticket’** means the Nagaland State lotteries (both paper and online) tickets printed and released by the Director to the Distributor for sale in market to be played by the customers through various terminals after registration in the central computer system. The ticket is the only document a player may use to claim any prize amount.
- **Purpose and scope: Refer Rule 3(2):** The main purpose and scope of organizing the Nagaland State Lotteries is to earn additional revenue of the State for developmental activities.

Further, it stipulates:

- The State Lottery shall be organised, conducted or promoted by the State Government through various terminals connected with the Central Server, or shall authorize the Distributor for sale of tickets after entering into written agreement.
- A Mirror Server shall be monitored in the Directorate of Nagaland State Lotteries by the Director or his authorized officer.
- The State Lottery shall be named as the “Nagaland State Lotteries” with such other sub-names as may be decided by the Government/ Director from time to time as per market conditions.
- The Director shall arrange to deliver the tickets on behalf of the State Government to the Distributor as the case may be at the place mutually agreed upon.
- The form, size and design of tickets shall be decided by the Director on behalf of the State Government.
- The printed tickets for a particular draw shall bear the imprint and logo of the State Government, distinctive number, the date/time of draw and the sale price of the ticket/ minimum retail price (MRP) and facsimile signature of Director, Nagaland State Lotteries. On the reversed side of the tickets, there shall be a printed information in English/ Hindi or any Regional language showing prize structure and such other essential details and conditions as the State Government may consider necessary for the purchasers. Such terms and conditions which appear on the Lottery tickets shall be determined by the State Government through the Director.
- Prizes that are not claimed by the Prize winners within a period of 90 (ninety) days from the date of publication of result shall not be disbursed and shall stand forfeited to the State Government as unclaimed prize money.
- The prize claims on taxable amount shall be paid after due verification of Prize Winning Ticket (PWT) from the concerned printing press or central server/ mirror server.
- The State Government/Director may appoint a locally based renowned firm/company of Chartered Accountants and technical experts for the purpose of conducting annual financial and system audit.
- The record relating to those draws which are no longer required, shall be kept in the custody of the Director for a maximum period of three years from the date of publication of the result, after which it shall be destroyed with the approval of the State Government and the decision in this regard will be communicated to the Accountant General, Nagaland and the Director, Treasuries & Accounts, Nagaland as well as to the Administrative Department one month before the date of such destruction.

Appendix- 4.2.2
Details statement showing the weekly schemes of both paper and online draws
(Paragraph reference: 4.2.10.2)

Sl. No	Weekly Scheme Name	Name of the Schemes
1.	Dear Morning	Dear Parrot Morning, Dear Eagle Morning, Dear Falcon Morning, Dear Vulture Morning, Dear Ostrich Morning, Dear Hawk Morning Dear Flamingo Morning
2.	Dear Evening	Dear Affectionate Evening, Dear Loving Evening, Dear Sincere Evening, Dear Faithful Evening, Dear Kind Evening, Dear Tender Evening ,Dear Gentle Evening
3.	Kuil	Kuil Parrot, Kuil Eagle, Kuil Falcon, Kuil Vulture, Kuil Ostrich, Kuil Hawk, Kuil Flamingo
4.	Future	Future Immense, Future Vast, Future Infinite, Future Enormous, Future Colossal, Future Huge, Future Massive
5.	Dear Future Evening	Dear Future Super Evening, Dear Future Royal Evening, Dear Future Gold Evening, Dear Future Diamond Evening, Dear Future Silver Evening, Dear Future Platinum Evening, Dear Future Pearl Evening
6.	Labhlaxmi	Labhlaxmi Fortune, Labhlaxmi Aries, Labhlaxmi Sun, Labhlaxmi Destiny, Labhlaxmi Taurus, Labhlaxmi Moon, Labhlaxmi Succeed, Labhlaxmi Gemini, Labhlaxmi Star, Labhlaxmi Felicitous, Labhlaxmi Cancer, Labhlaxmi Water, Labhlaxmi Glory, Labhlaxmi Leo, Labhlaxmi Fire, Labhlaxmi Lovely, Labhlaxmi Virgo, Labhlaxmi Air, Labhlaxmi Acquire, Labhlaxmi Libra, Labhlaxmi Sky
7.	Mumbai Laxmi	Ganesh, Sankar, Parvati, Satyam, Shivam, Sundaram, Saraswati
8.	Mumbai Laxmi Gold	Ram, Seeta, Chand, Suraj, Raja and Rani
9.	Naga Super	Orchid, Lotus, Lily, Rose, Jasmine, Tulip and Sunflower
10.	Bhagya	Darpan, Morning, Sangam, Samrat, Aakanksha, Lucky, Raja, Express, Chaandi, Sundram, Deluxe, Sona, Bhumi, Mail, Evening, Heera, Laxmi, Moti, Sandhya, Gold Night and Night Queen
11.	Dear Nallaneram	Super Evening, Royal Evening, Gold Evening, Diamond evening, Silver evening, Platinum, Pearl Evening
12.	Bumper	Durga Puja, Puja Bumper, Kali Puja and Diwali
13.	Nagaland Rani	Maha Rani, Raja Rani, Jungle Rani, Jhansi Rani, Burma Rani, Radha Rani and Naga Rani
14.	Singam	GirSingam, Jungle Singam, Forest Singam, BelguimSingam, African Singam, Asiatic Singam and King Singam
15.	Nagaland Metro	Gold Metro, Diamond Metro, Silver Metro, Super Metro, Royal Metro, Platinum Metro and Pearl Metro
16.	Derby	Derby

Sl. No	Weekly Scheme Name	Name of the Schemes
17.	Nagaland Super Cards	<p>Mondays :Pragati, Dawn, Aries, Puppy, Pottasium, Barzona, Takj, Tarachand, Tajdar, Sharla, Shaw, Shell, Shirley</p> <p>Tuesday : Ranjani, Dusk, Tarus, Kitten, Sodium, Dextor, Tallen, Tarakan, Talib, Safari, Sahara, Sally, Sam</p> <p>Wednesday : Bairavi, Morning, Gemini, Calf, Calcium, Braford, Tamkinat, Tarang, Tamal, Fairfax, Faith, Falk, Fancy;</p> <p>Thursday : Naatai, Afternoon, Cancet, Foal, Ammonium, Jersey, Tanay, Tarik, Tanimay, Tiffany, Tiger, Tilly, Tina;</p> <p>Friday : Hindolam, Evening, Leo, Chick, Sulphur, Murraygrey, Tanuj, Tarit, Tanveet, Walden, Walker, Wallace, Wally;</p> <p>Saturday : Vasantaa, Night, Virgo, Infant, Magnesium, Redpoll, Tapan, Tausiq, Tapas, Tab, Tacey, Tad, Taima;</p> <p>Sunday: Mohanam, Midnight, Libra, Lamb, Phosporous, Sussex, Tapomay, Tejas, Tarakanth, Mabel, Mace, Maddox, Maddy.</p>
18.	Superb Online	<p>Monday : Diamond, Rose, Badam;</p> <p>Tuesday : Silver, Lotus, Khumani;</p> <p>Wednesday : Gold, Marigold, Kaju;</p> <p>Thursday : Jasmine, Sunflower, Pista;</p> <p>Friday : Kundan, Lily, Akroot;</p> <p>Saturday: Pukhraj, Dahlia, Kishmish;</p> <p>Sunday: Moti, Tulip, Kajoor;</p>

Appendix- 4.3.1

Ref: Statement of non-capturing of essential information in Vahan and Sarathi database
(Paragraph reference: 4.3.8.2)

Sl. No.	Data/Fields	No. of blank instances					Total Records in Database
		Kohima	Mokokchung	Dimapur	Phek	Total	
Vahan							
1	Date of Purchase of Vehicle	805	94	0	0	899	80,349
Sarathi							
1	PIN Code for permanent address	63	266	32	5	366	77,168
2	PIN Code for temporary address	6,380	204	1,547	59	8,190	77,168
3	Identification Mark (Field 1)	707	60	361	25	1,153	77,168

Appendix- 4.3.2

**Ref: Statement of invalid/incorrect/unusual data in detected Vahan and Sarathi database
(Paragraph reference: 4.3.9)**

Sl. No.	Data/Field	No. of invalid/incorrect/unusual cases					Total records in database
		Kohima	Mokokchung	Dimapur	Phek	Total	
1	Invalid name of city in temporary address of vehicle owner	24,852	121	29,539	1,540	56,052	80,349
2	Invalid PIN Code in temporary address of vehicle owner	213	47	11	54	325	80,349
3	Invalid name of city in permanent address of vehicle owner	14,226	184	29,531	1346	45,287	80,349
4	Invalid PIN Code in permanent address of vehicles owner	4,714	5,438	74	455	10,681	80,349
5	Instances of unusual fitness testing time (6pm to 6am)	161	814	200	128	1,303	88,631
6	Same old and new registration number for vehicles from outside the State	1,598	5,886	134	1,937	9,555	36,959
7	Invalid PIN Code in temporary address of driving license applicant	7,787	101	836	86	8,810	77,168
8	Invalid PIN Code in permanent address of driving license applicant	7	47	9	4	67	77,168
9	Invalid identification mark of driving license applicant	31	2,398	17	0	2,446	77,168
10	Non-existent Blood Group ('U') of driving license applicant	558	310	207	56	1,131	77,168

Appendix- 4.3.3
Statement showing tax defaulting vehicles
(Paragraph reference: 4.3.14.1)

(Amount in ₹)

District	Total number of goods & passengers vehicles registered during last 10 years (April 2006 to March 2016)	No. of tax defaulting vehicles as on 31 March 2016		Tax defaulting amount as on 31 March 2016		
		Goods and passengers tax	Road tax	Goods & passengers tax	Road tax	Total
Kohima	36,871	20,370	26,042	3,31,52,200	11,23,72,900	14,55,25,100
Mokokchung	15,700	6,806	9,753	99,55,000	3,50,62,200	4,50,17,200
Dimapur	9,760	7,212	7,759	82,60,600	1,20,59,700	2,03,20,300
Phek	2,227	1,652	2,077	49,91,600	1,30,02,900	1,79,94,500
Total	64,558	36,040	45,631	5,63,59,400	17,24,97,700	22,88,57,100

Appendix-4.3.4
Statement showing short remittances of revenue into Government account
(Paragraph reference: 4.3.14.3)

(Amount in ₹)

DTO Dimapur			
Month of revenue collection	Amount collected	Amount deposited into Treasury	Short Deposit
Feb-13	48,09,130	46,77,406	1,31,724
Mar-13	87,49,072	80,86,369	6,62,703
May-13	75,69,910	74,46,557	1,23,353
Jun-13	60,29,633	59,23,192	1,06,441
Jul-13	63,03,388	61,17,758	1,85,630
Aug-13	62,46,001	59,43,953	3,02,048
Mar-14	68,12,891	65,83,367	2,29,524
Mar-15	78,43,583	68,82,626	9,60,957
May-15	88,05,900	84,45,348	3,60,552
Jan-16	79,95,904	78,69,459	1,26,445
Mar-16	82,11,245	79,74,853	2,36,392

RTO Kohima			
Month of revenue collection	Amount collected	Amount deposited into Treasury	Short Deposit
Sep-12	2,05,96,243	1,80,18,007	25,78,236
Feb-13	1,73,86,384	1,67,55,353	6,31,031
May-13	2,55,10,944	2,40,98,870	14,12,074
Jul-13	2,25,16,191	2,20,40,628	4,75,563
Oct-13	1,96,48,904	1,88,18,403	8,30,501
Jan-14	2,50,73,680	1,61,43,931	89,29,749
Mar-14	2,88,67,145	2,24,33,799	64,33,346
May-14	2,55,20,422	2,43,27,051	11,93,371
Jun-14	2,16,90,392	2,14,77,836	2,12,556
Mar-15	3,22,22,747	2,96,33,287	25,89,460
Sep-15	2,96,85,420	2,91,28,725	5,56,695
Oct-15	2,63,22,658	2,42,15,178	21,07,480
Mar-16	4,27,93,797	1,73,37,551	2,54,56,246

RTO Mokokchung			
Month of revenue collection	Amount collected	Amount deposited into Treasury	Short Deposit
Oct-12	67,31,131	53,38,112	13,93,019
Jul-13	86,41,401	75,40,310	11,01,091
Nov-13	62,41,088	43,23,552	19,17,536
Dec-13	57,16,126	42,17,977	14,98,149
Jan-14	87,98,570	78,04,127	9,94,443
Apr-14	69,13,467	55,39,559	13,73,908
Sep-14	73,64,964	40,25,314	33,39,650
Mar-15	96,04,660	87,49,049	8,55,611

Appendix- 4.4.1
Statement showing the details of the evasion of Tax
(Paragraph reference: 4.4)

(Amount in ₹)

2012-13			
Particulars	As per utilization certificate of "C" form	As per Dealer's Return and Assessment made by AA return figure	Difference
Opening Balance	33,67,539	33,67,539	
Purchases made as per 'C' forms	35,76,16,784	25,45,68,406	
Closing Balance	5,00,010	5,00,010	
Gross turn over	36,04,84,313	26,67,73,000	9,37,11,313
Concealed purchase Turn over			9,08,43,784
Taxable amount @ 2 per cent CST	0	27,97,605	
Taxable amount @ 4.75 per cent	0	20,76,292	
Taxable amount @ 13.25 per cent	4,77,64,171	1,10,20,202	
Total Taxable amount	4,77,64,171	1,58,94,099	
Assessed and Paid		1,59,95,000	
Tax due			3,17,69,171
Interest @ 2 per cent per month (May 2013 to November 2016)			2,73,21,487
Total due (Tax + Interest)			5,90,90,658

Appendix- 4.4.2
Statement showing the details of tax evaded
(Paragraph reference: 4.4)

(Amount in ₹)

2013-14			
Particulars	As per TINXSYS figure	As per Dealer's Return and Assessment made by AA return figure	Difference
Opening Balance	3,07,10,727	3,07,10,727	
Purchases as per 'C' forms	23,36,34,610	17,52,31,379	
Closing Balance	10,20,26,673	10,20,26,673	
Gross turn over	16,23,18,664	7,82,78,865	8,40,39,799
Taxable amount @ 4.75 per cent	60,64,987	29,09,432	
Taxable amount @ 13.25 per cent	45,89,100	12,02,258	
Total Taxable amount	1,06,54,088	41,11,690	
Assessed and Paid		41,11,695	
Tax due			65,42,393
Interest @ 2 per cent per month (May 2014 to November 2016)			40,56,283
Total due (Tax + Interest)			1,05,98,676

Appendix- 4.4.3
Statement showing the details of dealers returns, tax assessed and tax evaded and interest thereon
(Paragraph reference: 4.4)

(Amount in ₹)

2014-15			
Particulars	As per TINXSYS	As per Dealer's Return and Assessment made by AA return figure	Difference
Opening Balance	8,50,54,484	8,50,54,484	
Purchases as per 'C' forms	30,55,95,805	28,08,05,147	
Closing Balance	17,22,42,580	1,72,24,25,80	
Gross turn over	21,84,07,709	1,57,61,31,44	6,07,94,565
Taxable amount @ 4.75 per cent	86,53,616	60,79,835	
Taxable amount @ 13.25 per cent	47,99,987	27,45,363	
Total Taxable amount	1,34,53,603	88,25,198	
Assessed and Paid		88,25,119	
Tax due			46,28,484
Interest @ 2 per cent per month (May 2015 to November 2016)			17,58,824
Total due (Tax + Interest)			63,87,308

Total Tax due 2012-13, 2013-14 and 2014-15	4,29,40,048
Total Interest 2012-13, 2013-14 and 2014-16	3,31,36,595
Grand Total tax due	7,60,76,643

Appendix- 4.5.1
Statement showing the incorrect application of rates
(Paragraph reference: 4.5)

(Amount in ₹)

Sl.No	Particulars	As per TINXSYS figure	As per Dealer's Return and Assessment made by AA return figure	Difference
1	Opening Balance	73,59,289	73,59,289	
2	Purchases as per 'C' forms	21,66,98,325	18,96,97,380	
3	Closing Balance	2,76,51,484	2,76,51,484	
4	Gross turn over	19,64,06,130	14,59,15,841	5,04,90,289
5	Taxable amount @ 4.75 per cent	0	31,91,861	
6	Taxable amount @ 13.25 per cent	1,75,65,526	53,86,057	
7	Taxable amount @ 15 per cent	1,72,335	2,57,132	
8	Taxable amount @ 18 per cent	1,12,83,700	17,94,781	
9	Total Taxable amount	2,90,21,561	1,06,29,831	
10	Assessed and Paid		1,06,51,454	
11	Tax due for 2013-14			51,35,528
12	Tax due for 2014-15			1,32,34,579
13	Total tax due			1,83,70,107
14	Interest @ 2 per cent on Sl.No.11 (May 2014 to November 2016)			31,84,027
15	Interest @ 2 per cent on Sl.No.12 (May 2015 to November 2016)			50,29,140
16	Total interest			82,13,167
17	Total tax due			2,65,83,274

Appendix- 5.3.1

Statement showing fraudulent drawal of pension gratuity, commutation and pension arrears with forged Authorities under Zunheboto Treasury.
(Paragraph reference: 5.3 1)

(Amount in ₹)

Sl. No	Name of incumbent	TV No. and date	PPO No.	Particulars	Amount
1	Shri Lhokhapu	375 of 06-04-2015	111404543	Pension arrear, gratuity & commutation	13,79,929
2	Shri Lhokhapu	371 of 03-07-2015	111404543	Pension arrear, gratuity & commutation	14,46,119
3	Shri Khutoshe	491 of 03-06-2014	111301399	Pension arrear, gratuity & commutation	6,77,260
4	Shri Khutoshe	352 of 04-02-2014	111301399	Pension arrear, gratuity & commutation	6,39,450
5	Shri G. Tokaho Sema	Nil of December/2015	111507418	Pension arrear, gratuity & commutation	9,84,951
6	Shri. Toshiho Sema	551 of 07-04-2015	111404170	Pension arrear, gratuity & commutation	951,694
7	Shri. Toshiho Sema	1660 of 13-10-2015	111404170	Pension arrear, gratuity & commutation	8,48,148
8	Shri. Hotokhu Sema	1037 of 7-02-2013	NL/27716	Pension arrear, gratuity, commutation & DCVP	11,74,684
9	Shri. Pukhato Sema	609 of 02-05-2014	111301232	Pension arrear, gratuity & commutation	9,20,582
10	Shri. L Niheyi Sema	493 of 01-08-2013	111300628	Pension arrear, gratuity & commutation	8,77,634
11	Shri. N. Vecuto Sema	107 of February 2015	111404414	Pension arrear, gratuity & commutation	14,15,892
12	Shri. Ashiho Sema	1243 of 07-082014	111301075	Pension arrear, gratuity & commutation	10,06,222
13	Shri. Ashiho Sema	505 of 07-01-2014	111301075	Pension arrear, gratuity & commutation	9,09,222
14	Shri. Imongcheba Ao	757 of 04-11-2013	111300568	Pension arrear, gratuity & commutation	10,20,502
15	Shri. Kivelu Sema	1588 of 04-07-2013	111300481	Pension arrear, gratuity & commutation	10,61,305
TOTAL:					1,53,13,594

Appendix – 5.3.2
Statement showing fraudulent drawal of Revision of Pension (ROP) 2010 with forged
Authorities under Zunheboto Treasury.
(Paragraph reference: 5.3 2)

(Amount in ₹)

Sl. No	Name of incumbent	TV no & date	PPO no	Particulars	Period	Amount
1	Khakhui Swu	1870 dt.16-10-2015	NL/S/10143	Pension arrear	01-01-2010 to 30-06-2015	4,01,689
	Khakhui Swu	1088 dt.10-09-2015	NL/S/10143	Pension arrear	01-01-2010 to 30-06-2015	3,97,689
2	Hetokhu Sema	379 dt.06-04-2015	NL/6375	Pension arrear	01-04-2010 to 28-02-2015	1,32,405
3	Luheshe	1089 dt.10-09-2015	NL/V/16666	Pension arrear	01-04-2010 to 30-06-2015	3,00,753
4	K. Suhozhe	1367 dt.10-09-2015	NL/V/18300	Pension arrear	01-04-2010 to 30-06-2015	1,12,759
5	Khuito Sema	1090 dt.10-09-2015	NL/S/21136	Pension arrear	01-04-2010 TO 30-06-2015	3,18,393
Total Amount						16,63,688

Appendix – 5.3.3
Statement showing Double/Triple/Quadruple Drawal of Pension under Zunheboto Treasury
(Paragraph reference: 5.3 3.1)

(Amount in ₹)

Sl. No.	Month	Total		Double		Triple		Quadruple		Five times		Six Times		Total number of PPOs	Amount drawn Fraudulently
		Total no of Treasury Voucher nos.	Amount Drawn	Number of PPO	Amount	Number of PPO	Amount	Number of PPO	Amount	Number of PPO	Amount	Number of PPO	Amount		
2013-14															
1	Sep-13	1584	3,24,04,299	89	10,60,508	11	2,83,250							100	13,43,758
2	Nov-13	1657	3,55,93,721	36	5,76,934	1	23,670	2	1,24,759					39	7,25,363
3	Mar-14	1886	2,31,61,710	141	19,02,409	7	1,64,426	4	1,45,711			2	92,327	154	23,04,873
Sub Total		5127	9,11,59,730	266	35,39,851	19	4,71,346	6	2,70,470	0	0	2	92,327	293	43,73,994
2014-15															
4	Apr-14	1756	2,74,68,495	120	18,45,628	8	1,79,928	1	49,651					129	20,75,207
5	Aug-14	1843	5,66,54,047	120	18,80,197	10	4,17,048	1	55,020					131	23,52,265
6	Sep-14	1830	6,04,86,559	146	20,57,828	24	6,82,397	3	1,41,055					173	28,81,280
7	Feb-15	1784	4,96,78,837	66	10,68,764	2	55,399	2	96,530					70	12,20,693
8	Mar-15	1822	3,80,63,650	122	28,91,597	3	98,130							125	29,89,727
Sub Total		9035	23,23,51,588	574	97,44,014	47	14,32,902	7	3,42,256	0	0	0	0	628	1,15,19,172
2015-16															
9	Apr-15	1,815	5,92,17,984	75	11,74,106	9	3,51,984			1	53,515			85	15,79,605
10	May-15	1,856	5,37,70,873	108	19,04,388	13	4,20,789	2	1,01,604	1	72,874			124	24,99,655
11	Jun-15	1,866	4,60,04,870	110	19,57,933	11	4,59,423	3	1,30,435	1	76,450			125	26,24,241

Sl. No.	Month	Total		Double		Triple		Quadruple		Five times		Six Times		Total number of PPOs	Amount drawn Fraudulently
		Total no of Treasury Voucher nos.	Amount Drawn	Number of PPO	Amount	Number of PPO	Amount	Number of PPO	Amount	Number of PPO	Amount	Number of PPO	Amount		
12	Jul-15	1,855	5,24,10,231	130	28,18,111	11	4,12,960							141	32,31,071
13	Oct-15	1,954	5,72,52,165	134	25,96,932	17	6,31,701	2	1,30,189					153	33,58,822
14	Jan-16	2,039	3,94,84,232	68	11,24,522	7	2,82,152			1	86,195	1	1,06,338	77	15,99,207
15	Feb-16	2,065	4,67,94,515	122	27,66,904	19	8,03,805	1	59,798					142	36,30,507
Sub Total		13,450	35,49,34,870	747	1,43,42,896	87	33,62,814	8	4,22,026	4	2,89,034	1	1,06,338	847	1,85,23,108
Grand Total		27,612	67,84,46,188	1,587	2,76,26,761	153	52,67,062	21	10,34,752	4	2,89,034	3	1,98,665	1,768	3,44,16,274

Appendix 5.3.4

Statement showing double/triple/quadruple drawal of pension under Dimapur Treasury
(Paragraph reference: 5.3.3.2)

Multiple cases of pension drawal								
Sl. No.	Month	Total		Double		Triple		Fraudulent Amount drawn
		No. of pension drawn	Amount	No of PPO	Amount	No of PPO	Amount	
1	May-13	3,742	17,19,34,600	14	1,75,685			1,75,685
2	Jun-13	3,912	15,33,62,685	21	3,01,588			3,01,588
3	Sep-13	3,969	15,10,99,598	28	4,69,375			4,69,375
4	Dec-13	4,317	17,57,42,601	27	5,49,290	1	22,200	5,71,490
5	May-14	4,278	30,65,00,032	24	4,68,466			4,68,466
6	Aug-14	4,401	23,32,78,796	27	4,35,581			4,35,581
7	Sep-14	4,516	21,07,72,282	37	3,38,307			3,38,307
8	Dec-14	4,800	20,27,36,300	43	8,96,507			8,96,507
9	Feb-15	4,542	23,02,16,957	35	7,69,365			7,69,365
Grand Total =		38,477	183,56,43,851	256	44,04,164	1	22,200	44,26,364

Appendix- 5.4.1
Statement showing fraudulent/double/excess draws of Pay and Allowances by School
Education Department

(Paragraph reference: 5.4 1.1)

(i) Sub-Divisional Education Officer, Mangkolemba

(Amount in ₹)

Bill/TV No./Date	Month of Pay	No. of Staffs	Gross Amount Drawn	Fraudulent/ Double drawal amount	Nature of fraudulent drawl
132/08-10-2015	Oct-2015	168	68,59,650	63,62,814	Excess drawal of Pay & Allowances vide Bill Nos.208&209/24-01-2014, 3&4/01-04-2014, 14&15/22-04-2014, 30&32/19-05-2014, 37&38/18-06-2014, 52&56/21-07-2014, 61&65/18-08-2014, 88&89/18-10-2014, 99&100/18-11-2014, 130&131/16-01-2015, 155&156/16-02-2015, 3&4/01-04-2015, 19&20/10-04-2015, 34&35/21-05-2015, 51&52/23-06-2015, 70&71/20-07-2015, 132&133/08-10-2015.
133/08-10-2015	Oct-2015	147	59,22,256		
70/20-07-2015	Jul-2015	170	67,39,595		
71/20-07-2015	Jul-2015	152	59,59,724		
52/23-06-2015	Jun-2015	151	59,30,875		
51/23-06-2015	Jun-2015	170	67,39,595		
35/21-05-2015	May-2015	149	58,75,326		
34/21-05-2015	May-2015	170	67,55,198		
19/10-04-2015	Apr-2015	169	67,27,087		
20/10-04-2015	Apr-2015	150	59,28,891		
4/01-04-2015	Mar-2015	150	59,28,891		
3/01-04-2015	Mar-2015	169	67,27,087		
155/16-02-2015	Feb-2015	171	63,81,941		
156/16-02-2015	Feb-2015	186	71,33,020		
131/16-01-2015	Jan-2015	171	6381941		
130/16-01-2015	Jan-2015	186	71,27,224		
65/18-08-2014	Aug-2015	184	64,50,332		
99/18-11-2014	Nov-2014	186	69,33,528		
88/18-10-2014	Oct-2014	184	64,50,332		
100/18-11-2014	Nov-2014	171	61,74,747		
89/18-10-2014	Oct-2014	170	57,85,720		
61/18-08-2014	Aug-2014	170	57,81,320		
56/21-07-2014	Jul-2014	184	64,48,892		
38/18-06-2014	Jun-2014	169	57,88,650		
30/19-05-2014	May-2014	170	58,25,470		
15/22-04-2014	Apr-2014	170	58,23,690		
3/01-04-2014	Mar-2014	172	58,83,410		
209/24-01-2014	Jan-2014	186	64,39,232		
208/24-01-2014	Jan-2014	178	58,91,284		
4/01-04-2014	Mar-2014	186	65,20,652		
32/19-05-2014	May-2014	185	64,85,452		
14/22-04-2014	Apr-2014	185	64,84,052		
37/18-06-2014	Jun-2014	185	64,82,832		
52/21-07-2014	Jul-2014	168	57,57,050		
Sub Total (A)		5,832	21,45,24,946	63,62,814	

Bill/TV No./Date	Month of Pay	No. of Staffs	Gross Amount Drawn	Fraudulent/ Double drawal amount	Nature of fraudulent drawl
130/16-01-2015	Jan-2015	186	71,27,224	15,89,087	Fraudulent drawal of Pay & Allowances for bogus employees vide Bill No. 130 &131 dated 16.1.15, Bill No. 155 & 156 dated 16.2.15
131/16-01-2015	Jan-2015	171	63,81,941		
155/16-02-2015	Feb-2015	171	63,81,941		
156/16-02-2015	Feb-2015	186	71,33,020		
Sub Total (B)		714	2,70,24,126		

(ii) Sub-Divisional Education Officer, Niuland

SI No.	Name of Employee	Amount of Salary/ Month	Months for which drawn fraudulently drawn twice	Total fraudulent amount	Total amount drawn vide Bill No.
1	Bendangsenla	27,400	Two months (July & Aug 2015)	54,800	Bill No. 387 dated 11-12-2015
2	Kezevituo Thapru	20,080	Two months (July & Aug 2015)	40,160	
3	Shembenthung	20,080	Twice (July & Aug 2015)	40,160	
4	Lhaihoineng Chongloi	20,080	Two months (July & Aug 2015)	40,160	
5	Imtirenla	27,400	Two months (July & Aug 2015)	54,800	
6	Metenshiba	27,400	Two months (July & Aug 2015)	54,800	
7	Imtisenla	27,400	Two months (July & Aug 2015)	54,800	
8	Veto Lohe	27,400	Two months (July & Aug 2015)	54,800	
9	Vikholu	27,400	Two months (July & Aug 2015)	54,800	
10	Tokhochu Pfithu	20,080	Two months (July & Aug 2015)	40,160	
			Sub Total (a)	4,89,440	
11	Kaliho K Argha	27,400	Three months (July to Aug 2015)	82,200	
			Sub Total (b)	82,200	
			Total of (a) and (b)	5,71,640	5,71,640
12	Nungtok Sunep	20,080	Four months (May to Aug 2015)	80,320	Bill No. 283 dated 21-09-2015
13	W Awon Zimik	20,080	Four months (May to Aug 2015)	80,320	
14	Bendangliba	27,400	Four months (May to Aug 2015)	1,09,600	
15	S.Toli	20,080	Four months (May to Aug 2015)	80,320	
16	Visielhounuo	20,080	Four months (May to Aug 2015)	80,320	
17	Khekiye Kent	27,400	Four months (May to Aug 2015)	1,09,600	
			Sub Total (c)	5,40,480	
			Grand Total (a+b+c)	11,12,120	11,11,288

(iii) *Sub-Divisional Education Officer, Peren*

Bill No./Date	Month of Pay	No of Staff	Gross Amount as per bill	Net Drawn as per bill	Gross Amount Admissible	Net Amount Admissible	Excess drawn
61/30-04-2015	Apr 2015	133	49,88,244	47,86,420	48,68,876	46,67,052	1,19,368
180/23-07-2015	Jul-2015	130	48,77,068	46,74,428	47,57,696	45,55,056	1,19,372
193/23-07-2015	Jul-2015	76	27,14,591	25,76,763	26,75,023	25,37,195	39,568
195/23-07-2015	Jul-2015	19	7,62,531	7,28,199	7,23,549	6,89,217	38,982
		358	1,33,42,434	1,27,65,810	1,30,25,144	1,24,48,520	3,17,290

(iv) *Sub-Divisional Education Officer, Niuland*

Bill/TV No./Date	Month of Pay	No. of Staffs	Gross Amount Drawn	Fraudulent/ Double drawal amount	Nature of fraudulent drawl
32/15-11-2015	Sep-2015	18	6,90,240	2,93,860	Excess payment of Salary for SSA Teachers vide Bill No.17/02-07-2015, 23/01-09-2015, 32/15-11-2015, 35/15-11-2015, 38/15-11-2015 and 261/05-03-2015
35/15-11-2015	Oct-2015	19	5,00,320		
38/15-11-2015	Nov-2015	28	8,18,040		
23/01-09-2015	Jul-2015	14	4,29,200		
17/02-07-2015	Jun-2015	7	2,30,080		
261/05-03-2015	Jan-2015	1	20,080		
		87	26,87,960	2,93,860	

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