

CHAPTER – II
Compliance Audit paragraphs

Chapter-II Compliance Audit Paragraphs

Urban Development & Housing Department

2.1 Unfruitful expenditure

An expenditure of ₹ 1.11 crore incurred on the civil component of a Museum building at Koloriang was rendered unfruitful due to non-utilisation of the building

GoAP sanctioned (November 2012) an amount of ₹ 1.11 crore for ‘*Construction of Hamchang Gyabe Museum Building at Koloriang in Koloriang District*’ with Thirteenth Finance Commission (TFC) grants, with the objective of preserving Nyishi and other tribal artefacts, arts, crafts, and handlooms, including items of their socio-cultural life.

The work involved construction of a Museum building, compound wall, approach road, open parking place, *etc.* GoAP released the entire amount (2013-16) to Koloriang Division of Urban Development & Housing Department (UD&HD) for executing the works. The work commenced in July 2014 and was completed in January 2016 at a cost of ₹ 1.11 crore

Scrutiny of records (December 2017) of the Deputy Director, UD&HD, Koloriang Division revealed the following:

- Technical sanction was not accorded for the work; and the work was executed through six contractors¹ by issuing 31 work orders without call of tenders in violation of the extant rules.
- The detailed project report (DPR) prepared by the Deputy Director, UD&HD, Koloriang and approved by the High Level Monitoring Committee chaired by the Chief Secretary, GoAP, did not contain details of sourcing of the artefacts that were to be exhibited, staff deployment and how the Museum would be kept functional.
- While the site of the Museum is two kms from the main road, the DPR considered an approach road of only 160 meters.

It was further observed in audit that the Deputy Director, Koloriang Division informed (May 2017) the Deputy Commissioner (DC), Kurung Kumey District, Koloriang that the project had been completed as per specifications and requested him to verify and take it over for its utilisation. The DC had neither taken it over nor had he engaged any agency for its functioning and management as of the date of audit (October 2018). The reason for not taking over the possession of the building despite the lapse of more than two years of its completion (January 2019), was not on record.

Joint inspection (June 2017) of the work site by Departmental officers and Audit staff revealed the approach road in a deteriorated condition and unmotorable. The building was found abandoned with shattered windows and filth/stains caused by encroachers, as there was no ward and watch as can be seen from the following photographs:

¹ 1. M/s Bro’s Enterprises, 2. M/s Smty Bengia Yojik, 3. M/s T.C. Enterprises, 4. M/s Pipi Enterprises, 5. J.K Consultants, 6. M/s C. Brother’s Enterprises.



In reply (May 2018), the Department stated that the project was successfully completed and that, it had repaired the broken window glasses many times and the Museum might be functional if there is road connectivity to the Museum from the main road, which was two kms away. The Department felt that, it was the responsibility of the District Administration to make it functional and utilise it.

With completion of only civil construction work, without linkage to the approach road, the Museum could not be operationalized over three and a half years after completion, and seven years after sanctioning it. Thus, an amount of ₹ 1.11 crore incurred on construction of the Museum became unfruitful as the objective of preserving Nyishi and other tribal arts, crafts and handlooms was not achieved.

Response of the concerned DC (District Administration) has not been received (July 2019).

Public Works Department

2.2 Fraudulent expenditure

Payment of ₹ 1.97 crore was made without supporting records for execution of work

According to Section 7.1 (4) of CPWD Works Manual², payments to contractors and others for the work done or other services rendered are to be made on the basis of measurements recorded in the Measurement Book (MB).

Scrutiny of records (April 2018) of the Executive Engineer, PWD Tezu Division revealed that the Chief Engineer (Eastern Zone) allotted (March 2016) Rupees seven crore to the Division for '*Improvement and Maintenance of Roads*'. Scrutiny of vouchers relating to the work showed that the Division spent ₹ 6.96 crore (out of ₹ 7 crore) on maintenance of various roads³ in Tezu and Sunpura township between October – December 2016 on items like filling pot-holes, hiring of wheel-loader, maintenance of earthen shoulder, *etc.* However, vouchers relating to payment of ₹ 1.97 crore made on

² Government of Arunachal Pradesh does not have its own PWD Manual. Therefore, the State follows the CPWD Manual.

³ Internal road to PLC Tezu; Tezu township road; Sunpura town ship Road; Sunpura road to 19th mile via Jeko village; BRO road to MepoBasti via Danglat Village; *etc.*

15 and 22 October 2016 to five contractors⁴ did not indicate the exact chainage or location where the works were stated to have been executed.

Audit scrutiny revealed that none of the works shown as executed in the vouchers was recorded in the MB. In fact, pages 63-75 of MB No. TD/6410 mentioned in the vouchers where the measurements were stated to have been recorded, were blank. In other pages of MB (No. TD/6410), the entries were not related to the works detailed in these vouchers. Further, as per the vouchers, the work was shown to have been executed during May to July 2016 but as per entries in the MB, the works were executed during October 2010 to March 2018 (**Appendix-2.1**).

In the absence of authentic measurement and verification of work by competent authorities⁵, the veracity of works shown to have been executed at a cost of ₹ 1.97 crore cannot be vouched in Audit. Considering that the payment was made without relevant entries in support of the work executed, the possibility of fraudulent payment of ₹ 1.97 crore cannot be ruled out.

The case was reported to the Department in June 2018; reply has not been received (July 2019).

2.3 Overpayment to a contractor

Excess payment of ₹ 2.52 crore to contractor

As per section 7 & 9 of Central Public Works Department (CPWD) Manual 2014, which was adopted by the State Government, all items of work in a project irrespective of their cost shall be measured and recorded by the Junior Engineer-in-charge in the Measurement Book (MB) of the work. Before the bill of a contractor/supplier is passed, entries in the MB relating to the description and quantities of work/supplies should be scrutinised by the Assistant Engineer, and calculation of "Contents or Area" should be checked arithmetically under his supervision. The bill should then be checked, passed and paid in the office of the Executive Engineer from the MB entries.

Ministry of Development of North Eastern Region (DoNER), GoI accorded (September 2013) administrative and financial approval for the project "*Construction of road from Yembung-Yemsing road to Tarak Village (Phase-I)*" in East Siang District, at an estimated cost of ₹ 28.18 crore under Non-Lapsable Central Pool of Resources (NLCPR). The project cost was to be shared between GoI and GoAP in the ratio of 90:10 (i.e. ₹ 25.36 crore and ₹ 2.82 crore). Technical sanction was accorded (February 2014) by the Chief Engineer, Central Zone-B, PWD. The target date of completion of the project was 31 August 2016. The objective of the project was to provide road connectivity between districts of East Siang and West Siang, covering 22 villages.

⁴ (i) M/S Arunachal Trading Company, (ii) M/s K T Enterprises, (iii) M/s MG Enterprises, (iv) M/s US Enterprises, (v) M/s Unique Enterprises

⁵ As per Para 7.11.3 of CPWD Manual, the Assistant Engineer should test check at least 50 per cent and Executive Engineer should check 10 per cent of measurement.

The Ministry released its share amounting to ₹ 20.28 crore in two instalments (₹ 10.14 crore in September 2013 and ₹ 10.13 crore in October 2017), while State Government released its entire share of ₹ 2.82 crore in March 2017.

Scrutiny (November 2017) of records of the Executive Engineer (EE) PWD, Boleng revealed the following:

- (i) The work was awarded (30 December 2015) at a contracted cost of ₹ 28.16 crore to M/s N.T. Agency, Naharlagun through tender on turnkey basis after a delay of more than two years from the date of administrative and financial approval (September 2013). The Executive Engineer attributed the delay to a litigation in Guwahati High Court regarding tender. The work commenced in January 2016.
- (ii) Out of nine components of works⁶, five components were stated to have been completed as of September 2018 and the contractor was paid an amount of ₹ 23.28 crore. There was no further progress in the work, on account of non-release of balance funds.
- (iii) The volume of earth to be excavated as per technical sanction under the component 'Formation cutting' was estimated at 528362.10 cum for a length of 15.850 km consisting of three types of earth work, as per following details:

Table 2.1 Estimated provision

Sl. No.	Classification of soil	Quantity (in cum)	Rate per cum (in ₹)
1	Excavation in Hill Area in soil (Mechanical)	326378.11	151.50
2	Excavation in Hill Area in ordinary rock (Manual)	177639.04	352.49
3	Excavation in Hard Rock (Blasting)	24344.95	273.71

It was observed in Audit that, while the total quantity executed was shown as 528362.10 cum in the summary in MB (No. BD/792-page no. 1 to 100), the aggregate of the chainage wise quantities recorded in different pages of the same MB worked out to only 387098.02 cum.

Considering that the actual quantity executed was only 387098.02 cum and supporting details were not available in the MBs for 141264.07 cum, the possibility of fraudulent payment of ₹ 2.52 crore to the contractor cannot be ruled out.

Further, the objective of providing road connectivity could not be achieved so far due to non-completion of essential components of road works like culvert, protection works, BT laying, etc., due to non-release of balance funds.

The matter was reported to the Department/Government (May 2018); reply has not been received (July 2019).

⁶ Jungle clearance, formation cutting, RCC bridge 30 m span, RCC bridge 18 m span, cross drainage-RCC culverts, protection works, pavement works & BT carpeting, Side drain, Road signboards, Km stone

Department of Horticulture

2.4 Idle expenditure

Due to non-execution of the basic components and lack of timely action within the warranty period for maintenance by the Department, the packaging plant remained incomplete leading to idle expenditure of ₹ 94.35 lakh

State Government accorded (March 2013) administrative approval and expenditure sanction for ₹ 94.35 lakh for the work “*Establishment of Packaging Units at Namsai, Lohit District*” to the District Horticulture Officer (DHO), Tezu under Special Plan Assistance scheme. The objective of the work was to provide enhanced remuneration to farmers for their horticultural produce by means of market linked packaging of sub-tropical fruits and vegetables in corrugated cartons with tag labels for identification.

Scrutiny of records (June 2017) of DHO, Tezu revealed the following.

- (i) Twenty supply orders and one work contract were placed on 11 contractors/suppliers for an amount of ₹ 94.35 lakh⁷ on work order basis, without following the tendering procedures in contravention of Rule 136 of General Financial Rules (GFRs) 2017;
- (ii) DHO Tezu claimed (February 2014) in the physical and financial achievement report, Utilisation Certificate and Completion Certificate, that the entire sanctioned amount of ₹ 94.35 lakh was utilised for the work and all the items of the work have been completed in all respects as per standard specifications.

However, joint inspection (June 2017) by the departmental and Audit officers at the work site revealed that the basic components like shed for diesel generator, washing and drying chambers, electrification of shed and packaging unit were not executed. Consequently, the Packaging unit remained non-functional as can be seen from the following photographs taken during joint physical inspection by the Audit team with departmental officials:



⁷ One Contractor for c/o packaging shed and DG shed (₹ 20.37 lakh) and 10 Suppliers for procurement of packaging machinery, transformer, office stationery, etc. (₹ 73.98 lakh) = ₹ 94.35 lakh.



Considering that the packaging unit remained incomplete since February 2014 despite the claim of the DHO that it was completed in all respects, the Department should hold him accountable for submitting false completion certificate by concealing the fact of non-execution of the basic components.

The DHO informed the supplier (M/s Ari cool Refrigerator DUNCON, Dimapur) only in July 2015 (after expiry of the warranty period in December 2014), that the Unit was not functioning after the demonstration, and requested to depute technical staff/engineer for inspection and maintenance of the machinery. This was however, not done.

Thus, due to non-execution of the basic components and failure to take timely action within the warranty period by the Department, the packaging plant remained incomplete leading to idle expenditure of ₹ 94.35 lakh for more than four years, and the objective of the project to add value to the horticultural produce could not be achieved.

In reply, the Department accepted (October 2018) that basic components like shed for DG set and drying & washing chamber were not constructed and stated that the missing machinery will be procured and the packaging unit would be operationalised within this financial year.

Department of Power

2.5 Loss of revenue

Non-levy of tariff at correct rate for metered consumption of HT consumers and miss-classification of consumers resulted in loss of revenue of ₹ 22.10 lakh

Arunachal Pradesh Department of Power (APDoP) is a deemed licensee in terms of section 14 of the Electricity Act 2003 and is responsible for transmission and distribution of electricity in the State. Arunachal Pradesh State Electricity Regulatory Commission (APSERC) determines the tariff for supply of electricity to various categories of consumers like domestic, industrial, agricultural consumers, etc. duly segregated as Low Tension (LT) and High Tension (HT) consumers based on the Aggregate Revenue Requirement (ARR) and tariff petition filed by Department of Power. As per Section 11 of Schedule III (General Conditions of Supply) of the Tariff Orders 2013-14 to 2017-18 issued (May 2013 to September 2017) by APSERC mission, all consumers who are supplied electricity at HT, but are metered on LT side of the transformer, would be charged an additional three *per cent* over the metered consumption.

During scrutiny of records (2014-15 to 2017-18) of five out of 27 divisions (including two independent sub-divisions) of the Department of Power, it was observed that as of

August 2018, these five divisions had a total of 206 HT consumers⁸. Out of these, test check revealed that 104 HT consumers⁹ were getting their supply at HT but metered on LT side of the transformer. The Divisions raised and collected electricity bills of ₹ 5.34 crore from these 104 consumers against the consumption of 1,31,94,176 units during May 2013 to January 2018. However, it was observed that contrary to the provisions of the Tariff Orders 2013-14 to 2015-16, the five Divisions raised monthly energy bills on those consumers without charging the additional three *per cent* over the metered consumption. The actual demand as per Tariff orders for these 104 HT consumers (considering additional three *per cent*) should have been ₹ 5.50 crore, against which, the Divisions collected only ₹ 5.34 crore resulting in loss of revenue of ₹ 16.01 lakh (**Appendix-2.2**).

It was further observed that, there was short collection of revenue of ₹ 6.09 lakh¹⁰ due to misclassification of 52 consumers (**Appendix-2.3**) and levy of tariff at a lower rate than that applicable. Commercial enterprises were billed at domestic consumer tariff, which was lower, instead of applying commercial tariff.

Thus, failure of the Department to ensure compliance with the provisions of the Tariff Supply Order with regard to additional three *per cent* over the metered consumption and levying of bills at a lower rate than that applicable, resulted in loss of revenue of ₹ 22.10 lakh¹¹ to the Government.

Similar lapse of the Department was featured in the Audit Report for the year ended 31 March 2015 in respect of three other divisions¹². However, the Department has not initiated corrective action.

Since audit finding is based on a test check of five out of 27 divisions of the Department of Power, State Government needs to carry out a comprehensive analysis of its billing database and ensure integrity of data relating to classification of consumers and correctness of tariff applied to various categories of consumers across all 27 divisions.

⁸ Daporijo Electrical Division (16 nos.), Bomdila Electrical Division (29 nos.), Pasighat Electrical Division (20 nos.), Naharlagun Electrical Division (129 nos.) and Hayuliang Electrical Division (12 nos.).

⁹ Daporijo Electrical Division (7 nos.), Bomdila Electrical Division (29 nos.), Pasighat Electrical Division (19 nos.), Naharlagun Electrical Division (37 nos.) and Hayuliang Electrical Division (12 nos.).

¹⁰ Hayuliang Division: ₹ 0.52 lakh, Daporijo: ₹ 2.26 lakh, Hayuliang Division: ₹ 0.03 lakh and Pasighat Division: ₹ 3.28 lakh

¹¹ ₹ 16.01 lakh(non-levying of additional 3 *per cent*) + ₹6.09 lakh (miss-classification of consumers) = ₹ 22.10 lakh

¹² Capital, Aaloand Namsai Divisions

2.6 Deemed misappropriation of funds

Opening and operating current account unauthorisedly by the Executive Engineer, Basar Electrical Division resulted in deemed misappropriation of ₹ 4.78 crore

As per Para 16.2.1 of Central Public Works Accounts Code (followed by State Government), the amount received under deposit works should be credited to the Head of Account '108 – Public Works Deposits' under 'Major Head 8443 – Civil Deposits' and all expenditure incurred is to be debited to this account. Further, Rule 7 of GFR stipulates that all moneys received by or on behalf of the Government either as dues of Government or for deposit, remittance or otherwise, shall be brought into Government account without delay.

The Executive Engineer (EE), Basar Electrical Division office has two Current Accounts (Numbers: 33325961745 and 34627111414) with the State Bank of India, Basar Branch operated under the designated name of the Executive Engineer. However, there was no authorisation from the competent authority to the EE to open/operate Current Account.

Audit scrutiny showed that National Highway Infrastructure Development Corporation (NHIDC) Limited transferred (6 May 2016) estimated cost of ₹ 5.38 crore for the work '*Shifting of Electrical Structures for Double Lane of Akajan – Likhali – Bam Road (12 KM to 33 KM and 33 KM to 65 KM)*' for ongoing double lane road to EE, Basar Electrical Division. Similarly, M/s Bharat Sanchar Nigam Limited (BSNL) transferred (18 July 2016) estimated cost of ₹ 9.20 lakh for the work '*providing 3 Phase service connection to Microwave Mobile at Sago Village*'. These amounts were deposited into the Current Account of EE, Basar Electrical Division.

Further scrutiny of records (January 2017) of the EE, Basar Electrical Division revealed the following:

- (i) The Division issued (April 2016) 16 work orders to seven contractors for supply of electrical items *viz.*, poles, MS angles, wires, *etc.* amounting to ₹ 77.52 lakh (**Appendix-2.4**) without obtaining technical sanction and without following tendering procedures;
- (ii) Rupees 77.05 lakh was shown to have been paid (May 2016) to the contractors (from the Current Account, into which the deposit amounts were transferred),
 - a. without recording the payment details on vouchers,
 - b. without recording the measurements in MBs, and
 - c. without routing the payment through Divisional Accountant, who has to scrutinise and pass the bills.
- (iii) The Division unauthorisedly transferred ₹ 5.55 crore (₹ 5.09 crore from Current Account No. 33325961745 to nine unknown bank accounts from 6 May 2016 to 10 June 2016 and an amount of ₹ 0.46 crore to four unknown bank accounts from Current Account No. 34627111414 during the period from 14 June 2016 to 6 August 2016). These transfers were not supported by any documents, vouchers

or even entries in the Cash book. The transactions pertaining to these transfers were not routed through the regular process of passing the bills. Even the cheque book and pass books of the Accounts were not handed over by the then EE upon his transfer. These payments could not therefore be verified in audit and the amount of ₹ 5.55 crore is considered deemed misappropriation of funds.

Opening/operating and parking of Government funds in Current Account without obtaining approval from the competent authority led to suspected misappropriation of ₹ 4.78 crore¹³ at the State Bank of India, Basar Branch.

The matter needs to be investigated and appropriate action taken to recover Government money.

Agriculture Department

2.7 Irregular expenditure

An amount of ₹ 8.52 crore was diverted and incurred on works not permissible under the Rashtriya Krishi Vikash Yojana

GoI launched the Rashtriya Krishi Vikas Yojana (RKVY) during 2007-08, as a 100 *per cent* centrally funded scheme, with the objective of bringing quantifiable changes in the production and productivity of various components of agriculture and allied sectors. As per the operational guidelines of the scheme, expenditure only directly related to the development of agriculture and allied sectors is allowed and no expenditure on maintenance of assets or recurring expenses is covered.

Scrutiny (July 2018) of records of the Director, Agriculture Department revealed that during April 2013 to March 2018, State Government released ₹ 44.53 crore to the State for implantation of RKVY. Out of this amount, the Director, Agriculture, Naharlagun, diverted ₹ 8.52 crore towards maintenance/renovation of various assets such as residential/non-residential buildings, Garages, Office rooms, *etc.* (details given in **Appendix-2.5**).

In reply, the Department stated (January 2019) that the expenditure was incurred on repair/renovation and maintenance of assets on priority basis as a one-time measure.

The Department's reply is not acceptable, as expenditure on maintenance of assets or recurring expenses is not covered under any components of the scheme. The expenditure of ₹ 8.52 crore was thus in violation of the scheme guidelines.

Considering that ₹ 8.52 crore was expended on inadmissible items in one unit office alone, Government may verify similar inadmissible/irregular expenditure in all other unit offices in the State.

¹³ ₹ 5.55 crore transferred to unknown accounts - ₹ 77.05 lakh shown to have been paid to contractors=
₹ 4.78 crore

Planning Department

2.8 Unauthorised expenditure

Deputy Commissioner (DC), Namsai, District Planning Officers, Aalo and Ziro incurred an unauthorised expenditure of ₹ 1.57 crore

Rule 26 (ii) of the General Financial Rules 2005 (adopted by GoAP) specifies that the controlling officer, in respect of funds placed at his disposal, is to ensure that the expenditure is incurred for the purpose for which funds have been provided.

State Government reintroduced 'Untied Fund' to be placed at the disposal of Deputy Commissioners (DC) and Additional Commissioners (ADC) during 2008-09, for execution of works of very urgent nature directly benefiting the community as a whole, and to meet critical gaps in infrastructure as per needs of the district/area. The works taken up should not cost more than ₹ 10 lakh in each case and the expenditure should not be of a recurring nature.

Scrutiny of records of DC, Namsai (July 2017), DPO, Aalo (November 2017) and Ziro (November -December 2017) revealed that, during the period January 2014 to March 2017, the DC/ DPOs of the three districts sanctioned a total amount of ₹ 1.57 crore (DC Namsai: ₹ 25 lakh, DPO Ziro: ₹ 102 lakh, DPO Aalo: ₹ 29.91 lakh) for renovation, painting & maintenance of the official residential bungalows/office buildings (₹ 72.05 lakh) and celebration of festivals (₹ 84.86 lakh) in violation of the provisions of 'Untied Fund' as laid down by the GoAP in its notification issued in October 2008.

The expenditure of ₹ 1.57 crore was neither for execution of works of an urgent nature, nor for meeting critical gaps in infrastructure, but was in the nature of recurring expenditure which should be met from the regular allocations made.

Government needs to fix responsibility on the concerned DCs who accorded administrative approval and expenditure sanction to all these works, which were in violation of the approved guidelines of the scheme.

The matter was reported to the Government/Department (February 2018); reply has not been received (July 2019).

2.9 Infertuous expenditure

Objective of segregating solid waste and recycling garbage in Ziro township and generating revenue out of this activity was not achieved despite spending ₹ 1.11 crore

GoAP approved (October 2012) 'construction of Resource Recovery Park at Ziro' in Lower Subansiri District under District Innovation Fund (DIF) (GoI scheme) at a cost of ₹ 1.11 crore¹⁴ (to be shared in the ratio of 90:10 by DIF and State). The objective of the project was to provide space with necessary infrastructure, machinery tools and manual

¹⁴ State share:- ₹ 9.95 lakh (March 2012) + ₹ 1.16 lakh (May 2015) = ₹ 11.11 lakh,
Centre share: ₹ 50 lakh (March 2013) + ₹ 50 lakh (October 2015) = ₹ 100 lakh.

labour to sort, clean and segregate waste collected from the shops, commercial establishments, households, store non-biodegradable discards like plastic, paper, *etc.*, and make it available for production and consumption purposes as a part of integrated solid waste management in the town of Ziro. The project also envisaged that while dealing with solid waste more effectively, it would generate revenue to sustain future operations and create profit out of it.

The work was executed by the Urban Development and Housing Department (UD & HD), Ziro. Scrutiny of records (October 2017) of the District Planning Officer (DPO), Ziro revealed the following:

- (i) The project consisted of 12 components¹⁵ including construction¹⁶ of Resource Recovery Park and procurement and supply of five machines¹⁷;
- (ii) The DPR was bereft of the details relating to institutional arrangements for operating the facility including staffing, disposal of the re-cycled products, electricity connection, *etc.*
- (iii) The construction commenced in August 2012 on work order basis without inviting tenders, in violation of rules;
- (iv) As per payment vouchers, cash book, *etc.*, all the components of construction work, except footpath, were recorded to have been executed as per estimated provision; the Department released the entire sanctioned amount of ₹ 1.11 crore to the executing agency (UD&HD) in December 2015 by certifying that the project has been completed in full as per design and scope in the approved estimates;
- (v) the Department procured only two machines (shredding machine and tipper) against the provision of five machines at a cost of ₹ 28.58 lakh as against a provision of ₹ 13 lakh in the estimate;

As per the DPR, the building was to have adequate space for segregation and cleaning, for containment of hazardous material, for shredding and recycling the paper waste into paper plates, napkins, *etc.* However, during the joint physical verification (November 2017) of the site by the Audit team along with the departmental officers, it was noticed that there was no activity in the building and even the shredding machine, which was stated to have been procured and installed, was not installed. It was lying in the open field near Indoor Stadium, Ziro about 10 km from the project site, for more than three years from the date of procurement (December 2015) as can be seen from the photographs given below.

¹⁵ Sorting and cleaning facility, storing facility, composting plant, Vermi composting plant, Biogas plant, transfer station, shredder machine, Bailing unit, Civil Construction, Grey water re-cycling plant, and Rain Water Harvesting facility.

¹⁶ Civil Construction consisting of Formation cutting, RR wall, Compound Wall, Transfer Station, Office Building, Toilets, Shop cum Store, Septic Tank, Drive way, footpath and Parking Place.

¹⁷ (1) Shredding machine (₹ 15.86 lakh), (2) Vertical bailing machine (₹ 2.32 lakh), (3) Tissue paper making machine (₹ 9.00 lakh), (4) Surf coated paper machine (₹ 4.00 lakh) & (5) Tipper truck machine (₹ 9.40 lakh).



Shredding Machine lying idle in open field near Indoor Stadium, Ziro.

Moreover, the essential equipment for paper re-cycling viz., vertical baling machine, tissue paper making machine, surf coated paper making machine were not procured. Consequently, infrastructure created could not be utilised and the resource recovery park was lying idle since completion (December 2015) as can be seen from the photographs given below.



While the Department has not provided any reasons for releasing the amount before completion of work, it stated (December 2018) that the matter has been reviewed by the District Administration and the implementing agency had assured that the resource recovery park would be operationalised by March 2019.

The objective of segregating solid waste and recycling the garbage in Ziro township and generating revenue out of this activity thus remained unachieved and an expenditure of ₹ 1.11 crore proved infructuous.

2.10 Revenue receipts

Arunachal Pradesh is a Special Category State and area-wise, is the largest State in the North-Eastern region. Tax and non-tax revenue raised by GoAP during 2017-18, share of net proceeds of divisible Union taxes and duties assigned to the State, Grants-in-aid received from Government of India (GoI) during the year are shown below:

Table 2.2 Trend of Revenue Receipts

		(₹ in crore)
Sl. No.	Particulars	2017-18
Revenue raised by State Government		
	Tax revenue	815.57
	Non-tax revenue	366.18
Total		1181.75
Receipts from GoI		
	Share of net proceeds of divisible Union taxes and duties	9238.79
	Grants-in-aid	3354.06
Total		12592.85
Total revenue receipts (1 +2)		13774.60

Source: Finance Accounts of 2017-18

As can be seen above, during 2017-18, revenue collected by the State (₹ 1181.75 crore) was nine *per cent* of the total revenue receipts, with the balance 91 *per cent* coming from GoI.

2.10.1 Audit criteria

Arunachal Pradesh Goods Tax Act, 2005 and Arunachal Pradesh Goods Tax Rules, 2005

During 2017-18, out of 132 auditable units, 22 units of Tax & Excise Offices were audited (17 *per cent*). Out of these, 12 units were Tax offices, with 5448 VAT assesses, of which, 1362 (25 *per cent*) VAT assesses were test checked in audit. Audit scrutiny revealed under assessment/short levy/loss of revenue aggregating ₹ 30.94 crore in 130 cases, which were accepted by the Departments concerned. However, only ₹ 0.07 crore was recovered during 2017-18.

Under Section 34 (1) (b) and Section 87(10) of the Arunachal Pradesh Goods Tax (APGT) Act, 2005, if any person has furnished incomplete or incorrect returns, the Commissioner may assess or re-assess the tax due for a tax period, and the dealer will be liable, in addition to tax evaded, to pay penalty of a sum of ₹ one lakh or the amount of tax evaded whichever is greater. Further, Section 44 (2) of the Act stipulates payment of interest ranging between 12 to 24 *per cent* per annum computed on daily basis for the period of default in payment of tax due.

Under Section 5 (2) of the APGT, 2005, a dealer executing works contract shall be liable to pay VAT on the taxable turnover arrived at, after deduction of charges incurred towards labour, services, etc. If such charges are not ascertainable, a deduction of 25 *per cent* is allowed on the total turnover. Further, Section 47A of the Act *ibid* provides for deduction of VAT at source by the Government/Departments while making payment to works contractors at a rate of four *per cent* on the total value of works in respect of registered dealer who opted for 'Simplified Accounting Method for Works Contracts'. If the Drawing and Disbursing Officer (DDO) fails to deduct tax at source (TDS), he is also liable to pay penalty not exceeding twice the amount of tax.

Rule 43 A of the APGT Rules (Amendment) 2010, stipulates the manner of deduction of tax at source. For non-deduction or deduction of tax at lower rate at source, the dealer should submit an application to the prescribed authority. If the particulars and documents

furnished by the dealer are correct and complete in all respects the prescribed authority grants a certificate in Form FF 15 and forwards a copy of such certificate to the contractee for whom the work is executed. Under Section 47 A (1) (c) of the Act, if any person entering into any contract with any contractor for transfer of property in goods (whether as goods or in some other form) involved in the execution of works contract shall furnish within fifteen days from the date of signing of the contract, such information as may be prescribed to the Prescribed Authority under whose jurisdiction the contractor's place of business is situated. Further, Rule 43 A(2) (5) of the APGT Rules (Amendment) 2010 stipulates that the detailed information related to contract to be furnished to the prescribed authority in Form FF 16. Failure to do so shall entail a penalty not exceeding ₹ 500 per day of default after affording such person a reasonable opportunity of being heard. Further, as per Rule 43 A (6) (C) every person responsible for deduction of tax shall file a return in Form FF-19 within two months from the end of each year before the prescribed authority.

Instances of non-compliance with the above provisions noticed during test check of the records, which resulted in loss of revenue to Government, are discussed as follows:

Taxation Department

2.10.2 Poor internal control in assessing returns

Failure of STs to verify the correctness of returns filed, led to non-detection of tax evasion of ₹ 1.62 crore

- (i) A dealer (VAT TIN: 12170364169) declared a turnover of ₹ 36.49 lakh from counter sales in his self-assessed return (FF-01) for the period January-March 2017. Cross verification of records (August 2017) of the ST, Zone-II, Itanagar with those of the Drawing and Disbursing Officer (DDO) and Finance and Accounts Officer (FAO), Department of Industries revealed that the dealer supplied scientific equipment valued at ₹ 1.15 crore (taxable at the rate of 12.50 *per cent* VAT) in March 2017 to the Department. The DDO made payment to the dealer in March 2017 and deducted VAT at source of only ₹ 4.61 lakh (at the rate of four *per cent*) against the required rate of 12.50 *per cent*, which works out to ₹ 14.40 lakh. It was observed in Audit that the dealer did not declare the supplies made to Industries Department in the return filed and concealed the entire supply of ₹ 1.15 crore in his return.

The dealer thus, concealed turnover and evaded payment of tax of ₹ 9.79 lakh. For willful evasion of tax by furnishing false return, the dealer is liable to pay a penalty of ₹ 9.79 lakh under Section 87(10) along with interest of ₹ 1.28 lakh at the rate of 12 *per cent* calculated up to 31 May 2018.

- (ii) Scrutiny of records (July 2018) of the ST, Tawang revealed that during the period from April 2016 to March 2017, a registered contractor (VAT TIN: 12010072174) disclosed 'nil' turnover in his four quarterly self-assessed returns submitted for the assessment year 2016-17. The Assessing officer (AO) assessed and accepted the returns furnished by the dealer.

However, cross-verification of records of the ST, Tawang with those of the Executive Engineer (EE), PWD, Lumla, revealed that the registered contractor executed civil works valued at ₹ 12.41 crore during January 2014 to March 2017 and payment was made in March 2017. Audit scrutiny revealed that the dealer had not opted for 'Simplified Accounting Method for Works Contracts' as Form FF15 was not issued to him. The taxable turnover was ₹ 9.30 crore, after allowing deduction of 25 per cent towards labour cess and service charges as the same was not ascertainable.

The dealer was thus liable to pay a tax of ₹ 1.06 crore on this turnover. However, the EE deducted VAT of ₹ 10.52 lakh only, resulting in short-deduction of ₹ 1.06 crore. For short payment of tax, the dealer is also liable to pay interest of ₹ 19.04 lakh (@ 12 per cent per annum calculated up to September 2018) and penalty of ₹ 1.06 crore.

- (iii) Scrutiny of records (September 2017) of the EE (DDO), Highway Division (PWD), Jairampur under the jurisdiction of the ST Changlang revealed that payment of ₹ 6.47 crore was made to a contractor (VAT TIN:12120172127) for civil works against four bills during May 2015 to March 2016. Scrutiny of VAT records of the works contractor maintained by the ST, Changlang revealed that the contractor had not opted for 'Simplified Accounting Method for Works Contracts' as Form FF 15 was not issued to him by the ST. The taxable turnover was ₹ 4.85 crore (after allowing deduction of 25 per cent towards labour and service charges). The EE was required to deduct VAT of ₹ 60.63 lakh (@ 12.50 per cent of taxable turnover of ₹ 4.85 crore). However, the DDO deducted VAT of only ₹ 25.87 lakh (at four per cent) resulting in short-deduction of ₹ 34.76 lakh (**Appendix-2.6**).

The contractor was liable to pay the balance amount of tax of ₹ 34.76 lakh and penalty of ₹ 34.76 lakh alongwith interest of ₹ 11.10 lakh as per Section 44 (2) of the APGT Act, 2005.

- (iv) Two works contractors (VAT TIN:12080368175 and VAT TIN:12060147113) registered under the jurisdictions of ST, Pasighat and ST, Daporijo, executed two civil works contracts for the EE, Rural Works Department, Pasighat Division and the EE, Public Works Department, Daporijo Division during March 2017. Payment of ₹ 1.24 crore was made by the DDOs without deducting tax at source. As the charges towards labour and services, etc., were not ascertainable, VAT of ₹ 11.65 lakh (at the rate of 12.50 per cent) on taxable turnover of ₹ 93.26 lakh (being 75 per cent of gross value of ₹ 1.24 crore) was payable by the two contractors under Section 5 (2) of the APGT Act, 2005. However, it was observed in Audit that all the self-assessed quarterly returns (FF-01) furnished by the two dealers during the year 2016-17 including the return for the period January-March 2017 were 'nil' returns which were accepted by the Assessing Officers and accordingly the dealers did not pay any tax for the year 2016-17. The DDOs failed to deduct any tax at source from the contractors' bills and did not also furnish Form FF-16 to the concerned ST as per Rule 43 (2) (5) of the APGT Rules (Amendment), 2010 as detailed below:

Table 2.3 Details of civil works executed by two works contractors

Name of Department	RWD, Pasighat Division	PWD, Daporijo Division	Amount involved (₹ in Lakh)
VAT TIN of the Dealer	TIN:12080368175	TIN:12060147113	
Works Contract Turnover concealed by dealer	59.99	64.37	124.36
Taxable Turnover (75% of gross turnover)	44.99	48.27	93.26
A) Tax leviable (@ 12.5 per cent on taxable turnover)	5.62	6.03	11.65
B) Penalty U/s 87(10)	5.62	6.03	11.65
C) Interest leviable (@ 12% on tax amount for 398 days from 29/04/2017 to 31/05/2018)	0.74	0.79	1.53

From the above table it can be seen that the dealers concealed total work contract turnover of ₹ 1.24 crore from the Assessing Officers (*i.e.* STs) by submitting false self-assessed returns and evaded the liability to pay VAT of ₹ 11.65 lakh. For willful evasion of tax, the dealers are liable to pay a penalty of ₹ 11.65 lakh under Section 87(10) along with interest of ₹ 1.53 lakh at the rate of 12 per cent calculated up to 31 May 2018.

Thus, due to failure of the STs of Zone II Itanagar, Tawang, Changlang, Pasighat and Daporijo to verify the correctness of the returns filed resulted in non-detection of concealment of turnover by dealers with consequent tax evasion of ₹ 1.62 crore.¹⁸ The assesses were liable to pay interest of ₹ 0.33 crore and penalty of ₹ 1.62 crore.

The matter was reported to Government/Department in September 2017; reply has not been received (April 2019).

Audit noticed the concealment of turnover on test check of records of five unit offices out of 17 unit offices in the State. The Department should internally examine similar errors in other unit offices not covered in audit.

Recommendation: *Taxation Department should ensure that the Assessing officers exercise necessary checks while examining the returns and make sure that the relevant Rules are complied with. Action may be initiated against the DDOs for deduction of tax at source at lower rates than the prescribed rate.*

2.10.3 Loss of revenue

Failure of the ST to detect irregular claim of exemption by an Industrial Unit resulted in loss of revenue of ₹ 1.96 crore

As per the provisions of the Arunachal Pradesh State Industrial Policy, 2008 and Arunachal Pradesh Industrial Tax Incentive Order, 2010, an Industrial Unit (IU) may claim exemption of 99 per cent of the tax payable in respect of sale of goods manufactured in a unit, until the amount of such tax payable exceeds the quantum of monetary ceiling¹⁹ or the period of eligibility²⁰, whichever is earlier. Para 8 of the order further states that the Certificate of Entitlement shall remain valid only for one year, *i.e.*, up to the end of the financial year, and thereafter shall be renewed after examination of

¹⁸ ST, Itanagar- ₹ 9.79 lakh, ST- Tawang- ₹ 1.06 crore, ST, Changlang- ₹ 34.76 lakh, ST, Pasighat- ₹ 5.62 lakh and ST, Daporijo- ₹ 6.03 lakh

¹⁹ i) 150% of fixed capital in case of Category “A” and Category “C” industrial unit.

ii) 150% of additional fixed capital investment in case of Category “B” industrial unit.

²⁰ Seven years from the date of commencement of production.

annual return furnished in the prescribed format for each financial year, or for a fraction of financial year, till the industrial unit reaches the maximum permissible monetary limit of tax exemption.

Scrutiny of records (July 2017) of the ST, Border Facilitation Counter (BFC), Banderdewa revealed that an IU (VAT TIN: 12041656182), which was eligible for 99 *per cent* tax exemption during the period from 23 January 2009 to 22 January 2016 with monetary ceiling of ₹ 67.41 crore, was issued Entitlement Certificate with validity till 31 March 2015 by the Commissioner of Tax, GoAP under the provisions of the Arunachal Pradesh Industrial Tax Incentive Order, 2010.

It was noticed in Audit that after the expiry of the validity of Entitlement Certificate on 31 March 2015, the IU neither submitted annual returns to the Commissioner of Tax, nor got the Certificate renewed. However, tax exemption was claimed for the period from April 2015 to March 2017. During this period, in 22 self-assessed VAT returns (FF-01) submitted to the ST, BFC, Banderdewa, the IU declared a turnover of ₹ 50.25 crore with tax liability of ₹ 2.01 crore (four *per cent* of ₹ 50.25 crore). After adjustment of Input Tax Credit (ITC) of ₹ 3.06 lakh, the net tax liability was ₹ 1.98 crore. The Unit however, paid a tax of only ₹ 1.98 lakh (one *per cent* of ₹ 1.98 crore) and claimed exemption of ₹ 1.96 crore (Detailed in **Appendix-2.7**) despite not having Entitlement Certificate.

The IU is liable to pay the balance tax of ₹ 1.96 crore and a penalty of ₹ 1.96 crore under Section 87(10) of the APGT Act, 2005. Besides, interest of ₹ 57.38 lakh is also leviable on the outstanding tax calculated at 12 *per cent per annum* on daily basis till 31 May 2018. The ST failed to detect the irregular claim of exemption for ₹ 1.96 crore or recover the dues from the IU, resulting in loss of revenue to that extent.

On this being pointed out by Audit, the ST issued a demand notice (September 2017) for payment of tax due of ₹ 1.96 crore along with the interest amount of ₹ 35.81 lakh (calculated up to May 2018). However, the IU had not paid as of April 2019.

Audit noticed the irregular claims by the IU on verification of records of one unit office out of 17 unit offices in the State. The Department should internally examine similar errors in other unit offices not covered in audit.

Recommendation: *The Department should issue instructions to all STs to verify the validity period of the Entitlement Certificates of the IUs scrupulously, while allowing them tax incentives.*

2.10.4 Non-imposition of penalty

Seven DDOs failed to furnish details of 39 works contract agreements in Form FF-16, which involves levy of a penalty of ₹ 1.20 crore

Cross-verification of records of three STs, Pasighat, Ziro and Daporijo with those of seven DDOs²¹ between September 2017 and November 2017 revealed that the DDOs had entered into 39 works contracts with 33 contractors during the period from February

²¹ (i) ST, Pasighat – September 2017 – 2 DDOs
(ii) ST, Ziro – October 2017 – 2 DDOs
(iii) ST, Daporijo – November 2017 – 3 DDOs

2014 to March 2017. However, none of the DDOs furnished information about the works contracts to the respective STs in Form FF-16 within the prescribed timeframe of 15 days of signing of agreement till the date of audit, as required under Section 47A (1) (c) of the APGT (Amendment) Act, 2007 and Rule *ibid*.

The STs were unaware of the works contracts executed by the 33 contractors in their jurisdiction and failed to take action against the DDOs for non-compliance with the provision of the APGT Act and Rules. The DDOs were liable to pay a penalty of ₹ 1.20 crore calculated at the rate of ₹ 500 per day up to 31 May 2018 (**Appendix-2.8**). Despite the issue being pointed out in Audit, the STs have failed to take any action against the DDOs to ensure compliance, resulting in non-realization of a total revenue of ₹ 1.20 crore. The matter was reported to Government/Department between November 2017 and December 2017; reply has not been received (April 2019).

Audit noticed failure of the STs in imposing penalty on DDOs on verification of records of three unit offices out of 17 unit offices in the State. The Department should internally examine similar errors in other unit offices not covered in audit.

Recommendation: *The Taxation Department should recover penalty from the DDOs concerned for non-compliance with the provisions of the Act and Rules and take action against the concerned officials for negligence of duties.*

State Excise Department

2.10.5 Loss of revenue

Failure of the Commissioner to initiate action led to non-realisation of licence fee of ₹ 31.50 lakh and penalty of ₹ 6.19 lakh from seven Bonded Warehouses of India Made Foreign Liquor (IMFL)/ Beer

Under the Arunachal Pradesh Excise Act, 1993 and Rules made there under, a licence granted for operating a Bonded Warehouse of India Made Foreign Liquor (IMFL)/Beer shall remain valid for one year from the date of issue. On expiry of the validity period, the licensee shall either return the licence or get it renewed on payment of the prescribed annual fee of ₹ 1.50 lakh in advance. If the licensee fails to renew the licence before expiry of the validity period, he shall be liable to pay penalty at the rate of ₹ 100 per day in addition to the annual fees for the period of default in payment. Further, Section 29(1) (b) of the Act provides that the licence may be cancelled or suspended if the prescribed annual licence fee payable by the licensee has not been duly paid.

Scrutiny of records (April 2018) of the Commissioner of Excise (CE), Itanagar revealed that seven out of 41 Bonded Warehouses in the State did not renew their licenses before the expiry of the validity period falling between April 2011 and March 2018 even after 15 to 2527 days (calculated up to 31 March, 2018). The Bonded Warehouses neither returned their licenses nor paid renewal fee of ₹ 31.50 lakh, and were thus also liable to pay penalty of ₹ 6.19 lakh (calculated up to March 2018). Details are given in **Appendix-2.9**. The Commissioner neither took any initiative to realize the prescribed renewal fee and penalty, nor cancelled the licenses as prescribed under Section 29(1) (b)

of the Act. There was thus, a revenue loss of ₹ 37.69 lakh (licence fee ₹ 31.50 lakh and penalty ₹ 6.19 lakh).

The case was reported to the Department/Government in June 2018. The Commissioner Tax and Excise replied (March 2019) that fee of ₹ 6.00 lakh and penalty of ₹ 0.96 lakh was recovered from two licencees (Sl. No. 1 & 4 of **Appendix-2.9**), and in three cases, licences were cancelled and security deposits forfeited. However, the three licences were cancelled without realising the annual renewal fees of ₹ 21 lakh and penalty of ₹ 4.52 lakh. In respect of the remaining two cases (Sl. No. 2 & 7 of **Appendix-2.9**), further development is awaited.

Recommendations: *The Department should evolve a system to ensure timely collection of licence fee from the licencees to avoid loss of revenue.*

