

## OVERVIEW

This Report contains 44 Audit Paragraphs (including five general paragraphs), two Performance Reviews and one Chapter on Internal Control/Internal Audit apart from comments on the Finance and Appropriation Accounts. In accordance to the existing arrangements, copies of the draft audit paragraphs and draft performance reviews were sent to the concerned Secretary to the State Government by the Accountant General with a request to furnish replies within six weeks. The Secretaries were also reminded for replies. Besides, the Chief Secretary to the State Government was also requested to arrange for discussion of the issues raised in the draft audit paragraphs, draft performance reviews, etc., for inclusion of the views/comments of the Government in the Audit Report. Despite such efforts, no response was received in respect of almost all the paragraphs.

### Finances of the State Government

The key fiscal parameters - revenue and fiscal deficits - revealed a mixed trend in the fiscal situation of the State during the current year, as revenue surplus increased by *7 per cent* (Rs 48 crore) while the fiscal surplus turned into deficit and the primary surplus deteriorated by *50.7 per cent* (Rs 149 crore) in 2007-08 relative to the previous year. An improvement in the revenue surplus may however be viewed in the light of the fact that around *75 per cent* of the State's revenue receipt (Rs 3003 crore) were contributed by Central transfers comprising of State's share in Union pool of taxes and duties (Rs 438 crore) and grants-in-aid from Government of India (Rs 1810 crore) in 2007-08 over the previous year. Moreover, within the State's own resources, a sharp increase in non tax revenue (Rs 360 crore) in 2007-08 over the previous year was primarily due to the fact that an increase of Rs 339 crore was recorded as receipts from the power sector in the State, which was due to enhanced upfront receipts from private power developers. Besides the fact that deterioration in fiscal deficit was mainly due to increase in capital expenditure by *28 per cent* (Rs 167 crore) and relative to GSDP it was well within the norm of *three per cent* stipulated in FRBM Act-2006. The expenditure pattern of the State reveals that the revenue expenditure continued to share dominant proportion in total expenditure of the State which was around *75 per cent* during 2007-08 and within the revenue expenditure, NPRE at Rs 1216 crore in 2007-08 was significantly higher than the normative assessment of Rs 881 crore made by TFC for the year. Further, three components- salary expenditure, pension liabilities and interest payments constitute about *66 per cent* of the NPRE during 2007-08. These trends in expenditure indicate the need for change in allocative priorities.

The fiscal liabilities of the State have consistently increased and stood at as high as *70.6 per cent* of GSDP in 2007-08 and are quite high especially when compared with the TFC norm of *31 per cent*, to be achieved by the terminal year of its award period. The increasing fiscal liabilities accompanied by negligible rate of return (less than *one per cent*.) on Government's investment and inadequate interest cost recovery

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continued to be a cause of concern and might lead to an unsustainable debt position in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilize the additional resources especially by exploiting the untapped taxable sources in ensuing years as the tax revenue of the State in the current year (Rs.98 crore) is far below the normative assessment of TFC (Rs. 138 crore) for the year.

*(Paragraph 1.1 to 1.12)*

## Allocative Priorities and Appropriation

During 2007-08 expenditure of Rs.3093.83 crore was incurred against total grants and appropriation of Rs.4368.72 crore. The net savings of Rs.1247.89 crore was the result of savings of Rs.1306.66 crore partly offset by excess of Rs.13.77 crore.

*(Paragraph 2.2)*

Supplementary provision made during the year constituted 64 *per cent* of the original provision. Supplementary provision of Rs.91.54 crore made in 5 cases proved unnecessary in view of aggregate final savings of Rs.106.45 crore.

*(Paragraph 2.3.3 and 2.3.4)*

Excess expenditure over provision amounting to Rs.990.57 crore for the years 1986-87 to 2006-07 and Rs.31.77 crore for the current year is required to be regularized according to Article 205 of the Constitution of India.

*(Paragraph 2.3.2 (i) and 2.3.2 (ii))*

## Performance Reviews

### HEALTH DEPARTMENT

#### 3.1 National Rural Health Mission (NRHM)

National Rural Health Mission (NRHM) was launched in April 2005 throughout the country with special focus on 18 States including Arunachal Pradesh to provide healthcare to all in an equitable manner through increased outlays, horizontal integration of existing healthcare schemes with special emphasis on primary healthcare to 9.74 lakh rural people in the State. There are some noteworthy achievements of the Mission and the State Government in implementation of NRHM. Arunachal Pradesh has been declared as the first State in the country to eradicate the polio menace. Moreover, there is no incidence of death due to vector borne diseases like kala azar, filaria, Japanese encephalitis and dengue in the State. However, there were deficiencies in planning, implementation and monitoring of the scheme; shortage of medical staff, inadequate infrastructure facilities and lack of public awareness about the facilities provided under the scheme nullified some of the interventions of the scheme.

*(Paragraph 3.1)***PLANNING DEPARTMENT****3.2 Non-Lapsable Central Pool of Resources (NLCPR)**

The Non-Lapsable Central Pool of Resources (NLCPR) was established in 1998 by the Government of India for speedy development of the infrastructure projects in the North Eastern region. The NLCPR funded projects in the State facilitated better connectivity and helped in containment of land erosion. These have also helped in providing clean and potable drinking water to the targeted villages and creating new infrastructure for spreading education in the State. The projects have also helped in strengthening the healthcare and power transmission/distribution facilities. However, there were delays in completion of the projects due to poor planning, non-release of funds to the implementing agencies and inadequate monitoring. Consequently, only 38 out of the targeted 55 projects were completed as of March 2008.

*(Paragraph 3.2)***Audit of Transactions***Fraud / Misappropriation / Embezzlement***PUBLIC WORKS DEPARTMENT**

Act of omission and commission of the Executive Engineer Public Works Division, Roing resulted in short delivery of bitumen valued at Rs. 48.15 lakh.

*(Paragraph 4.1)**Excess Payment /Wasteful Expenditure***ENVIRONMENT AND FOREST DEPARTMENT**

Due to failure of the Division to carry out tending operation of plantation area, an expenditure of Rs.24.63 lakh was rendered wasteful.

*(Paragraph 4.3)***POWER DEPARTMENT**

The department procured ACSR conductors, which were not immediately required, at higher price without waiting for the finalisation of tendering procedure which was underway. As a result, the Department incurred an extra expenditure of Rs.17.77 lakh on the procurement of conductors, when compared with the contracted rate.

*(Paragraph 4.5)**Idle / Unfruitful / Unproductive expenditure***PUBLIC WORKS DEPARTMENT**

Due to non-construction of approach road for one bridge and non-completion of another bridge, the Kamchi-Kamdu road could not be put to use resulting in idle investment of Rs.39.48 lakh.

*(Paragraph 4.8)*

#### **TOURISM DEPARTMENT**

There was an infructuous expenditure of Rs. 28.85 lakh due to execution of work at wrong site.

*(Paragraph 4.9)*

#### **Regularity Issues and Others**

#### **PUBLIC WORKS DEPARTMENT**

The Department incurred an unauthorised/irregular expenditure of Rs.1.59 crore by diverting the revenue realised as hire charges for use of machinery and equipment.

*(Paragraph 4.10)*

#### **Internal Control System**

#### **TEXTILE AND HANDICRAFTS DEPARTMENT**

Review of the internal control system in the Textile and Handicrafts (T&H) Department of Government of Arunachal Pradesh during 2003-08 revealed deficient budgetary, financial, operational and administrative controls. Absence of proper internal control in the Department led to idle or under utilisation of infrastructure and non-maintenance of important records.

*(Paragraph 5.1)*

#### **Revenue Receipts**

#### **ENVIRONMENT AND FOREST DEPARTMENT**

Penalty of Rs.2.38 crore was not realized from 323 offenders for unauthorized occupation of 3,559.17 hectares of land in reserve forests

*(Paragraph 6.2)*

Non-approval of the working plan for operation of cane led to non-realisation of revenue of Rs.1.08 crore.

*(Paragraph 6.3)*

Inaction of the Environment and Forest Department to take timely action to cancel the lease and re-settle it led to loss of revenue of Rs.31.92 lakh.

*(Paragraph 6.4.1)*

Inaction of the department against orders of the Government led to non-realisation of revenue of Rs.20.65 lakh.

*(Paragraph 6.5)*

## **GEOLOGY AND MINING DEPARTMENT**

Failure of the department to initiate action against two lessees for delayed payment of royalty led to non-realisation of additional royalty of Rs.37.42 crore.

*(Paragraph 6.11)*

## **STATE LOTTERY DEPARTMENT**

Unclaimed prize money of Rs.49.91 crore remained out of Government accounts due to non-inclusion of penal/deterrent clause in the agreement.

*(Paragraph 6.14)*

## **TAXATION DEPARTMENT**

Non-registration of forest divisions resulted in non-realisation of revenue of Rs.33.09 lakh on sale of timber.

*(Paragraph 6.16)*

Failure to register 15 dealers and non-deduction of tax at source led to evasion of tax of Rs.1.77 crore for which maximum penalty of Rs.33.97 lakh was also leviable.

*(Paragraph 6.17)*

Non-inclusion of excise duty in sale price of IMFL led to underassessment of tax of Rs.21.80 lakh.

*(Paragraph 6.18)*

## **Government Commercial and Trading Activities**

As on 31 March 2008, the total investment in three working Government companies was Rs.18.11 crore (equity: Rs.9.07 crore and long term loan: Rs.9.04 crore). The accounts of all the three working companies were in arrears for periods ranging from one to 14 years as on 30 September 2008. Out of the three loss incurring working Government companies, Arunachal Pradesh Industrial Development Financial Corporation Limited had accumulated losses of Rs.19.02 crore which has eroded its paid up capital of Rs.2.15 crore.

*(Paragraph 7.1.1 to 7.1.6)*

## **POWER DEPARTMENT**

The objective of electrification of all villages by March 2007 failed in the planning and sanction stage itself as the Department did not formulate any plan to cover all unelectrified villages and also did not make any efforts to get funds for the same. The Department incurred Rs. 5.04 crore without achieving the target of electrification of 24 villages under Pradhan Mantri Gramodaya Yojana. Due to deficient selection of 27 villages, without considering the availability of source of power supply, the expenditure of Rs.4.94 crore on electrification remained unfruitful.

*(Paragraph 7.2)*

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Injudicious procurement of materials resulted in avoidable expenditure of Rs.72 lakh and blocking up of funds of Rs.61 lakh since 1997-98.

*(Paragraph 7.3)*

Expenditure of Rs.82.53 lakh incurred on wages during 2004-05 to 2006-07 remained unsubstantiated.

*(Paragraph 7.4)*

Incorrect classification of tariff in respect of commercial consumers resulted in loss of revenue of Rs.13.12 lakh during April 2005 to March 2008.

*(Paragraph 7.5)*

**SUPPLY AND TRANSPORT DEPARTMENT**

Non-adherence to the terms of the agreement in transportation of essential ration commodities resulted in extra expenditure of Rs.12.91 crore during 2003-04.

*(Paragraph 7.6)*

There was misappropriation of sale proceeds of Rs.17.19 lakh and of stores items of Rs.7.36 lakh due to lack of internal control during April 2001 to May 2005.

*(Paragraph 7.7)*