OVERVIEW

This Report includes two chapters containing observations of audit on the Finance and Appropriation Accounts of the Government of Nagaland for the year 2004-05 and five other chapters comprising three performance audit and 22 audit paragraphs dealing with the results of audit of selected programmes and schemes and financial transactions of the Government including its commercial and trading activities. A synopsis of the findings of the performance audit and the more important paragraphs are presented in this overview.

According to existing arrangements, copies of the draft audit paragraphs and performance audit are sent demi-officially to the concerned Secretaries to the Government by the Accountant General (Audit) with a request to furnish replies within six weeks. Besides issuing reminders, the Secretaries are also invited for discussion before finalisation of this Report. Despite these efforts, no reply had been received in respect of 10 paragraphs as of November 2005.

1. Finances of the State Government

The revenue receipts of the State increased from Rs.1254.10 crore in 2000-01 to Rs.1839.52 crore in 2004-05 at an average growth rate of 14.26 *per cent*. While 92 *per cent* of the revenue receipts during 2004-05 came from Grants in aid from Government of India and central tax transfers, its own resources comprising tax and non-tax revenue together contributed only 8 *per cent* of the total revenue.

As on 31 March 2005, Government had invested Rs.73.41 crore in its statutory corporations, Government companies, joint stock companies and co-operative societies. There was no return to the Government on this investment. The average annual subsidy and implicit subsidy in 2004-05 worked out to Rs12.36 crore and Rs.7.52 crore respectively.

In addition to investments in co-operatives, corporations and companies, Government has also been providing support in terms of loans and advances to many of these parastatals. The total outstanding balance as on 31 March 2005 was Rs.35.06 crore. Interest received on such loans had varied from 1.56 *per cent* to 8.57 *per cent* during 2000-2005. Total implicit subsidy during 2000-05 on such loans was Rs.21.07 crore.

Overall fiscal liabilities of the State increased from Rs.1429.93 crore in 2000-01 to Rs.2146.29 crore in 2004-05 on an average rate of 12.89 *per cent* during 2000-2005. The ratio of these liabilities to GSDP decreased from 42.60 *per cent* in 2000-01 to 39.30 *per cent* in 2004-05.

The ratio of revenue receipts to GSDP and its buoyancy, which were on a declining trend during 2000-03 increased substantially during 2003-04 owing to one time increase in central tax transfers and Grants-in-aid from the Government of India. The ratio again dipped to 33.64 *per cent* in 2004-05. The ratio of own tax to GSDP, however, was stable during last five years. The balance from current revenues (BCR) increased from (-) Rs.296.20 crore in 2000-01 to (-) Rs.386.32 crore in 2004-05 indicating increased dependence on external resources for plan and development expenditure.

(Paragraphs 1.1 to 1.10)

2. Allocative priorities and Appropriation

The overall saving of Rs.581.85 crore was the net result of excess of Rs.28.82 crore in 19 cases of grants and one case of appropriation and saving of Rs.610.67 crore in 56 cases of grants and two cases of appropriations.

(Paragraph 2.2.1)

According to Article 205 of the Constitution of India, it is mandatory for the State Government to get the excess over a Grant/Appropriation regularised by the Sate Legislature. However, it was noticed that excess expenditure of Rs.2011.27 crore reported during 1991-92 to 2003-04 except 1992-93 and 1993-94 had not been regularised. No action had been taken by the Government (Finance Department) for regularisation of the excess as of November 2005.

(Paragraph 2.3.3)

According to rules, expenditure should not be incurred on a scheme/service without provision of funds. It was noticed that expenditure of Rs.47.96 crore was incurred in seven cases without any provision in the original estimates/supplementary demands.

(Paragraph 2.3.8)

Out of 78 controlling officers, expenditure of Rs.136.26 crore in respect of six controlling officers remained unreconciled.

(Paragraph 2.3.13)

3. Performance Audit

1. Pradhan Mantri Gram Sadak Yojana

Pradhan Mantri Gram Sadak Yojana (PMGSY) was launched by Government of India in December 2000 as a cent *per cent* centrally sponsored scheme with a view to provide road connectivity through all weather roads to all unconnected habitations for a population of 1,000 persons and above by 2002-03 and with population of 250 persons and above, for hilly states like Nagaland by 2007.

The audit of works of construction of roads under PMGSY revealed failure to meet targets by 46 *per cent* (851.61 km new road constructed against the target of 1,576.03 km), allocation of funds (Rs.15.78 crore) in violation of guidelines for upgradation works, and extension of undue benefit to contractors (Rs.1.67 crore). Inadequate planning, non-adherence to guidelines in determining priority criteria, inadequacies in contract management, irregularities in execution of works, financial irregularities and inadequate quality control measures led to non achievement of the objectives of the programme.

2. Working of Nagaland State Transport

Nagaland State Transport (NST) was established as a department of the Government of Nagaland in December 1964 to provide a well co-ordinated, reliable and affordable transport service to the public both inside and outside the State. Underutilisation of fleet, low vehicle productivity, delay in tariff revision, excess expenditure on purchase, overstaffing and inefficient ticket management led to the department suffering sustained losses to the tune of Rs.60.79 crore in 2000-05 which accumulated to Rs.164.63 crore as on March 2005.

3. Food Security, Subsidy and Management of Foodgrains

Food security entails procurement of foodgrains from the farmers at the minimum support price, storage and distribution to the targeted beneficiaries through fair price shops. Procurement of foodgrains within the State serves the twin objectives of providing price security to the farmers and ensuring food security to the people. The Government of Nagaland is involved in operation of various food grains based schemes introduced by the Government of India under the Targeted Public Distribution System (TPDS) launched in June 1997. Under this, three main schemes *viz*, Below Poverty Line (BPL), Antyodaya Anna Yojana (AAY) and Annapurna Scheme for the senior citizens apart from Above Poverty Line (APL) had been implemented by the State.

Due to delay in identification of beneficiaries, short lifting of foodgrains, delay/non-distribution of foodgrains, non-issue of ration cards, undue benefit to millers by allowing less recovery of atta from wheat etc., the basic objective of benefiting the poor and vulnerable sections of the society could not be achieved satisfactorily.

4. Audit of Transactions (Civil)

Likimro hydro electric project completed at a cost of Rs.215.88 crore (a cost overrun of Rs.169.07 crore) remained non-operational for two and a half years after its commissioning resulting in the department spending Rs.43.92 lakh on salary of idle staff besides losing out on potential revenues of Rs.20.40 crore.

(Paragraph 4.1)

Central allocation of Rs.2.68 crore provided for improvement of health care system was diverted to salary payments of staff to be borne out of State funds.

(Paragraph 4.2)

The Chief Engineer, Public Health Engineering Department (PHED), Kohima Division diverted Rs.2.05 crore meant for improvement of Water Supply Projects in Kohima town for purchase/repair of departmental vehicles.

(Paragraph 4.5)

Six bailey bridge components valuing Rs.1.84 crore procured without definite requirement resulted in blocking of Government money.

(Paragraph 4.6)

Executive Engineer, Town Planning Works Division, Kohima incurred an avoidable expenditure of Rs.23.50 lakh against the provision of contractual clause due to poor fund mobilisation for ongoing works.

(Paragraph 4.13)

Executive Engineer, Town Planning Works Division, Kohima had drawn Rs.4.82 crore in advance of requirement and kept in Current Deposit Accounts for more than 15 months resulting in Government incurring an interest liability of Rs.35.11 lakh.

(Paragraph 4.14)

Expenditure of Rs.31.34 lakh was incurred in clearing fictitious past liabilities under 'Foliage Clearance Scheme'.

(Paragraph 4.15)

A property purchased at Rs.15 lakh for use as office accommodation was neither found fit for the purpose nor could possession of the building be taken even after two years of payment.

(Paragraph 4.16)

5. Revenue Receipts

General

The total revenue receipts of the State Government for the year 2004-05 amounted to Rs.1,839.52 crore against Rs.2,359.79 crore for the previous year. Eight *per cent* of this was raised by the State through tax revenue (Rs.78.31 crore) and non tax revenue (Rs.77.90 crore). The balance 92 *per cent* was receipts from Government of India as State's share of divisible Union taxes (Rs.160.15 crore) and as Grants-in-aid (Rs.1,523.16 crore).

(Paragraph 5.1.1)

Government suffered loss of revenue of Rs.1.06 crore due to non deduction of tax on works contract at source.

(Paragraph 5.7)

Incorrect computation of turnover resulted in underassement of tax amounting to Rs.23.65 lakh.

(Paragraph 5.8)

Incorrect application of rate of tax led to a revenue loss of Rs.4.29 lakh.

(Paragraph 5.9)

6. Commercial and Trading activities

There were five working Government companies, one non-working company and nine departmentally managed Government commercial and quasi-commercial undertakings in the State as on 31 March 2005. The total investment in the five working Government companies was Rs.58.34 crore (equity:Rs.20.75 crore, share application money:Rs.1.70 crore and long term loans:Rs.35.89 crore).

(Paragraphs 6.1.1 and 6.1.2)

None of the five working Government companies had finalised their accounts for the year 2004-05. The accounts of all the companies were in arrears for periods ranging from nine to 24 years as on 30 September 2005.

(Paragraph 6.1.6)

According to the latest finalised accounts of five Government companies, three companies had incurred an aggregate loss of Rs.2.06 crore. The capital employed worked out to Rs.19.13 crore in three companies and total return thereon amounted to Rs.(-) 2.12 crore.

(Paragraph 6.1.7 and 6.1.9)

The accounts of one non-working company *viz*, Nagaland Sugar Mills Company Limited were in arrears for a period of 27 years as on 31 March 2005.

(Paragraph 6.1.13)

The proforma accounts of nine departmentally managed Government commercial and quasi-commercial undertakings were in arrears for periods ranging from three to 34 years as on 30 September 2005.

(Paragraph 6.1.19)

An expenditure of Rs.9.56 crore was incurred on construction of a mechanised brick plant which, though commissioned 10 years after its completion, failed to achieve the target of production resulting in loss of potential revenue of Rs.1.38 crore.

(Paragraph 6.2)

The Nagaland Handloom and Handicraft Development Corporation Ltd., failed to clear its statutory dues ('Employees Provident Funds') in time resulted in an avoidable financial liability of Rs.17.77 lakh.

(Paragraph 6.3)

7. Internal Control System and Internal Audit in Government Departments

Evaluation of the internal control system of the Public Health Engineering (PHE) Department

Internal control is a system within an organisation that governs its activities to effectively achieve its objectives. An evaluation of the internal control system in the department (PHE) revealed the following:

Evaluation of the internal control system in the PHED revealed deficiencies in budgetary control, stores management, inventory control and man power control. Non-maintenance of basic records also affected the accuracy and completeness of the monthly accounts. Internal audit arrangements were also deficient and unable to provide assurance against financial irregularities. Irregular drawal of money by transfer credit to civil deposit/bankers cheques to avoid lapse of funds of Rs.15.08 crore resulted in erosion of legislative control over expenditure.

(Paragraph 7.1.6)