

OVERVIEW

This Report contains 19 audit paragraphs and four performance reviews apart from comments on the Finance Accounts and Appropriation Accounts. There is a separate chapter on Internal Control System in Industries and Commerce Department. According to the existing arrangements, copies of the draft audit paragraphs and draft performance reviews were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies were not received from the department concerned in respect of 17 paragraphs and two performance reviews.

1. Finances of the State Government

The fiscal health of the State as reflected in terms of trends in key fiscal parameters- revenue, fiscal and primary deficits- has shown significant improvement during 2006-07 over the previous year. However, the State finances are heavily dependent on Central transfers, which account for about 92 *per cent* of its revenue receipts and helped the State Government to maintain revenue surplus during the period 2003-07. Although the State had maintained revenue surplus during the last four years, fiscal deficit continued to persist, primarily because a part of capital expenditure was financed through borrowed funds during these years. The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure constituted around 76 *per cent* during the current year leaving inadequate resources for expansion of services and creation of assets. A further analysis of expenditure reveals that the NPRE at Rs.1768.46 crore is significantly higher than the normative assessment of Rs.1532.18 crore by TFC for the State for 2006-07. Moreover, its three components viz., expenditure on salaries, pensions, and interest payments constituted 82 *per cent* of NPRE during 2006-07. The continued prevalence of fiscal deficit in the finance accounts of the State indicates the increasing reliance on borrowed funds resulting in increasing fiscal liabilities of the State over this period. The increasing fiscal liabilities accompanied by a zero rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable debt situation in medium to long run, unless suitable measures are initiated to compress the non plan revenue expenditure and mobilize additional resources both through the tax and non tax sources in ensuing years.

(Paragraphs 1.1 to 1.10)

2. Allocative priorities and Appropriation

The overall saving of Rs.452.03 crore was the net result of excess of Rs.46.03 crore in 16 cases of Grants/Appropriation and savings of Rs.498.06 crore in 64 cases of Grants/Appropriations.

Excess expenditure of Rs.1833.57 crore (238 cases of Grants/Appropriations) reported during 1996-97 to 2005-06 had not been regularised as of November 2007.

(Paragraphs 2.3.1 and 2.3.2 (ii))

3. Performance Reviews

3.1. Accelerated Rural Water Supply Programme

Performance review of Accelerated Rural Water Supply Programme (ARWSP) revealed major deficiencies in the implementation of the programme like short/delayed release of funds, inadequate planning, diversion of funds and faulty execution of schemes leading to cost and time overrun.

- Poor planning led to abandonment of 15 rural water supply schemes after incurring an expenditure of Rs.4.61 crore
- While the State Government is required to match, fund released by GOI on 1:1 basis, it released only Rs.39.23 crore against Rs.111.49 crore received from GOI.
- Out of 232 NC, 137 PC and 27 SB habitations to be covered during 2002-07, the Department provided potable drinking water only to 146 NC (63 *per cent*), 140 PC (102 *per cent*) and 28 SB (104 *per cent*) habitations.
- Due to non-availability of relevant record Audit could not ascertain the genuineness of installation of 206 units of Iron Removal Plant (IRP) stated to have been installed at the cost of Rs.8.11 crore.
- Monitoring by the State Planning Department was ineffective as the time schedule for completion of the scheme was not adhered to in most of the cases.

(Paragraph 3.1)

3.2. Sampoorna Grameen Rozgar Yojana

Sampoorna Grameen Rozgar Yojana (SGRY) was launched (September 2001) in the State of Nagaland by merging the ongoing Employment Assurance Scheme (EAS), Additional Wage Employment Scheme and Jawahar Gram Samridhi Yojana (JGSY), a rural infrastructure development programme. The scheme was aimed at providing greater thrust to additional wage employment, infrastructural development and food security in rural areas. SGRY was open to all rural poor who were in need of wage employment and desired to do manual and unskilled work. Performance Audit of the Scheme revealed that:

- Due to the failure of the State Government in releasing its matching share the Central Government deducted an amount of Rs.26.63 crore and 8112 MT of foodgrains valued at Rs10.09 crore.
- Due to lack of financial control, 9 out of 14 blocks test checked showed a short receipt of Rs.1.75 crore and 16 out of 60 VDBs test checked showed a short receipt of Rs.19 lakh during 2002-07.
- The Director, RD and Project Directors of eight DRDAs incurred unauthorised expenditure of Rs.3.44 crore on transportation of foodgrains in excess of the admissible amount.

- None of the DRDAs/blocks/VDBs test checked maintained employment registers although Rs.23.41 crore and 39,676 MTs of foodgrains were released to them.
- Beneficiaries were not paid minimum wages admissible.

(Paragraph 3.2)

3.3 *Information Technology Audit of Electoral Roll and Voter Registration System*

The preparation and updation of electoral database is the responsibility of Chief Electoral Officer. The Department took up Intensive E-Roll (Electoral Roll) revision in 2004 in all the districts of Nagaland as per the instructions of the Election Commission of India (ECI) and completed it in 2005. Audit examination of the E-Roll system revealed deficiencies in security, access, input, and backup controls resulting in unreliable data.

- The Department is yet to formulate an IT Policy, even though computerisation of Electoral rolls is about a decade old.
- No documentation exists for Electoral Management System; periodical modifications made to the system were not documented.
- The Department spent Rs.3.10 crore for issue of Electoral Photo Identity Card (EPIC) – but the E-Roll database could not be synchronized with the EPIC database.
- Defective manuscripts coupled with lack of controls to detect duplications and inconsistency in details of voters at the district level (during electoral enumeration) and State level (during data entry and processing) resulted in defective electoral data. Inadequate input and validation controls resulted in duplication of data in electoral rolls and unreliable data.
- Inadequate physical and logical access controls make the system susceptible to security breach, data theft/ manipulation and induced breakdown. The System was also infected with virus.
- The Department does not have a back up policy and disaster recovery procedures.

(Paragraph 3.3)

3.4 *Manpower Management in Police Department*

Police Department is the biggest Government Department in the State giving employment to more than twenty thousand people. The performance review of “Manpower Management in Police Department” revealed gross irregularities in recruitment, promotion, training, deployment of police personnel and their performance appraisal.

- Expenditure on manpower was 64 to 76 *per cent* of the total expenditure of the Department during the period 2002-03 to 2006-07.
- Training courses were not conducted as per planned schedule in training institutes. As a result large number of recruited staff remained untrained as of March, 2007.
- Due to lack of basic training as per norms, 777 Recruit Constables remained without any stipulated work and the Department incurred an idle and unfruitful expenditure of Rs.4.97 crore towards pay and allowances of these personnel from April 2006 to March 2007.
- Deployment of police personnel for security guards to VVIPs/VIPs was in excess of entitlement and for longer periods of time.
- Promotion to various posts was not done as per prescribed norm/policy.
- There was no system of submission of monthly/quarterly returns/reports regarding manpower management to Government.

(Paragraph 3.4)

4. Internal Control System in Industries and Commerce Department

Internal control is an integrated process by which an organisation conducts its activities so as to obtain reasonable assurance that its objectives are achieved in an economical, effective and efficient manner. It comprises methods and policies designed to protect resources against loss due to waste, abuse and mismanagement. Evaluation of the internal control system in the Industries and Commerce Department disclosed that budgetary, administrative, accounting, operational and monitoring controls were not effective to ensure compliance with established procedures/practices. This was further compounded by absence of internal audit during the period covered by audit. Non-maintenance of basic records also affected the accuracy and completeness of accounts.

- Budget estimates were not prepared on the basis of actual requirement which resulted in overall savings of Rs.54.68 crore during 2002-07.
- An amount of Rs.5.31 lakh was unauthorisedly and fraudulently drawn by the District Industrial Centre Wokha.
- Recovery of loans from beneficiaries were not monitored properly. During 2002-07 only Rs.2 crore (4 *per cent*) had been recovered out of Rs.50.84 crore due for recovery.
- Subsidy receiving industrial units were not verified periodically resulting in payment of Rs.57.67 lakh to closed units.
- The Department failed to monitor the execution of various schemes.

(Paragraph 5.1)

5. Audit of Transactions

(a) Civil

Rupees 47 lakh was paid by a sub-treasury by honouring Gratuity Payment Orders which were not authorised by the Accountant General.

(Paragraph 4.1)

Payment of Rs.1.29 crore to beneficiaries under Chief Minister's Special Development Programme Fund was irregular and doubtful.

(Paragraph 4.4)

Rupees 4.53 crore was incurred due to appointment of teachers in excess over approved norms and on ad-hoc basis.

(Paragraph 4.6)

Executive Engineer irregularly appointed 35 employees between March 2001 and December 2006 leading to extra expenditure of Rs.84.34 lakh on salary.

(Paragraph 4.7)

The CE, Public Health Engineering Department made an irregular advance payment of Rs.3.78 crore to a contractor who failed to supply materials valued at Rs.2.65 crore resulting in blocking of funds besides loss of interest of Rs.50.79 lakh.

(Paragraph 4.8)

Enhancement of rate above approved rate without rationale and applying it with retrospective effect resulted in extra avoidable expenditure of Rs.80.28 lakh and undue financial benefit to the contractor to that extent.

(Paragraph 4.10)

Payment of mobilisation advance of Rs.84.96 lakh by the Director of Tourism in violation of codal provision resulted in undue financial benefit to the contractor.

(Paragraph 4.11)

Additional Central Assistance of Rs.5 crore relating to 'Bamboo Flowering' was diverted for other purposes resulting in defeating the objective of providing relief to bamboo growers in the State.

(Paragraph 4.12)

Sanction and release of Rs.3.36 crore from CRF by the State Government after a delay of two years after occurrence of floods and their non-utilisation resulted in non-achievement of the objectives for which the funds were sanctioned.

(Paragraph 4.13)

The EE made a fictitious payment of Rs.62.47 lakh to the contractor for the works shown to have been executed between 16 November 2003 and 10 February 2004 against the actual commencement of works on 20 February 2004.

(Paragraph 4.15)

(b) Revenue

The total revenue receipts of the State Government for the year 2006-07 amounted to Rs. 2772.51 crore against Rs. 2267.20 crore for the previous year. Eight *per cent* of this was raised by the State through tax revenue (Rs.119.02 crore) and non tax revenue (Rs.91.14 crore). The balance 92 *per cent* was receipts from Government of India as State's share of divisible Union taxes (Rs.316.93 crore) and Grants-in-aid (Rs.2245.42 crore).

(Paragraph 6.1.1)

Altogether 432 paragraphs involving Rs.287.91 crore remained outstanding for settlement at the end of September 2007.

(Paragraph 6.1.9)

Failure of the Department to detect misuse of invalid 'C' forms by two dealers led to non-levy of tax of Rs.58.79 lakh including interest and maximum penalty.

(Paragraph 6.2)

Non-realisation of hire charge of bulldozers/road rollers/JCB excavators resulted in non-realisation of Government revenue of Rs.68.41 lakh.

(Paragraph 6.3)

Departmental receipts of Rs.12.67 lakh were not accounted for by the EE, Generation Division, Kohima resulting in unauthorised retention of Government revenue.

(Paragraph 6.4)

Admission/examination fees of Rs.16.58 lakh collected by the officer incharge, Institute of Communication and Information Technology, Mokokchung were unauthorisedly retained by the State Project Implementation Unit.

(Paragraph 6.5)

(c) Commercial

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 2007. The total investment in the five working Government companies was Rs.59.74 crore (equity: Rs.21.05 crore, share application money: Rs.2.34 crore and long term loans: Rs.36.35 crore).

(Paragraphs 7.1.1 and 7.1.2)

None of the five working Government Companies had finalised their accounts for the year 2006-07. The accounts of all the five working Government Companies were in arrears for periods ranging from nine to 26 years as on 30 September 2007.

(Paragraph 7.1.5)

According to the latest finalised accounts of five working Government Companies, three Companies had incurred an aggregate loss of Rs.1.63 crore. The capital employed worked out to Rs.19.79 crore in four Companies and total return thereon was Rs.0.95 crore.

(Paragraphs 7.1.6 & 7.1.8)

The proforma accounts of nine departmentally managed Government commercial and quasi-commercial undertakings were in arrears for periods ranging from three to 36 years as on 30 September 2007.

(Paragraph 7.1.14)