

## P R E F A C E

1. This Report has been prepared for submission to the Governor under Article 151 of the Constitution.
2. The Report deals with the findings of performance reviews and audit of transactions in various departments, audit of stores and stock, audit of autonomous bodies and departmentally run commercial undertakings.
3. The Report also contains the observations arising out of audit of Statutory Corporations, Boards and Government Companies and revenue receipts.
4. The cases mentioned in the Report are among those which came to notice in the course of test-audit of accounts during the year 2008-09 as well as those which had come to notice in earlier years, but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2008-2009 have also been included, wherever necessary.
5. Audit observations on matters arising from the examination of Finance Accounts and Appropriation Accounts of the State Government for the year ended 31 March 2009 are included in a separate Report on State Government Finances.
6. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

## OVERVIEW

This Report contains 16 audit paragraphs (including three general paragraphs) pertaining to Civil and Commercial portion and two performance reviews. There is a separate chapter on Integrated Audit of the Urban Development 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 ten paragraphs.

### **1. Performance Reviews (Civil Departments)**

#### **1.1 Modernisation of Police Force**

Performance Audit of the scheme 'Modernisation of Police Force' revealed that the scheme was implemented in the State without a long term Perspective Plan as envisaged in guidelines and distribution of vehicles was skewed in favour of Headquarters/officers to the detriment of the field units. Though the State had been declared 'A' category by the Government of India, being maximum security threat, the Department had not endeavoured to gear up its weaponry to face the threat. The satellite based integrated Police Communication Network and Common Integrated Police Application system were not functioning in the State and Forensic Science Laboratory was not functioning in a modern environment. The training and housing needs of the force had not been adequately addressed by the Department and there was lack of monitoring and evaluation mechanism.

*(Paragraph 1.1)*

#### **1.2 Implementation of Irrigation Schemes**

Performance Audit of irrigation schemes revealed that the schemes were implemented in the State without adequate planning leading to non-completion/abandonment of projects. Water charges were not collected from the users to meet the operation and maintenance cost of the projects. The records of the Department were also not reliable as projects stated to be completed were found to be incomplete/abandoned during physical verification of the sites. Hence, neither was impact assessment of the projects on agriculture undertaken by the Department nor could be ascertained in audit. Besides, there were several cases of fictitious, doubtful and unfruitful expenditure on the projects apart from inadequate monitoring of the implementation both at the State and Central Government levels. These issues indicate that irrigation projects in the State were not implemented efficiently.

*(Paragraph 1.2)*

## **2. *Audit of Transactions (Civil Departments)***

Drawal of Rs.15.52 lakh by Headmaster, Government High School, Baghty, against Traveling Allowance claims is suspected to be fraudulent.

*(Paragraph 2.1)*

Headmaster, Government High School, Kiphire, fraudulently drew Rs.9.52 lakh as Traveling Allowance claims of 26 employees.

*(Paragraph 2.2)*

District Tuberculosis Officer, Zunheboto drew Rs.14.97 lakh by presenting fictitious claims on pay and allowances.

*(Paragraph 2.4)*

Deputy Commissioner, Dimapur and Principal, Government College, Zunheboto drew Rs.8.02 lakh as pay and allowances of employees for the second time.

*(Paragraph 2.5)*

Deputy Inspector of Schools, Niuland incurred idle expenditure of Rs.88.55 lakh on pay and allowances of 57 teachers posted against various Government Primary Schools/Government Middle Schools but attached to his office.

*(Paragraph 2.11)*

## **3. *Integrated Audit of Urban Development Department***

Integrated Audit of Urban Development Department revealed that the Department did not have a long-term strategy due to which the works were implemented randomly. Financial management was beset with various deficiencies as also the controls associated with contract management and material management were inadequate. This coupled with vulnerability to fraud and lack of quality control in the Department resulted in various shortcomings in implementation of projects viz., delays in award of projects leading to cost overruns, non-completion/delays in completion of works, non-utilisation of created infrastructure etc.

*(Paragraph 3.1)*

## **4. *Revenue Receipts***

### **1. *Performance Reviews***

#### **Transition from Sales Tax to Value Added Tax**

Due to lack of training, all the modules available under the VAT management system could not be utilised fully, thus defeating the purpose of computerisation.

*(Paragraph 4.10.8)*

Though VAT has been implemented four years back, the department was yet to make the relevant forms under the VAT Act available with the units/dealers. As such, the dealers were using obsolete declaration forms. Test check revealed use of 53,711 obsolete declaration forms under the repealed Act to import goods into the State.

*(Paragraph 4.10.10)*

Filing of returns by dealers was not properly monitored. As a result, non-submission of returns by 75 per cent of the registered dealers during 2005-06 and 2008-09 could not be detected by the department.

*(Paragraph 4.10.14)*

Input tax credit claim of Rs.5.06 crore by 35 assesses were allowed by the assessing authorities without prescribed input tax credit statements and abstract statement of the VAT account in support of the claim. Mandatory audit assessment was also not carried out to examine the admissibility of the claim which resulted in non-realisation of the revenue to that extent.

*(Paragraph 4.10.18 (i) & (ii))*

Penalty of Rs.6.50 crore was not levied on the dealers whose turnover exceeded Rs.40 lakh in a year for non-furnishing of audited accounts for the year 2005-06 to 2007-08.

*(Paragraph 4.10.20)*

## **2. Audit of Transactions**

Assistant Commissioner of Taxes, Dimapur did not realise Rs.3.20 lakh towards interest leviable for delay in payment of tax.

*(Paragraph 4.12)*

The management of Nagaland Hotels Limited did not deposit Rs.19.04 lakh collected as tax from customers during 2005-06 to 2007-08.

*(Paragraph 4.13)*

## **5. Overview of Government companies**

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Nagaland had six PSUs (all Government companies) of which, one was non-working company. Three out of five working Government companies employed 245 employees. The working PSUs registered a turnover of Rs.3.51 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 0.05 per cent of State GDP indicating an insignificant role played by State PSUs in the economy.

### **Investments in PSUs**

As on 31 March 2009, the investment (Capital and long term loans) in six PSUs was Rs.73.36 crore. It increased by over 15 per cent from Rs.63.30 crore in 2004-05. Finance

Sector accounted for 50.50 per cent of total investment in 2008-09. The Government contributed Rs.20.42 crore towards equity, loans and grants/subsidies during 2008-09.

#### ***Performance of PSUs***

The working PSUs incurred overall loss of Rs.1.36 crore in 2008-09 and had accumulated losses of Rs.13.93 crore. Besides, the only non-working PSU had the accumulated loss of Rs.14.70 crore as per its latest finalised accounts.

#### ***Quality of accounts***

The quality of accounts of PSUs needs improvement. All the three accounts finalised by working companies during October 2008 to September 2009 received qualified certificates.

#### ***Arrears in accounts***

All the five working PSUs had arrears of 92 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise. There was one non-working company. As no purpose was served by keeping this non-working company in existence, Government needs to expedite closing down of this company.

#### ***Discussion of Audit Reports by COPU***

The commercial chapters included in the Audit Reports (Civil) from 2002-03 onwards containing three reviews and four paras are yet to be discussed by COPU.

## CHAPTER I

### HOME (POLICE) DEPARTMENT

#### 1.1 Modernisation of Police Force

*The scheme “Modernisation of Police Force” was revised by GOI with substantial outlay of Central assistance for a ten year period starting from 2000-01 to make good the deficiencies in basic police infrastructure as identified by the Bureau of Police Research and Development. Performance audit of the scheme revealed that the Department did not prepare a long term perspective plan as envisaged in the scheme guidelines. Hence, the scheme was implemented without a long term strategy for strengthening the police force in a systematic manner. Besides, several deficiencies in the area of mobility, weaponry, equipment, communication etc. were noticed. The significant observations noticed are highlighted below:*

**The Department did not prepare a long term perspective plan as envisaged in the scheme guidelines and the Annual Action Plans were more a list of items for procurement rather than a coherent, well thought out programme of action.**

*(Paragraph 1.1.7)*

**There was a shortage of 70 light vehicles in the Battalions as 303 vehicles had been issued to headquarter police units not covered under the modernisation scheme in violation of the norms. Though the Department was holding 61 different types of excess vehicles, the overall shortage of 242 vehicles in the prescribed category was noticed.**

*(Paragraph 1.1.9)*

**The objective to provide reliable, uninterrupted and encrypted end to end communication connectivity up to police station level was not achieved even after incurring an expenditure of Rs 3.77 crore.**

*(Paragraph 1.1.10)*

**The percentage of shortfall of sophisticated weapons ranged between 94 and 98 per cent in the test-checked police stations. There were also several cases of arms without ammunitions and vice versa apart from short/non accountal of ammunitions.**

*(Paragraph 1.1.12)*

**There was lack of sufficient monitoring and evaluation at Departmental and Government level.**

*(Paragraph 1.1.17)*

##### 1.1.1 Introduction

Government of India introduced (1969) the scheme of Modernisation of police Force (MPF) to augment the operational efficiency of the State police so as to face the

emerging challenges to internal security effectively. A revised Scheme involving substantial outlay of Central assistance was launched by the GOI for a ten year period starting from 2000-01 to make good the deficiencies in basic police infrastructure as identified by the Bureau of Police Research and Development (BPR&D). Under this revised scheme, the State Governments were required to submit a five-year Perspective Plan on the requirement of the police forces starting from 2000-01 indicating the specific projects, which the Governments want to implement each year. The components covered under the scheme were (a) Construction (residential as well as non-residential buildings) (b) Mobility (c) Weaponry (d) Equipment and (e) Communication system including Computerisation. The GOI also categorized the States into different categories considering the security situation prevalent and Nagaland was categorized under 'A' category from 2006-07, being maximum security threat, and was therefore eligible for 100 *per cent* grants from GOI.

### **1.1.2 Organisational setup**

The State Police Department is headed by the Director General of Police (DGP) who is assisted by two Additional Directors General of Police (ADGP), seven Inspectors General of Police (IG), seven Deputy Inspectors General of Police (DIG), Deputy Director, Forensic Science Laboratory (FSL) and 13 Superintendents of Police and 14 Commandants in field formations. The implementation of the scheme is overseen by a State Level Empowered Committee (SLEC) headed by the Chief Secretary.

### **1.1.3 Scope of Audit**

The implementation of the scheme relating to the period 2000-01 to 2008-09 was reviewed by a test-check (March-April 2009) of records of the Home Department, DGP, DIG (wireless), DIG (crime) and Deputy Director (FSL). Besides, the records of two out of 14 commandants, five out of 14 Superintendents of Police (Kohima, Mokochung, Dimapur, Nagaland Armed Police Training Centre and Police Training School) and seven out of 48 police stations were also test-checked.

### **1.1.4 Audit objectives**

The audit objectives were to examine and evaluate the:

- efficiency of planning for implementation of various components and major thrust areas of the scheme;
- proper utilization of funds for implementation of the programme;
- implementation of major objectives of the schemes as per norms and targets fixed;
- efforts of the Government to upgrade the skills of the police force, and increase their striking capabilities and
- effectiveness of monitoring mechanism.

### **1.1.5 Audit criteria**

Audit objectives were benchmarked against the following criteria:

- scheme guidelines issued by GOI;
- Norms fixed by BPR&D for various components;
- annual plans prepared by the Department and targets fixed therein;
- prescribed monitoring mechanism.

#### **1.1.6 Audit methodology**

The performance audit commenced with an entry conference with the DIG (ADM) (March 2009) wherein the audit objectives, scope and criteria were discussed. Data relating to various prioritised items were analysed apart from test-check of relevant records to arrive at audit conclusions. The audit findings were discussed in an exit conference with the Special Secretary Home (Police) (May 2009) and the replies of the Department have been incorporated in the report appropriately.

### **Audit findings**

#### **1.1.7 Planning**

Proper planning is imperative for achieving the objectives of a programme in a systematic and efficient manner. The GOI while approving further continuance of the scheme from 2000-01, felt the need for submission of a five-year plan by the State Government to the Union Ministry of Home Affairs (MHA) indicating specific projects required to be implemented each year for modernisation of its police force. It was envisaged that the plan would be a coherent, well-thought-out programme of action for upgradation of capabilities in specific areas and should not be a list of items for procurement. Annual plans to be submitted by the States should flow from the five-year plan already submitted.

Scrutiny (March 2009) revealed that the Department did not prepare any long term Perspective Plan for modernisation of police force in the State. The Department however, prepared Annual Action Plans (AAPs) every year. An examination of the AAPs revealed that they were more a list of items for procurement rather than a coherent, well-thought-out programme of action for upgradation of capabilities as was envisaged in GOI scheme guidelines.

Thus, the State Government prepared AAPs as a mere formality every year which were also approved by the MHA. The Department therefore, could not avail the full benefit of the scheme for modernization of police force in the State due to absence of a long-term strategy.

It was also noticed the due date of submission of AAPs by the State Government was fixed at April of the year of the AAP by MHA. The Department submitted AAPs after delay of one month during 2001-09. MHA however, approved the AAPs after considerable delays ranging from two to six months during the period thereby leaving insufficient time at the disposal of the State Government to spend the scheme funds within the year.



The above is indicative of the fact that not only was the timelines prescribed by the MHA defective, the inordinate delays in approval has resulted in leaving insufficient time during the year for the State Government to spend the funds released.

### 1.1.8 Financial management

The details of plan approved, funds released by GOI, State share and expenditure incurred under the scheme during 2000-09 were as under:

Table-1.1.1

| Year         | Cost of project as per approved Action Plan |              |               | Receipts     |              |               | Short release of GOI fund (Col.2-5) | GOI release in kind | Expenditure   |              |               |
|--------------|---------------------------------------------|--------------|---------------|--------------|--------------|---------------|-------------------------------------|---------------------|---------------|--------------|---------------|
|              | GOI share                                   | GON share    | Total         | GOI          | GON          | Total         |                                     |                     | GOI           | GON          | Total         |
| (1)          | (2)                                         | (3)          | (4)           | (5)          | (6)          | (7)           | (8)                                 | (9)                 | (10)          | (11)         | (12)          |
| 2000-01      | 13.50                                       | 13.50        | 27.00         | 2.84         | 16.75        | 19.59         | 10.66                               | 00                  | 2.84          | 16.75        | 19.59         |
| 2001-02      | 13.50                                       | 13.50        | 27.00         | 13.44        | 13.50        | 26.94         | 0.06                                | 6.16                | 13.44         | 13.50        | 26.94         |
| 2002-03      | 13.50                                       | 13.50        | 27.00         | 9.81         | 13.50        | 23.31         | 3.69                                | 0.14                | 9.81          | 13.50        | 23.31         |
| 2003-04      | 19.37                                       | 6.41         | 25.78         | 19.37        | 6.41         | 25.78         | 00                                  | 0.10                | 19.37         | 6.41         | 25.78         |
| 2004-05      | 19.50                                       | 6.50         | 26.00         | 13.08        | 6.51         | 19.59         | 6.42                                | 0.30                | 13.08         | 6.51         | 19.59         |
| 2005-06      | 19.50                                       | 6.51         | 26.01         | 18.17        | 6.51         | 24.68         | 1.33                                | 0.43                | 18.17         | 6.51         | 24.68         |
| 2006-07      | 22.00                                       | 0.00         | 22.00         | 22.00        | 0.00         | 22.00         | 0.00                                | 00                  | 22.00         | 0.00         | 22.00         |
| 2007-08      | 31.00                                       | 0.00         | 31.00         | 29.18        | 0.00         | 29.18         | 1.82                                | 0.49                | 29.18         | 0.00         | 29.18         |
| 2008-09      | 37.00                                       | 0.00         | 37.00         | 37.21        | 0.00         | 37.21         | 0.00                                | 00                  | 31.28         | 0.00         | 31.28         |
| <b>TOTAL</b> | <b>188.87</b>                               | <b>59.92</b> | <b>248.79</b> | <b>165.1</b> | <b>63.18</b> | <b>228.28</b> | <b>23.98</b>                        | <b>7.62</b>         | <b>159.17</b> | <b>63.18</b> | <b>222.35</b> |

(Source: GOI sanction/release and Departmental records)

It would be seen from above table that against the total receipt of Rs 228.28 crore for programme implementation during the period from 2000-01 to 2008-09, the Department spent Rs 222.35 crore leaving Rs 5.93 crore as unspent balance as of March 2009. Moreover, GOI also released an amount of Rs. 0.21 crore over and above the sanctioned amount during 2008-09. GOI scheme guidelines stipulate that the States are required to spend the Central grant within a period of 12 months from the date of release. It would be seen from the above table that there was an overall short release of funds of Rs 23.98 crore out of which, Rs.22.16 crore had been deducted by GOI from subsequent releases being the unspent balances during previous years. Thus, due to inability of the Department to spend funds received from the GOI timely, the Department did not receive an amount of Rs. 22.16 crore due to which the Department could not fulfill the housing needs of the police force. Besides, deduction of Rs 1.82 crore towards cost of Arms and ammunition and equipment by GOI during 2007-08 also resulted in shortfall of arms and ammunitions at police stations.

### Operational infrastructure

#### 1.1.9 Mobility

Mobility is vital for the efficient and effective performance of duties by the police force in order to achieve reduction in response time to crime. BPR&D prescribed scales of various types of operational vehicles according to local road conditions for

police stations and district armed police battalions to enable them to meet challenges of internal security, environment and law and order situation.

The details of BPR&D norms for holding and actual fleet position in the Department are shown in the table below:

Table-1.1.2

| Type of vehicles | Allocation of vehicles as per BPR&D norms |            |          |             | Fleet position of the Department as of April 2009 |            |            |             | Excess (+/ Short (-)) |
|------------------|-------------------------------------------|------------|----------|-------------|---------------------------------------------------|------------|------------|-------------|-----------------------|
|                  | SP/DEF/PS                                 | Battalions | Others   | Total       | SP/DEF/PS                                         | Battalions | Others     | Total       |                       |
| Light (Gypsy/BP) | 357                                       | 144        | 0        | 501         | 361                                               | 74         | 210        | 645         | (+) 144               |
| Medium           | 103                                       | 72         | 0        | 175         | 72                                                | 77         | 47         | 196         | (+) 21                |
| Heavy            | 55                                        | 72         | 0        | 127         | 18                                                | 68         | 21         | 107         | (-) 20                |
| M/cycle          | 240                                       | 0          | 0        | 240         | 108                                               | 23         | 25         | 156         | (-) 84                |
| <b>Total</b>     | <b>755</b>                                | <b>288</b> | <b>0</b> | <b>1043</b> | <b>559</b>                                        | <b>242</b> | <b>303</b> | <b>1104</b> | <b>(+) 61</b>         |

(Source: Departmental figure)

It would be seen from the above table that though the Department was holding 61 different types of excess vehicles, the overall shortage of 242 (1043+303-1104) vehicles in the prescribed category was noticed. There was also a shortage of 70 light vehicles in the battalions and 303 vehicles have been issued to units (PHQ, IRB, NAPTC, PTS, PCS, PCW, CMO, DIG (Wireless), CE (PEP)) not covered under the modernisation scheme in violation of the norms of BPR&D.

It was also noticed that though the Department had adequate number of vehicles, they had skewed the distribution in favour of Headquarters/officers to the detriment of functioning of the field units. Mobility in the fields was stressed owing to diversion of the vehicles to the headquarters.

The Department during exit conference accepted the observations and stated (May 2009) that though the modernisation scheme did not provide for vehicles to Headquarter units of PHQ, they had to allot vehicles to them for their duties.

The above is evidenced from the following observations noticed from a detailed scrutiny of records in the selected districts:

- (i) 160 vehicles were allotted to SP, Kohima district against the norm of 80 vehicles. Out of 160 vehicles, 13 were off-road, 40 vehicles were retained at district headquarters and only 14 vehicles were provided to five PSs against the BPR&D norm of 50 vehicles and 93 vehicles (58 per cent) were deployed for VIP and other duties, not covered under the scheme.
- (ii) 40 Gypsy soft top were procured for 35 Police Stations during 2007-08. However, nine vehicles procured for seven<sup>1</sup> PSs were retained at district headquarters. It was also seen that two police stations viz., Kubulong and Changtongya (under SP, Mokokchung) were running without any kind of vehicle.

<sup>1</sup> New Sectt (Kohima), PS-I and II, Kubulong, Changtongya (Mokokchung), Dimapur West and GRP (Dimapur).

- (iii) The expenditure on repair, replacement and spare parts of the vehicles were to be met from State Plan only and was not permissible from modernisation scheme funds. The Department however, utilised Rs.7.36 crore for this purpose from the funds meant for MPF during 2002-04.

Thus, the objective of increasing the mobility for field policing essential for the performance of the police force had not been achieved.

It is evident that the above would also have an adverse impact on reducing response time, which was one of the objectives of MPF. It was however, seen that the State Government had not fixed any norms for the response time nor did it give any instructions for recording the time of visit of site of offence in the crime diary. During test-check of seven police stations, the time relating to visit of scene of offence by the police personnel was not noted in the crime diary in any of the police stations. The log books of vehicles could also not be produced for verification, though called for in audit. Hence, there was no way to assess whether response time was reduced.

#### **1.1.10 Communication**

Satellite based integrated police communication network (POLNET) sanctioned under 10<sup>th</sup> plan (2002-07) was included in the Annual Plan of the year 2002-03 under police modernisation scheme to provide encrypted voice, data and message communication from the Headquarters office to police station level with the help of Very Small Aperture Terminal (V-SAT) at district headquarters and Multi Access Radio Telephone (MART) at police stations.

The work for execution of POLNET project was awarded (2002) to Bharat Electronics Ltd. (BEL), Ghaziabad by GOI for completion by March 2005.

A scrutiny of records revealed that though BEL completed installation and commissioning of V-SATs and MART in the State at a cost of Rs. 3.77 crore during 2005-06, the V-SATs were not functional at the district headquarters, Kohima due to non-supply of hardware. The V-SATs at Mokokchung and Dimapur though functional could not be optimally utilized as the MART was not functional in any of police stations due to lack of availability of line of sight<sup>2</sup>.

Thus, the objective to provide reliable, efficient, uninterrupted and encrypted end to end communication connectivity up to police station level was not achieved in the State even after incurring an expenditure of Rs.3.77 crore.

The Department stated (June 2009) that it was not accountable for the expenditure since the project was implemented centrally by GOI.

#### **1.1.11 Common Integrated Police Application System (CIPA)**

CIPA was introduced by GOI (2004-05) with a view to record data regarding crime and criminals by computerizing Head office, range offices, SP offices and all police

<sup>2</sup> Line of sight: Signal/wavelength

stations in the State with online connectivity with each other together with access of data of crime and criminals to/from each other so as to make them available to the public through web based citizen interface on Internet.

The CIPA project was started (2004-05) in the State in a phased manner at 45 places by constructing and renovating the police stations to make them safe and secured which was completed in 2008-09 at a total cost of Rs.7.73 crore.

A scrutiny of records however, revealed that CIPA could not be made functional in four police stations taken up in the first phase in the State even after expending a further amount of Rs. 1.23 crore on accessories due to improper design of the software installed.

It was further noticed that the Department, procured materials worth Rs. 88.82 lakh (server, LAN etc.) during 2006-07 for installation in 15 police stations in order to provide internet facility. However, internet facility had not been provided (April 2009) in the four police stations where CIPA had been installed. Besides, materials worth Rs. 41.45 lakh despatched by PHQ were not received in the seven test-checked police stations (April 2009). This point towards suspected misappropriation of the material.

Thus, the objective to connect the police stations to access crime and criminal data so as to make them available to the public through web based citizen interface on Internet by means of CIPA system remained un-achieved even after spending Rs. 9.85 crore.

The Department accepted (June 2009) the observation but the reply was silent regarding misappropriation of materials.

### **1.1.12 Weaponry**

One of the major objectives of the scheme was to increase the striking capabilities of the police force. This was all the more essential in a State like Nagaland as the State was declared 'A' category by the GOI, being maximum security threat. In order to enhance the striking capabilities of the force, upgradation and sufficient supply of weaponry to the force was a very important aspect. A scrutiny of records in this regard revealed the following:

**(i) *Replacement of outdated weapons:*** The Department envisaged replacement of the existing .303 rifles by modern sophisticated weapons such as 7.62 mm SLR, AK-47 and 5.56 mm INSAS. It was seen from the issue and custody register of sophisticated weaponry that out of 8841 sophisticated weapons held by the Department, 4,562 weapons (52 *per cent*) were issued to the Indian Reserve Battalions (IRB). The corresponding 14741 numbers of magazines were also issued to the IRBs. Since IRBs did not come under the purview of the scheme, issue of arms and magazines worth Rs.11.23 crore to them was not justified.

The actual distribution of sophisticated weaponry in the seven test-checked police stations as compared to BPR&D norms is detailed in the table below:

Table- 1.1.3

| Type of weapons        | Strength  |            |            | Requirement as per BPR&D | Holding position | Shortfall  | Percentage of shortfall |
|------------------------|-----------|------------|------------|--------------------------|------------------|------------|-------------------------|
|                        | HC        | Constables | Total      |                          |                  |            |                         |
| SLR 7.62/INSAS<br>5.56 | 31        | 332        | 363        | 266                      | 16               | 250        | 94                      |
| AK 47                  |           |            |            | 97                       | 2                | 95         | 98                      |
| <b>Total</b>           | <b>31</b> | <b>332</b> | <b>363</b> | <b>363</b>               | <b>18</b>        | <b>345</b> | <b>95</b>               |

(Source: Departmental figure)

The above table reveals that the percentage of shortfall of sophisticated weapons ranged between 94 and 98 per cent in the test-checked police stations itself. This clearly points to the diversion of sophisticated weapons to Indian Reserve Battalions depriving the State police of the weapons.

While accepting, the Department stated (June 2009) that the weaponry issued to IRBs would be taken back in a phased manner in the coming years and the shortfall at the police station level arose due to issue of weaponry to the IRBs.

**(ii) Arms without ammunition and vice versa:** Scrutiny of stock register maintained in the Police Central Store (PCS), Chumukedima revealed that arms without ammunitions and ammunitions without arms were lying in the store for periods ranging from four to sixteen years as detailed in the table below:

Table-1.1.4

| Year of purchase | Type of ammunition       | Stock (rounds) | Required type of arms | Stock (No) | Year of purchase | Type of arms            | Stock (No.) | Required type of ammunition | Stock (rounds) |
|------------------|--------------------------|----------------|-----------------------|------------|------------------|-------------------------|-------------|-----------------------------|----------------|
| 1996             | .410 buckshot            | 522013         | .410 musket           | 0          | 1993             | 51" Mortar gun          | 10          | Bomb against mortar         | 0              |
|                  | .410 blank               | 52370          | .410 musket           | 0          | 2005             |                         | 5           |                             | 51             |
|                  | .410 ball                | 217893         | .410 musket           | 0          |                  | 12 bore pump action gun | 100         | 12 bore ammunition          | 0              |
|                  | .455 revolver ammunition | 828851         | .455 pistol           | 0          |                  |                         |             |                             |                |
|                  | .455 blank               | 100            | .455 pistol           | 0          |                  |                         |             |                             |                |
|                  | 4 second detonator       | 55106          | No.36 Grenade         | 0          |                  |                         |             |                             |                |

(Source: Departmental figure)

The Department stated (April 2009) that the required arms had not been procured because the ammunitions were outdated and the required ammunitions had not been procured because the Central Police Store had not requisitioned for them.

**(iii) Non accountal of returned ammunition:** 2,000 rounds of cartridges SA .22 balls were taken (June 2003) on loan from PCS Chumukedima, by the Nagaland State Rifle Association and returned back in September 2003. However, it was neither accounted for nor available in stock which points towards doubt on pilferage, misuse of ammunition.

**(iv) Outstanding position of ammunition issued on loan basis:** It was seen that Short Range Shell (600), Dual Shell (500), MK IV Grenade (700) and Three way Grenade (550) were issued to DIGP, Manipur on loan basis on two occasions

(October 2003 and July 2004). Of this, Grenade (198) and Duel Shell (240) only were received back till date (April 2009). The remaining ammunitions were not yet received back. The Department has not taken any follow up action to get back the ammunitions issued on loan basis even after six years.

**(v) Short accountal of ammunitions:** Annual physical verification of arms and ammunitions at the unit levels is required to be conducted by a Committee constituted by the Department. The Committee has to submit its report showing details of stock position along with its remarks, to the competent authority. Ammunitions stored at PCS, Chumukedima had never been physically verified till date (April 2009). Scrutiny of the records revealed that there were differences in figures of receipt between PHQ and PCS of 3,10,747 rounds of ammunitions of different categories from 2003-04 onwards as detailed below:

Table- 1.1.5

| Particulars  | Receipts as per PHQ |                 |                 |                 |                  | Actual receipt as per PCS as of March 2009 | Difference      |
|--------------|---------------------|-----------------|-----------------|-----------------|------------------|--------------------------------------------|-----------------|
|              | 2003-04             | 2004-05         | 2005-06         | 2006-07         | Total            |                                            |                 |
| 7.62 BDR     | 1,00,000            | 2,00,000        | 2,00,000        | 300000          | 8,00,000         | 7,06,666                                   | 93,334          |
| 9mm Ball     | 1,00,000            | 1,00,000        | 50,000          | 0               | 2,50,000         | 2,20,504                                   | 29,496          |
| 303 BDR      | 1,00,000            | 2,00,000        | 1,00,000        | 200000          | 6,00,000         | 5,49,600                                   | 50,400          |
| 303 CTN      | 10,0,000            | 1,00,000        | 1,00,000        | 90000           | 3,90,000         | 3,52,483                                   | 37,517          |
| 7.62 CTN     | 0                   | 50,000          | 50,000          | 100000          | 2,00,000         | 1,00,000                                   | 1,00,000        |
| <b>Total</b> | <b>4,00,000</b>     | <b>6,50,000</b> | <b>5,00,000</b> | <b>6,90,000</b> | <b>22,40,000</b> | <b>19,29,253</b>                           | <b>31,07,47</b> |

(Source: Departmental figure)

The Department stated (June 2009) that action has been initiated to verify the position by a committee headed by IG/DIG. The results shall be communicated after completion of the inquiry. Further development is awaited.

Thus, it is evident from the above that the Department had not fared well in the area of enhancing the striking capabilities of the police force in the State as envisaged in the scheme guidelines.

### **1.1.13 Equipment**

The Police Central Workshop (PCW) was functioning for repair of all classes of vehicles of the Police Department. The Department in their AAP of 2002-03 proposed to modernize the PCW with the objective to avoid the delays in repair and also to execute the repairing work economically. Audit scrutiny revealed:

- (i) The supplier did not install two sets of equipment (Paint booth) procured in July 2004 for Rs 33 lakh even after a delay of seven years (April 2009). Though as per the terms and conditions with the supplier, the payment had to be released only after the installation, the Department released the payment to the supplier on receipt of the equipment.
- (ii) One set each of Computerized wheel aligner CCD video graphic and Computerised Engine analyzer valuing Rs 25 lakh were installed in June 2004. The equipment was out of order from June 2007 as the computers attached to the machines crashed due to power fluctuation. Besides, most of the vehicles in the

State were non carburetor/Multiple Point Fuel injection system and as such the necessity for its purchase was not justified. Thus, the Department functioned manually even after spending Rs 25 lakh for modernizing the function.

- (iii) A Cold Process tyre retreading machine valuing Rs 12 lakh was procured in March 2004. But the machine could not be utilized as the building to house the machine had not been completed. The building was completed and the machine finally installed in January 2009. However, no retreading work had been allocated to the workshop till date (April 2009).

Thus, it is evident that the objective of the Department in modernizing the PCW to avoid delays and to execute the repairing work economically remained un-achieved even after incurring an expenditure of Rs 70 lakh.

#### **1.1.14 Forensic Science Laboratory (FSL)**

The scheme objectives envisaged strengthening of Forensic Science Laboratory (FSL) by inducting modern equipment to reduce the delay in settling of crime cases in the State.

An amount of Rs.3.12 crore was spent during the period from 2001-2009 towards equipment and chemicals to support and modernize the FSL division, out of which accessories worth Rs.74.59 lakh purchased during 2007-08 have not been installed. Further, accessories worth Rs.29.63 lakh procured during 2008-09 had not been dispatched by PHQ to FSL, Dimapur till March 2009.

Scrutiny of records disclosed that:

- (i) In NARCOTICS wing, though modern equipment worth Rs.45.01 lakh were installed during 2002-07, the chemicals to support the testing of samples of drugs were not procured till April 2009 due to non release of fund by the State. Hence, the equipment was lying idle.
- (ii) BALLISTIC CAMPARISON cell was established for microscopic comparison of fired ammunition or gun to match the equipment or ammunition in a scientific method. Equipment namely, LEICA DMC-Basic system ballistic comparison microscope for fired ammunition part and tool mart was procured for Rs.17.38 lakh and installed in the wing in October 2003. There was only one officer posted in the cell who was trained from NICFS, New Delhi. Due to the transfer of the officer and non availability of any other trained manpower, the cell remained non-functional since August 2007.
- (iii) Though equipment such as Digital cameras, Computer accessories, video cameras, projectors, TV/DVD under modernization were installed in Photography Division during the period 2001-08, no case was ever referred by Investigating Officer (IO) and PS to the Division. Therefore, the Division remained non-functional.

(iv) MOBILE FSL UNITS were constituted by the Department in nine districts in the State. These units were provided with accessories to function as a mini FSL unit in the district. These units were also entrusted to collect the scientific evidence of crime data for documentation in FSL. However, data were not received in the FSL, Dimapur from any mobile FSL unit. The test-checked units also did not furnish the logbooks of the Mobile FSL units.

Thus, it is evident that the objective of strengthening of FSL to reduce the delay in settling of crime cases in the State had not been achieved.

The Department accepted (June 2009) the observations.

## **Human Resource Development and Infrastructure**

### **1.1.15 Training**

Training assumes utmost importance to improve the striking capabilities and other operational efficiencies of the police force to prepare them to tackle the insurgency situation in the State. Scrutiny of records revealed the following:

(i) **Basic training programmes:** There are two training centers viz., Nagaland Armed Police Training Centre (NAPTC) and Police Training School (PTS) in the State which are responsible for imparting training to all cadres of Police. PTS conducted training programmes without any calendar of training since 2001. Hence, the number of personnel planned to be trained vis-à-vis achievement could not be assessed. NAPTC conducted training programme on the basis of calendar of training from 2003. The details are shown below:

Table-1.1.6

| Year         | No. of training programme planned | No. of training programme cancelled | No. of training programme conducted | Percentage of cancelled programmes | Capacity of training programme | No. of persons trained | Percentage of untrained personnel |
|--------------|-----------------------------------|-------------------------------------|-------------------------------------|------------------------------------|--------------------------------|------------------------|-----------------------------------|
| 2003         | 12                                | 8                                   | 4                                   | 67                                 | 790                            | 359                    | 55                                |
| 2004         | 17                                | 10                                  | 7                                   | 59                                 | 1,080                          | 381                    | 65                                |
| 2005         | 16                                | 10                                  | 6                                   | 63                                 | 980                            | 457                    | 53                                |
| 2006         | 12                                | 4                                   | 8                                   | 33                                 | 754                            | 569                    | 25                                |
| 2007         | 12                                | 6                                   | 6                                   | 50                                 | 927                            | 900                    | 03                                |
| 2008         | 10                                | 6                                   | 4                                   | 60                                 | 1510                           | 260                    | 83                                |
| 2009         | 8                                 | 3                                   | 5*                                  | 38                                 | 1310                           | 657                    | 50                                |
| <b>Total</b> | <b>87</b>                         | <b>47</b>                           | <b>40</b>                           | <b>54</b>                          | <b>7,351</b>                   | <b>3,583</b>           | <b>51</b>                         |

\*Under progress

(Source: Departmental figures)

The requirement of staff for the institute as per BPR&D norms was 280. However, there was a shortage of 90 (32 per cent) in different cadres which was communicated to DGP in November 2006. But no action was initiated to appoint the staff to run the NAPTC. This had resulted in cancellation of 54 per cent of the training programmes and therefore 3,768 personnel in the force though identified for training remained untrained.



(ii) **Basic training programmes to women cadre:** During 2005-09, only 33 out of 185 recruited women constables were imparted basic training organised by the centres. Thus, there was a shortfall of 152 (82 *per cent*) in basic training and 185 (100 *per cent*) in other types of training.

(iii) **Computerised training aids (Simulators):** A Computerised Firing Range was procured for Rs.40 lakh and installed in NAPTC in December 2006. Scrutiny revealed that training was organized in 2007 for 118 police personnel in 10 batches and thereafter, no training was organized to utilize the equipment.

Interactive Fire Arm Training Simulators and accessories worth rupees one crore was received at both the training Centers in March 2007 and their installation completed after a delay of one year. However, the Department did not organise any training in the modern simulated environment.

Four sets of Zen Grenade hand simulators were procured during 2007-08 to provide necessary exposure and practice on use of modern techniques at a cost of Rs.29.04 lakh (unit cost: Rs.7.26 lakh). Out of this, one set each had been issued (November 2007) to NAPTC and PTS. The simulator sets had however, not been installed till date (April 2009)

(iv) **Annual Classification Firing:** Annual Classification Firing (ACF) for all units is very important and need to be carried out once in a year for maintaining firing capability of police personnel from professional point of view. It was however, noticed in the test checked units that the deficit in ACF ranged between 38 to 88 *per cent* due to the shortfall of ammunitions with the units.

The Department stated (June 2009) that the shortfall was due to late receipt of ammunitions from the Ordnance Factories.

It is evident from the above observations that the training needs of the police force could not be fully addressed by the Department.

### 1.1.16 Housing

The scheme laid special emphasis on construction of residential and non-residential buildings with a view to providing a better working environment to the police personnel. The National Police Commission had also recommended (1977) hundred per cent accommodation for police personnel. Against the requirement of 14,843 quarters for lower and upper subordinates (Type-I to Type-III) at the beginning of 2001, the Department proposed construction of 425 staff quarters in the AAPs for the period 2001-2009, out of which 370 were completed. It was also noticed that the Department could achieve an overall housing satisfaction level of only 15 *per cent* for its force. Audit scrutiny revealed the following:

(i) **Expenditure beyond purview:** The Department spent the entire State's matching share for the scheme of Rs.6.51 crore during 2005-06 on construction and other related works of 9<sup>th</sup> and 10<sup>th</sup> Indian Reserve Battalions in the State. Moreover, this was in violation of decision of the Empowered Committee which specifically

forbade the Department from incurring any expenditure on Indian Reserve Battalion as they did not come under the purview of the scheme. This was not only irregular but was also grave in view of the fact that the Department could achieve only 15 per cent housing satisfaction level for its own force. The Department accepted (June 2009) the observation.

**(ii) *Non-occupation of completed Outpost building:*** The Department completed construction of an outpost police station at Zubza during 2003-04 at a cost of Rs.10 lakh. The building was physically handed over to the Superintendent of Police (SP), Kohima only in May 2008 i.e. after a delay of more than four years for reasons not on record. The building was however, unfit for occupation due to non-provision of security fencing, shattered window panes, lack of water and sanitation facilities, non provision of locking mechanism and also did not have accessibility by road. Hence, the Outpost police station building remained unoccupied till date (May 2009) resulting in unfruitful expenditure of Rs.10 lakh.

While accepting, the Department stated (June 2009) that proposals have been included for construction of permanent fencing in the coming year to make the OP functional.

**(iii) *Unauthorised expenditure on construction and renovation:*** As per BPR&D norms, construction and renovation of quarters of Type IV and above were not permissible under the scheme. Scrutiny however, revealed that the Department spent Rs 1.30 crore during 2006-08 for civil works of construction and renovation of type IV and V quarters thus depriving the lower subordinate staff of quarters.

The Department stated (June 2009) that some residential buildings were constructed to accommodate officers to have proper command on jawans. But the fact however, remains that this was not permissible under the scheme.

It is evident from the above observations that the Department could not fulfill the housing needs of its force to provide better environment for the police personnel.

#### **1.1.17 Monitoring and evaluation**

State Level Empowered Committee (SLEC) was required to meet every month to monitor the preparation of AAPs for submission to MHA and implementation of approved AAPs. As against 96 meetings required to be held during the eight year period 2001-2009, SLEC met only eight times. Neither the State Government nor the Department had formulated any system to monitor and evaluate the implementation of the programme at their level periodically. Thus, there was lack of sufficient monitoring and evaluation at departmental and Government level.

#### **1.1.18 Conclusion**

The scheme 'Modernisation of Police Force' was implemented in the State without a long term Perspective Plan as envisaged in guidelines and distribution of vehicles was skewed in favour of Headquarters/officers to the detriment of the field units. Though

the State had been declared 'A' category by the Government of India, being maximum security threat, the Department had not endeavoured to gear up its weaponry to face the threat. The satellite based integrated Police Communication Network and Common Integrated Police Application system were not functioning in the State and Forensic Science Laboratory was not functioning in a modern environment. The training and housing needs of the force had not been adequately addressed by the Department and there was lack of monitoring and evaluation mechanism.

### **1.1.19 Recommendations**

- The Department should prepare a long term strategy which should form the basis for the Annual Action Plans;
- Vehicles as prescribed by Bureau of Police Research and Development should be issued to field units for betterment of field duties;
- The Department should strive to upgrade its weaponry with modern sophisticated arms at the police station level;
- The training needs of the force to keep abreast with the latest tools and technology should be adequately addressed;
- The housing needs of the force should be fulfilled to provide better environment;
- Monitoring and Evaluation mechanism may be streamlined to ensure proper implementation of the various components under modernization of police force.

## **IRRIGATION AND FLOOD CONTROL DEPARTMENT**

### **1.2 Implementation of Irrigation Schemes**

*The Government of India introduced two schemes viz., Rural Infrastructure Development Fund (funded by NABARD) and Non-Lapsable Central Pool of Resources in 1996-97 and 2000-01 respectively and the Accelerated Irrigation Benefit Programme (AIBP) in 1999-2000 with the main aim of facilitating investment for improving infrastructure in agriculture and completion of projects delayed on account of financial constraints. A performance audit of the schemes revealed that the stated objectives could not be achieved due to delay/non-release of State share, lack of effective planning, diversion of funds and deficient management of available resources. The major observations noticed are detailed below:*

**Lack of proper planning resulted in non-completion/abandonment of projects.**

(Paragraph 1.2.7)

Against the target to irrigate 47,175 hectares of land during 1996-2009 under three schemes, the Department could cover only 36851 hectares resulting in shortfall of 10,324 hectares (21.88 per cent).

(Paragraph 1.2.9)

The Executive Engineer, Mokokchung Division, paid Rs.3.86 crore to a contractor based on fictitious measurements recorded in the MBs.

(Paragraph 1.2.9 (A) (i))

The Department targeted creation of irrigation potential of 48,939 hectares by 2008-09 but achieved only 36,087 hectares. Out of potential created, only 23,419 hectares could be utilized as most of the projects had been stated to have been completed with the available funds partially resulting in availability of water to lesser number of beneficiaries.

(Paragraph 1.2.10)

### 1.2.1 Introduction

The State of Nagaland has an area of 16,579 sq. km. with a total population of 20 lakh (2001 census) and 73 per cent of them are engaged in agriculture. The terrain is mostly hilly and shifting cultivation (jhum) and terrace farming is widely practiced. The system of landholding is different from other parts of the country and most of the land, rivers, streams and forests especially in rural areas are either owned by individuals or the community, village or clans.

The topography of the State does not allow for major or medium irrigation projects. Minor irrigation projects are, therefore, the only alternative which suits the local conditions. The State has a total cultivable area of 7,21,924 hectares (43.54 per cent<sup>3</sup>) out of which 3,85,060 hectares (53 per cent<sup>4</sup>) are under crop production. The net irrigated area is 75,800 hectares and the total area which needs irrigation is 1,65,000 hectares.

The Government of India (GOI) introduced Accelerated Irrigation Benefit Programme (AIBP) in Nagaland during 1999-2000 with the target to irrigate 39,443 hectares of potential land. The GOI also introduced two schemes i.e., Rural Infrastructure Development Fund (RIDF) in 1996-97 and Non-Lapsable Central Pool of Resources (NLCPR) in 2000-01 under which irrigation was also included with the target to irrigate 6148 hectares and 1584 hectares of land respectively in the State.

### 1.2.2 Organizational set up

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<sup>3</sup> Percentage to total area

<sup>4</sup> Percentage to total cultivable area

The Irrigation and Flood Control Department (I&FCD) is headed by a Secretary. The Directorate of the Department is headed by a Chief Engineer (CE), who is responsible for planning, programme implementation and monitoring of the schemes and projects and is assisted by one Additional Chief Engineer (Addl. CE). A Superintending Engineer (SE) assisted by an Executive Engineer (EE) and a Sub-Divisional Officer (SDO) is in charge of the Minor Irrigation schemes at the Directorate level. At the Divisional level, eight EEs and three (SDOs) are responsible for implementation of MI schemes. The EEs are assisted by 12 SDOs.

### 1.2.3 Scope of audit

A performance audit of the MI projects since inception<sup>5</sup> to 2008-09 was taken up between April-July 2009 through test-check of records of five divisions<sup>6</sup> and one sub-division<sup>7</sup> under which 593 projects are being implemented, covering 60 *per cent* (Rs.80.21 crore) of the total expenditure of Rs.134.28 crore. Out of this, records in respect of 42 projects were scrutinized and joint physical verification of 18<sup>8</sup> selected projects (Random Sampling Method) was carried out.

### 1.2.4 Audit objectives

The Audit objectives were to assess whether:

- the main objectives of creating the envisaged irrigation potential have been achieved;
- effective planning mechanism existed;
- adequate funds were released in time and utilized properly;
- individual projects were executed in an economic, effective and efficient manner;
- monitoring mechanism was adequate and effective.

### 1.2.5 Audit Criteria

Audit objectives were benchmarked against the following criteria:

- Detailed Project Report of selected projects;
- guidelines of the schemes issued by GOI;
- prescribed monitoring and evaluation system.

### 1.2.6 Audit methodology

An entry conference was held on 22 April 2009 with the Secretary and Chief Engineer of the Department wherein the audit objectives, criteria, scope of audit and methodology were explained. Performance audit was conducted through an examination and analysis of records, collection of information through questionnaires and joint physical verification of selected projects. An exit conference was held on 8 September 2009 with the concerned departmental officers wherein audit findings were

<sup>5</sup> RIDF: 1996-97, AIBP: 1999-2000 and NLCPR: 2000-2001

<sup>6</sup> Kohima, Dimapur, Mokokchung, Tuensang and Phek

<sup>7</sup> Kiphire

<sup>8</sup> 6 AIBP and 12 Non-AIBP

discussed. The report was finalised after taking into account the views of the Department.

## **Audit Findings**

### **1.2.7 Planning**

The Department was required to conduct preliminary studies and collect general data through survey and investigation for each individual project and the provisional selection of projects were to be based on the Preliminary Survey Report. Thereafter, preliminary project reports and detailed project reports were to be prepared and approved by the competent authority. All the components of the project including land were to be assessed correctly at the planning stage itself. It was, however, seen during physical verification that five projects, though shown as completed in the departmental records, were incomplete/abandoned due to land disputes. The Department did not address these issues at the planning stage resulting in delay in completion/abandonment of the projects.

As per the AIBP guidelines, only minor irrigation projects listed in the annual work plan should be taken up for execution in a panel year. It was, however, seen that a project<sup>9</sup> not included in the approved list of AIBP projects was taken up during 2005-06 and the total State share of Rs.2 crore released during the year was utilized against this project itself. The Department could not furnish any reasons for prioritizing this project at the expense of the listed projects. This indicates deficiency in the planning process and deprived the beneficiaries of the listed projects.

As per AIBP guidelines, well equipped laboratory and technical personnel are to be made available for exercising quality control and periodical appraisal of such data for effective improvement in quality control and construction techniques. However, no separate quality control cell and laboratory exists in the Department for ensuring quality control.

### **1.2.8 Financial Management**

A total amount of Rs.135.10 crore was received from the Government of India as Central Loan Assistance during 1999-2009 in respect of AIBP against which the State Government was supposed to release Rs.22.87 crore<sup>10</sup> being its share. The State Government, however, released only Rs.15.33 crore resulting in short release of Rs.7.54 crore.

Rs.13.82 crore was received from NABARD as loan during 1996-2007 for implementation of schemes under Rural Infrastructure Development Fund. However, the State Government did not release its share of Rs.1.38 crore.

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<sup>9</sup> Sethikema Multipurpose Project

<sup>10</sup> 25 per cent during 1999-2000 to 2005-06 and 10 per cent during 2006-07 to 2008-09.

A total amount of Rs.7.99 crore was received from the Government of India as Central Loan Assistance during 2000-09 in respect of MI projects under Non-Lapsable Central Pool of Resources. The State Government, however, released only Rs.0.32 crore during 2007-09 against its due share of Rs.0.69 crore<sup>11</sup>.

Thus, the State Government did not release its share of Rs.9.29 crore resulting in several projects being completed much below the estimated cost. It was noticed that though the physically verified projects were stated to have been completed, several components of work as envisaged in the estimates were not even taken up indicating that the projects were only completed partially. This resulted in these projects remaining inoperative and deprived the beneficiaries of the intended benefits.

**(i) Delay in release of fund:** As per guidelines, State Government should release the grant/loan component to the project authorities immediately in respect of RIDF, within 30 days in respect of NLCPR and within 15 days in respect of AIBP of its release by the Government of India/NABARD. Scrutiny revealed that there were delays ranging from 10 to 225 days, 43 to 123 days and 436 days in release of funds by State Government in respect of AIBP, RIDF and NLCPR respectively. This impacted the timely completion of the schemes.

The Department accepted (September 2009) the facts.

**(ii) Parking of fund:** Rule 290 of Central Treasury Rules restrict the drawal of money from the treasury unless it is required for immediate disbursement. Government of Nagaland accorded Expenditure Sanction and Drawal Authority (March 2009) for Rs.32.47 crore for implementation of 167 MI projects under AIBP and NLCPR schemes in the State.

Scrutiny of records of the CE revealed that Rs.32.47 crore were drawn for implementation of various schemes during the year 2008-09 and kept in Civil Deposit as shown below:

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<sup>11</sup> 10 per cent during 2007-08 and 2008-09.

Table 1.2.1

| Year         | Date of release by GOI | Date of deposit in Civil Deposit | Amount (Rupees in crore) | Name of scheme |
|--------------|------------------------|----------------------------------|--------------------------|----------------|
| 2008-09      | 23.03.2009             | 31.03.09                         | 27.21                    | AIBP           |
| 2008-09      | 20.12.2007             | 30.03.09                         | 5.26                     | NLCPR          |
| <b>Total</b> |                        |                                  | <b>32.47</b>             |                |

*(Source: Departmental records)*

Funds were drawn at the fag end of the financial year and kept in Civil Deposit as per the orders of the Finance Department. The amount kept in Civil Deposit was also reported as expenditure thereby inflating the expenditure figures during the year. This also resulted in erosion of accountability and legislative control over expenditure, as drawal from civil deposits during subsequent years will neither require legislative approval nor will the expenditure incurred be subject to legislative authority through the appropriation mechanism. Thus, using the facility of transfer credit from the consolidated fund to the civil deposit violated the basic principles of legislative control over State finances. Besides, the funds parked in Civil Deposit impacted the programme implementation.

**(iii) Diversion of Fund:** As per the General Terms and Conditions laid down under Rural Infrastructure Development Fund-VI (RIDF-VI), no administrative expenses of the State Government can be reimbursed from the sanctioned amount of NABARD loan for the project. Further, the Government of Nagaland shall utilize the loan amount solely and exclusively for the purpose for which it was sanctioned by NABARD.

Scrutiny of records, however, revealed that out of Rs.13.82 crore sanctioned by NABARD, the Department expended Rs.0.48 crore for purchase of vehicles, POL, repair of vehicles, procurement of computers and accessories, procurement of furniture, payment of T.A. Bills, etc.

While accepting, the Department stated (September 2009) that the expenditure was incurred for successful implementation and supervision of the schemes.

### **1.2.9 Programme implementation**

The total area to be covered by the Department during the period 1996-2009 was 47175 hectares. The scheme-wise targets and achievements are detailed below:

Table 1.2.2

*(Area in Hectares)*

| Name of Scheme | Year               | Target        | Achievement   | Shortfall             |
|----------------|--------------------|---------------|---------------|-----------------------|
| AIBP           | 2000-01 to 2008-09 | 39,443        | 31,337        | 8,106 (20.55)         |
| NABARD         | 1996-97 to 2007-08 | 6,148         | 4,356         | 1,792 (29.15)         |
| NLCPR          | 2001-02 to 2008-09 | 1,584         | 1,158         | 426 (26.89)           |
| <b>Total</b>   |                    | <b>47,175</b> | <b>36,851</b> | <b>10,324 (21.88)</b> |

*Source: Departmental figures (Figures in parenthesis indicate percentages)*



A total of 1,194 MI projects had been taken up in Nagaland during the period 1996-2009. Out of this, 1,017 projects were completed as per departmental records. Out of 593 projects taken up in the test-checked divisions, 468 were completed, 123 were in progress and 2 were abandoned. Audit selected 18 projects to physically verify the claims of the Department. Of these 18 projects, 14 were stated to be completed and 4 were in progress. However, it was seen during physical verification that 7 projects were incomplete and one project was abandoned. Thus, the departmental records are not reliable.

#### (A) Projects under AIBP

A total of nine projects under AIBP were physically verified in audit and the following deficiencies in implementation were noticed:

(i) **Payment made without actual execution of work:** Government of Nagaland accorded Administrative Approval and Expenditure Sanction for Rs.3.58 crore in three installments for construction of “Tsutsung MI project” during 2007-08. The Executive Engineer, I&FC Division, Mokokchung awarded the work at a cost of Rs.3.58 crore to the President, Tsutsung Water User Association. It was also seen that the CE had approved (December 2008) a supplementary estimate for additional work of cement concrete channel lining amounting to Rs.0.28 crore.

As per entries made in the MB, the work commenced in January 2008 and was completed in November 2008 at a cost of Rs.3.86 crore and the contractor was paid in full (March 2008<sup>12</sup> and March 2009<sup>13</sup>). However, joint spot verification (May 2009) of the project by the audit team along with the departmental officers, revealed that only the concrete channel work had been started (May 2009). A photograph of the project is given below:



Photograph showing the present status of the Tsutsung MI project (May 2009)

Thus, the department had made payment of Rs.3.86 crore to the contractor based on fictitious measurement recorded in the MB without actual execution of the work.

<sup>12</sup> Rs.1.68 crore

<sup>13</sup> Rs.2.18 crore

The Department stated (September 2009) that the amount is parked with the EE (I&FC), Mokokchung as the work was delayed due to onset of monsoon. The Department's reply was totally baseless as payment of Rs.3.86 crore to the contractor had been recorded in the Cash Book between June 2008 and July 2009 and the related actual payees receipts were also produced to audit.

**(ii) Unfruitful and doubtful expenditure:** 'Chathe (A&B) MI projects' at Razaphema village under Dimapur division was taken up during 2001-2002 at an estimated cost of Rs.0.85 crore. However, only the DPR of 'Chathe Irrigation Project at Razaphema' with an estimated cost of Rs.0.50 crore was furnished to audit.

Joint verification (June 2009) of the Project by the Audit team along with the departmental officials, revealed that only channel work valued at Rs.0.20 crore was completed. On query, it was stated that the work could not be completed as the land owner did not allow construction of 'Head Works'. Thus, the expenditure of Rs.0.20 crore was unfruitful.

Scrutiny further revealed that an amount of Rs.0.25 crore was spent against another project not included in the annual approved list of projects viz., 'Chathe B' purportedly being executed below Patkai Bridge. The DPR of the project could not be furnished despite requisition. Besides, the Department could not identify the exact location of the project during joint physical verification. It was also confirmed from records that the project stated to be Chathe B was actually Chathe Irrigation Project, Chumukedima taken up under AIBP during 2003-04 at a total cost of Rs.1.53 crore. Thus, the expenditure of Rs.0.25 crore was incurred on a virtually non-existent project and the possibility of misappropriation cannot be ruled out.

The Department stated (September 2009) that the scheme consists of two projects in cluster as A&B. It was further stated that in case of Chathe B, only channel work was completed at a cost of Rs.0.25 crore, as a bigger dam was mooted to cover more area. But the fact remains that the channel stated to have been constructed already existed under an earlier project<sup>14</sup>.

**(iii) Unproductive Expenditure on abandoned work:** The scheme 'Nyapongsum MI Project' was taken up under AIBP for irrigation of 40 hectares of land under Tuensung Division with an estimated cost of Rs.35 lakh. The work commenced in December 2005 and was discontinued after payment of rupees eight lakh on a request made by the villagers to shift the project to the down stream to cover more Culturable Command Area (CCA). Accordingly, the Department initiated another project in the name of Nyapongsum Phase II with an estimated cost of Rs.82 lakh to cover 130 hectares. Thus, execution of the project without proper survey and planning led to unproductive expenditure of rupees eight lakh.

**(iv) Damage of dam due to defective work:** The work 'Yiedi MI project' under AIBP was taken up by the Executive Engineer, IFC Kohima Division during the year 2001-02 at an estimated cost of Rs.0.33 crore. It was seen that the project was

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<sup>14</sup> Chathe Irrigation Project, Chumukedima

completed at a cost of Rs.0.20 crore (February 2004). During spot verification by the audit team (May 2009) with the departmental officers, it was seen that the diversion weir and the check gate had completely collapsed and had not been repaired till date. A photograph of the project is given below:



Photograph shows the present status of 'Yiedi' MI project (May 2009)

Thus, it is evident that the Department did not properly monitor the works and compromised on the quality resulting in damage of the dam. The objective of irrigating 55 hectares of land belonging to 380 households also remained unfulfilled.

#### **(B) Projects under RIDF**

A total of nine projects out of a total of 57 projects under RIDF were physically verified in audit and the following deficiencies in implementation were noticed:

**(i) Unproductive implementation of project:** Sheyong M.I. Project at Sathakur village was constructed at an estimated cost of Rs.63 lakh under RIDF to cover 70 hectares of land. Work Order was issued in November 2003 with the stipulation that the work be completed within 6 months from the date of issue of the order. As per entries made in the MB, the work commenced in September 2002 and was completed at a cost of Rs.63 lakh in January 2006.

However, on physical verification (June 2009) by the Audit team along with the departmental officials it was noticed that (i) Check Dam, (ii) Junction Tank, (iii) Desilting Tank, (iv) Diversion Weir cum Intake Well, and (v) Water Harvesting Pond worth Rs.16 lakh had not been constructed and therefore the project had not been completed and water could not be supplied to 70 hectares of land for irrigation. A photograph of the project is given below:



Photograph shows the present position of the Sheyong MI project under RIDF.

**(ii) Unfruitful expenditure:** The work of “Tsashe M.I. Project” at Nokyan village at Tuensang District at an estimated cost of Rs. 50 lakh was taken up in February 2000 with the objective to irrigate 250 hectares. Scrutiny revealed that the project was certified to have been completed at a total cost of Rs.16 lakh. Joint spot verification by the Audit team along with the departmental officials (June 2009) revealed that construction of RCC Tank, drop structure and laying of G.I. Pipes connecting the command area had not been taken up. Thus, the amount of Rs.16 lakh spent on the project was unfruitful and the beneficiaries were deprived of the benefits of the project.

**(iii) Damage due to defective work:** The construction of ‘Lamong M.I Project’ under RIDF was taken up during 1999-2000 with an estimated cost of Rs.1.80 crore covering 80 hectares of CCA under Noklak Block. The main diversion weir was constructed on Lamong river consisting of 2 channels on the right and left bank covering 46 hectares of CCA. A second diversion weir was constructed on the river Koimong having one channel covering 34 hectares of CCA. A total amount of Rs.1.10 crore<sup>15</sup> (December 2001 and April 2002) was incurred for the project.

In the DPR it was claimed that the diversion weir shall last for fifty years as the sites were stable and hard shale existed in the bed. However, during joint physical verification (June 2009) by Audit team and the officials from the Division, it was noticed that the main diversion weir on Lamong river was damaged. It was stated by the departmental officials that the damage had occurred during 2007. Thus, water could not be fed to the CCA through the two channels and the farmers were deprived of the benefit of irrigation since 2007. However, no steps had been taken by the Department to renovate/repair the damaged weir even after a lapse of two years. A photograph of the same is given below:

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<sup>15</sup> 1<sup>st</sup> RA Rs.23 lakh + 2<sup>nd</sup> RA Rs.87 lakh





Photographs shows the present position of the Lamong MI project under RIDF.

Thus, the department did not properly monitor the work and exercise mandatory checks on quality of materials used resulting in damage of the dam and depriving the beneficiaries of the intended benefits.

While accepting, the Department stated (September 2009) that restoration work will be taken up at the earliest.

**(iv) Incomplete project:** The Thizuru M.I. project under RIDF was taken up by the Department during 1999-2000 with an estimated cost of Rs.32 lakh having a command area of 110 hectares. The project involved laying of G.I pipes (50 mm) for 11.78 km. and construction of three Reservoirs cum distributor tanks. The work was completed during 2002 at a total cost of Rs.20 lakh.

Joint physical verification by the Audit team and departmental officials (May 2009) revealed that the construction of the main reservoir cum distribution tank was incomplete and G.I pipes had not been fitted into the distributors. Besides, due to land dispute, the land owner had stopped the water supply from the primary source since 2003.

The Department had not taken any steps to resolve the land dispute and complete the remaining works. Thus, the objectives of irrigating 110 hectares remained unachieved and the expenditure of Rs.20 lakh incurred on the project was unfruitful.

The Department stated (September 2009) that the settlement of land dispute is taking longer than expected and that the cultivators have agreed to complete the distributary system from the main reservoir and maintain it themselves as soon as the dispute is settled. They further stated that the project is completed but not functional pending settlement of land dispute. A photograph of the project is given below:



Photograph showing the present status of Main reservoir cum distributor of Thizuru project

#### **1.2.10 Impact assessment**

The Department targeted creation of irrigation potential of 48,939 ha. by 2008-09 but achieved only 36,087 ha. Out of the potential created, only 23,419 ha. could be utilized as most of the projects were stated to have been completed with the available funds partially resulting in availability of water to lesser number of beneficiaries. Scrutiny of records of the 42 selected projects revealed that out of CCA of 4,434 ha., potential of 3,786 ha. was created out of which only 2376 ha. could be utilized. However, physical verification of 18 projects revealed that several projects which were incomplete/abandoned were shown as completed/in progress and irrigation potential created/utilised. Besides, partial implementation of projects and terming them complete has cast a doubt on the departmental records which could not be relied upon for any analysis of impact of the projects on agricultural productivity, creation of irrigation potential or benefit derived by beneficiaries.

#### **1.2.11 Participatory Irrigation Management**

**Non- levy of water charges:** According to GOI guidelines operative from 1 February 2002, the 'Reforming States' in special category including Nagaland will be provided Central assistance in full without any State's share if they rationalize their water rates in such a way that full operation and maintenance cost of the irrigation projects are recovered in 5 years.

The Department however, did not levy water charges from the users and incurred an expenditure of Rs.0.49 crore towards operation and maintenance cost in respect of 10 M.I projects during 2007-08.

While accepting, the Department stated (September 2009) that it will be implemented as soon as the Water Policy and Participatory Irrigation Management Act is passed by the Legislature.

#### **1.2.12 Monitoring and evaluation**

As per AIBP guidelines, there shall be a two tier monitoring system at State Level and Project Level. Monitoring Committee at the State Level is required to meet quarterly while Project Level Committees are required to meet every month and reports of meetings were to be submitted to the State Committee as well as to National Technical Committee. Reports of meetings held at State level were to be submitted to Technical Committee at the National level. The committee members were also required to visit sites of projects at least twice a year to monitor progress of the projects physically. However no such Committee was formed as of March 2009 either at State level or Project level. The monitoring system remained confined only to random inspection from C.E's office during progress of work.

AIBP guidelines further provide that the Central Water Commission (CWC) is required to monitor the MI projects periodically and assess the same against predetermined targets. Since inception (1999-2000) of M.I projects under AIBP, the CWC visited the State three times for monitoring during 2003, 2005 & 2007. Out of 1,133 M.I projects (AIBP) in eleven districts of Nagaland, the monitoring team inspected only 17 projects in two districts of Dimapur & Kohima indicating deficient monitoring of projects in the State both at the Central and State level.

#### **1.2.13 Conclusion**

The minor irrigation projects were implemented in the State without adequate planning leading to non-completion/abandonment of projects. Water charges were not collected from the users to meet the operation and maintenance cost of the projects. The records of the Department were also not reliable as projects stated to be completed were found to be incomplete/abandoned during physical verification of the sites. Hence, neither was impact assessment of the projects on agriculture undertaken by the Department nor could be ascertained in audit. Besides, there were several cases of fictitious, doubtful and unfruitful expenditure on the projects apart from inadequate monitoring of the implementation both at the State and Central Government levels. These issues indicate that irrigation projects in the State were not implemented efficiently.

#### **1.2.14 Recommendations**

- A reliable data base of irrigation projects in the State needs to be maintained;
- Proper survey and investigation may be conducted before selection of projects;
- Impact assessment of the projects on agricultural productivity need be assessed;
- Monitoring mechanism may be streamlined and physical verification conducted to evaluate the implementation of the projects.

## CHAPTER II

### AUDIT OF TRANSACTIONS

*Fraud/misappropriation*

#### SCHOOL EDUCATION DEPARTMENT

##### 2.1 Fraudulent drawal of TA claims

**Drawal of Rs.15.52 lakh by Headmaster, Government High School, Baghty, against Traveling Allowance claims is suspected to be fraudulent.**

Information collected from the Senior Treasury Officer (STO), Wokha during audit (January 2008) of the establishment of Headmaster (HM), Government High School (GHS), Baghty revealed that the HM had drawn (February 2001 to March 2002) Rs.15.52 lakh in 136 bills against Traveling Allowance claims.

However, the HM could not produce any supporting records of the claims such as T.A bills, payment details, tour diaries and approved tour programme. Further, Cash Book and Bill Register for the period from July 2001 to June 2003 had not been maintained.

On this being pointed out, the present HM stated (July 2008) that since Cash Book, Bill Register or any other records for the relevant period was not maintained and as he was posted to that school only in July 2007, he was not in a position to reply.

Thus, Rs.15.52 lakh was fraudulently drawn by the HM, GHS, Baghty against traveling allowance claims.

The matter was reported to the Department and the Government (July 2009); replies have not been received (October 2009).

##### 2.2 Fraudulent drawal

**Headmaster, Government High School, Kiphire, fraudulently drew Rs.9.52 lakh as Traveling Allowance claims of 26 employees.**

Headmaster, Government High School (GHS), Kiphire drew Rs.9.52 lakh in four<sup>1</sup> bills (January and December 2007) as Traveling Allowance against 26 employees in 34 cases.

Scrutiny of vouchers in audit revealed that, claims for traveling allowance in 24 cases for 159 to 297 days (March 2006 to December 2006) and in 10 cases for 145 days (April 2007 to August 2007) were prepared and drawn by the Headmaster, though all

<sup>1</sup> TV No. 34 to 36 dated. 25/01/07 and 11 dated 4/12/07



these employees were actually on duty in the school during the period. The employees also stated (November 2008) that the above TA bills were drawn by the Headmaster without their knowledge.

Thus, the Headmaster, GHS, Kiphire fraudulently drew TA bills amounting to Rs.9.52 lakh by preparing and presenting claims against the employees.

On this being pointed out, the Headmaster stated (November 2008) that though the above TA bills were drawn by him against 24 employees, the amount is yet to be disbursed to them and is under his custody.

The reply is not relevant as the final TA bills in respect of employees who had not performed any official tour should not have been drawn in the first place.

The Government, in reply (July 2009) accepted the facts and stated that action has been initiated to recover the amount in 3 installments within two months i.e., September 2009. The details of actual recoveries made, if any, had not been intimated (October 2009). The reply was also silent on whether any disciplinary proceedings had been initiated against the Headmaster.

### **2.3 Short supply of rice under Mid Day Meal Scheme**

**2,237.07 quintals of rice valued at Rs.31.21 lakh issued by Director of School Education under Mid Day Meal scheme to Deputy Inspector of Schools, Aghunato was not delivered to him and is suspected to have been diverted to open market.**

Nutritional Support to Primary Education, commonly known as Mid Day Meal programme (MDM), was launched as a Centrally Sponsored Scheme in August 1995. The scheme was intended to boost the universalisation of primary education by increasing enrollment, retention and attendance and simultaneously improving the nutritional status of the students countrywide, in a phased manner. Central support is provided by way of supply of free food grains through Food Corporation of India (FCI) at the rate of 100 gram per child per school day in respect of Primary Schools where cooked meals are provided and at the rate of 3 kg per student per month where food grains are distributed.

The Director of School Education allotted/issued (March 2005 to January 2009) 3,511.22 quintals of rice to Deputy Inspector of Schools (DIS), Aghunato for distribution to 42 schools under his jurisdiction through an authorized stockist-cum-transporter<sup>2</sup>.

Scrutiny (February 2009) of records of DIS, Aghunato, however, revealed that though the transporter lifted the entire quantity of rice, the DIS received (March 2005 to

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<sup>2</sup> M/S Vitoi Sumi, Dimapur

January 2009) only 1,274.15 quintals of rice resulting in short receipt of 2,237.07 quintals of rice valued at Rs.31.21 lakh<sup>3</sup>.

Thus, the short receipt of 2,237.07 quintals of rice affected the implementation of the scheme by depriving 22,37,070<sup>4</sup> mid day meals to the students during the period and the entire quantity of food grains is suspected to have been diverted to the open market.

The matter was reported to the Department and Government (May 2009), reply has not been received (October 2009).

## HEALTH AND FAMILY WELFARE DEPARTMENT

### 2.4 Fictitious drawals

#### **District Tuberculosis Officer, Zunheboto drew Rs.14.97 lakh by presenting fictitious claims on pay and allowances.**

District Tuberculosis (TB) Officer, Zunheboto drew (August 2006 to May 2007) Rs.17.88 lakh as arrears of pay, HRA, DA and Dearness Pay (DP) in 28 bills.

Scrutiny of these vouchers revealed that, Rs.14.97 lakh out of Rs.17.88 lakh, was drawn on the basis of false claims as detailed below:-

(i) Rs.10.62 lakh was drawn (October 2006 to May 2007) on 17 bills on account of pay arrears against Grade III and IV employees. Cross verification of these bills with the regular pay bills of the relevant period revealed that the basic pay of the employees taken for calculation of arrears was inflated. Scrutiny also revealed that arrears were drawn by granting inadmissible increments two to three times for the same period to these employees.

(ii) Rs.0.87 lakh was drawn on account of HRA arrears in four bills against 12 employees, although HRA was drawn at the admissible rate by these employees as per the regular pay bills. Hence, an inadmissible amount of Rs.0.87 lakh was drawn fraudulently.

(iii) Government of Nagaland raised the rate of DA from 21 *per cent* to 24 *per cent* from January 2006 and 24 *per cent* to 29 *per cent* from July 2006. The TB Officer, drew the resultant arrears amounting to Rs.0.88 lakh (December 2006) in two bills. However, Rs.1.33 lakh was again drawn (January 2007) as DA arrears for the same period against the same employees resulting in excess drawal of Rs1.33 lakh.

(iv) Government of Nagaland merged (December 2005) 50 *per cent* of DA with basic pay of employees' w.e.f 1 April 2004. The TB Officer drew (June 2006 to April 2007) an amount of Rs.4.18 lakh as DP arrears for the period April 2004 to February 2007 in

<sup>3</sup> Calculated at Rs.1395 (Economic cost of rice) per quintal

<sup>4</sup> 100 gm per student per school day (243 working days in a year)

4 bills against 14 Grade IV employees. Audit scrutiny (May 2007) revealed that arrears for 29 months amounting to Rs.2.15 lakh were drawn twice.

Thus, the District TB Officer had drawn Rs.14.97 lakh by presenting fictitious bills.

The matter was reported to the Department and the Government (April 2009); replies have not been received (October 2009).

## **HOME (GENERAL ADMINISTRATION)/HIGHER EDUCATION DEPARTMENTS**

### **2.5 Double drawals**

#### **Deputy Commissioner, Dimapur and Principal, Government College, Zunheboto drew Rs.8.02 lakh as pay and allowances of employees for the second time.**

Rule 34 of Receipts and Payments Rules provides that a Bill Register should be maintained by all Heads of Offices who are authorised to draw money on bills signed by them. To prevent presentation of fraudulent bills to the Treasury, a Bill Transit Register is to be maintained by the DDO and crosschecked with the Bill Register. Further, the aforesaid registers should be reviewed by a gazetted officer and the result of the review recorded thereon. Treasury Rules, in addition to prescribing various checks to be exercised by the Treasury Officer, also require that he shall obtain sufficient information as to the nature of every payment he is making and shall not accept a claim which does not formally present that information unless there are valid reasons which he shall record in writing for omitting to enquire it.

(i) Scrutiny of pay bills of the Deputy Commissioner (DC), Dimapur revealed that Rs.5.83 lakh was drawn (March 2007) in four bills as pay and allowances (February 2007) of 66 employees.

Further scrutiny, however, revealed that the pay and allowance of all these employees for the month of February 2007 were already drawn by the Drawing and Disbursing Officer (DDO) in February 2007 itself. Thus, there was a double drawal of Rs.5.83 lakh as pay and allowances by the DC's office.

On this being pointed out (September 2008), the DC deposited an amount of Rs.5.46 lakh (October 2008), excluding deductions like GPF, Professional tax etc., into Government account. However, the source of recovery has not been communicated (November 2009).

(ii) Scrutiny of pay bills of the Principal, Government College, Zunheboto revealed that Rs.1.74 lakh was drawn (26 March 2007) as pay and allowances of Grade III and IV employees for February 2007 in two bills. Similarly, an amount of Rs.0.73 lakh was also drawn (26 March 2007) in two bills by the Principal as fixed pay (October 2006 to February 2007) of three Grade III employees.

Further scrutiny revealed that the pay and allowances of Grade III and IV employees for February 2007 amounting to Rs.1.69 lakh were already drawn by the DDO on 1 March 2007. Further, fixed pay amounting to Rs.0.45 lakh of these Grade III employees for October 2006 and December 2006 to February 2007 was also drawn in November 2006, January 2007, February 2007 and 1 March 2007 by the Principal. This resulted in a double drawal of Rs.2.19 lakh.

On this being pointed out (September 2008 and July 2008), the Principal deposited an amount of Rs.3.60 lakh<sup>5</sup> (November 2008) into Government account. On further inquiry (March 2009), the Principal stated that the amount had been recovered in cash from the concerned staff.

Thus, failure of the DC, Dimapur, the Principal, Government College Zunheboto and the Treasury Officer in exercising the statutory checks prescribed in rules resulted in double drawal of pay and allowances of Rs.8.02 lakh. Though the amount drawn in excess was refunded at the instance of audit, any deterrent action initiated against the employees involved has not been intimated (October 2009).

## FOOD AND CIVIL SUPPLIES DEPARTMENT

### 2.6 Diversion of PDS foodgrains

**2,760 MT of PDS rice valued at Rs.2.29 crore meant for distribution to APL beneficiaries of Kohima district is suspected to have been diverted to open market.**

Under the Public Distribution System (PDS), the population not covered under Below Poverty Line (BPL), Antyodaya Anna Yojana (AAY) and Annapurna Scheme are covered under Above Poverty Line (APL) segment and every APL household is entitled for 35 kilogram of food grains per month on the basis of transitory allocation made by Government of India.

Government of Nagaland (GON), Food and Civil Supplies Department (FCSD) appointed (July 2006) two Stockists-cum-Handling Agents<sup>6</sup> for lifting and distribution of APL Rice from Food Corporation of India (FCI), Dimapur to Fair Price Shops (FPS) located in different districts of the State. According to Clause seven of the Agreement, the stockists were required to submit detailed Utilisation Certificates (UC) against each allocation, duly countersigned by the Assistant Director of FCSD and the Deputy Commissioner/Additional Deputy Commissioner of the respective district.

Scrutiny of records (June 2008) of the Director, FCSD revealed that the Department had allotted (October 2006 to April 2008) 2,890 MT of APL rice to the authorised

<sup>5</sup> Including inadmissible arrears.

<sup>6</sup> 1. M/s Jemti Ao (Mon, Tuensang, Kiphire and Longleng) 2. M/s Vizhekho Angami (Kohima, Phek, Zunheboto, Wokha, Peren and Dimapur.

stockist<sup>7</sup> for distribution to APL beneficiaries of Kohima district through FPS. The Director, FCSD directed (May 2008) the stockist to submit the UCs immediately as he had lifted the entire allotment and had not submitted the UCs despite several letters issued earlier. The Assistant Director, FCSD, Kohima reported (June 2008) that the stockist had supplied (October 2006 to April 2008) only 130 MT of rice to FPS in Kohima. Thus, there was a short supply of 2,760 MT of APL rice valued at Rs.2.29 crore<sup>8</sup> by the stockist.

On this being pointed out, the Director, FCSD stated (April 2009) that the stockist supplied (August 2006 to April 2008) 2,690 MT of rice against the allocation of 2,890 MT and also produced the UCs forwarded by the Assistant Director, FCSD, Kohima on the following months of allocation/lifting. The reply is not tenable as it contradicts the facts stated by the Director, FCSD (May 2008) and the Assistant Director, FCSD (June 2008). Further, verification of FPSs revealed that they had not received the foodgrains stated to have been distributed to them.

Thus, the objective of PDS to distribute foodgrains to APL beneficiaries at subsidized rates was defeated as 2,760 MT of rice valued at Rs.2.29 crore is suspected to have been diverted to the open market.

The matter was reported to the Department and Government (May 2009), replies have not been received (May 2009).

## **2.7 Short receipt of PDS foodstuff**

**2,867.77 quintals of wheat meant for BPL beneficiaries and 1,254 quintals of levy sugar valued at Rs.37.25 lakh shown as issued/allotted by the Director of Food and Civil Supplies Department (FCSD) was not received by the Superintendent, FCSD, Kiphire and is suspected to have been diverted to the open market.**

Director, Food and Civil Supplies Department (FCSD) issued/allotted 21,766 quintals of wheat meant for distribution to BPL beneficiaries and 1254 quintals of levy sugar to the Superintendent of FCSD, Kiphire during 2004-05 to 2007-08.

Scrutiny (February 2009) of records of Superintendent of FCSD, Kiphire revealed that the Superintendent received only 18,898.23 quintals of wheat against 21,766 quintals shown as issued/allotted by the Director. It was also seen that 1,254 quintals of levy sugar shown as issued by the Director was not received by the Superintendent.

Thus, there was a short receipt of 2,867.77 quintals of wheat and 1,254 quintals of levy sugar valued at Rs.37.25<sup>9</sup> lakh and the same is suspected to have been diverted to the open market. Besides, the objective of PDS, i.e., to supply foodgrains to BPL beneficiaries at subsidised rates, was also not achieved.

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<sup>7</sup> M/s Vizhekho Angami.

<sup>8</sup> 2,760 MT x Rs.830 per qtls. (Central Issue Price of APL rice)=Rs.2.29 crore

<sup>9</sup> BPL Wheat 28,67.77 quintals X Rs 665 =**Rs.19.07 lakh**+ Levy Sugar 1,254 quintals X 1,450= **Rs.18.18 lakh**

The matter was reported to the Department and the Government (July 2009); replies have not been received (October 2009).

***Excess payment/undue favour***

**URBAN DEVELOPMENT DEPARTMENT**

**2.8 Excess expenditure**

**The Executive Engineer, Town Planning Works Division, Kohima incurred excess expenditure of Rs.49 lakh due to non-acceptance of the lowest bid.**

Clause 293 of Nagaland Public Works Department Code stipulates that usually the lowest tender should be accepted, unless there be some objection to the capability of the contractor, the security offered by him or his execution of former work. When lowest tender is not accepted, the reasons may be furnished in the Comparative Statement duly attested for the audit purpose. As a general rule, negotiations should not be resorted to; but in cases, where it becomes necessary to do so, negotiations should be restricted only with the lowest tenderer. Further, the Central Vigilance Commissioner (CVC) had directed (November 1998) all officers concerned that no negotiations be resorted to with any tenderer other than the lowest tenderer.

Scrutiny of records (July 2008) of the Executive Engineer (EE), Town Planning Works Division (TPWD), Kohima revealed that NIT was floated (March 2006) for the work “Construction of Directorate Office Building of Town Planning Department at Kohima” with the approximate value of the work being Rs.3.28 crore as per NPWD (Housing) SOR 2004. Amongst seven bidders<sup>10</sup> who submitted (March 2006) their bids, 2 contractors<sup>11</sup> had quoted the lowest rates i.e., at par with NPWD, SOR 2004 and a third contractor<sup>12</sup> had quoted at 19 *per cent* above NPWD SOR 2004. The Division, in violation of CVC guidelines, negotiated (April 2006) with the third contractor as per directions received from the Chief Engineer (Housing). The Contractor agreed (April 2006) to take up the work at 15 *per cent* above NPWD SOR 2004. Work order was issued (April 2006) to him at Rs.3.77 crore, i.e., 15 *per cent* above SOR 2004. There was also nothing on record to suggest better work experience or expertise on the part of the third contractor. Reasons for rejecting/not negotiating with the two other bidders who had quoted the lowest rates at par with NPWD SOR 2004 i.e., Rs.3.28 crore was also not on record. Thus, the Division had incurred excess expenditure of Rs.49 lakh<sup>13</sup>.

The EE stated (September 2009) that the work could be executed only at 15-20 *per cent* above the NPWD SOR 2004 on the basis of analysis of major items of works as per prevailing market rates prepared by the Department. It was also stated that the

<sup>10</sup> All Registered Class I contractors

<sup>11</sup> 1. M/s RNDM Co. Pvt. Ltd., 2. M/s Pele Khezhe.

<sup>12</sup> Shri Atuolie Mepfho-u.

<sup>13</sup> Rs.3,76,66,833 – Rs.3,27,53,768

bids of the two contractors who had quoted the lowest were found to be technically deficient. The reply of the EE is not acceptable as no remarks were recorded in the comparative statement that the lowest bidders had submitted technically deficient bids. It was also seen that the analysis of major items of work were carried out on the basis of market rates of September 2006 though the tendering process was completed and work order was issued in March and April 2006 respectively.

The matter was reported to the Government (April 2009); replies have not been received (October 2009).

## **2.9 Undue financial aid to contractor**

**The Executive Engineer, Town Planning Works Division, Kohima paid Rs.3.75 crore as interest free mobilisation advance to four contractors resulting in loss of interest of Rs.23.92 lakh.**

As per CPWD Works Manual 2003, in respect of certain specialized and capital intensive works with estimated cost put to tender rupees two crore and above, provision of mobilisation advance may be kept in the tender documents. Mobilisation advance limited to 10 *per cent* of tendered amount at 10 *per cent* simple interest can be sanctioned against a Bank Guarantee (BG) to the contractors on specific request as per terms of the contract. The Central Vigilance Commission (CVC) had also directed (June 2004) that if mobilisation advance is to be given, it is to be expressly stated in the NIT/Bid documents, indicating the amount, rate of interest and submission of BG of equivalent amount.

Scrutiny (July 2008) of records of the Executive Engineer (EE), Town Planning Works Division, Kohima revealed that the EE paid (March 2006 to March 2007) Rs.3.75 crore to four contractors as mobilisation advance, though it was not included in the NIT. The EE neither insisted on BG nor did he charge interest on this mobilisation advance. This was in violation of codal provisions. The advances so allowed remained with the contractors for periods ranging from 3 to 7 months. Further, the advance granted exceeded 10 *per cent* of the tendered amount in two cases<sup>14</sup>.

Although the entire amount of mobilisation advance was subsequently adjusted, the Department cannot be absolved of the responsibility of providing undue financial aid of Rs.3.75 crore to the contractors resulting in loss of interest of Rs.23.92 lakh.

The Government in reply (June 2009) stated that there is no provision in the NPWD Code for Mobilisation Advance and the interest charges to be recovered from mobilisation advances and the entire advances have since been adjusted.

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<sup>14</sup> M/s Aier Meren Enterprises: 21.71 *per cent*.  
M/s Vascon, Kohima: 26.80 *per cent*.

## PUBLIC WORKS (ROADS AND BRIDGES) DEPARTMENT

### 2.10 Excess payment to contractors

**Executive Engineer, Public Works Department (Roads and Bridges), Mokokchung Division extended undue benefit of Rs.17.35 lakh to eight contractors in violation to the provisions of the Work Orders.**

Executive Engineer (EE), Public Works Department (PWD), Roads and Bridges (R&B), Mokokchung Division awarded (November 2006 to January 2007) eight minor road construction works to different contractors at Nagaland Public Works Department (NPWD) Schedule of Rates (SOR) 2004 applicable to construction of Roads and Bridges. The works were executed by the contractors between November 2006 and May 2007 at a total cost of Rs.99.90 lakh.

Scrutiny (August 2008) of contractors' bills revealed that, the EE arbitrarily allowed higher rates, i.e. rates admissible as per SOR 2005, on several items of work instead of as per SOR 2004 resulting in an excess expenditure and undue benefit of Rs.17.35 lakh.

The matter was reported to the Department and Government (July 2009), replies have not been received (October 2009).

#### *Idle expenditure*

## SCHOOL EDUCATION DEPARTMENT

### 2.11 Idle expenditure

**Deputy Inspector of Schools, Niuland incurred idle expenditure of Rs.88.55 lakh on pay and allowances of 57 teachers posted against various Government Primary Schools/Government Middle Schools but attached to his office.**

During scrutiny (September 2008) of records (September 2006 to September 2008) of the Deputy Inspector of Schools (DIS), Niuland, Dimapur, it was seen that 57 teachers posted in various Government Primary Schools/Government Middle Schools were attached to the Office of the DIS, Niuland for periods ranging from 3 to 28 months and designated as Office Assistants (OAs). The expenditure on pay and allowances of these teachers during the period of attachment worked out to Rs.88.55 lakh.

The sanctioned strength of the DIS could not be furnished though called for. However, it was seen that 15 employees<sup>15</sup> other than the attached teachers were posted in the office of the DIS, Niuland. On query (September 2008), the DIS,

<sup>15</sup> 1 Head Assistant, 3 Upper Division Assistants, 6 Sub-Inspector of Schools, 1 Driver, 1 Asstt. Co-ordinator (EBRC), 2 peons and 1 sweeper.



Niuland could neither explain the reasons for deploying such a large number of teachers as OAs nor give the details of work entrusted to them.

Thus, the DIS, Niuland incurred idle expenditure of Rs.88.55 lakh on pay and allowances of these 57 attached teachers. Further, services of these teachers were not utilised for teaching students.

The matter was reported to the Department and Government (May 2009), reply has not been received (May 2009).

## **General**

### **2.12 Outstanding Inspection Reports and Audit Committee meetings**

The results of audit on financial irregularities and defects in maintenance of initial accounts noticed during local audit and not settled on the spot are communicated to the auditee departments and to the higher authorities through Inspection Reports (IRs). The more serious irregularities are reported to the Department and to the Government.

The position of outstanding reports in respect of the Civil Departments is discussed below.

As of March 2009, 6,739 paragraphs included in 1,205 IRs issued upto 2008-09 were pending settlement. The year-wise break up of the outstanding IRs and paragraphs is given below:

Table No.2.1

| Year         | Number of outstanding |              |
|--------------|-----------------------|--------------|
|              | Inspection Reports    | Paragraphs   |
| Upto 2002-03 | 519                   | 2,230        |
| 2003-04      | 89                    | 449          |
| 2004-05      | 132                   | 695          |
| 2005-06      | 132                   | 1,112        |
| 2006-07      | 122                   | 873          |
| 2007-08      | 100                   | 695          |
| 2008-09      | 111                   | 685          |
| <b>Total</b> | <b>1,205</b>          | <b>6,739</b> |

The major departments where a large number of IRs and paragraphs are outstanding are given in the table below:

Table No.2.2

| Name of the Department     | Number of IRs | Number of paragraphs |
|----------------------------|---------------|----------------------|
| Forest                     | 85            | 371                  |
| Transport                  | 55            | 246                  |
| School Education           | 291           | 1,322                |
| Industries and Commerce    | 34            | 212                  |
| Rural Development          | 80            | 433                  |
| Police                     | 200           | 1,084                |
| Irrigation & Flood Control | 18            | 103                  |
| Agriculture                | 70            | 380                  |
| <b>Total</b>               | <b>833</b>    | <b>4,151</b>         |

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 IRs/paragraphs as per the prescribed time schedule and the losses/outstanding advances/overpayments may be recovered in a time bound manner.

No Audit Committee Meeting was held during the year 2008-09.

## CHAPTER III

## INTEGRATED AUDIT

## URBAN DEVELOPMENT DEPARTMENT

*The Urban Development Department is responsible for creating infrastructure to provide basic amenities like drinking water, electricity, roads, drainage systems, solid waste management and proper toilet facilities to the inhabitants. The Department carries out its responsibilities by implementing centrally sponsored schemes and state plan schemes. A performance audit of the Department revealed that they did not have a long-term strategy due to which the works were implemented by them randomly. This coupled with vulnerability to fraud and lack of quality control resulted in various shortcomings in implementation of projects. The major observations are detailed below:*

**City Development Plan was prepared only in respect of Kohima. Works taken up by the Department were not based on any plan documents.**

(Paragraph 3.7)

**Budgeting was unrealistic and lacked credibility in view of the persistent and substantial savings and excess over budget provision.**

(Paragraph 3.8)

**Rupees one crore meant for construction of 24 shops at NST Complex and 19 shops at Nagarjan, Dimapur was diverted for unspecified purposes by Development Authority of Nagaland**

(Paragraph 3.8.5 (i))

**Contract management of the Department was poor as consultants were engaged even for petty works and works were awarded to other than the lowest bidder without justification.**

(Paragraph 3.10.1 & 3.10.2)

### 3.1 Introduction

Nagaland is predominantly a tribal, hilly and remote State lying in the North-East corner of the country. Only about 17.24 *per cent* of the total population lives in three<sup>1</sup> declared and 16<sup>2</sup> recognised urban areas. The urbanization level of the State showed a rising trend from 5.19 *per cent* in 1961 to 17.24 *per cent* in 2001. There are also signs of migration of urban population from smaller towns to urban areas of the State with better facilities. The number of towns increased from three in 1961 to 19 in 2001.

<sup>1</sup>. Kohima, Dimapur and Mokokchung

<sup>2</sup>. Tuensang, Wokha, Mon, Zunheboto, Phek, Peren, Longleng, Kiphire, Pfutsero, Tseminyu, Medziphema, Mangkolemba, Tuli, Noklak, Changtongya and Chumukedima.

Besides, there are 52 smaller towns inheriting urban characteristics. Development of this semi-urban scattered conglomeration is a daunting task in a rocky terrain with heavy rainfall and sparse population with primarily rural background. To cope up with the ever increasing trend of urbanization in the State, the Urban Development Department is entrusted with the task of preparing Master Plans and City Development Plans to provide and improve infrastructural facilities like roads, water supply, sanitation, transport, markets, health, housing etc. in these urban areas. The Department carries out these responsibilities by implementing Centrally Sponsored Schemes (CSS) viz., the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and 10 *per cent* Lumpsum for Development of North Eastern States and State Plan Schemes. The Department also provides grants-in-aid to two Autonomous Bodies viz., Development Authority of Nagaland (DAN) and State Urban Development Agency (SUDA).

### **3.2 Organizational set up**

The Department with a Secretary as the Chief Controlling Officer is assisted by the Director, Urban Development and seven District Urban Development Officers. Besides, an Executive Engineer from the Nagaland Public Works Department assists the Department in technical matters relating to execution of works.

### **3.3 Scope of Audit**

The performance audit was conducted during April to June 2009 and covered the functioning of the Department during 2004-09. Of the 9 auditable units with a total expenditure of Rs. 334.21 crore, 5 units<sup>3</sup> with an expenditure of Rs.133.70 crore (40 *per cent*) were selected for audit by 'Stratified Monetary Unit' method of sampling. In addition, the State Urban Development Agency<sup>4</sup> (SUDA) and Development Authority of Nagaland<sup>5</sup> (DAN) were covered.

### **3.4 Audit objectives**

The broad objectives of the audit were to assess whether:

- the works were properly planned and co-ordinated so as to ensure optimum utilization and intended benefits accrued within a reasonable time frame
- budget was realistic and adequate financial controls existed
- Programme implementation was effective and efficient
- proper systems were put in place to assess the requirement of human resources
- there exists an internal control mechanism in the Department

### **3.5 Audit criteria**

The Audit objectives were benchmarked against the following criteria.

- Detailed Project Reports
- Scheme Guidelines

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<sup>3</sup> Director, Executive Engineer, Dimapur, Mokokchung and Mon

<sup>4</sup> Grants in aid of Rs.2.95 crore

<sup>5</sup> Grants in aid of Rs.8.44 crore

- Financial Rules
- Nagaland Public Works Department Codes

### 3.6 Audit Methodology

The performance audit commenced with an entry conference on 24 March 2009 with the Commissioner & Secretary, Director and other senior officers of the Department wherein the audit objectives, scope, audit criteria and methodology were discussed. The review was carried out through an examination and analysis of records and collection of information through questionnaires. The report was finalised after taking into account the views expressed by the Department during an exit conference held on 29 July 2009.

### Audit Findings

### 3.7 Planning

The Department did not prepare perspective plans or development plans for the urban areas except the City Development Plan (CDP) in respect of Kohima. The works were therefore randomly picked and not based on any plan documents. The Department neither prepared Annual Action Plan nor devised any long or short term strategies by breaking down the targets into actionable areas, identifying the administrative, technical and financial resources, and prescribing implementation schedules. Lack of planning resulted in low level of preparedness and capacity of the Department to implement its programmes effectively and efficiently

The Department stated (July 2009) that City Development Plans for all the District Headquarters are under preparation. However, the Department did not specify any time frame for completion of the task.

### 3.8 Financial Management.

The year-wise approved outlay and expenditure incurred by the Department during 2004 -09 are shown below:

Table No- 3.1.1

(Rupees in crore)

| Year         | Approved outlay |              |              | Expenditure incurred |               |              | Excess (+)/Saving (-) |           |          |
|--------------|-----------------|--------------|--------------|----------------------|---------------|--------------|-----------------------|-----------|----------|
|              | State Plan      | CSS          | Non-Plan     | State Plan           | CSS           | Non-Plan     | State Plan            | CSS       | Non-Plan |
| 2004-05      | 16.37           | 8.13         | 1.98         | 14.30                | 00            | 2.00         | (-) 2.07              | (-) 8.13  | (+) 0.02 |
| 2005-06      | 44.15           | 22.03        | 2.29         | 16.21                | 10.18         | 1.80         | (-)27.94              | (-) 11.85 | (-) 0.49 |
| 2006-07      | 50.65           | 22.03        | 2.53         | 39.54                | 18.06         | 3.37         | (-)11.11              | (-) 3.97  | (+) 0.84 |
| 2007-08      | 42.66           | 15.36        | 3.21         | 45.78                | 55.86         | 3.26         | (+) 3.12              | (+) 40.50 | (+) 0.05 |
| 2008-09      | 42.66           | 15.36        | 2.92         | 52.35                | 36.33         | 4.61         | (+) 9.69              | (+) 20.97 | (+) 1.69 |
| <b>Total</b> | <b>196.49</b>   | <b>82.91</b> | <b>12.93</b> | <b>168.18</b>        | <b>120.43</b> | <b>15.04</b> |                       |           |          |

(Source:- Budget documents and Appropriation accounts)

(i) The savings under capital budget increased from Rs.10.20 crore in 2004-05 to Rs.39.79 crore in 2005-06 and Rs.15.08 crore in 2006-07, reflecting unrealistic preparation of budget estimates and the inability of the Department to implement its budgeted projects and programmes.

(ii) Each year supplementary provision was obtained without justification as the savings at the end of the year were more than the supplementary provision. This indicates that the expenditure was not monitored or reviewed defeating the concept of budgeting.

(iii) During 2007-08 and 2008-09 the expenditure under State Plan exceeded the budget provision by Rs.3.12 crore and Rs.9.69 crore respectively and the expenditure under CSS exceeded the budget provision by Rs.40.50 crore and Rs.20.98 crore. The excess expenditure has not been regularized. Despite requisition to the Department as well as the Finance Department, the source from which the excess expenditure was made could not be furnished to audit (July 2009).

(iv) During 2006-07 and 2008-09 the expenditure under Non Plan exceeded the budget provision by Rs.0.83 crore and Rs.1.68 crore respectively. The excess expenditure had not been regularized.

There was no evidence of the above issues having been addressed at appropriate levels.

The Department stated (July 2009) that savings were due to allocation of lumpsum provision before sanction of Detailed Project Reports by GOI and further stated that the matter shall be taken up with the Finance Department to regularize the excess expenditure.

**3.8.1 Budgetary provision under Centrally Sponsored Schemes (CSS):** The Department could not utilize the budgetary provision under CSS during the years 2004-08, as detailed below:-

Table-3.1.2

*(Rupees in crore)*

| Year         | Name of the CSS                                                    | Budget Provision | Expenditure incurred at the end of the year. | Un-utilised fund during the year. |
|--------------|--------------------------------------------------------------------|------------------|----------------------------------------------|-----------------------------------|
| 2004-05      | Infrastructure Development of Small and Medium Towns, Construction | 0.48             | -                                            | 0.48                              |
| 2005-06      | i. Special Development Fund for Nagaland.                          | 0.49             | 0.11                                         | 0.38                              |
|              | ii. JNNURM                                                         | 1.78             | 0.13                                         | 1.65                              |
| 2007-08      | i. Slum improvement                                                | 2.89             | 00                                           | 2.89                              |
|              | ii. JNNURM                                                         | 46.33            | 40.48                                        | 5.85                              |
|              | iii. Special Development Fund for Nagaland.                        | 24.68            | 19.22                                        | 5.46                              |
| <b>Total</b> |                                                                    | <b>76.65</b>     | <b>59.94</b>                                 | <b>16.71</b>                      |

*(Source: Appropriation accounts)*

Under utilization of budgetary provision can only be attributed to inadequacies in preparation of project proposals, poor planning, slow progress of work as well as inadequate monitoring and supervision.

**3.8.2 Release of Central and State share by the State Government:** During the period covered in audit, GOI released its share of Rs.151.32 crore under 10 per cent Lumpsum for Northeast and Jawarharlal Nehru National Urban Renewal Mission.

However, the State Government in turn released only Rs.121.77 crore to the Departments resulting in short release of central share by Rs.29.55 crore. Similarly, against GOI release of Rs.151.32 crore, the State Government was to release its proportionate share of Rs.32.84 crore whereas only Rs.14.71 crore was released (March 2009) resulting in short release of State share of Rs.18.13 crore.

Besides, there was delay in release of funds for periods ranging from four to 25 months to the Department by the State Government. Despite the short release, the Department submitted inflated Quarterly Progress Reports to the GOI showing full utilization of the amount released by GOI.

Thus, it is evident that the Department could have implemented its projects on time on receipt of the funds from the State Government and could have avoided the excess expenditure during the years 2007-09.

While accepting, the Department stated (July 2009) that the short release of Rs.15.87 crore under 10 *per cent* Lumpsum Provision for North Eastern States was due to deduction of agency charges by the Government. They further stated that a change in the system of releases has been introduced from 2009-10 and therefore the releases are expected to improve.

**3.8.3 Rush of expenditure:** Rule 69 of GFR provides that rush of expenditure particularly in the last quarter of the financial year shall be regarded as a financial irregularity and should be avoided. Scrutiny revealed that 36 to 70 *per cent* of the capital expenditure during the last five years had taken place in the last quarter as against 16 to 26 *per cent* in the 1st quarter.

While accepting, the Department stated (July 2009) that a major portion of the funds are released in the last week of the financial year.

**3.8.4 Funds obtained by misrepresenting facts:** According to 2001 Census, there was no slum population in the State. The State Government had also not enacted or notified any area in Nagaland as Slum.

Audit analysis, however, revealed that the Department forwarded a DPR (2006) under JNNURM to GOI for approval showing the slum population of 20,194 in six blocks of Kohima and 38,681 in six blocks of Dimapur. The Department did not carry out preliminary survey to identify and select the beneficiaries before commencement of the project.

Union Ministry of Housing and Urban Poverty Alleviation also approved and accorded sanction of these projects at a total cost of Rs.205.08 crore without verifying the genuineness of the claim made by the Department.

Scrutiny of the survey report (2008) revealed that the Department is contemplating allotment of the housing units to ineligible Grade III and Grade IV employees of the State Government on rent. Thus, the Department obtained funds of Rs.205.08 crore from GOI by misrepresenting the slum population in the State.

The Department stated (July 2009) that twelve areas in Kohima and Dimapur were identified as slums and inclusion of Grade III and IV Government employees are also

under review. The reply is not acceptable as no slums were identified by any Government Notification or Act and the Department is contemplating to allot the housing units to these ineligible beneficiaries on rent.

### **3.8.5 Diversion of funds.**

(i) Government of Nagaland, Department of Urban Development accorded administrative sanction and drawal authority (September 2007) for rupees one crore for construction of 24 shops at NST Complex and 19 shops at Nagarjan in Dimapur. The amount was released through bank draft<sup>6</sup> to Development Authority of Nagaland (October 2007).

Scrutiny revealed that the amount was not spent for construction of the shops. The Executive Engineer, Development Authority of Nagaland stated (June 2009) that the funds were diverted towards payment of pay and allowances. However, the authority could not produce to audit the details of expenditure.

Thus, the entire fund of rupees one crore was diverted for unspecified purposes. The possibility of the amount being misappropriated also cannot be ruled out.

While accepting the facts the Department stated (July 2009) that Rs.39.74 lakh was utilized for construction of 24 shops at NST complex and the remaining amount was partly utilized for payment of salaries. The fact however, remains that the authority could not produce any records in connection with construction of 24 shops at NST complex and payment of pay and allowances was against the sanction order.

(ii) Guidelines for Development of Small and Medium Town (DSMT) Programme launched in November 2006 provide that the scheme funds shall be utilized for development of basic infrastructure in small and medium towns and no departmental or agency charges should be deducted.

Scrutiny revealed that against Government of Nagaland sanction of rupees nine crore for implementing the DSMT programmes, the Department diverted Rs.37 lakh towards payment of salary to 97 work charged employees in contravention of the guidelines and sanction.

The Department accepted the facts (July 2009).

## **3.9 Project Implementation**

The Department implemented 38 projects under 10 *per cent* Lumpsum Provision for North Eastern States and three projects under JNNURM during 2004-09. It was seen that 25 projects (22 under 10 per cent Lumpsum Provision and 3 under JNNURM) were taken up in the four test-checked districts. Analysis of records in the test-checked districts revealed that 9 works had not been completed (July 2009), the details which are tabulated below:-

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<sup>6</sup> SBI draft No.139138 dated 04-10-2007.



Table-3.1.3

(Rupees in crore)

| Name of the project                                                               | Year of sanction | Amount Sanctioned | Expenditure      | Stipulated date of completion | Progress and Reasons for delay                        |
|-----------------------------------------------------------------------------------|------------------|-------------------|------------------|-------------------------------|-------------------------------------------------------|
| Construction of Cultural Hall at Kohima                                           | 2004             | 0.55              | 8.55             | July 2007                     | Due to change of structural design and scope of work. |
| Construction of Car parking cum shopping complex at Mokokchung                    | 2006             | 21.94             | 11.94            | November 2008                 | Due to non-completion of the first phase.             |
| Construction Of Retaining Wall At Alempang, Mokokchung                            | 2006             | 2.27              | 1.58             | July 2009                     | 40 per cent. Reasons not on record.                   |
| Construction of protection and infrastructure development work at Mokokchung      | 2006             | 8.25              | 5.78             | May 2009                      | 75 per cent. Reasons not on record.                   |
| Construction of Sanitation and Waste Box at Mokokchung Town                       | 2007             | 0.88              | 0.48             | August 2009                   | 50 per cent. Reasons not on record.                   |
| Construction of City Shopping mall cum Car parking Complex at New Market Dimapur. | 2008             | 0.22              | No Payment made. | October 2010                  | Due to delay in conducting soil testing.              |
| Construction of Housing for Urban poor in Dimapur under IHSDP                     | 2007             | 117.34            | 22.47            | June and December 2009        | In progress                                           |
| Construction of Housing for Urban poor in Kohima under BSUP                       | 2007             | 87.74             | 38.42            | October 2009                  | In progress                                           |
| Construction of Road & Transportation project, Kohima ( 6 arterial roads)         | 2007             | 25.26             | 7.28             | May 2010                      | In progress                                           |

(Source: Departmental records)

**3.9.1 Administrative delays in award and execution of works:** The Department did not adhere to codal provisions pertaining to time frame for execution of sanctioned works, which diluted the control and accountability mechanism and contributed to overall project delays. The following instances of delays in award/execution of work came to notice during test-check:

(i) Work for construction of Amenity Centre at Nagaland Gate, Golaghat Road in Dimapur sanctioned by GOI (24 November 2004) had not commenced even after 53 months from the date of administrative approval and expenditure sanction as the Department was yet to get possession of the land from the State Government.

(ii) An amount of Rs.22.32 crore was sanctioned for Construction of City Shopping Mall cum Parking Complex at New Market in Dimapur and Rs.6.69 crore released by GOI (March 2008). However, work order was issued 7 months after release of funds due to delay in conducting soil and foundation investigation.

(iii) Work order for construction of Guest House at Chen, Mon District sanctioned by GOI (March 2008) at a total cost of Rs.1.45 crore had not been issued even after 15 months of release of first installment due to delay in issue of non-encumbrance certificate by the District Administration.

(iv) Construction of BSUP housing units in Kohima under JNNURM were awarded 7 to 8 months after the date of administrative approval and expenditure sanction by GOI due to delay in acquisition of land. Similarly, works under Integrated

Housing and Slum Development Programme in Dimapur were awarded 7 to 20 months after the date of administrative approval and expenditure sanction by GOI due to delay in land acquisition resulting in cost escalation of Rs.15.78 lakh.

The above indicates that the projects were delayed at the initial stage itself and therefore is fraught with the risk of cost overruns.

The Department accepted the facts (July 2009).

**3.9.2 Incomplete works:** Time allowed for execution of works or the extended time in accordance with the conditions shall be the essence of the contract.

Audit scrutiny revealed that construction of Capital Cultural Hall at Kohima for a value of Rs.5.16 crore was awarded (December 2005) to M/s Vascon with a stipulation that the work be completed within 18 months from the date of issue of the work order. Against the reported physical progress of 65 *per cent*, the contractor was paid Rs.8.55 crore (June 2006 and April 2008) through two Running Bills which constitute 166 *per cent* of the original contractual amount of this work.

A revised estimate was approved by the Government (23 April 2009) and the work order amount was enhanced to Rs.14.25 crore (including additional and non-scheduled items) by modifying the structural design and scope. The work which commenced in December 2005 remained incomplete (April 2009) even after a delay of 22 months.

Such delays in completion of works indicate poor planning and deficient project management which in turn results in time and cost overrun and also affects budget preparation and efficient expenditure control.

The Department stated (July 2009) that the delay was due to paucity of funds. The fact however, remains that there was a saving of Rs.39.79 crore in 2005-06 and Rs.15.08 in 2006-07 as discussed in paragraph 3.8. Besides, the State Government did not release an amount of Rs.47.68 crore as detailed in paragraph 3.8.2.

**3.9.3 Partial implementation of project:** Against nine sub-components approved by the CSMC under BSUP project in Kohima (Rs.117.34 crore), which inter-alia includes solid waste management for Rs.1.50 crore, Water supply for Rs.1.50 crore and Electrification for Rs.1.02 crore, the Department had taken up only six components with a total cost of Rs.105.40 crore. No initiative was taken to implement the work on solid waste management, water supply and electrification. Thus, the objectives of the programme to provide proper living conditions to the beneficiaries were defeated. This also indicates poor planning and project management.

While accepting, the Department stated (July 2009) that these works shall be taken up in due course of time. However, the Department did not specify the time schedule for taking up these projects.

**3.9.4 Overlapping of work due to lack of coordination:** As per the approved DPR for construction of six arterial roads under Urban Infrastructure and Governance (JNNURM) at a total project cost of Rs.26.26 crore, the Department took up the work and issued work order (November 2008 and February 2009) for construction of two

roads<sup>7</sup> valued at Rs.6.18 crore without making any correspondence with the Works Department.

Cross check of records with a technical Division in Kohima revealed that some portion of the work were shown to have been executed by the Executive Engineer, PWD (R&B) South Division, Kohima, at a cost of Rs.93.17 lakh between June 2007 and November 2008.

Overlapping of work indicates lack of proper coordination with other departments to check such duplication of works and the possibility of fraudulent payments without execution of work cannot be ruled out.

**3.9.5 Idle investment:** Out of 46 works taken up during the period covered in audit, 16 works constructed at a cost of Rs.19.81 crore under 10 *per cent* Lumpsum Provision for North Eastern Areas and Infrastructure Development of Small and Medium Towns were completed and handed over to Urban Local Bodies (April 2007 to March 2008). Out of this, three commercial buildings<sup>8</sup> and one Car parking<sup>9</sup> constructed at a cost of Rs.5.50 crore remained non-functional for periods ranging from 15 to 27 months after handing over to the ULBs.



These projects remained idle as the Department neither carried out proper survey to assess the commercial feasibility at the planning stage nor initiated any steps to monitor and evaluate the performances of these commercial projects handed over to the ULBs. Besides, the buildings left un-used will deteriorate with the passage of time.

<sup>7</sup>. Improvement of Billy Graham Road (new sect. road to NH-150 Junction for Rs.3.81 crore and Improvement of Ladys Mile road from red cross junction to TCP Gate Jn-Rs.2.37 crore

<sup>8</sup> Amenity Centre at Chumukedima Gate-Rs.140.78 lakh; Market Complex at New Secretariat, Kohima-Rs.201.88 lakh and Market Complex at Chumukedima-Rs.182.53

<sup>9</sup> Car parking at Kohima-Rs.25 lakh;

While accepting, the Department stated (July 2009) that monitoring and performance evaluation of these commercial projects shall be streamlined.

### **3.10 Contract Management**

**3.10.1 Engagement of consultant:** According to Rule 165 of General Financial Rule, engagement of consultants may be resorted to in situations requiring high quality services for which the concerned Ministry/Department does not have requisite expertise.

The Department had employed four regular architects (including the Director) who are designated as Deputy Directors and Assistant Directors. Besides, the Department is also assisted by an Executive Engineer and three Sub-Divisional Officers for technical execution of works.

Audit scrutiny revealed that the Department had engaged consultants for preparation of 35 DPRs (25 under 10 per cent Lump Sum Provision for North Eastern States and 10 under JNNURM) and paid Rs.5.86 crore as consultancy fees, out of which 23 were petty works not requiring specialized personnel, though the Department is well equipped with qualified personnel competent to handle the work. This indicates poor manpower management.

While accepting, the Department stated (July 2009) that some works required specialized personnel. The fact however, remains that the Department have even engaged consultants for preparation of DPRs for 23 petty works not requiring specialized personnel.

**3.10.2 Tendering:** Paragraph 293 of the Nagaland Public Works Department code provides that normally works should be allotted to the lowest bidder.

Audit scrutiny revealed that in response to the NIT issued (February 2005) by the Chief Engineer (Housing) for construction of 10 works at Kohima which inter alia includes construction of Cultural Hall at Kohima, four contractors<sup>10</sup> submitted their bids and the work was allotted (December 2005) to the second lowest bidder at a cost of Rs.5.16 crore (168 per cent above SOR 1995) instead of the lowest bidder (160 per cent above SOR 1995) stating that the rate quoted by the lowest bidder was not workable.

The contention of the Department is not tenable as 9 similar works which were advertised on the same day were awarded (December 2005) to contractors at rates ranging from 120 per cent to 155 per cent above SOR 1995.

Thus, by awarding the work to the second lowest bidder, the Department incurred an avoidable expenditure of Rs.19 lakh. Irregular award of work to the second lowest bidder also violates the provision of financial rules and indicates poor contract management.

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<sup>10</sup> M/S L.Pukhato Shohe-175%; Pjuduolhou Kense-170%;M/S.NK Construction-160% and Vascon-168%

The Department stated (July 2009) that the work was awarded to the second lowest bidder as the work was specialized in nature. The reply is not acceptable as no specific mention was made in the NIT or the lowest bidder disqualified at the Technical Bid stage.

### **3.11 Material Management**

Supply Order for 16,500 litres of Renolith Chemical Compound at a cost of Rs.44.55 lakh (including CST and Freight charges) was issued (November 2007) to M/s S. Alok Enterprises, New Delhi for the work 'improvement of roads under IHSDP project in Dimapur.' The supplier delivered the materials in full (February & March 2008) and was paid Rs.44.55 lakh in three installments (January 2008 –April 2008). However, the work for which the materials were purchased had not been taken up (June 2009).

Procurement of materials 17 months in advance of requirement not only resulted in blockade of Government money to the tune of Rs.44.55 lakh, but also increases the risk of damage due to long exposure and scope for pilferage.

The Department stated (July 2009) that the materials will be used in the next three months. The fact however, remains that the Department had planned to start the work of improvement of roads after completion of the civil works which is still in progress.

### **3.12 Quality Control.**

The Department did not constitute a quality control board and put in place any mechanism to monitor the quality of works indicating laxity on the part of the Department in implementation of the projects.

The Department stated (July 2009) that testing equipment have now been procured and are in the process of installation.

**3.12.1 Non-adherence to GOI guidelines:** According to the JNNURM Guidelines, there shall be two sets of Mandatory Reforms at the Urban Local Body (ULB) level and State Level viz. Decentralization, Repeal of Urban (Ceiling and Regulation) Act 1976, Reform of Rent Control laws, Enactment of Public Disclosure law etc., and Optional Reforms which are common to the State as well as the ULBs/parastatals, which aim at processing, re-engineering through deployment of technology to enable more efficient, reliable, timely services in a transparent manner. The GOI has also informed the State Government that unless the reforms are implemented, further funding to the State shall not be released. In spite of this, effective steps were not taken to implement these reforms.

The Department stated (July 2009) that some mandatory reforms at State Level had been implemented by constituting committees. The reply is not convincing as there are no indications to show that these committees are functioning.

### **3.13 Internal Audit arrangement and vigilance mechanism**

The Department did not have internal audit wing till November 2008. Though the Department constituted Audit and Accounts Committee (November 2008), none of the test-checked offices/divisions had been inspected.

Internal audit should be strengthened so as to ensure coverage of all major schemes being executed by the Department. Preparation of audit manual should be expeditiously completed so as to prescribe the periodicity, procedures and checks to be exercised in internal audit.

While accepting, the Department stated (July 2009) that the Internal Audit Manuals will be prepared.

**3.13.1 Lack of response to audit:** None of the offices test-checked maintained a control register to keep watch on disposal of inspection Reports issued by the Accountant General (Audit). As of March 2009, 105 paragraphs relating to 21 Inspection Reports were lying unsettled since October 1994 for want of replies. Non-response to Audit observations may perpetuate the irregularities and invite serious financial irregularities and also affect the accountability mechanism.

### **3.14 Vulnerability to Fraud**

**3.14.1 Parking of Fund in eight bank accounts:** The Executive Engineer, Urban Development Department is operating five current bank accounts and three savings accounts in six banks<sup>11</sup> while prior approval of the Finance Department, Government of Nagaland had been obtained only for opening two accounts.

Scrutiny revealed that the Department had parked Government money ranging from Rs.9.51 crore to Rs.32.05 crore (March 2004 to March 2009) in eight bank accounts. This was not only irregular but was fraught with the risk of embezzlement of Government money.

While accepting, the Department stated (July 2009) that five accounts have now been closed down.

**3.14.2 Payment made before actual execution of work:** The work improvement of New Secretariat Road was awarded (December 2008) to M/s Zeme & Sons at a cost of Rs. 4.51 crore. The work commenced on the day of issue of the work order and the contractor was paid Rs.92.86 lakh in two running account bills (January & March 2009).

Scrutiny revealed that the first running account bill for Rs.77.30 lakh was passed for payment on 8 January 2009 for works which purportedly were measured between 28-12-08 and 27-03-09. But the Measurement Book was issued to the Sectional Officer in-charge of that work only on 14-01-09. Thus, it is evident that payment was made to the contractor before actual execution of work.

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<sup>11</sup> *SBI Lerie-10277120590; SBI Bazar branch-3057891236; Bank of Baroda-1001489 and 20014331 saving account; United Bank of India-1041050010456; Vijaya bank-15592 (saving account) and Axis bank-385010200002318 and 385010100011158 (one current and one saving account)*



Such cases of misuse of authority raise questions on the system prevalent in the Department and impede accountability.

The Department stated (July 2009) that the payment was made in advance as the work was exigently required to be done.

**3.14.3 Money paid through Hand Receipt without any reference:** NPWD manual provide for use of hand receipt as a simple form of voucher for all miscellaneous and advance payments.

Audit scrutiny revealed that the Executive Engineer paid Rs.36 lakh on two hand receipts without indicating the MB number and voucher reference of the previous bills. The Drawing and Disbursing Officer therefore, did not exercise mandatory checks before passing the bills thereby increasing vulnerability to fraud.

While accepting, the Department stated (July 2009) that the mistake has since been rectified.

**3.14.4 Payment made on fictitious measurements:** NPWD code provides that payment for all works done otherwise than by daily labourers and for all supplies shall be made on the basis of detailed measurements recorded in the MB. The Executive Engineer is also required to exercise 100 *per cent* check of the measurements recorded by the subordinates.

Audit scrutiny of MB No.354 and 355 revealed that measurements of work (30-08-07 to 08-01-08) done for one block of construction works under BSUP in Kohima were randomly multiplied by 12 blocks and 10 blocks respectively while preparing the bill and payments made accordingly.

Thus, it is evident that detailed measurements were not carried out and payment of Rs.5.45 crore was made on fictitious measurements.

The Department accepted the facts (July 2009).

### **3.15 Conclusion**

The Department did not have a long-term strategy due to which the works were implemented by the Department randomly. Financial management in the Department was beset with various deficiencies as also the controls associated with contract management and material management were inadequate. This coupled with vulnerability to fraud and lack of quality control in the Department resulted in various shortcomings in implementation of projects viz. delays in award of projects leading to cost overruns, non-completion/delays in completion of works, non-utilisation of created infrastructure etc.

### **3.16 Recommendations**

- The Department should prepare a long term urbanization strategy;
- Budgetary and financial controls should be improved so that the system of checks and balances is maintained;

- Project monitoring should be streamlined and implementation schedules should be strictly enforced;
- Internal audit should be strengthened so as to ensure coverage of all major schemes executed by the Department;
- Effective steps should be taken to contain vulnerability to fraud.



## CHAPTER-IV

### REVENUE RECEIPTS

#### 4.1 GENERAL

##### 4.1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Nagaland during the year 2008-09, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in the following table:

(Rupees in crore)

| Sl. no.     | Particulars                                               | 2004-05         | 2005-06         | 2006-07         | 2007-08         | 2008-09         |
|-------------|-----------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>I.</b>   | <b>Revenue raised by the State Government</b>             |                 |                 |                 |                 |                 |
|             | • Tax revenue <sup>1</sup>                                | 78.31           | 105.53          | 119.02          | 131.37          | 156.02          |
|             | • Non-tax revenue                                         | 77.90           | 96.82           | 91.14           | 119.48          | 180.55          |
|             | <b>Total I</b>                                            | <b>156.21</b>   | <b>202.35</b>   | <b>210.16</b>   | <b>250.85</b>   | <b>336.57</b>   |
| <b>II.</b>  | <b>Receipts from the Government of India</b>              |                 |                 |                 |                 |                 |
|             | • State's share of divisible Union taxes                  | 160.15          | 248.50          | 316.93          | 399.77          | 421.84          |
|             | • Grants-in-aid                                           | 1,523.16        | 1,816.35        | 2,245.42        | 2,345.40        | 2,642.48        |
|             | <b>Total II</b>                                           | <b>1,683.31</b> | <b>2,064.85</b> | <b>2,562.35</b> | <b>2,745.17</b> | <b>3,064.32</b> |
| <b>III.</b> | <b>Total receipts of the State Government (I plus II)</b> | <b>1,839.52</b> | <b>2,267.20</b> | <b>2,772.51</b> | <b>2,996.02</b> | <b>3,400.89</b> |
| <b>IV.</b>  | <b>Percentage of I to III</b>                             | <b>8</b>        | <b>9</b>        | <b>8</b>        | <b>8</b>        | <b>10</b>       |

The above table indicates that during the year 2008-09 the revenue raised by the State Government was ten *per cent* of the total revenue receipts (Rs. 3,400.89 crore) against eight *per cent* in the preceding year (Rs. 2,996.02 crore). The balance of ninety *per cent* of receipts during 2008-09 was from the Government of India.

<sup>1</sup> For details see Statement no. 11 - Detailed accounts of revenue by minor heads of the Finance Accounts of the Government of Nagaland for the year 2008-09. Figures under Major heads 0020, 0021, 0028, 0032, 0037, 0038, 0044 and 0045 - showing the State's share of divisible Union taxes booked in the Finance Accounts under A - Tax revenue have been excluded from the revenue raised by the State and included in the State's share of divisible Union taxes in this table.

**4.1.2** The details of tax revenue raised during the period 2008-09 alongwith the figures for the preceding four years are mentioned in the following table.

**(Rupees in crore)**

| Sl. No.       | Head of revenue                       | 2004-05      | 2005-06       | 2006-07       | 2007-08       | 2008-09       | Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08 |
|---------------|---------------------------------------|--------------|---------------|---------------|---------------|---------------|------------------------------------------------------------------|
| 1.            | Taxes on sales, trade etc.,           | 53.08        | 77.16         | 85.02         | 94.79         | 114.70        | (+) 21                                                           |
| 2.            | Taxes on Vehicles                     | 7.30         | 8.71          | 12.26         | 12.30         | 14.14         | (+) 15                                                           |
| 3.            | Other Taxes on Income and Expenditure | 13.56        | 14.89         | 16.35         | 17.72         | 19.86         | (+) 12                                                           |
| 4.            | State Excise                          | 2.07         | 1.96          | 2.13          | 2.83          | 3.34          | (+) 18                                                           |
| 5.            | Stamps and Registration fees          | 0.73         | 0.89          | 1.05          | 1.02          | 1.01          | (-) 1                                                            |
| 6.            | Other Taxes and duties                | 0.03         | 0.01          | 0.00          | 0.00          | 0.00          | 0                                                                |
| 7.            | Land Revenue                          | 0.43         | 0.55          | 0.50          | 0.50          | 0.60          | (+) 20                                                           |
| 8.            | Taxes and Duties on Electricity       | 0.01         | 0.01          | 0.02          | 0.02          | 0.03          | (+) 50                                                           |
| 9.            | Taxes on Goods and Passengers         | 1.10         | 1.35          | 1.69          | 2.19          | 2.34          | (+) 7                                                            |
| <b>Total:</b> |                                       | <b>78.31</b> | <b>105.53</b> | <b>119.02</b> | <b>131.37</b> | <b>156.02</b> | <b>(+) 19</b>                                                    |

The concerned departments did not inform (November 2009) the reasons for variations despite being requested (August 2009).

**4.1.3** The details of the major non-tax revenue raised during 2008-09 alongwith the figures for the preceding four years are mentioned in the following table.

**(Rupees in crore)**

| Sl. no. | Head of revenue                                                         | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08 |
|---------|-------------------------------------------------------------------------|---------|---------|---------|---------|---------|------------------------------------------------------------------|
| 1.      | Interest receipts                                                       | 3.27    | 5.60    | 5.22    | 5.66    | 11.57   | (+) 104                                                          |
| 2.      | Public Service Commission                                               | 0.13    | 0.01    | 0.00    | 0.00    | 0.80    | (+) 80                                                           |
| 3.      | Police                                                                  | 0.41    | 1.56    | 2.15    | 2.73    | 0.61    | (-) 78                                                           |
| 4.      | Stationery and printing                                                 | 0.01    | 0.05    | 0.08    | 0.07    | 0.01    | (-) 86                                                           |
| 5.      | Public works                                                            | 0.22    | 0.17    | 0.31    | 0.10    | 0.10    | 0                                                                |
| 6.      | Other administrative services                                           | 5.54    | 7.10    | 1.46    | 1.93    | 1.21    | (-) 37                                                           |
| 7.      | Contribution and recoveries towards Pension & Other Retirement Benefits | 0.10    | 0.40    | 0.23    | 0.21    | 1.05    | (+) 400                                                          |

| Sl. no.      | Head of revenue                                 | 2004-05      | 2005-06      | 2006-07      | 2007-08       | 2008-09            | Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08 |
|--------------|-------------------------------------------------|--------------|--------------|--------------|---------------|--------------------|------------------------------------------------------------------|
| 8.           | Miscellaneous general services                  | 11.70        | 15.64        | 14.59        | 19.44         | 28.05 <sup>2</sup> | (+) 44                                                           |
| 9.           | Education, sports, art and culture              | 0.19         | 0.22         | 1.64         | 0.48          | 0.55               | (+) 15                                                           |
| 10.          | Medical and Public Health                       | 0.06         | 0.07         | 0.13         | 0.16          | 0.17               | (+) 6                                                            |
| 11.          | Water supply and sanitation                     | 0.97         | 1.06         | 2.26         | 1.07          | 0.98               | (-) 8                                                            |
| 12.          | Housing                                         | 2.18         | 2.23         | 2.21         | 2.11          | 2.97               | (+) 41                                                           |
| 13.          | Social security and welfare                     | 0.03         | 0.31         | 0.16         | 0.31          | 0.25               | (-) 19                                                           |
| 14.          | Crop husbandry                                  | 0.09         | 0.06         | 0.15         | 0.12          | 0.11               | (-) 8                                                            |
| 15.          | Animal husbandry                                | 0.33         | 0.37         | 0.35         | 0.39          | 0.43               | (+) 10                                                           |
| 16.          | Forestry and wildlife                           | 3.88         | 6.21         | 5.95         | 4.81          | 4.78               | (-) 1                                                            |
| 17.          | Food storage and warehousing                    | 0.02         | 0.02         | 0.03         | 0.03          | 0.02               | (-) 50                                                           |
| 18.          | Co-Operation                                    | 0.84         | 0.89         | 0.92         | 0.17          | 0.79               | (+) 365                                                          |
| 19.          | Other agricultural programmes                   | 0.05         | 0.04         | 0.05         | 0.01          | 0.01               | 0                                                                |
| 20.          | Minor irrigation                                | 0.03         | 0.01         | 0.00         | 0.01          | 0.02               | (+) 100                                                          |
| 21.          | Power                                           | 39.66        | 42.71        | 41.63        | 69.47         | 111.49             | (+) 60                                                           |
| 22.          | Village and small industries                    | 0.46         | 1.30         | 0.21         | 0.26          | 0.67               | (+) 158                                                          |
| 23.          | Non-ferrous mining and metallurgical industries | 0.10         | 0.05         | 1.91         | 0.30          | 0.89               | (+) 197                                                          |
| 24.          | Road transport                                  | 6.79         | 7.34         | 8.03         | 8.37          | 9.38               | (+) 12                                                           |
| 25.          | Tourism                                         | 0.17         | 0.26         | 0.30         | 0.21          | 0.13               | (-) 38                                                           |
| 26.          | Other general economic services                 | 0.06         | 2.57         | 0.07         | 0.08          | 0.08               | 0                                                                |
| 27.          | Miscellaneous                                   | 0.61         | 0.57         | 1.10         | 0.98          | 3.43 <sup>3</sup>  | (+) 250                                                          |
| <b>Total</b> |                                                 | <b>77.90</b> | <b>96.82</b> | <b>91.14</b> | <b>119.48</b> | <b>180.55</b>      | <b>(+) 51</b>                                                    |

The concerned departments did not inform (November 2009) the reasons for variations despite being requested (August 2009).

#### 4.2 Variations between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2008-09 in respect of the principal heads of tax and non-tax revenue are mentioned in the following table.

<sup>2</sup> This includes Debt relief Rs. 15.87 crore given by Ministry of Finance, Department of Expenditure, GOI on repayment of consolidated loan.

<sup>3</sup> This includes Other Non-tax Revenue receipt under Social Services-0515-other Rural Development Programmes (Rs. 2.25 crore) and 1054-Roads and Bridges (Rs. 1.09 crore).

**Audit Report (Civil) for the year ended 31 March 2009**

(Rupees in crore)

| Sl. no. | Head of revenue                                           | Budget estimates | Actual receipts | Variations excess (+) shortfall (-) | Percentage of variation |
|---------|-----------------------------------------------------------|------------------|-----------------|-------------------------------------|-------------------------|
| 1.      | Other taxes on Income and expenditure                     | 16.36            | 19.86           | (+) 3.50                            | 21                      |
| 2.      | State excise                                              | 3.15             | 3.34            | (+) 0.19                            | 6                       |
| 3.      | Taxes on sales, Trade etc.                                | 107.07           | 114.70          | (+) 7.63                            | 7                       |
| 4.      | Taxes on vehicles                                         | 8.56             | 14.14           | (+) 5.58                            | 65                      |
| 5.      | Interest receipts                                         | 3.06             | 11.57           | (+) 8.51                            | 278                     |
| 6.      | Police                                                    | 0.60             | 0.61            | (+) 0.01                            | 2                       |
| 7.      | Stationery and printing                                   | 0.28             | 0.01            | (-) 0.27                            | (-) 96                  |
| 8.      | Public works                                              | 1.39             | 0.10            | (-) 1.29                            | (-) 93                  |
| 9.      | Other administrative services                             | 3.04             | 1.21            | (-) 1.83                            | (-) 60                  |
| 10.     | Contribution and recoveries and other retirement benefits | 0.22             | 1.05            | (+) 0.83                            | 377                     |
| 11.     | Miscellaneous general services                            | 10.80            | 28.05           | (+) 17.25                           | 160                     |
| 12.     | Social security and welfare                               | 0.21             | 0.25            | (+) 0.04                            | 19                      |
| 13.     | Forestry & wildlife                                       | 6.94             | 4.78            | (-) 2.16                            | (-) 31                  |
| 14.     | Co-operation                                              | 0.06             | 0.79            | (+) 0.73                            | 1217                    |
| 15.     | Power                                                     | 74.67            | 111.49          | (+) 36.82                           | 49                      |
| 16.     | Village and small industries                              | 0.22             | 0.67            | (+) 0.45                            | 205                     |
| 17.     | Road transport                                            | 11.15            | 9.38            | (-) 1.77                            | (-) 16                  |
| 18.     | Other general economic services                           | 0.10             | 0.08            | (-) 0.02                            | (-) 20                  |
| 19.     | Land revenue                                              | 0.69             | 0.60            | (-) 0.09                            | (-) 13                  |
| 20.     | Stamps & registration fee                                 | 1.00             | 1.01            | (+) 0.01                            | 1                       |
| 21.     | Taxes and duties on electricity                           | 0.02             | 0.03            | (+) 0.01                            | 50                      |
| 22.     | Public service commission                                 | 0.21             | 0.80            | (+) 0.59                            | 281                     |
| 23.     | Education, sports, art & culture                          | 0.28             | 0.55            | (+) 0.27                            | 96                      |
| 24.     | Medical & public health                                   | 0.17             | 0.17            | 0                                   | 0                       |
| 25.     | Taxes on goods and passenger                              | 1.51             | 2.34            | (+) 0.83                            | 55                      |
| 26.     | Housing                                                   | 3.19             | 2.97            | (-) 0.22                            | (-) 7                   |
| 27.     | Water supply and sanitation                               | 2.65             | 0.98            | (-) 1.67                            | (-) 63                  |
| 28.     | Crop husbandry                                            | 0.13             | 0.11            | (-) 0.02                            | (-) 15                  |
| 29.     | Animal husbandry                                          | 0.50             | 0.43            | (-) 0.07                            | (-) 14                  |
| 30.     | Food storage and warehousing                              | 0.08             | 0.02            | (-) 0.06                            | (-) 75                  |
| 31.     | Other agricultural programmes                             | 0.04             | 0.01            | (-) 0.03                            | (-) 75                  |
| 32.     | Minor irrigation                                          | 0.01             | 0.02            | (+) 0.01                            | 100                     |
| 33.     | Non-ferrous mining & metallurgical industries             | 0.08             | 0.89            | (+) 0.81                            | 1013                    |
| 34.     | Tourism                                                   | 0.28             | 0.13            | (-) 0.15                            | (-) 54                  |
| 35.     | Other Rural Development Programmes                        | 0.11             | 2.25            | (+) 2.14                            | 1,945                   |

| Sl. no. | Head of revenue | Budget estimates | Actual receipts | Variations excess (+) shortfall (-) | Percentage of variation |
|---------|-----------------|------------------|-----------------|-------------------------------------|-------------------------|
| 36.     | Roads & bridges | 0.14             | 1.09            | (+) 0.95                            | 679                     |
|         | <b>Total</b>    | <b>258.97</b>    | <b>336.48</b>   | <b>(+) 77.51</b>                    | <b>30</b>               |

The concerned departments did not inform (November 2009) the reasons for variations despite being requested (August 2009).

### 4.3 Cost of collection

The gross collection in respect of the major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2006-07, 2007-08 and 2008-09 along with the relevant all India average percentage of expenditure on collection to gross collection for the year 2007-08, are as mentioned in the following table.

(Rupees in crore)

| Sl. no. | Head of revenue              | Year    | Collection | Expenditure on collection of revenue | Percentage of expenditure on collection | All India average percentage for the year 2007-08 |
|---------|------------------------------|---------|------------|--------------------------------------|-----------------------------------------|---------------------------------------------------|
| 1.      | Taxes on sales, trade etc.   | 2006-07 | 85.02      | 4.37                                 | 5.13                                    | 0.83                                              |
|         |                              | 2007-08 | 94.79      | 4.48                                 | 4.73                                    |                                                   |
|         |                              | 2008-09 | 114.70     | 3.41                                 | 2.97                                    |                                                   |
| 2.      | Taxes on vehicles            | 2006-07 | 12.26      | 2.45                                 | 19.98                                   | 2.58                                              |
|         |                              | 2007-08 | 12.30      | 2.79                                 | 22.68                                   |                                                   |
|         |                              | 2008-09 | 14.14      | 1.97                                 | 13.93                                   |                                                   |
| 3.      | Stamps and registration fees | 2006-07 | 1.05       | 0.26                                 | 24.76                                   | 2.09                                              |
|         |                              | 2007-08 | 1.02       | 0.38                                 | 37.25                                   |                                                   |
|         |                              | 2008-09 | 1.01       | 0.38                                 | 37.62                                   |                                                   |

The above table indicates that the percentage of expenditure on collection during 2008-09 as compared to the all India average percentage of expenditure on collection for 2007-08 was substantially higher in case of all the above taxes. While the percentage of expenditure on collection of revenue in respect of taxes on sales, trade, etc., and vehicles has improved, it has gone up sharply since 2007-08 for stamps and registration fees. The Government needs to improve the ratio in respect of all the three types of revenue.

### 4.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2009 have not been furnished by the concerned Government departments (November 2009) despite being requested (August 2009).

### 4.5 Write-off and waiver of revenue

The concerned departments did not inform (November 2009) the details of amount written off despite being requested (August 2009).

#### **4.6 Failure to enforce accountability and protect interest of the Government**

The Accountant General (AG), Nagaland, Kohima conducts periodical inspection of the various offices of the Government departments to test check the correctness of assessments, levy and collection of taxes/duties/fees etc., and verify the maintenance of accounts and records as per the Acts, Rules and procedures prescribed by the Government. These inspections are followed by the inspection reports (IR) issued to the heads of offices inspected with copies to the higher authorities. Serious irregularities noticed during audit are also brought to the notice of Government/head of the department by the AG. A half yearly report regarding the pending IRs is sent to the Secretaries of the concerned Government departments to facilitate monitoring and settlement of the audit observations raised in these IRs through the intervention of the Government.

Inspection Reports issued up to September 2009 pertaining to the offices under sales tax, state excise, motor vehicles tax, etc. departments disclosed that 116 observations involving money value of Rs. 315.85 crore were pending at the end of September 2009 as mentioned below:

**(Rupees in crore)**

| <b>Sl. no.</b> | <b>Nature of irregularities</b>      | <b>Number of paragraphs</b> | <b>Amount</b> |
|----------------|--------------------------------------|-----------------------------|---------------|
| 1.             | Loss of revenue                      | 33                          | 204.21        |
| 2.             | Misappropriation of Government money | 19                          | 7.17          |
| 3.             | Non-realisation of sales tax         | 20                          | 7.27          |
| 4.             | Evasion of tax                       | 16                          | 79.03         |
| 5.             | Revenue outstanding for collection   | 22                          | 13.69         |
| 6.             | Others                               | 6                           | 4.48          |
| <b>Total</b>   |                                      | <b>116</b>                  | <b>315.85</b> |

**The Government needs to review all the lapses and initiate corrective action.**

#### **4.7 Audit Committee Meeting**

In order to expedite the settlement of the outstanding audit observations contained in the IRs, departmental audit committees have been constituted by the Government. These committees are chaired by the secretaries of the concerned administrative department and their meetings are attended by the concerned officers of the state Government and officers of the AG.

In order to expedite clearance of the outstanding audit observations, it is necessary that the audit committees meet regularly. During the year 2008-09, no audit committee meeting was held, despite being requested. Thus, the concerned departments failed to take advantage of the arrangement of audit committees.

#### **4.8 Compliance with the earlier Audit Reports**

During the period from 2003-04 to 2007-08, the department/Government accepted audit observations involving Rs. 3 crore of which Rs. 0.36 crore only had been recovered till September 2009 as mentioned below:

(Rupees in crore)

| Sl. no.      | Year    | Money value of Audit Report | Amount accepted by the departments | Amount recovered |
|--------------|---------|-----------------------------|------------------------------------|------------------|
| 1.           | 2003-04 | 2.78                        | 0.02                               | Nil              |
| 2.           | 2004-05 | 1.50                        | 1.37                               | 0.12             |
| 3.           | 2005-06 | 0.02                        | 0.02                               | Nil              |
| 4.           | 2006-07 | 1.17                        | 0.24                               | 0.24             |
| 5.           | 2007-08 | 6.51                        | 1.35                               | Nil              |
| <b>Total</b> |         | <b>11.98</b>                | <b>3.00</b>                        | <b>0.36</b>      |

**The Government may institute a mechanism to monitor and expedite the recoveries pointed out in the Audit Reports.**

#### **4.9 Results of audit**

This chapter contains three paragraphs including one review relating to “transition from sales tax to VAT” involving Rs. 11.78 crore. The department accepted audit observations involving Rs. 8.77 crore. No reply has been received in respect of the balance Rs. 3.01 crore. These are discussed in succeeding paragraphs 4.10 to 4.13.

### **FINANCE AND TAXATION DEPARTMENT**

#### **4.10 Transition from Sales Tax to Value Added Tax**

##### **Highlights**

- Due to lack of training, all the modules available under the VAT management system could not be utilised fully, thus defeating the purpose of computerisation.

**(Paragraph 4.10.8)**

- Though VAT has been implemented four years back, the department was yet to make the relevant forms under the VAT Act available with the units/dealers. As such, the dealers were using declaration forms that had been repealed under the Act. The practice was fraught with the risk of evasion of tax.

**(Paragraph 4.10.10)**

- Filing of returns by dealers was not properly monitored. As a result, non-submission of returns by 75 per cent of the registered dealers during 2005-06 to 2008-09 could not be detected by the department.

**(Paragraph 4.10.14)**

- Input tax credit claims of Rs. 5.06 crore by 35 assesses were allowed by the assessing authorities without prescribed input tax credit statements and abstract statement of the VAT account in support of the claim. Mandatory

audit assessment was also not carried out to examine the admissibility of the claim which resulted in non-realisation of the revenue to that extent.

**(Paragraph 4.10.18(i)&(ii))**

- Penalty of Rs. 6.50 crore was not levied on the dealers whose turnover exceeded Rs. 40 lakh in a year for non-furnishing of audited accounts for the year 2005-06 to 2007-08.

**(Paragraph 4.10.20)**

#### **4.10.1 Introduction**

The Union Government, Ministry of Finance, had constituted an Empowered Committee of State Finance Ministers (empowered committee), to resolve the variations in the State Sales Tax Acts and to introduce the state level Value Added Tax (VAT). The empowered committee, after deliberations, had issued a white paper (January 2005) defining the basic designs of state level VAT. The white paper, however, allowed the states to adopt appropriate variations in their VAT Acts, consistent with the basic design.

The argument of the white paper on state level VAT, as agreed upon in the Empowered Committee for effective implementation of VAT was that:

- it would eliminate cascading effect due to credit of tax paid on the purchase for resale or for use in the production;
- VAT will replace State Sales Tax through out the country and other taxes will be abolished and overall tax burden will be rationalised;
- due to crosschecking in a multi-stage tax, tax evasion will be checked, resulting in higher revenues to the Government;
- there would be self assessment by the dealers and set off will be given for input and tax paid on previous purchases.

The Government of Nagaland repealed the Sales Tax (ST) Act, 1967 and enacted the Nagaland Value Added Tax (NVAT) Act 2005 from 1 April 2005.

Some of the differences between the existing VAT Acts and the Sales Tax Act were as under:

- VAT is a multi point tax system while sales tax was a single or cascading type of tax system;
- VAT system relies more on the dealers to pay the tax willingly and submit the returns and deemed self assessment in VAT; while supporting documents are required alongwith the return in ST;
- Percentage check is provided in the VAT Acts where as cent *per cent* cases are assessed in the erstwhile Sales Tax Act; and
- Reduced control of the executive on the dealers in VAT while many other taxes are there in ST.

**A review on the 'Transition from Sales tax to Value Added Tax' was conducted by audit. It indicated a number of system and compliance deficiencies which are discussed in the subsequent paragraphs.**



#### **4.10.2 Organisational setup**

The Commissioner of Taxes (COT) assisted by two Additional Commissioners of Taxes and two Deputy Commissioner of Taxes, is responsible for the administration of the Acts and Rules in the Taxation Department. There are three taxation zones to cover the 11 districts of the State. Each zone is headed by an Assistant Commissioner of Taxes (ACT) with head quarters at Kohima, Dimapur and Mokokchung. There are 13 wards headed by the Superintendent of Taxes (ST) for registration, assessment and collection of the VAT. In addition, an intelligent cell attached to the Directorate known as the mobile squad is headed by an Assistant Commissioner of Taxes (ACT) who is assisted by a Superintendent of taxes.

#### **4.10.3 Audit objectives**

The review was conducted with a view to ascertain whether:

- planning for implementation and the transition from the ST Act to VAT Act was effected timely and efficiently;
- organisational structure was adequate and effective;
- the provisions of the VAT Act and the Rules made thereunder were adequate and enforced properly to safeguard the revenues of the State ;
- internal control mechanism existed in the department and was adequate and effective to prevent leakage of revenue; and
- system is effective after being in place for three years.

#### **4.10.4 Scope and methodology of audit**

Records of eight out of 13 wards in three districts viz. Kohima, Dimapur and Mokokchung and the records of Commissioner of Taxes (COT), Dimapur for the period from 2004-05 to 2008-09 were selected for review. The wards were selected on the basis of higher revenue collection and number of registered dealers under the VAT regime. The audit was conducted between May and July 2009.

#### **4.10.5 Acknowledgement**

Indian Audit and Accounts Department acknowledges the co-operation of the Taxation Department in providing the necessary information and records for audit. An entry conference was held with the COT in May 2009 in which the scope of audit, methodology and audit objectives were explained to the department. The draft review report was forwarded to the Government and Department in August 2009 and was followed by an exit conference held with the COT in September 2009 to discuss the results of audit and recommendations. Replies of the department have been incorporated in the relevant paragraphs.

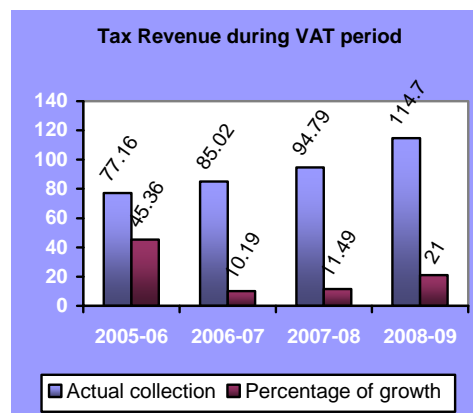
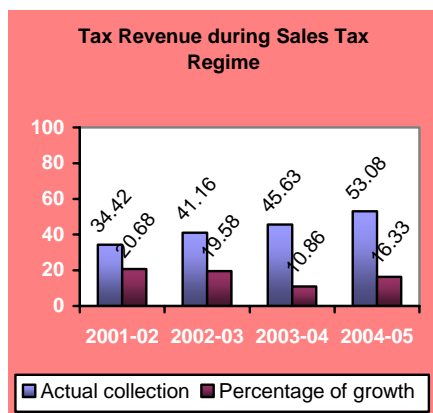
#### **Audit findings**

#### **4.10.6 Pre-VAT and post-VAT tax collection**

The comparative position of the pre-VAT sales tax collection (2001-02 to 2004-05) and the post-VAT (2005-06 to 2008-09) tax collection and the growth rate each year is shown in the table below.

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| Pre-VAT |                                  |                      | Post-VAT |                                  |                      |
|---------|----------------------------------|----------------------|----------|----------------------------------|----------------------|
| Year    | Actual collection (Rs. in crore) | Percentage of growth | Year     | Actual collection (Rs. in crore) | Percentage of growth |
| 2001-02 | 34.42                            | 20.68                | 2005-06  | 77.16                            | 45.36                |
| 2002-03 | 41.16                            | 19.58                | 2006-07  | 85.02                            | 10.19                |
| 2003-04 | 45.63                            | 10.86                | 2007-08  | 94.79                            | 11.49                |
| 2004-05 | 53.08                            | 16.33                | 2008-09  | 114.70                           | 21.00                |



The average growth rate in the pre-VAT regime during 2001-02 to 2004-05 was 16.86 per cent while that in the post-VAT regime for 2005-06 to 2008-09 was 22.01 per cent. The growth in the years after 2005-06 could have been higher but for lack of proper enforcement of the VAT provisions in the State. The department could not assess/state (November 2009) the reasons for declining trend of growth rate though requested.

### System deficiencies

#### 4.10.7 Preparedness and transitional process

The NVAT Act and Rule 2005 was enacted in March 2005 and noticed in the Nagaland Gazette Notification in April 2005 for implementation. Before implementation of the new regime, the NVAT Act and Rules made thereunder were given wide publicity and the staff/officers in the department were imparted training.

#### 4.10.8 Computerisation of the Taxation Department and the check gates and their interlinking

GOI made an agreement with M/S Tata Consultancy Services (TCS) to computerise the VAT system implemented in the North Eastern States including Nagaland with effect from 1 April 2005. The objective was to facilitate computerisation of the registration of the dealers under the VAT and CST, computerisation of the check gates and related monitoring of inter state movement of goods, processing of returns, *challan* etc. The VAT and CST Management System (VCMS) is a web based system and there were 16 modules available in the system. Except for registration of the VAT and CST dealers, the remaining modules were not used due to lack of training, hardware etc., as stated by the superintendent of taxes of the three tests checked

districts. The modules for monitoring of filing of returns through VCMS such as tracking of defaulters, stopfilers are yet to be provided by the service providers.

**Audit observed that though several returns and reports are required under NVAT Act and Rules, the VCMS failed to generate all those important reports essential for day to day work.** It was seen that the data entries were being made in the system only after manual collection of related information/data, thus defeating the purpose of computerisation.

**For effective implementation of the VAT, the Government may provide full access to the modules developed for the VAT and the department may impart necessary training to its staff for their operation.**

#### **4.10.9 Creation of manuals and training of the staff**

Department did not prepare any manual for guidance of the officials responsible for dealing with the activities of the VAT after its introduction, in the absence of which it was difficult for them to cope up with the unique requirements of the new regime. Suitable arrangement for constituting internal check parties was also not made. All these had an adverse impact on the proper monitoring of the functioning of the NVAT.

**The Government may consider preparing a manual for day to day activities of the department.**

#### **4.10.10 Internal control**

The NVAT Act and Rule prescribes *challan* inward in Form VAT-23 for import of the goods and *challan* outward in Form VAT-24 for despatch of the goods from any place in the State to any other place or outside the State. **It was observed in audit that though VAT has been implemented in the State from April 2005 and four years have elapsed, still the relevant forms under the VAT Act have not been made available to the units/dealers.** As a result, the dealers were using the declaration forms under the repealed Act which were already obsolete.

Test check of the records of the ACT mobile squad, Dimapur and COT indicated that 53,711 obsolete Nagaland Sales Tax declaration forms of imports (Form XVI) were used by various dealers for import of the goods and surrendered in the check post located in Dimapur during December 2006 and March 2009. The Department could neither state the source from where the obsolete declaration forms were issued. The Department also did not check whether goods had been imported into the State through these forms and in the quantities and at the rates mentioned in the forms. Besides indicating absence of effective internal control mechanism in the Department, the practice of using forms that have been repealed under the Act is also fraught with the risk of evasion of tax within the State.

The Department accepted the facts and stated (September 2009) that during the transitional period, the Department had to rely on the forms prescribed under the repealed Act and Rules but would be discontinued in due course of time.

**The Government may immediately ban the use of the forms under the repealed Act and take effective steps to start utilisation of the declaration forms under the NVAT Act.**

#### **4.10.11 Internal Audit**

Internal audit is one of the tools of the internal control mechanism and functions as the 'eyes' and 'ears' of the management and independently appraises it about whether the activities of the organisation are being conducted efficiently and cost effectively.

**It was noticed by audit that there is no internal audit wing in the Department for checking of its activities relating to registration, assessment and collection etc.**

The department thus has no method of assuring itself of the efficient functioning of the various systems or to be able to identify deficiencies for their timely rectification.

**The Government may consider setting up of an independent internal audit wing to ensure compliance with the rules and regulations. Supervisory inspection should be made obligatory for proper enforcement of Act, rules and executive instructions.**

### Compliance deficiencies

#### 4.10.12 Registration and database of the dealers

Under Nagaland Value Added Tax (NVAT) Act, 2005, every manufacturer who produces any goods for sales, dealers who engage themselves in business, supplying or distributing goods, executing work contract, whose gross turnover exceeds the taxable quantum of Rs. 3 lakh shall be liable to pay tax. The Act further provides that no dealer who is liable to pay tax shall carry on business unless he has been registered and possesses a certificate of the VAT registration. The Act also empowers the Commissioner of Taxes to register a dealer compulsorily if, in his opinion, the dealer is liable for registration but failed to apply for registration. Any dealer who holds a certificate of registration under the NST Act is required to apply for fresh registration under the NVAT Act 2005 without any fee and within a further period of ninety days with late fee of Rs. 100, failing which he shall cease to be a dealer under the Act from the next day following the expiry of the said period. The registration certificate issue register in form VAT-19 is to be maintained by the assessing authority (AA) of each ward.

The year wise position of the registered dealers (RD) in eight wards under the Sales Tax Act, 1971, at the end of 2004-05 and the NVAT Act, 2005 is as shown below.

| Name of district | Ward    | Number of RDs under Sales tax regime | Number of dealers registered under VAT, Act 2005 during 2005-2009 |            |            |            |              | Total nos. of VAT dealers |
|------------------|---------|--------------------------------------|-------------------------------------------------------------------|------------|------------|------------|--------------|---------------------------|
|                  |         |                                      | 2004-05                                                           | 2005-06    | 2006-07    | 2007-08    | 2008-09      |                           |
| Kohima           | Ward -A | 356                                  | 143                                                               | 10         | 55         | 117        | 325          |                           |
|                  | Ward -B | 343                                  | 198                                                               | 13         | 27         | 70         | 308          |                           |
| Dimapur          | Ward -A | 452                                  | 247                                                               | 93         | 90         | 205        | 635          |                           |
|                  | Ward -B | 588                                  | 512                                                               | 91         | 67         | 93         | 763          |                           |
|                  | Ward -C | 236                                  | 147                                                               | 49         | 47         | 96         | 339          |                           |
|                  | Ward -D | 686                                  | 534                                                               | 419        | 141        | 61         | 1,155        |                           |
| Mokokchung       | Ward -A | 107                                  | 87                                                                | 32         | 42         | 70         | 231          |                           |
|                  | Ward -B | 61                                   | 26                                                                | 44         | 18         | 48         | 136          |                           |
| <b>Total</b>     |         | <b>2,829</b>                         | <b>1,894</b>                                                      | <b>751</b> | <b>487</b> | <b>760</b> | <b>3,892</b> |                           |

Test check of the records indicated that except for three AAs in Dimapur districts, the remaining five AAs did not maintain the data base indicating separately the number of dealers registered under the Sales Tax Act actually brought under the VAT Act and new dealers registered under the VAT Act 2005. Further, the register of the registered

dealers in Form VAT-19 was not maintained by the two AAs of Kohima District which led to non-detection of the unregistered dealers. Out of 1,374 dealers registered under Sales Tax Act in three wards of Dimapur district, 635 dealers (46.21 *per cent*) had not been registered under the VAT Act till the date of audit (June 2009).

#### 4.10.13 Periodic survey and analysis of dealers below threshold limit

The growth of revenue is directly linked with the growth of the registered dealers in the State. While relying on the voluntary registration by the dealers, it becomes important for the department to put in place an effective mechanism for collecting information from various sources in order to bring the tax evaders into the tax net.

The NVAT Act emphasises the need for survey to identify the dealers liable to pay the VAT and bring them into the tax net. The machinery for survey includes conducting of periodic raids in the premises of the dealers to determine whether they have crossed the threshold limit of turnover of rupees three lakh at any point of time or calling information from public utilities and financial institutions for cross verification.

However, in none of the eight Superintendents of taxes (STs) audited, records of the frequency of such raids, name of business premises, result of raid etc. were maintained. During the entry conference, the COT admitted that no raid was ever conducted to detect the defaulting dealers in the State.

**The Government may consider making the conducting of periodic survey/raids mandatory to unearth unregistered dealers in the interest of revenue.**

After the case was pointed out, the Department accepted the audit observation and stated (September 2009) that an intensive survey at regular intervals would be conducted to ensure that all liable dealers were brought under the tax net in accordance with the provisions of the NVAT Act.

#### 4.10.14 Non-filing of returns

Under Section 28 of the NVAT Act and Rule made thereunder, every RD shall furnish to the AAs, a monthly or a quarterly return in Form VAT-4 within 30 days of the expiry of a month/quarter. In addition to the above, an annual return in Form VAT-5 is required to be filed within 60 days of the close of the year. In case of non-filing of the return, the AA shall serve a show cause notice in Form VAT-6 and the RDs are required to file the returns in Form VAT-6R by such date ordinarily not less than 10 days, for the purpose of determination of the tax. Non-filing/belated filing of returns or non payment of tax due attracts penalty under the relevant provision of the NVAT Act. The Return, demand and collection register in Form VAT-21 is required to be maintained for watching the receipt of returns and collection of tax.

**It was noticed in audit that the receipt of quarterly and annual returns were not watched by any AA through the register resulting in non-monitoring of returns.** None of the eight AAs audited were able to furnish the details of number of returns due, number of returns received and shortfall etc.

As per the information collected from eight AAs, the ward-wise position of registered dealers who had filed their returns for the year 2005-06 to 2008-09 and assessment completed as of June 2009 is as under.

| Name of district | Ward | Number RDs filed return for the year 2005-06 to 2008-09 |         |         |         |
|------------------|------|---------------------------------------------------------|---------|---------|---------|
|                  |      | 2005-06                                                 | 2006-07 | 2007-08 | 2008-09 |
|                  |      |                                                         |         |         |         |

|                                       |   | Nos. of<br>RDs | Returns<br>filed | Nos. of<br>RDs | Returns<br>filed | Nos. of<br>RDs | Returns<br>filed | Nos. of<br>RDs | Returns<br>filed |
|---------------------------------------|---|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|
| Kohima                                | A | 143            | 50               | 153            | 41               | 208            | 44               | 325            | 02               |
|                                       | B | 198            | 115              | 211            | 33               | 238            | 23               | 308            | 12               |
| Dimapur                               | A | 247            | 62               | 340            | 217              | 430            | 200              | 635            | 34               |
|                                       | B | 512            | 116              | 603            | 282              | 670            | 146              | 763            | 00               |
|                                       | C | 147            | 60               | 196            | 121              | 243            | 122              | 339            | 23               |
|                                       | D | 534            | 117              | 953            | 341              | 1094           | 286              | 1155           | 130              |
| Mokokchung                            | A | 87             | 55               | 119            | 52               | 161            | 53               | 231            | 02               |
|                                       | B | 26             | 36               | 70             | 36               | 88             | 33               | 136            | 05               |
| <b>Total</b>                          |   | <b>1,894</b>   | <b>611</b>       | <b>2,645</b>   | <b>1,123</b>     | <b>3,132</b>   | <b>907</b>       | <b>3,892</b>   | <b>208</b>       |
| <b>Percentage of return<br/>filed</b> |   |                | <b>32.26%</b>    |                | <b>42.46%</b>    |                | <b>28.96%</b>    |                | <b>5.34%</b>     |

From the above table it would be seen that 5.34 to 42.46 *per cent* of the RDs did not file either quarterly or the annual returns for the year 2005-06 to 2008-09. The trend also shows that from 2006-07 filing of returns has been decreasing sharply instead of improving which, in turn, has affected the growth of revenue. **Shortfall in filing of the returns in 2008-09 is alarming which requires immediate corrective action. The filing of the return by the dealers was also not periodically monitored by the COT through report/return from the unit offices.**

An examination of the records relating to receipt and disposal of the returns indicated that:

- Instead of a quarterly return for each quarter, the RDs filed only one return in form VAT-4 covering the whole year.
- Out of 46,252 quarterly returns required to be filed by 3,892 RDs during the year 2005-06 to 2008-09, only 2,849 returns were filed leaving a balance of 43,403 returns yet to be filed in the eight wards.
- Separate annual return in form VAT-5 was neither insisted upon nor furnished by the dealers.
- Except the four AAs of Dimapur district, the AAs of Kohima and Mokokchung district did not maintain the Return, Demand and Collection Register in form VAT-21.
- None of the dealers appended dated signature while filing the returns, the AAs also did not maintain a diary register. Thus there was no system to detect late submission of the returns and levy penalty.

**As submission of the returns is vital for success of the VAT, the Government may consider putting in place stringent measures for non-submission of the returns within the prescribed time frame and strengthen the system of maintenance of records/registers and to monitoring the filing of returns.**

The Department in reply (September 2009) stated that punitive action would be taken against the defaulters in accordance with the provision of the NVAT act. However, audit observed that no time frame has been fixed for taking such action.

#### **4.10.15 Scrutiny of returns**

Section 26 of NVAT Rule provides that the periodic return which is required to be furnished in the prescribed form shall be incomplete unless accompanied with lists, statements, declarations, certificates, *challans* and documents mentioned therein or which are required to be filed with the returns under this rule. Further, under section

32 of the NVAT Act and Rule 51(2) of the NVAT Rules require that the appropriate assessing authority may on the basis of the information contained in the return filed by the dealer, scrutinise the correctness of the tax assessed by the dealer himself. For this purpose, the AAs may require the dealer to produce any account, documents or any other evidence as may be deemed necessary for such scrutiny.

Scrutiny of the records of three districts indicated that the returns furnished by the dealers were not supported with the statements prescribed in the VAT Act/Rules, disclosing the details showing purchases and sales in the course of interstate trade, within the state on tax invoice, sale list of exempted goods and stock transfer etc. Moreover, the information/documents based on which the AAs scrutinised the correctness of the self returns were also not documented in the assessment case records of the dealers for future scrutiny in the interest of revenue.

**The Government may consider ensuring proper submission and vetting of documents for the returns and claims.**

The department stated (September 2009) that the scrutiny of supporting documents would be carried out during audit assessment.

However, no audit assessment was undertaken to detect the deficiencies in filing of return which resulted in poor implementation of VAT in the State.

**4.10.16 Lack of co-ordination between Mobile squad and assessing authority**

Under Rule 65 and 66 of the NVAT Rule 2005, a person transporting taxable goods valued rupees ten thousand or more in a single transaction inward the State and outward shall produce the declaration of imports in original in Form VAT-23 (*Challan* Inward) and bill of sale in Form VAT-24 (*Challan* Outward) to the officer-in-charge of the check post who shall record the particulars in the Entry Register. As soon as the original *challan* outward and duplicate copy of *challan* inward collected in the check post are received by the directorate, the COT shall forward these to the concerned AAs where the person is registered for cross verification of the particulars in the declaration forms with the records of the dealers at the time of making the assessment. The dealers also have to furnish a copy of the used declaration form to the AAs along with the tax returns.

Audit scrutiny indicated that though the used declaration forms were being sent timely by the COT to all the unit offices, no system was introduced to maintain a register recording the receipt of the used declaration form in the unit office for verification and the results of such verification. In Kohima the used declaration forms received from COT were left unattended in the ACT office and in Dimapur these forms are not traceable either in the ACT office or in the unit offices. No specific periodical report/return has been prescribed by the COT to be furnished by the AAs mentioning the details of used declaration received during the month and action taken thereon. In the absence of adequate internal control mechanism, the taxation authorities were not in a position to ensure that the purchase and sale of goods imported/exported by road, did not escape evasion by the dealers.

The Department stated (September 2009) that systems would be improved after all the check posts and unit offices were fully computerised.

**4.10.17 Lack of co-ordination with the works department and monitoring**

Under the NVAT Act 2005 and the rules made thereunder, an amount of tax deducted by a Government department or authority from the payment of any sum to a dealer for execution of work contract or supply deemed to be a payment of tax by such dealer made on the date of such deduction. Further, the NVAT Rule and the Government notifications issued from time to time provides that the person making such deduction at source (Drawing and disbursing officer in the case of a Government Department) is responsible to deposit the whole amount within ten days from the expiry of each calendar month in to the Government treasury or designated bank through a *challan* and to issue a certificate of deduction in the Form VAT-32 to the dealer/contractor for the purpose of his assessment of Tax and filing of return. A scroll for deduction and deposit in the Form-33 along with a copy of certificate of deduction issued to each dealer, and a copy of *challan* is required to be endorsed by the works department to the tax authority within 45 days following the date of expiry of the calendar month during which such deduction is made.

Scrutiny of the records of the eight wards under Dimapur, Kohima and Mokokchung districts indicated that the systems/procedures to be followed under NVAT Act/Rules and directions issued by the Taxation department had not been complied with by many of the Government (buying/works) departments. Moreover, no mechanism was formulated by the Taxation Department to cross verify the information furnished by the dealers/ contractors with the records of work departments. Follow-up action to monitor the system was non existent.

The Department while accepting the facts stated (September 2009) that despite all efforts there was lack of co-ordination by the works department and, therefore, the taxation department was contemplating initiation of legal action against the defaulters.

#### **4.10.18 Irregular claim of input tax credit**

The provisions of Rule 39 of the Nagaland Value Added Tax Rules, 2005 stipulate that the input tax credit (ITC) availed of by a registered dealer shall be on the basis of an invoice, bill or *challan* issued by the selling dealer. The rules further provide for annexing a statement in the Form VAT-8 indicating all necessary details of the selling dealer and input tax benefit claimed and abstract statement of the VAT account in support of the claim.

**4.10.18.1** It was noticed in audit (May-July 2009) that the input tax credit claim of Rs. 2.08 crore for the period from April 2005 to March 2009 by 34 RDs were without the prescribed ITC statement in VAT-8 and required information to be enclosed along with the returns for availing input tax credit under the VAT Act and Rules. The AAs admitted the ITC claimed by the dealers without proper scrutiny of supporting statement.

Thus, exemption of tax for Rs. 2.08 crore to 34 RDs without the scrutiny of supporting statement in the Form VAT-8 was irregular and resulted in short payment of tax to that extent.

The Department stated (September 2009) that all necessary documents required for availing of input tax credit would be examined at the time of audit assessment. However, audit noticed that no case had been selected for the audit assessment.

**4.10.18.2** In another instance, scrutiny (September 2008) of the assessment records of a dealer<sup>4</sup> for the years 2005-06 and 2006-07 indicated that the dealer had submitted

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<sup>4</sup> M/s Jai Gopal Anand & Sons, Dimapur (TIN: 13030017070).



self assessment in the Form VAT-4 claiming Rs. 2.98 crore<sup>5</sup> as ITC without enclosing the statement of ITC in the Form VAT-8, tax invoices, abstract statement of the VAT account etc. in support of the claim. The ACT Dimapur admitted (January 2007) the claim without these documents. Thus, Rs. 2.98 crore admitted as ITC was irregular and resulted in short payment of tax to that extent.

The matter was reported to the department and Government (May 2009), their replies have not been received (October 2009).

#### 4.10.19 Tax audit

Under Section 33 of the NVAT Act 2005 and Rules framed thereunder, the COT shall constitute a VAT audit team and select certain percentage of self assessment for a detailed check of accounts to examine the correctness of returns filed and admissibility of various claims including the input tax credit. The audit team is required to conduct its work in a time-bound manner and audit must be completed within six months. The audit report is to be transparently sent to the dealers also.

Test check of the records of eight wards in three districts indicated that though the audit team was constituted in October 2008, no dealer was selected for tax audit by the VAT audit team even after a lapse of four years of enactment of this provision.

The Department accepted the fact and stated (September 2009) that the matter was pending with the Government for issuing necessary notifications.

The reply of the department is not tenable as the percentage of dealers to be audited is prescribed under NVAT Rule 51(C) and is in force from the date of implementation of the VAT in the State.

#### 4.10.20 Audit of accounts

The NVAT Act, 2005 and Rules thereunder provide that any dealer whose gross turn over exceeds Rs. 40 lakhs in a financial year, shall get his accounts in respect of that financial year audited by a Chartered Accountant within six months from the end of that financial year and furnish copy of report of audit of the accounts in the Form VAT-17 along with the Form 18 to the AA within one month from the date of completion of such audit. In case of non furnishing of audited accounts, the AAs shall serve notice asking him to show cause and impose on him, in addition to any tax payable, a sum by way of penalty equal to 0.5 *per cent* of the turn over as he may determine to the best of his knowledge.

Scrutiny of the self assessment returns filed by the dealers of four wards in Dimapur districts for the year 2005-06, 2006-07 and 2007-08 whose turnover exceeded Rs. 40 lakh and above indicated that the dealers failed to furnish the audited accounts duly certified by the Chartered Accountant in the prescribed format within the stipulated time. The AAs while scrutinising the return did not impose minimum penalty on such defaulting dealers for non-furnishing of audited accounts which resulted in non-levy of penalty Rs. 6.50 crore for the years 2005-06 to 2007-08 as shown below:

| Year    | Nos. of Assessments | Turn over (Rs. in lakh) | Penalty to be imposed (Rs. in lakh) |
|---------|---------------------|-------------------------|-------------------------------------|
| 2005-06 | 21                  | 7,038.35                | 108.51                              |
| 2006-07 | 100                 | 34,339.04               | 357.70                              |
| 2007-08 | 78                  | 33,852.19               | 183.36                              |

<sup>5</sup> 2005-06: Rs. 1.42 crore; 2006-07: Rs. 1.56 crore.

|              |               |
|--------------|---------------|
| <b>Total</b> | <b>649.57</b> |
|--------------|---------------|

The Department accepted the fact (September 2009) and stated that it would be looking into this provision for necessary implementation. The reply was silent about the time frame for implementation.

#### **4.10.21 Conclusion**

Audit noticed instances of system and compliance deficiencies in enforcement of the provisions of the VAT Act and Rules which affected the collection of revenue adversely. Due to non-conduct of periodic review of Return, Demand and Collection Register by the ACTs, the Department failed to check non filing of returns and non-payment of the VAT within the prescribed period. Failure of the Department to check use of invalid and obsolete sales tax declaration forms, cross verification of records etc., increased the scope for concealment of turnover and evasion of tax by the dealers. Unless proper enforcement aspects of the VAT are fully addressed, the benefit of transition from sales tax to value added tax is difficult to be realised. The internal control mechanism is non-existent in the department.

#### **4.10.22 Summary of recommendations**

Government may consider implementing the following recommendations to rectify the deficiencies:

- Having full access to the module developed for the VAT and imparting necessary training to its staff for their operation for effective implementation of the VAT;
- preparing a manual for day to day activities of the department;
- setting up of an independent internal audit wing to ensure compliance with the rules and regulations. Supervisory inspection should be made obligatory for proper enforcement of Acts, rules and executive instructions;
- making it mandatory to conduct periodic survey/raids to unearth unregistered dealers in the interest of revenue;
- putting in place stringent measures for non-submission of returns within the prescribed time frame and strengthening the system of maintenance of records/registers relating to filing of returns for success of the VAT;
- ensuring submission and proper vetting of documents for the returns and claims; and
- banning the use of the forms under the repealed Act and take effective steps to start utilisation of the declaration forms under the NVAT Act.

## **PARAGRAPHS**

## **FINANCE DEPARTMENT**

#### 4.11 Other audit observations

*Scrutiny of the assessment records of Sales tax/value added tax (VAT) indicated cases of non-realisation of interest for delay in payment of tax and non-deposit/utilisation of departmental receipts towards expenditure mentioned in the succeeding paragraphs. These cases are illustrative and are based on test check carried out in audit. Such omissions on the part of assessing authorities (AAs) are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal audit.*

#### 4.12 Non-realisation of interest for delay in payment of tax

##### **Assistant Commissioner of Taxes, Dimapur did not realise Rs. 3.20 lakh towards interest leviable for delay in payment of tax**

As per Rule 31 of Nagaland Value Added Tax (NVAT) Rules 2005, every dealer required to file either quarterly or monthly return shall pay the full amount of tax payable under the Act on the sales value received during each month of every quarter within 21 days from the expiry of each such month and shall, before furnishing return for that quarter, pay the balance of the full amount of tax due according to such return. Further, every dealer shall pay on or before the 28<sup>th</sup> of March every year, the full amount of tax leviable under the Act on the sales or purchases made by him during the period commencing on and from the first day of March to the 25<sup>th</sup> day of March every year, being a part of the prescribed return period, and such dealer shall pay by the prescribed date the balance of the full amount of tax for the month or months to which the payment relates. Rule 49 states that if a dealer fails to pay the amount of tax by the due date, he shall be liable to pay the outstanding amount alongwith an interest at the rate of 2 per cent per month or parts of a month proportionately computed, starting with the first day following the due date till the date of actual payment.

Scrutiny (September 2008) of the assessment records of a dealer<sup>6</sup> for the years 2006-07 and 2007-08 indicated that the ACT, Dimapur did not realise Rs. 3.20 lakh leviable as an interest on delay ranging between 4 to 15 days in payment of the VAT of Rs. 12.16 crore.

The matter was reported to the department and Government (May 2009), their reply has not been received (November 2009).

### **INDUSTRIES AND COMMERCE DEPARTMENT**

#### 4.13 Non-deposit/utilisation of departmental receipts towards expenditure

##### **The management of Nagaland Hotels Limited did not deposit Rs. 19.04 lakh collected as tax from customers during 2005-06 to 2007-08**

Non-compliance of Receipt and Payment Rules 1983 resulted in non-deposit and unauthorised utilisation of departmental receipts towards expenditure.

<sup>6</sup> M/s Nestle India Ltd., Dimapur (TIN: 130030135086).

According to Schedule V of the Nagaland Value Added Tax (NVAT) Act 2005, cooked food including beverages other than liquor, served in, or supplied from any hotel, restaurant, etc., are taxable at 12.5 *per cent*. Rule 6 of Receipt and Payment Rules 1983 provides that all moneys received by or tendered to the Government officers on account of the revenues or receipts or dues of the Government shall without undue delay be paid in full into the accredited bank/treasury for inclusion in the Government account and should not be used to meet departmental expenditure.

Scrutiny (January 2009) of the records of the Nagaland Hotels Limited (NHL), indicated that two subsidiary hotels<sup>7</sup> of NHL had collected Rs. 19.04 lakh as NVAT from the customers during 2005-06 to 2007-08. However, the amount so collected was not deposited in the Government account by the NHL till the date of audit (January 2009).

The matter was reported to the department and to the Government in May 2009, their reply has not been received (November 2009). The Managing Director, NHL confirmed (July 2009) that some amount collected as tax was spent for development purposes and further stated that necessary steps would be taken to deposit the money collected as tax into the Government account. The action of the NHL in spending the amount of tax collected instead of remitting it to Government account, was grossly irregular which needs to be investigated and responsibility fixed. No intimation regarding actual deposit of the amount has been received (November 2009).

The matter was reported to the Government (May 2009), their reply has not been received (November 2009).

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<sup>7</sup> Hotel Japfu, Kohima and Hotel Saramati, Dimapur wholly run by the Government of Nagaland.

## Chapter.V

### Government Commercial and Trading Activities

#### Overview of State Public Sector Undertakings

##### Introduction

**5.1** The State Public Sector Undertakings (PSUs) consists of State Government companies and statutory corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of the people. In Nagaland, there were five State PSUs (all Government companies) of which, one Government company was non-working. The five working PSUs occupy insignificant place in state economy. The State working PSUs registered a turnover of Rs. 3.51 crore only for 2008-09, as per their latest finalised accounts as of September 2009. This turnover was equal to 0.05 per cent of State Gross Domestic Product. The State working PSUs incurred an overall loss of Rs. 1.36 crore in the aggregate for 2008-09 as per their latest finalised accounts. Out of five working PSUs three PSUs had employed 245 personnel during 2008-09. Remaining PSUs did not furnish the details. During 2008-09, neither any new PSU was established nor was any existing PSU closed down.

##### Audit Mandate

**5.2** Audit of Government Companies is governed by Section 619 of Companies Act, 1956. According to section 617, a Government company is one in which not less than 51 *per cent* of paid up capital is held by Government. A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act. However, there was no 619-B company in Nagaland.

**5.3** The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by statutory auditor, who is appointed by CAG as per provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

##### Investment in State PSUs

**5.4** As on 31 March 2009, the investment (capital and long term loans) in six PSUs was Rs. 73.36 crore as per details given below:

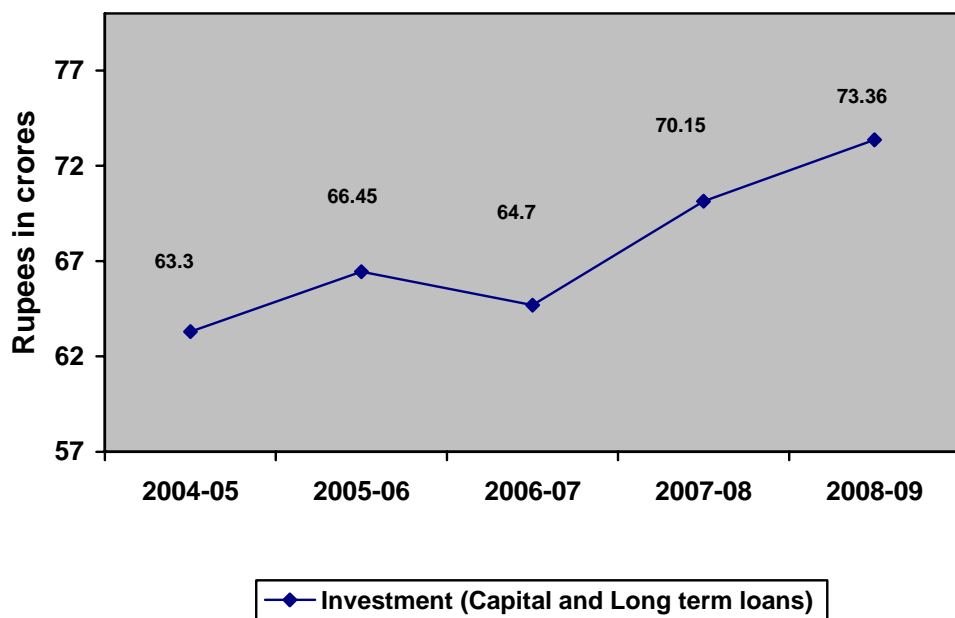
**Table.5.1**

(Rupees in crore)

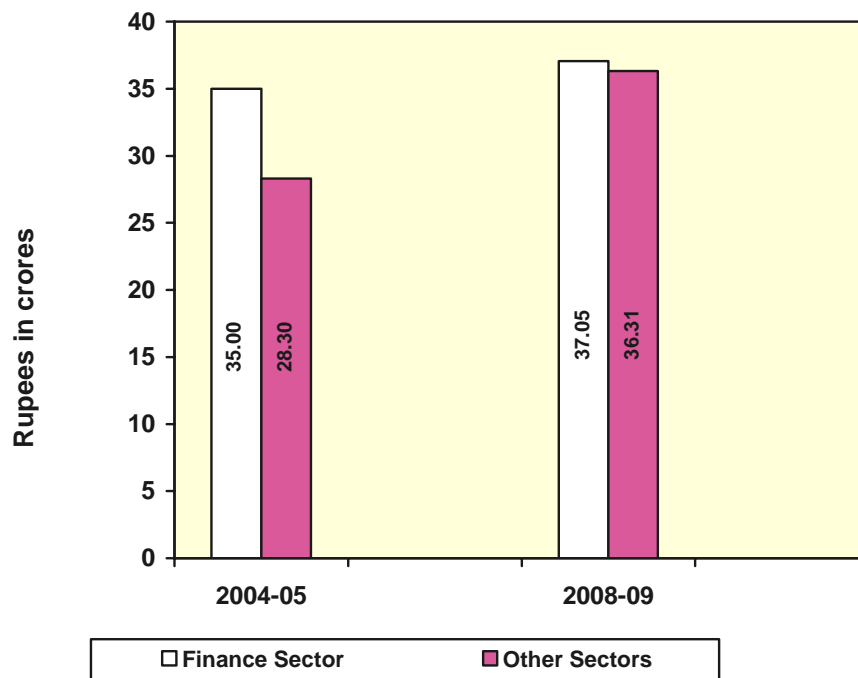
| Type of PSUs     | Government Companies |                 |              |
|------------------|----------------------|-----------------|--------------|
|                  | Capital              | Long Term Loans | Total        |
| Working PSUs     | 24.29                | 44.11           | 68.40        |
| Non-working PSUs | 4.96                 | --              | 4.96         |
| <b>Total:</b>    | <b>29.25</b>         | <b>44.11</b>    | <b>73.36</b> |

A summarised position of Government investment in State PSUs is detailed in **Appendix -5.1**.

**5.5** As on 31 March 2009, of the total investment in State PSUs, 93.24 per cent was in working PSUs and the remaining 6.76 per cent was in non-working PSU (only one PSU). The total investment consisted of 39.87 per cent towards capital and 60.13 per cent in long term loans. The investment has grown by 15.89 per cent from Rs. 63.30 crore in 2004-05 to Rs. 73.36 crore in 2008-09 as shown in graph below:-



**5.6** The investment in various sectors at the end of 31 March 2005 and 31<sup>st</sup> March 2009 are indicated below in the bar chart.



### Budgetary outgo, grants/subsidies, guarantees and loans

**5.7** The details regarding budgetary outgo towards equity, loans grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in

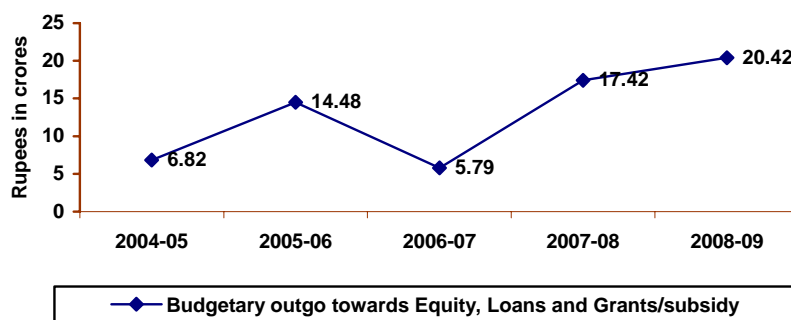
respect of State PSUs are given in **Appendix 5.3**. The summarised details for three years ended 2008-09 are given below.

**Table. 5.2**

(Amount: Rupees in crore)

| Sl No | Particulars                      | 2006-07     |        | 2007-08     |        | 2008-09     |        |
|-------|----------------------------------|-------------|--------|-------------|--------|-------------|--------|
|       |                                  | No. of PSUs | Amount | No. of PSUs | Amount | No. of PSUs | Amount |
| 1.    | Equity capital outgo from Budget | 02          | 0.45   | 02          | 0.47   | 03          | 4.11   |
| 2.    | Loans given from Budget          | Nil         | Nil    | 01          | 7.15   | 02          | 7.40   |
| 3.    | Grants/subsidy received          | 03          | 5.34   | 04          | 9.80   | 04          | 8.91   |
| 4.    | Total outgo (1+2+3)              |             | 5.79   |             | 17.42  |             | 20.42  |
| 5.    | Loans written off                | 01          | 0.54   | --          | --     | --          | --     |
| 6.    | Total waiver (5 above)           | 01          | 0.54   | --          | --     | --          | --     |
| 7.    | Guarantees issued                | 01          | 5.28   | 02          | 7.27   | 02          | 39.40  |

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



### Reconciliation with finance Accounts

**5.9** 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 agree, the concerned PSUs and the Finance department should carry out reconciliation of differences. Since the accounts of the companies are in arrears from nine to 26 years, actual amount invested by Government in PSUs is not known. Hence the reconciliation of figures invested by Government and the figures in the accounts of companies with respect to equities, loans and guarantees could not be taken up.

### Performance of PSUs

**5.10** The financial position and the financial results of PSUs are detailed in **Appendix 5.2**. A ratio of PSU turnover to GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2004-05 to 2008-09.

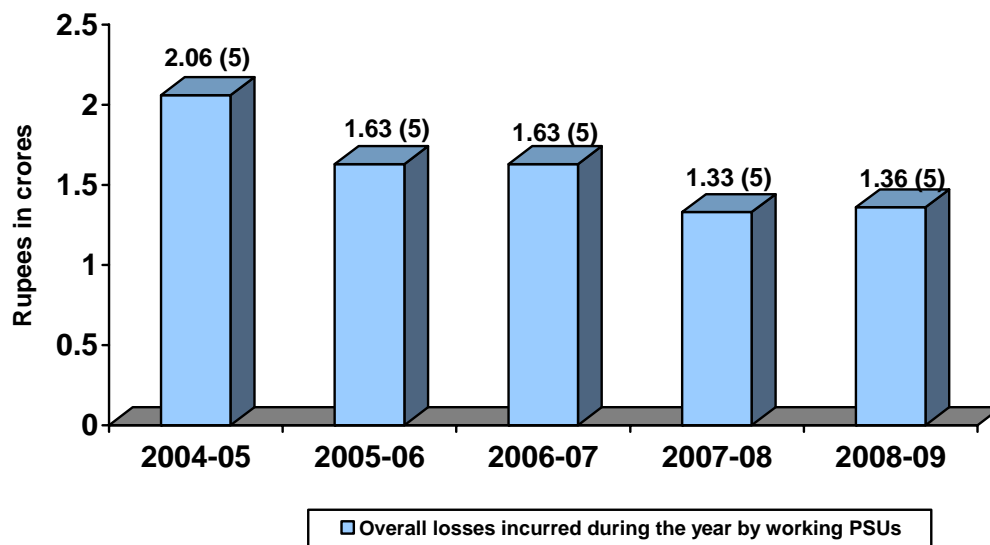
Table.5.3

(Rupees in crore)

| Particulars                         | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|-------------------------------------|---------|---------|---------|---------|---------|
| Turnover                            | 1.27    | 1.89    | 1.89    | 3.70    | 3.51    |
| State GDP                           | 5778.77 | 6374.56 | 6957.97 | 7168.52 | 7552.63 |
| Percentage of turnover to State GDP | 0.02    | 0.03    | 0.03    | 0.05    | 0.05    |

(Source: Audit reports for the years 2004-05 to 2007-08 and statement furnished by the Companies)

5.11. Losses incurred by State working PSUs during 2004-05 to 2008-09 are given below in a bar chart.



(Figures in bracket represent the number of working PSUs in respective years)

5.12 Some key parameters pertaining to State PSUs are given below:

Table.5.4

(Rupees in crore)

| Particulars                                    | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|------------------------------------------------|---------|---------|---------|---------|---------|
| Return on capital employed ( <i>per cent</i> ) | NA      | 6.79    | 4.50    | 3.65    | --      |
| Debt                                           | 35.89   | 38.54   | 36.35   | 40.29   | 44.11   |
| Turnover                                       | 1.27    | 1.89    | 1.89    | 3.70    | 3.51    |
| Debt/Turnover ratio                            | 28.25:1 | 20.39:1 | 19.23:1 | 10.89:1 | 12.57:1 |
| Accumulated losses                             | 25.88   | 26.96   | 26.96   | 26.95   | 28.63   |

### Arrears in finalisation of Accounts

5.13 The accounts of the companies for every financial year are required to be finalized within six months from the end of relevant financial year under section 166, 210, 240, 619 and 619-B of Companies Act, 1956. The table below provides details of progress made by working PSUs in finalisation of accounts by September 2009.



**Table.5.5****(Rupees in crore)**

| <b>Sl. No.</b> | <b>Particulars</b>                              | <b>2005-06</b> | <b>2006-07</b> | <b>2007-08</b> | <b>2008-09</b> |
|----------------|-------------------------------------------------|----------------|----------------|----------------|----------------|
| 1              | No. of working PSUs                             | 5              | 5              | 5              | 5              |
| 2              | No. of accounts finalized during the year       | 4              | 2              | 3              | 3              |
| 3              | Number of accounts in arrears                   | 85             | 88             | 90             | 92             |
| 4              | Average arrears per PSU (3/1)                   | 17             | 17.6           | 18             | 18.4           |
| 5              | Number of working PSUs with arrears in accounts | 5              | 5              | 5              | 5              |
| 6              | Extent of arrears (in years)                    | 8 to 25        | 9 to 26        | 9 to 26        | 9 to 26        |

**5.14** The average number of accounts in arrears per working PSU increased from 17 in 2005-06 to 18.4 in 2008-09. The PSUs having arrears of accounts need to take effective measures for early clearance of backlog and make the accounts up to date. The PSUs should ensure that at least one year's accounts are finalised each year so as to restrict further accumulation of arrears.

**5.15** In addition to above, the accounts of the only non-working PSU in the State were also in arrears for 31 years. As no purpose is served by keeping this non-working company in existence, Government needs to expedite closing down of this company.

**5.16** The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalized and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and the officials of the government were informed every quarter by audit, of the arrears in finalization of accounts, no remedial measure were taken. As a result of this the net worth of these PSUs could not be assessed in audit.

**5.17** In view of above state of arrears it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

#### **Accounts comments and Internal Audit**

**5.18** Three working companies forwarded their three audited accounts to the Accountant General during 2008-09. Of these one account was selected for supplementary audit. During the year, the statutory auditors had given qualified certificates to all the three accounts.

**Discussion of Audit Reports by COPU**

**5.19** The status as on 30 September 2009 of reviews and paragraphs that appeared in the Commercial Chapters of Audit Reports (Civil) and discussed by the Committee on Public Undertakings (COPU) is as under.

**Table .5.6**

| <b>Period of<br/>Audit<br/>Report</b> | <b>Number of Reviews and Paragraphs</b> |                   |                  |                   |
|---------------------------------------|-----------------------------------------|-------------------|------------------|-------------------|
|                                       | <b>Appeared in Audit Report</b>         |                   | <b>Discussed</b> |                   |
|                                       | <b>Reviews</b>                          | <b>Paragraphs</b> | <b>Reviews</b>   | <b>Paragraphs</b> |
| <b>1</b>                              | <b>2</b>                                | <b>3</b>          | <b>4</b>         | <b>5</b>          |
| 2002-03                               | 1                                       | 1                 | --               | --                |
| 2003-04                               | 1                                       | 1                 | --               | --                |
| 2004-05                               | --                                      | 2                 | --               | --                |
| 2005-06                               | 1                                       | --                | --               | --                |
| 2006-07                               | --                                      | --                | --               | --                |
| 2007-08                               | --                                      | --                | --               | --                |
| <b>Total</b>                          | <b>3</b>                                | <b>4</b>          | <b>--</b>        | <b>--</b>         |

**Kohima  
The**

**2009**

**(A. N. Sarkar)  
Accountant General (Audit),  
Nagaland, Kohima**

**Countersigned**

**New Delhi  
The**

**2009**

**(Vinod Rai)  
Comptroller and Auditor General of India**

**Appendix – 5.1**

**Statement showing particulars of up to date paid-up capital, loans outstanding and Manpower as on 31 March 2009 in respect of Government companies)**

*(Referred to in paragraphs para 5.4)*

**(Figures in column 5 (a) to 6 (c) are Rupees in crore)**

| Sl. No.                                                      | Sector & Name of the Company                                          | Name of the Department | Month and year of incorporation | Paid-up Capital <sup>§</sup> |                    |             |              | Loans** outstanding at the close of 2008-09 |                    |             |              | Debt equity ratio for 2008-09 (Previous year) | Manpower (No. of employees) (as on 31.3.2009) |
|--------------------------------------------------------------|-----------------------------------------------------------------------|------------------------|---------------------------------|------------------------------|--------------------|-------------|--------------|---------------------------------------------|--------------------|-------------|--------------|-----------------------------------------------|-----------------------------------------------|
|                                                              |                                                                       |                        |                                 | State Government             | Central Government | Others      | Total        | State Government                            | Central Government | Others      | Total        |                                               |                                               |
| (1)                                                          | (2)                                                                   | (3)                    | (4)                             | 5 (a)                        | 5 (b)              | 5 (c)       | 5 (d)        | 5 (e)                                       | 6 (a)              | 6 (b)       | 6 (c)        | (7)                                           | (8)                                           |
| <b>A. Working Government Companies</b>                       |                                                                       |                        |                                 |                              |                    |             |              |                                             |                    |             |              |                                               |                                               |
| <b>FINANCE</b>                                               |                                                                       |                        |                                 |                              |                    |             |              |                                             |                    |             |              |                                               |                                               |
| 1                                                            | Nagaland Industrial Development Corporation Ltd, Dimapur              | Industries & Commerce  | 26.03.70                        | 9.37                         | --                 | 4.73        | 14.10        | --                                          | 32.32              | --          | 32.32        | 2.29:1<br>(2.06:1)                            | 93                                            |
| <b>Sector wise total</b>                                     |                                                                       |                        |                                 | <b>9.37</b>                  | <b>-</b>           | <b>4.73</b> | <b>14.10</b> | <b>-</b>                                    | <b>32.32</b>       | <b>-</b>    | <b>32.32</b> | <b>2.29:1<br/>(2.06:1)</b>                    | <b>93</b>                                     |
| <b>MANUFACTURING</b>                                         |                                                                       |                        |                                 |                              |                    |             |              |                                             |                    |             |              |                                               |                                               |
| 2                                                            | Nagaland State Mineral Development Corporation Ltd., Kohima           | Geology & Mining       | 21.05.81                        | 1.60                         | --                 | --          | 1.60         |                                             | --                 | --          | -            | -                                             | 120                                           |
| <b>Sector wise total</b>                                     |                                                                       |                        |                                 | <b>1.60</b>                  |                    |             | <b>1.60</b>  |                                             |                    |             | <b>-</b>     | <b>-</b>                                      | <b>120</b>                                    |
| <b>SERVICES</b>                                              |                                                                       |                        |                                 |                              |                    |             |              |                                             |                    |             |              |                                               |                                               |
| 3                                                            | Nagaland Hotels Ltd, Dimapur                                          | Industries & Commerce  | 17.03.82                        | 0.07                         | --                 | 0.40        | 0.47         | 10.49                                       | --                 | --          | 10.49        | 22.32:1<br>(22.32:1)                          |                                               |
| <b>Sector wise Total</b>                                     |                                                                       |                        |                                 | <b>0.07</b>                  | <b>-</b>           | <b>0.40</b> | <b>0.47</b>  | <b>10.49</b>                                |                    |             | <b>10.49</b> | <b>22.32:1<br/>(22.32:1)</b>                  |                                               |
| <b>MISCELLANEOUS</b>                                         |                                                                       |                        |                                 |                              |                    |             |              |                                             |                    |             |              |                                               |                                               |
| 4                                                            | Nagaland Handloom & Handicrafts Development Corporation Ltd., Dimapur | Industries & Commerce  | 27.02.79                        | 5.67                         | 1.22               | --          | 6.89         | --                                          | 0.73               | --          | 0.73         | 0.11:1<br>(0.11:1)                            | --                                            |
| 5                                                            | Nagaland Industrial Raw materials Supply Corporation, Dimapur         | Industries & Commerce  | 28.03.73                        | 1.23                         | --                 | --          | 1.23         |                                             |                    | 0.57        | 0.57         | 0.46:1<br>(0.24:1)                            | 32                                            |
| <b>Sector wise total</b>                                     |                                                                       |                        |                                 | <b>6.90</b>                  | <b>1.22</b>        |             | <b>8.12</b>  |                                             | <b>0.73</b>        | <b>0.57</b> | <b>1.30</b>  | <b>0.16:1<br/>(0.24:1)</b>                    | <b>32</b>                                     |
| <b>Total A(All sector wise working Government companies)</b> |                                                                       |                        |                                 | <b>17.94</b>                 | <b>1.22</b>        | <b>5.13</b> | <b>24.29</b> | <b>10.49</b>                                | <b>33.05</b>       | <b>0.57</b> | <b>44.11</b> | <b>1.82:1<br/>(1.55:1)</b>                    | <b>245</b>                                    |

| Sl. No.                                    | Sector & Name of the Company                                     | Name of the Department | Month and year of incorporation | Paid-up Capital <sup>§</sup> |                    |             |              | Loans** outstanding at the close of 2008-09 |                    |             |              | Debt equity ratio for 2008-09 (Previous year) | Manpower (No. of employees) (as on 31.3.2009) |
|--------------------------------------------|------------------------------------------------------------------|------------------------|---------------------------------|------------------------------|--------------------|-------------|--------------|---------------------------------------------|--------------------|-------------|--------------|-----------------------------------------------|-----------------------------------------------|
|                                            |                                                                  |                        |                                 | State Government             | Central Government | Others      | Total        | State Government                            | Central Government | Others      | Total        |                                               |                                               |
| (1)                                        | (2)                                                              | (3)                    | (4)                             | 5 (a)                        | 5 (b)              | 5 (c)       | 5 (d)        | 5 (e)                                       | 6 (a)              | 6 (b)       | 6 (c)        | (7)                                           | (8)                                           |
| <b>B. Non-working Government Companies</b> |                                                                  |                        |                                 |                              |                    |             |              |                                             |                    |             |              |                                               |                                               |
| <b>MANUFACTURING</b>                       |                                                                  |                        |                                 |                              |                    |             |              |                                             |                    |             |              |                                               |                                               |
| 6                                          | *Nagaland sugar Mills Company Ltd.                               | Industries & Commerce  | 22.3.73                         | 4.96                         | -                  | -           | 4.96         | -                                           | -                  | -           | -            | -                                             | -                                             |
|                                            | <b>Sector wise total</b>                                         | -                      | -                               | <b>4.96</b>                  | -                  | -           | <b>4.96</b>  | -                                           | -                  | -           | -            | -                                             | -                                             |
|                                            | <b>Total B(All sector wise non-working Government companies)</b> | -                      | -                               | <b>4.96</b>                  | -                  | -           | <b>4.96</b>  | -                                           | -                  | -           | -            | -                                             | -                                             |
| <b>Grand Total (A+B)</b>                   |                                                                  |                        |                                 | <b>22.90</b>                 | <b>1.22</b>        | <b>5.13</b> | <b>29.25</b> | <b>10.49</b>                                | <b>33.05</b>       | <b>0.57</b> | <b>44.11</b> | <b>1.51:1 (1.35:1)</b>                        | <b>245</b>                                    |

<sup>§</sup> Paid-up capital includes share application money.

\*\* Loans outstanding at the close of 2008-09 represent long-term loans only.

\* Figures of 1995-96 have been adopted as Company has not furnished information since 1996-97.

**Appendix 5.2**  
**Summarised financial results of Government companies for the latest year for which accounts were finalised**  
*(Referred to in paragraphs 5.10)*

(Figures in column 5 (a) to (6) and (8) to (10) are Rupees in crore)

| Sl. No.                                | Sector & Name of the Company                                | Period of Accounts | Year in which finalised | Net Profit (+)/ Loss (-)                        |             |              |                  | Turn over   | Impact of Accounts Comments | Paid up Capital | Accumulated Profit (+)/ Loss (-) | Capital employed <sup>@</sup> | Return on capital employed <sup>\$</sup> | Percentage 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)                                  |
| <b>A. Working Government Companies</b> |                                                             |                    |                         |                                                 |             |              |                  |             |                             |                 |                                  |                               |                                          |                                       |
| <b>FINANCE</b>                         |                                                             |                    |                         |                                                 |             |              |                  |             |                             |                 |                                  |                               |                                          |                                       |
| 1                                      | Nagaland Industrial Development Corporation                 | 1999-00            | 2008-09                 | (-) 0.25                                        | 0.23        | 0.16         | (-) 0.64         | 1.34        | -                           | 19.32           | (-) 11.69                        | 25.40                         | (-)0.41                                  | --                                    |
| <b>Sector wise total</b>               |                                                             |                    |                         | <b>(-) 0.25</b>                                 | <b>0.23</b> | <b>0.16</b>  | <b>(-) 0.64</b>  | <b>1.34</b> | <b>-</b>                    | <b>19.32</b>    | <b>(-) 11.69</b>                 | <b>25.40</b>                  | <b>(-)0.41</b>                           | <b>--</b>                             |
| <b>MANUFACTURING</b>                   |                                                             |                    |                         |                                                 |             |              |                  |             |                             |                 |                                  |                               |                                          |                                       |
| 2                                      | Nagaland State Mineral development Corporation Ltd., Kohima | 1997-98            | 2009-10                 | (-)0.39                                         | 0.01        | 0.01         | (-)0.41          | 1.39        | --                          | 0.80            | (-)0.98                          | 18.73                         | (-)0.40                                  | --                                    |
| <b>Sector wise total</b>               |                                                             |                    |                         | <b>(-) 0.39</b>                                 | <b>0.01</b> | <b>0.01</b>  | <b>(-) 0.41</b>  | <b>1.39</b> | <b>--</b>                   | <b>0.80</b>     | <b>(-)0.98</b>                   | <b>18.73</b>                  | <b>(-)0.40</b>                           | <b>--</b>                             |
| <b>SERVICES</b>                        |                                                             |                    |                         |                                                 |             |              |                  |             |                             |                 |                                  |                               |                                          |                                       |
| 3                                      | Nagaland Hotels Limited                                     | 1987-88            | 2001-02                 | --                                              | --          | --           | --               | --          | --                          | --              | --                               | --                            | --                                       | --                                    |
| <b>Sector wise total</b>               |                                                             |                    |                         | <b>--</b>                                       | <b>--</b>   | <b>--</b>    | <b>--</b>        | <b>--</b>   | <b>--</b>                   | <b>--</b>       | <b>--</b>                        | <b>--</b>                     | <b>--</b>                                | <b>--</b>                             |
| <b>MISCELLANEOUS</b>                   |                                                             |                    |                         |                                                 |             |              |                  |             |                             |                 |                                  |                               |                                          |                                       |
| 4                                      | Nagaland Handloom and Handicrafts Development Corporation   | 1983-84            | 2005-06                 | (-)0.29                                         | --          | 0.01         | (-)0.30          | 0.39        | --                          | 1.46            | (-)1.17                          | 0.61                          | (-)0.30                                  | --                                    |

\* Paid up capital as on 31 March 1988 was Rs. 200 only

| Sl. No.                                                         | Sector & Name of the Company                         | Period of Accounts | Year in which finalised | Net Profit (+)/ Loss (-)                        |             |              |                  | Turn over   | Impact of Accounts Comments | Paid up Capital | Accumulated Profit (+)/ Loss (-) | Capital employed <sup>®</sup> | Return on capital employed <sup>§</sup> | Percentage 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)                                  |
| 5                                                               | Nagaland Industrial Raw Materials Supply Corporation | 1982-83            | 2009-10                 | (-) 0.01                                        | --          | --           | (-) 0.01         | 0.39        | --                          | 0.10            | (-) 0.09                         | 0.09                          | (-) 0.01                                | --                                    |
| <b>Sector wise total</b>                                        |                                                      |                    |                         | <b>(-) 0.30</b>                                 | <b>--</b>   | <b>0.01</b>  | <b>(-) 0.31</b>  | <b>0.78</b> | <b>--</b>                   | <b>1.56</b>     | <b>(-) 1.26</b>                  | <b>0.70</b>                   | <b>(-) 0.31</b>                         | <b>--</b>                             |
| <b>Total A (All sector wise working Government companies)</b>   |                                                      |                    |                         | <b>(-) 0.94</b>                                 | <b>0.24</b> | <b>0.18</b>  | <b>(-) 1.36</b>  | <b>3.51</b> | <b>--</b>                   | <b>21.68</b>    | <b>(-) 13.93</b>                 | <b>44.83</b>                  | <b>(-) 1.12</b>                         | <b>--</b>                             |
| <b>B. Non working Government companies</b>                      |                                                      |                    |                         |                                                 |             |              |                  |             |                             |                 |                                  |                               |                                         |                                       |
| <b>MANUFACTURING</b>                                            |                                                      |                    |                         |                                                 |             |              |                  |             |                             |                 |                                  |                               |                                         |                                       |
| 1                                                               | Nagaland Sugar Mills Company Ltd.                    | 1977-78            | 1992-93                 | --                                              | --          | --           | --               | --          | --                          | 4.96            | (-) 14.70                        | (-) 0.69                      | --                                      | --                                    |
| <b>Sector wise total</b>                                        |                                                      |                    |                         | <b>--</b>                                       | <b>--</b>   | <b>--</b>    | <b>--</b>        | <b>--</b>   | <b>--</b>                   | <b>4.96</b>     | <b>(-)14.70</b>                  | <b>(-)0.69</b>                | <b>--</b>                               | <b>--</b>                             |
| <b>Total (All sector wise non-working Government companies)</b> |                                                      |                    |                         | <b>--</b>                                       | <b>--</b>   | <b>--</b>    | <b>--</b>        | <b>--</b>   | <b>--</b>                   | <b>4.96</b>     | <b>(-)14.70</b>                  | <b>(-)0.69</b>                | <b>--</b>                               | <b>--</b>                             |
| <b>Grand Total (A+B)</b>                                        |                                                      |                    |                         | <b>(-) 0.94</b>                                 | <b>0.24</b> | <b>0.18</b>  | <b>(-) 1.36</b>  | <b>3.51</b> | <b>--</b>                   | <b>26.64</b>    | <b>(-) 28.63</b>                 | <b>44.14</b>                  | <b>(-) 1.12</b>                         | <b>--</b>                             |

<sup>®</sup> Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in case of finance companies/ corporations where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).

<sup>§</sup> Return on capital employed has been worked out by adding profit and interest charged to profit and loss account.

**Appendix – 5.3**

**Statement showing grants and subsidy received/receivable, guarantees received, waiver of dues, loans written off and loans converted into equity during the year and guarantee commitment at the end of March 2009**

*(Referred to in paragraph 5.7)*

**(Figures in column 3 (a) to 6 (d) are Rupees in crore)**

| Sl. No.                                                       | Sector & Name of the Company                                      | Equity/ loans received out of budget during the year |             | Grants and subsidy received during the year |                  |             |              | Guarantees received during the year and commitment at the end of the year |                         | Waiver of dues during the year |                             |                                 |          |
|---------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------|-------------|---------------------------------------------|------------------|-------------|--------------|---------------------------------------------------------------------------|-------------------------|--------------------------------|-----------------------------|---------------------------------|----------|
|                                                               |                                                                   | Equity                                               | Loans       | Central Government                          | State Government | Others      | Total        | Received                                                                  | Commitment <sup>®</sup> | Loans repayment written off    | Loans converted into equity | Interest/ penal interest waived | Total    |
| (1)                                                           | (2)                                                               | 3 (a)                                                | 3 (b)       | 4 (a)                                       | 4 (b)            | 4 (c)       | 4 (d)        | 5 (a)                                                                     | 5 (b)                   | 6 (a)                          | 6 (b)                       | 6 (c)                           | 6 (d)    |
| <b>A. Working Government Companies</b>                        |                                                                   |                                                      |             |                                             |                  |             |              |                                                                           |                         |                                |                             |                                 |          |
| <b>FINANCE</b>                                                |                                                                   |                                                      |             |                                             |                  |             |              |                                                                           |                         |                                |                             |                                 |          |
| 1                                                             | Nagaland Industrial Development Corporation Limited               | 0.24                                                 | 6.98        | 2.20                                        | 2.63             | --          | 4.83         | 39.30                                                                     | --                      | -                              | -                           | -                               | -        |
| <b>Sector wise total</b>                                      |                                                                   | <b>0.24</b>                                          | <b>6.98</b> | <b>2.20</b>                                 | <b>2.63</b>      | <b>--</b>   | <b>4.83</b>  | <b>39.30</b>                                                              | <b>--</b>               | <b>-</b>                       | <b>-</b>                    | <b>-</b>                        | <b>-</b> |
| <b>MANUFACTURING</b>                                          |                                                                   |                                                      |             |                                             |                  |             |              |                                                                           |                         |                                |                             |                                 |          |
| 2..                                                           | Nagaland State Mineral Development Corporation Limited            | 3.67                                                 | --          | -                                           | 3.67             | -           | 3.67         | -                                                                         | -                       | -                              | --                          | -                               | -        |
| <b>Sector wise total</b>                                      |                                                                   | <b>3.67</b>                                          | <b>--</b>   | <b>-</b>                                    | <b>3.67</b>      | <b>-</b>    | <b>3.67</b>  | <b>-</b>                                                                  | <b>-</b>                | <b>-</b>                       | <b>-</b>                    | <b>-</b>                        | <b>-</b> |
| <b>MISCELLANEOUS</b>                                          |                                                                   |                                                      |             |                                             |                  |             |              |                                                                           |                         |                                |                             |                                 |          |
| 4.                                                            | Nagaland Handloom and Handicrafts Development Corporation Limited | 0.20                                                 | --          | --                                          | 2.19             | 1.20        | 3.39         | -                                                                         | -                       | -                              | -                           | -                               | -        |
| 5.                                                            | Nagaland Industrial Raw Materials Supply Corporation Limited      | --                                                   | 0.42        | -                                           | 0.42             | -           | 0.42         | -                                                                         | -                       | -                              | -                           | ---                             | -        |
| <b>Sector wise total</b>                                      |                                                                   | <b>0.20</b>                                          | <b>0.42</b> | <b>-</b>                                    | <b>2.61</b>      | <b>1.20</b> | <b>3.81</b>  | <b>0.10</b>                                                               | <b>-</b>                | <b>-</b>                       | <b>-</b>                    | <b>-</b>                        | <b>-</b> |
| <b>Total A (All sector wise working Government companies)</b> |                                                                   | <b>4.11</b>                                          | <b>7.40</b> | <b>2.20</b>                                 | <b>8.91</b>      | <b>1.20</b> | <b>12.31</b> | <b>39.40</b>                                                              | <b>-</b>                |                                |                             |                                 |          |

| Sl. No.                         | Sector & Name of the Company      | Equity/ loans received out of budget during the year |             | Grants and subsidy received during the year |                  |             |              | Guarantees received during the year and commitment at the end of the year |                         | Waiver of dues during the year |                             |                                 |       |
|---------------------------------|-----------------------------------|------------------------------------------------------|-------------|---------------------------------------------|------------------|-------------|--------------|---------------------------------------------------------------------------|-------------------------|--------------------------------|-----------------------------|---------------------------------|-------|
|                                 |                                   | Equity                                               | Loans       | Central Government                          | State Government | Others      | Total        | Received                                                                  | Commitment <sup>®</sup> | Loans repayment written off    | Loans converted into equity | Interest/ penal interest waived | Total |
| (1)                             | (2)                               | 3 (a)                                                | 3 (b)       | 4 (a)                                       | 4 (b)            | 4 (c)       | 4 (d)        | 5 (a)                                                                     | 5 (b)                   | 6 (a)                          | 6 (b)                       | 6 (c)                           | 6 (d) |
| <b>B. Non-working companies</b> |                                   |                                                      |             |                                             |                  |             |              |                                                                           |                         |                                |                             |                                 |       |
| MANUFACTURING                   |                                   |                                                      |             |                                             |                  |             |              |                                                                           |                         |                                |                             |                                 |       |
| 1.                              | Nagaland Sugar Mills company Ltd. |                                                      |             |                                             |                  |             |              |                                                                           |                         |                                |                             |                                 |       |
| <b>Grand Total (A + B)</b>      |                                   | <b>4.11</b>                                          | <b>7.40</b> | <b>2.20</b>                                 | <b>8.91</b>      | <b>1.20</b> | <b>12.31</b> | <b>39.40</b>                                                              |                         |                                |                             |                                 |       |

<sup>®</sup> Figures indicate total guarantees outstanding at the end of the year