CHAPTER – IV

AUDIT OF TRANSACTIONS

POWER DEPARTMENT

4.1 Idle investment

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

Government of Nagaland in October 1988 sanctioned the Likimro Hydro-Electric Power Project at a cost of Rs.46.81 crore. The project comprising three generating units each of eight MW capacity and anticipated to generate net revenues of Rs.8.16 crore[1] per year was scheduled for commencement and completion by January 1989 and March 1993 respectively.

Test check (April 2005) of the records of the Executive Engineer (Electrical) Construction Division, Likimro revealed that the project commenced in 1990-91 and was completed in February 2002 at a cost of Rs.215.88 crore - a time and cost overrun of almost nine years and Rs.169.07 crore (361 *per cent)* respectively.

Generating units I and II were commissioned in February 2002 but broke down from August 2002 and September 2002 respectively while unit III is yet to be commissioned owing to a contractual dispute. The National Hydro Electric Power Corporation Ltd. inspected the project in March 2003 and reported that poor performance of indigenously sourced auxiliary systems coupled with engagement of operation and maintenance staff without adequate training were the reasons for the outage of the Power House. Apart from placing (August 2004) a revival proposal before the State Planning Board, nothing concrete was done by the Department as of April 2005 to re-commission/revive the project.

It was further noticed that 29 technical personnel deployed to operate and maintain units I and II remained idle since the units became non operational. From September 2002 to April 2005, the Department incurred an expenditure of Rs.43.92 lakh on pay and allowances of this staff.

Thus flawed execution, operation and maintenance of the project costing the public exchequer Rs.215.88 crore with considerable time and cost over run

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[1] *Rs. 8.16 crore = 72 Mega Unit (total power generation at 70% plant load factor less 0.5% auxiliary loss)* per year @ Rs. 2.70 per unit less 58% system loss.

resulted in the venture failing to take off even two and a half years after its commissioning. The Department spent Rs.43.92 lakh on salary of idle staff besides losing out on potential revenues of Rs.20.40 crore[2] for the period from October 2002 to March 2005. Incidentally, it may be pointed out that Nagaland is a power deficit State and during 2004-05 alone, the State imported almost 100 *per cent* (300.92 MU) of its energy requirement at a cost of Rs.67.37 crore.

The Government in reply (September 2005) accepted the facts and stated that restoration and commissioning of all three units would be geared up and was expected to be completed by September 2005. The Government further stated that the idle staff were deployed for maintenance of transmission lines of the same Division. The reply of the State Government is not tenable as the staff was employed for this project and not for maintenance work which was to be handled by maintenance staff employed for the purpose. The Government reply is, however, silent about the resulting loss of revenue and the steps taken to train the workforce in operating and maintenance of hydel project.

HEALTH AND FAMILY WELFARE DEPARTMENT

4.2 Irregular diversion of funds

Central allocation of Rs.2.68 crore was diverted for salary payments in violation of the directives of the Government of India.

The Government of India (GOI) in May 2002[3] while provisionally allocating Rs.10.35 crore for 2002-03 to Nagaland under the centrally sponsored scheme 'Family Welfare Programme' (FWP) laid down that expenditure for the schemes 'Rural Family Welfare Centres' (RFWC), 'Post Partum Centres' (PPC) 'Village Health Guide' (VHG) and 'Male Health Worker' (MHW) was not to be met from the allocation as these schemes stood transferred to the States from 2002-03 onwards.

Test check (July 2004) of records (November 2001 to July 2004) of the Director of Health Services, Nagaland revealed that against the provisional allocation of Rs.10.35 crore, Government of India actually released Rs.8.55 crore under the FWP in four installments to the State Government during 2002-2003. Out of this amount, the department, in violation of Government of India instructions, irregularly diverted Rs.2.68 crore towards salary payments of the staff and officers of RFWC (Rs.1.73 crore), PPC (Rs.0.25 crore) and MHW (Rs.0.70 crore). The diversion of as much as 31 *per cent* of the allocation received during 2002-03 impacted the implementation of the FWP in the State. This also had the effect of transferring Central resources allocated for improving the quality of life of the

[2] *2002-03-Rs.4.08 crore*
2003-04-Rs.8.16 crore
2004-05-Rs.8.16 crore.

[3] *GOI, Ministry of Health and Family Welfare, Department of Welfare letter No. M.11018/1/2002-FWB dated 6 May 2002*

State citizens to meet liabilities which the State Government should have borne from its own finances. This action of the Department was in clear violation of the directions received from Central Government.

In reply, (November 2005) the Government admitted the facts and stated that due to funds constraints, the Government could not provide fund to meet these expenditures during 2002-03.

4.3 Unproductive expenditure

The functioning of the State Public Health Laboratory, which cost taxpayers Rs.1.97 crore between April 2001 and June 2004, was ineffectual due to non-availability of a Public Analyst.

The 'State Food Laboratory' at Kohima was set up in 1983 under the Department of Health and Family Welfare. It was re-designated 'State Public Health Laboratory' (SPHL) in 1995. The main objective of the SPHL is to ensure the quality of food products in the State. Food Inspectors in the districts collect food samples and send them to the State Public Health Laboratory for analysis and in the event of any sample being found adulterated, legal action is required to be initiated against the offenders on the basis of report furnished by the Public Analyst (PA).

Test check (July 2004) of records (April 2001 to June 2004) of the State Public Health Laboratory and subsequent information collected (June 2005) revealed that during the years 2000 to 2005 the Laboratory had analysed 782 food samples, of which 38 were found adulterated, 28 were substandard and 15 were misbranded. The year-wise position was as below:

Table 4.1

Year	No. of samples analysed	No. of samples found		
		Adulterated	Substandard	Misbranded
2000	101	4	3	3
2001	101	4	1	2
2002	155	8	2	5
2003	160	6	2	4
2004	152	11	9	Nil
2005	113	5	11	1
Total	**782**	**38**	**28**	**15**

(Source: Data furnished by the State Public Health Laboratory)

It was further noticed in audit that during 2000-05 the State Public Health Laboratory did not have a Public Analyst (PA) on its roll. Under Section 13 of the Prevention of Food Adulteration Act 1954, and Rule 7 of the Prevention of Food Adulteration Rule 1955, only on receipt of the PA's report within a period of forty days from the date of receipt of samples to the effect that the food article is adulterated can the health authorities launch legal action/prosecution proceedings against the adulterators. Thus, the absence of a PA in the State Public Health Laboratory defeated the very purpose for which the Laboratory was set up. The State Public Health Laboratory brought this deficiency to the notice of the Government (July 2001) and recommended for appointment of the PA on several occasions but no action was taken by the Government as of March 2005. The collection/analysis of food samples over the years therefore, had served no useful purpose. Against this backdrop, the outgo of Rs.1.97 crore between 1999-2000 and 2004-05 on salaries and other expenses at the Laboratory was an unproductive expenditure.

In reply (November 2005) the Government stated that steps are being initiated to activate the functions of State Public Health Laboratory.

4.4 Expenditure on idle staff

The Health and Family Welfare Department incurred an expenditure of Rs.25.45 lakh on pay and allowances of eight Para Medical Training Institute staff who were without work.

Para Medical Training Institute (PMTI), Kohima, was established (1970) under the Health and Family Welfare Department to impart training to various paramedical staff *viz*, pharmacists, laboratory technicians, health workers, faculties of various training institutes in the State and also to act as a State level apex institute of the Health and Family Welfare Department.

Scrutiny of records (April 2005) of the Principal, PMTI (July 2000 to March 2005) revealed that no training was conducted by the Institute since 2002-2003. The Health and Family Welfare Department, accordingly, shifted (July 2002) the faculty members (Medical Officers) to a Government hospital at Kohima (Naga Hospital). However, the Principal and other supporting technical staffs were retained in the Institute as on the date of audit (April 2005) without any assigned work and paid pay and allowances of Rs.25.45 lakh during the period from July 2002 to March 2005.

The Principal, PMTI had proposed to the Government on several occasions to revive the training function of the Institute but did not receive any response.

Thus, failure of the department to revive the functions of the Institute or utilise the services of the eight employees led to the expenditure of Rs.25.45 lakh incurred on the salary of eight idle staff[1] being infructuous.

On this being pointed out, the Principal, PMTI stated (August 2005) that unless and until the funds are made available with concrete direction from the competent authority the revival of the Institute is not possible.

In reply, (November 2005) the Government stated that various short term programmes were being conducted at the Institute. The reply is not tenable as these short term conferences/workshops of various programmes were mere

[1] *Principal-one, lab Technician-one, Pharmacist-two, Demonstrator-one, Sanitary Inspector-one-, lab attendant-one and lady Health visitor-one*

utilisation of the space available and not related to the functions of the Institute.

PUBLIC HEALTH ENGINEERING DEPARTMENT

4.5 Diversion of funds

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

Government of Nagaland sanctioned (June 2003) Rs.2.05 crore for water supply projects in Kohima town. Neither the project report nor the technical sanction of the project from the competent authority could be made available to Audit.

Test check (June 2004) of the records of the office of the Executive Engineer (PHED) Kohima revealed that, against the sanction of Rs.2.05 crore for water supply project in Kohima town, Chief Engineer, PHED initiated a proposal (August 2003) for procurement of 20 Mahindra Bolero GLX Invader diesels jeep, seven Tata trucks and two water tankers. The Joint Secretary, PHED conveyed (October 2003) approval of the same without the consent of the Finance Department. Accordingly, Chief Engineer, PHED issued (between October and November 2003) supply orders without observing any codal formalities, to three local firms for delivery of 21 Bolero jeeps, six tata trucks and two water tankers including fabrication works costing Rs.1.75 crore and also issued (November 2003) work orders for repair of existing 20 vehicles including tyre retreading (91 nos.) to another three local firms at a cost of Rs.0.30 crore. The entire payment of Rs.2.05 crore was made by the Executive Engineer, PHED, Kohima Division to the firms concerned between October 2003 and March 2004.

The diversion of funds to unauthorised purposes resulted in depriving the intended benefit of improved water supply to the people of Kohima town for which the funds were actually sanctioned.

In reply, (September 2005) the Government stated that, in anticipation of the Government of India sanctioning Rs.32.35 crore for the same purpose, the Department met their immediate requirement of procurement of vehicles and repairs. The reply is not tenable as the fund was utilised for purposes other than the purpose for which it was sanctioned.

PUBLIC WORKS (R&B) DEPARTMENT

4.6 Blocking of public funds

Injudicious procurement of components for six bailey bridges resulted in blocking of Rs.1.84 crore.

Chief Engineer, Public Works (R&B) Department in February 2000 issued a supply order to Garden Reach Ship Builders and Engineer's Ltd., Kolkata for components for six[4] Bailey bridges for five PW (R&B) Divisions in Nagaland. The firm supplied the components costing Rs.1.84 crore between August 2000 and April 2003.

Test check (April 2005) of records of the office of the Executive Engineer, PWD (R&B) Division, Dimapur revealed that, the materials were received two to five years back and were lying unutilized and stored in the open outside the store compound, exposed to the vagaries of weather. The Divisional Officer in April 2005 had written to the Chief Engineer PWD(R&B) informing him about the Bailey bridge components lying in his store. However, no action has been taken and the position remained the same as of June 2005.

Thus, injudicious procurement of the Bailey bridges by the Chief Engineer, PWD (R&B) led to blocking of Rs.1.84 crore of public funds. Further, since the components were stored in the open, corrosion of the metal parts must have also set in raising doubts as to whether the equipment was still in condition to be put to its end use.

The matter was reported to the Government (May 2005). The reply is awaited (November 2005).

PUBLIC WORKS (R&B) AND INDUSTRIES & COMMERCE DEPARTMENTS

4.7 Unproductive expenditure

Deployment of staff without work entailed unproductive expenditure of Rs.72.43 lakh.

Test check (April 2005) of records (September 2002 to March 2005) of the Executive Engineer, PWD (R&B) Division, Dimapur revealed that the division during this period had on its roll 20 drivers and 13 handymen against a sanctioned strength of seven drivers and two handymen. The engagement of 13 drivers and 11 handymen in excess of the sanctioned strength could not be justified to Audit. Further, although the division had a fleet of three small cars and three trucks, two trucks were off road since 1994 and the third since 1997.

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[4] *(1) Doyang bridge under R&B Division, Dimapur, (2)Kelcho bridge under South Division, Kohima, (3) Dzuu and Dzudza bridges under Construction Division, Chiephobozu, (4) Tizu bridge under Aghunato Division and (5) Tsiyi bridge under Tseminyu Division*

Thus, even the sanctioned strength of seven drivers and two handymen was in excess of actual requirement as only three drivers were required for the division's three running vehicles. So the division had surplus manpower of 17 drivers and 13 handymen, the fact of which was never reported to higher authorities. Audit calculated that from September 2002 to March 2005, Rs.31.43 lakh[5] was incurred on salaries even with reference to the excess staff *vis-à-vis* sanctioned strength.

Test check (August 2004) of records of the District Industries Centre (DIC), Tuensang revealed that the Bee Keeping Farm, Mangakhi and the Citronella Distillation Farm, Sotokur were defunct since 1995-96. Proposals for their revival were initiated by the DIC only in August 2004 on which further progress, as of March 2005, was still awaited. Despite the fact that the two farms had ceased all operations for the past eight years or so there was no evidence to indicate that the department on its part had even once considered productively redeploying the staff elsewhere. During 1995-96 to 2003-04, the actual expenditure incurred by the Bee Keeping and Citronella Distillation Farms on salaries, office expenditure, wages, etc. was Rs.20.68 lakh and Rs.20.32 lakh respectively, which was unwarranted considering that the farms were non-operational.

Thus, in the above cases the public exchequer was burdened with unproductive expenditure of Rs.72.43 lakh[6] due to the laxity of field functionaries in bringing to the notice of their higher authorities the realities at the ground level. The fact that these situations continued undetected for years together was indicative of the absence of effective control and monitoring mechanisms in the concerned departments.

In response to the audit observation one Department (Industries and Commerce) stated (July 2005) that the farms could not run properly due to fund constraints. Reply from the Public Works Department had not been received.

The matter was reported to the Government (June 2005); reply is awaited (November 2005).

PUBLIC WORKS (HOUSING) DEPARTMENT

4.8 Irregular appointments

The Department irregularly appointed work charged staff and incurred expenditure of Rs.1.51 crore on wages defeating the Government's purpose of effecting economy in spending.

As an economy measure, Finance Department, Government of Nagaland in July 1990 discontinued all contingency appointments. In April 1993 it further

[5] *@ minimum salary of Rs.4245/- per month for driver and Rs.4199/- for handymen for 13 drivers and 11 handymen respectively for 31 months (September 2002 to March 2005).*
[6] *Rs.72.43 lakh = Rs. (31.43+20.68+20.32) lakh*

banned appointment of work charged staff, substitute appointees, contingency paid staff and casual workers and stipulated that the order was to be strictly complied with. Any officer violating the directive would invite "stern disciplinary action." In June 1996, Government again imposed a complete ban on appointment of muster roll workers, work charged employees, khalasis etc. in view of the "difficult financial position of the State".

Scrutiny of records (July 2004) of Central Division, Kohima and Central Division, Chiephobozou of the Works and Housing Department, revealed that work charged staff were appointed between April 1993 and May 2003 in contravention of Government orders and these persons were on continuous employment with the divisions from the dates of their appointment till the time of audit, i.e., July 2004. Further information obtained (October 2005) from one division revealed that a section of these work charged employees had been retained by the division as of March 2005.

The irregular employment of work charged staff in the above two divisions resulted in an outgo of Rs.1.51 crore[*] on wages defeating the Government's purpose of effecting economy in expenditure. Further, since the divisions did not maintain a Job Register showing the work done by the work charged staff nor was the cost of their wages charged to any work as required under Para 43(a) of the Nagaland Public Works Accounts Code, their actual deployment and utility could also not be determined by Audit.

The matter was reported to Government in June 2005. The reply is awaited (November 2005).

4.9 Fictitious work

Rs.13.61 lakh was paid for a work which was commenced and completed even before the site was handed over to the contractor.

For construction of one type-D staff quarter, tenders were invited by the Executive Engineer, PWD (Housing) Central Division, Kohima on 12 March 2001. The work, to be completed within 12 months, was allotted on 28 March 2001 to a contractor at 140 *per cent* above the Nagaland PWD Schedule of Rates 1995 (Building) at a cost of Rs.13.61 lakh with the stipulation that work should commence from the 15th day of issue of work order or the date of handing over the site whichever was later.

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Name of Division	Total number of work charged employees between April 1993 and May 2003		Expenditure on salaries of work charged staff	
			Calculated upto	Amount (Rs. in lakh)
	On roll in the Division as on May 2004	On roll of the Division as on March 2005		
Central Division, Kohima	140	Not available	May 2004	92.75
Construction Division, Chiephobozou	125	51	March 2005	58.27
Total	**265**	**51**		**151.02**

The Division took over the site of the proposed quarter from the Deputy Commissioner, Kohima in February 2002 and after site demarcation, jungle clearance and construction of approach road, handed over the plot to the contractor in August 2002.

Test check (July 2004) of records of Central Division, P.W.D (Housing) revealed that the contractor commenced the work in December 2001 and completed it on 28 March 2002. On 28 March 2002, (i) the final measurements of the work were taken (ii) contractor's bill for Rs.13.61 lakh passed on the authority of an undated completion certificate issued by the Sub Divisional Officer of the Division and (iii) Rs.9 lakh was paid to the contractor. The balance Rs.4.61 was paid on 28 November 2003.

As the site was handed over to the contractor only in August 2002, the work could not have commenced in December 2001 and been completed by March 2002. This discrepancy, the undated completion certificate and unusual despatch exhibited by the Division in taking final measurements, passing the final bill and making part payment of Rs.9 lakh, all in one day, indicates that Rs.13.61 lakh was paid for fictitious work.

On being requested (June 2005) for a joint inspection of the work site, the Executive Engineer stated (June 2005) that the work was actually executed in a different site due to delay in handing over the proposed site. The contention is not tenable as neither the divisional records nor the facts presented to Audit corroborate the statement.

The matter was reported to the Government (May 2005). The reply is awaited (November 2005).

INDUSTRIES AND COMMERCE DEPARTMENT

4.10 Expenditure on idle staff

The Department's failure to urgently address the issue of productive engagement of 88 repatriated staff resulted in nugatory expenditure of Rs.1.22 crore on the salaries of the staff.

In accordance with Government's decision, 88 gazetted and non-gazetted staff which included 49 weavers who were on deputation with the Nagaland Handloom and Handicraft Corporation Ltd. (NHHDC), were reverted back in April 2002 to their parent department, Industries and Commerce. They were temporarily attached to the District Industries Sub-Centre (DIC), Dimapur and directed to report there on or before 12 April 2002.

Since the workload of the DIC did not justify engagement of the repatriated staff the Deputy Director, DIC, Dimapur, sent a proposal on 16 April 2002 to the Director of Industries and Commerce to engage the weavers on a 'fixed task' basis. This would entail the DIC, Dimapur providing raw material, collecting the finished products and marketing them through the NHHDC.

The proposal was approved only in July 2003 and put in operation from September 2003. The 15-month delay in decision making and a further two months to implement the scheme after approval was accorded resulted in 49 weavers remaining idle for 17 months during which time Rs.51.32 lakh was incurred on their salaries.

Further, as of July 2004 (the month during which audit of DIC, Dimapur, was conducted), the remaining 39 repatriated staff temporarily attached to the Sub-Centre continued to be on its rolls even though the workload did not justify their deployment. Between April 2002 and July 2004, Rs.71.11 lakh was incurred on salaries of these 39 non-weaving employees.

Thus, the Department's failure to urgently address the issue of productively engaging the 88 repatriated staff resulted in their remaining without work for 17 to 27 months upto July 2004 and consequently, the expenditure of Rs.1.22[7] crore spent on their salaries during this time was entirely unproductive.

The matter was reported to Government and the Department (July 2005). Their replies had not been received (November 2005).

4.11 Irregular grant of manpower subsidy

Manpower subsidy of Rs.21.10 lakh was given to 33 ineligible industrial units in violation of the policy.

Under the Nagaland State Industrial Policy, 2000 an industrial unit is eligible for manpower subsidy if the number of employees engaged is in excess of 20, of which at least 50 *per cent* comprise local tribal youth.

Test check (June 2004) of records of the Director of Industries and Commerce revealed that on the recommendation (November 2003) of the State Level Industrial Facilitation Committee, manpower subsidy totaling Rs.78.81 lakh was paid to 94 units, between April 2004 to May 2004, of which 33 units were ineligible for the grant as they employed less than 20 persons. The subsidy paid to the 33 ineligible units was Rs.21.10 lakh.

On this being pointed out (May 2005) the Government stated (August 2005) that the number of employees engaged in all the 33 units exceeds 20 including the manager/proprietor (self-employed). The contention contradicts the department's earlier written admission (June 2004) of lapse stated to have been committed through oversight. Moreover, the application seeking issuance of eligibility certificate for consideration of manpower subsidy submitted by the entrepreneurs clearly indicates that the number of employees engaged in all the 33 units do not exceed the required 20 persons.

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[7] *Calculated at the minimum of the scale of pay of each post and the allowances applicable in April 2002 for 17 months in case of weavers and 27 months for others.*

FISHERIES DEPARTMENT

4.12 Non realisation of outstanding loan

Failure to prefer reimbursement claim resulted in unauthorised expenditure of Rs.41.91 lakh and non realisation of loan and interest of Rs.21.87 lakh even after a lapse of four years.

The National Co-operative Development Corporation (NCDC) accorded sanction of financial assistance of Rs.40.07 lakh (March 2000) consisting of loan (Rs.39.45 lakh) and subsidy (Rs.0.62 lakh) to the Fisheries Department, Government of Nagaland for pisciculture development. The sanction stipulated that the State Government had to evolve the system for release of assistance, monitoring the implementation and to effect recovery on specific terms and conditions. This assistance would be released to the State Government by way of reimbursement to be claimed after release of assistance to the societies.

Test check (January 2005) of records (August 2001 to December 2004) of the Director of Fisheries, Kohima, Nagaland revealed that the Fisheries Department paid Rs.41.91 lakh between August 2001 and February 2002 to four registered co-operative Societies [8](loan: Rs.33.88 lakh, subsidy: Rs.0.86 lakh, and share Capital: Rs.5.32 lakh) without the consent of the Finance and Cooperation Departments. The amount of Rs.1.85 lakh being the societies share was also released by the State Government. As per the terms and conditions of the mortgage deed, the societies are liable to repay the principal amount and interest at the rate 13.75 *per cent* per annum in nine installments to be commenced from the year 2002. The Fisheries Department after releasing the amount, neither monitored the progress of the scheme nor realised the principal as well as the interest amount of loan (Rs.8.47 lakh + Rs.13.40 lakh) due as of June 2005. The Department also did not prefer reimbursement claim to NCDC till the date of audit (January 2005), the validity of sanction of which already expired on 31 March 2001.

Thus, due to failure of the department in preferring reimbursement claim, it had to bear unauthorised expenditure of Rs.41.91 lakh out of State funds for providing loan to beneficiaries. The Department also failed to effect recovery of an amount of Rs.21.87 lakh on principal and interest on the loan amount.

Government to whom the matter was reported (August 2005) stated in reply (November 2005) that the release of financial assistance to the beneficiaries was done as per condition laid down by NCDC, re-imbursement of which has to be claimed. The reply is not tenable as the time period for claiming the reimbursement had already expired. Government, however, remained silent as to why re-imbursement could not be claimed within the period of validity of sanction or its failure to realise the instalments of principal and interest from the beneficiaries.

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[8] *(a) Aghabo MPCS Ltd., Zunheboto, (b) Ex. Soldier & Group MPCS Ltd., Dimapur (c) Tholeibozou Youth MPCS Ltd., Kohima, (d) Longtho Fishery CS Ltd., Mokokchung.*

PLANNING AND CO-ORDINATION (URBAN DEVELOPMENT) DEPARTMENT

4.13 Avoidable extra expenditure

Executive Engineer, Town Planning Works Division, Kohima incurred avoidable expenditure of Rs.23.50 lakh against the provisions of the approved contract due to lack of proper monitoring coupled with poor fund mobilisation for ongoing work.

Construction of a double storied Reinforcement Cement Concrete (RCC) Market Complex at Kiphire was awarded (October 2001) by the Executive Engineer, Town Planning Works Division, Kohima to contractor 'X' at Rs.99.50 lakh (100 *per cent* increase over the estimated cost of Rs.49.75 lakh). As per agreement the work was to be completed within 24 months from the date of issue of work order and no escalation of rate would be allowed during the period of execution of the said work. The contractor commenced the work in October 2001 and completed upto 75 *per cent* till September 2003. The contractor was paid Rs.67.04 lakh in eight running bills as of June 2004.

Test check (June 2005) of records of the Executive Engineer, Town Planning Works Division, Kohima for the period from August 2001 to March 2005 revealed that placement of funds for the work during the period was not commensurate with the progress of work. As a result, the contractor slowed down the pace of work in 2003 and claimed (September 2003) extension of time as well as enhancement of rate to 168 *per cent* above SOR 1995, as against 100 *per cent* above provided in the original contract, due to price escalation. The Executive Engineer, Town Planning Works Division, ignoring the contractual clause that barred escalation on any ground during the execution of the works, accepted the contractor's plea and prepared a revised estimate for Rs.1.23 crore allowing escalation on 75 *per cent* of the estimated value at 168 *per cent* above NPWD Schedule 1995, as claimed by the contractor, although 75 *per cent* of the works were completed by September, 2003 i.e., within the period of completion (October 2003) provided in the original contract. The revised estimate was approved in March 2005 by the Chief Engineer, PWD (Housing).

Thus, the action of the department in revising the estimate resulted in avoidable expenditure of Rs.23.50 lakh (Rs.123 lakh - Rs.99.50 lakh) not permitted by the terms of the contract.

Government in reply (November 2005) stated that, due to non payment of RA bills, contractors' money had been held up in the work for a long time. Considering the price escalation the contractor had to be content with, the department allowed the enhancement. The reply is not tenable as it went against the contractual clause.

4.14 Locking up of fund resulted in loss of interest

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

Rule 290 of the Central Treasury Rules provides that, money shall not be drawn in anticipation of demand unless it is required for immediate disbursement or to avoid lapse of budget grant. Finance Department, Government of Nagaland also issued (January 2001) instructions to all implementing DDOs that, drawals which are not required for immediate payment may be deposited to Civil Deposit and from time to time withdrawals may be made to facilitate payment therefrom.

Ministry of Urban Development, Government of India approved construction of 12 projects[9] in Nagaland under the Centrally Sponsored Scheme "Special Development in North Eastern States" and released (between November 2003 and February 2004) 50 *per cent* of Central share (90 *per cent* of the project cost) on the approved projects.

Test check (June 2005) of the records of the Executive Engineer, Town Planning (Works Division), Kohima revealed that, under the said scheme, an amount of Rs.4.82 crore was drawn by the Division in March 2004 (50 *per cent* of central share) received against 12 projects. Out of the aforesaid amount, only Rs.1.11 crore (Rs.0.23 crore between March and November 2004 and Rs.0.88 crore between March and May 2005) was utilised against six projects[10] and the balance of Rs.3.71 crore remained unutilised and was kept in a Current Deposit Account in SBI branch at Kohima as on June 2005. As per status report, the remaining six projects could not be started for various reasons such as non-availability of sites, non finalisation of tender, pending write off proposal for dismantling of old structure on the proposed site etc.

The Division, in violation of the provision of the Rules as well as Government order, locked up Rs.3.71 crore from the date of drawal till the date of audit (June 2005). This resulted not only in denial of the intended benefit to the common people but also to avoidable interest liability as the Government of Nagaland, resorts to borrowing for funding its other development activities. Had the Division deposited the unutilised fund into the Government account in

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[9] *Constructions of:*
(i) Town Hall, Peren, (ii) IAS Transit Accommodation, Kohima, (iii) Market Complex, Jalukie, (iv) Rest House, Wokha, (v) Guest House, Tobu, (vi) Walo Guest House, Mon (vii) Town Hall, Phek, (viii) Rostrum, Kiphire (ix) Town Hall, Pfutsero,
Improvement of Town Roads, (x) Mon and (xi) Noklak and (xii) Widening and Improvement of Town Road, Kohima

[10] *Construction of:*
(i) Town Hall, Peren, (ii) IAS Transit Accommodation, Kohima, (iii) Market Complex, Jalukie, (iv) Rest House, Wokha,
(v) Widening and Improvement of Town Road Mon and (vi) Widening and Improvement of Town Road, Kohima

March 2004, instead of keeping it in the Current Deposit Account, the Government of Nagaland could have borrowed less from outside sources and thereby reduce the liability of payment of interest on loan to that extent.

Thus, due to unnecessary drawal of fund in anticipation of future demand or to avoid lapse of budget and their continued retention in current deposit, Government incurred an avoidable interest liability of Rs.35.11 lakh (calculated at Government borrowing rate of 6.14 *per cent* for the period from April 2004 to June 2005).

Government in reply (November 2005) stated that retention of fund was mainly due to the ambiguity in Government guidelines on various processes involved before taking up the works. It further stated that depositing of unutilized fund into Government account and its subsequent drawal was time consuming. The reply is not tenable as drawal of fund in anticipation of future requirement is against the provision of the General Financial Rules.

HOME (GENERAL ADMINISTRATION) DEPARTMENT

4.15 Fictitious drawal

Government incurred an expenditure of Rs.31.34 lakh in clearing fictitious past liabilities.

Under the scheme "Foliage clearance for security related expenditure", the Finance Department, Government of Nagaland sanctioned (March 2003) Rs.9.44 lakh for payment against foliage clearance carried out during 1999-2000 & 2000-2001. The Commissioner, Nagaland drew the amount (March 2003) and paid between April 2003 and May 2003) to Deputy Commissioners of seven districts (except Kohima) for disbursement to the villages. Out of total claim[11] of Rs.28.03 lakh (2803 km), only Rs.9.44 lakh (944 km) was settled leaving a balance claim of Rs.18.59 lakh (1859 km).

Test check (January 2005) of records (November 2001 to December 2004) in the office of the Commissioner, Nagaland, Kohima, revealed that based on a proposal submitted (March 2004) by the Commissioner, the Government again sanctioned (March 2004) Rs.49.93 lakh for clearance of past liabilities pending with the department against foliage clearance during 1999-2001.

Further scrutiny revealed that the Commissioner, while sending the proposal (March 2004) for Rs.49.93 lakh, enhanced the past liability for foliage clearance during 1999-2001 from Rs.18.59 lakh (1859 km) to Rs.49.93 lakh (4,993 km) which included payment of Rs.9.44 lakh (944 km.) already made in April-May, 2003. As a result, there was double drawal of Rs.9.44 lakh (944 Km.) and a fictitious claim of Rs.21.90 lakh (2,190 km.) amounting to Rs.31.34 lakh[12]. The claim of Rs.21.90 lakh (2,190 km) included in the proposal (March 2004) was neither supported by claims from respective

[11] *Foliage clearance at the rate of Rs.1,000 per kilometer (km).*
[12] *944 km+2190 km x Rs.1000 per km*

Deputy Commissioners nor could any proof to establish that the work had actually been executed be shown to Audit.

On this being pointed out, the department stated (November 2005) that the claim for 3134 km. (Rs.31.34 lakh) pertains to the period from 2001-04. The reply is not tenable as the proposal seeking sanctions of past liabilities as well as Government sanction clearly mentioned that the liabilities belonged to the period 1999-2001. Further, supporting claims from the respective Deputy Commissioner in respect of foliage clearance of 3134 km. could not be furnished on demand.

The matter was reported to the Government (August 2005). Government during discussion (November 2005) accepted anomalies in department's reply and issued direction to the concerned Department to inquire into the matter and ascertain the correct position.

EXCISE DEPARTMENT

4.16 Infructuous expenditure

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

The Government of Nagaland, Excise Department accorded expenditure sanction in March 2003 for Rs.10 lakh for purchase of land along with a standing RCC building at Kohima valued at Rs.18 lakh by the Chief Engineer, PWD (Housing), for office building of the Superintendent of Excise, Kohima. The amount of Rs.10 lakh was drawn by the Commissioner of Excise in March 2003 and paid to the property owner. The sale deed was executed in April 2003.

A three member committee constituted by the Department in June 2003 to examine the suitability or otherwise of the building in its report submitted in July 2003 reported that

- the building had four rooms whereas the layout plan submitted with the proposal for purchase showed six rooms;
- measurement of the rooms were found to be smaller than that indicated in the layout plan;
- the building was located in an area where accessibility was only by a narrow unpaved footpath rendering the site almost inaccessible during monsoons;

On the basis of a negotiated settlement reached by the Committee with the owner in July 2003 the latter would be paid Rs.5 lakh as the final payment but before this, the owner would have to construct an approach road to the building site in accordance with the written undertaking given by the owner to the Committee.

The Committee further observed "there has been great negligence in not carrying out a proper assessment of the site before approval and release of payment to the owner".

In December 2003, the Superintendent of Excise expressed his unwillingness to the Commissioner of Excise to shift to the acquired building citing unsuitability of the location, inadequate security, no scope for future development, lack of provision for approach road, etc.

In March 2004, the remaining amount of Rs.5 lakh was paid by the Commissioner of Excise to the owner although the latter had not constructed the approach road as per the written undertaking given by him in July 2003. The owner also has not handed over possession of the building as of May 2005 despite reminders issued by the Commissioner of Excise.

Thus, faulty assessment by the PWD, incomprehensible laxity of the Department in not even inspecting the property and assessing its suitability before taking the purchase decision and releasing the first payment of Rs.10 lakh and final payment of Rs.5 lakh even though the owner had not constructed the approach road as agreed upon and inability of the Department to take possession of the property even after two years has led to infructuous expenditure of Rs.15 lakh from the public exchequer.

The Government stated (July 2005) that the officer responsible for the deal was reprimanded and had already retired from service. Government further stated that since the terrain of the building location precluded construction of road pliable for vehicles, the owner constructed a footpath and the building has since been taken over by the department. The Government, however, remained silent about future utilisation of the acquired building.

General

INDUSTRIES AND COMMERCE DEPARTMENT

4.17 Failure to respond to Audit objections and non-compliance

253 paragraphs relating to 39 Inspection Reports involving Rs.60.58 crore had not been settled as of June 2005.

The Accountant General (Audit) conducts periodical inspections of Government departments, to test check the veracity of transactions and verify the maintenance of important accounting and other records, as per prescribed rules and procedures. These inspections are followed by issue of Inspection Reports (IRs). When important irregularities detected during inspection and not settled on the spot, are incorporated in the IRs and issued to the heads of offices inspected with a copy to the next higher authorities. The heads of offices and the next higher authorities are required to comply with the observations contained in the IRs, and rectify the defects and omissions promptly and report compliance to the Accountant General. Serious irregularities are also brought to the notice of the Heads of the Department by the office of the Accountant General. A half yearly report is also sent to the Secretary of the concerned department in respect of pending IRs to facilitate monitoring of settlement of the audit observations. The State Government had accepted some of the recommendations of the Shakdhar Committee regarding establishment of an appropriate mechanism in Government to monitor Government's response to Audit, but no separate monitoring cell has been established by the State Government as of October 2005.The Public Accounts Committee stated that it itself has been doing this job.

Review of Inspection Reports (issued upto June 2005) pertaining to Industries and Commerce Department disclosed that 253 paragraphs relating to 39 IRs involving Rs.60.58 crore remained outstanding at the end of June 2005. Of these, 13 IRs containing 86 paragraphs had not been replied to for more than 10 years. Year-wise position of the outstanding IRs and paragraphs are detailed in ***Appendix*-XXIX**. Some irregularities of serious nature in these IRs had not been settled, as of November 2005, as shown below:

Table 4.2

Sl. No.	Nature of irregularities	No. of paragraphs	Amount (Rupees crore)
1.	Avoidable expenditure/excess payment	22	32.60
2.	Misappropriation/shortage/loss of Government money/store	6	0.31
3.	Irregular/unauthorised purchase/blocking of Government money/stock and unaccounted stores	58	3.51
4.	Loss due to non-realisation of Government money	19	5.82
5.	Money kept outside Government accounts	4	1.09
6.	Advance drawal	14	0.22
7.	Deviation of fund/Misuse of fund	5	3.05
8.	Fictitious/doubtful drawal	10	1.70
9.	Miscellaneous/Others	115	12.28
	Total	**253**	**60.58**

A review of the IRs awaiting settlement revealed that Heads of Offices and the concerned Head of the Department (Director, Industries and Commerce Department) had not discharged their responsibilities as they did not send any reply to a large number of IRs/paragraphs indicating thereby their failure to initiate action in regard to the defects, omissions and irregularities pointed out by Audit. Secretary of the concerned department, who was apprised of the position through half-yearly reports, also failed to ensure that the concerned officers of the department take prompt and timely action, to settle the paras.

Inaction against the defaulting officers would result in serious financial irregularities continuing to occur with consequent loss to the Government.

It is recommended that Government re-examine this matter and ensure that procedure exists for (a) action against the officials who fail to send replies to

IRs/Paras as per the prescribed time schedule, (b) action to recover/make good the loss/outstanding advances/overpayments in a time bound manner, and, also (c) establish an appropriate mechanism in government to monitor Government's response to Audit, as per recommendation of Shakdhar Committee.

The matter was reported to the Government in June 2005; their replies were awaited (November 2005).