

OVERVIEW

This Report comprises seven chapters. The first two chapters contain observations of audit on the Finance and Appropriation Accounts of the Government of Nagaland for the year 2005-06. The other five chapters contain five reviews on the functioning of Government departments/companies and 21 audit paragraphs dealing with the results of audit of financial transactions of the Government including its commercial and trading activities. A synopsis of the findings of audit is presented in this overview.

According to the existing arrangements, copies of the draft audit paragraphs and performance reviews are sent demi-officially to the concerned Secretaries to the Government by the Accountant General (Audit) with a request to furnish replies within six weeks. Besides issuing reminders, the Secretaries are also invited for meetings under intimation to the Chief Secretary of the State before finalisation of this Report. Despite these efforts, reply has not been received in respect of five paragraphs and two performance reviews from the Government as of November 2006.

1. Finances of the State Government

Overall fiscal liabilities of the State increased from Rs.1429.93 crore in 2000-01 to Rs.2552.27 crore in 2005-06 at an average rate of 13.08 *per cent* during 2000-2006. The ratio of these liabilities to GSDP increased from 38.90 *per cent* in 2000-01 to 40.40 *per cent* in 2005-06.

Assets of the State Government increased by 16.83 *per cent* from Rs.3282.02 crore in 2004-05 to Rs.3834.49 crore in 2005-06, while liabilities increased by 12.77 *per cent* from Rs.2707.99 crore in 2004-05 to Rs.3053.79 crore in 2005-06.

The ratio of revenue receipts to GSDP and its buoyancy, which were on a declining trend during 2000-2003, increased substantially during 2003-04. The ratio dipped to 31.83 *per cent* in 2004-05 but again increased to 35.57 *per cent* in 2005-06 owing to increase in Central tax transfers and grants-in aid from the Government of India. The ratio of own tax to GSDP was stable during the last six years. The Balance from Current Revenue (BCR) decreased from (-) Rs.296.20 crore in 2000-01 to (-) Rs.58.01 crore in 2005-06, which continued to be negative indicating continued dependence on external resources for Plan and Development expenditure.

The trends in key fiscal parameters- RD, FD & PD indicate mixed trends about the fiscal health of the State's economy during the year. A substantial increase of Rs.381.54 crore in central transfers to State comprising of central tax transfers and grants-in-aid has enhanced the revenue surplus by Rs 52 crore during 2005-06. Although the State had maintained revenue surplus of Rs.206.67 crore during 2005-06, but the increase in fiscal deficit, continued negative balance from current revenues and emergence of primary deficit during the current year after experiencing the surplus consecutively for past two years indicate deteriorating fiscal situation and increasing dependence of the State on borrowed funds.

(Paragraphs 1.1 to 1.12)

2. Allocative priorities and Appropriation

The overall saving of Rs.757.25 crore was the net result of excess of Rs.64.96 crore in 25 cases of grants/appropriation and savings of Rs.822.21 crore in 53 cases of grants/appropriations.

(Paragraph 2.1.1)

According to Article 205 of the Constitution of India, it is mandatory for the State Government to get the excess over a Grant/Appropriation regularised by the State Legislature. Yet excess expenditure of Rs.1768.61 crore (213 cases of Grants/Appropriations) reported during 1996-97 to 2004-05 had not been regularised as of November 2006.

(Paragraph 2.2.2 (ii))

3. Performance Audit

1. Health Care Services

The objective of health care services is to provide basic health services to the people at their doorstep to improve the standard of public health. Performance Audit of Health Care Services revealed that:

The Department could not avail of discount of Rs.2.43 crore due to purchase of medicines from unauthorised firms/suppliers.

(Paragraph 3.1.9)

Medicines were distributed without carrying out any quality testing.

(Paragraph 3.1.11.1)

Payment of Rs.4.80 crore was made without receipt of equipment.

(Paragraph 3.1.18)

Expenditure of Rs.11.17 crore remained unfruitful due to non completion of Regional Diagnostic Centre (Tuensang) and up-gradation of Naga Hospital, Kohima.

(Paragraph 3.1.30)

2. Integrated Child Development Services (ICDS) Scheme

The Integrated Child Development Services (ICDS), a Centrally Sponsored Scheme, was launched in the State in 1975.

Only 79 *per cent* tribal population of the State could be covered under the ICDS scheme. 16 *per cent* children of the State in the age group of zero to six years were yet to be covered under the scheme.

(Paragraph 3.2.9)

Creation of Anganwadi centres in excess of norms resulted in extra expenditure of Rs.3.67 crore towards payment of honorarium to Anganwadi workers and Helpers.

(Paragraph 3.2.10)

The total Additional Central Assistance of Rs.27.19 crore for nutrition meant exclusively for children below the age of three years under PMGY was diverted for implementation of the State Plan Scheme of Supplementary

nutrition programme under ICDS which covered children in the age group of zero to six years, pregnant women and nursing mothers.

(Paragraph 3.2.13)

The nutritional content of the foodstuff provided to the beneficiaries was not regularly tested in the recognised testing laboratory.

(Paragraph 3.2.16)

Implementation of the immunisation, nutrition and health education, medical check-up and referral services as well as prevention of vitamin 'A' deficiency schemes were virtually non-existent.

(Paragraph 3.2.19 & 3.2.22)

3. *Sarva Shiksha Abhiyan*

Sarva Shiksha Abhiyan (SSA) aimed to provide useful and relevant elementary education to all children in the age group of six to 14 years by 2010 with active participation of the community as a whole to bridge social, regional and gender gaps. The SSA was launched all over the country from January 2001, while in Nagaland the programme was started only in 2003-04.

There were dismal infrastructure facilities in the State and construction works were carried out without any technical inputs.

(Paragraph 3.3.8)

The State Implementation Society (SIS) has also not framed any time-bound programme to train 65 *per cent* of untrained teachers and 43 *per cent* under-qualified teachers thus, making quality education a distant dream.

(Paragraph 3.3.11 & 3.3.12)

No effective steps were taken to upgrade the 723 primary schools to upper primary schools.

(Paragraph 3.3.19)

There were 72 upper primary schools eligible for Teaching Learning Equipment (TLE) grant of Rs.50, 000 as one time assistance. None of the Upper Primary schools were selected for the grant. Instead Rs.63 lakh was released to 126 Government High Schools and Higher Secondary Schools.

(Paragraph 3.3.22)

4. *Billing and collection of Revenue in Power Department with specific emphasis on Transmission and Distribution Losses*

The Department of Power, Nagaland was established in 1964 to provide power supply to public, industry and agriculture sectors in the State. Power generation being very negligible in the State (about one *per cent* of the total requirement of power in the State), the major requirement (99 *per cent*) is being met by purchasing power from the Central PSUs.

The State Government had not set up Regulatory Commission. Fixation of tariff at rates lower than the purchased cost (average) resulted in loss of potential revenue of Rs.153.64 crore.

(Paragraphs 3.4.7 and 3.4.8)

Transmission and distribution losses in excess of the prescribed norms resulted in loss of potential revenue of Rs.100.50 crore.

(Paragraph 3.4.10)

Short billing of 100.38 MU resulted in loss of potential revenue of Rs.17.83 crore.

(Paragraph 3.4.12)

Out of Rs.34.50 crore being arrears of revenue, Rs.14.63 crore was treated as bad debts without the approval of the Government.

(Paragraphs 3.4.15 & 3.4.17)

Non-installation of 'Digital Energy Meters' led to blocking of funds of Rs.37.01 lakh.

(Paragraph 3.4.18)

4. Audit of Transactions (Civil)

Fraudulent pension/gratuity of Rs.13.19 crore was drawn from two treasuries (Dimapur and Phek) and one sub-treasury (Pfutsero) by honouring Pension Payment Orders and Gratuity Payment Orders not authorised by the Accountant General.

(Paragraph 4.1)

The State Finance Department failed to avail the re-set package of high interest borrowings from HUDCO in time. M/s Allianz Securities Ltd., New Delhi was engaged to arrange re-setting of interest rates with HUDCO for which Rs.0.84 crore was paid as professional fee, resulting in avoidable payment of interest of Rs.1.86 crore and professional fee of Rs.0.84 crore.

(Paragraph 4.2)

The Deputy Inspector of Schools, Longleng had fraudulently drawn Rs.4.78 crore on pay and allowances by inflating the number of teachers employed and also duplicating the names of the employees.

(Paragraph 4.3)

Due to procurement of free text books from a local supplier, the Department of School Education could not avail the rebate of 15 *per cent* from the recognised publishers resulting in avoidable excess payment of Rs.26.51 lakh. The Department also did not deduct the royalty of 5 *per cent* from the suppliers' bills which resulted in potential loss of Government revenue to the tune of Rs.8.83 lakh.

(Paragraph 4.4.2.1)

Against the actual supply of 1,11,413 set of books, the Department paid Rs.1.40 crore for 1,18,054 set of books resulting in excess payment of Rs.12.29 lakh.

(Paragraph 4.4.2.2)

Against the actual requirement of 14,540 set of books for the seven districts in the second phase, the Department procured 28,704 set of books resulting in infructuous expenditure of Rs.28.39 lakh.

(Paragraph 4.4.2.3)

Deployment of 1297 teachers in excess of prescribed norms in Government Primary, Middle and High Schools under three Deputy Inspector of Schools and one Government High School resulted in wasteful expenditure of Rs.9.91 crore.

(Paragraph 4.5)

Against the actual deployment of 82 adhoc teaching and non-teaching staff, the Deputy Inspector of Schools, Noklak had drawn pay and allowances for adhoc staff ranging from 89 to 126 persons resulting in extra expenditure of Rs.26.96 lakh.

(Paragraph 4.6)

Out of Rs.5.68 crore paid as advances for various purposes only Rs.0.10 crore was adjusted leaving Rs.5.58 crore unadjusted for periods ranging from one to six years. The possibility of misappropriation cannot be ruled out. Besides, Rs.0.56 crore was parked in a current bank account for 30 months resulting in loss of interest of Rs.0.11 crore.

(Paragraph 4.7)

Augmentation of Water Supply Project at Mokokchung town at a cost of Rs.9.92 crore remained non operational even after three years of its completion due to non payment of land compensation resulting in cost overrun of Rs.1.33 crore and loss of potential revenue of Rs.0.26 crore. The Government also incurred an additional expenditure of Rs.1.05 crore on repairs due to deviation from approved specifications.

(Paragraph 4.12)

The Department of Power diverted Accelerated Power Development and Reforms Programme funds of Rs.1.53 crore for payment of salaries for work charged employees (October 2002 to March 2003) and clearing past liabilities of Likhimro Hydro Electric Project (December 2004). The Finance Department also diverted Rs.0.40 crore towards renovation of guest house and construction of six bedded dormitories at Wazeho Mini Cement Factory under Nagaland State Mineral Development Corporation.

(Paragraph 4.16)

5. Internal Control System and Internal Audit

Internal control system in Transport and Communication Department.

Internal control is a system within an organisation that governs its activities to effectively achieve its objectives. Internal Control is an integral process for the efficient discharge of an organisation's functions. It is a system designed to provide reasonable assurance for the achievement of the organisational objectives economically, efficiently and effectively.

Lack of effective budgetary control was characterized by inadequate monitoring of expenditure resulting in rush of expenditure in the last quarter of the financial year.

(Paragraph 5.1.8)

Laxity in financial control led to accumulation of heavy cash balances. Besides, due to non-preparation of pro-forma accounts, the commercial performance of the Nagaland State Transport could not be ascertained.

(Paragraphs 5.1.9 and 5.1.12)

6. Revenue Receipts

General

The total revenue receipts of the State Government for the year 2005-06 amounted to Rs.2267.20 crore against Rs.1839.52 crore for the previous year. Nine *per cent* of this was raised by the State through tax revenue (Rs.105.53 crore) and non tax revenue (Rs.96.82 crore). The balance 91 *per cent* was receipts from Government of India as State's share of divisible Union taxes (Rs.248.50 crore) and Grants-in-aid (Rs.1816.35 crore).

(Paragraph 6.1.1)

Altogether 328 paragraphs involving Rs.293.58 crore remained outstanding for settlement at the end of September 2006.

(Paragraph 6.1.8)

Government suffered loss of Rs.33.41 lakh due to non remittance of revenue receipts into Government Account.

(Paragraph 6.2)

Government sustained loss of Rs.9.44 lakh due to non deposit of sales tax into Government Account.

(Paragraph 6.3)

Delay/non-remittance of revenue resulted in misappropriation of Rs.1.71 lakh.

(Paragraph 6.4(i))

Collection of departmental receipt of Rs.1.95 lakh was not deposited into Government Account.

(Paragraph 6.4 (ii))

7. Commercial and Trading activities

1. General

There were five working Government Companies, one non-working company and nine departmentally managed Government commercial and quasi-commercial undertakings in the State as on 31 March 2006. The total investment in the five working Government companies was Rs.61.49 crore (equity: Rs.20.90 crore, share application money: Rs. 2.05 crore and long term loans: Rs.38.54 crore).

(Paragraph 7.1.2)

None of the five working Government Companies had finalised their accounts for the year 2005-06. The accounts of all the companies were in arrears for periods ranging from eight to 24 years as on 30 September 2006.

(Paragraph 7.1.5)

According to the latest finalised accounts of five working Government Companies, three Companies had incurred an aggregate loss of Rs.1.63 crore. The capital employed worked out to Rs.19.88 crore in four Companies and total return thereon was Rs.0.95 crore.

(Paragraphs 7.1.6 7 & 7.1.8)

The proforma accounts of nine departmentally managed Government commercial and quasi-commercial undertakings were in arrears for periods ranging from three to 36 years as on 30 September 2006.

(Paragraph 7.1.14.1)

Performance Audit

2. Working of Nagaland Industrial Development Corporation Ltd. including Loan Recovery Performance

The Nagaland Industrial Development Corporation Ltd. was established in March 1970 with the objective to promote, assist and finance the development of industries in the State.

The Company sustained accumulated losses to the tune of Rs.10.76.crore which has wiped atleast 81 *per cent* of its paid up capital (Rs.13.30 crore) as on 31 March 2006.

(Paragraph 7.2.10)

Targets for recovery of dues were low as these ranged between 21.53 *per cent* and 24.50 *per cent* of recoverable amount during 2001-06 and the target for recovery of interest was at an all time low ranging between 8.34 *per cent* (2004-05) and 12.99 *per cent* (2001-02).

(Paragraph 7.2.13)

Percentage of non-performing and loss assets ranged between 64.86 *per cent* in 2001-02 to 85.12 *per cent* in 2004-05.

(Paragraph 7.2.14)

Defective appraisal resulted in assistance to units which were not viable and could not repay even their first instalment resulting in non-recovery of dues of Rs.47.35 lakh.

(Paragraph 7.2.15)

Lack of monitoring and abandonment of assisted units led to doubtful/non-recovery of Rs.2.26 crore crore.

(Paragraph 7.2.17)

There were instances of deficiencies in monitoring the recovery of Rs.1.09 crore, (21 defaulters; Rs.0.86 crore) and (one time settlement ; Rs.0.23 crore).

(Paragraph 7.2.18)

The Company sacrificed Rs.1.67 crore while settling dues of 16 defaulting units under One Time Settlement Scheme.

(Paragraph 7.2.19)