

OVERVIEW

1. An overview of the finances of the State Government

Assets and liabilities: Assets of the State Government increased by 13 *per cent* from Rs.1429.43 crore in 1997-98 to Rs.1617.71 crore in 1998-99, while the liabilities increased by 17 *per cent* from Rs.1226.65 crore to Rs.1437.95 crore during the year indicating overall deterioration in the financial condition of the Government.

Revenue receipts: Revenue receipts of the State Government increased from Rs.860.99 crore in 1997-98 to Rs.989.38 crore in 1998-99 registering an increase of 15 *per cent*. The increase was mainly on account of increase in the grants-in-aid from the Central Government (Rs.56.39 crore) and the State's share of Union Taxes (Rs.56.38 crore) in addition to the increase of Rs.16.63 crore under State Non-Tax Revenue, in relation to the year 1997-98. The total receipts from the Central Government (Rs.914.67 crore) during the year represented 92 *per cent* of the total revenue receipts and 90 *per cent* of the revenue expenditure (Rs.1210.40 crore). Tax revenue raised by the State, however, decreased by 3 *per cent* from Rs.31.57 crore in 1997-98 to Rs.30.56 crore in 1998-99.

Arrears of revenue: The arrears of revenue pending collection increased by 112 *per cent* during the year and by 487 *per cent* over a period of five years ending March 1999 indicating a slackening in the revenue efforts of the State Government.

Revenue expenditure: Revenue expenditure of the State grew by 2 *per cent* from Rs.988.18 crore in 1997-98 to Rs.1012.40 crore in 1998-99 and constituted 87 *per cent* of total expenditure in 1998-99. The rate of growth in non-plan component of revenue expenditure during the last 5 years was lower (60 *per cent*) than the plan expenditure (153 *per cent*).

Capital expenditure: Capital expenditure increased by 253 *per cent* from Rs.44.07 crore in 1994-95 to Rs.155.78 crore during 1998-99 and constituted 13 *per cent* of the total expenditure during the year. The capital expenditure was mainly on plan side and on Economic and Social Services.

During 1998-99, the State Government paid interest of Rs.134.83 crore on debt and other obligations. The interest burden had an increase of 20 *per cent* over that of previous year.

Investments and returns: The State Government invested Rs.5.11 crore during 1998-99. Of this, Rs.1.62 crore was invested in Government Companies, and Rs.3.49 crore in Co-operative Institutions. With these fresh investments, the total investment of the Government as of March 1999 stood

at Rs.46.70 crore. No dividend/interest was received by the Government on such investments.

Fiscal deficit: Fiscal deficit is defined as the excess of revenue and capital expenditure, (including net loans given) over the revenue receipts (including grants-in-aid received). During 1998-99, fiscal deficit was Rs.184.73 crore, which had increased by more than 12 times (1268 *per cent*) over the level of 1994-95.

Public debt and other liabilities : During the five years ending 1998-99, there was 157 *per cent* growth in internal debt, 42 *per cent* growth in loans and advances from Central Government and 103 *per cent* growth in other liabilities.

Ways and Means Advances/Overdrafts: The Ways and Means Advances/overdrafts obtained from Reserve Bank of India had increased (48 *per cent*) from Rs.64.43 crore in 1994-95 to Rs.95.54 crore in 1998-99. Similarly Overdraft availed by Government had increased by 263 *per cent* over a period of 5 years ending March 1999. As of March 1999, Rs.26 crore on account of Ways and Means Advances and Rs.168.83 crore towards overdrafts was to be repaid by the Government.

Analysis of financial performance with indicators : Some of the major findings that emerged from analysis of financial performance of the State Government with various indicators were : (i) the interest burden on the Government was substantial and was on a rising trend; (ii) there was negative BCR in all the five years during 1994-95 to 1998-99 suggesting that Government had been depending heavily on borrowings for meeting its Plan and Non-plan expenditure; and (iii) the Government had not been earning any dividend/interest on the investments.

(Paragraph 1)

2. Appropriation Audit and Control over Expenditure

Excess expenditure over grants/appropriations not regularised for the past several years : Though it was mandatory for the Government to get the excess expenditure over grants/appropriations regularised, such excess expenditure of Rs.1497.64 crore pertaining to the years from 1985-86 to 1998-99 was yet to be regularised.

Overall savings/excess : Against the total gross provision of Rs.1639.82 crore, the total gross expenditure during the year was Rs.1731.63 crore. The overall excess of Rs.91.81 crore was the net effect of savings of Rs.171.99 crore in 62 cases of grants and 4 appropriations, and excess of Rs.263.80 crore in 26 cases of grants and 2 appropriations.

Supplementary grants : Supplementary grants of Rs.31.55 crore obtained in 35 cases proved unnecessary in view of aggregate savings of Rs.73.02 crore.

In other 17 cases, supplementary provision of Rs.75.17 crore proved insufficient, leaving an aggregate uncovered excess expenditure of Rs.253.74 crore.

In 46 cases against additional requirement of Rs.19.23 crore, supplementary provisions of Rs.145.61 crore were obtained resulting in savings exceeding Rs.10 lakh in each case aggregating Rs.126.38 crore.

Surrender of savings : Against the total savings of Rs.171.99 crore available under 62 grants and 2 appropriations available during the year, savings aggregating Rs.80.15 crore under 21 cases of grants (savings exceeded Rs.1 crore in each case) were not surrendered; though as per the financial rules, the spending departments were required to surrender the amount of unutilised grant/appropriation or portion thereof to the Finance Department as and when any saving was anticipated. In 10 grants against the available savings of Rs.15.10 crore, amount surrendered was 17.03 crore indicating injudicious surrender of Rs.1.93 crore in excess of the available savings.

Expenditure incurred without budget provision : Expenditure of Rs.3.99 crore was incurred in 15 cases under 12 grants/appropriations, although no budget provision was available for this during the year.

Reconciliation of departmental expenditure : The Controlling Officers were required to reconcile the departmental figures of expenditure with those booked by the Senior Deputy Accountant General (Accounts and Entitlement) before closure of the accounts for the year. But such reconciliation in respect of expenditure of Rs.405 crore had not been carried out by 25 Controlling Officers. Five other Controlling Officers persistently failed to reconcile a total expenditure of Rs.367.70 crore during the last three years ending March 1999.

Rush of expenditure : The financial rules require that the Government expenditure should be evenly distributed throughout the year to avoid rush of expenditure at the fag end of the year. Contrary to this, under 67 grants/appropriations expenditure of Rs.450.89 crore was incurred in March 1999. This constituted 27.10 *per cent* of the total expenditure of these grants/appropriations during the year 1998-99.

Abstract contingent bills : 21 Drawing and Disbursing Officers of 11 Departments did not submit, as of December 1999, detailed countersigned contingent (DCC) bills for Rs.13.20 crore drawn in 86 abstract contingent (AC) bills during the period from March 1998 to March 1999. As per the Treasury Rules, the DCC bills were required to be submitted to the Accountant General duly countersigned by the Controlling Officer, within 2 months of the drawal of AC bills.

(Paragraph 2)

3. Audit Reviews

3.1 Public Distribution System including Revamped Public Distribution System and Targeted Public distribution System

The Public Distribution System (PDS), a Centrally Sponsored Scheme, introduced in 1956 and restructured twice as Revamped Public Distribution System (June 1992) and Targeted Public Distribution System (May 1997) had the main objective of ensuring regular supply of essential commodities at reasonable prices, particularly to the weaker sections of the society. A review of the implementation of the scheme in the State during 1992-93 to 1998-99 revealed the following points:

There was an overall shortfall of 907.70 MTs over 22 months between actual requirement and distribution of food grains with an average monthly shortfall of 41.259 MTs. Thus either 4126 BPL families did not receive subsidised food grain every month or they get only 9.57kg ration per month against 10 kg required to be issued under the Scheme.

Though the responsibility of procurement and distribution of PDS commodities was shifted to stockists, Village Development Boards and Fair Price Shops with effect from June 1997, the Department maintained the usual budget provisions under procurement and supplies. This resulted in 57 per cent (Rs.36.76 crore) of the budget provision remaining unutilised during 1995-99, which revealed inefficient budgeting practices by the Department.

In the absence of proper accounts, veracity of distribution of 3,37,849 MTs of PDS commodities valued at Rs.220.60 crore by the FP Shops/stockists during 1995-99 to the beneficiaries could not be verified in audit. Thus, the possibility of diversion of these PDS commodities to open market could not be ruled out.

Against requirement of 605 FP Shops in the State, only 351 FP Shops were opened at the end of 1997-98 of which 323 FP Shops were functional as of March 1999. Consequently, an average of 39 per cent of the population of the State remained outside the purview of the scheme reasons for which was not intimated.

During 1995-99, the Department effected godown sale of 7429.13 MTs rice valued at Rs.4.37 crore to the non-ration card holders. However, this amounted to diversion of PDS food grains by depriving targeted beneficiaries from receiving their due share.

Physical verification of 3 godowns conducted between March 1995 and July 1997 by a Board constituted by the Department revealed shortage of 298.61 MTs fine/superfine rice valued at Rs.0.18 crore.

Of the transport subsidy of Rs.10.16 crore due from Government of India for the period 1988-97, the department's claims for Rs.5.66 crore had not been reimbursed by Government of India. Of this claims for Rs.4 crore were paid out of State exchequer. However, supporting bills for Rs.1 crore only were produced to Audit wherein expenditure of Rs.0.05 crore only could be substantiated thereby indicating doubtful payment of Rs.0.95 crore.

(Paragraph 3.1)

3.2 Rural Employment Generation Programme

The Rural Employment Generation Programme (REGP) comprises (a) Employment Assurance Scheme (EAS) and (b) Jawahar Rojgar Yojana (JRY) which includes the Million Wells Scheme (MWS). The Employment Assurance Scheme (EAS) was introduced with effect from 2 October 1993 to cater to the employment needs in certain identified blocks. Jawahar Rojgar Yojana (JRY) was introduced in April 1989 by merging two ongoing Schemes, viz., National Rural Employment Programme (NREP) and Rural Landless Employment Generation Programme (RLEGP). Audit scrutiny revealed that:

Employment Assurance Scheme funds amounting to Rs.2.25 crore were diverted to urban areas resulting in short generation of employment for 5.40 lakh mandays in rural areas taking 60 per cent of the expenditure as wage component.

An amount of Rs.1.03 crore was irregularly spent from JRY funds towards payment of honorarium to the Secretaries of Village Development Boards which could have been utilised to generate employment for 4.11 lakh mandays.

There was loss of interest of Rs.0.10 crore by not keeping EAS and JRY funds in savings bank accounts. The interest, if earned could have been utilised for generation of employment for 40,800 mandays.

Suspected misappropriation of EAS and JRY funds of Rs.3.49 crore due to short-accountal, non-accountal and non-production of cash books.

Figures on generation of employment during 1996-99 were fictitious, as these were not based on reports/returns of the implementing agencies.

Activities on water and soil conservation, agro-horticulture and afforestation, were adversely affected due to incurring expenditure to the extent of 18 to 21 per cent only against 40 per cent of allocation treating it as priority work. Bonafides of Rs.5.97 crore shown as spent are also suspect, in absence of supporting records.

Rupees 8.22 crore was diverted for creation of non-durable community assets (1255 km. of kutchha road); Rs.4.18 crore (15 per cent of total allocation) was

diverted for execution of non-priority works like construction of play grounds, Church buildings and residence for Headmaster.

(Paragraph 3.2)

3.3 Integrated Child Development Services

The Integrated Child Development Services (ICDS) Scheme was launched in 1975-76 as a Centrally Sponsored Scheme and comprised of five sub-schemes viz., Supplementary Nutrition, Immunisation, Health Check-up and Referral Services, Nutrition and Health Education, and Non-formal Pre-School Education financed by Central Government (except Supplementary Nutrition which is funded by the State Government). Audit scrutiny revealed the following points:

An amount of Rs.1.46 crore received from Government of India (in 1996) for the implementation of the scheme was retained in Civil Deposit Account.

1023 Anganwadi Centres (AWC) were created in excess of norms. Consequently, Rs.1 crore was unauthorisedly spent every year on honorarium to AWC staff.

Records relating to health check-up and referral services had not been maintained in the Anganwadi Centres.

In respect of non-formal pre-school education, the number of children shown to have been covered was more than the number of children enrolled and the figures were unrealistic. Based on the departmental figures the percentage of drop-out ranged between 37 and 42.

There were no records to substantiate the visits, if any, made by the Child Development Project Officers to the Anganwadi Centres.

(Paragraph 3.3)

3.4 Nutritional support for Primary Education

The 'Nutritional Support for Primary Education' (NSPE), a Central Plan Scheme popularly known as the "Mid day Meals Scheme" was launched on 15th August 1995 by the Department of Education (DoE), Ministry of Human Resources Development(HRD), Government of India, to provide free mid day meals to school going children in primary schools. Audit scrutiny revealed the following points:

No targets were fixed for phased coverage of the school children under the Scheme. The Departmental figures are unreliable, since enrollment of students had been shown to be static since 1996-97 and was not based on actual strength of the children during each year.

23360.40 quintals of rice worth Rs.2.46 crore was lifted and claimed to have been distributed during months when schools were not in session. Therefore, the lifting and its distribution appears to be suspicious.

There was short delivery of 4526.78 quintals of rice valued at Rs.0.48 crore to 32 primary schools and one Block by the carriage contractors during November 1995 to March 1999.

During 1996-99, 3737.10 quintals of inferior rice was delivered by carriage contractors in Kohima Block against lifting of fine rice from FCI godowns at Dimapur. By accepting inferior rice against superior rice, undue benefit of Rs.0.17 crore was extended to the contractors.

Rice worth Rs.1.17 crore was damaged due to prolonged storage in the godowns of handling agents which was disposed off for a value of Rs.0.55 crore resulting in loss of Rs.0.62 crore.

(Paragraph 3.4)

3.5 Inventory Control and Material Management in Civil Administration Works Division

The Civil Administration Works Division was created in April 1980 under the Home department and deals with construction of residential/non-residential buildings for various departments of the Government. A review on the working of the Division revealed the following points:

During 1996-99, the Division expended Rs.1.51 crore on payment of wages to Work Charged staff without any budget provision and Rs.0.08 crore in excess of the LOC released for current works and clearance of past liabilities.

Between 1996 and 1999, Plan funds of Rs.9.35 crore were irregularly drawn by debiting the final head of accounts and kept out of Government account, to avoid lapse of budget grants and was irregularly spent in subsequent years on execution of works and procurement of materials. Due to irregular retention of money outside Government account, the State Government suffered a loss of Rs.1.44 crore on account of interest.

Due to indiscriminate and haphazard issue of supply orders by the Executive Engineer during 1985-96, Rs.35.57 crore was paid during 1990-99 towards clearing liability of previous years. Therefore, supply orders had been issued without provision of funds.

Unnecessary procurement of materials led to their idling for years together. Disposal of materials worth Rs.19.52 crore (reported as surplus/obsolete in 1992-93) commenced only from 1997-98. Test check of 3 stores showed further accumulation of idle stores worth Rs.6.51 crore.

Stores management, materials accounting, and stock taking was poor, and materials worth Rs.6.97 crore escaped inclusion in the Annual Returns, from 1990-98, resulting in loss of stores.

Though the liabilities on procurement of materials worth Rs.20.24 crore paid in 1991-92 were the subject of a CBI enquiry, the Division, with the approval of Government, irregularly arranged for disposal of materials worth Rs.19.52 crore at a meagre sale value of Rs.44.62 lakh, and thereby sustained loss of Rs.19.10 crore.

During a span of fourteen years (1983-84 to 1997-98), the Division spent Plan funds of Rs.48.48 crore on Plan works and Non-Plan funds of Rs.43.60 crore on repair and maintenance of buildings. While no record existed for assets created with the investment of Rs.48.48 crore, there were also no consolidated estimates, record of check measurements and abstract of repairs/replacement works done at a cost of Rs.43.60 crore.

(Paragraph 5.1)

3.6. Loan recovery performance of Nagaland Industrial Development Corporation Limited.

The Corporation was incorporated in March 1970 with the main object to establish, assist and development of industries in the State.

The Corporation defaulted in repayment of IDBI/SIDBI dues amounting to Rs. 11.24 crore, consequently it could not avail of further refinance from IDBI (1991-92) and SIDBI (1992-93).

Defective appraisals by the Corporation in sanctioning of term loans, poor documentation, lapses in disbursement, ineffective recovery actions, abandonment of assisted units etc., led to non-recovery of Rs. 1.09 crore.

The Corporation suffered a loss of Rs.3.70 crore while settling dues of 11 defaulting units under a one time settlement scheme.

(Paragraph 8.2)

4. Other important points of interest

A. Civil

In respect of Lotteries conducted by the Director of State Lotteries, the Organising Agent deposited only the net amount of taxable prize money without the amount of income tax and Government had to clear the demand of Rs.28 lakh and sustained loss on this account.

(Paragraph 3.5)

Due to non-compliance of Government instruction regarding Police escort during transportation of Government money from the bank to office, an amount of Rs.3.50 lakh was robbed from the cashier and a staff member of the office of the Directorate of State Lotteries, Kohima. Neither the FIR had been filed with the police nor any departmental inquiry instituted.

(Paragraph 3.6)

The Inspector General of Prisons unauthorisedly diverted Rs.33.42 lakh out of the funds meant for the implementation of “Modernisation of Prison Administration” which included an advance payment of Rs.6 lakh to a supplier who neither delivered the materials nor refunded the money.

(Paragraph 3.7)

The Director of Industries made excess payment of transport subsidy of Rs.33.79 lakh to 51 industrial units due to application of incorrect rates and omission to restrict payment to concessional railway freight.

(Paragraph 3.8)

Contrary to the decision of the State Level Committee to disburse the payment through Nagaland Industrial Development Corporation, Director of Industries paid the transport subsidy directly to a closed industrial unit thereby incurred an avoidable loss of Rs.16.77 lakh on entertainment of fraudulent claims.

(Paragraph 3.9)

The Director of Employment and Craftsmen Training procured steel structures and building materials without any plan for construction which resulted in unnecessary locking up of Government funds of Rs.93.90 lakh which could have saved at least interest of Rs.36.53 lakh on market borrowings.

(Paragraph 3.10)

The Director of School Education procured steel furniture for schools without indents and kept them unutilised resulting in locking up of funds of Rs.18.63 lakh.

(Paragraph 3.11)

In respect of payment of Rs.1.35 crore made by the Director of School Education towards supply of books/furniture, there was no evidence for the supply of these articles and the possibility of missappropriation of the money could not be ruled out.

(Paragraph 3.13)

General Manager, Nagaland State Transport, Dimapur made an excess payment of Rs.10 lakh for tyre retreading to a contracting firm before issue of work orders. The firm had not retreaded any tyres so far nor refunded the money leading to loss of Rs.10 lakh to the Government.

(Paragraph 3.14)

The Executive Engineer, Public Health Engineer, Store (Working) Division, Dimapur diverted Rs.1.96 crore out of LIC loan obtained for water supply project and utilised it on unauthorised/unidentified works and for unnecessary procurement.

(Paragraph 4.1)

The Executive Engineer Public Health Engineering Division, Tuensang paid Rs.64.48 lakh as interest towards delayed payments in respect of supply of Galvanised iron pipes which resulted in extra expenditure to Government.

(Paragraph 4.2)

The Executive Engineer, Public Health Engineering Division, Tuensang spent Rs.44.85 lakh on clearance of fictitious past liabilities as the department had no evidence for such past liability.

(Paragraph 4.3)

Rejection of lowest tender in respect of supply of tubular pole on suspicious grounds by Government resulted in extra avoidable expenditure of Rs.32.80 lakh to Government.

(Paragraph 4.5)

Executive Engineer, Public Works Division, (Roads & Bridges) Mokokchung fraudulently paid Rs.95.13 lakh to 64 contractors/suppliers on account of refund of security deposits.

(Paragraph 4.6)

The Executive Engineer (Roads and Bridges), Dimapur made payment of Rs.24 lakh to a contractor for which there were no supporting records and thus the payment appeared fictitious.

(Paragraph 4.7)

There was an excess payment of Rs.6.31 lakh due to non-deduction of voids from the gross quantity of stone supplied in Public Works Division (Roads & Bridges), Dimapur.

(Paragraph 4.8)

Of the total expenditure of Rs.4.16 crore incurred by the SSWAB during 1993-99, expenditure of Rs.0.90 crore was met by diverting the funds from Welfare Extension Projects (WEP) which should have been restricted to Rs.0.71 crore. This resulted in irregular utilisation of WEP funds in excess by Rs.0.19 crore.

(Paragraph 7.5.2)

None of the 39 Societies had furnished the utilisation certificates in respect of the grants of Rs.21.43 lakh received by them during 1993-99.

(Paragraph 7.5.4 (c))

Veracity of the expenditure of Rs.18.24 lakh incurred by the Board during 1993-96 for purchase of milk and biscuits under Supplementary Nutrition Programme could not be established for want of any records in support of receipt and distribution of the materials.

(Paragraph 7.1.4 (d) (i))

B. Revenue

Irregular deduction from the gross turnover of a firm resulted in short levy of sales tax of Rs.6.96 lakh.

(Paragraph 6.5)

Government suffered a loss of revenue to the tune of Rs.3.26 lakh due to non-imposition of sales tax on the closing stock.

(Paragraph 6.5)

C. Commercial

There were six Government Companies and nine departmentally managed Government Commercial and quasi-commercial undertakings in the State as on 31 March 1999. The total investment in 5¹ Government Companies was Rs.49.87 crore (equity:Rs.18.19 crore; term loans:Rs.23.28 crore and share application money:Rs.8.40 crore).

(Paragraph 8.1.1, 8.1.2 and 8.1.10))

None of the Government Companies had finalised their accounts for the year 1998-99. The extent of arrears ranged from nine to 20 years. Proforma accounts of all the departmentally managed Government Commercial and quasi-commercial undertakings were in arrears ranging from 1 year to 27 years.

(Paragraph 8.1.5.1 and 8.1.10))

¹ Information in respect of one Company is not available.