

CHAPTER II : AUDIT OF TRANSACTIONS

INDUSTRIES DEPARTMENT

2.1. *Transport Subsidy Scheme*

The Government of India introduced Transport Subsidy Scheme (TSS) in July 1971, to promote industrialisation in remote, hilly and inaccessible areas. The TSS is applicable to all the Industrial Units (IUs), barring plantation, refineries and power generating units irrespective of their size, both in private and public sectors located in selected States, including Arunachal Pradesh. Transport subsidy up to 90 *per cent* is allowed to Industrial Units (IUs) on movement of raw materials and finished goods to and from the designated railheads (Siliguri) and *vice versa*, and 50 *per cent* from one State to another within the Northeast Region. 75 *per cent* of the air freight for movement of electronic components/products by air from Kolkata was also reimbursable. Guidelines provide that the transport subsidy is admissible for a period of five years from the date of commercial production by an IU. The scheme was extended beyond 31 March 2008 on the same terms and conditions till completion of the evaluation process of the scheme.

During the last seven years (2002-09) the Government of Arunachal Pradesh has received Rs. 32.37 crore for implementation of the scheme. Due to departmental laxity to adhere to the scheme guidelines and admission of claims beyond the purview of the scheme, there were questionable reimbursements of Rs. 4.36 crore (13 *per cent* of the total payment of Rs. 32.37 crore). Moreover, in absence of any evaluation, extent to which objectives of the scheme has actually fulfilled remained unassessed.

The scheme implementation during the seven years period i.e. 2002-09 was reviewed in audit by examining records of the Directorate of Industries (DoI) and 10 sample IUs¹ selected through stratified random sampling without replacement method. Records of the respective District Industries Centres (DICs), check-posts and District Transport Office (DTOs) were also examined, wherever necessary, to cross verify the records of the sample units.

2.1.1. *Funding and disbursement system in TSS*

The GOI initially placed a consolidated fund for all the North-eastern (NE) States with the North Eastern Development Finance Corporation Ltd. (NEDFi) being the Nodal Agency for the scheme in NE region. All NE States were to assess their requirements under TSS and convey to NEDFi. Since 2007-08 onwards, though GOI made State-wise allocation but continued to place the funds with NEDFi for disbursement to the eligible IUs. Scrutiny of records of NEDFi revealed that:-

¹ (i) Rupees one crore and above: Five cases; (ii) Rupees 50 lakh to Rs. 1.00 crore: Two cases; (iii) Rupees 20 lakh to Rs. 50 lakh : One case; and (iv) Below Rs. 20 lakh: Two cases

- During 2002-05, though the State Government did not place any demand for funds under TSS, it recommended 11 cases involving subsidy of Rs. 8.94 crore, which was paid by the NEDFi.
- Against the allocation of Rs. 3.50 crore for the State in 2007-08, NEDFi cleared claim for Rs. 5.58 crore. The expenditure of Rs. 2.08 crore in excess of allocation was met from the unspent balance of the previous years.

2.1.2. Implementation

The scheme provides for scrutiny of the claims of IUs by the State Level Committee (SLC) consisting of the Director of Industries, and a representative each of the State Industries, Finance Departments and the Department of Industrial Policy & Promotion (DIPP) Union Government. The SLC was to scrutinize the transport subsidy claims and recommend the deserving cases to NEDFi for reimbursement to the IUs. However, DIPP representative never attended SLC meetings. In response, the Industry Department stated (November 2008) that the claims admitted by the SLC were sent to NEDFi for conducting pre-disbursement audit by DIPP.

The scrutiny of the claims revealed that some claims were admitted by SLC for disbursement without even verifying the relevant supporting documents such as railway receipts (RRs), consignment notes, check-post entry, Central sales tax/ excise payment certificates, etc. The followings were noticed:

2.1.3. Irregular utilization of interest on TSS fund by NEDFi

GOI's notification (January 2005) prescribed that the funds released to NEDFi are to be kept in Revolving Fund and periodically recouped by the Department. Scrutiny of records of NEDFi revealed that the funds received for three Subsidy Schemes² including TSS were kept in bank and interest of Rs.30.03 lakh was earned during 2007-08 of which Rs.18.96 lakh pertained to TSS fund. The entire amount of Rs.30.03 lakh was unauthorizedly utilized by NEDFi on its administrative expenses without any permission from GOI.

2.1.4. Subsidy reimbursement in violation of the Forest Conservation Act

The Apex Court in its verdict on a public interest writ petition, directed (December 1996) stoppage of all non-forest (industrial) activities within the forest areas in any State unless the prior approval of the Central Government was obtained for the same. Therefore, operation of saw mill of any kind in the forest area without the prior approval of the Central Government would be prima-facie violation of the Forest Conservation Act and the verdict of the Supreme Court.

Cross-verification of records of the Principal Chief Conservator of Forests, Itanagar with the records of the Director of Industries, Itanagar revealed that two wood-based Industries namely M/s. Guna Saw and Veneer Mills Ltd., Chowkham and M/s. Tirap Veneer & Saw Mill, Miao were penalized by the High Powered Committee set up by

² TSS, Central Capital Investment Subsidy Scheme & Central Interest on Working Capital Subsidy Schemes

the Supreme Court for engaging in illegal wood-based activities in violation of the Forest Conservation Act, and thus were ineligible for TSS benefits. Despite this, SLC recommended (March 2003 and March 2005) subsidy payment of Rs. 150.03 lakh³ to these two units, and NEDFi paid the recommended claims to them between February 2004 and February 2008.

2.1.5. Reimbursement of claims beyond the scheme purview

From 1 April 1995 onwards the scheme was applicable for a period of five years from the date of commencement of the commercial production by IUs. Resultantly, IUs which had completed five years of production as on 31 March 1995 were ineligible for further benefits under the scheme. IUs which had commenced commercial production within a period of five years prior or after 1 April 1995 were to cease to be eligible once the five year period was complete.

Scrutiny of the claims of M/s. Miglung Wood Products revealed that as per the Permanent Registration Certificate (PRC) issued by the Joint Director of Industries, Pasighat, the date of commencement of the commercial production of the unit was recorded as 22 January 1991 and thus the unit was eligible for subsidy only up to 21 January 1996. However, the SLC recommended (June 2004) and NEDFi paid (January 2006) claims of the unit amounting to Rs. 126.09 lakh pertaining to period from October 1992 to October 1996 out of which claims of Rs. 15.86 lakh pertained beyond the scheme purview i.e. from 22 January 1996 to 16 October 1996. The Department stated (February 2009) that the commercial production was started in January 1992. The reply is not factual since the commencement date has been very clearly recorded as 22 January 1991 in PRC of IU.

2.1.6. Undue financial benefit to Industrial units

(i) M/s. Donyi Polo Saw Mill of East Siang District registered (June 2004), preferred claim of transport cost of finished goods despatched through road and rail relating to the period 1 September 1992 to March 1995. The SLC recommended (June 2004) the claim of Rs.83.87 lakh (Rs.53.99 lakh for cost of transportation by road and Rs.29.88 lakh by rail). The amount was paid to the IU in January 2006.

Scrutiny of claim disclosed that the IU despatched 81,164 quintals of sawn timber during the period mentioned above from the factory site, Ledum to the nearest railway head Murkang Salek and paid admissible freight charges by road amounting to Rs. 53.99 lakh directly. Subsequently, the IU despatched the above quantity of sawn timber to 227 different firms/individuals outside NER by rail i.e. beyond Siliguri Station. The goods were transported through rail on 'freight to pay basis' as revealed from the RRs submitted along with the claim, which also indicated that the freight charges for transportation of the finished goods were borne by the consignee and not by the consignor (IU). SLC admitted freight charges, though not paid by the IU,

³ M/S Guna Saw and Veneer Mills Ltd.: Rs. 72.37 lakh
M/S Tirap Veneer & Saw Mill: Rs. 77.66 lakh
Rs. 150.03 lakh

amounting to Rs. 29.88 lakh (90 per cent). The reimbursement was paid in January 2006 to IU.

The Department clarified (February 2009) that the finished products were transported by the concerned IU at their cost acting as consignor as well as consignee, and thus there was no question of payment of freight charge by any other party. The reply furnished by the Department is not acceptable as the IU concerned had not furnished any proof of payment of freight charges to the Railway Authority required to substantiate the authenticity of a claim.

(ii) The IUs are entitled to receive 90 per cent of transport subsidy for movement of raw materials and finished products between the designated railhead (Siliguri) and the location of the IU and *vice versa*. Scrutiny revealed that subsidy of Rs. 44.56 lakh, 90 per cent of the cost of transportation payable up to Siliguri, was paid (June 2006) to M/s. Arunachal Plywood Industries, Namsai on the recommendation of SLC (July 2002) for transportation of 97,297 quintals of finished products from the factory godown at Rupai to different destinations outside NER during the claim period from 1 September 1993 to 31 March 1995.

As per the agreement between consignor (IU) and consignee/purchaser, the consignee was to pay the cost of transportation initially which was to be finally borne by the IU. However, the IU was paid subsidy of Rs. 44.56 lakh without any supporting documentary evidence like records of book adjustment or refund of freights initially borne by the consignee and later on reimbursed by the IU, which were required to substantiate IU's claim for reimbursement.

The Department stated (February 2009) that all the claims were prepared and certified by the Chartered Accountant, and the records relating to the claims were also verified by the Inspecting Auditor of the State Government, DIC, and Director of Industries, etc. The reply is not acceptable as no documents to substantiate the reimbursement claim were furnished by the IU, the claim should not have been admitted.

2.1.7. Payment of inadmissible claims

Scheme guidelines provide that both the existing IUs⁴ as well as new IUs⁵ are entitled to receive subsidy on transport of the raw materials/finished products imported/exported by them. The quantum of subsidy to the units was to be based on the input/output as per their manufacturing capacities fixed at the time of their registration by the DoI. The existing IUs could, however, claim additional subsidy on raw materials, necessitated due to expansion or diversification of their activities. But such benefit was not admissible to new IUs.

It was found that the subsidy amounting to Rs. 17.62 lakh was paid between 1 April 2006 and 10 August 2007 to two new IUs for import of 2226.616 MT of raw material

⁴ Existing IU means an industrial unit which has set up manufacturing capacity and come into production before the date of commencement of the Scheme.

⁵ New IU means an industrial unit which has set up manufacturing Capacity and comes into production on or after the date of commencement of the Scheme.

during April 2001 to March 2003. These two IUs were not allowed to expand or diversify their activities during this period. As per the registered manufacturing capacity these two IUs could consume raw materials of only 1193.20 MT during these two years on which transport subsidy of Rs. 8.12 lakh only was admissible. But the Department and SLC both recommended claims to the tune of Rs. 17.62 lakh leading to an excess payment of Rs. 9.50 lakh.

The Department accepted (February 2009) the audit findings and added that the IUs should be encouraged if they exceed their registered capacity of production. The contention is not acceptable as the scheme does not permit payment of claims beyond the approved manufacturing capacity.

2.1.8. Payment of time-barred claims

DIPP advised (May 1993 and reiterated in May 1994) that all the State Governments not to accept the claims filed one year after the date of incurring the expenditure. Subsequently, GOI directed (July 2006) not to admit/sanction any time-barred claims without obtaining relaxation for this purpose from GOI. Scrutiny revealed that time-barred claims of eight IUs amounting to Rs. 185.79 lakh were irregularly recommended by SLC and paid by NEDFi during December 2003 to May 2006.

The Department responded (February 2009) that following the applicable instructions; the time-barred claims were sent to the GOI for their consideration. The reply is not enough as the department did not provide the copy of relaxation order obtained from GOI before recommending the time-barred subsidy claims. Mere forwarding the claim for relaxation does not mean that the relaxation was actually obtained.

2.1.9. Delay in payment of transport subsidy

The GOI Notification (July 1971) required the DOI to draw up procedure and arrangements not only for scrutinizing the TS claims but also to arrange for their prompt settlements. Since the beneficiaries of TSS were to be IUs operating in inhospitable and inaccessible environment, there was a need for timely disbursement of TS claims to ensure the scheme objectives are realized.

However, in respect of 15 IUs, subsidy claims for a total amount of Rs. 10.79 crore were disbursed to them after abnormal delays ranging from eight to 12 years. These delays would certainly have some adverse impact on TSS objectives.

The Department agreed (February 2009) to the audit findings but added that the delays occurred mainly from the NEDFi. The fact, however, remains that Government has failed in its responsibility to make arrangement for prompt payment of the claims.

2.1.10. Monitoring & Evaluation

The Scheme was monitored through 100 *per cent* checking of claims with the original records in the District and Directorate level and also through scrutiny by SLC. The existence of the IUs was ensured through physical inspection. The periodical checking of raw materials and finished goods of industrial units was done through a correlation

worked out taking power consumption and finished products with reference to raw materials consumed.

However, no procedures were laid down by the Directorate to ensure the regular inflow of information regarding movement of raw materials and finished goods. No other periodical checking such as RRs was conducted by the Nodal Agency except disbursement of claims to the IUs after clearance by the DIPP.

Further, the System of internal audit for checking of TSS claims did not exist in the Department. However, the Nodal Agency (NEDFi) conducted such audits periodically for all the schemes. But separate checking of claims could not be conducted by NEDFi as no separate account was maintained for TSS. Though the scheme has been under implementation for quite sometime in the State, no survey by the Department itself or through some appropriate third party was conducted to ascertain the actual success of the scheme in promoting industrialization in the State, and also to collect important feedback for the policy formulation purpose. In the absence of these mechanisms, how far the scheme objectives were actually fulfilled could not be ascertained by the Department or audit.

2.1.11. Recommendations

- The scheme guidelines should be strictly followed and internal controls strengthened to avoid admission of inadmissible or ineligible claims.
- To monitor that scheme is contributing to the industrial development in the State, physical and financial targets should be fixed and achievement be monitored through appropriate MIS.
- The supervision and monitoring system for implementation of the scheme should be strengthened.

Fraud/Misappropriation/Embezzlement**ANIMAL HUSBANDRY AND VETERINARY DEPARTMENT****2.2. Suspected misappropriation of funds**

In the absence of any audit trail, an amount of Rs. 33.14 lakh appears to have been misappropriated.

The State Government sanctioned and released Rs. 67.50 lakh in March 2006 for implementation of the project “Rangeland Development and Sedentarization of Yaks Herdsmen”. Out of the sanctioned amount, Rs. 33.81 lakh was earmarked for ‘Minor work’ of which an amount of Rs. 33.14 lakh was spent (between June 2006 and March 2007) on wages of Muster Roll labourers (Rs. 17.68 lakh) and procurement of CGI sheets (Rs. 15.46 lakh).

Scrutiny of the records of Dy. Director, Regional Sheep Breeding Farm (RSBF), Sangti revealed that during 2006-07, an expenditure of Rs. 17.68 lakh was shown as incurred on 42,000 mandays utilized for boundary fencing and sowing of seeds, whereas no material was procured and issued to the work. There were no supporting records to substantiate the execution of stated work. Further, wages of Rs. 17.68 lakh included double drawal of Rs. 5.05 lakh i.e. first drawal of Rs. 5.05 lakh between November 2006 and February 2007, and second drawal in March 2007.

Scrutiny of the records also revealed that the Dy. Director procured (December 2006) 260 bundles of CGI sheets at a cost of Rs. 15.46 lakh which was claimed to be distributed to 50 beneficiaries directly under the signature of DDO. Neither the recipient’s signature nor their addresses were available on record. Similarly, no supporting records reflecting the selection process of the beneficiaries and the criteria used for their selection could be produced to audit.

Thus, in the absence of any audit trails to substantiate the claimed activities and transactions, the possibility of the entire amount of Rs. 33.14 lakh (wages: Rs. 17.68 lakh and CGI sheets: Rs. 15.46 lakh) being embezzled could not be ruled out.

The matter was reported to the Government in September 2009 but no reply has been received yet (December 2009).

Excess Payment / Wasteful Expenditure**AGRICULTURE DEPARTMENT****2.3. Incorrect computation of Cost Index**

Extra expenditure of Rs. 14.74 lakh due to incorrect computation of Cost Index.

Scrutiny of records of the Directorate of Agriculture (DoA), Naharlagun, revealed that the work “Construction of 500 MT Seed Storage Godown with dehumidification

facility at the Directorate Campus” was sanctioned in March 2008. The preliminary estimate for Rs. 61.40 lakh was prepared by the A.P State Co-operative Union (APSCU) in January 2008 based on the Delhi Plinth Area Rates (DPAR), 1992 (with 100 *per cent* base).

It was noticed that neither detailed estimates, drawing and design, etc. were prepared for the work nor technical sanction was obtained. However, the work was awarded by DoA to a Naharlagun based contractor at an estimated cost of Rs. 61.40 lakh stipulated to be completed by October 2008. The entire amount of Rs. 61.40 lakh was drawn in March 2008 as first and final bill by the APSCU and was paid to the contractor in three installments between July and November 2008.

A preliminary estimate is prepared with some base cost (normally 100) and the cost index is added to this which is arrived at after deducting the base cost. The scrutiny of the preliminary estimates for the work revealed that the Cost Index (CI) of 210 was computed (DPAR 1992) and added to the estimates without deducting the base of 100 which resulted in extra payment of Rs. 14.74 lakh to the contractor.

The matter was brought to the notice of the Government in October 2009 but no reply has been received yet (December 2009).

2.4. Admission of subsidy in excess of permissible limit

Non realisation of cost exceeding the permissible subsidy on agricultural implements distributed resulted in extra expenditure of Rs. 30.53 lakh.
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Government of India (GOI) approved (October 2007) the Work Plan for the year 2007-08 of the State of Arunachal Pradesh on Macro Management of Agriculture (MMA), a Centrally Sponsored Scheme, indicating the financial target for Rs. 26.50 crore to be used for scheme activities. Under the component of farm mechanization, Rs. 7.05 crore was available as subsidy as per the approved Work Plan.

Scheme guidelines provide that in case of agricultural implements distributed under farm mechanization component, the subsidy was available @ 25 *per cent* of the cost or Rs. 10,000 per unit whichever is less. The balance amount was to be borne by the beneficiaries themselves.

Test-check of the records (December 2007-August 2009) of the Directorate of Agriculture, Naharlagun revealed that 47 units of different agricultural implements worth Rs. 44.02 lakh were procured in March 2008 from M/s.Kissan Engineering Company through its authorised dealers at Naharlagun and distributed to the beneficiaries through their 16 District Agriculture Offices in August 2008. However, the recovery for the cost exceeding the permissible subsidy amount/limit under the scheme was not made from the beneficiaries in any of these cases. Thus, subsidy of Rs. 34.13 lakh was allowed (March 2008) against the permissible limit of Rs. 3.60 lakh resulting in extra expenditure of Rs. 30.53 lakh.

The matter was brought to the notice of the Government in November 2009 but no reply has been received yet (December 2009).

ANIMAL HUSBANDRY AND VETERINARY DEPARTMENT

2.5. *Non-utilisation of carcass utilisation plant*

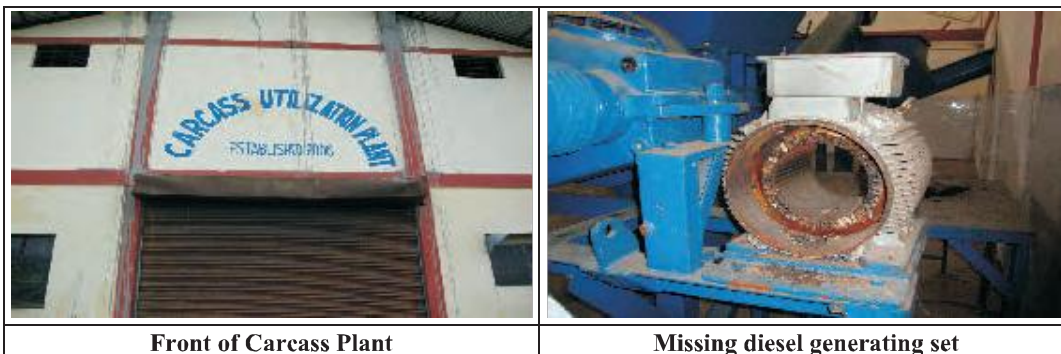
Due to inability of the Department to arrange staff, carcass utilisation plant was never used and the investment of Rs. 2.50 crore became unproductive.

With a view to improve the sanitary and public health conditions and prevent the environmental pollution by removal of putrefactive carcasses, the Government of India (GOI) approved (March 2001) the installation of a carcass utilization plant (the Plant) at Doimukh costing Rs. 301.50 lakh (Centre: Rs. 250.50 lakh and State: Rs. 51 lakh). The GOI released Rs. 30 lakh in March 2001 and Rs. 220.50 lakh in February 2005.

Scrutiny of records of the Director of Animal Husbandry and Veterinary (AH & V) revealed that Rs. 36 lakh was released by the State Government in March 2002 for initiating groundwork and engagement of a Haryana based consultancy firm for Techno Economic Feasibility Report (TEFR). The TEFR showed that to run the plant, carcass would be available not only in the district where plant was to be set up but also in the border areas of Assam.

On receipt of TEFR, tender was invited in November 2005 for installation of the Plant and the work was awarded (December 2005) to a Guwahati based firm at a negotiated rate of Rs. 2.11 crore to be completed by February 2007. State Government released Rs. 220.50 lakh for the purpose in February 2006. The installation of the Plant at Karmajuli, Doimukh was completed in February 2007 at a total cost of Rs. 2.50 crore, and inaugurated in March 2007 with the help of a DG set as the plant was not connected with power supply.

In a meeting held on 4 December 2007 by the Secretary, AH&V to discuss the modus-operandi for running of the Plant, the representative of Industry and Urban Development Department (IUDD), the user department, expressed their inability to run the plant due to shortage of manpower and also expressed doubts about the availability of carcasses for the daily running of the Plant. The Plant was never used and left unguarded. Subsequently, theft of machineries and their parts was noticed in March 2008. After investigation it was found that the Plant was badly damaged and parts including motors were missing. The loss sustained was never assessed and the Plant is still lying unused in a damaged condition.





Thus, due to IUDD's inability to arrange staff and non-availability of carcass, the carcass utilisation plant remained non-operational rendering expenditure of Rs. 2.50 crore incurred on its installation unproductive.

The case was reported to the Department/Government in September 2009 but no reply has been received yet (November 2009).

RURAL WORKS DEPARTMENT

2.6. *Non-completion of Yatri Niwas*

Due to delay in execution of work, GOI did not release balance fund; and expenditure of Rs. 60.35 lakh incurred on *Yatri Niwas* became idle out of which assets of Rs. 20.22 lakh were damaged in theft.

Under the scheme 'Tourist Accommodation', the Government of India (GOI) accorded sanction for the work, 'Construction of Dibandg *Yatri Niwas* at Roing' at an estimated cost of Rs. 99.75 lakh (Centre: Rs. 56 lakh and State: Rs. 43.75 lakh). The work was to be executed by the Rural Works Department (RWD), Arunachal Pradesh. The Central share was to be released in three instalments with 30 per cent (Rs. 16.80 lakh) as first instalment. Second instalment of 50 per cent (Rs. 28 lakh) was to be released subject to the submission of the Utilization Certificate (UC) and Progress Report (PR) by the Director of Tourism (DoT) to the GOI for the first instalment within six months from its release. The balance 20 per cent (Rs. 11.20 lakh) was to be reimbursed by GOI after receipt of the completion certificate of the Project. The GOI released the first instalment of Rs. 16.80 lakh in March 2002. The State Government share of Rs.43.75 lakh was released between January 2003 and March 2005.

Scrutiny of records of the RWD, Roing Division revealed that administrative approval and technical sanction for the work were issued in January 2003 and October 2003 respectively. The work for construction of porch, reception hall, kitchen, dormitory and three super deluxe cottages (excluding electrification works) was awarded to a contractor (May 2003) at Rs. 43.14 lakh with a stipulation to complete the work by December 2003. The work finally commenced in June 2003. Due to delay in commencement of work, the submission of UC and PR for first instalment due in September 2002, could be submitted only in July 2005 after delay of 34 months. As a

consequence, subsequent instalment of Central share of funds was not released which led to stoppage of work in March 2005. The contractor was paid Rs. 36.75 lakh (fourth running account bill) for the work executed till stoppage. As there was no further progress in the work, RWD in November 2007 requested DoT to release the balance amount so that the remaining work could be completed or else take over the building in the existing condition. In response, DoT informed (November 2007) that the GOI had dropped the project and asked RWD to complete the construction from the State's own fund. However, RWD did not make any efforts to complete the project. As there was no arrangement for guarding the assets, miscreants damaged the property and loss due to damage was estimated at Rs. 20.22 lakh (June 2008). As per the progress report of December 2008, total expenditure of Rs. 60.35 lakh had been incurred on the work.

Thus, delayed commencement of work led to delayed submission of UC and PR to the GOI, which further resulted in non release of the balance Central share. Consequently, the work on construction of *Yatri Niwas* could not be completed for want of funds, and Rs. 60.35 lakh spent hitherto has been rendered unproductive besides the loss of Rs. 20.22 lakh due to damage by miscreants.

The matter was reported to Government in June 2009 but no reply has been received yet (December 2009).

Idle/Unproductive Expenditure/diversion/misutilisation of funds

SOCIAL WELFARE, WOMEN AND CHILD DEVELOPMENT DEPARTMENT

2.7. *Payment to contractor without ascertaining completion of work*

Payment to the contractor for construction of building for 37 Angan Wadi Centres was made without completion report as required under the agreement. Payment of Rs. 13.75 lakh for construction of 11 AWC building appears to be fraudulent in absence of any supporting document to prove that they were actually constructed. Besides, the contractor was extended undue benefit as the buildings constructed were sub-standard.

The GOI released (March 2002) Rs. 1.88 crore to the State Government for construction of building for 150 Angan Wadi Centres (AWCs). Each AWC building should have one room not less than 5 X 5 m, one store room of nine sqm, and a child friendly toilet. Out of the 150 buildings, work order for the construction of 37 AWC buildings in different districts was awarded to M/s. Angami Trading Company (M/s ATC) in March 2003 for Rs. 46.25 lakh at the rate of Rs. 1.25 lakh per AWC with a stipulation to complete the work by June 2003. Accordingly, an agreement with M/s ATC was entered into on 31 March 2003. As per the condition of the work order, no advance was to be paid and payments against the bills were to be made only after the receipt of completion report from the Technical Authorities and handing over reports from Child Development Project Officers (CDPO). As per work order/

agreement, the walls of the building should be 20 mm thick cement bonded, CGI sheeted roof with cemented floor, enamel painted and a safety tank.

Scrutiny of records of the Director, Social Welfare, Women and Child Development department (February and March 2009) revealed that the date of commencement of work was not on the records produced, however, it was noticed that the contractor had sought (November 2004) extension of time up to January 2005, which was indicative of the fact that work was incomplete as on that date. The approval for extension of the time sought by the contractor was also not available on record. However, the bill for the entire amount of Rs. 46.25 lakh was drawn in March 2003 and payment was made to the contractor in September 2004 without receiving completion reports and handing over reports for 37 AWC buildings as required under the agreement apparently even before the buildings were completed which is evident from contractor requesting extension up to January 2005. These were confirmed by the Director of Social Welfare, Women and Child Development in November 2008. The Directorate also did not produce any measurement records or photograph to prove the completion of the AWC buildings.

The Department forwarded (November 2009) completion reports in respect of 26 AWCs and stated that completion reports of 11 AWC could not be traced. Scrutiny of 26 completion reports furnished by the department revealed that six out of the 26 completion reports furnished did not belong to 37 AWCs allotted to M/s ATC.

The CDPO, Sagalee ICDS project stated (December 2009) that there is no place with name 'Bonoriang' (name provided in list of AWC entrusted to M/s ATC) in his area but added that there is a place by name 'Bokoriang' which has an AWC. Similarly, CDPO, Niausa ICDS project stated (December 2009) that there is no place by name Ledua-1 but there is a place in the name of Zedua-1 which has AWCs.

Four buildings of AWC Bokoriang, Zedua-1, Senua-1 and Miao-1 under ICDS projects Sagalee, Niausa and Khagam were physically verified. Photos of these AWC buildings constructed by M/s ATC at are given below:





It could be seen that AWC building at Zedua-1, Senua-1 and Miao-1 are bamboo structures and not as per the specifications given in the agreement. Similar scenario in the remaining AWC building constructed by the said contractor also could not be ruled out. In the absence of completion certificate, the payment of Rs. 13.75 lakh for construction of 11 AWC building appears to be fraudulent. Besides, 26 AWC buildings constructed at a cost of Rs. 32.50 lakh were sub-standard and not according to the specification, thereby, extending undue benefit to the contractor.

2.8. Doubtful distribution of SNP items

Due to inclusion of 74 non-functional AWCs for procurement items under ICDS project, distribution of SNP item worth Rs. 28.13 lakh remained doubtful.

The Government of India (GOI) has been supporting the States at the rate of half of the financial norms laid down for various categories of beneficiaries or 50 per cent of the actual expenditure on Supplementary Nutrition Programme (SNP) whichever is less.

Between January 2007 and March 2008, the State Government accorded administrative approval and expenditure sanction for Rs.18.51 crore for implementation of SNP in the Integrated Child Development Services (ICDS) projects in Arunachal Pradesh. The amount was sanctioned for procurement and transportation of supplementary nutrition and *kitchri* items in respect of 3037 Anganwadi Centres (AWCs) up to June 2007 and 4277 from July 2007 onwards.

Between March 2007 and March 2008, the Directorate of Social Welfare, Women and Child Development incurred Rs. 14.46 crore on procurement and distribution of SNP items but did not maintain any records on these activities. As per ICDS norms, the rates are with reference to per beneficiary per day (normal child: Rs. Two; severely malnourished child: Rs. 2.70; and pregnant women and nursing mother/adolescent girls: Rs. 2.30). The Directorate distributed SNP items without ascertaining the actual number of beneficiaries. The Directorate stated (February 2009) that items were issued among all the AWCs in equal quantity which also meant disproportionate distribution of SNP items in violation of SNP norms.

Scrutiny of records revealed that most of the Child Development Project Officers (CDPOs) were not regularly sending their monthly progress reports (MPRs) for AWCs under their control which was admitted by the Directorate in February 2009. In spite of this, the Directorate sent consolidated statements of MPRs to GOI claiming that all AWCs were functional.

Scrutiny of available MPRs of 14 ICDS projects for few months revealed that total 710 AWCs were sanctioned of which 179 (25 per cent) were non-functional. The Directorate did not exclude the non-functional AWCs while undertaking procurement and distribution of SNP items under different ICDS Projects.

In response the department (October 2009) stated that the actual number of AWCs under 14 ICDS was 718 AWCs of which 74 (10 per cent) were non-functional. Thus, the inclusion of 74 non-functional AWCs led to excess procurement and distribution of SNP worth Rs.28.13 lakh. As these 74 AWCs were not actually functional, the distribution of SNP items worth Rs. 28.13 is doubtful.

Violation of contractual obligations / undue favour to contractor

ANIMAL HUSBANDRY AND VETERINARY DEPARTMENT

2.9. Undue benefit to the suppliers

Making payments to the suppliers as claimed without restricting it to the government approved rates, the Directorate extended undue benefit of Rs. 17.27 lakh to the suppliers.

The Purchase Board constituted periodically by the Animal Husbandry and Veterinary department fixes rates for purchase of drugs, instrument, appliances, etc. from the firms/ manufacturers/institutions during the specified period, and the rates are valid till they are revised by the Board. The rates for 2007-08 and 2008-09 were revised by the Board in March 2008 and July 2008 respectively.

Scrutiny of records of the Directorate of Animal Husbandry for the years 2007-08 and 2008-09 revealed that supply orders worth Rs. 2.80 crore (2007-08: Rs. 1.30 crore and 2008-09: Rs. 1.50 crore) for supply of drugs, etc. were awarded (between April 2007 and October 2008) to two⁶ local firms on the recommendation of the Parliamentary Secretary (AH&DD). Scrutiny also revealed that neither any formal agreements specifying the rates, delivery period, payment system, etc. were entered into with the two suppliers nor the supply orders issued to them mentioned the rates of the drugs to be supplied. This arrangement made the Directorate vulnerable as the suppliers had the liberty to charge any rate.

The scrutiny of the bills raised by the suppliers revealed that the rates claimed by the suppliers on four items were much higher than the Purchase Board approved rates.

⁶ (i) M/s Arunachal Drugs and Surgical House, Naharlagun and (ii) M/s Life-Line, Naharlagun

These bills were passed for payment as claimed by the suppliers without restricting them to the applicable approved rates.

In response the State Government stated (September 2009) that payments to the two suppliers were made as per the rates revised by the Purchase Board in March 2008 and July 2008. The reply is not factual as these four items were not in the revised list; hence the payments for these items were to be restricted to the old rates.

Thus, by making payments to the suppliers at higher than the approved rates, the Directorate extended undue benefit of Rs. 17.27 lakh to the drug suppliers resulting in extra expenditure.

PUBLIC WORKS DEPARTMENT

2.10. Undue favour to a contractor

Payment of additional wastage over the approved analysis rate resulted in avoidable expenditure of Rs. 25.91 lakh.

The Chief Engineer, Western Zone, Itanagar approved (March 2007) the analysis rate of Rs. 1,000.34 per sft for marble stone flooring, and Rs. 1,026.50 per sft for marble stone skirting with Australian white marble. The analyzed rate *inter-alia* included 20 *per cent* admissible wastage and 10 *per cent* contractor profit.

Scrutiny of records of the Capital-A division, PWD, Itanagar revealed that while constructing the Chief Minister's Bungalow at Niti Vihar, three work orders were issued in March 2008 to a local firm for providing and fitting of 17,732.97 sft marble flooring and 2072.40 sft of marble skirting as per the approved analyzed rates. The firm executed 15,420.156 sft of marble flooring and 1802.08 sft of marble skirting during February-March 2008.

Scrutiny further revealed that the firm was extended undue favour by paying (March 2008) Rs. 1.98 crore after allowing additional 15 *per cent* wastage on both the items of work, over and above the approved 20 *per cent* wastage. The reason for such additional allowance of wastage was not on record. Thus, payment of additional wastage over the approved analysed rate resulted in an avoidable expenditure of Rs. 25.91 lakh⁷.

The Chief Engineer, PWD accepted (July 2009) the audit finding and assured to recover the excess amount from the contractor. But the amount is yet (December 2009) to be recovered from the contractor.

⁷ $(17,733.176 \times \text{Rs. } 1,000.30 + 2,072.39 \times \text{Rs. } 1,026.50) - (15,420.156 \times \text{Rs. } 1,000.30 + 1,802.08 \times \text{Rs. } 1,026.50) = \text{Rs. } 25,91,187$

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

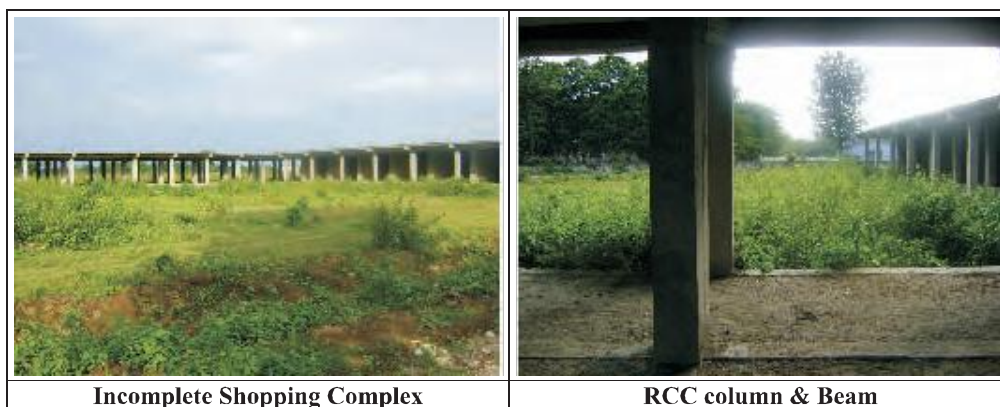
2.11. Non-completion of shopping complex

Increase in plinth area of shopping complex without the approval of the government and inability to mobilise required resources, the shopping complex was left incomplete resulting in unfruitful expenditure of Rs. 69.20 lakh besides creation of an additional liability of Rs. 82.98 lakh as interest and penal interest. Also due to remoteness of the location, efforts made to dispose off the property failed.

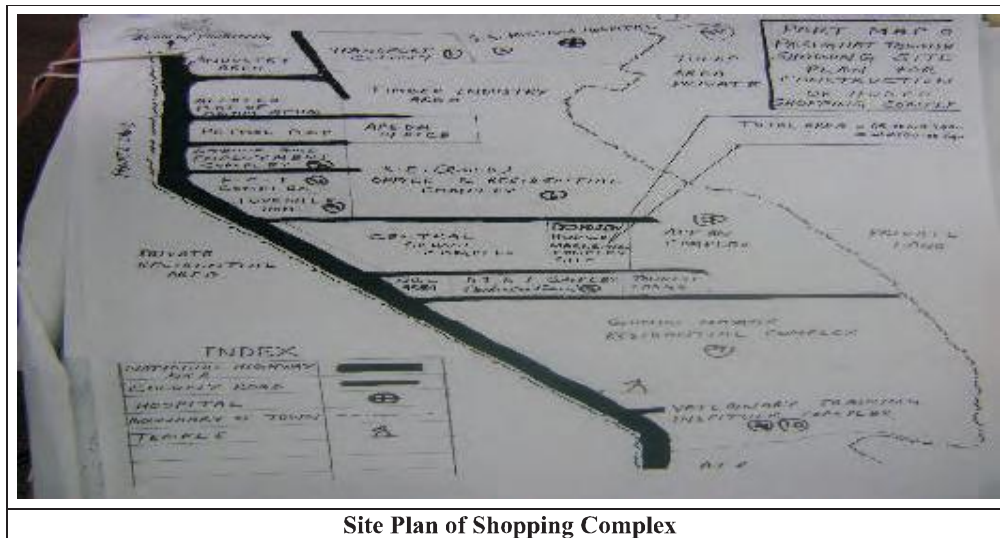
The work 'Construction of Shopping Complex at Gumin Nagar, Pasighat' at an estimated cost of Rs. 1.02 crore was administratively approved by the State Government in May, 2003. Funds were to be arranged by the District Urban Development Agency (DUDA), Pasighat through loans to be raised from HUDCO. However, the estimate was revised (January 2004) to Rs. 3.37 crore by enhancing the plinth area from 1293.90 sqm to 4556.57 sqm without Government approval.

Scrutiny of records of DUDA, Pasighat revealed that the Deputy Director, Urban Development and Housing, Pasighat entered into an agreement (March 2004) with HUDCO for loan of Rs. 90 lakh @ 8.75 per cent interest per annum. However, no efforts were made to arrange the balance fund of Rs. 2.47 crore required to complete the project. DUDA was to repay the loan along with interest from the revenue generated by renting and outright sale of the shops. The repayment instalments were to commence from 30 June 2005 and repaid in 34 instalments at an interval of two to three months to be completed by 30 October 2013.

HUDCO released Rs. 69.94 lakh in two instalments (1st instalment of Rs. 25 lakh in July 2004 and 2nd instalment of Rs. 44.99 lakh in February 2005). The work was taken up (September 2004) departmentally and work valued Rs. 69.20 lakh⁸ was executed up to January 2006. Further funds were not released by HUDCO due to the non-receipt of loan repayment instalments which was due from 30 June 2005.



⁸ Built up plinth area = 1490.77 sqm, 28 room at ground floor, RCC column & Beam up to ground floor, Brick work 75 per cent without finishing.



Site Plan of Shopping Complex

The Chairman, DUDA requested (April 2008) the Government to repay the outstanding loan and interest on DUDA's behalf as the project was economically unviable due to its remote location and absence of any human settlements in its vicinity. The contention of the DUDA contradicts its earlier assertion that the proposed shopping complex site is surrounded by 10 habitations as shown in the site plan (see above) while proposing the shopping complex.

In January 2008, DUDA issued expression of intent for selling/leasing of the incomplete shopping complex and in response M/s. Jaiprakash Power Venture Ltd. expressed their willingness (June 2008) to take over the property, but never turned up for negotiation as of August 2009. Meantime, the total loan liability up to March 2009 was Rs. 1.53 crore (Principal Rs. 69.94 lakh + Interest and penal interest Rs. 82.98 lakh).

Thus, due to unauthorised increase in plinth area of the shopping complex and inability to mobilise the required funds, the proposed shopping complex remained incomplete. Due to remoteness of the location the property could not be disposed off resulting into unfruitful expenditure of Rs. 69.20 lakh besides creation of an additional liability of Rs. 82.98 lakh as interest and penal interest, which would increase with the passage of time.

The matter was reported to the Government in September 2009 but no reply has been received yet (December 2009).

GENERAL

2.12. Follow up action on Audit Reports

As per the instructions issued by the Finance Department (June 1996), the concerned administrative departments are required to prepare an Explanatory Note on the paragraphs/reviews included in the Audit Reports indicating the action taken or proposed to be taken and submit the 'Action Taken Note' to the Assembly Secretariat

with a copy to (1) Accountant General and (2) Secretary, Finance Department within three months from the date of receipt of the report.

Review of the outstanding explanatory notes on paragraphs included in the Reports of the Comptroller and Auditor General of India for the years from 1994-95 to 2007-08 revealed that the concerned administrative departments were not complying with these instructions. As of March 2009, *suo moto* explanatory notes on 192 paragraphs of these Audit Reports were outstanding from various departments (*Appendix-2.1*)

The administrative departments are also required to take suitable action on the recommendations made in the PAC Reports presented to the State Legislature. The PAC specified the timeframe for submission of such ATN as one month up to the 51st Report. Review of 13 reports of the PAC containing recommendations on 68 paragraphs in respect of 15 Departments included in Audit Reports as detailed in *Appendix-2.2* presented to the Legislature between September 1994 and August 2009 revealed that none of these Departments sent the ATNs to the Assembly Secretariat as of November 2009. Thus, the status of the recommendations contained in the said reports of the PAC and whether these were being acted upon by the administrative departments could not be ascertained in audit.

2.13. Failure to respond to audit observations

663 paragraphs pertaining to 89 Inspection Reports involving Rs. 125 crore were outstanding as of March 2008. Of these, first replies to 34 Inspection Reports containing 157 paragraphs had not been received.

Accountant General (AG) conducts periodical inspection of Government Departments to test check the transactions and verify maintenance of important accounting and other records as per the prescribed rules and procedures. When important irregularities detected during inspection are not settled on the spot, these are included in the Inspection Reports (IRs) that are issued to the Heads of the Offices inspected, with a copy to the next higher authorities and the Government. The Government instructions provide for prompt response by the executives to the IRs to ensure timely rectificatory action in compliance with the prescribed rules and procedures and to fix responsibility for the serious lapses pointed out in the inspection reports. Serious irregularities are also brought to the notice of the Heads of the Departments by the office of the Accountant General. A half-yearly report of pending IRs is sent to the Commissioner/ Secretary of the Department to facilitate monitoring of the audit observations in the pending IRs.

As of March 2009, 663 paragraphs relating to 89 IRs pertaining to 62 offices of three Departments remained outstanding. Of these, 20 IRs consisting of 35 paragraphs had not been replied to/settled for more than 10 years. Even the initial replies, which were required to be received from the Heads of offices within six weeks from the date of issue were not received from nine offices for 157 paragraphs of 34 IRs issued between 1982-83 and 2008-09. As a result, the following serious

irregularities commented upon in these IRs had not been settled as of November 2009.

Table: 2.1

(Rupees in lakh)

Sl. No.	Nature of Irregularities	Education Dept.		Agriculture Dept.		PW Department	
		No. of paras	Amount	No. of paras	Amount	No. of paras	Amount
1	Local purchase of stationery in excess of authorised limits and expenditure incurred without sanction	-	-	-	-	-	-
2	Non-observance of rules relating to custody and handling of cash, position and maintenance of Cash Book and Muster Roll	-	-	-	-	-	-
3	Delay in recovery / non-recovery of Department receipts, advances and other recoverable charges	-	-	-	-	7	51.16
4	Drawal of funds in advance of requirements resulting in retention of money in hand for long periods	4	26.23	5	10.52	-	-
5	For want of D C C bills	12	973.38	7	19.85	-	-
6	For want of APRs	3	63.29	7	37.99	2	21.66
7	Non-maintenance of proper stores accounts and non-conducting of physical verification of stores	-	-	-	-	-	-
8	Utilization Certificates and accounts certified by Audit in respect of grants-in-aid not furnished.	3	25.41	5	29.42	-	-
9	Sanction to write off loans, losses, etc., not received	1	2.61	1	0.07	-	-
10	Idle investment	7	171.67	2	10.14	35	2298.25
11	Excess/Extra expenditure	15	935.31	3	22.92	54	1248.68
12	Others	226	1120.00	136	1150.00	128	4280.06
Total		271	3317.90	166	1280.91	226	7899.81

Source: Information furnished by the Department and objection book.

The Commissioners/Secretaries of the concerned Departments, who were informed of the position through half-yearly reports, failed to ensure that the concerned officers of the Departments took prompt and timely action. It is recommended that the Government look into this matter and ensure that (a) action is taken against the officials who fail to send replies to IRs/audit paragraphs as per the prescribed time schedule, (b) action is initiated to recover losses/outstanding advances/overpayments pointed out in audit in a time bound manner and (c) there is a proper system for expeditious compliance with audit observations.

2.14. Position of Audit Committee Meetings

During 2008-09 three Audit Committee Meetings were held, where in, 234 paragraphs were discussed and 209 paragraphs were dropped as shown below:

Table: 2.2

Department	Audit Committee meeting held	Paras discussed	Paras Dropped	Amount (Rs. in lakh)
Health	1	93	80	291.31
Horticulture	1	137	125	1044.90
Agriculture	1	4	4	8.62
Total	3	234	209	1344.83