

OVERVIEW

This Report contains three performance reviews (including one on Chief Controlling Officer based audit of a Government) and 35 audit paragraphs based on the audit of certain selected programmes and activities and the financial transactions of the Government, audit of Government Companies and Statutory Corporations.

Copies of the audit paragraphs and performance reviews were sent to the concerned Secretaries to the State Government by the Accountant General (Audit) with a request to furnish replies within six weeks. In respect of 33 audit paragraphs in this Report, no response was received from the concerned Secretaries to the State Government.

A synopsis of the important findings contained in this Report is presented in this overview.

PERFORMANCE REVIEWS

Elementary Education Programme

Education is one of the most important indicators of social progress of a nation. Both the State and GOI have been spending enormous funds on increasing enrolment, retention and providing quality education at the elementary level. To achieve this, Government of India had formulated the National Education Policy in the year 1986 and a Right to Education Act in 2009 which inter alia provided universal elementary education of good quality for children of the age group 6-14 years. This was to be achieved through provision of schools with appropriate infrastructure and within an approachable distance. The policy is being implemented under the flagship programme *Sarva Shiksha Abhiyan* (SSA) financed by the Government of India and the State Government in the ratio of 90:10. Sarva Shiksha Abhiyan was launched in Arunachal Pradesh in 2001. Another flagship programme Mid-day Meal (MDM) was also introduced to boost the universalisation of elementary education by providing mid day meals in order to improve the nutrition level of the children and to increase school enrolment and attendance. Even after more than ten years of its implementation, the Department failed to attain the objectives of the programme. The overall impact of different programmes was far from satisfactory. Implementation of various programmes relating to elementary education in the State was hampered due to improper fund management in most of the programmes like SSA, MDM, etc. The actual impact of the programmes could not be ascertained as no evaluation of the programme was carried out at any time by the department. Some of the highlights of audit findings are summarised below.

- No household survey was conducted. Annual Plans were prepared in an adhoc manner. As of March 2011, 124 habitations, which were eligible for primary schools, were without primary schools.
- Though out of school children had come down from 9.64 per cent in 2006-07 to 3.24 per cent in 2010-11, the State had missed its target of universal enrolment by 2003. Many upper primary schools had no Maths, Science and Language teachers. These factors had adversely impacted on the quality of education imparted in those schools.
- There were 758 single teacher schools, with an enrolment of 25,561 children, in the State due to irrational deployment of available teachers. Presence of large percentage (76.32 per cent) of untrained teachers was a matter of concern. as evident from the fact that pass

percentage at elementary level in government schools was poor when compared with private schools.

- Large percentage of schools was housed in semi-pucca buildings. Few schools had either no building or were functioning in kuchcha buildings. More than 50 per cent of the schools did not have basic facilities like drinking water, toilets, etc. About 47 per cent schools required major repair or new construction.
- Approximately 900 girl students were deprived of residential school facility under Kasturba Gandhi Balika Vidhyalaya due to delay in construction of building.
- An expenditure of ₹ 108.53 lakh incurred on Computer Aided Learning System (CAL) programme remained unfruitful as computer teachers had not been posted depriving students of 52 schools in Changlang District, the benefit of the programme.
- There were irregularities in issue of textbooks. Arunachal Pradesh Scheduled Tribe students were not provided with stipend as per entitlement.
- Students were not provided with cooked meal on school days as envisaged under Mid-day Meal programme. Kitchen sheds constructed under Mid-day meal programme was not as per specifications. The food was cooked in unhygienic conditions and it was fraught with risk of food poisoning.

(Paragraph 1.1)

Implementation of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) in Arunachal Pradesh

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched on 3rd December 2005 with the objective of reforms driven and fast track development of cities across the country with focus on sustainable development of physical infrastructure in cities, including development of technical and management capacity for promoting holistic growth with improved governance. The mission period is seven years i.e. up to 2012. In Arunachal Pradesh, under JNNURM 16 projects with a total outlay of ₹ 283.37 crore (Central Share: ₹ 255.03 crore; State Share: ₹ 28.34 crore) had been sanctioned. As of March 2011, total central assistance of ₹ 92.17 crore had been released in respect of 16 sanctioned projects and all the projects were under various stages of execution. Performance review of the implementation of JNNURM revealed that the mandatory and optional reforms to be adopted by the State Government in order to access central assistance under the Mission were not carried out. Physical achievements of the works, as of March 2011, ranged between 0 to 50 *per cent*. Delay in the progress of work was due to financial constraints. The project was facing constraints of funds as the central government was not releasing subsequent instalments. Non-release of subsequent instalments was mainly due to non-completion of some mandatory urban sector reforms and non-constitution of Urban Municipal Corporation in Itanagar. As a result of delay in execution of the project, there was already time overrun in all the projects, which may result in cost over runs. There were instances of diversion, blocking and non-release of state as well as central share of funds including slow progress of work, etc. Award of work without calling tender and getting the work done by issuing work orders was an issue of concern. No follow up action had been taken on the suggestion/recommendation made by independent review and monitoring agency, thereby defeating the very purpose for which it was created. One of the repeated observations made by it was failure to set up any field

laboratory to conduct test of material used in construction.

(Paragraph 1.2)

AUDIT OF TRANSACTIONS

Fraud/Embezzlement/Misappropriation/Loss

Public Works Department, Doimukh Division, misappropriated ₹ 4.16 crore on purchase of spare parts for two old bulldozers and five old Road Rollers, as the spares were neither accounted for in the Material-at-site account nor was their utilization documented.

(Paragraph: 2.1)

Non-adherence to Financial rules/norms and laxity on the part of Deputy Director of School Education, Lower Dibang Valley, Roing, led to embezzlement of ₹ 13.81 lakh.

(Paragraph: 2.2)

Undue financial benefit was extended to contractors in Sagalee and Yingkiang PWD divisions due to non-deduction of VAT at source, resulting in loss to the Government to the extent of ₹ 2.34 crore

(Paragraph: 2.3)

Excess payment/Wasteful expenditure

The Executive Engineer, Doimukh Public Works Division incurred extra expenditure of ₹ 21.78 lakh on purchase of stone metal at higher rates. There was also an excess payment of ₹ 7.59 lakh due to non-deduction of VAT at source as per statutory provisions of the Government.

(Paragraph: 2.4)

The Hawaii Rural Works Division incurred extra expenditure of ₹ 38.01 lakh by allowing higher rates to a contractor for excavation of 'ordinary rock without using explosives' by way of change in classification of soil to a higher grade as 'hard rock requiring blasting'.

(Paragraph: 2.5)

Due to hiring of bulldozers D-50-A12 on hourly basis in contravention of Chief Engineer's approved rate on daily basis, Boleng Public Works Division had incurred an extra expenditure of ₹ 45.37 lakh.

(Paragraph: 2.6)

Due to wrong classification of 94,165 cum of ordinary rock in higher grade of hard rock requiring blasting, the Dumporijo Division incurred an extra expenditure of ₹ 53.59 lakh, besides extending undue financial benefit of ₹ 56.16 lakh to the contractor owing to non-deduction of VAT at source.

(Paragraph: 2.7)

Unfruitful/Unproductive/Idle expenditure

Advance was paid to a New Delhi based firm M/s ICSL by State Council of Science and Technology without entering into an agreement/Memorandum of Understanding and without a bank guarantee or any other form of security, resulted in non-recovery of ₹ 232.506 lakh and interest of ₹ 46.50 lakh.

(Paragraph: 2.8)

Utilisation of below the prescribed quantity of material by Doimukh Public Works Division led to execution of sub-standard pavement work valuing ₹ 3.40 crore.

(Paragraph: 2.9)

Failure on the part of the Department to make an Ayurvedic Pharmacy and Drug Testing laboratory at Naharlagun functional despite spending a huge amount led to idle investment of ₹ 1.73 crore.

(Paragraph: 2.10)

Delay of over five years in awarding a work resulted in cost escalation of ₹ 23.69 crore on construction of a bridge over River Siang at the Gandhi Bridge site in Upper Siang District.

(Paragraph: 2.12)

CHIEF CONTROLLING OFFICER BASED AUDIT OF RURAL WORKS DEPARTMENT

The Rural Works Department (RWD) is one of the major engineering departments in Arunachal Pradesh dealing with Rural Link Roads and Soil and Water Conservation. The RWD is also implementing Pradhan Mantri Gram Sadak Yojana, a centrally sponsored scheme of Ministry of Rural Development, Government of India.

As on April 2011, 868 villages (22.36 per cent) were connected by road (388 under State Fund and, 480 under PMGSY) and 3014 villages (77.64 per cent) were still unconnected. In five years during 2006-11, a mere six per cent more villages were provided with road connectivity. No data on the length of roads were available. A performance review of the functioning of the Department revealed that there was deficiency in planning and execution of schemes. Some of the highlights of audit findings are summarised below.

- No comprehensive plan was in place in the State for connectivity. The state had no prospective plan and annual operative plans were prepared on the allocation made by the Planning Department.
- No new work were taken up during the period 2006-10 under Roads and Bridges as well as Soil and Water Conservation schemes in State Plan. As of March 2011, 228 works pertaining to Road and Bridges and 246 Soil and Water Conservation works was remaining incomplete and majority of these works remaining incomplete since 2005-06 as no funds was provided for their completion.
- There were delays in completion of the projects leading to time and cost overruns. There were also several lapses in the execution of the work. Execution of sub-standard works was noticed in selected sample.
- Internal control system had several weaknesses exposing the Department to fraud and misappropriation.
- Tender processes, other than in PMGSY works, were not yet followed/introduced. Supervision and monitoring required strengthening. The Internal Control System was inadequate.

(Paragraph: 3.1)

REVENUE RECEIPTS

Test check of records of Sales Tax, Land Revenue, State Excise, Motor Vehicles Tax, Forest and Other receipts conducted during 2010-11 revealed that there were under assessments, non/short levy, loss of revenue, etc. amounting to ₹ 10.56 crore.

Taxation Department

Non-registration of State Government Departments resulted in non-realization of tax of ₹ 23.94 lakh and penalty of ₹ three lakh on sale of timber, sand and stone.

(Paragraph 4.2.1)

Non-registration of two dealers under APST Act led to evasion of Tax of ₹ 9.59 lakh. Besides, Interest of ₹ 15.27 lakh and Penalty of ₹ 9.59 lakh were not levied.

(Paragraph 4.2.2)

Two registered dealers evaded payment of Tax of ₹ 19.89 lakh. Besides, Interest of ₹ 27.83 lakh and Penalty of ₹ 39.78 lakh was also leviable.

(Paragraph 4.2.3)

Two dealers imported taxable goods without payment of Entry Tax of ₹ 1.54 crore. Besides, Entry Tax of ₹ 11.89 lakh was short levied against 99 dealers.

(Paragraph 4.2.4)

Two cement dealers evaded Tax of ₹ 36.71 lakh by misusing 'C' Forms. Besides, penalty of ₹ 55.06 lakh was also leviable.

(Paragraph 4.2.5)

An unregistered dealer evaded Tax of ₹ 42.53 lakh due to irregular issue of 'F' Forms to him. Besides, interest of ₹ 51.04 lakh and penalty of ₹ one lakh was also leviable.

(Paragraph 4.2.7)

Failure to assess a dealer who discontinued business resulted in loss of revenue of ₹ 85.72 lakh.

(Paragraph 4.2.8)

Three dealers fraudulently evaded tax on imported goods at least of ₹ 63.18 lakh, including interest and penalty.

(Paragraph 4.2.9)

Failure to collect Entry Tax from 63 vehicles before registration resulted in non-realisation of tax of ₹ 34.81 lakh.

(Paragraph 4.2.10)

Non-registration of nine dealers by Assessing Officers led to evasion of tax of ₹ 23.63 lakh and penalty of ₹ nine lakh.

(Paragraph 4.2.12)

State Excise Department

Failure of the Department to initiate action against nine retail licensees for renewal of licences led to non-realisation of renewal fees of ₹ 9.20 lakh and penalty of ₹ 3.07 lakh.

(Paragraph 4.2.16)

Land Management Department

Failure to raise demand or to serve notices to the occupants of Government land resulted in short realization of lease rent of ₹ 3.73 crore. Besides, interest of ₹ 74.90 lakh was also leviable.

(Paragraph 4.2.19)

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of State Public Sector Undertaking

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by CAG. As on 31 March 2011, the State of Arunachal Pradesh had seven Public Sector Undertakings (PSUs) (all Government companies including five working and two non-working), which employed 165 employees. The working PSUs registered a turnover of ₹ 6.37 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover was equal to 0.08 *per cent* of State Gross Domestic Product. Thus, the State PSUs occupy an insignificant place in the State economy. The State working PSUs incurred an overall loss of ₹ 3.41 crore in the aggregate for 2010-11 as per their latest finalised accounts as on 30 September 2011.

Investments in PSUs

As on 31 March 2011, of the total investment in State PSUs, 90.15 *per cent* was in working PSUs and the remaining 9.85 *per cent* in two non-working PSUs. This total investment consisted of 62.38 *per cent* towards capital and 37.62 *per cent* in long-term loans. The investment has increased by over 74.94 *per cent* from ₹ 17.76 crore in 2005-06 to ₹ 31.07 crore in 2010-11.

Performance of PSUs

During the year 2010-11, out of five working PSUs, two PSUs namely Arunachal Police Housing Corporation Limited and Hydro Power Development Corporation of Arunachal Pradesh Limited earned profit of ₹ 1.64 crore and remaining three PSUs incurred loss of ₹ 5.05 crore. The major losses were incurred by Arunachal Pradesh Forest Corporation Limited (₹ 4.29 crore). The losses of working PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operations and monitoring. A review of latest Audit Reports of CAG shows that the working State PSUs and Government Departments (Power, Transport and Supply & Transport) incurred losses to the tune of ₹ 32.23 crore and infructuous investment of ₹ 2.03 crore which were controllable with better management. Thus, there is tremendous scope to improve the functioning of PSUs and minimise losses.

Arrears in accounts

Five working State PSUs had arrears of 29 accounts as of September 2011. The PSUs need to set targets for the work relating to preparation of accounts with special focus on arrears. There were two non-working companies as on 31 March 2011. As no purpose was served by keeping these non-working companies in existence, Government needed to expedite their closure.

Audit of Transactions

Transaction audit observations included in this Report highlight deficiencies in the management of State PSUs and Department of Power, which resulted in serious financial implications. Gist of some of the important audit observations is given below:

Implementation of RGGVY in the State could not achieve the desired results due to deficiencies in award of works and utilization of scheme funds by the Department of Power.

(Paragraph 5.2)

The billing operations of the Department of Power were deficient due to absence of proper metering of 46.86 *per cent* consumers and incorrect application of tariff provisions.

(Paragraph 5.3)

The Department of Power failed to collect Security Deposit as per revised rates leading to short collection of ₹ 10.60 crore in two cases test checked.

(Paragraph 5.4)