EXECUTIVE SUMMARY

This Audit Report has been prepared in five Chapters. Chapters I to IV deal with Social, Economic (other than Public Sector Undertakings), Revenue, Economic (Public Sector Undertakings) Sectors and Chapter VI deals with Follow up of Audit observations.

This Report contains three Performance audits and twenty-three compliance audit paragraphs. According to the existing arrangements, copies of the draft compliance audit and draft performance reviews were sent to the concerned Secretaries/Principal Secretaries to the State Government by the Accountant General (Audit) with a request to furnish replies within six weeks. The Secretaries/Principal Secretaries were also reminded for replies. Besides, a demi-official letter was also sent to the Chief Secretary to the State Government on the issues raised in the draft audit paragraphs, draft performance reviews *etc.*, for effective inclusion of the views/comments of the Government in the Audit Report. Despite such efforts, replies were not received in respect of two compliance audit paragraphs from the concerned Principal Secretaries/Secretaries to the State Government.

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

CHAPTER-I: Social Sector

Performance Audit

Implementation of Indira Awaas Yojana (IAY)

Indira Awaas Yojana (IAY), a flagship scheme, was launched by the Ministry of Rural Development, Government of India with the objective of helping rural BPL people in construction of dwelling units and up-gradation of existing unserviceable *kutcha* houses by providing financial assistance. A Performance Audit of the implementation of the Scheme in Arunachal Pradesh was carried out covering the period from 2008-09 to 2012-13. The Performance Audit of the scheme brought out the following significant findings:

IAY waitlist was faulty and as a result many eligible beneficiaries were left out as highlighted in National Level Monitor's Report. There were instances of non-BPL households being extended benefit as noticed during joint field verification.

(Para 1.2.7)

Due to short-release of State Share, the Government of India deducted Central Assistance of ₹40.98 lakh.

(Para 1.2.8.3)

An amount of ₹56.25 lakh received from the Central Government as natural calamity funds was neither allotted to the districts by the State Government nor utilization of the same shown at State level, but the fund balance was shown as 'Nil'. Thus, actual utilization of funds for the purpose for which it was allotted remained doubtful.

(Para 1.2.8.4)

Inadmissible payment of ₹113.50 lakh was made by DRDA, Anjaw District. Besides, an unauthorised expenditure of ₹5.52 lakh was incurred by DRDA, Papum Pare District.

(Paras1.2.8.6 and 1.2.8.7)

An excess amount of ₹14.11 crore was extended as assistance during the years 2009-10, 2011-12 and 2012-13, which was sufficient to cover 3,344 more beneficiaries.

(Para 1.2.9.2)

DRDA, West Siang District distributed lesser quantity of CGI sheets to beneficiaries for new construction valuing ₹1.63 crore, thereby, depriving 3032 beneficiaries of full benefit of the Scheme.

(Para 1.2.9.3)

DRDA, Lohit extended extra financial benefit of ₹ 328.65 lakh to the beneficiaries of new construction.

(Para 1.2.9.4)

The IAY beneficiaries failed to avail loan under DRI scheme with marginal interest due to lack of awareness.

(Para 1.2.10.5)

In absence of convergence and dovetailing of central sector schemes with IAY, the beneficiaries were deprived of the intended benefits of these schemes.

(Para 1.2.11)

Compliance Audit Paragraphs

Payment of ₹ 4.45 crore as Land Transport Subsidy for transportation of the iodized salt for PDS beneficiaries of interior/remote areas of the Upper Siang District was highly questionable as the quantity to iodised salt stated to have been distributed was sufficient to meet the requirement of the entire population of the district for more than 18 years, pointing towards fraud.

(Paragraph 1.3)

Payment of labour escalation over and above the higher labour rate applied during analysis of tender by the Department and non-compliance of statutory provision of deduction of VAT by PHE & WS Division, Itanagar, resulted in extension of undue benefit of ₹ 1.55 crore to a private contractor.

(Paragraph 1.4)

CHAPTER-II: Economic Sector

PERFORMANCE AUDIT

Roads and Bridges projects funded by Non-Lapsable Central Pool of Resources (NLCPR) and the North-Eastern Council (NEC)

A Performance Audit of implementation of the Roads & Bridges projects funded through Non-Lapsable Central Pool of Resources (NLCPR) and the North-Eastern Council (NEC) covering the period from 2008-09 to 2012-13 revealed that there were delays in completion of the projects due to deficiencies in the planning process, delay/non-release of funds to implementing agencies and inadequate monitoring. Consequently, only 11 (eleven) out of the targeted 49 (forty nine) projects were completed as of March 2013.

Some major audit findings are highlighted below:

There were delays ranging from 7 to 13 months in submission of Priority Lists.

(Para 2.2.9.1)

Records of 25 test-checked NLCPR projects revealed that Detailed Project Reports were prepared without proper survey and investigation.

(Para 2.2.10)

There were delays ranging from 3 to 48 months in release of funds by the State Government to executing agencies.

(Para 2.2.11.2)

The State Government did not contribute its share aggregating to ₹ 12.15 crore (48.41 percent) towards implementation of 25 test-checked NLCPR projects.

(Para 2.2.11.4)

Against the total amount of ₹403.15 released up to 2012-13 for implementation of NLCPR, utilization certificates (UCs) for ₹111.50 crore (30 per cent) were pending as of March 2013.

(Para 2.2.11.5)

In 22 test-checked projects, executing agencies incurred inadmissible expenditure of ₹10.16 crore against NLCPR funds.

(Para 2.2.11.6)

In three projects, executing agencies diverted ₹5.26 crore from NLCPR/NEC funds to other projects.

(Para 2.2.11.7)

The completion rate of projects under NLCPR/NEC was far from satisfactory. Out of 49 projects due for completion by March 2013 or earlier, only 11 projects (23 percent), involving an expenditure of ₹105.44 crore, were completed. Even completed projects had huge time overruns ranging from 12 to 24 months.

(Para 2.2.12)

No Evaluation Study was conducted to assess the impact of projects created.

(Para 2.2.18.2)

Adequate transparency and publicity/dissemination of information relating to NLCPR/NEC projects was not ensured through the Local media and Display Boards.

(Para 2.2.18.3)

Compliance Audit Paragraphs

Two mini hydro projects constructed at cost of ₹ 5.83 crore were not commercially exploited even after over two to three years of their completion as the agency or the department responsible for their operation was not identified. As a result, the State Government was deprived of revenue of ₹ 2.63 crore, besides, depriving social benefit to villagers in remote and hilly area.

(Paragraph 2.3)

Due to non-compliance to provisions of General Financial Rules in respect of Inventory Management and Control, materials valued at ₹ 4.16 crore were possibly missing.

(Paragraph 2.4)

Failure of the Department to complete construction of a bridge due to commencement of work on defective design and drawing, rendered expenditure of ₹ 4.34 crore unfruitful. Expenditure of ₹ 42.89 lakh deviating from the sanctioned estimate, inadmissible expenditure of ₹ 29.74 lakh, and undue financial aid of ₹ 17.78 lakh were also noticed.

(Paragraph 2.5)

In absence of any audit trail to substantiate creation of horticulture gardens and raising of crops, utilisation of Government assistance of ₹ 1.03 crore was doubtful.

(Paragraph 2.8)

Due to lapses in implementation of Seed Management component of Macro Management of Agriculture, a centrally sponsored scheme, there was excess expenditure of ₹ 30.80 lakh. As a result, coverage in terms of beneficiaries and area was severely compromised. Besides, seed treatment components for which ₹ 19.13 lakh was sanctioned, was not at all implemented.

(Paragraph 2.9)

CHAPTER-III: Revenue Sector

Performance Audit

Receipts under Arunachal Pradesh Goods Tax (APGT) Act, 2005

Performance Audit of Receipts under APGT Act 2005 revealed following shortcomings:

- The APGT Act, though taken from a uniform format of VAT adopted throughout the country had significant deficiencies. There was no process to identify unregistered dealers or carrying forward the list of dealers from the Repealed Act. The system in place for registration, survey, assessment of returns, audit assessment was either non-existent or weak.

- The Department had almost non-existent internal controls. There was no proper mechanism at the higher management level to monitor the performance and activities of unit offices.

- There were several compliance issues in the functioning of the Department leading to loss of revenue.

- Concerned authorities failed to deduct tax at prescribed rates from contractors/suppliers, leading to non/short deduction and non-deposit of tax into Government account.

- Check Gates were ill-equipped, with non-functional weighbridges, CCTV cameras and were without any loading/unloading facilities.

The cases of loss of revenue noticed in the performance audit are highlighted below:

361 unregistered dealers sold goods valued at ₹26.50 crore and evaded tax of ₹1.59 crore, which the Department failed to detect.

[Para 3.2.8.1

The percentage of assessments by STs varied between 0 and 2.69 per cent during the period of PA.

[Para 3.2.8.2]

10 dealers concealed turnovers of ₹12.23 crore and evaded tax of ₹1.58 crore, for which interest of ₹2.13 crore and penalty of ₹1.59 crore were also leviable.

[Paras 3.2.8.3 and 3.2.8.4]

635 dealers, who were registered under the repealed Act, remained undetected and unregistered under the APGT Act.

[Para 3.2.8.5]

In the absence of a mechanism for monitoring receipt of returns, Superintendents of Taxes (STs) could not detect non-submission of 22675 returns of 1821 dealers between 2008-09 to 2012-13, and consequently, penalty of ₹22.68 crore could not be levied.

[Para 3.2.9]

Not a single audit assessment was completed by the Commissioner of Taxes (CoT).

[Para 3.2.10]

19 dealers claimed input tax credit of ₹ 27.39 crore, which was irregularly allowed by STs.

[Para 3.2.16.1]

Four industrial units irregularly claimed exemption of VAT of ₹ 7.93 crore (including interest) prior to 23 January 2009 and non-issue of necessary Entitlement Certificates by the Department.

[Para 3.2.22]

The Department failed to prefer claims of compensation of VAT, resulting in loss of revenue of ₹15 crore.

[Para 3.3.23]

Compliance Audit Paragraphs

Application of pre-revised rates of Royalty on 54,641 tonnes of Coal led to short-realization of Royalty of ₹ 1.83 crore

[Paragraph 3.10]

Failure of the State Government to raise demand for payment of royalty of ₹ 21.42 crore from the Central Government led to non-realization of revenue to that extent

[Paragraph 3.11]

For delayed payment of Royalty, Additional Royalty of ₹ 1.38 crore was not levied

[Paragraph 3.12]

CHAPTER-IV: Economic Sector (SPSUs)

Overview of State Public Sector Undertakings (SPSUs)

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of the State Government companies are audited by Statutory Auditors appointed by the Comptroller and Auditor General (CAG) of India. These accounts are also subject to Supplementary Audit conducted by the CAG. In Arunachal Pradesh, there were seven SPSUs (all Government Companies, including two non-working Companies).

Investment in SPSUs

As on 31 March 2013, the investment (capital and long-term loans) in seven SPSUs[#] was ₹ 30.63 crore. The investment has increased by 44.07 *percent* from ₹ 21.26 crore in 2007-08 to ₹ 30.63 crore in 2012-13.

[#] ***The State has no 619-B Company.***

Performance of PSUs

Working SPSUs showed overall adverse working results during the six year period ending 2012-13, except during 2008-09. The overall losses of Working SPSUs reached its peak during 2011-12 at ₹ 5.92 crore during the six year period. During 2012-13, out of five working SPSUs, two SPSUs earned profits of ₹ 3.37 crore and three SPSUs incurred losses of ₹ 8.96 crore.

The losses of SPSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, running of operations and monitoring. A review of the latest Audit Reports of the CAG showed that working State SPSUs and Government Departments - *Power, Hydro-Power, Transport and Supply & Transport* - incurred losses to the tune of ₹ 11.80 crore and made infructuous investments of ₹ 10.89 crore, which could have been avoided with better management.

Compliance Audit Paragraph

Execution of Micro, Mini and Small Hydro Power Projects

As of 31 March 2013, the Department was operating 111 Micro/Mini/Small♣ Hydro Power Projects with a total capacity of 61.31 MW. Out of the 111 projects, 59 projects, with a capacity of 26.84 MW and total project cost of ₹337.60 crore were commissioned between 2008-09 and 2012-13 (remaining 52 projects were commissioned prior to 2008-09). In addition, 40 projects with a capacity of 66.44 MW and project cost of ₹ 749.76 crore were under construction as on 31 March 2013.

Major audit findings are listed below:

- Failure of the Department to conduct proper survey and investigation in respect of 13 hydel projects resulted in an unfruitful expenditure of ₹ 44.32 crore.
- The works done through work orders, without ensuring economy and quality of works done, were very high and constituted 32.30 *per cent* of the total works executed.
- Delay in completion of Halaipani Small Hydroelectric Project due to frequent changes in installed capacity rendered the expenditure of ₹ 109.56 crore (Civil Works - ₹ 74.31 crore and E&M Works - ₹ 35.25 crore)

♣ ***Micro - upto 100 KW; Mini - 101 to 999 KW; and Small - 1000 to 25000 KW.***

unproductive even after 16 years from the first Administrative Approval for the project. Moreover, the 111 targeted villages were also deprived of the intended benefits of this small hydel project.

- Even though turnkey contractors had delayed the completion of 32 projects by 8 to 53 months (as of August 2013), the Department did not levy LD amounting to ₹ 17.09 crore.

- The order for supply of E&M equipment valued at ₹ 8.99 crore was prematurely placed on the contractor as the civil works at site were not completed. Due to this, the E&M equipment remained idle for a long period (16 years), after which it became unusable due to deterioration, rust, wear and tear, etc., resulting in loss of ₹ 8.99 crore to the Department