CHAPTER - II
ECONOMIC SECTOR

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2.1 Introduction

This chapter of the Audit Report for the year ended 31 March 2018 deals with the audit observations on the working of the State Government departments under Economic Sector.

The names of the departments and the total budget allocation *vis-a-vis* expenditure of the departments Funder Economic Sector during 2017-18 are given in ***Appendix 2.1.1.***

2.2 Planning and conduct of Audit

Audit process starts with the assessment of risks in the departments based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders.

After completion of audit of each Department on a test check basis, Inspection Reports (IRs) containing audit findings are issued to the heads of the departments. The departments are required to furnish replies within one month of receipt of the IRs. Wherever replies are received, audit findings are either settled based on reply/action taken or further action for compliance is advised. Some of the important audit observations contained in the IRs are processed for inclusion in the Audit Reports of C&AG of India which is submitted to the Governor under Article 151 of the Constitution of India for laying on the table of the Legislature.

During the year, an expenditure involving ₹ 1456.06 crore (including funds pertaining to previous years audited during the year) of the departments under Economic Sector was test checked. This chapter contains audit findings on two Performance Audits *viz.*, 'Implementation of North Eastern Council funded projects' and 'Implementation of rural connectivity projects funded through NABARD Loan' and seven compliance audit paragraphs.

Performance Audits

PLANNING AND COORDINATION DEPARTMENT

2.3 Performance Audit on implementation of North Eastern Council Funded Projects

The Eastern Council (NEC) is a statutory advisory body constituted under the NEC Act, 1971 which came into being in November, 1972 with Headquarters' at Shillong, Meghalaya. The three key objectives of NEC are:

(i) balanced development of the North Eastern Region (NER);

(ii) better inter-state coordination; and

(iii) maintain security and public order in the region.

The NEC Act, 1971 was amended by the Parliament in 2002 to make NEC a "Regional Planning Body" and also included Sikkim as the eighth member state. Since September 2001, the NEC has been functioning under the administrative control of the Ministry of Development of the North Eastern Region (DoNER).

The Performance Audit on implementation of NEC funded projects in the State covering the period from 2013-18 was carried out during April to September 2018. The important findings are highlighted below:

Highlights

The State Government did not contribute the matching share of ₹ 8.96 crore for implementation of 34 projects test-checked.

(Paragraph 2.3.9.3)

An amount of ₹ 13.19 crore was irregularly incurred towards payments of departmental charges, purchase of vehicle, land compensation etc., by seven departments in contravention of NEC guidelines.

(Paragraph 2.3.9.4)

The Nodal Department submitted incorrect utilisation certificates for ₹ 49.20 crore before the funds were actually released by the State Government.

(Paragraph 2.3.9.5)

The State Government had a liability of ₹ 15.70 crore due to foreclosure of ten projects by NEC on "as is where is" basis.

(Paragraph 2.3.11)

The implementing departments paid ₹ 44.29 crore without actual execution of the works. Besides, an excess payment of ₹ 22.50 crore was made to the suppliers by inflating the rate of materials/equipment by the Department of Power.

(Paragraphs 2.3.12.1, 2.3.12.2, 2.3.12.3, 2.3.12.4 and 2.3.13)

2.3.1 Introduction

NEC formulates a unified and co-ordinated regional plan with regard to matters of common importance for a balanced development of the North Eastern Region[1] (NER) of India. NEC takes up schemes which normally benefits the entire region and also fills up the gaps not covered under Central Sector or Centrally Sponsored Schemes or Schemes under the State Plans.

2.3.2 Organisational set up

The Planning and Coordination Department (PCD), Government of Nagaland is the Nodal Department for implementation of NEC funded projects in the State. PCD is

[1] North Eastern Region of India comprises eight states namely Assam, Manipur, Meghalaya, Nagaland, Tripura, Arunachal Pradesh, Mizoram and Sikkim.

headed by the Development Commissioner as the Administrative Head assisted by the Commissioner & Secretary, Additional Development Commissioner, Joint Development Commissioner and Deputy Development Commissioner.

At the implementing stage, the Head of Departments (HoDs) are responsible for execution of the schemes/projects within their departments. Each Department implementing NEC funded projects is required to nominate a nodal officer for a single point contact for project implementation and monitoring.

2.3.3 Scope of Audit

The Performance Audit covered the implementation of projects for the period from 2013-18. The records of the PCD and eight out of 42 selected departments/agencies were examined. Out of 170 projects[2] implemented by 42 departments/agencies, 34 projects[3] implemented by eight departments/agencies were selected through stratification and simple random sampling method. The details of eight selected departments/agencies, projects, approved cost and expenditure incurred are given below:

Table 2.3.1

Details of implementing departments, projects, approved cost and expenditure

(₹ in crore)

Sl. No	Name of implementing department/ agency	Total projects	No. of projects selected	Total approved cost	Funds released by NEC	Funds released by GoN	Total funds	Total expenditure
1	Public Works Department (Roads & Bridges)	5	5	395.36	343.01	31.79	374.80	374.68
2	Power	10	10	140.13	101.73	8.99	110.72	109.81
3	Health & Family Welfare	8	8	77.54	43.11	4.67	47.78	45.52
4	Animal Husbandry and Veterinary Sciences	5	5	17.84	8.79	0.73	9.52	6.42
5	Nagaland Beekeeping and Honey Mission	3	3	11.90	7.83	0.67	8.50	8.50
6	Land Resources	1	1	9.08	4.90	0.54	5.44	5.44
7	Legal Metrology and Consumer Protection	1	1	2.66	1.56	0.18	1.74	1.74
8	Nagaland Bio Resource Mission	1	1	2.24	2.02	0.22	2.24	2.24
	Total	**34**	**34**	**656.75**	**512.95**	**47.79**	**560.74**	***554.35**

**** including ₹ 198.34 crore released prior to 2013-14 against 18 spill over projects.***
Source: Records of the implementing departments/agencies.

Out of the 34 projects, two projects were 100 *per cent* funded by NEC while the remaining 32 projects were funded on a sharing basis of 90:10 between NEC and the State. The statement showing details of 34 projects test-checked are given in ***Appendix 2.3.1.***

[2] 97 projects sanctioned during 2013-18 and 73 ongoing projects sanctioned prior to 2013-14.
[3] 16 projects sanctioned during 2013-18 and 18 ongoing projects sanctioned prior to 2013-14.

2.3.4 Audit Methodology

Audit methodology comprised of an entry conference (April 2018) held with the officers from project implementing departments/agencies and PCD. This was followed by requisition and examination of records, issue of questionnaires and audit observations, joint inspection, issue of draft report to the Department and an exit conference (December 2018). The replies received and the views expressed by the Government/ Departmental officers and officers from NEC during the exit conference have been appropriately incorporated in the Report.

2.3.5 Audit Objectives

The audit objectives were to assess whether:

- the planning process for different projects was adequate and effective;
- funds provided were adequate, released in a timely manner and utilised efficiently and economically; and
- the process for monitoring, inspection, reporting and evaluation in implementation of the projects was adequate.

2.3.6 Audit Criteria

The audit findings have been benchmarked against the following sources of criteria.

- NEC General Guidelines (2010, 2015), Guidelines (November 2013) for Preparation of Annual Priority List of Projects, Detailed Project Reports.
- Sanction orders issued by NEC and Government of Nagaland;
- Nagaland Public Works Account Code, PWD Schedule of Rates and General Financial Rules;
- Guidelines, Circulars and instructions with regard to financial management and implementation of projects issued by Government of India and State Government from time to time; and
- Physical and financial progress reported under Management Information System available on NEC website (necouncil.gov.in).

2.3.7 Acknowledgement

We acknowledge the co-operation and assistance extended by the Nodal Department and implementing departments/agencies during the course of conduct of audit.

Audit Findings

2.3.8.1 Preparation of Annual Priority Lists

As per NEC Guidelines (November 2013), "Annual priority list of projects" for funding under NEC should originate from the line Department concerned which will be implementing the projects. The State Government should, as far as possible, formulate and propose projects for the "Annual Priority List of Projects" from thrust areas, NEC Regional Plan, NER Vision 2020 Document and Five Year Plan Working Group Reports having regional character that benefit more than one State in the NER.

Projects costing between ₹ 2 crore to ₹ 15 crore shall be sanctioned only with the recommendation of NEC-Project Appraisal Committee headed by the Secretary, NEC. Projects costing above ₹ 15 crore are processed by NEC for obtaining in-principle approval from the Planning Commission (now NITI Aayog) and Standing Finance Committee/Expenditure Finance Committee clearance/approval from the Ministry of DoNER. However, projects costing less than ₹ 2 crore are approved by the Secretary, NEC.

Examination of records revealed that the Planning and Coordination Department (PCD), which is the Nodal Department had received 1163 project proposals for an estimated cost of ₹ 9821.53 crore during 2013-18 from various departments/agencies, members of legislatures and private individuals for inclusion in the State Annual Priority List. Further examination of records revealed that:

- Out of 1163 projects, 846 projects (73 *per cent*) were originated from the line departments ***(Appendix 2.3.2)*** while the remaining 317 projects (27 *per cent*) were proposed by elected representatives, private individuals, Non-Governmental Organisation (NGO) *etc.,* which was in contravention of the guidelines of the scheme.

- 378 projects out of 1163 projects proposals were prioritised and forwarded to the NEC by the Nodal Department. The basis for prioritisation of the projects and incorporation in the Annual Priority List was not available on record.

The Government stated in reply (December 2018) that, though the projects were proposed by elected representatives, private individuals, NGOs, *etc.,* the concept notes, DPRs for the implementation of the projects were prepared by the line departments concerned.

The reply was not acceptable as the Annual Priority list of projects was prepared without identifying the gaps independently by the line departments due to interventions of elected representations, private individuals, NGO, *etc.* in contravention of the Guidelines of NEC funded projects.

Recommendation (14): The Government should ensure that all project proposals flow from the NEC General Guidelines, NEC Regional Plan and NER Vision 2020 Document and that only those projects should be selected for implementations which fulfil prescribed norms.

2.3.8.2 Retention and Sanction of Projects

As per clause 7 (f) and (g) of NEC Guidelines (2013), the projects retained by NEC from the Annual Priority List will be communicated by NEC to the State Planning Department with a copy to the line Department concerned for submission of the Detailed Project Reports (DPR) to the NEC. If the State Government fails to submit the DPR within two months of retention, the project would be liable for dropping.

Examination of records revealed that:

- Out of 378 prioritised projects during 2013-18, only 142 projects[4] (38 *per cent*) were retained based on their feasibility.
- Out of 142 projects retained by NEC, 97 projects[5] (68 *per cent*) were approved by the NEC during 2013-18.
- The balance 45 projects were not approved by NEC during 2013-18 of which 12 projects were not approved on grounds of delay in submission of DPRs, non-furnishing of clarification sought by NEC and delay in completion of ongoing projects *etc.,* 16 projects were declared as "put on hold" to clear the liabilities against ongoing projects, three projects were dropped, five projects were approved (June 2018) for execution during 2018-19 and the status of nine projects was awaited from NEC (March 2018).

The representative of NEC stated during exit conference (December 2018) that the system of submission of annual priority list had been done away with. As per the new NEC General guidelines 2018, the projects would be identified by 'Project Identification Committee' to be headed by the Chief Secretary.

The fact, however, remains that 40 projects were not approved by NEC thus, denying the intended benefits of the projects to the beneficiaries.

2.3.9.1 Financial Performance

As per paragraph 6 of NEC guidelines (2015), projects included in the priority list are funded on a sharing basis of 90:10 between NEC and the State. However, for the projects implemented by State Owned Public Sector undertaking, Societies, State Universities/State Institutions/State Organisations *etc.,* NEC provides 100 *per cent* funds.

Examination of records revealed that 170 projects (including 73 spill over projects) with a total approved cost of ₹ 1185.04 crore were implemented during 2013-18. NEC had released ₹ 570.12 crore and GoN also released its matching share of ₹ 50.12 crore during 2013-18. The overall physical and financial progress of the projects

4 Projects Retained from Annual Priority List: 2013-14 (28 projects), 2014-15 (7 projects), 2015-16 (41 projects), 2016-17(39 projects), 2017-18 (27 projects).

5 Projects Sanctioned from Annual Priority List: 2013-14 (20 projects) , 2014-15 (5 projects), 2015-16 (37 projects), 2016-17(32 projects), 2017-18 (3 projects).

taken up under NEC as of March 2018 is given below:

Table 2.3.2
Physical and financial progress of projects as of March 2018

No. of Implementing departments/ agencies	No of project	Amount released (₹ in crore)	Expenditure (₹ in crore)	Financial progress (in %)	Physical progress		
					Completed projects	In-completed projects	% of completed projects
42	170	620.24	522.18	84	54	116	32

Source: Planning and Coordination Department.
Note: Includes amount released on projects during the years 2013-18 only.

The audit findings on utilisation of funds are discussed in the subsequent paragraphs.

2.3.9.2 Delay in release of funds to implementing departments/ agencies

As per NEC guidelines and terms and conditions of the sanction orders, funds released by NEC were required to be transferred to the implementing departments/agencies by the State Government within 30 days from the date of release of funds from NEC.

Examination of records of 34 projects test-checked revealed that there were delays in transfer of funds ranging from two days to 47 months by the State Government to the executing departments/agencies in respect of 30 projects ***(Appendix 2.3.3)*****.**

The Government while accepting (December 2018) the facts, stated that the department's failure to submit proposals on time resulted in delay in release of funds.

The reply corroborates the fact that, there were delays in release of funds to the implementing departments/agencies impacting the progress of work and timely completion of projects thereby leading to resultant delays in the accrual of intended benefits of the projects.

2.3.9.3 Short release of State matching share

As per NEC guidelines (2010), 10 *per cent* of the States' matching share should be released along with the funds released by NEC to the implementing agencies.

Examination of records revealed that the total approved cost of 34 projects test-checked was ₹ 656.75 crore and NEC released ₹ 512.95 crore to the State Government. The corresponding States' matching share was ₹ 56.75 crore[6] whereas GoN released only ₹ 47.79 crore. This resulted in short release of States' matching share of ₹ 8.96 crore ***(Appendix 2.3.4).***

[6] Two projects under Animal Husbandry and Veterinary Science Department: Setting up of Dairy Farm at Dimapur, Nagaland (₹ 2.51 crore) and Setting up of 1 Poultry Breeding Farm & 30 Satellite Farms at Dimapur, Nagaland (₹ 3.08 crore) were fully funded by NEC. The total fund released by NEC (March 2018) against the two projects was ₹ 2.23 crore.

The Government while accepting (December 2018) the facts, stated that due to resource constraint, there were delays in providing States' matching share but the same were provided in the subsequent years as backlog. The States' matching share for all the listed projects had been provided in the month of November 2018 except for two projects[7].

The reply was not acceptable as the delay in release of States' matching share to the implementing agencies impacted the completion of projects and therefore, should be avoided. Moreover, non-release of State share was against the basic principle of scheme guidelines which was indicative of State Government's lack of commitment towards faithful execution of NEC funded projects.

2.3.9.4 Expenditure on inadmissible items and Diversion of funds

As per para 9 of the NEC guidelines (2013), funds provided by NEC should not be utilised for salaries, land acquisition, maintenance and working capital. Purchase of vehicle was also not allowed. The revised guidelines of 2015 allowed purchase of vehicle only for survey and investigation projects or projects where vehicles were required for marketing and extension services. Further, in the administrative and financial sanction of NEC, it was reiterated that funds should be utilised strictly for the purpose for which they were sanctioned and no diversion of fund would be allowed.

Examination of records of 34 projects test-checked revealed diversion of ₹ 13.19 crore towards payment of inadmissible items such as work charged wages, departmental charges and components not provided in the administrative approval/approved DPR in 14 projects (41 *per cent*) implemented by seven departments as detailed in ***Appendix 2.3.5.***

As a result, 14 projects were deprived of funds to that extent, thereby adversely affecting the completion of projects.

On being asked by the Audit, Government/Department accepted the audit observations

As diversion of NEC projects funds by seven departments was irregular and unauthorised, this calls for fixing of responsibility of the officials concerned for violation of rules/instruction on this issue.

2.3.9.5 Submission of incorrect utilisation certificates (UCs)

Examination of records of 34 projects test-checked revealed that 26 UCs for ₹ 99.97 crore in respect of 13 projects implemented by six departments/agencies were submitted to NEC. It was, however, observed that out of ₹ 99.97 crore, the State Government had actually released only ₹ 96.23 crore of the UCs issued. It was also observed that the Nodal Department had submitted UCs for ₹ 49.20 crore without the funds being released by the State ***(Appendix 2.3.6)*** on the date of submission of UCs and UCs for ₹ 16.95 crore were submitted to the NEC before the funds were utilised.

[7] Sl. No. 20 (₹ 0.30 crore) and Sl. No. 24 (₹ 0.44 crore) (Appendix 2.3.4 refers).

This indicated that the act of submission of wrong UCs tantamount to misleading NEC which is against the principle of financial discipline.

The Secretary, Finance stated in the exit conference (December 2018) that, submission of incorrect UCs was mainly for the reasons that the funds were received at the fag end of the financial year but UCs had to be submitted within the same year.

The reply was not acceptable as funds released by NEC should have been utilised for the sanction project and UCs submitted to NEC within 12 months from the date of release of funds. However, contrary to the provisions, the action of the nodal Department where UCs were submitted without actual receipt of funds on the date of submission of UCs or without actual spending the money, was highly irregular and calls for instituting departmental enquiry.

Recommendation (15): Government may fix responsibility of the officials responsible for submission of wrong UCs to NEC.

2.3.10 Implementation of the Projects

Examination of records of the PCD revealed that 170 projects were implemented in the State during 2013-18. Out of the projects taken up, 54 projects were reported as complete and 116 projects were in progress (March 2018). The status of the 34 projects test-checked are detailed below:

Table 2.3.3

Status of projects test-checked

Sl. No	Particulars of projects	Number of projects	Period of delay/reasons for fore-closure
1	Projects completed on time	6	Nil
2	Projects completed after delay	7	Three to 35 months
3	Projects declared as closed by NEC before completion	1	Delay in completion of the project for more than three years.
4	Projects fore-closed by NEC on "as is where is" basis	3	Delay in completion of projects for more than five years from the targeted date of completion.
5	Incomplete/ongoing projects	17	Eight projects remained incomplete after expiry of three months to six years from the stipulated date of completion while remaining projects were ongoing.
	Total	**34**	

Source: Records of the implementing departments/agencies.

Out of total approved cost of ₹ 656.75 crore relating to the 34 projects, the departments concerned had utilized ₹ 554.35 crore (March 2018) **(Paragraph 2.3.3 refers).**

Thus, out of 34 projects, only six projects could be completed on time while seven projects were completed with a delay of three to 35 months adversely impacting the accrual of intended benefits. This indicates that projects were not implemented in a timely manner by the implementing departments/agencies.

2.3.11 Inordinate delay leading to stoppage of NEC funding

As per Expenditure Finance Committee (EFC), NEC projects are co-terminus with the term of 14th Finance Commission recommendations and therefore, all ongoing projects funded by NEC were required to be completed by March 2020. Further, NEC decided (February 2017) that projects which were delayed by more than five years from the scheduled date of completion will be closed on **"as is where is"** basis and the left-over works should be completed by the State Government out of their own resources.

Examination of records of the PCD revealed that 10 projects approved by NEC for ₹ 41.55 crore were fore-closed by NEC on "as is where is" basis without ensuring their completion after investment of ₹ 25.85 crore as the completion of the projects had prolonged for more than five years due to land disputes, delay in release of funds by the State Government, clarifications of observations/irregularities raised by the NEC inspection team not received from the State Government, project site found to be deficient in space, revision of DPR, *etc.* As a result, the State Government had additional liability of ₹ 15.70 crore to complete these projects from its own source of funds, which might increase with the passage of time.

The Government, while accepting (December 2018) the facts stated that, these projects will be reviewed and taken up on a need basis depending on the availability of resources.

The reply was not acceptable as these projects were prioritised projects of the State. The delay in completion of projects led to the denial of the intended benefits of the projects to the beneficiaries due to ill planning and lack of timely action on the part of various departments and agencies concerned.

Recommendation (16): Proper investigation should be carried out to fix responsibility of erring officials responsible for delays, which led to closure of ten projects.

2.3.12 Execution of works

Rule 135 of Receipts and Payments Rules, stipulates that payment for all work done other than by the daily labour and for all supplies shall be made on the basis of measurements recorded in Measurement Books (MBs). No payment other than an advance payment may be given, unless the correctness of the claim in respect of quantities and rates as well as the quality of the works done are carefully checked by a responsible officer.

Examination of records and joint inspection of 32 projects[8] out of 34 projects test-checked revealed instances of payment without execution of works, excess payment, extension of undue financial benefit to the contractors and deviation from DPR in 21

[8] Except two projects namely Construction of Pukhungri-Avankhu-Layshi Road (18.49 kms), Phek district-Public Works Department (Road & Bridges) and Setting up of Model Dairy Farms in Nagaland (Animal Husbandry and Veterinary Sciences).

projects/works, which are summarised in the following table:

Table 2.3.4

Summary of audit observations

(₹in crore)

Sl. No.	Type of observation	No. of Projects/ works	No. of Departments/ Agencies involved	Amount involved	Paragraph reference
1	Unexecuted works	8	4	44.29	Para 2.3.12.1 to 2.3.12.4
2	Excess payment	6	1	22.50	Para 2.3.13
3	Undue benefit	5	2	30.40	Para 2.3.14.1 and 2.3.14.2
4	Deviation from approved estimate/DPR	2	1	6.15 (approved cost)	Para 2.3.15
	Total	**21**	**8**	**103.34**	

Source: Departmental records and joint inspection reports.

The issues relating to the above, are discussed below:

2.3.12.1 Public Works Department (Roads & Bridges)

Payment made for unexecuted items of work

(a) Construction of road from Longding - Nokjan in Mon district

Construction of road from Longding - Nokjan in Mon district was sanctioned (March 2010) by NEC for ₹ 49.13 crore. The Department awarded (August 2010) the work to M/s. M.S Panesar & Sons, Dimapur for ₹ 48.17 crore stipulated to be completed by March 2015. GoN submitted (January 2013) the revised DPR for ₹ 54.45 crore on grounds of additional works caused by landslides (13 to 46.35 Km) which was approved by the NEC for ₹ 54.18 crore[9].

Examination of records revealed that NEC released its share of ₹ 48.76 crore to the State. The State Government also released its share of ₹ 5.42 crore to the Executive Engineer (EE), Mon Division. The work was reported as complete in January 2014 and the contractor was paid ₹ 52.70 crore.

Joint inspection (August 2018) of the project revealed discrepancies as given in the table below:

[9] NEC ₹ 48.76 crore and GoN ₹ 5.42 crore.

Table 2.3.5

Sl. No	Particulars	As per DPR	As per MB	As per joint inspection	Difference (iv)-(v)	Value of unexecuted works (₹ in crore)	Rate/unit
(i)	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(vi) =(iv) – (v)*	*(vii)*	*(viii)*
1	Length of road (Kilometer)	46.35	46.35	28.70	17.65	7.99	@ ₹ 4524393.35 per Km
2	1000 mm HP culverts (Number)	88	88	45	43	0.95	@ ₹ 220223.96/-
3	R/Walls (3 m height) (Number)	25	25	3	22	0.66	@ ₹ 298500/- for 3 m R/walls and @ ₹ 470800/- for 4 m R/walls Stretch from 0.00 Km to 28.70 Km
4	R/Walls (4 m height) (Number)	42	42	0	42	1.98	
5	HP culverts (1000 mm) (Number)	58	58	0	58	1.28	@ ₹ 220223.96 /HP culvert and @ ₹ 470800/- for 4 m R/wall Stretch from 28.71 Km to 46.35 Km
6	R/Walls (4 m height) (Number)	20	20	0	20	0.94	
	Total					**13.80**	

Source: Departmental records and joint inspection report.

As can be seen from above table, the contractor did not execute the above six items of works valued at ₹ 13.80 crore whereas, the contractor was paid for execution of all the above items of works. Thus, the Department made an excess payment of ₹ 13.80 crore to the contractor for unexecuted items of works by recording fictitious entries in the MBs.

The Government stated (December 2018) that the excess amount paid was actually ₹ 2.35 crore and not as worked out by Audit. However, the Government did not furnish any supporting documents in support of its contention, though called for.

The reply was not acceptable as the audit findings were based on the joint inspection conducted along with departmental representatives and records submitted to Audit according to which ₹ 13.80 crore was overpaid to the contractor for the unexecuted items of works.

Recommendation (17): Recovery of ₹ 13.80 crore should be made from the contractor for the unexecuted items of work. Besides, action may be initiated to fix responsibility of the erring officials responsible for making excess payment.

(b) Improvement of Mokokchung NH-155/NH-202 Junction to Aghunato via Longsa-Suruhoto Road

The project "Improvement of Mokokchung NH-155/NH-202 Junction to Aghunato via Longsa-Suruhoto Road in Nagaland-88 Kms" estimated at ₹ 158.31 crore[10] was sanctioned (November 2012) by the NEC which was stipulated to be completed by

[10] NEC ₹ 142.48 crore and GoN ₹ 15.83 crore.

March 2016. The work for ₹ 158.31 crore was awarded (December 2012) to M/s M.S. Panesar & Sons, Dimapur.

Examination of records revealed that NEC released its share of ₹ 133.00 crore to the State. The State Government also released its share of ₹ 13.11 crore to the EE, Atoizu Division. The work was reported as complete in January 2018 and the contractor was paid ₹ 146.11 crore through eight running account bills leaving un-paid balance amount of ₹ 12.20 crore.

Joint inspection (September 2018) revealed that out of 88 Km, the contractor had executed improvement works only in 65 km. The results of physical inspection of the road are detailed in the following table:

Table No. 2.3.6

Sl. No.	**Particulars**	**As per DPR**	**As per MB**	**Amount paid (₹ in crore)**	**As per joint inspection**	**Difference**	**Value of unexecuted works (₹ in crore)**
(i)	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(vi)*	*(vii) = (iv) – (vi)*	*(viii)*
1	Length of road (Kilometre)	88	65+9=74	127.99	71.60	2.40	4.15
2	WBM Grade-II (Kilometre)		14.50 to 54.70	7.64	0	40.20	7.64
3	WBM Grade-II (Kilometre) (additional 9 Km road)	0	9	0.93	0	9	0.93
4	Girder Bridge over river Phizho (Meter)	19	19	8.36	12.42	6.58	1.10
5	HP culverts (Number)	220	220	9.24	174	46	1.78
						Total	**15.60**

Source: Departmental records and joint inspection report.

As can be seen from above table, the contractor did not execute works for ₹ 15.60 crore whereas, the contractor was paid for execution of all items of works. This resulted in excess payment of ₹ 15.60 crore without actual execution of five items of works.

The Government while accepting (December 2018) the facts stated that additional items like river retaining works, protection works were carried out which were not included in the DPR.

The reply was not acceptable since the excess amount of ₹ 15.60 crore was paid to the contractor for the works not executed and there were no records/documents relating to the additional works carried out, as claimed by the Government.

Recommendation (18): Recovery of ₹15.60 crore may be made from the contractor for unexecuted items of works apart from fixing of responsibility of officials at fault for facilitating payment without actual execution of various item of work.

(c) Construction and Improvement of Longleng-Ladaigarh Road

The project "Construction and Improvement of Longleng-Ladaigarh Road-107.36 Km" estimated at ₹ 51.53 crore was sanctioned by the NEC in September 2006 for completion by November 2008. The cost was revised (December 2013) to ₹ 79.49[11] crore due to revision of rates from SOR 2008 to 2010 as a result of delay in completion of works. The work was awarded to three contractors to be completed by March 2018.

Examination of records revealed that NEC released its share of ₹ 69.26 crore and the State Government also released its share of ₹ 4.03 crore to the EE Longleng Division. It was observed from the quarterly progress report (March 2018), MBs and Running Bills that the full amount of ₹ 73.29 crore released by the State Government had already been utilised and 95 *per cent* of work was reported (March 2018) as complete.

Joint inspection (September 2018) revealed the following discrepancies:

Table 2.3.7

Sl. No	Particulars	As per DPR	As per MB	Amount paid (₹ in crore)	As per joint inspection (Completed)	Difference *Col.(iv) – Col. (vi)*	Value of unexecuted works as per MBs (*₹in crore)*
(i)	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(vi)*	*(vii)*	*(viii)*
1	Length of road (Kilometer)	107.36	107.36	53.47	99.10	8.26	4.11
2	Group-A: GSB (Grade I to III) (Kilometer)	36	36	5.91	29.90	6.10	1.27
3	Group C: WBM-I (Kilometer)	35.33	35.33	2.67	29.70	5.63	0.43
4	Group C: WBM-II (Kilometer)	35.37	35.37	1.65	11.3	24.07	1.13
5	Group C: WBM-III (Kilometer)	32.82	32.82	2.45	9	23.82	1.78
6	Km Stone, painting and printing on Km stone and Retro Refectories Traffic signs.						0.04
						Total	**8.76**

Source: Departmental records and joint inspection report.

As can be seen from above table, the contractor did not execute works for ₹ 8.76 crore whereas, the contractor was paid for execution of the complete items of works. This resulted in excess payment of ₹ 8.76 crore without actual execution of six items of works.

The Government stated (December 2018) that the actual length of the road was 105 Km and not 99.10 Km. The difference could be due to the measurement of the distance by vehicle Odometer. GSB works were ongoing and WBM works damaged during the past several monsoons were not visible during the joint inspection.

The reply was not acceptable since the audit findings were based on the measurement done during the joint inspection in the presence of Department officers and records submitted to Audit wherein the payment for unexecuted works for ₹ 8.76 crore was

[11] NEC ₹ 71.54 crore and GoN ₹ 7.95 crore.

made to the contractor. The Department also accepted the method of measurement adopted during the joint inspection.

Recommendation (19): Recovery of ₹8.76 crore may be made from the contractor for unexecuted items of works apart from fixing of responsibility of officials at fault for facilitating payment without actual execution of various items of work.

(d) Construction of Viswema-Kidima-Zuketsa-Tadubi road

The project "Construction of Viswema-Kidima-Zuketsa-Tadubi road (36.40 Km)" estimated at ₹ 65.27 crore was sanctioned by the NEC in August 2010. The GoN submitted (October 2012) revised DPR for ₹ 80.00 crore[12] which was approved (November 2013) by the NEC. The work order awarded (October 2010) to M/s T Tachu & Co and M/s Vilelie Khamo was also enhanced (November 2013) from ₹ 63.99 crore to ₹ 78.43 crore due to additional works such as changes in alignment of the road, preparation of sub-grade, five numbers of 6 m span RCC Slab Culvert and 80 m RCC Counter fort wall in Sinking zone, changes in structural design and drawings of RCC Bridges.

Examination of records revealed that NEC released its share of ₹ 71.99 crore to the State and GoN also released its share of ₹ 7.34 crore to two divisions[13]. Against the total release of ₹ 79.33 crore, an amount of ₹ 3.20 crore was deducted by the Finance Department towards Departmental Charges/Work Charge, purchase of vehicle (₹ 0.12 crore), consultancy charge (₹ 0.15 crore), construction of Security fencing (₹ 0.11 crore) and ₹ 75.63 crore was utilised against the project. There was unspent balance of ₹ 12 lakh and the States' share amount of ₹ 66 lakh was not released (September 2018). The project was reported as complete (February 2015) and closed (August 2017) by NEC.

During joint inspection (September 2018) of the project, the following discrepancies were noticed:

Table 2.3.8

Sl. No.	Particulars	As per MB	As per joint inspection	Difference (3-4)	Value of unexecuted works (*₹in crore*)
(i)	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(vi)*
South Division, Kohima					
1	RCC slab culvert (6 meters span) (Number)	5	2	3	2.48
Pfutsero Division					
1	Compacting (Meter)	13796	8696	5100	0.14
2	Granular Sub-base (GSB)-I (Meter)	13796	8696	5100	0.70
3	Water Bound Macadam	13796	8696	5100	0.55

[12] NEC ₹ 72.00 crore and GoN ₹ 8.00 crore.

[13] South Division, Kohima (0 to 22.6 Km=22.6 Km) for ₹ 52.94 crore and Pfutsero Division (22.6 Km to 36.40 Km=13.80 Km) for ₹ 25.49 crore.

Sl. No.	Particulars	As per MB	As per joint inspection	Difference (3-4)	Value of unexecuted works (₹in crore)
	(WBM)-II (Meter)				
4	HP Culvert (1000 mm dia.) (Number)	25	12	13	0.55
				Total	**4.42**

Source: Departmental records and joint inspection report.

As can be seen from above table, the contractor did not execute works for ₹ 4.42 crore, whereas payment was made for execution of the complete items of works. This resulted in excess payment of ₹ 4.42 crore without actual execution of five items of works.

The Government stated (December 2018) that all the five RCC slab culverts and 25 HP culverts had been constructed which could be verified at site. The GSB and WBM works were still ongoing, measurement have been recorded anticipating that the contractor shall carry out the works. The Department will release full payment after completion of the works by the Contractor.

The reply was not acceptable as the payment was already made to the contractors without ensuring the actual execution of the works as was clearly evident from the reply of the Government.

Recommendation (20): Recovery of ₹4.42 crore may be made from the contractor for unexecuted items of works apart from fixing of responsibility of officials at fault for facilitating payment without actual execution of various item of work.

2.3.12.2 Health & Family Welfare Department

Upgradation and Infrastructure Development of Nursing School at Naga Hospital, Kohima

The project "Upgradation and Infrastructure Development of Nursing School at Naga Hospital, Kohima, Nagaland" estimated at ₹ 2.26 crore[14] was sanctioned (March 2010) by the NEC for construction of Nursing Hostel (Civil works ₹ 1.04 crore) and procurement of laboratories equipment/ charts/ models *etc.* (₹ 1.22 crore), to be completed by March 2013. The work for construction of Nursing Hostel (Civil works) was awarded (October 2011) to M/s Klas Enterprises for ₹ 87 lakh with stipulation to complete by October 2013.

Examination of records revealed that NEC released ₹ 2.04 crore[15] to the State and GoN in turn released ₹ 1.11 crore (including its share of ₹ 0.11 crore) to the Medical Engineering Division, Kohima. Out of the amount released, ₹ 87 lakh was paid to the contractor for construction of the Nursing Hostel. NEC closed the project in February 2018 due to delay in completion of the project for more than three years from the

[14] NEC ₹ 2.04 crore and GoN ₹ 0.22 crore.
[15] ₹ 0.50 crore (March 2010), ₹ 0.50 crore (May 2011) and ₹ 1.04 crore (February 2017).

scheduled date of completion. The delays in completion were attributed to land dispute and delay in release of funds by the State Government. However, the Hostel building was constructed while the project was closed by the NEC.

Joint inspection (August 2018) revealed that nine items of works for construction of the Nursing Hostel for ₹ 24 lakh *(**Appendix 2.3.7**)* recorded in the MB as executed, were actually not executed. It was also observed that instead of utilising the Nursing Hostel for its intended purpose, it was utilised by the School of Nursing, Naga Hospital Authority Kohima (NHAK), as its Administrative office, Faculty Room and Laboratories. There was no student intake in the School of Nursing, NHAK during 2017-18 due to shortage of hostel accommodation as the existing Girls hostel (intake capacity-40 students) was inadequate to meet the requirement.

On the above being pointed out in audit, the Government accepted (December 2018) the facts.

Thus, the building constructed was utilised for purposes other than for which the project was sanctioned. Besides, ₹ 24 lakh paid to the contractor without execution of nine items of works needed to be recovered.

Recommendation (21): The Government may consider initiating departmental inquiry into the case for utilisation of Nursing Hostel for the purpose other than the intended purpose and initiate action for the recovery of ₹24 lakh besides fixing the responsibilities of the erring officers/officials who were responsible for making the irregular payment.

2.3.12.3 Department of Power

Payment made for unexecuted work

(a) Up-gradation of 66kV to 132kV S/C Kiphire-Tuensang-Mokokchung Transmission Line, Phase-I

NEC sanctioned (January 2012) ₹ 4.99 crore[16] for "Up-gradation of 66kV to 132kV S/C Kiphire-Tuensang-Mokokchung Transmission Line, Phase-I" to be completed by December 2014. The work for the supply and erection was awarded (June 2012) to M/s National Power Systems, Dimapur, being the lowest bidder, on turnkey[17] basis at a cost of ₹ 4.49 crore to be completed by December 2013.

Examination of records revealed that NEC released ₹ 4.49 crore to the State and the GoN also released its share of ₹ 0.45 crore to the EE (Transmission) Division Mokokchung. It was observed that the full amount of ₹ 4.94 crore was recorded as utilised (March 2018).

As per the approved DPR, 105.7 Km transmission line for ₹ 1.89 crore was to be upgraded and 297 out of 305 towers were to be upgraded to 132kV system. It was, however, observed that the Department revised (June 2016) the DPR reducing the

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[16] NEC ₹ 4.49 crore and GoN ₹ 0.50 crore.

[17] It is a contract under which a firm agrees to fully Design, Supply, Erection and Testing & Commissioning; and turn the project over to the client when it is ready for operation.

length of the transmission line to 78 Km and upgradation of 243 towers without reducing the project cost of ₹ 4.99 crore. The approval of the revised DPR by NEC was not available on record. It was observed that the contractor was paid the full amount of ₹ 1.89 crore for de-stringing and re-stringing of three power conductor for a total length of 105.70 Km. This resulted in payment of ₹ 0.49 crore without the actual execution of work relating to the transmission line in 27.70 Km *(**Appendix 2.3.8**)*.

On being pointed out, the Government stated in reply (December 2018) that work was completed for the total length of 105.7 Km but was inadvertently shown as 78.00 Km in the Action Taken Report.

The reply was not acceptable as the incomplete stretch of 27.70 Km was carried over to Phase-II of the Project which was approved in September 2016. Thus, the contractor was paid ₹ 0.49 crore without the actual execution of work relating to transmission line in a stretch of 27.70 Km which was needed to be recovered.

(b) Construction of 33kV transmission lines, 33/11kV sub-station, 11 kV lines, 11/0.4 kV distribution sub-station and LT lines in Kohima, Nagaland

Construction of 33kV transmission lines, 33/11kV sub-station, 11 kV lines, 11/0.4 kV distribution sub-station and LT lines in Kohima, Nagaland estimated at ₹ 14.97 crore[18] was sanctioned by the NEC in December 2013. The Department awarded (March 2014) the work for ₹ 14.36 crore to M/s National Power Systems, Dimapur being the lowest bidder on turnkey basis to be completed by March 2016.

Examination of records revealed that NEC released ₹ 13.47 crore to the State and GoN also released its share of ₹ 1.20 crore to the EE (Electrical) division, Kohima. It was observed that the contractor was paid ₹ 14.36 crore for completion of all the nine items of work.

Joint inspection (September 2018) revealed that two items of works for ₹ 38 lakh reported as complete were not executed whereas the payment was made to the contractor included those two items of work *(**Appendix 2.3.9**)*.

While accepting the facts, the Government stated (December 2018) that the poles could not be erected as planned due to objections raised by land owners and also due to obstructions caused by existing structures, *etc.*

Thus, Government's reply substantiates the fact that the department made fictitious entries in the MBs without physically verifying the execution of work and passed the bills for payment of ₹ 38 lakh to the contractor for the works not executed, which was needed to be recovered.

Recommendation (22): Government should consider filing an FIR, besides initiating departmental inquiry to fix the responsibility of officials involved in making such irregular payments.

[18] NEC ₹ 13.47 crore and GoN ₹ 1.50 crore.

2.3.12.4 Legal Metrology and Consumer Protection Department

NEC sanctioned (November 2013) ₹ 2.66 crore[19] for procurement and installation of modern equipment at Secondary Standard Laboratory (SSL) and Working Standard Laboratories (WSLs) under "Modernisation of Department of Legal Metrology and Consumer Protection (LMCP), Nagaland" to be completed by March 2015.

Examination of records revealed that NEC released ₹ 1.56 crore to the State and GoN also released its share of ₹ 0.18 crore to the Department. The project was closed (May 2018) by NEC on "**as is where is**" basis due to delay in completion of the project. It was observed that a "Purchase Committee" was constituted (May 2015) under the chairmanship of the Secretary to the Government of Nagaland, LMCP and decided (June 2015) to purchase all the required equipment from India Government Mint Mumbai, and those instruments which are not manufactured by the Mint will be purchased from (a). Trust Weighing Systems, Maligaon, Assam; and (b). New Age Systems & Appliance, Guwahati. The Purchase Committee in its meeting (June 2015) also resolved to have frequent meetings to review the achievements of the field offices and submit report to the Government.

It was observed that the Department incurred an expenditure of ₹ 1.74 crore on account of procurement of laboratory instruments, Kyocera Photocopier Machine and maintenance of laboratories, transportation of equipment, hoardings and land tax/rent for hoardings. The department also certified receipt of the materials in full and in good condition and recorded in the stock register.

Joint inspection (July 2018), however, revealed that 12 laboratory instruments for ₹ 60 lakh shown as purchased, were not actually procured. This proved that an amount of ₹ 60 lakh was incurred on fictitious procurement of 12 laboratory equipment. It was also observed that other laboratory equipment purchased and hoardings meant for WSLs, were lying idle (July 2018) at the State SSL, Kohima.

On being pointed out in audit, the Department accepted the facts during the exit conference (December 2018).

Thus, the Department incurred an expenditure of ₹ 60 lakh on fraudulent procurement of equipment by providing incorrect certificate and recording fictitious entries in the stock register.

Recommendation (23): Department should initiate action against the officers/officials involved and the fraudulent payment made, be recovered.

2.3.13 Excess payment to contractor/supplier

Rule 137 of GFR 2005 read with Sub rule (iii) stipulates that every authority delegated with the financial powers of procuring goods in public interest shall have the responsibility and accountability to bring efficiency, economy and transparency in

[19] NEC ₹ 2.39 crore and GoN ₹ 0.27 crore.

matters relating to public procurement and for fair and equitable treatment with the suppliers and promotion of competition in public procurement.

Rule 150 (1) of GFR further stipulates that invitation to tenders by advertisement should be used for procurement of goods of estimated value ₹ 25 lakh and above. Advertisement in such case should be given in the Indian Trade Journal, published by the Director General of Commercial Intelligence and Statistics, Kolkata and at least in one national daily having wide circulation.

Examination of records and joint inspection revealed fraudulent payment of ₹ 22.50 crore made to the contractor/supplier by the Department of Power Nagaland (DoPN) in six projects as discussed in the following paragraphs:

(a) Construction of 220/132/33 kV Substation at Chiephobozou (Part-II), Nagaland

NEC sanctioned (August 2012) ₹ 68.58 crore for "Construction of 220/132/33 kV Substation at Chiephobozou (Part-II), Nagaland" on 90:10 sharing basis (NEC ₹ 61.72 crore and GoN ₹ 6.86 crore) to be completed by July 2015. The three firms had submitted their quotations for the said project and M/s ECI Engineering and Constructions Company Limited, Hyderabad submitted the lowest quote for ₹ 52.61 crore. A further scrutiny in this regard, however, revealed that the said work for the supply and erection was awarded on turnkey basis to another firm, M/s Techno Power Enterprises (P) Ltd., Dimapur for ₹ 52.61 crore which had not even participated in the bidding process. The reasons for not awarding the work to the L 1 contractor and awarding the same to a contractor other than the firms which had participated in the bidding process, were neither found on record nor furnished, though called for.

Examination of records revealed that NEC released ₹ 55.00 crore to the State and the GoN also released ₹ 5.22 crore[20] to the EE (Transmission) Division Kohima. The Department had incurred an expenditure of ₹ 59.88 crore for the project. Out of the expenditure of ₹ 59.88 crore, the Department paid ₹ 31.81 crore for the procurement of five transformers and five different electrical items.

Cross examination of the records with the tax invoices of the manufacturers and way bill/consignment note of transporter submitted by the supplier to the Taxes Department revealed that the actual price of five transformers and five different electrical items was only ₹ 8.62 crore excluding taxes, freight and transportation charge, *etc.*, (***Appendix 2.3.10***). This indicated that the supplier (M/s Techno Power Enterprise Pvt. Ltd.) had procured the transformers and the electrical items from the manufacturer at the price of ₹ 8.62 crore and paid the taxes, freight and supplier's margin on the actual cost of the transformers and the electrical items.

After considering the supplier's margin and transportation charges allowed by the DoPN on the basis of the cost assessment submitted by the supplier and payments of the mandatory taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax

[20] ₹ 1.55 crore (March 2013), ₹ 3.11 crore (December 2015) & ₹ 0.56 crore (August 2017).

etc., the admissible cost of the transformers and the electrical items worked out to ₹ 14.61 crore as detailed below:

Table 2.3.9

Details of admissible cost of the transformers and the electrical items

(Amount in ₹)

Name of the item	Quantity	Manufac-turer's price	Total amount (1x2)	CST, freight, insurance, packing & forwarding charges (16.32 % of col. 3)	VAT (13.25 % of col. 3)	Transportation (15 % of col. 3)	Supplier's margin (25 % of col. 3)	Total (3+4+5+6+7)
	1	2	3	4	5	6	7	8
20/25 MVA 132/33 kV Transformer	1	12038142	12038142	1964625	1595054	1805721	3009535	20413077
33.33/41.67, 220/132 kV Transformer	4	14343750	57375000	9363600	7602187	8606250	14343750	97290787
MS Rail	30	57333	1719990	280702	227899	257999	429998	2916588
MS Rod (40 mm dia for earthing)	15.6	56610	883116	144125	117013	132468	220779	1497501
145kV SF6 Circuit Breaker	5	618879	3094395	505005	410007	464159	773599	5247165
220 kV Post Insulator	100	7744	774400	126382	102608	116160	193600	1313150
GI Structure (Zhadima)	33.25	71434	2375181	387630	314711	356277	593795	4027594
GI Structure	42.53	71434	3038088	495816	402547	455713	759522	5151686
GI Structure	68.289	71434	4878156	796115	646356	731723	1219539	8271889
		Total	**86176468**	**14064000**	**11418382**	**12926470**	**21544117**	**146129437**

Source: Commissioner of Taxes, Dimapur and departmental records.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the prices of the transformers and electrical items which resulted in procurement of transformers and electrical items at an exorbitant rate. Thus, the DoPN paid ₹ 17.20 crore over and above the admissible cost (₹ 31.81 crore - ₹ 14.61 crore) after admitting the transportation charges and the supplier's margin along with payment of mandatory taxes with a malafide intention to commit fraud and to misappropriate Government money.

On this being pointed out in audit, the Government stated (December 2018) that the Department had evaluated the tendered price for the work on the basis of Engineering, Procurement and Construction (EPC)-Turnkey contract as a single package for the project as a whole and not on individual item-wise rates which was approved by the State Purchase Board duly constituted by the State Government.

The reply of the DoPN was not acceptable as bidding price and award of the contract was done by segregating the item of works. The contention that the work was taken up on Turn-key/Engineering, Procurement and Construction mode, was also not pre-defined in the work order. Thus, there was an excess payment of ₹ 17.20 crore over and above the admissible costs which needs to be investigated.

Recommendation (24): The Government should investigate the matter and fix the responsibility on the officers/officials involved in the procurement process for making excess payment.

(b) Upgradation of 66/33/11 kV Chumukedima Substation from 10MVA to 30MVA, Nagaland

Upgradation of 66/33/11 kV Chumukedima Substation from 10MVA to 30MVA for ₹ 4.94 crore[21] was sanctioned (January 2012) by the NEC to be completed by July 2013. The Department awarded (July 2012) the supply of materials, erections and civil and engineering design work for ₹ 4.94 crore to M/s Shyama Power India Ltd, Dimapur being the lowest bidder, on turnkey basis. However, advertisement of the tender enquiry as required under Rule 150 of the GFR 2005 was not available on record.

Examination of records revealed that NEC released ₹ 4.45 crore to the State and GoN also released its share of ₹ 0.40 crore[22] to the EE (Electrical) Transmission Division, Dimapur. The project which was inclusive of purchase of 20 MVA transformer was reported as complete (April 2014) after incurring an expenditure of ₹ 4.85 crore. It was observed that the supplier (M/s Shyama Power India Ltd, Dimapur) was paid ₹ 3.95 crore (exclusive of VAT) for procurement of 20 MVA transformer (EMCO Limited, Jalgaon, Maharashtra made). To ascertain the actual price of the transformer, we cross examined the 'C' form[23] utilisation submitted by the supplier to the Taxation Department (February 2014) which revealed that the actual price of the transformer was only ₹ 1.21 crore. This indicated that the supplier (M/S Shyama Power India Limited) had procured the transformer from the manufacturer at the price of ₹ 1.21 crore and paid the taxes on the actual cost of the transformer.

After considering the supplier's margin and transportation charges allowed by the department on the basis of the cost assessment submitted by the supplier and the payments of mandatory taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax *etc.*, the admissible cost of the transformer worked out to ₹ 2.06 crore as detailed in the Table:

21 NEC ₹ 4.45 crore and GoN ₹ 0.49 crore.

22 ₹ 0.10 crore (March 2014) and ₹ 0.30 crore (March 2016).

23 Form C is issued by the State Sales Tax / VAT / Commercial Tax Department to a registered dealer who makes inter-state purchase of goods mentioned in his registration certificate. Purchasing dealer, after making relevant entries and after putting his signatures issues portions marked Original and duplicate to the selling dealer of the goods, the details of which are given on the form. The selling dealer presents Original Copy before its assessing authority for claiming exemption from or reduction in rate of tax, as the law may provide. The purchasing dealer, making inter-state purchase, can, on the basis of Form C, purchase such goods after paying tax to the seller only @2 *per cent*.

Table 2.3.10

Details of admissible cost of the transformer

(Amount in ₹)

Manufacturer's price	CST, freight, insurance, packing & forwarding charges (16.32 % of col. 1)	VAT (13.25 % of col. 1)	Transportation (15 % of col. 1)	Supplier margin (25 % of col. 1)	Total (1+2+3+4+5)
1	**2**	**3**	**4**	**5**	**6**
12148363	1982613	1609658	1822254	3037091	20599979

Source: Commissioner of Taxes, Dimapur and departmental records.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the price of the transformer which resulted in procurement of transformer at an exorbitant rate. Thus, DoPN paid ₹ 1.89 crore over the admissible cost (₹ 3.95 crore - ₹ 2.06 crore) after admitting the transportation charges and the margin of the supplier along with payment of mandatory taxes with a malafide intention to commit fraud and to misappropriate Government money.

The Government (December 2018) stated that the observation made by the audit was based on the basic ex-works price of the transformer without considering the technical and commercial related components.

The reply was not acceptable as the cost of the transformer plus supplier's margin, transportation charges, and taxes allowed by the Department works out to only ₹ 2.06 crore. Thus, there was an excess payment of ₹ 1.89 crore over and above the admissible cost which needs to be investigated.

Recommendation (25): Government should investigate the matter and fix responsibility of officials involved in the procurement process for making excess payment.

(c) Up-gradation of 66kV to 132kV S/C Kiphire-Tuensang-Mokokchung Transmission Line, Phase-I

NEC sanctioned (January 2012) ₹ 4.99 crore[24] for "Up-gradation of 66kV to 132kV S/C Kiphire-Tuensang-Mokokchung Transmission Line, Phase-I" to be completed by December 2014. The work for supply and erection for ₹ 4.49 crore was awarded (June 2012) to M/s National Power Systems, Dimapur being the lowest bidder, on turnkey basis. However, advertisement of the tender enquiry as required under Rule 150 of the GFR 2005 was not available on record.

Examination of records revealed that NEC released ₹ 4.49 crore to the State and GoN released ₹ 4.94 crore (including State share of ₹ 0.45 crore) to the EE (Transmission) Division Mokokchung. The contractor completed the work in December 2014 and was paid ₹ 4.25 crore.

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[24] NEC ₹ 4.49 crore and GoN ₹ 0.50 crore.

It was observed that the Department out of payment of ₹ 4.25 crore paid ₹ 2.15 crore for five electrical items. To ascertain the actual price of these items, we cross examined the tax invoices of the manufacturers and way bill/consignment note of transporter submitted by the supplier to the Taxes Department which revealed that the actual price of five electrical items was only ₹ 0.50 crore *(**Appendix 2.3.11**)*. This indicated that the supplier (M/s National Power Systems, Dimapur) had procured the electrical items from the manufacturer at the price of ₹ 0.50 crore and paid the taxes on the actual cost of the electrical items.

After considering the supplier's margin and the transportation charges allowed by the department on the basis of the cost assessment submitted by the suppliers and the payments of mandatory taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax *etc.*, the admissible cost of the five electrical items worked out to ₹ 0.85 crore as detailed below:

Table 2.3.11

Details of admissible cost of the five electrical items

(Amount in ₹)

Description and Specification of Goods	Quantity (in nos./Kgs.)	Rate (in ₹)	Amount (in ₹) (Col. 1 x Col. 2)	CST, freight, insurance, packiZng & forwarding charges (16.32 % of col. 3)	VAT (13.25 % of col. 3)	Transportation (15 % of col. 3)	Supplier margin (25 % of col. 3)	Total (3+4+5+6+7)
	1	2	3	4	5	6	7	8
11 KV Disc insulator B/S 90KN	7764	340	2639760	430809	349768	395964	659940	4476241
Hot Dip Galvanised Steel Structure for Tower	20114	61	1226954	200239	162571	184043	306739	2080546
Single Tension Compression H/W with A.H suitable for ACSR Wolf Conductor	876	1225	1073100	175130	142186	160965	268275	1819656
Mid Span Compression Joint for ACSR Wolf	210	300	63000	10281	8347	9450	15750	106828
Earthwire Suspension fittings	10	500	5000	816	663	750	1250	8479
Total			**5007814**	**817275**	**663535**	**751172**	**1251954**	**8491750**

Source: Commissioner of Taxes, Dimapur and departmental records.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the price of the electrical items which resulted in procurement of electrical items at an exorbitant rate. Thus, the DoPN paid ₹ 1.30 crore over the admissible cost (₹ 2.15 crore - ₹ 0.85 crore) after admitting the transportation charges and the margin of the supplier along with payment of mandatory taxes with a malafide intention to commit fraud and to misappropriate Government money.

The Government (December 2018) stated that it considered the price offer as a whole package which included all items and accessories over and above the basic ex-works price of the electrical materials and that Audit had not considered technical facts and commercial related components into account.

The reply of the DoPN was also not acceptable as the cost of the electrical items plus supplier's margin, transportation charges, and taxes allowed by the DoPN worked out to only ₹ 0.85 crore. Thus, there was an excess payment of ₹ 1.30 crore over and above the admissible cost which needs to be investigated.

Recommendation (26): Government should investigate the matter and fix responsibility of the officials involved in procurement process for making excess payment.

(d) Upgradation of 66kV S/C to 132kV S/C Kiphire-Tuensang-Mokokchung Transmission Line (Phase II)

The project "Upgradation of 66kV S/C to 132kV S/C Kiphire-Tuensang-Mokokchung Transmission Line, Phase-II" estimated at ₹ 5.83 crore[25] was sanctioned (September 2016) by NEC to be completed by September 2018. The Department awarded (February 2017) the work procurement of materials, erection and civil works for ₹ 5.24 crore to the same firm M/s National Power Systems, Dimapur who executed the work for Phase I, on a turnkey basis, without going in for open tendering.

Examination of records revealed that NEC released ₹ 2.69 crore to the State and GoN released ₹ 2.77 crore (including State share of ₹ 0.08 crore) to the EE (Transmission) Division Mokokchung which was shown as fully utilised.

It was observed that the Department out of payment of ₹ 2.77 crore paid ₹ 1.99 crore for three electrical items. To ascertain the actual price of these items, we cross examined the records with the tax invoices of the manufacturers and way bill/consignment note of transporter submitted by the supplier to the Taxes Department which revealed that the actual price of three electrical items was only ₹ 0.82 crore *(**Appendix 2.3.12**)* whereas, the Department had paid ₹ 1.99 crore. This indicated that the supplier (M/s National Power Systems, Dimapur) had procured the three electrical items from the manufacturer at the price of ₹ 0.82 crore and paid the taxes on the actual cost of the three electrical items.

After considering the supplier's margin and transportation charges allowed by the department on the basis of the cost assessment submitted by the supplier and the payments of mandatory taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax *etc.*, the admissible cost of the three electrical items worked out to ₹ 1.39 crore as detailed in the Table:

[25] NEC ₹ 5.25 crore and GoN ₹ 0.58 crore.

Table 2.3.12

Details of admissible cost of three electrical items

(Amount in ₹)

Items of works	Rate as per Invoices	Qty in MT	Total Amount paid	CST, freight, insurance, packing & forwarding charges (16.32 % of col. 3)	VAT (13.25 % of col. 3)	Transportation (15 % of col. 3)	Supplier margin (25 % of col. 3)	Total (3+4+5+6+7)
	1	2	3	4	5	6	7	8
GI Steel Structure	65407	114.722	7503622	1224591	994230	1125543	1875906	12723892
Disc Insulator	516	864	445824	72759	59071	66874	111456	755984
Hardware Fittings	1684	144	242496	39575	32131	36374	60624	411200
		Total	**8191942**	**1336925**	**1085432**	**1228791**	**2047986**	**13891076**

Source: Commissioner of Taxes, Dimapur and departmental records.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the price of the three electrical items which resulted in their procurement at an exorbitant rate. Thus, the DoPN paid ₹ 0.60 crore over the admissible cost (₹ 1.99 crore - ₹ 1.39 crore) after admitting the transportation charges and the margin of the supplier along with payment of mandatory taxes with a malafide intention to commit fraud and misappropriate Government money. Further, the selection of the firm was irregular as open tendering was not done which violated Rules 137 and 150 of GFR, 2005 and the adoption of such an unauthorised course of action resulted in lack of competition and transparency in selection of the supplier.

On the above being pointed out in Audit, the Government stated in its reply (December 2018) that the conclusion made by the audit was based on the basic ex-works price of the electrical materials without considering the technical facts and commercial related components into account.

The reply was not acceptable as there was no competitive bidding and the award of the contract was done without ascertaining the reasonableness of prices in relation to the prevailing market rates/manufacture's price, which led to excess payment made to the supplier.

Recommendation (27): Government should investigate the matter and fix the responsibility of the officers/officials involved in the procurement process for making excess payment.

(e) Conversion of 33kV pole structure to Lattice tower of the Ringmain Feeder at Kohima, Nagaland

NEC sanctioned (June 2015) ₹ 14.31 crore[26] for "Conversion of 33kV pole structure to Lattice tower of the Ringmain Feeder at Kohima, Nagaland" to be completed by July 2017. The objective of the project was to strengthen the 33kV line mechanically, provide better line to ground clearance, reduce the line losses and ensure stability of the system. The work for conversion of Pole structure to Lattice tower including civil works for construction of Control Room at sub-station, IG Stadium, Kohima for ₹ 11.17 crore was awarded (August 2016) to M/s National Power Systems, Dimapur being the lowest bidder, on turnkey basis.

Examination of records revealed that NEC released ₹ 9.20 crore to the State and GoN released ₹ 9.78 crore (including State share of ₹ 0.58 crore) to the EE, Transmission Kohima.

It was observed that out of the amount (₹ 9.78 crore) paid, the Department paid ₹ 1.98 crore for the procurement of one transformer and three different electrical items. To ascertain the actual price, we cross examined the records with the tax invoices of the manufacturers and way bill/consignment note of transporter which revealed that the actual price of one transformer and three different electrical items was only ₹ 0.87 crore *(**Appendix 2.3.13**)* whereas the DoPN had paid ₹ 1.98 crore. This indicated that the supplier (M/s National Power Systems, Dimapur) had procured the transformer and three electrical items from the manufacturer at the price of ₹ 0.87 crore and paid the taxes on the actual cost of the transformer and three electrical items.

After considering the supplier's margin and the transportation charges allowed by the DoPN on the basis of the cost assessment submitted by the supplier and the payments of mandatory taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax *etc.*, the admissible cost of one transformer and three electrical items worked out to ₹ 1.48 crore as detailed below:

Table 2.3.13

Details of admissible cost of one transformer and three electrical items

(Amount in ₹)

Items	Qty	Rate as per Invoices	Total amount paid	CST, freight, insurance, packing & forwarding charges (16.32 % of col.3)	VAT (13.25 % of col.3)	Transportation (15 % of col.3)	Supplier margin (25 % of col.3)	Total (3+4+5+6+7)
	1	2	3	4	5	6	7	8
Disc Insulator (No.)	1160	660	765600	124946	101442	114840	191400	1298228

[26] NEC ₹ 12.88 crore and GoN ₹ 1.43 crore.

Items	Qty	Rate as per Invoices	Total amount paid	CST, freight, insurance, packing & forwarding charges (16.32 % of col.3)	VAT (13.25 % of col.3)	Transportation (15 % of col.3)	Supplier margin (25 % of col.3)	Total (3+4+5+6+7)
	1	2	3	4	5	6	7	8
ACSR Wolf Conductor (KM)	20	212757	4255140	694439	563806	638271	1063785	7215441
11 KV Vacuum Circuit Breaker Complete with Control Relay Panel (No.)	3	223762	671286	109554	88946	100693	167822	1138301
5 MVA, 33/11 KCV Transformer (No.)	1	3052350	3052350	498143	404436	457852	763087	5175868
		Total	**8744376**	**1427082**	**1158630**	**1311656**	**2186094**	**14827838**

Source: Commissioner of Taxes, Dimapur and departmental records.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the price of the transformer and three electrical items which resulted in procurement of transformer and three electrical items at an exorbitant rate. Thus, the DoPN paid ₹ 0.50 crore over the admissible cost (₹ 1.98 crore - ₹ 1.48 crore) after admitting the transportation charges and the margin of the supplier along with payment of mandatory taxes with an intention to misappropriate Government money.

The Government stated (December 2018) that the project was awarded as a single package EPC-Turnkey basis after due tendering process and approval of the State Purchase Board and not based on individual item-wise rates as analysed by audit.

The reply was not acceptable as the contract was awarded on clear segregation of items of work without establishing the reasonableness of prices in relation to the prevailing market rates/ manufacture's price, which led to excess payment made to the supplier.

Recommendation (28): The Government should investigate the matter and fix the responsibility of the officers/officials involved in the procurement process for making excess payment.

(f) Construction of 33kV transmission lines, 33/11kV sub-station, 11kV lines, 11/0.4 kV distribution sub-station and LT lines in Kohima, Nagaland

Construction of 33kV transmission lines, 33/11kV sub-station, 11kV lines, 11/0.4kV distribution sub-station and LT lines in Kohima, Nagaland was sanctioned (December 2013) by NEC for ₹ 14.97 crore[27]. The Department awarded (March 2014) the work

[27] NEC ₹ 13.47 crore and GoN ₹ 1.50 crore.

for ₹ 14.36 crore to M/s National Power Systems, Dimapur being the lowest bidder on turnkey basis to be completed by March 2016.

Examination of records revealed that NEC released ₹ 13.47 crore to the State and GoN released ₹ 14.67 crore (including State share of ₹ 1.20 crore) to the EE (Electrical) Division Kohima. The division utilised an amount of ₹ 14.51 crore (March 2018) for the project.

It was observed that of the payment made, the Department paid ₹ 2.52 crore for six different electrical items. To ascertain the actual price, we cross examined the records with the tax invoices of the manufacturers and way bill/consignment note of transporter submitted by the supplier to the Taxes Department which revealed that the actual price of six different electrical items was only ₹ 0.89 crore *(**Appendix 2.3.14**)* whereas, the Department had paid ₹ 2.52 crore. This indicated that the supplier (M/s National Power Systems, Dimapur) had procured six electrical items from the manufacturer at the price of ₹ 0.89 crore and paid the taxes on the actual cost of the electrical items.

After considering the supplier's margin and the transportation charges allowed by the DoPN on the basis of the cost assessment submitted by the supplier and the payments of mandatory taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax *etc.*, the admissible cost of six electrical items worked out to ₹ 1.51 crore as detailed below:

Table 2.3.14

Details of admissible cost of six electrical items

(Amount in ₹)

Description of items	Quantity	Rate as per Invoices	Total Amount (1x2)	CST, freight, insurance, packing & forwarding charges (16.32 % of col. 3)	VAT (13.25 % of col. 3)	Transportation (15 % of col. 3)	Supplier margin (25 % of col. 3)	Total (3+4+5+6+7)
	1	2	3	4	5	6	7	8
GI Steel Tubular Poles, SP-76	142	25100	3564200	581678	472257	534630	891050	6043815
GI Steel Tubular Poles, SP-66	65	21300	1384500	225950	183446	207675	346125	2347696
36 KV Current Transformer OIP	6	57535	345210	56338	45740	51781	86303	585372
11 KV Outdoor Oil immersed Current Transformer/Potential Transformer	18	14828.72	266917	43561	35367	40038	66729	452612
ACSR Wolf Conductor	18.2	105209.39	1914811	312497	253712	287222	478703	3246945
ACSR Hare Conductor	23.1	61830.56	1428286	233096	189248	214243	357071	2421944
		Total	**8903924**	**1453120**	**1179770**	**1335589**	**2225981**	**15098384**

Source: Commissioner of Taxes, Dimapur and departmental records.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the price of the electrical items which resulted in procurement of six different electrical items at an exorbitant rate.

Thus, the DoPN paid ₹ 1.01 crore over the admissible cost (₹ 2.52 crore - ₹ 1.51 crore) after admitting the supplier's margin and the transportation charges along with payment of mandatory taxes with an intention to misappropriate Government money.

The Department stated in the exit conference (December 2018) that NITs were floated and comparative statements were prepared. However, market surveys of the prevailing rates of the items were not done. Further, the work was awarded only after the approval of the Government.

The reply was not acceptable as the work was awarded without assessing the reasonableness of prices in relation to the prevailing market rates/manufacture's price, which led to excess payment made to the supplier.

Recommendation (29): Government should investigate the matter and fix responsibility of the officials involved in procurement process for making excess payment.

2.3.14 Undue favour to Contractor

Examination of records and joint inspection revealed that there were cases of undue favour to contractors/private individuals for ₹ 30.40 crore in five projects involving two departments as discussed in the following paragraphs:

2.3.14.1 Public Works Department (Roads & Bridges)

Construction of Pukhungri-Avankhu-Layshi Road[28] (18.49 kms), Phek district estimated at ₹ 10.42 crore was sanctioned (September 2005) by the NEC with the objective of to promote border trade between Myanmar and India. The approved cost was revised (November 2012) to ₹ 23.39 crore[29] stating (i) difference in rates in the approved DPR (SOR 2002) and existing rates (SOR 2010), (ii) Exclusion of ordinary Rock and Hard Rock requiring blasting in formation cutting in the approved DPR; and (iii) 28 additional Hume Pipe Culverts.

Examination of records revealed that NEC released ₹ 20.00 crore[30] to the State and GoN also released its share of ₹ 1.89 crore to the EE, Phek Division. It was observed from records that the work was initially awarded (August 2004) to M/s Nagaland Builders for ₹ 9.32 crore to be completed by September 2007. The work which commenced in January 2005 could not be completed. The first work order was therefore, cancelled (August 2011) after payment of ₹ 2.83 crore for execution of formation cutting works completed up to 13.53 Km. Consequently, the work for the

[28] Major District Road (MDR) standard with single lane (3.75 m width) carriageway and Roadway width 5.95 m (exclusive of parapets usual width 0.6 m and side drain usual width 0.6 m).

[29] NEC ₹ 21.05 crore and GoN ₹ 2.34 crore.

[30] ₹ 3.00 crore (March 2004), ₹ 1.00 crore (September 2007), ₹ 2.00 crore (February 2008), ₹ 6.00 crore (February 2013), ₹ 5.00 crore (December 2013), ₹ 3.00 crore (November 2014).

remaining twelve items[31] of work for ₹ 17.06 crore was awarded (December 2012) to M/s Vi-u Angami & Sons to be completed by March 2014. Further examination of relevant records revealed the following:

(i) The second contractor applied for enhancement of rate from ₹ 414/cum to ₹ 2039.45/cum on hard rock item (required blasting) in the same month before commencement of the work. The enhancement of the rate (₹ 1800/cum) was also approved (January 2013) by GoN. It was also observed that the second Contractor M/s Vi-u Angami & Sons was paid ₹ 10.98 crore for execution of works from chainage 0 to 13.54 Km stretch at an enhanced rate including the work which the first contractor was paid for execution of works from chainage 0 to 1 Km. This clearly indicated that the first contractor did not execute any works between chainage 0 to 1 Km but was however, paid ₹ 2.83 crore. This has resulted in an avoidable expenditure of ₹ 2.83 crore which needs to be recovered.

(ii) The formation cutting work in 18.49 Km was recorded as complete (March 2016) and the second contractor was paid ₹ 14.11 crore. It was observed from the measurement book that:

- 71587.05 cubic metre of hard rock valued for ₹ 12.89 crore (91 *per cent*) out of ₹ 14.11 crore was excavated through blasting.
- the licensee[32] utilised only 2400 Kgs Power gel 901 explosive during the period from June 2013 to March 2016.

The quantity of hard rock that could be excavated by utilising 2400 Kgs of Power gel 901 explosive (@ 12.5 Kg/40 cubic metre[33]) would be 7680 cubic metre. Therefore, the value of 7680 cum of hard rock at the approved rate was only ₹ 1.38 crore. This indicated that the quantity of hard rock recorded as excavated and paid was exaggerated by 63907.05 cubic metre. Thus, the fictitious entries made in the MB by the EE led to excess payment of ₹ 11.51 crore (₹ 12.89 crore - ₹ 1.38 crore).

The Department stated in reply (December 2018) that the first contractor completed 12.54 Km of the road and had to abandon due to steep gradient beyond the permissible limit. The road was re-aligned and the contractor carried out only one kilometre road work and surrendered the work after encountering rocky portion in the second kilometre, which required blasting. The total length executed by the first contractor was 13.54 Km. Therefore, another contractor was engaged to complete the remaining portion of the road. With regard to payment of second contractor for blasting hard rock, payment was made as per the quantum of work executed and the approved rate analysis but not as per the quantity of explosive used.

The reply was not acceptable as the Department did not furnish any records to substantiate the abandonment and change in alignment of the road. Further, the reply

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[31] Site clearance, cutting of trees, earthwork in formation cutting, unlined road side drain, sub-grade preparation, earthen shoulder, cross drainage works, protection works, Granular Sub-base-I, Water bound macadam- II & III, Bituminous works and road furniture.

[32] Shri. Viu Angami, Explosive Licence No. E/EC/NL/22/21(E57462).

[33] As determined through physical and practical experiment conducted by the Department.

substantiated the facts that the contractor was allowed the rate for excavation of hard rock requiring blasting without utilisation of required quantity of explosive materials by the contractor.

Recommendation (30): The department should initiate action against the officers involved in recording fictitious entries in the measurement book and the excess payment made to the contractor needs to be recovered.

2.3.14.2 Undue favour to Private Sector Hospitals

As per the terms and conditions of the NEC sanction orders, the NEC funded private sector hospitals should agree to provide health care services to the Below Poverty Line (BPL) category of patients free of cost and to Economically Weaker Sections (EWS) of society at subsidised rate as per the Memorandum of Agreement (MoA) to be entered into between the State Government and the beneficiary hospital. State Government should constitute a Monitoring Committee comprising of officials from the Department of Health, Planning Department and the district administration to monitor the implementation of such projects where public funds have been provided and to ensure that the services agreed to be provided in the MoA were being extended to the poor and the intended beneficiaries.

Examination of records revealed that out of the eight projects test-checked under Health and Family Welfare Department, six projects were taken up in private sector with the total approved cost of ₹ 70.72 crore shared on 90: 10 basis (NEC ₹ 63.65 crore and GoN ₹ 7.07 crore). NEC released ₹ 37.96 crore to the State and GoN also released its matching share of ₹ 4.21 crore which was reported as fully utilised and four (₹ 16.06 crore) out of six projects were completed[34]. Project-wise details of private sector hospitals funded under NEC are shown in ***Appendix 2.3.15.***

It was observed that a MoA was entered into between the State Government and the hospitals funded by NEC. However, the term "Economically Weaker Sections" of the society was not defined in the MoA and the subsidy rates for delivery of health care services to EWS of the society were not determined by the State Government. Further, there was no penalty clause in the MoA for non-adherence of any of the clauses by the hospitals funded by NEC (except Faith Hospital, Dimapur).

Joint inspection (July-August 2018) of all the four completed projects revealed that the hospitals funded by NEC implemented certain provisions in the MoA such as procurement of medical equipment and infrastructure development. However, none of the hospitals provides health care services to the BPL category of patients free of cost and at subsidised rate to EWS of the society. The intended delivery of health care services to the BPL/EWS category of patients was not publicised by the State Government or displayed in any of the hospitals inspected for information of the general public and intended beneficiaries. There was no monitoring from the State Government to ensure delivery of health care services as agreed upon in the MoA.

[34] April 2014, June 2014, February 2015 and September 2016.

The Government stated in reply (December 2018) that Bethel Medical Centre, Kohima provides health care services free of cost and at subsidised rate to needy patients. The Government was, however, silent about the services being rendered by other Hospitals.

The reply was not acceptable as health care services were to be provided as per the MoA and not only to needy patients.

Recommendation (31): The Government should review the MoA, define the term "Economically Weaker Sections", determine the subsidised rates for various health care services to be provided by all the NEC funded private hospitals and ensure delivery of health care services to the Below Poverty Line/ Economically Weaker Sections category of patients.

2.3.15 Deviation from Detailed Project Report

Examination of records and joint inspection revealed deviation from approved DPRs in Animal Husbandry and Veterinary Sciences (AH&VS) Department as discussed in the following paragraphs:

(a) Setting up of Dairy Farm in Dimapur

NEC sanctioned (July 2017) ₹ 2.51 crore for "Setting up of Dairy Farm in Dimapur" with 100 *per cent* funding to be completed by July 2019 with the objective of enhancing milk production to reduce the quantum of import in the State. The milk produced in the farm will be sold in the open market at minimum market price among the local populace. The scope of work includes infrastructure development of milch cows/dry cows/heifer sheds, construction of concentrated feed manufacturing unit cum godown, *etc*. The project was to be implemented by the society "Agency for Porcine Foundation and Development of Nagaland" (APFADON[35]) under the supervision of AH&VS Department. As per the DPR, the project was to be implemented on departmental land, owned and managed by the Department.

As per the terms and conditions of sanction, the grantee (APFADON) shall not divert the grants or entrust execution of work to another institution/organisation and shall abide by the terms and conditions of the grant. If the grantee fails to utilise the grant for the purpose for which it was sanctioned or does not adhere to the terms and conditions, the grantee/institution shall be required to refund the grant with interest of 10 *per cent* per annum.

Examination of records revealed that NEC released (July 2017) first instalment of ₹ 1.00 crore to the implementing agency and an amount of ₹ 88 lakh was utilised

[35] A society formed (January 2011) to promote, conserve and propagate livestock and poultry for economic growth through scientific management. The society is administered, directed and controlled by the Governing Body with Secretary to the GoN, AH&VS, Nagaland as ex-officio Chairman and Director of AH&VS as the Chief Executive Officer. It was registered with the Home Department, GoN.

(March 2018) for payment to two contractors[36] towards construction of cow/heifer sheds.

Joint inspection (July 2018) revealed that the project was implemented on a private land, owned and managed by a private individual (land owner) and not by the Department contrary to the provision of the NEC sanction. It was also observed that there was no written agreement between the land owner and the Department for the project implementation. Further, the society without obtaining the approval of the funding agency, deviated from the DPR/terms and conditions of sanction and implementation of the project on a private land, thereby extending undue benefit to private individual.

The Department admitted in reply (October 2018) that the project was proposed and initiated by Shri Timikha Koza, a private individual, to be implemented in his private land.

The reply was a clear admission of the fact that the project sanctioned was not implemented on the departmental land, owned and managed by the Department. The expenditure incurred by the Department was in contravention of the NEC sanctions, was unauthorised and irregular. Thus, the objective of setting up government owned model dairy farm was defeated.

(b) Setting up of Model Dairy Farms in Nagaland

NEC sanctioned (April 2017) ₹ 3.64 crore[37] for "Setting up of Model Dairy Farms in Nagaland" in three districts of Mokokchung, Peren and Phek to be completed by April 2019. As per the DPR, the project was to be implemented on departmental land, owned and managed by the Department. The objectives of the Model Dairy Farms were to create avenues among the unemployed youth/ entrepreneurs to take up dairy farming as a full commercial industry, deliver artificial insemination, availability of heifers, feeds and fodders to rural dairy farmers and provide wholesome milk and organic manure to the general public. As per the terms and conditions of the administrative approval, any deviation from the approved DPR, if required at all, was to be made with the prior approval of NEC.

Examination of records revealed that NEC released (April 2017) first instalment of ₹ 1.31 crore to the State and GoN also released its share of ₹ 0.15 crore to the Department. It was observed that there was inordinate delay in implementation of the project as the dairy unit approved for Phek district was shifted to Dimapur district citing economic feasibility without obtaining approval from NEC. The Civil works for setting up of the dairy farms could commence (June 2018) after a lapse of more than one year of release of the first instalment due to delay in finalisation of the project locations. It was also observed that the project was implemented on a private owned land and no written agreement was executed between the land owners and the Department for the project implementation and management. Thus, the Department

[36] M/s Timikha Koza (₹ 48 lakh) and M/s K.K Enterprises (₹ 40 lakh).

[37] NEC ₹ 3.28 crore and GoN ₹ 0.36 crore.

deviated from the DPR/terms and conditions of sanction and implemented the project on private land without approval of the funding agency and extended undue benefit to the private individual which was unauthorised.

The Department, while admitting the facts stated (October 2018) that Memorandum of Understanding with the beneficiaries would be executed under intimation to NEC.

The reply clearly established the facts that the project was implemented in private individual's land wholly and exclusively for his own benefit which was in contravention of the terms and condition of the sanction. Thus, the objective of setting up government owned model dairy farms was defeated.

2.3.16 Monitoring and Evaluation of projects

Para 24.2 of the NEC guidelines (2015) requires the Chief Secretary or a senior officer in the rank of Additional Chief Secretary or Principal Secretary of the State to hold quarterly meeting to review the progress of implementation of the ongoing projects under NEC. Further, para 24.3 of the NEC guidelines (2015) requires the State Government to constitute department-wise monitoring committees to oversee implementation of NEC projects in the State on quarterly basis.

Examination of records revealed that against the targeted 20 State level review meetings during 2013-18, 11 review meetings (55 *per cent*) were held to review the progress of implementation of NEC projects. It was also observed that the State Government had not constituted department-wise monitoring committees to monitor the implementation of NEC projects.

It was further observed that during 2013-18, officials from the NEC had conducted 17 inspections and had raised the issues in delays in release of funds by the State Government, delay in execution of works, deficiencies in works executed, lack of monitoring of private sector hospitals, non-display of information board/ permanent plaque/labelling of medical equipment, *etc.* Further, the Adviser (Health) NEC during review meeting (April 2014) on medical projects, highlighted the need to ensure providing healthcare services as provided in the MoAs and to maintain proper documentation of such patients treated.

It was, however, observed that the issues raised by NEC had not been attended to by the State Government as discussed in the foregoing paragraphs.

The implementing departments did not offer any specific replies on the issue.

Recommendation (32): The Government should strengthen the monitoring and supervision of NEC funded projects at all levels to ensure that the desired project objectives are achieved.

2.3.17 Transparency, Information and Publicity about NEC projects

The State Government, after the approval of the NEC projects, was required to put up display boards at the project site indicating the date of sanction, duration, targeted date of completion, estimated cost, source of funding, name of the contractor and physical targets to be achieved for all NEC funded projects. After completion of the projects, the State Government was required to put a permanent display on sites and labelling on the equipment/ machineries. It was, however, observed during joint inspection (June-September 2018) that out of 32 projects inspected only 14 projects (44 *per cent*) adhered to the guidelines ***(Annexure 2.3.16)***.

This indicated that the implementing and nodal departments had not ensured adequate dissemination of information to the public at large and also failed to ensure transparency, as envisaged in the guidelines.

2.3.18 Conclusion

NEC funded projects were selected from the "Annual Priority List" with the objective towards attaining balanced socio-economic development in the State. The basis for prioritisation of the projects and reasons for inclusion/non-inclusion of project proposals in the State Annual Priority List were not available on record.

During 2013-18, out of the total 170 projects implemented in the State, only 54 projects (32 *per cent*) could be completed by March 2018. Ten projects were closed on "as is where is" basis due to inordinate delay in completion of the projects while 106 projects were incomplete/ongoing. In the case of 34 projects test-checked, only 13 projects could be completed which included six projects completed within the stipulated time. Four projects closed by NEC due to delay in completion beyond three years and eight out of 17 ongoing projects remained incomplete after expiry of three months to six years from the stipulated date of completion.

Funds for implementation of the projects were not released on time. There were instances of short releases of States' matching share, submission of incorrect UCs and diversion of ₹ 13.19 crore towards payment of work charged, consultancy charges, departmental charges, procurement of vehicle, *etc*. The implementing departments made payment of ₹ 44.29 crore to the contractors without actual execution of works in eight projects and excess payment of ₹ 22.50 crore against six projects by inflating the rates of the materials/equipment. None of the NEC funded private hospitals provided health care services to the BPL patients free of cost and at subsidised rate to EWS of the society. Monitoring mechanism was poor as monitoring committees at various levels were not even constituted.

PUBLIC WORKS DEPARTMENT, AGRICULTURE AND HORTICULTURE DEPARTMENTs

2.4 Performance Audit on Implementation of rural connectivity projects funded through National Bank for Agriculture and Rural Development Loan

Government of India (GoI) introduced Rural Infrastructure Development Funds (RIDF) in 1995-96 under National Bank for Agriculture and Rural Development (NABARD) with the objective to provide funds for projects which were taken up but remained incomplete due to inadequate resources of State Government. Accordingly, GoI created a corpus of ₹ 2000 crore for early completion of the ongoing projects relating to rural infrastructure. The eligible activities for RIDF funding under NABARD are classified in three broad categories *i.e.*, Agriculture and allied sectors, Social sector and Rural connectivity[38] sector.

The Performance Audit on Implementation of rural connectivity projects funded through NABARD Loan covering the period from 2013-18 was conducted during June to August 2018 to examine the utilisation of loans, compliance of NABARD guidelines and applicable technical specifications in execution of the projects, achievement of desired objectives of the projects and the adequacy of existing mechanism for monitoring of projects. The significant findings were as under:

Highlights

The State Government neither provided its share of ₹ 22.99 crore in the budget nor released its share of funds to the implementing agencies.

(Paragraph 2.4.10.1)

Departmental Charges of ₹ 9.75 crore were irregularly deducted by the Nodal Department in contravention to the general terms and conditions of NABARD which entailed avoidable interest liability of ₹ 2.13 crore.

(Paragraph 2.4.10.3)

NABARD loans were obtained without preparing priority list or assessing financial viability in contravention to the criteria laid down for obtaining loans.

(Paragraph 2.4.9.1)

Payment of ₹ 8.29 crore was made without actual execution of works and short execution of item of works in 29 projects.

{(Paragraph 2.4.11.9 (i) & (ii))}

One bridge project constructed at a cost of ₹ 4.18 crore could not be put to use as there were no accessible roads connected to the bridge from both the ends.

(Paragraph 2.4.11.4)

[38] Rural roads are those roads which connect rural areas with the urban marketing, central highways, rail head, road heads, *etc.*, or a link between the two rural locations would also include District Roads, Other District Roads (ODRs) and roads connecting villages to growth centres. Rural Bridges are to be taken as those which connect rural areas with the main roads leading to urban marketing centres

2.4.1 Introduction

The main objective of NABARD funded RIDF is to promote a balanced and integrated economic development of rural areas in the states by providing low cost fund support to State Governments and State-owned Corporations to accelerate completion of rural infrastructure projects. In Nagaland, the Public Works Department (Roads and Bridges), Agriculture and Horticulture Department are the implementing departments for NABARD assisted RIDF.

Under the category 'Rural Connectivity', infrastructures *viz*., rural road and rural bridge projects are eligible for loan assistance. Road projects on Major District Roads (MDRs), Other District Roads (ODRs) and Rural Roads (RRs) are eligible for loan under RIDF except the projects on State Highways (SH) and National Highways (NH). The NABARD under RIDF sanctioned 107 projects during the period 2013-18. Government of Nagaland (GoN) incurred ₹ 47.18 crore (excluding expenditure on spill over projects) against the sanctioned cost of ₹ 82.57 crore.

The overall physical and financial progress of the projects taken under RIDF as on March 2018 is given below:

Table–2.4.1
Physical and financial progress of projects as on March 2018

Implementing departments	No of projects	Sanctioned cost (₹ in crore)	Financial progress (in %)	Physical progress		
				Completed projects	In-completed projects	% of completed projects
PWD (R&B) (spilled over)	23	147.29	82	22	1	96
PWD (R&B) (New)	5	36.00	39	0	5	0
Agriculture	81	42.57	51	0	81	0
Horticulture	21	4.00	90	0	21	0
Total	**130**	**229.86**				

Source: Finance Department, Government of Nagaland.

As per information furnished to audit, out of 130 projects taken up by the three departments, only 22 spilled over projects were completed. The progress of the remaining projects was stated to be as under:

i. PWD (R&B): One spilled over project was under progress. Out of new five incomplete projects, physical progress was to the extent of 37 to 65 *per cent*.

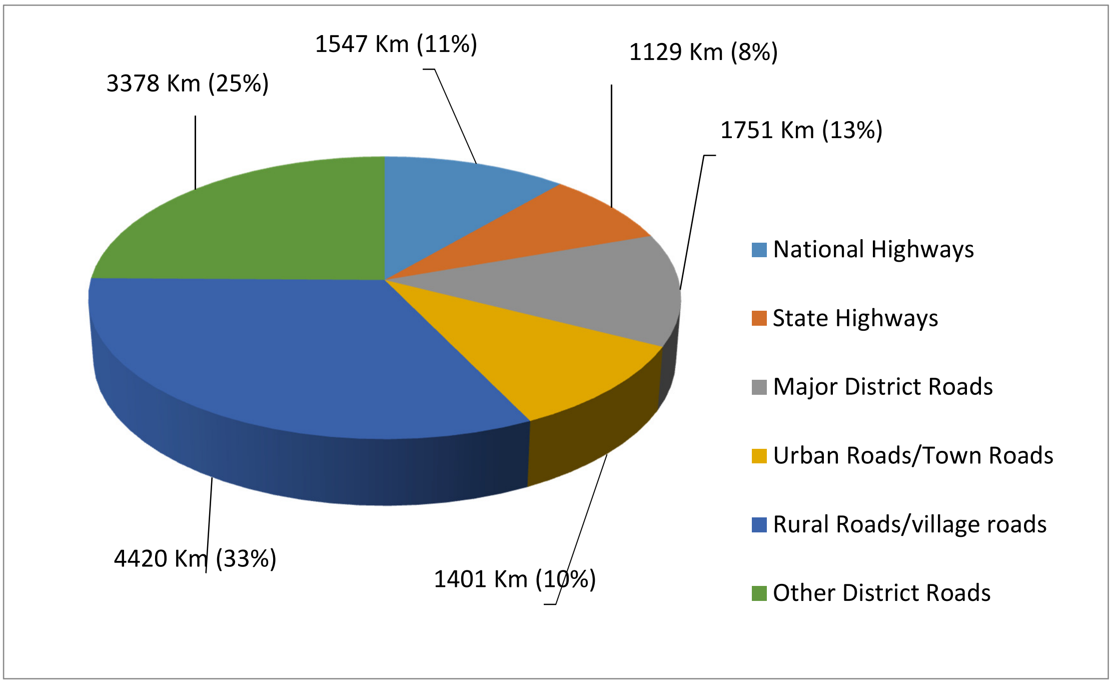
ii. Agriculture: Out of 81 incomplete projects, physical progress of the work was to the extent of 82 *per cent*.

iii. Horticulture: Out of 21 incomplete projects, 90 *per cent* of the progress of works was reported as achieved.

2.4.2 Road and bridge Assets of Nagaland

Out of the total road length of 13,626 Km in the State, 440 km NH is managed by Border Roads Organisation while Public Works Department (Roads and Bridges), GoN manages State road network of 13,186 km. The category of total road asset network of the State is shown in the ***Chart I***.

Chart I: Road Asset of Nagaland



Source: PWD (R&B) and National Highways.

2.4.3 Organisational Set-up

Finance Department, GoN is the Nodal Department for forwarding the projects proposals to NABARD, documentation, drawal of funds, repayments *etc*. The Planning and Coordination Department allocates the funds based on the proposals submitted by the departments. The implementing Departments are the Public Works Department (Roads and Bridges), Agriculture and Horticulture Departments.

2.4.4 Scope of Audit

The performance audit covered the period from 2013-14 to 2017-18. The records of the Finance Department, Planning and Coordination Department, Public Works Department (R&B), Agriculture Department and Horticulture Department were examined.

During the period 2013-18, 151 rural roads and 19 bridges (sanctioned length 496.80 km) under different tranches of RIDF (including 23 spilled over projects of Tranche XV[39] and XVI[40] pertaining prior to 2013) were sanctioned. These projects

[39] 17 projects were sanctioned of which none were completed prior to 2013.
[40] 6 projects were sanctioned of which none were completed prior to 2013.

were inclusive of 40 Agri link road projects to be executed in convergence with Mahatma Gandhi National Rural Employment Guarantee Scheme. However, these projects have been categorised as Non-starter projects[41] by NABARD as these could not be commenced as per time lines prescribed by NABARD. The details of the remaining 130 projects are shown in the Table**:**

Table–2.4.2
Details of projects approved and cost sanctioned by NABARD during 2013-18

(₹in crore)

Tranche	Year of sanction	Implementing departments	Projects		Sanctioned cost		NABARD share		State Share	
			Roads	Bridges	Roads	Bridges	Roads	Bridges	Roads	Bridges
XV (spilled over)	2009-10	PWD (R&B)	4	13	47.60	77.22	42.84	69.50	4.76	7.72
XVI (spilled over)	2010-11	PWD (R&B)	0	6	0.00	22.47	0.00	20.22	0.00	2.25
XIX (New)	2013-14	Agriculture	81	0	42.57	0.00	38.31	0.00	4.26	0.00
XXI (New)	2015-16	Horticulture	21	0	4.00	0.00	3.60	0.00	0.40	0.00
XXII (New)	2016-17	PWD (R&B)	5	0	36.00	0.00	32.40	0.00	3.60	0.00
Total			**111**	**19**	**130.17**	**99.69**	**117.15**	**89.72**	**13.02**	**9.97**

Source: Finance Department, Government of Nagaland.

Out of these 130 projects, 107[42] new road projects involving ₹ 82.57 crore were sanctioned and 23 were the spilled over projects (four road projects and 19 bridge projects) from previous years involving ₹ 147.29 crore (***Appendix 2.4.1 and Appendix 2.4.2***). Out of 130 projects, 40 projects (15[43] road and bridge projects under PWD, 20 agriculture link road projects and five horticulture link road projects) were selected for audit through Probability Proportional to Size Without Replacement (PPSWOR) method.

2.4.5 Audit Objectives

The performance audit was carried out to assess whether:

- the loan amount made available to the Implementing agencies was used economically, efficiently and effectively;
- the execution of the projects was as per NABARD Guidelines and applicable technical specifications;
- the implementation of the projects under the Scheme achieved the desired results; and

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41 A project will be considered as non-starter, if it is not grounded within 12 months from the date of issue of sanction letter, irrespective of whether the mobilization advance had been availed or not by the State Government.

42 Five road and bridge projects taken up by PWD, 81 Agri link road projects taken up by Agriculture Department and 21 Horti link road projects taken up by Horticulture Department.

43 Including 4 ongoing, 6 spilled over and 5 completed works.

- the quality control and monitoring mechanism was adequate and effective.

2.4.6 Audit Criteria

Audit findings were benchmarked against the following source of criteria:

- Norms for selection of the projects prescribed by NABARD.
- Guidelines for selection/scrutiny of roads and bridges projects under NABARD scheme.
- Detailed project reports, standard specifications and contract conditions.
- Policy, guidelines and manner of implementation of the projects.
- Terms and conditions of NABARD loans.
- Quality control, project monitoring and evaluation system prescribed.
- Nagaland Schedule of Rates (SOR) for Roads & Bridges and Analysis of Rates.
- Indian Road Congress (IRC) specifications and specifications prescribed by Ministry of Road Transport and Highways (MoRTH).

2.4.7 Audit Methodology

The audit methodology comprised of an entry meeting (25 April 2018) with the officers of the NABARD, Nodal Departments and all implementing departments, requisition of records/documents, issue of questionnaires, examination of records/documents, issue of audit queries/observations, examination of replies to audit queries, issue of draft report to the Department. Joint physical verification of selected projects were also carried out and photographic evidence used, wherever relevant.

The draft Audit Report was issued (22 October 2018) to the State Government. The audit findings were discussed with the departmental authorities in an Exit Conference (11 December 2018) wherein representatives of NABARD were also present. The replies received and the views expressed by the Department during the Exit Conference have been appropriately incorporated in the Report.

2.4.8 Acknowledgement

Audit acknowledges the cooperation and assistance extended by the Departments during the conduct of audit.

Audit findings

The audit findings are discussed in the following paragraphs.

2.4.9 Planning

2.4.9.1 Inadequate mechanism for proper identification of projects

As per clause 6.3 of RIDF guidelines, the Detailed Project Reports (DPRs) of the project proposals prioritized by the State Government were to be submitted to NABARD Regional office through the Nodal Department of the State Government. The projects should be technically feasible and financially viable and completed within 3-5 years.

Under the present system, project proposals submitted by the implementing Departments are initially placed before the High Power Committee (HPC) which is chaired by the Chief Secretary. The HPC is the highest body for project approvals and comprises of the Chief Secretary, Head of Finance, Planning and Coordination and Implementing Departments and General Manager (NABARD).

Examination of records of the Nodal Department and Implementing Departments revealed that the State did not prepare priority list of roads to be funded under NABARD. It was also observed that the technical and financial viability which are important parameters for any project proposals were not assessed/projected in the DPRs submitted to NABARD.

The PWD, accepting (December 2018) the facts, stated that the Guidelines for selection of projects will be complied with, in future while Horticulture and Agriculture Departments did not offer any comments on the issue (December 2018).

The reply was not acceptable as the projects were taken up without any infrastructure gap analysis and without assessing the technical feasibility and financial viability of the proposed projects.

Recommendation (33): The State Government should prepare realistic priority list of projects from the projects proposals which are technically and financially viable so that balanced and integrated economic development of rural areas in the State is achieved.

2.4.9.2 Delays in grounding of projects

As per the General terms and conditions of NABARD under RIDF, the State Government shall execute and complete the projects for which the loans are granted within such time as stipulated in the sanction letter. To ensure timely completion of project, NABARD fixed a timeframe for grounding of projects (a project would be treated as grounded when the work order was issued and the physical work commenced).

NABARD guidelines stipulated the time frame for implementation of projects as given below:

a) Administrative Approval within one month from the date of in-principle sanction.

b) Technical Sanction within three months from the date of sanction.

c) Tendering within six months from the date of sanction.
d) Issue of work order within nine months from the date of sanction.
e) Grounding of project within twelve months from the date of sanction.

Examination of records of 130[44] projects revealed the following:

- 81 Agri link road projects were executed without obtaining Technical Sanction and without floating Notice Inviting Tenders (NITs).
- For five bridge projects, Administrative Approvals were accorded with delays of 48 months. As a result, the NITs were floated with a delay of 42 months and the issue of works orders was also delayed by 39 months.
- For one bridge project, the NIT was floated and works order issued before Administrative Approval was accorded.

The delays in floating of NITs and issue of work orders resulted in delays in commencement of projects which further led to time and cost overrun. The above cases indicated that implementing Departments were not serious about adhering to the timelines for execution of projects. The Government was also lacking in ensuring necessary compliance.

Recommendation (34): The implementing Departments need to ensure compliance of timelines stipulated in the Guidelines for execution of projects. In cases, where the works were executed without obtaining Technical Sanction and floating NITs, the departmental inquiry should be initiated to fix responsibility of erring officers.

2.4.9.3 Loan taken for a bridge project already constructed under another scheme

NABARD sanctioned ₹ 45.18 lakh for the "Construction of Muning bridge over Chuchuyimlang-Longjang road over Muning river" in tranche XV.

Examination of the records revealed that the Finance Department, Government of Nagaland released only ₹ 34.19 lakh to the Department whereas NABARD reimbursed ₹ 40.66 lakh. It was observed that the fund of ₹ 34.19 lakh was diverted for two other projects[45] approved by NABARD instead of taking up Construction of Muning bridge over Chuchuyimlang-Longjang road. On further examination in this regard, it was revealed that the bridge for which NABARD loan amounting to ₹ 40.66 lakh was availed, was already constructed with the loan assistance from Life Insurance Corporation of India (LIC). This indicated that the department submitted false and incorrect information to NABARD while submitting project proposals. Thus, in the absence of streamlined procedure on identification of projects, loan amounting to ₹ 40.66 lakh was availed from NABARD for the already constructed

[44] 28 Roads and Bridges, 81 Agri link roads and 21 Horti link roads.
[45] Construction of Baiely Bridge over Milak river between Mapunchuket and Khar (30 m) and Improvement of road from Chazouba to Gatashi (25 Km).

bridge for which a total interest[46] liability worked out to be ₹ 11.26 lakh, which was avoidable.

Thus, the following lapses had taken place due to ill planning and lack of due diligence by the authorities concerned:

- An already constructed bridge by obtaining loan from LIC was recommended for inclusion in the list of works for funding under RIDF, was a serious lapse on the part of recommending authorities.
- Above wrongly recommended bridge project was, further approved by authorities concerned without ensuring due diligence exercise indicating lack of planning.
- The action of NABARD in approving and financing this project, raises a serious question mark on the functioning of NABARD.

Thus, above lapses revealed total disregard for the system and financial rules calling for fixing of responsibility of the officials for their failure to act as per guidelines and rules.

On this being pointed out, the Department admitted in reply (August 2018) that the fund was diverted as the bridge had already been constructed by obtaining loan from LIC in 2005.

The reply was an admission of the facts that NABARD loan was availed on faulty DPRs and reimbursement was claimed on incorrect and inflated SoEs and drawal applications.

Recommendation (35): Action should be taken up against the erring officials besides filing an FIR into the case for further investigation. Besides, Government may order technical audit of the work in question through the Vigilance Department to find lapses committed in execution of work in question for fixing responsibility.

2.4.10 Financial Management

2.4.10.1 Financial Performance

NABARD provides loan assistance under RIDF to the maximum of 90 *per cent* of the cost of a project for rural connectivity at varying interest rates. Mobilisation advance/Start up advance at the rate of 30 *per cent* [47] of the RIDF loan sanctioned for the projects is released to State Governments within one year from the date of sanction and on acceptance of the terms and conditions of sanction by the State Government.

RIDF loans are to be repaid by the State Government in accordance with the repayment schedule prescribed by NABARD *i.e.*, in equal annual instalments within

[46] Interest has been calculated from the next subsequent month at simple rate of interest per annum as per the NABARD release orders upto December 2018.

[47] 30 *per cent* for NE States/Hill states and 20 *per cent* for other States.

seven years from the date of drawal including a grace period of two years. As per the general terms and conditions of NABARD loan, the State Government shall make adequate provision in the budget as may be required for smooth implementation of the sanctioned projects. An undertaking to this effect was also required to be provided by GoN to NABARD.

The details of fund released, expenditure incurred, reimbursement claimed and loan disbursed by NABARD during the period from 2013-14 to 2017-18 in respect of 107 new and 23 spill over[48] projects are shown below:

Table 2.4.3

Details of fund released, expenditure incurred, reimbursement claimed and reimbursed made by NABARD

(₹in crore)

Year	Project cost[49]		Amount released by State Finance Department[50]			Expenditure			Amount claimed as per SOE (reported expenditure)	Amount reimbursed by NABARD
	NABARD	State	NABARD	State	Total	NABARD	State	Total		
2013-14	206.87	22.99	30.13	0.00	30.13	30.13	0.00	30.13	39.66	39.66
2014-15			21.96	0.00	21.96	21.96	0.00	21.96	24.00	24.00
2015-16			17.39	0.00	17.39	17.39	0.00	17.39	19.58	19.58
2016-17			15.81	0.00	15.81	15.81	0.00	15.81	14.50	14.50
2017-18			8.37	0.00	8.37	8.37	0.00	8.37	14.00	14.00
Total	**206.87**	**22.99**	**93.66**	**0.00**	**93.66**	**93.66**	**0.00**	**93.66**	**111.74**	**111.74**

Source: Sanction/release order, drawal authorities, drawal applications.

The following lapses in financial management were observed:

- Out of the reported expenditure of ₹ 111.74 crore, an amount of ₹ 7.48 crore remained parked (August 2018) in the Civil Deposit since September 2017 and March 2018 respectively. Thus, an interest liability of ₹ 37.60 lakh was created as funds were lying un-utilized in Civil Deposits.
- The State Government had neither provided fund in the budget nor released funds out of its share of ₹ 22.99 crore to the implementing departments during the entire period 2013-18.

The Finance Department stated during the Exit Conference (December 2018) that no fund was provided in the budget due to resource constraints.

The reply was not acceptable as the Finance Department had failed to exercise due diligence in its financial management thereby resulting in raising of loan without immediate requirement leading to avoidable interest liability of ₹ 37.60 lakh on the idle loan.

48 Excluding expenditure made prior to 2013-14 on 23 spill over projects.

49 Including spilled over projects sanctioned under Tranche XV (17 projects) and Tranche XVI (6 projects)

50 Excluding Departmental charges (₹ 9.75 crore), work contract tax (₹ 0.85 crore) and an amount of ₹ 7.46 crore in Civil Deposits

2.4.10.2 Normative allocation of funds

The corpus of RIDF is normatively allocated to the States on the basis of prescribed criteria[51]. The State Government submits the proposal for the projects annually to NABARD along with DPRs. NABARD sanctions the amount on reimbursement basis except for the initial mobilisation advance @ 30 *per cent*[52] of the RIDF loan sanctioned after satisfying itself with the criteria for the project selection. The loans from NABARD are interest bearing loans with repayment period of seven years.

During the period 2013-18, NABARD made a normative allocation of ₹ 290 crore for the State under RIDF against new projects. Against this, the State Government submitted project proposal for 147 projects (including 40 non-starter agri link road projects planned to be executed in convergence with MGNREGS) at an estimated cost of ₹ 101.33 crore. NABARD approved all these projects and sanctioned ₹ 84.44 crore (83 *per cent* of the project cost). The year-wise normative allocation of funds by NABARD under RIDF (Rural Connectivity), total cost of the projects proposed to NABARD and amount sanctioned for the period from 2013-14 to 2017-18 is given in the table below:

Table 2.4.4

Year-wise normative allocation, cost of projects proposed and sanctioned during 2013-18

(₹ in crore)

Year	Tranche	Normative Allocation by NABARD	Total cost of projects proposed to NABARD including State's share	Amount sanctioned by NABARD against the projects during the year
(i)	*(ii)*	*(iii)*	*(iv)*	*(v)*
2013-14	XIX	40.00	61.33	44.44
2014-15	XX	100.00	0.00	0.00
2015-16	XXI	50.00	4.00	4.00
2016-17	XXII	50.00	36.00	36.00
2017-18	XXIII	50.00	0.00	0.00
Total		**290.00**	**101.33**	**84.44**

Source: Information furnished by Finance and Planning Departments, Government of Nagaland.

Examination of records revealed that no project was sanctioned by NABARD during 2014-15 and 2017-18 as no project proposal/DPR was submitted to NABARD during these years by the Finance Department. Thus, the State Government could propose projects only for ₹ 101.33 crore against the normative allocation of ₹ 290 crore.

[51] Normative Allocation is arrived at taking into consideration, i) rural population, ii) geographical area, iii) composite infrastructure development index, iv) utilisation index; and v) inverse of rural credit–deposit ratio.

[52] Mobilisation advance 30 per cent for North Eastern & Hilly States and 20 per cent for other states.

The Finance Department, while accepting (December 2018) the facts, stated that no new projects were proposed as the implementing departments did not submit any proposals during the years 2014-15 and 2017-18.

However, 40 agri link road projects (project cost - ₹ 18.76 crore of which NABARD share ₹ 1.68 crore) to be executed in convergence with MGNREGS were categorised as Non-starter projects.

2.4.10.3 Irregular deduction of Departmental charges by the Finance Department

As per clause six of RIDF guidelines, only pre-appraisal expenses such as expenses incurred on project preparation, cost of technical surveys up to 0.50 *per cent* and contingencies up to a maximum of three *per cent* of civil works of the RIDF loan are permissible. NABARD also specifically conveyed in February 2006 that no provision for 13 *per cent* departmental charges should be incorporated in the DPRs. Any departmental charges which is purely administrative in nature will not be eligible for loans and the costs thereof shall be included in the State Government's share in addition to the mandatory share to be borne by the State.

Examination of records revealed that 13 *per cent* departmental charges (DC) were deducted by the Finance Department in projects implemented by PWD and Horticulture Department except by Agriculture Department. The year-wise deductions are given below:

Table 2.4.5
Details of departmental charges deducted by the Finance Department

(₹in crore)

Year	PWD		Horticulture department		Total DC deducted
	Amount reimbursed by NABARD	DC deducted	Amount reimbursed by NABARD	DC deducted	
2013-14	30.66	3.53	0.00	0.00	3.53
2014-15	19.00	2.19	0.00	0.00	2.19
2015-16	14.00	1.61	1.08	0.12	1.73
2016-17	10.00	1.15	1.50	0.00	1.15
2017-18	10.00	1.15	1.00	0.00	1.15
Total	**83.66**	**9.63**	**3.58**	**0.12**	**9.75**

Source: Year-wise drawal authorities issued by the Nodal Department.

As seen from the table above, the Finance Department irregularly deducted ₹ 9.75 crore as departmental charges in contravention of the terms and conditions of NABARD. It was also observed that departmental charges were neither incorporated in the DPR nor included in the Utilisation Certificate/SoEs submitted to NABARD for reimbursement. This indicated that NABARD loan of ₹ 9.75 crore was irregularly deducted as departmental charges and utilised for purposes other than for which it was sanctioned. Thus, the irregular deduction of departmental charges resulted in avoidable financial burden of ₹ 9.75 crore, which entailed interest liability amounting to ₹ 2.13 crore.

The Finance Department in reply stated (December 2018) that the deduction was made as per the directives of the GoN. It was, however, assured in the exit meeting to examine the matter.

The reply was not acceptable as deduction of departmental charges was not permissible under the provision of NABARD guidelines.

Thus, irregular deduction of departmental charges of ₹ 9.75 crore by the Finance department would lead to shortage of funds for the projects as estimated and planned.

It is, therefore, suggested that the remaining amount of project costs should be borne by the State Government so that the ongoing projects could be completed on time without compromising on the quality of works.

2.4.10.4 Excess expenditure on Consultancy fees above prescribed limit

As per clause 6.2.1 of the RIDF guidelines, pre-appraisal expenses such as expenses incurred on project preparation, cost of technical surveys is limited to 0.50 *per cent* of the RIDF loan sanctions, provided the same is outsourced.

Examination of records revealed that consultancy fees of ₹ 51.51 lakh were paid to a firm against four bridge projects implemented by the PWD as detailed below:

Table 2.4.6
Details of the consultancy fees paid during 2013-18

Sl. No.	Name of the Project	Year of Sanction	Approved Cost (₹ in lakh)	Name of the firms	Prescribed limit (0.5 *per cent* of col 4) (₹ in lakh)	Amount paid (₹ in lakh)	Excess (₹ in lakh) (col 7 – col 6)
(i)	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(vi)*	*(vii)*	*(viii)*
1	Construction of RCC bridge over River Chathe behind Hollohon's Farm (Span 30.0 m)	25.03.2010	546.00	M/s Nohol & Sons, Kohima	2.73	10.00	7.27
2	Construction of RCC bridge over Chiederu river (Span 30.0 m)	25.03.2010	576.00		2.88	14.61	11.73
3	Construction of RCC bridge over Dzudezu-u river (Span 30.0 m)	25.03.2010	579.00		2.90	14.29	11.39
4	Construction of RCC T-Beam girder Double lane bridge over Zaru river on NH-39 Mima village-Chakabama road	25.03.2010	645.00		3.22	12.61	9.39
TOTAL			**2346.00**		**11.73**	**51.51**	**39.78**

Source: PWD (R&B) Department figures.

As seen from the above table, the permissible limit on project preparation, cost of technical surveys was ₹ 11.73 lakh whereas the PWD paid ₹ 51.51 lakh to the firm as consultancy fees which was not permissible. This also resulted in excess expenditure of ₹ 39.78 lakh.

The Department in reply (December 2018) stated that the consultancy fees were paid from NABARD loan as the State Government did not have sufficient fund.

2.4.10.5 Raising of loan without actual requirement leading to creation of avoidable interest liability

NABARD loan under RIDF carries certain interest liabilities and the State Government is expected to exercise due prudence in taking loan from NABARD.

However, as pointed out in the preceding and succeeding paragraphs, loans were also raised for a bridge project already executed works, deduction of departmental charges and execution of projects in contravention of NABARD guidelines which led to creation of interest liability as discussed below:

- Loan of ₹ 40.66 lakh was reimbursed for a project "Construction of Muning bridge over Chuchuyimlang-Longjang road over Muning river" in tranche XV, which was already constructed by obtaining loan from Life Insurance Corporation of India in 2005, thereby creating an interest liability of ₹ 11.26 lakh as pointed out in **Paragraph 2.4.9.3**.
- Excess projection of 5.06 crore after reduction of road length led to reimbursement of excess loan from NABARD and additional interest liability amounting to 1.18 crore **{(Paragraph 2.4.11.2 (ii)}.**
- The deduction of departmental charges also avoidable financial burden of ₹ 9.75 crore which entailed interest liability amounting to ₹ 2.13 crore (**Paragraph 2.4.10.3).**
- Excess projection of ₹ 62 lakh against the project "Construction of Bailey bridge over Milak river between Mopungchuket and Khar" led to seeking reimbursement of excess loan from NABARD and additional interest liability of ₹ 26.46 lakh (**Paragraph 2.4.11.6).**

2.4.11 Execution of projects

2.4.11.1 Status of projects

The status of the 107 new projects taken up during the period 2013-18 is given in the Table:

Table 2.4.7

Statement showing details of projects sanctioned during the period 2013-18

(₹in crore)

Sl. No.	Name of project	Sanctioned cost	Expenditure	Amount Reimbursed	Stipulated date of completion	Delay (Months as on December 2018)	Reasons for delay
1	Tranche XIX (81 Agri link roads)	42.57	24.50	24.50	31.3.2017	21	The State Government did not release its share.
2	Tranche XXI (21 Horti link roads)	4.00	3.58	3.58	31.3.2018	9	The State Government did not release its share.
3	Tranche XXII (5 road projects) (PWD(R&B))	36.00	19.10	19.10	31.3.2019	NA	The status of the projects were verified only upto September 2018.
Total		**82.57**	**47.18**	**47.18**			

Source: Departmental figures.

The status of the 111 roads and 19 bridges projects (including spill over projects) under different tranches as on March 2018 is given in ***Appendix 2.4.2.***

The following irregularities in completion of projects were observed:

- PWD (R&B) took up 28 Roads and Bridges projects[53] at an approved cost of ₹ 202.45 crore from 2009-10 onwards. Out of these, the Department reported 22 projects as complete and six projects as ongoing as on March 2018. Examination of Measurement Books (MBs) of 14 projects in the selected divisions revealed that, 10 projects were complete and four projects were ongoing. It was, however, observed that, two[54] out of the 10 projects reported as complete were yet to be completed. This fact was corroborated during the joint verification carried out in July 2018. This indicated that false and factually inaccurate reports were being submitted raising a question mark on the integrity of officials concerned which calls for fixing of their responsibility.

The Department while accepting (December 2018) the facts, stated that some projects could not be completed due to non-release of the State share.

The reply was not relevant to the audit point raised above. It also indicated that the Department was not serious in taking up the project but was rather inclined only to obtain the loan. Under these circumstances, Government needs to put in place strict monitoring mechanism and fix responsibility after investigating the matter.

- In Agriculture Department, NABARD approved 121 agriculture link road projects during the period 2013-18 of these 40 projects had been categorised by NABARD as Non-starter projects while 81 projects at an approved cost of ₹ 42.57 crore were taken up for implementation to be completed by March 2017. Out of ₹ 42.57 crore sanctioned by NABARD, the share of NABARD was ₹ 38.31 crore. The NABARD had reimbursed ₹ 24.50 crore which was also released to the Department by the Government till 2017-18. However, the State Government did not release its matching share of ₹ 4.26 crore. This resulted in delay in completion of all 81 projects even after expiry of the stipulated date of completion thereby denying the benefits of the projects to the beneficiaries.

The Department stated in reply (December 2018) that the projects could not be completed due to non-release of State's share.

The reply was not acceptable as the reimbursement claim was submitted certifying that the State share had already been released and spent against the projects.

2.4.11.2 Deficient preparation of Detailed Project Reports

As per clause 6 of RIDF guidelines, project lending entails submission of DPRs containing technical and financial parameters, drawings, maps *etc.*, submitted by the Implementing Departments. The cost estimates of projects should be as per the latest

[53] 9 Roads and 19 Bridge projects (Table 2.4.1 refers)

[54] Construction of road from Satakha to Ghukhiye via Momi and Improvement of road from Botsa to Chakhabama via Gariphema, Kijumetouma & Dihouma

Schedule of rates (SoR)/Market rates and should be prepared after detailed field survey.

Further, as per clause 19 of the guidelines *ibid*, the State Government should ensure that the project is completed as per the approved technical design, cost estimates and specified time schedule. In case, any deviation is required, the State Government shall inform NABARD in advance, justifying the need for the change.

Examination of the DPRs in respect of 20 Agriculture link roads, five Horticulture link roads and 15 roads and bridges projects revealed the following as discussed below:

(i) DPRs for 20 Agriculture link road projects, two road projects and four bridge projects were revised without the approval of NABARD. It was observed that the projects were executed based on working estimates prepared by the implementing departments instead of the approved DPRs.

(ii) In eight out of 15 approved projects, the specification of the roads and bridges were reduced by 2.645 Km without the approval of NABARD as detailed in the Table:

Table 2.4.8
Details of eight projects where specifications were changed during execution

Sl. No.	Name of the Project	Department	Detailed Project Report (DPR)		Working Estimates		Reduction as per records		Actual admissible cost after reduction (Col v/iv X Col vi) (₹ in crore)
			Length (in Km)	Civil Works (in crore)	Length (in Km)	Civil Work (in crore)	Length	Cost (₹ in lakh)	
(i)	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(vi)*	*(vii)*	*(viii)*	*(ix)*	*(x)*
1	Construction of RCC bridge over Dzudezu-u river (Span 30.0 m)	PWD (R&B)	0.030	5.76	0.016	5.24	0.014	52.71	3.07
2	Construction of RCC bridge over Chiederu river (Span 30.0 m)	PWD (R&B)	0.030	5.36	0.016	5.35	0.014	0.31	2.86
3	Construction of Road from Kade to Sazu Rock viz Khrukru (length 10 kms.)	PWD (R&B)	10.000	4.71	8.000	4.71	2.000	0.00	3.77
4	Construction of RCC T-Beam Girder Bridge over River Dishakapu near ARTC, Dimapur	PWD (R&B)	0.030	4.59	0.023	4.59	0.007	0.00	3.52
5	Agri-Link Road L Khel to Bie Khruzie , Kohima	Agriculture	3.200	0.43	3.180	0.43	0.020	0.00	0.43
6	Agri-Link Road Takiezam, Peren	Agriculture	3.500	0.47	3.390	0.46	0.110	1.03	0.46
7	Agri-Link Road Poilwa-New, Peren	Agriculture	3.500	0.45	3.050	0.45	0.450	-0.12	0.39
8	Agri-Link Road Saijang to Vonkithen, Peren	Agriculture	3.200	0.41	3.170	0.40	0.030	0.48	0.41
TOTAL			**23.490**	**22.18**	**20.845**	**21.63**	**2.645**	**54.41**	**14.91**

Source: Departmental figures.

As seen from the table above, against the target to execute 23.490 Km (₹ 22.18 crore) of road as per approved DPR, the departments reduced the length to 20.845 Km (₹ 21.63 crore) while recasting the estimates and reduced the cost by ₹ 54.41 lakh.

Detailed analysis of the value due to reduction of the length of the road by 2.645 Km revealed that:

- The total cost for construction of 20.845 Km as per applicable rates should have been reduced by ₹ 6.72 crore instead of ₹ 54.41 lakh with the total cost limited to only ₹ 14.91 crore.
- NABARD had reimbursed ₹ 18.48 crore which was in excess of the actual requirement by ₹ 5.06 crore (₹ 18.48 crore - ₹ 13.42 crore[55]). Therefore, the departments obtained NABARD loan in excess of requirement leading to additional interest liability to the State Government amounting to ₹ 1.18 crore[56].

Besides, Audit noticed that the specifications were changed without informing or obtaining NABARD approval.

The PWD while accepting the facts, stated that there were variations in some items of works which were as per the actual site requirement.

The reply of the Department corroborates the facts that the projects were taken up without adhering to the provisions of RIDF guidelines and also without conducting detail field surveys.

(iii) In respect of Agriculture link road projects, the index map/site plan indicating the specific location of starting and end points of the road in the DPRs of the projects were not indicated. The project site locations were based on the names of villages only and therefore, the actual length and stretch of works executed, could not be identified from the approved DPRs. Therefore, the exact location where the works were taken up could not be authenticated in Audit.

The Department while accepting the fact stated that GPS was not available with the Department while framing the DPR in 2013-14.

The reply of the Department corroborates the facts that the projects were taken up without adhering to the provisions of RIDF guidelines and also without conducting detail field surveys.

2.4.11.3 Incorrect projection of work in the DPRs

The DPR for “Upgradation of road from Mhaikam to Jalukie” at the cost of ₹ 7.00 crore for 17 Kms was approved by NABARD (October 2016). The entire stretch of road was to be covered with prime coat, tack coat, open graded pre-mix carpet and seal coat for ₹ 2.43 crore.

During joint verification (August 2018) of the project, it was observed that the actual length of the road was 16.200 Km out of which 4.400 Km of the road from Pimla junction to Mhaikam was already black topped through funds from Special Plan Assistance (SPA). The implementing agency therefore exaggerated the length of the road by 5.200 Km (₹ 74.32 lakh) to obtain more loan from NABARD.

[55] 90 % of ₹14.91 crore.

[56] Percentage of ₹ 5.06 crore over ₹ 18.48 crore is ₹ 27.38. So, 27.38 *per cent* of ₹ 4.30 crore (interest liability of ₹ 18.48) equals ₹ 1.18 crore has been taken as interest liability of ₹ 5.06 crore.

The Department in reply stated (December 2018) that 4.40 Km length of road taken up under SPA was badly damaged due to the Railway project works.

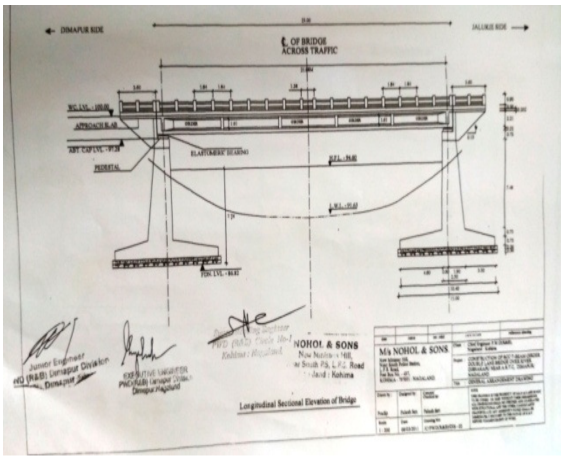
The reply that the road was badly damaged by the railway project is factually incorrect and not acceptable as the stretch of road (4.40 Km) constructed under SPA was found in good condition (**photograph below**) during joint verification.

View of a road section: Maikham junction to Pimla function (10 July 2018)

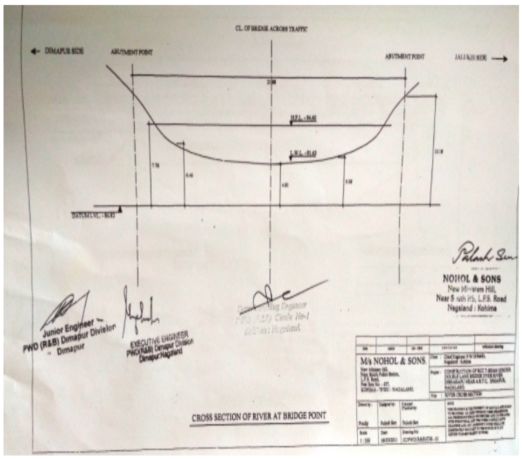
2.4.11.4 Defective DPR leading to Idle loan

NABARD sanctioned a project "Construction of RCC T-beam girder bridge over river Disakapu near ARTC, Dimapur" at an estimated cost of ₹ 4.67 crore during 2011-12. The work commenced in July 2015 and reported as complete in January 2018 after incurring an expenditure of ₹ 4.18 crore.

Examination of DPR and the drawings revealed that abutment points of the bridge from both sides of the road (Dimapur and Jalukie) were aligned according to the gradient of the existing roads as shown below:



Longitudinal sectional elevation of bridge as per Drawings



Cross section of river at bridge point as per Drawings

Joint verification of the project (July 2018) however, revealed that the completed bridge was not connected with the existing road from either ends. The bridge therefore, could not be put to meaningful use for the purpose. The photographs are shown at next page.

	
View of the bridge from the ARTC side along with the approach road which is very low to be connected with the bridge (26 July 2018)	**Side view of the Bridge (26 July 2018)**

This indicated that the DPR was prepared without conducting proper survey and spot verification which rendered the expenditure of ₹ 4.18 crore unfruitful.

The Department while accepting (December 2018) the facts, stated that it was due to the change of the bridge point owing to site problems and the working estimates for the approach road had now been prepared.

The reply was an admission of the facts that the DPR was prepared without ascertaining the actual requirements in contravention of clause 6 of the RIDF guidelines in respect of preparation of DPRs.

2.4.11.5 Awarding of works without prescribed tendering process

As per clause 6 of the general terms and conditions of NABARD, tendering process should be followed for selection of the contractors/firms and the Government should strictly adhere to the following stipulations as a pre-qualification requirement while selecting the Contractors/Firms.

a) Satisfactory track record of the Contractor/ Firm,
b) Adequate net worth of partners in relation to the project cost proposed to be undertaken,
c) Banking facilities/ credit limits availed by the contractor/ firm should be adequate enough for smooth and timely execution of the project,
d) Experience of the similar projects executed earlier,
e) Firm/ contractor not blacklisted earlier, and
f) E-tendering should be introduced for projects outlays above ₹ 25 lakh from 2013- 14, ₹ 15 lakh from 2014-15 and ₹ 10 lakh from 2015-16 respectively.

Examination of records revealed the following:

- The Agriculture Department awarded 81 agriculture link road projects to private individuals and firms based on applications received from them without observing the prescribed procedure.
- In Horticulture Department, Notice Inviting Tender was issued in July 2016 for 21 Horticulture link road projects. It was, however, observed that the private individuals/firms were already pre-decided through recommendation by the Parliamentary Secretary in April 2016. This indicated that the process of tendering was only a formality.

Thus, the action of the Horticulture Department for issuing work order to individual/firms based on the recommendation of the Parliamentary Secretary was against the provisions of the terms and condition of NABARD guidelines.

- E-tendering was not introduced by the Government in all the 147 new projects taken up during 2013-14 to 2017-18.

The departments while accepting the facts (December 2018), stated that E-tendering shall be introduced for future projects.

The replies of the aforementioned departments were not acceptable as the projects were awarded to private individuals and firms on the recommendation of the Parliamentary Secretary in contravention of the prescribed guidelines.

Recommendation (36): Action needs to be initiated against the erring officials for not following the prescribed procedure in awarding works and responsibility of the officials involved may be fixed.

2.4.11.6 Execution of projects in contravention of NABARD guidelines

As per terms and conditions of NABARD, the State Government shall ensure that the project is completed as per the approved technical design, cost estimates and specified time schedule. In case if any deviation is needed for such changes, the State Government shall inform NABARD in advance, justifying the need for such changes. Further, clause 2 of NABARD guidelines for preparation of DPR of Roads and Bridges projects inter-alia envisaged that the detailed estimate of road/bridge should be submitted. The estimates should be prepared based on the current SSR applicable for the year of project formulation. The estimate should normally be prepared based on the actual survey, investigation and design for the particular road or bridge project.

Examination of records and joint verification of projects revealed instances of execution of projects without the approval of NABARD as discussed below:

- NABARD sanctioned "Construction of Bailey bridge over Milak river between Mopungchuket and Khar" at an approved cost of ₹ 2.56 crore in tranche XVI. Out of the approved cost of ₹ 2.56 crore, the Department projected ₹ 1.28 crore in the DPR for steel deck bailey bridge (excluding civil works). It was however, observed that the supplier was paid the full amount of ₹ 66.20 lakh for supply of steel deck bailey bridge. This resulted in excess projection of ₹ 62 lakh. It was further observed that out of the excess fund of ₹ 62 lakh, the Executive Engineer (EE), PWD

Mokokchung diverted the fund for taking up the project "Construction of culvert and widening of road" at a cost of ₹ 50.03 lakh without the approval of NABARD.

The Department while accepting (December 2018) the facts, stated that ex-post facto approval shall be obtained from the NABARD.

The reply was not acceptable as there is no such provision mentioned in the NABARD guidelines for obtaining ex-post facto approval. The action of the Department in submitting faulty DPR tantamounted to misleading the State Government which not only led to seeking excess re-imbursement of loan from NABARD but also involved interest liability of ₹ 26.46 lakh.

➢ The Department took up Construction of road from Satakha to Ghukiye via Momi was taken up at an approved cost of ₹ 14.38 crore in tranche XV. It was observed that against the re-imbursement of ₹ 12.94 crore from NABARD, the implementing agency paid ₹ 8.40 crore to the contractor. Detailed examination of the DPR and MBs and running account bill of the project revealed that, the department paid ₹ 1.68 crore for execution of three items of work in excess of the approved quantity of work without obtaining prior approval of NABARD. The Department also executed two items of works valued for ₹ 22.95 lakh not included in the approved DPR and also without obtaining prior approval of NABARD. The details of excess execution of works over the approved quantities are given in the Table:

Table 2.4.9

Difference in item of works between DPR and MB

(Amount in ₹)

Sl. No.	Item of work	Unit	To be executed as per DPR			Executed as per 5th RA & MB		Excess	
			Quantity	Rate (SOR 2008)	Amount	Quantity	Rate (SOR 2008)	Quantity (col vii – col iv)	Amount (col ix X col. viii)
(i)	*(ii)*	*(iii)*	*(iv)*	*(v)*	*(vi)*	*(vii)*	*(viii)*	*(ix)*	*(x)*
1	Construction of embankment, roadway cutting and evacuation of other structures graded and compacted to meet requirement of table 300-2.	cum	141093	176	24832347	161414	176	20321	3576496
2	Excavation in ordinary rock by mechanical means	cum	22366	223	4987562	36686	223	14320	3193360
3	Excavation of roadway in hard rock requiring blasting with rock breakers	cum	1320	500	660000	21399	500	20079	10039500
Total (A)									**16809356**
4	Clearance landslide	cum	0			17736.66	64	17737	1135168
5	Surface drain in soil by mechanical means	m	0			20000.00	58	20000	1160000
Total (B)									**2295168**
Grand Total (A+B)									**19104524**

Source: DPR and MB.

Thus, it is evident that the department had arbitrarily changed the specification and scope of works defeating the purpose of requirement for preparation of DPR on which re-imbursement were claimed/sanctioned by NABARD.

The Department while accepting (December 2018) the facts, stated that ex-post facto approval would be obtained from the NABARD.

The reply was not acceptable as there is no such provision mentioned in the NABARD guidelines for obtaining ex-post facto approval. It also indicated that the DPRs were prepared without conducting proper survey and assessing the actual requirements in contravention of NABARD guidelines for preparation of DPR of Roads and Bridges projects.

➢ NABARD approved ₹ 43 lakh for the construction of “Moayimti Agri link road at Moayimti village”, The implementing agency prepared working estimates for following items of works for ₹ 51.17 lakh without obtaining approval from NABARD as detailed in the Table:

Table 2.4.10

Statement showing items of works to be executed and actual execution

Sl. No.	Items	Quantity to be executed as per Working Estimates	Executed as per MBs	Actual Executed	Rate (in ₹)	Difference	Amount (in ₹)
1	Survey and Leveling	3000 metre	0	0	158 per metre	0	0
2	Cutting of trees						
(a)	300 to 600 mm dia girth (in numbers)	245	232	232	352 per piece	0	0
(b)	600 to 900 mm dia girth (in numbers)	68	109	109	416 per piece	0	0
(c)	900 to 1800 mm dia girth (in numbers)	0	62	62		0	0
3	Clearing and grubbing road land	3200 metre	3200 metre	1000	33.58 per metre	2200	73876
4	Formation cutting of the road	3200 metre	2600 metre	1000	151 per cum	1600	241600
5	Construction of unlined surface drains	3200 metre	3180 metre	0	59 per metre	3180	187620
6	Construction of Hume pipe Culvert						
	600 mm diameter (4 Numbers)	4 Number	4	0	200000	4	800000
	900 mm Diameter (2 Numbers)	2 Number	2	0	250000	2	500000
						TOTAL	**1803096**

Source: Working estimate, MBs.

Joint verification of the project (July 2018) revealed that instead of executing five approved items of works for ₹ 18.03 lakh, the implementing agency executed carpeting of one Km village road which was not approved by NABARD. The Department could neither furnish nor state the source of fund from which the additional fund of ₹ 8.17 lakh was met (₹ 51.17 lakh - ₹ 43 lakh).

The Department stated (December 2018) during the exit meeting that the work was executed on request by the villagers.

The reply was not acceptable as the work for carpeting of one kilometre village road was not sanctioned by NABARD but it was executed arbitrarily without obtaining approval of NABARD.

- NABARD approved a project "Improvement of Road from Botsa to Chakabama via Gariphema, Kijumetuma & Dihoma" at a cost of ₹ 9.62 crore based on the DPR submitted by the Department during 2009-10 in tranche XV. NABARD had reimbursed ₹ 8.66 crore against the project, out of which the implementing division received only ₹ 4.76 crore from the Finance Department for the project. This indicated that the re-imbursement of ₹ 3.90 crore was obtained from NABARD inflating the SOEs without the actual requirement. It was also observed that out of the amount received by the implementing agency, an amount of ₹ 85.32 lakh was irregularly diverted for clearance of past liability without obtaining prior approval from NABARD. This indicated that false and incorrect information were furnished to NABARD and the re-imbursement policy as prescribed by NABARD was also not followed.

The Department while accepting (December 2018) the facts, stated that the entire fund reimbursed by NABARD was released to the Department but ₹ 3.90 crore was not released to the implementing division and re-appropriated for other projects.

The reply was an admission of the facts that the State Government had obtained re-imbursement from NABARD based on faulty and incorrect DPRs inflating the SOEs. It clearly indicated that the estimates were prepared without conducting field survey and investigation in contravention of NABARD guidelines.

2.4.11.7 Irrelevant Defect liability

As per general terms and conditions of NABARD, the State Government shall incorporate a clause in the tender that the contractors/firms shall be responsible for the defect liability period preferably for three years and in no case less than two years after the projects are commissioned/completed.

Examination of records revealed that Agriculture Department had not issued any NIT for selection of contractors/firms. In NITs issued by PWD and Horticulture Department, defect liability periods of one year and six months respectively were included in the terms and conditions of the NITs. The defect liability periods were not relevant in respect of Agri link road projects as NIT was not floated and in Horticulture and PWD, the defect liabilities were less than the prescribed norms of NABARD.

Recommendation (37): The departments should consider inclusion of clause of defect liability for a period not less than two years in respect of all the projects being undertaken through NABARD assistance to guard against incurring of expenditure in case, any defects are noticed in the execution of works during defect liability period.

2.4.11.8 Payment without execution of work

The project "Construction of road from Shitoi to Akito (12 Kms)" under RIDF- XXII was taken up at an approved cost of ₹ 6.00 crore by the Executive Engineer, Dimapur division. Examination of records revealed that the contractor was paid ₹ 2.35 crore in two instalments. It was however observed from the MB and the Running Account bill that the contractor had actually executed works valued only for ₹ 1.29 crore (June 2017) out of which payment was limited to ₹ 98.23 lakh. Subsequently, the contractor was paid ₹ 1.37 crore (April 2018) through hand receipt without recording the actual execution of works in the MB and running account bills. This resulted in undue payment of ₹ 1.06 crore (₹ 2.35 crore - ₹ 1.29 crore) without actual execution of work.

This fact was also confirmed during joint verification of the project (July 2018) which revealed actual execution of works in 3.50 Km stretch of the road only.

The Department while accepting (December 2018) the facts, stated that the irregularity committed by the Division shall be rectified and regularised.

The reply was not acceptable as the amount payable to contractor for the works actually executed was only ₹ 31 lakh and thus, the excess payment made was needed to be recovered. Moreover, Department was silent on whether it was contemplating to initiate action against officials concerned for their wilful inaction leading to excess payment.

Recommendation (38): The Government should recover the undue payment of ₹1.07 crore made from the contractor with interest and responsibility be fixed on the officials concerned for extending undue financial benefits.

2.4.11.9 Execution of works deviating from specifications

To ascertain compliance to NABARD guidelines and applicable technical specifications, joint verification of 40 projects was conducted during July and August 2018 as detailed below:

Table 2.4.11

Details of projects covered in the audit and physically visited

Sl. No.	Department	Number of Projects covered in Audit period	Number of Projects physically visited	Percentage
1	PWD (R&B)	28	15	54
2	Horticulture	21	5	24
3	Agriculture	81	20	25
TOTAL		**130**	**40**	**31**

The results of joint verification conducted are discussed below.

(i) Un-executed items of work

As per records, all items of work in respect of 10 projects comprising of 219 items of works were reported as complete and ₹ 60.80 crore was paid**.** During joint verification (July and August 2018), it was however observed that 63 out of 219 items[57] of work for ₹ 5.14 crore remained unexecuted ***(Appendix 2.4.3)***. This resulted in payment of ₹ 5.14 crore without actual execution of works.

The PWD while accepting the facts stated in reply, (December 2018) that, out of 61 items of works, 11 items of works (₹ 1.47 crore) were not executed and nine items of work (₹ 0.74 crore) out of 50 items of works (₹ 3.67 crore) executed were damaged due to landslides. The Horticulture Department did not offer any comment.

The reply was an admission of the facts that payment of ₹ 1.47 crore was paid without actual execution of works which was irregular. Besides, 41 items of works reported as executed could not be verified /shown to audit during the joint verification conducted by audit team and the representative of the department and thus, raises questions on the actual execution of work leading to embezzlement of Government money which needs to be investigated.

(ii) Short execution of works

The implementing departments recorded completion of all items of work in respect of 19 projects[58] in the MBs ***(Appendix 2.4.4)*** and paid ₹ 6.41 crore. During joint verification (July and August 2018), it was observed that 32 (₹ 3.15 crore) out of 97 items[59] of works in 19 projects were short executed.

The PWD while accepting the facts, stated (December 2018) that four items of works were executed completely while the Agriculture and Horticulture Departments did not offer any comment.

The reply was not acceptable as it was observed in six cases that bills were passed by the DDOs on the basis of fictitious entries in the MBs which were certified by Engineers without actual execution of works.

Recommendation (39): The Government should carry out thorough investigation into the matter and take appropriate action against the officials responsible for facilitating payment without ensuring actual execution of works.

2.4.11.10 Fictitious project

The project "Construction of horticulture link road at Vihokhu village to Old Vihokhu village" was sanctioned (March 2016) for an amount of ₹ 10.00 lakh. Examination of records revealed that out of the amount sanctioned, an amount of ₹ 9.00 lakh was paid to the contractor for execution of the horticulture link road. The implementing department reported (November 2016) completion of the project. However, the

[57] PWD (R&B) – 60 and Horticulture – 2
[58] Agriculture – 13, Horticulture – 3 and PWD (R&B) - 3
[59] Agriculture – 3, Horticulture – 19 and PWD (R&B) - 10

District Horticulture Officer, Dimapur could not locate and show to audit the location of the project where it was actually constructed during joint verification (August 2018). This indicated that the project was not taken up but payment of ₹ 9 lakh was fictitiously made to the contractor.

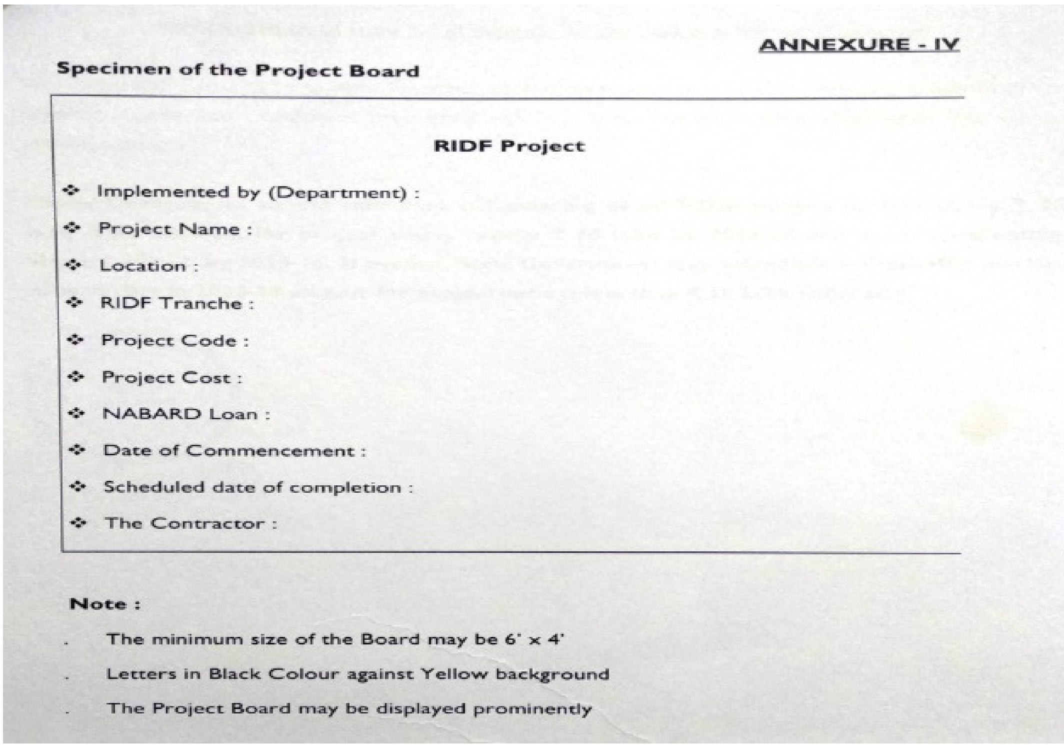
During Exit Conference, the Special Secretary (Finance) assured to examine the matter, the outcome thereof would be awaited.

Recommendation (40): The Government should carry out thorough investigation and fix the responsibility on the erring official besides effecting the recovery.

2.4.12 Non display of Project Board

As per clause 25 of the general terms and conditions of NABARD, the implementing Department shall arrange to display prominently at the project site the physical and financial details of the projects financed in local language/Hindi/English understandable to the layman with NABARD's name.

The prescribed format of the display board is given below:



ANNEXURE - IV

Specimen of the Project Board

RIDF Project

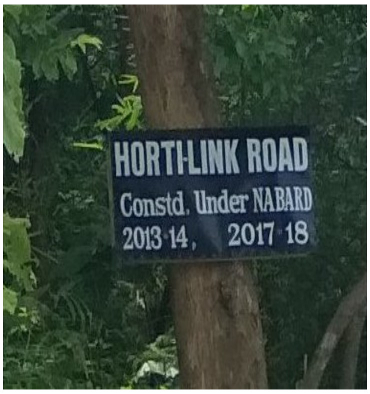
- Implemented by (Department) :
- Project Name :
- Location :
- RIDF Tranche :
- Project Code :
- Project Cost :
- NABARD Loan :
- Date of Commencement :
- Scheduled date of completion :
- The Contractor :

Note :

- The minimum size of the Board may be 6' x 4'
- Letters in Black Colour against Yellow background
- The Project Board may be displayed prominently

Specimen of the Display Board

Joint verification of the projects (June to August, 2018) revealed that display boards were found erected in respect of only one Agriculture link road project out of 20 projects, three Horticulture link road projects out of six project and two projects out of 14 roads and bridges projects. However, the display boards found during joint verification, were not as per the specimen given in the NABARD sanction letters as shown in photographs.

		
Display Board (Agriculture link road) (18 July 2018)	**Display Board (Horticulture link road) (19 July 2018)**	**Display Board (Roads and Bridges) (03 July 2018)**

2.4.13 Non assessment of socio-economic outcomes of completed projects

NABARD assisted RIDF projects of rural connectivity aims to promote socio-economic development of rural areas. As per NABARD guidelines, the State Government was to assess the potential created for generation of income and employment in areas where the projects have been executed and the same was to be reflected in its project completion reports to be submitted to NABARD. In its evaluation studies, NABARD had laid down some illustrative parameters for evaluating the projects such as improvement in access to education and health facilities, reduction in school dropout rates, increase in financial inclusion, etc.

Since inception of NABARD assisted RIDF upto June 2018, the loans sanctioned and disbursed to the State were ₹ 700.18 crore and ₹ 534.03 crore respectively. Out of these, the loans sanctioned to the State under rural connectivity (Rural roads and Rural bridges) was ₹ 361.03 crore (52 *per cent* to the total NABARD sanction).

The implementing Departments stated that outcome or impact evaluation was not conducted for any of the projects in the respective departments. In absence of such assessment, audit could not comment on the impact of the RIDF projects in reaping socio-economic benefits in the State.

2.4.14 Quality control mechanism

As per clause 23 of the general terms and conditions of NABARD, the Project Implementing Authority shall undertake desk/field monitoring and quality control test as per the internal instructions/manual of Implementing Department. The reports of the inspecting officer/quality control test and compliance thereto shall be retained on record by the Project Implementing Division. This report shall be made available to NABARD whenever required. In order to ensure quality assurance, the contractors are required to prepare a quality assurance plan and get the same approved from the Engineer-in-charge within one month from the date of work order. The quality of the work was to be properly documented through certificates, records, check-lists and log books of results. Such records were to be compiled from the beginning of the work and were required to be continuously updated and supplemented by the contractor.

Examination of records revealed that the contractor/firms had not submitted any quality assurance plans for any of the rural connectivity projects taken up under RIDF.

On being pointed out, the Horticulture and Agriculture Departments stated that quality control check on NABARD- RIDF projects was not done as the nature of work was earth work only. PWD also stated (December 2018) that the quality of the work was not properly documented through certificates, records, check-list and log books, which will be maintained in future.

The reply was not acceptable as the terms and conditions of NABARD clearly envisaged for field monitoring and quality control test which were not followed by the implementing departments.

2.4.15 Monitoring mechanism

2.4.15.1 Lack of monitoring by High Power Committee (HPC)

As per NABARD Guidelines, the State Government was required to constitute a High Power Committee (HPC) under the Chairmanship of Chief Secretary of the State comprising of heads of all implementing Departments and representative from NABARD to review the progress of the project quarterly.

Examination of the minutes of the HPC, revealed that out of the required twenty review meetings to be held during the five years 2013-14 to 2017-18, the committee met only five[60] times during the period.

During exit conference, it was stated that the quarterly HPC meeting could not be held due to pre-engagement of Committee members. However, it was assured (December 2018) to initiate HPC review meetings regularly as per the Guidelines.

The reply was not convincing as even the five review meetings which were held did not focus much on reviewing the progress of the projects and also did not offer remedial measures.

2.4.15.2 Non constitution of District Level Review Committees (DLRC)

As per NABARD Guidelines, the District Level Review Committees with the Chief Executive Officer, Zilla Panchayat as Chairman, representative from NABARD and officials concerned from the implementing Departments as Members, will be formed to review the progress of the projects at the district level.

Examination of records revealed that no such Review Committees was constituted at the district level. Thus, the review of the progress of the projects at the district level was not done.

2.4.15.3 Submission of Project Completion Report

NABARD guidelines provides that Project Completion Report (PCR) in prescribed format along with photographs were to be submitted to NABARD within a month of

[60] 1 (2014-15), 2 (2015-16), 1 (2016-17) and 1 (2017-18)

completion of the project. Examination of records revealed that the implementing departments did not maintain any PCR for 81 agriculture link road projects and 21 horticulture link road projects which were stipulated to be completed by March 2017 and March 2018 respectively. In respect of projects taken up by PWD, project completion certificates of two projects sanctioned under tranche XV were furnished to audit. However, no supporting documents for submission of PCRs to NABARD were furnished to audit. Thus, the fact remains that the implementing departments had completely failed in their duties towards preparation and submission of PCRs. Further, NABARD had not taken any stringent measures to ensure submission of PCRs.

2.4.15.4 Lapses on the part of NABARD

The role of NABARD towards successful implementation of RIDF projects is manifold. As per guidelines, NABARD is required to monitor the progress of the work through prescribed returns, review meetings with HPC and by periodical field visits.

However, Audit found that NABARD had not played its role well and had failed in the following fronts:

- Inspite of the fact that NABARD representatives attended the HPC meetings, project already completed under other scheme was included and sanctioned for funding under RIDF (**Paragraph 2.4.9.3**).
- Implementing agencies (PWD and Agriculture) stated that periodic field visits were carried out by NABARD. The departments, however, could not furnish any record regarding the field visits by NABARD. Also, NABARD did not carry out periodical field visits in respect of projects implemented by the Horticulture Department.
- DPRs of all the selected projects did not contain or incorporated the feasibility report *viz;* technical and financial viability (**Paragraph 2.4.9.1**) of the projects. NABARD failed to impress upon the State Government for inclusion of the basic parameters while sanctioning the projects thereby violating their own Guidelines.
- NABARD also failed to exercise due diligence in monitoring the projects. It failed to detect the major deviations from the approved DPRs during their execution as pointed out in (**Paragraph 2.4.11.2, Para 2.4.11.3** and **Paragraph 2.4.11.4**).
- Moreover, NABARD did not emphasis on introduction of E-tendering in respect of 147 projects thereby violating their own Guidelines (**Paragraph 2.4.11.5**).
- Further, NABARD also failed to impress upon for the non-display of boards prominently in respect of projects executed through their assistance under RIDF as per their own Guidelines (**Paragraph 2.4.12**).

During exit meeting, representative from NABARD assured that project site visits will be increased in the near future as per the prescribed norms of NABARD.

2.4.16 Non-maintenance of assets created

NABARD guidelines for selection of roads and bridges projects envisaged that no project shall be sanctioned unless the State Government has assured to have adequate arrangements for maintenance of roads. A mention in this regard should be made in the appraisal report and also in the sanction memorandum indicating the amount required for annual maintenance of the project; source of funds and agency to handle the maintenance.

Examination of records of the three implementing Department revealed that 31 road and bridge projects, 18 Horticulture link roads and 198 Agriculture link roads were reported as complete by the implementing agencies. It was observed that project wise funds for maintenance of the completed projects were not provided in any of the years. The implementing Departments also did not devise any system to identity the completed roads and bridges requiring maintenance.

Agriculture Department accepted (December 2018) the fact and stated that maintenance of the completed roads was entrusted to Village Development Boards and the farmers.

The PWD while accepting the facts, stated (December 2018) that funds for maintenance of roads shall be provided in consonance with the Nagaland Road Maintenance Policy of 2017.

The reply is not acceptable as the NABARD guidelines for providing maintenance funds for completed/sanctioned projects were not followed by the State Government.

2.4.17 Conclusion

The State had not prepared priority list of roads to be funded under NABARD loan. The technical and financial viability had not been worked out for any of the projects proposed/approved under RIDF in the State. No formal tendering process for selection of contractors/firms was followed, instead work orders were issued to the individuals/firms. Further, e-tendering was not introduced and followed for all the 107 new projects taken up during 2013-14 to 2017-18. Audit noticed two cases of execution of projects without approval of NABARD. Out of ₹ 87.24 crore sanctioned as loan by NABARD, the nodal Department deducted ₹ 9.75 crore as Departmental charges in contravention of the general terms and conditions of NABARD. The State Government did not provide any budget or released its share of ₹ 22.99 crore. Instances of payment without execution/short execution of work involving ₹ 8.29 crore were noticed. One bridge constructed was not put to use as there were no accessible roads connected to the bridge from either ends. Display boards were not erected in all the projects taken up and wherever erected, they were not found to be as per the specimen provided by NABARD. There were instances of deficient quality control and monitoring mechanism noticed in the State.

Compliance Audits

SOIL & WATER CONSERVATION DEPARTMENT

2.5 Misappropriation of Government money

Department of Soil and Water Conservation misappropriated ₹ 3.59 crore out of ₹ 3.74 crore released for implementation of Flood Management Programme in Kohima and Phek districts.

Rule 13 of the Central Government Account Receipt and Payment Rules which is followed by Government of Nagaland provides that, every officer discharging the functions of Drawing and Disbursing Officer (DDO) should maintain cash book and all monetary transactions should be entered in the cash book as soon as they occur.

Rule 21 of GFR, 2005, provides that, every officer incurring or authorizing expenditure from public moneys should be guided by high standards of financial propriety.

The Department of Soil and Water Conservation is responsible for development, conservation and management of natural resources like land and water. The major activities of the Department include land development, reduction of Jhum cultivation, soil erosion control, land slide prevention and conservation and development of water bodies. Compliance audit of Director of Soil and Water Conservation (Directorate), District Soil Conservation Officer (DSCO), Kohima and DSCO Phek was carried out in May 2017 and March 2018 respectively.

Examination of records of Directorate revealed that, the Department proposed (April 2016) to the Brahmaputra Board, Ministry of Water Resources, River Development and Ganga Rejuvenation, Government of India (GoI), for sanction of three projects under Flood Management Programme (FMP) through Integrated Catchment Area Treatment (ICAT). The projects were to cover an area of 7650 hectares in four districts at an estimated cost of ₹ 37.13 crore as detailed below:

Table 2.5.1

Name of the project	Project Location	Estimated project cost (₹ in crore)	Area to be covered (in hectares)
Mitigation of flood and river bank erosion in Dzuma river	Dimapur district	12.24	2650
Mitigation of flood and river bank erosion in Nanga- Mela Ghoki river	Zunheboto district	12.47	2500
Mitigation of flood and river bank erosion in Upper Sidzu river	Kohima and Phek districts	12.42	2500
Total		**37.13**	**7650**

Source: Departmental records.

The projects were approved (May 2016) and the Ministry released the first instalment of Central share of ₹ 12.55 crore (September 2016). The State government released the amount to the Directorate (November 2016) which was deposited in a current account[61] opened for ICAT at Lerie Branch (Kohima) of State Bank of India.

As per the records of the Directorate, ₹ 3.74 crore out of ₹ 12.55 crore was disbursed to two DSCO[62] in two instalments (January and March 2017) for implementation of ICAT under FMP. The Department had also reported (May 2017) the completion of projects and furnished the utilization certificate to the Ministry.

Examination of the records of the DSCOs Kohima and Phek in this regard revealed the following:

(i) The Directorate recorded release of ₹ 1.93 crore (April 2017) to the DSCO, Kohima for payment to the beneficiaries for execution of works relating to mitigation of flood and river bank erosion under ICAT programme. It was, however, observed that the DSCO, Kohima submitted four representations/reminders (June 2017, July 2017, August 2017 and January 2018 respectively) to the Director stating that only ₹ 0.15 crore was received by the office and requested for the release of the remaining amount of ₹ 1.78 crore which had not been released (March 2018).

The Government while accepting the facts, stated (October 2018) that, only ₹ 15 lakh was released to DSCO, Kohima in the first phase during 2016-17. The second instalment was not released as the workmanship of the work done was found unsatisfactory and the outstanding amount was kept in abeyance for payment (October 2018). The project also could not be completed as the State Government had not released its share.

The reply was not acceptable as the Directorate had made fictitious entries in their Cash Book and also furnished fabricated Actual Payee Receipt (APR) affixed with revenue stamp in support of payment of ₹ 1.93 crore made to the beneficiaries.

Thus, the Directorate of Soil & Water Conservation released only ₹ 0.15 crore instead of ₹ 1.93 crore to DSCO Kohima for programme implementation. The amount of ₹ 1.78 crore was, therefore, suspected to have been misappropriated, which may be investigated by the Government to fix responsibility of erring officials.

(ii) As per records of the Directorate, ₹ 1.81 crore was recorded as released (January and March 2017) to DSCO, Phek. Examination of records (August 2018) of DSCO, Phek revealed that, the amount was not found recorded in the Cash Book of the DSCO, Phek till March 2017. In a reply to a further inquiry made in this regard, the Directorate stated that the fund was released to DSCO, Phek in cash on 23 November 2016 and furnished APR in support of payment of ₹ 1.81 crore. The reply of the Directorate was factually incorrect as the payments made to the DSCO Phek were recorded in the Cash Book of the Directorate in the months of January and March

[61] Account No. 362******92.

[62] Kohima and Phek.

2017. This indicated that the Directorate did not release the fund of ₹ 1.81 crore to DSCO, Phek and the APR furnished in support of making the payment was fabricated.

On the above being pointed out in audit, the Department stated (December 2018) that the full amount was released to DSCO, Phek after the monitoring team certified satisfactory completion of the works. However, the certificate of the monitoring team was not furnished.

The reply of the Department was not acceptable as there were no records of receipt of ₹ 1.81 crore by the DSCO, Phek and also the entries made in the Cash Book of the Directorate and the reply furnished were contradictory. Further, the work was not carried out as the DSCO Phek had stated in his reply that his office had no information on the implementation of this programme in Phek district.

Thus, an amount of ₹ 3.59 crore (₹ 1.93 crore + ₹ 1.81 crore – ₹ 0.15 crore) was suspected to have been misappropriated by the Director of Soil and Water Conservation. Thus, matter needs thorough investigation and responsibility should be fixed on the officers/officials involved in misappropriation of funds. Besides, FIR should be lodged to bring the defaulters to justice.

2.6 RURAL DEVELOPMENT DEPARTMENT

The Department of Rural Development is involved in developmental activities of rural areas through implementation of various employment generation and infrastructure development programmes. The objective of the Department is to improve the living conditions of the rural population through the district and block level offices and involvement of grassroots organisation of Village Development Boards (VDB).

Compliance Audit of Directorate of Rural Development, eight District Rural Development Agencies (DRDAs) and 30 Block Development Officers (BDOs) for the period from January 2017 to March 2018 carried out during April to June 2018, revealed the following.

2.6.1 Fraudulent payment

As per Rule 137 of General Financial Rules (GFR) 2005, every authority delegated with the financial power of procuring goods in public interest is responsible and accountable for ensuring efficiency, economy and transparency in matters relating to public procurement.

As per Rule 159 of GFR 2005, payments for services rendered or supplies made should be released only after services have been rendered or supplies had been made.

Paragraph 2.3 of the Operational Guidelines (2013) of MGNREGA, the Principal Director (PD) of the DRDA is responsible for overall coordination and implementation of the Scheme in the District in accordance with the provisions of the MGNREG Act and guidelines issued by the Government from time to time.

MGNREGA Act, 2005 also envisaged provision for providing work site facilities like shade, drinking water, first-aid box *etc.,* to the workers.

Paragraph 7.4.2 of Operational Guideline (2013) of MGNREGA, also provides that if the workers are unable to manage their own tools, these may be procured out of allocation of material component of the work.

As per Rule 187 (2 and 3) of the GFR 2005, while receiving goods and materials from private suppliers, it shall be counted, measured or weighed and subjected to visual inspection at the time of receipt. This is to ensure that the quantities are correct, the quality is according to the required specifications and there is no damage or deficiency in the materials. Details of the material so received should thereafter be entered in the appropriate stock register. The officer-in-charge of stores should certify that he has actually received the material and recorded it in the appropriate stock registers.

Examination of records revealed the following:

(i) The State Employment Guarantee Council resolved (April 2017) to provide tent umbrellas and post hole diggers for all 11 districts of the State for effective implementation of MGNREGA programme. Accordingly, the Government issued (May 2017) administrative approval for purchase of 1071 post hole digger and 3118 tent umbrellas (₹ 8.64 crore) for work site amenities for distribution to 11 DRDAs under MGNREGA. The Director of Rural Development Department awarded (May 2017) the supply order to the lowest bidder, M/s Elmer Agro Machineries, Dimapur for supply of the materials to all DRDAs in Nagaland. It was observed that the materials were supplied in June 2017 as per the claim of the supplier and all the three test checked Project Directors (PDs) of DRDAs certified the receipt of the entire materials and accordingly, full payment was made by the Directorate of Rural Development in July 2017. Cross verification of stock and issue register of eight DRDAs revealed that there were no entries in the register regarding the receipt and issue of the materials by the three DRDAs[63], in violation of Rule 187 (2 and 3) of GFR 2015, but payments were released on false certification by the respective PDs. This resulted in payment of ₹ 2.58 crore[64] without actual receipt of the materials.

(ii) It was also noticed that the three DRDAs issued supply orders (January 2018) to M/s. Elmer Agro Machineries for supply of 2316 tent umbrellas for ₹ 3.63 crore at Government approved rate. As per the records, the materials were supplied (March 2018) and accordingly, the supplier was paid the full amount in March 2018. It was however, observed that no official/officers of the three DRDAs had certified the actual receipt of the materials in the body of the supplier's bill and recorded the receipt in the stock register. Thus, it indicated that the three DRDAs[65] paid

[63] DRDA Dimapur, DRDA Wokha and DRDA Tuensang.

[64] DRDA Dimapur (₹72.12 lakh), DRDA Wokha (₹ 81.16 lakh) and DRDA Tuensang (₹105.06 lakh)

[65] Mokokchung, Wokha and Tuensang

₹ 3.63 crore to the supplier for supply of 2316 tent umbrellas which were actually not supplied.

Thus, the four PDs made a fraudulent payment of ₹ 6.21 crore (₹ 2.58 crore + ₹ 3.63 crore) without actual receipt of the materials in contravention of the provisions of Financial Rules.

The Government stated in reply (October 2018) that, the PD, Mokokchung had received the materials after the records were examined by Audit. In regard to PD, Wokha the Department stated that the materials could not be lifted from the Central Godown, Dimapur due to fund constraints which was subsequently lifted and distributed to the blocks. However, the reply on the receipt of materials by the PD, Tuensang was not provided.

Audit also crossed verified the records of the Taxation Department to ascertain whether the supplier had paid any tax against the suppliers. However, Taxation Department confirmed that the supplier/firm, (M/s Elmer Agro Machineries) was de-registered in January 2017 and was not involved in any business activity thereafter by the firm. Therefore, it was not possible for the supplier to have supplied the materials in March 2018.

Thus, the supplies to the extent of ₹ 6.21 crore to the four DRDAs was doubtful which resulted in fraudulent payment of ₹ 6.21 crore besides depriving the job card holders the benefit of work site amenities under the programme.

Recommendation (41): The Government should carry out thorough investigation and fix responsibilities on the officers/officials involved in making fraudulent payment.

2.6.2 Payment without execution of works

The objective of Mahatma Gandhi National Rural Employment Act (MNREGA) is to enhance the livelihood security in rural areas by providing at least 100 days of guaranteed wage employment to poor households whose adult members volunteer to do unskilled manual work. For implementation of this scheme, Ministry of Rural Development, GoI issued detailed guidelines from time to time.

As per Para 6.7 of the operational guidelines (2008) of the MGNREGA, all works taken up under MGNREGA should be measured and recorded in the Measurement Books maintained by qualified technical personnel in charge of the worksite. Verification should be done by qualified personnel before payment of wages.

Para 6.9 of the operational guidelines (2008) states that on completion of every project, a Project Completion Report (PCR) should be prepared as per the prescribed format in the Works Register and the details entered therein should be verified by a senior officer.

Paragraph 2.2.1, of Operational Guidelines of MGNREGA (2013) envisages that the Block Development Officers (BDOs) under the Rural Development Department are responsible for implementation, co-ordination and monitoring of the programme/schemes implemented in the villages under its jurisdiction.

As per Para 354 of NPWD code, every payment should be based on actual measurement of works executed.

Audit scrutiny of records of the offices of the four Project Directors of DRDAs and nine BDOs (April- June 2018) revealed that, an amount of ₹ 23.61 crore was released to nine BDOs by DRDAs[66] for implementation of various programmes/schemes under MGNREGA. It was, however, observed that ₹ 14.68 crore was paid by the nine BDOs, though the works in question were short executed / not executed as detailed below:

Table 2.6.1

(₹ in lakh)

<table>
<tr><th>Sl. No.</th><th>Name of DRDA</th><th>Name of the BDO</th><th>Name of the Village</th><th>Nature of work</th><th>Amount released by DRDA</th><th>Amount paid without execution</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">DRDA Wokha</td><td>BDO Sanis</td><td>Pangti</td><td>Rainwater harvesting tank</td><td>129</td><td>90</td></tr>
<tr><td>BDO Changpang</td><td>Tssori</td><td>Fishery pond/Farm pond</td><td>28</td><td>26</td></tr>
<tr><td>2 (i)</td><td rowspan="2">DRDA Tuensang</td><td>BDO Chare</td><td>Chare</td><td>Rain water harvesting tank</td><td>46</td><td>46</td></tr>
<tr><td>2 (ii)</td><td>BDO Chare</td><td>Kidding and Trongar</td><td>Rain water harvesting tank</td><td>50</td><td>32.60</td></tr>
<tr><td>3 (i)</td><td rowspan="6">DRDA Mokokchung</td><td>BDO Ongpangkong</td><td>10 villages</td><td>Construction of individual toilets</td><td>1199</td><td>490</td></tr>
<tr><td>3 (ii)</td><td>BDO Ongpangkong</td><td>Ungma</td><td>Improvement of internal village road</td><td>161</td><td>96</td></tr>
<tr><td>3 (iii)</td><td>BDO Kubulong</td><td>Longjang</td><td>Cardamom, beetle nut plantation and sanitation</td><td>84</td><td>61</td></tr>
<tr><td>3 (iv)</td><td>BDO Kubulong</td><td>Longjang</td><td>Water harvesting pond</td><td>18</td><td>14.19</td></tr>
<tr><td>3 (v)</td><td>BDO Kubulong</td><td>Sangratsu</td><td>Water reservoir tank</td><td>34</td><td>18.39</td></tr>
<tr><td>3 (vi)</td><td>BDO Changtongya</td><td>Akhoya and Yaongyimsen</td><td>Agri and allied works</td><td>257</td><td>257</td></tr>
<tr><td>4 (i)</td><td rowspan="3">DRDA Longleng</td><td>BDO Longleng</td><td>Three villages</td><td>Water tank, farm pond and community toilets</td><td>195</td><td>178</td></tr>
<tr><td>4 (ii)</td><td>BDO Sakshi</td><td>Aoching</td><td>Rubber plantation</td><td>44</td><td>44</td></tr>
<tr><td>4 (iii)</td><td>BDO Tamlu</td><td>11 villages</td><td>Farm pond</td><td>116</td><td>115</td></tr>
<tr><td colspan="5">Total</td><td>2361</td><td>1468.18</td></tr>
</table>

The details of the above unexecuted/ short execution of works were as under:

i) DRDA, Wokha released ₹ 1.29 crore (September 2016 to June 2017) to BDO Sanis for construction of seven rain water harvesting tanks at Pangti village and the Village Development Board (VDB) was paid the full amount. The total capacity of water harvesting tanks to be constructed was 115.52 cubic metre. The work was reported as complete during 2016-17 and full payment of ₹ 1.29 crore was made to the VDB of the village. As per the cash book of the VDB, all the payments received for

[66] DRDA Wokha, Mokokchung, Tuensang and Longleng.

implementation of MGNREGS were also released to the job card holders engaged by the VDB for executing the approved works.

Joint inspection (June 2018) of the works alongwith the Department officers, carried out in the village however, revealed that only five tanks with a capacity of 34.66 cubic metre valued for ₹ 0.39 crore were constructed. This indicated that the VDB of Pangti Village did not construct 80.86 cubic metre of water harvesting tanks but were paid the full amount for construction of 115.51 cubic metre. This resulted in payment of ₹ 0.90 crore without execution of works, which calls for fixing of responsibility of the officials at fault for facilitating payments for the works not actually executed.

The Department stated in reply (October 2018) that out of seven rain water harvesting tanks, five were completed before Audit (June 2018) and remaining two were completed after audit. The Actual Payee Receipts (APRs) in support of payments to VDB and Measurement Book (MB) on completion of the unexecuted works were also furnished to Audit.

The reply of the Department was misleading and factually incorrect as the MBs and APRs furnished by the Department in October 2018 after the matter was reported to them was the replica of the MB and the APR that was furnished during the course of conduct of compliance audit during April to June 2018. The records relating to the claim for construction of the remaining two tanks which was stated to have been completed after audit was not furnished. It was thus, evident that the Department did not construct 80.86 cubic metre capacity water harvesting tanks valued for ₹ 0.90 crore in contravention of Rules *ibid*.

ii) DRDA Wokha released ₹ 0.28 crore to BDO Changpang for construction of 11 Fishery pond/Farm pond at Tssori Village during 2014-18. The BDO paid the full amount on the basis of the completion certificate furnished by the VDB Secretary of the Village and measurement of the works recorded in the MB by the Junior Engineer. It was, however, observed that the date of commencement of the work, date of completion of work and date of measurement was not found recorded in the MB. During joint inspection (June 2018) by the Audit team with the departmental representatives and VDB members of the village, it was observed that only three out of 11 fishery ponds for ₹ 0.02 crore were constructed.

The Department stated in reply (October 2008) that VDB could show only three fishery ponds and could not show the remaining fishery ponds constructed due to poor road conditions.

The reply of the Department was factually incorrect as the VDB Secretary and BDO had confirmed in writing (June 2018) that only three fishery ponds were constructed. Thus, the BDO Champang irregularly paid ₹ 0.26 crore to the VDB, Tssori village without execution of works which was required to be recovered, apart from for fixing the responsibility of erring officials / persons for facilitating unauthorised payment.

2. (i) DRDA Tuensang released ₹ 0.46 crore (September 2016 to May 2017) to BDO, Chare for construction of three water harvesting tanks and full payment was made

(September 2016 to June 2017) to VDB Chare for execution of work. Joint inspection (May 2018) carried out by audit team with the representatives of the department and the VDB members of the village revealed that the water harvesting tanks were not constructed in the village. This resulted in irregular payment of ₹ 0.46 crore to the VDB without execution of works.

(ii) Similarly, the DRDA Tuensang released ₹ 14 lakh (August 2016 to July 2017) to BDO Chare for construction of five water harvesting tanks at Kidding village and four water harvesting tank at Trongar valued for ₹ 36 lakh during 2016-17. As per records, full payment was made to the two VDBs. Joint inspection (May 2018), carried out by Audit with the representatives of the department and the VDB members, however, revealed that only three water harvesting tank for ₹ 8.40 lakh were constructed at Kidding village and only one water harvesting tank for ₹ 9 lakh was constructed at Trongar village. This resulted in payment of ₹ 32.60 lakh to the two VDBs without execution of works.

3. (i) The DRDA Mokokchung released ₹ 11.99 crore to BDO, Ongpangkong (North) for construction of individual toilets in 10 villages to be implemented by the Village Development Boards (VDBs) during 2016-18. As per records examined by Audit, the BDO, Ongpangkong (North) recorded that 1409 toilets valued at ₹ 7.22 crore were constructed in three villages during the period ***(Appendix 2.6.1)***. However, only three out of 10 VDBs[67], furnished the list of the toilets constructed.

During joint inspection (April 2018) carried out by audit team with the representatives of the department and the VDB members of three villages, it was stated by the VDB Secretaries and the beneficiaries that assistance of ₹ 2.32 crore ***(Appendix 2.6.2)*** was provided to 340 beneficiaries**.** This clearly indicated that 1067 individual toilets were not constructed. However, the BDO paid the full amount which resulted in irregular payment of ₹ 4.90 crore[68] without actual execution of works.

(ii) DRDA Mokokchung released ₹ 1.61 crore to BDO Ongpangkong (North) for improvement of internal village road at Ungma during 2017-18. As per the approved detailed estimates, the total length of improvement of the internal village road was 12 Km. The work was reported as complete and the BDO paid the full amount to the VDB Ungma. Joint inspection (May 2018) carried out by Audit with the representatives of the department and the VDB members of the village revealed that the improvement work was executed only in 3.50 Km valued for ₹ 0.65 crore. This indicated that the improvement works in the remaining 8.50 Km was not executed which resulted in irregular payment of ₹ 0.96 crore without actual execution of works.

(iii) DRDA, Mokokchung released (May 2017) ₹ 0.84 crore to BDO Kubulong for implementation of Cardamom plantation, Rural sanitation and Betel nut plantation at Longjang village during the year 2017-18. As per records of the BDO, Kubulong, the

67 Mokokchung, Ungma and Longmisa

68 ₹ 7.22 crore (cost of construction of 1409 toilets in three villages) - ₹ 2.32 crore (actual assistance provided to 342 beneficiaries) = ₹ 4.90 crore.

work was certified as complete and accordingly, full payment was made (June 2017 to August 2017) to the VDB of the village. Joint inspection (May 2018) of the projects carried out by audit with the representatives of the department and the VDB members however, revealed that betel nut plantation, cardamom plantation and rural sanitation valued for ₹ 0.23 crore was utilised for the projects ***(Appendix 2.6.3)*.** This clearly indicated the cardamom plantation, rural sanitation and betel nut plantation works were not fully executed which resulted in irregular payment of ₹ 0.61 crore without actual execution of works.

(iv) DRDA, Mokokchung released (May 2017) ₹ 17.74 lakh to BDO Kubulong for the construction of five Water Harvesting Pond (@ ₹ 3,54,940 per unit), at Changtongniyong, Longjang village during 2017-18. It was observed that the BDO, Kubulong paid the full amount to VDB, Longjang. The VDB, Longjang also submitted (June 2017) completion certificate to the BDO stating that all the water harvesting ponds were constructed through the fund provided by the BDO. Joint inspection (May 2018), carried out by Audit with the representatives of the department, however, revealed that only one pond was constructed in the village whereas, entire amount of ₹ 17.74 lakh was paid. This clearly indicated that four water harvesting ponds were not constructed which resulted in irregular payment of ₹ 14.19 lakh without actual execution of works.

(v) DRDA, Mokokchung released ₹ 34 lakh (August 2016 and June 2017) to BDO Kubulong for construction of two water reservoir tank in Sungratsu village during 2016-18. The BDO paid the full amount to the VDB, Sungratsu. Joint inspection (May 2018), carried out by Audit with the representatives of the department and the VDB members of the village, however, revealed that only one water reservoir tank valued for ₹ 0.16 crore was constructed. This resulted in excess payment of ₹ 18.39 lakh without construction of remaining one water reservoir tank.

(vi) DRDA, Mokokchung released ₹ 2.57 crore to BDO, Changtongya for implementation of seven works/projects[69] in two villages (Akhoya and Yaongyimsen) during 2016-18. As per records of the BDO, all the works/projects were certified as complete and full payment was made to the two VDBs. Joint inspection (June 2018) carried out by Audit with the representatives of the department and the VDB members of the two villages, however, revealed that financial assistance of ₹ 0.70 crore was provided to 123 job card holders instead of engaging them for execution of works in contravention of MGNREGA guidelines. This indicated that the two VDBs did not utilise the remaining amount of ₹ 1.87 crore thereby denying the benefits of daily wages employment as envisaged under MGNREGA. In addition, the assets creation proposed to be done through implementation of the scheme also remained unachieved.

4. (i) The DRDA Longleng released ₹ 1.95 crore to BDO, Longleng for execution of three works[70] (85 community toilets, two water tanks and 13 farm ponds) in four

[69] Cultivation of pineapple, tapioca, bamboo plantation, cocoon and banana plantation, construction of individual toilet and community toilets

[70] Construction of water tank, Farm pond, and community toilets

villages[71] during 2016-18. As per records of the BDO, all works were certified as complete and full payment was made to the four villages. Joint inspection (May 2018) carried out by audit with representatives of the department, however, revealed that only three community toilets and two farm ponds valued for ₹ 0.17 crore[72] were executed in the three villages. This indicated that 82 community toilets, 11 farm ponds and two water tanks were not constructed which resulted in payment of ₹ 1.78 crore without execution of works.

(ii) DRDA Longleng released ₹ 0.44 crore to BDO Sakshi, for Rubber plantation at Mashe and Farm pond at Nyemee in Aoching village during 2017-18. As per records, the BDO paid the full amount to the VDB Aoching village. During joint inspection (May 2018), carried out by audit with the representatives of the department and the VDB members, the VDB Secretary Aoching furnished a written confirmation that no Rubber Plantation and Farm Pond work was executed in the village. This resulted in irregular payment of ₹ 0.44 crore without actual execution of the works.

(iii) DRDA Longleng, released ₹ 7.22 crore (May 2017 to July 2017) to BDO Tamlu for renovation of council hall, road side plantation, maintenance of drainage around village and cultivation of Naga chilli *etc.,* in 10 villages. Out of the amount released, ₹ 1.16 crore was meant for Construction of farm pond in eight villages. As per records of the BDO, all the eight VDBs had utilised the fund amounting to ₹ 1.16 crore for construction of farm ponds. However, Joint inspection (May 2018) carried out by Audit with the representatives of the department and the VDB members of two villages[73] and information obtained from other six VDBs, revealed cash assistance at the rate of ₹ 4003 was provided to 20 beneficiaries. Thus, the total financial assistance provided to the beneficiaries for construction of ponds was only ₹ 0.080 lakh. This indicated that the remaining amount of ₹ 115.20 lakh was not utilised for construction of ponds by engaging the job card holders and the amount is suspected to be misappropriated. The amount paid in cash as financial assistance was also too meagre for the villagers to construct the ponds thereby defeating the objective to create assets for sustenance. The payment to beneficiaries in cash was also in contravention of MGNREGA guidelines as the job card holders were to be paid daily wages after engaging them for execution of the works.

In the above cases, the technical personnel in charge of the BDOs recorded fictitious entries in the measurement books and payments were made without actual execution of works in contravention of the provisions of General Financial Rules and MGNREGA guidelines. It also indicated that the BDOs did not monitor and supervise the implementation of works taken up by the VDBs and payments were released routinely without following the rules and provisions of operational guidelines of MGNREGA.

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[71] Bhumnyu, Yongam, Orangkong and Hukpang
[72] Community toilets three numbers (₹ 7.30 lakh) and farm ponds two numbers (₹ 9.41lakh)
[73] Tamlu and Netnyu villages

On the above being pointed out in Audit, the Department stated in reply (October 2018) that VDBs under five BDOs diverted the fund for taking up other works ***(Appendix 2.6.4)*.**

The reply of the Department was an admission of the facts that payments were made without ascertaining the physical progress of the works and recording the actual works executed in the measurement books which led to payment of ₹ 14.68 crore without actual execution/completion of projects.

Thus, the payments made in the above cases were unauthorised and undue leading to misappropriation of funds which calls for criminal investigation and filing of FIRs in all such cases against the erring officials.

Recommendation (42): The Government should carry out thorough investigation and fix responsibility of the officers/officials involved in making irregular payment without execution of works.

2.7 POWER DEPARTMENT (Transmission and Generation)

Rule 137 of General Financial Rules read with Sub rule (iv) stipulates that every authority delegated with financial powers of procuring goods in public interest, before entering into contractual agreement, should satisfy itself that the price of the selected offer is reasonable and consistent with the quality required.

Chief Engineer, Transmission and Generation, Department of Power, Nagaland (DoPN) is responsible for creation and maintenance of power generation and transmission network in the State. There are three Transmissions Divisions, two Hydro Electric Divisions, one Generation Division and one Civil Construction Division headed by Executive Engineers.

Compliance audit on the accounts of the Executive Engineer (Transmission), Dimapur for the period from April 2014 to December 2016 was conducted during March 2017 and Audit observed the following:

2.7.1 Procurement at higher rate

Examination of records revealed that the Chief Engineer, DoPN, prepared a Detailed Project Report (DPR) for up-gradation of 132/66/33KV grid sub-station Nagarjan, Dimapur for ₹ 34.23 crore and Ministry of Development of North-Eastern Region approved the project for ₹ 17.05 crore. DoPN invited (June 2010) offers from three firms[74] for supply, erection, testing and commissioning of 3 Phase 2X100MVA132/66KV power transformers. All the firms submitted (June 2010) their offers in which M/s. ABB Ltd Kolkata quoted the lowest rate. Chief Engineer, DoPN forwarded (April 2011) the comparative statement to the Government with recommendation to accept the lowest quoted price. The State Purchase Board accepted and approved (May 2011) the recommendation of the Department.

[74] M/s. Crompton Greaves, Kolkata, M/s Areva India Ltd, Kolkata and M/s Asea Borown Boveri (ABB) Ltd Kolkata

Accordingly, the Department issued work order[75] in September 2011 for ₹ 17.12 crore (including NVAT @13.25%) to M/S Techno Power Enterprises Pvt. Limited, Dimapur on the recommendation of M/s ABB Kolkata being their associate for the supply, erection, testing and commissioning of 100 MVA 132/66 KV transformer at Nagarjan, Dimapur. It was observed that the Executive Engineer (EE), Dimapur, Transmission Division had made payment of ₹ 16.65 crore through seven bills ***(Appendix 2.7.1)*** between December 2014 and August 2017, to M/S Techno Power Enterprises Pvt. Limited, Dimapur for the supply of the transformer manufactured by M/s ABB Ltd Maneja, Vadodara Gujarat. It was, however, observed that the value of goods written in the Way Bill (Form 23) attached to the bills was tampered and defaced which raised a doubt about the genuineness of the value of goods.

To ascertain the actual price of the Transformer, Audit cross examined the Way Bill, 'C' form utilisation, Trading Account and the quarterly returns submitted by the firm to the Taxation Department (December 2017) which revealed that the actual price of the transformer was only ₹ 4.58 crore. This indicated that the supplier (M/S Techno Power Enterprises Pvt. Limited) had procured the transformer from the manufacturer at the price of ₹ 4.58 crore and paid the tax on the actual cost of the transformer. The Department, however, paid ₹ 16.65 crore which was 264 *per cent* above the manufacturer's price.

After considering the supplier's margin and the transportation charges allowed by the department on the basis of the cost assessment submitted by the supplier and the mandatory Taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax *etc*., the admissible cost of the transformer works out to ₹ 7.77 crore as detailed in the Table:

Table 2.7.1
Details of admissible cost of the transformer

(Amount in ₹)

Manu-facturer's price	CST, freight, insurance, packing & forwarding charges (Rate 16.32 %)	VAT (13.25 %)	Trans-portation (15 %)	Supplier margin (25 %)	Total
4,58,42,880	74,81,558	60,74,181	68,76,432	1,14,60,720	7,77,35,771

Source: Commissioner of Taxes, Dimapur, Departmental records and replies.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the price of the transformer which resulted in procurement of transformer at an exorbitant rate of ₹ 16.65 crore (₹ 12.07 crore above manufacture price).

Thus, the payment of ₹ 8.88 crore over the actual cost (₹ 16.65 crore - ₹ 7.77 crore) after admitting the transportation charges and the margin claimed by the supplier

75 CEL/TB/SS-NGR/A-013 (Pt.-I)/, dated 16 September 2011

along with payment of mandatory taxes was done with intention to misappropriate Government money.

The Department stated in reply (September 2018) that the contract was awarded on Engineering Procurement and Construction (EPC) Turnkey mode which was not only limited to supply of the transformer but also inclusive of the delivery at site in good condition, insurance coverage, assembly of all accessories *etc.* The Department, however, accepted that there could have been lapses on its part in not exercising due diligence in ascertaining the reasonableness of the price of the transformer and would explore the possibility of recovering the excess payment made to the contractor.

The reply of the Department was not acceptable as the cost of the transformer plus transportation charges, taxes, and supplier's margin of the supplier allowed by the Department and furnished to Audit works out to ₹ 7.77 crore only. The payment made by the Department was ₹ 8.88 crore in excess after admitting the transportation and the margin of the supplier which was still exorbitantly high.

2.7.2 Procurement at higher rate by E.E., Transmission Division, Kohima

The construction of 132/33kV sub-station at Doyang NH-61 was taken up by the Department of Power to strengthen the power supply in Wokha- Zunheboto-Mokokchung districts of the State. Expression of interest for (1) Engineering, Supply, Erection, Testing & Commissioning of 10MVA, 132/33kVsub-station at Doyang; and (2) Construction of transmission line from Wokha to Doyang NH-61 at an estimated cost of ₹ 35 crore were invited (January 2012) from eight firms. Technical and price bids were submitted by four firms and lowest bid for transformer was submitted by M/s Singh Construction Company, Dimapur and lowest bid for construction of transmission line was submitted by M/s. Caravan Power &Construction (I) Pvt Limited Dimapur which were recommended by the Department to the State Purchase Board, which were approved. The Department, however, did not analyse the reasonableness of the rates quoted by the lowest bidder before recommending for acceptance.

Examination of the records of the Executive Engineer (EE), Transmission Division, Kohima revealed the following:

(a) The Executive Engineer (EE), Kohima, Transmission Division had paid ₹ 9.30 crore[76] to M/s Singh Constructions Co., Dimapur (Contractor) for supply of 10MVA, 132/33KV, Transformer manufactured by M/s Kirloskar Electric Limited, Mysore, Karnataka to be commissioned at Doyang Sub-Station. It was, however, observed that, the price of the manufacturer (Tax invoice No.1405001038) attached to the bill was tampered and defaced.

To ascertain the actual price of the transformer, Audit cross examined the Way Bill, 'C' Form[77] utilisation, Trading Account and the quarterly returns submitted by the

[76] Voucher No. 13 of October 2016 (Second Running Account Bill)

[77] Statutory form used for obtaining rebate in Sales Tax for inter-state trade under Central Sales Tax Act.

firm to the Taxation Department (December 2017) which revealed that the actual price of the transformer was only ₹ 76.78 lakh. This indicated that the supplier (M/s Singh Constructions Co., Dimapur) had procured the transformer from the manufacturer at the price of ₹ 76.78 lakh and paid the tax on the actual cost of the transformer. The Department, however, paid ₹ 9.30 crore without ensuring the genuineness of the claims and thus, was susceptible to fraud.

After considering the supplier's margin and the transportation charges allowed by the department on the basis of the cost assessment submitted by the supplier and the mandatory Taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax *etc*., the admissible cost of the transformer works out to ₹ 1.30 crore as detailed below:

Table 2.7.2
Details of admissible cost of the transformer

(Amount in ₹)

Manu-facturer's price	CST, freight, insurance, packing & forwarding charges (Rate 16.32 %)	VAT (13.25 %)	Trans-portation (15 %)	Supplier margin (25 %)	Total
76,78,682	12,53,161	10,17,425	11,51,802	19,19,671	1,30,20,741

Source: Commissioner of Taxes, Dimapur, Departmental records and replies.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the price of the transformer which resulted in procurement of transformer at an exorbitant rate of ₹ 9.30 crore (₹ 8.53 crore above manufacture price). Thus, the Department paid ₹ 8 crore over the actual cost (₹ 9.30 crore - ₹ 1.30 crore) even after admitting the transportation charges and the margin claimed by the supplier along with mandatory payment of taxes with a malafide intention to commit fraud and misappropriate Government money.

(b) The work was for Construction of transmission line from Wokha to Doyang NH-61 was awarded to the lowest bid (M/s. Caravan Power &Construction (I) Pvt limited Dimapur) which was recommended by the Department to the State Purchase Board. The EE, Kohima, Transmission Division paid (June 2016) ₹ 13.93 crore[78] to M/s Caravan Power and Constructions Private Limited, Dimapur (Contractor) for engineering, design, supply, erection, testing and commissioning of 132 KV/Single Circuit Wokha to Doyang Transmission Line. It was observed that, ₹ 5.99 crore out of ₹ 13.93 crore, was paid to the contractor for supply of 376.509 Metric Ton (MT) of Galvanised Tower Parts (GTP) (@₹ 1,59,160 per MT). It was, however, observed from the Way bills, Road transport challans, Manufacturers invoices and the quarterly

[78] Voucher No. 3 of June 2016 (Fifth Running Account Bill)

returns submitted to the Taxes Department that the actual price of the GTP per MT was only ₹ 69,999. This indicated that the supplier had procured the GTP at the manufacturer price of ₹ 69,999 per MT and paid the tax on the actual manufacturer price. The Department, however, paid ₹ 5.99 crore at the rate of ₹ 1,59,160 per MT which was 127.37 *per cent* per MT above the manufacturer's price. This resulted in excess payment of ₹ 3.36 crore made to the contractor by the EE.

After considering the supplier's margin and the transportation charges allowed by the department on the basis of the cost assessment submitted by the supplier and the mandatory Taxes such as Central Sales Tax (CST), freight, cess, Value Added Tax *etc*., the admissible cost of the transformer works out to ₹ 4.47 crore as detailed below:

Table 2.7.3

Details of admissible cost of the transformer

(Amount in ₹)

Manufacturer's price	CST, freight, insurance, packing & forwarding charges (Rate 16.32 %)	VAT (13.25 %)	Transportation (15 %)	Supplier margin (25 %)	Total
2,63,55,253	43,01,177	34,92,071	39,53,288	65,88,813	4,46,90,602

Source: Commissioner of Taxes, Dimapur, Departmental records and replies.

This clearly indicated that the DoPN did not exercise due diligence to satisfy itself of the reasonableness of the price of the GTP which resulted in procurement of 376.509 MT of GTP at an exorbitant rate. Thus, the Department paid ₹ 1.52 crore over the actual cost (₹ 5.99 crore - ₹ 4.47 crore) after admitting the transportation charges and the margin claimed by the supplier along with mandatory payment of taxes with a malafide intention to commit fraud and misappropriate Government money.

The Department stated in reply (September 2018) that the contract was awarded for the entire scope of work and not item wise and the price quoted qualified in the commercial and Technical bid as per the laid down qualifying requirement (QR) of the tender specification. Further, the contract was a part of the turn key package of the entire scope of the work and the State Purchase Board accepted and approved the tender amount offered by the contractor.

The reply of the Department was not acceptable as bidding price and award of the contract was done by segregating the item of works. The contention that the work was taken up on Turn-key/Engineering, Procurement and Construction mode, was also not pre-defined in the work order. The reply of the Department was also not acceptable as the cost of the GTP plus transportation charges, taxes, and supplier's margin as projected by the supplier which was endorsed to audit works out to ₹ 4.47 crore only.

Thus, the payment made by the Department was ₹ 9.52 crore (₹ 8 crore + ₹ 1.52 crore) in excess even after admitting the transportation and the margin of the supplier which was still exorbitantly high and unjustified.

Recommendation (43): The Government should investigate the matter in all the cases above and fix the responsibility on the officers/officials involved in the procurement at exorbitantly higher rate followed by registration of FIRs against persons at fault.

2.8 PUBLIC WORKS (R&B) DEPARTMENT

Two Executive Engineers of Public Works (Roads & Bridges) Division, paid ₹ 18.08 crore to the contractors without execution of works.

According to Rule 159 of General Financial Rules (GFR) 2005, payments for services rendered or supplies made should be released only after services have been rendered or supplies had been made.

Paragraph 341 of the Nagaland Public Works Department (NPWD) Code, stipulates that before the bill of the contractor is prepared, entries in the measurement book relating to the description and quantities of work or supplies should be scrutinised by the sub-divisional officer and calculation of 'contents or area' should be checked arithmetically. Paragraph 354 of NPWD code also envisages that every payment should be based on actual measurement of works executed.

The Executive Engineers (EE) are responsible for the supervision, execution and maintenance of the road network under their respective jurisdiction. Compliance audits on the accounts of two divisions (EE, Noklak and EE, Atoizu) were carried out during November and December 2017. Examination of records of the two EEs for the period from July 2014 to March 2017 revealed as discussed in the succeeding paragraph:

2.8.1 Payment for unexecuted work

(i) The Ministry of Development of North Eastern Region (DoNER), Government of India (GoI) sanctioned (December 2012) ₹ 21.87 crore under Non-Lapsable Central Pool of Resources (NLCPR) for 'Construction of Jendang Saddle to Noklak-Pangsha road (Phase-II–31 KM)' during 2012-13 on a matching share of 90:10 basis. The GoI released ₹ 15.71 crore[79] (December 2012 and December 2014) and accordingly, the State Government released[80] ₹ 16.58 crore (including State share) to EE, Noklak Division for the purpose in February 2013 and March 2015 respectively.

The work order[81] for ₹ 21.87 crore at par with NPWD Schedule of Rate (SOR) of 2010 was issued (January 2013) for the execution of the works (details in

[79] First instalment ₹ 7.87 crore (December 2012) + Second instalment ₹ 7.84 crore (December 2014) = ₹ 15.71 crore.

[80] ₹ 8.74 crore (February 2013) + ₹ 7.84 crore (March 2015) = ₹ 16.58 crore.

[81] M/s. Naagaamiitech, Jharnapani, Dimapur.

Appendix 2.8.1). As per the terms and conditions of the work order, the work was to be completed within 24 months.

It was observed from the records that the work which commenced in January 2013, remained incomplete (November 2017) though the target date for completion had expired in January 2015. The contractor was paid ₹ 13 crore (June 2016) up to seventh running account bill as detailed below:

Table 2.8.1

Sl. No	Particulars of work	Quantity of works executed as per 7th Running Account bill	Amount paid (₹ in crore)
1	Earth work in formation cutting	5194.81 cum	0.18
2	Cross drainage (including supply and fitting of High Yielding Strength Deformed Bars)	64601.22cum	1.85
3	Construction of drain	29000 running metre	0.20
4	Pavement works	25522.59 cum	10.77
5	Surface Course	0	0
6	Traffic signs and kilometre posts	0	0
Total			**13.00**

Source: Departmental records.

To ascertain the actual execution of works, joint inspection was conducted (November 2017). The inspection could be carried out from 0-20 Kms only and the road beyond was not accessible, which indicated that the works had not been executed.

GSB Gr 1 and road widening for 12 Km

Untreated kutcha road after 12 Km

(24 November 2017)

Joint inspection with the Department officers further revealed the following discrepancies:

a) No Cross drainage work was executed, but the contractor was paid ₹ 1.85 crore.

b) No drainage works was executed between 0-12 Km, but ₹ 0.20 crore was paid to the contractor.

c) Granular Sub-Base (GSB) works for ₹ 2.90 crore was executed between 0 Km to 12 Km whereas, the contractor was paid ₹ 7.08 crore for 30 Kms.

d) No Water Bound Macadam (WBM) work was executed, but the contractor was paid ₹ 3.70 crore.

The above discrepancies indicated that the Sub-Divisional Officer and the EE made the entries in the measurement books without conducting actual measurement of the works executed in contravention of the provisions of NPWD code.

The Department while accepting the facts stated (September 2018) that the cross drainage works and unlined drainage which were completed, got damaged by heavy rainfall and could not be shown during the joint verification.

The reply of the Department was not acceptable as the above facts were accepted during the joint verification.

Thus, the EE made fictitious entries of execution of works and paid ₹ 9.93 crore without the actual execution of the above works. The matter needs to be investigated and responsibility of the officers/officials involved in the case may be fixed.

(ii) GoI approved "Construction of road from Suruhuto Medical Colony to Zunheboto-Mokokchung (SH) at Kitsakita under Central Road Fund. GoI sanctioned ₹ 15.78 crore[82] (February 2014) and released ₹ 8.97 crore[83]. Accordingly, the State Government released ₹ 10.38 crore[84] (including State share) to EE, Aitozu Division.

The work order[85] for ₹ 14.96 crore was issued (February 2015) to M/s Multi Builders, Dimapur (Seven components of work). It was observed that the work commenced in March 2015 and was certified that 70 *per cent* of the works was complete (March 2017). The contractor was paid ₹ 8.05 crore (June 2016) in three running account bills (details in ***Appendix 2.8.2).*** It was further observed that entries made in the running account and the MB were inconsistent. To ascertain the actual execution of the works, joint inspection was conducted (December 2017) which revealed the following:

- WBM Grade II work for ₹ 0.56 crore (1406.20 cum) only was executed whereas, the contractor was paid the full amount of ₹ 1.92 crore for 4781.19 cum of works.
- WBM Grade III works for ₹ 0.59 crore (1406.24 cum) was actually executed whereas, ₹ 0.83 crore was paid to the contractor for 1968.75 cum of works.
- Only six Coarse Metal Stone Masonry retaining wall comprising of 71.20 metre in length valued for ₹ 0.45 crore[86] was actually constructed whereas the contractor was paid ₹ 1.48 crore (97 *per cent* of the total cost).

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82 NH-12031/52/2013/NG/CRF/NH-8 dated 17 February 2014.

83 ₹ 2.99 crore in June 2016 and ₹ 5.98 crore in March 2017.

84 ₹ 2.97 crore (July 2015) + ₹ 1.50 crore (August 2017) + ₹ 5.91 crore (March 2018) = ₹ 10.38 crore.

85 CE/NH/CRF/2013-14/016 dated 27 February 2015.

86

Location (KM)	Height (metre)	Length (metre)
0.55	1.00	10
1.75	2.50	10
7.00	6.40	10
7.15	1.00	26
9.10	3.00	8.50
14.00	2.00	6.70
Total	**15.90**	**71.20**

On the above being pointed out, the Department accepted (August 2018) the facts and stated that the payment of some items of works were not based on actual measurement on site.

The reply was an admission to the fact that the EE paid ₹ 2.63 crore without conducting actual measurement of the works executed in contravention of the provisions of NPWD code. The dereliction of duties on the part of the EE was also not in consonance with the provisions of the Financial Rules as it led to misappropriation of government money indicated above.

2.8.2 Payment for unexecuted work

GoI approved "Construction of road from Aizuto to Atoizu (ADC HQ) under Non-Lapsable Central Pool of Resources at a total project cost of ₹ 14 crore. GoI sanctioned and released ₹ 12.60 crore (March 2016) on a matching share of 90:10. Accordingly, the State Government released ₹ 10.64 crore[87] to EE, Aitozu Division.

The work order for ₹ 14 crore was issued by the EE, Atoizu Division (April 2016) to M/s L.P. Sohe & Sons, Dimapur (11 components of work). It was observed that the work was commenced in May 2016 and it was certified that 78 *per cent* of the works was complete in March 2017. The contractor was paid ₹ 9.33 crore[88] (November 2016 and June 2017).

To ascertain the actual execution of the works, joint inspection with the Department officers was conducted (December 2017) which revealed the following:

- Sub-grade works for 4 Km (₹ 1.24 lakh) were completed whereas, payment of ₹ 4.04 lakh was made for 13 km.
- WBM Grade I works for ₹ 64.19 lakh was executed whereas, the contractor was paid ₹ 2.09 crore for 13 Km.
- No WBM grade II and III works was executed whereas, the contractor was paid ₹ 3.06 crore for these works.
- Only one protection wall for ₹ 14.91 lakh was constructed whereas, the contractor was paid ₹ 74.57 lakh for construction of five protection walls.
- Against 31 numbers of 1000 mm Hume Pipe culverts for ₹ 1.35 crore to be constructed, 32 lower specifications (750, 650, 550 and 450 mm diameter) Hume Pipes for ₹ 1.20 crore ***(Appendix 2.8.3)*** were constructed.

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87 ₹ 5.04 crore (August 2015) + ₹ 5.04 crore (December 2016) + ₹ 0.56 crore (June 2017) = ₹ 10.64 crore

88

(Amount in ₹)

Particulars	Total value of work done	Withheld amount	Bill passed for payment
First RA Bill	51467442	8548042	42919400
Second RA Bill	51824842	1424842	50400000
Total	103292284		93319400

The above cases of payment without actual execution of the works indicated that the EE made fictitious entries in the measurement books without conducting actual measurement of the works executed in contravention of the provisions of NPWD code.

This resulted in excess payment of ₹ 5.52 crore *(**Appendix 2.8.4**)* to the contactor without the actual execution of related works.

The Department while accepting (September 2018) the facts, stated that some payment was made to the contractor which was not commensurate with the actual physical progress of work as it was an ongoing work.

The fact, however, remains that in above three cases, the system of payment on actual measurement at site required under provisions of NPWD code and provisions of GFR was not followed by the EEs concerned. The dereliction of duties by the three EEs had resulted in payment of ₹ 18.08 crore without actual execution of works which needs to be recovered.

Recommendation (44): The Government should ensure recovery of ₹ 18.08 crore which was paid without the actual execution of works. The matter also needs to be investigated and responsibility fixed on the officers/officials involved apart from filing FIRs in all these cases.

DEPARTMENT OF FOREST, ECOLOGY, ENVIRONMENT AND WILD LIFE

2.9 Payment without execution of works

Divisional Forest Officer, Wokha paid ₹ 54 lakh without ensuring execution of works.

According to General Financial Rules (GFR) 2005, payments for services rendered or supplies made should be released only after services have been rendered or supplies had been made.

Paragraph 354 of NPWD code envisaged that every payment should be based on actual measurement of works executed.

The Divisional Forest Officer (DFO) Wokha is responsible for the forest operations and collection of forest royalties within the jurisdiction of three Range offices.

Compliance audit of the DFO, Wokha for the period from November 2013 to June 2016 was conducted during July 2016.

The Government of Nagaland approved ₹ 2.87 crore for seven infrastructure development[89] works under Thirteenth Finance Commission (TFC). The Principal Chief Conservator of Forest (PCCF) released ₹ 1.92 crore[90] (January 2014) to DFO,

[89] Repairing, soil metaling and black topping of Approach Road in forest colony, Wokha, staff quarters, maintenance of staff quarters.

[90] Demand Draft (DD) No.985961 dated 13-01-2014

Wokha Division for implementation of four works in first phase and ₹ 94.54 lakh in the second phase (March 2014) for three works as detailed in ***Appendix 2.9.1***.

Examination of records in connection with the construction of security fencing, black topping and three staff quarters revealed the following:

(i) **Construction of Security fencing:** Out of ₹ 91.59 lakh sanctioned, ₹ 35 lakh was reported as utilized for the construction of security fencing surrounding the DFO office compound. It was observed from the payment vouchers that materials were purchased and labour wages were paid as per the abstract of payment voucher. However, there was no record of actual measurement of work executed. To verify the veracity of actual execution of works, joint verification with the divisional officers was carried out (July 2016), which revealed that 75 RCC pillars (Height- 9 feet; Width- 8 inch X 8 inch) surrounding the office compound were constructed. The cost of construction of 75 RCC pillars (Photograph below) worked out to ₹ 4.57 lakh[91] which was authenticated by the departmental officers.

Thus, the DFO paid ₹ 35 lakh without carrying out the actual measurement of the works and recording it in the measurement book. The actual value of work executed by the contractor as per measurement jointly conducted by the audit team and the departmental officer worked out to only ₹ 4.57 lakh. This resulted in payment of ₹ 30.43 lakh without the actual execution of works which needs to be recovered apart from fixing the responsibility of the erring officials for facilitating excess payment.

Photograph showing construction of RCC pillars

(14 July 2016)

(ii) **Construction of staff quarters:** The Division received ₹ 70.72 lakh ((March 2014) for construction of three staff quarters @ ₹ 23.57 lakh per quarter and all the three Quarters were also reported as complete. It was observed during joint verification conducted by audit team and the departmental officials (July 2016) that only two staff quarters at a cost of ₹ 47.14 lakh were constructed and one staff quarter valued at ₹ 23.57 lakh was not constructed. The DFO however, paid the full amount of ₹ 70.72 lakh without completing the entire works. This resulted in fraudulent

91 Cost of construction of 75 RCC pillars ₹3.63 lakh and cost of construction of entry gate ₹ 0.94 lakh. Total ₹ 4.57 lakh

payment of ₹ 23.57 lakh in contravention of the provisions of the Financial Rules and the NPWD code.

The Department, while accepting the facts stated (September 2018) that only two staff quarters were constructed and the fund for constructing one quarter was diverted for repairs and renovation of the office and staff quarters.

The reply of the Department was misleading as the entire amount of ₹ 70.72 lakh was shown as fully paid.

Recommendation (45): The Government should initiate the disciplinary proceedings and fix the responsibility of the erring departmental officers/officials and file FIR against officials at fault for making payment for the work not executed.