CHAPTER III: ECONOMIC SECTOR

3.1 Introduction

This Chapter deals with the audit findings relating to various departments of the State Government under Economic Sector.

During 2017-18, against a total budget provision of ₹ 4,998.34 crore, the total amount expended by 13 departments of the State under Economic Sector was ₹ 2,779.15 crore. The department-wise details of budget and expenditure are given in the table below:

Table 3.1.1: Budget provision and expenditure of major departments

(₹ in crore)

Sl. No.	Name of Department	Budget provisions (Original and Supplementary)	Expenditure
1.	Public Works	853.84	619.70
2.	Agriculture	587.61	263.96
3.	Planning	499.27	97.12
4.	Community & Rural Development	1589.79	993.10
5.	Power	258.84	149.35
6.	Forest	176.62	144.75
7.	Industries	193.14	143.77
8.	Mining & Geology	105.49	102.25
9.	Fisheries	61.13	19.17
10.	Co-operation	31.24	24.58
11.	Soil Conservation	453.54	77.95
12.	Animal Husbandry and Veterinary	145.83	119.92
13.	Tourism	42.00	23.53
		4998.34	**2779.15**

Source: Budget Estimates, Appropriation Acts and Appropriation Accounts

During the year, an expenditure of ₹ 2,508 crore was test checked in audit (including funds pertaining to previous years audited during the year). Significant observations arising out of these are brought out in this Chapter through one performance audit on 'Implementation of rural connectivity projects with NABARD loans' and five compliance audit paragraphs.

The major audit observations relating to departments in Economic Sector during the year 2017-18 are discussed in the succeeding paragraphs.

PERFORMANCE AUDIT

PUBLIC WORKS (ROADS AND BRIDGES) DEPARTMENT

3.2 Performance Audit of Implementation of rural connectivity projects with NABARD loans

3.2.1 Introduction

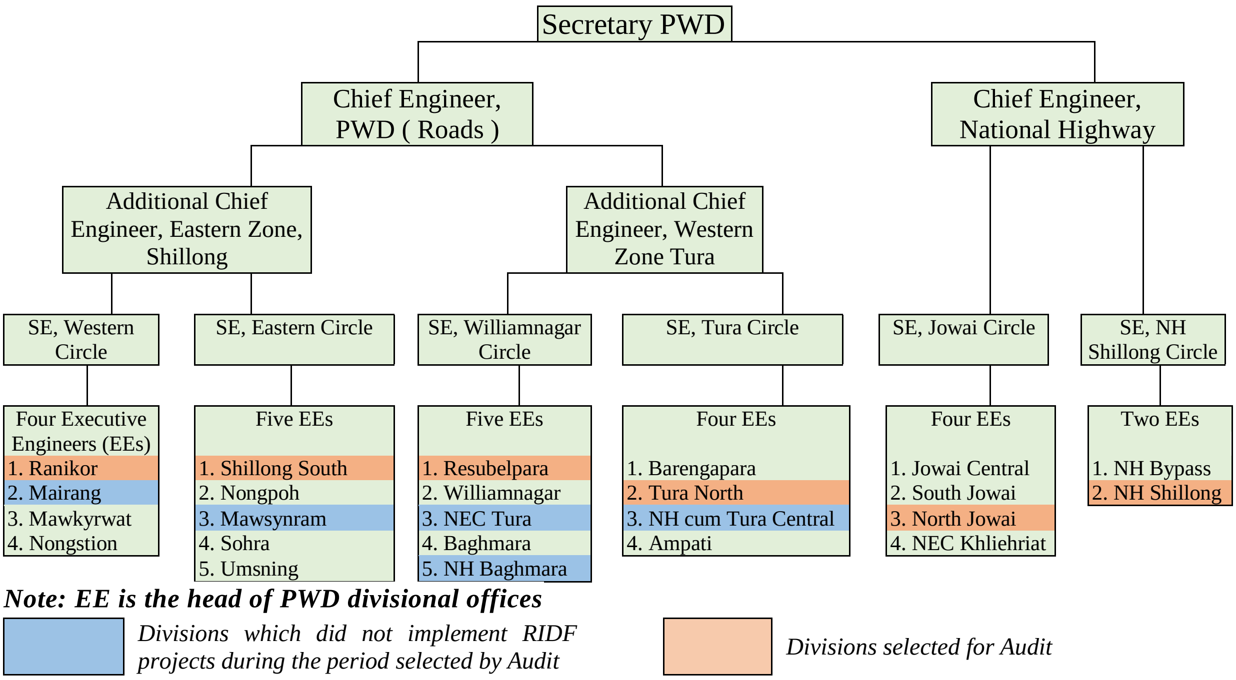
GoI introduced Rural Infrastructure Development Fund (RIDF) in 1995-96 under National Bank for Agriculture and Rural Development (NABARD) with the objective of providing loans for projects which were taken up but remained incomplete due to inadequate resources with State Governments. The eligible activities for NABARD loans are classified under three broad categories *viz*. agriculture and related sectors, social sector and rural connectivity sector. The activities covered under rural connectivity are rural roads and bridges.

NABARD provides loans under RIDF up to 90 *per cent* of the cost of a project for rural connectivity. The balance 10 *per cent* has to be borne by the State Government. The corpus of RIDF is allocated to the States on the basis of a prescribed criteria[1]. The loans from NABARD are interest bearing with a repayment period of seven years.

3.2.2 Organisational set up

Public Works Department (PWD) of Meghalaya is the implementing department for rural connectivity projects funded under RIDF. The organogram of the department is given below.

Chart 3.2.1



[1] 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.

The Executive Engineer (EE) under the administrative control of the Chief Engineer (CE), National Highways (NH), also reports to the CE, PWD (Roads) for projects related to RIDF being executed by them.

Audit Framework

3.2.3 Audit objectives

Performance audit of projects implemented with NABARD loans was taken up to assess whether:

- State Government has prepared appropriate plans to ensure coverage of rural areas through road connectivity;
- projects were executed within the approved cost and time and complied with NABARD guidelines and applicable standards; and,
- adequate quality control and monitoring mechanism was in place.

3.2.4 Audit Criteria

Audit findings were benchmarked against the following sources of criteria:

- NABARD guidelines for selection of projects relating to roads and bridges and terms and conditions of loans;
- State Schedule of Rates (SOR) for Roads & Bridges and Indian Road Congress (IRC) specifications;
- Meghalaya Financial Rules, 1981 and notifications/directions issued by GoI and State Government from time to time.

3.2.5 Scope and methodology of Audit

Audit was carried out during May-June 2018 and covered the implementation of rural connectivity projects through NABARD loans in the State during the five year period 2013-14 to 2017-18. Audit methodology involved test check of records of the State Finance Department, Chief Engineer (CE), PWD (Roads & Bridges), Regional Office of NABARD, Shillong and six executing divisions responsible for implementation of projects for ensuring rural connectivity. In addition to the scrutiny of records, joint physical verification of 12 projects was carried out along with the departmental officials and photographic evidence was obtained where appropriate.

Audit objectives, criteria, scope and methodology were discussed (May 2018) in an Entry Conference with the Planning, PWD and Finance Departments of Government of Meghalaya. After conclusion of Audit, the draft Report was issued (September 2018) to State Government for response. However, replies of the Government have not been received. Audit findings were discussed with the State Government (Finance, Planning and Public Works Departments) and NABARD in an Exit Conference held in December 2018 and the replies furnished by State Government and views expressed during the Exit Conference were incorporated in the report at appropriate places.

3.2.6 Audit sample

Details of divisions and projects selected for audit are as follows.

Stage I	Five districts (East Khasi hills, South West Khasi hills, West Garo hills, North Garo hills and West Jaintia hills) were selected from among the three regions (Khasi hills, Garo hills and Jaintia hills) of the State
Stage II	Six out of 19 works divisions from among the sampled districts were selected for audit based on probability proportional to size without replacement method, with total expenditure as the measure of size
Stage III	Out of the 69 projects approved for NABARD funding in the sampled divisions, 40 projects (37 roads and 3 bridges) were selected for detailed scrutiny. Twenty of these were completed projects and 20 were in progress

The details of the 40 projects selected for audit are given in **Appendix – 3.2.1.** Together, they account for ₹ 77.85 crore out of the total sanctioned amount of ₹ 271.05 crore for the NABARD funded projects in Meghalaya.

Audit findings

Significant findings of audit relating to implementation of NABARD funded roads and bridges are discussed below.

3.2.7 Planning

Comprehensive planning is imperative for expansion and upgradation of roads and bridges network for providing connectivity to all habitations and ensuring speedy development and integration of rural areas. It also facilitates assessment of future requirement of roads in the State keeping in view growth of traffic and existing status of different categories of roads.

NABARD guidelines envisage survey by the State Government and preparation of a Master Plan, indicating the status of existing road network in the State and priority index for selection of road projects. This is especially necessary, considering that the road network in the State is also constructed/ strengthened/ expanded with funding from Ministry of Development of North Eastern Region (MoDoNER) (Non Lapsable Central Pool of Resources, North Eastern Council), PMGSY, *etc.*

RIDF guidelines provide for submission of Detailed Project Reports (DPRs) containing technical and financial parameters, drawings, designs, maps *etc.* while planning for availing of NABARD loans. The DPRs for the prioritised projects based on the Master Plan should be submitted by the implementing department of the State Government to NABARD through the Nodal Department.

Scrutiny of records revealed that the State Government had neither prepared a Master plan, nor was there any streamlined procedure for identification, prioritisation and selection of the projects for assistance under RIDF. The DPRs for the projects were approved by NABARD even though the projects did not flow from the Master Plan as envisaged in the guidelines. In the absence of a systematic procedure for prioritisation and identification of RIDF projects, the viability of the projects was not ensured from the perspective of significant positive linkages of infrastructure to economic growth and poverty alleviation as discussed in the succeeding paragraph.

3.2.7.1 Sanctioned projects not connected with all weather roads (pucca roads) at both ends

As per RIDF guidelines, selection of road projects should ensure connectivity of the road with *pucca* roads (black topped) at both ends. The scheme guidelines also stipulated that implementation of the projects sanctioned under RIDF scheme would facilitate construction of all weather *pucca* roads.

During the joint physical verification of 12 projects, it was observed that three roads and one bridge projects were sanctioned without ensuring connectivity with *pucca* roads at both ends. Details of the roads and the bridge projects are given below:

Name of project: Improvement including Metalling Black Top (MBT) of Pasyih-Pamluti-Pammanik road (2.00 km) under RIDF-XXII **Project cost**: ₹ 1.77 crore. **Division**: North Jowai Division **Audit observations:** The stretch of road ended in the middle of a private paddy field at Ch. 2000 m.	 Photograph taken on 25 July 2018
Name of project: Improvement including MBT of a road from Gimigre Old Model to Bollochiring village, (length -2.00km) under RIDF-XX **Project cost**: ₹ 1.60 crore. **Division**: Tura North Division **Audit observations:** The stretch of road ended with a kutcha road at Ch. 2000 m.	 Photograph taken on 5 June 2018
Name of project: Construction including MBT of a road from Rajaballa to Haripur *via* Khasiabari (0.00-5.17 km), under RIDF-XXII **Project cost:** ₹ 2.40 crore. **Division:** Tura North Division **Audit observations:** The stretch of road ended with a kutcha road at Ch. 5170 m.	 Photograph taken on 5 June 2018

Name of work: Construction of missing bridge from 4th Km of Mawkneng-Nongspung Road to Laitnongrem village (Span 10m) under RIDF-XX
Project cost: ₹ 0.60 crore.
Division: Shillong South Division

Audit observations: The bridge was not connected with all weather roads. The connecting roads on both sides of the bridge were kutcha roads.


Photographs taken on 6 July 2018

The above cases illustrate that the intended objective of providing *pucca* road (black topped) connectivity at both ends was not fully achieved. In response, the CE, PWD stated (July 2018) that the RIDF projects were usually selected based on economic importance of projects *viz.* to connect to market places or agricultural land and for improvement of the condition of the existing roads in such areas.

The reply of CE does not address the issue of responsibility for non-preparation of a master plan, priority list and selection of projects to ensure that such issues do not crop up after sanctioning the projects. The DPRs were also not comprehensive, and did not address these issues.

3.2.8 Physical Achievement

3.2.8.1 Status of physical progress of RIDF projects

Projects for rural connectivity under RIDF have been implemented in the State since 1996 and as of March 2018, 593 projects (roads: 463 and bridges:130) with cumulative length of roads of 1598.29 km have been sanctioned. Of these, 131 projects (roads:122 and bridges: 9) were sanctioned by NABARD during the review period *i.e.* from 2013-14 to 2017-18. The tranche-wise physical performance achieved by the State with NABARD funding during 2013-18 is shown below:

Table :3.2.1 Physical achievement of the State during 2013-14 to 2017-18

Tranche No. & Year	No. of sanctioned projects		No. of projects completed		No. of on-going Projects	
	Roads	Bridges	Roads	Bridges	Roads	Bridges
XIX 2013-14	No projects for 'Roads & Bridges' were sanctioned during the year					
XX 2014-15	39	03	33	02	06	01
XXI 2015-16	No projects for 'Roads & Bridges' were sanctioned during the year					
XXII 2016-17	42	03	Not due	Not due	Not due	Not due
XXIII 2017-18	41	03	Not due	Not due	Not due	Not due
Total	**122**	**09**	**33**	**2**	**06**	**01**
Grand Total	**131**		**35**		**7**	

Out of 131 projects, 89 projects pertaining to tranches XXII and XXIII were not due for completion by March 2018. Although 131 projects were approved by NABARD for execution, only 42 projects (Tranche XX) were due for completion by March 2018. Out of these, 35 projects were completed on time and the remaining 7 projects could not be completed within the stipulated timeframe prescribed by NABARD.

Out of the sampled 40 projects (37 roads and 3 bridges) for audit, 20 projects were completed and 20 were in progress as of March 2018. Out of the completed projects, seven projects were completed with delays ranging from 30 to 210 days. Even the on-going projects have crossed their stipulated date of completion by 30 to 540 days. The reasons for the delay in completion of the projects were not available on record.

3.2.8.2 Delay in submission of project proposals

During 2013-18, the State Government submitted proposals for 175 projects (roads & bridges) estimated to cost ₹ 366.34 crore. NABARD approved 131 projects out of these and sanctioned ₹ 271.05 crore (90 *per cent* of the project cost) as interest bearing loan. The balance 44 projects costing ₹ 95.29 crore were not sanctioned due to non-fulfilment of the prescribed criteria.

Scrutiny of records revealed that NABARD has not sanctioned any project during 2013-14 and 2015-16 due to the failure of the State Government to submit the requisite proposals/DPRs on time. NABARD informed (26 July 2013) the State Government that it had allocated ₹ 100 crore under RIDF for the year 2013-14 and asked for submission of the project proposals by 30 September 2013. The Planning Department however, took 59 days to direct (23 September 2013) the implementing departments to submit the project proposals. PWD took 78 days to submit (11 December 2013) the project proposals (without DPRs) to the Government of Meghalaya and the DPRs were submitted to NABARD in a piece-meal manner. Even the first batch of 35 DPRs was submitted after the closure of the financial year on 28 April 2014, nearly seven months after the stipulated date, and the last batch of 2 DPRs was submitted on 2 September 2014, thus resulting in ₹ 100 crore set aside by NABARD for the State, being unutilised.

Similarly, an amount of ₹ 150 crore was allocated to the State under RIDF for the year 2015-16 and Planning Department directed (9 July 2015) all the implementing departments to submit their proposals by 14 August 2015. It was only after another 152 days that the Planning Department specifically directed (9 December 2015) PWD to submit proposal to the extent of ₹ 35 crore before 14 December 2015. However, PWD submitted 24 DPRs estimated to cost ₹ 35.77 crore to NABARD on 26 March 2016, *i.e.* after 107 days of receiving the specific direction from the Planning Department.

Thus, due to the apathy and lack of urgency on the part of the Planning and Public Works Departments in submitting the project proposals to NABARD on time, projects worth ₹ 135 crore for establishing rural road connectivity were not considered by NABARD for approval. Reason for such indifferent attitude from these departments was not available on record.

During the exit conference (December 2018), both the Departments accepted that due to delay in submission of project proposals, no project was sanctioned during 2013-14. In respect of 2015-16, NABARD stated (August 2018) that only one project proposal for construction of a mini hydel project at an estimated cost of ₹115 crore was received from the State Government.

3.2.8.3 Delay in completion of projects

As per NABARD guidelines, rural connectivity projects involving RIDF loan below ₹ 50 crore are to be completed within 2-3 years.

Scrutiny of records of the CE, PWD (Roads & Bridges) revealed that 10 projects estimated to cost ₹ 47.51 crore and sanctioned under RIDF during 1999-2001 to 2009-10 were yet to be completed as of August 2018. An expenditure of ₹ 35.81 crore was incurred (August 2018) on these projects with '0 to 99 *per cent*' physical progress of the works.

CE, PWD (Roads & Bridges) attributed (April 2019) the delay in completion of projects to (i) delays in approval of revised estimates due to increase in volume of works (two projects), (ii) faulty design (five projects), (iii) law and order problem (one project), (iv) higher rate quoted by contractor (one project) and (v) issue of forest clearance (one project). The details are shown in **Appendix 3.2.2**. The reply indicates that the DPRs were not prepared in a comprehensive manner based on actual site survey.

As the implementation of projects was delayed beyond three years from the date of administrative approval, these projects were no longer eligible for NABARD loan under RIDF for their completion and the State Government will have to complete these projects out of its own resources. Moreover, there is a likelihood of further cost escalation of these projects due to the delay. During the exit conference (December 2018), the Department accepted the audit observation and stated that it would look into the issue. However, there was no positive change in the physical progress of the aforesaid projects as of April 2019.

Thus, due to delays in completion of these projects owing to avoidable reasons such as faulty design, non-approval of REs, lack of forest clearance, *etc.*, the expenditure of ₹ 35.81 crore incurred on these incomplete projects is yet to bear fruit.

3.2.9 Financial Management

3.2.9.1 Submission of incorrect reimbursement claims to NABARD

Paragraph 2 (d) and (e) of Annexure IV of Hand Book on RIDF provides that NABARD will disburse the loan amount on a monthly basis on submission of Statement of Expenditure (SoE) incurred by the Government in the execution of the work and drawal applications were to be submitted based on actual execution of work and expenditure incurred.

Audit observed that in respect of five completed projects, the State Government had forwarded reimbursement claim of ₹ 4.94 crore up to March 2018 to NABARD against the actual expenditure of ₹ 3.93 crore, of which ₹ 3.54 crore (90 *per cent* of the total expenditure) was reimbursable by NABARD. The amount so claimed was sanctioned and reimbursed by NABARD without verifying the correctness of the claim resulting in excess reimbursement of loans of ₹ 1.40 crore against the five completed projects, leaving no scope for adjustment against them. The details of this excess reimbursement are shown in the table below:

Table :3.2.2 Table showing excess reimbursement by NABARD

(₹ in crore)

Sl. No	Name of Project	Project Cost	Actual Expenditure as on March 2018	NABARD share	State share	Amount reimbursement by NABARD as of March 2018	Excess reimburse-ment
1	Impl. i/c MBT of Mynso-Shangpung road at 2nd, 3rd, 9th & 10th Km (North Jowai Division)	1.80	1.21	1.09	0.12	1.62	0.53
2	Impl. i/c MBT of Pynursla Nongri road 17th to 21st Km (L=5 Km) (Shillong South Division)	2.00	1.49	1.34	0.15	1.76	0.42
3	Impl. i/c MBT of Mawmyrsiang road (0-2.00 Km) (Shillong South Division)	0.80	0.45	0.41	0.05	0.66	0.26
4	Construction of missing bridge from 4th Km of Mawkneng Nongspung Rd to Laitnongrem village (Span-10m) (Shillong South Division)	0.60	0.46	0.41	0.05	0.54	0.13
5	Construction i/c MBT of Mawklot-Wahladew road. (NH Shillong Division)	0.40	0.32	0.29	0.03	0.36	0.07
	Total	**5.60**	**3.93**	**3.54**	**0.39**	**4.94**	**1.40**

As can be seen from the above table, the mechanism of reimbursing loans by NABARD without verifying the correctness of the claims was against the spirit of RIDF guidelines. Audit also noticed that the State Finance Department failed to scrutinise the claims before their submission to NABARD. Thus, due to submission of wrong claims by the PWD and failure on the part of State Finance Department to examine the genuineness of the claims led to availing of excess loan amount.

3.2.10 Non-compliance with RIDF Guidelines

3.2.10.1 Non inclusion of clause for defect liability period

RIDF guidelines stipulate that the State Government should 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 completed.

Scrutiny of records of 40 works selected by Audit showed that PWD did not incorporate the defect liability clause in any of its Notices Inviting Tenders (NITs) and only stated that tenders would be subsequently drawn up in 'Form F2[2]'. The 'Form F2' however, contained only a general clause for maintenance of upto three months after completion of the work. PWD also failed to include the defect liability clause in the contracts executed with the successful bidders.

Picture showing the repair work undertaken (Nov – Dec 2017) at a cost of ₹1.70 lakh after the work *'Widening i/c MBT of existing pavement of Shillong Peak Road - under RIDF-XX'* which was completed in December 2016. *Date of joint physical verification: 07.08.2018*

Further audit examination of records showed that in five out of the 40 projects, an expenditure of ₹ 37.87 lakh was incurred towards restoration of the defects found in the execution of works, which were found within less than one year of completion of the work **(Appendix – 3.2.3).** The repairing / restoration works were awarded to different contractor(s) and the expenditure was borne by the Divisions out of State funds due to non-inclusion of defect liability clause in these agreements. NABARD has also not instituted any mechanism to verify whether the defect liability clause was incorporated in the tender/agreement by the PWD.

A joint physical verification (June 2018) of the work 'Improvement including MBT of a road from AMPT road to Haribanga village via Bholarbita (0.300 Km) under RIDF-XX' under Tura North Division, revealed that although the project was physically completed (February 2017), it had developed potholes at many stretches and needed repairs. Since the Division has not incorporated the defect liability clause as per guidelines of NABARD, the cost of repairs would have to be borne with the help of the States' own meagre resources.

Picture showing broken road in the work *'Improvement i/c MBT of a road from AMPT road to Haribanga village via Bholarbita (0.300 Km) under RIDF-XX'* which was completed during February 2017.
Date of joint physical verification: 05.06.2018

During the exit conference (December 2018), the Department confirmed the facts and stated that henceforth, the defect liability clause would be incorporated.

The CE, PWD (Roads & Bridges) is responsible for ensuring compliance with NABARD guidelines regarding inclusion of defect liability clause in all agreements to avoid undue burden of repairing/ restoration cost incurred by the Department. This benefit granted to

[2] 'Form F2' is a standard format of agreement executed between the PWD divisions and the selected contractors in the State of Meghalaya.

the contractors not only absolved them of the liability in case of low quality construction, but also increased the financial burden of State Government for repair works.

3.2.11 Implementation Issues

3.2.11.1 Deviations from DPRs

As per Meghalaya Financial Rules (MFR), 1981 it is necessary to obtain administrative approval of the department concerned and technical sanction of PWD before taking up any work. Rule 246 of MFR, 1981 also stipulates that a revised administrative approval has to be obtained if there are material deviations from the original proposals, even if there is no increase in cost. Further, as per NABARD's guidelines, the State Government is to ensure that the project is completed as per the approved technical design and in case of any deviation/changes, NABARD should be informed in advance, justifying the need for change.

Scrutiny of records of 40 projects selected for audit revealed material deviations from the DPRs. However, there was nothing on record to justify the deviations. Revised DPRs were not prepared and got approved from the competent authority where there were deviations and NABARD was not kept in the loop with regard to the deviations. NABARD neither had a system in place to seek certification from the PWD, nor did it check any completed project to satisfy itself that the works were implemented as per the approved DPRs. The details of these deviations are given below:

- In 23 out of 40 projects, different items of works amounting to ₹ 221.74 lakh which were not provided for in the sanctioned DPRs were executed by all the six divisions selected for audit **(Appendix – 3.2.4).**

- Five projects were declared as 'physically completed' even though some of the important items of works such as cross drainage (box culvert) and drain', Hume pipe culverts, 'retaining wall', 'construction of slab drain' *etc.*, estimated to cost ₹ 63.75 lakh as per the DPRs were not executed (**Appendix – 3.2.5)**.

The EEs of the divisions concerned stated that works were executed as per the site conditions. The reply is not acceptable, as the DPRs should have been prepared based on the site conditions after a proper survey. If any deviations were necessitated during execution, these should have been documented with proper justification, and approval of the competent authority should have been taken for the revised estimates. Clearly, DPRs were not prepared with the required rigour and neither the State Government nor NABARD seem to have given adequate attention to this aspect.

The Department stated in the exit conference (December 2018), that clarification/reply relating to material deviation from the DPRs as pointed out in the above paragraph would be submitted to Audit after going through the report. Department's reply, however, has not been received (April 2019).

3.2.11.2 Undue benefit to contractors

As per the provisions of Meghalaya Financial Rules (MFR), 1981[3] if a contract does not specify the rates to be paid for several classes of work, but merely states that the estimated rates or a certain percentage below or above it will be allowed, it should be seen that the standard rates adopted are those of the sanctioned estimates which were in force at the time of execution of the agreement. The MFR, 1981 also stipulates that payment made through running bills are to be adjusted in the final bill.

Scrutiny of payment vouchers revealed that in three Divisions[4], payments were made to contractors against five works without proper scrutiny of bills and relevant records. Lack of proper scrutiny led to extension of undue financial benefit of ₹ 45.09 lakh to the contractors as detailed below:

- The work 'Strengthening and improvement of pavement of Bajengdoba – Jangrapara road at (3rd, 4th & 5th Km) including Gokulgre Approach road, (under RIDF –XX) was awarded at a cost of ₹ 122.48 lakh in April 2017 by EE, Tura North Division to the contractor (Shri G. Marak) at 15 *per cent* above the Schedule of Rates (SOR) 2011-12. On completion of the work, payment was made at a higher rate resulting in undue financial benefit of ₹ 29.71 lakh[5] to the contractor.

- The EE, Tura North Division paid (31 March 2017) ₹ 5 lakh to a contractor (Shri Pinju S. Sangma) through 'Hand Receipt'[6] for the work 'Providing close bamboo for walling consisting of 65m-75m dia bamboo *etc.*' against the main work 'Construction i/c MBT of a road from Rajaballa to Haripur *via* Khasiabari (0.00-5.17 km), under RIDF-XXII. On completion of the work, the contractor submitted a final bill for ₹ 6 lakh, which was paid (June 2017) by the Division without adjusting the amount of ₹ 5 lakh paid through hand receipt.

- Construction i/c MBT of an Internal road at Pynursla village (L=0.473km) (under RIDF-XX), NH Division, Shillong was awarded in March 2015 to a contractor (Shri D Marbaniang) at a tendered rate of ₹ 60.20 lakh. The contractor completed the work in August 2016 and was paid the entire amount of ₹ 60.19 lakh without ensuring the mandatory deduction/recovery of ₹ 2.03 lakh on account of VAT, forest royalty, labour cess, *etc*.

- Improvement including MBT of a road from Moulakandi to Goladighi road (2 Km) (under RIDF-XXII), was awarded to a contractor (Smti Gonola Sangma) in September 2015 (MBT at chainage 500-750m) at a tendered cost of ₹ 6 lakh. The contractor completed the work only upto WBM Grade-III[7] at

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3 Note 1 below Rule 316 and Rule 321 of MFR, 1981.

4 Tura North, NH Division Shillong and Jowai North.

5 Amount payable as per SOR 2011-12: ₹ 87.20 lakh; Amount paid: ₹ 116.91 lakh.

6 Simple form of voucher intended to be used for small miscellaneous payments and advances.

7 The works executed by the contractor were (i) compacting original ground, (ii) GSB, (iii) WBM grade-2 & 3, and (iv) carriage charges of aggregate stone.

a cost of ₹ 3.86 lakh. The EE, Tura North Division made payment to her twice on the same running bill (voucher Nos.182 dated 28 June 2016 and 268 dated 30 September 2016) resulting in an excess payment of ₹ 3.86 lakh. Further, against the main work, three contractors who had tendered as per SOR rate, executed 5615.485 cum of earthwork. The EE, Tura North Division however, paid them at the rate of ₹ 362 per cum instead of the DPR rate of ₹ 329 per cum resulting in excess payment of ₹1.85 lakh to the three contractors.

- For the work 'Improvement including Metalling and Black Topping of Internal Road at Khanduli Village (3.568 Km) under RIDF-XX', North Division, Jowai issued (March 2015) work orders to three contractors[8] at their tendered rate of ₹ 12.50 lakh (₹ 3.50 lakh, ₹ 5.00 lakh and ₹ 3.50 lakh respectively). The contractors completed the work in January 2016 and were paid in full. For one of the items of work 'Providing and laying reinforced cement concrete pipe NP3 *etc*.-25 nos.', the three contractors were however, paid at the rate of ₹ 21,391 per metre instead of the SOR rate of ₹ 10,790 per metre, which resulted in excess payment of ₹ 2.65 lakh (₹ 10601 x 25).

The details of the excess/undue payments of ₹ 45.09 lakh to the contractors are given in **Appendix-3.2.6**.

All the above cases point to lack of internal controls and accountability at various levels within PWD. While the amounts involved are not very significant, these reflect systemic weaknesses and indifference or possible collusion of the concerned officials.

The EEs concerned and the Accounts Officers are responsible for ensuring payment for the works done at correct rates as per work orders/agreements. Since both these officials had failed in doing their assigned tasks as per rules/orders/contracts/ procedure, the matter needs to be investigated and responsibility fixed on the erring officials.

In the exit conference (December 2018), the EE, Tura North Division stated that the excess payment has been recovered from the contractors and no double payment was made to one contractor (Smti Gonola Sangma) for the work 'Improvement including MBT of a road from Moulakandi to Goladighi road (2 Km) under RIDF-XXII'. However, no documentary evidence of recovery was furnished. The Department stated that the matter would be examined and necessary reply will be furnished but the reply had not yet been furnished (March 2019).

[8] Shri Niasanki Dkhar, Shri Kis Suna and Shri Dawyo Dkhar.

3.2.11.3 Road work remained incomplete due to litigation

As per RIDF guidelines, projects involving arbitration/litigation should not be taken up.

It was observed that the project 'Improvement i/c MBT of a road from Gimigre Old Model to Bollochiring (0.00-2.00km) under RIDF-XX. (Tura North Division) which was administratively approved (January 2015) at an estimated cost of ₹ 1.60 crore was completed (March 2016) at a cost of ₹ 1.68 crore. Scrutiny of records revealed that one of the items of the work *viz*. 'construction of box cell culvert' was also shown as completed at a cost of ₹ 13.76 lakh. During the joint physical verification (June 2018), the asset was found lying abandoned and the road was being used through a temporary subway. The officials from the Division informed that the culvert could not be utilised due to land dispute.

The work 'box cell culvert' against the main work '*Improvement i/c MBT of a road from Gimigre Old Model to Bollochiring (0.00-2.00km) under RIDF-XX'* constructed at a cost of ₹ 13.76 lakh remained unutilised as the approach road could not be constructed due to land dispute.
Date of JPV: 05/06/2018

During the exit conference (December 2018), the Department stated that the land issue has been resolved and the work would commence soon. However, it was yet to start (April 2019).

3.2.12 Monitoring and Evaluation

3.2.12.1 Quality control testing

In August 2014, NABARD reviewed the implementation of projects through RIDF loans in Meghalaya and flagged several issues with the State Government involving poor quality of works and lack of quality control mechanism, absence of a system for testing and recording the test results, non-maintenance of site visit book, the need for better monitoring of projects, *etc.*

Scrutiny revealed that the Chief Engineer, PWD (Roads), other than directing (September 2014) all the Divisions to comply with the instructions, had made no effort to assess the status/ensure compliance with NABARD's directions. Consequently, the lacunae pointed out by NABARD continued to exist over the following five years, as brought out in Audit.

As per NABARD guidelines, the State Government is required to ensure that a well-equipped laboratory system is available for exercising effective quality control. The guidelines also prescribe the norm and frequency of testing of materials like stone aggregates, stone chips, cement, sand, water, *etc.* for the RIDF works and the results of all quality control tests and observations to be systematically recorded.

In Meghalaya, a Road Research Laboratory (RRL) was set up in 1977 under PWD for testing the quality of material to be used for the works such as stone aggregates, stone chips, sand, strength of concrete, testing of soil, moisture content, *etc*.

During audit, it was observed that none of the six sampled Divisions had tested the materials as per norms and at frequency prescribed by NABARD guidelines before using these in the RIDF works. The EE, Shillong South Division stated (July, 2018) that stone aggregate was tested before using in the road work while the EE, Resubelpara Division furnished the test reports of materials against the selected works.

The test reports however did not indicate the laboratory where the materials were tested. Moreover, though the Department had its own RRL, none of the Divisions which furnished the test report had utilised the services of their own laboratory. NABARD had expressed concern about poor quality of work and absence of quality control mechanism in the State (2012-13). The Department however, did not take adequate action to effectively address these issues.

During the exit conference (December 2018), the Department stated that, for testing the quality of the materials, there are laboratories at the district level and also the ones of the contractors executing the projects. It, however, stated that the test results were not documented at the divisional level and assured that henceforth, it would be done.

3.2.12.2 High Power Project Monitoring Committee and District Level Review Committees

A High Power Project Monitoring Committee (HPPMC) under the Chairmanship of the Chief Secretary of the State and comprising heads of all implementing Departments and NABARD was required to review and monitor the progress of expenditure and implementation of projects financed by NABARD loan under RIDF. While the HPPMC did meet during the audit coverage period, the frequency at which it monitored the progress of the projects was not in accordance with NABARD guidelines.

Similarly, as per NABARD guidelines, a District Level Review Committees (DLRC) were also required to be constituted for monitoring the project progress at field level. No such Committee was formed at the district level. The CE, PWD (Roads) stated (July 2018) that the works were monitored regularly by the SEs, EEs, AEEs, and JEs at the field level. The reply is not acceptable due to the fact that while regular monitoring by the SEs, EEs, AEEs, and JEs is part of the Department's routine monitoring mechanism, the NABARD guidelines require that a DLRC be constituted for monitoring the project progress at field level. Further, NABARD had also pointed out about the need for more frequent monitoring by the implementing departments.

During the exit conference, the Nodal Department (Planning Department) stated that no directive was received from NABARD for constitution of DLRC. NABARD however stated that the requirement for constitution of DLRC was provided in the guidelines and there was a need for issuing directives in this regard.

As per NABARD guidelines, the State Government has to submit Project Completion Report (PCR) for each of the sanctioned projects within one month of its completion.

During the audit coverage period of 2013-14 to 2017-18, out of 40 projects selected for Audit, 20 projects executed by six Divisions were physically completed between June 2015 and May 2017. None of the Divisions, however, had submitted the PCRs.

Due to the default in submitting the PCR, NABARD relaxed the condition (June 2017) and decided that the Implementing Department could submit a Project Completion Certificate (PCC) in simple format immediately on completion of physical work and a detailed PCR within six months from the date of submission of PCC. Even after relaxation of this condition, only Ranikor Division has submitted (August 2018) PCC and PCR for one project which was completed during March 2017.

In response to Audit query, two[9] Divisions stated that the delay in submission of PCC and PCR was due to non-clearance of financial liabilities of the contractors. The reply was, however, not entirely correct as the PCC was to be submitted on completion of the physical work.

During exit meeting (December 2018), the Department stated that although projects were physically completed, since the final bills were not cleared, PCRs could not be submitted within the prescribed time frame. The attention of the Department was drawn to the fact that PCRs can be submitted on physical completion of the work irrespective of its financial achievement.

3.2.12.3 Monitoring lapses by NABARD

RIDF funded projects have to comply with NABARD guidelines and a separate checklist was provided by NABARD to ensure compliance in this regard. Audit noticed several lapses on the part of NABARD while approving projects for funding. It approved funding for projects despite non-preparation of a Master Plan by the Government of Meghalaya and absence of an efficient procedure for identification, prioritisation and selection of projects. It did not verify the correctness of claims of the State and reimbursed loan of ₹ 4.94 crore against the actual expenditure of ₹ 3.54 crore on five completed projects submitted by Government of Meghalaya. NABARD failed to ensure that the tenders for execution of projects included a clause of ‘defect liability period of 2-3 years’ as provided in the guidelines. It did not also ensure that the quality control testing of materials like stone aggregates, stone chips, cement, sand *etc.* was carried out as per the scheme guidelines. Further, NABARD failed to ensure constitution of District Level Review Committees by the State Government for monitoring of projects at field level as provided in the scheme guidelines.

It was the responsibility of NABARD to scrutinise the projects to verify compliance with its guidelines, so that the lapses mentioned in the preceding paragraphs did not occur/recur. Its failure to do so resulted in perpetuation of such lapses.

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[9] Jowai North and Shillong South divisions.

3.2.13 Conclusion

Performance audit of NABARD funded rural connectivity projects brought out several lacunae in planning, prioritisation and execution of roads and bridge works. Project proposals and DPRs were not submitted on time to avail of funding from NABARD. DPRs were not comprehensive and were not prepared based on site survey, resulting in deviations from designs and sanctioned estimates. Payments were released to contractors without proper scrutiny of bills and records leading to undue financial benefit to the latter. Projects were also shown as 'physically completed' without executing important items of works provided for in the DPRs. Five out of the six Divisions sampled in Audit did not test the material before its utilisation for the RIDF works. Monitoring and follow-up was inadequate and the project completion certificates/reports were also not submitted. Impact of these projects on the socio-economic development of the rural areas where these were implemented, was not carried out during the five year period of audit coverage.

NABARD, on its part, failed to scrutinise the project plans and proposals for compliance with its guidelines and monitor the effective implementation of the projects funded by it to the envisaged standards.

COMPLIANCE AUDIT PARAGRAPHS

AGRICULTURE AND PUBLIC HEALTH ENGINEERING DEPARTMENTS

3.3 Utilisation of 13th Finance Commission grants

The 13th Finance Commission (13 FC) was constituted by the President of India under Article 280 of the Constitution of India on 13 November 2007 to recommend the proportion of sharing the tax revenue between the Centre and the States and devolution of grants-in-aid (GIA) to the States and Local Bodies during the period 2010-15.

The 13 FC recommended and the GoI allocated the following GIA to the Government of Meghalaya for the period 2011-15.

Table 3.3.1 Category of 13 FC grants

(₹ in crore)

Sl. No.	Category of grants	13th FC Grants	
		Received	Utilised
1	State Specific Needs	162.50	157.97
2	State Disaster Response Fund and Capacity Building	77.86	77.86
3	Local Bodies	160.61	140.06
4	Elementary Education	40.00	40.00
5	Environment related grants	105.04	105.04
6	Grants for improving outcomes	31.87	27.92
7	Maintenance of roads and bridges	101.00	101.00
8	Revenue Deficit	2810.85	2810.85
	Total	**3489.73**	**3460.70**

To ensure effective utilisation of the funds in implementing various socio-economic developmental programmes, the State Government constituted a High Level Monitoring Committee (HLMC) headed by the Chief Secretary (June 2010) at the Apex level with the Principal Secretaries/ Commissioners & Secretaries of Finance, Planning, and other relevant departments as members. The Finance Department was designated as the nodal department.

Utilisation of 13 FC grants was scrutinised in Audit during June-August 2018 with the objective of ascertaining whether the State Government formulated and implemented specific schemes for socio-economic development of the State and utilised the grants to the optimum for this purpose.

Audit sample involved selection of **State Specific Needs (SSN)** given at Sl. No. 1 in Table 3.3.1 and 2 out of the 7 schemes under this category relating to horticulture infrastructure and water supply schemes for detailed scrutiny as given below:

Table 3.3.2: Audit sample

(₹ in crore)

Details	**No of schemes**	**Selected in audit**	**Total funds released**	**Total expenditure on selected schemes**
Horticulture infrastructure	18	8	19.00	7.36
Augmentation of Tura water supply scheme	1	1	37.50	37.49

Significant audit findings that emerged from a scrutiny of the sampled projects and the related documents are given below.

3.3.1 Horticulture infrastructure

State Government sought funds from 13 FC for upgradation of its existing infrastructure to promote expansion of horticulture, including traditional horticulture and plantation crops. Against a recommended grant of ₹ 38 crore for the purpose by 13 FC, GoI released only ₹ 19 crore due to non submission of utilisation certificates (UCs) on time by the State.

The scheme involved establishing planting material hubs across the State. Out of the 11 districts in Meghalaya, seven districts have implemented this scheme. Audit sampled the implementation of the scheme in three of these districts (East Khasi Hills, West Garo Hills & West Jaintia Hills) and observed the following.

GoI provided 100 *per cent* grant for establishment of 'planting material hubs' through 13 FC funds. The guidelines issued by the Director of Horticulture (May 2012) envisaged creation of planting material hubs (PMHs) for increasing production of top quality planting material for various horticulture crops within the next four years throughout the State. To achieve this goal, the following norms were laid down for the planting material hubs:

- on-ground work plan and modalities of local implementation were to be formulated;
- to gauge the impact of the scheme and evaluate progress, baseline data on the availability and type of planting materials was required to be collated and recorded with 2010-11, being treated as the base year;
- all sources of mother/parent stock used for propagation are to be recorded along with an inventory of planting material in the planting material hubs;
- PMHs were to maintain proper records of all infrastructure components and land utilisation plan, details of technically qualified staff in the nursery, *etc*; and
- the hubs should work towards voluntary recognition and certification of their facilities by the National Horticulture Board (NHB).

In the three districts selected for audit, the Director of Horticulture released ₹ 7.50 crore, between February 2013 and August 2014, to three District Horticulture Officers (DHOs) for establishing eight PMHs. The details of the amount released and expenditure incurred there against by these eight PMHs are shown below:

Table 3.3.3: Details of project implemented by the three districts selected for audit

(₹ in lakh)

Districts	Name of the project	Amount released	Date of release	Expenditure
East Khasi Hills	Floriculture PMH, Upper Shillong	80.00	13/02/13	77.15
	Potato PMH, Experimental Research Station, Upper Shillong	70.00		70.00
	Temperate fruits PMH, Govt. Fruit Garden, Shillong	150.00		138.46
	Vegetable PMH, Govt. Fruit Garden, Shillong	100.00		86.02
Total A		**400.00**		**371.63**
West Garo Hills	Floriculture planting material hub (PMH), Sangsanggre, Tura	100.00	13/02/13 and 28/07/14	111.71
	Cashew-nut PMH, Rangmalgre	150.00		152.55
Total B		**250.00**		**264.26**[10]
West Jaintia Hills	Floriculture PMH, Thadlaskein, Jowai	50.00	28/07/14	50.00
	Temperate fruits PMH, Thadlaskein, Jowai	50.00		49.95
Total C		**100.00**		**99.95**
Total A to C		**750.00**		**735.84**

Source: Records from District Horticulture Offices.

Audit scrutiny revealed that the works were taken up without fulfilling the prescribed norms. The three DHOs did not prepare the baseline data, the on-ground work plan and modalities for implementation of the scheme. Further, none of these eight planting material hubs in the three districts maintained any records on sources of mother/parent stock used for propagation, infrastructure component, land utilisation plan, *etc.* Although, the PMHs were to seek voluntarily certification from the NHB, none of these had done so.

As an indicator of their achievement, the three DHOs produced records showing earnings of ₹ 0.95 crore[11] from eight PMHs between 2013-14 and 2017-18. However, in the absence of baseline data and failure to seek certification of the quality of their planting material hubs from the NHB, fulfillment of the objective of increasing the production of top quality planting materials of various horticulture crops within four years could not be verified or measured in Audit.

Principal Secretary (Finance) directed Director, Horticulture in November 2018 to furnish replies to audit observations with justification. The replies were, however, awaited (April 2019).

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[10] The excess expenditure of ₹ 14.26 lakh was met out of interest earned out of this fund.

[11] DHO, East Khasi Hills ₹ 84.78 lakh during 2013-18; West Jaintia Hills ₹ 7.34 lakh during 2015-18 and DHO, West Garo Hills ₹ 2.86 lakh during 2016-18.

3.3.2 Augmentation of Tura Phase I and II water supply scheme

Thirteenth FC had recommended a grant of ₹ 50 crore for augmenting the depleting source of water supply scheme (WSS) in Tura and to cater to the needs of drinking water to the households due to rapid expansion of towns in the district. The State however, received only ₹ 37.50 crore during 2011-12 to 2014-15 as it could not complete the planned items of work and furnish UCs within the award period. Audit scrutiny of the implementation of the scheme revealed the following.

The project was administratively approved in October 2011 and technical sanction was also accorded in the same month. The project was to tap the Daribok stream located at a distance of 29 km from Tura town, as the source for the WSS and was to be completed in three years. The project was implemented by PHE Division, Tura and the entire fund of ₹ 37.50 crore was released to the Division between March 2012 and March 2017.

Scrutiny of records revealed that even before the work was tendered (March 2012), the NGOs of East Garo Hills opposed the project on the ground that if water was tapped from the Daribok stream, which was the main tributary of Simsang river, the discharge of the Simsang river itself would reduce drastically with adverse effect on the flora and fauna of the area. The Division however, went ahead with the tendering and awarded the work (November 2012) at a cost of ₹ 16.10 crore with a stipulation to complete it within three years.

The contractor completed the construction of RCC weir and approach road to the weir at a cost of ₹ 75.61 lakh by May 2013 and abandoned the work thereafter, due to the intensification of opposition to the project from the NGOs. The Division explored Ganolsa stream of the Ganol river in West Garo Hills District as an alternative source for the WSS and directed (December 2014, February 2015 and May 2015) the Contractor to execute the balance work leaving aside the disputed site. The Contractor however, refused to execute the work as he was apprehensive about its completion and possible loss to him due to the delay in the work. In the circumstances, the Additional Chief Engineer (Western Zone) finally cancelled (November 2015) the work order. Between March 2012 and February 2016 the Division executed 80 *per cent* of the work at an additional expenditure of ₹ 36.74 crore and exhausted the fund of ₹ 37.50 crore, released for the project.

Thus, the project, which was to be completed in three years (2011-14), with 13 FC funds, remained incomplete even after the lapse of seven years (August 2018) from the date of administrative approval (October 2011), despite availability of funds. Considering the escalation in the cost of material and wages, the cost of the project is likely to be higher than the originally sanctioned cost. The PHED stated in December 2018 that it plans to take up the balance work through North East Special Infrastructure Development Scheme funds.

COMPLIANCE AUDIT PARAGRAPHS

AGRICULTURE DEPARTMENT

3.4 Extra expenditure due to irregular selection of firms

Agriculture Department incurred an extra expenditure of ₹ 2.60 crore by awarding contracts to firms that had quoted higher rates for supply of bamboo and agar planting materials, despite their failure to submit requisite documents. Besides, it also extended undue favour to the firms by issuing supply orders even where they had not bid for a particular species.

Agriculture Department, Government of Meghalaya issued financial sanction (2014-15 to 2016-17) for implementation of the scheme 'Organic plantation of Bamboo and Agar for sustainable livelihood towards sustainable ecology'. The Director of Horticulture (DoH) issued (June 2015) Notice Inviting Tenders (NIT) for supply of 'Planting Material of Bamboo (PMB) and Planting Material of Agar (PMA)'. As per the terms and conditions of the NIT, the bids were to be supported by (i) Technical literature/ brochure of the Bamboo/ Agar species; (ii) Copy of Income Tax and Sales tax documents; (iii) Proof of satisfactory execution of previous orders; (iv) Certificate of incorporation/ proprietorship; (v) Self attested certificate to ensure that the company/ firm meets the eligibility criteria; and (vi) Trading license in case of a Non-tribal.

In response to the NIT, 19 firms (listed as Firms 1 to 19 in **Appendix - 3.4.1**) submitted bids for supply of PMB and 20 firms (listed as Firms 1 to 20 in **Appendix – 3.4.2**) submitted bids for supply of PMA. The Tenders Committee of the Horticulture Department (July 2015) rejected the bids of 13 and 16 Firms which had tendered for PMB and PMA respectively, due to their failure to support their bids with all the relevant documents listed in the NIT.

Audit scrutiny (October 2018) of records of DoH revealed that not only the rejected Firms, but none of the Firms had submitted all the relevant documents listed in the NIT**.** Out of the rejected bids, two firms (Firms 7 and 8) had quoted the lowest (L-1) rate for supply of PMB[12] and one firm (Firm-5) had quoted the L-1 for supply of PMA **(Appendix – 3.4.1 and Appendix – 3.4.2).**

Between August 2015 and July 2017, the DoH procured 12.60 lakh units of five bamboo species from four firms[13] at a cost of ₹ 5.29 crore at L-2 and L-3 rates and 9.60 lakh units of planting material of Agar from three firms (Firms 1, 3 and 4) at a cost of ₹ 3.32 crore at L-2 rate. Since the firms with lowest price bid were disqualified, the Department incurred an extra expenditure of ₹ 2.60 crore on purchase of PMB (₹ 1.58 crore) and PMA (₹ 1.02 crore) from firms that had also not fulfilled all the eligibility criteria. Details are given in **Appendix – 3.4.3 and Appendix 3.4.4.**

[12] (i) Dendrocalamus Hamiltonii, (ii) Banbusa Balcooa, (iii) Banbusa Nutans, (iv) Banbusa Tulda and (v) Banbusa Vulgaris.

[13] (i) M/s P.Laloo; (ii) M/s Limberth M. Sangma; (iii) M/s Fridina Shira; and, (iv) M/s North Bengal Floritech.

Even against these purchases, Audit noticed issues of irregular procurement and extension of undue benefit to different Firms as detailed below:

- Three species of PMB[14] valuing ₹ 4.51 crore were procured at L-2 rates from four firms (Firms 2 to 4 and 6) although they had not submitted bids for these species.
- Two species of PMB [15] valuing ₹ 3.08 crore were procured at L-1 rates from four firms (Firms 2 to 4 and 6) although they had not bid for these species.

Thus, the decision of the Committee to reject the bids of the Firms that had offered the lowest rates on the ground that some of the documents listed in the NIT were not submitted, and selecting Firms which had also failed to submit the requisite documents and have quoted higher rates, or not quoted at all, had not only violated the principle of providing a level playing field, but has also resulted in the Department incurring an extra expenditure of ₹ 2.60 crore.

Further, the action of issuing supply order to Firms despite non-submission of bids for particular species, amounts to extending undue favour to them. The Department's rationale for entrusting the supply of planting material to these Firms, when they were not actually dealing in supply of the relevant material, was not available on record.

On this being pointed out, the Director stated (10 October 2018 and 11 December 2018), that the rate and the firms were approved by the 'Tender Committee' headed by the DoH and that, the Tender Committee may not have approved the other firms since they had not submitted the technical literature and other self-attested certificates listed in the NIT. The reply however did not address the issue of not evaluating the bidders on equal criterion devised by the Department itself for selection of firms.

The matter was reported to the Government (December 2018). The Government endorsed (June 2019), the reply of the DoH.

Thus, the action of the Department in selecting Firms for supply of planting material at higher rates and procurement of certain material from firms though they had not submitted bids for the same, calls for investigation by Vigilance Department and fixing of responsibility for causing loss to the State Government.

[14] Dendrocalamus Hamiltonii, Banbusa Tulda and Banbusa Vulgaris.
[15] Dendrocalamus asper and Dendrocalamus giganteus.

COMMERCE AND INDUSTRIES DEPARTMENT

3.5 Admittance of subsidy claims

Applications for subsidy claims of ₹ 5.41 crore under MIIPS were irregularly admitted even before the MIIPS was notified.

The Government of Meghalaya notified the Meghalaya Industrial & Investment Promotion Scheme (MIIPS), 2016 on 23 May 2017 in pursuance of Meghalaya Industrial & Investment Promotion Policy 2012. The Scheme was introduced with a view to accelerating the industrial development and other investments in the State. Under the MIIPS, new industrial units as well as units undergoing substantial expansion were eligible for a host of subsidies such as capital investment subsidy, interest subsidy, subsidy on cost of DG sets, pollution control measures, quality control measures, etc. The Scheme came into effect retrospectively from 21 December 2012 and would remain in force upto 20 December 2022.

Clause 9 of MIIPS prescribes the procedure for availing subsidy under the scheme. As per the procedure, the industrial units have to submit their applications in the prescribed format to the concerned District Commerce & Industries Centre (DC&IC) after commencement of commercial production/operation for obtaining the 'Eligibility Certificate'. The application for claiming subsidy for 'Eligibility Certificate' is to be scrutinised by the concerned DC&IC and forwarded with recommendations to the Directorate of Commerce & Industries (DC&I). The DC&I is the competent authority to issue the 'Eligibility Certificate'. Thereafter, the industrial units have to submit the applications for benefits under the Scheme along with copy of the eligibility certificate and other requisite documents within one year from the date of commencement of commercial production/operation for subsidy claim under State Capital Investment /Quality Control Measures/Reimbursement of Stamps Duty & Registration Fees/Refund of CST/Pollution Control Measures/DG Sets *etc*. The applications for the Interest Subsidy and Power Tariff Subsidy are to be submitted within one year from the date of incurring expenditure. Claims submitted after the above timeline become time-barred and not to be entertained.

Scrutiny of records of DC&I (May – July 2018), revealed that four[16] DC&ICs allowed 16 industrial units to submit subsidy claims of ₹ 5.41 crore[17] during the period from 18 December 2013 to 08 May 2017 under the MIIPS even before the Scheme was notified (23 May 2017) (**Appendix – 3.5.1).** The DC&ICs irregularly processed these subsidy claims and forwarded the same to DC&I, which in turn recommended payment of subsidy and placed them before SLC. The SLC approved these claims between 30 August 2017 and 14 November 2017.

[16] Ri-Bhoi District (Nongpoh), East Khasi Hills District (Shillong), Jaintia Hills District (Jowai) and North Garo Hills District (Resubelpara).

[17] Capital Investment Subsidy claims under the MIIPS in respect of eight units have been excluded in this Paragraph.

Audit further observed that in the case of six[18] out of the 16 industrial units, the DC&ICs admitted the claims for subsidy even before they were granted the Eligibility Certificates. Furthermore, all the 16 industrial units were irregularly granted the Eligibility Certificates under MIIPS before 23 May 2017 (date of notification of the Scheme). Had these applications been accepted after MIIPS was notified, all the claims would have become time-barred.

Department's action of granting the Eligibility Certificates even before notifying the scheme and admitting the subsidy claims of these 16 industrial units led to irregular grant of subsidy benefits of ₹ 5.41 crore.

On this being pointed out, the State Government replied (December 2018) that there was delay in finalisation of MIIPS and the industrial units which were eligible for subsidy claims, on their own submitted the claim applications as per the draft format prepared by the DC&I. The Government also stated that the applications were not processed till finalisation of MIIPS. The Government, however, admitted that there was a procedural lapse in receiving the applications before notification of the Scheme, but it contended that there was no irregularity as the subsidy claims were not processed and no financial benefits were released prior to notification of the Scheme. In respect of the subsidy claim of ₹ 52.08 lakh by M/s Supertech Conbrit Industries (Serial No. 16 of **Appendix 3.5.1**), the Government accepted (November 2018) that the claim had been submitted after a period of one year from the date of commencement of commercial production and therefore, the claim was time-barred.

The Government's argument that the industrial units submitted the subsidy applications in draft format and no subsidy was granted before the date of notification of Scheme is not acceptable as the DC&I issued the Eligibility Certificates, which was a prerequisite for admitting the subsidy claims, to these industrial units even before the notification of the Scheme. Thus, allowing subsidy claims for ₹ 5.41 crore amounted to grant of undue benefit to ineligible industrial units.

[18] Serial No. 3,5,8,10,14 and 15 of **Appendix – 3.5.1**.

COMMUNITY AND RURAL DEVELOPMENT DEPARTMENT

3.6 Wasteful expenditure

Poor project formulation led to wasteful expenditure of ₹ 66.68 lakh and non-achievement of objectives of generating cleaner energy and creating sustainable livelihood opportunities for rural community.

Meghalaya State Rural Livelihood Society (MSRLS[19]) initiated (2012-13) 'Pine Needle Briquetting' (PNB) project' in collaboration with Mawmluh Cherra Cement Limited (MCCL), Sohra to produce pine needle briquettes. The project aimed at generating cleaner energy by using the briquettes to partially substitute use of coal in the cement production process at MCCL and creating sustainable livelihood opportunities for the rural community of the State. The PNB project involved mobilising communities for supply of pine needles in bales to the briquetting unit and converting them into briquettes by Briquetting[20] Machine to be set up at MCCL factory premises. As per the Detailed Project Report (DPR), the PNB project would be profit making with 12 tonnes briquettes of raw material (pine needle and saw dust) being used every day to produce briquettes. The DPR estimated the cost of raw material and transportation at ₹ 1500 and ₹ 200 per tonne, respectively.

Administrative approval was accorded (November 2012) by the Community & Rural Development Department (C&RDD) for ₹ one crore out of which ₹ 51 lakh was released to MSRLS. The latter in turn released ₹ 41.40 lakh to MCCL for setting up the Briquetting Plant. Further, based on the request from MSRLS and MCCL, Meghalaya Basin Development Authority (MBDA[21]) released (August 2013) ₹ 31 lakh[22] to MCCL for the PNB project. The PNB project was started in February 2013 and out of the total release of ₹ 72.40 lakh (₹ 41.40 lakh + ₹ 31.00 lakh), MCCL spent ₹ 66.68 lakh on machinery, civil works, raw material, stores & spares, *etc*. and had a balance of ₹ 5.72 lakh in bank (March 2018).

Scrutiny of records (November 2016) of MSRLS revealed that the cement plant of MCCL, which was producing cement though a 'wet process', became in-operational from August 2014 and consequentially the PNB project also became idle. During the period that the PNB project was functional, MCCL could procure only 12 tonnes of pine needles at a cost of ₹ 0.24 lakh[23]. Accordingly C&RDD after discussion with MCCL (June 2016) decided to abandon the PNB project on the grounds that (a) the cost of

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[19] MSRLS is the nodal agency of the Community & Rural Development (C&RD) Department, Government of Meghalaya set up to redress poverty in the rural area by focusing on the livelihood of the poor and vulnerable and there by empower them.

[20] Briquetting is the process of converting low bulk density biomass into high density and energy concentrated briquettes.

[21] MBDA seeks to address inclusive growth with a focus on rural poverty alleviation, employment generation and livelihood through the Integrated Basin Development and Livelihood Promotion Programme.

[22] Fund released from 'Gap Funding Scheme, 2011-12' under the 'Integrated Basin Development and Livelihood Programme'.

[23] 11,784 kg of pine needles valuing ₹ 23,568 at the rate of ₹ 2 per Kg. The period during which these procurements were made was not furnished though called for (April 2018).

production was higher than the sale price and it was not possible to run the project economically; (b) the briquettes were no longer required by the MCCL since it had changed its process of production of cement from 'wet process' to 'dry process'. Since shifting the heavy machinery from the present site was expensive, the Department permitted MCCL to make use of it or dispose it.

Further examination of records however, revealed that the Department had failed *ab initio* to adequately assess the viability of the PNB project leading to its failure. The DPR had estimated the cost of raw material at ₹ 1500 a tonne. However, the suppliers of pine needles did not find even the offered rate of ₹ 2000 per tonne remunerative, and were unwilling to supply the raw material. Against the projected consumption of 12 tonnes of raw material per day in the DPR, MCCL could procure only 12 tonnes of raw material at a cost of ₹ 0.24 lakh during the 18 months that the PNB project was operational. Further, while the DPR estimated the cost of transportation at ₹ 200 per tonne, according to MCCL, the landed cost of pine material alone at Sohra was ₹ 4500 to ₹ 5300 per tonne.

The issue of change of process of production by MCCL was also not valid. Although the process of production was changed with effect from 26 September 2016, MCCL was aware of the impending change, as it had taken a decision to change its cement production process from wet process to dry process in the year 2005 itself.

On this being pointed out, the Chief Executive Officer, MSRLS replied (August 2018) that the MCCL did not inform the MSRLS about the change in the process of production. The Managing Director (MD), MCCL stated (February 2019) that the PNB project was not economically viable due to high cost of procurement of raw material and transportation. He further stated that though the pine briquettes might find usage in the new 'dry process' cement plant, the issue of economic viability remained unchanged.

Thus, execution of PNB project based on unrealistic DPR, which was economically not viable *ab initio,* led to an expenditure of ₹ 66.68 lakh incurred on the project becoming wasteful. Besides, the objectives of the project to generate cleaner energy and create sustainable livelihood opportunities for the rural community were not fulfilled.