

**CHAPTER IV**  
**AUDIT OF TRANSACTIONS (CIVIL)**

*Fraud/misappropriation/embezzlement/losses*

**DEPARTMENT OF AGRICULTURE**

**4.1 Loss to the Government**

**Inaction by the Department to get back 287 pump-sets or to realize their cost subjected the Government to a loss of Rs.72.62 lakh.**

The Government of Manipur sanctioned (August 2005) Rs.72.62 lakh for the purchase of 287 pump-sets for meeting the draught like situation in the State during 2005-06. Pursuant to this, the Department of Agriculture procured (July-August 2005) 255 pump-sets from a Guwahati based firm and the remaining 32 from an Imphal based firm, incurring an expenditure of Rs.72.62 lakh.

The Department distributed all the pump-sets immediately after their procurement free of cost to 287 beneficiaries with the condition that (i) the pump-sets would be returned to the Department after the Kharif season 2005 and (ii) in the event of failure to return the sets, full cost of the sets would be paid by the beneficiaries.

Scrutiny of the records (October 2007) of the Director, Department of Agriculture revealed that the beneficiaries neither returned any of the pump-sets nor paid any amount for these sets as of March 2008. Despite a lapse of more than two and a half years, the Department had not taken any steps to recover the pump-sets or to realize the full cost of these sets from these beneficiaries.

The inaction by the Department has, thus, subjected the Government to a loss of Rs.72.62 lakh.

The Government stated (June 2008) that the beneficiaries have been asked to return the pump-sets by writing to them individually as well as publishing a notification in the local newspapers.

## FINANCE DEPARTMENT

### 4.2 Loss to the Government

**The Government suffered a loss of Rs.10.89 lakh as penal interest due to delay in reporting currency transfer transaction by 153 days.**

According to Rule 680 (iii) of the Central Treasury Rules, every transfer from the treasury balance to the currency chest, or *vice versa*, in case of non-banking treasury must be reported at once to Currency Officer of Reserve Bank of India (RBI).

Scrutiny of the records (March 2008) of Tamenglong Treasury, a non-banking treasury revealed that the Treasury Officer (TO) transferred an amount of Rs.3.25 crore from the currency chest of RBI maintained at the treasury on 28 January 2006 to replenish the treasury balance. However, the TO reported the transaction on 1 July 2006, after a delay of 153 days. As a result, RBI had debited an amount of Rs.10.89 lakh from the account of the State Government as penal interest.

Thus, the Government suffered a loss of Rs.10.89 lakh as penal interest due to lapse on the part of the TO to report the currency transfer in time.

During discussion with the Government, it was stated (November 2008) that a FAX message intimating the transfer of cash was intimated to RBI on time; for which the transmitted (OK) message was also received.

The OK message, however, had neither the originating nor destination phone number. Such copy of the message was already submitted to the RBI earlier while pleading for exemption of penal interest, but had been rejected.

## PUBLIC WORKS DEPARTMENT

### 4.3 Misappropriation of funds

**Three cheques amounting to Rs.9.45 lakh issued in the name of one contractor were encashed without entering in the cash book.**

As per Rule 77-A of the Central Treasury Rules, all monetary transactions should be entered in the cash book as soon as they occur and attested by the head of the office in token of check.

Scrutiny of the records (October-November 2007) of the Sadar Hills Division revealed that three cheques<sup>1</sup> amounting to Rs.9.45 lakh drawn in favour of a contractor<sup>2</sup> (August 2005 to March 2006) were not entered in the cash book purportedly due to their cancellation. As the leaves of these cancelled cheques could not be produced to Audit, non-encashment certificate of these cheques was called (November 2007) for from the concerned bank (SBI, Imphal). The Bank stated (November 2007) that these cheques had been encashed between May 2006 and October 2006.

The Department could not furnish any supply order, invoice, work order, measurement book *etc.* to prove that these cheques were issued for payment of any work or supply order. Thus, it appears that funds amounting to Rs.9.45 lakh had been misappropriated by drawing it fraudulently in the name of the contractor.

During discussion (November 2008) the Government stated that the matter was viewed seriously and steps have been taken to recover the amount from the contractor.

#### **4.4 Presumptive fraud in billing on road construction**

**Measurement of a layer of Water Bound Macadam of a hill road was recorded with abnormal and unconventional specifications resulting in excess payment of Rs.21.34 lakh to the contractor.**

As per the specifications of road and bridge works of the Indian Road Congress, the thickness of a Grade-2 coarse aggregate layer of a Water Bound Macadam (WBM) road should be 75 mm when compacted (clause 404).

Scrutiny of the records (August – September 2007) of the Executive Engineer, Tamenglong Division revealed that the work “*Improvement of Imphal Tamenglong Road from Chalwa to Tamenglong (64 to 70 km)*” was awarded (November 2006) to a contractor under two work orders at the cost of Rs.54.09 lakh (estimated cost: Rs.52.96 lakh) and Rs.84.21 lakh (estimated cost: Rs.82.39 lakh) respectively. The work orders consisted of providing (i) a leveling course with shingling and (ii) WBM Grade-2 course (1<sup>st</sup> work order) and (iii) WBM Grade-3 course and (iv) pre-mix carpeting course (2<sup>nd</sup> work order). The works were carried out at a total cost of Rs.143.74 lakh (Rs.59.53 lakh for the 1<sup>st</sup> work and Rs.84.21 lakh for the 2<sup>nd</sup> work), which included Rs.21.34 lakh for construction of 1,524.17 cum of a WBM Grade-2 course @ *Rs.1400 per cum*.

All items of the works except WBM Grade-2 course were carried out as per the specifications for a road width of 3.75 m and for the entire length of the

<sup>1</sup> C-763471/007635 dated 29-8-05: Rs.2.45 lakh  
D-013245/000133 dated 31-3-06: Rs 2.00 lakh  
D-013277/000133 dated 31-3-06: Rs 5.00 lakh  
Total: Rs.9.45 lakh

<sup>2</sup> Shri L.A.Asholi

road i.e. 64 to 70 km. The following irregularities were, however, noticed in respect of work of WBM Grade-2:

- Compacted course thickness was shown as 150 mm and 200 mm at different stretches of the road, when it should not have been more than 75 mm for one layer.
- The course was shown to have been done for a road width of 2.80 m to 3.75 m at different stretches of the road, when it should have been done for the entire road width of 3.75 m.
- The course was shown to have been laid for a road length of 2,245 m only, whereas the entire road length was 6,000 m (64 to 70 km).
- Measurement Book did not indicate the specific location/chainages where the course had been laid and dates of measurement taken by the Section Officer, test checked by the Assistant Engineer and the Divisional Officer were not recorded in the MB.

Thus, the measurement records relating to laying of WBM Grade-2 course are suspected to be incorrect resulting in excess payment of Rs.21.34 lakh to the contractor.

The Department stated (August 2008) that the work was still in progress and WBM grade-2 had been laid as per specifications. The reply, however, is not acceptable as available records<sup>3</sup> show that both the works had been completed by March 2007 and WBM-Grade 2 course had not been laid as per specifications.

During discussion (November 2008) with the Government, it was stated that the payment had been made as per measurement. The Department, however, admitted that there had been some mis-recording of the works but asserted that the work appears to have been carried out as per norms.

The reply is not acceptable as mis-recording was not made in one or two cases but in a number of cases. Besides, the Department's statement does not explain the reasons of making payment based on such mis-recording. The Department agreed to re-measure the work and effect recovery, if any, from the concerned parties.

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<sup>3</sup> Measurement book and work order.

#### 4.5 Presumptive fraud in billing on road construction

**By inflating the quantum of work done beyond the capacity of machinery used, the Department had billed Rs.12.66 lakh in excess of the quantity of work possible.**

Manipur Schedule of Rates (SOR) states that one hot-mix plant working in association with other machinery<sup>4</sup> can produce only 120 metric tonne (MT) of mix in one day and that one MT of mix can cover 17.39 square metres (sqm) of road surface.

Scrutiny of the records (August 2007) of the Executive Engineer, Imphal West Division, PWD revealed that the Department had awarded (March 2007) the work of "Improvement of RMC road from Nagamapal to Traffic Rotary" through tender to a local contractor at an estimated cost of Rs.43.18 lakh. One of the items of the work included provision of 25 mm thick semi-dense carpeting course with a hot-mix plant. To execute this item of work, the Department issued to the contractor one hot-mix plant along with other associated<sup>5</sup> machinery for three days. In three days the hot-mix plant can produce only 360 MT of mix and this quantity can cover only 6,260.40 sqm of road surface. As against this, the Divisional Officer concerned had billed (1<sup>st</sup> running account bill paid in September 2007) for 12,082.70 sqm of the road surface requiring 694.81 MT of mix.

This has resulted in excess billing for a road surface area of 5,822.30 sqm (12,082.70 sqm – 6,260.40 sqm) and subjected the Government to a loss of Rs.12.66 lakh (@ Rs.217.37 per sqm).

The Department agreed (November 2008) to reconcile the relevant documents with the Mechanical Division and to recover any amount, if due, from the concerned parties.

#### 4.6 Loss to the Government

**Advance payment without any security led to a loss of Rs.49.41 lakh to the Government due to non-delivery of material.**

Central Treasury Rules do not permit advance payment for supplies except in exceptional cases, provided, adequate safeguards exist to secure the interest of the Government.

Scrutiny of the records (August-September 2008) of the Executive Engineer, Stores Division revealed that the division placed (July-December 2006) nine supply orders on M/s Sanyajee Ispat Ltd., Guwahati for purchase of steel rods of various diameters, amounting to Rs.11.27 crore. These steel rods were to be used in the construction of the Autonomous District Council building at Moreh and Mini-Secretariat buildings at eight District Headquarters.

<sup>4</sup> Pay loader, Paver finisher, Road Roller, Tipper Truck

<sup>5</sup> Paver finisher, Tipper Truck

There was no provision for advance payment in respect of four supply orders. The other five supply orders allowed payment of 25 *per cent* advance against bank guarantee/bond for an equivalent amount. The materials were to be supplied within one-two months from the date of payment of advance.

The division, however, made (August 2006 –February 2007) an advance payment<sup>6</sup> of Rs.10.62 crore, without any bank guarantee/bonds. The firm had supplied material worth Rs.10.13 crore so far (September 2008) and steel rods worth Rs.49.41<sup>7</sup> lakh had not been supplied even after a lapse of 20 to 24 months from the date of advance despite issuing (February-May 2008) several reminders.

Thus, imprudent action on the part of the Department led to a loss of Rs.49.41 lakh to the Government due to non-observance of financial norms in making the advance, leaving enough scope to induce such loss to the Government.

During discussion (November 2008) with the Government, it was stated that steps have been taken to recover the amount and that legal action would be considered in due course of time.

***Violation of contractual obligations/undue favour to contractor/avoidable expenditure***

**4.7 Undue benefit to a contractor**

**Estimate was framed allowing road material to be ferried from a quarry 59 km away from work site when a quarry was available at 20 km, leading to undue benefit of Rs.17.10 lakh to the contractor.**

Scrutiny of the records (February 2008) of the Executive Engineer, Churachandpur Division revealed that the work of “Improvement of Sangaikot-Khongkhai Road” for the road length 0-12 km was awarded (April 2007) to a local contractor at a tendered amount of Rs.43.36 lakh (estimated cost: Rs.41.06 lakh). The work-order consisted of single item of work i.e providing gravel shingling. The contractor executed 5,587.15 cum of the work at a cost of Rs.45.82 lakh (@ Rs 820.05 *per cum*) and was paid (July 2007) Rs.44.82 lakh.

The estimate of the work was framed (March 2007), taking Thongjaorok quarry 59 km away from the work site, for extracting sand and stone for shingling. As per the Manipur Schedule of Rates (MSR), 2006 on which the estimate was based, there was an approved quarry at Serou, only 20 km away from the work site.

The Divisional Officer stated that the distant quarry at Thongjaorok was considered, as sufficient quantity of road material was not available at Serou

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<sup>6</sup> 100 *per cent* advance for six supply orders and restricted advance (ranging from 25 *per cent* to 88 *per cent*) in three cases.

<sup>7</sup> Rs.10,62,20,200 minus Rs.10,12,79,256

quarry. During discussion (November 2008) the Department also stated that the road material could not be ferried from Serou quarry due to weak bailey bridge, which had to be crossed. The contention of the Divisional Officer is not tenable because in the same road for the road length 12-24 km awarded to the same contractor on 28 February 2007, road material was obtained from the Serou quarry, by crossing over the bailey bridge. Therefore, the Department's contention that road material had exhausted within a month from a Government approved quarry is not acceptable. There was also no record to show that road material at Serou quarry had dried up. Besides, the new schedule i.e. MSR 2008 still listed Serou quarry as an approved quarry.

Had the estimate been framed considering the Serou quarry, the work could have been executed @ Rs.513.95<sup>8</sup> per cum, instead of @ Rs.820.05 per cum. This led to undue benefit to the contractor amounting to Rs.17.10 lakh {(820.05 – 513.95)X 5,587.15}.

## YOUTH AFFAIRS AND SPORTS DEPARTMENT

### 4.8 Avoidable expenditure

**The Department incurred an avoidable expenditure of Rs.1.05 crore on account of surcharge on electricity bills due to non-payment of bills on time and lack of scrutiny of bill.**

The Manipur Electricity Supply (Amendment) Regulations, 2002 stipulate payment of surcharge @ two *per cent* per month on outstanding bills (excluding outstanding surcharge) if the bill is not paid within the prescribed period.

Scrutiny of the records (November-December 2007) of the Directorate of Youth Affairs and Sports Department revealed that electricity bills were not cleared on time. As such, the total amount of the bill for the period from 8 January 2007 to 7 March 2007 accumulated to Rs.3.42 crore, which included charges of Rs.2.27 crore that had accumulated since March 1999 and an accumulated surcharge of Rs. one crore as penalty for not clearing electricity bills on time.

The due date of payment of this bill was 28 March 2007, beyond which, another surcharge of Rs.4.85 lakh would also have to be paid. An amount of Rs.3.47 crore, including the additional surcharge of Rs.4.85 lakh was paid on 27 March 2007.

<sup>8</sup> Rs.295.60 (carriage charge of road material of mixed size for 20 km) plus Rs.191.10 (providing and compacting road material) plus 5.60 *per cent* thereon (cost index as tendered by the contractor).

Thus, Rs. 1 crore had to be paid as surcharge for non-payment of earlier electricity bills on time. Further, Rs.4.85 lakh paid as additional surcharge was not required to be paid as the bill had been paid within the due date. Therefore, payment of Rs.1.05 crore as surcharge could have been avoided had the earlier bills been paid on time and had the payment of bill of March 2007 been made with due scrutiny.

During discussion (November 2008) with the Government, it was stated that the surcharge payment has occurred due to oversight and due to non-release of enough fund by the Government, and the matter had been taken up with the Power Department to adjust the excess payment in the subsequent bills.

*Idle investment/idle establishment/blocking of funds; delays in commissioning equipment/diversion/misutilisation of funds etc.*

## COMMERCE AND INDUSTRIES DEPARTMENT

### 4.9 Idle investment on bamboo processing machinery

**Three sets of bamboo processing machinery costing Rs.28.91 lakh remained idle for nearly two and a half years resulting in non-achievement of the objective of promoting bamboo based industries.**

Scrutiny (February 2007) of the records of the Director, Commerce and Industries revealed that the Government accorded (September 2005) expenditure sanction of Rs.50 lakh for implementation of various work programmes/schemes under the bamboo project for the year 2005-06. In this regard, the Directorate placed (March 2006) a supply order for three sets of bamboo processing machinery for Rs.28.91 lakh (@ Rs.9,63,664 per set) on a Madhya Pradesh based firm. The machinery required a 3-phase power connection for operation.

Under the scheme, three centres<sup>9</sup> run by local NGOs were to be chosen, where a Common Facilities Centre (CFC) for bamboo based industries was to be set up. While the three sets of machinery were received in June 2006, the Department could identify two NGOs at Tamenglong and Churachandpur only in November 2006 and the third one at Imphal could be identified as late as in October 2007. One set of machinery was issued to the Tamenglong based NGO after six months in January 2007; the second set to the Churachandpur based NGO after a delay of one year in July 2007 and the third set to the Imphal based NGO after a delay of one and a half years in October 2007. The machinery could not be put to use as of October 2008 due to non-availability of 3-phase power supply at these centres.

There was a delay at every stage of the project – identification of NGOs, distribution of machinery and finally in providing the requisite power

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<sup>9</sup> Imphal, Churachandpur and Tamenglong



connection. Thus, the investment of Rs.28.91 lakh remained idle, as the machinery could not be commissioned for nearly two and a half years since their purchase and the objective of establishing the CFC was not achieved.

The matter was referred (May 2008) to the Government; reply had not been received (December 2008).

## PUBLIC HEALTH ENGINEERING DEPARTMENT

### 4.10 Blocking of funds

#### Purchase of stores in advance of requirement resulted in blocking of funds of Rs.3.70 crore.

Rule 103 of the General Financial Rules (GFRs) lays down that purchases should be made in most economical manner in accordance with the definite requirements of public service and care should be taken not to purchase stores much in advance of actual requirement.

Scrutiny of the records (October 2007) of the Mechanical & Electrical Division of the Public Health Engineering Department revealed that huge quantity of stores worth Rs.3.70 crore had been purchased during March 2004 and March 2007. The details are shown below:

**Table 2**

(Rupees in lakh)				
Period of purchase	Quantity purchased	Quantity issued	Unused balance (10/2007)	Value of balance stock
<b>Steel tubular poles-9m long</b>				
2003-04	456	204	252	31.78
2005-06	560	483	77	9.71
2006-07	467	-	467	58.90
<b>Sub-total</b>	<b>1,483</b>	<b>687</b>	<b>796</b>	<b>100.39</b>
<b>Steel tubular poles-8m long</b>				
2006-07	221	-	221	20.55
<b>Aluminium Conductor</b>				
2006-07	50 km	-	50 km	12.21
<b>Pump sets</b>				
2006-07	106	9	97	237.32
<b>Total</b>				<b>370.47</b>

Source: Departmental records

Circumstances under which such large quantities of stores had been purchased by the Division were not on record. The excessive purchase without immediate requirement, thus, led to blocking of Rs.3.70 crore for periods ranging up to more than four years apart from deterioration during storage.

During discussion (November 2008) with the Government, it was stated that most of the materials relate to electrical works, to supply power to the water supply schemes and since these schemes could not be completed on time due to law and order problem, the material had remained unused. The Department

needs to ensure that the schemes are executed on time and stores should be procured only when the need arises as stocking of huge quantity of material will entail extra cost for maintenance apart from the possibility of deterioration, pilferage *etc.*

#### **4.11 General**

##### **4.11.1 Audit observation accepted by the Department**

Audit observation (January 2008) on lack of proper planning for construction of a helipad by the Bishnupur Division, PWD which led to an avoidable expenditure of Rs.29.26 lakh, was appreciated by the Department and noted (November 2008) for future compliance.

##### **4.11.2 Follow up on Audit Reports**

###### **Non-submission of *suo moto* Action Taken Notes**

As per recommendations made by the High Powered Committee (HPC) which were also accepted by the State Government in October 1993, *suo moto* Action Taken Notes on corrective/remedial measures taken on all paragraphs included in Audit Reports are required to be submitted by the Departments duly vetted by the Accountant General to PAC within three months from the date of placing of Audit Reports in the Legislature.

However ATNs pertaining to 654 paragraphs/reviews for the years 1978-2007 were not received *suo moto* either from the Departments or through the PAC. Consequently, the audit observations/comments included in these paras/reviews are yet to be discussed/settled by PAC as of November 2008.

##### **4.11.3 Action taken on recommendations of Public Accounts Committee**

The administrative Departments were required to take suitable action on the recommendations made in the Report of the PAC presented to State Legislature. Following circulation of the Reports of the PAC, heads of Departments were to prepare comments on action taken or proposed to be taken on the recommendations of the PAC and submit to the Assembly Secretariat.

One hundred and seventy five (175) recommendations of the PAC, made in its Eleventh to Thirty first Report with regard to 42 Departments were pending settlement as of November 2008 due to non-receipt of Action Taken Notes/Reports.

**4.11.4 Failure of senior officials to respond to audit observations and compliance thereof**

The Accountant General (Audit) arranges to conduct periodical inspection of Government Departments to test check the transactions and verify the maintenance of significant accounting and other records according to prescribed rules and procedures. When important irregularities detected during inspection are not settled on the spot, Inspection Reports (IRs) are issued to the Heads of the concerned offices with a copy to the next higher authorities.

As of March 2008, 9,808 paragraphs pertaining to 2,106 IRs issued from 1985-86 were outstanding for settlement. Of these, 769 IRs containing 3671 paragraphs had not been settled for more than 10 years. Even the initial replies, which are required to be received from the Heads of Offices within six weeks from the date of issue, were not received from 20 major Departments in respect of 318 IRs. Non-furnishing of replies and inaction against the defaulting officers, facilitates continuation of serious financial irregularities and loss to the Government.

In view of the large number of outstanding IRs and paragraphs, the Government has constituted Audit Committees for consideration and settlement of outstanding audit observations. During 2007-08 four meetings (Civil-1; Works-3) of the Committees were held, in which 34 IRs and 237 paragraphs were discussed.

It is recommended that Government review the matter and ensure that effective system exists for (a) action against defaulting officials, who failed to send replies to IRs/Paragraphs as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayments in a time bound manner, and (c) revamp the system to ensure prompt and timely response to audit observations.