OVERVIEW

This Report contains 24 Audit Paragraphs (excluding four general paragraphs), three Performance Reviews and one Chapter on Internal Control/Internal Audit apart from comments on the Finance and Appropriation Accounts. According to the existing arrangements, copies of the draft audit paragraphs and draft performance reviews were sent to the concerned Secretary to the State Government by the Accountant General (Audit) with a request to furnish replies within six weeks. The Secretaries are also reminded for replies. Besides, the Chief Secretary to the State Government was also requested to arrange for discussion of the issues raised in the draft audit paragraphs, draft performance reviews, etc., for effective inclusion of the views/comments of the Government in the Audit Report. Despite such efforts, no response was received in respect of all the paragraphs and three reviews from the concerned Secretary to the State Government.

1. Finances of the State Government

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – has indicated a significant improvement in 2006-07 relative to the previous year. The improvement in fiscal position should however be viewed in the light of fact that the State finances are heavily dependent on Central transfers comprising of State's share in Union taxes and duties and grants-in-aid from GOI, which accounted for around 90 *per cent* of its revenue receipts. These transfers shared about 92 per cent in incremental receipts of the State during 2006-07 due to which, the State Government was able to enhance the revenue surplus significantly during the year. The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* of total expenditure hovered within the range of 77 to 87 *per cent* during the period 2001-07 with inter year variations leaving inadequate resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, non-plan revenue expenditure in 2006-07 (Rs 1121 crore) was significantly higher than the normative assessment of TFC (Rs 938 crore) for the State for the year and the four components – salary expenditure, pension liabilities, interest payments and subsidies – constituted about 69 *per cent* of the NPRE during 2006-07. These trends in expenditure indicate the need for change in allocative priorities. The fiscal liabilities of the State have consistently increased and stood at as high as 94 *per cent* of GSDP in 2006-07 and appear to be quite high especially when compared with the TFC norm of 31 *per cent* to be achieved by the terminal year of its award period. The increasing fiscal liabilities accompanied by negligible rate of return (less than one *per cent*) on Government's investment and inadequate interest cost recovery continued to be a cause of concern and might lead to an unsustainable debt position in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilize additional resources, especially by exploiting the untapped taxable sources in ensuing years as the tax revenue of the State in the current year (Rs.68 crore) is far below the normative assessment of TFC (Rs.79 crore) for the year.

(Paragraph 1.1 to 1.11)

2. Allocative Priorities and Appropriation

During 2006-07 expenditure of Rs.2376.93 crore was incurred against total grants and appropriation of Rs.2628.16 crore. The net savings of Rs.251.23 crore was the result of savings of Rs 276.69 crore, partly offset by excess of Rs.25.46 crore.

(Paragraph 2.2)

Supplementary provision made during the year constituted 29 *per cent* of the original provision. Supplementary provision of Rs.8.36 crore made in 10 cases proved unnecessary in view of aggregate final savings of Rs.75.52 crore.

(Paragraph 2.3.3 and 2.3.4)

Excess expenditure over provision amounting to Rs.1312.40 crore for the years 2003-04 to 2005-06 is required to be regularized according to Article 205 of the Constitution of India.

(Paragraph 2.3.2)

3. PERFORMANCE REVIEW

3.1 MODERNISATION OF POLICE FORCE

This scheme was introduced by the GOI in 1969. The main focus areas of the scheme were provision of residential accommodation for upper and lower subordinates of police force, construction of permanent buildings for Police Stations (PS) and Out Posts (OPs) conforming to specified norms, improving the mobility of Police Force thereby reducing the response time, and skill upgradation and capacity enhancement through training. Despite the scheme being in operation in the State for over three and a half decades, it failed to achieve its objectives. The scheme was plagued by delay in release/non-availability of sufficient funds due to non-release of matching share by the State Government and where funds were available, the Department failed to utilise them efficiently and effectively. Basic infrastructure was not provided to the police force and the State remained under equipped to deal with law and order problems. This is also borne out by a higher crime rate in the State compared to the national average. There were shortages in vehicles, equipment and training courses and poor communication net work.

4. Audit of Transactions

Fraud/Misappropriation/Embezzlement/Losses

HEALTH AND FAMILY WELFARE DEPARTMENT

Failure of the Drawing and Disbursing Officer to comply with the basic financial rules regarding maintenance of cash book etc. had facilitated misappropriation of Rs.1.10 crore.

(Paragraph 4.1)

RURAL DEVELOPMENT DEPARTMENT

Procurement of piglets without safeguarding the interests of the Government and acceptance of piglets other than those specified in the agreement resulted in a loss of Rs.39.94 lakh, besides, unfruitful expenditure of Rs.93.95 lakh.

(Paragraph 4.2)

Avoidable/Extra/Unfruitful Expenditure

PUBLIC WORKS DEPARTMENT

The Department incurred extra expenditure of Rs.1.93 crore on account of higher rates allowed to the contractors for excavation of soft and hard rock without using explosives.

(Paragraph 4.3)

The Department incurred extra expenditure of Rs.26.80 lakh due to excess utilization of materials/labour during execution of works departmentally.

(Paragraph 4.4)

HOME DEPARTMENT

Buildings constructed for establishment of fire station at five locations and fire tenders procured for two of these stations remained unutilized for two to over seven years resulting in unfruitful expenditure of Rs.1.05 crore.

(Paragraph 4. 6)

Idle investment/ Unproductive expenditure

HEALTH AND FAMILY WELFARE DEPARTMENT

Failure of the Department to take over 224 quarters constructed for the State Referral Hospital, Falkawn, Aizawl and procurement of equipment before construction of Hospital building resulted in idle expenditure of Rs.17.24 crore.

(Paragraph 4. 7)

LOCAL ADMINISTRATION DEPARTMENT

Procurement of mobile garbage trailers without proper assessment of their size resulted in infructuous expenditure of Rs.19.99 lakh.

(Paragraph 4.8)

5.1 Internal Control System and Internal Audit

Internal control system in the Department was deficient and led to unrealistic budgetary process, drawal of funds in excess of actual requirement and parking of funds in P.W. Deposits, besides issue of supply orders in excess of delegated financial powers. Inspection register to ensure compliance of specific defects noticed during inspection, was not maintained. Procurement of stores much in advance of actual requirement indicated poor inventory management. Internal audit of the Department was not done by the Internal Audit wing of the Director of Accounts and Treasuries.

6. Revenue Receipts

Environment and Forest Department

Settlement of 10 *mahals* at the bid of Rs. 1.07 crore against royalty value of Rs. 1.57 crore led to short realisation of revenue of Rs. 49.63 lakh

(Paragraph 6.2)

Revenue of Rs. 38.54 lakh was lost due to delay in cancellation of settlement order and resale of timber lots at the risk of the successful bidder

(Paragraph 6.3)

Loss of revenue of Rs. 35.07 lakh due to theft of 257.8716 cum of timber from forest depot

(Paragraph 6.4)

Taxation Department

Seven registered dealers concealed turnover of Rs. 31.79 crore and evaded tax of Rs. 2.93 crore on which interest of Rs. 1.70 crore and penalty of Rs. 4.40 crore were payable additionally

(Paragraph 6.8)

Turnover of Rs. 10.91 crore escaped tax of Rs. 1.18 crore including interest and penalty

(Paragraph 6.9)

Failure of the department to register three dealers under the MST Act led to evasion of tax of Rs. 28.33 lakh including interest and penalty

(Paragraph 6.10)

Taxable turnover of Rs. 50.36 lakh was wrongly deducted as non-taxable resulting in underassessment of tax of Rs. 6.04 lakh

(Paragraph 6.11)

Irregular allowance of deduction of tax element of Rs. 40.32 lakh from net turnover led to short realisation of tax of Rs. 3.10 lakh

(Paragraph 6.12)

7. Government Commercial and Trading Activities

As on 31 March 2007, there were five Government companies (all working) and two departmentally managed commercial undertakings *viz.*, State Trading Scheme under the Food, Civil Supplies and Consumer Affairs Department and Mizoram State Transport under the Transport Department as against the same number of Government companies and departmentally managed commercial undertakings as on 31 March 2006 under the control of the State Government. The results of audit of the Power and Electricity Department are also incorporated in the Commercial Chapter

7.2 Performance review on Mizoram Food and Allied Industries Corporation Limited

Mizoram Food and Allied Industries Corporation Limited was incorporated (December 1989) with a view to optimally utilise the available business opportunity and create facilities by infusing proper technology in processing of Agro-products. Its main objective was to establish proper marketing linkages between farmers and manufacturers with the technological support for the development of food processing industries in the state of Mizoram**.**

- Grant-in-aid of Rs.3.92 crore relating to ongoing projects were diverted and utilized for administrative and maintenance expenses of the Company.

- Due to under utilization of installed capacity, the Company incurred cash loss of Rs.16.17 lakh and total loss of Rs.1.64 crore during 2002-03 to 2006-07.

- Delayed commencement of commercial production in the four projects of the Company from two to eight years resulting in loss of revenue of Rs.4.86 crore *per annum*

(*Paragraph 7.2)*

7.3 Performance review on the Implementation of Accelerated Power Development Reforms Programme (APDRP)

The Union Ministry of Power (M.O.P) launched (February 2001) the Accelerated Power Development Programme (APDP) to accelerate power sector reforms and which was rechristened (March 2003) Accelerated Power Development & Reforms Programme (APDRP). APDRP envisaged upgradation of sub-transmission and distribution system (33 KV and below) and to encourage/motivate utilities to reduce cash losses by providing incentives with the financial support of the Government of India.

- There was delay in release of funds received from MOP by the State Government thereby attracting interest liability of Rs.4.90 crore. The Department failed to submit utilisaion certificate of the funds released by MOP, which may delay the release of balance funds.
- The Department utilized the funds amounting to Rs.1.47 crore for the purposes other than APDRP work and those provided in DPRs.
- Improper planning in the procurement of material for execution of works resulted in blocking of funds of Rs3.87 crore and lapse of guarantee on critical equipments.
- Failure of the contractor to supply material in time resulted in non receipt of critical items and blocking up of funds of Rs. 5.56 crore spent on related works and on procurement of material, which could not be used.

(*Paragraph 7.3)*

Audit of Transactions

Doubtful expenditure of Rs.27.65 lakh on village electrification due to non-procurement and utilisation of vital materials

(*Paragraphs7.4)*