

CHAPTER II
AUDIT OF TRANSACTIONS (CIVIL)

Fraud/misappropriation/embezzlement/losses

AGRICULTURE DEPARTMENT

2.1 Suspected fraudulent payment on fictitious work

Irregularities in records led to suspicion that work of construction of ring bund may not have been executed, resulting in suspected fraudulent payment of Rs. 32.65 lakh.

As per General Financial Rules (GFR) no work shall be commenced or liability incurred in connection with any work until administrative approval, expenditure sanction, sanction of detailed estimates have been accorded by competent authority. The Rules also stipulates that payments for all works be made on the basis of measurements recorded in measurement books. These provisions are applicable whether the work(s) is executed directly by the Department or through contractor(s).

Scrutiny (July 2008) of records of the State Mechanised Farm (SMF), Agriculture Department revealed that the Government accorded two Administrative Approvals (AA) and Expenditure Sanctions (ES) (August 2006 and March 2007) amounting to Rs. 32.65 lakh for construction of ring bunds covering 191 hectares of land at SMF, Lamphelpat and Regional Foundation Seed Farm (RFSF), Kharungpat under the scheme of Strengthening of State Seed Farm/Macro Management Mode of Agriculture (Centrally Sponsored Scheme). The sanctioned amount was paid in August 2006 and March 2007.

Essential records, as defined in the GFR, like detailed estimates, abstract of cost, measurement books, technical sanction *etc.* were not produced during audit. The only records shown to Audit were two work orders issued to a local supplier, four bills amounting to Rs. 32.65 lakh for supply of 3,265 truck loads of soil @ Rs.1,000 per truck load and two completion reports of the works of the two AAs/ESs, the details of which are as follows:

Date of AA/ES	Date of work order	Serial no. & date of the bill (Farm)	Voucher no. (date)	Date of completion report
24.8.06	21.8.06	066 of September 06 (SMF) 070 dated 22.9.06 (RFSF)	43 (26.8.06)	27.8.06
21.3.07	21.8.06	067 dated Nil (SMF) 069 dated Nil (RFSF)	81 (22.3.07)	27.8.06

(Source: Departmental records)

The records furnished to Audit revealed the following irregularities:

- The work orders pre-dates both AAs/ESs and the second work order pre-dates even the first AA/ES;

- In respect of the 1st AA/ES, the voucher number pre-dates the bills of the contractor and in respect of 2nd AA/ES, the voucher was prepared on the next day of issuing AA/ES; and
- In respect of 2nd AA/ES, the completion report pre-dates the AA/ES.

The SMF stated (May 2009) that other records¹ are not available in their office and to approach the Director, Agriculture Department. The information was called for (September 2009) from the Agriculture Department followed by reminders (October 2009 and December 2009) to the higher authorities. However, the reply is awaited (December 2009). In the absence of any information as regards to the exact location of these ring bunds, physical verification by Audit was also not possible.

In the light of the above facts, construction of ring bunds appears to be fictitious, resulting in suspected fraudulent payment for work that may not have been executed. The matter needs further investigation.

The matter was referred (June 2009) to the Government; reply has not been received (December 2009).

IRRIGATION AND FLOOD CONTROL DEPARTMENT

2.2 Loss to the Government

Instead of paying the rate for transportation of excavated earth for a lead of 100 metres, the contractor was paid at the rate applicable for carriage charge of 1 km, resulting in loss of Rs 7.87 lakh.

Scrutiny (January 2009) of records of Khuga Head Works Division, Irrigation and Flood Control Department (IFCD) revealed that the work of formation cutting and ground development for the construction of helipad at Khuga Dam Project (portion A and B) were awarded (June 2008) to a local contractor at a cost of Rs. 12.37 lakh and Rs. 11.98 lakh respectively.

For portion A, value of work of Rs.13.07 lakh had so far been executed (8641.65 cum @ Rs.151.20 per cum) and for portion B value of work of Rs. 5.80 lakh was executed (3838.70 cum @ Rs.151.20 per cum).

As per the estimate and tender, earth excavated for formation cutting was to be disposed off upto a lead of 1 km by mechanical transport. The rates quoted by the contractor was negotiated at Rs. 151.20 per cum after assessing the justified rate payable for the works taking into account the cost of transportation upto 1 km lead and cost of excavation at the present prevailing rate *i.e.* Manipur Schedule of Rates, 2008.

¹Detailed estimates, technical sanction, tender notice, measurement book *etc.*

However, after rate negotiation, the specification of transportation of the excavated earth up to a lead of 1 km was modified to 100 metres in the work order, the reason of which was not on record and accordingly, the contractor had transported the excavated earth for a lead of 100 metres.

Since the contractor had transported the excavated earth upto a lead of 100 metres only, rate payable to the contractor was to be reduced to Rs.88.11² per cum. However, the contractor was paid @ Rs.151.20 per cum at the rate applicable for transportation for 1 km. This resulted in loss of Rs. 7.87³ lakh to the Government.

The Department stated (July 2009) that transportation of excavated earth for a lead of 100 m as mentioned in the work order was a typing mistake and the lead in work order should have been 1 km. Department's reply is not acceptable due to the following reason:

- lead as mentioned in both work orders were clearly corrected by the department as 100 m by hand over a typed figure and therefore, the lead as mentioned in the work orders are unlikely to be erroneous; and
- leads were clearly recorded as 100 m in measurement books of both works.

The matter was referred (April 2009) to the Government; their reply has not been received (December 2009).

2.3 Suspected fraudulent payment

Fraudulent billing of hand receipt in a canal work has led to a loss of Rs.8.29 lakh to the Government.

As per CPWD works manual, the authorised forms of bills for payment of contractors/suppliers are First and Final Bill and Running Account (RA) Bill. Advance payment on hand receipt may be made when there is likely to be delay in authorizing payment for special reasons on a contractor's bill which is under check.

Scrutiny (February 2009) of records of the Khuga Canal Division-I, IFCD revealed that the work of "Improvement of Right Side Main Canal (RSMC) from Reduced Datum (RD) 6,115 m to 7,105 m" involving earthwork in excavation and banking of canal was awarded (November 2005) to a local contractor for Rs.60.56 lakh allowing a period of six months for completion of the work. The Department rescinded (August 2007) all the contract of improvement works of RSMC from RD 0 km to 20 km, including the above

² Rs.50 per cum (cost of excavation) plus Rs. 29.08 per cum (carriage charge for a lead of 50 metre; transportation for the 1st 50 m being free) plus Rs.4.36 (15% as contractor's profit on carriage charge) plus 5.6 % thereon as sales tax = Rs. 88.11 per cum

³ 12,480.35 cum (quantity executed) X Rs.(151.20 - 88.11)= Rs.7.87 lakh

work due to slow progress of works and decided to take up the balance works departmentally by hiring heavy machinery.

The value of work done executed by the contractor up to 4th RA bill (November 2006) was Rs.48.77 lakh and as per the 5th RA bill (December 2007) the value of work done had progressed to Rs. 53.88 lakh, entailing a payment of Rs. 5.11 lakh to the contractor in the 5th RA bill. The contractor was paid (December 2007) Rs 2.40 lakh withholding Rs 2.71 lakh.

However, between these two RA bills (November 2006 to December 2007), the Executive Engineer (EE) concerned paid (March 2007) the contractor Rs.11 lakh on a hand receipt. The hand receipt bill was prepared without any basis, as no detail was recorded in the bill. There was also no justification to prepare a hand receipt bill between the two RA bills and the amount paid through the hand receipt had not been adjusted in the subsequent bill *i.e.* 5th bill. Thus, fraudulent billing of Rs.11 lakh on hand receipt has led the Government to suffer a loss of Rs.8.29 lakh⁴.

When pointed out by Audit, the EE admitted (February 2009) the fact and stated that the amount will be recovered from the bills of other works executed by the contractor. Details of recovery made have not yet been furnished (December 2009).

The matter was referred (June 2009) to the Government; reply has not been received (December 2009).

2.4 Suspected fraudulent payment

Rupees 50 lakh appears to have been paid fraudulently to two contractors purportedly for hiring of machinery for a canal work.

As per Central Public Works Account Code, payments for work done should be made on the basis of measurements recorded in measurement books.

Scrutiny (February 2009) of records of the Khuga Canal Division No.-I, IFCD revealed that a decision was taken (May 2007) to discontinue the contracts for canal works due to slow progress of work and to take it up departmentally. For this, construction machinery were to be hired from private agencies @ Rs.11,400 (D-50 Bull Dozer), Rs.6,900 (JCB) and Rs.3,551 (Tipper Truck) per day.

The Department issued (August 2007) work order to a local contractor for hiring these machinery for the canal work between Reduced Datum (RD) 14,835 m to 19,475 m of the right side main canal. The work order did not specify the number of days for which these machinery were to be hired by the Department and the amount involved for hiring.

⁴ minus the withheld amount of Rs.2.71 lakh of 5th RA bill.

The Executive Engineer concerned released (December 2007) an amount of Rs.25 lakh to the contractor on a hand receipt for hiring machinery for the above work. Another Rs.25 lakh was also released (December 2007) on hand receipt to another contractor for the same work, without issuing any work order to him. These hand receipts did not specify any reference to measurement book (MB), the details of the work or the quantum of machinery used for the above work.

When pointed out (June 2009) by Audit, the Department stated (December 2009) that the work from RD 14,835 m to 19,475 m of the canal was awarded (August 2007) to the two contractors in two separate stretches and enclosed relevant copies of file noting, work orders, bills received from the contractors and MB. The details of work orders, MBs and bills, as furnished by the Department are as follows:

Canal stretch (Name of the contractor)	Date of commencement (Date of completion)	Days taken for completion	Other remarks
14,835 to 17,985 m (Contractor 'A')	20.10.07 (30.11.07)	42	Hire charge claimed for two machinery not included in the work order viz. hydraulic excavator and water pump.
17,985 to 19,475 m (Contractor 'B')	21.8.07 (14.12.07)	116	Hire charge claimed for 280 days (truck) and for 135 days (JCB), Bill dated 2.12.07

(Source: Departmental records)

Further analysis based on the reply of the Department revealed the following irregularities:

- 1st work - while the bill included two machinery that was not included in the work order, no justification nor any explanation to allow the contractor to deviate from the work order was furnished;
- 2nd work - the bill dated 2.12.07 claimed by the contractor pre-dates the date of completion by twelve days and hiring of machinery was claimed for 135 /280 days when the work was completed in 116 days;
- No output analysis had been made for any of the machinery hired by the Department to justify the amount claimed by the contractors; and
- While hiring of road rollers was required as per the work specification and departmental noting, no road roller was put to use or hired.

Further, the Department's reply of awarding the work to the two contractors in two separate stretches is not correct, as work order for the whole stretch from RD 14,835 m to 19,475 m was awarded to Contractor 'B' as per the records produced during audit.

Thus, Rs.50 lakh appears to have been paid fraudulently to the contractors on hand receipts without hiring any machinery from them.

The matter was referred (October 2009) to the Government; reply has not been received (December 2009).

**MINORITIES AND OTHER BACKWARD CLASSES
DEPARTMENT**

2.5 Misappropriation of fund

Rupees 9.95 lakh deposited in the DDO's account for implementation of a scheme has been misappropriated.

Scrutiny of records (July/August 2009) of the Director, Minorities and Other Backward Classes Department revealed that the State Government accorded (March 2008) sanction of Rs.10.05 lakh for implementation of Para Medical Training of Minorities and Other Backward Classes under the Skill Development Programme for the year 2007-08. There was no Detailed Project Report and Guidelines for implementation of the scheme. As on August 2009, the beneficiaries had not been selected and the scheme was yet (August 2009) to be implemented.

The amount was drawn (March 2008) on Abstract Contingent bill and deposited in the current bank account⁵ of the Drawing and Disbursing Officer (DDO) on 31 March 2008 in violation of the prevailing instruction of the Finance Department not to deposit any fund in the DDO's account except for the pay and allowances of the staff. The deposit was reflected in the cash book and shown as cash balance as of May 2009. Details of closing balances and its analysis were not maintained. No verification of closing balance and no certificate to this effect were on record in the cash book.

However, cross verification with the DDOs bank account revealed that there was a balance of Rs.10,083 only as on May 2009. The dates on which Rs.9.95 lakh was withdrawn could not be furnished to Audit. Thus, Rs.9.95 lakh appears to have been misappropriated.

The Department stated (August 2009 and November 2009) that explanation has been called from two staffs⁶ and that the irregularity had been confirmed and requested the higher authority to recover the amount from the DDO.

The matter was referred (October 2009) to the Government; reply has not been received (December 2009).

⁵ SBI Imphal Secretariat branch A/C no.10329727698

⁶ Sr. Accountant and Head Clerk (former cashier)

PUBLIC HEALTH ENGINEERING DEPARTMENT

2.6 Loss to the Government

Backfilling of excavated trenches with sand and gravel under sewerage project was paid at the rate applicable for backfilling with compaction by power roller of 8-10 tonnes capacity when such compaction by power roller was not possible, subjecting the Government to a loss of Rs.16.04 lakh.

According to the initial design and estimate of laying sewerage-pipe-network for Sewerage Project Phase-I (Zone-I) in Imphal town, sewer pipes of sizes ranging from 400 mm to 600 mm in diameter were to be laid in trenches up to a depth of around five metres. The pipes were to be laid in a protective bedding of alluvial gravel of thickness of at least 400 mm below and 200 mm above. Thereafter, the trenches should be backfilled with the excavated earth.

Scrutiny (March 2009) of records of the Drainage and Sewerage Division, Public Health Engineering Department revealed that the item of “back filling of the trenches with the excavated earth” included in the original work order was substituted by “filling with naturally occurring sand gravel” during execution on the advice of the state PWD. The description of the substituted item conforms to the specification for construction of road layer using naturally occurring sand gravel and compacting the road surface in layers not exceeding 150 mm by rolling with power roller of 8 to 10 tonnes capacity.

Scrutiny of records of 20 works revealed that the average depth of backfilling is 2.81 m in trenches of width of 2.10 m. Compaction of the filled sand gravel in layers of 150 mm with 8 to 10 tonne power roller at trenches of such depth and width is just not possible. There was no record to show that compaction of backfilling either by power roller or by other compaction techniques had been done.

The contractors were, however, paid Rs.112.30 lakh at the rate applicable for compaction with power roller for 19,301.90 cum of backfilling, as follows:

- Rs 77.06 lakh for 13,987.93 cum of backfilling @ Rs 550.91 per cum in 13 works; and
- Rs 35.24 lakh for 5,313.97 cum of backfilling at a higher rate of Rs 663.22 per cum for an unjustified longer lead for transporting backfilling material in 7 works.

The actual rate payable for these works at admissible transportation lead without compaction charges works out to Rs. 498.71 per cum⁷. The admissible

⁷Rs.62.70 per cum (cost of sand) plus Rs.309.73 per cum (carriage charges) plus Rs.56.90 (Spreading & levelling cost) plus Rs. 24.04 per cum (sales tax) plus 10 per cent thereon (percentage quoted above estimated cost)

payment for the total backfilling of 19,301.90 cum @ Rs.498.71 per cum accordingly works out to Rs.96.26 lakh. Thus, payment at higher rates which is inclusive for compaction of road surface has resulted in a loss of Rs.16.04 lakh to the Government.

The Department admitted (November 2009) the fact and stated that recovery would be made from the contractors.

The matter was referred (June 2009) to the Government; reply has not been received (December 2009).

PUBLIC WORKS DEPARTMENT

2.7 Loss to the Government

Government suffered a loss of Rs.21.63 lakh due to excess payment of Rs.1.63 lakh, and fraudulent payment of Rs.20 lakh to contractors.

Scrutiny (July 2009) of the records of the Ukhrul Division, PWD revealed that the work of “Improvement of Ukhrul Town Road (left out portion)” was awarded (November 2007) to a local contractor at a cost of Rs. 86.80 lakh. The work was completed in March 2008 at the awarded cost for which an amount of Rs. 58.37 lakh was payable to the contractor, after deducting Rs.28.43 lakh (Rs. 23.57 lakh being cost of bitumen supplied and Rs.4.86 lakh being VAT @ 5.6 per cent of Rs. 86.80 lakh). The contractor was, however, paid (March 2008) Rs.60 lakh in the First and Final bill leading to excess payment of Rs.1.63 lakh⁸.

Further scrutiny of records revealed that the contractor was also paid (March 2008) Rs.15 lakh⁹ and this expenditure was booked against the said work. No requisite records relating to the payment or change in the scope of the work could be produced to Audit. Further, an amount of Rs.5 lakh¹⁰ was also paid to another contractor also charging the expenditure against the same work. The matter was pointed out (July 2009) to the Department. However, reply is awaited despite reminders (October, November and December 2009) to the higher authority. As the work has been completed at the awarded cost, further payment of Rs.20 lakh without any supporting documents was fraudulent.

Thus, the Department gave away a sum of Rs.21.63 lakh to contractors without any justification or even without any apparent reason and suffered a loss accordingly.

The matter was referred (August 2009) to the Government; reply has not been received (December 2009).

⁸ Rs.60 lakh –Rs.58.37 lakh = Rs.1.63 lakh

⁹ Voucher no. 4 dated 25.3.08 vide cheque no. D023763/000238

¹⁰ Voucher no. 9 dated 26.3.08 vide cheque no. D023769/000238

Excess payment/wasteful/infructuous expenditure/Avoidable expenditure and other payment**MINORITIES AND OTHER BACKWARD CLASSES
DEPARTMENT****2.8 Doubtful expenditure in scheme implementation**

As fish fingerlings were issued to beneficiaries without ascertaining their possession of pond of requisite size and by not following conventional norm of stocking ratio of species combination, expenditure of Rs.73 lakh incurred on implementation of a fishery scheme appears to be doubtful.

As per the guidelines of Economic Development Programme (EDP) of the Government, selection of the beneficiaries of any scheme under EDP shall be based on their socio-economic conditions and a certificate to this effect shall be given by the Deputy Commissioner/ Sub-Deputy Commissioner (DC/SDC) concerned. Fishery scheme was a scheme under EDP that was being implemented by the Minorities and Other Backward Classes Department based on the technical know-how of the State Fishery Department that stipulates that 5,000 to 6,000 fingerlings can be reared in a pond size of one hectare. When reared in combination of four species of catla, rohu, mrigal and pengba, the stocking ratio of the first three species shall be 30 *per cent* each and that for pengba shall be 10 *per cent*.

Scrutiny (July-August 2009) of records of the Director, Minorities and Other Backward Classes Department revealed that 730 beneficiaries (Minority communities: 440; Other Backward Classes communities: 290) were selected under fishery scheme for the year 2007-08 to improve their socio-economic condition without framing any specific guidelines of rearing of fingerlings. The scheme envisaged providing each beneficiary 3,605 fingerlings in combination of four species at a unit cost of Rs.10,000¹¹ per beneficiary as follows:

Species	Catla	Rohu	Mrigal	Pengba
Number (<i>per cent</i>)	691 (19)	1381 (38)	921 (26)	612 (17)

(Source: Departmental records)

As per records, an amount of Rs.73 lakh was incurred on implementation of the scheme during 2007-08.

Further scrutiny revealed that the Department had neither conducted any survey to ascertain whether the enlisted beneficiaries owned any pond/ponds of requisite size nor followed the norm of the Fishery Department of stocking ratio of rearing fingerlings in combination of four species. There was also no detailed project report and detailed guidelines for implementation of the scheme.

¹¹ Rs. 8,747-fingerlings; Rs.1,000-capital cost and Rs.253-training orientation fee

Thus, a scheme of such nature, where possession of ponds of requisite size is necessary, had been implemented without ascertaining this essential pre-requisite condition. Therefore, the expenditure of Rs.73 lakh incurred in implementation of the scheme in absence of any survey, detailed project report or guidelines appears to be doubtful.

The Department stated (November-December 2009) that availability of the ponds and its sizes were made on the basis of the information furnished by the beneficiaries in their application forms duly verified by the concerned DC/SDC. The scheme was implemented based on technical know-how of the Fishery Department and the beneficiaries were selected based on the EDP guidelines. However, the Department admitted that no survey in respect of ponds had been conducted.

The reply of the Department is not acceptable because of the following reasons:

- The application forms did not indicate any information on pond and the district authorities only certified the bio-data of the applicants;
- The norm of stocking ratio of rearing the four species in combination had not been followed; and
- The EDP guidelines laid down only a general norm of selecting beneficiaries based on their socio-economic conditions and are applicable to any scheme under EDP.

The matter was referred (October 2009) to the Government; reply has not been received (December 2009).

HOME (POLICE) DEPARTMENT

2.9 Infertuous expenditure

Construction of a temporary accommodation for CRPF personnel to be deployed along the National Highway No. 53 at Nungba was closed due to selection of unsuitable site, rendering the entire expenditure of Rs.20.78 lakh infertuous.

The State Government accorded (December 2005) sanction of Rs.2.80 crore for construction of temporary barracks, kitchen-cum-dining hall and toilets at 17 locations for providing temporary accommodations for 20 coys of Central Reserve Police Force (CRPF) personnel to be deployed along the National Highway No. 53 and entrusted the work to the Manipur Police Housing Corporation Ltd (MPHC Ltd.).

Scrutiny (February/March 2008) of records of MPHC Ltd. revealed that the work of construction of the accommodation at one of the locations at Nungba was awarded (December 2005) to a local contractor at a cost of Rs. 21.23 lakh

with stipulated period of completion within one month. While construction of barracks at the other locations was completed and handed over to the Home Department (August 2007), the Nungba work was stopped mid-way purportedly due to unsuitability of work-site; after incurring (July 2006) an expenditure of Rs. 20.78 lakh. The Department eventually selected a new site for barrack construction at Taudaijang, 10 Km away from Nungba.

Thus, due to selection of an unsuitable site an expenditure of Rs.20.78 lakh incurred on construction for the accommodation of CRPF personnel was rendered infructuous.

The Corporation while accepting the fact stated (November 2008) that the unfavourable condition of the work-site was due to its distant location (3 km) away from the National Highway and that it was situated at the top of a hill without any approach road, water and electricity.

The matter was referred (May 2009) to the Government; reply has not been received (December 2009).

PUBLIC WORKS DEPARTMENT

2.10 Excess payment due to incorrect adoption of rates

Adoption of incorrect rates for disposal of excavated earth led to excess payment of Rs.16 lakh.

Scrutiny (July 2009) of the records of the Ukhrul Division, PWD revealed that the work of "Site levelling for construction of DC complex at Ukhrul" was awarded (October 2006) to a local contractor. The work included a single item of work *i.e.* excavation of the elevated portion and levelling of the complex site. While executing the levelling work an estimated 12,158.76 cum of earth was found surplus, which needed to be disposed off 6 km away from the site. This work was also executed by the contractor as an extra item at an estimated cost of Rs.31.62 lakh.

It was noticed that the Division had adopted a rate of Rs.260.10 per cum for disposal of the excavated earth, based on MSR 2004 instead of Rs.136.25¹² per cum, due to calculation mistake in rate analysis.

The contractor had disposed 12,924.76 cum of earth as of June 2009 and had been paid an amount of Rs.33.62 lakh. This has led to excess payment of Rs.16 lakh¹³ due to incorrect adoption of rates.

¹² Rs.101.73 per cum (transportation cost up to 5 km) plus Rs.7.63 per cum (transportation cost for 5-6 km) plus 10 per cent thereon as contractors profit plus 5.60 per cent thereon as sales tax plus 7.25 per cent thereon at the rate quoted above estimated cost.

¹³ 12,924.76 x (260.10 – 136.25) =Rs.16 lakh.

When pointed out (July 2009), the Divisional Officer concerned admitted the observation and stated that recovery would be made from the contractor.

The matter was referred (August 2009) to the Government; reply has not been received (December 2009).

SERICULTURE DEPARTMENT

2.11 Avoidable expenditure due to delay in payment of income-tax

Failure to pay income tax liability on time on behalf of the Consultant engaged for implementation of Manipur Sericulture Project has led to avoidable payment of interest amounting to Rs.3.40 crore.

As per Section 115A (1) of the Income Tax Act, 1961, where the total income of a foreign company, includes any income by way of fees for technical services received from Government or an Indian concern in pursuance of an agreement made by the foreign company with the Government or the Indian concern, the income tax payable shall be at the rate of 20 per cent of the amount received by way of fees for technical services, if any included in the total income. Further, according to Section 201 of the Act *ibid*, if any such person, principal officer or company does not deduct the whole or any part of the tax or after deducting fails to pay the tax as required by the Act, he or it shall be liable to pay simple interest per annum at the prescribed rate¹⁴ on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

Scrutiny (May 2009) of the records of the office of the Director of Sericulture revealed that the Government of India entered (December 1997) into a Loan Agreement with the Overseas Economic Corporation Fund, Japan to borrow an amount of Rs.116.19 crore for implementation of Manipur Sericulture Project (MSP). The Agreement stipulated engagement of a consultant and accordingly Government of Manipur (GOM) entered (June 1998) into an agreement with M/S Nippon Koei Co Ltd.(Consultant), Japan for the consultancy service of the project at a cost of Rs.18.53 crore for the technical services. It was agreed between the two parties that the client *i.e.* GOM shall pay on behalf of the consultant any taxes, duties, fees, levies and other imposition levied under the applicable law on the consultant.

The Department paid Rs.18.53 crore to the consultant between March 1999 and January 2002 for which the income-tax payable as per Section 115 A (1) of the Act *ibid* amounted to Rs.3.71 crore. The Department paid the tax in January 2007 after a delay ranging from 56 months to 90 months. The delay in payment of the tax on time attracted an interest of Rs.3.40 crore as per the

¹⁴ 18 per cent: up to 31-05-2001; 5 per cent: 01-06-2001 to 07-09-2003; 12 per cent: from 08-09-2003

provision of Section 201 of the Act *ibid*. The interest of Rs.3.40 crore was paid in July 2007.

While admitting the fact, the Government stated (September 2009) that the avoidable expenditure had occurred as no personnel in the Department had expertise in international taxation matters. Thus, due to failure to pay the income tax liability on time, the Department incurred an avoidable expenditure amounting to Rs.3.40 crore.

2.12 General

2.12.1 Follow up on Audit Reports

As per recommendations made by the High Powered Committee (HPC) which were also accepted by the State Government in October 1993, *suo moto* explanatory 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, as of December 2009 explanatory notes pertaining to 243 paragraphs/reviews for the years 1999-2008 were not received *suo moto* either from the Departments or through the PAC.

2.12.2 Action taken on recommendation 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

Seven hundred and twenty one (721) recommendations of the PAC, made in its Eleventh to Thirty third Report were pending settlement as of December 2009 due to non-receipt of Action Taken Notes/Reports.

2.12.3 Response 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 2009, 2,307 IRs issued from 1985-86 were outstanding for settlement. Of these, 920 IRs 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.

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 may be 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.