

## CHAPTER III

## INTEGRATED AUDIT

## URBAN DEVELOPMENT DEPARTMENT

*The Urban Development Department is responsible for creating infrastructure to provide basic amenities like drinking water, electricity, roads, drainage systems, solid waste management and proper toilet facilities to the inhabitants. The Department carries out its responsibilities by implementing centrally sponsored schemes and state plan schemes. A performance audit of the Department revealed that they did not have a long-term strategy due to which the works were implemented by them randomly. This coupled with vulnerability to fraud and lack of quality control resulted in various shortcomings in implementation of projects. The major observations are detailed below:*

**City Development Plan was prepared only in respect of Kohima. Works taken up by the Department were not based on any plan documents.**

(Paragraph 3.7)

**Budgeting was unrealistic and lacked credibility in view of the persistent and substantial savings and excess over budget provision.**

(Paragraph 3.8)

**Rupees one crore meant for construction of 24 shops at NST Complex and 19 shops at Nagarjan, Dimapur was diverted for unspecified purposes by Development Authority of Nagaland**

(Paragraph 3.8.5 (i))

**Contract management of the Department was poor as consultants were engaged even for petty works and works were awarded to other than the lowest bidder without justification.**

(Paragraph 3.10.1 & 3.10.2)

### 3.1 Introduction

Nagaland is predominantly a tribal, hilly and remote State lying in the North-East corner of the country. Only about 17.24 *per cent* of the total population lives in three<sup>1</sup> declared and 16<sup>2</sup> recognised urban areas. The urbanization level of the State showed a rising trend from 5.19 *per cent* in 1961 to 17.24 *per cent* in 2001. There are also signs of migration of urban population from smaller towns to urban areas of the State with better facilities. The number of towns increased from three in 1961 to 19 in 2001.

<sup>1</sup>. Kohima, Dimapur and Mokokchung

<sup>2</sup>. Tuensang, Wokha, Mon, Zunheboto, Phek, Peren, Longleng, Kiphire, Pfutsero, Tseminyu, Medziphema, Mangkolemba, Tuli, Noklak, Changtongya and Chumukedima.

Besides, there are 52 smaller towns inheriting urban characteristics. Development of this semi-urban scattered conglomeration is a daunting task in a rocky terrain with heavy rainfall and sparse population with primarily rural background. To cope up with the ever increasing trend of urbanization in the State, the Urban Development Department is entrusted with the task of preparing Master Plans and City Development Plans to provide and improve infrastructural facilities like roads, water supply, sanitation, transport, markets, health, housing etc. in these urban areas. The Department carries out these responsibilities by implementing Centrally Sponsored Schemes (CSS) viz., the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and 10 *per cent* Lumpsum for Development of North Eastern States and State Plan Schemes. The Department also provides grants-in-aid to two Autonomous Bodies viz., Development Authority of Nagaland (DAN) and State Urban Development Agency (SUDA).

### **3.2 Organizational set up**

The Department with a Secretary as the Chief Controlling Officer is assisted by the Director, Urban Development and seven District Urban Development Officers. Besides, an Executive Engineer from the Nagaland Public Works Department assists the Department in technical matters relating to execution of works.

### **3.3 Scope of Audit**

The performance audit was conducted during April to June 2009 and covered the functioning of the Department during 2004-09. Of the 9 auditable units with a total expenditure of Rs. 334.21 crore, 5 units<sup>3</sup> with an expenditure of Rs.133.70 crore (40 *per cent*) were selected for audit by 'Stratified Monetary Unit' method of sampling. In addition, the State Urban Development Agency<sup>4</sup> (SUDA) and Development Authority of Nagaland<sup>5</sup> (DAN) were covered.

### **3.4 Audit objectives**

The broad objectives of the audit were to assess whether:

- the works were properly planned and co-ordinated so as to ensure optimum utilization and intended benefits accrued within a reasonable time frame
- budget was realistic and adequate financial controls existed
- Programme implementation was effective and efficient
- proper systems were put in place to assess the requirement of human resources
- there exists an internal control mechanism in the Department

### **3.5 Audit criteria**

The Audit objectives were benchmarked against the following criteria.

- Detailed Project Reports
- Scheme Guidelines

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<sup>3</sup> Director, Executive Engineer, Dimapur, Mokokchung and Mon

<sup>4</sup> Grants in aid of Rs.2.95 crore

<sup>5</sup> Grants in aid of Rs.8.44 crore

- Financial Rules
- Nagaland Public Works Department Codes

### 3.6 Audit Methodology

The performance audit commenced with an entry conference on 24 March 2009 with the Commissioner & Secretary, Director and other senior officers of the Department wherein the audit objectives, scope, audit criteria and methodology were discussed. The review was carried out through an examination and analysis of records and collection of information through questionnaires. The report was finalised after taking into account the views expressed by the Department during an exit conference held on 29 July 2009.

### Audit Findings

### 3.7 Planning

The Department did not prepare perspective plans or development plans for the urban areas except the City Development Plan (CDP) in respect of Kohima. The works were therefore randomly picked and not based on any plan documents. The Department neither prepared Annual Action Plan nor devised any long or short term strategies by breaking down the targets into actionable areas, identifying the administrative, technical and financial resources, and prescribing implementation schedules. Lack of planning resulted in low level of preparedness and capacity of the Department to implement its programmes effectively and efficiently

The Department stated (July 2009) that City Development Plans for all the District Headquarters are under preparation. However, the Department did not specify any time frame for completion of the task.

### 3.8 Financial Management.

The year-wise approved outlay and expenditure incurred by the Department during 2004 -09 are shown below:

Table No- 3.1.1

(Rupees in crore)

Year	Approved outlay			Expenditure incurred			Excess (+)/Saving (-)		
	State Plan	CSS	Non-Plan	State Plan	CSS	Non-Plan	State Plan	CSS	Non-Plan
2004-05	16.37	8.13	1.98	14.30	00	2.00	(-) 2.07	(-) 8.13	(+) 0.02
2005-06	44.15	22.03	2.29	16.21	10.18	1.80	(-)27.94	(-) 11.85	(-) 0.49
2006-07	50.65	22.03	2.53	39.54	18.06	3.37	(-)11.11	(-) 3.97	(+) 0.84
2007-08	42.66	15.36	3.21	45.78	55.86	3.26	(+) 3.12	(+) 40.50	(+) 0.05
2008-09	42.66	15.36	2.92	52.35	36.33	4.61	(+) 9.69	(+) 20.97	(+) 1.69
<b>Total</b>	<b>196.49</b>	<b>82.91</b>	<b>12.93</b>	<b>168.18</b>	<b>120.43</b>	<b>15.04</b>			

(Source:- Budget documents and Appropriation accounts)

(i) The savings under capital budget increased from Rs.10.20 crore in 2004-05 to Rs.39.79 crore in 2005-06 and Rs.15.08 crore in 2006-07, reflecting unrealistic preparation of budget estimates and the inability of the Department to implement its budgeted projects and programmes.

(ii) Each year supplementary provision was obtained without justification as the savings at the end of the year were more than the supplementary provision. This indicates that the expenditure was not monitored or reviewed defeating the concept of budgeting.

(iii) During 2007-08 and 2008-09 the expenditure under State Plan exceeded the budget provision by Rs.3.12 crore and Rs.9.69 crore respectively and the expenditure under CSS exceeded the budget provision by Rs.40.50 crore and Rs.20.98 crore. The excess expenditure has not been regularized. Despite requisition to the Department as well as the Finance Department, the source from which the excess expenditure was made could not be furnished to audit (July 2009).

(iv) During 2006-07 and 2008-09 the expenditure under Non Plan exceeded the budget provision by Rs.0.83 crore and Rs.1.68 crore respectively. The excess expenditure had not been regularized.

There was no evidence of the above issues having been addressed at appropriate levels.

The Department stated (July 2009) that savings were due to allocation of lumpsum provision before sanction of Detailed Project Reports by GOI and further stated that the matter shall be taken up with the Finance Department to regularize the excess expenditure.

**3.8.1 Budgetary provision under Centrally Sponsored Schemes (CSS):** The Department could not utilize the budgetary provision under CSS during the years 2004-08, as detailed below:-

Table-3.1.2

*(Rupees in crore)*

Year	Name of the CSS	Budget Provision	Expenditure incurred at the end of the year.	Un-utilised fund during the year.
2004-05	Infrastructure Development of Small and Medium Towns, Construction	0.48	-	0.48
2005-06	i. Special Development Fund for Nagaland.	0.49	0.11	0.38
	ii. JNNURM	1.78	0.13	1.65
2007-08	i. Slum improvement	2.89	00	2.89
	ii. JNNURM	46.33	40.48	5.85
	iii. Special Development Fund for Nagaland.	24.68	19.22	5.46
<b>Total</b>		<b>76.65</b>	<b>59.94</b>	<b>16.71</b>

*(Source: Appropriation accounts)*

Under utilization of budgetary provision can only be attributed to inadequacies in preparation of project proposals, poor planning, slow progress of work as well as inadequate monitoring and supervision.

**3.8.2 Release of Central and State share by the State Government:** During the period covered in audit, GOI released its share of Rs.151.32 crore under 10 per cent Lumpsum for Northeast and Jawarharlal Nehru National Urban Renewal Mission.

However, the State Government in turn released only Rs.121.77 crore to the Departments resulting in short release of central share by Rs.29.55 crore. Similarly, against GOI release of Rs.151.32 crore, the State Government was to release its proportionate share of Rs.32.84 crore whereas only Rs.14.71 crore was released (March 2009) resulting in short release of State share of Rs.18.13 crore.

Besides, there was delay in release of funds for periods ranging from four to 25 months to the Department by the State Government. Despite the short release, the Department submitted inflated Quarterly Progress Reports to the GOI showing full utilization of the amount released by GOI.

Thus, it is evident that the Department could have implemented its projects on time on receipt of the funds from the State Government and could have avoided the excess expenditure during the years 2007-09.

While accepting, the Department stated (July 2009) that the short release of Rs.15.87 crore under 10 *per cent* Lumpsum Provision for North Eastern States was due to deduction of agency charges by the Government. They further stated that a change in the system of releases has been introduced from 2009-10 and therefore the releases are expected to improve.

**3.8.3 Rush of expenditure:** Rule 69 of GFR provides that rush of expenditure particularly in the last quarter of the financial year shall be regarded as a financial irregularity and should be avoided. Scrutiny revealed that 36 to 70 *per cent* of the capital expenditure during the last five years had taken place in the last quarter as against 16 to 26 *per cent* in the 1st quarter.

While accepting, the Department stated (July 2009) that a major portion of the funds are released in the last week of the financial year.

**3.8.4 Funds obtained by misrepresenting facts:** According to 2001 Census, there was no slum population in the State. The State Government had also not enacted or notified any area in Nagaland as Slum.

Audit analysis, however, revealed that the Department forwarded a DPR (2006) under JNNURM to GOI for approval showing the slum population of 20,194 in six blocks of Kohima and 38,681 in six blocks of Dimapur. The Department did not carry out preliminary survey to identify and select the beneficiaries before commencement of the project.

Union Ministry of Housing and Urban Poverty Alleviation also approved and accorded sanction of these projects at a total cost of Rs.205.08 crore without verifying the genuineness of the claim made by the Department.

Scrutiny of the survey report (2008) revealed that the Department is contemplating allotment of the housing units to ineligible Grade III and Grade IV employees of the State Government on rent. Thus, the Department obtained funds of Rs.205.08 crore from GOI by misrepresenting the slum population in the State.

The Department stated (July 2009) that twelve areas in Kohima and Dimapur were identified as slums and inclusion of Grade III and IV Government employees are also

under review. The reply is not acceptable as no slums were identified by any Government Notification or Act and the Department is contemplating to allot the housing units to these ineligible beneficiaries on rent.

### **3.8.5 Diversion of funds.**

(i) Government of Nagaland, Department of Urban Development accorded administrative sanction and drawal authority (September 2007) for rupees one crore for construction of 24 shops at NST Complex and 19 shops at Nagarjan in Dimapur. The amount was released through bank draft<sup>6</sup> to Development Authority of Nagaland (October 2007).

Scrutiny revealed that the amount was not spent for construction of the shops. The Executive Engineer, Development Authority of Nagaland stated (June 2009) that the funds were diverted towards payment of pay and allowances. However, the authority could not produce to audit the details of expenditure.

Thus, the entire fund of rupees one crore was diverted for unspecified purposes. The possibility of the amount being misappropriated also cannot be ruled out.

While accepting the facts the Department stated (July 2009) that Rs.39.74 lakh was utilized for construction of 24 shops at NST complex and the remaining amount was partly utilized for payment of salaries. The fact however, remains that the authority could not produce any records in connection with construction of 24 shops at NST complex and payment of pay and allowances was against the sanction order.

(ii) Guidelines for Development of Small and Medium Town (DSMT) Programme launched in November 2006 provide that the scheme funds shall be utilized for development of basic infrastructure in small and medium towns and no departmental or agency charges should be deducted.

Scrutiny revealed that against Government of Nagaland sanction of rupees nine crore for implementing the DSMT programmes, the Department diverted Rs.37 lakh towards payment of salary to 97 work charged employees in contravention of the guidelines and sanction.

The Department accepted the facts (July 2009).

## **3.9 Project Implementation**

The Department implemented 38 projects under 10 *per cent* Lumpsum Provision for North Eastern States and three projects under JNNURM during 2004-09. It was seen that 25 projects (22 under 10 per cent Lumpsum Provision and 3 under JNNURM) were taken up in the four test-checked districts. Analysis of records in the test-checked districts revealed that 9 works had not been completed (July 2009), the details which are tabulated below:-

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<sup>6</sup> SBI draft No.139138 dated 04-10-2007.

Table-3.1.3

(Rupees in crore)

Name of the project	Year of sanction	Amount Sanctioned	Expenditure	Stipulated date of completion	Progress and Reasons for delay
Construction of Cultural Hall at Kohima	2004	0.55	8.55	July 2007	Due to change of structural design and scope of work.
Construction of Car parking cum shopping complex at Mokokchung	2006	21.94	11.94	November 2008	Due to non-completion of the first phase.
Construction Of Retaining Wall At Alempang, Mokokchung	2006	2.27	1.58	July 2009	40 per cent. Reasons not on record.
Construction of protection and infrastructure development work at Mokokchung	2006	8.25	5.78	May 2009	75 per cent. Reasons not on record.
Construction of Sanitation and Waste Box at Mokokchung Town	2007	0.88	0.48	August 2009	50 per cent. Reasons not on record.
Construction of City Shopping mall cum Car parking Complex at New Market Dimapur.	2008	0.22	No Payment made.	October 2010	Due to delay in conducting soil testing.
Construction of Housing for Urban poor in Dimapur under IHSDP	2007	117.34	22.47	June and December 2009	In progress
Construction of Housing for Urban poor in Kohima under BSUP	2007	87.74	38.42	October 2009	In progress
Construction of Road & Transportation project, Kohima ( 6 arterial roads)	2007	25.26	7.28	May 2010	In progress

(Source: Departmental records)

**3.9.1 Administrative delays in award and execution of works:** The Department did not adhere to codal provisions pertaining to time frame for execution of sanctioned works, which diluted the control and accountability mechanism and contributed to overall project delays. The following instances of delays in award/execution of work came to notice during test-check:

(i) Work for construction of Amenity Centre at Nagaland Gate, Golaghat Road in Dimapur sanctioned by GOI (24 November 2004) had not commenced even after 53 months from the date of administrative approval and expenditure sanction as the Department was yet to get possession of the land from the State Government.

(ii) An amount of Rs.22.32 crore was sanctioned for Construction of City Shopping Mall cum Parking Complex at New Market in Dimapur and Rs.6.69 crore released by GOI (March 2008). However, work order was issued 7 months after release of funds due to delay in conducting soil and foundation investigation.

(iii) Work order for construction of Guest House at Chen, Mon District sanctioned by GOI (March 2008) at a total cost of Rs.1.45 crore had not been issued even after 15 months of release of first installment due to delay in issue of non-encumbrance certificate by the District Administration.

(iv) Construction of BSUP housing units in Kohima under JNNURM were awarded 7 to 8 months after the date of administrative approval and expenditure sanction by GOI due to delay in acquisition of land. Similarly, works under Integrated

Housing and Slum Development Programme in Dimapur were awarded 7 to 20 months after the date of administrative approval and expenditure sanction by GOI due to delay in land acquisition resulting in cost escalation of Rs.15.78 lakh.

The above indicates that the projects were delayed at the initial stage itself and therefore is fraught with the risk of cost overruns.

The Department accepted the facts (July 2009).

**3.9.2 Incomplete works:** Time allowed for execution of works or the extended time in accordance with the conditions shall be the essence of the contract.

Audit scrutiny revealed that construction of Capital Cultural Hall at Kohima for a value of Rs.5.16 crore was awarded (December 2005) to M/s Vascon with a stipulation that the work be completed within 18 months from the date of issue of the work order. Against the reported physical progress of 65 *per cent*, the contractor was paid Rs.8.55 crore (June 2006 and April 2008) through two Running Bills which constitute 166 *per cent* of the original contractual amount of this work.

A revised estimate was approved by the Government (23 April 2009) and the work order amount was enhanced to Rs.14.25 crore (including additional and non-scheduled items) by modifying the structural design and scope. The work which commenced in December 2005 remained incomplete (April 2009) even after a delay of 22 months.

Such delays in completion of works indicate poor planning and deficient project management which in turn results in time and cost overrun and also affects budget preparation and efficient expenditure control.

The Department stated (July 2009) that the delay was due to paucity of funds. The fact however, remains that there was a saving of Rs.39.79 crore in 2005-06 and Rs.15.08 in 2006-07 as discussed in paragraph 3.8. Besides, the State Government did not release an amount of Rs.47.68 crore as detailed in paragraph 3.8.2.

**3.9.3 Partial implementation of project:** Against nine sub-components approved by the CSMC under BSUP project in Kohima (Rs.117.34 crore), which inter-alia includes solid waste management for Rs.1.50 crore, Water supply for Rs.1.50 crore and Electrification for Rs.1.02 crore, the Department had taken up only six components with a total cost of Rs.105.40 crore. No initiative was taken to implement the work on solid waste management, water supply and electrification. Thus, the objectives of the programme to provide proper living conditions to the beneficiaries were defeated. This also indicates poor planning and project management.

While accepting, the Department stated (July 2009) that these works shall be taken up in due course of time. However, the Department did not specify the time schedule for taking up these projects.

**3.9.4 Overlapping of work due to lack of coordination:** As per the approved DPR for construction of six arterial roads under Urban Infrastructure and Governance (JNNURM) at a total project cost of Rs.26.26 crore, the Department took up the work and issued work order (November 2008 and February 2009) for construction of two

roads<sup>7</sup> valued at Rs.6.18 crore without making any correspondence with the Works Department.

Cross check of records with a technical Division in Kohima revealed that some portion of the work were shown to have been executed by the Executive Engineer, PWD (R&B) South Division, Kohima, at a cost of Rs.93.17 lakh between June 2007 and November 2008.

Overlapping of work indicates lack of proper coordination with other departments to check such duplication of works and the possibility of fraudulent payments without execution of work cannot be ruled out.

**3.9.5 Idle investment:** Out of 46 works taken up during the period covered in audit, 16 works constructed at a cost of Rs.19.81 crore under 10 *per cent* Lumpsum Provision for North Eastern Areas and Infrastructure Development of Small and Medium Towns were completed and handed over to Urban Local Bodies (April 2007 to March 2008). Out of this, three commercial buildings<sup>8</sup> and one Car parking<sup>9</sup> constructed at a cost of Rs.5.50 crore remained non-functional for periods ranging from 15 to 27 months after handing over to the ULBs.



These projects remained idle as the Department neither carried out proper survey to assess the commercial feasibility at the planning stage nor initiated any steps to monitor and evaluate the performances of these commercial projects handed over to the ULBs. Besides, the buildings left un-used will deteriorate with the passage of time.

<sup>7</sup> Improvement of Billy Graham Road (new sect. road to NH-150 Junction for Rs.3.81 crore and Improvement of Ladys Mile road from red cross junction to TCP Gate Jn-Rs.2.37 crore

<sup>8</sup> Amenity Centre at Chumukedima Gate-Rs.140.78 lakh; Market Complex at New Secretariat, Kohima-Rs.201.88 lakh and Market Complex at Chumukedima-Rs.182.53

<sup>9</sup> Car parking at Kohima-Rs.25 lakh;

While accepting, the Department stated (July 2009) that monitoring and performance evaluation of these commercial projects shall be streamlined.

### **3.10 Contract Management**

**3.10.1 Engagement of consultant:** According to Rule 165 of General Financial Rule, engagement of consultants may be resorted to in situations requiring high quality services for which the concerned Ministry/Department does not have requisite expertise.

The Department had employed four regular architects (including the Director) who are designated as Deputy Directors and Assistant Directors. Besides, the Department is also assisted by an Executive Engineer and three Sub-Divisional Officers for technical execution of works.

Audit scrutiny revealed that the Department had engaged consultants for preparation of 35 DPRs (25 under 10 per cent Lump Sum Provision for North Eastern States and 10 under JNNURM) and paid Rs.5.86 crore as consultancy fees, out of which 23 were petty works not requiring specialized personnel, though the Department is well equipped with qualified personnel competent to handle the work. This indicates poor manpower management.

While accepting, the Department stated (July 2009) that some works required specialized personnel. The fact however, remains that the Department have even engaged consultants for preparation of DPRs for 23 petty works not requiring specialized personnel.

**3.10.2 Tendering:** Paragraph 293 of the Nagaland Public Works Department code provides that normally works should be allotted to the lowest bidder.

Audit scrutiny revealed that in response to the NIT issued (February 2005) by the Chief Engineer (Housing) for construction of 10 works at Kohima which inter alia includes construction of Cultural Hall at Kohima, four contractors<sup>10</sup> submitted their bids and the work was allotted (December 2005) to the second lowest bidder at a cost of Rs.5.16 crore (168 per cent above SOR 1995) instead of the lowest bidder (160 per cent above SOR 1995) stating that the rate quoted by the lowest bidder was not workable.

The contention of the Department is not tenable as 9 similar works which were advertised on the same day were awarded (December 2005) to contractors at rates ranging from 120 per cent to 155 per cent above SOR 1995.

Thus, by awarding the work to the second lowest bidder, the Department incurred an avoidable expenditure of Rs.19 lakh. Irregular award of work to the second lowest bidder also violates the provision of financial rules and indicates poor contract management.

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<sup>10</sup> M/S L.Pukhato Shohe-175%; Pjuduolhou Kense-170%;M/S.NK Construction-160% and Vascon-168%

The Department stated (July 2009) that the work was awarded to the second lowest bidder as the work was specialized in nature. The reply is not acceptable as no specific mention was made in the NIT or the lowest bidder disqualified at the Technical Bid stage.

### **3.11 Material Management**

Supply Order for 16,500 litres of Renolith Chemical Compound at a cost of Rs.44.55 lakh (including CST and Freight charges) was issued (November 2007) to M/s S. Alok Enterprises, New Delhi for the work 'improvement of roads under IHSDP project in Dimapur.' The supplier delivered the materials in full (February & March 2008) and was paid Rs.44.55 lakh in three installments (January 2008 –April 2008). However, the work for which the materials were purchased had not been taken up (June 2009).

Procurement of materials 17 months in advance of requirement not only resulted in blockade of Government money to the tune of Rs.44.55 lakh, but also increases the risk of damage due to long exposure and scope for pilferage.

The Department stated (July 2009) that the materials will be used in the next three months. The fact however, remains that the Department had planned to start the work of improvement of roads after completion of the civil works which is still in progress.

### **3.12 Quality Control.**

The Department did not constitute a quality control board and put in place any mechanism to monitor the quality of works indicating laxity on the part of the Department in implementation of the projects.

The Department stated (July 2009) that testing equipment have now been procured and are in the process of installation.

**3.12.1 Non-adherence to GOI guidelines:** According to the JNNURM Guidelines, there shall be two sets of Mandatory Reforms at the Urban Local Body (ULB) level and State Level viz. Decentralization, Repeal of Urban (Ceiling and Regulation) Act 1976, Reform of Rent Control laws, Enactment of Public Disclosure law etc., and Optional Reforms which are common to the State as well as the ULBs/parastatals, which aim at processing, re-engineering through deployment of technology to enable more efficient, reliable, timely services in a transparent manner. The GOI has also informed the State Government that unless the reforms are implemented, further funding to the State shall not be released. In spite of this, effective steps were not taken to implement these reforms.

The Department stated (July 2009) that some mandatory reforms at State Level had been implemented by constituting committees. The reply is not convincing as there are no indications to show that these committees are functioning.

### **3.13 Internal Audit arrangement and vigilance mechanism**

The Department did not have internal audit wing till November 2008. Though the Department constituted Audit and Accounts Committee (November 2008), none of the test-checked offices/divisions had been inspected.

Internal audit should be strengthened so as to ensure coverage of all major schemes being executed by the Department. Preparation of audit manual should be expeditiously completed so as to prescribe the periodicity, procedures and checks to be exercised in internal audit.

While accepting, the Department stated (July 2009) that the Internal Audit Manuals will be prepared.

**3.13.1 Lack of response to audit:** None of the offices test-checked maintained a control register to keep watch on disposal of inspection Reports issued by the Accountant General (Audit). As of March 2009, 105 paragraphs relating to 21 Inspection Reports were lying unsettled since October 1994 for want of replies. Non-response to Audit observations may perpetuate the irregularities and invite serious financial irregularities and also affect the accountability mechanism.

### **3.14 Vulnerability to Fraud**

**3.14.1 Parking of Fund in eight bank accounts:** The Executive Engineer, Urban Development Department is operating five current bank accounts and three savings accounts in six banks<sup>11</sup> while prior approval of the Finance Department, Government of Nagaland had been obtained only for opening two accounts.

Scrutiny revealed that the Department had parked Government money ranging from Rs.9.51 crore to Rs.32.05 crore (March 2004 to March 2009) in eight bank accounts. This was not only irregular but was fraught with the risk of embezzlement of Government money.

While accepting, the Department stated (July 2009) that five accounts have now been closed down.

**3.14.2 Payment made before actual execution of work:** The work improvement of New Secretariat Road was awarded (December 2008) to M/s Zeme & Sons at a cost of Rs. 4.51 crore. The work commenced on the day of issue of the work order and the contractor was paid Rs.92.86 lakh in two running account bills (January & March 2009).

Scrutiny revealed that the first running account bill for Rs.77.30 lakh was passed for payment on 8 January 2009 for works which purportedly were measured between 28-12-08 and 27-03-09. But the Measurement Book was issued to the Sectional Officer in-charge of that work only on 14-01-09. Thus, it is evident that payment was made to the contractor before actual execution of work.

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<sup>11</sup> *SBI Lerie-10277120590; SBI Bazar branch-3057891236; Bank of Baroda-1001489 and 20014331 saving account; United Bank of India-1041050010456; Vijaya bank-15592 (saving account) and Axis bank-385010200002318 and 385010100011158 (one current and one saving account)*

Such cases of misuse of authority raise questions on the system prevalent in the Department and impede accountability.

The Department stated (July 2009) that the payment was made in advance as the work was exigently required to be done.

**3.14.3 Money paid through Hand Receipt without any reference:** NPWD manual provide for use of hand receipt as a simple form of voucher for all miscellaneous and advance payments.

Audit scrutiny revealed that the Executive Engineer paid Rs.36 lakh on two hand receipts without indicating the MB number and voucher reference of the previous bills. The Drawing and Disbursing Officer therefore, did not exercise mandatory checks before passing the bills thereby increasing vulnerability to fraud.

While accepting, the Department stated (July 2009) that the mistake has since been rectified.

**3.14.4 Payment made on fictitious measurements:** NPWD code provides that payment for all works done otherwise than by daily labourers and for all supplies shall be made on the basis of detailed measurements recorded in the MB. The Executive Engineer is also required to exercise 100 *per cent* check of the measurements recorded by the subordinates.

Audit scrutiny of MB No.354 and 355 revealed that measurements of work (30-08-07 to 08-01-08) done for one block of construction works under BSUP in Kohima were randomly multiplied by 12 blocks and 10 blocks respectively while preparing the bill and payments made accordingly.

Thus, it is evident that detailed measurements were not carried out and payment of Rs.5.45 crore was made on fictitious measurements.

The Department accepted the facts (July 2009).

### **3.15 Conclusion**

The Department did not have a long-term strategy due to which the works were implemented by the Department randomly. Financial management in the Department was beset with various deficiencies as also the controls associated with contract management and material management were inadequate. This coupled with vulnerability to fraud and lack of quality control in the Department resulted in various shortcomings in implementation of projects viz. delays in award of projects leading to cost overruns, non-completion/delays in completion of works, non-utilisation of created infrastructure etc.

### **3.16 Recommendations**

- The Department should prepare a long term urbanization strategy;
- Budgetary and financial controls should be improved so that the system of checks and balances is maintained;

- Project monitoring should be streamlined and implementation schedules should be strictly enforced;
- Internal audit should be strengthened so as to ensure coverage of all major schemes executed by the Department;
- Effective steps should be taken to contain vulnerability to fraud.