

Overview

This Report contains 28 audit paragraphs and four performance reviews. There is a separate chapter on Integrated Audit of the Human Resources Development Department. According to the existing arrangements, copies of the draft audit paragraphs and draft performance reviews were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies were not received from the departments concerned in respect of nine paragraphs.

1. Performance Reviews (Civil Departments)

1.1 Development of Hydro power Projects – Public Private Participation

The State Government considered harnessing the huge hydro power potential through private sector investment with a view to turnaround the State's economy and avoid its dependence upon central transfers for development. With the liberalisation of Power policy by the Government of India, the State Government identified 35 hydro power projects with an aggregate installed capacity of 5,741.20 MW and invited the Independent Power Producers (IPPs) for development of projects since 2001-02. Performance audit of Development of Hydro Power Projects by the State Government through Private Sector participation revealed that the State had neither finalised its hydro power policy nor prepared a time bound plan till date for implementation of the projects. Absence of a firm and well defined policy led to inconsistency in award of projects and lack of a well thought of revenue model resulted in loss of potential revenue. Besides, the State also did not take sufficient precaution against degradation of environment.

(Paragraph 1.1)

1.2 Implementation of Irrigation Schemes

Out of a total geographical area of 7,09,600 hectares, the estimated area to be brought under assured irrigation system was 86,000 hectares. As on 1 April 2005, the area under assured irrigation was 23,864.05 hectares and during 2004-09, an additional area of 4,055.30 hectares could only be brought under assured irrigation. Though the implementation of Minor Irrigation Scheme (MIS) in Sikkim did not suffer from any cost overrun, the programmes, however did not achieve its objective to increase the cultivable area and production due to improper survey, investigation, absence of planning for source development, supply of polluted water to agricultural fields, non formation of water user groups, absence of planning for ensuring availability of water during lean period, defunct channels awaiting repair, delay in completion of channels etc. Budgeting process was deficient in the absence of an effective mechanism for monitoring which resulted in improper surrender and supplementary

provisions, rush of expenditure at the end of years. The State is yet to enforce implementation of Sikkim Irrigation Water Tax Act 2002 to avail cent *per cent* financial assistance from GOI and avoid huge revenue loss. Also, there was unfruitful expenditure on defunct schemes, avoidable expenditure on construction without design specification, unfruitful construction of MISs and inadequate benefit from construction of channels. The IFCD also has not taken action to evaluate the implementation to take remedial measures for improvement in the irrigational development to reduce the gap between creation and utilisation of potential, actual production and production envisaged.

(Paragraph 1.2)

1.3 Performance of Sikkim Nationalised Transport

The Sikkim Nationalised Transport (SNT) provides public transport in the State through its 12 depots. The SNT had fleet strength of 96 buses and 85 trucks & tankers as on 31st March 2009 and carried an average of 0.02 lakh passengers per day during 2004-09. The performance audit of the SNT was conducted to assess efficiency and economy of its operations, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the SNT.

It was noticed that the SNT is incurring losses, mainly due to its operational inefficiencies which can be controlled by taking adequate measures to improve the fleet utilisation, creating a regulator to regulate fares and services on uneconomical routes, tapping non-conventional sources of revenue and creation of separate cost centres for buses, trucks and tankers.

(Paragraph 1.3)

2. Audit of Transactions (Civil Departments)

Laxity in the system of godown management and absence of proper monitoring and supervision resulted in misappropriation of sale proceeds of foodgrains and sugar of Rs. 38.98 lakh.

(Paragraph 2.2)

Award of works at higher cost resulted in extension of undue financial benefit to contractors amounting to Rs. 70.23 lakh.

(Paragraph 2.3)

Erroneous inclusion of cost escalation element in the estimates led to avoidable expenditure of Rs. 24.88 lakh in four cases and excess payment of Rs. 17.95 lakh in another case.

(Paragraph 2.5)

Erroneous adoption of rates for Granular Sub-base works led to excess expenditure of Rs. 54.62 lakh and undue favour to 14 contractors.

(Paragraph 2.9)

Rehabilitation of sewer trunk line along NH 31 A from Hospital Dara to Saraswati Mandir, already executed and completed at Rs. 1.76 crore under Non-lapsable Central Pool of Resources, was again included under the Jawaharlal Nehru National Urban Renewal Mission leading to avoidable expenditure of Rs. 7.78 crore.

(Paragraph 2.12)

Inordinate delay in finalisation of appropriate concept, plan and design led to shelving of project and unfruitful expenditure of Rs. 83.28 lakh.

(Paragraph 2.13)

Due to non-inclusion of definite terms and conditions in the agreement, the project to be completed within one year remained incomplete even after expiry of more than six years, besides locking up of funds of Rs. 50.84 lakh.

(Paragraph 2.16)

3. *Integrated Audit of Human Resources Development Department*

The Human Resources Development Department has been assigned with the responsibility of universalisation of education at all levels, enrolment of 100 *per cent* children at the primary level and bringing all out-of-school children into the school system, increasing the literacy rates, reduction in school drop-outs and above all imparting quality education. To fulfill these objectives, the Government implemented a number of schemes/ programmes with a view to retain the students in the education system and help them perform well both in their academic and co-curricular pursuits. However, the State did not frame its own education policy although the GOI had evolved a National Policy on education to achieve the goal of compulsory education for children. Various schemes introduced by the GOI/State Government in the State had not been able to meet the goal of achieving primary education to all and minimum level of learning and thus, there was little impact on crucial parameters i.e., enrolment, retention and completion of elementary education. While a large number of schools had excess teachers, a number of schools were running with shortage of teachers. Prescribed frequency of imparting in-service training to teachers of elementary education was not achieved and the shortfall ranged between 74 and 88 *per cent* during 2004-09 depriving the schools of trained teachers. There was no prescribed system for inspecting the schools at regular intervals and assessing the quality of education imparted to the students.

(Paragraph 3.1)

4. *Revenue Receipts*

4.1 *Performance Reviews*

Transition from Sales Tax to Value Added Tax

Though the revenue collection registered an increasing trend after implementation of VAT, the average and overall (except 2006-07) growth rate after implementation of VAT showed a negative trend.

(Paragraph 4.2.6)

The division did not prescribe the quantum of security deposit to be realised from the dealers. Consequently security deposit from the dealers was not realised despite the fact that 2,313 dealers out of 5,089 did not submit their returns. This also deprived the division from realising the arrear of Rs. 11.76 lakh due from eight dealers.

(Paragraph 4.2.8.4)

The division not only failed to persuade 2,378 dealers to file returns within the prescribed timeframe but also did not levy penalty of Rs. 72.92 crore and continued to issue way bills and C forms to these dealers for import of goods from neighbouring States.

(Paragraph 4.2.9.1)

Failure to initiate scrutiny of self assessed returns by the assessing authorities in accordance with Section 37 of SVAT Act led to non-detection of tax evasion of Rs. 2.15 crore by 19 dealers.

(Paragraph 4.2.9.2)

Failure of the assessing authorities to initiate assessment of tax on best judgment basis under Section 38 of SVAT Act not only led to delay in realisation of tax but also retention of Government dues with the dealers.

(Paragraph 4.2.9.3)

Absence of provision for cross verification of records of sub/principal contractors, led to non-detection of tax evasion of Rs. 54.83 lakh by two sub-contractors.

(Paragraph 4.2.11.2 & 4.2.11.3)

The division did not upload details of issue and utilisation of statutory declaration forms by the dealers of Sikkim in the TINXSYS website created by the Government of India to serve as a repository of information on declaration forms. This defeated the purpose of the website as far as information relating to Sikkim was concerned.

(Paragraph 4.2.11.4)

The SVAT Act and Rules did not have any provision for maintenance of various records/registers by the division and for submission of report/return at any level. Despite existence of internal audit, no inspection was carried out during the period of review.

(Paragraph 4.2.14 & 4.2.15)

Mandatory VAT audit under SVAT Act was not initiated by the division even after four years of implementation to ensure correctness of the returns submitted by the dealers and assessments made by the assessing authorities.

(Paragraph 4.2.16.1 & 4.2.16.2)

Concealment of purchase and sales turnover by three dealers resulted in tax evasion of Rs. 79.84 lakh.

(Paragraph 4.2.17)

Non-deposit of VAT by one industry, established under Sikkim Industrial Promotion and Incentive Act led to non-remittance of realised tax of Rs. 47.11 lakh.

(Paragraph 4.2.18)

4.2 Audit of Transactions

Non-assessment of tax resulted in non-realisation of revenue amounting to Rs. 2.70 crore, besides extension of undue financial benefit to the firm/dealers.

(Paragraph 4.3)

The Department failed to realise sales tax and State income tax aggregating Rs. 1.94 crore alongwith interest and penal interest of Rs. 1.31 crore accrued thereon.

(Paragraph 4.4)

Central Sales Tax on a turnover of Rs. 61.83 crore was not assessed resulting in short realisation of tax of Rs. 80 lakh, on which, interest of Rs. 21.75 lakh was also leviable.

(Paragraph 4.5)

5. Government Commercial and Trading Activities

5.1 Overview of State Public Sector Undertakings

The Government Companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim 1961'. The Indian Companies Act, 1956 is not extended to the State of Sikkim. The accounts of these Companies are audited by the Statutory Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BoDs) of the respective companies. Audit of these Companies had also been taken up by the Comptroller and Auditor General of India on the request of the Governor of the State under Section 20(1) / 20(2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. There are three Statutory corporations in the State viz. Sikkim Mining Corporation (SMC), State Bank of Sikkim (SBS) and State Trading Corporation of Sikkim (STCS) established under the proclamations of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are also audited by Chartered Accountants, directly appointed by the BoDs of the respective Corporations. Audit of these corporations was taken up by CAG under Section 19(3) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 on the request of the State Government.

As on 31 March 2009, the State had 15 PSUs (including three non working companies and one non working corporation) which employed 826 employees. These PSUs registered a turnover of Rs. 32.10 crore for 2008-09 as per the latest finalized accounts. This turnover was equal to 1.23 *per cent* of State GDP indicating insignificant place in the State economy. The working PSUs incurred a loss of Rs. 0.32 crore and had accumulated losses of Rs. 66.86 crore (including non working PSUs) as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2009, the investment (capital and long-term loans) in 15 PSUs was Rs. 290.32 crore. It grew by 108.92 *per cent* from Rs. 138.96 crore in 2003-04. Power sector accounted for 54.17 *per cent* of total investment in 2008-09. Government contributed Rs. 4.26 crore towards equity and grants during 2008-09.

Performance of PSUs

During 2008-09, out of 11 working PSUs, six PSUs incurred a loss of Rs. 3.50 crore and four PSUs earned a profit of Rs. 3.18 crore. The Sikkim Times Corporation Limited incurred a significant loss of Rs. 2.56 crore.

The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 18.88 crore and infructuous investment of Rs. 2.28 crore which were controllable with better management. There is tremendous scope to improve the functioning of PSUs and reduce losses. The PSUs can discharge their role efficiently if they are financially self reliant. There is a need for professionalism and accountability in functioning of PSUs.

Arrears in accounts

The 11 working PSUs had arrear of 18 accounts as of September 2009. The arrears are due to delay in compilation / adoption of accounts by the Board of directors of the respective PSUs. The Government may impress upon the respective PSUs to hasten the process of finalisation of accounts.

5.2 Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSU's which have financial implications. The irregularities pointed out are broadly of the following nature:

Defective procurement system coupled with absence of quality control in procurement of cans led to rejection of supply with consequent loss of Rs. 15.05 lakh.

(Paragraph 5.2.1)

Delayed handing over of the road to the developer of the power project led to avoidable expenditure of Rs. 16.32 lakh.

(Paragraph 5.2.3)

Non-procurement of material directly from the manufacturers and purchasing it from the local suppliers at higher rates resulted in avoidable expenditure of Rs. 24.76 lakh to the State Exchequer.

(Paragraph 5.2.4)