

# OVERVIEW



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This Report contains 24 audit paragraphs (including four general paragraphs) and three performance reviews. There is a separate chapter on Integrated Audit of the Roads and Bridges 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 eight paragraphs.

### 1. Performance Reviews (Civil Departments)

#### 1.1 Projects Funded Under North Eastern Council

*DPERNECAD, the nodal Department for implementation of schemes funded under the NEC with the objective to attain balanced socio-economic development of the State, confined its function merely towards forwarding the proposals of schemes to the NEC and obtaining approval therefrom. As a result, schemes were taken up without proper survey and investigation and therefore, out of 25 schemes test-checked in audit, the objectives were not achieved in 11 schemes. Besides another four schemes were implemented without proper planning and monitoring resulting in achievement of objectives only partially. The monitoring on the part of both the DPERNECAD as well as the implementing departments was inadequate for gainful utilisation of the NEC funding. Evaluation was also never undertaken to assess the impact of implementation of the schemes in the State.*

*(Paragraph 1.1)*

#### 1.2 Public Distribution System in Sikkim

*PDS is one of the most important functions of the State Government which helps in providing food security to a large number of consumers. The implementation of PDS in the state however, was characterised by absence of review of list of BPL families, excess projection of BPL families under various schemes over and above GOI's projection, highly subsidised rice to BPL beneficiaries leading to financial burden on State exchequer. While the issue of new ration cards were stopped since August 2008, 45,928 families possessed dual ration cards both under BPL and APL category. The Department had included extraneous components in the pricing structure in order to obtain higher Central assistance which led to an avoidable burden of ₹ 20.73 lakh on GOI during 2005-10.*

*The distribution of rice, wheat and sugar was less than the norms. Allocation of rice was much less at two kg per card per month as against the allocation ranging between 7 and 25 kg in other states. Lifting of lower quantity of levy sugar deprived a large number of*

beneficiaries of the availability of sugar at affordable prices. The distribution of foodgrains (APL rice) by the Department was also flawed as it was not based on number of cards covered by the Food godowns. The Department failed to keep a vigil over the functioning of agents responsible for milling wheat for conversion into atta and lifting and distribution of salt as the agent availed higher refraction ratio of 16 per cent in case of wheat and salt was distributed to urban centres only. Corrective action as per the recommendations of the Public Accounts Committee on the Comptroller and Auditor General's Audit Report was not initiated for the aberration in respect of the following: (i) appropriate selection of BPL families and periodical review of BPL list, (ii) ensuring the delivery of PDS commodities, especially wheat, to the intended beneficiaries, (iii) expeditious reimbursement on account of hill transport subsidy, (iv) differential cost of levy sugar. Monitoring was lax leading to non-documentation by FPSs, absence of mandatory checks by Vigilance Committees, departmental officers and Special Area Officers. Thus, the functioning of TPDS in Sikkim was not upto the desired level.

(Paragraph 1.2)

### 1.3 Macro Management of Agriculture

Despite incurring expenditure of ₹ 64.87 crore in the six programmes under MMA that were test checked, the Department has not been able to achieve the basic objective of increasing crop production and productivity rate. The yield of various crops in the State was less than the norms fixed by the GOI and area under cultivation also remained almost static over the last five years. Improper planning and delay in commencement of various components of the programme resulted in persistent savings between ₹ 0.78 crore and ₹ 3.06 crore at the end of the years. Delay in release of funds led to activities of the programme spilling over to the next year resulting in non-completion of schemes within the stipulated time frame. Attention was not paid for selection of beneficiaries, maintaining data relating to the area actually brought under organic farming and organic produce, and production of organic manure through vermin compost pits. Training for raising of seedling under RVP&FPR to the farmers was not achieved. Due to lack of monitoring and evaluation of the programme activities, the extent of benefit derived by the beneficiaries could not be assessed.

(Paragraph 1.3)

## 2. Audit of transactions (Civil Departments)

Even after incurring an expenditure of ₹ 15.30 crore over a period of nearly seven years, the Department failed to complete the Growth Centre with all its requisite infrastructure and facilities congenial for industrial growth within the prescribed time limit and resultantly had to forego the GOI assistance of ₹ 7 crore towards creation of industrial infrastructure required for attracting industries to the State.

(Paragraph 2.1)

Due to erroneous computation of prevailing market rates of land, the Department made an excess payment of ₹ 16.86 crore to the land owners.

*(Paragraph 2.5)*

Absence of planning and coordination in implementation of the Greater Rangpo Water Supply Project led to inordinate delay in completion of the scheme, cost escalation of ₹ 72.60 lakh and wasteful expenditure of ₹ 52.67 lakh.

*(Paragraph 2.7)*

Barely within six months of the completion of a comprehensive Socio Economic Survey and pending approval of the report thereon from the Government, decision of the Government to conduct another survey to determine the population of Limboo and Tamang in the State led to duplication of work with consequential infructuous expenditure of ₹ 50 lakh.

*(Paragraph 2.8)*

Despite improper and partial implementation of Land Bank Scheme intended for providing land to the landless beneficiaries, the Department continued to release fund to the district collectorates resulting in blocking up of fund of ₹ 135.21 lakh intended for providing land to 184 beneficiaries.

*(Paragraph 2.10)*

### **3. Integrated audit of Roads and Bridges Department**

*The Department was yet to orient its functioning in accordance with the mission of the State Government to transform Sikkim into one of the best in the country. It had neither formulated the State Road Policy till date nor demarcated the area of its operations for overall planning and future expansion. The Department also failed to guard its assets as it did not even possess title deeds of the land acquired by it at substantial public expenditure. There was no perspective planning which led to unplanned growth and wasteful expenditure. Works were sanctioned and awarded to contractors despite non-availability of funds in the State plan sector. Contractors were empanelled without fulfilling qualifying criteria. Competitiveness in the bidding process was rare despite existence of a large number of contractors. Transparency in award of works was absent as advertisement for tenders were not published in national papers and in the net although the Department had a dedicated site in the State Government's website. Quality control was virtually non-existent.*

*Unless the Department realised its responsibilities of engendering an efficient and effective transportation and communication system in the State by streamlining its activities and improving its functioning, the fulfilment of the mission of the Government towards transforming Sikkim into a well governed and economically developed State*

comparable to the best in the country appeared remote.

*(Paragraph 3.1)*

#### **4. Revenue Receipts**

##### **Results of Audit**

Assessment of income tax at rates lower than the applicable ones resulted in underassessment of tax and consequential short levy of ₹ 6.83 crore.

*(Paragraph 4.2)*

Reduction of assured revenue on frivolous ground of a marketing agent about the decline in sales turnover, without any verification thereto by the Department, resulted in a loss of ₹ 15.18 crore.

*(Paragraph 4.3)*

Defective agreement with marketing agent resulted in a loss of ₹ 5.19 crore towards non-imposition of penal interest, besides delay and non-realisation of sale proceeds of ₹ 66.73 crore with consequential extension of undue financial benefit.

*(Paragraph 4.4)*

Failure of the Department to realise prize money in time from the marketing agent led to the loss of revenue of ₹ 49.46 lakh.

*(Paragraph 4.5)*

Failure of the Department to levy environment cess on payments towards work bills resulted in non-realisation of Government revenue to the tune of ₹ 25.18 lakh.

*(Paragraph 4.6)*

#### **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 BoD 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 2010, the State had 15 PSUs (including four non-working) which employed 880 employees. The State PSUs registered a turnover of ₹ 42.74 crore for 2009-10 as per the latest finalised accounts. This turnover was equal to 1.64 *per cent* of State GDP indicating insignificant place in the State economy. The State PSUs incurred a loss of ₹ 1.38 crore and had accumulated losses of ₹ 68.62 crore as per their latest finalised accounts.

### ***Investment in PSUs***

As on 31 March 2010, the investment (capital and long-term loans) in 15 PSUs was ₹ 560.72 crore. It grew by 297.08 *per cent* from ₹ 141.21 crore in 2004-05. Power sector accounted for 25.19 *per cent* of total investment in 2009-10. Further, investment in infrastructure sector has also increased from ₹ 19.84 crore in 2008-09 to ₹ 304.72 crore in 2009-10 due to loan given to Sikkim Industrial Development and Investment Corporation Ltd. (SIDICO) to facilitate the development of infrastructure. The State Government contributed ₹ 5.32 crore towards equity and grants during 2009-10.

### ***Performance of PSUs***

During 2009-10, out of 11 working PSUs, six PSUs incurred a loss of ₹ 2.62 crore and four PSUs earned a profit of ₹ 3.61 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 ₹ 13.61 crore and infructuous investment of ₹ 2.58 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 19 accounts as of September 2010. 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 expedite the process of finalisation of accounts.

## **5.2 Transaction audit observations**

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs which have financial implications. The irregularities pointed out

are broadly of the following nature:

Unplanned execution and lack of monitoring mechanism in implementation of the power projects resulted in unfruitful expenditure of ₹ 8.96 crore besides cost overrun of ₹ 7.73 crore, blockage of funds ₹ 14.53 crore and irregular diversion of project funds of ₹ 16.17 crore.

***(Paragraph 5.2.)***

Irregular waiver of loan amounting to ₹ 13.54 lakh under Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme, 2008.

***(Paragraph 5.3)***

Lack of effective mechanism in identifying the beneficiaries and delayed utilisation of funds received from National Backward Classes Finance & Development Corporation (NBCFDC) and National Scheduled Caste Financial Development Corporation (NSFDC) resulted in an avoidable liability towards penal interest to the tune of ₹ 13.27 lakh.

***(Paragraph 5.4)***

Due to lack of effective management, an amount of ₹ 2.58 crore received as share capital from the Department has become unfruitful.

***(Paragraph 5.5)***