

CHAPTER III

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

3.1 Overview of State Public Sector Undertakings

Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Sikkim, the SPSUs occupy an insignificant place in the State economy. The working SPSUs registered a turnover of ₹143.91 crore as per their latest finalised accounts as of September 2013. This turnover of SPSUs was equal to 1.45 *per cent* of State Gross Domestic Product (SGDP) for 2012-13¹. Major activities of Sikkim SPSUs are concentrated in infrastructure and power sectors. The working SPSUs incurred an overall loss of ₹ 10.85 crore² in the aggregate for 2012-13 as per their latest finalised accounts as on 30 September 2013. The SPSUs had employed total 628 employees (including 12 employees of non-working SPSUs) as on 31 March 2013. The SPSUs do not include two³ Departmental Undertakings (DUs) and one⁴ Co-operative Bank, which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in other chapters of this Report along with the findings relating to the Government Departments.

3.1.2 As on 31 March 2013, there were 15 SPSUs as per the details given below. None of these companies was listed on the stock exchange(s).

Table 3.1.1

Type of SPSUs	Working SPSUs	Non-working SPSUs ⁵	Total
Government Companies	6	6	12
Statutory Corporations	2	1	3
Total	8	7	15

Audit Mandate

3.1.3 The Companies Act 1956 is not extended to the State of Sikkim. The Government Companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim 1961'. The accounts of these companies are audited by Statutory Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BoDs) of the respective companies. In addition to the statutory audit conducted by the Statutory Auditors, supplementary audit of these companies had also been taken up by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the

¹ The State GDP for 2012-13 is ₹9,956.54 crore (Quick estimate).

² Refer Appendix 3.1.2.

³ Government Fruit Preservation Factory and Temi Tea Estate.

⁴ Sikkim State Co-operative Bank Ltd.

⁵ Non-working SPSUs are those which have ceased to carry on their operations.

State under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.4 There are three Statutory Corporations in the State viz. State Bank of Sikkim (SBS), State Trading Corporation of Sikkim (STCS) and Sikkim Mining Corporation⁶ (SMC) established under the proclamations of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants directly appointed by the BoDs of the respective Corporations. Supplementary 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.

Investment in State SPSUs

3.1.5 As on 31 March 2013, the investment (capital and long-term loans) in 15 SPSUs was ₹ 398.70 crore as per details given below.

Table 3.1.2

Type of SPSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working SPSUs	58.38	279.06	337.44	2.19	-	2.19	339.63
Non-working SPSUs	46.56	0.01	46.57	12.50	-	12.50	59.07
Total	104.94	279.07	384.01	14.69	-	14.69	398.70

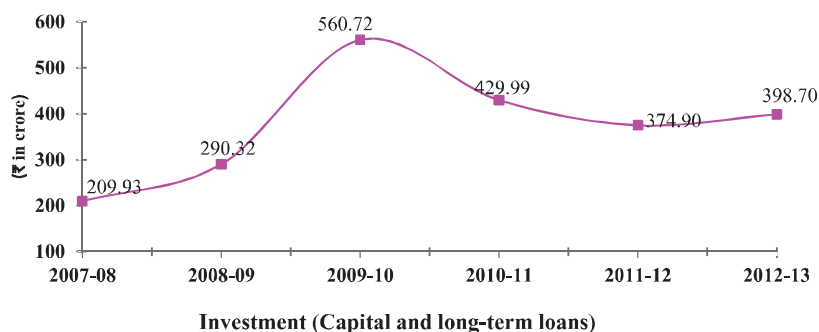
Source: Data collected from SPSUs

A summarised position of Government investment in SPSUs is detailed in **Appendix 3.1.1**.

3.1.6 As on 31 March 2013, of the total investment in SPSUs, 85.18 per cent was in working SPSUs and the remaining 14.82 per cent in non-working SPSUs. This total investment consisted of 30 per cent towards capital and 70 per cent in long-term loans. The investment had grown by 167.10 per cent from ₹ 209.93 crore in 2007-08 to ₹ 560.72 crore in 2009-10. The total investment had decreased by 33.14 per cent from ₹ 560.72 crore (2009-10) to ₹ 374.90 crore (2011-12) due to constant decrease in the long term loans of the SPSUs after 2009-10. The total investment in SPSUs, however, marginally increased to ₹ 398.70 crore (2012-13) mainly due to increase (₹13.99 crore) in the loans of one SPSU (namely, Sikkim Industrial Development and Investment Corporation Limited) during the year 2012-13 as shown in the graph below:

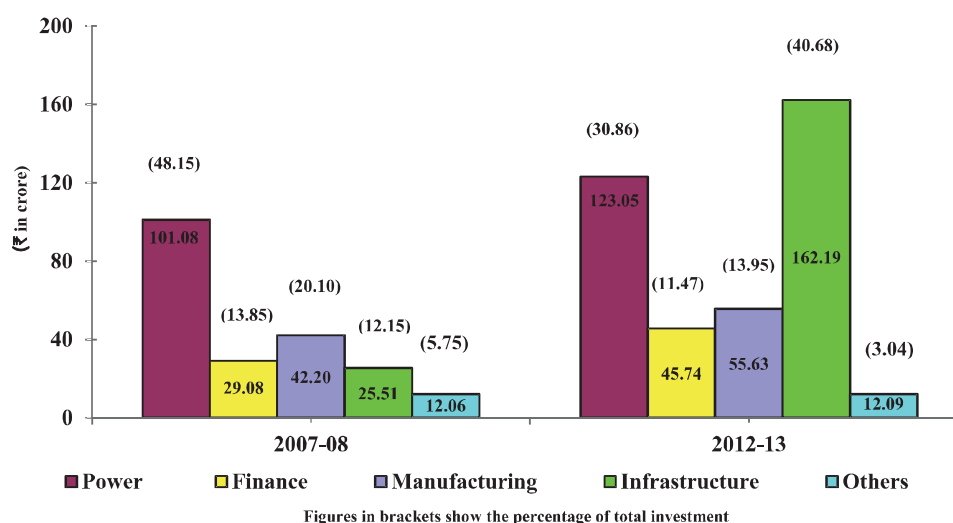
⁶ A non-working Corporation as on 30 September 2013.

Chart 3.1.1



3.1.7 The total investments in various sectors and percentage thereof at the end of 31 March 2008 and 31 March 2013 are indicated below in the bar chart.

Chart 3.1.2



3.1.8 The investment made in SPSUs during 2007-08 to 2012-13 was mainly in power and infrastructure sectors. The investment in infrastructure sector had grown by 535.79 per cent from ₹ 25.51 crore in 2007-08 to ₹ 162.19 crore in 2012-13. The power sector had also registered an increase of 21.74 per cent from ₹ 101.08 crore in 2007-08 to ₹ 123.05 crore in 2012-13. The increase of investment under infrastructure sector was mainly due to loan of ₹ 128 crore borrowed by Sikkim Industrial Development and Investment Corporation Ltd. (SIDICO) from Housing and Urban Development Corporation and State Bank of Sikkim during 2012-13.

Budgetary outgo, grants/subsidies, guarantees and loans

3.1.9 The details regarding budgetary outgo towards equity, grants/subsidies, guarantees issued and interest waived in respect of SPSUs are given in **Appendix 3.1.3**. The summarised details are given below for three years ended 31 March 2013.

Table 3.1.3

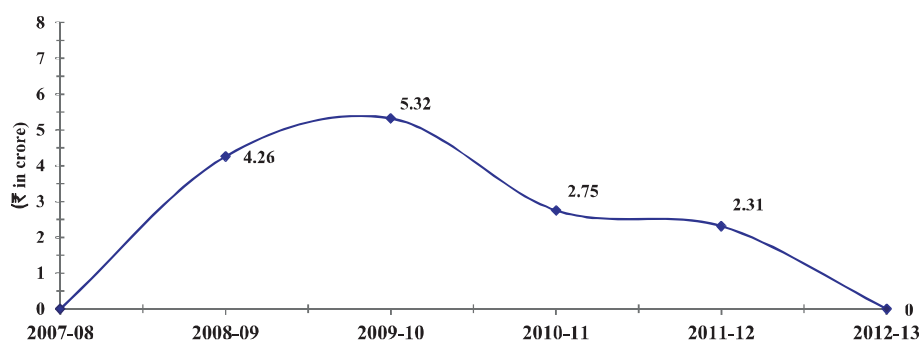
(₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	4	0.96	-	-	-	-
2.	Grants/Subsidy received	1	1.79	1	2.31	-	-
3.	Total Outgo (1+2)	5	2.75	1	2.31	-	-
4.	Loans written off	-	-	-	-	1	0.84
5.	Interest/Penal interest waived	1	0.12	1	0.43	2	0.38
6.	Total Waiver (4+5)	1	0.12	1	0.43	2⁷	1.22
7.	Guarantees issued	1	3.28	1	4.08	1	1.07
8.	Guarantee Commitment	2	246.70	2	163.72	2	162.84

Source: Data collected from SPSUs

3.1.10 The details regarding budgetary outgo towards equity and grants/subsidies for past six years are given in the graph below:

Chart 3.1.3



Budgetary outgo towards equity and Grants/Subsidies

3.1.11 It may be observed that during the period of six years from 2007-08 to 2012-13, the budgetary outgo was at the highest (₹ 5.32 crore) in 2009-10 and had shown decreasing trend thereafter. During the year 2012-13, there was no budgetary outgo towards equity, loans, etc. of SPSUs. The guarantee commitment at the end of year has decreased from ₹ 163.72 crore in 2011-12 to ₹ 162.84 crore in 2012-13. As on 31 March 2013, guarantee amounting to ₹ 31.14 crore and ₹ 131.70 crore were outstanding against two Government companies, namely, Sikkim Scheduled Castes, Scheduled Tribes and

⁷ In respect of one SPSU (SIDICO) loan as well as interest/ penal interest were written off.

Other Backward Classes Development Corporation Limited (SABCCO) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO) respectively.

On any guarantee given to a public body, a guarantee commission at the rate of one *per cent* is charged by the State Government on the loans availed against Government guarantee. During 2012-13, one Company (SIDICO) out of above two Government Companies, had availed loans of ₹ 113.19 crore against Government guarantee. Though a guarantee commission of ₹ 1.13 crore was payable to the State Government against the said loans, the Company did not pay the same.

Reconciliation with Finance Accounts

3.1.12 The figures in respect of equity, loans and guarantees outstanding as per records of SPSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2013 is stated below.

Table 3.1.4

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	80.69	89.22	(8.53)
Loans*	37.03	2.03	35.00
Guarantees*	186.42	162.84	(23.58)

* SPSU-wise figures of loan/ guarantee were not available in the Finance Accounts of the State.

3.1.13 Audit observed that the differences in equity investment pertained to nine SPSUs and some of the differences were persisting since 2004-05. It was further observed that the un-reconciled differences in respect of equity of SPSUs increased by ₹ 1.86 crore during current year from ₹ 6.67 crore (2011-12) to ₹ 8.53 crore (2012-13). The Principal Accountant General (PAG) had also taken up (December 2013) the issue with the Principal Secretary (Finance) to the Government of Sikkim (GoS) and the concerned SPSUs for early reconciliation of long pending differences. The Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of SPSUs

3.1.14 The financial results of SPSUs, financial position and working results of working Statutory Corporations as per their latest finalised accounts as on 30 September 2013 are detailed in **Appendices 3.1.2, 3.1.4 and 3.1.5** respectively. A ratio of SPSUs turnover to State GDP shows the extent of SPSU contribution in the State economy. Table below provides the details of working SPSUs turnover and State GDP for the period 2007-08 to 2012-13.

Table 3.1.5

(₹ in crore)

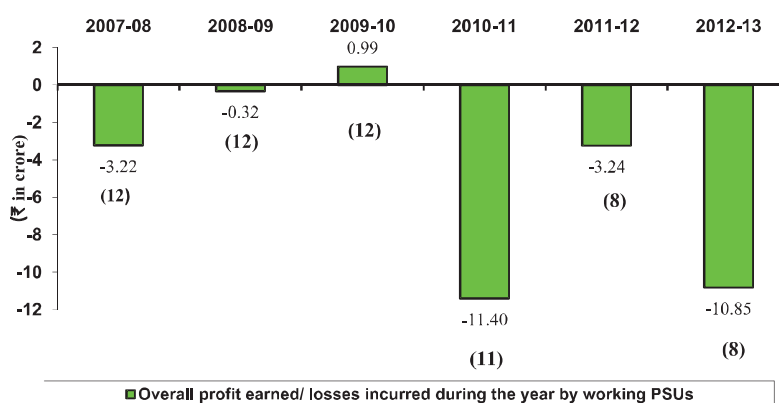
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover ⁸	44.44	31.34	41.98	42.81	86.43	143.91
State GDP	2,506.09	3,229.08	6,132.76	7,411.57	8,616.23 ⁹	9,956.54 ¹⁰
Percentage of Turnover to State GDP	1.77	0.97	0.68	0.58	1.00	1.45

Source: Data collected from SPSUs and Department of Economics, Statistics, Monitoring & Evaluation

It may be noticed that during 2007-13, the State GDP had grown by 297 per cent from ₹ 2,506.09 crore (2007-08) to ₹ 9,956.54 crore (2012-13). The increase in turnover of SPSUs during the corresponding period was 223.83 per cent only which was not in proportion of the growth in State GDP. As a result, the percentage of turnover of SPSUs to State GDP decreased from 1.77 per cent (2007-08) to 1.45 per cent (2012-13).

3.1.15 Profit earned/Losses¹¹ incurred by the working SPSUs during 2007-08 to 2012-13 are given below in the bar chart:

Chart 3.1.4



(Figures in brackets show the number of working SPSUs in respective years)

As per the latest finalised accounts of working SPSUs as on 30 September 2013, out of eight working SPSUs, five SPSUs¹² incurred a loss of ₹ 14.58 crore whereas three SPSUs¹³ earned a profit of ₹ 3.73 crore during the year 2012-13. The major profit was earned by SIDICO (₹ 2.80 crore).

It may be observed that the performance of working SPSUs in terms of the overall working results had shown improving trend upto 2009-10 when the working SPSUs earned profits of ₹ 0.99 crore (2009-10) as against the losses of ₹ 3.22 crore incurred during 2007-08. The working SPSUs again incurred losses of ₹ 11.40 crore during 2010-11 mainly due to loss of ₹ 9.63 crore reported by Sikkim Power

⁸ Turnover as per their latest finalised accounts as on 30 September of respective year.

⁹ Provisional Estimates.

¹⁰ Quick Estimates.

¹¹ Figures are as per the latest finalised accounts of working SPSUs as on 30 September of the respective year.

¹² Sl. No.A-1, A-2, A-3, A-5 and A-7 of Appendix 3.1.2.

¹³ Sl. No.A-4, A-6 and A-8 of Appendix 3.1.2.

Development Corporation Limited. The position, however, improved during 2011-12 when the losses of working SPSUs decreased to ₹ 3.24 crore mainly on account of profits (₹ 11.84 crore) earned by one working SPSU (namely, State Bank of Sikkim) and transfer of three loss making Government Companies¹⁴ under non-working category. During 2012-13, however, the working SPSUs incurred overall losses of ₹ 10.85 crore due to loss of ₹ 7.05 crore reported by State Bank of Sikkim.

3.1.16 A review of latest Audit Reports of CAG shows that the working SPSUs incurred losses to the tune of ₹ 3.30 crore, which were controllable with better management. Year wise details from Audit Reports are stated below:

Table 3.1.6

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	Total
Net profit/(loss)	(11.40)	(3.24)	(10.85)	(25.49)
Controllable losses as per CAG's Audit Report	2.79	-	0.51	3.30

Source: Data collected from SPSUs and CAG Audit Reports

The losses of SPSUs are mainly attributable to deficiencies in planning, implementation of project, running their operations, financial management and monitoring.

3.1.17 The above losses pointed out by Audit Reports of CAG are based on test check of records of SPSUs. The actual controllable losses could be much more. The above table shows that with better management, the losses can be minimised substantially. The SPSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for improving professionalism and accountability in the functioning of SPSUs.

3.1.18 Some other key parameters pertaining to SPSUs are given below:

Table 3.1.7

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Return on Capital Employed (<i>per cent</i>)	1.80	3.38	2.00	5.24	4.30
Debt	194.46	462.76	395.91	260.93	279.07
Turnover ¹⁵	31.34	41.98	42.81	86.43	143.91
Debt/Turnover Ratio	6.20:1	11.02:1	9.25:1	3.02:1	1.94:1
Interest Payments	5.52	7.33	24.56	64.90	87.49
Accumulated losses	66.86	68.62	69.82	83.57	90.29

(Above figures pertain to all SPSUs except for 'Turnover' which is for working SPSUs)

Source: Data collected from SPSUs

3.1.19 There was constant improvement in Debt Turnover Ratio after 2009-10. The debt-turnover ratio improved from 11.02:1 (2009-10) to 1.94:1 (2012-13) due to gradual increase in the turnover figures and significant reduction in the debts of SPSUs after 2009-10. The decrease in the debts was mainly due to repayment of loans (₹ 182.21 crore) by three SPSUs (viz., Sikkim Industrial Development and Investment Corporation Limited, Sikkim Power Development Corporation Limited and Sikkim Scheduled Castes,

¹⁴ Sl. No.C-12, C-13 and C-14 of Appendix-3.1.2.

¹⁵ Turnover of working SPSUs as per the latest finalised accounts as on 30 September of respective year.

Scheduled Tribes and Other Backward Classes Development Corporation Limited) during 2010-11 to 2012-13. The percentage of return on capital employed had also increased significantly from 1.80 per cent (2008-09) to 5.24 per cent (2011-12) mainly due to increase in profits of two SPSUs (viz. Sikkim Industrial Development and Investment Corporation Ltd. and State Bank of Sikkim). The percentage of return on capital employed, however, again decreased to 4.30 per cent in 2012-13 due to significant losses (₹ 7.05 crore) incurred by State Bank of Sikkim.

3.1.20 The State Government had not formulated (September 2013) any dividend policy under which SPSUs are required to pay a minimum return on the paid up share capital contributed by the State Government. As per their latest finalised accounts as on 30 September 2013, three SPSUs earned an aggregate profit of ₹ 3.73 crore but only one SPSU¹⁶ declared dividend of ₹ 0.51 crore.

Arrears in finalisation of accounts

3.1.21 The Companies Act 1956 is not extended to the State of Sikkim. The Government Companies in Sikkim are registered under the Registration of Companies Act, 1961 and the Statutory Corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. The table below provides the details of progress made by working SPSUs in finalisation of accounts by September 2013.

Table 3.1.8

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of Working SPSUs	11	11	11	8	8
2.	Number of accounts finalised during the year	24	10	8	7	10
3.	Number of accounts in arrears	18	19	22 ¹⁷	20	18
4.	Average arrears per SPSU (3/1)	1.64	1.73	2.00	2.50	2.25
5.	Number of Working SPSUs with arrears in accounts	11	11	9	8	7
6.	Extent of arrears (in years)	1 to 4	1 to 4	1 to 5	1 to 4	1 to 4

3.1.22 The table above indicates that the SPSUs were able to finalise significant number of accounts during 2008-09 (24 nos.). There was constant decrease in the number of accounts finalised by working SPSUs in subsequent years. During the period from October 2012 to September 2013, out of eight working SPSUs, three SPSUs¹⁸ finalised more than one year accounts, two SPSUs¹⁹ finalised at least one year accounts and remaining three SPSUs²⁰ did not finalise any of the accounts. As per the position on latest finalised accounts of working SPSUs as on 30 September 2013, 7 working SPSUs had the arrears of 18 accounts, which included 8 accounts of 2 SPSUs (namely, Sikkim Poultry

¹⁶ Sikkim Industrial Development and Investment Corporation Ltd.

¹⁷ including three accounts of one company (Sl. No. C-14 of Appendix-3.1.2) which became non-working during 2011-12 with other two companies (Sl. No. C-12 & C-13 of Appendix-3.1.2).

¹⁸ State Bank of Sikkim, State Trading Corporation of Sikkim and Sikkim Industrial Development and Investment Corporation Limited.

¹⁹ Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited.

²⁰ Sikkim Tourism Development Corporation Limited, Sikkim Poultry Development Corporation Limited and Sikkim Hatcheries Limited.

Development Corporation Limited and Sikkim Hatcheries Limited functioning under Animal Husbandry and Veterinary Services Department) each having arrears of four accounts. The delay in finalisation of accounts of the working SPSUs was due to delay in compilation/adoption of accounts by the Board of Directors of respective SPSUs.

3.1.23 In addition to above, there were arrears in finalisation of accounts by four non-working SPSUs ranging from two to 18 years.

3.1.24 The State Government had invested ₹ 2.25 crore (Grants) in one working SPSU²¹ during the years for which their accounts had not been finalised. Delay in finalisation of accounts might result in risk of fraud and leakage of public money.

3.1.25 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within the prescribed period. Though the concerned administrative departments of the State Government were informed every quarter by the audit about the arrears in finalisation of accounts, no remedial measures were taken to clear the backlog of accounts in a time bound manner.

In view of the arrear position discussed above, it is recommended that the Government may impress upon respective SPSUs to expedite the process of finalisation of accounts and bring them up to date.

Winding up of non-working SPSUs

3.1.26 There were seven non-working SPSUs (six Government Companies and one Statutory Corporation) as on 31 March 2013. None of these non-working SPSUs have commenced liquidation process. The numbers of non-working SPSUs at the end of each of the previous five years are given below.

Table 3.1.9

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
No. of non-working Companies	3	3	3	6	6
No. of non-working Corporations	1	1	1	1	1
Total	4	4	4	7	7

The stages of closure in respect of non-working SPSUs are given below.

Table 3.1.10

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working SPSUs	6	1	7
2	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	5 ²²	1 ²³	6

²¹ Sikkim Poultry Development Corporation Limited.

²² Sikkim Jewels Limited, Sikkim Time Corporation Limited and Sikkim Precision Industries Limited, Sikkim Flour Mills Limited, and Chandmari Workshop and Automobiles Limited.

²³ Sikkim Mining Corporation.

No Company/Corporation was, however, wound up during 2012-13. The Government may consider either winding up or revival of these seven non-working SPSUs.

Accounts Comments and Internal Audit

3.1.27 Three working Companies forwarded their four audited accounts relating to earlier years to the Principal Accountant General during the year 2012-13²⁴. Out of these, two accounts of two Companies were selected for supplementary audit. In respect of remaining two accounts of two working Companies, non-review certificates had been issued. Similarly, two working Statutory Corporations forwarded their six annual accounts²⁵ relating to earlier years to the Principal Accountant General during the year 2012-13. The audit reports of statutory auditors and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

Table 3.1.11

(₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in loss	6	29.93	2	0.51	3	6.99
2.	Increase in profit	1	2.59	-	-	3	0.04
3.	Decrease in loss	3	1.49	1	0.11	-	-
4.	Decrease in profit	1	1.05	4	11.05	3	5.39
5.	Non-disclosure of material facts	-	-	-	-	1	36.25
6.	Errors of classification	5	7.77	4	4.04	2	9.37
		16²⁶	42.83	11²⁷	15.71	12	58.04

3.1.28 During the year, out of total ten accounts finalised by five SPSUs, the statutory auditors had given unqualified certificates for four accounts and qualified certificates for six accounts. Additionally, CAG also qualified eight accounts during the supplementary audit.

3.1.29 Some of the important comments in respect of accounts of the SPSUs audited during 2012-13 are stated below.

State Bank of Sikkim (2008-09)

- The Equity Share Capital of State Bank of Sikkim (SBS) was held by Government of Sikkim (GOS) and UCO Bank. A total number of 10,000 shares valuing ₹ 10 lakh were allotted to UCO Bank against payment of ₹ 5 lakh only. However, UCO Bank failed to pay the calls in arrear of ₹ 5 lakh. Consequently, the Management refunded ₹ 5 lakh to UCO Bank in June 2006 without forfeiting the

²⁴ During the period October 2012 to September 2013.

²⁵ State Bank of Sikkim and State Trading Corporation of Sikkim for 2008-09, 2009-10 & 2010-11.

²⁶ Significant impact on 16 instances of seven SPSUs.

²⁷ Significant impact on 19 instances of five SPSUs.

said amount. The Balance Sheet for the year 2008-09, however, still shows that 10,000 shares were held by UCO Bank, which is factually incorrect. This has resulted in overstatement of Share Capital as well as Sundry Debtors by ₹ 5 lakh each.

- Non provision of liabilities against rent (₹ 0.10 crore) resulted in understatement of Other Liabilities & Provisions with corresponding overstatement of profit by ₹ 0.10 crore each.
- Commission receivable from the Government of Sikkim (GoS) (₹ 0.16 crore) was recognised although the same was not admitted as liability by GoS. This resulted in overstatement of 'profit for the year' as well as 'current assets-receivables' by ₹ 0.16 crore each.

State Bank of Sikkim (2010-11)

- Short provision of liabilities towards rent (₹ 0.07 crore) and employee's gratuity (₹ 3.87 crore) resulted in understatement of Liabilities & Provisions with corresponding understatement of loss by ₹ 3.94 crore each.

Sikkim Power Development Corporation Limited (2011-12)

- The Company did not disclose the fact of the recovery suit filed by M/s BEML in the High Court of Calcutta for ₹ 0.98 crore against the Company for outstanding dues in respect of four bull dozers purchased by the Company in April 2007.

Sikkim Industrial Development and Investment Corporation Limited (2011-12)

- Short provision towards diminution in value of investment (₹ 0.86 crore) which was permanent in nature, resulted in overstatement of investment and profit by ₹ 0.86 crore each.

Status of placement of Separate Audit Reports

3.1.30 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory Corporations in the Legislature by the Government.

Table 3.1.12

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	State Trading Corporation of Sikkim	2004-05	2005-06 to 2007-08	August 2011	Concerned administrative department delayed forwarding of SARs for placement in Legislature.
2.	State Bank of Sikkim	2007-08	2005-06	August 2011	

Delay in placement of SARs weakens the legislative control over Statutory Corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature.

Disinvestment, Privatisation and Restructuring of SPSUs

3.1.31 During the year 2012-13, Government of Sikkim had not disinvested its equity shareholding in any of the SPSUs.

SIKKIM POWER DEVELOPMENT CORPORATION LIMITED

3.2 Failure to invoke Bank Guarantee in full

Due to failure in insisting upon the Bank for honouring the Bank Guarantee in full, the Company could not recover ₹ 1.28 crore causing interest loss of ₹ 51 lakh.

Bank Guarantee (BG) is an instrument issued by Banks in which they agree to stand guarantee against non-performance of a party and as per the stipulated conditions of BG, the issuing Bank shall compensate the beneficiary to the extent of the guaranteed amount. As per directions (July 2007) of Reserve Bank of India, payment should be made to the beneficiary on invocation of BG without delay and demur.

Government of Sikkim awarded (September 2004) the work of "Fabrication & Erection pertaining to Water Conductor System, Penstock pipes and allied works" of Rellichu Hydro Electric Power Project (HEP) to M/S Yuksom Engineering Works Pvt. Ltd (Yuksom) at a cost of ₹ 9.58 crore. The work was required to be completed within two years (September 2006). Subsequently, the development of the Rellichu HEP was handed over (November 2005) to Sikkim Power Development Corporation Limited (Company).

The Company released (February 2006) mobilisation advance of ₹ 2.30 crore to Yuksom for supply of material against BG of State Bank of Sikkim (SBS) for ₹ 2.35 crore. The BG was valid for one year (viz. upto 3 February 2007), which was renewed by Yuksom for a further period of one year only (viz. upto 4 February 2008). The BG was not renewed thereafter.

Scrutiny of records revealed that Yuksom did not execute the work even after a lapse of three years from the date of issue of Work Order. The Company, therefore, invoked (1 February 2008) the BG before its expiry (viz. 4 February 2008) and requested SBS to deposit the amount released against BG in the Fixed Deposit for a period of one year. Against the BG of ₹ 2.35 crore, however, SBS released (February 2008) ₹ 75 lakh only which was invested in Fixed Deposit. A further sum of ₹ 27 lakh (March 2011) was adjusted towards the pending bills of the contractor. Although the BG of ₹ 2.35 crore was to be immediately honoured by the bank, the Company failed to follow up and insist upon the SBS for fulfilling its obligation and release balance amount of ₹ 1.28 crore. As a result, the balance unrecovered amount of mobilisation advance (₹1.28 crore) has not been received by the Company till date (May 2013).

Considering the huge loan burden of the Company, the project relating to the development of Rellichu HEP was also abandoned as per the decision (August 2009) of the Board of Directors of the Company.

Thus, inaction on the part of the Company to pursue with SBS for release of balance amount of BG invoked (February 2008) resulted in non-recovery of ₹ 1.28 crore for more than five years causing loss of interest of ₹ 51 lakh (at eight *per cent* for five years).

In reply, the Management accepted the facts and stated (July 2013) that the efforts are being made to recover the balance amount of mobilisation advance.

The matter was reported (June 2013) to Government; their replies had not been received (October 2013).

SIKKIM SCHEDULED CASTES, SCHEDULED TRIBES & OTHER BACKWARD CLASSES DEVELOPMENT CORPORATION LIMITED

3.3 Levying interest beyond permissible limit

Levying of interest beyond the permissible limit by the Company resulted in extra financial burden of ₹ 38.64 lakh on the beneficiaries.

Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation (Company) was set up under the Social Justice, Empowerment & Welfare Department, Govt. of Sikkim with the main objective to provide financial assistance to the eligible beneficiaries belonging to Scheduled Castes (SC), Scheduled Tribes (ST) & Other Backward Classes (OBC) whose annual income was less than ₹ 31,592 per annum (rural areas) and ₹ 42,412 per annum (urban areas).

The Company is the State Channelising Agency (SCA) for financing the income generating schemes of individuals belonging to ST, SC & OBC categories. The Company avails financial assistance by way of loan from Apex Corporations²⁸ for financing these schemes. As per the terms and conditions set out in sanction letters issued from time to time, the Apex Corporations would charge annual interest at the rate of three *per cent* on loan extended to the Company, while the Company was permitted to charge maximum of six *per cent* interest from the beneficiaries. With a view to boost the income generating activities of the beneficiaries of SC, ST and OBC categories, the Government of India (GOI) recommended (September 2006) the SCAs (Company) to reduce interest being charged from these beneficiaries. The State Government was also directed (September 2006) to provide finance to SCA for meeting infrastructural and operational expenditure.

Scrutiny of records revealed that during 2006-07 to 2012-13, the Company disbursed loans aggregating ₹ 38.41 crore to 2,339 beneficiaries. It was, however, observed that contrary to the directives of the Apex Corporations/GOI, the Company had charged

²⁸ National Backward Classes Finance & Development Corporation, National Scheduled Tribe Financial Development Corporation and the National Scheduled Caste Financial Development Corporation (Apex Corporations).

interest at seven *per cent* from the beneficiaries instead of maximum permissible rate (six *per cent*). The recovery of interest in excess of the prescribed rate has caused extra interest burden to the tune of ₹ 38.64 lakh on the beneficiaries as detailed below:

Table 3.3.1

(₹ in lakh)

Sl. No.	Year	Term loans disbursed @ 7 <i>per cent</i>	Interest @ 7 <i>per cent</i>	Interest @ 6 <i>per cent</i>	Excess payment of interest @ 1 <i>per cent</i>
1	2006-07	770.77	53.95	46.24	7.71
2	2007-08	773.59	54.16	46.42	7.74
3	2008-09	903.67	63.26	54.22	9.04
4	2009-10	485.06	33.95	29.10	4.85
5	2010-11	229.34	16.05	13.76	2.29
6	2011-12	575.85	40.31	34.55	5.76
7	2012-13	125.42	8.78	7.53	1.25
				Total	38.64

Thus, the beneficiaries had to bear additional financial burden of ₹ 38.64 lakh on account of the higher interest rates charged by the Company in violation of the terms and conditions of Scheme financing agreements entered with the Apex Corporations. The matter assumes even more significance considering the fact that the Company was incorporated with the main objective of promoting economic and development activities of members belonging to SCs, STs and OBCs.

The Management stated (November 2013) that after increase (June 2002) in the interest rates by the Apex Corporations from three to four *per cent*, the Company had also correspondingly increased the interest rate chargeable from the beneficiaries from six to seven *per cent*.

The Government in its reply admitted (November 2013) that interest of seven *per cent* was being charged and stated that the process of reducing the interest rate has been initiated.