CHAPTER IV
REVENUE SECTOR

4.1 Trend of revenue receipts

4.1.1 The tax and non-tax revenue raised by Government of Sikkim, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-aid received from the Government of India (GoI) during the year and the corresponding figures for the preceding four years are mentioned in **Table 4.1.1**:

Table 4.1.1
Trend of revenue receipts

(*₹ in crore*)

Sl.		2012-13	2013-14	2014-15	2015-16	2016-17
I	**Revenue raised by the State Government**					
	• Tax revenue	435.48	524.92	527.54	566.82	652.56
	• Non-tax revenue	806.96	794.49	698.08	412.99	451.64
	Total	1,242.44	1,319.41	1,225.62	979.81	1,104.20
II	**Receipts from the GoI**					
	• State's share of net proceeds of divisible Union taxes	698.48	762.62	809.33	1,870.28	2,069.19
	• Grants-in-aid	1,852.40	2,244.41	2,427.00	934.20	1,436.91
	Total	2,550.88	3,007.03	3,236.33	2,804.48	3,506.10
III	**Total receipts of State Government (I + II)**	3793.32	4,326.44	4,461.95	3,784.29	4,610.30
IV	**Percentage of I to III**	**33**	**31**	**27**	**26**	**24**

It is evident from the above table that the State share of Revenue is showing a decreasing trend, which was required to be reversed. The above table indicated that during the year 2016-17, the revenue raised by the State Government (₹ 1,104.20 crore) was 24 *per cent* of the total revenue receipts. The balance 76 *per cent* of the receipts during 2016-17 was from GoI. Non-tax revenue and total receipts of the State in 2016-17 shown in the table above included net receipts under State Lotteries.

4.1.2 The details of the tax revenue raised during the period from 2012-13 to 2016-17 are given in **Table 4.1.2**:

Table 4.1.2
Details of Tax Revenue realised

(*₹ in crore*)

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		% of increase (+) or decrease (-) in 2016-17 over 2015-16	
		BE*	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Sales Tax/Value Added Tax (VAT)	187.14	227.08	225.00	286.33	259.45	282.10	300.00	325.72	361.00	364.82	20.33	12.00
2	Taxes on Income and Expenditure other than Corporation Tax	5.62	6.73	7.01	8.68	8.01	7.93	8.51	7.92	9.00	7.82	5.76	-1.26
3	State Excise	95.00	111.12	109.00	120.64	120.93	131.36	135.00	142.08	144.45	156.24	7.00	9.97
4	Stamps and Registration Fees	7.47	5.35	7.91	6.46	7.70	6.77	7.64	8.51	7.64	12.57	0.00	47.71
5	Taxes on Vehicles	15.00	16.38	16.80	18.52	18.82	19.42	21.07	22.36	24.00	24.90	13.91	11.36
6	Other Taxes and Duties on Commodities and Services	37.63	63.16	53.40	80.90	75.60	73.81	81.26	58.38	93.07	79.82	14.53	36.72
7	Land Revenue	5.48	5.66	6.56	3.39	6.89	6.15	6.89	1.85	6.89	6.39	0.00	245.41
	Total	**353.34**	**435.48**	**425.68**	**524.92**	**497.40**	**527.54**	**560.37**	**566.82**	**646.05**	**652.56**	**15.29**	**15.13**

* *BE: Budget Estimates*

The respective departments reported the following reasons for variations:

Sales Tax/VAT: Increase was due to increase in Tax deduction at source and in POL and Liquor sales.

State Excise: Increase was due to revision of excise duty.

Stamps and Registration fee: Increase was due to increased collection of establishment cost and registration fees on land compensation for major portion of land acquired for new Railway and National Highway projects.

Taxes on Vehicles: Increase was due to increase in number of vehicles and enhancement of motor vehicle taxes.

Land Revenue: Increase was due to substantial increase in assessed value of land compensation due to enactment of the "Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013" and implementation of the "Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Sikkim) Rules, 2015", in Sikkim.

In respect of the other revenue heads, no reason was furnished by the concerned departments.

4.1.3 The details of the non-tax revenue raised during the period 2012-13 to 2016-17 are given in **Table 4.1.3**:

Table 4.1.3
Details of Non-Tax Revenue realised

(₹ in crore)

Sl. No.	Head of revenue		2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in 2016-17 over 2015-16	
			BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Power		100.05	82.90	110.10	98.93	121.10	113.56	125.10	147.68	140.10	170.04	11.99	15.14
2	Interest receipts		21.15	46.00	28.85	67.02	31.05	66.44	31.21	72.52	37.21	78.38	19.22	8.08
3	Police		44.88	49.23	50.29	41.14	55.32	17.60	55.35	61.68	52.42	41.43	-5.29	-32.83
4	Road Transport		29.05	29.01	36.04	34.10	43.00	27.63	39.35	41.55	47.00	48.71	19.44	17.23
5	Forestry and Wild Life		13.48	12.28	15.35	14.27	15.35	11.45	12.06	12.79	12.06	16.02	0.00	25.25
6	Other Administrative Services		3.03	9.64	4.29	11.06	10.25	13.59	10.40	7.30	2.38	9.32	-77.12	27.67
7	Public Works		4.56	4.70	4.46	4.68	5.68	3.66	6.83	4.25	4.22	8.65	-38.21	103.53
8	Plantations		3.20	3.98	3.50	3.62	5.00	2.31	5.18	3.86	5.18	5.21	0.00	34.97
9	Water Supply and Sanitation		3.40	2.74	3.87	3.17	3.91	3.25	3.99	3.80	4.26	4.04	6.77	6.32
10	Tourism		5.00	2.13	5.60	2.65	2.80	2.64	3.14	3.96	3.80	5.42	21.02	36.87
11	Medical and Public Health		1.27	1.50	1.27	2.19	2.50	1.97	2.50	2.15	2.50	2.59	0.00	20.47
12	Other Rural Development Programmes		2.32	1.46	1.50	2.13	1.50	1.65	1.50	0.94	1.50	0.51	0.00	-45.74
13	Stationery and Printing		1.51	2.08	1.81	2.05	1.90	1.75	2.03	1.83	1.81	2.16	-10.84	18.03
14	Crop Husbandry		0.07	0.71	0.53	1.45	0.91	0.56	0.91	0.70	0.91	0.57	0.00	-18.57
15	Education, Sports, Art and Culture		1.40	1.37	1.69	1.38	1.34	1.22	1.17	1.16	1.12	2.05	-4.27	76.72
16	State Lotteries (SL)	*Gross*	780.99	546.39	776.03	474.37	787.23	418.64	--*	--*				
		Net	50.00	41.43	40.00	41.47	36.00	44.33	37.40	20.02	33.55	45.00	-10.29	124.78
17	Others		10.14	10.84	9.35	30.28	10.08	10.16	12.24	26.80	12.24	11.54	0.00	-56.94
Total (with gross figures of SL)			1,025.50	806.96	1,054.53	794.49	1,098.92	698.08						
Total (with net figures of SL)			**294.51**	**302.00**	**318.50**	**361.59**	**347.69**	**323.77**	**350.36**	**412.99**	**362.26**	**451.64**	**3.40**	**9.36**

*Source: Finance Accounts and Estimates of Receipts. * Gross figures of State Lotteries have not been furnished by the Department for the year 2016-17. ** Since gross figures of State Lotteries have not been reflected for the year 2016-17, percentage increase/decrease has not been calculated.*

The respective departments reported the following reasons for variations:

Increase:

Power: Increase was due to mobilisation of revenue and collection of dues.

Road Transport: Increase was due to revision of rates and expansion of business activities.

Forestry and Wild Life: Increase was due to increased revenue from Territorial Circle.

Public Works: Increase was due to increase in sale of tender forms and vetting charges.

Tourism: Increase was due to increase in inflow of tourist and lease rent from assets.

State Lotteries: Increase was due to initiation (July 2016) of offline (paper) lotteries.

Decrease:

Police: Decrease was due to non-receipt of deployment charge and reimbursement for expenditure on Indian Reserve Battalion.

Other Rural Development Programmes: Decrease was due to less than anticipated sale of tender forms and storage charge as no new work was sanctioned in 2016-17.

In respect of other revenue heads, no reason was furnished by the departments concerned despite being requested (May, August and September 2017).

4.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2017 in respect of some Heads of Revenue as reported by the departments amounted to ₹ 279.48 crore, of which, ₹ 142.69 crore was outstanding for more than five years (as detailed in the **Table 4.2**) and adequate efforts were not being made to recover them.

Table 4.2
Arrears of Revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2017	Amount outstanding for more than five years	Replies of Department
1	Food Storage & Warehousing	0.14	-	House rent of FCI Jorethang had not been received.
2	Power	273.04	140.10	System of depositing electrical consumption charge was manual through Bank Receipts and therefore many consumers failed to deposit their bills.
3	Water Supply and Sanitation	2.88	0.22	Some of the old lines were damaged partially and unrepairable. Such cases with disturbed water supply remained without up-to-date payment.
4	Animal Husbandry	0.15	--	Entry tax of ₹ 34.98 lakh, due to a firm M/S Uttara Foods & Feed Pvt. Ltd. was only partially paid by the firm leaving a balance of ₹ 0.15 crore.
5	Tourism	0.97	0.97	The Department had issued Legal Notice to the leasees to pay the rent and also a reminder.
6	Public Works	2.30	1.40	Maximum outstanding were of departmental works of which bills were usually cleared in due course with some works carried over for years leading to late adjustment of bills.
	Total	**279.48**	**142.69**	

Source: Information received from departments

4.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Commercial Taxes Division {Finance, Revenue and Expenditure Department (FRED)} in respect of VAT is given below:

Table 4.3
Arrears in assessments (number of cases)

Head of revenue	Opening balance	New cases due for assessment during 2016-17	Total assessments due	Cases disposed of during 2016-17	Balance at the end of the year	Percentage of disposal *(col. 5 to 4)*
1	2	3	4	5	6	7
VAT	3,774	651	4,425	236	4,189	5.33

As can be seen from the above table, the performance regarding disposal of cases of Commercial Taxes Division was poor. The Department may take steps to increase the disposal of cases of assessment.

4.4 Response of the departments/Government towards Audit

The Accountant General (AG), Sikkim conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the Rules and procedures. Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot are issued to the heads of the offices inspected with copies to the next higher authorities for prompt corrective action. The heads of the offices/Government were required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

It was seen that 242 paragraphs involving ₹ 594.30 crore relating to 91 IRs remained outstanding at the end of June 2017. The details along with the corresponding figures for the preceding two years are mentioned in the following table:

Table 4.4.1
Details of pending Inspection Reports

	June 2015	June 2016	June 2017
Number of outstanding IRs	95	95	91
Number of outstanding audit observations	267	284	242
Amount involved (*₹ in crore*)	561.78	578.42	594.30

4.4.1 The department-wise details of the IRs, the audit observations outstanding as on 30 June 2017 and the amounts involved are mentioned in the following table:

Table 4.4.2
Department-wise details of IRs

Sl. No.	Name of Department	Nature of Receipts	No. of outstanding IRs	No. of outstanding Audit observations	Money value involved (*₹ in crore)*
1	Finance, Revenue and Expenditure (Commercial Taxes Division)	VAT/Taxes on Sales, Trade, etc.	13	48	57.00
2	Excise (Abkari)	State Excise	12	27	15.35
3	Land Revenue and Disaster Management	Land Revenue	20	25	0.85
4	Transport (Motor Vehicle Division)	Taxes on Motor Vehicles	4	6	0.62
5	Mines, Minerals and Geology	Non-ferrous Mining and Metallurgical Industries	4	5	3.30
6	Forest, Environment and Wildlife Management	Forestry and Wildlife	10	21	53.20
7	Finance, Revenue and Expenditure (Directorate of Sikkim State Lotteries)	Lottery	2	5	24.10
8	Urban Development and Housing	Urban Development	13	39	18.29
9	Energy and Power	Power	13	66	421.59
Total			**91**	**242**	**594.30**

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs for seven IRs (issued during 2016-17) till June 2017. This large pendency of the IRs due to non-receipt of the replies was indicative of the fact that heads of offices and heads of the departments did not initiate adequate action to rectify the defects, omissions and irregularities pointed out by the AG through IRs.

The Government may consider having an effective system for prompt and appropriate response to audit observations.

4.4.2 Departmental Audit Committee Meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During 2016-17, one Audit Committee meeting was held with Transport Department wherein 27 paragraphs involving ₹ 3.79 crore relating to four IRs were settled.

The overall progress of settlement of paragraphs needs to be improved in view of the huge pendency of IRs and paragraphs.

4.4.3 Non-production of records to audit for scrutiny

The programme of local audit of tax revenue/non-tax revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

Non-production of records for audit scrutiny occurred in following case:

Table 4.4.3
Non-production of records

Name of the Office/Department	Year of audit	Number of cases for which records were not produced	Tax amount
District Land Revenue Officer (North)	2016-17	03	Not known

4.4.4 Response of the departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the AG to the Principal Secretaries/Secretaries of the concerned Department, drawing their attention to audit findings and requesting them to send their response within four weeks. The fact of non-receipt of replies from the departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Three draft paragraphs proposed for inclusion in the Audit Report of the Comptroller and Auditor General of India for the year ended March 2017 were forwarded (July and August 2017) to the heads of the respective departments through demi-official letters. Replies were received in respect of all the paragraphs.

4.4.5 Follow up on Audit Reports - summarised position

The Rules of Procedures of the Committee on Public Accounts of the Sikkim Legislative Assembly (internal working) laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report for consideration of the Committee. In spite of these provisions, the explanatory notes on the audit paragraphs of the Reports were being delayed inordinately.

Reports of the Comptroller and Auditor General of India of the Government of Sikkim for the years ended 31 March 2012, 2013, 2014, 2015 and 2016 containing 20 paragraphs under Revenue Sector were placed before the State Legislative Assembly between April 2013 and March 2017. Action taken explanatory notes in respect of eight paragraphs from four departments {Excise (Abkari); Finance, Revenue and Expenditure (Commercial Taxes Division); Transport (Motor Vehicles Division) and Urban Development and Housing} had not been received for Audit Reports for the years ending 31 March 2014, 2015 and 2016.

During 2016-17, the PAC discussed Audit Report for the year 2010-11.

4.5 Analysis of the mechanism for dealing with issues raised by Audit

To analyse the system of addressing the issues highlighted in the IRs/Audit Reports by the departments/Government, the action taken on the paragraphs and Performance Audits (PAs) included in the Audit Reports of the last 10 years in respect of Transport Department (Motor Vehicle Division) was evaluated and included in this Report.

The succeeding paragraphs 4.5.1 to 4.5.2 discuss the performance of the Transport Department (Motor Vehicle Division) in dealing with the cases detected in course of local audit conducted during the last ten years and also the cases included in the Audit Reports for the last ten years.

4.5.1 Position of IRs

The summarised position of IRs issued during the last ten years, paragraphs included in these Reports and their status as on 30 June 2017 are given in the following table:

Table 4.5.1
Position of Inspection Reports

(*₹ in crore*)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value
2007-08	4	24	1.33	1	5	0.51	1	5	0.98	4	24	0.86
2008-09	4	24	0.86	1	5	0.67	0	5	0.02	5	24	1.51
2009-10	5	24	1.51	1	5	1.02	1	5	0.62	5	24	1.91
2010-11	5	24	1.91	1	4	0.94	0	7	1.16	6	21	1.69
2011-12	6	21	1.69	1	3	0.77	1	6	0.84	6	18	1.62
2012-13	6	18	1.62	1	6	1.54	0	4	0.99	7	20	2.17
2013-14	7	20	2.17	0	0	0.00	1	5	0.98	6	15	1.19
2014-15	6	15	1.19	1	5	0.92	1	7	2.06	6	13	0.05
2015-16	6	13	0.05	1	22	7.66	0	6	3.90	7	29	3.81
2016-17	7	29	3.81	1	3	0.60	4	27	3.79	4	5	0.62

The Department arranged one Audit Committee meeting with AG's office and settled four IRs and 27 old paragraphs during 2016-17.

4.5.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years accepted by the Department and the amounts recovered there-against are mentioned in the following table:

Table 4.5.2

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs (*₹ in crore*)	Number of paragraphs accepted	Money value of accepted paragraphs (*₹ in crore*)	Amount recovered during the year (*₹ in crore*)	Cumulative position of recovery of accepted cases (*₹ in crore*)
2006-07 to 2010-11	No para featured in the Report					
2011-12	1	0.60	1	0.60	Nil	Nil
2012-13 & 2013-14	No para featured in the Report					
2014-15	1	4.13	1	0.12	Nil	Nil
2015-16	1	3.44	1	0.68	0.13	0.13

It was evident from the above table that the progress of recovery even in accepted cases was very slow during the entire period of the last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. No mechanism for pursuance of the accepted cases had been put in place by the Department/Government. In the absence of a suitable mechanism, the Department could not monitor the recovery of accepted cases.

The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

4.6 Action taken on the recommendations accepted by the departments/ Government

The draft reports on PAs conducted by the AG are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These PAs are also discussed in the exit conference and the Department's/Government's views are included while finalising the PAs for the Audit Reports.

The following PAs on the Commercial Taxes Division (FRED) had featured in the last 10 years' Audit Report. The details of recommendations and their status are given in the following table:

Table 4.6

Year of AR	Name of the PA	Details of the recommendation	Status
2008-09	PA on transition from Sales tax to VAT (*No. of recommendations: 8*)	Implement computerisation of VAT system completely and effectively in all areas.	Computerisation of VAT implemented under MMPCT[1].
		Establish effective mechanism to review database at periodic interval and to prepare database of dubious/risky dealers.	Such mechanism had been established under the eSEVA[2].
		Establish effective mechanism to ensure submission of regular and timely returns by the dealers.	Returns was to be submitted on time, else the TIN of the dealer got blocked by the system. Hence, effective mechanism established.
		Establish effective mechanism for scrutiny of every returns submitted by the dealers, assessment of dealers and VAT audit of selected dealers.	Scrutiny of returns was mandatory and was being done before acceptance.
		Fix responsibility at various levels in the Department for strict compliance of codal provisions to avoid tax evasion by any dealer.	All the penal provisions were implemented before and after assessment.
		Ensure fixing the quantum of minimum penalty for each kind of offences and to continue VAT Fraud Task Force.	Minimum penalty was provided in the VAT Act/Rules.
		Strengthen internal control mechanism including Internal Audit.	Internal Audit section established with the Joint Commissioner/Audit as Head of the Section.
		Review and rectify various loopholes/deficiencies of VAT Act and Rules.	VAT Act/Rules had been amended to rectify various loopholes.
2010-11	PA on Utilisation of Declaration Forms in Inter State Trade and Commerce (*No. of recommendations: 8*)	Maintain data bank of dealer involved in Inter State Trade and Commerce.	Such provision existed in the eSEVA.
		Print Declaration form assessing its requirements taking into account pace of issue of declaration forms.	All the declaration forms were issued online.
		Maintain proper records of declaration forms printed, issued and closing stock.	Such records were maintained in the system since the forms were issued online.

[1] *Mission Mode Project for Computerisation & Commercial Taxes Administration.*

[2] *Commercial Taxes Division's tax administration system for online payment, e-return filing, way bill endorsement, etc.*

Year of AR	Name of the PA	Details of the recommendation	Status
		Ensure issue of declaration forms to the dealers only after receipt of details of utilisation of declaration forms issued earlier.	Issue of declaration forms were done after verification and acceptance of the request.
		Issue declaration forms chronologically and not randomly to have a track of declaration forms.	Declaration forms were being issued online and records were available in the system.
		Install a system of verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax.	Such system had been established.
		Install a system for picking up a sample of declaration forms and taking them up for further verification with the concerned States and also a system of uploading the details of utilisation of declaration forms in the TINXSYS website.	
		Ensure submission of CST returns by every dealer and assess all dealers involved in Inter State trade and commerce.	CST returns were to be filed online. Assessments of the dealers were on the basis of the assignment by the Commissioner.

NB: Status as in the table is based on departmental replies.

4.7 Audit Planning

The unit offices under various departments were categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan was prepared on the basis of risk analysis which *inter-alia* included critical issues in Government revenues and tax administration, i.e. budget speech, White Paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during five years, etc.

During 2016-17, there were 17 auditable units, of which eight units (47 *per cent*) were planned and audited.

4.8 Results of audit

Test check of the records of eight units under Revenue departments {Mines, Minerals and Geology Department; Utilisation Circle, Forest, Environment and Wildlife Management Department; District Land Revenue Officer (North); Excise Department; District Land Revenue Officer (South); Divisional Forest Officer (South); Divisional Forest Officer (North) and Energy and Power Department} was conducted during the year 2016-17. It revealed irregularities involving revenue aggregating ₹ 1.80 crore in 23 cases. During the course of the year, the departments concerned accepted 17 cases which were pointed out in audit during 2016-17.

4.9 Coverage of this Report

This Chapter contains three paragraphs involving financial effect of ₹ 7.65 crore. The departments have accepted audit observations involving ₹ 2.54 crore, out of which, ₹ 1.02 crore had been recovered. These are discussed in succeeding paragraphs.

ENERGY AND POWER DEPARTMENT

4.10 Loss of revenue

Incorrect billing of 33 of 167 Bulk Supply consumers for the periods when their electric meters remained defective resulted in short collection of revenue of ₹ 4.11 crore.

The Energy and Power Department (EPD), Government of Sikkim (GoS) was engaged in the generation (upto 25 MW), transmission & distribution of electricity to various consumers within the State of Sikkim.

The Sikkim State Electricity Regulatory Commission (SSERC), as mandated by the Electricity Act, 2003, framed and notified (April 2012) the SSERC (Electricity Supply Code) Regulation, 2012 (Regulations, 2012). The Regulations, 2012 were applicable to EDP, being the sole distribution licensee in Sikkim, and to its consumers in the State of Sikkim from the date of notification (3 April 2012).

As per clause 7.5 (2) of the Regulations, 2012, EPD was required to test and replace the defective meter within 45 days considering (30 days for testing and another 15 days for replacement) after receipt of complaint from the consumers. The bills for the previous three months prior to the month during which the meter was found defective, were to be revised accordingly, as per the test results of the meters.

Further, Clause 7.5(3) of the Regulations, 2012 stipulated that where the meter become defective/stopped working and where average consumption could not be computed or where it was not possible to determine the consumption of the preceding six months, the monthly consumption (24 hours x 30 days) of energy should be assessed on the basis of the connected load (CL) and the load factor (LF) of the consumer as per the formula[3] prescribed under the clause. The LF to be adopted for the purpose in respect of different categories of consumers had also been specified under the said clause.

Audit observed that during the period from April 2013 to March 2017, the meters in respect of 33 out of 167 Bulk Supply category consumers pertaining to Gangtok, Rongli and Pakyong Divisions of EPD remained defective for periods ranging from 5 to 36 months. EPD neither conducted test of the defective meters to ascertain the nature of defects and the date of said meters becoming defective nor replaced the defective meters. Audit further observed that during the above periods of the meters remaining defective, the EDP had levied only the minimum (demand) charges on these consumers instead of billing them as per the formula prescribed under clause 7.5 (3) of the Regulations, 2012.

[3] *720 (hrs) x CL (in KW) x LF.*

This resulted in the EPD incurring a loss of revenue of ₹ 4.11 crore as detailed in **Appendices 4.10.1, 4.10.2** and **4.10.3.**

EPD stated (August 2017) that due to the high altitude/remoteness, it was not possible to provide reliable power supply for 720 hours in a month to consumers in Rongli and Pakyong Division. It further stated that billing for the consumers in these two divisions were based on the provisions of Clause XVIII of the Tariff Order (2014-15), which stipulated that the average of the previous three months should be adopted in case of the meter being out of order and where readings cannot be ascertained. EPD however, did not offer any comments in respect of Gangtok Division.

The replies of EPD for Rongli and Pakyong Divisions were not tenable as:

1. SSERC had framed the Regulations, 2012 specifically for the State of Sikkim after taking into consideration the State conditions as well as the views/suggestions of the stakeholders as per the standard procedure.
2. Clause XVIII of the Tariff Order (2014-15) would be applicable only after the replacement of defective meters. Moreover, the clause could be applied if the date on which the said meters became defective was known and it was possible to ascertain consumption for the previous three months from that date of the defect. However, in the instant cases the previous three months' consumption could not be ascertained in the absence of the date on which the meters became defective. Hence, the quoted clause was not applicable in the instant cases. Further, the claim of EDP regarding billing the consumers based on previous three months' average consumption was also factually incorrect as the consumers were actually billed based on the 'minimum demand charges'.

4.11 Undue favour to consumers

Short levy of demand charges contrary to the tariff provisions resulted in extension of undue benefit to two HT consumers with corresponding loss of revenue of ₹ 2.54 crore.

The Sikkim State Electricity Regulatory Commission (SSERC) notifies the electricity tariff to be levied on the consumers for supply of electricity by the Energy and Power Department (EPD), GoS. The SSERC revises the tariff schedule from time to time. The tariff orders for the period 1 April 2013 to 31 March 2015 and 1 April 2015 to 31 March 2016 were notified in September 2013 and August 2015 respectively. As per the notified tariff (September 2013 and August 2015), consumers had been categorised based on the types of supply such as domestic, commercial, Low Tension Industrial Supply (LTIS), High Tension Industrial Supply (HTIS), bulk supply, etc. and separate rates were prescribed for each category of supply.

The tariff of High Tension Industrial Supply (HTIS) consumers consisted of two parts, viz. fixed charges and variable charges on energy. While fixed (demand) charges were levied on the respective sanctioned/ contracted load of the HTIS consumers, the energy charges were levied for the units of energy consumed during a particular month. The tariff also provided for installation of Maximum Demand Indicator (MDI) at the consumer premises to record the maximum demand on monthly basis. In case the recorded maximum demand of the consumer during a month exceeds the contract demand, that portion of the demand in excess of the contract demand had to be billed at twice the prevailing demand charges. In case, however, the maximum demand charges as recorded by MDI remains lower than the contract demand, the consumers had to be billed for monthly minimum demand charges based on the contract demand.

Audit noticed that in respect of two private companies under HTIS category, the EPD raised bills on the consumer by adopting the reading as recorded by the MDI meters even though the recorded maximum demand as per MDI were lower than the contract demand as detailed below:

1. The two service connections of M/s Golden Cross Pharmaceuticals Private Ltd (consumer) was fed by Pakyong and Rongli Divisions with a sanctioned/contracted load of 1875 KVA (later revised to 1600 KVA- June 2015) and 2500 KVA respectively. The Consumer had requested (26 March 2014) to bill the demand charges based on the reading of the installed MDI meter instead of raising demand charges based on the sanctioned load as the recorded maximum demand was lower than the contract demand. The EPD in contravention to the applicable tariff order acceded to the request of the consumer leading to short collection of revenue during the period from April 2014 to March 2016 by ₹ 2.51 crore as detailed in the **Appendices 4.11.1** and **4.11.2**.
2. Similarly, another consumer namely, M/s Pravesh Enterprises (Stone Crusher Plant) under Rongli Division, with a sanctioned/contract demand of 250 KVA, was billed as per the readings recorded in MDI, which was much below the contracted load of the enterprise. This resulted in undue benefit to the consumer to the extent of ₹ 0.03 crore as detailed in **Appendix 4.11.3**.

Thus, short levy of demand charges contrary to the tariff provisions resulted in extension of undue benefit to two HT consumers with corresponding loss of revenue of ₹ 2.54 crore to EPD.

EPD accepted the facts and stated (August 2017) that it has already raised the demand for short collection of ₹ 2.54 crore in both the divisions, out of which ₹ 1.02 crore (Pakyong Division) has already been recovered. Recovery of the remaining amount (₹ 1.52 crore) was, however, pending (August 2017).

WATER RESOURCES AND RIVER DEVELOPMENT DEPARTMENT

4.12 Loss of revenue

Failure in collection of water tax resulted in loss of revenue of rupees one crore.

Sikkim Irrigation Water Tax Act, 2002 (notified April 2002) stipulated that every owner who held land and used water from the Irrigation Channels constructed by the State Government shall be liable to pay Irrigation Water Tax at the rate ranging from ₹ 10 per hectare to ₹ 250 per hectare for each fasli[4] year according to the class of their land. Section 5 (1) of the Act further stipulated that 'As soon as a new source of irrigation is augmented and constructed by the department, it shall intimate in writing to the District Collector that the Irrigation Channel is ready for operation and also the command area proposed to be covered by the channel'.

In exercise of the power under section 16 of the Act, the State Government framed Sikkim Irrigation Water Tax Rules 2007 which came into force from the 1st day of April 2007. Rule 9 ibid stipulated that 'The District Collector shall issue irrigation water bill on the first day of July every year to all the water users of the irrigation channel notified under sub-section (2) of Section 5 of the Act, as per the Schedule appended to the Act' and Rule 10 ibid stipulated that 'the irrigation water tax collected shall be credited to the District Collector's office Head for the minor maintenance of the irrigation channels'.

Scrutiny of records revealed (February 2017) that as of 2016-17, though there were 1,933 functional irrigation channels in the State with the utilised potential of 30,249.48 hectares of land, the Department had not maintained the list of farmers availing irrigation facilities. The Department neither intimated in writing to the District Collector about the readiness of irrigation channel for operation nor the command area proposed to be covered by the channel.

A paragraph on 'non-collection of water tax' had featured in the Comptroller and Auditor General of India's Audit Report on Government of Sikkim for the year 2008-09 under Performance Audit (PA) captioned 'Implementation of Irrigation Schemes'. During discussion of the paragraph, the Department assured (2013-14) the Public Accounts Committee (PAC) that they had already started realisation of water charges from April 2010 and accordingly, the PAC had observed (2013-14) that recommendations of PA offered by the Audit had been noted by the Department for implementation.

The Chief Secretary in one State High Level Monitoring Committee Meeting also directed (September 2013) the Department for early implementation of the Act which was one of the conditions laid down by the 13th Finance Commission for release of grant of rupees four crore under Water Sector Management.

Despite PACs observation, Chief Secretary's direction and even it's own

[4] *A period of twelve months commencing from the first day of July every year (as per Sikkim Irrigation Water Tax Act, 2002)*

commitment/assurance, the Department failed to collect the Water Tax. In the absence of details of category and classification of land held by the individual farmers which were being irrigated through the irrigation channels, Audit applied the rate of ₹ 60 per hectare applied to paddy field to calculate the potential water tax. The potential water tax not collected during 2010-11 to 2016-17 is as given below:

Table 4.12.1
Details of water tax not collected

Year	No. of schemes completed	Potential utilised (In hectare)	Number of years channels were in service till March 2017	Total potential revenue till 2017 @ ₹ 60 per hectare (₹)
1	2	3	4	5 (Col. 3 x Col. 4 x ₹ 60)
Upto 2010-11	1,703	23,696.60	6	85,30,776.00
2011-12	04	173.85	5	52,155.00
2012-13	143	4,487.70	4	10,77,048.00
2013-14	81	1,833.53	3	3,30,035.40
2014-15	02	57.80	2	6,936.00
2015-16	*No channel was created during the year*			
2016-17				
Total	**1,933**	**30,249.48***		**99,96,950.40**

Source: Departmental figures-No. of schemes and Potential utilisation
**Exclusive of Potential loss of 1,598.97*

Thus, the Department failed to take any steps to collect the water tax which was due to the Government resulting not only in loss of Government revenue of rupees one crore (2010-11 to 2016-17) but also compromising the allocation of grant of rupees four crore, which was not received. Moreover, the Department failed to create a sense of ownership and responsible usage amongst the beneficiaries by levying the water charges.

The Department stated (August 2017) that levying of Tax on the small and marginal farmers may not be congenial as the water sources for irrigation channel were rain fed and flow of water in the channels were uncertain, and also that the matter was under consideration of the Government. Reply was not acceptable as the Act/Rules passed by the Government mandated the Department to collect tax. Hence, further approval from the Government was not required. Further, the Department referred the matter to the Government only in 2014, i.e. seven years after the Rules came into effect (April 2007) and never followed up the matter thereafter for Government's decision to rescind the Act/Rules and the Act continued to be in force.