

**Chapter III**  
**Economic Sector**  
**(Public Sector Undertakings)**



## CHAPTER III: ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

### 3.1 Functioning of State Public Sector Undertakings (PSUs)

#### 3.1.1 Introduction

The Public Sector Undertakings (PSUs) consist of the State Government Companies and Statutory Corporations. The PSUs are established to carry out economic and commercial activities for the overall development of the State and its people. As on 31 March 2019, there were 16 PSUs (12 working Government Companies and four working Statutory Corporations) under the audit purview of the Comptroller and Auditor General of India (CAG). Besides, there were six non-working PSUs for which audit entrustment had not been extended to CAG by the State Government as detailed in **Paragraph 3.1.10**. The details of the PSUs in Sikkim as on 31 March 2019 are given in **Table 3.1.1** below.

**Table 3.1.1: Total number of PSUs as on 31 March 2019**

Type of PSUs	Working PSUs
Government Companies registered under Sikkim Registration of Companies Act, 1961	08 <sup>45</sup>
Government Companies registered under Companies Act, 2013	04 <sup>46</sup>
Statutory Corporations	04
<b>Total</b>	<b>16</b>

None of the 12 working Government companies were listed on the stock exchange. During the year 2018-19, no new PSU was incorporated and no existing PSU was closed down.

#### 3.1.2 Investment in PSUs

##### 3.1.2.1 State Governments investment in PSUs

The State's investment in its PSUs was by way of share capital and long term loans. As on 31 March 2019, the investment of the State Government (capital and long-term loans) in 16 PSUs amounted to ₹ 48.21 crore<sup>47</sup> as detailed in **Table 3.1.2**:

**Table 3.1.2: Details of total investment in 16 PSUs**

Year	Equity Capital	Long Term Loans	Total Investment
<b>2018-19<sup>48</sup></b>	46.18	2.03	<b>48.21</b>
<b>2014-15</b>	<b>89.34</b>	<b>2.03</b>	<b>91.37</b>

(₹ in crore)

<sup>45</sup> Audited by CAG on entrustment basis under section 20(1) of CAG (DPC)'s Act 1971

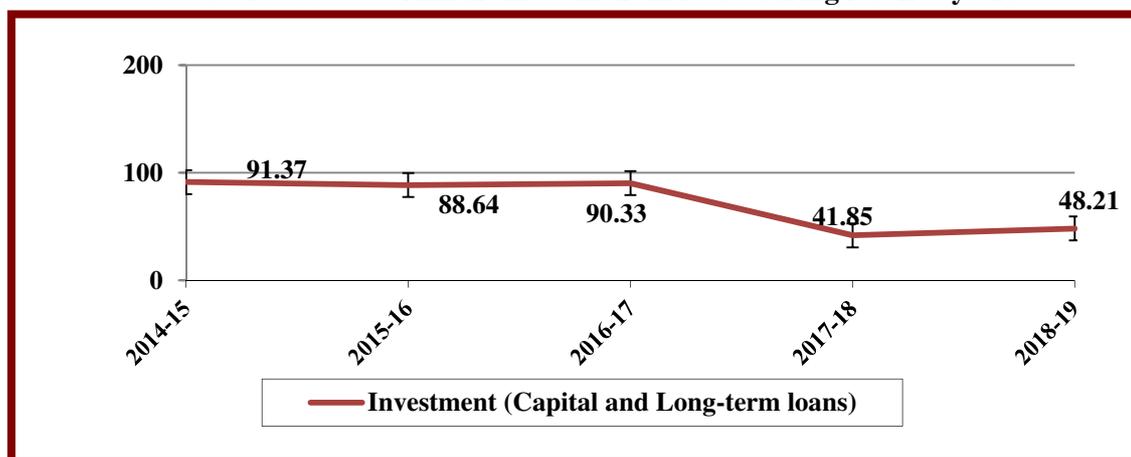
<sup>46</sup> The Companies Act 2013 and the erstwhile Companies Act, 1956 had not been extended to the State of Sikkim. Hence, these four companies have their registered offices in New Delhi and Darjeeling (West Bengal).

<sup>47</sup> The investment figures are provisional and as provided by the PSUs except two PSUs (Sl. No. A8 and A9 of Appendix 3.1.1) for which investment figures have been adopted from their finalised accounts for 2018-19.

<sup>48</sup> The decrease was due to liquidation of six PSUs

As can be noticed from the **Table** above, the investment of State Government in PSUs as of 2018-19 consisted of 95.79 *per cent* towards capital and 4.21 *per cent* in long term loans. The investment had decreased by 47.24 *per cent* from ₹ 91.37 crore (2014-15) to ₹ 48.21 crore (2018-19) as shown in **Chart 3.1** below:

**Chart 3.1**  
**Status of State Government investment in PSUs during last five years**



This reduction in State’s investment was mainly due to liquidation of six<sup>49</sup> PSUs involving aggregate investment of ₹ 51.20 crore.

### **3.1.2.2 Sector-wise investment in PSUs**

The details of combined investment by the State Government and other stakeholders (Central Government, holding companies, Banks, Financial institutions, etc.) in PSUs under various important sectors at the end of 31 March 2015 and 31 March 2019 have been given in **Table 3.1.3** below:

**Table 3.1.3: Sector-wise investment in PSUs**

(₹ in crore)

Name of Sector	Government Companies		Statutory Corporation		Total Investment	
	2014-15	2018-19	2014-15	2018-19	2014-15	2018-19
<b>Power</b>	121.10	17,798.82	0.00	0.00	121.10	17,798.82
<b>Finance</b>	45.16	38.61	0.58	68.14	45.74	106.75
<b>Service</b>	6.76	6.46	1.61	1.61	8.37	8.07
<b>Infrastructure</b>	158.44	358.48	0	0	158.44	358.48
<b>Manufacturing</b>	43.13	0	12.50	0	55.63	0
<b>Agriculture &amp; Allied</b>	3.60	1.15	0	0	3.60	1.15
<b>Total</b>	<b>378.19</b>	<b>18,203.52</b>	<b>14.69</b>	<b>69.75</b>	<b>392.88</b>	<b>18,273.27</b>

It may be seen from **Table 3.1.3** that during 2018-19, the thrust of PSU-investment was mainly in power sector companies<sup>50</sup>, which constituted more than 97 *per cent* of the total investment (₹ 18,273.27 crore) in the PSUs. During the period of five years (2014-15 to 2018-19), investment in power sector PSUs has increased by ₹ 17,677.72 crore from

<sup>49</sup> Sikkim Floor Mills Limited (₹ 2.44 crore), Chandmari Workshop and Automobiles Limited (₹ 0.30 crore), Sikkim Jewels Limited (₹ 14.47 crore), Sikkim Times Corporation (₹ 23.49 crore), Sikkim Precision Industries Limited (₹ 4.39 crore), Sikkim Mining Corporation (₹ 6.11 crore).

<sup>50</sup> Serial No. A-8,9,10 and 11 of Appendix 3.1.1

₹ 121.10 crore (2014-15) to ₹ 17,798.82 crore (2018-19). The investment in power sector PSUs had mainly increased due to addition of ₹ 13,428.26 crore against ‘equity capital’ and ‘long term loans’ of two new power sector PSUs<sup>51</sup>, which were covered under the definition of a State Government Company in August 2015.

### 3.1.3 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case, the figures do not agree the Finance Department and the PSUs concerned should carry out reconciliation of differences in figures. The position in this regard as of 31 March 2019 is given in **Table 3.1.4**.

**Table 3.1.4: Variation between Finance Accounts and records of PSUs**

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	50.19	46.18	4.01
Loans	37.03	2.03	35.00
Guarantees	3000.47	427.33	2573.14

As on 31 March 2019, there were unreconciled differences in the figures of equity (₹ 4.01 crore), loan (₹ 35 crore) and guarantee (₹ 2573.14 crore) as per two sets of records. The differences in equity occurred in respect of 8 PSUs<sup>52</sup>. Further, the difference in guarantee figures related to three PSUs namely Sikkim Industrial Development and Investment Corporation Limited, Sikkim Power Investment Corporation Limited and State Trading Corporation of Sikkim.

As regards Loan figures, Audit noticed that the Finance Department disburses the loans to various Departments of the State Government for different sectoral activities and booked the amount sector-wise in the Finance Accounts. In turn, the Departments disburse these loans to respective PSUs functioning under their administrative control. Hence, PSU-wise figures of State Government loans provided to various PSUs not available in the State Finance Accounts. The State Government loan (₹ 37.03 crore) booked in the Finance Accounts pertained to the PSUs<sup>53</sup> under Infrastructure (₹ 2.03 crore) and power sector (₹ 35.00 crore).

Though the process of reconciliation of these differences have been initiated (September 2018) by the Office of the Sr. Deputy Accountant General (A&E), Sikkim in consultation with the Finance Department, Government of Sikkim and PSUs concerned, no significant progress has been achieved in this regard.

The State Government and the PSUs concerned may take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of

<sup>51</sup> Teesta Urja Limited (equity: ₹3,205.39 crore; long term loans: ₹8,830.06 crore) and Teestavalley Power Transmission Limited (equity: ₹373.89 crore; long term loans: ₹1,018.92 crore).

<sup>52</sup> PSUs at Sl. Nos. A.1, A.2, A.4, A5, A7,A10, A11 and A12 of **Appendix 3.1.1**

<sup>53</sup> A5 to A7 (Infrastructure sector) and A8 to A11 (Power sector) of **Appendix 3.1.1**

financing the PSUs and the Finance Accounts be updated.

### **3.1.4 Special support and guarantees to PSUs during the year**

The State Government provides financial support to PSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans, grants/ subsidies, loans written-off and interest waived along with the position of guarantee in respect of PSUs are given in **Table 3.1.5** for three years ended 2018-19.

**Table 3.1.5: Details regarding budgetary support to PSUs**

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	0	0	0	0	2	6.02
2.	Loans given from budget	0	0	0	0	0	0
3.	Grants/Subsidy from budget	1	0.11	2	11.60	2	10.79
	<b>Total</b>	<b>1</b>	<b>0.11</b>	<b>2</b>	<b>11.60</b>	<b>2</b>	<b>16.81</b>
4	Waiver of loans and interest	1	13.41	1	0.06	1	0.14
5	Guarantees issued	2	65.78	2	133.04	3	342.33
6	Guarantee Commitment	3	81.83	2	71.74	2	117.33

It may be seen from **Table 3.1.5** above that budgetary outgo to PSUs has increased from ₹ 0.11 crore (2016-17) to ₹ 16.81 crore (2018-19) during the period from 2016-17 to 2018-19. During 2018-19 the State Government infused equity amounting to ₹ 6.02 crore in two PSUs namely Namchi Smart City Limited (NSCL) and Sikkim Power Development Corporation Limited (SPDC). The State Government did not provide any loans to PSUs during the three year period.

In 2017-18, the State Government provided grants amounting to ₹ 11.60 crore to two PSUs (namely Temi Tea Estate: ₹ 10.93 crore and Government Fruits Preservation Factory: ₹ 0.67 crore). During 2018-19, the recipients of Government grants (₹ 10.79 crore) included Temi Tea Estate (₹ 8.79 crore) and Namchi Smart City Limited (₹ 2 crore). It can be noticed from Table 3.1.4 above that during 2018-19, the Guarantee commitment increased by ₹ 45.59 crore from ₹ 71.74 crore (2017-18) to ₹ 117.33 crore (2018-19). As on 31 March 2019, the Guarantee commitment stood at ₹ 117.33 crore against two PSUs<sup>54</sup>.

### **3.1.5 Accountability framework**

The Companies Act, 2013 and the erstwhile Companies Act, 1956 had not been extended to the State of Sikkim. Out of 12 Government Companies existing in the State of Sikkim, four companies were registered under the Companies Act, 1956/2013 while remaining eight were registered under the 'Registration of Companies Act, Sikkim, 1961'.

The four companies registered and governed by the Companies Act, 2013/1956 included Teesta Urja Limited (TUL), Teestavalley Power Transmission Limited (TPTL), Namchi Smart City Limited (NSCL) and Gangtok Smart City Development Limited (GSCDL).

<sup>54</sup> serial no,A-5 and A-14 of Appendix 3.1.1.

During the year 2015-16, one State Government Company<sup>55</sup> acquired 51 *per cent* of equity share capital of TUL, which is the Holding company of TPTL. The other two companies (NSCL and GSCDL) were incorporated during 2016-17 and 2017-18 by the State Government under the Companies Act, 2013 with headquarters in Darjeeling, West Bengal. Thus, all these four companies are covered under the definition of State Government company owned and controlled (directly or indirectly) by the State Government.

#### **3.1.5.1 Statutory Audit/Supplementary Audit**

The accounts of eight State Government Companies registered under the 'Registration of Companies Act, Sikkim, 1961' are audited by Statutory Auditors (Chartered Accountants) 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 were being conducted by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the State under Section 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The accounts of four Companies registered under the Companies Act, 2013/1956 are audited by Statutory Auditors (Chartered Accountants) who are appointed by the CAG. In addition to the statutory audit conducted by the Statutory Auditors, supplementary audit of these Companies is conducted by the CAG under Section 143 (6) (a) of the Companies Act, 2013<sup>56</sup>.

Besides, there are four Statutory Corporations in the State, namely, State Bank of Sikkim, State Trading Corporation of Sikkim, Government Fruit Preservation Factory and Temi Tea Estate established under the proclamation of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants directly appointed by the Board of Directors (BoDs) of the respective Corporations. Supplementary Audit of these Corporations was taken up by CAG under Section 19 (3)<sup>57</sup> of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

#### **3.1.5.2 Role of Government and Legislature**

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Government appoints the Chief Executives and Directors on the Board of these PSUs.

The State Legislature also monitors the accounting and utilisation of Government investments in the PSUs. For this purpose, the Annual Accounts of the State Government Companies together with the Statutory Auditors report and Separate Audit Reports of CAG are required to be placed before the Legislature under Section 20 (1) of the

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<sup>55</sup> *Sikkim Power Investment Corporation Limited*

<sup>56</sup> *The audit of accounts of the Government Companies from the financial year 2014-15 onwards is governed by the Companies Act, 2013.*

<sup>57</sup> *Based on the entrustment/ request for the audit of the accounts of these corporations from the Governor of the State from time to time.*

Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The Annual Reports of four Government Companies incorporated under the Companies Act, 2013/1956 together with the Statutory Auditors Reports and comments of CAG thereon are to be placed before the legislature under section 396 of the Companies Act, 2013. Similarly, the Annual Reports of the Statutory Corporations along with the Separate Audit Reports of CAG are required to be placed before the Legislature as per the stipulations made under Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

### **3.1.6 Arrears in Finalisation of accounts**

In respect of four companies registered under the Companies Act, 2013/1956, the financial statements of the companies are required to be finalised within six months of the end of the financial year *i.e.* by September end in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of Companies Act, 2013.

As regards eight companies registered under the Registration of Companies Act, Sikkim 1961 and four Statutory Corporations, there is no stipulated timeframe for finalisation of financial statements in their respective governing Acts.

**Table 3.1.6** provides the details of progress made by PSUs in finalisation of their accounts as of 30 September 2019.

**Table 3.1.6: Position relating to finalisation of accounts of PSUs**

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Number of Working PSUs	9	12	12	16	16
2.	Number of accounts finalised during the year	3	8	14	7	39
3.	Number of accounts in arrears	27	31	29	45 <sup>58</sup>	22
4.	Number of Working PSUs with arrears in accounts	9	8	9	13	12
5.	Extent of arrears (numbers in years)	1 to 6	1 to 7	1 to 8	1 to 9	1 to 6

As can be seen from **Table 3.1.6**, the arrear of accounts of PSUs had decreased substantially due to finalisation of arrears accounts by four PSUs<sup>59</sup> during the year. As on 30 September 2019, a total of 22 accounts of 12 PSUs were pending for finalisation. The highest pendency of six accounts pertained to 'Sikkim Livestock Processing and Development Corporation Limited', which had not finalised its accounts after 2012-13.

The delays in finalisation of accounts were mainly due to delay in compilation/ adoption of accounts by the Board of Directors of the respective PSUs. The administrative departments of the PSUs concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts of these PSUs are finalised and adopted within the stipulated period. The departments concerned were informed regularly (on

<sup>58</sup> Including arrears of seven accounts of two PSUs (serial no. B15 and B16 of **Appendix 3.1.1**) added during 2017-18.

<sup>59</sup> A-1,A-2,B-15 & B-16 of **Appendix 3.1.1**.

quarterly basis) about the arrears in finalisation of accounts by these PSUs. As a result, there was significant reduction in arrears of accounts during 2018-19 as compared to previous year.

### 3.1.7 Placement of Separate Audit Reports

The position depicted in **Table 3.1.7** shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2019) on the accounts of Statutory Corporations in the State Legislature.

**Table 3.1.7: Status of placement of SARs in Legislature**

Sl. No.	Name of Statutory Corporations	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		Reasons for delay
			Year of SAR	Date of issue to the Management/ Government for printing	
1	State Bank of Sikkim	2016-17	-	-	-
2	State Trading Corporation of Sikkim	2016-17	2017-18	30 September 2019	-
3	Government Fruit Preservation Factory	*	2011-12 to 2017-18	02 May 2019	Not furnished.

\*Corporation submitted its seven accounts (first accounts for 2011-12 to 2017-18) for audit only in January 2019.

Timely placement of SARs in the State Legislature is important to ensure timely reporting on the functioning of the Corporation to the stakeholders and fix accountability of the Management for its performance. However, it can be noticed from the **Table** above that total seven SARs relating to one Corporation (GFPPF) were pending for placement for more than seven months since issued to the State Government without intimating the reasons for this delay.

#### **Recommendations:**

- *The State Government may set up a special cell to oversee the clearance of arrears and set the targets for individual PSUs, which may be monitored by the cell;*
- *The State Government may ensure that existing vacancies in the accounts department of PSUs are timely filled up with persons having domain expertise and experience;*
- *The PSUs may get the figures of equity and loans reconciled with the State Government Departments and arrear of accounts are cleared.*

### 3.1.8 Performance of PSUs as per their latest finalised accounts

The financial position and working results of working Government companies and Statutory Corporations are detailed in **Appendix 3.1.1**. A ratio of PSUs turnover to Gross State Domestic Product (GSDP) shows the extent of PSUs activities in the State economy. **Table 3.1.8** provides the details of working PSUs turnover and GSDP for a period of five years ending 2018-19.

**Table 3.1.8: Details of PSUs turnover vis-a vis State GDP**

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover <sup>60</sup>	149.28	178.81	185.64	290.83	2,119.51
GSDP <sup>61</sup>	15,407	18,034	20,687	23,495	26,786
Percentage of PSUs Turnover to GSDP	0.97	0.99	0.90	1.24	7.91

Source: GSDP- MoSPI, (GSDP for years 2017-18 and 2018-19 are Provisional figures and Quick estimates respectively)

As can be noticed from **Table 3.1.8**, the PSU-turnover as well as GSDP have shown increasing trend during the period of five years from 2014-15 to 2018-19. During 2018-19, an extra ordinary growth of more than six fold (₹ 1,970.23 crore) in PSU-turnover was recorded mainly due to increase of ₹ 1,568.98 crore in the turnover of one power sector PSU<sup>62</sup> during the year. This had correspondingly increased PSU-turnover to GSDP from 1.24 per cent (2017-18) to 7.91 per cent (2018-19).

### 3.1.8.1 Key parameters

Some other key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective year are given in **Table 3.1.9** below.

**Table 3.1.9: Debt Turnover Ratio relating to the PSUs of the State**

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Debt	273.25	8,936.15	12,225.77	14,080.24	13,284.89
Turnover <sup>63</sup>	149.28	178.81	185.64	290.83	2,119.51
Debt-turnover Ratio	1.83:1	49.98:1	65.86:1	48.41:1	6.27:1
Interest Payments	18.55	176.90	338.11	474.89	1,533.90
Accumulated losses	19.67	328.73	798.14	756.05	2,089.94

### Debt-Turnover Ratio

A low debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can signal of having too much of debt against the income of PSUs from core activities. Thus, the PSUs having lower DTR are more likely to comfortably manage their debt servicing and repayments.

### PSU Debt

During the period of five years, the PSUs debt had registered an overall increase of ₹ 13,011.64 crore from ₹ 273.25 crore (2014-15) to ₹ 13,284.89 crore (2018-19). Major portion of PSU debts during 2018-19 amounting to ₹ 12,630.33 crore (95.07 per cent) pertained to three power sector PSUs<sup>64</sup>.

<sup>60</sup> Turnover of working PSUs as per the latest finalised accounts as of 30 September of respective year.

<sup>61</sup> Source: Department of Economic, Statistics, Monitoring and Evaluation, Government of Sikkim.

<sup>62</sup> The power sector PSU (Teesta Urja Limited) had started the commercial activities in February 2017. The Company had registered the turnover of ₹ 1,613.52 crore as per its accounts (2018-19) finalised as on 30 September 2019 as compared to the turnover of ₹ 44.54 crore as per its accounts (2016-17) finalised as on 30 September 2018.

<sup>63</sup> Turnover of working PSUs as per their latest finalised accounts as on 30 September of respective year.

<sup>64</sup> Teesta Urja Limited (₹ 8,830.06 crore), Sikkim Power Investment Corporation Limited (₹ 2,781.35 crore) and Teestavalley Power Transmission Limited (₹ 1,018.92 crore).

Further, during 2018-19, the PSU Turnover had also shown growth of ₹ 1,828.68 crore from ₹ 149.28 crore (2014-15) to ₹ 2,119.51 crore (2018-19) mainly due to appreciation of ₹ 1,619.58 crore in the turnover of two power sector PSUs<sup>65</sup> from ₹ 1,695.05 crore (2018-19) as compared to ₹ 75.47 crore (2017-18) after commencement of their operations. Resultantly, the DTR of PSUs has correspondingly improved from 48.41:1 (2017-18) to 6.27:1 (2018-19).

During last five years (2014-15 to 2018-19), the accumulated losses of PSUs had registered an overall increase of ₹ 2,070.27 crore from ₹ 19.67 crore (2014-15) to ₹ 2,089.94 crore (2018-19). Major portion (₹ 2,083.55 crore) of these accumulated losses (₹ 2,089.94 crore) was contributed by four power sector PSUs.

### 3.1.8.2 Erosion of capital due to losses

The aggregate paid-up capital and accumulated losses of 16 working PSUs as per their latest finalised accounts as on 30 September 2019 were ₹ 3,693.83 crore and (-) ₹ 2,089.94 crore respectively (*Appendix 3.1.1*), which included accumulated losses (₹ 5.53 crore) of four<sup>66</sup> PSUs which did not have any capital. Return on Equity (RoE) of five<sup>67</sup> out of 12 PSUs was 15.10 percent while three<sup>68</sup> PSUs was negative. The accumulated losses (₹ 902.01 crore) of remaining four<sup>69</sup> PSUs had completely eroded their paid up capital (₹ 68.50 crore) and hence, RoE of these PSUs was not workable. The primary erosion of paid up capital was in respect of two PSUs as detailed in the **Table 3.1.10** below:

**Table 3.1.10: PSUs with primary erosion of paid up capital**

(₹ in crore)

Name of PSU	Latest finalised accounts	Paid up capital	Accumulated losses
Sikkim Power Investment Corporation Limited	2017-18	0.01	782.84
Sikkim Power Development Corporation Limited	2017-18	67.34	115.44

Accumulation of huge losses by these PSUs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these PSUs to either improve their profitability or close their operations.

The overall position of losses incurred by the working PSUs from 2014-15 to 2018-19 as per their latest finalised accounts as of 30 September of the respective year has been depicted below in **Chart 3.2**.

<sup>65</sup> Teesta Urja Limited and Teesta valley Power Transmission Limited

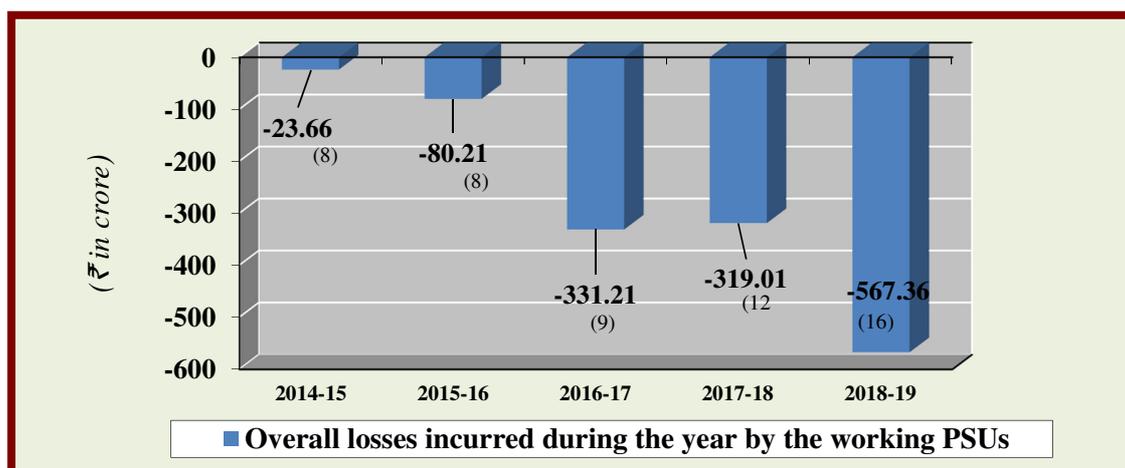
<sup>66</sup> A1, A6, B15 and B16 of Appendix 3.1.1

<sup>67</sup> A4, A5, A12, B13 and B14 of Appendix 3.1.1

<sup>68</sup> A7, A8 and A9 of Appendix 3.1.1

<sup>69</sup> A2, A3, A10 and A11 of Appendix 3.1.1

Chart 3.2: Overall losses of working PSUs



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

From the **Chart** above, it can be seen that the working PSUs incurred losses during all the five years under reference. These losses of working PSUs during five years were mainly attributable to heavy losses incurred by the power sector PSUs during these years, which ranged between ₹ 16.64 crore (2014-15) and ₹ 582.72 crore (2018-19).

During the year 2018-19, out of 16 working PSUs, seven<sup>70</sup> PSUs earned an aggregate profit of ₹ 15.75 crore, while nine PSUs incurred loss of ₹ 583.11 crore. The details of major contributors to overall profits and losses of working PSUs are given in **Table 3.1.11** below:

Table 3.1.11: Major contributors to profits and losses of working PSUs

(₹ in crore)

Name of PSUs	Latest finalised accounts	Profit (+)/ loss (-)
<b>Contributors to losses</b>		
Teesta Urja Limited	2018-19	(-) 313.06
Sikkim Power Investment Corporation Limited	2017-18	(-) 235.45
Sikkim Power Development Corporation Limited	2017-18	(-) 31.67
<b>Total</b>		<b>(-) 580.18</b>
<b>Contributors to profits</b>		
State Bank of Sikkim	2017-18	(+) 12.92
Sikkim Industrial Development and Investment Corporation Limited	2017-18	(+) 2.22
<b>Total</b>		<b>(+) 15.14</b>

### 3.1.8.3 Return on Capital Employed

Return on Capital Employed (ROCE) is a profitability metric that measures the long term profitability and efficiency of the total capital employed by a company. Companies create value when they generate returns on the capital employed. ROCE is an important decision

<sup>70</sup> A4, A5, A12, B13, B14, B15 and B16 of Appendix 3.1.1

metric for long term lenders. ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed<sup>71</sup>.

During 2018-19, the overall Capital Employed in 16 working PSUs as per their latest accounts was ₹ 15,006.94 crore while the ROCE of the PSUs ranged from (-) 44.41 per cent (Sikkim Power Development Corporation) to (+) 9.95 per cent (Teesta Urja Limited). Further, out of 16 working PSUs, only eight PSUs<sup>72</sup> had positive ROCE (*Appendix-3.1.1*).

### 3.1.9 Return on Investment on the basis of Present Value of Investment

The Rate of Real Return (RoRR) measures the profitability and efficiency with which equity and similar non-interest bearing capital have been employed, after adjusting them for their time value. To determine the RoRR on Government Investments in the State PSUs, the investment of State Government in the form of equity, interest free loans and grants / subsidies given by the State Government for operational and management expenses less the disinvestments has been considered and indexed to their present value and summated. The RoRR is then calculated by dividing the Profit After Tax (PAT) of the PSUs by the sum of the PV of the Government investments.

During 2018-19, as per their latest finalised accounts, out of 14<sup>73</sup> working PSUs where State Government had made direct investment, six PSUs incurred loss while seven PSUs earned profit. Remaining one PSU had not prepared its first accounts. On the basis of return on historical value, the State Government's investment had eroded by 332.57 per cent as of 2018-19. As per the RoRR where the PV of investment is considered, the State Government's investment eroded by 129.01 per cent as shown in *Appendix 3.1.2*. This difference in percentage of investment erosion was on account of the adjustment made in the investment amount for time value of money.

### 3.1.10 Winding up of non-working PSUs

There were six non-working PSUs (five Companies<sup>74</sup> and one Statutory Corporation<sup>75</sup>) for which audit entrustment to CAG had expired between 2003-04 and 2016-17. Since the audit of these six non-working PSUs has not been entrusted to CAG during 2018-19, the present report has not covered their functioning.

The Government Companies in Sikkim are registered under the Registration of Companies Act, 1961 while Statutory Corporations are governed by the proclamation of the erstwhile Chogyal (King) of Sikkim. There was, however, no prescribed procedure for

<sup>71</sup> Capital employed=paid up capital plus accumulated profits plus free reserves/surplus plus long term loans minus accumulated losses minus deferred revenue expenditure

<sup>72</sup> Serial No. A4, A5, A8, A9, A10, A12, B13 and B14 of *Appendix 3.1.1*.

<sup>73</sup> Excluding two PSUs at Sl. No. A8 and A9 of *Appendix 3.1.1* which had not direct investment of the State Government.

<sup>74</sup> Sikkim Flour Mills Limited and Chandmari Workshop and Automobiles Limited (2002-03), Sikkim Jewels Limited and Sikkim Times Corporation (2010-2011) and Sikkim Precision Industries Limited (2012-13).

<sup>75</sup> Sikkim Mining Corporation Limited (2016-17)

liquidation of Government Companies/ Statutory Corporations under their respective governing Act/ Statute.

As per the latest available information, the assets of the five out of six non-working PSUs (excepting Sikkim Mining Corporation) had been disposed of and the proceeds remitted (December 2012) to the Government of Sikkim. The liquidation of the sixth non-working PSU (Sikkim Mining Corporation) was approved (October 2016) by the Department of Mines, Minerals and Geology, Government of Sikkim and its liabilities (₹ 6.85 crore) had also been waived (October 2016) by the State Government.

### **3.1.11 Audit Comments on Annual Accounts of PSUs**

Ten PSUs<sup>76</sup> forwarded their 39 audited accounts to Principal Accountant General (Audit), Sikkim (PAG) during the year 2018-19 (October 2018 to September 2019) out of which 19 Accounts of eight PSUs were taken up for supplementary audit. The audit certificate under Companies Act 2013 for three PSUs and SARs in respect of five PSUs (Company/Corporations<sup>77</sup>) were issued.

The details of aggregate money value of comments of statutory auditors and CAG for last three years (2016-19) are given in **Table 3.1.12**.

**Table 3.1.12: Audit comments on annual accounts of PSUs**

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	2.92	2	2.84	3	1.69
2.	Increase in loss	2	6.38	0	0	1	0.50
3.	Non-disclosure of material facts	1	2.03	0	0	2	34.97
4.	Errors of classification	Nil	Nil	1	2.05	0	0

**3.1.11.1** Gist of some important comments of the statutory auditors and CAG in respect of accounts of the PSUs are as under:

**(i) State Bank of Sikkim (2017-18)**

**Unreconciled differences**

As per the Finance Accounts of the State Government for the financial year 2017-18, the amount of Cash Balance of the Government with State Bank of Sikkim as on 31 March 2018 was ₹ 548.77 crore whereas State Bank of Sikkim depicted the same as ₹ 514.56 crore. The difference of ₹ 34.21 crore had been neither reconciled nor the same disclosed in the Financial Statements of State Bank of Sikkim.

<sup>76</sup> SBS, TPTL - One Accounts each, TUL, STCS, SIDICO, NSCL – Two Accounts each, Temi Tea - Four Accounts, GPPF -Seven Accounts, SHL & SPDCL -Nine Accounts each.

<sup>77</sup> Temi Tea, GPPF, STCS, SBS (Corporations) and SIDICO,

(ii) Teesta valley Power Transmission Limited (2018-19)

**Inventories: ₹ 6.90 crore (Note 8)**

During the year 2018-19, the company had written off ‘inventories’ worth ₹ 0.76 crore due to obsolescence without the approval of the Board of Directors. The fact was also not depicted in the financial statements in contravention to Ind AS 2.

**3.1.12 Follow up action on Audit Reports**

**3.1.12.1 Submission of Explanatory Notes**

The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive authorities. As per the extant instructions of the Finance Department, Government of Sikkim, all the administrative departments concerned were required to furnish ‘Explanatory Notes’ on the paragraphs/ performance audits included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Public Accounts Committee (PAC). The status of receipt of Explanatory Notes to paragraphs/performance audits from the State Government/Administrative Departments concerned as on 30 September 2019 was as given in **Table 3.1.13** below:

**Table 3.1.13: Explanatory notes not received (as on 30 September 2019)**

Year of the Audit Report	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs appeared in the Audit Report		Number of PAs/ Paragraphs for which Explanatory Notes were not received	
		Pas	Paragraphs	PAs	Paragraphs
2013-14	17 March 2015	1	4	1	3
2014-15	28 March 2016	0	2	0	0
2015-16	18 March 2017	1	1	1	1
2016-17	12 July 2018	1	0	1	NA
2017-18	2 August 2019	0	4	NA	4
<b>TOTAL</b>	-	<b>3</b>	<b>11</b>	<b>3</b>	<b>8</b>

From the **Table 3.1.13**, it may be seen that the ‘Explanatory Notes’ to eight paragraphs and three performance audits (PA), which pertained to six Companies/ Corporations<sup>78</sup> had not been received (October 2019).

**3.1.12.2 Discussion of Audit Reports by Public Accounts Committee**

In the State of Sikkim, there is no separate Committee on Public Sector Undertakings (COPU) to discuss the audit findings on State PSUs. As such, the Public Accounts Committee (PAC) also discusses the findings relating to PSUs. The status of discussion by the PAC as on 30 September 2019 on performance audits (PAs) and Compliance Audit Paragraphs (relating to PSUs) featured in Audit Reports has been detailed in **Table 3.1.14**.

<sup>78</sup> Serial No. A-5, A-8, A-10, A-11, B-13 and B-14 of Appendix 3.1.1.

**Table 3.1.14: Performance Audits/ Paras relating to PSUs featured in Audit Reports *vis-à-vis* discussed as on 30 September 2019**

Year of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2013-14	1	4	Nil	Nil
2014-15	0	2	Nil	Nil
2015-16	1	1	Nil	Nil
2016-17	1	0	Nil	Nil
2017-18	0	4	Nil	Nil
<b>Total</b>	<b>3</b>	<b>11</b>	<b>Nil</b>	<b>Nil</b>

It can be seen from the **Table 3.1.14**, that five Audit Reports containing three performance audits and 11 paragraphs relating to the PSUs were placed in the State Legislature. As on 30 September 2019, none of the performance audits and paragraphs placed in the State Legislature were discussed by the PAC.

### ***3.1.12.3 Compliance to Reports of Public Accounts Committee***

As of October 2019, PAC had issued total two PAC Reports containing five recommendations relating to the Audit Reports for the years 2006-07 (three recommendations) and 2007-08 (two recommendations), which were presented in the State Legislature. Action Taken Notes (ATNs) against all five recommendations have been received from the respective PSUs and the Departments concerned.

***It is recommended that the Government may ensure:***

- *furnishing of replies/explanatory notes to Paragraphs/ Performance Audits as per the prescribed time schedule;*
- *recovery of loss/ outstanding advances/ overpayments within the prescribed period;*
- *revamping of the system of responding to audit observations.*

## Compliance Audit Paragraphs

### NAMCHI SMART CITY LIMITED

#### 3.2 Non-levy of interest on Mobilisation Advance

**The Company imposed financial burden on itself by not incorporating the enabling clause in the work contracts for levy of interest of ₹ 2.56 crore on Mobilisation Advance given to contractors.**

The Namchi Smart City Limited<sup>79</sup>(NSCL) was incorporated (02 March 2017) as a public limited company under the provisions of the Companies Act, 2013. The NSCL was setup as a Special Purpose Vehicle (SPV) to develop Namchi City as a smart city as per the guidelines of Smart City Mission as drafted by the Ministry of Urban Development, Government of India.

Clause 10.6 of the Guidelines for the Smart City Mission states, “*For procurement of goods and services, transparent and fair procedures as prescribed under the State/ ULB financial rules may be followed.*” The Sikkim Public Works (SPW) Manuals 2009, *vide* sub-para (3) of Para 24.6, permitted grant of mobilisation advance (MA) to contractors who undertook capital intensive works of the Government on submission of 110 *per cent* Bank Guarantee (BG) with levy of interest at the rate of 10 *per cent* per annum (simple interest). Subsequently, the annual interest rate chargeable on MA was revised (August 2012) to five *per cent* (to be compounded annually).

During the audit (November 2019) of the records of NSCL, it was seen that as of March 2019, NSCL was implementing 55 projects. We selected 25 projects (including one PMC contract) out of 55 projects for examination, of which 24 projects were executed through contractors and one project was executed departmentally. It was seen that the agreements relating to all 24 projects provided for grant of MA, whereas 20 project agreements had the enabling clause for levy of interest on MA, but four project agreements did not provide for levy interest on MA to contractors.

It was seen that NSCL had granted MA amounting to ₹ 51.71 crore to the contractors of these four projects for which, the project agreements did not have the enabling clause for levy of interest, in contravention of SPW Manual 2009 resulting in loss of interest as given below.

<sup>79</sup> Government of Sikkim and Namchi Municipal Council hold equity shareholding of 50:50 per cent in Namchi Smart City Ltd.

**Table 3.2: Loss of interest on MA**

(₹ in crore)

Sl. No.	Particulars of works	Date of award of work	Amount of MA	Date of Drawn of MA	MA Recovered	MA Outstanding	Interest loss <sup>80*</sup>
1	Design, Procure, Supply and Commissioning of 480 Kw On-Grid Solar Photo Voltaic system using CIS thins Film Technology on various buildings premises along with Procure, Supply, Installation and Commissioning of 4000 Nos of LED Street Lights with Poles, Cabling and CCMS (EPC Contract)	01 October 2018	7.52	08 October 2018	4.81	2.71	0.29
2	Integrated Water Supply Management Augmentation of Existing Distribution Network & Strategy for Water Conservation & Reuse using Co-Polymer based Rain Water Harvesting Technology (EPC Contract)	01 February 2018	25.84	14 March 2018	6.75	19.09	1.65
3	Integrated Command and Control Centre - "Namchi Operations Centre"	08 February 2019	16.44	07 March 2019	9.98	6.46	0.49
4	Project Management Consultant (PMC)	17 May 2017	1.90	22 September 2017	1.04	0.85	0.13
<b>Total</b>			<b>51.70</b>		<b>22.58</b>	<b>29.11</b>	<b>2.56</b>

Thus, non-incorporation of the enabling clause for levy of interest on MA in four out of 25 test checked project agreements resulted in grant of undue benefit to contractors with consequential loss of interest of ₹ 2.56 crore (*Appendix – 3.2*).

NSCL stated (January 2020) that four projects were highly technical intensive and the offer for selection of vendor needed to be innovative and attractive for a remote place like Namchi. It was further stated that a generic procurement procedure was adopted for the projects making it mandatory for the contractors to submit the Bank Guarantee in all cases of MA provided without interest. NSCL, however, assured to adhere to the issue highlighted by Audit in future.

The reply is not tenable as there was nothing technical about these projects being solar grids, water supply augmentation and Control Centre projects. The fourth project was a consultancy contract. The projects should have been treated at par with other projects which had provided for levy of interest on MA.

**Recommendation: The Company/ Government may issue instructions to all the implementing departments for inclusion of an interest bearing clause for mobilisation advance in all works contract agreements.**

<sup>80</sup> \*Calculated upto October 2019 @ five per cent per annum.

**SIKKIM SCHEDULED CASTES, SCHEDULED TRIBES AND OTHER  
BACKWARD CLASSES DEVELOPMENT CORPORATION LIMITED**

**3.3 Irregular expenditure on foreign tours**

**The Corporation irregularly incurred an expenditure of ₹ 15.99 lakh on (i) a foreign study tour (₹ 9.11 lakh) arranged by a private agency with doubtful credentials and (ii) on foreign sight-seeing tour (₹ 6.88 lakh) of Chairperson of the Corporation.**

The Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited (SABCCO) (Corporation) was established in February 1996 with the main objective of promoting economic and developmental activities for benefit of Scheduled Castes (SC), Scheduled Tribes (STs) and Other Backward Classes (OBCs) of the State by providing them financial assistance in the form of micro finance.

Section 11 of Sikkim Financial Rules 1979 stipulates that “Every officer incurring or authorising expenditure from public moneys should be guided by high standard of financial propriety. Every officer should also enforce financial order and strict economy at every step and see that all relevant financial rules and regulations are observed by his own office and by subordinate disbursing officers”.

Audit noticed that during the year 2018-19, the Corporation incurred expenditure of ₹ 15.99 lakh on foreign visits of Chairman (₹ 6.88 lakh), Managing Director (MD) and General Manager (GM) (₹ 9.11 lakh) which were irregular and infructuous as detailed below:

**3.3.1 Infructuous expenditure on foreign study tours of Corporation Officials**

The Corporation received (September 2018) a letter from an organization named National Council of Training and Social Research (NCTSR) seeking participants for a study tour for “South East Asian Models of Infrastructures Developed in Singapore, Kuala Lumpur and Bangkok”. The study tour was claimed to have been specially designed for the “Executives and Decision Makers” serving in Local/ State Government and Corporate sector with a view to provide ideas, concepts and exposure to the decision-makers as infrastructure of these cities are considered as one among the best in the world. The duration of the study tour was eight days between 16 and 23 November 2018 at a cost of ₹ 3.69 lakh per participant exclusive of taxes. Based on this letter, a proposal for nominating MD and GM of SABCCO for this study tour was submitted to Chief Minister without routing the same through the administrative department concerned. Though there is no laid down standard practice to be followed for approval of such tours, to ensure the utility and actual benefits of the study tour towards achievement of Corporation’s laid down objectives, it was essential that the administrative department should properly analyse the proposal of NCTSR. The proposal was approved (13 November 2018) by the Chief Minister without eliciting the views of the administrative department. The Corporation transferred (15 November 2018) funds of ₹ 8.71 lakh to NCTSR and paid ₹ 0.40 lakh to the two officers as TA/ DA advance.

Audit scrutiny revealed that the officers had not submitted the boarding passes and hotel bills for settlement of advance. Consequent to requisitioning for the same in audit, both the officers furnished copies of their passports and one officer submitted the boarding passes for Singapore – Kuala Lumpur (Air Asia) and Bangkok – Kolkata (Spicejet) sectors. The photocopies of the passports showed that the officers had undertaken the trip during the period 22 and 30 November 2018 by obtaining visa on arrival while as per the program sent by NCTSR, the training was to be held from 16 to 23 November 2018. Moreover, neither the officers had furnished any training certificate nor NCTSR issued any training certificate on the study tour to substantiate that the training was held.

In order to verify the credentials of NCTSR, Audit made use of the internet which revealed that Ministry of Statistics and Programme Implementation, Government of India in a public notice (26 November 2014) informed that the Ministry had never established the body with name *i.e.* NCTSR and warned that any individual or organisation dealing with NCTSR shall do so at their own risk. Further, on October 2018, the Government of Delhi (GoD) had warned all the State Governments about NCTSR being a fraud company run by a gang which targeted various government officers and the victimised officers also lodged FIR in 2017. GoD also requested, if this fraud company approached for programmes an FIR should be lodged and strong action may be taken.

There were no records to show that the Corporation had taken due precaution to verify the authenticity of the NCTSR before approving the study tour. It was also observed that the study tour on infrastructure development attended by the officials was not aligned with the objective of the Corporation which was to provide micro financing assistance to the weaker sections (SC, ST & OBC) of the society.

Thus, instead of framing study tour as per needs of the Corporation, the officers opted for the tour on the basis of proposal received from NCTSR, without following any due diligence in examining and approving the proposal. The benefits derived from the expenditure incurred on the study tour organized by a body of suspicious credentials, were also doubtful.

### **3.3.2 Irregular expenditure on foreign trip of Chairperson of Corporation**

Audit observed that the Chief Minister approved (April 2018) a trip of the Chairperson of the Corporation along with two Chairpersons of other Company and Society<sup>81</sup>, to visit European countries. The proposal was, however, not routed through the administrative department concerned. The tour which was arranged by a private travel agency based at Kolkata was to commence from 22 May 2018 initially. The cost of the package was ₹ 3.03 lakh per person inclusive of airfare, for visit to historical places, food, lodging and taxes. Accordingly, the Corporation paid (13 April 2018) the same to the travel agency.

Audit noticed that due to the late receipt of visa of the other two Chairpersons, the trip was cancelled and the amount of ₹ 3.03 lakh paid lapsed since the same was non -

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<sup>81</sup> Chairpersons of State Bank of Sikkim and Denzong Agricultural Cooperative Society.

refundable. However, another package was booked through the same travel agency and the trip was undertaken between 22 to 28 June 2018 at a cost of ₹ 2.56 lakh besides other expenses amounting to ₹ 1.29 lakh. Thus, the total expenditure of ₹ 6.88 lakh incurred from the Corporation's fund for tour of the Chairman was not in line with the objectives of the Corporation, and thus irregular.

In their reply (October 2019), the Corporation stated that the Asian tour had benefitted the participants by way of learning new and innovative means like vertical farming, cluster development and environment friendly tourism. The new and innovative ideas will be implemented in Sikkim by way of financing the individuals, groups and communities by creating infrastructure through financing for uplifting the weaker sections of the society. Further, it also stated that the Chairman tour was conducted to expose the head of the organization to the best practice of functioning of similar institution in the European countries.

The reply of the Corporation in response to the Asian study tour is not tenable since as per NCTSR, the study tour related to urban infrastructural development and the involvement of the Corporation's officials dealing in micro financing to the weaker sections of the society, was not in sync with the training module. Further, the claims that the Corporation had benefited from the study tour which would enable them to introduce new techniques such as vertical farming is unacceptable as the Corporation being a micro finance institution does not have the technical expertise to evaluate the feasibility of implementing new techniques of farming in the State. The reply in response to the Chairman's foreign tour is not tenable as the itinerary and the final bills of the tour revealed no official engagement of the Chairman during trip. Moreover, the officials had not submitted any study report/ training certificates.

Considering that the officers could not furnish proof of attending the training the expenditure incurred by the Corporation on account of both the tours may be considered for recovery from the officers concerned.

Thus, expenditure of ₹ 15.99 lakh on foreign visits on pretext of study tours was irregular and infructuous and the actual benefits expended on these accounts were doubtful.

***Recommendation: The Government may verify the credentials of private agencies organising foreign tours of Government personnel before approving the tours. They may reassess critically the proposals for foreign tours of officials and non-officials.***

