



**CHAPTER-V:
FUNCTIONING OF STATE
PUBLIC SECTOR ENTERPRISES**

Chapter V: Functioning of State Public Sector Enterprises

This Chapter provides an overall picture on the functioning of the State Public Sector Enterprises (SPSEs). The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned/controlled Government Companies set up under the Companies Act, 2013/Sikkim Registration of Companies Act 1961 and Statutory Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim.

SUMMARY OF FINANCIAL PERFORMANCE OF STATE PUBLIC SECTOR ENTERPRISES

5.1 Introduction

This Chapter presents the financial performance of ‘State Public Sector Enterprises’. The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned companies set up under the Companies Act, 2013, Registration of Companies Act, Sikkim 1961 and Statutory Corporations setup under the statutes enacted by the Parliament and State legislature.

A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary of a Government Company.

Besides, any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government controlled other Companies.

5.2 Mandate

Audit of ‘Government Companies’ and ‘Government Controlled Other Companies’ is conducted by the Comptroller & Auditor General (CAG) of India under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG’s (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made thereunder. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for Government companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has right to conduct the supplementary audit of the financial statements of such companies.

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 Companies registered under Registration of Companies Act, Sikkim 1961 are audited on entrustment basis, under the provisions of Section 20 (1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. The statutes governing some Statutory Corporations require their accounts to be audited only by CAG.

5.3 Working and non-working SPSEs

As on 31 March 2020, there were 22 SPSEs (16 working and six non-working) in Sikkim and only 16 working SPSEs were under the audit jurisdiction of the CAG. The State Government did not extend the audit entrustment of six non-working SPSEs to CAG. The 16 working SPSEs audited by CAG included 12 Government Companies, and four Statutory Corporations as shown in **Table 5.1**.

Table 5.1: Details of working SPSEs audited by CAG

Type of SPSEs	SPSEs (all working)	Audit Mandate
Government Companies registered under the Sikkim Registration of Companies Act 1961	8	Audited by CAG on entrustment basis under section 20(1) of CAG (DPC)'s Act 1971
Government Companies registered under the Companies Act, 2013	4	Supplementary audit by CAG as per the provisions of the Companies Act, 2013
Statutory Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim	4	Audited by CAG under Section 19(3) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971
Total	16³³	

Table 5.2 below provides the comparative details of working SPSEs' turnover and State GSDP for a period of three years ending 2019-20.

Table 5.2: Contribution of SPSEs-turnover to GSDP

(₹ in crore)

Particulars	2017-18	2018-19	2019-20
SPSEs-Turnover ³⁴	290.83	2,119.51	2,518.51
GSDP	25,971	28,723	32,496
Percentage of Turnover to GSDP	1.12	7.38	7.75

Source: As per latest finalised accounts of SPSEs.

As could be noticed from the Table above, the contribution of SPSEs' turnover to GSDP over the past three years from 2017-18 to 2019-20 has shown a significant (overall) increase from 1.12 per cent to 7.75 per cent. The major contributors to SPSEs' turnover during 2019-20 were Teesta Urja Limited (₹ 1,613.52 crore) and Teestavalley Power Transmission Limited (₹ 300.43 crore).

³³ Does not include Sikkim Handicraft and Handloom Development Corporation Limited which was entrusted to CAG in August 2020

³⁴ As per the latest finalised accounts of working SPSEs as on 30th September of respective years.

5.4 Investment in SPSEs

State Government's investment in SPSEs

The State's investment in the SPSEs was by way of Equity Share Capital and Long Term Loans. The figures of State investment towards Equity Capital and Loans of SPSEs as per the records of the SPSEs should agree with the corresponding figures appearing in the Finance Accounts of the State. In case of differences in the investment figures, the SPSEs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard for last three years is given in **Table 5.3**.

Table 5.3: Equity and Loans outstanding as per the State Finance Accounts vis-à-vis records of SPSEs for last three years

(₹ in crore)

Year	2017-18			2018-19			2019-20		
	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference
Equity	47.26	39.38	7.88	50.19	45.40	4.79	43.70	47.90	4.20
Loans	37.03	2.03	35.00	37.03	2.03	35.00	37.03	2.03	35.00

Source: As per State Finance Accounts and as per records of SPSEs.

Note: The figure of equity and loans (as per SPSEs records) having arrear of accounts, are provisional

It can be noticed from the **Table** above that, as on 31 March 2020, as per records of SPSEs, the Equity investment made by Government of Sikkim (GoS) increased by ₹ 8.52 crore from ₹ 39.38 crore in 2017-18 to ₹ 47.90 crore in 2019-20, an increase of 21.64 per cent. The GoS had not extended any loans to the SPSEs during the same period. However, there were differences in the figures of Equity (₹ 4.20 crore) and Loan (₹ 35.00 crore) as on 31 March 2020, as per two sets of records. Out of total 10 SPSEs where the GoS had made direct investment, the differences existed in respect of eight³⁵ SPSEs.

The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in a time bound manner. The Government should correct the system of financing the SPSEs and the Finance accounts may be updated.

³⁵ Sikkim SC ST OBC Development Corporation, Sikkim Industrial Development and Investment Corporation, Sikkim Power Investment Corporation Limited, Sikkim Power Development Corporation, Sikkim Tourism Development Corporation, Gangtok Smart City Development Limited, Namchi Smart City Limited and Sikkim Trading Corporation of Sikkim

5.5 Budgetary assistance to SPSEs

The State Government provides financial support to SPSEs in various forms through annual budgetary allocations. The summarised details of budgetary support towards Equity, Loans and Grants/ Subsidies extended to the SPSEs during past three years are given in **Table 5.4**.

Table 5.4: Details regarding annual budgetary support to SPSEs

(₹ in crore)

Particulars	2017-18		2018-19		2019-20 ³⁶	
	No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
Equity capital outgo from budget	0	0	2	6.02	1	2.50
Loans given from budget	0	0	0	0	0	0
Grants/subsidy from budget	2	11.60	2	10.79	1	6.50
Total Outgo	2	11.60	4	16.81	2	9.00

Source: As per SPSEs records

It can be noticed from Table 5.4 that the budgetary support provided by State Government to SPSEs decreased from ₹ 11.60 crore in 2017-18 to ₹ 9.00 crore in 2019-20. The recipients of budgetary support during 2019-20 were Sikkim Power Development Corporation (Equity ₹ 2.50 crore) and Temi Tea Estates (Grants: ₹ 6.50 crore).

5.6 Returns from Government Companies and Corporations

Profit earned and Dividend paid by SPSEs

The position of aggregate profit earned and dividend paid by profit earning SPSEs during the past three years as per the latest finalised accounts as on 30 September of respective year is given in **Table 5.5**.

Table 5.5: Details of profits earned and dividend paid by working SPSEs

Year	2017-18	2018-19	2019-20
Number of profit earning working SPSEs	5	7	7
Aggregate profit earned (₹ in crore)	12.98	15.75	59.28
Dividend paid	1.33	1.33	1.33

As can be noticed from Table above, during last three years five to seven working SPSEs earned aggregate profits ranging from ₹ 12.98 crore (2017-18) to ₹ 59.28 crore (2019-20). Only one SPSE (State Bank of Sikkim) had declared dividend during each of the last three years. There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the SPSEs.

³⁶ As of 31.03.2020 except for Sikkim Poultry Development Corporation (2017-18), Sikkim Hatcheries Limited (2017-18) and Sikkim Livestock Processing Development Corporation Limited (2013-14)

During 2019-20, out of total 16 working SPSEs, seven SPSEs (three Companies and four Statutory Corporations) earned aggregate profits of ₹ 59.28 crore as per their latest finalised accounts. Analysis of the working results of the SPSEs revealed that more than 96 per cent (₹ 57.43 crore) of the SPSEs aggregate profits (₹ 59.28 crore) were contributed by two SPSEs (Teestavalley Power Transmission Limited (₹ 34.19 crore) and State Bank of Sikkim (₹ 23.24 crore) as per its latest finalised accounts (2019-20/2018-19) as on 30 September 2020. This indicated that the other SPSEs had not contributed towards the profit of the public sector enterprises.

5.7 Long Term Debt of SPSEs

The position of outstanding Long Term Debts of the SPSEs during the last three years as per their latest finalised accounts is given in **Table 5.6**.

Table 5.6: Position of Outstanding loans of the SPSEs

Particulars	2017-18	2018-19	2019-20
Total Loans outstanding (State Government and Others)	14063.14	13284.89	13468.47
State Government Loans outstanding	2.03	2.03	2.03
Interest on Total Loans	473.37	1533.88	1725.66
Interest on State Loan ³⁷	0	0	0

It can be noticed from the Table above that during 2019-20, the total long-term borrowings of the SPSEs (Companies and Corporations) from all sources registered an increase of ₹ 183.58 crore as compared to previous year (2018-19). This was mainly due to increase of ₹ 225.39 crore in loans of the power sector SPSE (Sikkim Power Investment Corporation Limited) during 2019-20 from ₹ 2,781.35 crore (2018-19) to ₹ 3,006.74 crore (2019-20). The State Government loans to SPSEs during last three years remained constant at ₹ 2.03 crore as per their latest finalised accounts. There were, however, no outstanding long-term loans in respect of seven out of 16 working SPSEs as per their latest finalised accounts.

5.8 Operating Efficiency of SPSEs

Key parameters

Some of the key parameters of the operational efficiency of working SPSEs for last three years as per their latest finalised accounts as on 30 September of the respective year are given in **Table 5.7** below:

³⁷ Interest figures as available in the latest finalised accounts of respective SPSEs.

Table 5.7: Key parameters of operational efficiency of working SPSEs

(₹ in crore)

Year	No. of working SPSEs	Paid up capital	Net overall Accumulated profits (+)/losses(-)	Net overall profits (+)/losses(-)	EBIT	Capital Employed ³⁸
2017-18	16	3680.55	-761.27	-320.47	201.08	17078.60
2018-19	16	3693.83	-2089.94	-567.36	1201.19	15006.94
2019-20	16	3713.39	-2266.61	-438.76	1534.38	15054.90

From the Table above, it can be seen that, over the last three years the position of the Net overall losses has deteriorated from ₹ 320.47 crore (2017-18) to ₹ 438.76 crore (2019-20) while 'Earnings before Interest and Tax' (EBIT) during the three years has shown improvement. The Capital Employed of SPSEs during 2019-20 has decreased mainly due to decrease in the long term borrowings of the SPSEs from ₹ 14,063.14 crore (2017-18) to ₹ 13,468.47 crore (2019-20).

Further, the net overall accumulated losses of SPSEs have increased over the period. The major contributors to the accumulated losses of SPSEs during 2019-20 were Teesta Urja Limited (₹ 1,169.47 crore) and Sikkim Power Investment Corporation Limited (₹ 1,000.30 crore). The accumulated losses of above mentioned SPSEs during 2019-20 were set off marginally, by the accumulated profits of Teestavalley Power Transmission Limited (₹ 18.39 crore) and Sikkim Industrial Development and Investment Corporation (₹ 14.17 crore).

5.9 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 in excess of the cost of capital. ROCE is an important metric for long term lenders. ROCE is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by the Capital Employed.

During 2019-20, the overall capital employed in respect of 16 working SPSEs as per their latest finalised accounts was ₹ 15,054.90 crore. Further, out of 16 working SPSEs, ten SPSEs³⁹ had positive ROCE.

In comparison, however, the overall capital employed in respect of working SPSEs during the previous two years were ₹ 17,078.60 crore (2017-18) and

³⁸ **Capital Employed**= Paid up share capital plus Free reserves and Surplus plus Long term loans minus Accumulated losses minus Deferred revenue expenditure.

³⁹ Sikkim SC ST & OBC Development Corporation, Sikkim Industrial Development and Investment Corporation, Teesta Urja Limited, Teestavalley Power Transmission Limited, Sikkim Power Investment Corporation Limited, Sikkim Power Development Corporation Limited, Sikkim Tourism Development Corporation, State Bank of Sikkim, State Trading Corporation of Sikkim and Government Fruit Preservation Factory.

₹ 15,006.94 crore (2018-19) respectively. Further, out of 16 working SPSEs, seven and nine SPSEs⁴⁰ had positive ROCE during 2017-18 and 2018-19 respectively.

5.10 Return on Equity (ROE)

Return on Equity⁴¹ (ROE) is a measure of financial performance of companies calculated by dividing the 'net income earned' by the Equity. During 2019-20, seven working SPSEs had earned profits of ₹ 59.28 crore, as per their latest finalised accounts as on 30 September 2020. However, one⁴² SPSE earning profit had negative ROE.

The ROE of remaining six SPSEs that earned profit ranged from 1.26 to 68.89 per cent as detailed in **Table 5.8** below.

Table 5.8: Return on Equity

Sl. No.	Name of the Company	Year of Accounts	ROE (in per cent)
1.	Sikkim Industrial Development and Investment Corporation	2018-19	2.46
2.	Teestavalley Power Transmission Limited	2019-20	8.40
3.	Sikkim Tourism Development Corporation	2016-17	1.26
4.	State Bank of Sikkim	2018-19	29.88
5.	State Trading Corporation of Sikkim	2018-19	1.86
6.	Government Fruit Preservation Factory	2018-19	68.89

5.11 SPSEs incurring Losses

The position of aggregate losses incurred by loss making working SPSEs during the past three years as per their latest finalised accounts is given **Table 5.9**.

Table 5.9: Details of loss making working SPSEs

Year	2017-18	2018-19	2019-20
Total No. of working SPSEs	16	16	16
Number of loss making working SPSEs	11	10	9 ⁴³
Aggregate losses (₹ in crore)	329.66	583.18	498.04

Source: Latest finalised Accounts of SPSEs

The details of major contributors to losses of working SPSEs (₹ 498.04 crore) incurred during 2019-20 are given in **Table 5.10** below:

⁴⁰ Sikkim SC ST & OBC Development Corporation, Sikkim Industrial Development and Investment Corporation, Teesta Urja Limited, Teestavalley Power Transmission Limited, Sikkim Power Investment Corporation Limited, Sikkim Tourism Development Corporation, State Bank of Sikkim, State Trading Corporation of Sikkim (2018-19) and Namchi Smart City Limited (2018-19).

⁴¹ **Return on Equity** = (Net Profit after Tax and preference Dividend ÷ Equity) x 100, where **Equity** = Paid up Capital plus Free Reserves and Accumulated profit minus Accumulated losses and Deferred Revenue Expenditure.

⁴² Temi Tea Estates

⁴³ Including one SPSE (Gangtok Smart City Ltd.) which made nominal losses (₹ 833.00) as per its latest finalised accounts for 2018-19.

Table 5.10: Major contributors to losses of working SPSEs during 2019-20

(₹ in crore)

Sl. No.	Name of the Company	Latest finalised accounts	Net Loss
1	Teesta Urja Limited	2018-19	313.06
2.	Sikkim Power Investment Corporation Limited	2019-20	184.31
Total			497.37

It can be noticed that more than 99 per cent (₹ 497.37 crore) of the losses incurred by working SPSEs (₹ 498.04 crore) during 2019-20 were contributed by the above mentioned two SPSEs.

5.12 SPSEs having complete erosion of capital

The aggregate paid-up capital and accumulated losses of 16 working SPSEs as per their latest finalised accounts as on 30 September 2020 were ₹ 3,713.39 crore and ₹ 2,266.61 crore respectively. Analysis of investment and accumulated losses of these SPSEs revealed that the accumulated losses of four working SPSEs (₹ 1,119.52 crore) had completely eroded their paid-up capital (₹ 73.50 crore) as detailed in **Table 5.11**.

Table 5.11: Erosion of Capital of SPSEs

(₹ in crore)

Name of SPSE	Latest finalised accounts	Paid up capital	Accumulated losses
Sikkim Hatcheries Limited	2017-18	0.46	(-) 2.71
Sikkim Livestock Processing and Development Corporation Limited	2013-14	0.69	(-) 1.04
Sikkim Power Investment Corporation Limited	2019-20	0.01	(-) 1,000.30
Sikkim Power Development Corporation	2018-19	72.34	(-) 115.47
Total		73.50	(-) 1,119.52

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

OVERSIGHT ROLE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

5.13 Audit of State Public Sector Enterprises (SPSEs)

The CAG of India appoints the Statutory Auditors of a Government Company and Government Controlled Other Company under Section 139(5) and (7) of the Companies Act, 2013. For Companies registered under Sikkim Registration of Companies Act, 1961, the Board of Directors of the respective companies appoints the Statutory Auditors. The CAG has a right to conduct a supplementary audit and supplement or comment upon the Audit Report of the Statutory Auditor in respect of companies registered under the Companies Act, 2013. Besides, supplementary

audit of the accounts of the Companies registered under Sikkim Registration of Companies Act, 1961 as well as the Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim has been entrusted to the CAG and Audit Reports are submitted to the State Legislature.

5.14 Appointment of statutory auditors of SPSEs by CAG

Sections 139 (5) of the Companies Act, 2013 provides that the Statutory Auditor in case of a Government Company or Government Controlled Other Company is to be appointed by the CAG within a period of 180 days from the commencement of the financial year. The Statutory Auditors of four SPSEs⁴⁴ registered under Companies Act, 2013 and the erstwhile Companies Act, 1956, are appointed by the CAG. In respect of eight Companies registered under Sikkim Registration of Companies Act 1961 and four Corporations, the Statutory Auditors are to be appointed by the Board of Directors of the SPSEs concerned.

5.15 Submission of accounts by SPSEs

Need for timely submission

According to Section 394 of the Companies Act 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the State Legislature together with a copy of the Audit Report and any comments up on or supplement to the Audit Report made by the CAG. This mechanism provides the necessary legislative control over the utilization of public funds invested in the four working companies from the State budget, registered under the Companies Act, 2013. However, similar provisions do not exist in the Sikkim Registration of Companies Act 1961 regulating the remaining eight working Companies and in the Acts regulating the four working statutory corporations. The Separate Audit Reports along with the Accounts of these 12 SPSEs are laid before the State Legislature under Section 20(1)/ 19A(3) of the CAG's DPC Act 1971.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also states that not more than 15 months shall elapse between the dates of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statements for the financial year have to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 also provides for levy of penalty like fine and imprisonment of the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

⁴⁴ *Companies Act, 1956: Teesta Urja Limited (TUL) and Teestavalley Power Transmission Limited (TPTL) and Companies Act, 2013: Namchi Smart City Limited (NSCL) and Gangtok Smart City Development Limited (GSCDL).*

No such provisions exist either in the Sikkim Registration of Companies Act, 1961 or in the Acts regulating the Statutory Corporations, under which eight Companies and four Statutory Corporations have been incorporated.

The details of annual accounts of various SPSEs pending finalisation as on 30 September 2020 are discussed in the succeeding paragraphs.

5.16 Timeliness in preparation of accounts by SPSEs

The details relating to finalisation of accounts by 16 working SPSEs (12 Government Companies and four Statutory Corporations) during the last three years as of 30 September of respective year are given **Table 5.12**.

Table 5.12: Position relating to finalisation of Accounts of working SPSEs

Sl. No.	Particulars	2017-18	2018-19	2019-20
1.	Number of working SPSEs	16	16	16
2.	Number of Accounts finalised during the year	7	39	11
3.	Number of Accounts in arrears	45	22	27
4.	Number of Working SPSEs with arrears in Accounts	13	12	14
5.	Extent of arrears (number in years)	1 to 9	1 to 6	1 to 6

The accounts of only two⁴⁵ out of 16 working SPSEs were up-to-date as on 30 September 2020. Remaining 14 working SPSEs had a backlog of 27 accounts for periods ranging from one to six years. The highest number of six Accounts was pending finalisation in respect of Sikkim Livestock Processing and Development Corporation, which finalised its accounts upto 2013-14 as on 30 September 2020.

The Administrative Departments concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts of SPSEs under their control are finalised and adopted by the SPSEs within the stipulated / reasonable period.

The Principal Accountant General (Audit), Sikkim had been regularly pursuing with the Administrative Departments and concerned SPSEs for liquidating the arrears of accounts of SPSEs. However, the Departments and the SPSEs concerned could not address the issue to clear pendency of accounts of the SPSEs in a time bound manner.

5.17 CAG's oversight - Audit of accounts and supplementary audit

Financial reporting framework

Companies are required to prepare the Financial Statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards. However, there is no such

⁴⁵ Teestavalley Power Transmission Limited and Sikkim Power Investment Corporation Limited

prescribed framework under Sikkim Registration of Companies Act 1961. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts as stipulated under the Act governing such Corporations.

5.18 Audit of accounts of Government Companies by Statutory Auditors

The Statutory Auditors appointed by the CAG under Section 139 of the Companies Act 2013, conduct audit of accounts of the Government Companies and submit their Report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG provides oversight by monitoring the performance of the Statutory Auditors in conducting the audit of the SPSEs with the overall objective that the Statutory Auditors discharge the functions assigned to them properly and effectively.

This function is discharged by exercising the power:

- to issue directions to the statutory auditors under Section 143 (5) of the Companies Act, 2013;
- to supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013; and
- to supplement or comment upon the statutory auditor's report under Section 20 (1) and 19 (3) of the CAG DPC Act 1971.

5.19 Supplementary Audit of accounts of Government Companies

The prime responsibility for preparation of Financial Statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Acts is of the Management of the Entity.

The Statutory Auditors appointed by the CAG under Section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the Financial Statements under Section 143 of the Companies Act, 2013 based on independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India (ICAI) and directions given by the CAG. The Statutory Auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the Report of the Statutory Auditors are reviewed by CAG by carrying out a Supplementary Audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the Annual General Meeting. The Separate Audit Report, containing the supplementary audit findings of the CAG, of companies registered under Sikkim Registration of Companies Act, 1961 may be placed before the State Legislature at the discretion

of the CAG⁴⁶. In respect of the Statutory Corporations, Section 19 A(3) of the CAG DPC Act, 1971 stipulates that the Separate Audit Report should be placed before the State Legislature.

5.20 Result of CAG’s oversight role

❖ Audit of accounts of SPSEs

Government Companies/ Government Controlled Other Companies

During 2019-20, six working Companies forwarded total eight accounts to the Principal Accountant General (Audit), Sikkim. All accounts were selected for Supplementary Audit during the year. None of the SPSEs was issued a ‘Non-Review Certificate’ (NRC) during the year 2019-20.

Statutory Corporation

The Principal Accountant General (Audit), Sikkim has four Statutory Corporations under his audit purview for which the Supplementary Audit is conducted. During 2019-20, two Statutory Corporations submitted three accounts to the PAG (Audit), Sikkim for audit.

The audit reports of Statutory Auditors appointed by the CAG and the Supplementary Audit conducted by the CAG indicated that the quality of maintenance of SPSEs’ accounts needs to be improved substantially. The results of the review are detailed below:

❖ Significant comments of the CAG issued as supplement to the Statutory Auditors’ reports on SPSEs

Some of the significant comments issued on the financial statements of the SPSE are detailed **Table 5.13**.

Table 5.13: Gist of significant comments on the accounts of the SPSEs

Sl. No.	Name of the SPSEs	Comments
1	Sikkim Power Investment Corporation Limited (SPICL) (Year of Accounts: 2019-20)	<ul style="list-style-type: none"> • SPICL erroneously accounted ₹ 49.52 crore infused by the State Government towards Equity Capital, as its Revenue. This resulted in understatement of “Share Capital (Share application money pending allotment)” as well as “Accumulated losses” by ₹ 49.52 crore each. • SPICL failed to provide for the permanent diminution in value of investment leading to overstatement of “Investments” and understatement of “Provision for losses” by ₹ 50 crore each.

⁴⁶ As per Clause 7 of Standard Terms and Conditions for entrustment of audit to CAG under section 20(1) of the CAG (DPC) Act 1971

Sl. No.	Name of the SPSEs	Comments
2	State Trading Corporation of Sikkim (STCS) (Year of Accounts: 2018-19)	<ul style="list-style-type: none"> • STCS did not account the appreciation in the value of Land from ₹ 0.03 crore to ₹ 2.56 crore in violation of the provisions of paragraph 13.7 of Accounting Standard 10. This has resulted in understatement of “Land” and ‘Reserves and Surplus-Revaluation Reserves’ by ₹ 2.56 crore each.
3	State Bank of Sikkim (Year of Accounts: 2018-19)	<ul style="list-style-type: none"> • The Cash Balances of the Government of Sikkim of ₹ 38.78 crore with the bank was depicted as ₹ 70.20 crore in the Finance Account. The difference of ₹ 31.42 crore has neither been reconciled nor the fact disclosed under the ‘notes to accounts’ of the Financial Statements

5.21 Management Letters

One of the objectives of financial audit is to establish communication on audit of Financial Statements between the auditor and those charged with the responsibility of governance of the corporate entity.

The material observations on the Financial Statements of SPSEs were reported as comments by the CAG under Section 143 (6)(b) of the Companies Act, 2013 or as per Section 20(1)/ 19(3) of CAG’s DPC Act 1971. Besides these comments on accounts, the irregularities or deficiencies observed by CAG in the Financial Statements or in the reporting process, were also communicated to the management separately through a ‘Management Letter’ for taking corrective action. These deficiencies generally related to -

- application and interpretation of accounting policies and practices,
- adjustments arising out of audit that could have a significant effect on the Financial Statements, and
- Inadequate or non-disclosure of certain information on which management of the concerned SPSE gave assurances that corrective action would be taken in the subsequent year.

During 2019-20, the ‘Management Letters’ were issued to two SPSEs as shown in **Table 5.14**.

Table 5.14: List of the SPSEs where Management Letters were issued

Sl. No.	Name of the SPSEs (Year of accounts finalised)
1	Gangtok Smart City Development Limited (2018-19)
2	State Bank of Sikkim (2018-19)

5.22 Conclusion

As on 31 March 2020, the State of Sikkim had 22 SPSEs (16 working and six non-working) and only 16 working SPSEs were under the audit jurisdiction of the CAG. The State Government did not extend the audit entrustment of six non-working SPSEs to CAG. The 16 working SPSEs audited by CAG included 12 Government Companies, and four Statutory Corporations. The CAG conducts supplementary audit of four SPSEs (all companies registered under the Companies Act, 2013) as per the provisions of the Companies Act, 2013 while the audit of remaining 12 SPSEs (eight companies registered under the Sikkim Registration of Companies Act 1961 and four Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim) is conducted by CAG on entrustment basis under section 20 (1)/19 (3) of CAG's (Duties, Powers and Conditions of Services) Act, 1971.

As on 31 March 2020, there was a difference of ₹ 39.20 crore in the investment figures of the State Government (Equity: ₹ 4.20 crore; Long-term Loans: ₹ 35.00 crore) as per State Finance Accounts *vis-à-vis* records of SPSEs. The differences in investment figures existed in respect of eight SPSEs.

During 2019-20 the State Government has provided budgetary support of ₹ 9.00 crore to two SPSEs in the form of Equity (₹ 2.50 crore) and Grants/subsidy (₹ 6.50 crore). The recipients of budgetary assistance were Sikkim Power Development Corporation (Equity: ₹ 2.50 crore) and Temi Tea Estates (Grants: ₹ 6.50 crore).

During 2019-20, out of total 16 working SPSEs, seven SPSEs earned profits (₹ 59.28 crore) as per their latest finalised accounts. However, more than 96 per cent (₹ 57.43 crore) of the profits (₹ 59.28 crore) earned by seven SPSEs was contributed by two SPSEs, namely, Teestavalley Power Transmission Limited (₹ 34.19 crore) and State Bank of Sikkim (₹ 23.24 crore). Further, the accumulated losses (₹ 1,119.52 crore) of four out of 16 working SPSEs had completely eroded their paid-up capital (₹ 73.50 crore) as per their latest finalised accounts.

As on 30 September 2020, 14 out of 16 SPSEs had a total arrear of 27 Accounts ranging from one to six years. The highest number of accounts pending finalisation pertained to Sikkim Livestock Processing and Development Corporation (six Accounts).

5.23 Recommendations

- *The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long term Loans) of the State Government as appearing in the State Finance Accounts vis-à-vis SPSE records in a time-bound manner.*
- *Accumulation of huge losses by four out of 16 working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to review the working of these SPSEs to either improve their profitability or close their operations.*
- *The Administrative Departments overseeing the SPSEs having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.*

Gangtok
The: 08 October 2021


(SUSHIL KUMAR)
Principal Accountant General (Audit), Sikkim

Countersigned

New Delhi
The: 14 October 2021


(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

