

CHAPTER I
INTRODUCTION

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from the performance audits and test audit of transactions of various departments of the Government of Sikkim pertaining to Social, Economic (non-PSU), Economic (PSU), Revenue and General Sectors.

The primary purpose of this Report is to bring to the notice of the State Legislature, significant results of audit. Auditing standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective action, to frame appropriate policies as well as to issue directives that will lead to improved financial management and contribute to better governance.

This Chapter in addition to explaining the planning and coverage of audit, provides a synopsis of significant instances of non-compliance with applicable laws, rules, regulations, various orders and instructions issued by competent authorities.

1.2 Historical Background and Authority for Audit

Sikkim is the 22nd State of the Indian Union, having merged with the Indian Union on 26 April 1975. Initially Sikkim Cell was created under the charge of Joint Director, in the Office of the Director of Audit, Central, Kolkata, to discharge the accounting and auditing functions for the State of Sikkim. A full-fledged office as an independent unit started functioning in Gangtok *w.e.f* 10 December 1981. Consequent to restructuring of cadres in the Indian Audit and Accounts Department on 01 March 1984, this Office was bifurcated into two offices, viz. Accounts & Entitlement Office (A&E) and Audit Office. The office is headed by Principal Accountant General.

Under the directions of C&AG, the Office of the Principal Accountant General (Audit), Sikkim conducts audit of Government departments, Public Sector Undertakings, Autonomous Bodies and other Institutions¹ under Social, Economic, Revenue and General Sectors, which are spread all over the State. The Principal Accountant General (Audit) is assisted by a Deputy Accountant General.

The authority of audit is derived from Article 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (C & AG's (DPC) Act). Under Section 13 of the C & AG's (DPC) Act the Office of the Principal Accountant General (Audit) has been entrusted with the audit of all expenditure incurred from the Consolidated Fund of Government of Sikkim. This office conducts audit of revenue receipts of Government of Sikkim under Section 16 of the C & AG's (DPC) Act. The office of Principal Accountant

¹ *Audit of World Bank assisted projects, Asian Development Bank assisted projects etc.*

General (Audit) conducts supplementary audit of the accounts of four State Government companies under Section 143 (6) (a) of the Companies Act, 2013, as these companies are registered under the Companies Act, 2013. The Companies Act 1956 as well as Companies Act 2013 have not been extended to the State of Sikkim. Therefore, other companies of the State Government, (except the four companies) are registered under State's own "Registration of Companies Act Sikkim 1961". Audits of these companies are entrusted to CAG of India by the State Government from time to time.

This office is responsible for audit of accounts of autonomous bodies and authorities falling under Section 14, 15, 19 (2), 19 (3) and 20 (1) of C & AG's (DPC) Act. The C&AG prescribes the principles and methodologies for various audits in the Auditing Standards and the Regulations on Audit and Accounts, 2007.

1.3 Planning and conduct of Audit

Audit process commences with the assessment of risk of the departments based on the expenditure incurred, criticality/complexity of activities, priority accorded for the activity by the Government, level of delegated financial powers, assessment of internal controls, concerns of stakeholders, previous audit findings, *etc.* Based on this risk assessment, frequency and extent of audit are decided and an annual audit plan is formulated to conduct audit.

After completion of each audit, Inspection Report (IR) containing audit findings is issued to the Head of the unit with a request to furnish replies within one month of receipt of the IR. Wherever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in the Government, are processed for inclusion in the Audit Reports which are submitted to the Governor of Sikkim under Article 151 of the Constitution of India for causing them to be laid on the Table of the State Legislature.

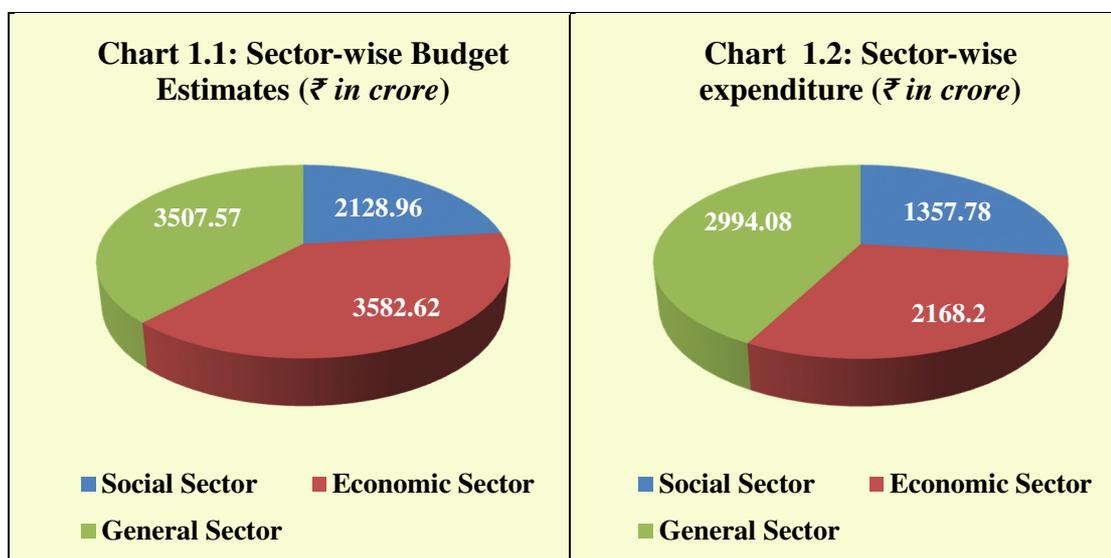
Audit Plan is prepared in such a way that it fits into the long term and short-term goals of audit in consonance with the overall "Vision and Mission" of the Indian Audit & Accounts Department. It is prepared after carrying out risk assessment and keeping in view the available manpower. Elements of the Audit Quality Management Framework (AQMF) *viz.* materiality, inputs from Voucher Level Computerisation (VLC), financial size of the units, data from various *e*-governance initiatives taken by government, flagship programme undertaken by auditees, press criticism/ electronic media coverage, expected audit impact and continuous improvement based on past experience, *etc.* are taken into account to the extent possible while framing out the plan. A sector wise analysis of government spending, investment policy of the government in infrastructure development, industrialisation and socio-economic activities along with due consideration of possible audit impact is taken into account in prioritising auditee units for preparing the audit plan.

Considering the availability of resources, focus has been given in areas of high financial risk than to thinly spreading out the resources throughout the Government activities. This would have better socio-economic impact and add value to governance.

Out of 661 auditee units², we planned 247 units³ for audit during 2019-20 after carrying out risk assessment and keeping in view the available manpower, of which 178⁴ units were actually audited during 2019-20.

1.4 Significant Audit Observations

During the year 2019-20, the State Government had incurred an expenditure of ₹ 7,072.33 crore against the budget provision of ₹ 9,219.15 crore under Social, Economic and General Sectors. Sector wise budget estimates and expenditure during year 2019-20 is depicted in the Chart Nos. 1.1 and 1.2 respectively.



Source: Appropriation Accounts 2019-20

This Report *inter alia* contains one Performance Audit titled “**Direct Benefit Transfer**” alongwith one Subject Specific Compliance Audit paragraph on *processing of refund under GST in Sikkim* and nine Audit paragraphs. These are discussed in the respective succeeding chapters.

² Including 55 Commercial Units

³ Including 18 Commercial Units

⁴ Including 8 Commercial Units

