OVERVIEW

This Audit Report consists of seven chapters. Chapters II to VI deal with Social, Economic (non-PSU), Economic (Public Sector Undertakings), Revenue and General Sectors and Chapter I and Chapter VII deal with Introduction and Follow up of Audit observations respectively.

This Report contains one Performance Audit, one Subject Specific Compliance Audit on transitional credits under GST in Sikkim and eight Compliance Audit Paragraphs besides the introductory chapters. The Reports of Performance Audit, Subject Specific Compliance Audit and Compliance Audit Paragraphs were sent to the Secretaries of the Departments concerned by the Principal Accountant General (Audit) with request to furnish replies. Replies received have been suitably incorporated in the Report.

SOCIAL SECTOR

The Chapter on Social Sector consists of one Compliance Audit Paragraph.

COMPLIANCE AUDIT

Health and Family Welfare Department did not realise lease fee of ₹ 4.92 crore from the Manipal Group for the land and buildings leased out to the Group since September 1998 for establishment of the Central Referral Hospital and Medical College. Further, department failed to monitor compliance to the provisions of the agreement in respect of social benefits.

Recommendation: *Department may take necessary steps to recover lease rent from SMIMS and devise a suitable format / returns to be submitted by Manipal Group periodically to ensure compliance to the conditions of the agreement.*

(Paragraph 2.3; Page-8)

ECONOMIC SECTOR

The Chapter on Economic Sector consists of two Compliance Audit Paragraphs.

COMPLIANCE AUDIT

Due to failure to use loan within stipulated period and execute the project as per schedule, the Sikkim Housing Development Board (SHDB) had to pay ₹ 2.34 crore to HUDCO towards avoidable regular interest, penal interest and deferment charges.

Recommendation: *The SHDB may carefully execute financial arrangements to the project to avoid unnecessary financial cost to the project. Also, the State Government may fix the responsibility for lapses and should ensure the timely utilisation of loan to avoid the penal charges in future during execution of Phase-II of CMRHM project.*

(Paragraph 3.3; Page-15)

Interest free advances amounting to ₹ 17.83 crore were granted to the contractors for execution of 34 road works by Rural Development Department, even though the sites of works were not ready due to which, the works could not commence even after 14 to 40 months of schedule date of completion, leading to extension of undue benefit to the contractors and loss of interest of ₹ 4.95 crore.

Recommendations:

- *Department should ensure that encumbrance-free sites are available before releasing mobilisation advances; also Department should take all necessary measures in recovering the advances already paid wherever there is inordinate delay in completion of the works.*
- *The Department should fix responsibility for the lapses observed in execution of PMGSY works and develop a proper mechanism to ensure that mobilization advances are released in not less than two instalments and proof of utilisation of advances are obtained from the contractors along with renewed Bank guarantees.*

(Paragraph 3.4; Page-17)

ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS AND POWER DEPARTMENT)

As on 31 March 2022, the State of Sikkim had 17 working PSUs (13 working Government Companies and four working Statutory Corporations) under the audit purview of the Comptroller and Auditor General of India (CAG). During the period 2020-22, the investment of the State Government (capital and long-term loans) in 17 PSUs amounted to ₹ 101.70 crore consisting of 96 *per cent* (₹ 97.64 crore) towards capital and 4 *per cent* (₹ 4.06 crore) towards long term loans.

(Paragraphs 4.1.1 and 4.1.2.1; Page-21)

The State's budgetary support to PSUs decreased from ₹ 2.50 crore (2019-20) to ₹ 0.51 crore (2021-22) during the period from 2019-20 to 2021-22. As per the information furnished by the PSUs, during 2020-22, the State Government provided grants amounting to ₹ 14.02 crore in one PSU namely Temi Tea Estate.

(Paragraph 4.1.4; Page-23)

As on 30 September 2022, 41 accounts of 13 PSUs had not been finalised.

(Paragraph 4.1.6; Page-25)

As per the latest finalised accounts of PSUs as on 30 September 2022, the aggregate paid-up capital and accumulated losses of 17 working PSUs were ₹ 3,716.86 crore and (-) ₹ 2,502.10 crore respectively, which included accumulated losses (₹ 5.46 crore) of three PSUs which did not have capital.

(Paragraphs 4.1.8.2; Page-29)

The Chapter consists of one Performance Audit and one Compliance Audit Paragraph.

PERFORMANCE AUDIT – DDUGJY & SAUBHAGYA

Ministry of Power (MoP), Government of India (GoI) launched (December 2014) Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) subsuming the targets laid down under the erstwhile Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) as a separate rural electrification sub-component by carrying forward the approved outlay for the RGGVY to the DDUGJY with two additional objectives, viz., (i) separation of agriculture and non-agriculture feeders to facilitate judicious rostering of power supply to the agricultural and non-agricultural consumers in rural areas and (ii) strengthening and augmentation of sub-transmission and distribution infrastructure in rural areas, including metering at distribution transformers (DTs)/ feeders/ and consumers. DDUGJY aimed at a quantitative and qualitative transformation of the rural electricity infrastructure. In Sikkim, the scheme did not include segregation of agricultural and non-agricultural feeders as there was no large-scale dependence on electricity for agricultural irrigation. Main focus of rural electrification up to 2017 was electrification of villages. However, village electrification did not result in electrification of all the households (HHs) as the village was considered electrified even on the electrification of 10 *per cent* HHs. Thus, GoI launched (October 2017) "Pradhan Mantri Sahaj Bijli Har Ghar Yojana –Saubhagya" to achieve universal household electrification in the country. The objective of Saubhagya Scheme was to achieve universal house hold electrification by providing last mile connectivity and electricity connections to all households in rural and urban areas. The Performance Audit was conducted to assess whether the Power Department (PD) / GoS implemented the schemes in an economical, efficient and effective manner in all stages of project implementation *viz.*, planning, execution, financial controls, monitoring and supervision, *etc.* and the following significant findings were revealed among others:

- REC approved and sanctioned total four DPRs each for both the schemes for implementation in four districts at a cost of ₹ 89.29 crore. The PD was required to complete the projects under DDUGJY within 18 months (August 2019) after issuing (February 2018) the work orders. Similarly, projects under Saubhagya scheme (including creation of additional infrastructures) were to be completed within five months (March 2020) after issuing (November 2019) the work orders. However, there were considerable delays in completion of projects under both the schemes.

  (Paragraph 4.2.12; Page 39)

- As per the Rural Electrification Policy (REP) issued by GoI in August 2006, the State Governments were required to prepare and notify a Rural Electrification Plan (RE Plan) within six months of notification of the REP *i.e.* by February 2007. The RE Plan was to be a roadmap for generation, transmission, sub-transmission and distribution of electricity in a State to ensure achievement of the objectives within the stipulated timeframe. The draft template issued by MoP (April 2008) included plans to energise villages being electrified and strengthening of sub-transmission system to cater to the additional load after electrification of villages. Audit noticed that the first RE Plan was notified by the GoS in November 2014 after a delay of seven years and nine months. Moreover, the RE Plan did not address the issues comprehensively as it failed to identify and assess the gaps in the sub-transmission and distribution network, total number of partially un-electrified villages and fully electrified census villages, increase in demand due to provision of power to new connections, requirement for additional generating and transmission capacity to meet the increased demand and the unmetered consumers requiring metering. Further, it was noticed that the RE Plan was not revised/ updated after its formulation in 2014.

(Paragraph 4.2.13.1; Page-40)

- As per guidelines of schemes, the PIAs were to prepare Need Assessment Documents (NAD) to substantiate the proposed works and cost estimates. Audit observed that PD, responsible for distribution of electricity in State, had not prepared NAD.

(Paragraph 4.2.13.2; Page-40)

- As per the note submitted to the Union Cabinet for approval of the DDUGJY, the Detailed Project Reports (DPRs) were to be submitted within six months from approval of the DDUGJY scheme (03 December 2014), though the detailed guidelines for the implementation of scheme formulated by REC and approved by MC did not indicate any time limit for submission of DPRs. Audit observed that DPRs were submitted with a delay of six months. Further, as per Saubhagya guidelines, DPRs were to be submitted by 06 November 2017. However, PD submitted the DPRs on 19 June 2018 after delay of more than seven months.

(Paragraph 4.2.13.3; Page-40)

- Based on the broad scope of work validated by Nodal Agency (REC), the PD was to prepare/ formulate district-wise DPRs for the schemes based on detailed field survey. For implementation of DDUGJY, the PD had identified a total of 14,225 un-electrified RHHs as on 31 March 2015. However, as the sanctioned cost was less as compared to the estimated project cost originally conceived, the PD proposed to electrify 12,266 RHHs under DDUGJY. Out of these, 7,801 un-electrified RHHs were proposed to be covered under the sampled districts. However, at the time of launch of Saubhagya scheme and before the implementation of DDUGJY in the State, the PD had identified 14,900 un-electrified RHHs as on 10 December 2017. The PD did not maintain any centralised data for electrified and un-electrified villages/ habitations and failed to furnish the detailed beneficiary list to REC/ MoP at the time of submission of DPRs. There were variations in the estimated cost as per DPRs and estimated cost as per award of work in the sample districts under Saubhagya scheme. Requirements in the DPR were underestimated pointing towards faulty DPRs and they did not contain any analysis/ assessment of the spare capacity available with the existing infrastructure (DTs). Further, no estimates were prepared to determine the quantum of additional energy required to cater to the needs of the new connections (households proposed). Several un-electrified schools were omitted to be covered under the Scheme.

(Paragraph 4.2.13.4; Page-41)

- Village Electrification Infrastructure (VEI) was to be created with provision for DTRs of appropriate capacity, keeping in view the load required for electrification of RHHs and public places. It was seen that the DPRs did not contain any analysis/ assessment of the spare capacity available with the existing infrastructure. Further, no estimates were prepared to determine the quantum of additional energy required to cater to the needs of the new connections (HHs proposed). However, the depiction of the quantity and capacity of DTRs existing prior to the implementation of the schemes in the DPRs differed from the actual quantity and capacity noticed during the Joint Physical Verification (JPV). Further, in four villages, the DTRs provisioned under the schemes were either not installed or installed but not charged. It was also noticed that in one village, the proposed DTR was installed in another village.

(Paragraph 4.2.13.6; Page-44)

- DDUGJY and Saubhagya schemes were sanctioned at an estimated cost of ₹ 89.04 crore to be jointly funded by GoI - ₹ 75.68 crore (85 *percent*) and GoS - ₹ 13.36 crore (15 *per cent*). However, the projects under DDUGJY were awarded at a premium of ₹ 24.96 crore which was to be borne by the State Government. Apart from this, the Project Management Agency (PMA) cost of ₹ 0.83 crore under DDUGJY was to be borne by GoI (₹ 0.25 crore) and GoS (₹ 0.58 crore). As such, the total contribution of GoI was ₹ 75.93 crore and that of GoS was ₹ 38.90 crore.

(Paragraph 4.2.14.1; Page-45)

- The PD did not segregate the State taxes/local cess from the project cost, as a result of which, the State taxes/local cess were charged on the grant funds instead of it being borne entirely by the State Government. This led to claiming of excess capital subsidy of ₹ 0.74 crore on account of Labour Cess. Moreover, audit could not quantify the excess claim of capital subsidy on account of VAT/ Sales Tax in the absence of segregation of State Taxes/ Local Cess.

(Paragraph 4.2.14.4; Page-47)

- PD identified 14,900 RHHs to be electrified under DDUGJY and Saubhagya scheme. Out of 14,900 RHHs, 12,266 RHHs were proposed under DDUGJY and executed the electrification for 9,933 RHHs. Since, the balance 4,967 RHHs (including 2333 RHHs) were decided to be taken up under Saubhagya scheme, the cost of service connection of 2,333 RHHs sanctioned under DDUGJY were to be refunded to the REC. However, the PD failed to refund ₹ 0.70 crore to REC.

(Paragraph 4.2.14.5; Page-48)

- The PD, in its DPRs, had provided for 37,076 electricity meters and 20,579 electricity meters for replacement and new connections respectively. Though only 14,900 un-electrified HHs were proposed for electrification under both the schemes. However, the PD decided to revise the scope and quantity to 26,846 electricity meters and 19,123 electricity meters for replacement and new connections respectively. The revision was done by citing reasons such as additional items like meter boxes under “replacement of meters” which were not considered at the time of preparation of re-casted DPR. However, approval from REC was not sought for the same.

(Paragraph 4.2.15.4; Page-53)

- PD, in contravention to scheme guidelines, had neither formulated any Implementation Plan nor categorised the villages before implementation of the scheme. Out of 28 villages of blocks selected for audit where infrastructures were erected, in nine villages, not a single beneficiary was electrified under Saubhagya scheme. Thus, the cost of creation of additional infrastructure in these nine villages resulted in ineligible expenditure of ₹ 1.63 crore. PD also incurred irregular expenditure on ineligible works amounting to ₹ 1.58 crore.

(Paragraph 4.2.15.6; Page-54)

- As per the guidelines, 50 *per cent* of the 10 *per cent* funded by means of loan or otherwise would be sanctioned as additional grant by the GoI on achievement of few prescribed milestones. Similarly, universal electrification was a pre-requisite for claiming additional grant under Saubhagya. PD failed to achieve the prescribed milestones and thus failed to avail additional grant of ₹ 4.46 crore.

(Paragraph 4.2.16.3; Page-58)

- PD had not conducted any awareness programme under the schemes at the District/ Village level. Further, no such signboards indicating various details of the schemes (such as broad objectives and envisaged benefits of the scheme, area and population covered, timeline for completing the projects, cost of works involved, etc.) were installed at prominent public places to create awareness of the schemes to the general public. Moreover, since the PD adopted the practice of selecting the beneficiaries on the recommendations of the Panchayats, it was necessary to sensitise the Panchayats regarding the schemes. However, no documentary evidence was available to substantiate that such activities were carried out.

(Paragraph 4.2.16.4; Page-58)

Recommendations:

- *Detailed Project Reports (DPRs) should be prepared after collecting comprehensive data though field surveys, so that the cost as well as quantity of works could be estimated realistically.*

- *The approved DPRs as well as scheme guidelines should be adhered to in project execution so that the benefits of the schemes reach intended beneficiaries.*
- *In order to obtain competitive rates, participation of bidders in tenders should not be restricted, in violation of the schemes guidelines. The rates offered by the bidders should be scrutinised carefully to examine the reasonability of such rates. Responsibility for non-adherence to the CVC guidelines and loss to the exchequer may be fixed.*
- *Works being executed under the schemes should be monitored closely to ensure that the works are being carried out strictly as per the prescribed specification. Further, the Department should ensure the Contractor/s fulfil its obligations like insurance, contract performance security etc.*
- *Department should ensure execution of works to be in conformity with scheme guidelines with respect to quality of materials/ equipment supplied at site and execution of works carried out at field.*
- *Deficiencies noticed during beneficiary survey such as inferior work, unconnected households, unnecessary billing etc. Responsibility may be fixed for shortcomings observed in achievement of the intended objective of the schemes.*
- *The PD through proper monitoring should ensure that the milestones prescribed under the schemes for receiving additional grants are achieved.*
- *The PD should verify the works before making payments and fix responsibility in cases of short execution and undue payments, if any, should be recovered.*
- *The monitoring mechanism should be strengthened to ensure timely execution of projects as well as quality works.*
- *The Quality Assurance Mechanisms as prescribed under the schemes should be put in place to ensure the quality of works.*
- *Third-party evaluation as per Memorandum of MoP, should be conducted to assess the quality assurance system, quality of material supplied and workmanship, and socio-economic benefits of the schemes.*

COMPLIANCE AUDIT

- Gangtok Smart City Development Limited (GSCDL), undertook a project relating to construction of Rain Water Harvesting Structures. The project was executed in ad-hoc manner, as estimated costs and locations of works were changed at various stages; actual execution was not as per agreement. In addition, due to defective estimates, excess payment of ₹ 1.91 crore was made to the Contractor.

  Recommendation: *Management should ensure proper planning and estimations before embarking on a project to ensure smooth and timely execution of the work.*

  (Paragraph 4.3; Page-79)

REVENUE SECTOR

The Chapter on Revenue Sector contains one Subject Specific Compliance Audit Paragraph and two Compliance Audit Paragraphs. This Chapter also gives an overview of revenue receipts which shows during the period 2020-22, the revenue raised by the State Government (₹ 3,564.03 crore) was 28 *per cent* of the total revenue receipts. The balance 72 *per cent* of the receipts during 2020-21 was from Government of India.

(Paragraph 5.1.1; Page-85)

- During the period from 2017-18 to 2021-22 the actual revenue collected was more than the projected revenue in all the years except 2020-21, hence compensation was payable to Sikkim only during 2020-21.

(Paragraph 5.2.2; Page-88)

- The analysis of arrears of revenue as on 31 March 2022 showed that ₹ 2.34 crore was outstanding, of which, ₹ 0.37 crore was outstanding for more than five years.

(Paragraph 5.3; Page-90)

SUBJECT SPECIFIC COMPLIANCE AUDIT -GST

Subject Specific Compliance Audit on transitional credits under GST in Sikkim was taken up with a view to seeking an assurance on whether the mechanism envisaged by the Department for selection and verification of transitional credit claims was adequate and effective (System issues) and whether the transitional credits carried over by the individual taxpayers into GST regime were valid and admissible (Compliance issues).

- Instances of non-compliance to the provisions under Section 140 (1) of SGST Act 2017 where transitional credit amount carried forward to Electronic Credit Ledger was more than the closing balance of VAT credit in the last VAT returns, which resulted in short GST revenue collection by ₹ 75.88 lakh.
- Instances of irregular claims of transitional credit by the taxpayers involved in execution of Works Contract under Section 13 (1) of the State VAT Act 2005 which resulted in enhanced credit (Comprehensive checks on works contract could not be conducted due to non-production of relevant records).
- The mechanism for selection and verification of transitional credit claims was not established.
- Non-declaration of stock details in Form GST TRAN 2 under Rule 117 (2) (b) read with Rule 117 (4) (b) (iii) of SGST Rules 2017.
- Further, mismatches of data captured in two modules (ECL and TRAN 1) of the State system and with GSTN data were also detected. Hence, the verification mechanism, if at all established in future, would be hindered by such data discrepancies.

(Paragraph 5.12.9; Page-106)

Recommendations

In order to address the non-compliance to relevant provisions of the acts and rules which directly impacted the GST revenue collection and to ensure establishment of an effective verification mechanism, the following recommendations are made:

- *CTD should ensure that all data captured in the various modules of the State system are accurate.*
- *An effective verification mechanism should be set up to check the veracity of the transitional credit availed and for which guidelines need to be framed on the lines of those prepared by CBIC.*

COMPLIANCE AUDIT

- Failure of the State Sales Tax Authorities to exercise due diligence in assessing the sales turnover of liquor dealers of the State by cross verifying with the sales data maintained by the Excise Department resulted in short payment of Sales Tax of ₹ 130.87 crore by the seven dealers during the period 2018-21.

  Recommendations:*Immediate action may be initiated by the Department/ Government to realise the actual Sales Tax due from the defaulting Liquor Dealers along with penalty in a time bound manner; a mechanism of inter-departmental cross verification needs to be evolved so as to leave no scope for evasion of Taxes; levy and collection of State Sales Tax from the liquor dealers henceforth may be done simultaneously; and State Government may verify levy of Sales Tax on Liquor Dealers since 01 January 2015, i.e.; the date of revision of Sales Tax from 20 to 25 per cent.*

(Paragraph 5.13; Page-107)

- The Urban Development Department failed to ensure whether Pharmaceutical Companies in the State were complying with the Sikkim Trade License and Miscellaneous Rule 2011 and also could not collect the license fees from these Companies which led to non-realisation of revenue to the tune of ₹ 30.87 lakh.

  Recommendations:

- *The Department should develop coordination between different departments of State machinery to ensure that businesses are carried out in the State only after trade licenses are obtained by them.*
- *The Department should review all the cases of non- payment of license fee by traders/ manufacturers including all 116 Pharmaceutical companies in the State and recover license fee/ renewal fee/ late fee and any other due from manufacturers.*
- *The Department may fix responsibility for lackadaisical approach in collection of government revenue.*

(Paragraph 5.14; Page-110)

GENERAL SECTOR

The Chapter on General Sector consists of two Compliance Audit Paragraphs.

COMPLIANCE AUDIT

- The Food and Civil Supplies Department (FCSD) procured edible oils at much higher rates than the retail rates leading to excess payment of ₹ 1.54 crore.

  Recommendation: *The Department may follow the prescribed tendering process as per General Financial Rule even if in case of all Emergency related purchases and the Department may take appropriate steps to recover the amount paid as undue favour to supplier.*

  (Paragraph 6.3; Page-115)

- The Finance Department (FD) failed to provide required fund to Sikkim Power Investment Corporation Limited for repayment of loan availed from Power Finance Corporation leading to delay in repayment of loan and resultant avoidable payment of penalty to the tune of ₹ 14.35 crore.

  Recommendation: *The Department may fix the responsibility for non-allocation of funds despite commitment and take prompt action to provide fund for repayment henceforth.*

  (Paragraph 6.4; Page-117)

FOLLOW UP OF AUDIT OBSERVATIONS

- As on March 2022 Public Accounts Committee had completed discussions of Audit Reports for the year up to 2013-14 and discussions on Audit Report 2014-15 were in progress. Recommendations on the Audit Reports for the year up to 2012-13 had been issued by the PAC.

  (Paragraph 7.2; Page-121)

- As of March 2022, 1,007 Inspection Reports (IRs) (3,669 paragraphs) issued from 1990-91 onwards were pending for settlement. The large pendency of IRs indicates absence of adequate action to rectify defects, omission and irregularities by the Heads of Offices and Heads of Departments as pointed out by audit through IRs.

  (Paragraph 7.4; Page-122)

- During 2020-22, no physical Audit Committee Meetings were held due to Covid. However, 136 IRs and 211 paragraphs were settled through Video conference. During 2021-22, one Audit Committee Meeting was held with Commissioner, Commercial Tax Division, Finance Department where 10 IRs and 17 paragraphs were discussed, out of which four IRs and nine paragraphs were settled.

  (Paragraph 7.5; Page-123)