CHAPTER III
ECONOMIC SECTOR

3.1 Introduction

This chapter of the Audit Report deals with audit observations on the functioning of the Government departments under the Economic Sector.

The names of the departments and the total budget allocation and expenditure of the Government under Economic Sector during the period 2020-22 are given in the table below:

Table No. 3.1: Details of budget allocation and expenditure

(₹ in crore)

Sl. No.	Name of the Department	Total Budget Allocation		Expenditure	
		2020-21	2021-22	2020-21	2021-22
1	Animal Husbandry & Veterinary Services Department	98.40	122.18	79.00	105.53
2	Buildings and Housing Department	76.23	257.70	58.52	229.84
3	Commerce and Industries Department	83.56	57.15	43.49	53.34
4	Co-operation Department	21.49	18.26	17.44	16.84
5	Power Department	501.40	400.18	475.43	390.19
6	Agriculture Department	176.90	211.87	96.99	116.14
7	Forest & Environment Department	243.66	272.55	161.49	157.19
8	Horticulture Department	134.06	106.95	103.36	77.25
9	Water Resources Department	187.24	247.07	98.46	81.15
10	Mines & Geology Department	6.37	7.4	5.45	6.25
11	Roads and Bridges	662.81	595.04	495.80	426.14
12	Rural Development Department	1,195.92	1,067.03	575.73	516.09
13	Tourism and Civil Aviation	157.42	232.56	123.69	207.53
14	Motor Vehicles & Transport Department	96.36	95.38	81.81	91.54
15	Urban Development Department	348.75	274.16	228.80	110.32
16	Public Health Engineering Department	159.99	204.89	88.21	108.47
17	Science and Technology Department	6.68	19.48	5.14	18.25
TOTAL		**4,157.24**	**4,189.85**	**2,738.81**	**2,712.05**

Source: Appropriation Accounts

Besides, the Government of India had been transferring funds directly to the implementing agencies under the Economic Sector. The major transfers for implementation of flagship programmes of the Central Government are detailed in **Table No. 3.2**:

Table No. 3.2: Details of funds directly transferred to the implementing agencies

(₹ in lakh)

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing Agency	Funds transferred during 2020-21	Funds transferred during 2021-22
1	Forest and Environment	Environmental Education, Awareness and Training	State Environment Agency	48.88	0
		Environmental Information Systems	-do-	70.13	180.64
			Sikkim State Council of Science and Technology	27.22	109.32
		Conservation of Aquatic Ecosystems	State Environment Agency	0	0.6
		Environmental Education, Awareness and Training		0	65.99
		Conservation Development and Sustainable Management of Medicinal Plants	Regional Ayurveda Research Institute Gangtok	0	25
			SMPB Sikkim	0	27
2	Agriculture & Horticulture	Pradhanmantri Kisan Samman Nidhi	Department of Food Security	573.22	678.76
		Pradhan Mantri Kisan Sampada Yojana	Sikkim livestock Processing and Development Corporation Ltd.	90.51	0
			Government Fruit Preservation Factory	83	0
		Organic Value Chain Development for NE Region	Sikkim Organic Mission	0	795.69
3	Science and Technology	Innovation Technology Development and Deployment	Sikkim University	0	4.22
			Sikkim State Council of Science and Technology	85.84	94.7
		Research and Development DST		125.86	0
		Research and Development DST	NIT Sikkim	3.5	8
			Sikkim University	0	29.43
		Science and Technology Institutional and Human Capacity Building	Sikkim Manipal Institute of Technology	2.2	0.3
			Sikkim State Council of Science and Technology	78.24	0
			Sikkim University	38.19	0
4	Tourism and Civil Aviation	Integrated Development of Tourist Circuits around specific themes (Swadesh Darshan)	Sikkim Tourism Development Corporation Ltd.	2,443.48	893.14
		Schemes of North East Council-Special Development Projects	Travel agents association of Sikkim	73.54	76.82
			Sikkim University	51.49	0
			Tourism Department	2	0
			District Collectors	10	0
			Sikkim Industrial Development and Investment Corporation Ltd (SIDICO)	139.45	34.87
			Sikkim Manipal Institute of Technology	0	6

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing Agency	Funds transferred during 2020-21	Funds transferred during 2021-22
		Domestic Promotion and Publicity including Market Development Assistance	Sikkim Tourism Development Corporation Ltd.	0	50
		Pilgrimage Rejuvenation and Spiritual Heritage Augmentation Drive		0	900.44
5	Commerce and Industries Department	Ambedkar Hasthshilp Vikas	Sikkim Handloom & Handicrafts Dev. Corporation Ltd. (SHHDC)	1	0
		National Handloom Development Programme		19.73	59.7
		NER Textiles Promotion Scheme		68.7	0
		Design and Technical Upgradation Scheme		1.66	0
		Marketing Support and Services		0	3.01
		Start-up India Seed Fund Scheme	AIC SMU Technology Business Incubation Foundation	0	126
6	Power	Ongoing Programmes and Schemes – Power	SPV-Aspirational West Sikkim	535.2	0
		Official development Assistance for SDGs		0	1.2
		Promotion of Apprenticeship	NHPC Ltd.	0	3.85
			PIA – NHPC Ltd. Rangit Power Station	0	1.12
		Solar Power-Off Grid	Sikkim Renewable Energy Development Agency	0	2.94
7	Rural Development	Management Support to Rural Development Programmes and Strengthening of District Planning Process	State Institute of Rural Development	215.92	0
		ASPIRE (Promotion of Innovation, Rural Industry and Entrepreneurship)		0	100
		Management Support to Rural Development Programmes and strengthening of District Planning Process		0	498.83
		SARDP for NER financed from NIF	District Collector West	814.05	0
		MGNREGA	State Rural Employment Guarantee Agency	0	7462.55
		Incentivisation of Panchayats	Rhenock GPU	0	5
			Singhik Sentam GPU	0	10
			Tingovong GPU	0	5
			Budangkamarey GPU	0	8
			Lungchokkamarey GPU	0	8
			EDZP Sikkim	0	50
8	Animal Husbandry	National Animal Disease Control Programme for Foot and Mouth Disease (FMD) and Brucellosis	Sikkim Livestocks Development Board	10.26	0

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing Agency	Funds transferred during 2020-21	Funds transferred during 2021-22
		Development Programme	-Do-	0	251.82
			Sikkim Cooperative Milk Producers Union Ltd.	0	637.2
		Rashtriya Pashudhan Vikas Yojana	Sikkim Livestocks Development Board	0	16.96
		Livestock Health and Disease Control		0	183.57
9	Transport	Research, Training and studies of Road safety schemes	Sikkim Nationalised Transport	587.61	0
10	Water Resources	National Hydrology Project	Water resources and River Development Department	190	0
		Jal Jeevan Mission (JJM)/ National Rural Drinking Water Mission	SWSM Sikkim Gangtok	0	16358.96
	Total			**6,390.88**	**29,774.63**

Source: Finance Accounts

3.2 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls, etc.

After completion of audit of each unit on a test check basis, Inspection Reports (IRs) containing audit findings are issued to the heads of the departments. The departments are required to furnish replies to the audit findings within one month of receipt of the IRs. Whenever replies are received, audit findings are either settled based on reply/action taken or further action is required by the audited entities for compliance. Some of the important audit observations arising out of these IRs are processed for inclusion in the Audit Reports. The Audit Reports are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature for taking further appropriate action.

Test audits were conducted involving expenditure of ₹ 2,390.54 crore (including expenditure of ₹ 1,202.93 crore of previous years) during the year 2020-21 and ₹ 4,330.86 crore (including expenditure of ₹ 2,693.84 crore of previous years) during the year 2021-22 of the State Government under Economic Sector. The details of year-wise break-up are given in ***Appendix 3.1***.

This Chapter contains two Compliance Audit Paragraphs.

COMPLIANCE AUDIT PARAGRAPH

RURAL DEVELOPMENT DEPARTMENT

3.3 Avoidable expenditure

Due to failure to use loan within stipulated period and execute the project as per schedule, the Department had to pay ₹ 2.34 crore to HUDCO towards avoidable regular interest, penal interest and deferment charges.

The State Government launched Chief Minister Rural Housing Mission (CMRHM) in May 2016 with the objective to make the State "Kutcha House Free" by 2018-19 to be implemented by the Rural Development Department (RDD), the Nodal Department. Under Phase I (2016-19) of the Mission, 3,000 out of those 6,394 kutcha houses identified in the photo survey were to be converted into pucca houses. The work of construction of houses for Phase- I was awarded (March 2017) to a contractor (M/s Mungipa Trade Links (P) Ltd.) to be completed by March 2019 at a cost of ₹ 379.20 crore. However, the Projects were completed in August 2020 with delay of one year five months.

The RDD borrowed (March 2017) ₹ 361.00 crore at an interest rate of 9.45 *per cent* per annum from Housing and Urban Development Corporation Limited (HUDCO) through Sikkim Housing Development Board (SHDB), a State Government undertaking, and ₹ 123 crore had been released by the State Government as State share for implementation of CMRHM Phase–I. The re-payment of loan including interest was to commence from February 2019, i.e. after two years' moratorium period. The terms of agreement executed (7th March 2017) between HUDCO and SHDB envisaged project period of two years i.e. December 2016 to November 2018. However, actual work commenced from June 2018 due to delay in finalisation of beneficiary list.

As per clause 2.2(A)(iii) of agreement, in the event of default in the payment of the instalment of loan and /or interest in respect of the loan or different components of the loan on the due dates, the Borrower without prejudice to the right of HUDCO to recall the loan as provided in the General Condition shall pay to HUDCO in addition to the compounded interest under the preceding proviso, additional interest at the penal rate of 3.00 *per cent* per annum or such other applicable rate as may be fixed by HUDCO from time to time on such overdue payments for the delayed period.

Further, section 3.2(iv) of the agreement provides that if the loan or different components of the loan disbursed under the loan agreement was/were not used by the borrower within six months from the date of release due to any reason the borrower shall immediately refund such amount to HUDCO and in any case before the expiry of six months from the date of disbursement of the loan failing which the borrower, notwithstanding anything to the contrary stated herein will pay to HUDCO such increased rate of interest in addition to the penal interest as defined in the loan agreement, as may be fixed by HUDCO. In case of refund of release amount no penal interest / increased interest shall be levied and the amount so surrendered may be released upon request by the borrower indicating progress of work.

Scrutiny of the records revealed that the Department could not utilise the loan released by HUDCO within stipulated time period and paid penal interest amounting to ₹ 58.81 lakh for delayed utilization of fund of ₹ 24.01 crore at three *per cent* per annum for 298 days (September 2018).

The Department was having an option to defer the loan amount at nominal deferment charges (0.50 *per cent* of balance amount) along with service tax at applicable rate on the amount outstanding in the loan account at the time of submission of request for deferment to HUDCO as envisaged at section 3.3(ii) of the agreement to avoid penal interest.

Clause 5.2 (ii) of Article 5 of loan agreement stipulated that the loan amount shall be automatically curtailed to the amount so far disbursed, if the Borrower fails to draw or avail further disbursement within eight months or such other time period as may be specified by HUDCO from time to time, from the date of previous release and there is either no request pending from the Borrower for further release or the Borrower has not fully complied with the terms and conditions and other requirement of the loan agreement or is in default to HUDCO.

Further, Section 3.1(ii)(b) of Article 3 of general term and conditions of loan agreement stipulated that HUDCO is satisfied after such inquiry as it may think fit to make, and at its sole discretion that the implementation of the said scheme has made satisfactory progress and that the amounts already disbursed by HUDCO have been prudently, properly and satisfactorily utilized for the purposes for which the same were advanced. The payment of any such further instalment as aforesaid shall not amount to acceptance by HUDCO of the prudent, proper and satisfactory utilization of the previous instalment for the purpose for which these were disbursed.

HUDCO intimated the State Government (April 2018) that the physical and financial progress achieved at site was not up to the desired level for availing the 2nd release which had become due on 30.11.2017. In view of above, HUDCO suggested that the scheme requires restructuring of the implementation schedule by at least two quarters considering that the implementation/expenditure at site is lower than the projection of the investment and loan drawl schedule.

Foreseeing a delay in execution of project, SHDB requested (June 2018) HUDCO for deferment of loan drawl schedule by four quarters, after fifteen months of disbursement of loan amount from HUDCO (March 2017) against the allowed period of six months of non-utilisation of loan. HUDCO approved deferment of loan drawl by four quarters (June 17 to May 2018) and repayment of loan by four quarters (February 2019 to February 2020) subject to payment of deferment charges and applicable taxes thereon amounting to ₹ 50.99 lakh.

Thus, failure of the Department to initiate the project within stipulated period and imprudent financial planning which also necessitated the deferment of payment and repayment schedule of loan led to avoidable expenditure of ₹ 109.81 lakh towards unwarranted penal interest and deferment charges.

While accepting the audit observation, the Department replied (February 2021) that the payment of penal interest and deferment charges to HUDCO was due to various reasons (a) the beneficiaries shortlisted earlier had to be re-confirmed with respect to the suitability of land available for construction (b) shorter execution time period due to the inclement weather condition and ban in excavation work from June to September (c) The Gorkhaland (Darjeeling) strike over 100 days affected the flow of construction of materials. Because of these reasons, the progress of work was slow leading to delayed utilization of funds and eventual payment of penal interest. The deferment charges were repercussion of the slow progress of work and the loan had to be rescheduled to meet up the target.

The reply was not acceptable as re-confirmation of suitability of land, shorter execution time, should have been taken care of during planning stage before going for loan. Further, foreseeing unfavorable conditions in execution of work, SHDB could have refunded unutilized disbursed amount of ₹ 24.01 crore within prescribed time of six months and renegotiated after removal of encumbrances to the project to avoid penal interest (at the rate of three *per cent*) and regular interest (at the rate of 9.45 *per cent*) on payment of deferment charges (at the rate of 0.5 *per cent*) only and could have saved penal interest (₹ 58.81 lakh) and regular interest (₹ 1.75[1] crore) thereon.

Thus, lackadaisical approach in execution of project and unintelligent financial management led to avoidable financial cost amounting to ₹ 2.34 crore to exchequer.

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.*

RURAL DEVELOPMENT DEPARTMENT

3.4 Extension of undue benefits to the contractors

Interest free advances amounting to ₹ 17.83 crore were granted to the contractors for execution of 34 road works, 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.

According to Paragraph 31 of Standard Bidding Document (SBD) of PMGSY for Construction and Maintenance (December 2015), interest free advance as provided in Part I General Conditions of Contract (GCC) can be released to the contractors. Paragraph 45 of GCC lays down that on the request of the Contractor, Mobilisation

1 Avoidable regular interest (for 298 days) on unutilized disbursed amount of ₹ 24.01 crore had it been refunded to HUDCO= ₹ 24.01 crore @ {9.45% -0.5% (deferment charges)} = ₹ 1.75 crore

Advance (MA) up to five *per cent* of the initial contract price and Equipment Advance (EA) up to 90 *per cent* of the cost of the new equipment brought to the site (subject to a maximum of 10 *per cent* of the initial contract price) against submission of an Unconditional Bank Guarantee (BG) from a scheduled Commercial bank by the Contractor equal to 110 *per cent* of the amount of the advance can be granted. The BG would remain effective until the advance payment has been repaid, but the amount of the guarantee shall be progressively reduced by the amounts repaid by the Contractor. The Contractor shall demonstrate that the EA had been used for equipment and plant and MA for mobilisation expenses required specifically for execution of the works by providing copies of invoices or other documents to the Engineer. The advance payment shall be recovered by deducting proportionate amounts from payments otherwise due to the Contractor for the construction work, following the schedule of completed percentages of the works on a payment basis.

Scrutiny of the records (November 2021) in the Office of the Chief Executive Officer, (Office) PMGSY Cell, Gangtok showed that 227 road construction works were awarded to different contractors during the period from 2011-12 to 2018-19 which were yet to be completed (November 2021). The office had granted advance of ₹ 161.88 crore (MA: ₹ 65.35 crore and EA: ₹ 96.53 crore) for these works to the contractors, of which ₹ 71.78 crore had been recovered as of October 2021.

In this regard, the Audit observed the following:

- Out of above mentioned 227 works, 193 works were at different stages of construction and 34 works (details in ***Appendix 3.2***) valuing ₹ 130.79 crore had not been commenced even after lapse of two to five years from the date of drawal of advances. Audit analysis further showed that 34 works had not commenced due to various reasons such as: Non-obtaining of forest clearance (five works), NOC from owners and land dispute (five works), Non-completion of Stage-I works (13 works), Defective DPRs (two works), Non-connetivity to site (four works), Natural calamity (two works) and in eight cases, the PMGSY Cell did not mention any reasons. Although the scheduled date of completion had already elapsed by 14 to 40 months in respect of 32 works (excepting two cases of natural calamity),neither the works were initiated nor any efforts were found made for recovery of the advances so granted. Thus, even though the executing divisions were not in position to make encumbrance free work sites available to the contractors in respect of 32 cases, yet the contractors were accorded undue favour by way of grant of advances of ₹ 17.30 crore (MA: ₹ 5.56 crore; and EA: ₹ 11.74 crore). It may be noted that on one hand, the State Government was paying an average interest @ 7.16 *per cent* (2017-18) on the funds borrowed from Financial Institutions; while on the other hand, the State Government sanctioned interest free advances of ₹ 17.30 crore to others. The interest implication of such advances works out to ₹ 4.95 crore[2].

[2] ₹ 4.95 crore =₹ 17.30 crore x 7.16% x 4 years *(7.16% is average interest rate on borrowed funds)*

- As per Central Vigilance Commission's Circular dated February 2011, the MA should not be paid in less than two installments, except in special circumstances for which the reasons should be recorded. This would keep check on contractors from misutilising the full advance, when the work is delayed considerably. However, the office in contravention of this circular, sanctioned the advances for all works in one installment.
- In all 34 works, the Department failed to ensure submission of documents proving utilisation of MA (₹ 5.74 crore) and EA (₹ 12.09 crore) for mobilisation expenses and procurement of plants/ equipment respectively in contravention of the provisions of the SBD of PMGSY.
- The Bank Guarantees (BGs) against the advances granted for all 34 works had not been renewed as of October 2021. It was seen that neither the contractors had submitted the renewed BGs to the PMGSY Cell nor the PMGSY Cell had directed the contractors to submit renewed BGs. Thus, the Department failed to safeguard Government's interests and extended undue financial benefits to contractors.

The Department while accepting the audit observation informed (August 2022) that it had not anticipated such a long delay in these works due to the non-availability of encumbrance free site and also added that the advice of audit shall be duly taken into account in all the PMGSY works in future. The Department subsequently added (January 2023) that six works had still not commenced and remaining 28 works which were to be completed by September 2022 remained incomplete as of December 2022. Further, the Department also stated that one out of the 34 works is still not renewed. However, the Department has not furnished any details regarding completion of work, renewal of the rest of the BGs or issuance of notices to concerned contractors.

Recommendation:

i. The 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.

ii. 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.