

**CHAPTER-IV:
QUALITY OF ACCOUNTS
AND FINANCIAL
REPORTING PRACTICES**

Chapter-IV

Quality of Accounts and Financial Reporting Practices

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making.

Issues related to the completeness of accounts

4.1 Non-discharge of liability in respect of interest towards interest bearing deposits/Reserve Funds

The Government has a liability to provide and pay interest on the amounts in the Interest-bearing Deposits/Reserve Funds. Audit observed that ₹8.99 crore was required to be paid as interest on the balance of ₹368.66 crore lying under interest bearing deposits/Reserve Funds as on 1 April 2022 as shown in **Table 4.1**. Non-payment/short payment of the interest amounting to ₹8.99 crore has resulted in understatement of Revenue Expenditure and Fiscal Deficit by ₹8.99 crore.

Table 4.1: Non-payment/short payment of the interest amounting to ₹8.99 crore

Sr. No.	Name/Head of the interest bearing deposit	Opening Balance as on 1 April 2022	Basis for calculation of interest	Amount of Interest not provisioned
1	Reserve Fund bearing interest (State Disaster Response Fund)	1.09	Interest calculated as per the rate of interest @ 7.49 per annum.	0.08
2	Reserve Fund bearing interest (State Disaster Mitigation Fund)	22.82	Interest calculated as per the rate of interest @ 7.49 per annum.	1.71
3	Reserve Fund bearing interest (State Compensatory Afforestation Fund)	272.29	Interest is calculated at the rate of 3.35 per cent (As informed by GOI Ministry of Environment, Forest, and Climate Change)	2.12
4	Deposit bearing interest MH 8336-103 State Compensatory Afforestation Deposits	3.97	Interest calculated at the rate of 5.49 per cent (taking average Ways and Means interest rate as 5.49 per cent for the year 2022-23)	0.22
5	Deposit bearing interest MH 8342 - Defined Contribution Pension Scheme for Government Employees	68.49	Interest calculated as per the rate of interest 7.10 per cent notified by the Government/payable to General Provident Fund	4.86
	Total	368.66		8.99

Non discharge of such interest liabilities resulted in defeat of the purpose for which these funds were established.

The Land Revenue and Disaster Management Department stated (December 2023) that, with respect to SDRF and SD MF, no separate provision is required in the budget as the interest earned from deposit is directly credited to SDRF under M/H 8121-122-State Disaster and SD MF under M/H 8121-122-State Disaster Mitigation Fund.

However, the interest pointed out in the above table pertains to the amount not invested and retained by the Government.

4.2 Funds transferred directly to State Implementing Agencies

As per GoI decision (08 July 2015), all assistance to the Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) under the various schemes would be released directly to the State Government and not to the Implementing Agencies (IA) in the State and hence these funds would be routed through the State Budget from 2015-16 onwards. However, during 2022-23, the GoI transferred ₹ 342.39 crore directly to IAs in the State (Details in *Appendix 4.1*). The amount of such funds transferred by GoI to IAs during 2022-23, had increased as compared to the previous year's amount which stood at ₹ 326.22 crore.

Out of ₹ 342.39 crore, a major portion *i.e.* ₹ 188.92 crore (54.33 *per cent*) was transferred to Jal Jeevan Mission and ₹ 93.37 crore (26.85 *per cent*) was transferred to Mahatma Gandhi National Rural Employment Guarantee Programme. Another major scheme was Organic Value Chain Development for North East Region - ₹15.42 crore (4.43 *per cent*).

As the funds were not routed through the State Budget/ State Treasury system, the Annual Finance Accounts did not capture these funds and to that extent, the State's receipts and expenditures as well as other fiscal variables/ parameters derived from them did not represent the complete picture. Further, direct transfers from GoI to the SIAs run the risk of poor oversight.

4.3 Funds outside Consolidated Fund or Public Account of the State

Article 266 (1) subject to the provisions of Article 267 of the Constitution of India, provides that all revenues received by the Government of a State, all loans raised by the issue of treasury bills, loans or ways and means advances and all money received by that Government in repayment of loans shall form one consolidated fund to be entitled the 'Consolidated Fund of the State'. Article 266 (2) provides that all other public money received by or on behalf of the Government of a State shall be credited to the public account of the State, as the case may be. Further, Sikkim Financial Rules (SFR) stipulates that all monies received by or on behalf of the Government should be brought into the Government account without delay; and "the head of every department/ office shall be responsible to ensure that all revenue, receipts or other sums due to Government are regularly and promptly assessed, realised and credited to Government account under the relevant head of account".

It has been observed that funds meant to be credited to Consolidated Fund or Public Account are credited to bank accounts as detailed in the succeeding paragraphs.

4.3.1 Unaccounted Revenue and Expenditure transactions

Power Department of Sikkim (PDS) is entrusted with management of electricity operations in the State. The activities of PDS include generation of electricity, supply of electricity and creation, operation and maintenance of infrastructure required for distribution of electricity within the State. In addition, PDS also conducts trading *i.e.*, selling and purchasing of electricity outside the State. As PDS is a Government Department, it is required to follow Government Accounting Rules for accounting of receipts and expenditure.

However, Audit noticed that significant amount of money due to the state Consolidated Fund was kept outside of it by PDS and expenditure incurred from it. **Table 4.2** shows the details of irregularities with respect to accounting of receipts¹⁷ and expenditure during 2022-23.

Table 4.2: Irregularities with respect to accounting of receipts and expenditure by PDS

(₹ in crore)

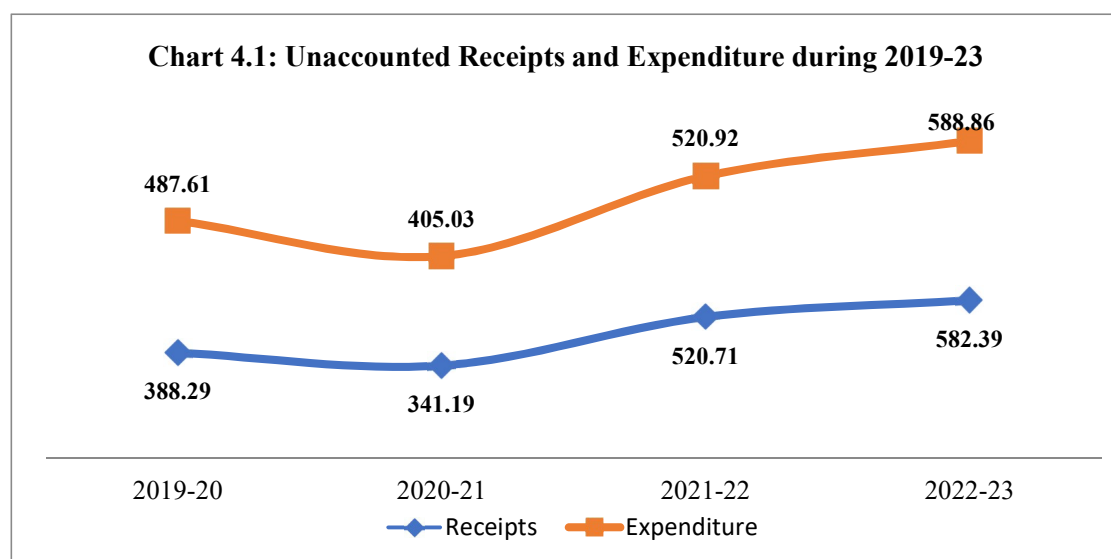
Particulars	Amount Involved	Audit Observations
Receipts		
1. Sale proceeds of electricity sold outside the State (Surplus Power)	137.64	The government sold the excess power outside of State.
2. Royalty receipts from the Hydro-electric Projects (HEPs) located in the State	444.75 ¹⁸	Royalty amounting to ₹ 444.75 crore from three HEPs had not been credited into Government Account and was transferred to the Bank Accounts maintained by the SPICL.
Total	582.39	
Expenditure		
3. Purchase of electricity	164.41	During the winter season, the State experienced shortage in electricity. PDS purchased electricity from the revenue earned by selling the surplus electricity and the expenditure was met out of the funds from the same bank account in which the receipts from the sale of electricity outside the State were credited (Sl. No. 1). As such, the expenditure were being incurred without approval of Legislature and were not reflected in Government Accounts.
4. Repayment of Loans	424.45 ¹⁹	The SPICL had borrowed funds from PFC on the guarantee of GoS. The servicing of the loans availed by the SPICL from PFC was done from the royalty money received from two HEPs (Sl. No. 2). Therefore, these expenses were also not included in Government Account.
Total	588.86	

¹⁷ The PDS has three main sources of revenue (i) sale proceeds of electricity sold to outside the State, (ii) Royalty receipts from the Hydro-electric Projects (HEPs) located in the State and (iii) sale proceeds of electricity within the State.

¹⁸ Sikkim Urja Ltd(SUL)-₹ 428.99 crore + Chuzachen-₹ 9.76 crore + Rongnichu-₹ 6 crore.

¹⁹ SUL-₹ 376.81 crore + Chuzachen-₹ 47.64 crore.

As can be seen from **Table 4.2**, Revenue Receipts of ₹ 582.39 crore earned from sale proceeds of electricity sold outside the State and royalty receipts from the HEPs located in the State, were not deposited in the Consolidated Fund of State by PDS. This led to an understatement of Government Revenue Receipts by ₹ 582.39 crore. Further, an expenditure of ₹ 588.86 crore had been incurred without routing it through Government Accounts resulting in understatement of Government expenditure by ₹ 588.86 crore. This led to an overall overstatement of Revenue surplus and understatement of Fiscal Deficit by ₹ 6.47 crore during 2022-23.



Source: Departmental figures

As can be seen from **Chart 4.1**, the State had managed to carry out transactions involving huge receipts and expenditure without accounting for them in the books of accounts. It is pertinent to mention here that despite the issue being pointed out in the previous State Finances Audit Report²⁰, no corrective measures to route the receipts and expenditures through Government Account were taken by the State Government.

4.3.2 Sikkim State Legal Services Authority- Non creation of State Legal Aid Fund

As per Section 16 of the Legal Services Authorities Act, 1987, the State Authority shall establish a fund to be called the “State Legal Aid Fund” in which all grants received from Central or State Government or any donation shall be credited.

However, the said Fund was neither notified nor created as on 31 March 2023 by the State Government. Thus, due to non- creation of the State Legal Aid Fund by the State Government, the grants and other receipts received from National Legal Services Authority was kept in a bank account and the expenditure incurred from State Government allocation were routed through the State treasury.

The Sikkim State Legal Services Authority stated (April 2022) that the matter has been taken up with the State Government (December 2022) for creation of Fund. However, no response has been received till date. Thus, due to non-creation of the Sikkim State

²⁰ Paragraph 4.4.1 of the State Finance Audit Reports for the year ending 31 March 2021 and 31 March 2022

Legal Services Authority Fund, the grants, fee and other receipts collected by the SLSA were being kept in a bank account. The SLSA Bank Accounts had a balance of ₹ 64.35 Lakh.

4.4 Off-Budget Borrowing

Off-budget borrowings or off-budget financing generally refer to use of those financial resources by the Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/ those years for seeking grant/ appropriation, hence remaining outside legislative control. They are financed through Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the Government. However, the Government must repay such debt and/ or service the same from its budget. Therefore, off-budget borrowings/ financing involves a) payment of interest on recurrent basis and b) repayment of the borrowings from budget as and when it is due.

During the year 2022-23, the State Government repaid ₹ 198.95 crore worth of loans availed by three financial institutions²¹ for implementation of various Government projects, and interest accrued thereupon. The borrowings by these Institutions had not formed part of the outstanding liabilities of the State Government during the respective years. Further, out of the total repayments made during the year, ₹ 113.08 crore was repayment of principal and ₹ 85.87 crore was interest payment.

It was noticed that the repayment of such debts (principal) was wrongly accounted as 'Revenue Expenditure' instead of 'Capital Expenditure' except for Power Department.

The details of loans availed by these Institutions, purpose of the loans and repayment made during the year are given in **Table 4.3**:

Table 4.3 Repayment of Off-Budget Borrowing through Budget during 2022-23 and outstanding as on 31 March 2023

(₹ in crore)

Name of the Institution	Heads of Account	Bank/ Financial Institution	Loan Borrowed	Date of Sanction of Loan	Purpose of Loan	Repayment during the year		Repayment by (Principal & Interest)	Outstanding as on 31 March 2023
						Principal	Interest		
SHDB	2216-03-800-35-00-82	HUDCO	361.00	27.03.2017	Chief Minister Rural Housing Scheme-3000 houses	24.07	27.09	Rural Development Department	282.72
STCS	2210-01-800-00-44-91	CBI	300.00	07.02.2018	Multi-speciality Hospital at Sochagang	43.00	17.09	Health and Family welfare Department	192.40
SIDICO	3054-80-001-35-44-50 Other Charges	HUDCO	198.04	December 2018	Strengthening and improvement of existing Highways in the State of Sikkim	11.65	14.59	Roads and Bridges Department	151.29
		NABARD	130.81	March 2018		13.08	9.10		85.03
		HUDCO	103.70	December 2021		6.10	4.95		58.90
		NABARD	83.50	August 2020		8.35	7.12		75.15
	2851-00-001-60-0-50	HUDCO	113.35	March 2013	Development of Pakyong Township	6.83	1.98	Commerce and Industry Department	13.66

²¹ Sikkim Housing Development Board (SHDB), State Trading Corporation of Sikkim (STCS) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO).

Name of the Institution	Heads of Account	Bank/ Financial Institution	Loan Borrowed	Date of Sanction of Loan	Purpose of Loan	Repayment during the year		Repayment by (Principal & Interest)	Outstanding as on 31 March 2023
						Principal	Interest		
	2217-80-001-00-44-55	UBI	141.00	November 2021	Construction of 1000 houses for urban families in Sikkim	0.00	3.95	Urban Development Department	141.00
Total						113.08	85.87		1,000.15

Source: Departmental Information

As on March 2023, there was outstanding off budget borrowing of ₹ 1,000.15 crore which was not reflected in the outstanding liabilities of the State Government in its accounts (Finance Accounts) which resulted in understatement of liabilities of the State Government to that extent.

‘Off-budget borrowings’ is being raised by the Government of Sikkim from outside agencies without routing them through the Consolidated Fund of State (CFS) and the State Budget. Hence, the borrowings so availed by the State Government remained outside of Legislative approval.

Issues related to transparency

4.5 Utilisation Certificates

4.5.1 Delay in submission of Utilisation Certificates of Grants-in-Aid

Rule 115 of SFR states that in the case in which conditions are attached with the utilisation of a grant in the form of specification or particular objects or expenditure or the time within which the money must be spent, or otherwise, the sanctioning authority shall be primarily responsible for certifying to the Accountant General, where necessary, the fulfilment of conditions attached to grant, unless there is any special rule or order to the contrary. Further, Rule 116 (1) of the SFR stipulates that every grant made for a specific object is subject to implied conditions: (i) that the grant shall be spent upon the object within a reasonable time of one year from the date of issue of the letter sanctioning grant and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government.

Utilisation Certificates (UCs) outstanding beyond the specified periods indicate absence of assurance on utilisation of the grants for intended purposes and the expenditure shown in the accounts to that extent cannot be treated as final.

Grantor obtains assurance through means of UCs about proper utilisation of the funds placed at the disposal of the Grantee for the sanctioned purpose. Any delay in furnishing UCs to the Grantor or inaccuracy in such reporting essentially undermines the control mechanism designed to prevent the diversion from the intended purposes as well as the timely utilisation of grants. To the extent of non-receipt of UCs, the expenditure shown in accounts cannot be treated as final nor can it be confirmed that the amount has been expended for the purpose sanctioned.

Department-wise status of outstanding UCs as per the records of the office of the Sr. DAG (A&E) Sikkim is given at **Appendix 4.2**.

Table 4.4: Age-wise arrears in submission of Utilisation Certificates

Year*	No. of UCs	Amount
Upto 2021-22	802	62.51
2022-23	145	33.69
Total	947	96.20

(₹ in crore)

Source: Notes to Finance Accounts 2022-23

* The year mentioned above relates to "Due year" i.e., after one year of actual drawal.

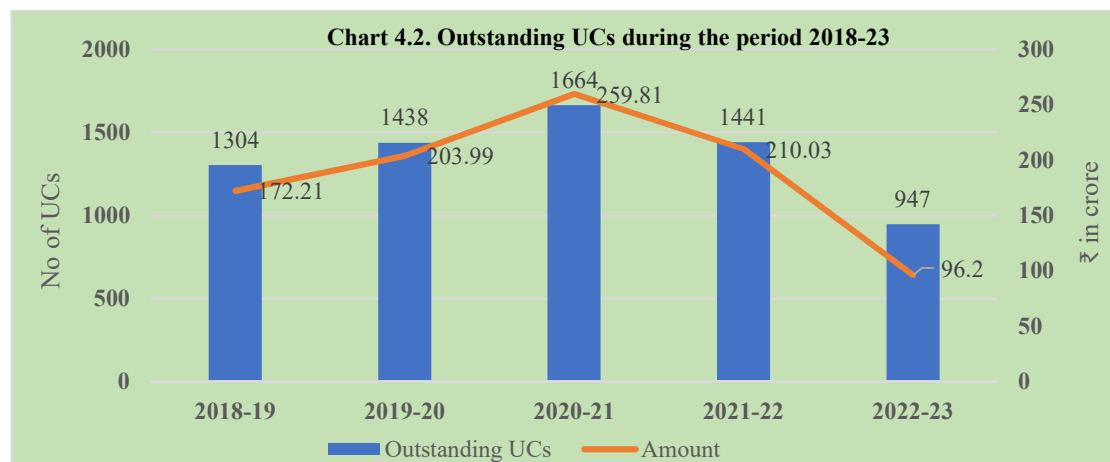
Year-wise break-up of outstanding UCs for the period 2002-23 is given in Table 4.5.

Table 4.5: Year wise break up of outstanding UCs

Year	Number of UCs	Amount (₹ in crore)
2002-03	53	1.02
2003-04	46	1.34
2004-05	55	0.92
2005-06	38	1.13
2006-07	21	0.80
2007-08	94	4.48
2008-09	107	6.09
2009-10	83	4.16
2010-11	29	0.47
2011-12	27	1.43
2012-13	16	1.31
2013-14	15	0.41
2014-15	12	0.28
2015-16	10	0.57
2016-17	32	0.60
2017-18	54	16.85
2018-19	64	16.85
2019-20	20	0.92
2020-21	26	2.89
2021-22	145	33.69
Total UCs due for submission on or before 31.3.2023	947	96.20

Source: VLC data

As can be seen from Table 4.5, out of 947 outstanding UCs involving ₹ 96.20 crore, 154 outstanding UCs amounting to ₹ 3.28 crore which were due for submission in 2005-06, were still awaited as on 31 March 2023.



Source: VLC Data and previous years SFAR

As can be seen from **Chart 4.2**, the outstanding UC has decreased from 1,441 in 2021-22 to 947 in 2022-23.

The major defaulting departments are as listed in **Table 4.6**.

Table 4.6: Major defaulting departments who had not submitted UCs

Major Defaulting Department	Number	Amount (₹ in crore)	Percentage of outstanding UCs
Ecclesiastical	127	52.77	54.85
Social Justice and welfare	413	16.67	17.33
Rural Development	58	7.11	7.39
Tourism and Civil Aviation	22	6.83	7.10
Culture	82	2.32	2.41
Sports and Youth Affairs	117	2.27	2.36
Science and Technology	11	1.74	1.81
Power	8	1.60	1.66
Horticulture	2	1.00	1.04
Home	2	0.97	1.01

Source: VLC data

The major defaulting department which failed to submit utilisation certificates with five per cent or more of the total outstanding UCs were Ecclesiastical with ₹ 52.77 crore (54.85 per cent), Social Justice and welfare ₹ 16.67 crore (17.33 per cent), Rural Development ₹ 7.11 crore (7.39 per cent), Tourism and Civil Aviation ₹ 6.83 crore (7.10 per cent).

High pendency of UCs was fraught with the risk of misappropriation; thus, it is imperative that the State Government should monitor this aspect closely and hold the concerned persons accountable for submission of UCs in a timely manner.

4.6 Review on pending UCs in Ecclesiastical Department

Audit reviewed the Ecclesiastical Department which had the highest number of outstanding UCs. An in-depth analysis of Grants disbursed by Ecclesiastical Department, its utilisation and pendency in submission of UCs are detailed in the subsequent paragraphs.

4.6.1 Pendency of Utilisation Certificates

Year-wise status of outstanding UCs as per the records of the office of the Sr. DAG (A&E) Sikkim is given at Table 4.7:

Table 4.7: Age-wise break up of pending UCs

Year	No. of Grants-in-aid for which UCs not received	Amount of Grant (₹ in crore)
2017-18	25	16.47
2018-19	47	15.55
2019-20	3	0.29
2020-21	12	2.10
2021-22	40	18.36
Total	127	52.77

Source: VLC data

According to the reply furnished by the Department to the Finance Department (September 2023), Government of Sikkim the lack of district offices as well as shortage of officers within the Department have proven to be the main stumbling block in the

effective monitoring of works which are spread across all six districts, which has led to the high number of outstanding UCs.

However, despite drawing attention of the State Government to this issue year after year in the Audit Reports of the CAG, there has been no improvement in this regard.

4.7 Pendency in submission of Detailed Countersigned Contingent (DC) Bills against Abstract Contingent (AC) Bills

The drawal of contingent charges on items of expenditure by a State Government, for which final classification and supporting vouchers is not available at the time of drawal are made on 'Abstract Contingent' (AC) Bills. Initially made as advance, its subsequent adjustments are ensured through submission of DC bills within a stipulated period of drawal of AC bill. DC bill consists of abstract of expenditure along with sub-vouchers for amount drawn through AC bill. Drawing and Disbursing Officers (DDOs) are required to present DC bills duly countersigned by the Controlling Officer in all these cases within the period prescribed in the State Treasury Rules.

Circular No. 168/Fin (Accts) dated 27 December 1983 issued by the Finance Department, states that DDOs are required to present DC Bills containing vouchers in support of final expenditure within three months of the withdrawal of AC Bills. Besides, the DDOs should not make payments through AC Bills unless DC Bills for previous month have been submitted to the Controlling Officers. Non-submission of DC Bills renders the expenditure under AC Bills opaque. Details of AC Bills outstanding as on 31 March 2023 are given below.

Table 4.8: Details of AC Bills

Year	No. of unadjusted AC Bills	Amount (₹ in crore)
Upto 2021-22	1,987	34.98
2022-23	299	17.44
Total	2286	52.42

Source: NTFA and VLC data of office of the Sr. DAG (A&E)

It was seen that during 2022-23, ₹5.95 crore (13.60 per cent) was drawn through 72 AC Bills in March 2023. Expenditure against AC Bills at the end of the year indicates poor public expenditure management and may point to drawal being done primarily to exhaust the budget provision.

Year-wise trend of unadjusted AC bills for the period 2001-2022 is given in Table 4.9.

Table 4.9: Year-wise break-up of unadjusted AC bills

Year	No. of Bills	Amount (₹ in crore)
2001-2002	54	0.18
2002-2003	128	1.27
2003-2004	188	1.27
2004-2005	119	1.31
2005-2006	88	1.01
2006-2007	99	2.36
2007-2008	97	0.74
2008-2009	89	0.87
2009-2010	94	1.99
2010-2011	56	0.35

Year	No. of Bills	Amount (₹ in crore)
2011-2012	66	0.75
2012-2013	92	2.20
2013-2014	72	0.70
2014-2015	46	3.48
2015-2016	52	1.63
2016-2017	94	1.93
2017-2018	89	2.58
2018-2019	128	2.47
2019-2020	134	1.92
2020-2021	98	4.08
2021-2022	104	1.89
2022-2023	299	17.44
Total	2286	52.42

Source: VLC Data

Out of 2,286 unadjusted AC bills involving ₹52.42 crore, 54 oldest outstanding AC Bills amounting to ₹0.18 crore pertains to the year 2001-02, Department-wise details are given in **Appendix 4.3**.

Major defaulting departments with high outstanding AC Bills as on 31 March 2023 are given in **Chart 4.3**.

Chart-4.3: Departments with high outstanding AC Bills as on 31 March 2023



As can be seen from **Chart 4.3**, Social Justice and Welfare Department was at the top with ₹ 5.38 crore (10.26 per cent of total outstanding AC bills) worth of outstanding AC bills. In terms of number of outstanding AC bills, Home Department with 289 numbers and Police Department with 218 numbers of outstanding AC bills were the top defaulters.

The office of Sr. DAG (A&E) has been highlighting the status of outstanding DC bills to the Finance Department on monthly basis, despite this the outstanding balances persisted. Department-wise pending DC bills for the years up to 2022-23 are detailed in **Appendix 4.4**.

Non-adjustment of advances for long periods is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of DC bills. Further, to the extent of non-receipt of DC bills, the expenditure shown in the Finance Accounts cannot be asserted as correct or final.

4.8 Indiscriminate use of Minor Head 800

Minor Head 800- Other Expenditure/ Other Receipts is intended to be operated only when the appropriate minor head has not been provided in the accounts. Routine operation of Minor Head-800 is to be discouraged, since it renders the accounts opaque.

During the year 2022-23, the State Government booked ₹ 1,260.22 crore (12.59 per cent of the Revenue and Capital expenditure) under 800-Other Expenditure under 31 Expenditure Heads and ₹ 689.37 crore (8.51 per cent of Revenue Receipts) under 800-Other Receipts under 32 Revenue Receipt Heads.

Instances where a substantial proportion (50 per cent or more) of the expenditure within a given Major Head were classified under the Minor Head 800- ‘Other Expenditure’ during 2022-23 are given in **Table 4.10**.

Table 4.10: Significant expenditure booked under Minor Head 800–Other Expenditure during 2022-23

(₹ in crore)

SI. No.	Major Head	Major Schemes under Minor Head 800	Expenditure under Minor Head 800	Total Expenditure	Per cent
1.	4216-Capital Outlay on Housing	Chief Minister Rural Housing Mission Phase I & II and Stalled House (REDRH/CMRHM) etc.	451.00	451.00	100
2.	2852-Industries	Implementation of e-Vidhan, State Data Centre (SDC) etc.	14.77	14.77	100
3.	2810-Non-Conventional Sources of Energy	Grants-in-Aid to SREDA	2.40	2.40	100
4.	2435-Other Agricultural Programmes	National Food Security Mission (NFSM) and Rastriya Krishi Vikash Yojana	6.31	6.31	100
5.	2407-Plantations	Management and Management Charges	8.01	8.01	100
6.	4801-Capital Outlay on Power Projects	Survey design supply erection Testing and commissioning Nayabazar and Gyalshing town, Strengthening and augmentation of sub-transmission & distribution infrastructure in rural areas etc.	197.90	225.46	88
7.	2216-Housing	Repayment/interest payment of loan from HUDCO, House Upgradation etc.	98.56	105.37	94
8.	4225-Capital outlay on Welfare of SC/ ST/OBC	Construction of Lepcha Primitive Tribal Girls’ Hostel Lingdong Near Mangan, North Sikkim, State Share for all Construction Works etc.	7.35	8.35	88
9	2075-Miscellaneous General Services	Other Charges (includes commission to bank)	17.70	33.75	52
10	2245-Relief on Account of Natural Calamities	Food, Cyclones, etc.,	80.45	109.83	73
11	2506-Land Reforms	Purchase of Land	0.96	0.96	100
	Total		882.96	963.76	92

Source: Finance Accounts, 2022-23

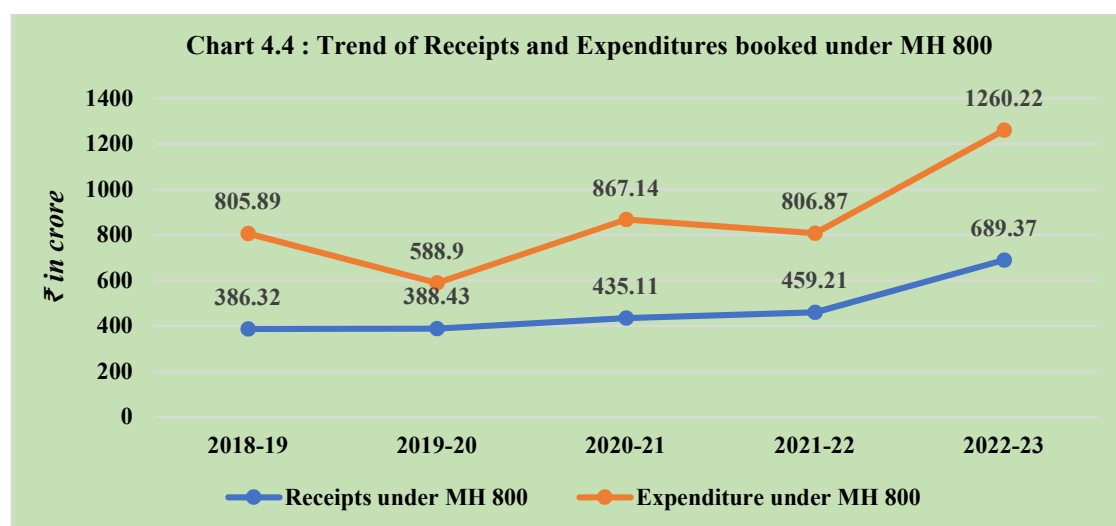
Similarly, Instances where a substantial proportion (50 per cent or more) of the receipts within a given Major Head were classified under the Minor Head 800- ‘Other Receipts’ during 2022-23 are given in **Table 4.11**.

Table 4.11: Significant receipts booked under Minor Head 800 – Other Receipts during 2022-23
(₹ in crore)

Sl. No	Major Head	Receipt under Minor Head 800	Total Receipts	Per cent
1.	0801-Power	402.72	402.72	100
2.	0217-Urban Development	4.42	4.42	100
3.	0515-Other Rural Development Programmes	2.98	2.98	100
4.	0407-Plantations	2.00	2.00	100
5.	0702-Minor Irrigation	1.04	1.04	100
6.	0235-Social Security and Welfare	0.51	0.51	100
7.	0853-Non-ferrous Mining and Metallurgical Industries	0.30	0.30	100
8.	0250-Other Social Services	0.05	0.05	100
9.	0029-Land Revenue	8.61	8.79	98
10.	0220- Information and Publicity	0.16	0.17	94
11.	0059-Public Works	12.80	13.98	92
12.	0070-Other Administrative Services	13.49	15.02	90
13.	0406-Forestry and Wild Life	157.09	180.26	87
14.	0401-Crop Husbandry	2.03	2.54	80
15.	0852-Industries	3.48	5.17	67
16.	1452-Tourism	5.76	9.87	58
17.	0071-Contribution and Recoveries towards Pension and other Retirement Benefit	12.99	24.30	53
	Total	630.43	674.12	94

Source: Finance Accounts, 2022-23

Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure. The trending of Receipts and Expenditure booked under Minor Head 800 is shown in **Chart 4.4**.



As can be seen in **Chart 4.4**, the Receipts booked under Minor Head 800 has seen a steady increase during the period 2018-2022. The Receipts booking under MH 800 increased by ₹ 303.05 crore from the year 2018-19 to 2022-23. On the other hand, there

was fluctuation in Expenditure booked under MH 800 with substantial decline being noticed during 2019-20 and 2021-22.

- Details of Major Heads where the expenditure was more than ₹50.00 crore and more than 50 per cent of expenditure was classified under Minor Head 800-Other Expenditure are shown in **Table 4.12**. This was due to non-availability of dedicated minor heads.

Table 4.12: Major Heads where the expenditure was more than ₹50.00 crore classified under Minor Head 800-Other Expenditure

(₹ in crore)

Major Head	Details of Major Head	TE	Booked Under MH-800	Percentage
2216	Housing	105.37	98.56	94
2245	Relief on Account of Natural Calamities	109.83	80.45	73
4216	Capital Outlay on Housing	451.00	451.00	100
4801	Capital Outlay on Power Projects	225.46	197.90	88

Source: Finance Account, 2022-23

- In respect of Nine Major head amounting to ₹414.02 crore, the entire provision was classified under Minor Head 800-Other Receipt during 2022-23 as shown in **Table 4.13**. The Power Sector alone classified ₹402.72 crore under Minor Head 800.

Table 4.13: The entire provision was classified under Minor Head 800-Other Receipt

(₹ in crore)

Major Head	Description	Total Receipts under the Major Head	800-Other Receipt	Percentage to Total Receipt under the Major Head
56	Jails	0.01	0.01	100
217	Urban Development	4.42	4.42	100
235	Social Security and Welfare	0.51	0.51	100
250	Other Social Services	0.05	0.05	100
407	Plantations	2.00	2.00	100
515	Other Rural Development Programmes	2.98	2.98	100
702	Minor Irrigation	1.04	1.04	100
801	Power	402.72	402.72	100
853	Non-ferrous Mining and Metallurgical industries	0.30	0.30	100
Total		414.03	414.02	100

Source: Finance Account, 2022-23

It can be seen from the above table that the Power Sector alone classified ₹402.72 crore (97.27 per cent) under Minor Head 800.

Classification of amounts under 800-Other receipts/ expenditure discourage the transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure and receipts. Users are not able to see and understand the nature of such transactions booked under Minor Head 800.

Thus, it is imperative that the State Government reviews all classifications of schemes being made under 800-Other Expenditure in the light of their depiction in the LMMH and after consultation with the Accountant General (A&E), classify them appropriately

as per existing LMMH, or seek addition of new Minor Head, to bring transparency in Accounts.

The Finance department stated (December 2023) that respective heads have been created from the financial year 2023-24 and some heads will be created from new financial year 2024-25.

Issues related to measurement

4.9 Suspense and Remittances

The Finance Accounts reflect the net balances under Suspense and Remittance Heads. The outstanding balances under these heads are worked out by aggregating the outstanding debit and credit balances separately under various heads. The position of gross figures under major suspense heads for the last three years is given in **Table 4.14**.

Table 4.14: Outstanding Balances under Suspense and Remittance Heads

(₹ in crore)

Particulars	2020-21		2021-22		2022-23	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
(I) Major Head (MH) 8658- Suspense						
Minor Head	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101-PAO - Suspense	8.35	5.43	0.50	-	1.71	-
Net	Dr.2.92		Dr.0.50		Dr.1.71	
102-Suspense Account (Civil)	14.46	13.83	-0.71	-0.67	0.09	0.12
Net	Dr 0.63		Dr 0.04		Cr. 0.03	
112 – Tax Deducted at Source	11.31	20.40	5.16	11.24	-	11.39
Net	Cr 9.09		Cr 6.08		Cr. 11.39	
123-AIS Suspense	0.01	0.34	(-)0.02	0.00	-	0.02
Net	Cr 0.33		Cr 0.02		Cr. 0.02	
135-Cash Settlement between Sikkim and other States	0.86	0.19	0.87	0.78	0.35	-
Net	Dr 0.67		Dr 0.09		Dr 0.35	
(II) MH 8782- Cash Remittance and adjustment between officers rendering accounts to same Accounts Officers						
102-Public Works Remittances	1768.08	2282.71	1915.88	2289.62	2731.98	3199.32
Net	Cr 514.63		Cr 373.74		Cr 467.34	
103-Forest Remittances	47.47	48.80	70.13	70.31	53.67	48.25
Net	Cr 1.33		Cr 0.18		Dr 5.42	
108-Other Remittances	82.29	79.99	81.15	77.21	87.62	77.32
Net	Dr 2.30		Dr 3.94		Dr 10.30	

Source: Finance Accounts

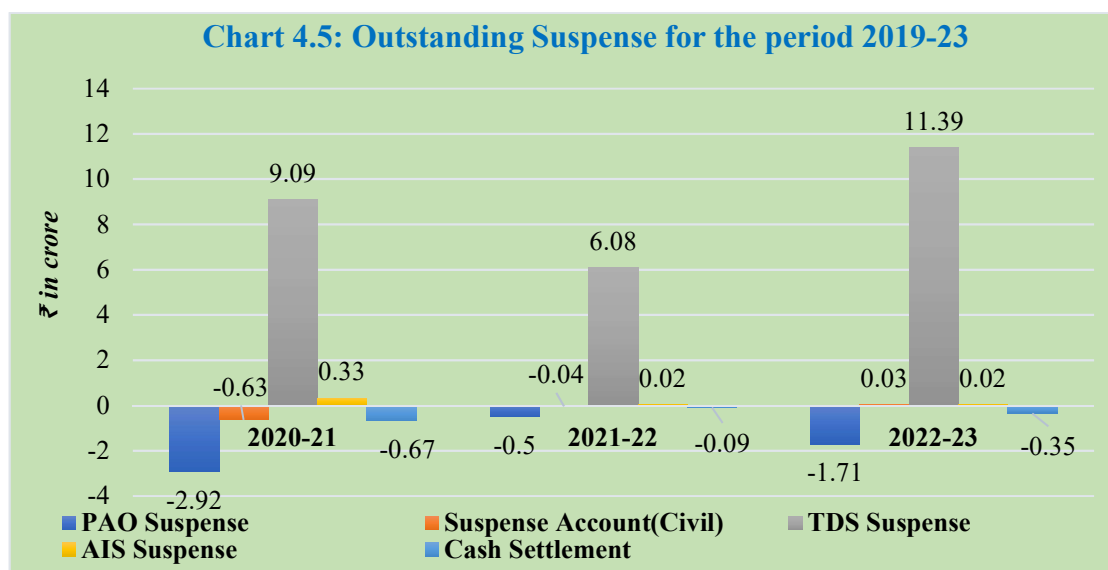
Outstanding debit balance under 101-PAO Suspense head would mean that payments have been made by the State on behalf of PAOs of Central Government, which were yet to be recovered. Outstanding credit balance would mean that payments have been received by the State on behalf of a PAO, which were yet to be paid.

The variation in net balance of the components under Suspense is given below:

- The net debit balance under the PAO suspense head decreased from ₹ 2.92 crore in 2020-21 to ₹ 1.71 crore in 2022-23. On clearance/ settlement of this, the cash balance of the State Government will increase.
- Receipts on account of TDS are credited to TDS suspense and the balances under this suspense head are to be cleared when the receipts of TDS are transferred to the

Income Tax Department. There was outstanding credit balance of ₹ 11.39 crore under this head as on 31 March 2023.

- The net AIS suspense balance during 2020-2021 was ₹ 0.33 crore, however it decreased to ₹ 0.02 crore during 2021-22 and remained same as on 31 March 2023.
- The Cash Settlement balance between Sikkim and other states increased to ₹0.35 crore in 2022-23 as against previous year's balance of ₹ 0.09 crore. On clearance of this, the cash balance of the State Government will increase.



Source: Finance Accounts

4.10 Reconciliation of Receipts and Expenditure between CCOs and Sr. Deputy Accountant General (A&E)

In order to exercise effective control of expenditure, to keep it within the budget grants and to ensure accuracy of their accounts, all Chief Controlling Officers (CCOs) are required to reconcile the Receipts and Expenditure recorded in their books every month during the financial year with the figures accounted for in the Office of the Sr. DAG (A&E).

As per the records of Office of Sr. DAG (A&E), the State Government had reconciled 100 per cent of all their Receipts and Expenditure through CCOs and DDOs with the figures booked in the accounts of the Sr. DAG (A&E).

4.11 Reconciliation of Cash Balances

Under a resolution passed in the year 1968-69, State Bank of Sikkim (SBS) has been vested with the responsibility by GoS of receiving money on behalf of Government and making all Government payments and keeping custody of the balances of government. It was seen that there were differences in cash balances as per the records of Sr. DAG (A&E) and SBS each year. As per records of Sr. DAG (A&E), the cash balance of Government with State Bank of Sikkim as on 31 March 2023 was ₹ 38.24 crore. But as per the record of State Bank of Sikkim, the cash balance stood at ₹ 3.67 crore leaving behind an unreconciled balance of ₹ 34.57 crore.

The difference in cash balance between the figures of Sr. DAG (A&E) and SBS for the last five years is shown below:

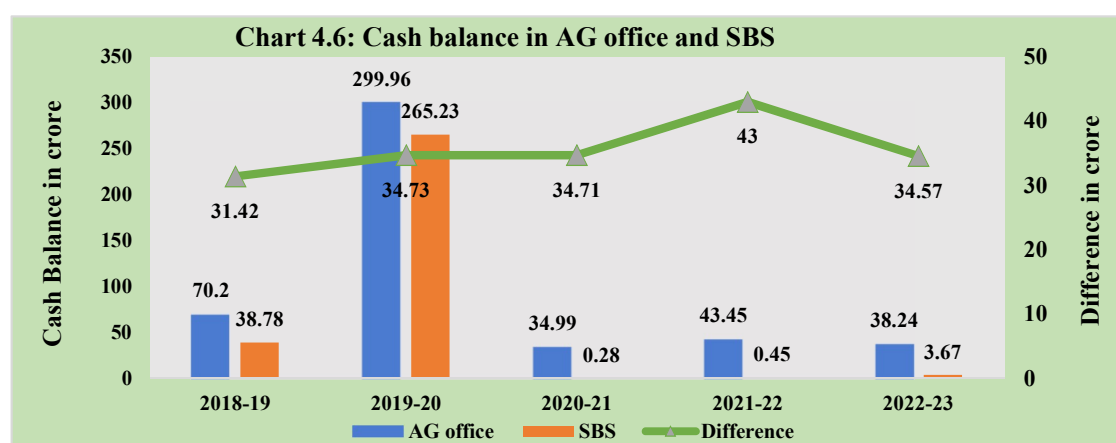
Table 4.15: Differences in cash balances

Financial Year	As per records of office of Sr. DAG (A&E)	As per records of State Bank of Sikkim (SBS)	Difference
2018-19	70.20	38.78	31.42
2019-20	299.96	265.23	34.73
2020-21	34.99	0.28	34.71
2021-22	43.45	0.45	43.00
2022-23	38.24	3.67	34.57

(₹ in crore)

Source: Finance Accounts

The difference was mainly due to non-reconciliation of figures by the State Treasuries with SBS.



Issues related to disclosure

4.12 Compliance with Accounting Standards

As per Article 150 of the Constitution of India, the President of India may, on the advice of the Comptroller and Auditor General of India (CAG), prescribe the form of accounts of the Union and of the States. On the advice of the CAG, the President of India has so far notified three Indian Government Accounting Standards (IGAS) viz., IGAS 1- Guarantees given by the Government, IGAS 2- Accounting and classification of Grants-in-Aid and IGAS 3- Loans and Advances made by Government. Details of compliance to these Accounting Standards by the Government of Sikkim during 2022-23 is given below.

Table 4.16: Compliance to Accounting Standards

Sl. no	Accounting Standards	Essence of IGAS	Compliance by State Government	Deficiency
1	IGAS-1	Guarantees given by the Government – Disclosure requirements	Complied (Statements 9 and 20 of Finance Accounts)	-
2	IGAS-2	Accounting and Classification of Grants-in-Aid	Complied (Statement 10 of Finance Accounts)	-
3	IGAS-3	Loans and Advances made by Government	Complied (Statement 7 and 18 of Finance Accounts)	-

Source: Finance Accounts

4.13 Arrears in Accounts submission by Autonomous Bodies

The audit of accounts of 16 Autonomous Bodies (ABs) of State Government has been entrusted to the CAG under Section 20(1) of the C&AG (DPC) Act, 1971 in the State.

86 accounts of the above ABs were pending for submission to Audit with pendency ranging between one and 16 years details of which are given in *Appendix 4.5*.

4.14 Non-submission of information on financial assistance given to Autonomous Bodies/ Authorities

In order to identify new institutions which, attract audit under Sections 14 and 15 of the CAG's (DPC) Act, 1971, the State Government/ Heads of the Departments are required to furnish to Audit every year, the detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. None of the departments had submitted this information, though specifically called for by audit.

Further, the substantially funded Autonomous Bodies/ Authorities are required to submit their annual accounts for audit by the CAG under the provision *ibid*. A total of 22 annual accounts of 10 Autonomous Bodies/ Authorities out of 23 Autonomous Bodies/ Authorities for the period from 2020-21 to 2022-23 had not been received in the office of Accountant General till October 2023 as detailed in *Appendix 4.6*. The age-wise delay in submission of accounts is detailed in the table below.

Table 4.17: Statement Showing Age-wise Non-furnishing of Accounts

Sl. No.	Range of delays in number of years	Total number of accounts
1	3 years	2
2	2 years and below	20
Total		22

Source: Annual Accounts

Due to non-finalisation of accounts, these institutions could not be audited. Thus, it could not be ensured whether the grants and expenditure had properly been accounted for and whether the purpose for which the grants were provided had actually been achieved.

Besides, delay in finalisation of accounts carries the risk of financial irregularities remaining undetected apart from violation of the provision of the respective legislations under which these bodies were constituted.

Other Issues

4.15 Misappropriations, losses, thefts, etc.

State Financial Rules lay down detailed instructions regarding responsibility for losses sustained through fraud or negligence of individuals, loss or destruction of Government property and report thereof to the Police/ Accountant General.

Scrutiny of details received from the Departments showed that there were eight cases of misappropriation involving Government money amounting to ₹ 288.01 lakh {RDD (₹ 117.25 lakh), Transport Department (₹ 8.78 lakh), Building & Housing (₹ 157.56 lakh), Finance Department (₹ 0.26 lakh), Food and Supplies (₹2.24 lakh),

Cooperation (₹1.92 lakh)} out of which an amount of ₹ 1.78 lakh was recovered from the SNT driver in February 2020. The unrecovered amount of ₹286.23 lakh is lying pending at the end of 2022-23 for want of final action. The department-wise break-up of pending cases and age-wise analysis of misappropriation cases are given in **Table 4.18**.

Table 4.18: Profile of pending cases of misappropriation, loss, defalcation, etc.

Age-profile of the pending cases				Nature of the cases	Action taken by the Department	Amount Received
Range in years	Number of cases	Name of the Department	Amount involved (₹ in lakh)			
0-5	02	RDD	7.99	Cash transaction was not recorded in the cash book	Action yet to be taken by the Department	Latest status of recovery not furnished.
			89.41	Short supply of stock materials by Block Office to the Beneficiaries	Enquiry conducted by the O/o the ADC (Dev), Rabongla, South Sikkim	Latest status of recovery not furnished.
	01	BHD	157.56	Misappropriation	Inquiry officer submitted final report on 22.02.2022. Department forwarded the case to the Government for further action	Nil
	01	Food & Supplies	2.24	Misappropriation	Case has been registered by the Vigilance Department and is under investigation	Latest status of recovery not furnished.
	01	Cooperation	1.92	Fraudulent withdrawal of money from Bank	The Department did not take any step to recover the lost amount from the fraudulent person through concerned bank. Further the Department did not inform the Finance Department and AG office.	Latest status of recovery not furnished.
5-10	01	RDD	19.85	Drawing of salary for 6 years even after superannuation by the Government Employee.	The department has stopped the pay and allowance. But, yet to recover the salary paid to retired staff.	Latest status of recovery not furnished.
15-20	01	Finance	0.26	Cash embezzlement by staff	Person involved in the case of theft is still untraceable. The proposal to write off Government money involved is under process for approval of the Government.	Nil

Age-profile of the pending cases				Nature of the cases	Action taken by the Department	Amount Received
Range in years	Number of cases	Name of the Department	Amount involved (₹ in lakh)			
	01	Transport	07.00	Shortage of POL during transportation in SNT tanker	Case referred to Vigilance Department for investigation	Latest status of recovery not furnished.
Total	08		286.23			1.78

Source: Departmental figures

4.16 Follow up action on State Finances Audit Report

The preparation of Report on State Finances started in 2008-09 and the Reports for the years 2009-10 to 2012-13 had been discussed by the Public Accounts Committee (PAC). PAC recommended compliance with the recommendations as contained in the Report of the Comptroller and Auditor General of India on State Finances. Reports on State Finances up to 2012-13 have been discussed in the PAC and 2013-14 to 2020-21 have not been discussed by the PAC and Report of 2021-22 is yet to be placed in the Legislative Assembly.

4.17 Constitution of State Finance Commission and recommendation thereof

Constitution of State Finance Commission every five years is mandated in Article 243I (1) and 243Y of 73rd and 74th Constitutional Amendment ACT (CAA) of India, 1993. The State Finance Commissions are assigned the task of reviewing the financial position of local bodies and making recommendations on the sharing and assignment of various taxes, duties, tolls, fees, etc. and grants-in-Aid to be given to the local bodies from Consolidated Fund of the State.

The Fifth State Finance Commission (FSFC) was constituted by the Governor of Sikkim on 17th August 2016 to review the financial position of the Panchayat & Municipalities; to give recommendation to improve the financial position of the Panchayats as well as the Municipalities; to examine the resources of the local bodies; maintenance and upkeep of the Capital assets created by local bodies or transferred by the Government to the local bodies; to work out a factor for determination of devolution of taxes; duties; grants-in-Aid; to indicate the basis and to make available the estimates and expenditure of each tier of local bodies during the period 2020-2025. The Commission submitted (August 2017) its Report to the Government on covering all aspects of its mandate.

The position of recommendation *vis-à-vis* acceptance and status of short/excess release relating to Local Bodies by 5th SFC is given in **Table 4.19**.

Table 4.19: Statement showing SFC recommendation, accepted by Government and its status of implementation

Sl. No	Item of Recommendation	Accepted by Government	Status of implementation
1	4.50 % of net proceeds of State's Tax Revenue should be devolved to PRIs and ULBs.	The Government accepted the recommendation of the FSFC for devolving 4.50% of the net proceeds of the State's taxes, fees and levies to the PRIs and ULBs for the period 2020-25 subject to the actual collection.	Fund was released by the State Government as per recommendation: PRI- ₹ 33.96 crore ULB-₹ 12.18 crore

Sl. No	Item of Recommendation	Accepted by Government	Status of implementation
2	0.50 % of net proceeds of State's Tax Revenue should be allocated for Capacity building of PRIs and ULBs.	The Government accepted the recommendation.	Fund was released by the State Government only for PRI amounting to ₹3.31 crore, however, no fund was released for ULB.
3	0.5 % of the net proceeds of the State's Tax Revenue should be allocated for Special Support to most backward PRIs and ULBs.	The Government accepted the recommendation.	The fund was yet to be released.

4.18 Conclusion

During the year 2022-23, all the Controlling Officers reconciled the Government receipts and expenditure with the figures in the books of the Sr. DAG (A&E).

Audit observed that ₹8.99 crore was required to be paid as interest on the balance of ₹368.66 crore lying under interest bearing deposits/Reserve Funds as on 1 April 2022. Non-payment/short payment of the interest amounting to ₹8.99 crore has resulted in understatement of Revenue Expenditure and Fiscal Deficit by ₹8.99 crore.

Revenue Receipts of ₹ 582.39 crore earned from sale proceeds of electricity sold outside the State and royalty receipts from the HEPs located in the State, were not deposited in the Consolidated Fund of State by PDS. This led to understatement of Revenue Receipts by ₹ 582.39 crore. Further, an expenditure of ₹ 588.86 crore had been incurred without routing it through Government Accounts resulting in understatement of Government expenditure by ₹ 588.86 crore. This led to an overall overstatement of Revenue surplus and understatement Fiscal Deficit by ₹6.47 crore during 2022-23.

During the year 2022-23, the State Government repaid ₹ 198.95 crore worth of loans availed by three financial institutions²² for implementation of various Government projects, and interest accrued thereupon. The borrowings by these Institutions had not formed part of the outstanding liabilities of the State Government during the respective years.

Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

It has been found that 947 UCs amounting to ₹96.20 crore was due for submission on or before 31st March 2023.

It was seen that during 2022-23, ₹5.95 crore (13.60 per cent) was drawn through 72 AC Bills in March 2023.

Non-furnishing of detailed information about financial assistance given to various institutions and non-submission of accounts by 16 Autonomous Bodies/ Authorities as per timelines led to non-compliance with Financial Rules. There were also delays in placement of SARs to Legislature.

²² Sikkim Housing Development Board (SHDB), State Trading Corporation of Sikkim (STCS) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO)

There were cases of misappropriation involving Government money in respect of seven Departments with the money value of ₹ 2.86 crore at the end of 2022-23 where final action was pending.

4.19 Recommendations

- *Departments should adhere to the Government Accounting Rules and all the financial transactions should be routed through Government Accounts to reflect actual financial position of the State.*
- *Finance Department may draw up action plan for monitoring and ensuring submission of all pending UCs especially keeping in view that UCs from 2002-03 onwards are still due for submission. Release of subsequent grants should be linked with submission of outstanding UCs.*
- *Finance Department may make special efforts to settle old outstanding AC bills specially keeping in view that submission of DC bills from 2001-02 onwards are still pending for submission. At the same time, the DDOs should be asked to ensure that the DC bills are submitted within prescribed time, in order to avoid accumulation of unadjusted AC bills. Advances should be monitored closely for effective control and old outstanding AC bills should be adjusted by making special efforts in a time bound manner.*
- *Timely reconciliation may be done with figures of the PAO and office of the Sr. DAG (A&E) to avoid discrepancies in Accounts. Special efforts need to be taken for reconciliation of balances in State Bank of Sikkim and PAO figures.*
- *To make accounts transparent, the Government should operate appropriate Minor Heads instead of booking under Minor Head 800.*
- *Finance Department should consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies for reporting of their financial position.*
- *The Government should prepare a time bound framework for taking prompt action in cases of misappropriation, loss, theft, etc., and for strengthening the internal control system in Departments to prevent recurrence of such cases.*