

CHAPTER VIII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

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CHAPTER – VIII
GOVERNMENT COMMERCIAL AND TRADING
ACTIVITIES

General view of Government Companies and Statutory Corporations

8.1 Introduction

As on 31 March 2000, there were 7 Government companies and 3 Statutory Corporations as against the same number of Government companies and Statutory Corporations as on 31 March 1999 under the control of the State Government. The Companies Act, 1956 is not extended to the State of Sikkim. The companies in Sikkim are registered under ‘Registration of Companies Act, Sikkim, 1961’. The accounts of the Government companies are audited by the Statutory Auditors who are directly appointed by the Board of Directors of the respective companies. The audit of these companies had been taken up by the Comptroller and Auditor General of India on the request of the State Government under Section 20(1) of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971.

There are three Statutory Corporations in the State viz. Sikkim Mining Corporation (SMC), State Bank of Sikkim (SBS) and State Trading Corporation of Sikkim (STCS) established on February 1960, June 1968 and March 1972 respectively under the proclamations of the erstwhile Chogyal of Sikkim.

The accounts of these Corporations are audited by the Chartered Accountants who are directly appointed by the Board of Directors of the respective Corporations. Audit of these Corporations was entrusted to the Comptroller and Auditor General under Section 19(3) of the Comptroller and Auditor General’s (Duties, Powers and Condition of Service) Act, 1971 at the request of the State Government as detailed below:

Name of the Corporation	Authority for Audit by CAG	Audit arrangement
1. Sikkim Mining Corporation (SMC)	Section 19(3) of CAG’s (DPCS) Act 1971	Audit by Chartered Accountant and superimposed audit by Comptroller and Auditor General of India,
2. State Bank of Sikkim (SBS)	-do-	-do-
3. State Trading Corporation of Sikkim (STCS)	-do-	-do-

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There are two departmentally managed undertakings viz. (i) Sikkim Nationalised Transport (SNT) under the Department of Transport and (ii) Sikkim Tea Board under the Industries Department.

The accounts of these departmentally managed undertakings are audited by Chartered Accountants who are directly appointed by the respective Departments. Audit by the Comptroller and Auditor General of India of these undertakings is taken up under Section 13 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

8.2 Investment in Public Sector Undertakings (PSUs)

As on 31 March 2000, the total investment in 10 Public Sector Undertakings (7 Government companies and 3 Statutory Corporations) was Rs 42.10 crore (equity : Rs 39.71 crore and long-term loans* : Rs 2.39 crore.) as against a total investment of Rs 40.96 crore (equity: Rs 38.58 crore and long term loans : Rs 2.38 crore in 10 PSUs (7 Government companies and 3 Statutory Corporations) as on 31 March 1999. The analysis of investment in PSUs is given in the following paragraphs:

8.2.1 Government companies

Total investment in 7 Government companies as on 31 March 2000 was Rs 34.28 crore (equity: Rs 31.89 crore; long term loans: Rs 2.39 crore) as against total investment of Rs 33.27 crore (equity: Rs 30.89 crore; long term loans: Rs 2.38 crore) as on 31 March 1999 in the 7 Government companies.

The classification of the Government companies was as under:

Status of the companies	Number of companies (*)	Investment (Rupees in crore)	
		Paid up capital	Long Term loans
a) Working	5 (7)	31.31 (-)	2.39 (-)
b) Non Working			
i) Under liquidation	--	--	--
ii) Under closure	2	0.58	--
iii) Under merger	(-)	(-)	(-)
iv) Others	--	--	--
Total	-- 2 (-)	-- 0.58 (-)	-- -- (-)

* Figures in brackets indicate previous year's figures

The summarised financial results of all the Government companies are given in **Appendix XXVI**.

* Long term loans mentioned in para 8.2, 8.2.1 and 8.2.2 are excluding interest accrued and due on such loans.

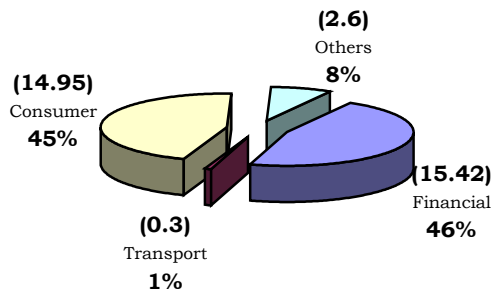
Sectorwise investment in Government companies

As on 31 March 2000, in total investment of Government companies, 93 per cent comprised equity capital and 7 per cent comprised loans compared to 92 per cent and 8 per cent respectively as on 31 March 1999. The sector-wise investment (equity including share application money and long term loans) for the years ended 31 March 1999 and 31 March 2000 is given in two separate Pie Charts below:

8.2.2 Statutory Corporations

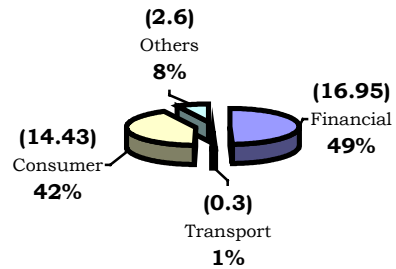
Sector-wise investment for the year ending 31 March 1999

(Figures in the brackets indicate investment Rs in crore)



Sector-wise investment for the year ending 31 March 2000

(Figures in the brackets indicate investment Rs in crore)



The total investment in 3 Statutory Corporations at the end of March 2000 and March 1999 was as follows:

Name of Corporation	1998—99		1999-2000	
	(Rupees in crore)			
	Capital	Loan	Capital	Loan
State Bank of Sikkim (SBS)	0.70	Nil	0.53	Nil
Sikkim Mining Corporation (SMC)	3.00	Nil	3.24	Nil
State Trading Corporation of Sikkim (STCS)	1.03	Nil	1.11	Nil

Note: Figures shown in the table are based on Finance Accounts and exclude Rs2.94 crore invested by GOI in SMC.

The summarised financial results of all the Statutory Corporations are given in **Appendix XXVI** and financial position and working results of individual Statutory Corporation are given in **Appendix XXVII and XXVIII**.

8.3 Budgetary outgo, Subsidies, Guarantees and Waiver of dues

The details regarding budgetary outgo, subsidies, guarantees, waiver of dues and conversion of loans into equity by State Government to Government

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companies and Statutory Corporations are given in **Appendix XXIX** and **XXX**.

The budgetary outgo from the State Government to Government companies and Statutory Corporations for the 3 years upto 1999-2000 in the form of equity capital, loans and subsidy is given below:

	1997-98				1998-99				1999-2000			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
(Rs in crore)												
Equity capital	2	2.06	1	0.19	1	1.00	1	0.23	1	0.50	1	0.23
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-	-	-
Subsidy	-	-	-	-	-	-	-	-	-	-	-	-
Total outgo	2	2.06	1	0.19	1	1.00	1	0.23	1	0.50	1	0.23

During the year 1999-2000, the Government had not given any guarantee to the Government companies and Statutory Corporations. However, at the end of the year, guarantees amounting to Rs 18.10 crore against 1 Government company (Rs 10.00 crore) and 2 Statutory Corporations (Rs 8.10 crore) were outstanding. There was no case of loans written off, interest waived, moratorium on loan repayment, conversion of loans into equity capital in any company or Corporation during the year. There was also no case of guarantee commission either paid or payable to the Government during the year.

8.4 Finalisation of accounts by PSUs

Accountability of Public Sector Undertakings to Legislature is to be achieved through the submission of audited annual accounts within the time schedule to the Legislature. However, as could be noticed from **Appendix XXVI**, out of 7 Government companies, only 1 company and out of 3 Statutory Corporations only 1 Corporation had finalised their accounts for the year, within the stipulated period. The accounts of other 6 Government Companies and 2 Statutory Corporations were in arrears for periods ranging from one year to 6 years as on 30 September 2000 as detailed below:

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Sl. No.	A. Name of the Company	Period upto which accounts finalised	Period for which accounts in arrears	No. of years for which accounts in arrears
I	i. Sikkim Jewels Ltd.	1998-99	1999-2000	1
	ii. Sikkim Flour Mills Ltd.	1993-94	1994-95 to 1999-2000	6
	iii. Sikkim Time Corporation Ltd.	1998-99	1999-2000	1
	iv. Sikkim Livestock Processing & Development Corporation	1995-96	1996-97 to 1999-2000	4
	v. Chanmari Workshop & Automobiles Ltd.	1994-95	1995-96 to 1999-2000	5
	vi. SC, ST & OBC Development Corporation Ltd.	1998-99	1999-2000	1
II	B. Name of the Statutory Corporation			
	i. Sikkim Mining Corporation	1997-98	1998-99 to 1999-2000	2
	ii. State Trading Corporation of Sikkim.	1997-98	1998-1999 to 1999-2000	2

The administrative Departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within stipulated period. Though the concerned administrative Departments and officials of the Government were apprised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result, the investments made in these PSUs could not be assessed in Audit.

8.5 Status of placement of Separate Audit Reports of Statutory Corporations in Legislature

The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory Corporations issued by the Comptroller and Auditor General of India in the Legislature by the Government:

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
i.	Sikkim Mining Corporation (SMC)	1996-97	1997-98	20.6.2000	Not intimated by the Government
ii.	State Bank of Sikkim (SBS).	1994-95	1995-96 1996-97 1997-98 1998-99	27.7.2000 -do- -do- under audit	-do-
iii.	State Trading Corporation of Sikkim (STCS)	1996-97	1997-98	3.11.2000	-do-

8.6 Working results of Public Sector Undertakings

According to latest finalised accounts of 7 Government and 3 Statutory Corporations, 2 companies and 2 Corporations had incurred an aggregate loss of Rs 0.40 crore and Rs 4.15 crore respectively, 4 companies and 1 Corporation earned an aggregate profit of Rs 0.77 crore and Rs 0.20 crore respectively. One company was working on no profit no loss basis.

The summarised financial results of Government companies and Statutory Corporations are given in **Appendix XXVI**.

8.6.1 Government companies

8.6.1.1 Profit earning companies and dividend

As per latest finalised accounts, 4 companies viz Sikkim Jewels Limited (SJL), Sikkim Time Corporation Limited (SITCO), Sikkim Industrial Development and Investment Corporation Limited (SIDICO) and Sikkim Livestock Processing and Development Corporation (SLPDC), which finalised their accounts for 1999-2000 (one company), 1998-99 (two companies) and 1995-96 (one company) earned profit of Rs 0.77 crore. Free Reserve and Surplus amounting to Rs 7.83 crore were built up in these companies. None of the companies declared dividend during the year for which accounts were finalised.

8.6.1.2 Loss incurring companies

Of the 2 loss making companies, 1 company (closed during March 2000) had accumulated losses aggregating Rs 1.53 lakh which had far exceeded its aggregate paid up capital of Rs 0.20 lakh.

8.6.2 Statutory Corporations

There were 3 Statutory Corporations in the State as on 31 March 2000.

8.6.2.1 Profit earning/Loss incurring Statutory Corporations

According to the latest available accounts, the SMC and SBS suffered a loss of Rs 0.30 crore and Rs 3.85 crore respectively, whereas STCS earned profit of Rs 0.20 crore.

8.6.2.2 Operational performance of Statutory Corporations

The operational performance of the Statutory Corporations for the last 3 years for which required information has been furnished by 2 Corporations are given in **Appendix XXXI**.

8.7 Return on Capital Employed

During 1999-2000, the capital employed¹ worked out to Rs 49.25 crore in 7 companies and total return² thereon amounted to Rs 0.77 crore which is 1.56 per cent as compared to total return of Rs 1.08 crore in 7 companies (2.44 per cent) in 1998-99. Similarly, during 1999-2000, the capital employed and total return thereon in case of Statutory Corporations amounted to Rs 159.80 crore and Rs 0.20 crore (0.13 per cent) respectively against the total return of Rs 0.20 crore (0.26 per cent) for 1998-99. The details of capital employed and total return on capital employed in case of each Government companies and Corporations are given in **Appendix XXVI**.

8.8 Results of audit by Comptroller and Auditor General of India

The summarised financial results of all the 7 Government companies and 3 Statutory Corporations based on the latest available accounts are given in **Appendix XXVI**. During the period from October 1999 to September 2000, the audit of 4 accounts of 3 companies and 2 accounts of 2 Corporations were selected for review. The net impact of the important audit observations as a result of review of the PSUs was as follows:

Details	No. of accounts		Rupees in lakh	
	Government companies	Statutory Corporations	Government companies	Statutory Corporations
(i) Decrease in profit	-	1	-	4.07
(ii) Increase in profit	1	-	0.08	-
(iii) Decrease in loss	2	1	0.05	0.50
(iii) Non disclosure of material facts	3	1	5.30	0.04
(iv) Errors of classification	-	-	-	-

Some of the major errors and omission noticed in the course of audit of annual accounts of some of the above companies and Corporations are mentioned below:

A. *Errors and omissions noticed in case of Government companies*

- i) No provision was made for stolen cheque of Rs 2.00 lakh which resulted in overstatement of cash and Bank balances of Rs 2.00 lakh.

(Sikkim Industrial Development and Investment Corporation Limited, Annual Account 1998-99)

¹ Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

² For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

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ii) Out of the total outstanding Secured Loans of Rs 175.40 lakh taken from National Scheduled Castes and Scheduled Tribes Finance & Development Corporation (NSFDC), only Rs 173.98 lakh was taken into account which resulted in understatement of liabilities to the extent of Rs 1.42 lakh under Secured Loan.

(Scheduled Caste, Scheduled Tribes, Other Backward Class Development Corporation Ltd, Annual Accounts 1997-98)

B. Errors and omissions noticed in case of Statutory Corporations

(i) Interest on unsecured loans was booked as Rs 11.55 lakh instead of Rs 11.05 lakh. As a result, the loss (Interest) was overstated and correspondingly the liabilities (Unsecured Loans) was also overstated by Rs 0.50 lakh.

(Sikkim Mining Corporation, Annual Accounts 1997-98)

(ii) Exhibition of prior period Income and Expenditure of Rs 5.62 lakh and Rs 1.55 lakh respectively in the "Profit & Loss Account" instead of under "Appropriation Accounts" resulted in overstatement of profit by Rs 4.07 lakh (Rs 5.62 lakh minus Rs 1.55 lakh) i.e, 20.44 per cent of profit shown in the accounts. Accordingly, the "profit for the year available for appropriation of Rs 19.91 lakh" as shown by the Corporation in the Annual Accounts 1997-98 was not in order.

(State Trading Corporation of Sikkim, Annual Accounts 1997-98)

8.9 Departmentally managed Government commercial /quasi commercial undertakings

8.9.1 General aspects

As on 31 March 2000, there were two departmentally managed undertakings viz. (i) Sikkim Nationalised Transport under the Department of Transport and (ii) Sikkim Tea Board under the Industries Department.

8.9.2 Finalisation of Accounts

The Sikkim Nationalised Transport and Sikkim Tea Board finalised their accounts upto the year 1996-97 and 1998-99 respectively.

8.9.3 Working results

A statement showing the working results of the undertakings based on the latest available accounts is given in **Appendix XXXII**.

8.10 Position of discussion of Audit Reports (Commercial) by the Public Accounts Committee

The reviews and paragraphs of the Commercial Chapter of Audit Report, Government of Sikkim pending for discussion by Public Accounts Committee as at the end of March 2000 were as below:

Period of Audit Report	Total number of reviews and paragraphs in the Commercial Chapter		No. of reviews and paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1997-98	Nil	1	-	1
1998-99	Nil	3	-	3

8.11 Companies not subject to audit by Comptroller and Auditor General of India

The State Government invested Rs 37.55 crore in 7 companies which are not taken up for audit by the Comptroller and Auditor General of India. Out of these 7, the entrustment of audit of one company viz, Sikkim Tourism Development Corporation was under consideration of the State Government. The particulars of such companies in which the investment of State Government was more than Rs 10 lakh in each case as on 31 March 2000 are given in **Appendix XXXIII**.

STATE BANK OF SIKKIM

8.12 Extension of undue financial benefit to the defaulting borrowers

Despite the recommendation of the PAC to take measures to safeguard the interest of the Bank, the Bank did not frame proper rules, extended facilities to the borrowers who defaulted on earlier occasions and allowed OD in excess of the approved limits.

Mention was made in paragraph 8.7 of Audit Report 1995-96 about the loss of Rs 40.96 lakh sustained by the Bank towards interest rebate allowed to 14 defaulters for settlement of outstanding dues under the interest rebate scheme introduced during 1992-93 to 1994-95 (subsequently extended upto July 1996) and that immediately after the settlement of their accounts, the same customers were allowed to avail of Overdraft (OD) facilities without obtaining the approval of the Government and the Board of Directors of the Bank. While examining the paragraph, the Public Accounts Committee (PAC) recommended that the grant of OD facility should be governed by proper rules intended to safeguard the interest of the Bank and the grant of this facility should be reviewed periodically to ensure that it did not encourage default resulting in a situation as in the past. Despite the recommendation of the PAC,

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the Bank did not frame proper rules governing the extension of OD facilities nor periodical reviews were made and steps taken to discourage default to safeguard its interest.

Scrutiny of records (July 1999 and June 2000) further revealed that

- i) The Bank continued to extend overdraft facilities to borrowers who defaulted on earlier occasions. During 1996-97 to 1998-99, 12 such borrowers (Sl No 1 to 12 of **Appendix XXXIV**) against whom Rs 46.18 lakh was waived off by the Bank during 1992-93 to July 1996 under the interest rebate scheme, were allowed fresh OD facilities to the extent of Rs 2.31 crore. Further, 6 out of these 12 borrowers (Sl No 7 to 12 of **Appendix XXXIV**) exceeded their OD limits by amounts ranging from Rs 0.32 lakh (43 per cent) to Rs 29.13 lakh (116 per cent) as on 31 March 2000. Further, in another 22 cases (**Appendix XXXV**), the OD limits were exceeded by amounts ranging from Rs 218 (0.11 per cent) to Rs 9.70 lakh (97 per cent) as on 31 March 2000. In these 28 cases, OD limits were exceeded without the approval of competent authority .
- ii) It was observed that in 21 cases, the OD limits were exceeded for periods ranging from 1 month to 43 months upto March 2000;
- iii) In respect of these 34 borrowers, who exceeded their overdraft limit, the outstanding balance as on 31 March 2000 was Rs 3.80 crore. The Bank had never taken up the matter with the borrowers nor had ever obtained confirmation from them of the amount in their OD account.

The Management stated (June 2000) that the Bank after examining all aspects like security and credit worthiness of the parties allowed the borrowers to draw funds in addition to the limit prescribed for a temporary period which was adjusted on receipt of the next deposit. The reply was not convincing as the OD facility was allowed even upto a period of 43 months and no approval from any authority was obtained for allowing the facility in 26 out of 28 cases. In 2 cases (Sl Nos 7 and 12 of **Appendix XXXIV**), the approvals were given by the Managing Director who was not the competent authority as the amount of OD involved in both the cases was in excess of the limit he was authorised to approve. Further, in one case (Sl No 12 of **Appendix XXXIV**), the borrower exceeded the OD limit before the approval from the Managing Director which was given in June 1998.

The Bank further stated (September 2000) that in July 1996 the State Government had allowed the grant of OD facilities to the defaulting borrowers who had availed of the interest rebate scheme. This response was a result of a reference made by the Bank in June 1996 to the Government stating that the borrowers who had availed of the interest rebate scheme were “profitable loan accounts” and if these borrowers were not allowed to continue their accounts with the Bank, the Bank would stand to lose “lucrative” customers In this context audit observed that the Bank’s request to Government to permit it to

continue its relationship with the defaulting borrowers is inexplicable and not in keeping with sound commercial practice.

STATE TRADING CORPORATION OF SIKKIM

8.13 Payment of enhanced rates without confirmation of statutory increase

Without ascertaining statutory increase by GOI as required under the terms of supply, the Corporation allowed enhanced rates which resulted in an extra expenditure of Rs 28.81 lakh

Rural Development Department (RDD) of the State Government placed an order (March 1998) for supply of 2200 tonnes of GCI sheets under Rural Housing Scheme (RHS) for the year 1997-98 with the State Trading Corporation of Sikkim (STCS). The STCS called for quotations and the rate quoted by Steel Authority of India Limited (SAIL) at Rs 24800 per tonne was found the lowest. However, in view of the quality of SAIL brand GCI sheets having been found unacceptable in the past, the rate quoted by Tata Iron and Steel Company (TISCO) at Rs 25700 per tonne was negotiated at Rs 24800 per tonne. Accordingly, the RDD made advance payment of Rs 5.67 crore to STCS during February and March 1998. It was categorically mentioned in the supply order placed by STCS to TISCO that price escalation would be considered only in the case of statutory increase by the GOI.

Test check (November 1999) of records revealed that the STCS intimated (June 1998) the RDD that TISCO, after supplying 874.75 tonnes of GCI sheets, had enhanced the price by Rs 500 per tonne from May 1998 which was further enhanced by Rs 1807.60 per tonne from November 1998. The STCS allowed the enhanced rates without confirming whether the cost escalation was due to any statutory increase of rates by the Government of India (GOI). TISCO supplied 1286.465 and 38.785 tonnes of GCI sheets at the enhanced rates of Rs 25,300 and Rs 27,107.60 per tonne respectively which resulted in extra expenditure of Rs 7.84 lakh (including taxes and duties of Rs 0.51 lakh). It was also seen that although the supply was to be completed by 15 May 1998, the supply continued and was completed during November 1998. However, in absence of any penalty clause for delay, no amount could be recovered from TISCO for delay in supply.

Similarly, for procurement of 1802 tonnes of GCI sheets under the Rural Housing Scheme for the year 1998-99, the RDD made an advance payment of Rs 3.16 crore in March 1998 and Rs 2.81 crore during January and March 1999 to STCS. After supplying 850 tonnes of GCI sheets, TISCO had stopped the supplies w.e.f. 1 March 1999 (the remaining 952 tonnes of GCI sheets was procured from SAIL at the rate of Rs 26090 per tonne, despite the fact that the quality of SAIL brand was not accepted by the Department in the past). On the 850 tonnes of GCI sheets supplied by TISCO, the STCS again allowed the

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enhanced rate of Rs 27107.60 per tonne, without confirming whether the escalation was on account of any statutory increase of rates by the GOI, thus causing an extra expenditure of Rs 20.97 lakh (including taxes and duties of Rs 1.37 lakh).

The total additional payment to TISCO worked out to Rs 28.81 lakh (including taxes and duties of Rs 1.88 lakh).

In reply (August 2000), Government (RDD) on its part stated that the payment at the enhanced rates was made with the approval of the State Government/Cabinet on the basis of justification furnished by the STCS.

The reply of the management (STCS) has not been received (December 2000).

**Gangtok
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