PREFACE

1. This Report has been prepared for submission to the Governor under Article 151 of the Constitution.

2. The Report deals with the findings of performance reviews and audit of transactions in various departments including the Public works and Irrigation Departments, audit of stores and stock, audit of autonomous bodies and departmentally run commercial undertakings.

3. The Report also contains the observations arising out of audit of Statutory Corporations, Boards and Government Companies and revenue receipts.

4. The cases mentioned in the Report are among those which came to notice in the course of test-audit of accounts during the year 2008-09 as well as those which had come to notice in earlier years, but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2008-2009 have also been included, wherever necessary.

5. Audit observations on matters arising from the examination of Finance Accounts and Appropriation Accounts of the State Government for the year ended 31 March 2009 are included in a separate Report on State Government Finances.

6. The audits have been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

This Report contains 28 audit paragraphs and four performance reviews. There is a separate chapter on Integrated Audit of the Human Resources Development Department. According to the existing arrangements, copies of the draft audit paragraphs and draft performance reviews were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies were not received from the departments concerned in respect of nine paragraphs.

1. *Performance Reviews* (*Civil Departments*)

1.1 Development of Hydro power Projects – Public Private Participation

The State Government considered harnessing the huge hydro power potential through private sector investment with a view to turnaround the State's economy and avoid its dependence upon central transfers for development. With the liberalisation of Power policy by the Government of India, the State Government identified 35 hydro power projects with an aggregate installed capacity of 5,741.20 MW and invited the Independent Power Producers (IPPs) for development of projects since 2001-02. Performance audit of Development of Hydro Power Projects by the State Government through Private Sector participation revealed that the State had neither finalised its hydro power policy nor prepared a time bound plan till date for implementation of the projects. Absence of a firm and well defined policy led to inconsistency in award of projects and lack of a well thought of revenue model resulted in loss of potential revenue. Besides, the State also did not take sufficient precaution against degradation of environment.

(*Paragraph 1.1*)

1.2 Implementation of Irrigation Schemes

Out of a total geographical area of 7,09,600 hectares, the estimated area to be brought under assured irrigation system was 86,000 hectares. As on 1 April 2005, the area under assured irrigation was 23,864.05 hectares and during 2004-09, an additional area of 4,055.30 hectares could only be brought under assured irrigation. Though the implementation of Minor Irrigation Scheme (MIS) in Sikkim did not suffer from any cost overrun, the programmes, however did not achieve its objective to increase the cultivable area and production due to improper survey, investigation, absence of planning for source development, supply of polluted water to agricultural fields, non formation of water user groups, absence of planning for ensuring availability of water during lean period, defunct channels awaiting repair, delay in completion of channels etc. Budgeting process was deficient in the absence of an effective mechanism for monitoring which resulted in improper surrender and supplementary provisions, rush of expenditure at the end of years. The State is yet to enforce implementation of Sikkim Irrigation Water Tax Act 2002 to avail cent *per cent* financial assistance from GOI and avoid huge revenue loss. Also, there was unfruitful expenditure on defunct schemes, avoidable expenditure on construction without design specification, unfruitful construction of MISs and inadequate benefit from construction of channels. The IFCD also has not taken action to evaluate the implementation to take remedial measures for improvement in the irrigational development to reduce the gap between creation and utilisation of potential, actual production and production envisaged.

(*Paragraph 1.2*)

1.3 Performance of Sikkim Nationalised Transport

The Sikkim Nationalised Transport (SNT) provides public transport in the State through its 12 depots. The SNT had fleet strength of 96 buses and 85 trucks & tankers as on 31st March 2009 and carried an average of 0.02 lakh passengers per day during 2004-09. The performance audit of the SNT was conducted to assess efficiency and economy of its operations, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the SNT.

It was noticed that the SNT is incurring losses, mainly due to its operational inefficiencies which can be controlled by taking adequate measures to improve the fleet utilisation, creating a regulator to regulate fares and services on uneconomical routes, tapping non-conventional sources of revenue and creation of separate cost centres for buses, trucks and tankers.

(*Paragraph 1.3*)

2. Audit of Transactions (Civil Departments)

Laxity in the system of godown management and absence of proper monitoring and supervision resulted in misappropriation of sale proceeds of foodgrains and sugar of Rs. 38.98 lakh.

(*Paragraph 2.2*)

Award of works at higher cost resulted in extension of undue financial benefit to contractors amounting to Rs. 70.23 lakh.

(*Paragraph 2.3*)

Erroneous inclusion of cost escalation element in the estimates led to avoidable expenditure of Rs. 24.88 lakh in four cases and excess payment of Rs. 17.95 lakh in another case.

(*Paragraph 2.5*)

Erroneous adoption of rates for Granular Sub-base works led to excess expenditure of Rs. 54.62 lakh and undue favour to 14 contractors.

(*Paragraph 2.9*)

Rehabilitation of sewer trunk line along NH 31 A from Hospital Dara to Saraswati Mandir, already executed and completed at Rs. 1.76 crore under Non-lapsable Central Pool of Resources, was again included under the Jawaharlal Nehru National Urban Renewal Mission leading to avoidable expenditure of Rs. 7.78 crore.

(*Paragraph 2.12*)

Inordinate delay in finalisation of appropriate concept, plan and design led to shelving of project and unfruitful expenditure of Rs. 83.28 lakh.

(*Paragraph 2.13*)

Due to non-inclusion of definite terms and conditions in the agreement, the project to be completed within one year remained incomplete even after expiry of more than six years, besides locking up of funds of Rs. 50.84 lakh.

(*Paragraph 2.16*)

3. Integrated Audit of Human Resources Development Department

The Human Resources Development Department has been assigned with the responsibility of universalisation of education at all levels, enrolment of 100 *per cent* children at the primary level and bringing all out-of-school children into the school system, increasing the literacy rates, reduction in school drop-outs and above all imparting quality education. To fulfill these objectives, the Government implemented a number of schemes/ programmes with a view to retain the students in the education system and help them perform well both in their academic and co-curricular pursuits. However, the State did not frame its own education policy although the GOI had evolved a National Policy on education to achieve the goal of compulsory education for children. Various schemes introduced by the GOI/State Government in the State had not been able to meet the goal of achieving primary education to all and minimum level of learning and thus, there was little impact on crucial parameters i.e., enrolment, retention and completion of elementary education. While a large number of schools had excess teachers, a number of schools were running with shortage of teachers. Prescribed frequency of imparting in-service training to teachers of elementary education was not achieved and the shortfall ranged between 74 and 88 *per cent* during 2004-09 depriving the schools of trained teachers. There was no prescribed system for inspecting the schools at regular intervals and assessing the quality of education imparted to the students.

(*Paragraph 3.1*)

4. Revenue Receipts

4.1 Performance Reviews

Transition from Sales Tax to Value Added Tax

Though the revenue collection registered an increasing trend after implementation of VAT, the average and overall (except 2006-07) growth rate after implementation of VAT showed a negative trend.

(Paragraph 4.2.6)

The division did not prescribe the quantum of security deposit to be realised from the dealers. Consequently security deposit from the dealers was not realised despite the fact that 2,313 dealers out of 5,089 did not submit their returns. This also deprived the division from realising the arrear of Rs. 11.76 lakh due from eight dealers.

(Paragraph 4.2.8.4)

The division not only failed to persuade 2,378 dealers to file returns within the prescribed timeframe but also did not levy penalty of Rs. 72.92 crore and continued to issue way bills and C forms to these dealers for import of goods from neighbouring States.

(Paragraph 4.2.9.1)

Failure to initiate scrutiny of self assessed returns by the assessing authorities in accordance with Section 37 of SVAT Act led to non-detection of tax evasion of Rs. 2.15 crore by 19 dealers.

(Paragraph 4.2.9.2)

Failure of the assessing authorities to initiate assessment of tax on best judgment basis under Section 38 of SVAT Act not only led to delay in realisation of tax but also retention of Government dues with the dealers.

(Paragraph 4.2.9.3)

Absence of provision for cross verification of records of sub/principal contractors, led to non-detection of tax evasion of Rs. 54.83 lakh by two sub-contractors.

(Paragraph 4.2.11.2 & 4.2.11.3)

The division did not upload details of issue and utilisation of statutory declaration forms by the dealers of Sikkim in the TINXSYS website created by the Government of India to serve as a repository of information on declaration forms. This defeated the purpose of the website as far as information relating to Sikkim was concerned.

(Paragraph 4.2.11.4)

The SVAT Act and Rules did not have any provision for maintenance of various records/registers by the division and for submission of report/return at any level. Despite existence of internal audit, no inspection was carried out during the period of review.

(Paragraph 4.2.14 & 4.2.15)

Mandatory VAT audit under SVAT Act was not initiated by the division even after four years of implementation to ensure correctness of the returns submitted by the dealers and assessments made by the assessing authorities.

(Paragraph 4.2.16.1 & 4.2.16.2)

Concealment of purchase and sales turnover by three dealers resulted in tax evasion of Rs. 79.84 lakh.

(Paragraph 4.2.17)

Non-deposit of VAT by one industry, established under Sikkim Industrial Promotion and Incentive Act led to non-remittance of realised tax of Rs. 47.11 lakh.

(Paragraph 4.2.18)

4.2 Audit of Transactions

Non-assessment of tax resulted in non-realisation of revenue amounting to Rs. 2.70 crore, besides extension of undue financial benefit to the firm/dealers.

(Paragraph 4.3)

The Department failed to realise sales tax and State income tax aggregating Rs. 1.94 crore alongwith interest and penal interest of Rs. 1.31 crore accrued thereon.

(Paragraph 4.4)

Central Sales Tax on a turnover of Rs. 61.83 crore was not assessed resulting in short realisation of tax of Rs. 80 lakh, on which, interest of Rs. 21.75 lakh was also leviable.

(Paragraph 4.5)

5. Government Commercial and Trading Activities

5.1 Overview of State Public Sector Undertakings

The Government Companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim 1961'. The Indian Companies Act, 1956 is not extended to the State of Sikkim. The accounts of these Companies are audited by the Statutory Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BoDs) of the respective companies. Audit of these Companies had also been taken up by the Comptroller and Auditor General of India on the request of the Governor of the State under Section 20(1) / 20(2) 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 under the proclamations of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are also audited by Chartered Accountants, directly appointed by the BoDs of the respective Corporations. Audit of these corporations was taken up by CAG under Section 19(3) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 on the request of the State Government.

As on 31 March 2009, the State had 15 PSUs (including three non working companies and one non working corporation) which employed 826 employees. These PSUs registered a turnover of Rs. 32.10 crore for 2008-09 as per the latest finalized accounts. This turnover was equal to 1.23 *per cent* of State GDP indicating insignificant place in the State economy. The working PSUs incurred a loss of Rs. 0.32 crore and had accumulated losses of Rs. 66.86 crore (including non working PSUs) as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2009, the investment (capital and long-term loans) in 15 PSUs was Rs. 290.32 crore. It grew by 108.92 *per cent* from Rs. 138.96 crore in 2003-04. Power sector accounted for 54.17 *per cent* of total investment in 2008-09. Government contributed Rs. 4.26 crore towards equity and grants during 2008-09.

Performance of PSUs

During 2008-09, out of 11 working PSUs, six PSUs incurred a loss of Rs. 3.50 crore and four PSUs earned a profit of Rs. 3.18 crore. The Sikkim Times Corporation Limited incurred a significant loss of Rs. 2.56 crore.

The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 18.88 crore and infructuous investment of Rs. 2.28 crore which were controllable with better management. There is tremendous scope to improve the functioning of PSUs and reduce losses. The PSUs can discharge their role efficiently if they are financially self reliant. There is a need for professionalism and accountability in functioning of PSUs.

Arrears in accounts

The 11 working PSUs had arrear of 18 accounts as of September 2009. The arrears are due to delay in compilation / adoption of accounts by the Board of directors of the respective PSUs. The Government may impress upon the respective PSUs to hasten the process of finalisation of accounts.

5.2 Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSU's which have financial implications. The irregularities pointed out are broadly of the following nature:

Defective procurement system coupled with absence of quality control in procurement of cans led to rejection of supply with consequent loss of Rs. 15.05 lakh.

(*Paragraph 5.2.1*)

Delayed handing over of the road to the developer of the power project led to avoidable expenditure of Rs. 16.32 lakh.

(*Paragraph 5.2.3*)

Non-procurement of material directly from the manufacturers and purchasing it from the local suppliers at higher rates resulted in avoidable expenditure of Rs. 24.76 lakh to the State Exchequer.

(*Paragraph 5.2.4*)

CHAPTER – I
PERFORMANCE REVIEWS

ENERGY AND POWER DEPARTMENT

1.1 Development of Hydro power Projects – Public Private Participation

The State of Sikkim has won accolades from various prestigious organisations in and outside the country for excellent law and order situation, peace and tranquillity, investor ambience, environment management and overall good governance. The State Government considered promoting these positive factors in the national and international markets in harnessing the huge hydro power potential through private sector investment with a view to turnaround the State's economy and avoid its dependence upon central transfers for development. With the liberalisation of Power policy by the Government of India, the State Government identified 35 hydro power projects with an aggregate installed capacity of 5,741.20 MW and invited the Independent Power Producers (IPPs) for development of projects since 2001-02. Performance audit of Development of Hydro power Projects by the State Government through Private Sector participation revealed that the State had neither finalised its hydro power policy nor prepared a time bound plan till date for implementation of the projects. Absence of a firm and defined policy and a definite plan led to inconsistency in award of projects and lack of a well thought of revenue model resulted in loss of potential revenue. Besides, the State also did not take sufficient precaution against degradation of environment. The significant observations noticed are highlighted below:

The State Government had not finalised and notified private power policy as of September 2009 although the Administrative Staff College of India had prepared the draft private power policy for the State as early as September 2003.

(Paragraph 1.1.8)

Award of two projects to Gati Infrastructures Ltd (November 2003) and two other projects to National Hydroelectric Power Corporation (March 2006) at a comparative low rate of 12 *per cent* royalty for the entire agreement period may lead to a potential loss of Rs. 143.50 crore per year from the 16th year of operation onwards.

(Paragraph 1.1.10.1)

Imposition of upfront premium at a meagre rate of Rs. 10,000 per MW would lead to a reduction in revenue ranging between Rs. 60.08 crore and Rs. 279.87 crore as compared to other states like Himachal Pradesh (HP), Jammu & Kashmir (J&K), Uttarakhand and Arunachal Pradesh.

(Paragraph 1.1.10.2)

Due to imposition of penalty at an abysmal low rate of Rs. 10,000 per MW per month for delay in commissioning of projects, the State stood to lose between Rs. 2,514.49 crore and Rs. 2,622.76 crore per year as compared to Uttarakhand, HP and J&K and Rs. 137.08 crore per year as compared to Arunachal Pradesh.

(Paragraph 1.1.10.4)

Non-imposition of specific condition for regular contribution towards local area development on 16 developers led to loss of Rs. 245.20 crore annually.

(Paragraph 1.1.10.5)

Adequate steps to safeguard the environment viz. catchment area treatment plans, protection and preservation of riverine fishes etc. has not been taken during implementation of hydro power projects.

(Paragraph 1.1.12)

Regular monitoring and vigil to ensure proper execution of the projects by the developers was virtually non-existent.

(Paragraph 1.1.14)

1.1.1 Introduction

Electricity has been recognised as a basic human need and a critical infrastructure on which the socio-economic development of the country depends. Availability and supply of reliable power at competitive rates to Indian industry, services sector, rural households, etc. is very crucial for rapid economic growth and poverty alleviation. Recognising this, Government of India (GOI) set a target of providing access to electricity to all households[1] in the next five years through significant addition to the generation capacity of the existing power projects in the country. With the liberalisation of Power policy by the GOI, the State Government also opened the power sector to private developers with the objective of rapidly harnessing the hydro power potential of the State and thereby gaining in a big way by exporting electricity to other power hungry States of the Country. The hydro power potential of the State was assessed at 8,000 MW peak. The State Government identified (upto September 2009) 35 hydro power projects of total capacity 5,741.20 MW (ranging between 27.50 MW and 1,200 MW) for development by independent power producers (IPPs) and the NHPC. Letters of intents (LOIs) had been issued in respect of 33 projects for 5,681.20 MW capacity, out of which, agreements (MoU) had been signed in respect of 28 projects with IPPs (24 projects) and NHPC (4 projects) for a total of 5,421.70 MW. The details of the 35 power projects are depicted in the table below:

[1] *According to Census 2001, about 44 per cent of the households in the country do not have access to electricity.*

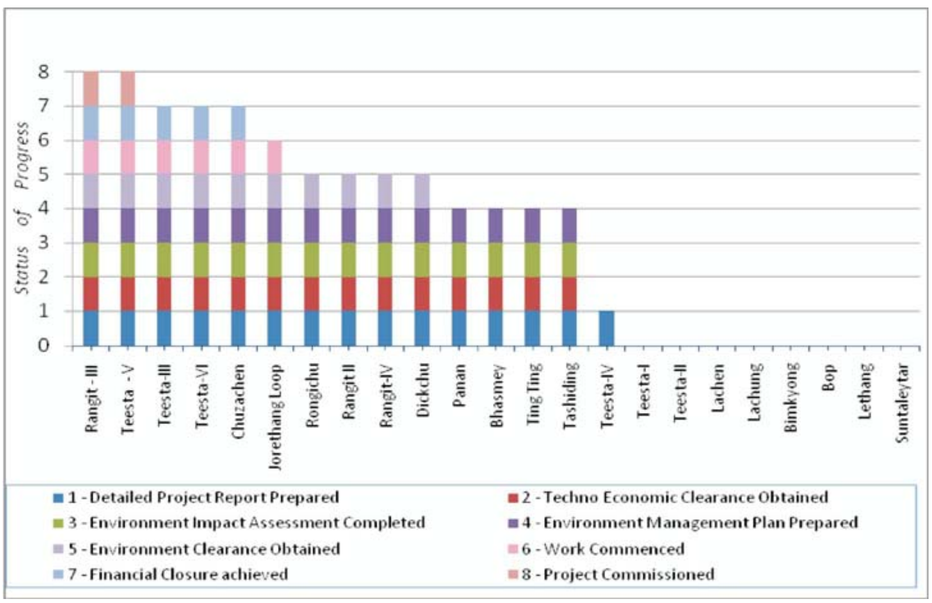
Table – 1.1.1

Sl No	*Particulars*	*No of projects*	*Capacity (MW)*
1	Total number of projects identified	35	5,741.20
2	LOIs issued	33	5,681.20
3	LOIs withdrawn	2	139
4	LOIs against which agreements are yet to be drawn	3	120.50
5	Agreements signed	28	5,421.70
6	Agreements withdrawn	5	314
7	Agreements valid	23	5,107.70
8	Projects awarded to NHPC	4	1300
9	Projects awarded to IPPs	19	3,807.70
10	**Projects commissioned (NHPC)**	**2**	**570**

Source: Information obtained from the Department.

As of September 2009, only two projects *viz*; Rangeet Stage III (60 MW) and Teesta Stage V (510 MW) aggregating 570 MW constituting 10 *per cent* of the total capacity identified had been commissioned by the NHPC in February 2000 and March 2008 respectively. 13 projects were at various stages of progress while 8 projects were yet to make any progress. The status of progress of the projects is depicted in the graph below:

Chart – 1.1.1



1.1.2 Organisational set-up

Development of hydro power projects in Sikkim was entrusted to the Sikkim Power Development Corporation (SPDC), a fully owned State Government undertaking, as a facilitator under the overall control of the Energy and Power Department. The SPDC is headed by a Managing Director (MD) who is also the Principal Chief Engineer-cum-Secretary, Energy and Power Department (EPD). The MD, SPDC is assisted by one Senior General Manager (Chief Engineer, EPD), one General Manager, one Manager and one Assistant Manager in the discharge of his duties relating to development of hydro power projects through the IPPs/NHPC.

1.1.3 Scope of Audit

The performance of the State Government in developing hydro power projects in collaboration with the private sector was reviewed with reference to the activities undertaken by the State Government and the SPDC during the period 2003-08. The audit was carried out during March–August 2008 and May–June 2009. All 23 projects awarded so far to the IPPs / NHPC for which agreements signed were valid were selected for examination in audit.

1.1.4 Audit objective

The main objectives of the performance audit were to assess whether:

- the State Government had a clear vision and a well defined policy for development of its hydro power potential;
- due diligence was exercised in awarding the development of power projects to the IPPs;
- the projects were implemented in strict compliance with the norms laid down for establishment of hydro power projects; and
- the issues relating to protection of environment were adequately addressed while awarding projects to the IPPs.

1.1.5 Audit criteria

The audit objectives were benchmarked against the following criteria:

- Electricity Act 2003 and National Hydro power Policy.
- Agreements entered into with the IPPs / NHPC.
- Guidelines issued by the Union Ministry of Power, Central Electricity Authority, Ministry of Environment and Forests and the Central Water Commission from time to time.
- Private power policies of other hydro power States.
- Private power policy prepared by the Administrative Staff College of India for Sikkim.

1.1.6 Audit methodology

The Performance audit commenced with an entry conference (March 2008) with the Department wherein the audit objectives, audit methodology and criteria for drawing audit conclusions were discussed. Audit was conducted by examination of records maintained in the Energy and Power Department, SPDC office and obtaining related information from various departments such as Forest, Environment and Wildlife

Management; Mines, Minerals and Geology and the Fisheries Directorate. Audit findings were discussed with the Departmental officers in an exit conference (September 2009) and their views appropriately incorporated in the report.

1.1.7 Acknowledgement

Accountant General, Sikkim acknowledges the cooperation and support extended by the Energy & Power Department, Sikkim Power Development Corporation, Directorate of Fisheries, Forest Environment & Wildlife Management Department and the Mines, Minerals & Geology Department during audit.

Audit Findings

1.1.8 Private Power Policy

Government of India launched the private power policy as early as 1991. As the methodologies regarding independent power projects (IPP) had not been firmed up by then, the initial project solicitation was done through the Memorandum of Understanding (MOU) route. Subsequently, in order to bring in transparency and to ensure better deal for the States, GOI advised (October 1993) all the States to introduce competitive bidding and forwarded (October 1995) guidelines thereof.

The State Government, however, had not spelt out any vision, mission, policy or a plan for development of hydro power projects through private sector participation. In 2002-03, after more than a decade of announcement of the private power policy by the GOI, the State Government engaged[2] the Administrative Staff College of India (ASCI), Hyderabad as consultants for preparing hydro power policy for the State. The ASCI submitted (September 2003) a draft policy for the State which, inter alia, envisaged advertisement of the projects to seek potential bidders; award of projects to the highest bidder; laying down qualifying criteria for the IPPs such as past experience of hydro power development; determining financial capability of the IPPs; rate of royalty; norms for maintenance of projects etc. However, no further action was taken by the Power Department to get the private power policy approved and notified by the Government even as of September 2009.

While accepting the facts stated by audit, the Department replied (September 2009) that since hydro power is the only available source of revenue generation for the State, they awarded the projects before finalisation of the hydro power policy to quicken up the implementation of the projects.

However, absence of hydro power policy and a well defined plan led to a number of inconsistencies in award of projects to IPPs, loss of revenue to the State, environmental risk, etc. as discussed in the succeeding paragraphs.

[2] *At a cost of Rs.30 lakh.*

1.1.9 Award of projects

1.1.9.1 Transparency in award of projects

Despite many encouraging attributes of the State, open advertisement and dissemination of information regarding availability of hydro power potential in the State for development by the private sector, was not done either in the print or electronic (internet) media with a view to solicit best deals from reliable and competent firms. Instead, all the projects, irrespective of the size, were awarded by the State Government through the MOU route without calling for bids. Despite considerable hue and cry in the State regarding the methodology adopted for award of the projects, the Government had not notified the details of potential available, modality for award of projects, technical capability, financial strength and experience of IPPs chosen, etc. to the public.

The Department stated (September 2009) that the details of projects, location, IPPs etc. are available in the official website of the Department. Besides, a white paper on hydro power resources in Sikkim has been brought out by the Government.

Audit scrutiny revealed that the official website of the Energy and Power Department contained an outdated list of 26 projects detailing only the name of the projects and address of the IPPs. The website did not capture the projects cancelled, new projects allotted, details of potential available, modality for award of projects, technical capability, experience and financial strength of IPPs etc. Even the white paper brought out in April 2009, also categorically mentioned that the basic facts regarding the hydro power projects were not available in the public domain.

1.1.9.2 Safeguards against plants remaining defunct

The State Government should have incorporated specific conditions in the agreements to safeguard its interest in cases where the plants, after commissioning, remain shut down for considerable lengths of time due to reasons attributable to the developers. However, no such condition was incorporated in the agreements. Hence, the State had no enabling provision to compel the IPPs for payment of appropriate compensation in lieu of the free power receivable from the projects.

The Department stated (September 2009) that provision was made in the agreements for levy of penalty in case of delay in construction by more than 12 months. However, it was seen in audit that no clause for levy of penalty for plant remaining defunct after commissioning was incorporated in the agreements.

1.1.9.3 Modality for transfer of projects

The agreements did not incorporate the modalities for transfer of the assets and liabilities of the projects to the State Government after the termination of the award period. No mention was made in the agreement as to what would happen to the manpower engaged in the projects after the award period and whether the manpower would also be transferred to the State Government alongwith the project or whether it would be left to the discretion of the State Government to retain the manpower in the projects. Further, the State Government had also till date not formulated any strategy for taking over the projects after the award period.

The Department stated (September 2009) that the modalities and strategy for taking over the projects after the award period shall be formulated shortly by the State Government.

1.1.9.4 Imposition of cost of Rajiv Gandhi Gram Viudyutikaran Yojana on the developers

Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), a centrally sponsored scheme (90:10 CSS) for Rural Electricity Infrastructure & Household Electrification was launched by the Prime Minister of India in April 2005 with the objective of providing access to electricity to all households and improving the rural electricity infrastructure. In the agreements drawn (November/December 2008) by the State Government with M/s KHC Lethang Hydro Project Pvt Ltd (60 MW Lethang HEP) and M/s Shreya Powertech Pvt Ltd (40 MW Suntaleytar HEP), the IPPs were made to bear 10 *per cent* of the RGGVY scheme cost within the surface distance of 2 Kms from the project site. The above condition was not imposed on the other developers who had been awarded projects thereby resulting in inequitable terms of execution of the projects.

The Department stated (September 2009) that the condition of bearing 10 *per cent* cost of RGGVY schemes could not be imposed on agreements signed earlier as this condition was laid down by the GOI only in 2008. The reply, though a fact, further affirms audit contention that the agreements did not contain relevant provision for incorporation of new policy measures introduced by the GOI and the State Government from time to time.

1.1.10 Revenue model

The revenue model adopted by the State Government for development of hydro power projects by IPPs / NHPC was inconsistent and was determined without considering the report of the ASCI, the situation prevailing in other forerunner hydro power states like Himachal Pradesh and Uttarakhand and the goodwill that the State of Sikkim had in the country. This resulted in loss of potential revenue to the State as detailed in the following paragraphs:

1.1.10.1 Royalty from IPP / NHPC projects

The Sikkim Government did not impose uniform royalty on all developers. In respect of 17 IPP projects, the Government imposed 12 *per cent* free power for the first 15 years and 15 *per cent* free power for the remaining agreement period of 20 years (16^{th} to 35^{th} year). However, in respect of two projects[3] awarded to an IPP *(Gati Infrastructures Ltd),* and four projects awarded to the NHPC, the Government charged 12 *per cent* free power for the entire agreement period. Out of the four NHPC projects, two projects - Rangeet Stage III and Teesta Stage V were already commissioned in year 2000 and 2008. The other two projects (Teesta Stage IV and Lachen HEP) awarded to NHPC in March 2006 were yet to be taken up for execution.

Award of two projects to Gati Infrastructures Ltd (November 2003) and two other projects to NHPC (March 2006) at a comparatively low rate of 12 *per cent* royalty for the entire agreement period may lead to a potential loss of Rs.143.50 crore per year[4] from the 16^{th} year of operation onwards.

The Department stated (September 2009) that the condition of 12 *per cent* free power was imposed on the NHPC for the entire life of the projects based on GOI guidelines as it was a GOI agency. In case of Gati Infrastructures Limited, royalty of 12 *per cent* was imposed for the entire agreement period as M/s Gati was the first IPP to venture into the State and the two projects awarded to Gati were of very small capacities located in remote areas. Award of projects at a low rate of royalty to M/s Gati was due to absence of a defined policy and an effective revenue model. The projects which were later awarded to other IPPs at higher rate of revenue were of even smaller capacities situated at even more remote locations.

1.1.10.2 Upfront premium

The State Government had signed agreements with various IPPs and NHPC for development of 28 hydro power projects with total installed capacity of 5,421.70 MW as of December 2008. An amount of Rs. 10,000 per MW was charged as 'processing fees' in the agreements drawn with 18 IPPs between July 2005 and December 2008, irrespective of the size of the projects. No such fees were charged on the developers of 10 projects (*six IPP projects of 347.70 MW* agreements signed between December *2002 and November 2003 and four NHPC projects of 1300 MW).*

Audit scrutiny revealed that the States of Himachal Pradesh, Uttarakhand, Jammu & Kashmir and Arunachal Pradesh charged minimum upfront premium at rates ranging

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[3] Chuzachen (99 MW) and Bhasmey (51.7 MW)

[4] (99+51.7+520+210) MW=880.70 MW; 880.70x365x24x1000x Rs.6.20=Rs.143.50 crore. The loss to the State has been calculated at current average trading rate of Rs. 6.20 per unit of electricity on full installed capacity. The rise in tariff with time is presumed to offset the generation below installed capacity.

between Rs. 1.5 lakh and Rs. 10 lakh per MW for projects of 100 MW and above capacity. The imposition of upfront premium on the IPPs at a meagre rate of Rs. 10,000 per MW by the State would lead to a reduction of revenue by a minimum of Rs. 279.87 crore as compared to Himachal Pradesh, Rs. 138.52 crore as compared to J&K / Uttarakhand and Rs. 60.08 crore as compared to Arunachal Pradesh for projects above 100 MW.

The states of Uttarakhand and J&K also charged minimum upfront premium of Rs. 5 lakh per MW for projects above 25 MW but below 100 MW. If fee was imposed at this rate, the State of Sikkim would have collected Rs. 64.74 crore[5] from 17 IPP projects in the range of 25 MW to 100 MW of total 1,294.70 MW capacity. However, the State could collect only Rs. 0.95 crore from 11 projects having total installed capacity of 947 MW leading to a loss of Rs. 63.79 crore.

The Department stated (September 2009) that it was a conscious decision of the State Government and upfront premium were not charged on the developers as (i) the developers had to do the pre-feasibility study at their own cost for most of the projects, unlike in other hydro power states (ii) collection of application fees and upfront premium would unnecessarily burden the capital cost of the projects thereby raising the cost of generation. The reply was not acceptable as upfront premium charged by other hydro power states was part of the project allotment process not related to cost of Pre-feasibility Reports while application fee was charged separately. Further, when all other hydro power states including Arunachal Pradesh were imposing upfront premium at substantial rates, a peaceful State like Sikkim with a record good governance and excellent law and order situation should have charged the application fees / upfront premium.

1.1.10.3 Application fees

The States of Himachal Pradesh, Uttarakhand and Jammu & Kashmir also charged a non-refundable application fee of Rs. 5 lakh per project on the IPPs. The State did not impose any application fees on the 41 IPPs who had applied to the State Government for development of power projects, as charged by other forerunner hydro power states. This led to a loss of Rs. 2.05 crore to the State Exchequer.

1.1.10.4 Penalty for delay in commissioning of IPP projects

The Sikkim Government imposed penalty of Rs. 10,000 per MW per month on the IPPs for delay in commissioning of the projects beyond the stipulated time period. A comparison of such penalty imposed by other hydro power States revealed that the penalty imposed by the State was appallingly low. Where Arunachal Pradesh charged a penalty of Rs. 40,000 per MW per month of delay, the States of Himachal Pradesh

[5] *1294.70 MW X Rs.5 lakh per MW = Rs.64.74 crore.*

and Jammu & Kashmir imposed penalty equivalent to the royalty revenue that would have been payable to the Government had the project been commissioned in time. Uttarakhand imposed penalty of one *per cent* for one year over and above the 12 *per cent* free power for each year of delay (*totaling 13 per cent penalty per year*). Thus, due to imposition of penalty at an abysmal low rate, the State stood to lose[6] between Rs. 2,514.49[7] crore to Rs. 2,622.76 crore for each year of delay in commissioning the projects, when compared to the rate of penalty imposed by Uttarakhand, Himachal Pradesh and Jammu & Kashmir. Even when compared to Arunachal Pradesh, the State would be losing Rs. 137.08 crore per year towards royalty revenue for each year of delay. The meagre penalty of Rs. 10,000 per MW per month of delay imposed by the State had no logical basis as it was not linked to the royalty that the State would be receiving had the projects been commissioned in time. The agreements, thus, favoured the IPPs at the expense of the Exchequer.

The Department stated (September 2009) that the rate of penalty for delay in commissioning the projects was kept low as chances of non-completion of projects within scheduled time in the State of Sikkim with peaceful and enabling environment were very low. The reply was not acceptable as there was delay of more than 14 months in the commissioning of the 510 MW Teesta Stage V project executed by the NHPC leading to potential loss of Rs. 382.48 crore[8] to the State on its quota of 12 *per cent* free power receivable from the project during the 14 month period.

1.1.10.5 Local area development fund

The terms of agreements entered into with the project developers were not standard and uniform. Only in seven projects (593 MW) out of the twenty three (5,107.70 MW), the State Government incorporated a condition in the agreements that the project developer would supply additional one *per cent* free energy or money equivalent thereof from the project for the entire 35 years from the date of commercial operation of the project towards local area development fund. In case of the other 16 projects awarded, no specific condition on the developers had been imposed towards contribution for local area development. Non-imposition of specific condition for regular contribution towards local area development on the other developers with total 4,514.70 MW capacity led to a

[6] *The loss to the State have been calculated at current trading rate of Rs. 6.20 per unit of electricity on full installed capacity. The rise in tariff with time is presumed to offset the generation below installed capacity.*

[7] *As per Himachal Pradesh = 3807.70 MWx365x24x1000x6.2 x 12 % = Rs.2560.18 crore. Uttarakhand = 3807.70 MWx365x24x1000x6.2 x 13 % =Rs. 2688.45 crore, Arunachal Pradesh =3807.70x40000x12=182.77 crore.*

State norm = 3807.7 x Rs. 10,000 x 12 months = Rs.45.69 crore.

Loss as compared to: Uttarakhand = Rs (2688.45 - 45.69) crore = Rs. 2622.76 crore; Himachal Pradesh = Rs.(2560.18 - 45.69) crore = Rs. 2514.49 crore; Arunachal Pradesh = Rs. (182.77-45.69) crore=Rs.137.08 crore

[8] *12% of 510MW = 61.2 MWx14monthsx30daysx24hrsx1000KwhxRs.6.2=Rs.382.48 crore*

loss of Rs. 245.20 crore[9] annually.

The Department stated (September 2009) that the provision of one *per cent* local area development fund was kept in all agreements signed on or after 2008 based on the revised hydro power policy of the GOI announced in 2008. This condition could not be incorporated earlier as there was no such provision. The reply however, reveals that the agreements did not contain relevant provision for incorporation of new policy measures introduced by the GOI and the State Government from time to time.

1.1.11 Execution of projects

1.1.11.1 Equity subscription agreements

In terms of the agreements entered with the IPPs between July 2005 and March 2006, in the six[10] Joint Venture Projects of 100 MW and above, the IPPs would allocate 26 *per cent* of the company's equity to the Government by way of execution of equity subscription agreement, which was to be executed within a period of 6 months from the date of signing of the agreements for award of the project. It was however, seen that even after more than three years of award of the projects to the IPPs, the equity subscription agreements had not been signed as of September 2009 which is indicative of the absence of seriousness of the State Government in following the terms of the agreements and achieving the laid down milestones. Similarly, in case of joint venture projects of below 100 MW capacity in respect of which the IPPs would allocate 11 *per cent* equity to the State Government, neither the target date for executing the subscription agreement was fixed nor the agreements executed as of September 2009.

The Department stated (September 2009) that the process of equity subscription agreement has been initiated.

1.1.11.2 Power purchase agreements

Of the 19 private IPPs whose agreements were still in currency till date (September 2009), power purchase agreements (PPA) in respect of only two developers had been drawn. This indicated that the remaining 17 IPPs had not been able to enter into PPA with any agency till date. In the absence of the PPAs, it was not clear how the IPPs would achieve financial closure and mobilise resources required for execution of the projects. More importantly, it was seen that the State Government had not fixed any deadline for the private developers to draw the PPAs. Failure to draw the PPAs with the prospective electricity consumers, traders or any other parties was therefore fraught with the risk of inordinate delay in completing the projects or abandonment

[9] *45.147 MW x 365 days x 24 hrs x 1000 kw x Rs.6.20 = Rs. 245.20 crore.*

[10] *(i) Teesta-I, (ii) Teesta-II, (iii) Teesta-III, (iv) Teesta-VI, (v) Panan, and (vi) Rangit-IV*

of the projects at a later date.

The Department stated (September 2009) that two IPPs had till date completed the PPAs while the other IPPs were making efforts to finalise the PPAs early.

1.1.11.3 Abandonment of projects

The agreement signed by the State Government with the IPPs allowed various time periods, stretching upto 7 years, for commissioning of the projects after the date of signing agreement. It was however seen in audit that no condition was included in the agreements by the State Government for payment of compensation by IPPs for abandonment of the projects midway through implementation. No security deposit in the form of earnest money or otherwise, to ensure seriousness of the private developers was imposed. Absence of appropriate safeguards in the agreement against non-performance/abandonment was fraught with the risk of desertion of the projects by the IPPs midway. Absence of such safeguards also encouraged non-serious players and middlemen to apply for the projects.

The above observation was corroborated by the fact that the State Government had issued letter of intent (LOI) in August 2002 to the consortium of M/s Amalgamated Transpower Limited (ATPIL) and Karnataka Power Corporation Ltd. (KPCL), for drawing of agreement for development of the projects Teesta Stage IV (495 MW) and Teesta Stage VI (440 MW). No target date was fixed for drawing the agreement, although the Department mentioned that the agreement should be drawn at the earliest. The ATPIL/KPCL failed to draw the agreements even after a lapse of two years of issue of the LOI, while the Department dilly dallied with the matter. The LOIs were later cancelled in August 2004. The two projects were subsequently awarded to the NHPC (Stage IV) in March 2006 and M/s Lanco Energy Pvt. Ltd (Stage VI) in December 2006.

The negligence of the Department in fixing a target date for finalising the agreement and its failure to timely cancel the LOI issued to ATPIL / KPCL and non-exercise of due diligence pushed back development of the projects by a further four years and led to potential loss of Rs 2,437.52 crore[11] to the State Government against the free power receivable from the projects.

Subsequently, in June 2008, agreements in respect of 5 other projects, 3 of which had been awarded as early as December 2002 (126 MW) and two in March 2006 (213 MW) and LOIs issued in respect of 2 projects (160 MW) were also cancelled, indicating lack of due diligence while awarding the projects.

The Department stated (September 2009) that the delay in signing agreements was

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[11] *(440+495) MW =(935MWx4yrsx365daysx24hrsx1000) unitsxRs.6.20 per unit x 12 % = Rs. 2,437.52 crore*

caused due to delay in approval of draft, delay in vetting draft by concerned Departments etc. It was further stated that while some projects were cancelled due to public sentiments, others were cancelled due to failure of the IPPs to achieve the prescribed milestones and on technical grounds.

1.1.11.4 Engagement of Amalgamated Transpower (India) Ltd for developing power projects

The Government through the SPDC proposed (December 1998) execution of four[12] small hydel power projects of 61 MW capacity by arranging funds of Rs. 300 crore through Market borrowings, targeted for completion within a period of four years on fixed cost and fixed time principle. The firm Amalgamated Transpower (India) Ltd. (ATPIL) was engaged for arranging funds through issue of bonds through an agreement (April 1999). The ATPIL raised (July to October 1999) bonds for Rs. 50.01 crore in the name of SPDC, guaranteed by State Government. Against this amount, expenditure of Rs. 51.34 crore[13] was incurred on various preliminary activities such as cost of raising bonds, preparation of DPRs etc. upto November 2003. Despite this fact, the ATPIL failed to raise further bonds for the projects. Although the SPDC decided (July 2001) to recover Rs. 9.16[14] crore from the ATPIL, no such recovery was made.

Subsequently, in June 2002, the SPDC decided to hand over the projects with enhanced capacity of 126 MW to the ATPIL on Build, Own, Operate and Transfer basis (BOOT) on the condition that the responsibilities of payment of Rs. 50.01 crore on account of bonds, interest and other incidentals would rest with ATPIL besides payment of Rs. 38.64 crore to SPDC to make up the losses. The Cabinet approved (October 2002) the proposal and a fresh agreement was signed (December 2002). The fresh agreement provided for completion of the projects between December 2006 and December 2007 *(Rolep I & II- December 2006, Ralong - December 2007 & Chakungchu - December 2007)*. The SPDC paid Rs. 9.33 crore towards interest on bonds after signing of the fresh agreement.

The dues of Rs. 38.64 crore and interest of Rs. 9.33 crore paid by the SPDC on bonds were never paid back by ATPIL, as this had not been factored in the new agreement. Even after the fresh agreement, the ATPIL did not furnish Bank guarantee before December 2003 or thereafter for due discharge of the liabilities as agreed. The new agreement was later cancelled by the Government.

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[12] *Rolep (I & II) 21 M.W, Ralong 16 M.W and Chakungchu 24 M.W)*

[13] *Rs. 19.64 crore paid to ATPIL towards commission (Rs. 1.89 crore), advance for raising bonds (Rs. 6.56 crore), preparation of DPRs & CAT plans (Rs. 6.19 crore), construction of approach road (Rs. 5 crore). Rs. 2.65 crore spent on stamp duty and registration. Rs. 29.05 crore spent on payment of interest to Bond holders.*

[14] *Rs. 8.19 crore towards fees for raising of bonds with interest, interest of Rs. 62.25 lakh on advance paid for DPR and Rs. 35.09 lakh towards interest paid in excess due to delay in allotment of bonds.*

Thus, action of the Government for executing the projects with borrowed funds by engaging the firm ATPIL without exercising due diligence resulted in wastage of Rs. 51.34 crore (more than the entire borrowed funds) on preliminary expenses and undue favour to the ATPIL. The inefficient functioning of SPDC and absence of close monitoring and supervision by Government led to ultimate cancellation of the projects which had not been awarded till date (September 2009).

The Department stated (September 2009) that action has been initiated by the Government to find new prospective developers for taking up implementation of the three projects under new terms and conditions keeping in mind overall interest of the State.

1.1.11.5 Award of projects to Gati Investments Limited (GIL)

The Government of Sikkim signed (November 2003) an agreement with Gati Infrastructures Limited (GIL), a Public Limited Company, for development of the following three hydro power projects in the State: i) Sada Mangder, ii) Chuzachen and iii) Bhasmey with installed capacity of 63 MW, 57 MW and 32 MW respectively. The installed capacities of the projects were later enhanced to 71 MW, 99 MW and 51.7 MW, respectively. The agreement in respect of the first project (71 MW) was later withdrawn by the Government.

At a later date, between July 2005 and December 2008, the Government signed 18 agreements with other IPPs for development of various hydroelectric projects with installed capacities of the order of 40 MW to 1200 MW. In respect of all these 18 projects, the Government, inter alia, imposed the following conditions:

a) Non-refundable processing fees of Rs. 10,000 per MW to be paid upfront by the IPPs for the projects awarded to them, *b)* the IPPs shall at their costs construct, widen and strengthen such roads or bridges within the State as are considered necessary for implementation of the project, *c)* in case the IPPs fail to commission the projects within the specified time periods for reasons attributable to the IPPs, the IPPs shall be liable to pay penalty of Rs. 10,000 per MW per month to the Government for delay beyond the stipulated time period for commercial operation of the project, *d)* The Government shall impose an environmental cess at one paise per unit of electricity generated and sold by the IPPs to its customers and *e)* Any reasonable liabilities incurred on account of investigation studies for the projects by the Government shall be reimbursed by the company after the financial closure.

None of the above conditions were imposed on the GIL. Besides, the Government expressly agreed to provide access roads to all the three project sites of the GIL at its own cost and entered (January 2006) into a loan agreement with the GIL through the SPDC for availing loan of Rs. 4.20 crore (at the actual interest rate being paid by the GIL for such borrowing) to be utilised for construction of approach road to the power house for its Chuzachen project. The SPDC also proposed to avail additional loan for the GIL's other projects, later on. As of December 2007, the SPDCL had already availed loan of Rs. 3.68 crore from the GIL, against the loan facility of Rs. 4.20 crore, for construction of access road to the Chuzachen project.

Further, the SPDC had incurred Rs. 17 lakh on account of investigation studies for the three projects, prior to award of the projects to the GIL. The GIL however refused to re-imburse this expenditure to the Government, being well aware of the fact that there was no enabling clause in the agreement to bind the GIL for such reimbursement.

Thus, the agreement with the GIL for award of the three projects were unduly skewed in favour of the GIL thereby resulting in i) outright loss of Rs. 22.17 lakh[15] towards processing fees, ii) unnecessary loan liability of Rs. 3.68 crore *(plus interest)* borrowed for road construction, iii) loss of Rs. 21.70 lakh per[16] year on penalty in the event of delay in commissioning the projects, iv) loss of Rs. 1.32 crore[17] per year towards environmental cess, and v) loss of Rs. 17 lakh incurred by the SPDC on investigation studies for the three projects, prior to award of the projects to the GIL.

The Department stated (September 2009) that M/s GIL being the first IPP to venture into the State was given certain extra incentives with a view to attract other developers to the State. The reply was not acceptable as the discrepancy was due to non-existence of hydro power policy and absence of any standard terms, conditions and criteria for award of the projects to the IPPs.

1.1.12 Environment aspects

1.1.12.1 Environment Impact Assessment

The IPPs were required to carry out environmental impact assessment (EIA) in association with the Forest, Environment and Wildlife Management (FEWM) Department as required under the Environment Protection Act 1986 through consultants drawn from reputed organisations.

Test-check of records revealed that in respect of two Projects (Teesta Stage VI and Dikchu HEP) being developed by M/s Lanco Energy Private Limited and Sneha Kinetic Power Projects limited, the Environment Impact Assessment (EIA) and Environment Management Plan (EMP) were prepared by the FWEM Department. In respect of all other projects, the EIA/EMP were prepared by agencies based outside the State. Project-wise details of personnel in the FE&WM Department who were

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[15] *221.7 MW x Rs. 10000 per MW = Rs. 22.17 lakh (calculated for all 3 projects for which agreement was signed)*

[16] *150.70MWxRs10000 per monthx12 months =Rs.21.70 lakh per year (calculated for 2 projects under implementation)*

[17] *150.70 MWx1000x24hrsx365 daysx1paise = Rs. 1.32 crore (calculated for 2 projects under implementation)*

associated in preparation of the EIA and EMP by these agencies and the preliminary data sheets relating to collection of data and survey/investigation reports prepared after field survey and ground testing were not furnished to audit. As a result, audit could not vouchsafe authenticity of the data incorporated in the EIA and EMP reports. The Principal Chief Conservator of Forests-cum-Secretary, FEWM Department complained as early as January 2006 that the project developers were conducting survey and investigation of forest lands without involving officers of the Department. Site clearance was being applied to GOI without the knowledge of the FEWM Department and hence data provided to the GOI was not correct. EIA/EMP was being done by agencies about whom the FEWM Department was not aware. In most cases, the mandatory one year comprehensive data required for preparation of the EIA was not gathered as indicated by the period between the grant of site clearance and the grant of environment clearance.

The above facts indicate that the EMPs had been prepared through assessment of secondary data without diligent study, observation and research of the prevailing ground realities over an adequate period of time.

The Department while skirting the audit observation stated (September 2009) that since the experts in the Ministry of Environment and Forests (MoEF) scrutinised and cleared the EIA and EMP, these reports were presumed to conform to the prevalent norms. The reply was not acceptable as the developers had not associated the FEWM Department as per terms of the agreement in preparation of the EIA/EMPs before approval of the same by the MoEF.

1.1.12.2 Catchment Area Treatment Plans

The Catchment Area Treatment (CAT) Plans portray the ecological health of the catchment areas and also the various soil and moisture conservation programmes required for the treatment of catchments for their stabilisation against future erosion so that life of a reservoir in case of a seasonal storage dam is not reduced. The measures adopted for catchment area treatment, inter alia, consist of various types of plantations and allied activities followed by adequate maintenance to ensure survival of the plantations. Test check of EMPs of ten projects revealed that provision for plantation was kept for only one year in one project[18], three years in six projects[19] and four years in remaining three projects[20]. No provision for subsequent weeding and maintenance of the plantations was kept in respect of four projects[21]. In respect of the remaining six projects[22], provision for maintenance for subsequent years' plantations

[18] *Teesta VI.*
[19] *Panan, Rongnichu, Ting Ting, Tashiding, Rangit II and Jorethang Loop*
[20] *Teesta III, Dikchu and Rangit IV*
[21] *Teesta III, Ting Ting, Tashiding, Dikchu*
[22] *Teesta VI, Panan, Rongnichu, Rangit II, Rangit IV, Jorethang Loop*

was inadequate - ranging from 0 to 4 years. Thus, CAT plans were prepared without taking into account the field requirement for survival of the plantations and were therefore, arbitrary and inadequate.

The Department stated (September 2009) that since the CAT plans are accorded approval by experts of the MoEF, the same were presumed to conform to the prevalent norms. The reply was not acceptable as the FEWM Department which was supposed to be associated in preparation of the EMPs before approval of the same by the MOEF had not ensured adherence of the CAT plans to the prevalent norms.

1.1.12.3 Implementation of Compensatory Afforestation, Catchment Area Treatment, Wildlife Preservation etc

The FEWM Department had not yet taken up Compensatory Afforestation (CA), Catchment Area Treatment (CAT), Wildlife protection/preservation and allied activities to mitigate the distress caused to the forest, wildlife and environment due to diversion of forest lands for establishment of the hydro power projects. These activities were to be implemented simultaneously with the execution of the power projects. Six[23] IPPs deposited Rs. 26.37 crore (December 2005 to May 2009) towards cost of CA, CAT, Net Present Value, Wildlife Preservation and Biodiversity Preservation. The FEWM Department had prepared annual plan of operation (APO) for implementation of CAT programme in respect of only two projects[24] and a five year plan of operation for compensatory afforestation in respect of only one project (99 MW Chuzachen Project). No plan had so far been prepared for wildlife protection, biodiversity preservation, infrastructure development and forest protection for any project.

The APO for implementation of CAT Plan for the Jorethang Loop Project was prepared for seven years and the cost accordingly worked out for a seven year period. The Plan in respect of the Chuzachen Project was prepared for five years. Since the treatment measures adopted in the CAT Plans of all the projects were similar, reasons for adopting varying treatment periods of 5 and 7 years in respect of different projects was inexplicable. If a seven year intervention was called for, treatment plan should have been prepared for a seven year period for all projects without discrimination. In reply, the FEWM Department, inter alia, stated that no work could be undertaken towards Compensatory Afforestation, CAT programme and preservation of biodiversity as the funds received from the project developers were transferred to the Compensatory Afforestation Management & Planning Agency (CAMPA) account under the MoEF, GOI. The Department had not received back the funds from the GOI for taking up the works.

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[23] *Teesta –III, Teesta – VI, Rongnichu, Chuzachen, Rangit IV, Jorethang Loop.*

[24] *Jorethang Loop, Chuzachen.*

1.1.12.4 Disposal of excavated material from the projects

The terms of agreement drawn by the State Government required the IPPs/NHPC to ensure that the material excavated from the construction sites were dumped in specific sites identified and approved by the State Pollution Control Board (SPCB). Despite this, no action had been taken by the SPCB for identifying specific locations for dumping the excavated material. Thus, there was indiscriminate disposal of muck by the developers thereby causing degradation of land, air and water. A study conducted by the Mines, Minerals and Geology Department revealed gross negligence by the NHPC in disposal of muck generated from execution of the Teesta Stage V project. Spoils were thrown along the river banks raising the river bed of the Teesta leading to change in the flood behavior of the river, acceleration of toe erosion and degradation of the overall geo-environmental setting of the area. In the case of another project (Panan HEP), the sites identified for disposal of muck was too small to retain safely the huge quantity of muck which could lead to future disasters such as enhanced siltation of reservoirs of the downstream projects, toe erosion and change in the geo-environmental setting of the downstream areas.

The Department stated (September 2009) that sufficient areas for dumping muck are identified jointly by the Developers, FEWM Department and Land Revenue & Disaster Management Department. Such areas are properly demarcated and suitable measures taken to prevent flow of muck into the river. The reply is not acceptable as the findings by the Mines, Minerals and Geology Department revealed indiscriminate disposal of muck into the rivers.

1.1.12.5 Protection and preservation of riverine fishes

The agreement drawn with the developers provided for appropriate steps to be taken by the project developers for protection of fish culture as per environmental requirements. Records indicated that altogether 63 species of Phytoplankton, 17 species of Zooplankton and 48 species of fish inhabit the river systems of the State. The creation of reservoirs, fluctuation in natural river discharge and diversion of river waters through closed tunnels would completely change the ecological conditions of the river systems. It was, therefore, necessary for making adequate provisions in the environment management plans for establishment of a well equipped research centre for undertaking research and designing suitable measures to mitigate the effect of construction of hydel projects on the aquatic life. MOUs were needed to be signed with the project developers securing their commitment for a long term comprehensive strategy for preservation and protection of the fishes and aquatic life in the river systems of the State.

Test-check of EMPs of ten projects, however, revealed that the measures[25]

[25] *Development of hatcheries, nursery ponds, fish farms, stocking tanks, rearing ponds etc.*

incorporated in the EMPs for protection of fishes were mainly alternative strategies for raising culturable varieties of farm fish for consumption of the people which would not help in protection and preservation of the indigenous varieties of fishes in the river systems of the State. No provision towards protection of the fish and other aquatic life inhabiting the river system was made in the EMPs of two projects *(Chuzachen and Bhasmey)*. Although a provision of Rs. 50 lakh for fisheries development had been kept in the EMP of the Teesta Stage V project commissioned in March 2008, steps had not been taken to plan and implement any tangible action. About 23 Km of the river Teesta between the dam site and the tail end of this project was diverted through tunnels. The fish species and other aquatic organisms along this stretch of the river thus already suffered possible damages due to the change in the flow of water. The Directorate of Fisheries had not entered into any MOU with the project developers securing their commitment for long term strategies for preservation and protection of the fishes and aquatic life in the river systems of the State.

The Department stated (September 2009) that the MoEF being the nodal agency for vetting and approving the EMPs, all necessary provisions had been made as per the prescribed guidelines and specifications. The reply did not address the issues raised in audit.

1.1.12.6 Disaster management plans

The land profile of the State of Sikkim consists of steep slopes and narrow gorges, and with a high average annual rainfall of 3,120 mm, is prone to weathering, erosion and frequent landslides. Further, it is also located in Zone IV according to seismic zoning map of India where maximum intensity of over 5 in the Richter scale is expected. During the last 50 years, as many as 115 cases of major landslides and nine major earthquakes of magnitude more than 5 on the Richter scale were recorded[26]. Establishment of the hydro power projects in the State entailed extensive excavation, tunneling, blasting, construction of mammoth water reservoirs, power houses and allied activities. These construction activities put tremendous stress on the fragile environment of the State which could bring about unanticipated disasters and calamities. Unless a robust disaster management plan is prepared and put in place towards prevention and preparedness to face the disasters, the State would suffer tremendous loss of life and property besides long term damage to environment.

Audit scrutiny revealed that the issue on disaster management was incorporated in the Environment Management Plans (EMPs) of only two power projects - Teesta Stage-III and Dikchu HEPs - out of ten projects whose EMPs were examined. A

[26] *In terms of the studies conducted (2004 and 2006) by the Wadia Institute of Himalayan Geology, Dehradun and the School of Community Science and Technology, Bengal Engineering and Science University, Shibpur*

nominal amount of Rs 2 crore and Rs 1 crore, respectively, had been included in the EMPs of these two projects towards disaster management plan. The Land Revenue and Disaster Management Department mandated by the State Government to address the issues of disaster management had not been consulted and involved in the process of preparation of disaster management plans either by the State Government or the Project developers. No effective and specific risk and responsibility sharing arrangement between the State Government and the project developers had been worked out till date.

The Department stated (September 2009) that a coordinated system for dealing with disasters was being worked out for sharing of information and evolving a proper mechanism for disaster management.

1.1.13 Relief and rehabilitation

The DPRs of the projects indicated that there would be minimum dislocation of people due to establishment of the projects. Rehabilitation and resettlement of project affected families due to establishment of the projects, therefore, did not appear to be a serious issue as on the date of audit. Actual effect of establishment of the projects on the people residing in and around the project areas would however, be known only after the construction works on the projects commence.

1.1.14 Monitoring

1.1.14.1 Monitoring of project implementation by SPDC

Although the development of hydro power projects in Sikkim was overseen by the Sikkim Power Development Corporation (SPDC), no specific responsibility within the SPDC was assigned to the officers and staff towards regular project monitoring, field visit and supervision of implementation of the projects by the developers. The SPDC did not even have in its possession vital documents like initial project proposals submitted by the developers, documents regarding business profile, audited statement of accounts, experience in implementing hydro power projects and other credentials of IPPs, copies of power purchase agreements, details of local manpower engaged by the developers, copies of EIA and EMP etc. This indicated that monitoring of implementation of the hydro power projects by the SPDC was not being done adequately.

The Department stated (September 2009) that the role of SPDC commenced after allotment of projects by the State Government. Scrutiny of credentials/profiles, experience and other documents of the IPPs was done by a Hydro Committee appointed by the Government due to which such documents were not available with the SPDC. The reply indicated that the modalities for implementation of all the vital aspects of hydro power projects had not been ironed out till date. It was further observed that the Hydro Committee was constituted comprising of heads of various State Government departments and did not have a separate office where its records could be kept. Limited records were only available with the SPDC. The reply of the Department thus indicated lack of coordination and absence of focused action in implementation of the projects in the State.

1.1.14.2 Monitoring by multi-disciplinary committee

In terms of the agreements drawn with the IPPs, the State Government was to constitute a multi-disciplinary committee comprising representatives of the IPPs and representatives from various departments of the Government to monitor the various issues arising during implementation of the projects. The committee was to draw methodology to regulate the payments to be made by the IPPs to the various departments of the Government for implementation of the projects. The committee was to meet at such intervals, preferably quarterly at such places as may be decided by it. The committee or any of its members would not have any authority to alter, amend or modify in any manner whatsoever the terms and conditions of the agreements.

The SPDC could not provide any record regarding either constitution of the multi-disciplinary committee, minutes of meeting of the committee or any reports indicating any monitoring or supervision of implementation of the projects conducted by the committee. Thus, the clause in the agreement regarding constitution of the committee for monitoring the projects was included only on paper.

The State Government displayed no serious intention to act on it. The Department stated (September 2009) that the proposal for constitution of project monitoring committee had been initiated.

1.1.14.3 Monitoring by project level welfare committees

The State Government was to constitute a Project Level Welfare Committee for each project consisting of the local politicians, gram panchayats, village representatives, local administrations and IPP representatives to look after the welfare of the local people in respect of socio-economic development and employment opportunities etc.

The SPDC was categorically asked to provide details of constitution of the Project Level Welfare Committees for each project with details of members, minutes of meetings of the committees, reports of the committees and the welfare activities undertaken. No such details could be provided to audit. This indicated laxity of the SPDC in monitoring implementation of the welfare activities in the project areas.

The Department stated (September 2009) that proposal for constitution of Project

Level Welfare Committees had already been submitted and was under active consideration of the Government.

1.1.14.4 Vigil to prevent pilferage of precious materials

During implementation of the projects, in case any objects of archaeological importance or any precious or semi-precious materials were found by the developers or any of their employee/contractors, the developers were to hand over such objects to the Government free of cost or to inform the Government immediately. Despite incorporation of the above condition in the agreements, no mechanism had been laid down by the State Government to regularly monitor execution of the projects and keep a constant vigil to see if any objects of value were unearthed during the course of implementation of the projects. There was thus, no deterrent in the existing system to prevent the developers or any of their employee/contractors from pilfering any precious material that may be unearthed during execution of the projects.

The Department stated (September 2009) that the State Government had initiated the process for constituting a monitoring committee to monitor all activities related to hydro power development.

1.1.14.5 Vetting of DPRs by the SPDC

The SPDC was equipped with only one officer each holding the designation of Senior General Manager, General Manager and Manager, besides the Managing Director. These State officers did not possess adequate experience and exposure in planning and execution of large hydro power projects. The DPRs of even small projects of 1 to 2 MW capacity executed by the SPDC on behalf of the State were prepared and vetted by either the IITs or any other well recognised technical institutes of the country. Despite this fact the technical soundness and economic viability of all projects below 100 MW (total 13 projects) awarded to the IPPs were cleared by the SPDC for execution. This was fraught with the risk of future non-performance/under-performance and non-viability.

The Department stated (September 2009) that the SPDC sought expert opinion of retired/serving eminent geologists, hydrologists and other experienced engineers of reputed organisations like the Geological Survey of India, Central Water Commission etc on the DPRs of the projects before granting techno-economic clearance. The reply was not acceptable as no evidence was furnished to substantiate the Department's claim.

1.1.15 Conclusion

The State Government commenced award of hydro power projects to IPPs without working out any effective modality and finalising any plan or policy. Projects were *awarded at throwaway charges which compared very poorly with the charges imposed by all other hydro power States in the country in respect of royalty revenue, upfront premium, penalty for delay, local area development etc. Performance guarantee was not obtained to ensure earnestness of the developers to execute the projects resulting in cancellation of a number of agreements due to non-performance by the developers, which resulted in loss of substantial time and revenue receivable from the projects. Effective safeguards were not incorporated in the agreements against delay in completing various milestones laid down for completion of the projects and negligence in maintaining the projects after commissioning. Environmental issues such as identification of proper dumping sites, safe disposal of excavated materials, compensatory afforestation, catchment area treatment and bio-diversity preservation were neglected and delayed. Monitoring of execution of the projects was virtually non-existent.*

1.1.16 Recommendations

- The State hydro power policy and plan may be finalised and announced at the earliest;
- All projects in future may be awarded following a transparent bidding procedure;
- The State may consider levying appropriate application fee, upfront premium and royalty keeping in view the prevalent best practices;
- Suitable conditions against non-performance/abandonment of the projects and negligence in proper maintenance of the assets may be imposed on the IPPs forthwith;
- Strict adherence to environmental concerns may be ensured;
- Monitoring and vigil of the project execution by the IPPs may be strengthened.

IRRIGATION AND FLOOD CONTROL DEPARTMENT

1.2 Implementation of Irrigation Schemes

Out of a total geographical area of 7,09,600 hectares, the estimated area to be brought under assured irrigation system was 86,000 hectares. As on 1 April 2005, the area under assured irrigation was 23,864.05 hectares and during 2004-09, an additional area of 4,055.30 hectares was brought under assured irrigation. The Department has ensured that implementation of Minor Irrigation Scheme (MIS) in Sikkim did not suffer from any cost overrun. However, performance review indicated that there were absence of positive impact on agricultural productivity, underperformance in the areas of survey, investigation and ensuring supply of water during lean period. There was also loss of revenue due to non imposition of water tax, defunct schemes with consequential unfruitful expenditure, avoidable expenditure due to absence of uniform design specification for channels and unfruitful construction of Minor Irrigation Schemes.

Out of 68 physically verified MISs, 10 MISs constructed at a total cost of Rs. 26.80 lakh to cover 104.37 hectares remained defunct.

(Paragraph 1.2.9.4)

Although there was moderate increase in yield per hectare, there was almost no increase in agricultural area even after expenditure of Rs. 14.47 crore during 2004-05 to 2008-09.

(Paragraph 1.2.10.1)

The Department could not achieve the objective of providing water for irrigation during lean periods.

(Paragraph 1.2.10.3)

The Department had not devised a suitable system to monitor and reduce major gaps between creation and utilisation of irrigation potential.

(Paragraph 1.2.12)

1.2.1 Introduction

Sikkim is a hilly and mountainous State with a total geographical area of 7,09,600 hectares, of which the cultivable area is about 1,09,000 hectares (15.36 *per cent*). About 64 *per cent* of the working population are dependent on agriculture and horticulture which contribute about 30 *per cent* of the Gross State Domestic Product. The total rainfall in the State ranges from 100 to 145 inches (2,540 mm to 3,700 mm). The rainfall is very high and of very high intensity during May to September and tapers to almost zero during December to February. Against the backdrop of a predominantly agricultural State, irrigation plays an important role in the economic upliftment of the people of Sikkim.

The State does not have any major or medium irrigation projects and was therefore dependent on only minor irrigation schemes (MISs)[27].

1.2.2 Organisational set-up

Irrigation and Flood Control Department (IFCD) is the implementing department for development of irrigation. The Department is headed by a Secretary and assisted by a Chief Engineer, Additional Cheif Engineer, Joint Secretary, Senior Accounts Officer, two Deputy Directors, four Superintending Engineers and five Divisional Engineers.

1.2.3 Scope of Audit

Implementation of irrigational projects in Sikkim was reviewed in audit during May 2009 to July 2009 through test-check of records relating to the period 2004-09. The review covered scrutiny of 191[28] (out of a total 547) schemes executed during 2004-09 at an expenditure of Rs. 4.93 crore in all the four divisions, i.e., East (71), West (44), North (21) and South (55), which is 34 *per cent* of total expenditure of Rs. 14.47 crore. Joint physical verification of the assets created was conducted (June-July 2009) in 68 out of the selected 191 MISs. The selection of samples both for scrutiny and physical verification was on the basis of random sampling.

1.2.4 Audit objectives

The main objectives of the performance audit were to assess:

- Whether the programmes achieved their objectives of creating adequate and targeted irrigation potential and their optimum utilisation;
- Whether planning for new projects and prioritisation for funding the ongoing projects was done in a systematic manner;
- Whether adequate funds were released on time and properly utilised;
- Whether individual projects were executed in an economic, efficient and effective manner;
- Whether the monitoring mechanism and evaluation of projects, including assessment of achievement of the desired Benefit Cost Ratio (BCR) was adequate and effective.

1.2.5 Audit criteria

The audit objectives were bench marked against the following criteria:

- Schemes guidelines issued by the Union/ State Governments;

[27] *Covering a culturable command area (CCA) of below 2000 hectares. The minor irrigation schemes are known as minor irrigation channels (MICs) in Sikkim.*
[28] *AIBP: 65, NABARD (RIDF): 119, Social Welfare (SCSP/ TSP): 7*

- Guidelines issued by Central Water Commission (CWC), Government of India for preparation of Detailed Project Reports;
- Detailed Project Reports;
- Circulars/instructions issued by Ministry of Water Resources, Central Water Commission, State Government and National Bank for Agriculture and Rural Development (NABARD);
- Sikkim Public Works Code, Manual and Schedule of Rates;
- Sikkim Financial Rules.

1.2.6 Audit methodology

The performance audit started with an entry conference with the representatives of IFCD and FRED i.e., Finance, Revenue & Expenditure Department on 21 April 2009 wherein the audit objectives, methodology and audit criteria were discussed and agreed upon with the Departments. The performance audit involved test-check of records in the secretariat and four district headquarters. Joint physical verification of the schemes was carried out with the departmental officers. Photographs of the projects and interviews with the beneficiaries were also taken to ascertain the factual position of implementation of the programme.

An exit conference was held (5 August 2009) with departmental representatives and the audit findings were discussed. The report has been finalised after incorporating the views of the Department.

Audit Findings

The programmes under which the MISs were implemented during 2004-09 are detailed below:

(i) Accelerated Irrigation Benefits Programme (AIBP): Under this programme, irrigational projects with cultivable command area (CCA) of 20 hectares and above are taken up. Out of 242 schemes with total CCA of 3,814.54 hectares involving Rs. 12.87 crore sanctioned during 2004-09, 216 schemes with total CCA of 3,237.04 hectares involving Rs. 9.71 crore were completed and 26 schemes (16 schemes beyond schedule) were under progress as of March 2009.

(ii) Rural Infrastructure Development Fund (RIDF) financed by NABARD: Out of 288 MISs with CCA of 1,341.40 hectares involving Rs. 6.45 crore sanctioned during 2004-09, 219 schemes with total CCA of 968.65 hectares involving Rs. 4.42 crore were completed and 69 schemes (13 schemes beyond schedule) were under progress as of March 2009.

(iii) Scheduled Caste Sub-Plan and Tribal Sub-Plan: Out of 17 MISs with total CCA of 27.20 hectares involving Rs. 42.79 lakh sanctioned during 2007-09, 11 schemes

with total CCA of 12.55 hectares involving Rs. 0.34 crore were completed and 6 schemes (2 schemes beyond schedule) were under progress as of March 2009.

The audit findings are enumerated in the succeeding paragraphs:

1.2.7 Planning

One of the most important information mentioned in the estimates prepared for obtaining technical sanction for MIS was 'potential planned' which is the aggregated land of all beneficiaries, proposed to be covered by the MIS. However, it was seen that the potential planned was worked out by the Department without any basis as beneficiaries' data was not collected. Analysis revealed that the figures of potential planned by the Department in respect of each MIS stated in the proposals submitted to the funding agencies and those depicted in estimates were inconsistent. Similarly, the Department showed potential created without actual review after construction of the MISs as no records of such review were found. Further, as verified from the individual files maintained for execution of works in respect of 22 MISs, irrigation potential was not planned at all which suggested that potential shown to have been planned against these MISs were superfluous. Therefore, the authenticity of potential created and utilised as stated by the Department was not reliable.

The district-wise position of utilisation of created potential showed that the potential was not fully utilised in any of the districts as detailed below:

Table – 1.2.1

District	CCA (Ha)	Potential created (Ha)	Potential utilised (Ha)	Percentage
East	9,943.73	11,883.87	8,705.88	73
North	2,008.40	2,253.61	1,921.83	85
South	5,789.24	6,464.28	5,431.13	84
West	5,890.15	6,781.99	5,221.29	77
Total	**23,631.52**	**27,383.75**	**21,280.13**	**78**

(*Source*: *Information furnished to MoWR, GOI by the Department*)

While accepting, the Department stated that the matter has been noted and the concerned field officers have been directed to give authentic figures as per the field data.

Besides, the following were also noticed:

The Department has not prepared any perspective plan with reference to the total cultivable area in the State and phased out year-wise targets keeping in mind the ultimate objective of bringing the entire cultivable area under all weather irrigation in a phased manner. While the annual plans with reference to the respective five year plans indicated the targets and achievements, the planning was not done with reference to area remaining to be covered, duly taking into account defunct and damaged channels.

Proper survey and investigation is a pre-requisite for successful implementation of any scheme. In the 191 schemes test-checked, there was no recorded evidence of a survey and investigation having been conducted, which resulted in considerable decrease in water supply during November to March every year as water dried up at source during that period as detailed in paragraph 1.2.10.3. The Department stated (September 2009) that since water for paddy fields during summer was available in several jhoras, no detailed survey was required. This however, does not serve the purpose of the beneficiaries as sufficient rain water is available during summer and therefore, the objective of providing all weather irrigation water for overall agricultural development in the State was not fulfilled.

A Detailed Project Report (DPR) is vital for the successful implementation of a project. The Department did not produce the DPRs to Audit except for 63 DPRs, which were produced during Exit Conference (August 2009), examination of which showed that a uniform pattern of 'demand from farmers/general public', 'pereniality of sources with discharge of 0.50 cusec in lean period and 5.00 cusec in peak period', 'non availability of water before construction and expected sufficiency of water after construction' etc., were mentioned. Even these DPRs were not kept in the concerned files produced to Audit and were never utilised for evaluation of execution with reference to the objective of the MISs. The Department stated (September 2009) that the DPRs were prepared as per guidelines of the Ministry of Water Resources, Government of India and the same were vetted and sanctioned by the Ministry. The reply was not acceptable as these DPRs also did not conform to the CWC guidelines and were only work estimates.

The success of any irrigational project depends on the availability of water in the source from where the water is to be channelled to the irrigational fields. However, the Department has neither addressed the issue nor kept any provision as yet towards source development. This has resulted in a number of channels remaining dry during lean period as mentioned in paragraph 1.2.10.3**.** While accepting, the Department stated (September 2009) that the matter would be looked into.

The Department continued to create new MISs instead of ensuring proper utilisation of MISs already constructed. According to the fourth census (2006-07), 305 schemes constituting 21 *per cent* of total number of existing schemes were defunct. The Department should therefore, have made the channels functional by according high priority instead of going in for new construction. While accepting, the Department stated (September 2009) that it is already in the process of preparing estimates for defunct channels all over Sikkim and the same would be put up to the Government for providing funds for restoration.

According to AIBP guidelines, Benefit Cost Ratio (BCR) should not be less than one. In one[29] case, it was seen that one component i.e., benefit due to reduced cost of farming (on time saved by farmers for irrigating the fields), which was not included in the guideline issued by CWC for preparation of DPRs, was taken into consideration for calculation, which overstated the BCR. Had the BCR not been overstated, the scheme would not have qualified for execution and funding under AIBP. It was further seen that the Department had never calculated the actual BCR on the basis of factual data collected on any MIS executed which indicated that the BCR calculated was purely theoretical and not based on factual position. Further, in case of schemes funded under NABARD, no BCR was calculated to ascertain the economical viability of the schemes.

Thus, due to non-preparation of BCRs, cost could not be compared with the benefits. While accepting, the Department stated (September 2009) that in future it would be ensured that such lapses are not repeated.

1.2.8 Financial management

1.2.8.1 Persistent savings

During the years under review, out of a total provision of Rs. 56.21 crore (including *Direction & Administration, Machinery & Equipment, Assistance to Zilla Panchayat/Gram Panchayat, Other Expenditure on Flood Control*) available for execution of minor irrigation works, Rs. 46.60 crore was spent with persistent savings over all the years ranging from 6 *per cent* in 2005-06 to 28 *per cent* in 2007-08 indicating deficient budgeting process. The Department attributed the reasons for the savings to delay in obtaining sanction from MoWR and re-appropriation of funds to meet the obligation of State share for AIBP (2007-08), non receipt of resources (2005-06), non-completion of works (2006-07) and non-receipt of funds from the Government of India.

1.2.8.2 Surrender and supplementary provision

Due to eventual savings of Rs. 1.34 crore, Rs. 2.15 crore and Rs. 2.47 crore during the years 2004-05, 2006-07 and 2007-08, supplementary provisions of Rs. 16.00 lakh, Rs. 5.15 lakh and Rs. 87.93 lakh in the respective years proved unnecessary which indicated absence of proper control over expenditure by the Department. The Department stated (September 2009) that savings occurred mainly under Stock Suspense due to purchase of stock materials from concerned work heads directly. Savings occurred on RIDF financed by NABARD as some works were not completed due to practical problems in the field. Further, as no adequate resource was received under NEC, there was also savings under this head in 2007-08. The fact

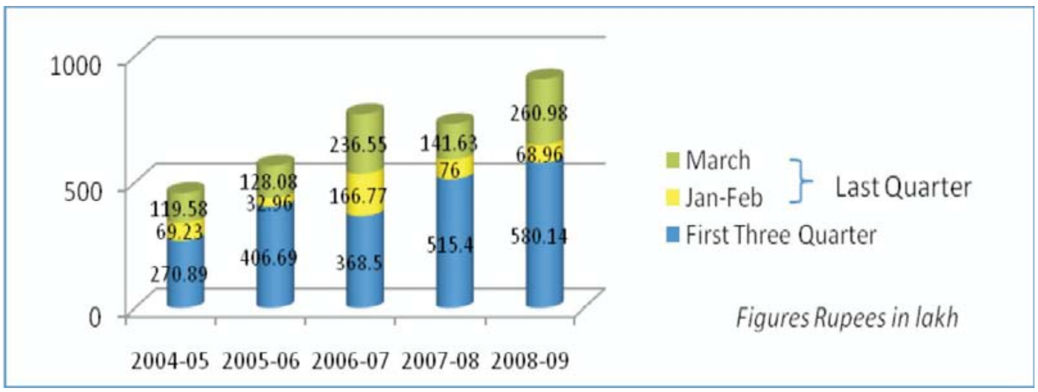
[29] *MIS at Chalisay Army Camp to Bagan Genopang Khet*

however, remained that during 2004-05, there was savings of Rs. 8.05 lakh after surrendering 6.41 lakh in March 2005 even under Direction and Administration and during 2007-08, there was saving of Rs. 233.76 lakh under Diversion Schemes (AIBP) even after reduction of Rs. 145 lakh through surrender and re-appropriation of Rs. 128.53 lakh to meet the State's share of funds for AIBP.

1.2.8.3 Rush of expenditure at end of financial years

Analysis of expenditure under Minor Irrigation for the last five years revealed that the Department spent huge amounts during the last quarter of the years, especially during the closing months. While the percentage of expenditure during the last quarter varied between 28 and 52 *per cent,* in the month of March, it varied between 19 to 31 *per cent* as shown below:

Chart: 1.2.1



The financial propriety requires that Government expenditure be evenly spread throughout the year as far as practicable and rush of expenditure at the close of the year indicated ill-planned expenditure. The Department stated (September 2009) that actual executions of works takes effect from October and are completed between December and February. The bills are raised during January, February and March and payments made during March.

However, the fact remained that the expenditure was not evenly phased as required under Sikkim Financial Rules which stipulate rush of expenditure in the closing months of financial year as a breach of financial regularity.

1.2.8.4 Stock suspense

The Department operated a suspense account with the provision and expenditure as under:

Table – 1.2.2

(*Rupees in lakh*)

Year	Budget Provision	Expenditure	Saving	Percentage of Saving
2004-05	100	75	25	25
2005-06	100	24	76	76
2006-07	100	3	97	97
2007-08	100	15	85	85
2008-09	5	1.5	3.5	70

Source: Finance and Appropriation Accounts.

Though there were huge savings during all the years, there were delays in completion of works due to non-availability of stock materials as stated in paragraph 1.2.9.2. The Department stated (September 2009) that due to resource constraints and delay in completion of supplies and execution of works, it decided to procure the stock materials debiting the scheme head which resulted in saving.

1.2.9 Programme implementation

During 2004-09, against the target for creation of irrigation potential for 4988.74 hectares at an estimated cost of Rs. 19.75 crore, the Department succeeded in achieving 4055.30 hectares incurring an expenditure of Rs. 14.47 crore. Scrutiny of records on implementation of the schemes indicated the following irregularities:

1.2.9.1 Design for construction of channels

The Department had not devised any uniform design for construction of channels despite the fact that all the channels are to be constructed in areas with similar features. In the absence of any specified design, the width of side walls of the channels varied widely from one place to other, even for the channels with same width and depth, without any recorded reasons or justification. While the width of side walls in North District was taken as 15 cms, the same in the other three districts varied from 20 to 23 cms. This indicated that channels with side wall width of 15 cms were workable and increase in the same to 23 cms was without any justification. Due to taking up of greater than required widths of side walls, the Department had to incur an avoidable expenditure of Rs. 10 lakh during 2004-2009 towards construction of channels. While accepting, the Department stated (September 2009) that the field engineers have been issued instruction to keep the width within 15 cms.

1.2.9.2 Completion of works

According to the guidelines of AIBP (2 years' completion period) and RIDF financed by NABARD (3 years' completion period), there was no time over run in the implementation of MISs in the State. However, all works being small in nature, the Department allowed the completion time as per estimate of the works. In 90 works out of 191, there were delays ranging from 17 days to 582 days for completion of works as per agreed completion time leading to delay in accrual of intended benefits from the schemes. The Department stated (September 2009) that completion was delayed due to delay in supply of materials by State Trading Corporation of Sikkim and Sikkim Investment and Marketing Federation. The fact however, remained that there were savings under stock suspense every year. Further, in 18 out of 90 cases of delay, the reasons were other than stock materials. Besides, in 16 cases, no reason was mentioned in the applications for extension of time.

1.2.9.3 Extension of benefit to SC/ ST beneficiary

Although the Scheduled Caste Sub-Plan (SCSP) and Tribal Sub Plan (TSP) was to ensure direct benefits to individuals or families belonging to SCs and STs, test-check of 7 out of 17 works revealed that the Department did not maintain the list of beneficiaries along with the details of benefits being extended to them due to which Audit could not ascertain as to whether any benefit was actually extended to the SC and ST beneficiaries. The Department stated (September 2009) that the information about the intended population to be benefited was sent by SJEWD to DPER & NECAD for approvals. However, the IFCD, being the implementing agency for irrigational activities, should have maintained proper records.

1.2.9.4 Unfruitful expenditure on defunct MISs

Out of 68 MISs physically verified, 10[30] MISs constructed at a total cost of Rs. 26.80 lakh to cover 104.37 hectares of land remained defunct due to landslides, leakage of water near the source and construction of roads. In Gera Gaon MIS at Penlong Bazaar, Dong and Tokdang MISs, the land remained totally dry and therefore, the farmers had to cultivate maize only. In remaining areas, the farmers had to collect water from the nearby small brooks and draw water from small earthen drains. No action was initiated by the Department to make these functional. This not only deprived the beneficiaries of the intended benefits, but also resulted in unfruitful expenditure. The pictorial views of some schemes are given below:

[30] *1) Gera Gaon below Penlong Bazaar 2) Gagcha Jhora Tempo Tar Khet Changey Senti 3) Katuk House to Malami Dara L/Tumin 4) Seem Khola to Surkikhet at Martam 5) Tokdang MIS 6) Khanikhola to Pradhan Gaon 7) Thulo Khet at Dong Busty 8) Jugdum Khola at Aarubotey 9) Lower Labing 10) Kajini Kulo.*

Image – 1.2.1

Defunct MIS at Gere Gaon below Penlong Bazaar (N)& surrounding Dry Fields

Image – 1.2.2

Defunct MIS at Khanikhola to Pradhangaon (S)

1.2.9.5 Unfruitful construction of MISs

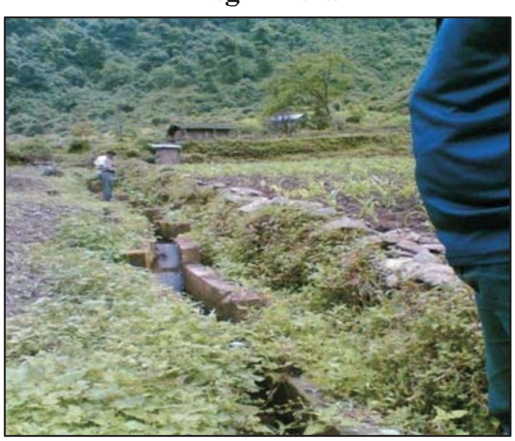
Three schemes constructed at a cost of Rs. 3.48 lakh covering 26 hectares in North District turned out to be unfruitful as these did not serve the purpose:

MIS at Upper Khedum to Lower Khedum at Lachung – The fields were above the level of the scheme. The scheme serves only as a drain.

MIS at U/Khedum under Lachung – The scheme serves only as a drain.

MIS at Tingvong – 70 *per cent* of the length of the channel is after the last outlet to the irrigated field. This channel is being used as a roadside drain.

Image – 1.2.3



MIS at U/Khedum under Lachung serving only as a drain with fields on either side of it being above the level of the channel

Image – 1.2.4

MIS at Tingvong serving as a roadside drain

1.2.10 Impact assessment

1.2.10.1 Impact on agricultural productivity

A comparative scrutiny of productivity with area under cultivation of agricultural produce indicated that while there was increase in yield per hectare of 7 *per cent* in cereals, 4 *per cent* in pulses *and 14 per cent* in oil seeds, the total production under cereals and oil seeds increased by 7 *per cent* and 0.66 *per cent* respectively with a decrease of 10 *per cent* in pulse production. Since the area under cultivation had decreased only marginally during the period under review, there was almost no impact on the agricultural production in terms of yield per hectare. Notwithstanding the marginal decrease (81.23 hectare to 80.68 hectare constituting 0.68 *per cent*) in overall area, even after spending an aggregated amount of Rs. 14.47 crore (Rs. 9.71 crore under AIBP, Rs. 4.42 crore under NABARD and Rs. 0.34 crore under SCSP & TSP etc.) during 2004-09, the Department neither could ensure increase in yield per hectare nor increase in the overall area brought under cultivation. The details are given below:

Table – 1.2.3

Year	Area (in '000 hectares)				Production (in '000 tonnes)			Yield (in Kgs/ hectare) (Percentage of + increase, - decrease)		
	Cereals	Pulses	Oil seeds	Total	Cereals 1439.68 (2004-05)	Pulses 950.81 (2004-05)	Oil seeds 750.75 (2004-05)	Cereals	Pulses	Oil seeds
2004-05	64.57	6.71	9 .95	81.23	94.73	6.44	7.56	1439.68 (0.00)	950.82 (0.00)	747.71 (-0.40)
2005-06	64.57	6.80	9.95	81.32	100.00	6.76	7.95	1548.71 (7.57)	994.12 (4.55)	798.99 (6.86)
2006-07	68.71	5.96	8.97	83.64	103.66	5.45	7.29	1509.769 (-2.51)	914.44 (-8.02)	812.71 (1.72)
2007-08	64.06	6.06	8.60	78.72	95.85	5.89	7.47	1496.25 (-0.89)	971.95 (6.29)	868.60 (6.88)
2008-09	65.90	5.88	8.90	80.68	101.22	5.79	7.61	1538.00 (2.79)	985.00 (1.34)	855.00 (-1.57)

Source: Productivity report of Food Security and Agriculture Department.

The above statistical data was further corroborated by interviews of 35 beneficiaries of 14 schemes, which confirmed that there was no increase in production after construction of the MISs.

The main objective of irrigation, i.e., to increase cultivable area and production was not achieved. It was further seen that the Department had never analysed the impact of implementation of these MISs. Thus, due to non-repair of damaged and defunct channels (paragraphs 1.2.7 and 1.2.9.4), non-availability of water in lean season due to defective selection of sources (paragraphs 1.2.9.4, 1.2.9.5, 1.2.10.3-1.2.10.5), flow of water remaining more or less static even after construction of MISs (paragraph 1.2.10.1), poor maintenance (paragraph 1.2.11.2), defects noticed by the CWC (paragraph 1.2.12) and under-utilisation of potential created (tables 1.2.1, 1.2.4 and 1.2.5) etc., the construction of MISs did not have the desired impact on the production.

The Department stated (September 2009) that the main objective of the Department was to provide water for cultivation. The productivity entirely depends on the farmers/growers and types of crops, quality of seeds, cropping pattern etc. However, the fact remained that the Department was unable to provide irrigation to a large percentage of area (58 *per cent*) as mentioned in paragraph 1.2.10.2.

1.2.10.2 Creation and utilisation of irrigation potential

The scheme- wise details of potential created and utilised are shown below:

Table – 1.2.4

Name of Schemes	Potential created (Ha)		Potential utilised (Ha)	
	Target	Achievement	Target	Achievement
AIBP	3,814.54	2,900.49 (76)	3,623.81	2,762.21(95)
NABARD	1,147	1,132.19 (99)	1,032.72	998.70 (88)
SCSP&TSP	27.20	22.62 (83)	24.45	19.60 (87)
	4,988.74	**4,055.30**	**4,680.98**	**3,780.51**

Source: Departmental information
Figures in parenthesis indicate percentages

While the scheme wise potential utilisation was shown to have been ranging from 87 to 95 *per cent,* the third and fourth Minor Irrigation Census portrayed the position of potential created and utilised as 62 and 78 *per cent* respectively as detailed in the table given below.

Table – 1.2.5

Irrigation Censuses	Potential created (Ha)	Potential utilised (Ha)
Third (2001-02)	23,151.9	14,421.49 (62)
Fourth (2006-07)	27,381.75	21,280.11 (78)

(*Source: Information furnished to MoWR, GOI by the Department*)
Figures in parenthesis indicate percentages

However, the Department could not produce documentary evidence in support of the claim of potential utilisation and the data validated by its own census contradicted their claim of higher achievement. Audit analysis further revealed that the Department had not collected inputs either from the field offices or from survey of the beneficiaries about the creation and utilisation of potential to ascertain the factual position. Further, irrigated area of only 27,381.75 hectares as revealed by fourth Census indicated that 38,518.25 hectares of land (58 *per cent*) out of total 65,900 hectare under cereal cultivation alone (Table 1.2.3) was without irrigation. Furthermore, against the potential creation of 27,381.75 hectares, only 78 *per cent* could be utilised. This indicated that either the figures are factually incorrect or there remained a huge gap between the area under cultivation and the area to which irrigation facility could be extended by the Department.

Accepting the audit observation, the Department stated (September 2009) that the matter would be looked into in near future to ensure effective coordination amongst departments/agencies involved in different aspects of irrigation management as well as data collection.

1.2.10.3 Availability of water for irrigation during lean period

Sikkim falls within the high rainfall zone and during monsoon, the State receives a high precipitation and its annual rainfall touches 3,700 mm. However, during winter seasons of November to March, there is serious scarcity of water for irrigation. During interviews with beneficiaries of 28 schemes out of 58 functional schemes verified (actual schemes verified 68 out of which 10 are under construction/just completed), the beneficiaries stated that the irrigation channels remain dry during the winter seasons when more water is required for irrigation.

Thus, there were defects in survey and investigation and selection of sources. This coupled with the absence of effective monitoring to identify the reasons for scarcity of water during lean period and corrective action on the defects noticed by the CWC (paragraph 1.2.12) defeated the objective of providing water for irrigation during lean period. There was also lack of integrated, holistic approach to natural resource management, with an emphasis on water resource augmentation and conservation.

The Department stated (September 2009) that it would be very expensive to bring water from a far away water source to the fields during the dry season of winter. However, during winter season, the farmers plant crops which do not require much water.

While the reply reflects the Department's approach towards one of the vital needs for overall agricultural development in the State, as already stated in paragraph 1.2.10.1, the fact remained that the Department could not provide sufficient water during lean period.

1.2.10.4 Adequacy of benefit from constructed channels

In case of four MISs[31] constructed at a cost of Rs. 7.43 lakh and intended to cover 14.80 hectares, the channels did not reach the intended beneficiaries' fields as water was to be taken to beneficiaries fields through the earthen channel from end points. This resulted in inadequate benefit from the constructed MISs due to water loss on

[31] *MIS from Luksom Jhora at Pakyong , Changeylakha MIS at School Dara, Karma Khet MIS and MIS from Zingpong Source to Sonam Palzor Khet at Middle Syari*

account of seepage. Besides, in case of Changeylakha MIS, the channel terminated at a Jhora from where water was taken through earthen channel to beneficiaries' field causing risk of environment pollution, health hazards and damaged crops.

The Department stated (September 2009) that the MISs constructed were as per the provision made in the estimate for the required length. Since water is sufficient during monsoon, the chances of water loss is negligible when allowed to flow through the earthen channel and since the habitations were very scanty in the rural areas, the chances of pollution and health hazard did not arise. While the reply suggests that the estimates were defective, it also indicated the Department's indifference towards the inevitable land erosion due to seepage of water into the soil.

1.2.10.5 Supply of polluted water

In one scheme (Chalisay Army Camp to Bagey Genopang Khet) completed at a cost of Rs. 4.80 lakh, the drain carrying dirty water is running across the constructed channel. Hence, drain water is getting mixed with water for irrigation thereby decreasing the yield in the fields besides leading to health hazards for the public as can be seen from the photograph below:

Image – 1.2.5

Drain water flowing into MIS Chalisay Army Camp to Bagey Genopang Khet

1.2.11 Participatory Irrigation Management

1.2.11.1 Non levy of water charges

According to the guidelines operative from 1st February 2002, the 'Reforming States' in special category including Sikkim will be provided Central assistance in full without any State's share if they rationalise their water rates in such a way that full operation and maintenance cost of the irrigation projects are recovered in 5 years.

Though the Sikkim Irrigation Water Tax Act 2002 for levy of water charges has come into effect from April 2002 with rates of taxes notified and Sikkim Irrigation Water Tax Rules 2007 passed by the Sikkim Legislative Assembly, the tax has not yet been imposed due to which, the Government sustained a loss of Rs. 63.84 lakh[32]. Thus, the State not only lost the benefits extended by the GOI, it failed to create sense of belonging amongst the beneficiaries by levying the water charges. During Exit Conference (August 2009), it was stated that from 2010-11 onwards, the water charges will be collected by the Department.

1.2.11.2 Non formation of water user groups

The Department has neither formed any water user group nor handed over the constructed channels to the local Panchayats for upkeep and maintenance. This resulted in improper maintenance of channels with consequential denial of intended benefits. Further, non-maintenance also resulted in blockage of water leading to overflow and possible landslides at surrounding areas, uneven flow leading to non availability of water at tail points, growth of grass leading to cracks at channels and supply of dirty water as was seen in the cases of Pabong Khola to Rungdung Khet and Damala Gaon MISs**.** A few photographs highlighting lack of maintenance is given below:

Image – 1.2.6

MIS at Ramathang in miserable condition due to non maintenance

Image – 1.2.7

Non visible Damala Gaon MIS due to non maintenance

The Department stated (July 2009) that the action had been initiated to clear the boulders and slips and flow of some water had been made possible from this year (2009-10) in case of Pabong Khola MIS and bush had been cleared and there was

[32] *@ minimum rate of Rs. 60 per hectare per year on 21280.11 hectares of potential utilised by beneficiaries over a period of five years during 2004-09.*

smooth flow of water in the Dhamala Gaon MIS. The action of the Department is only partial and temporary measure, besides a belated one. Also, the fact remained that the Department had not evolved permanent solution by formation of water user groups. The Department further stated (September 2009) that formation of Water Users Association was made mandatory for all new schemes and that Association would be appropriately empowered once the MISs are handed over to them.

1.2.12 Monitoring and evaluation

The progress of MISs is to be monitored by the State Government through agencies independent of the construction agencies. The schemes were to be monitored by the CWC, NABARD and SJEWD, besides the IFCD itself. While the IFCD, SJEWD, NABARD have not evaluated the implementation of the schemes as yet, CWC conducted three field visits (February 2007, April 2007 and May 2007) covering 13 schemes, as per records produced to Audit, and observed that i) the outlets should have been provided at regular intervals and the silt level in most of the channels should have been raised at least by 0.15 metre, ii) proper arrangements were to be made for taking the channels to the other side of the road, iii) sizes of channels constructed were bigger than what were designed, iv) scope for more coverage of areas was not exploited, v) crate walls were required for protection of channels, vi) culturable command area (CCA) required extension upto 20 hectares as per AIBP norms, vii) damaged part of channels were to be put to proper shape etc. However, the follow up action on the observations of the monitoring agency were not produced to Audit for examination. The Department also has not constituted any State Level Committee or Project Level Committee to monitor the implementation of AIBP at project level as well as State level as envisaged in the scheme guidelines.

Similarly, guidelines for schemes funded by NABARD envisaged State Government to endeavour devising a suitable system after completion of the projects to monitor and reduce the major gaps viz., (i) irrigation potential created vs. utilisation; (ii) fertility of the soil, gap between desired levels and the present levels and (iii) productivity gap, i.e., the gap between actual production and the production envisaged in the project report. Test-check of records of selected MISs however, revealed that no action was taken in respect of items (ii) and (iii). This indicated that there was no integrated approach to agriculture and irrigation. The two sectors function entirely independent of each other in a manner which contradicts the dictates of rationality and sound policy.

The Department did not have the monthly progress reports for the years 2004-05 and 2005-06. Further, in the case of MIS at Tokman (Taryang) of Lower Dzongu, before the commencement of construction works of the channel, the progress report for the month of March 2009 reflected completion of 35 meters length of the channel and in the case of MIS at Andheri Gairi Khet of Sakyong, against the commencement of only protective wall, the progress report for the month of March 2009 reflected completion of 60 meters length of channel. Also, none of the schemes were found ever evaluated by the Department and thus, the impact of the various schemes implemented remained unascertained.

The Department stated (September 2009) that observation made by Audit has been noted and the matter would be looked into in future.

1.2.13 Conclusion

The programmes did not achieve the objective to increase the cultivable area and production due to improper survey, investigation, absence of planning for source development, supply of polluted water to agricultural fields, non formation of water user groups, absence of planning for ensuring availability of water during lean period, defunct channels awaiting repair, delay in completion of channels etc. Budgeting process was deficient in the absence of an effective mechanism for monitoring which resulted in improper surrender and supplementary provisions, rush of expenditure at the end of years. The State is yet to enforce implementation of Sikkim Irrigation Water Tax Act 2002 to avail cent per cent financial assistance from GOI and avoid huge revenue loss. Also, there was unfruitful expenditure on defunct schemes, avoidable expenditure on construction without design specification, unfruitful construction of MISs and inadequate benefit from construction of channels. The IFCD also has not taken action to evaluate the implementation to take remedial measures for improvement in the irrigational development to reduce the gap between creation and utilisation of potential, actual production and production envisaged.

1.2.14 Recommendations

- Proper survey and investigation may be conducted so that sustainable and perennial source are identified for availability of water round the year;
- Water user groups may be formed for ensuring maintenance and repairs of the schemes undertaken;
- Water charges may be levied on the beneficiaries which not only would create the sense of belonging and generate revenue but also entitle the State to avail 100 *per cent* Central assistance;
- BCR of all the schemes may be worked out on factual data after proper survey on benefits accrued;
- Monitoring mechanism may be streamlined to evaluate the implementation of the schemes.

TRANSPORT DEPARTMENT (SNT DIVISION)

1.3 Performance of Sikkim Nationalised Transport

Executive Summary

The Sikkim Nationalised Transport (SNT) provides public transport in the State through its 12 depots. The SNT had fleet strength of 96 buses and 85 trucks & tankers as on 31st March 2009 and carried an average of 0.02 lakh passengers per day during 2004-09. The performance audit of the SNT was conducted to assess efficiency and economy of its operations, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the SNT.

Finances and performance

The SNT sustained a total loss of Rs. 12.91 crore during the period 2004-09. The SNT does not maintain separate records relating to cost incurred in the bus operations. However, traffic revenue earned and kilometres operated by buses are recorded separately. In 2008-09, the SNT earned Rs. 2.54 crore of traffic revenue from buses by operating 16.35 lakh effective kilometres. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to increase traffic revenue and reduce overall costs, so as to limit losses and serve its cause better.

Share in Public Transport

The SNT enjoys the monopoly in operation of buses in the State. The SNT, however, failed to cater the growing demand of public transportation as there was a continuous decline in the per Capita KM operated per year from 3.39 in 2004-05 to 2.39 in 2008-09. The decline in share was mainly due to operational inefficiency. Nonetheless, the vehicle density per one lakh population remained almost stable during the period 2004-09. This was due to the inability of the SNT to expand its operations.

Vehicle profile and utilisation

The SNT had 96 buses as on 31st March 2009. Of these 31 (32.29 per cent) were overage, i.e., more than 10 years old. The percentage of overage buses declined from 46.51 in 2004-05 to 32.29 in 2008-09 due to acquisition of 27 new buses during 2005-09 at a cost of Rs. 2.98 crore.

The SNT's fleet utilisation at 84 per cent in 2008-09 was below the All India Average (AIA) of 90 per cent in hilly areas. Its vehicle productivity at 58 kilometres per day per bus was below the AIA of 196 kilometres. Though the SNT achieved the AIA load factor in 2008-09 but none of the routes operated could earn profit. Test check in Audit revealed that none of the routes operated during 2004-09 could recover their total cost.

Economy in operations

Manpower and fuel & lubricants constitute 84.70 per cent of total cost in 2008-09. Thus, the controllable expenditure has to come from them. The SNT does not maintain separate records for manpower and its cost associated with the bus operations. However, the

SNT succeeded in reducing the overall manpower per vehicle from 5.92 in 2004-05 to 4.62 in 2008-09. It also brought down the repairs and maintenance expenditure from Rs. 60,241 in 2004-05 to Rs. 41,520 in 2007-08 per vehicle. Though the SNT was able to attain its own fuel consumption targets, however in the depots test checked by Audit, it consumed 1.69 lakh litres of excess fuel resulting in extra expenditure of Rs.55.20 lakh during 2005-09 as compared to AIA.

Revenue Maximisation

The SNT has about 13,194 square metres of land. The vacant space can be developed by it or through public private partnership basis to earn steady income which can be used to cross-subsidise its operations.

Need for a regulator

The fares in Sikkim are decided by the State Government. The fare policy adopted by the State Government is based on costs of inputs but is not on a scientific basis. In the absence of norms, the adequacy of services on uneconomical routes could not be ascertained in Audit. Thus, it would be desirable to have an independent regulatory body to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Inadequate monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feedback on achievement thereof are essential for monitoring by the top management. The SNT did not set any targets for various operational parameters. The MIS was not effectively utilised by the SNT so as to exercise adequate management control over the operations.

Conclusion and Recommendations

Though the SNT is incurring losses, it is mainly due to its operational inefficiencies. The SNT can control the losses by taking adequate measures to improve the operational parameters and also resorting to tapping non-conventional sources of revenue. The review contains seven recommendations to improve the SNT's performance. Improving fleet utilisation, creating a regulator to regulate fares and services on uneconomical routes, tapping non-conventional sources of revenue and creation of separate cost centres for buses, trucks & tankers are some of these recommendations.

Introduction

1.3.1.1 In Sikkim, the public road transport is primarily provided by the Sikkim Nationalised Transport (SNT) which is mandated to provide an efficient, adequate, economical and properly co-ordinated road transport. The State does not allow the private operators to ply buses. However, private taxis are permitted to ply as alternative mode of public transport. The fare structure is controlled and approved by the State Government.

1.3.1.2 The SNT was set up in 1944 under the administrative control of the Transport Department of the Government of Sikkim. The day-to-day operations are carried out by the Secretary (Transport Department), Government of Sikkim, with the assistance of Principal Chief Engineer, General Manager, Additional Secretary (Administration), Additional Secretary (Operation), Additional Director (Accounts) and Depot Managers. The SNT has one Regional Office, one Central Workshop and 12 depots. The bus body building is outsourced by the SNT while tyre retreading operations are carried out at the Central Workshop as well as through external agencies.

1.3.1.3 The SNT had a fleet strength of 96 buses, 52 trucks and 33 tankers as on 31 March 2009. The SNT carried an average of 0.02 lakh passengers per day during 2004-05 to 2008-09. The total revenue of the SNT was Rs. 17.71 crore in 2008-09 which was equal to 0.87 *per cent* of the State Gross Domestic Product at the cost of 2005-06. The SNT employed 836 employees as on 31 March 2009.

1.3.1.4 A review on the operational performance of the SNT was included in the Report of the Comptroller and Auditor General of India for the year 2002-03, Government of Sikkim. The report was discussed by Public Accounts Committee (PAC) during February 2006. The major recommendations of the PAC were that (i) the SNT should explore every possibility to improve the vehicle productivity, and (ii) the SNT should ensure that the fuel efficiency is maintained at 3.00 KM per litre.

Scope of Audit and Audit Methodology

1.3.2.1 The present review conducted during April to May 2009 covers the performance of the SNT during the period from 2004-05 to 2008-09. The review mainly deals with operational efficiency, financial management, fare policy, fulfilment of social obligations and monitoring by top management of the SNT. The Audit examination involved scrutiny of records at the Head Office, the Central Workshop[33] and three[34] out of the 12 depots, based on number of buses held by the depots (Gangtok: 45 buses, Rangpo: 16 buses and Jorethang: 32 buses) out of 96 buses as on 31 March 2009. The revenue earned by these depots in 2008-09 against total revenue of Rs. 17.71 crore was Rs. 2.71 crore (Gangtok: Rs. 1.82 crore, Rangpo: Rs. 0.31 crore and Jorethang: Rs. 0.58 crore).

1.3.2.2 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management for comments.

[33] *Central Workshop, Jalipool.*

[34] *Gangtok, Ranpo and Jorethang depots.*

Audit Objectives

1.3.3.1 The objectives of the performance audit were to assess:

Operational Performance

- the extent to which the SNT was able to keep pace with the growing demand for public transport:
- whether the SNT succeeded in recovering the cost of operations;
- the extent to which the SNT was running its operations efficiently;
- whether adequate maintenance was undertaken to keep the vehicles roadworthy;
- the extent to which economy was ensured in cost of operations; and
- whether the manpower management was effective and efficient.

Financial Management

- the possibility of realigning the business model of the SNT to tap non-conventional sources of revenue and adopting innovative methods of accessing such funds.

Fare Policy and fulfillment of Social Obligations

- the existence and adequacy of fare policy; and
- whether the SNT operated adequately on uneconomical routes.

Monitoring by Top Management

- whether the monitoring by SNT's top management was effective.

Audit Criteria

1.3.4.1 The audit criteria adopted for assessing the achievement of the audit objectives were:

- all India averages (AIA) for performance parameters;
- performance standards and operational norms fixed by the Association of State Road Transport Undertakings (ASRTU);
- physical and financial targets/ norms fixed by the Management;
- norms for life of a bus, preventive maintenance schedule, fuel efficiency norms, etc.;
- instructions of Government of India (GOI) and Government of Sikkim (GOS) and other relevant rules and regulations; and
- procedures laid down by the SNT.

Financial position and Working Results

1.3.5.1 The SNT operates trucks & tankers besides buses. Though the buses constitute 53 *per cent* of total fleet strength (as on 31 March 2009), the SNT does not maintain separate records relating to various components of costs relating to bus operations. However, traffic revenue and effective kilometers are recorded for bus operations separately. In view of the above, the costs components, total revenue, operating revenue, total expenditure and operating expenditure are not comparable with reference to bus operations. However, the details of consolidated working results are given below.

Table – 1.3.1

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Revenue[35]	9.93	11.58	14.86	15.62	17.71
2.	Traffic revenue **(for bus operations only)**	1.96	1.96	2.00	2.13	2.54
3.	Total Expenditure	15.28	15.94	16.30	16.00	19.09
4.	Loss for the year	5.35	4.36	1.44	0.38	1.38
5.	Fixed Costs:					
	(i) Personnel Costs	9.55	10.86	10.58	11.51	12.67
	(ii) Other Fixed Costs	0.65	0.51	1.54	0.74	0.76
	Total Fixed Costs	10.20	11.37	12.12	12.25	13.43
6.	Variable Costs:					
	(i) Fuel &Lubricants	3.80	3.40	3.04	2.63	3.50
	(ii) Tyres & Tubes	0.26	0.10	0.10	0.09	0.16
	(iii) General items	0.67	0.76	0.52	0.60	0.58
	(iv) Taxes	0.28	0.27	0.42	0.41	0.43
	(v) Other costs	0.07	0.04	0.10	0.02	0.99
	Total Variable Costs	5.08	4.57	4.18	3.75	5.66
7.	Effective KM operated (in lakh) **(for bus operations only)**	20.66	20.61	16.55	16.31	16.35
8.	Traffic Revenue per KM (in Rs.) (2/7)	9.49	9.51	12.08	13.06	15.54

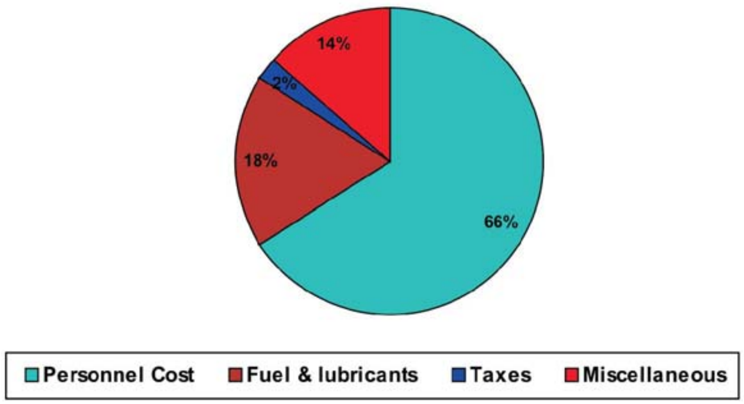
Elements of Cost

1.3.5.2 Personnel costs and fuel costs constitute the major elements of costs. The percentage break-up of costs for 2008-09 is given below in the pie-chart.

[35] *Total revenue includes traffic revenue, miscellaneous revenue and net revenue from Fuel business and hired fleet of trucks.*

Chart – 1.3.1

Components of various elements of cost

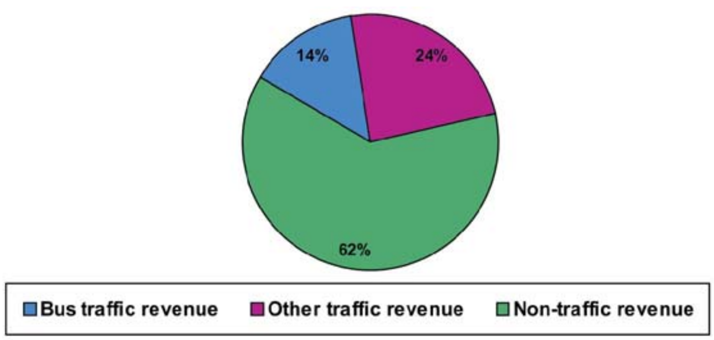


Elements of revenue

1.3.5.3 Non traffic revenue (supervision charges levied by the SNT on private truck operators) constituted the major element of revenue. Besides bus operations, traffic revenue consists of revenue from operations of trucks & tankers. The percentage break-up of revenue for 2008-09 is given below in the pie-chart.

Chart – 1.3.2

Components of various elements of Revenue



Audit Findings

1.3.6.1 Audit explained the audit objectives to the SNT during an 'entry conference' held on 16 April 2009. Subsequently, audit findings were reported to the SNT in July 2009 and discussed in an 'exit conference' held on 3 August 2009, which was attended by Secretary, Transport Department, Government of Sikkim, Additional Secretaries and General Manager. The replies to the audit findings were received in September 2009. The views expressed by the SNT have been considered while finalising the review. The audit findings are discussed below.

Operational Performance

1.3.7.1 The operational performance of the SNT for the five years ending 31 March 2009 is given in the Appendix–1.1. The operational performance of the SNT was evaluated on various operational parameters as described below. It was also seen whether the SNT was able to maintain pace with the growing demand of public transport and recover the cost of operations. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and there is scope for improvement in performance.

Share of the SNT in public transport

1.3.8.1 The SNT enjoys the monopoly in operation of buses in the State of Sikkim. After the extension of the Central Motor Vehicle Act, 1988 (MVA) to Sikkim which permitted private taxis to operate, the share of the SNT got reduced in the overall public transport services.

1.3.8.2 During the period 2004-05 to 2007-08, while 1,794 private taxis were registered, the SNT registered only 13 new buses during the same period. This indicated that the SNT failed to cater the growing demand of public transport. The effective per Capita KM operated per year is given in table below.

Table – 1.3.2

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Effective KM operated (lakh)	20.66	20.61	16.55	16.31	16.35
Estimated Population (lakh)[36]	6.09	6.27	6.46	6.65	6.85
Per Capita KM per year	3.39	3.29	2.56	2.45	2.39

1.3.8.3 The table above shows that there is a continuous decline in passenger transportation services by the SNT. In absence of the data relating to total carriage of traffic in the State, trend analysis of SNT's share in passenger traffic could not be carried out in Audit. However, test check in Audit of 11[37] routes operated from Gangtok during 2008-09, revealed that SNT carried 980 passengers per day against 4,280 passengers per day by the private operators, which is only 23 *per cent* of the total passengers carried on these routes per day.

[36] *Population figure as per 2001 census after considering 3 per cent growth rate.*

[37] *Gangtok-Siliguri, Gangtok-Kalimpong, Gangtok-Padamchey/Pakyong, Gangtok-Dikchu, Gangtok-Tumim, Gangtok-Lingdok, Gangtok-Rumtek, Gangtok-Rhenok/Rongli, Gangtok-Sang, Gangtok-Jorethang and Gangtok-Namchi.*

1.3.8.4 The table below depicts the growth of public transport in the State.

Table – 1.3.3

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of buses	86	85	84	86	96
2.	Estimated population (in lakh)	6.09	6.27	6.46	6.65	6.85
3.	Vehicle density per one lakh population	14	14	13	13	14

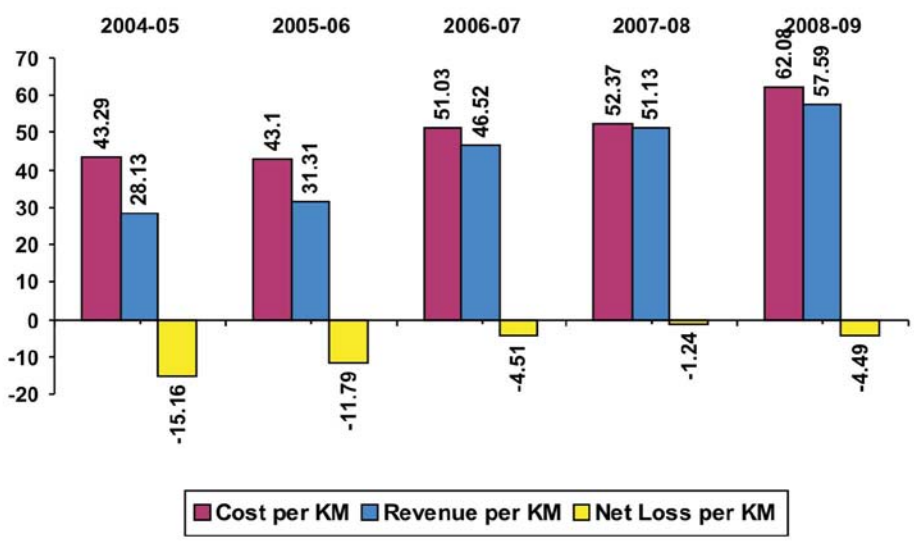
1.3.8.5 Public transport has definite benefits over personalised transport in terms of costs, congestion on roads and environmental impact. The public transport services have to be adequate to derive those benefits. In the instant case, the SNT was not able to maintain its share in transport mainly due to operational inefficiencies as described in the succeeding paragraphs.

1.3.8.6 The SNT while accepting (September 2009) the facts stated that the services of the private taxis are preferred by the commuters as it is economical and consumes less time, which led to reduction in its share.

Recovery of cost of operation

1.3.9.1 Considering the overall operations of the SNT, the cost per KM, the revenue per KM, net loss per KM for the five years ending 2008-09 is depicted in the graph[38] below.

Chart – 1.3.3



[38] ***Cost per KM*** *represents total expenditure divided by total effective KM operated by bus, trucks and tankers.*
Revenue per KM *is arrived at by dividing total revenue with total effective KM operated by bus, trucks and tankers.*
Net Loss per KM *is cost per KM minus revenue per KM.*

1.3.9.2 Above graph indicates that the SNT was able to improve its performance from 2004-05 to 2007-08 thereby reducing its overall net loss per KM from Rs. 15.16 to Rs. 1.24. However, the net loss per KM again increased to Rs. 4.49 in 2008-09. This was due to payment of Rs. 1.39 crore in 2008-09 as interim relief on revision of pay. It may be seen that the net loss per KM of the SNT remained higher than the best performing STUs. Though the best performer relates only to bus operations, there is scope of improvement in the SNT in this regard.

Orissa, Uttar Pradesh and Karnataka registered best net earnings per KM at Rs. 0.49, Rs. 0.47 and Rs. 0.34 respectively during 2006-07.

(Source : STUs profile and performance 2006-07 by CIRT, Pune)

The SNT was not able to recover its cost of operations during 2004-09.

1.3.9.3 The SNT stated (September 2009) that the overage fleet and hilly terrain was responsible for the high cost. The fact, however, remains that the SNT was not able to recover its cost of operations.

Efficiency and Economy in operations

Fleet strength and utilisation

Fleet Strength and its Age Profile

1.3.10.1 The SNT has its own fleet of vehicles (Buses, Trucks and Tankers). It does not hire any buses, however, trucks and tankers are hired by the SNT for goods transportation.

1.3.10.2 The Association of State Road Transport Undertakings (ASRTU) had prescribed (September 1997) the desirable age of a bus as eight years or five lakh KMs, whichever was earlier. As per Sikkim Financial Rules, 1979, the SNT had prescribed the norms of 10 years or 2.5 lakh KM, whichever was earlier for the overage buses. The table below shows the details of the buses held by the SNT for the period of five years ending 2008-09.

Table – 1.3.4

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total number of buses at the beginning of the year	100	86	85	84	86
2.	Additions during the year	Nil	1	Nil	12	14
3.	Buses scrapped during the year	14	2	1	10	4
4.	Buses held at the end of the year (1+2-3)	86	85	84	86	96
5.	Of (4), number of buses more than 10 years old	40	50	49	40	31
6.	Percentage of over-age buses to total buses (Based on the SNT norms)	46.51	58.82	58.33	46.51	32.29

The SNT had 32.29 *per cent* overage buses as on 31 March 2009.

1.3.10.3 The above table shows that the SNT was not able to achieve the norm of right age buses. During 2004-09, the SNT added 27 new buses at a cost of Rs. 2.98 crore. The expenditure was funded through the budgetary support of the State Government. To achieve the norm of right age buses, the SNT was required to buy 31 new buses additionally which would have cost it Rs. 3.42 crore approximately based on the average cost of buses purchased during 2004-09. The State Government, however, did not allocate adequate fund for the SNT to replace its overage vehicles. Thus, the SNT's ability to survive and grow depends on its efforts to remove operational inefficiencies, cut costs and tap non-conventional revenue avenues so that it can assist the State Government in funding its capital expenditure.

1.3.10.4 The overage fleet requires high maintenance and results in extra cost and less availability of vehicles compared to right age fleet, other things being equal. This only goes on to increase operational inefficiency and causes losses, which in turn affects the ability of the SNT to replace its fleet on a timely basis.

1.3.10.5 The SNT stated (September 2009) that the fleet is being augmented every year depending on the availability of the budget provisions.

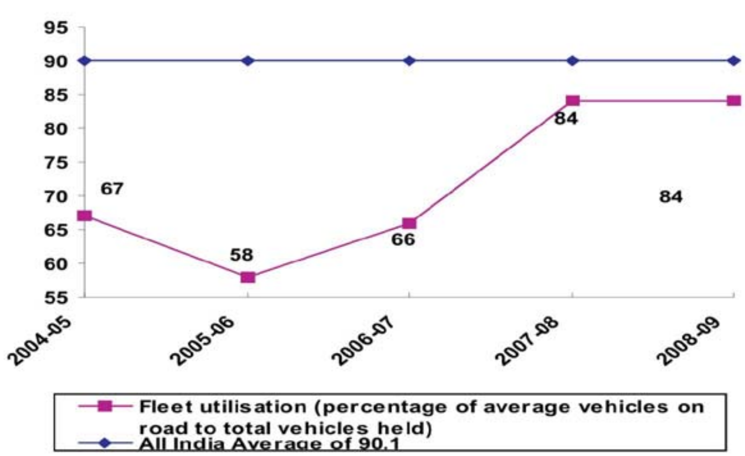
Fleet Utilisation

Andhra Pradesh, Tamil Nadu (Kumbakonam) and Tamil Nadu (Coimbatore) registered best fleet utilisation at 99.4, 98.4 and 98.3 *per cent* respectively during 2006-07.

(Source: STUs profile and performance 2006-07 by CIRT, Pune)

1.3.10.6 Fleet utilisation represents the ratio of buses on road to those held by the SNT. The SNT did not set any target of fleet utilisation during the period from 2004-05 to 2008-09. The fleet utilisation of the SNT varied from 58 *per cent* to 84 *per cent* during the period 2004-09 as compared to the AIA of 90 *per cent,* as indicated in the graph given below.

Chart – 1.3.4



1.3.10.7 The above graph shows that though in the later years (2007-08 and 2008-09) the percentage of fleet utilisation had improved but it was below the norms recommended by ASRTU (92 *per cent*) and the AIA (90 *per cent)*. The increase in 2007-08 and 2008-09 was due to induction of new buses during these years. The reasons for poor fleet utilisation were not analysed by the SNT.

1.3.10.8 Analysis in Audit revealed that the main reason for low fleet utilisation was abnormal delay in repairs of buses. Test check in Audit of 85 numbers of bus repairs at the Central Workshop during the period 2004-09 revealed that there were delay in repairs and renovation works resulting in loss of 6,387 bus-days with consequent loss of potential traffic revenue of Rs. 46.48 lakh as given in table below.

Table – 1.3.5

Sl.No.	Type of job	Norms of repair (in days)	Range of period of repairs	Bus-days lost
1.	Renovation of Body	12	23 to 347	1,057
2.	Repair of Brake	02	10 to 90	96
3.	Engine Overhaul	20	02 to 315	4,679
4.	Minor repairs	02	17 to 75	146
5.	Other repairs	05	19 to 125	409
			Total Bus-days lost	**6,387**

1.3.10.9 From the above table, it may be seen that there were considerable delays in engine overhaul followed by renovation of bus bodies. Since the SNT was not able to achieve an optimum utilisation of its fleet strength, this in turn impacted its operational performance adversely.

1.3.10.10 The SNT while accepting the facts (September 2009) stated that low fleet utilisation was due to the overage vehicles which require frequent maintenance. Moreover, due to shortage of fit drivers, sometimes roadworthy vehicles are being stranded. It was also stated that the SNT was considering retiring sick and incapable drivers.

Vehicle productivity

1.3.11.1 Vehicle productivity refers to the average KM run by each bus per day in a year. The vehicle productivity of the SNT vis-a-vis the overage fleet for the five years ending 31 March 2009 is shown in table below.

Table – 1.3.6

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Vehicle productivity (KM run per day per bus held)	64	66	57	59	58
2.	Overage fleet (percentage)	46.51	58.82	58.33	46.51	32.29

The vehicle productivity of the SNT reduced from 64 to 58 KM per day per bus during 2004-09.

1.3.11.2 From the above, it may be seen that the vehicle productivity reduced from 66 in 2005-06 to 58 in 2008-09 though the overage fleet of the SNT had reduced during the corresponding period.

1.3.11.3 Compared to the AIA of 196 KMs per day for hilly areas, the vehicle productivity of the SNT had been on the lower side for all the years under review. The SNT even failed to achieve the target (75 KM per day) fixed by it. The reasons for low vehicle productivity were not on record. Despite continued low productivity, the SNT did not take any effective steps to increase the same.

Tamil Nadu (Villupuram), Tamil Nadu (Salem) and Tamil Nadu (Kumbakonam) registered best vehicle productivity at 474, 469 and 462.8 KMs per day respectively during 2006-07. (Source : STUs profile and performance 2006-07 by CIRT, Pune)

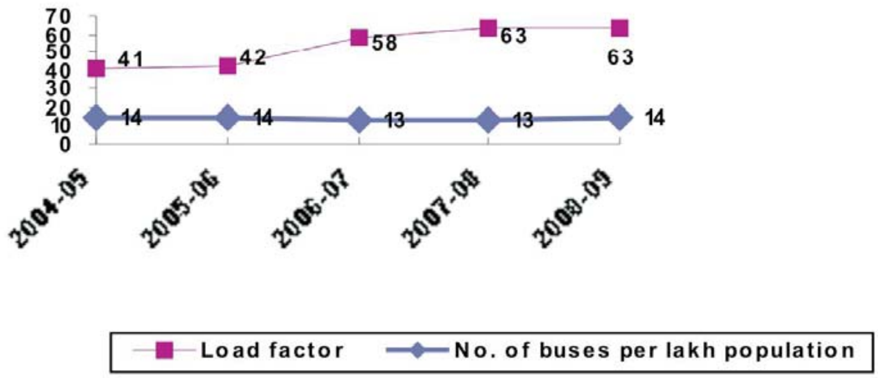
1.3.11.4 The SNT while accepting (September 2009) the audit observation stated that it was due to the fact that the average time taken to cover most of the routes was four to five hours because of adverse terrain and unfavourable gradient of the hilly roads. Besides, shortage of drivers and frequent bandhs also contributed to low vehicle productivity. However, the SNT failed to achieve even the norms of 75 KM per day fixed by it after taking into consideration all these factors.

Capacity Utilisation

Load Factor

1.3.12.1 Capacity utilisation of a transport undertaking is measured in terms of Load Factor, which represents the percentage of passengers carried to the seating capacity. The schedules to be operated are to be decided after proper study of routes and periodical reviews are necessary to improve the load factor. The load factor of the SNT increased from 41 *per cent* in 2004-05 to 63 *per cent* in 2008-09 thereby achieving the AIA of 63 *per cent.* The improvement in load factor was attributable to induction of new fleet. A graph depicting the load factor vis-a-vis number of buses per one lakh population is given in chart below.

Chart – 1.3.5



Route planning

1.3.12.2 The routes are required to be operated on the basis of proper survey as regards to its potential occupancy and viability. Operational performance can be improved by periodic review of uneconomic routes with a view to assess their continuance, rationalisation of routes and optimum operation of buses on the higher revenue earning routes. The SNT, however, neither made prior survey nor periodical review of routes. Although the SNT maintains records of route-wise earnings and expenditure, it failed to review them in a periodical manner so as to take remedial measures for sustainability.

1.3.12.3 Among the test checked depots in Audit, no route commenced from the Rangpo depot. The routes operated from Jorethang and Gangtok depots revealed that none of the routes operated during 2004-09 could recover their total cost. Audit further observed that the SNT operates several schedules for various en-route stations on a particular route on which single schedule could have catered to the general public.

1.3.12.4 Though some of the routes may appear unprofitable now, these may become profitable once the SNT improves its efficiency. However, there may still be some uneconomical routes. Given the social obligation to serve uneconomical routes, the SNT should decide an optimum quantum of services on different routes so as to optimize its revenue while serving the cause. However, no such exercise was carried out by the SNT.

1.3.12.5 The SNT stated (September 2009) that road survey is carried out and volume of traffic revenue assessed before introduction of services on public demand. However, no records for the same were furnished to Audit to substantiate the reply.

Maintenance of vehicles

Preventive Maintenance

1.3.13.1 Preventive maintenance is essential to keep the vehicles in good running condition and to reduce breakdowns/ other mechanical failures. The Original Equipment Manufacturer (OEM), *viz.,* TATA recommended the following preventive maintenance schedule:

Table – 1.3.7

Sl.No.	Particulars	Schedule
1.	After every 9,000 KM	Brake and steering
2.	After every 18,000 KM	Engine Oil change, Body mounting and other schedule preventive maintenance

1.3.13.2 Audit observed that the required preventive maintenance schedules were not being adhered to. Test check of history sheets of 54 buses at the Central Workshop revealed that out of 145 numbers of servicing required, in 96 cases (66 *per cent*) the preventive maintenance was carried out after 18,000 KM (after allowing a grace of 500 KM) during the last five years ending 31 March 2009 as detailed in table below.

Table – 1.3.8

Sl.No.	Range of KM	Number of servicing
1.	Upto 18,500	49
2.	18,501 to 25,000	66
3.	25,001 to 30,000	14
4.	30,001 and above	06
5.	Mile meter not working	10
	Total	**145**

1.3.13.3 Audit noticed that high percentage of non-adherence of preventive maintenance schedule was due to the fact that the buses were brought for maintenance to the Central Workshop only when any defect was observed by the driver.

1.3.13.4 The SNT stated (September 2009) that the vehicles cannot report for servicing on the exact time as they happen to be en-route and lubricants are sometimes changed before the scheduled maintenance. The contention is not correct, as the Audit had considered the servicing schedule after providing a grace of 500 KM and also change of lubricants is not the only criteria of scheduled maintenance.

Repairs & Maintenance

1.3.13.5 A summarized position of fleet holding, overage vehicles and repairs & maintenance (R&M) expenditure for the last five years up to 2008-09 is given in the table below.

Table – 1.3.9

Sl.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total vehicles at the end of the year (Nos.):					
	Buses	86	85	84	86	96
	Trucks/Tankers	80	90	90	85	85
	Total	**166**	**175**	**174**	**171**	**181**
2.	Over-age vehicles *(more than 10 years old)*:					
	Buses	40(46.51)	50(58.82)	49(58.33)	40(46.51)	31(32.29)
	Trucks/Tankers	58(72.50)	60(66.67)	62(68.89)	52(61.18)	35(41.18)
	Total	**98**	**110**	**111**	**92**	**66**
3.	R&M Expenses (Rs. In crore)	1.00	0.90	0.81	0.71	NA
4.	R&M Expenses per vehicle (in Rs.) (3 ÷ 1)	60,241	51,429	46,552	41,520	-

(Figures in bracket indicate percentage).

1.3.13.6 It can be seen from the above table that the SNT was able to reduce the R&M expenditure from Rs. 60,241 per vehicle in 2004-05 to Rs. 41,520 per vehicle in 2008-09. This was due to induction of new vehicles thereby reducing the percentage of overage vehicles. However, the SNT did not maintain bus-wise R&M expenditure data. So, Audit could not analysis the trend of expenditure on R&M of buses.

Manpower Cost

1.3.14.1 The cost structure of the SNT shows that manpower and fuel & lubricants constitute 84.70 *per cent* of total cost. Thus, the major cost saving can come only from manpower and fuel & lubricants.

1.3.14.2 Manpower is an important element of cost which constituted 66.36 *per cent* of total expenditure of the SNT in 2008-09. Therefore, it is imperative that this cost is kept under control and the manpower is utilised optimally to achieve high productivity. The SNT does not maintain separate records of manpower associated exclusively with the bus fleet. The table below provides the details of manpower (associated with the bus, trucks and tanker fleet collectively), its cost and manpower per vehicle during the five year ended 2008-09:

Gujarat, Tamil Nadu (Villupuram) and Tamil Nadu (Salem) registered best performance at Rs. 6.10, Rs. 6.13 and Rs. 6.21 cost *per* effective KMs respectively during 2006-07. (Source: STUs profile and performance 2006-07 by CIRT, Pune)

Table – 1.3.10

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total Manpower (Nos.)	983	934	885	843	836
2.	Manpower Cost (Rs. In crore)	9.55	10.86	10.58	11.51	12.67
3.	Total vehicles at the end of the year (No.)	166	175	174	171	181
4.	Manpower per vehicle	5.92	5.34	5.09	4.93	4.62

It can be seen from the above table that:

- The manpower of the SNT showed a declining trend and reduced from 5.92 to 4.62 per vehicle (including buses, trucks and tankers) during the review period. It remained even below the AIA which stood at 6.50 in respect of buses.

- The Transport Department granted voluntary retirement during March 2003 to July 2006 to 16 employees under different categories like drivers, store-keepers, conductors, fitters, etc. Despite directions (February 2001) from the State Home Department banning fresh employment on Muster Roll (MR), the Transport Department appointed 38 persons on MR during February 2004 to May 2007. The SNT incurred an avoidable expenditure of Rs. 42.24 lakh towards pay and allowances on these fresh appointments. The induction of new MR employees had also defeated the very purpose of reduction of employee cost by introduction of VRS scheme by the State Government.

Fuel Cost

1.3.15.1 Fuel & lubricants are major cost elements which constituted 18.33 *per cent* of total expenditure in 2008-09. Control of fuel costs by a road transport undertaking has a direct bearing on its productivity. The SNT did not maintain separate records of fuel consumption in respect of bus operations. However, based on the available information, the analysis in Audit of Gangtok and Jorethang depots revealed the following:

Table – 1.3.11

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09
1.	Effective KMs operated (in lakh)	13.68	12.55	11.30	7.36
2.	Actual Consumption (in lakh litres)	4.23	4.01	3.33	2.28
3.	Actual KMPL (1/2)	3.23	3.13	3.39	3.23
4.	Target of KMPL fixed by SNT	3.00	3.00	3.00	3.00
5.	All India Average KMPL	3.69	3.69	3.69	3.69
6.	Consumption as per All India Average (in lakh litres) (1/5)	3.71	3.40	3.06	1.99
7.	Excess Consumption (in lakh litres) (2-6)	0.52	0.61	0.27	0.29
8.	Average cost per litre (in Rs.)	29.93	33.94	33.70	33.94
9.	Extra expenditure (Rs. In lakh) (7x8)	15.56	20.70	9.10	9.84

The SNT incurred extra expenditure of Rs. 55.20 lakh during 2005-09 due to excess consumption of fuel as compared to the AIA.

1.3.15.2 It can be seen from the above table that the SNT was able to achieve the internal targets of 3.00 KM per litre. However, the target fixed by the SNT was lower than the AIA of 3.69 KM per litre for hilly areas. The SNT consumed 1.69 lakh litres of fuel in excess as compared to AIA during 2005-09 resulting in extra expenditure of Rs. 55.20 lakh. Despite huge fuel cost, the SNT neither weighed the options of procuring fuel efficient engines while purchasing new buses nor considered getting the fabrication of light weight bodies. An analysis in Audit of the fleet position revealed that due to holding of excessive overage vehicles ranging from 32.29 *per cent* to 58.82 *per cent*, increase in traffic congestion and non-adherence of preventive maintenance schedule, the fuel consumption was on the higher side.

North-East Karnataka State Road Transport, Uttar Pradesh and Andhra Pradesh registered mileage of 5.45, 5.33 and 5.26 KMPL.

(Source: STUs profile and performance 2006-07 by CIRT, Pune)

1.3.15.3 The SNT stated (September 2009) that due to typical topography and road gradients of the Sikkim State, the comparison with the AIA is not justified. However, it may be mentioned here that AIA referred here is for hilly areas only.

Body Building

1.3.16.1 The SNT got 21 buses fabricated during 2005-09 through outsourcing. The SNT had set a norm of 60 days for bus body fabrication. The table below shows the delay in receipt of buses from fabricators beyond 60 days and potential loss of traffic revenue on that account.

Table – 1.3.12

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09
1.	No. of Buses fabricated	01	02	06	12
2.	No. of buses received late from fabricators	Nil	02	02	09
3.	Total delay in days	Nil	120	190	111
4.	Average delay per bus (in days) (3/2)	Nil	60	95	12
5.	Average KM covered per bus per day	66	57	59	58
6.	Average KM lost due to delay (3 X 5)	Nil	6,840	11,210	6,438
7.	Traffic revenue per KM (in Rs.)	9.51	12.08	13.06	15.54
8. `	Revenue lost due to delay in fabrication (Rs. in lakh) (6 X7)	Nil	0.83	1.46	1.00

1.3.16.2 The above table shows that there had been delay of 12 to 95 days in fabrication of buses. However, the SNT awarded fabrication work to the same fabricators in subsequent years ignoring their dismal past performance. Due to delay in fabrication, the SNT lost 24,488 KMs of operation during 2006-09, which consequently resulted in loss of traffic revenue of Rs. 3.29 lakh.

Realignment of business model

1.3.17.1 The SNT is mandated to provide an efficient, adequate and economical road transport to public. Therefore, the SNT cannot take an absolutely commercial view in running its operations. It has to cater to uneconomical routes to fulfill its mandate. It also has to keep the fares affordable. In such a situation, it is imperative for the SNT to tap non-traffic revenue sources to cross-subsidize its operations. Although the share of non-traffic revenues was at 58 *per cent* of total revenue during 2004-09, the major share of this consists of supervision charges levied by the SNT on private truck operators. Audit observed that the SNT has other non-traffic revenue sources also which it has not tapped substantially.

1.3.17.2 Over a period of time, the SNT has come to acquire sites at prime locations in cities and district headquarters. The SNT generally uses the land area for its operations, leaving an ample scope to construct and utilise the vacant spaces. Audit observed that the SNT has land at important locations admeasuring 13,194 square meters as shown below.

Table – 1.3.13

Particulars	Cities (Municipal areas)	District HQrs.	Total
Number of sites	09	04	13
Occupied Land (Sq. metres)	12,790	404	13,194

1.3.17.3 It is, thus, possible for the SNT to undertake projects on public private partnership (PPP) basis for construction of shopping complexes, malls, hotels, office spaces, etc., in the existing vacant sites so as to bring in a steady stream of revenue without any investment by it. Such projects can be executed without curtailing the existing area of operations of the SNT. Such projects can yield substantial revenue for the SNT.

1.3.17.4 The SNT had not explored the possibility of utilising the exteriors and interiors of the buses and exteriors of its' premises for advertisements and hoardings to earn revenue.

1.3.17.5 Audit observed that the SNT has not framed any policy as regards re-alignment of its' business model. Since non-traffic revenue will help the SNT cross-subsidize its operations and fulfill its mandate effectively, it may like to study realigning its business model and frame a policy in this regard.

Fare policy and fulfillment of social obligation

Existence and fairness of fare policy

1.3.18.1 Section 67 of the Motor Vehicle Act, 1988, empowers the State Government to fix the fares. The SNT fix the fares and get it approved by the State Government. The SNT revises the fare to compensate the increase in the cost of inputs. Thus, it was imperative on its part to increase its fare as and when there is an increase in the cost of fuel. The fare structure of the SNT effective during the review period is as under:

Table – 1.3.14

Fare table for ordinary buses

(in paise)

Stages	2004-05 (Since February 2000)	2005-06	2006-07	2007-08	2008-09 (w.e.f 01 April 08)
First 25 KMs	67	67	67	67	120
26 KMs to 50 KMs	67	67	67	67	100
51 KMs to 75 KMs	67	67	67	67	90
76 KMs to 100 KMs	67	67	67	67	85
101 KMs and above	62	62	62	62	75

1.3.18.2 It was noticed in Audit that the SNT revised the freight on goods with every increase in cost of fuel but the fare for passenger which was effective since 2000 was revised only once, i.e., effective from April 2008 during the period under review when the cost of fuel per litre increased from Rs. 15 (February 2000) to Rs. 34.25 (April 2008) (128 *per cent*). However, the increase in other allied expenditure such as maintenance cost, cost of lubricants, operations, salaries, spare parts, etc., was not considered while revising the fare. Thus, the fare policy of the SNT was not based on scientific basis as it does not take into account the normative cost.

1.3.18.3 The SNT accepted (September 2009) the facts and stated that though the proposal for enhancement of fare was initiated as and when there was increase in the fuel cost but this could not be implemented due to stiff competition from the private taxi operators.

Adequacy of services on uneconomical routes

1.3.19.1 The SNT had no profit making routes as of March 2009 among the routes test checked in Audit as mentioned in paragraph 12.3. The position may, however, change if the SNT improves its efficiency. Nonetheless, there may still be some routes which would be uneconomical. Though the SNT is required to cater to these routes, the SNT has not formulated norms for providing services on them. In the absence of norms, the adequacy of services on uneconomical routes could not be ascertained in Audit.

Monitoring by top management

1.3.20.1 For an organisation like a Road Transport to succeed in operating economically, efficiently and effectively, there has to be written norms of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that their achievement would make an organisation self-reliant. In the light of this, Audit reviewed the system existing in the SNT.

The SNT did not set any targets for important operational parameters.

1.3.20.2 The SNT had not set targets in general as well as at depot level for important operational parameters like fleet utilisation, vehicle productivity, capacity utilisation, revenue realisation (route-wise). As a result, depot managers could not be made accountable for their performance.

1.3.20.3 The SNT has an MIS in place, whereby information on various operational activities is communicated to the SNT's headquarters on daily / monthly basis. Audit observed that the information received at the headquarters was not consolidated, so as to identify areas for taking corrective measures. As a result, the SNT could not exercise control over these aspects.

1.3.20.4 The top management of the SNT is expected to demonstrate managerial capability to set realistic and progressive targets, address areas of weakness and take remedial action wherever the things are not moving on expected lines. However, such ability was not seen either from records or performance of the SNT during period under review.

Conclusion

Operational performance

- **The SNT could not keep pace with the growing demand for public transport as the per Capita KM per year operated by the SNT declined from 3.39 in 2004-05 to 2.39 in 2008-09.**

- **In absence of separate records for the various components of costs relating to bus operations, Audit could not analyse the recovery of the same with reference to traffic revenue from the bus operations.**

- **The SNT was not running its operations efficiently as its performance on important operational parameters like vehicle productivity and fuel consumption was below AIA.**

- **The SNT did not carry out the preventive maintenance as required in 66 *per cent* cases among the test checked records, affecting the roadworthiness of its vehicles.**

- **The SNT did not ensure economy in operations as its fuel cost was higher than the AIA.**

Financial management

- **The SNT has potential to tap non-conventional sources of revenue but it did not have a policy in place to undertake large scale tapping of such funds.**

Fare policy and fulfillment of social obligations

- **Though the SNT has a fare policy, it is not on scientific basis. Further, it is not implemented consistently.**

- **In absence of any policy yardstick for operation on uneconomical routes, the adequacy of its operations could not be ascertained in Audit.**

Monitoring by top management

- **The MIS system of SNT was not adequate and the monitoring by its top management of key operational parameters and service standards was largely ineffective.**

Recommendations

Operational performance

- **The SNT may take effective steps to improve fleet utilisation, vehicle productivity and load factor to earn more revenue.**

- **The SNT may ensure adherence to the preventive maintenance schedule so as to increase the efficiency on that account.**

- **The SNT may maintain separate records for various components of costs relating to bus operations for control purposes.**

Financial management

- **The SNT may consider to devise a policy for large scale tapping of non-conventional sources of revenue.**

Fare policy and fulfillment of social obligations

- **The State Government may consider creating an independent regulator to regulate fares, services on uneconomical routes and address**

grievances of commuters.

Monitoring by top management

- **The SNT may create separate cost centres for buses, trucks and tankers for effectively monitoring their performance.**

The SNT may make an effective use of the MIS system in existence to exercise adequate management control over various operational areas.

CHAPTER – II
AUDIT OF TRANSACTIONS

Misappropriation/ Loss

ENERGY AND POWER DEPARTMENT

2.1 Release of interest free mobilisation advances

The Department released interest free mobilisation advance of Rs. 16.45 crore to three contractors without any provision in the rules. Also, the projects could not be completed in time for which the advances were granted.

There is no provision for grant of mobilisation advance (MA) to the contractors either in Sikkim Financial Rules or in Sikkim PWD Code and Manual.

The Department released (March 2005 to March 2007) interest free MAs aggregating to Rs. 16.45 crore to three contractors ostensibly for expeditious completion of the works. The State Government borrowed funds at interest rates ranging between 10 and 11.5 *per cent* during this period and other departments were charging 5 *per cent* on MA.

Audit analysis revealed (December 2008) that the resource mobilisation in terms of men and materials was not ensured by the contractors as there were delays over two years in all cases despite availing of the mobilisation advances. Besides, the Department could have atleast levied interest on the advances granted as is being done by other departments granting MAs.

Thus, grant of MAs without provision in the rules was not only irregular but also against the recommendations (February 2005) of the Public Accounts Committee that the grant of MA should be discouraged completely in future. This also led to undue favour to the contractors with consequential loss of Rs. 1.76 crore (at the rate of 5 *per cent* being charged by Sikkim Building and Housing Department granting mobilisation advance) to the Government on account of non-levy of interest.

The matter was reported to the Department/ Government (April 2009); reply has not been received (October 2009).

FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

2.2 Misappropriation of Government money

Laxity in the system of godown management and absence of proper monitoring and supervision resulted in misappropriation of sale proceeds of foodgrains and sugar of Rs. 38.98 lakh.

Food, Civil Supplies and Consumers Affairs Department is responsible for procurement, transportation, storage and management of the Public Distribution System at controlled prices, establishment of godowns, fair price shops etc. to ensure adequate availability of essential commodities throughout the State.

There are 26 godowns in the State which deal with receipt, storage and issue of foodgrains. Foodgrains are issued from the godowns to various fair price shops which distribute foodgrains to the beneficiaries and deposit the sale proceeds into the Revolving Fund maintained by the Department for operationalising the Public Distribution System. There is a system of submission of a monthly account of opening balance, receipt, sale and closing balance of foodgrains by the godown-in-charges to the Departmental headquarters at Gangtok.

Audit scrutiny revealed that the management of godowns suffered from inherent systemic flaws as there was (i) no code or manual for running the godowns, (ii) specific allocation of duties to its officers/officials for determining accountability was not delineated, and (iii) system of daily closure of accounts of the godown with attestation of the entries by a responsible officer were not evolved. Besides, proper forms and registers for maintenance of the godown accounts had not been prescribed nor penal measures prescribed for non-submission of the monthly statements by the godown in-charges. Lack of proper system was fraught with the risk of misappropriation of sale proceeds by the godown in-charges.

Audit noticed that the godown in-charge of Ranipool exploited the weakness in the system and did not submit monthly accounts since May 2007 in respect of the transactions of Ranipool food godown nor made regular deposits of the sale proceeds. Neither reminders were issued to the errant official for timely submission of the monthly accounts nor action taken for not depositing the sale proceeds regularly. The godown in-charge deposited Rs. 50.92 lakh against the sale proceeds of Rs. 91.14 lakh for the period from April 2007 to January 2008 leading to a total unexplained shortage of foodgrains valued at Rs. 38.98 lakh[1] *(after taking into account of loss on transit, handling etc.)* which was misappropriated by the godown

[1] *Rs.91.14 lakh minus Rs. (50.92 + 0.65) lakh = 39.57 lakh less 1.5 % loss on transit, handling etc. = Rs.38.98 lakh.*

in-charge. The godown in-charge committed suicide on 31 January 2008 rendering the entire amount irrecoverable and loss to the Government.

The Department stated (September 2009) that it was pursuing the matter for recovery of the amount by filing a suit in the Court of law and simultaneously working on formulation of a working manual to strengthen the functioning of the godowns.

Undue favour

IRRIGATION AND FLOOD CONTROL DEPARTMENT

2.3 Benefit to contractors

Award of works at higher cost resulted in extension of undue financial benefit to contractors amounting to Rs. 70.23 lakh.

Sikkim Financial Rules envisage high standards of financial propriety and strict economy at every step of expenditure. Further, in terms of the austerity measures announced (August 2005) by the Government, no tender above the Schedule of Rate (SOR) was to be accepted by any work executing department.

Scrutiny of records of Irrigation and Flood Control Department revealed (December 2008) that 10 works (out of 153 test checked in Audit) pertaining to North East Council estimated at Rs. 4.68 crore were awarded (August to December 2005) at 15 *per cent* above the estimated cost which involved an extra outgo of Rs. 70.23 lakh on account of higher tender rates. Remaining 143 works[2] were awarded (August 2005 to January 2007) 'at par'. While the works awarded 'at par' were located in difficult and remote areas, all the 10 works relating to jhora training awarded at 15 *per cent* above were located in the easily accessible areas near the Gangtok town.

The Department justified award of works at 15 *per cent* above on the ground that the works were to be executed during 2005-07 at higher costs of materials and labours against the estimates prepared on the basis of rates adopted in SOR 2002. This reason was not justifiable as all the works awarded and executed 'at par' were on the basis of SOR 2002. Thus, the action of the Department to accept and award works above the estimated cost not only resulted in extra financial outgo of Rs. 70.23 lakh (15 *per cent* on Rs. 468.23 lakh), but also led to undue financial benefit to the contractors.

The Department did not negotiate with the bidders before issue of work orders (August to December 2005) to observe financial propriety, austerity measures announced (August 2005) by the Government and also in view of execution of works

[2] *(i) Brahmaputra & Barak Valley Project (04 works estimated at Rs. 739.91 lakh), (ii) AIBP (79 works estimated at Rs. 457.04 lakh) and (iii) NABARD (60 works estimated at Rs. 136.29 lakh)*

'at par' by all other contractors.

The Department stated (June 2009) that the works awarded 'at par' were located at remote areas where there was no problem of stacking of construction materials and the works awarded at 15 *per cent* above were located in the areas near Gangtok where blasting of boulders was not possible and labour cost on head loads was higher. The reply is not acceptable as the rates of 27 to 45 *per cent* above quoted by the contractors for four works were brought down 'at par' through negotiation. Further, while the head load for the works awarded 'at par' were for a distance of 100 to 600 mtrs, the same for works awarded at 15 *per cent* above were for only 150 to 300 mtrs. Furthermore, in all the works awarded at 15 *per cent* above, the contractors had neither executed the work 'hill cutting on hard rock' nor item of works like 'chiseling of hard rock/ boulders' etc. was included in the estimate for which the contention of the Department that blasting of rocks was not possible in town area was not acceptable to Audit.

ROADS AND BRIDGES DEPARTMENT

2.4 Undue favour to contractors

The Department instead of providing bond stone as per the specification used normal stone in 1.28 lakh cum. stone masonry works resulting in undue favour of Rs. 2.76 crore to the contractors.

Provision of bond stones in masonry walls ensures proper bonding and enhances the retaining strength of masonry walls. In terms of the principles of Civil Engineering, in the construction of masonry walls, bond stones are to be provided in masonry upto 60 cm thickness and in case of masonry above 60 cm thickness, a set of two or more bond stones overlapping each other at least by 15 cm are to be provided in line from face to back. One bond stone or a set of bond stones shall be placed 1.5 metres to 1.8 metres apart clear in every course. All bond stones should be marked suitably with paint for easy identification.

The Sikkim Public Works Department specified use of bond stones of sizes 15cm x 15cm x 45cm manufactured in 1:4:8 cement concrete in all specifications of random/coursed stone masonry works. Seven bond stones were to be used per cum of stone masonry. Cost of bond stones provided in the rates prevalent in the Department was Rs. 24.53 (SOR 2002) and Rs. 36.31 (SOR 2006) per cubic metre.

Test-check of records (February 2009) of the Secretary, Roads & Bridges Department revealed that despite clear specification for providing bond stones, no such stones were provided in 1.28 lakh cum stone masonry works (RRSM/CRSM) executed (2003-09) by the Department, which resulted in non-adherence to specifications, which is fraught with the risk of compromising the quality of work besides undue favour to the contractors of Rs. 2.76 crore.

The Department replied (July 2009) that it used normal stones of the same dimension to serve as bond stones in place of prefabricated bond stones in 1:4:8 cement concrete as per prevailing practice. Hence, the same was not reflected in the theoretical consumption statements.

The reply is not acceptable as cost of one normal stone was very less (Rs. 1.80 (SOR 2002)) as against the actual payment of Rs. 24.53 for one bond stone in 1:4:8 cement concrete, reinforcing the fact that undue favour was granted to the contractors.

WATER SECURITY AND PUBLIC HEALTH ENGINEERING DEPARTMENT

2.5 Excess payment to the contractors

Erroneous inclusion of cost escalation element in the estimates led to avoidable expenditure of Rs. 24.88 lakh in four cases and excess payment of Rs. 17.95 lakh in another case.

For execution of the project 'Augmentation of Water Supply System for Greater Rangpo' to be implemented under Non-lapsable Central Pool of Resources (NLCPR) scheme at an estimated cost of Rs. 17 crore, the Department invited tenders in March 2007 for the civil work valuing Rs. 4 crore. The work was split into five separate works and awarded (April-May 2007) to five lowest tenderers *at par* with the Schedule of Rates (SOR) 2002 for completion within 12 months (March-April 2008). While no work had been completed as of June 2009, payment to the extent of Rs. 2.21 crore was released (March 2008) towards completion of 36 to 68 *per cent* of entrusted works, except in case of one work where no payment had been made.

Audit scrutiny revealed (February 2009) that while framing the estimates for four individual works, the Department included an element of cost escalation of 24 *per cent* in the estimate itself, without assigning any justification. The tenders thus floated (March 2007) and accepted by the lowest tenderers *at par* in four cases[3] were in effect 24 *per cent* above the estimated cost. Since the tender for the remaining work was invited at the estimated cost (based on SOR without any enhancement) and awarded to one contractor[4] *at par*, it was clear that all the works were workable at the estimated cost without any escalation. The fact that the works were executable *at par* the estimated cost, without any cost enhancement, was further established from the

[3] *1. Shri M Tamang (2 works), 2. Shri K Agarwal (1 work), Shri R B Thapa (1 work)*

[4] *Shri P M Chamling*

fact that similar works (Augmentation of Water Supply System at Lachung Bazar) during the same period was carried out by the same Circle at the estimated cost without any cost escalation. Therefore, inclusion of additional 24 *per cent* within the estimated cost was unwarranted and led to an avoidable expenditure of Rs. 56.10 lakh of which Rs. 24.88 lakh was released to the contractors. Even in the case of the fifth contractor, the Department allowed *24 per cent* cost escalation and released Rs. 17.95 lakh although the agreement did not provide for any cost escalation.

Thus, the Department incorrectly enhanced 24 *per cent* of the estimated cost without justification in four works which resulted in an avoidable expenditure of Rs. 24.88 lakh as of June 2009. It also made an over payment of Rs. 17.95 lakh to a contractor in case of the fifth work. It may also be mentioned that the works expected to be completed by April 2008 was not completed (June 2009) for no recorded reasons and the intended benefit to cover water supply in satellite built-up area around Rangpo and augmentation by additional water of 6.5 lakh litres/ day remained unachieved.

The matter was referred to the Department/ Government (February 2009); their reply has not been received (October 2009).

Avoidable/Excess expenditure

FOOD SECURITY AND AGRICULTURE DEVELOPMENT DEPARTMENT

2.6 Payment of subsidy on account of bench terracing works

The Department did not restrict payment on account of bench terracing works up to the extent of subsidy which led to excess payment of Rs. 2.46 crore.

Under various centrally sponsored programmes[5], the Department provided Rs. 7,500 per hectare as 25 *per cent* subsidy on the estimated cost (Rs. 30,000) for execution of stone work towards bench terracing works during 2005-06 to 2007-08. Bench terracing work was done with the ultimate aim of increasing the crop production and productivity of the area.

Audit scrutiny revealed (August 2008) that all the four Drawing and Disbursing Officers (DDOs) of the Department released (March 2006, April 2007 and March 2008) full payment to the beneficiary farmers aggregating Rs. 3.29 crore for bench terracing on 4,372 hectares of farmers field instead of 25 *per cent* subsidy component of Rs. 0.82 crore. This led to excess payment of Rs. 2.46 crore on execution of bench

[5] *(i) Macro Management of Agriculture, (ii) Rastriya Krishi Vikas Yojna (RKVY) and (iii) Tribal Sub Plan (TSP)*

terracing works. The bills were released by the executing agencies and DDOs without exercising necessary checks.

The Department stated (May 2009) that the payment made towards bench terracing works was approved from the State Government. The fact however, remained that the Department had made excess payment of subsidy on centrally sponsored programmes without the knowledge and approval of the sanctioning authority, which was not regular.

FOREST, ENVIRONMENT AND WILDLIFE MANAGEMENT DEPARTMENT

2.7 Excess expenditure

Adoption of higher unit rates in "Technology Development, Extension & Training" programme led to excess expenditure of Rs. 39.93 lakh.

The Department of Land Resources, Union Ministry of Rural Development sanctioned (January 2004 to February 2007) "Technology Development, Extension & Training (TDET)" programme in various spells to be implemented in three districts (West, South and North) of the State. The objective of the programme was to operationalise appropriate, cost effective and proven technologies for development of various categories of wastelands especially those affected by soil erosion, land degradation, salinity, alkalinity, water logging etc.

Audit analysis (March 2009) indicated that the rates adopted by the Department in 'Excavation of foundation in mixed soil', 'providing and laying of GI wire' and 'providing and laying hand packed stone filling' were higher as compared with the applicable SOR 2002 of the SPWD which resulted in incorrect and higher fixation of rates by Rs. 456.56 per running meter (rmt) with consequential excess expenditure of Rs. 32.35 lakh during 2004-07.

It was further seen that the adopted rate was much higher than even the SOR 2006 of the SPWD applicable from April 2007 which resulted in higher fixation of rate by Rs. 358.01 per rmt with consequential excess expenditure of Rs. 7.58 lakh during 2007-08 also.

Thus, adoption of higher than applicable rates resulted in excess expenditure of Rs. 39.93 lakh on execution of works during 2004-08.

The Department stated (June 2009) that the TDET project was aimed at developing technologies for a model on landslide and erosion control for replication of the same to other similar landslide area of the State. The project having special objective and special components of works, there could be no standard rate for any particular activity. It was further stated that the approval for the designed cost norm was also obtained from the Government of India (GOI). The reply was not acceptable as while the approval from GOI could not be shown to Audit, the SOR of the SPWD was also intended for executing similar nature of protective works in a hilly and landslide prone area like Sikkim.

2.8 Purchase of bamboo seedlings

The Department purchased bamboo seedlings from the open market at exorbitant rates leading to excess expenditure of Rs. 60.22 lakh besides lack of ensuring quality of the planting materials.

The National Bamboo Mission (NBM), a 100 *per cent* centrally sponsored scheme funded by the Union Ministry of Agriculture and Co-operation is being implemented through the nodal agency of the Director, Horticulture and Cash Crop Development Department (HCCDD) declared as the Mission Director, State Bamboo Mission in Sikkim. The programme mainly constituted nursery development, tissue culture, certification of seeds, training/workshops and plantation of bamboos in non-forest and forest areas. While the scheme in non-forest areas was implemented by the HCCDD, the implementation in forest areas was entrusted to the Forest Development Agencies (FDAs) constituted for implementation of the National Afforestation Programme through people's participation, under the Forest, Environment and Wildlife Management Department (FEWMD).

The State Bamboo Mission Director (SBMD) transferred Rs. 4.95 crore between May 2007 and March 2009[6] to the FEWMD for implementation of the NBM project in forest areas. The project cost comprised of creation of nurseries, cost of plantation in forest areas, expenditure towards training of farmers and field functionaries, pest/disease management and project report preparation. A separate bank account, operated jointly by the Conservator of Forests(T)-cum-Chairman, FDA and the Chief Accounts Officer, FEWMD, was opened in the State Bank of India, Deorali Branch and the amount received from the SBMD parked in the said account.

The operational guidelines for implementation of the NBM clearly laid down a very systematic plan of action. The components of the scheme which were to be carried out first concerned creation of nurseries, establishment of tissue culture units and certification of plantation materials. Only thereafter, plantation works were to be carried out. The seedlings for plantation were thus to be raised by the Department in its own nurseries and through decentralised Mahila / Kisan Nurseries raised by individuals, groups, Self Help Groups and NGOs taking due care to maintain the

[6] *Rs.2.29 crore in May 2007, Rs.1.88 crore in February 2008, Rs. 21.36 lakh in October 2008 and Rs.56.70 lakh in March 2009.*

quality of the planting materials which were to be of appropriate species and free from diseases/virus. There was no provision in the scheme, whatsoever, for purchase of seedlings in bulk from any supplier. In order to ensure quality of planting material, a suitable certifying agency was to be identified by the respective FDAs. For North Eastern Region, existing organisations like the State Forest Research Institute, Rain Forest Research Institute, State Agricultural Universities, Cane and Bamboo Technology Centre etc. who possessed expertise on the subjects were to be consulted.

Scrutiny of records revealed that the cost of raising a seedling in the Department's own nursery came to Rs. 4.40 per unit. The total cost of raising a seedling in the Department's own nursery, including carriage upto the plantation site worked out to Rs. 6.08 per unit[7]. The Department however, purchased (2007-09) seedlings for implementation of the scheme from open market without even inviting tenders at rates ranging from Rs. 16 to Rs.19 per seedling. Further, certification of plantation materials from a recognised agency was never done by the Department for the seedlings procured from the open market.

During 2007-09, the Department purchased 5,38,879 seedlings at a cost of Rs. 92.98 lakh for implementation of the NBM scheme. Had the seedlings been raised in the departmental nurseries, the cost of the same would have been Rs. 32.76 lakh (including all overhead costs). Thus, the Department despite having sufficient infrastructure and capability purchased seedlings from the open market at exorbitant rates resulting in excess expenditure of Rs. 60.22 lakh with consequential undue favour to the suppliers to that extent.

The Department stated (September 2009) that the purchase of seedlings from the open market was resorted to in the early stage of the project implementation due to time constraint as the Department did not have enough time to raise seedlings in its own nurseries for 2007-08 plantations. The reply was not acceptable as the Department resorted to purchase from the open market for two years which cannot be attributed to time constraint.

[7] *In terms of the latest SOR (1 April 2008) prepared for implementation of the National Afforestation Programme by the Forest Development Agencies.*

ROADS AND BRIDGES DEPARTMENT

2.9 Excess expenditure

Erroneous adoption of rates for Granular Sub-base works led to excess expenditure of Rs. 54.62 lakh and undue favour to 14 contractors.

The Schedule of Rates (SOR 2002) used by the Sikkim Public Works Department specifies cost of various sizes of stone aggregates (stone chips) as under:

Table – 2.1

Sl.no.	*Size of chips (mm)*	*Unit*	*Cost (Rs)*
1	21 to 25 mm	Cum	427.40
2	26 to 38 mm	Cum	398.20
3	39 to 64 mm	Cum	357.90

The items of works 'Providing & Laying Granular Sub-base, Grading II & III (GSB II & GSB III) used in road construction require use of stone aggregates of size 63 to 45 mm and 53 to 22.4 mm respectively. The maximum cost of stone aggregates to be incorporated in the rates of these items of works in terms of the relevant SOR was Rs. 357.90 per cum (GSB II) and Rs. 427.40 per cum (GSB III)[8].

Test-check of records of the Secretary, Roads and Bridges Department revealed (March 2009) that while working out rates of the items GSB II and GSB III which were not included in the SOR 2002, the rate of stone aggregates were taken at Rs. 398.09 per cum instead of Rs. 357.90 per cum (GSB II) and Rs. 466.11 per cum instead of Rs. 427.40 per cum (GSB III). This led to cost inflation of the items of works by Rs. 40.19 (GSB II) and Rs. 38.71 (GSB III) per unit respectively, even after allowing the highest rates of stone aggregates applicable.

Thus, the Department did not work out the rates of the two items of works correctly leading to excess expenditure and consequent undue favour of Rs. 54.62 lakh to 14 contractors in execution of 62,605.52 cum GSB II and 46,933.84 cum GSB III works during March 2005 to March 2009.

While accepting the audit observation, the Department stated (July 2009) that the cost inflation of GSB II and III was due to incorrect incorporation of labour output at the time of analysing the rates of the two items. It was further stated that the inadvertent mistake has since been corrected in SOR 2006.

[8] *Allowing maximum cost (Rs.427.40 per cum) of stone chips of size 21 to 25 mm.*

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

2.10 Avoidable expenditure

Injudicious decision of the Department to re-tender and award work at 15 *per cent* above led to an avoidable expenditure of Rs. 53.29 lakh.

The work "New connectivity road from Chawang to Phamtam in North District" was approved by the Empowered Committee in August 2003 at an estimated cost of Rs. 195 lakh under Pradhan Mantri Gram Sadak Yojana (Phase III). Notice Inviting Tender (NIT) for the work was floated in November 2003.

Scrutiny of records revealed (December 2008) that two Gangtok based contractors[9] quoted (January 2004) 25 *per cent* and 13 *per cent* below the estimated cost based on Schedule of Rates (SOR) 2002. However, the Department did not accept (February 2004) the rates of contractors on the plea that the rates were not workable as the estimate was based on SOR 2002 and since the work was to be taken up in 2004-05, there would be cost escalation. Further, after the completion of work, the contractor was responsible for maintenance of the road constructed for five years. Accordingly, the work was re-tendered in May 2004. The lowest rate of 27 *per cent* above quoted by one contractor[10] against the re-tender was negotiated down to 15 *per cent* above and work awarded (February 2005). The work was completed in March 2007 and final payment was released in June 2007. Further scrutiny revealed that some of the PMGSY works[11] based on SOR 2002 for Phase IV and Phase V (approved in March 2005) were awarded and executed satisfactorily during 2006-07 at '17 *per cent* below'. Thus, the action of the Department to reject the tender rates of below 25 *per cent* and 13 *per cent* on the plea of non-workability due to increase in the cost of materials and labour on one hand and award of work at 17 *per cent* below even after the lapse of more than two and a half year from the date of rejection of tender was not justifiable. The maintenance liability which was one of the reasons given for cancellation of earlier tender was also withdrawn (January 2007) from the contractor to whom the work was awarded. Had the Department considered the rates of either 25 *per cent* or 13 *per cent* below the estimated cost, the Department could have avoided at least an expenditure of Rs. 53.29 lakh with reference to the rate of 13 *per cent* below on execution of the work.

The Department stated (October 2009) that the works awarded at par and 17 *per cent*

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[9] *(i) Shri Ratan Kumar Mundra, (ii) Thukchuk Lachungpa*

[10] *Shri NT Bhutia*

[11] *Rhenock Bazar to Gumpa Simana (17 per cent below)*

below in Phases IV and V were on the basis of updated SOR 2002 which in effect was 121.56 *per cent* of the original SOR 2002 and therefore, should not be compared to the workability of works undertaken on the basis of SOR 2002. The reply is not acceptable as even considering this logic of the Department, 17 *per cent* below the updated SOR will in effect be 0.89 *per cent* above the original SOR against which the work was awarded at 15 *per cent* above the original SOR with consequential extra payment of Rs. 26.86 lakh[12]. It was further verified in Audit that all the contractors quoting below rates were Class IA Contractors and had confirmed (January 2004) in writing about the workability of rates quoted by them and they had also already successfully executed similar works with similar rates in the past.

SMALL FARMERS' AGRI-BUSINESS CONSORTIUM, SIKKIM

2.11 Excess expenditure

Assistance to farmers for construction of hi-tech green houses under the scheme for Integrated Development of Horticulture in North Eastern States at rates higher than those stipulated in the guidelines resulted in excess expenditure of Rs. 3.98 crore.

The guidelines of the Technology Mission for Integrated Development of Horticulture in North Eastern States issued (October 2003) by the Government of India (GOI) provided for grant of assistance to farmers for development of horticultural crops, off season vegetables in hi-tech green houses etc. Assistance for construction of hi-tech green houses was restricted to 50 *per cent* of the cost at Rs. 325 per square meter, with effect from March 2006, for covering an area up to a maximum of 1000 square meters.

The Annual Action Plans (AAPs) for 2006-07 and 2007-08 prepared by the Small Farmers' Agri-Business Consortium, Sikkim (SFACS) to avail of the benefits envisaged by the Mission were approved by the State Level Steering Committee (March 2006 and April 2007) and the Central Level Steering Committee (July 2006 and June 2007) at the stipulated rate of Rs. 325 per square meter as assistance to the farmers for development of hi-tech green houses.

Audit scrutiny (March 2009) revealed that the SFACS had incurred Rs. 5.91 crore towards providing 59,445.18 square meters of hi-tech green houses to farmers during the years 2006-07 and 2007-08. The assistance was provided at rates varying between Rs. 897 and Rs. 1,373 per square meter, instead of the admissible rate of Rs. 325 per square meter. However, during the same period, the SFACS installed 4,850

[12] *14.11 per cent (115% - 100.89 %) of value of work executed (Rs. 190.34 lakh))*

square meters of hi-tech green houses in farmers' fields at the stipulated rate of Rs. 325 per square meter which indicated that the beneficiaries were willing to avail of the scheme's facilities at the prescribed rates. While deviation from the prescribed guidelines resulted in excess expenditure of Rs. 3.98[13] crore, had the assistance been restricted to the admissible rate of Rs. 325 per square meter, it would have been possible to extend the benefits of the scheme to a greater number of beneficiaries.

The Department stated (August 2009) that scheme under hi-tech green houses was implemented by demonstration mode rather than by the assistance mode where assistances were to be restricted to Rs. 325 per square metre. The reply is not tenable as all the relevant departmental records (approval of State Level Steering Committee, Annual Action Plans, Ministry's approval of the AAPs and the Annual Progress Reports etc.) indicated that the scheme was implemented in the assistance mode only. Further, while no approval from the GOI for deviation from approved AAP was obtained, there was no documentary evidence which supports that the implementation was in demonstration mode.

WATER SECURITY AND PUBLIC HEALTH ENGINEERING DEPARTMENT

2.12 Avoidable expenditure

Rehabilitation of sewer trunk line along NH 31 A from Hospital Dara to Saraswati Mandir, already executed and completed at Rs. 1.76 crore under Non-lapsable Central Pool of Resources, was again included under the Jawaharlal Nehru National Urban Renewal Mission leading to avoidable expenditure of Rs. 7.78 crore.

The Department submitted (August 2007) the project on "Rehabilitation of Sewers in Gangtok" to the Ministry of Urban Development, Government of India (GOI) for approval and sanction under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) scheme. The project among other works consisted of re-habilitation of trunk lines all along NH 31A (approximately 13 Kms stretch) from Hospital Dara to Sewerage Treatment Plant (STP) Complex at Adampool (Rs. 15.56 crore).

The GOI approved and sanctioned (January 2008) the project and accordingly the work was put to tender and awarded (March 2008) to a contractor *at par* the estimated cost with stipulation to complete within 12 months (March 2009). As of October 2009, only 70 *per cent* of the work was completed at an expenditure of Rs. 9.83 crore.

[13] *Rs. 591.03 lakh - 59445.18 square meters @ Rs. 325 per square meter = Rs. 397.83 lakh*

Audit scrutiny revealed that trunk lines form Hospital Dara to Saraswati Mandir (approximately 6.5 km stretch) was completed during March 2005 with a design period of 30 years (upto 2035) at a cost of Rs. 1.76 crore from the Non-lapsable Central Pool of Resources (NLCPR) funding.

Had the Department taken into account the earlier execution, the expenditure of Rs. 7.78 crore (50 *per cent* of Rs. 15.56 crore) could have been avoided.

The Department stated (October 2009) that 300 mm dia DI pipes laid under NLCPR had to be replaced by 400 mm dia DI pipes under JNNURM to meet the requirement of change in alignment at certain places due to (i) public complaint about leakages from the earlier trunk line, (ii) decision of Urban Development and Housing Department to construct truck parking above the old alignment, (iii) convenience in maintenance of the new alignment and (iv) damage in old alignment at certain stretches etc. The reply indicated defective planning, survey and estimate of the earlier work executed under NLCPR. Physical verification (October 2009) of a part of the work already executed i.e., "Rehabilitation of trunk sewer between Amdo Golai to Gurudwara" revealed that against the approved estimate of 200 mm and 600 mm dia DI pipes, the Department used 200 mm and 300 mm dia DI pipes under NLCPR. Also, 60 DI pipes (330 meter) of 300 mm dia valuing Rs. 14.33 lakh and salvaged from the earlier work were lying idle at the workshop site of the Department since June 2009. Thus, due to defective planning and survey before executing the work under NLCPR, the work already completed at an expenditure Rs. 60.88 lakh had to be again undertaken under JNNRM by completely replacing the DI pipes laid earlier with a consequential avoidable expenditure of Rs. 46.55 lakh on this stretch of work alone.

Infructuous/ wasteful expenditure

BUILDING & HOUSING DEPARTMENT AND CULTURAL AFFAIRS & HERITAGE DEPARTMENT

2.13 Construction of stairway to heaven

Inordinate delay in finalisation of appropriate concept, plan and design led to shelving of project and unfruitful expenditure of Rs. 83.28 lakh.

Sikkim Public Works code envisages that no work should commence unless a properly designed estimate is framed after detailed survey, investigation and technical sanction. The code further lays down that the estimate should always be accompanied by a report indicating the description of proposal for location, design, specification and drawing.

The Building & Housing Department (BHD) took up construction of 'Stairway to Heaven and Lepcha Museum and Library at Daramdin' on behalf of Cultural Affairs & Heritage Department (CAHD) at an estimated cost of Rs. 1.65 crore. The work was awarded through invitation of tender (December 2002) at 41 *per cent* above the estimated cost with stipulation to complete within 24 months. Accordingly, work commenced in January 2003 and Rs. 83.28 lakh was incurred as of March 2009.

Audit scrutiny revealed (March 2009) that the work had to be abandoned (March 2005) due to improper concept, plan and design. Before the revision in concept, plan and design, the State Government decided (April 2005) to shelve the project after incurring an expenditure of Rs. 58.18 lakh. Even after the decision to close down the project, Rs. 25.10 lakh was paid to the contractor towards the work already executed. It was further seen that despite the concept being conceived in July 2001 and work taken up in January 2003, the soil testing of the site was done from a private organisation in December 2004. When the matter was referred to the Department of Mines, Minerals & Geology, Government of Sikkim for comments on the basis of previous soil testing, they mentioned (August 2006) about inadequate statistical data and investigation before taking up the project. While the project was intended for uplifting the belief, culture and emotions of the Lepcha community, the CAHD did not obtain unanimous opinion of the community about the shape, design and height of the monument to be constructed. What was needed the most was to understand the requirements and sentiments of the community and co-relate the same with reference to the technical and financial aspects of the project. Above all, before taking up the project, appropriate DPR was to be finalised after obtaining a consensus from the community for whom the monument was intended for. However, even after shelving the project, none of the departments has taken effective steps to either revise the concept, plan and design or to utilise the assets created at an expenditure of Rs. 83.28 lakh. While the CAHD could not finalise the actual requirement under the project, the BHD could not obtain the same for incorporation in the estimate before taking up the project.

The BHD stated (June 2009) that since 2001, the proposal about the shape, design and height of the monument have undergone innumerable changes due to differences of opinion in the beneficiary community, financial constraint etc. It was further stated that the project will be re-commenced when the revised plan was approved and agreed to by one and all. The reply supported the Audit contention that the work was taken up without finalising the appropriate plan and design. Non-finalisation of the same over a period of more than eight years also cast doubt on the future utility of the structure already created.

HEALTH CARE, HUMAN SERVICES AND FAMILY WELFARE DEPARTMENT

2.14 Unfruitful expenditure

Injudicious decision of the State Government to shift the Sir Tashi Namgyal Memorial Hospital and revise the decision later resulted in unfruitful expenditure of Rs. 40.52 lakh.

The Healthcare, Human Services and Family Welfare (HCHSFWD) Department decided to construct a new 500 bedded hospital by dismantling the existing facility at the Sir Tashi Namgyal Memorial Hospital above NH 31A and by shifting these facilities to the location at below NH 31A. Accordingly, the Cabinet approved the shifting of the hospital on 17 May 2008.

Out of the total estimated cost of Rs. 67.87 lakh for shifting, work valued at Rs. 55.59 lakh was executed departmentally by way of construction of new X-ray and CT Scan rooms, kitchens, injection room, generator room, pathology department, internal wiring of new pathology unit and radiology unit etc. and an amount of Rs. 53.59 lakh was spent on it during August-September 2008. The Cabinet changed its decision on 30 August 2008, after substantial portion of the work had been executed, and approved the plan for shifting the hospital to Sokeythang on the plea that land for the new hospital has already been acquired by the Department and the Chief Minister had mentioned the shifting in his Independence Day address. The Department did not stop the work of construction at the site below NH 31A even after this decision.

While no work has started for construction of the new hospital at Sokeythang, joint physical verification of departmental officials in the presence of Audit indicated (January 2009) that assets valued at Rs. 40.52 lakh created for shifting of the hospital to the existing site below NH 31A had remained idle, thus rendering the entire expenditure unfruitful. The facilities above NH 31A has not been dismantled and as such there is no possibility of the new facilities being used.

The Department stated (April 2009) that the facilities created would be utilised as per the direction of the Government. Further development is awaited (October 2009).

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

2.15 Establishment of Gram Suchna Kendras

Decision of the Department to assign the entire job of establishment of Gram Suchna Kendras to the State Trading Corporation of Sikkim instead of involving NIC as required led to non-fulfilment of project objectives, besides blocking up of Rs. 5.02 crore on procurement of hardware and site development.

With a view to (i) bridge the e-gap between the villages and the towns by providing urban amenities in rural areas; (ii) demonstrate the effective use of information technology infrastructure in the accelerated e-governance development in rural areas of the State; (iii) expeditiously disseminate information to Panchayat Raj Institutions (PRIs) and (iv) provide the world wide information to PRIs, a proposal for 'Establishment of Gram Suchana Kendras (GSKs) in all the Zilla Panchayats (ZPs) and Gram Panchayat Units (GPUs) of Sikkim' was submitted (December 2005) by the Rural Management and Development Department (RMDD) to the GOI. The GOI released Rs. 3.04 crore (January 2006) and Rs. 2.00 crore (March 2006) for completion of the project by March 2007 at a total expenditure of Rs. 5.04 crore. Funds remaining unutilised as on 31 March 2007 was to be either surrendered or permission for revalidation obtained from GOI. The State Cabinet approved (June 2006) the proposal to establish GSKs in all the 166 GPUs and 4 ZPs in a phased manner.

According to the project proposal approved by GOI, the supply of hardware, networking system and associated software, designing and establishment of communication infrastructure with internet access, installation and configuration of internet, providing site preparation guidelines, designing/ developing/ implementing the application software and providing training on application software etc., were to be executed through the identified implementing agency viz, National Informatic Centre (NIC). Audit scrutiny (December 2008) however, revealed that the Department assigned (June 2006) the entire responsibility of establishing GSKs to the State Trading Corporation of Sikkim, a State Government undertaking. While no time frame for establishment of the GSKs was intimated to STCS, advances of Rs. 5.40 crore were paid (August 2006 to March 2007). Of this, Rs. 37.71 lakh was subsequently refunded (April 2008) by the STCS. Meanwhile, the State Trading Corporation of Sikkim (STCS) engaged M/s Amber Enterprise and M/s HCL, private enterprises at Gangtok, for establishment of GSKs in 157 GPUs and 4 ZPs.

As of June 2009, due to non availability of internet connection and software, not a single GSK had been completed. The Department was also unable to provide information or records relating to work order, related terms and conditions, timeliness for completion and penalty for delays etc. in the context of engagement of private enterprises by the STCS. Although the advances had not been adjusted (June 2009) with STCS, the utilisation certificate (June 2007) and further information (July 2007) sent to GOI stated that the entire amount of Rs. 5.04 crore had been utilised towards completion of 157 GPs and 4 ZPs. The request for additional financial assistance of Rs. 36 lakh to cover the remaining 9 GPs and to provide internet connectivity to all the GSKs was also denied (August 2007) by GOI as it had released the total approved project cost of 5.04 crore, based on the latest rates of computer hardware. GOI also asked for (August 2007) immediate information on the physical and financial progress of the project, which had not been sent as of June 2009.

The decision of the Department to assign the entire project to STCS instead of engaging NIC, as envisaged in the approved project proposal, was wrong in view of the fact the STCS was only a supplying agent having no technical expertise on e-governance. The Department did not adequately monitor STCS's subsequent engagement of private entrepreneurs, which is evidenced by its lack of information as to the procedure adopted to select the private agencies. Resultantly, the primary objective of bridging the e-gap between towns and villages and providing speedy information to PRIs etc. could not be achieved, despite incurring an expenditure of Rs. 5.02 crore.

The Department stated (August 2009) that (i) against the estimated cost of Rs. 6 crore, only Rs. 5.04 crore was sanctioned by the GOI; ii) the work being assigned to STCS and internet connection being the responsibility of BSNL, the RMDD had no further role to play in the operationalisation of GSKs. The reply of the Department is not acceptable as it had received the requisite fund covering the entire project cost at latest rates of hardware by March 2006. Further, physical verification (August 2009) of four GSKs with departmental officials revealed that the requisite software was not installed and no internet connectivity was established in any of the GSKs,. Further, deviation from the approved project proposal i.e, to appoint STCS instead of identified implementing agency (NIC) was without the knowledge and approval of the GOI.

Blocking of fund

LAND REVENUE AND DISASTER MANAGEMENT DEPARTMENT

2.16 Implementation of Pilot Project on Digitisation of Cadastral Survey Maps in Sikkim

Due to non-inclusion of definite terms and conditions in the agreement, the project to be completed within one year remained incomplete even after expiry of more than six years, besides locking up of funds of Rs. 50.84 lakh.

To facilitate easy accessibility, planning and management of land record systems with data on ownership, type of soil and details of the holding etc., in the Department and to provide valuable information to a host of other departments, Ministry of Rural Development, GOI approved (March 2002) the proposal (April 2001) of the Department for taking up of the Pilot Project on Digitisation of Cadastral Survey Maps in Sikkim (100 *per cent* CSS) at a total cost of Rs. 57.40 lakh to be completed within one year (March 2003) from the date of sanction. While the GOI released the total funds in two equal installments of Rs. 28.70 lakh each in March 2002 and June 2003, the Department entered (April 2002) into an agreement with M/s Hyderabad Mapsets India (HMI), New Delhi for scanning, vectorising and digitations of 2,515 map sheets (Rs. 52.40 lakh) and development of software (Rs. 5 lakh). As per the agreement, the agency would (i) duly and promptly take up the project to the satisfaction and reasonable requirement of the Government and (ii) the payment at the rate of 35 *per cent* of the project cost to the agency on commencement of the work, another 35 *per cent* on submission of data on CD ROMs along with visit by super specialist for detailed presentation, and remaining 30 *per cent* on vectorising and digitisation of 700 maps and submission of data on CD ROMs would be released to the agency.

Scrutiny of records (July 2008) indicated that while selecting the executing agency, the Department instead of adopting prescribed selection procedure of inviting tenders/ quotations, called for detailed project report verbally from three firms[14] and selected HMI and recommended to the GOI for award of the project. No technical evaluation of the firm was done at the time of selection. The terms of the agreement were ambiguous and the target date for completion of the project and penalty clause in case of failure on the part of the executing agency to complete the project within the stipulated date was not incorporated in the agreement. The work was not completed even after six years from the stipulated date of completion (March 2003)

[14] *(i) M/s Hyderabad Mapsets India, New Delhi, (ii) M/s Vision Labs Institute, Hyderabad, (iii) M/s Rolta India Ltd., Kolkata*

fixed by the GOI.

Meantime, in disregard to the terms of agreement, the Department released Rs. 50.84 lakh (April 2002 to March 2005) in five installments (89 *per cent* of the project cost) to the agency as advance for implementation of the project. A Technical Committee was constituted in January 2006 and it found (April 2006) that the map sheets prepared by the agency were not useful due to numerous technical flaws like (i) non-digitisation of the plot number and survey symbols given in map to indicate the pattern of land and overlapping the areas of another plot numbers, (ii) polygon of each plot number in hard copy though matching with each plot number of original map but not matching in whole block area or in a long distance etc. Despite the agency being asked (November 2006 and March 2008) to do the necessary correction and expedite the digitisation work, no further progress of the project has been achieved (May 2009). The Department did not specify quality requirements, deliverables, time schedule, penalty clause for non-completion within the stipulated period and violated terms of payment. Hence, the project stipulated by GOI to be completed within March 2003 remained incomplete as of March 2009 resulting in locking up of Rs. 50.84 lakh for more than six years.

The matter was reported to the Government/Department (May 2009); their reply has not been received (October 2009).

FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

2.17 Benefit to the PDS beneficiaries

Non-observance of the objectives under the Hill Transport Subsidy scheme resulted in depriving benefit to the extent of Rs. 3.80 crore to the PDS beneficiaries.

Hill Transport Subsidy (HTS) Scheme is a Central scheme of re-imbursing transportation charges incurred on carriage of food-grains distributed under the public distribution system on actual basis, meant for the States which are predominantly hilly with little or no railways and poor road connectivity. In such States, the Food Corporation of India (FCI) is required to open go-downs at Principal Distribution Centres (PDCs) wherever possible, or reimburse the State Governments/ UTs, the cost of transportation of foodgrains, on actual basis, for lifting of foodgrains from base depots of FCI to the designated PDCs.

Test-check of records (November 2008) of the Commissioner-cum-Secretary, Food, Civil Supplies and Consumer Affairs Department (FCSCAD) revealed that in contravention to the objective of the HTS scheme, the PDS beneficiaries were unjustly made to bear the transportation cost of foodgrains although the Department claimed and received re-imbursement of HTS from the GOI. The transportation cost of foodgrains was in-built within the cost of foodgrains sold to the beneficiaries dependent upon the PDS. During 2001-2009, the Department received Rs. 3.80 crore from the FCI towards re-imbursement of the HTS, which was not passed on to the beneficiaries and was retained in a revolving fund maintained by the Department outside the Government Account. There was no scope of delivering the benefit of the above HTS re-imbursement to the PDS consumers as the foodgrains had already been sold earlier at higher rates.

Thus, non-observance of the objectives under the HTS scheme resulted in denial of benefit to the extent of Rs. 3.80 crore to the PDS beneficiaries.

In reply, the Department stated (September 2009) that it claimed only the transportation cost from the FCI to the PDCs as hill transport subsidy, which was not borne by the consumers. Only the transportation cost from the PDCs to the food godowns, which was not claimed as HTS, was borne by the consumers. The reply was not acceptable as the Department claimed all transportation bills of foodgrains to all the godowns existing in the State, irrespective of whether the godowns were PDCs or not, from the GOI as Hill Transport Subsidy.

General

LAND REVENUE AND DISASTER MANAGEMENT DEPARTMENT

2.18 In-effective implementation of Computerisation of Land Records scheme

The objective of CLR scheme to provide timely and accurate information on land holding, to eliminate the difficulties in manual system remain largely unachieved even after 18 years of its initiation and incurring of over Rs. 1.51 crore.

In order to provide timely and accurate information about land holdings and to eliminate the difficulties in the manual system, Government of India (GOI) initiated a centrally sponsored scheme "Computerisation of Land Records (CLR)" in Sikkim (1991-92).

It was noticed in audit that even after 18 years of its initiation, the project has not been completed in three centres out of nine centres envisaged under the scheme. Out of a total expenditure of Rs. 1.51 crore incurred on the project (upto 2008-09), no records/details were made available to audit in respect of expenditure of Rs. 32 lakh received as first and second installments during 1991-92 and 1995-96 from GOI.

Scrutiny of 24,833 records of land holdings out of 1,04,123 in eight data centres revealed that errors in name of land holders and khasra (plot) number were noticed in 1,198 and 728 cases respectively. In 443 cases, details regarding name of land holders and details of land were not available. It was noticed in 80 cases, the land holdings were in excess of the norms prescribed (20.5 standard acres) in violation of para 4 of Sikkim Agricultural Land Ceiling and Reforms (Amendment) Act 1978.

It was also observed in audit that the equipment issued to different centres were lying idle even after a period of 5 years as given in the table below:

Table – 2.2

Data centre	Amount	Idle since
State Level Monitoring Cell, Gangtok	Rs. 20 lakh	August 2004
DC/SDM Office	Rs. 16.17 lakh	August 2004
Chungthang SDM Office	Rs. 4.04 lakh	December 2003

Test check in three subdivisions of the total of eight showed a discrepancy between the manual records and computerised records ranging from 78.27 hectare in Namchi sub-division to 487.16 hectare in Ravangla sub-division.

Thus, the objective of CLR scheme remain largrely unachieved even after 18 years of its initiation even after incurring over 1.51 crore. It is recommended that project should be monitored by the State Level Steering Committee to ensure proper, efficient and effective implementation.

2.19 Audit Committee Meetings

The position of outstanding Inspection Reports (IRs) and audit paragraphs in respect of Civil departments at the beginning of the year (2008-09) is given below:

Table – 2.3

Pendency	Opening Balance		Additions		Clearance		Closing Balance	
	IRs	Paragraphs	IRs	Paragraphs	IRs	Paragraphs	IRs	Paragraphs
Upto 1 year	96	403	92	376	7	79	181	700
1 to 2 years	122	354	0	0	15	110	107	244
More than 3 years	418	731	0	0	71	187	347	544
Total	**636**	**1,488**	**92**	**376**	**93**	**376**	**635**	**1,488**

Audit Committee Meetings were being held on a regular basis to settle the outstanding audit paragraphs. Thirteen Audit Committee Meetings were held during 2008-09 wherein 73 IRs and 176 paragraphs were discussed and 36 IRs and 110 paragraphs were settled.

CHAPTER – III
INTEGRATED AUDIT

3.1 Human Resources Development Department

Human Resources Development Department has been assigned with the responsibility of universalisation of education at all levels, enrolment of 100 per cent children at the primary level and bringing all out-of-school children into the school system, increasing the literacy rates, reduction in school drop-outs and above all imparting quality education. To fulfill this objective, the Government implemented a number of schemes/ programmes with a view to retain the students in the education system and help them perform well both in their academic and co-curricular pursuits. A performance audit of Human Resources Development Department revealed certain positive aspects such as availability of a comprehensive data base of all students, teachers and infrastructural facilities with the Department, a favourable teacher student ratio of 1:19, provision of free text books, uniforms etc. to the students. Despite the above positive factors, some areas of concern for the Department requiring attention relating to planning, financial management, implementation of schemes, training of teachers, expeditious completion of infrastructure, etc. were noticed as detailed below:

Despite having a comprehensive database of students, teachers and infrastructure, the Department had not utilised the database to frame proper perspective / annual plans for imparting quality education to the students.

(Paragraph 3.1.7)

The necessary infrastructure facilities were not provided as 257 schools had no drinking water facilities, 290 schools had no playgrounds, 149 schools had no toilets, 528 schools had no electricity connection, 390 schools had no toilets for girls and 393 schools had no toilets for boys.

(Paragraph 3.1.10.2)

Deployment of teachers was not consistent with norms fixed by the Department. While 332 schools were running with shortage of teachers, 154 schools had excess teachers much beyond the prescribed norm.

(Paragraph 3.1.11.1)

42 *per cent* students dropped out of the school system by the time they reached Class V, while 61 *per cent* dropped out by the time they reached Class VIII.

(Paragraph 3.1.12.6)

Monitoring system in the Department to oversee the performance of the district level officers as well as the activities of teachers and students in the schools was lax.

(Paragraph 3.1.13)

3.1.1 Introduction

The Human Resources Development Department has been assigned with the responsibility of universalisation of education at all levels, enrolment of 100 *per cent* children at the primary level and bringing all out-of-school children into the school system, increasing the literacy rates, reduction in school drop-outs and above all imparting quality education. To fulfill this objective, the Government implemented a number of schemes/ programmes with a view to retain the students in the education system and help them perform well both in their academic and co-curricular pursuits.

The literacy rate of the State as per 2001 census is 68.80 *per cent* which is higher than the National average of 64.80 *per cent*. There were 765[1] schools in the State with total enrolment of 1,17,559 students at the end of December 2008, a decline of 9 *per cent* from 1,29,523 (December 2004).

3.1.2 Organisational set-up

The Secretary is the administrative head of the Human Resource Development Department (HRDD). He is assisted by one Special Secretary, one Chief Engineer, Six Directors, 15 Joint Directors in the head office and four Joint Directors in the district offices besides other officers and staff.

3.1.3 Scope of Audit

The performance audit of HRDD for the period 2004-09 was carried out (June-July 2009) through test check of records maintained in the office of the Secretary, HRDD and all the four Drawing and Disbursing Officers located at East, West, North and South Districts, besides data/information collected from 73 schools selected on random sampling basis out of a total of 765 schools. Some of the important centrally sponsored schemes such as Mid-day meal (MDM), District Institute of Education and Training (DIET), Integrated Education for Disabled Children (IEDC) and State sponsored schemes of distribution of free text books, uniforms, etc. were also analysed.

3.1.4 Audit objectives

The main objectives of the performance audit were to examine and evaluate whether

[1] *Lower Primary: 146, Primary (Class I to V): 289, Junior High School (Class VI to VIII): 144, Secondary School (Class IX and X): 99 and Senior Secondary School (Class (XI and XII): 44 and SSA PS schools 43*

the:

- Planning was adequate and effective to ensure the achievement of the objectives;
- Financial management was efficient and effective;
- Programme implementation was economic, efficient and effective and achieved the desired objective;
- Human resource management was adequate and effective;
- Existing infrastructure was adequate and optimally utilised;
- Adequate steps were initiated for improving the quality of education; and
- Adequate monitoring and internal control mechanism was in place and functional.

3.1.5 Audit criteria

The audit objectives were bench marked against the following criteria:

- Policy and plan document of the Department;
- Scheme guidelines issued by GOI for implementation of different schemes and programmes;
- Norms for teacher student ratio, teacher training, etc.;
- Recruitment rules of teaching staff;
- Sikkim Public Works Code and Manual and Sikkim Financial Rules;
- Prescribed internal control mechanism and evaluation

3.1.6 Audit methodology

The performance audit commenced with an entry conference (May 2009) with the Department in which the audit objectives, criteria and scope were discussed. Audit conclusions were drawn after test check of records relating to activities mainly preparation of budget, mid day meal, printing and distribution of text book and uniforms, DIET, construction of school building, deployment of teachers and teachers training, science and laboratory equipment etc. Joint physical verifications of the selected schools were carried out with departmental officers and photographs taken as corroborative evidence to support audit contention. The audit findings were discussed with the Secretary, HRDD in an exit conference (August 2009) and the views of the Department suitably incorporated in the report.

Audit findings

3.1.7 Planning

The audit observation relating to planning in the Department is enumerated below:

3.1.7.1 State policy

It is imperative on the part of the Department to frame State Policy of Education in line with the National Policy on Education (1986) duly reflecting the specific need and requirement of the State. The State Government, however, had not framed and documented the State Policy on Education. Thus, the benefit of policy directions for effective and proper execution of programme could not be availed of despite having a comprehensive data base detailing gender wise and class wise details of students in each school, number of teachers, infrastructural facilities existing in schools such as toilet, drinking water, furniture, playground, computer, etc.

3.1.7.2 Perspective plan

A long-term perspective plan should ideally be prepared duly involving professionals and academicians for charting out the plan of action for the Department. This would facilitate focused attention on important areas of concern and judicious utilisation of scarce resources both human and financial. The Department, however, did not make any attempt to prepare such perspective plan except for Sarva Shiksha Abhiyan thus depriving itself of any long term strategy to facilitate planned growth in education sector and identify the shortfall, if any, for initiating corrective action.

3.1.7.3 Annual plans

The annual plans should ideally flow from perspective plan. The Annual plans were prepared by the Secretary, HRDD for the State as a whole without obtaining inputs from the District Education Offices (DEOs). Besides, the annual plan of the Department did not contain any targets or strategies to ensure universal retention, improvements in education, inspection and supervision of schools etc. Even year-wise targets for construction of school buildings was not fixed, only actual progress of work was maintained in the engineering cell of the Department.

The Department stated (September 2009) that detailed planning is annually undertaken in an effective manner through dedicated planning cell which has further been strengthened by establishment of PME cell headed by Joint Secretary after detailed consultation with DEOs through regular meetings.

The fact remains that minutes of meetings, if any, with the DEOs could not be furnished to audit, though called for.

3.1.8 Financial management and control

The financial position of the Department indicating budget provision and expenditure there against for the period 2004-09 were as under:

Table – 3.1.1

(Rupees in crore)

Year	Budget Provision			Expenditure	Saving	Amount Surrendered
	1	2	3	4	5	6
	Original	**Supplementary**	**Total Grant**			
2004-05	183.33	11.23	194.56	174.95	19.61 (10)	21.61 (11)
2005-06	205.10	20.70	225.80	205.93	19.87 (9)	23.75 (11)
2006-07	220.22	28.98	249.20	225.11	24.08 (10)	22.29 (9)
2007-08	234.20	22.58	256.78	241.67	15.12 (6)	14.63 (6)
2008-09	276.94	33.68	310.62	289.09	21.53(7)	21.10(7)
Total	**1,119.79**	**117.17**	**1,236.96**	**1,136.75**	**100.21 (8)**	**103.38 (8)**

Source: Appropriation Accounts of Government of Sikkim.
Figures in bracket indicate percentage

Deficiencies noticed in financial management are enumerated below:

3.1.8.1 Unrealistic budgeting

The Government of Sikkim does not have its own budget manual. Sikkim Financial Rules (SFR) enjoins upon all head of departments to prepare budget estimates in the beginning of the year duly obtaining inputs from subordinate formations and forward the same to Finance Revenue and Expenditure Department (FRED) for consideration and allocation of fund. However, the budget estimates were finalised at head office level.

The Department stated (September 2009) that the detailed budgeting was annually undertaken in consultation with Directors of different sections and District Education Officers (DEO). But documentary evidence to support the involvement of Directors and DEOs could not be furnished though called for.

3.1.8.2 Utilisation of Central funds

During 2004-09 GOI provided Rs.15.21 crore for construction of school buildings and allied infrastructure under Non Lapsable Central Pool of Resources (NLCPR) and Border Area Development Project (BADP). The Department, however, could not utilise the funds in full as detailed below:

Table – 3.1.2

(Rupees in lakh)

Year	NLCPR					BADP				
	Opening balance	Receipt	Total	Expen-diture	Closing balance	Opening balance	Receipt	Total	Expen-diture	Closing balance
2004-05	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2005-06	Nil	Nil	Nil	Nil	Nil	Nil	77.69	77.69	77.69	Nil
2006-07	Nil	361.43	361.43	300.00	61.43	Nil	85.24	85.24	85.14	0.10
2007-08	61.43	Nil	61.43	232.52	(-) 171.09	0.10	59.03	59.13	57.22	1.91
2008-09	(-) 171.09	924.41	753.32	522.12	231.20	1.91	13.00	14.91	12.04	2.87
Total		**1,285.84**		**1,054.64**			**234.96**		**232.09**	

Source: Figures furnished by the department.

Against the available fund of Rs. 15.21 crore, the Department could utilise Rs.12.87 crore during 2004-09 leaving an unspent balance of Rs. 2.34 crore (15 *per cent)* at the end of 2008-09.

Audit analysis further revealed that the Department had not fixed year wise targets for completion of various construction works. Against the total sanction of 297 works during 2004-09, the Department could complete only 197 (66 *per cent*) works as shown below:

Table – 3.1.3

Year	Construction of school buildings		Construction of play ground		Construction of colleges and DIET building	
	Sanctioned	Achievement	Sanctioned	Achievement	Sanctioned	Achievement
2004-05	24	24	Nil	Nil	1[2]	1
2005-06	49	45	102	102	Nil	Nil
2006-07	52	12	Nil	Nil	3[3]	Nil
2007-08	10	3	Nil	Nil	Nil	Nil
2008-09	54	Nil	1	Nil	1[4]	Nil
Total	**189**	**84**	**103**	**102**	**5**	**1**

Source: Figures furnished by the department

The shortfall in creation of infrastructure was very disquieting given the shortage of basic facilities in the schools as pointed out in paragraph 3.1.10.2 and was indicative of lack of serious efforts on the part of the Department to utilise the available funds for creation of much needed infrastructure.

[2] *Government Degree College (GDC), Tadong*
[3] *DIET, Sanskrit Mahavidyalaya, Samdong and GDC, Namchi*
[4] *Rhenock College*

The Department, stated (August 2009) that short utilisation of funds was mainly due to non performance by the contractors for which the work orders had to be rescinded. The balance work had to be taken up departmentally and the desired physical progress could not be achieved by the end of the financial year due to late sanction of the proposal.

3.1.8.3 Supplementary provision

During 2004-05 and 2005-06, the Department obtained supplementary provision of Rs. 11.23 crore and Rs.20.70 crore respectively for the mid day meal programme, construction works, computer literacy, development of Sanskrit education, etc. However, at the end of the respective year, the Department surrendered Rs. 21.61 crore and Rs. 23.75 crore. This indicated that the expenditure was not monitored or reviewed from time to time by the Drawing and Disbursing Officer and the Chief Controlling Officer as required under the Sikkim Financial Rules.

3.1.9 Implementation of schemes/ programmes

The HRD Department was implementing a number of centrally sponsored and State sponsored schemes besides the core activity of imparting education to the students. The implementation of some of these programmes is elaborated in the succeeding paragraphs.

3.1.9.1 Mid Day Meal Scheme

The National Programme of Nutritional Support to Primary Education (*commonly known as the Mid Day Meal Scheme)* was launched (August 1995) as a 100 *per cent* Centrally Sponsored Scheme with the objective to boost universalisation of Primary education and simultaneously impacting on the nutritional status of students. The scheme envisaged providing cooked meals to the students with minimum 300 calories and 8 to 12 grams of protein content *(revised since September 2006 to 450 calories and 12 grams protein per student)*. Audit noticed following defects in implementation of MDM:

Short-lifting of food-grain: The Food Corporation of India allocated 9,602.40 MT of rice under MDM programme to the State on the basis of enrolment data furnished by the HRD Department. During 2004-09, against the allocated quota of 9,602.40 MT, the Department lifted only 9,137.08 MT resulting in short-lifting of 465.32 MT rice by the three districts (East – 79.58 MT; West – 276.36 MT and North – 169.27 MT) as detailed in Appendix 3.1.

During physical verification (May-June 2009) of 17 schools (2239 students) in North district by the Audit team in presence of departmental officers, it was noticed that in 14 schools, 1,741 students representing 78 *per cent* were not provided mid day meal.

This not only indicated the laid back approach of the Department in implementation of the MDM scheme, but also led to non-achieving of the basic objective of MDM scheme to provide nutritional support to the students.

The Department stated (August 2009) that short lifting of rice was due to blockade of roads by landslides during rainy season, delay in obtaining release order from FCI, Gangtok by the concerned authorised person due to his leave for genuine reason etc.

Retention of fund outside Government Account: The Department had opened two Current Accounts with Canara Bank for implementation of the MDM scheme during 2002 without obtaining the approval of the State Government. The accounts were closed and a new savings account opened in December 2008 in the name of the Director and the Assistant Director, MDM which was also without the approval of the State Government. An amount of Rs. 108.29 lakh from the earlier Accounts were transferred to the new Account besides Rs. 480.23 lakh received from the GOI for construction of kitchen sheds. This was not only irregular but was fraught with the risk of misappropriation of Government money.

While accepting, the Department stated (August 2009) that the case has been taken up for regularisation. Further action was awaited.

Construction of kitchen sheds: Kitchen Shed was one of the essential infrastructures to be created under the MDM scheme for preparing and serving hygienic cooked meal. The Central Government released Rs.147.23 lakh (November 2006) for construction of 245 kitchen sheds in the first phase and Rs.333 lakh (March 2007) in the second phase for 555 kitchen sheds at the rate of Rs. 60,000 per unit.

Scrutiny of records, however, revealed (July 2009) that out of the 245 schools, only in 202 schools construction of kitchen sheds was completed as of July 2009 while in 43 schools the work was still incomplete. Non-completion of kitchen sheds in 43 schools even after a lapse of more than two years of sanction of funds resulted in deprival of adequate facilities for cooking and serving of meals to the students besides blocking of fund of Rs. 20.46 lakh.

The Department proposed (March 2008) construction of 518 sheds in 518 schools (sanctioned: 555 sheds) at Rs. 87,850 per unit as against Rs. 60,000 per unit. The increase in cost was attributed to the increase in the cost of materials. The GOI disapproved the proposal. However, the Department paid (March 2008) advance of Rs. 216.78 lakh to SIMFED for supply of GCI sheets & tubular trusses for 518 kitchen sheds and Rs. 94.02 lakh to Director, Mid-Day-Meal for releasing the amount to the School Managing Committee for civil works. Moreover, out of 518 kitchen sheds, only 135 kitchen sheds were completed as of July 2009, even after more than a year of release of funds.

Image – 3.1

Existing temporary Kitchen Shed at Simlik Linzey JHS

The Department accepted the facts and stated (August 2009) that delay in taking the administrative decision by the authorities, lack of participatory contribution, non availability of land and labours led to delay in construction of kitchen sheds in some schools.

While all promptness was shown by the Department to release funds to the SIMFED and School Managing Committee, it evinced no enthusiasm to ensure completion of the project and fulfill the objective of providing hygienic food cooked in separate dedicated kitchens to the children.

3.1.9.2 District Institute of Education and Training

Establishment of District Institute of Education and Training (DIET) was one of the main components for improving the quality of education by providing in-service training to the teachers.

The DIET building of East district was still incomplete even after more than 19 years of release of funds (Rs. 61 lakh) by GOI due to change of proposed site and lack of initiative by the Department and thus the DIET continued to function from the old existing structure. The DIETs of West and South districts had not started although Rs.74.98 lakh was incurred (out of Rs. 86.25 lakh) as of June 2009. Notwithstanding this, the Department recruited (February 2009) six lecturers, one lower division clerk and four peons for operationalising the DIET at Soreng, West district, without ensuring availability of suitable accommodation for the DIET rendering salary of Rs.6.82 lakh paid to the lecturers and peons recruited for the DIET infructuous.

The Department stated (August 2009) that six lecturers and two peons were attached to DIET, Gangtok, one lower division clerk and other two peons were attached to Block Administrative Centre, Soreng and Director, Technical Education, Gangtok respectively. Reply of the Department was not acceptable as without ascertaining the probable time of operationalisation of DIET at Soreng, recruitment of lecturers and staff in advance and their attachments to the DIET, Gangtok and other places was unjustified.

3.1.9.3 Integrated Education of Disabled Children

The scheme 'Integrated Education for Disabled Children' (IEDC) a 100 *per cent* Centrally Sponsored Scheme, aimed to provide educational opportunities for the disabled children enrolled in common schools with other normal children, to facilitate their retention in the school system. The GOI approved and sanctioned Rs. 25.56 lakh[5] for implementation of the IEDC Scheme for a target group of 527 disabled children in Government schools all over the State, based on a proposal (June 2006) of the Department. The GOI accordingly released Rs. 11.07 lakh *(including previous unspent balance of Rs. 0.21 lakh)*, as first installment in March 2007. The Department could not implement the scheme during 2006-07 due to late receipt of funds from the GOI. Consequently, the Department requested the GOI for revalidating the amount of Rs.11.07 lakh for implementing the scheme during 2007-08. The GOI agreed to the proposal of the Department.

Scrutiny of records revealed that the scheme had not been implemented by the Department within the extended period upto March 2008 and even thereafter *(as of March 2009)*. As a consequence, the GOI instructed (May 2009) the Department to return the unspent funds of Rs. 11.28 lakh. As of July 2009, the department had neither returned the amount to the GOI nor initiated action to implement the scheme in the State.

Thus, lack of initiative and administrative inefficiency of the Department resulted in deprival of the much deserved assistance to the disabled children enrolled in the Government schools all over the State. The Department stated (September 2009) that the unspent balance of Rs. 11.28 lakh would be returned to GOI.

3.1.9.4 Text books and uniforms

One of the important State sponsored schemes was provision of free text books, uniforms and exercise books to pre-primary and primary students to encourage continuation of education by the students and to minimise the drop-out rate. Scrutiny of records relating to the scheme showed that the scheme was being effectively implemented in the State and all the students eligible were provided the required text

[5] *First instalment out of the total approved amount of Rs. 25.56 lakh*

books and uniform. However, the following shortcomings were noticed on procurement and distribution:

Scrutiny of stock register of text books and uniform in the four districts revealed that text books valuing Rs. 79.98 lakh and uniforms valuing Rs. 37.93 lakh were lying in stock before the beginning of the 2009 academic session. Additional purchase was made for Rs. 584.68 lakh for the academic session 2009[6]. Out of the total stock, text books and uniforms valuing Rs. 589.18 lakh[7] were distributed and text books and uniforms valuing Rs. 113.19[8] were lying in the stores after distribution to the students. The Department also suffered a loss of Rs. 60.23 lakh on books which became redundant due to change of syllabus *(Standard I to VIII)* during the period 2004-08.

The Department stated (August 2009) that closing stock of text books and uniforms had accumulated over many years and included the damaged text books and de-prescribed text books. It was further stated that de-prescribing of text books was due to addition of new issues under guidelines of NCERT and Supreme Court's order. Accordingly, phase wise revision of text books was done from Pre Primary to Class VIII.

The fact however, remains that the closing balance of text books and uniform was worked out by audit excluding damaged and old text books.

The State Government introduced (2008-09) a new scheme for free distribution of shoes and socks along with school uniforms and text books to all students of Government schools upto Class V and upto class VIII of those schools located in remote areas of the State. Accordingly, the Department on the basis of requirements received from the district offices initiated proposal (February 2008) for purchase of 86,470 pair of shoes. The proposal was approved by the cabinet on 24 April 2008. Tenders for supply of shoes and socks were invited in May 2008 against which 11 firms quoted their rates. The tenders were opened on 13 June 2008. The offer of a Gangtok based firm[9] at Rs. 350.95 per pair for Bata shoes was found lowest. Though the lowest offer was administratively approved on 28 June 2008, supply order was placed on the firm only on 22 August 2008 almost two months after the administrative approval. The firm informed that the offer rate was valid only for 60 days from the date of tender. It was further informed *(after confirmation from M/s Bata India Limited, Batanagar)* that the rate of shoes was enhanced by Rs. 50 per pair and they could supply the shoes only at the rate of Rs. 400.95 per pair. The Department purchased the shoes after negotiating the rate at Rs. 397 per pair.

[6] *Text books Rs. 85.83 lakh and Uniform Rs 498.85 lakh*
[7] *Text books Rs. 80.70 lakh and Uniform Rs.508.48 lakh*
[8] *Text books Rs. 85.11 lakh and Uniform Rs.28.08 lakh*
[9] *M/s Basura*

Thus, inaction of the Department in placing supply order timely on the firm led to avoidable excess expenditure of Rs. 45.20 lakh[10] on purchase of the shoes. The Department stated that (August 2009) supply order could not be issued as the file was under process due to which the Department had to bear the enhanced price.

The Department decided (July 2008) to change the Environmental Studies text book for Standard IV for the academic session 2009. Accordingly, supply order for 16,050 books valuing Rs. 5.62 lakh was issued (November 2008) to one private supplier/printer for printing of books. Scrutiny of records however, revealed that the books were supplied to the district text book stores only in the month of June 2009 *(academic session starts in the State in February)* after a delay of more than three months. As a result, the subject could not be taught to the students for more than three months during the academic session due to the late supply. No penalty was imposed on the supplier for the delay in supply of books and the consequent loss suffered by the students.

The Department stated (August 2009) that delay occurred due to repeated proof reading done by subject experts before final printing to ensure correct printing. But the fact remains that the Department could have planned the printing of books well in time to ensure timely supply of books in the beginning of the session for the benefit of the students.

3.1.10 Infrastructural facilities

Availability of adequate infrastructure in terms of school building, playground, furniture, toilets and drinking water is important for facilitating congenial environment for imparting quality education to the students. Audit analysis revealed that the Department had not fixed year-wise target for construction of school buildings, play ground, etc. However, sample check of 130 *(out of 203)* works in audit revealed that the targeted completion date was not adhered to in case of 45 works recording a delay ranging between six and twenty five months. Besides, following were noticed:

3.1.10.1 Completion of school buildings

The State Cabinet approved (September 2001) construction of Composite school building, Daramdin at an estimated cost of Rs.1.30 crore (later revised to Rs. 1.84 crore in March 2007) to accommodate the increasing number of students and also to provide requisite facilities such as teachers' common room, library, multipurpose hall etc. Accordingly, the work was put to tender (June 2002) and awarded (August 2002) to the lowest bidder at 38 *per cent* above the estimated cost with stipulation to

[10] *(86470X Rs. 397) – (86470 X Rs. 350.95) = Rs 3981943.50 + 53756.2.37 (12'5% VAT & 1% Cess) =Rs 4519505.87*

complete by February 2004.

Test-check of records revealed (January 2009) that the contractor stopped the work without assigning any reasons, after receiving payment of Rs. 1.08 crore as of October 2007. Although notice was served (August 2008) to the contractor for resumption of residual work, the contractor had not resumed work till December 2008. No penalty was imposed on the contractor for abandonment of the work. The delay in completion of work for more than six years led to non-accrual of intended benefits from additional class rooms, teachers' common room, library, multipurpose hall etc., besides cost escalation due to time overrun.

The Department stated (March 2009) that the revision of work was resorted to as per demand of area MLA and school managing committee. The balance work would be taken up departmentally considering the health problem of the contractor.

Another work relating to construction of Auditorium- cum – twelve roomed school building at Dentam under BADP scheme awarded (October 2005) to a contractor at Rs. 82.11 lakh was inordinately delayed by 38 months. The contractor had stopped the work due to financial problem since March 2008, after expenditure of Rs. 48.52 lakh. The Department did not compel the contractor to complete the work in time. Non-construction of building even after a lapse of more than three and a half years deprived the school children of the much needed infrastructure of school building and auditorium.

While accepting the fact, the Department stated (March 2009) that the contractor was summoned and undertaking obtained from him to complete the work by March 2009 failing which appropriate action would be initiated by rescinding the contract and penalty imposed as per norms. As of August 2009, the work was still incomplete. No action had been initiated by the Department either to rescind the contract or penalise the contractor.

3.1.10.2 Basic facilities in schools

A further analysis of availability, creation and utilisation of infrastructural facilities revealed lack of basic facilities such as play ground (38 *per cent*), drinking water (34 *per cent)* electricity (69 *per cent)* etc. as detailed below:

Table – 3.1.4

Name of district	Number of Schools	Playground not available	Drinking water not available	Schools having no toilets	Toilets for boys Not available	Toilets for girls not available	Schools having common toilets	Electricity Not available
East	235	100 *(43)*	70 *(30)*	49 *(21)*	104 *(44)*	103 *(44)*	52 *(22)*	159 *(68)*
North	84	36 *(43)*	25 *(30)*	13 *(15)*	42 *(50)*	43 *(51)*	30 *(36)*	22 *(26)*
South	222	71 *(32)*	86 *(39)*	49 *(22)*	125 *(56)*	121 *(55)*	71 *(32)*	180 *(81)*
West	224	36 *(16)*	76 *(34)*	38 (17)	122 *(54)*	123 *(55)*	82 *(37)*	167 *(30)*
Total	**765**	***290*(38)**	***257(34)***	***149(19)***	***393(51)***	***390(51)***	**235(31)**	***528(69)***

Source:Figures furnished by the Department; Figures in bracket indicate percentage

During joint physical verification of 73 schools by Audit team alongwith the Departmental officers, it was observed that in 12 schools toilets were not usable due to non-availability/ irregular supply of running water. This resulted in unhygienic

Image – 3.2

Dilapidated School Building Pakshep JHS, North

Image – 3.3

Tap without water, Chungthang SS

Image – 3.4

Waterlogged playground Pachey JHS,East

school environment for healthy and physical growth of students. It was further observed that the Department had never carried out a comprehensive survey to evaluate the availability of basic facilities in the schools.

3.1.10.3 Availability of furniture

Physical verification of 73 schools further revealed inadequacy of furniture in class rooms ranging between 10 and 50 *per cent* in 24 schools. Absence of adequate furniture thus, compelled the students to accommodate themselves within the available furniture resulting in discomfort and uncongenial environment for study and learning.

Image – 3.5

Furniture in Chungthang SS, North

Image – 3.6

Furniture at Samdong SSS, East

The Department accepted (September 2009) the observation and informed that 100-200 sets of furniture were being provided to schools every year to mitigate the minimum demand.

3.1.11 Human resource management

Proper human resources management was one of the most important responsibilities of the HRDD as it directly affected quality of education. It was therefore imperative on the part of the Department to devise proper system of recruitment, promotion and transfer of teachers involved with imparting quality education to the students. Ensuring in-service training to the teachers was another important function necessary to improve the skill levels of the teachers and enhance their domain knowledge. The audit observations in this regard are detailed below:

3.1.11.1 Deployment of teachers

The State Government prescribed (May 2004) the staffing norms of 03 General Primary Teacher and 01 Headmaster for LPS; 05 General Primary Teacher and 01 Headmaster for PS; 06 General Primary Teacher, 04 Graduate teacher and 01

Headmaster for JHS; and 06 General Primary Teacher, 08 Graduate teachers, 01 Headmaster for SS.

Audit analysis of men-in-position of teaching staff in respect of each category of Schools for the State as a whole in December 2008 revealed deployment of 572 excess teachers in 154 schools leading to extra expenditure of Rs. 7.59 crore per year as shown below:

Table – 3.1.5

Name of district	Excess operation of posts in the schools as on December 2008					School having shortage of teachers as on December 2008			
	Number of schools	Requirement of teachers (as per norms)	Teacher-in-position	Excess teachers	Extra expenditure (Rs. in lakh)	Number of schools	Requirement of teachers (as per norms)	Teacher-in-position	Shortage of teachers
East	103	987	1455	468	620.93	47	294	219	75
West	12	141	166	25	33.17	122	881	617	264
North	05	59	65	06	7.96	52	405	281	124
South	34	354	427	73	96.85	111	785	579	206
Total	**154**	**1,541**	**2,113**	**572**	**758.91@**	**332**	**2,365**	**1,696**	**669**

Source: Departmental figure
@ Pay and allowances calculated based on scale of Primary teacher

The above table reveals that excess deployment was highest in Primary School (53 *per cent*), followed by Junior High School (35 *per cent*), Secondary School (27 *per cent*) and Lower Primary School (25 *per cent*). This extra expenditure (Rs. 7.59 crore per year) could have been utilised in 332 (96 LPS+153 PS+44 JHS+39 SS) schools having shortage of teachers. Even considering the norm of Teacher-Student ratio of 1:40, teachers on roll in 116 schools were much in excess of requirement. The objective of providing quality education was thus compromised in the schools having shortage of teachers. Notwithstanding this, the Department had neither assessed the availability and utilisation of excess teachers nor initiated steps to transfer the excess teachers to schools with shortage of teachers.

3.1.11.2 School-student and teacher-student ratio

Audit analysis of position of teachers vis-à-vis students in schools during 2004-09 with reference to prescribed teacher-student norms of 1:40 revealed that the State had a favourable teacher-student ratio ranging between 1:19 and 1:16 during 2004-09 as shown below:

Table – 3.1.6

Year	Number of Schools					Number of Teachers	Number of Students	Students Teacher Ratio
	Pre Primary	Primary	Junior High School	Secondary school	Total			
1	2	4	4	5	6	7	8	9
2004-05	NA	NA	NA	NA	NA	NA	NA	-
2005-06	162	327	147	93	729	5915	109818	1:19
2006-07	164	335	147	93	739	6038	102376	1:17
2007-08	162	338	138	92	730	5863	99465	1:17
2008-09	148	335	143	97	723	6041	96743	1:16

Source: Departmental figure; NA = Not available

It was however seen that the school-student ratio decreased from 1:150 in 2005 to 1:134[11] in 2008-09 indicating a decreasing trend in number of students. Despite the above favourable conditions, the overall pass percentage in the State Board (Class VIII) and National Board (Class X) did not show any commensurate improvement as pointed out in sub-paragraph 3.1.12.7.

The Department stated (August 2009) that initiatives were taken to deploy the teachers as per the requirement and to rationalise the teacher-student ratio.

3.1.11.3 Schools with 'one' and 'two teachers'

It was further noticed that 54 LPS and 28 PS were functioning with only one or two teachers thus depriving of equal opportunity to all students of the State to achieve essential levels of learning as shown below:

Table – 3.1.7

Name of District	Lower Primary			Primary		
	Number of Schools with			Number of Schools with		
	Zero Teacher	One Teacher	Two Teachers	Zero Teacher	One Teacher	Two Teachers
East	Nil	Nil	02	Nil	Nil	Nil
West	01	03	15	Nil	02	03
North	Nil	01	05	Nil	Nil	06
South	01	03	16	Nil	Nil	01
Total	**02**	**07**	**38**	**00**	**02**	**10**

Source: Departmental figure

It was also not clear how the classes were managed and lessons imparted in absence of the required strength of teachers.

[11] *Column 8 / 6*

3.1.11.4 Deployment of school mother

According to Staffing norms and guidelines issued by the Department for the Government schools, there should be one school mother (SM) in each school for lower primary students.

The actual deployment vis-à-vis requirement of SMs in lower primary schools as of December 2008 was as under:

Table – 3.1.8

Name of district	Excess deployment of SM as on December 2008				Non-deployment of SM as on December 2008			
	Number of schools	SM requirement on 1:40 basis[12]	SM in position	Excess SM	Number of schools	SM requirement on 1:40 basis	SM in position	Shortage of SM
East	64	66	133	67 (102)	13	13	0	13
West	38	78	78	—	24	24	0	24
North	18	18	37	19 (106)	09	09	0	09
South	15	15	30	15 (100)	15	15	0	15
Total	135	177	278	140	61	61	0	61

Source: Departmental records; Figures in bracket indicate percentage

It would be seen from the above table that while 135 schools had 140 surplus SMs deployed in excess of norms ranging from 100 *per cent* to 106 *per cent*, 61 schools were running without any SM. While the excess deployment of 140 SMs in 135 schools resulted in under-utilsation of their services, non-deployment of any SM in 61 schools totally deprived the pre-primary level children the care giving services of the SMs. The excess deployment of 140 SMs also resulted in payment of idle wages to the tune of Rs. 1.42 crore every year.

3.1.12 Quality education

Imparting Quality education was one of the major concerns of the HRD Department. In the State there were 144 JHS, 99 SS and 44 SSS schools at the end of academic session 2008. To achieve quality education, the Department initiated a number of steps like recruitment of qualified teachers, imparting adequate training to the teachers and instill scientific temperament among the students through modern means of education. It was however, noticed that inspite of the best efforts of the State Government, the drop-out rates hovered between 32 and 44 *per cent* during 2004-09 and the results in the board examinations were not encouraging as detailed below:

[12] *School mother-Student ratio has been calculated in the ratio of 1:40. For additional number of students, more than 40 and upto 80, deployment of one additional SM has been taken into consideration.*

3.1.12.1 Domain knowledge

It was imperative on the part of the Department to recruit teachers with adequate domain knowledge of their subjects, aptitude for teaching, adequately trained in teaching skills, etc. for effective dissemination of quality education to the students. The Department was therefore, required to lay down an effective recruitment policy to ensure that recruitment of teachers conformed to the basic qualifications required for the profession.

Test-check of records however, revealed that the teachers' recruitment was done more for providing employment to the unemployed than for engaging persons with sufficient knowledge, aptitude, training and basic skills required for the profession.

The Department stated (September 2009) that while trained candidates were recruited as Primary Teachers, recruitment rule has been relaxed for Graduate teachers due to non-availability of sufficient local candidates.

3.1.12.2 Training

Quality education depends on the quality of teachers, as they form the backbone of education system. To bring about a quality change in education there should be continuous improvement in teaching and delivery techniques. Scrutiny of records revealed that the Department had not fixed any year-wise target for training of the teachers. The position of trained and untrained teachers as of December 2008 was as under:

Table – 3.1.9

Distt.	LPS			PS			JHS			SS			SSS		
	Total	Trained	Untrained	Total	Trained	Untrained	Total	Trained	Untrained	Total	Trained	Untrained	Total	Trained	Untrained
East	104	77	27	785	703	82	735	512	223	658	496	162	889	643	246
West	166	119	47	499	367	132	411	218	193	450	257	193	326	193	133
North	52	41	11	164	109	55	181	96	85	174	98	76	91	53	38
South	136	106	30	512	421	91	493	320	173	521	318	203	152	201	120
Total	458	343	115	1,960	1,600	360	1,820	1,146	674	1,803	1,169	634	1,458	1,090	537
%		**74**	**26**		**81**	**19**		**63**	**37**		**65**	**35**		**74**	**37**

Source: Departmental figure

It would be seen from the above table that the percentage of untrained teachers in Lower Primary Schools was 26 *per cent,* in Primary Schools 19 *per cent*, in Junior High Schools 37 *per cent*, in Secondary Schools 35 *per cent* and in Senior Secondary Schools *37 per cent*. Thus, delivery of quality education to students was affected due to lack of trained teachers. This also indicated that the Department was not serious towards importance of teachers training for delivering quality education to the students.

3.1.12.3 Professional development of teachers

In order to ensure professional development of teachers, the Sarva Shiksha Abhiyan (SSA) provides for in-service training of 20 days for all teachers, 60 days refresher course for all untrained teachers and 30 days orientation course for fresh teachers.

The SSA envisaged training of teachers at a unit cost of Rs. 100 per day per teacher including cost of training, development of modules and teacher guide. The year-wise training programmes conducted and the expenditure incurred were as under.

Table – 3.1.10

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
No. of teachers proposed for training						
(i) 20 days for all teachers	3,982	2,379	1,959	1,966	1,200	11,486
(ii) 30 days orientation course for fresh teachers	475	352	357	327	25	1536
(iii) 60 days refreshers course for all untrained teachers	690	1,500	1,626	916	641	5,373
Total:	**5,147**	**4,231**	**3,942**	**3,209**	**1,866**	**18,395**
No. of teachers trained:						
(i) 20 days for all teachers	699 (18)	1117 (47)	608 (31)	400 (20)	1,107 (92)	3,931(34)
(ii) 30 days orientation course for fresh teachers	56 (12)	Nil	Nil	Nil	Nil	56 (4)
(iii) 60 days refreshers course for all untrained teachers	Nil	Nil	Nil	Nil	441 (69)	441 (8)
Total:	755	1,117	608	400	1,548	4,428(24)
Shortfall	4,392 (85)	3,114 (74)	3,334 (85)	2,809 (88)	318 (29)	13,967 (76)
Budget outlay (Rs. in lakh)	93.48	103.70	103.20	77.03	57.21	
Expenditure (Rs. in lakh)	6.34	14.05	9.09	4.20	39.17	72.85

Source: Departmental figure; Figures in bracket indicate percentage

It would be seen from the above table that against the target of 18,395 teachers, only 4,428 teachers (24 *per cent)* were imparted training in various categories leaving 13,967 teachers (76 *per cent*) untrained. The shortfall in training had adverse impact on the qualitative aspects of the teaching-learning process. Although an amount of Rs. 72.85 lakh was spent, details such as nature of training and name of faculty members were not available on record. Besides, the Department could not confirm whether trained instructors were utilised for imparting training.

The Department stated (August 2009) that shortfall in training during 2006-08 was due to late receipt of State share by the SSA society and consequent non - release of second instalment of central share by GOI. The reply not only did not address the shortfall in training during 2008-09, it also indicated lack of proper coordination between Department and FRED to ensure expeditious release of state share.

3.1.12.4 Scientific temperament

National Policy on Education (NPE) 1986 envisaged to strengthen science education so as to develop well defined abilities and values in the child such as the spirit of inquiry, creativity, objectivity, the courage to question and an aesthetic sensibility. In order to achieve the objective of strengthening science education, the Department was required to provide science laboratory equipment including chemicals for conducting day to day practical classes to all the Secondary (SS) and Senior Secondary (SSS) schools having science stream.

Audit, however, noticed that while laboratory equipment were not provided to 68 SS[13] (out of 99) as of March 2009, only 14 (out of 21) SSS having science stream with effect from 2003 were provided with lab equipment belatedly in August 2006 after more than 3 years of introduction of the science stream. This indicated utter neglect of the qualitative aspects of science education affecting promotion of scientific temper among the school students.

The Department stated (September 2009) that adequate laboratory facilities could not be provided due to fund constraints.

3.1.12.5 Innovative learning

In March 2003, the Department entered into an agreement with a Kolkata based firm *(M/s Aces Infotec Ltd., Kolkata)* for supply and installation of 400 computers in upper primary schools (10 computers per schools) and also to impart training to the students of these schools at an annual contractual value of Rs. 1.14 crore for four years aggregating Rs. 4.54 crore.

During test-check of 15 schools (out of 40), Headmasters of the schools reported that 29 computers were not working for want of repair and maintenance. This was mainly due to the fact that the Department had not entered into any annual maintenance contract with the firm for maintenance of computers and other equipment after the expiry of the project period. Consequently, a large number of students were deprived of computer education after the expiry of project period. The Department stated (August 2009) that in 2006 a vigilance enquiry was instituted and hence the contract for maintenance could not be entered into. Besides, no fund was allocated under the programme during 2007-09 for the maintenance of computers.

[13] *Equipment provided to 15 SS in 2004-05 and to 16 SS in 2007-08.*

3.1.12.6 High drop-out of students

Scrutiny of enrolment records of the students in the State revealed that there was high dropout of students as they progressed higher in the school system. 19,935 students enrolled in Class I in 2000 were reduced to 11,530 in 2004 when they reached Class V and to 7,806 when the students reached class VIII. Thus, 42 *per cent* students dropped out of the school system by the time they reached Class V while 61 *per cent* dropped out while the students reached Class VIII as shown below:

Table – 3.1.11

Enrolment in class I		Enrolment in class V		Drop out	% of Drop out	Enrolment in class VIII with reference to class I students of 2000		Drop out	% of Drop out
Year	No. of students	Year	No. of students (Percentage)			Year	No. of students (Percentage)		
2000	19,935	2004	11,530 (58)	8405	42	2007	7,806 (39)	12,129	61
2001	17,300	2005	11,774 (68)	5526	32				
2002	16,900	2006	10,785 (64)	6115	36				
2003	17,052	2007	10,992 (64)	6060	36				
2004	19,636	2008	11,017 (56)	8619	44				

Source: Departmental figure

The high dropout rate indicated that the implementation of various Central and State sponsored schemes as detailed in paragraph 3.1.9 was not successful in containing the dropout rates and ensuring retention of students in the school system to fulfill the targeted objective. The HRD Department had not analysed the reasons for the high rate of dropouts with a view to introduce corrective measures to arrest the trend.

The Department stated (September 2009) that dropout rate was effected due to (i) children of the floating labours leaving the State with their parents on completion of the projects, (ii) children of neighbouring State in border areas take admission to avail free uniforms, textbooks etc. and leave in the middle of the session, (iii) repeaters after failure not to be considered as drop out.

3.1.12.7 Performance in State and National Board Examination

The State has its own Board upto Class VIII level. The students for class IX and onwards are affiliated to Central Board of Secondary Education. While the pass percentage in the Sikkim Board of Junior School Education (for VIII standard) ranged between 54 and 67 *per cent* for the period 2004-08, the pass percentage in class X and XII ranged between 32 and 60 *per cent* and 72 and 78 *per cent* respectively. Thus, the performance of students in XII standard was encouraging and satisfactory as compared to class X level. Reasons for low pass percentage in class X examination were never ascertained to initiate corrective action in this regard.

The Department stated (August 2009) that the rate of failure in class X level would be analysed in proper perspective by the academic experts of the Department.

3.1.13 Monitoring

3.1.13.1 Inspection of schools

Audit observed that the Department did not issue any instructions prescribing norms such as periodicity, objectives, type of report to be issued and follow up action etc. in connection with inspection of the schools in order to exercise effective control over the schools and also to improve the quality of education as envisaged in the National Policy of Education. While accepting the fact the Department stated (August 2009) that serious initiatives was being taken to ensure effective inspection of schools with a view to achieve the objective of quality education.

3.1.13.2 Internal Audit

Internal audit is an independent appraisal of the control mechanism in the Department by the Auditors. The responsibility of carrying out internal audit of HRDD was assigned to FRED (Directorate of Internal Audit). It was however, noticed that Director of Internal Audit had not inspected records of the Department during any of the years under review. Consequently, weakness, lacunae in the internal control were not brought to the notice of the Department to initiate corrective measures.

The Department stated (September 2009) that Internal Audit would be carried out as suggested by Audit.

3.1.13.3 Lack of response to audit

Sikkim Financial Rule (para 47 and 48) provides that every Government Servant must attend promptly to all objections and order communicated to him by the Accountant General. Important irregularities detected by audit during periodical inspection of the Department through test-check of records are followed up with Inspection Reports (IRs) issued to the head of the Department. The Department, however, neither submitted replies nor took corrective requisite action with reference to audit observations. As a result, 9 IRs containing 80 audit observations involving Rs. 59.93 crore for the period ranging between 1 - 12 years were lying unsettled.

The Department stated (September 2009) that while 60 (out of 85) outstanding paras had been traced and forwarded to concerned sections for furnishing appropriate replies, details about remaining paras were being traced for framing suitable replies.

3.1.14 Conclusion

The State did not frame its own education policy although the GOI had evolved a

National Policy on education to achieve the goal of compulsory education for children. Various schemes introduced by the GOI/State Government in the State had not been able to meet the goal of achieving primary education to all and minimum level of learning and thus, there was little impact on crucial parameters i.e., enrolment, retention and completion of elementary education. While a large number of schools had excess teachers, a number of schools were running with shortage of teachers. Prescribed frequency of imparting in-service training to teachers of elementary education was not achieved and the shortfall ranged between 74 and 88 *per cent* during 2004-09 depriving the schools of trained teachers. There was no prescribed system for inspecting the schools at regular intervals and assessing the quality of education imparted to the students.

3.1.15 Recommendation

In the light of audit findings the following recommendation are made for consideration of the Government:

- The State Government should formulate State Education Policy to give policy directions in the field of education;
- Immediate steps is required to be taken to train the untrained teachers to bring about a quality change in the education imparted in the schools;
- The requirement of infrastructure facilities need to be assessed and adequate outlay ensured in the Annual Work Plan;
- Evolve a comprehensive monitoring and evaluation system of the key areas of the Department right from school level to the State level for ensuring quality education and successful implementation of the schemes in the State.

CHAPTER-IV
REVENUE RECEIPTS

4.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Sikkim during the year 2008-09, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year 2008-09 and the corresponding figures for the preceding four years are mentioned below.

Table – 4.1

(Rupees in crore)

Sl. no.		2004-05	2005-06	2006-07	2007-08	2008-09
I.	**Revenue raised by the State Government**					
	• Tax revenue	116.95	147.23	173.18	197.86	199.19
	• Non-tax revenue	992.47	990.10	1,085.04	1,413.74	1,205.31
	Total	1,109.42	1,137.33	1,258.22	1,611.60	1,404.50
II.	**Receipts from the Government of India**					
	• State's share of divisible Union taxes	107.35	182.13	222.78	345.12	364.20
	• Grants-in-aid	675.63	644.90	635.54	742.71	902.55
	Total	782.98	827.03	858.32	1,087.83	1,266.75
III.	**Total receipts of the State**	1,892.40	1,964.36	2,116.54	2,699.43	2,671.25
IV.	**Percentage of I to III**	**59**	**58**	**59**	**60**	**53**

During the year 2008-09, the State Government raised 53 *per cent* of the total revenue receipts against 60 *per cent* in the preceding year. The balance 47 *per cent* of receipts during 2008-09 was from the Government of India.

4.1.1 Tax revenue

The following table presents the details of tax revenue raised during the period from 2004-05 to 2008-09:

Table – 4.2

(Rupees in crore)

Sl. no.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08
1.	Sales tax/VAT	48.18	56.65	74.66	81.32	101.14	(+) 24.37
2.	Taxes on income other than corporation tax	29.09	47.82	46.71	49.10	16.16	(-) 67.00
3.	State excise	32.69	32.96	33.31	37.94	46.47	(+) 22.48
4.	Stamps and registration fees	1.43	2.27	2.52	4.26	4.35	(+) 2.11
5.	Taxes on vehicles	3.24	4.24	5.95	6.22	6.94	(+) 11.58
6.	Other taxes and duties on commodities and services	1.88	2.68	9.25	16.26	22.18	(+) 36.41
7.	Land revenue	0.44	0.61	0.78	2.75	1.95	(-) 29.09
	Total	**116.95**	**147.23**	**173.18**	**197.85**	**199.19**	(+) 0.68

The following reasons for variations were reported by the concerned departments.

Sales Tax/VAT: The increase was due to proper monitoring for collection of tax and more realisation under Trade Tax (VAT) and State Sales Tax Act.

Taxes on vehicles: The increase was due to introduction of luxury tourist vehicles from which tax & permit fee etc. were realised and registration of more commercial and private vehicles.

Other taxes and duties on commodities and services: The increase was due to more realisation receipts from cesses under other Acts and from fees on *Bazaar* Contract and Miscellaneous Receipts.

In respect of Stamps and Registration reasons for increase was not furnished by the Department (October 2009) though called for (August-September 2009).

4.1.2 Non-tax revenue

The following table presents the details of non-tax revenue raised during the period from 2004-05 to 2008-09:

Table – 4.3

(Rupees in crore)

Sl. no.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08
1.	Interest receipts	8.03	6.31	5.34	15.10	25.94	(+) 71.79
2.	Road transport	21.52	13.67	14.86	15.62	17.64	(+) 12.93
3.	Plantations	1.63	2.01	1.95	2.10	2.35	(+) 11.90
4.	Dividends & profits	0.92	1.14	0.76	0.68	1.31	(+) 92.65
5.	Forestry and wild life	7.92	9.97	9.50	10.95	11.26	(+) 2.83
6.	Tourism	0.78	0.81	0.87	1.18	2.11	(+) 78.81
7.	Crop husbandry	0.31	0.36	0.50	1.64	0.71	(-) 56.71
8.	Power	21.41	28.00	58.16	97.66	154.74	(+) 58.45
9.	Printing & stationery	1.07	1.65	1.69	1.98	1.50	(-) 24.24
10.	Medical and public health	0.98	0.91	0.60	1.14	0.96	(-) 15.79
11.	Village & small industries	0.08	0.14	0.10	0.23	0.08	(-) 65.22
12.	Public works	2.46	3.09	3.74	4.32	4.97	(+) 15.05
13.	Police	4.38	14.14	13.90	14.64	11.68	(-) 20.22
14.	Animal husbandry	0.31	0.41	0.39	0.43	0.30	(-) 30.23
15.	Industries	0.01	0.19	0.02	0.01	0.25	(+) 2,400.00
16.	State lotteries[1]	912.27 (31.16)	898.35 (22.19)	963.30 (50.01)	1,232.55 (30.84)	957.00 (54.46)	(-) 22.36
17.	Others	8.39	8.95	9.36	13.51	12.51	(-) 7.40
	Total	**992.47**	**990.10**	**1,085.04**	**1,413.74**	**1,205.31**	(-) 14.74

The following reasons for variations were reported by the concerned departments.

Interest receipts: The increase was due to more realisation on investment of cash balances.

Road transport: The increase was due to increase in traffic flow at the later part of the year, as a result of which the collections of supervision charges rose up.

Tourism: The increase was due to more realisation under rent and catering charge.

Crop husbandry: The decrease was due to less realisation on seeds and other receipts.

Medical and public health: The decrease was due to less realisations on receipts from patients and other receipts etc.

Village and small industries: The decrease was due to less realisations on sale proceeds.

Police: The decrease was due to less realisations on other receipts and police check post.

[1] *Figures in brackets represent net receipts.*

Animal husbandry: The decrease was due to less realisations on receipts from sheep, wool and piggery and other receipts.

State lotteries: The decrease was due to sudden closure of two digit lotteries.

The Finance, Revenue & Expenditure Department did not inform (October 2009) the reasons for increase in dividends and profits despite being requested (August-September 2009).

4.1.3 Variations between the budget estimates and actuals

The variations between the budget estimates (BE) and actuals of revenue receipts for the year 2008-09 in respect of the principal heads of tax and non-tax revenue are mentioned below.

Table – 4.4

(Rupees in crore)

Sl. no.	Head of revenue	BE	Actuals	Variations excess (+) or shortfall (-)	Percentage of variation
A.	**Tax revenue**				
1.	Sales Tax/VAT	56.00	101.14	(+) 45.14	(+) 80.61
2.	Taxes on income other than corporation tax	40.00	89.61	(+) 49.61	(+) 124.03
3.	State excise	42.50	46.46	(+) 3.96	(+) 9.32
4.	Other taxes and duties on commodities and services	14.86	22.18	(+) 7.32	(+) 49.26
5.	Taxes on vehicles	4.00	6.94	(+) 2.94	(+) 73.50
6.	Stamps and registration	2.33	4.35	(+) 2.02	(+) 86.70
7.	Other taxes on income and expenditure	42.30	16.16	(-) 26.14	(-) 61.80
8.	Land Revenue	1.11	1.95	(+) 0.84	(+) 75.68
B.	**Non-tax revenue**				
9.	Power	146.00	154.74	(+) 8.74	(+) 5.99
10.	Police	16.30	11.68	(-) 4.62	(-) 28.34
11.	Road transport	14.00	17.64	(+) 3.64	(+) 26.00
12.	Forestry and wildlife	8.00	11.26	(+) 3.26	(+) 40.75
13.	Interest receipts	3.07	25.94	(+) 22.87	(+) 744.95
14.	Public works	2.04	4.97	(+) 2.93	(+) 143.63
15.	Medical and Public Health	0.50	0.96	(+) 0.46	(+) 92.00
16.	Tourism	1.23	2.11	(+) 0.88	(+) 71.54
17.	Dividends and profits	0.75	1.31	(+) 0.56	(+) 74.67
18.	Crop Husbandry	0.34	0.71	(+) 0.37	(+) 108.82
19.	Animal Husbandry	0.40	0.30	(-) 0.1	(-) 25.00
20.	Plantations	2.20	2.35	(+) 0.15	(+) 6.82
21.	Village and Small Industries	0.15	0.08	(-) 0.07	(-) 46.67
22.	Industries	0.17	0.25	(+) 0.08	(+) 47.06

The following reasons for variations between BE and actuals were reported by the concerned departments.

Taxes on vehicles: The increase was due to more registration of vehicles.

Police: The decrease was due to less realisations on other receipts and police check post.

Road transport: The increase was due to increased traffic flow in the later part of the year resulting in rise of supervision charges.

Other administrative services: The increase was due to the issue of duplicate identity cards on payment to voters and sale of election forms and documents after the announcement of general elections in the last quarter of the financial year.

Urban development: The increase was due to (i) better renewal initiative and new licences, (ii) regularisation of fee collection from Mobile Towers, (iii) enhanced collection through notices and (iv) increased lease rent from 5th year.

Information and publicity: The increase was due to realisation of outstanding advertisement cost from other Departments.

Co-operation: The increase was due to more receipts from cooperative societies.

Other rural development programme: The increase was due to sanction of new schemes.

Non-ferrous, mining & metallurgical industries: The increase was due to more number of applications received for the stability report from the public.

Other general economic services: The increase was from higher calibration fee on storage tanks which were verified in the interval of five years.

The other departments did not inform (October 2009) the reasons for variation despite being requested (August-September 2009).

The fact remains that the very large variations under most of the heads point to the need for framing of budget estimates on a realistic basis.

4.1.4 Analysis of collection

The break-up of total collection at the pre-assessment stage and after regular assessment for the year 2008-09 and the corresponding figures for the preceding two years as furnished by the departments is as follows.

Table – 4.5

(Rupees in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection[2]	Percentage of column 3 to 7
1	2	3	4	5	6	7	8
Sales Tax/	2006-07	1.31[3]	0.17	0.02	0.004	1.50	87.33
VAT	2007-08	1.63	1.72	1.25	Nil	4.60	35.43
	2008-09	1.91	1.99	1.35	1.24	4.01	47.63
Sikkim	2006-07	0.35	2.06	Nil	0.029	2.38	14.71
Income	2007-08	Nil	3.84	Nil	0.22	3.62	-
Tax	2008-09	Nil	Nil	Nil	Nil	Nil	Nil

4.1.5 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2006-07, 2007-08 and 2008-09 along with the relevant all India average percentage of expenditure on collection to gross collection for 2007-08 was as follows.

Table – 4.6

(Rupees in crore)

Sl. no.	Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2007-08
1.	Sales tax/VAT	2006-07	74.66	1.57	2.10	0.83
		2007-08	81.32	1.72	2.12	
		2008-09	101.14	1.95	1.93	
2.	State excise	2006-07	33.31	1.90	5.70	3.27
		2007-08	37.94	1.97	5.19	
		2008-09	46.46	2.36	5.08	
3.	Taxes on vehicles	2006-07	5.95	0.56	9.41	2.58
		2007-08	6.22	0.60	9.65	
		2008-09	6.94	0.77	11.10	

Thus, the percentage of expenditure on collection during 2008-09 as compared to the corresponding all India average percentage for 2007-08, was high in all the taxes which the Government needs to look into.

4.1.6 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2009 in respect of some principal heads of

[2] Net collection reported by departments does not tally with the Finance Accounts and needs reconciliation.
[3] The department did not inform the reasons for wide variation vis-à-vis the previous year despite being requested.

revenue as furnished by the departments amounted to Rs. 25.35 crore of which Rs. 10.33 crore was outstanding for more than five years as mentioned in the following table.

Table – 4.7

(Rupees in crore)

Sl. no.	Head of revenue	Amount outstanding as on 31 March 2009	Amount outstanding for more than five years as on 31 March 2009
1.	Road transport (SNT)	1.90	Nil
2.	Sales tax/VAT	0.65	0.20
3.	Income tax	8.23	7.58
4.	Police	11.27	Nil
5.	Non-ferrous mining & metallurgical industries	3.30	2.55
	Total	**25.35**	**10.33**

4.1.7 Arrears in assessments

The details of pending assessment cases at the beginning of the year, cases becoming due for assessment during the year, cases disposed during the year and number of cases pending at the end of the year 2008-09 as furnished by the departments are mentioned below.

Table – 4.8

Name of tax	Opening balance	New cases due for assessment during 2008-09	Total assessments due	Cases disposed during 2008-09	Balance at the end of the year	Arrears in percentage against total cases
Sales tax/VAT	397	300	697	401	296	42.47
Sikkim Income Tax	Nil	Nil	Nil	Nil	Nil	Nil

Thus, percentage of assessment cases pending at the end of 2008-09 was 42.47 *per cent*. Immediate action needs to be taken to finalise the pending assessment cases within a definite time frame. The department informed (October 2009) that the pending assessment cases related to firms, companies and house property dealers only and that many of the firms were presently not in operation.

4.1.8 Evasion of tax

There was no case of evasion of tax detected by the Finance, Revenue and Expenditure Department in respect of sales tax/VAT during the year as per information furnished by the department.

4.1.9 Write off and waiver of revenue

There was no case of write off and waiver of revenue in respect of sales tax/VAT, income tax and state excise as per information furnished by the respective departments.

4.1.10 Refunds

The number of refund cases pending at the beginning of the year 2008-09, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2008-09, as reported by the departments are mentioned below.

Table – 4.9

(Rupees in lakh)

Sl. no.	Particulars	State excise		Sales tax/VAT		Income tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	Nil	Nil	Nil	Nil	Nil	Nil
2.	Claims received during the year	2	19.97	6	123.72	268	17.26
3.	Refunds made during the year	2	19.97	6	123.72	268	17.26
4.	Balance outstanding at the end of the year	Nil	Nil	Nil	Nil	Nil	Nil

4.1.11 Compliance with the earlier Audit Reports

During the years from 2003-04 to 2007-08, the departments/Government accepted audit observations involving Rs. 107.97 crore of which only Rs. 50 lakh had been recovered till March 2009 as mentioned below.

Table – 4.10

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2003-04	9.75	9.75	—
2004-05	85.71	85.71	0.02
2005-06	9.95	6.80	0.48
2006-07	22.31	5.39	—
2007-08	1.33	0.32	—
Total	**129.05**	**107.97**	**0.50**

The fact that only 0.46 *per cent* of the accepted amount has been recovered, points to the need for the government to take concerted action in this regard.

4.1.12 Failure to enforce accountability and protect interest of the Government

The Accountant General (Audit), Sikkim arranges to conduct periodical inspection of the various offices of the Government departments to test check the transactions of tax and non-tax revenue receipts and verify the maintenance of important accounting and other records as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of offices/Government are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly and report compliance through initial reply to the Accountant General within thirty days from the dates of issue of the IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

Audit observations on the loss of revenue/short levy of demand and energy charges, irregular waiver etc., noticed during local audit are intimated through inspection reports (IRs) to the departmental officers, heads of departments and also to the Government, where necessary. The points mentioned in the IRs are to be settled as expeditiously as possible and first replies are to be sent within four weeks from the date of receipt of IRs by the departments.

The position of IRs (with money value) in respect of the following revenue heads that were issued upto the end of December 2008 but remained outstanding as of June 2009 is tabulated below.

Table – 4.11

(Rupees in crore)

Sl. no.	Head of revenue	No. of IRs	No. of audit objections	Amount
1.	State lotteries	05	08	137.43
2.	Mines, Minerals and Geology	02	02	3.31
3.	Urban development and housing	07	13	2.31
4.	Motor vehicles	03	07	0.20
5.	Sales tax/VAT	08	37	83.01
6.	Income tax	12	47	27.01
7.	Forest	30	50	46.99
8.	State excise	04	08	2.63
9.	Land revenue	15	16	0.58
10.	Energy and power	8	21	125.95
	Total	**94**	**209**	**429.42**

The outstanding audit observations indicate the failure of the departmental officers in initiating rectificatory action for defects, omissions and irregularities pointed out in the IRs by the Accountant General. The Principal Secretaries/Secretaries of the departments, who were informed of the position through half-yearly reports, also failed to ensure that the concerned officers took prompt and timely action.

4.1.13 Departmental Audit Committee Meetings

During 2008-09, two Audit Committee meetings were held and 16 IRs and 38 paragraphs were discussed out of which three IRs and 16 paragraphs were settled.

4.1.14 Response of the departments to draft audit paragraphs

Draft audit paragraphs are issued to the concerned heads of the departments with a copy to the Finance, Revenue and Expenditure Department, the replies to which are to be communicated to the Accountant General within six weeks of the date of their receipt.

One review and seven draft paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2009 were forwarded to the Secretaries of the respective departments between May 2009 and June 2009 through demi-official letters. The administrative secretaries responded to all the three paragraphs and the review featuring in this chapter.

4.1.15 Follow up on Audit Reports – summarised position

The administrative departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports after its presentation in the State Legislature.

As at the end of 2008-09, Audit Reports for the period upto the year 2005-06 were discussed and recommendations made and selection of paras in respect of Audit Report 2006-07 done, which were taken up for discussion during 2009-10.

4.1.16 Results of audit

Test check of the records of income and commercial tax, state excise, transport, state lotteries, mines & geology, urban development and housing, forest department etc. conducted during the year 2008-09 indicated loss/non-collection of revenue/royalty/penalty, non/incorrect assessment, wrong imposition of rate, incorrect assessment of excise duties, irregular waiver etc. aggregating Rs. 97.92 crore in 24 cases. The department/Government accepted audit observations in all 24 cases and recovered Rs. 0.07 crore in three cases. In other cases, observations pointed out by audit are being considered for recovery/re-assessment etc.

This chapter contains one review involving Rs. 1.59 crore and three paragraphs involving Rs. 6.89 crore out of which Rs. 5.87 crore has been accepted by the departments as discussed in the succeeding paragraphs.

FINANCE, REVENUE AND EXPENDITURE DEPARTMENT (COMMERCIAL TAX DIVISION)

4.2 Performance Audit on transition from sales tax to VAT

Highlights

Though the revenue collection registered an increasing trend after implementation of VAT, the average and overall (except 2006-07) growth rate after implementation of VAT showed a negative trend.

(Paragraph 4.2.6)

The division did not prescribe the quantum of security deposit to be realised from the dealers. Consequently security deposit from the dealers was not realised despite the fact that 2,313 dealers out of 5,089 did not submit their returns. This also deprived the division from realising the arrear of Rs. 11.76 lakh due from eight dealers.

(Paragraph 4.2.8.4)

The division not only failed to persuade 2,378 dealers to file returns within the prescribed timeframe but also did not levy penalty of Rs. 72.92 crore and continued to issue way bills and C forms to these dealers for import of goods from neighbouring States.

(Paragraph 4.2.9.1)

Failure to initiate scrutiny of self assessed returns by the assessing authorities in accordance with Section 37 of SVAT Act led to non-detection of tax evasion of Rs. 2.15 crore by 19 dealers.

(Paragraph 4.2.9.2)

Failure of the assessing authorities to initiate assessment of tax on best judgment basis under Section 38 of SVAT Act not only led to delay in realisation of tax but also retention of Government dues with the dealers.

(Paragraph 4.2.9.3)

Absence of provision for cross verification of records of sub/principal contractors, led to non-detection of tax evasion of Rs. 54.83 lakh by two sub-contractors.

(Paragraph 4.2.11.2 & 4.2.11.3)

The division did not upload details of issue and utilisation of statutory declaration forms by the dealers of Sikkim in the TINXSYS website created by the Government of India to serve as a repository of information on declaration forms. This defeated the purpose of the website as far as information relating to Sikkim was concerned.

(Paragraph 4.2.11.4)

The SVAT Act and Rules did not have any provision for maintenance of various records/registers by the division and for submission of report/return at any level. Despite existence of internal audit, no inspection was carried out during the period of review.

(Paragraph 4.2.14 & 4.2.15)

Mandatory VAT audit under SVAT Act was not initiated by the division even after four years of implementation to ensure correctness of the returns submitted by the dealers and assessments made by the assessing authorities.

(Paragraph 4.2.16.1 & 4.2.16.2)

Concealment of purchase and sales turnover by three dealers resulted in tax evasion of Rs. 79.84 lakh.

(Paragraph 4.2.17)

Non-deposit of VAT by one industry established under Sikkim Industrial Promotion and Incentive Act led to non-remittance of realised tax of Rs. 47.11 lakh.

(Paragraph 4.2.18)

4.2.1 Introduction

In the existing sales tax structure, there were problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden. For instance, before a commodity was produced, inputs were first taxed and then after the commodity was produced, output was taxed again. This caused an unfair double taxation with cascading effects. In several States the multiplicity of taxes, such as turnover tax, surcharge on sales tax, additional surcharge, etc. posed a problem.

With the introduction of Value Added Tax (VAT), these taxes were to be abolished. In VAT, a set-off was given for input tax as well as tax paid on previous purchases. In addition, Central sales tax was also going to be phased out. As a result, the overall tax burden was to be rationalised which would result in fall in prices in general. Moreover, VAT was to replace the existing system of inspection by a system of built-in-self-assessment by the dealers and auditing. The tax structure was to become simple and more transparent. That was to improve tax compliance and also augment revenue growth.

With the above objectives and on the recommendation of the Empowered Committee of State Finance Ministers on State-Level Value Added Tax, the Government of Sikkim repealed (except petrol, diesel and liquor) the Sales Tax (ST) Act, 1983 and enacted the Sikkim Value Added Tax Act, 2005 (SVAT Act) from 1 April 2005.

Some of the differences between the existing Sales Tax Act and VAT Act were as under:

- VAT is a multi point tax system while sales tax was single/double point tax system;
- VAT system relies more on the dealers to pay the tax willfully and submit the returns and deemed self assessment in VAT while supporting documents were required along with the returns in ST;
- Percentage check provided in VAT Act as against 100 *per cent* assessment in the existing Sales Tax Act;
- Reduced control of the executive on the dealers in VAT while many other taxes were there in ST.

SVAT Act had five schedules with 'nil' (exempted) *per cent*, one *per cent*, four *per cent*, four *per cent* and 12.5 *per cent* rate of tax respectively. Sections 26 to 29 of SVAT Act read with Rules 5 to 8 of SVAT Rules provide, detailed procedure for registration of dealers. Registered dealers were provided with a Taxpayer Identification Number (TIN). Section 16, 17 and 30 of SVAT Act have provision for dealers to pay tax at composite rate.

4.2.2 Organisational set up

Commercial Tax division of Finance, Revenue and Expenditure Department (FRED), Government of Sikkim was responsible for implementation of VAT in the State. The FRED was headed by the Additional Chief Secretary and the division was headed by an Additional Commissioner who was assisted by three Joint Commissioners, three Deputy Commissioners, five Assistant Commissioners and other sub-ordinate staff who were posted at division headquarter at Gangtok, two Circle Offices at Gangtok and Jorethang, check post including charge office at Rangpo and check post at Melli.

4.2.3 Audit objectives

The review was aimed to ascertain whether the

- planning for implementation and the transition from the ST Act to VAT Act was effected timely and efficiently;
- organisational structure was adequate and effective;
- provisions of the VAT Act and the Rules made there under were adequate and enforced properly to safeguard the revenues of the State;
- internal control mechanism existed in the Department and was adequate and effective to prevent leakage of revenue; and

- status of system which has been in place for four years, was adequate.

4.2.4 Scope and methodology of audit

The performance audit on transition from Sales Tax to VAT in Sikkim for the period 2004-05 to 2008-09 was conducted between April and July 2009 with reference to the records maintained at Commercial Tax Division, FRED, Gangtok, both the circle offices (Gangtok and Jorethang) and both the check posts (Rangpo - including charge office and Melli).

Out of 2,776 registered dealers, who submitted their returns, assessments were completed in respect of 474 dealers, all of which were selected for detailed scrutiny. Of the remaining 2,302 un-assessed dealers, 149[4] dealers were selected. Thus, total 623 dealers (22.44 *per cent*) were taken up for detailed scrutiny. While selecting the 149 dealers, emphasis was given on industrial, automobiles dealers, works contractors and dealers having high turnover.

The performance audit was conducted through issue of requisitions for data and the records, analysis of data with reference to original records, scrutiny of files and other records maintained in the Commercial Tax Division, circle offices and check posts and framing of audit observations.

4.2.5 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operations of the division in providing necessary information and records for audit. Performance audit commenced with the letter of engagement (March 2009) followed by an entry conference (April 2009) with Additional Commissioner, Commercial Tax Division. Audit programme, scope, objectives and criteria were explained in the entry conference. The audit findings were communicated to the division on 11 August 2009 and discussed with the Additional Commissioner and other officers of the division in the exit conference held on 13 August 2009 and their replies obtained. The performance audit report was finalised after taking into consideration the replies received in the exit conference and at other times.

Audit findings

4.2.6 Pre-VAT and post-VAT tax collection

The comparative position of pre-VAT sales tax collection (2002-03 to 2004-05) and post-VAT (2005-06 to 2008-09) tax collection including VAT and the growth rate in each of the years is mentioned below.

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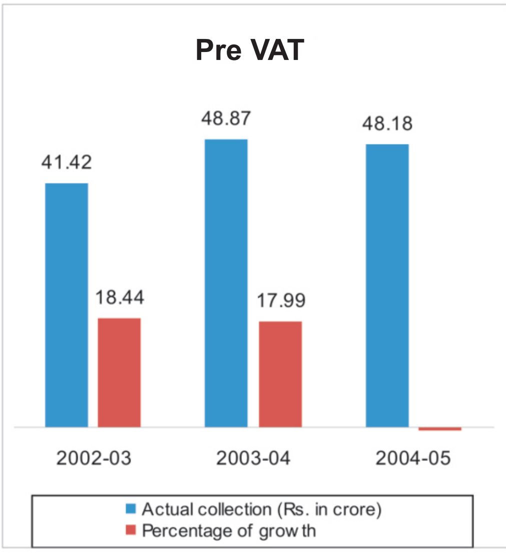
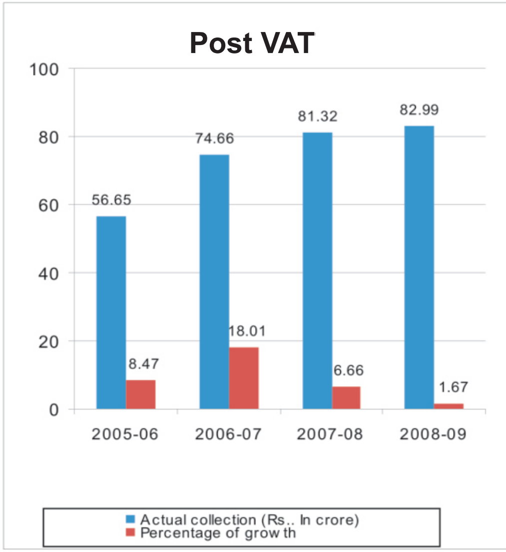
[4] *All 27 industrial dealers, all seven automobiles dealers, 16 works contractors and other 99 dealers based on probability proportionate relating to size.*

Table – 4.12

Pre-VAT			Post VAT		
Year	**Actual collection (Rs. in crore)**	**Percentage of growth**	**Year**	**Actual collection (Rs. in crore)**	**Percentage of growth**
2002-03	41.42	18.44	2005-06	56.65	8.47
2003-04	48.87	17.99	2006-07	74.66	18.01
2004-05	48.18	(-) 0.69	2007-08	81.32	6.66
			2008-09	82.99	1.67
Average	**46.16**	**11.91**		**73.91**	**8.70**





It was seen that the collection of revenue which had become stagnant at the same level in 2003-04 and 2004-05, started growing post introduction of VAT. However, the growth rate which touched 18.01 *per cent* in 2006-07 has gradually come down to 1.67 *per cent* in 2008-09.

In the exit conference, the division stated that the above figures were also inclusive of CST and decrease in growth rate in the post VAT period was due to the reduction of CST rate in a phased manner from four *per cent* to two *per cent*.

4.2.7 Preparedness and transitional process

4.2.7.1 Planning for implementation of VAT in the State

As a follow up of White Paper on 'State-Level Value Added Tax' issued by the Empowered Committee of State Finance Ministers, the draft SVAT Act, 2005 was sent to the GOI through the Empowered Committee of the State Finance Ministers for vetting. Approval of the Sikkim Legislative Assembly was accorded to the Act on 9 March 2005. The State Government enacted Sikkim Value Added Tax Act, 2005 and also published Sikkim Value Added Rules, 2005 to implement VAT in the State.

The FRED also issued various notifications from time to time for effective implementation of VAT in the State. The division created awareness among the stake holders before implementation of VAT in the State through press releases in various news papers and awareness camps at various places apprising them about various benefits of implementation of VAT.

It was, however, noticed that though there was a provision detailing a time frame for bringing all dealers in the VAT net, submission of returns by all dealers within the stipulated period and scrutiny of returns and VAT audit, it could not be enforced properly. This would have further augmented the revenue generation on account of VAT. The various deficiencies in implementation have been pointed out in succeeding paragraphs.

4.2.7.2 Computerisation of the Taxation Department/check gates and their interlinking

Computerisation of VAT system was undertaken with the objectives of maintaining complete data of the registration of dealers/contractors, maintaining and processing of way bills and their issue/utilisation by the dealers, maintaining and processing of returns filed by the dealers, invoices declared and tax deducted at source, generation of defaulter list and blocking of defaulter through the system with interlinking the check gates.

Task of preparation of software for computerisation of the VAT system was given to the National Informatic Centre (NIC), Gangtok. Hardware were provided free of cost by the Government of India which had been installed at headquarter, circle offices as well as at check gates and are interlinked with each other.

Scrutiny indicated that out of five modules, the division was using only three modules (i) registration of dealers, (ii) way bills issue and endorsement at check post and (iii) returns and report. Another two vital areas *i.e.* (i) scrutiny and (ii) assessment modules had not been put to use till date (October 2009). Besides, the division had also not provided an audit trail. There was no disaster recovery plan in case of a major disaster like fire, earthquake, theft or continuous power failure etc.

Partial utilisation of computerisation and incomplete information in the system failed to facilitate the goal of fool proof system to avoid underassessment/ short assessment of the purchases/sales of the dealers.

4.2.7.3 Creation of manuals and training of the staff

The division has not created a manual on VAT so far but has prepared a Hand Book on Tax Deduction at Source for reference of drawing and disbursing officers. Officers of the division of various levels were imparted various trainings sponsored by the

Government of India and the State Government relating to implementation and other issues of VAT.

4.2.7.4 Completion of assessments under the repealed Act

While switching over from Sales Tax to VAT on 1 April 2005, 1,533 assessments were due. The division neither fixed any time frame for completion of pending assessments of pre-VAT period nor declared any pending assessment as deemed assessment. Data on cases pending as on 1 April 2005, assessments done in subsequent years and the balance as on 31 March 2009 are mentioned below.

Table – 4.13

Year	No of cases pending for assessment under Sales Tax Act as on 1 April	No of cases assessed during the year	No of cases pending for assessment at the end of the year
2005-06	1,533	1,089	444
2006-07	435	113	322
2007-08	313	20	293
2008-09	284	72	212

Note: The variation between closing and opening figures of assessment was due to cancellation of registration certificates.

The division stated (October 2009) that due to insufficient man power and frequent transfer of the concerned officers, pending assessments could not be completed till date.

4.2.7.5 Collection of arrears of taxes due under the repealed Act

The arrear of tax due under the repealed Act as on 1 April 2005 was Rs. 67.58 lakh. During the years 2005-06 to 2008-09, the division raised additional demand of Rs. 69.65 crore, of which arrears of Rs. 69.61 crore were recovered during these years. Thus, arrear of Rs. 71.29 lakh were due to be recovered as on 31 March 2009.

In reply, the division stated (October 2009) that they were preparing a comprehensive report on the outstanding dues for realisation of the full amount of tax and penalty with interest.

System deficiencies

4.2.8 Registration and database of dealers

4.2.8.1 Creation of database of dealers and carrying forward of such database under the repealed Act

Though SVAT Act and Rules did not have any provision to prepare a database of dealers registered under the VAT Act, the division had computerised database of the dealers registered under VAT. The division could not compare such database with the database of dealers registered in the existing Sales Tax Act as the existing database was kept in a manual register. **This constrained the division from detecting dealers who remained unregistered under the SVAT Act who were registered under the repealed Act. Besides, the division had also not prescribed any time frame/periodicity at which the database of dealers registered under the SVAT Act was required to be updated.**

The division stated (July 2009) that such comparison was not possible as the database of dealers registered under the existing Sales Tax Act was kept in a manual register.

4.2.8.2 Registration of new dealers

Details of registered dealers under the SVAT Act for the last four years (2005-09) were as mentioned below:

Table – 4.14

Year	As on 1 April	Added	Cancelled	As on 31 March	percentage of increase over previous year
2005-06	Nil	1,811	Nil	1,811	-
2006-07	1,811	1,209	19	3,001	66
2007-08	3,001	865	101	3,765	25
2008-09	3,765	1,423	99	5,089	35

As would be seen, registration of dealers recorded an increase ranging between 25 and 66 *per cent* during 2005-06 and 2008-09.

4.2.8.3 Periodic analysis of dealers below threshold limit and detection of unregistered dealers

There was no provision in the SVAT Act and Rules for periodic verification of the dealers paying composite tax and for verification of the turnover of these dealers to pre-empt any scope of evasion of tax. The division had also not installed any mechanism/system of periodic scrutiny of books of accounts of dealers under the threshold limits. Besides, the SVAT Act and Rules did not have any provision for market survey/raids of the premises of the dealers to detect unregistered dealers.

The division stated (September 2009) that periodic survey of market area was conducted to check the accounts of unregistered dealers to ensure that their sales turnover had not crossed the threshold limit and also to detect dealers of sales turnover above threshold limit operating without registration. However, audit scrutiny indicated that such survey was done only once during 2006 and further there was no documentary evidence to prove that division had taken any action on such survey report.

The Government may prescribe a system of periodic review of the turnover of the dealers below threshold limit.

4.2.8.4 Confirmation of the securities provided by the dealers

Though Section 28 of SVAT Act prescribed for obtaining security deposit from the dealers during registration for securing proper and timely payment of tax, **the quantum of such security was neither prescribed in the Act/Rules nor notified by the division.**

Audit noticed that the security deposit was not realised from any of the 623 dealers covered in the audit sample. This was not only in contravention of the Act but also deprived the division from realising arrear of assessed tax of Rs. 11.76 lakh from eight dealers for the assessment years 2005-09 by forfeiting the securities.

It was also noticed that during 2005-06 to 2008-09, 2,313 out of 5,089 dealers did not submit their returns at all. Had the division insisted on obtaining security deposits from these dealers at the time of registration, it could have at least forfeited the security deposit in lieu of dues of these dealers.

Reply of the division (May 2009) that security deposit was not insisted upon to encourage registration during the initial years (2005-06 to 2008-09) is not tenable as the division did not analyse the credibility of the dealers, on a case-by-case basis before waiving their security deposit.

The Government may prescribe the quantum of security deposit and its mandatory deposit by the dealers.

4.2.8.5 Database of dubious/risky dealers

The SVAT Act and Rules did not have any provision for the preparation of database of dubious/risky dealers and upload it on the division's website/Tax Information Exchange System (TINXSYS). This would have enabled the assessing officers to select dealers for tax audit based on risk analysis.

The Government may consider preparation of a database of dubious/risky dealers in the interest of revenue.

4.2.8.6 Periodic analysis of registration certificates to detect dormant registrations

There was no provision in the SVAT Act and Rules for periodic review of registration certificates to detect and cancel dormant TINs.

The division stated (October 2009) that when a dealer obtains a TIN, it means that he had started a business or intended to start a business but a dormant TIN indicated that the dealer was unable to start the business. There was no point in cancelling a dormant TIN as it did not cause loss of revenue.

Fact, however, remains that it could be seen from the paragraph 4.2.9.1 that 2,313 out of 5,089 dealers, i.e. almost 45 *per cent,* had never submitted returns. Besides, as there was no mechanism of conducting periodic survey as highlighted in paragraph 4.2.8.3, there was little scope for the division to monitor and cancel dormant registration(s). Further, instances of issuance of way bills and C forms to dealers who had never filed returns had also been noticed as discussed in paragraph 4.2.9.1.

The Government may establish a system of reviewing the database of registered dealers at periodic intervals to detect dormant registrations for effective monitoring of the dealers in the State.

Deficiencies in the Act and the Rules

The review indicated a number of deficiencies in the provisions of the SVAT Act and the Rules which persisted during the period covered under the review. Some of the important deficiencies are discussed below.

4.2.9 Returns

4.2.9.1 Mechanism to monitor filing of returns

Section 30 (1) and 30 (2) read with 30 (8) of SVAT Act enjoins upon the registered dealers to furnish a true and complete return on quarterly basis to the prescribed authority in respect of all their transactions (sales, purchases, receipts and dispatches of goods), failing which penalty upto Rs. 500 per day of default would be imposed. **However, the division had not established any mechanism to monitor filing of returns by the dealers to guard against missing dealers or run-away dealers. The division also did not take any action on defaulters who did not submit returns as mentioned below.**

Audit noticed that during 2005-09 while 2,313 out of 5,089 registered dealers (45 *per cent)* had not submitted any returns, 65 dealers out of 623 checked submitted their quarterly returns belatedly – the delay ranged between 9 and 1,303 days. The division not only failed to persuade the dealers to file returns within the prescribed timeframe but also did not levy penalty. The maximum penalty leviable is Rs. 72.92 crore.

Scrutiny further revealed that in case of 50 out of 2,313 dealers, who had not submitted returns at all, the division continued to issue way bills and C forms to eight dealers to enable them to import goods from neighbouring States and run their businesses as usual.

The division stated (May 2009) that temporary suspension of registration number was resorted to with a view to restrict the issue of statutory declaration forms to these dealers.

The Government may ensure strict monitoring on submission of returns by the dealers and imposition of penalty in case of failure to submit returns or delay in doing so.

4.2.9.2 Scrutiny and verification of returns

Section 37 of SVAT Act provides for scrutiny of returns by the prescribed authority to ascertain the correctness of computation of output tax, input tax, tax payable and application of tax rates besides evidence in support of payment of tax. **However, neither the SVAT Act and Rules nor the division had any provision prescribing cross verification of purchases to verify actual purchase and to reconcile the balance in the accounts of purchaser and seller. Besides, no record was prescribed for entering the details of returns received, returns scrutinised and balance thereof.** Due to these deficiencies, the division remained unaware about the overall position of receipt and scrutiny of returns.

Audit noticed that there was no scrutiny of returns by the assessing authorities to ascertain the correctness of the self-assessed returns submitted by the dealers. Failure to initiate scrutiny of returns was fraught with the risk of tax evasion by the dealers and consequent retention of Government dues. Audit scrutiny of 623 cases disclosed tax evasion of Rs. 2.15 crore by 19 dealers which have been discussed in some of the succeeding paragraphs.

The division stated (September 2009) that it has recently been decided to evolve a system by which concerned assessing authority shall endorse hard copy of the return to certify completion of scrutiny of the returns.

The Government may prescribe a mechanism for monitoring the position of returns received, returns scrutinised by the division and results thereof.

4.2.9.3 Deficiencies in best judgment assessments

Section 38 of SVAT Act envisaged that the assessing authority would assess the tax due from the dealer as per his best judgment in case no returns are furnished by the dealers within the prescribed date[5] or incorrect and incomplete returns are furnished by them.

Scrutiny indicated that neither the SVAT Act/Rules nor any divisional order prescribed for maintaining information regarding non-receipt of returns, incorrect/incomplete returns etc. on which best judgment assessments were to

[5] *On or before the end of the month following the end of the quarter.*

be taken up.

It was noticed that during the years 2005-06 to 2008-09, 'nil', 316, 153 and five assessments respectively were made under this Section on pick-and-choose basis from dealers who had submitted returns. But, none of the 1,119, 1,614, 1,706 and 3,258 dealers who did not submit the returns during the years from 2005-06 to 2008-09 respectively, were taken up for best judgment assessments to safeguard revenue interest. This not only resulted in delay in realisation of the non-assessed tax but also retention of Government dues with the erring dealers.

The division stated (September 2009) that it was provided under Section 42 that the assessment could be framed, if it was deemed necessary, within six years after expiry of the relevant period. The delay in framing assessment would not cause loss of revenue even in such cases where the self assessed tax paid by the dealer fell short of the actual tax assessed because the dealer could be charged with interest of two *per cent* per month on such due payment under Section 30 (10) of SVAT Act. Fact remains that accumulation of huge numbers of assessments year after year would put unnecessary burden on the divisional officers which would have dual impact of hampering day to day work and risk of cases becoming time barred.

The Government may prescribe a mechanism for taking up all such cases for best judgment assessment without further delay.

4.2.10 Absence of system of cross verification of records of the selling dealers

The SVAT Act and Rules did not have any provision for cross verification of particulars of turnover disclosed by the dealers with those disclosed by other dealers from whom tax invoices were obtained. The division had also not installed any mechanism/system for cross verification of such transactions.

4.2.11 Provision for cross verification

4.2.11.1 Absence of provisions for cross verification of the records of other departments/source like, Central Excise & Income Tax Department, TINXSYS etc.

There was no provision in the SVAT Act and Rules and also no system installed by the division for cross verification of the records of other departments/sources like, Income Tax and Central Excise Departments, TINXSYS.

A system of cross verification of sales turnovers returned under the SVAT Act with those in the Central Excise/Income Tax Departments and data of statutory forms available in the TINXSYS website would ensure veracity of the returns submitted by the dealers.

4.2.11.2 Absence of provision for cross verification of the records of works/buying department in case of works contractors/suppliers

The SVAT Act and Rules did not have any provision for cross verification of the records of works/buying department in case of works contractors/suppliers. Besides, there was no provision for cross verification of records of sub/principal contractors while allowing exemption. The division had also not installed any mechanism/system for such cross verification. Also, no provision has been prescribed for submitting monthly report/return by the buying/works departments to the division. However, concerned suppliers/contractors had been obtaining TDS certificates from concerned buying/works departments and had been enclosing alongwith returns submitted by them. Cases of irregular allowance of exemption with cross verification of sub/principal contractors are pointed out in the succeeding paragraph.

4.2.11.3 Non-payment/Evasion of tax in absence of cross checking

Section 13 and 17 of SVAT Act exempted a dealer from payment of tax if his sub-contractor has paid VAT on the turnover. Similarly, the sub-contractor would not be liable to pay tax if it has been paid by the dealer (his principal contractor) on the goods supplied to him by the dealer in the course of execution of the works contract.

Scrutiny of the records of three[6] out of 16 dealers test checked, registered as works contractors, indicated that the entire turnover of two dealers for the period 2005-06 to 2008-09 were exempted on the plea that they were working as sub-contractors for principal contractors. Audit, however, noticed that the principal contractor (M/s Mitsui & Co*)* declared 'nil' turnover for the year 2005-06 to 2008-09 towards execution of works contract and accordingly did not pay any tax and thus a tax liability of Rs. 54.83 lakh escaped assessment as mentioned below.

Table – 4.15

(Rupees in lakh)

Name of the dealer	Year of assessment	Turnover for the year	Amount of lump sum tax at 2 *per cent*
M/s Tanrub Engineers, Balutar, Singtam	2005-06	145.01	2.90
	2006-07	165.70	3.31
	2007-08	112.26	2.25
	2008-09	NIL	NIL
M/s PES Engineers (P) Ltd, Singtam	2005-06	258.17	5.16
	2006-07	323.80	6.48
	2007-08	191.35	3.83
	2008-09	1,544.77	30.90
	Total	**2,741.06**	**54.83**

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[6] *(i) M/s Tanrub Engineers, Singtam; (ii) M/s PES Engineers (P) Ltd, Singtam and (iii) M/s Mitsui & Company, Singtam.*

Non-scrutiny of returns coupled with the absence of a system of cross verification of the records of the principal/sub-contractors resulted in tax evasion of Rs. 54.82 lakh by these contractors.

In reply, the division stated (September 2009) that response would be furnished after verification of the issue raised in audit. Further development has not been intimated (October 2009).

4.2.11.4 Deficiencies in uploading data in TINXSYS

Tax Information Exchange System (TINXSYS) is a centralised repository for exchange of information of all interstate dealers spread across the various States and Union territories of India. The TINXSYS is intended to help the Commercial Tax Departments of various States and Union Territories to effectively monitor the interstate trade.

TINXSYS can be used by any dealer to verify the counter party dealer in any other State. Apart from dealer verification, Commercial Tax Department officials can use TINXSYS for verification of central statutory forms issued by other State Commercial Tax Department and submitted to them by the dealers in support of claim for concessions.

While verifying the data relating to the State of Sikkim available on the website, it was seen that **no dealer details were uploaded on the website for the year 2005 to 2009.** Only the numbers of dealers available in the State for the years from 2007 to 2009 ranging from 219 to 824 were uploaded in the website. **Other details like issue and utilisation of various statutory forms, periodic returns, commodity master, district master, office master etc. were not uploaded for any of the years. Non-uploading of data on the site deprived other states from accessing the database of declaration forms issued to the dealers of Sikkim which defeated the objective of creation of the website.**

The division stated (August 2009) that transfer of the main data was in the progress after the State Government accorded consent (14 May 2009) and the delay was in obtaining clearance from NIC.

4.2.12 Disposal of appeal cases

4.2.12.1 Deficiencies in the provision for settlement of appeal cases

The SVAT Act and Rules had provisions for disposal of appeal cases within a period of five years which was too long as the period of disposal of an appeal case in the VAT Act and Rules of West Bengal Government was three months only.

The Government may consider amending the time limit for disposal of appeal cases to ensure speedier recovery of arrear dues and settlement of cases.

4.2.13 Deterrent measures

4.2.13.1 Deficiencies in deterrent measures

The SVAT Act provided for imposition of penalty for failure to get registered, interest and penalty on non/delayed submission of returns, interest on non-payment or delayed payment of tax before assessment and interest on non-payment of assessed tax respectively. **However, the division had not set up a system to adhere to the above provisions resulting in a range of deficiencies which has been pointed out in the various paragraphs of the report.**

4.2.13.2 Absence of minimum penalty for offences

Section 81 of the SVAT Act stipulates various penalties for different types of offences ranging from simple imprisonment to two years imprisonment and/or a fine not exceeding from a maximum of Rs. 100 to a maximum of Rs. 10,000. **However, the Act did not specify either the period of simple imprisonment and the minimum amount of fine for any particular offence except in case of concealment of turnover in which minimum penalty of one and half times of the tax had been prescribed under Section 72. Further, Section 83 of the SVAT Act provides a maximum fine of Rs. 50,000 for compounding of offence. However, the Act did not specify a minimum amount of fine for compounding of any particular offence.**

4.2.13.3 VAT fraud task force

Prevention and early detection of offence cases was of paramount importance to tax enforcement. In order to ensure prevention and early detection of dubious dealers there should be a "VAT Fraud Task Force" to act as an intelligence-cum-investigating unit, detect and list all fraud cases; to deal with such cases; to analyse anti-fraud policies and measures in place; and offer its views and suggestion for improving them. **However, it was seen that the SVAT Act and Rules did not have any provision to constitute such a task force. The division had also not made any mechanism/system to act on above lines.**

The Government may fix responsibility for strict compliance with the codal provisions, consider fixing of the quantum of minimum penalty for every kind of offence and constitute a VAT fraud task force.

4.2.14 Internal controls

Internal control measures are instituted by an organisation to enable it to function efficiently and to get timely warnings of irregularities and deficiencies in its various activities.

4.2.14.1 Maintenance of registers in unit offices

The SVAT Act and Rules provided various types of accounts and the records which were required to be maintained/kept by the registered dealers. **But the SVAT Act and Rules did not have any provision for the maintenance of various types of the records by the division.**

Audit scrutiny indicated that various registers like Register of Dealers, Register of Security Deposit, Register of Registration and Cancellation of Registration Certificate, Register of Surrender of Unused Statutory Forms etc. were not maintained.

4.2.14.2 Reports and returns

The SVAT Act and Rules did not have any provision for the preparation/ submission of any report/return at any level. Such absence of reports/returns is indicative of weak management information system which in turn hampers monitoring of day-to-day functioning of the systems and the officers/staff by the division.

The Government may take appropriate measures for the preparation and submission of periodic reports/returns by the field offices and monitoring by the higher authorities.

4.2.15 Internal audit

4.2.15.1 Existence of internal audit

Internal audit is an independent entity within or outside the department to examine and evaluate the level of compliance with the departmental rules and procedures so as to provide independent assurance to the senior management on the adequacy of the risk management and internal control framework in the department. The Directorate of Internal Audit was established in 1990 under the overall control of FRED to examine and evaluate the activities of all the departments including FRED, Public Sector Undertakings of the State Government, Pay and Accounts Office and Drawing and Disbursing Officers.

Despite existence of internal audit, it was seen that the Directorate of internal audit did not carry out even a single inspection during 2004-05 to 2008-09. Due to this, the risk of errors and irregularities resulting in leakage of revenue is high negating the purpose for which the directorate was established.

Compliances deficiencies

4.2.16 Tax audit

4.2.16.1 Process of selection of dealers for VAT audit

As per Section 39 (2) of SVAT Act read with Rule 47 of SVAT Rules, the Commissioner may select by 30th day of July every year, not less than 20 *per cent* of the registered dealers for detailed audit for any period or year ended on or before the 31st day of March, such selection being made by draw of lots either mechanically or with the use of computers.

Audit scrutiny indicated that only 20 dealers were selected for VAT audit during 2006-07 manually from various categories such as manufacturers, wholesalers, contractors, hoteliers and retailers. Further, during 2007-08 and 2008-09 no dealer was selected for VAT audit.

4.2.16.2 Timeframe for completion of tax audit

As per the provisions under Section 39 (3) of SVAT Act, the audit of the returns and statements of a dealer selected under sub-section (2) shall be conducted in the manner prescribed, within a period of 24 months from the due date within the meaning of sub-section (3) of Section 30.

However, audit noticed that no VAT audit was carried out by the division even of the 20 dealers selected by the Commissioner for VAT audit during 2006-07 till date of review. Further, during 2007-08 and 2008-09 no dealer was selected for VAT audit.

The division stated (September 2009) that due to stagnation in the development of VAT software; the audit cell had not been able to conduct the audit.

4.2.17 Concealment of purchase and sales turnover leading to evasion of tax

Section 72 of SVAT Act provides for levy of penalty between one and half and thrice the amount of tax in case of concealment of turnover by dealers with the intent of reducing the tax liability.

Audit of the assessment records and self assessed returns of three[7] registered dealers indicated that the dealers had reduced their turnover and that the figures were not tallying with their declared turnover. This was not detected due to non-scrutiny of the returns leading to concealment of turnover of Rs. 2.69 crore and consequent evasion of tax of Rs. 31.94 lakh. Penalty of Rs. 47.90 lakh as applicable in such cases calculated at the minimum rate of one and half times the tax were also not levied on these dealers for concealment.

[7] *(i) M/s Tiwari Enterprises, (ii) M/s Tripti (P) Ltd and (iii) M/s Tirumala Enterprises.*

Thus, concealment of purchase and sales turnover by the dealers resulted in evasion of tax of Rs. 79.84 lakh including penalty.

4.2.18 Non-payment of VAT and penalty

Sikkim Industrial Promotion and Incentive Act, 2003 exempted all industries established in the State from the payment of State Sales Tax for ten years. Consequent upon implementation (April 2005) of VAT in the State and there being no provision for exemption under SVAT Act, Department notified (May 2007), with immediate effect, under the provisions of Section 30A of SVAT Act for deferring of VAT payment for a period of ten years.

Audit scrutiny indicated that one industry[8] out of 27 industrial dealers checked transacted intrastate sales turnover of Rs. 3.77 crore and realised VAT of Rs. 47.11 lakh from the other dealers during the period April 2006 to April 2007 (before the notification of deferred payment scheme) but did not deposit the VAT in the Government account. Instead, he intimated (May 2006) the division about the realisation of VAT and enquired whether the amount should be deposited into the Government account. The division did not clarify this matter to the dealer despite the fact that the industry was neither exempted for payment of VAT nor was granted deferred payment. The division also failed to initiate any action for recovery of the realised tax of Rs. 47.11 lakh.

4.2.19 Incorrect determination of the sale rate of items and consequent short payment of tax

As per the established business practice, expenditure on account of transportation, storage, handling, establishment, taxes etc. on the cost price should be added on each item while selling it subsequently to the dealers/customers.

The dealers registered under the SVAT Act had regularly been obtaining C forms and import way bill forms from the division for import of various material from outside the State for resale in the State. Scrutiny of the records of twelve out of 623 dealers indicated that the actual cost price of purchases was shown as annual sales turnover without adding the basic elements[9] to the cost price. This had resulted in concealment of turnover of Rs. 2.29 crore and evasion of tax liability of Rs. 24.17 lakh.

In reply, the division stated (September 2009) that action would be taken in such cases where value additions were declared unreasonably low.

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[8] *Ms C.G. Foods India Pvt. Ltd., Rangpo.*

[9] *Calculated by adding 20 per cent i.e. five per cent transportation and supervision, five per cent storage and handling, three per cent income tax, two per cent losses on stock, two per cent interest on capital and three per cent establishment cost incurred in the business.*

4.2.20 Non-levy of penalty for non-remittance of tax deducted

Section 17 (4) of SVAT Act provides for the levy of penalty upto twice the amount deductible for failure to deduct the tax due or non-remittance of tax deducted within the stipulated time of 15 days.

Audit scrutiny indicated that one dealer (M/s Cipla Ltd.) had remitted the tax deducted from three dealers belatedly- the delay ranging between 30 to 94 days and was thus, liable for penalty of Rs. 9.60 lakh, which was not levied.

While accepting the fact, the division stated (October 2009) that the dealer had been issued show cause notice. Further development has not been reported (October 2009).

Other deficiencies

4.2.21 Deficiencies in registration forms

Rules 5 to 7 of SVAT Rules require every dealer to make application in Form 1 for registration under Section 26 or 27 of SVAT Act to the appropriate registering authority duly accompanying declaration in Form 1A and 1B.

Audit scrutiny of 125 out of 623 dealers indicated a number of deficiencies such as (i) application forms for registrations were not available in case of 23 dealers (18 *per cent*), (ii) address of the 2nd contact person(s) was not filled in 55 cases (44 *per cent*), (iii) details of bank account not mentioned in 34 cases (27 *per cent*), (iv) details of loan account not filled in case of 57 dealers (46 *per cent*), (v) date of commencement of purchase and sale not filled in case of 106 dealers (85 *per cent*), (vi) telephone/contact numbers not filled in case of 28 dealers (22 *per cent*), (vii) seal of the dealers were not affixed in 76 cases (61 *per cent*), (viii) personal immovable assets were not filled in 77 cases (62 *per cent*), (ix) declaration stating name of the manager/officer in charge of the business were not filled in 80 cases (64 *per cent*), (x) acceptance of nomination not filled in 86 cases (69 *per cent*), etc.

The division accepted the audit observation (September 2009) and ensured that such oversight would be rectified and would not be repeated in future.

4.2.22 Delay in crediting of revenue into Government account

According to Rule 50 (1) of Sikkim Financial Rules, head of the 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 the Government account under the relevant head of account.

Audit scrutiny indicated that the division had been receiving cheques from dealers dealing with automobiles trade and from works contractors/ wholesalers on quarterly basis towards collection of VAT by them from various customers. However, test check of receipts of three major automobiles dealers[10] and six work contractors/wholesalers[11] for last four years, indicated that such cheques towards VAT receipts were credited into Government account with delays ranging between 11 and 175 days by the division which was indicative of lack of monitoring timely depositing of revenue into Government account.

While accepting the observation, the division stated (September 2009) that since April 2009, the division has devised prototype system of crediting revenue promptly into Government account.

4.2.23 Claim for compensation of loss due to introduction of VAT

Consequent upon the implementation of VAT in Sikkim with effect from April 2005, the Government of India agreed to compensate the State Government for the loss of revenue consequent to the implementation of VAT and issued guidelines in June 2005 on the modalities for calculation of compensation claims.

Accordingly, the Government of Sikkim claimed reimbursement of Rs. 8.07 crore (2005-06), Rs. 1.73 crore (2006-07) and Rs. 7.73 crore (2007-08). Against these, the Government of India released Rs. 5.87[12] crore for the year 2005-06 to the Government of Sikkim.

However, from the scrutiny of the records and information available with the division, it was seen that the reimbursement of Rs. 1.89 crore (2005-06), Rs. 'nil' (2006-07) and Rs. 3.73 crore (2007-08) only were admissible to the State Government. Thus, the State Government was entitled to the reimbursement of Rs. 5.62 crore only on account of loss due to implementation of VAT for the period from 2005-06 to 2007-08 instead of Rs. 17.53 crore claimed by the State. The difference was due to inclusion of cess while calculating average growth rate for the preceding block years. Out of which, the Government of India released Rs. 5.87 crore for 2005-06.

The division stated (August 2009) that average annual growth rate calculation was based on the bifurcation made by their office based on the records of tax paid by the dealers dealing in non-VAT items and requested to provide the base of their bifurcation made by Audit. Though the details of calculation made by the audit were forwarded to the division in August 2009, their further reply has not been received (October 2009).

[10] M/s Entel Motors, M/s Sikkim Motors and M/s Bajla Motors.
[11] M/s Garison Engineers, M/s Krishna & company, M/s NBCC, M/s Top in Town, NHPC and CRH.
[12] December 2005 Rs. 1.84 crore and June 2006 Rs. 4.03 crore.

4.2.24 Conclusion

While after implementation of VAT, the registration of dealers recorded a growth of 25 to 66 *per cent* during the years from 2005-06 to 2008-09, the division failed to prescribe the quantum of security deposit to be realised from the dealers and consequently it could not be realised. The division also failed to carry out assessment of returns, levy penalty for delayed submission of returns, etc. leading to evasion of tax. The computerisation of VAT system was only partially utilised and internal control was not robust enough to check the leakages in revenue. Immediate attention of the division was necessary towards registration of all the dealers under VAT, timely submission of returns by the dealers, scrutiny and assessment of the returns and initiation of VAT audit of selective dealers. There were many loop holes/deficiencies in the SVAT Act and Rules in making provisions for market survey/raids of the premises of the dealers, database of dubious/risky dealers, periodic review of registration certificates, cross verification of transaction, VAT Fraud Task Force, uploading data in TINXSYS, deterrent measures etc. The internal controls within the division were weak as evidenced by absence of provisions for maintenance of records/registers in the division and submission of reports/returns at any levels. Also, despite existence of an internal audit wing, the division failed to utilise its services.

4.2.25 Summary of recommendations

The Government may consider implementation of the following recommendations for rectifying the system and compliance issues:

- implement computerisation of VAT system completely and effectively in all areas;
- establish effective mechanism to review database at periodic interval and to prepare database of dubious/risky dealers;
- establish effective mechanism to ensure submission of regular and timely returns by all the dealers;
- establish effective mechanism for scrutiny of every returns submitted by the dealers, assessment of the dealers and VAT audit of selective dealers;
- fix responsibility at various levels in the Department for strict compliance of codal provisions to avoid tax evasion by any dealer;
- ensure fixing the quantum of minimum penalty for each and every kind of offences and to constitute VAT Fraud Task Force;
- strengthen internal control mechanism including internal audit; and
- review and rectify various loop holes/deficiencies of SVAT Act and Rules.

FINANCE, REVENUE & EXPENDITURE DEPARTMENT (INCOME TAX AND COMMERCIAL TAX DIVISION)

4.3 Non-realisation of revenue

Non-assessment of tax resulted in non-realisation of revenue amounting to Rs. 2.70 crore.

With a view to promote speedy industrial development, the Government introduced a scheme for exemption from payment of the State income tax to the new industrial establishments in Sikkim from 16 February 1974.

According to the Sikkim Income Tax Manual 1948, income tax on the gross sale proceeds at the prescribed rate is required to be charged from all persons engaged in business. Rule 4 (II) of the Manual prescribes that 'every person doing business is expected to keep proper accounts and produce them on demand before the Income Tax Officer, who in case of default or unsatisfactory account will assess the tax according to his discretion'.

4.3.1 Test check of the records (November 2008) of the office of the Special Secretary, Income Tax and Commercial Tax Division, Gangtok indicated that M/s Mount Distilleries (P) Limited, Mazitar, Rangpo availed of exemption from paying the State income tax for a period of five years from the date of their commercial production i.e., 11 March 1999 to 10 March 2004. After completion of the exemption period, the distillery did not file any return to the Income Tax Department for the accounting years 2004-05 to 2006-07. The Department also did not assess the tax on the basis of best judgment as per the provisions of Sikkim Income Tax Manual 1948. Verification of the records of the distillery in the commercial tax division indicated gross sale proceeds of Rs. 50.30 crore[13] for the above period on which Rs. 1.51 crore income tax was due.

After this was pointed out, the division stated (October 2009) that the company had been assessed and demand notice had been issued (October 2009). However, the assessee was claiming exemption for the assessment period. The case had been forwarded to the Commerce and Industries Department for their comments regarding the exemption of income tax. Reply of the division is not in consonance with the exemption scheme which allowed exemption to the firm for a period of five years from the date of commercial production, which had already expired in March 2004.

4.3.2 Test check of the records (November 2008) of the office of the Special Secretary, Income Tax and Commercial Tax Divisions, Gangtok indicated that in

[13] *Figures for 11-03-2004 to 31-03-2004 were not available in the records.*

respect of three dealers, income tax for the respective periods falling between April 2001 and March 2007 was not assessed. Cross verification with the assessment records of these dealers maintained by the commercial tax division disclosed their gross sales turnover as Rs. 39.89 crore for the above period on which the income tax due worked out to Rs. 1.19 crore. Failure of the division either to obtain the books of accounts from the dealers or to ascertain the turnover from the records maintained by the commercial tax division and to demand the tax after assessment resulted in non-assessment of tax amounting to Rs. 1.19 crore**.**

After the case was pointed out, the income tax division stated (September 2009) that STP Pharmaceutical (Pvt.) Limited was served notices (November 2008 and June 2009) for submission of the accounts for the period upto 2006-07, failing which *ex-parte* decision would be initiated against the company. M/s Sarda Boiron Sikkim (Pvt.) Limited had contested the legality of the demand notice issued (February 2009) for the years upto 2004-05 by the department under the Sikkim Income Tax Manual 1948 in the event of Indian Income Tax having been imposed in Sikkim since 16 June 2008. The issue was pending with the higher authorities for a decision. M/s Denzong Laboratories (Pvt.) Limited had been assessed for the years upto 2005-06 and demand notice issued in September 2009 and the assessment procedure for the year 2006-07 was in progress.

While the final reply is awaited (October 2009), the inordinate delay in assessment/issue of demand notice since 2001 has resulted in delay in realisation of the Government revenue with consequential undue benefit to the assessees. Further, the plea of non-submission of accounts by the assessees is not tenable as the information were already available with the commercial tax division which could have been obtained for completion of the assessments.

4.4 Non-realisation of revenue

The Department failed to realise the sales tax and State income tax aggregating Rs. 2.25 crore including interest and penal interest.

4.4.1 Non-realisation of sales tax

According to section 14 (3) of Sikkim Sales Tax Act 1983, if a dealer fails, without reasonable cause, to make the payment of tax together with the penalty, if any, by the date specified in the notice or by the date extended, interest at 10 *per cent* per annum would be charged on such amount from such dates.

Test check (October-November 2008) of the assessment records of the commercial tax/Sales Tax/Value Added Tax (CT/ST/VAT) division indicated that the sales tax[14]

[14] *Tax due Rs. 10,000 and above cases.*

amounting to Rs. 1.69 crore assessed upto 2006-07 for the assessment years 1982-83 to 2004-05 has not been paid by 52 dealers within the due dates. It was further noticed that out of 52 dealers, 17 paid the tax amounting to Rs. 7.73 lakh after the due dates on which interest of Rs. 1.09 lakh has not been levied and realised by the Department. The remaining 35 dealers have not paid assessed tax of Rs. 1.61 crore alongwith interest of Rs. 1.06 crore for the delays ranging from 190 to 3,215 days till 31 March 2009.

4.4.2 Non-realisation of State income tax

As per notification issued by the Income Tax Department in December 1973, any amount specified as payable in the notice of demand shall be paid within 45 days from the date of issue of the notice failing which simple interest at 12 *per cent* per annum shall be charged from the date of notice of the demand. The notification further provides that if the payment is not made even after three months of its demand, the assessee shall, in addition to the simple interest, be liable to pay penal interest at the rate of 20 *per cent* on the defaulted amount.

Scrutiny of the records (November 2008) of the State Income Tax (SIT) Division at Gangtok indicated that in the case of three assessees[15] who defaulted in payment of the tax amounting to Rs. 25.31 lakh for the period 2001-02 to 2004-05, the division neither initiated any recovery proceedings against the defaulting dealers nor levied the mandatory simple interest and penal interest amounting to Rs. 24.12 lakh. This resulted in non-realisation of tax alongwith interest and penal interest aggregating to Rs. 49.43 lakh over a period of 105 to 1,160 days, as of March 2009.

Thus, laxity of the divisions in enforcing the statutory provision resulted in non-realisation of tax aggregating to Rs. 1.94 crore relating to the periods

1982-83 to 2004-05 and penalty thereon aggregating to Rs. 1.30 crore with consequential deferment of payment of tax.

After this was pointed out, the SIT Division stated (September 2009) that notices have been served on the dealers for paying the interest and penal interest. It was also stated that notices have been served to the defaulters and in the event of the failure of the assessees to make payments, recovery proceedings would be initiated.

4.5 Short realisation of Central Sales Tax

Central Sales Tax on a turnover of Rs. 61.83 crore was not assessed resulting in short realisation of tax of Rs. 1.02 crore including interest.

According to the Rule 11 of Central Sales Tax (Sikkim) Rules 1983, every registered

[15] *(i) M/s Rajib Electronics for the period 2001-05, (ii) M/s Ramkumar Kedarnath for the period 2001-04, (iii) STP Pharmaceuticals (Pvt.) Ltd. for the period March 2004 & 2004-05.*

dealer is required to furnish a quarterly return within fifteen days from the expiry of each quarter together with proof of the payment of tax and tax due. Further, as per the provision 9(2B) of Central Sales Tax (CST) Act, if the dealer fails to pay the tax in time, he is liable to pay the interest according to the sales tax law of the State. As per the Sikkim Value Added Tax Act 2005, simple interest at the rate of two *per cent* for each calendar month of the default was leviable towards interest for delay.

Scrutiny of the records of commercial tax division in October-November 2008 indicated that one assessee[16] was exempted from paying the tax from 1st March 1999 for a period of five years under the industrial policy of Sikkim 1996. As per the exemption order of the Government issued in May 2001, he was liable to pay tax from 1st March 2004. It was noticed that though the turnover of Rs. 61.83 crore for the period from March 2004 to March 2007 was assessable under the CST Act, no assessment was made till November 2008. However, against the tax dues of Rs. 2.47 crore on the above turnover, the assessee remitted Rs. 1.67 crore between December 2004 and December 2007. This resulted in non-realisation of tax of Rs. 80 lakh on which interest of Rs. 21.75 lakh was also leviable. Besides, the non-realisation also led to undue financial benefit to that extent to the company.

After this was pointed out, the division stated (September 2009) that the assessment for the period from March 2004 to March 2007 could not be done as the representations (June 2006, February 2007 and March 2008) of the company for exemption of tax beyond five years under the industrial policy of Sikkim 1996 was pending with the Department of Commerce and Industries. Also, the requisite notification under section 8(5) of CST Act 1956 and section 5(2) of SST Act 1983 for exemption has not yet been issued. Notwithstanding the representations for exemption beyond five years remaining pending over more than three years, according to the existing Government order of May 2001, the company was liable for payment of CST from March 2004 onwards.

[16] *STP Pharmaceuticals Pvt. Ltd.*

CHAPTER – V
GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 Overview of State Public Sector Undertakings

Introduction

5.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Sikkim, the State PSUs occupy an insignificant place in the State economy. The State PSUs registered a turnover of Rs. 32.10 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 1.23 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Sikkim State PSUs are concentrated in the manufacturing and power sector. The State PSUs incurred a loss of Rs. 2.69 crore in the aggregate for 2008-09 as per their latest finalised accounts. They had employed 826 employees as of 31 March 2009. The State PSUs do not include two[1] Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

5.1.2 As on 31 March 2009, there were 15 PSUs as per the details given below. None of these companies were listed on the stock exchange(s).

Table – 5.1

Type of PSUs	Working PSUs	Non-working PSUs[2]	Total
Government Companies	9	3	12
Statutory Corporations	2	1	3
Total	**11**	**4**	**15**

5.1.3 During the year 2008-09, neither any PSUs were established nor closed down.

Audit Mandate

5.1.4 The Companies Act, 1956 is not extended to the State of Sikkim. The Government Companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim 1961'. The accounts of these companies are audited by

[1] *Government Fruit Preservation factory and Temi Tea Estate*
[2] *Non-working PSUs are those which have ceased to carry on their operations.*

Statutory Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BoDs) of the respective companies. Besides the statutory audit, audit of these companies had also been taken up by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the State under Section 20(1)/ 20(2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

5.1.5 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 under the proclamations of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants, directly appointed by the BODs of the respective corporations. Audit of these corporations was taken up by CAG under Section 19(3) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 on the request of the State Government.

Investment in State PSUs

5.1.6 As on 31 March 2009, the investment (capital and long-term loans) in 15 PSUs was Rs. 290.32 crore as per details given below.

Table – 5.2

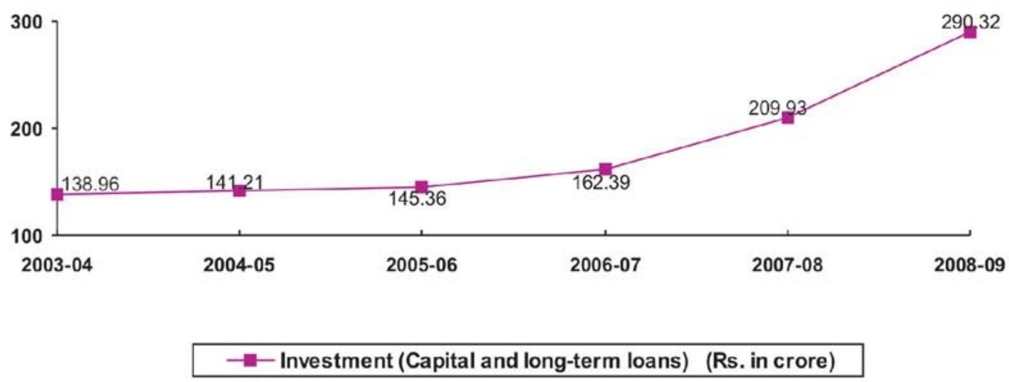
(Rs. in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital Long	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	77.74	192.33	270.07	2.19	-	2.19	272.26
Non-working PSUs	3.43	-	3.43	12.50	2.13	14.63	18.06
Total	**81.17**	**192.33**	**273.50**	**14.69**	**2.13**	**16.82**	**290.32**

A summarised position of Government investment in State PSUs is detailed in Appendix-5.1.

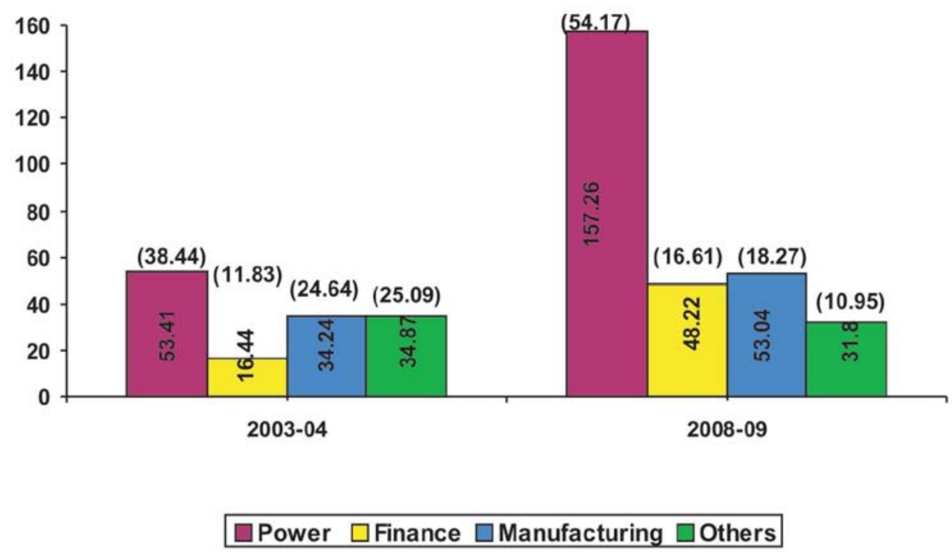
5.1.7 As on 31 March 2009, of the total investment in State PSUs, 93.78 *per cent* was in working PSUs and the remaining 6.22 *per cent* in non-working PSUs. This total investment consisted of 33.02 *per cent* towards capital and 66.98 *per cent* in long-term loans. The investment has grown by 108.92 *per cent* from Rs. 138.96 crore in 2003-04 to Rs. 290.32 crore in 2008-09 as shown in the graph below.

Chart – 5.1



5.**1.8** The total investment in various sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart.

Chart – 5.2



(Figures in brackets show the percentage of total investment)

5.1.9 The thrust of PSUs investment was mainly in power sector during the five years 2003-04 to 2008-09. The investment in power sector had increased 194.44 *per cent* from Rs. 53.41 crore in 2003-04 to Rs. 157.26 crore in 2008-09. Further, power sector saw its share rising to 54.17 *per cent* of total investment during the year 2008-09 from 38.44 *per cent* in 2003-04.

Budgetary outgo, grants/subsidies, guarantees and loans

5.1.10 The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in Appendix-5.3. The summarised details are given below for three years ended 31 March 2009.

Table – 5.3

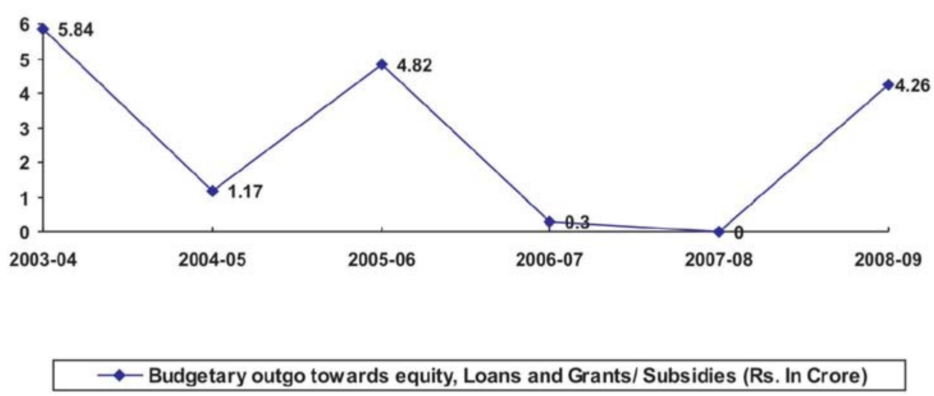
(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No.of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	1	0.30	-	-	5	3.05
2.	Grants/Subsidy received	-	-	-	-	3	1.21
3.	**Total Outgo (1+2)**	**1**	**0.30**	**-**	**-**	**8**	**4.26**
4.	Loans written off	-	-	-	-	1	113.40
5.	Interest/Penal interest written off	1	0.60	1	0.56	2	12.99
6.	**Total Waiver (4+5)**	**1**	**0.60**	**1**	**0.56**	**2**	**126.39**
7.	Guarantees issued	-	-	-	-	1	9.52
8.	Guarantee Commitment	3	80.00	2	75.00	2	85.10

5.1.11 Sikkim Power Development Corporation Limited (SPDC) had received Grant/ Subsidy to the extent of rupees one crore during the year 2008-09. Further, the waiver of dues, however, increased from nil in 2003-04 to Rs. 126.39 crore in 2008-09 mainly due to loan repayment written off/ penal interest waived off in respect of SPDC.

5.1.12 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in the graph below.

Chart – 5.3



5.1.13 The guarantee commitment outstanding has marginally increased from Rs. 80 crore in 2006-07 to Rs. 85.10 crore in 2008-09. As on 31 March 2009, guarantee amounting to Rs. 50.01 crore and Rs. 35.09 crore were outstanding against SPDC and Scheduled Tribe/Scheduled Caste & Other Backward Classes Development Corporation Limited (SABCCO) respectively. On any guarantee given to a public body, a guarantee commission @ one *per cent* is charged by the State Government. An amount of Rs. 0.20 lakh only was paid during 2008-09 by SABCCO. No guarantee commission was paid by SPDC.

Reconciliation with Finance Accounts

5.1.14 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

Table – 5.4

(Rs. in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	68.95	77.96	9.01
Loans	2.03	2.03	Nil
Guarantees	75.00	85.10	10.10

5.1.15 Audit observed that the differences occurred in respect of six PSUs and some of the differences were pending reconciliation since 2003-04. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

5.1.16 The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in Appendices 5.2, 5.5, 5.6 and 5.7 respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

Table – 5.5

(Rs. in crore)

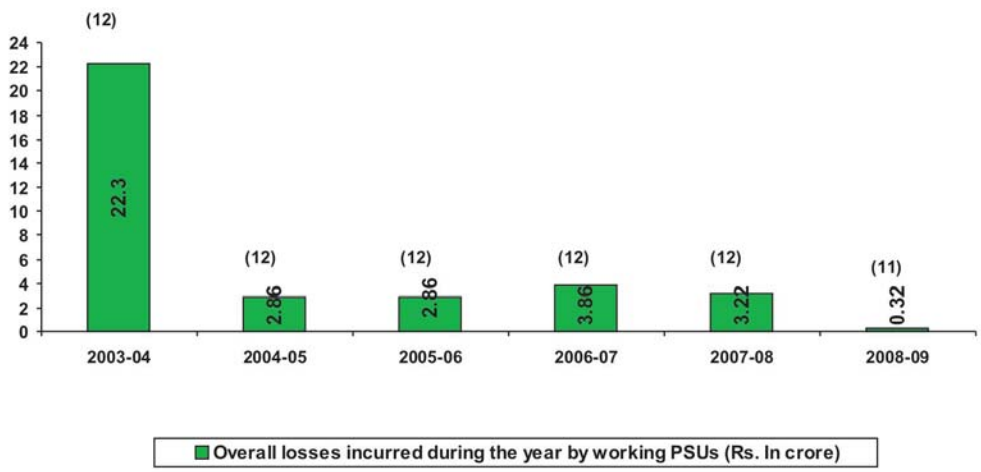
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover[3]	29.39	35.73	34.26	45.80	44.44	31.34
State GDP	1,429.72	1,602.17	1,830.00	2,038.54	2,297.86[4]	2,612.10[5]
Percentage of Turnover to State GDP	2.06	2.23	1.87	2.25	1.93	1.20

[3] *Turnover as per the latest finalised accounts as of 30 September.*
[4] *Quick Estimate*
[5] *Advance estimate*

The percentage of turnover of PSUs to the State GDP has been witnessing a declining trend. From 2.06 *per cent* in 2003-04, it declined to 1.20 *per cent* in 2008-09 despite increase in PSU turnover and State GDP over the years. This is due to the reason that the increase in PSUs turnover was not commensurate with the increase in State GDP and majority of the PSUs were loss making.

5.1.17 Losses[6] incurred by the State working PSUs during 2003-04 to 2008-09 are given below in the bar chart.

Chart – 5.4



(Figures in brackets show the number of working PSUs in respective years)

The above chart shows that the working PSUs were making losses in aggregate over the years and registered a loss of Rs. 0.32 crore in 2008-09 which stood at a high of Rs. 22.30 crore in 2003-04.

During the year 2008-09 (as per finalized accounts as on 30 September 2009), out of 11 working PSUs, six PSUs[7] incurred a loss of Rs. 3.50 crore whereas four PSUs[8] earned a profit of Rs. 3.18 crore. SPDC did not prepare a Profit & Loss Account. The working Statutory Corporations viz. State Bank of Sikkim and State Trading Corporation of Sikkim earned profit of Rs. 1.72 crore and 0.62 crore respectively. While one working Company, Sikkim Industrial Development & Investment Corporation Limited (SIDICO) earned profit of Rs. 0.81 crore. The Sikkim Times Corporation Limited incurred a significant loss of Rs. 2.56 crore[9].

[6] *Figures are as per the latest finalized accounts during the respective years.*
[7] *Sikkim Poultry Development Corporation, Sikkim Hatcheries Limited, Scheduled Tribe/Scheduled Caste & Other Backward Classes Development Corporation Limited, Sikkim Jewels Limited, Sikkim Times Corporation Limited and Sikkim Precision Limited.*
[8] *Sikkim Industrial Development & Investment Corporation Limited, Sikkim Tourism Development Corporation Limited, State Bank of Sikkim and State Trading Corporation of Sikkim.*
[9] *Accounts of Sikkim Times Corporation Limited for the year 2005-06 finalised during the year 2009-10.*

5.1.18 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 18.88 crore and infructuous investment of Rs. 2.28 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

Table – 5.6

(Rs. in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net loss	3.86	3.22	0.32	7.40
Controllable losses as per CAG's Audit Report	5.51	12.95	0.42	18.88
Infructuous Investment	2.28	-	-	2.28

5.1.19 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

5.1.20 Some other key parameters pertaining to State PSUs are given below.

Table – 5.7

(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (*per cent*)	0.74	1.13	0.74	0.81	1.80
Debt	66.18	65.51	77.07	124.61	194.46
Turnover[10]	35.73	35.65	45.80	44.44	31.34
Debt/ Turnover Ratio	1.85:1	1.84:1	1.68:1	2.80:1	6.20:1
Interest Payments	9.96	18.97	16.46	29.68	5.52[11]
Accumulated losses	57.58	57.39	58.35	58.06	66.86

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

5.1.21 The above analysis shows that the percentage return on capital employed which was 0.74 *per cent* in 2004-05 has gradually increased to 1.80 *per cent* in 2008-09, at the same time the accumulated losses have also increased from Rs. 57.58 crore in 2004-05 to Rs. 66.86 crore in 2008-09 showing unfavorable trend. Similarly, the debt/ turnover ratio has also increased from 1.85:1 in 2004-05 to 6.20:1 in 2008-09 due to increase in loan amount in respect of SABCCO and SPDC.

[10] *Turnover of working PSUs as per the latest finalised accounts as of 30 September.*
[11] *Three PSUs did not furnish the information.*

5.1.22 The State Government had not formulated (September 2009) any dividend policy under which PSUs are required to pay a minimum return on their paid up share capital. As per their latest finalised accounts, four PSUs earned an aggregate profit of Rs. 3.18 crore but none of the PSUs declared any dividend. The State Government may frame a dividend policy to ensure that a minimum return is received on its investment.

Performance of major PSUs

5.1.23 The investment in working PSUs and their turnover together aggregated to Rs. 303.60 crore during 2008-09. Out of 11 working PSUs, the following five PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These five PSUs together accounted for 87.33 *per cent* of aggregate investment *plus* turnover.

Table – 5.8

(Rs. in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover of all PSU's
(1)	(2)	(3)	(4)	(5)
Sikkim Power Development Corporation Limited	157.26	-	157.26	51.80
Scheduled Tribe/ Scheduled Caste & Other Backward Classes Development corporation Limited	47.64	0.85	48.49	15.97
Sikkim Industrial Development & Investment Corporation Limited	19.84	1.95	21.79	7.18
Sikkim Times Corporation Limited	21.03	0.36	21.39	7.04
Sikkim Jewels Limited	13.44	2.77	16.21	5.34
Total	**259.21**	**5.93**	**265.14**	**87.33**

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

Sikkim Power Development Corporation Limited (SPDC)

5.1.24 The Company had arrears of accounts for two years as of September 2009. The arrear was for one year as of September 2006. There were no major audit findings in the Audit Reports of the last five years. The Company is yet to prepare its Profit & Loss account and all the expenditure are treated as project expenses and are shown as Capital Work-in-Progress.

Scheduled Tribe, Scheduled Caste & Other Backward Classes Development Corporation Limited (SABCCO)

5.1.25 The Company had arrears of accounts for two year as of September 2009. The position of arrears of accounts as of September 2006 was similar. The loss of the Company increased from Rs. 0.13 crore in 2005-06 to Rs. 0.35 crore in 2008-09. The turnover decreased from Rs. 0.90 crore to Rs. 0.85 crore during this period. Consequently, the *percentage* return on capital employed decreased from 2.23 *per cent* in 2005-06 to 1.39 *per cent* in 2008-09.

5.1.26 ***Deficiencies in monitoring***

- Ineffective monitoring and supervisory mechanism led to payment of avoidable penal interest of Rs. 39.90 lakh *(paragraph* 7.15 of Audit Report 2007-08*)*

Sikkim Industrial Development & Investment Corporation Limited (SIDICO)

5.1.27 The Company had arrears of accounts for one year as of September 2009. The position of arrears of accounts as of September 2006 was similar. The profits of the Company rose from Rs. 0.56 crore in 2005-06 to Rs. 0.81 crore in 2008-09. Similarly, the turnover also rose from Rs. 1.09 crore in 2005-06 to Rs. 1.95 crore in 2008-09. However, the percentage return on capital employed declined from 4.78 *per cent* in 2005-06 to 4.24 *per cent* in 2008-09 due to increase in capital employed.

5.1.28 ***Deficiencies in monitoring***

- Recovery of loan amount of Rs. 6.20 crore (principal Rs. 5.07 crore and interest Rs. 1.13 crore) under Chief Minister's Self Employment Scheme became doubtful due to improper monitoring mechanism. (*paragraph* 7.18 of Audit Report 2006-07*)*
- Loans amounting to Rs. 34.37 crore were sanctioned without carrying out risk analysis of the schemes, credit worthiness of applicants, critical scrutiny of projections and non-verification of track records of loanees. (*paragraph* 6.12.9 of Audit Report 2004-05*)*

5.1.29 ***Deficiencies in financial management***

- The Company suffered financial loss of Rs. 5.08 crore due to imprudent decision while sanctioning the loans and making investments in Sikkim Jewels Limited. (*paragraph* 7.17 of Audit Report 2006-07*)*

Sikkim Times Corporation Limited (SITCO)

5.1.30 The Company had arrears of accounts for three years as of September 2009. The arrears of accounts as of September 2006 were for two years. The loss of the company declined in the past three years from Rs. 3.29 crore in 2005-06 to Rs. 2.56 crore in 2008-09. However, the turnover has also decreased from Rs. 2.40 crore to Rs. 0.36 crore during this period.

5.1.31 *Deficiencies in planning*

- Defective agreement with HMT and failure to renew the agreement on the expiry of the same in July 1979, SITCO could not recover the principal amount of Rs. 16.26 lakh along with interest of Rs. 42.78 lakh thereon from HMT. (*paragraph* 7.13 of Audit Report 2006-07*)*

- Deficiency in the pre-production market survey in assessing the demand for speakers, incompetitive prices due to high incidence of transportation costs, lack of adequate working capital etc. lead to the project not performing and resulted in total loss of Rs. 2.28 crore. (*paragraph* 7.15 of Audit Report 2006-07*)*

Sikkim Jewels Limited (SJL)

5.1.32 The Company had arrears of accounts for one year as of September 2009. While there were no arrears of accounts as of September 2006. The loss of the Company declined from Rs. 0.41 crore in 2005-06 to Rs. 0.25 crore in 2008-09. During the same period turnover increased from Rs. 2.41 crore to Rs. 2.77 crore.

5.1.33 *Deficiencies in planning*

- Failure to carry out a proper and realistic market survey as well as an independent analysis of the feasibility study of the project and completely relying on the inflated projections of the consultant ultimately led to the abandonment of the project leading to wasteful expenditure of Rs. 50.05 lakh. (*paragraph* 7.15 of Audit Report 2005-06*)*

Conclusion

5.1.34 The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

5.1.35 The Companies Act, 1956 is not extended to the State of Sikkim. The Government companies in Sikkim are registered under 'The Registration of Companies Act, 1961' and the Statutory Corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Table – 5.9

Sl. No.	Particulars	2006-07	2007-08	2008-09
1.	Number of Working PSUs	12	12	11
2.	Number of accounts finalised during the year	05	19	23
3.	Number of accounts in arrears	38	31	18
4.	Average arrears per PSU (3/1)	3.17	2.58	1.64
5.	Number of Working PSUs with arrears in accounts	12	12	11
6.	Extent of arrears (in years)	2 to 5	1to 4	1 to 4

5.1.36 It can be seen from table above that the PSUs were able to finalise and gradually reduce the backlog arrears of accounts with exception of one[12] PSU which had not finalized the accounts for earlier years. None of the working PSUs finalised their accounts for the year 2008-09. The delay in finalisation of accounts is due to delay in compilation/ adoption of accounts by the BoDs of the respective PSUs.

5.1.37 In addition to above, there were arrears in finalisation of accounts by non-working PSUs. The four non-working PSUs had arrears of accounts ranging from two to 14 years.

5.1.38 The State Government had invested Rs. 12.59 crore (Equity Rs. 11.39 crore and Grants Rs. 1.20 crore) in six working PSUs during the years for which accounts have not been finalised as detailed in Appendix- 5.4. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved. Government's investments in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money.

5.1.39 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed by Audit, of the arrears in finalisation of accounts, majority of the PSUs failed to finalise their accounts in time. As a result, the net worth of these PSUs could not be assessed in audit.

In view of above state of arrears, it is recommended that the Government may impress upon respective PSUs to hasten the process of finalisation of accounts and bring them upto date early.

Winding up of non-working PSUs

5.1.40 There were four non-working PSUs (three Companies and one Statutory Corporation) as on 31 March 2009. None of the PSUs have commenced liquidation

[12] *State Bank of Sikkim*

process. The numbers of non-working Companies at the end of each year during past five years are given below.

Table – 5.10

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working Companies	3	3	3	3	3
No. of non-working Corporations	-	-	-	-	1
Total	**3**	**3**	**3**	**3**	**4**

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, one non-working PSUs incurred an expenditure of Rs. 2.54 lakh towards administrative expenses such as salaries etc. out of which an expenditure of Rs. 0.76 lakh was financed by the State Government.

5.1.41 The stages of closure in respect of non-working PSUs are given below.

Table – 5.11

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	3	1	4
2	Closure, i.e. closing orders/ instructions issued but liquidation	2[13]	1[14]	3

5.1.42 During the year 2008-09, no Company/Corporation was wound up. The Government may make a decision regarding winding up of these three non-working PSUs. The Government may consider setting up a cell to expedite closing down its non-working PSUs.

Accounts Comments and Internal Audit

5.1.43 Nine working Companies forwarded their 18 audited accounts to the Accountant General during the year 2008-09[15]. Out of these, 13 accounts of eight Companies were selected for supplementary audit. Also six accounts of four Companies received during the earlier years were selected for supplementary audit. The audit reports of statutory auditors appointed directly by the BoDs and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

[13] *Sikkim Flour Mills Limited and Chandmari Workshop and Automobiles Limited.*
[14] *Sikkim Mining Corporation*
[15] *During the period October 2008 to September 2009*

Table – 5.12

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in loss	03	2.87	14	1.74	02	1.13
2.	Non-disclosure of material facts	04	0.30	02	0.71	-	-
3.	Errors of classification	-	-	-	-	03	9.89
		07	**3.17**	**16**	**2.45**	**05**	**11.02**

5.1.44 During the year, the statutory auditors had given qualified certificates for all 18 accounts. Additionally, CAG also qualified the nine accounts during the supplementary audit. The compliance of Companies with the Accounting Standards remained poor. There were six instances of non-compliance in six accounts during the year.

5.1.45 Some of the important comments in respect of accounts of Companies are stated below.

CAGs comments:

Sikkim Jewels Limited (2005-06)

- Non provision for irrecoverable deposit of Rs. 7.34 lakh in a private bank resulted in overstatement of current assets and understatement of loss for the year by the same amount.
- Non- provision for Income tax resulted in understatement of Current Liabilities and accumulated loss for the year by Rs. 35.84 lakh.

Scheduled Tribes/ Scheduled Castes & Other Backward Classes Development Corporation Limited (2006-07)

- Excess accountal of loan liability resulted in overstatement of current liability and loss for the year by Rs. 38.31 lakh.
- Non-provision of minimum guarantee commission on Government guarantees resulted in understatement of current liability and accumulated losses by Rs. 15 lakh.

Sikkim Power Development Corporation Limited (2006-07)

- The Company incurred an expenditure of Rs. 1.01 crore on behalf of the State Government and booked as work-in-progress instead of as receivables from the State Government.

- The Preliminary Project Cost includes expenditure of Rs. 1.86 crore made for payment of land compensation on behalf of the developer (M/s Gati) of the project. This amount has already been received by the Company from the developer and booked under Unsecured Loans. Non adjustment of the expenditure against Unsecured Loan resulted in overstatement of both Unsecured Loan and Preliminary Project Cost by Rs. 1.86 crore.

5.1.46 Similarly, one[16] working Statutory Corporation forwarded its accounts for four years to the Accountant General during the year 2008-09. All the accounts were selected for supplementary audit. The audit reports of statutory auditors and / supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

Table – 5.13

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	2	0.96	4	1.65
2.	Non-disclosure of material facts	-	-	1	0.62	-	-
		-	**-**	**3**	**1.58**	**4**	**1.65**

All the four accounts received qualified certificates from Statutory Auditors and CAG.

Recoveries at the instance of audit

5.1.47 During the course of propriety audit in 2008-09, recoveries of Rs. 34.70 crore were pointed out to the Management of various PSUs, of which, an amount of Rs. 0.41 crore was recovered during the year 2008-09.

Status of placement of Separate Audit Reports

5.1.48 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory Corporations in the Legislature by the Government.

[16] *State Trading Corporation of Sikkim*

Table – 5.14

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	State Trading Corporation of Sikkim	2003-04	2004-05 to 2007-08	April 2009	Yet to be presented
2.	State Bank of Sikkim	2004-05	2005-06	-	Under audit
		2006-07 to 2007-08			Accounts not received as of 30-September 2009
3.	Sikkim Mining Corporation	2006-07	2007-08	-	-do-

Delay in placement of SARs weakens the legislative control over Statutory Corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature(s).

Disinvestment, Privatisation and Restructuring of PSUs

5.1.49 During the year 2008-09, there had been no privatisation (partial or complete) of any activity of these Companies or Corporations, and the Government had also not contemplated for disinvestments of shares in any Company/Corporation.

Reforms in Power Sector

5.1.50 The State Government targeted the setting up of State Electricity Regulatory Commission (SERC) by May 2003. In terms of the Electricity Act 2003, the State Government was also required to constitute a three member Selection Committee for purpose of selecting members of the SERC.

While the State Government constituted (November 2004) the Selection Committee, the SERC could not be set up (September 2009) as the names proposed by the Committee are yet to be approved by the State Government.

A Memorandum of Understanding (MoU) was signed in (December 2002) between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Table – 5.15

Sl. No.	Milestone	Achievement as at March 2009
1.	Setting up of SERC.	Not yet set up.
2.	100 *per cent* metering of all consumers.	As on date out of 77,000 consumers, 68,725 consumers (89 *per cent*) were metered.
3.	100 *per cent* metering and energy audit and accounting for each 11 KV feeder.	The State Government had completed the metering of all 115,11KV feeder.
4.	Mandatory installation of capacitor for consumers of more than 10 HP.	Only 24 *per cent* of the total 10 HP consumers were metered as on date.
5.	Computerised billing and Management Information System (MIS).	Out of 22 revenue sub-divisions, computerised billing and MIS prevails in only 7 sub-divisions.
6.	Consumer indexing.	Out of 22 revenue sub-divisions, consumer indexing has been completed only in 3 sub-divisions.

Discussion of Audit Reports by PAC

5.1.51 The status as on 30 September 2009 of reviews and paragraphs that appeared in Commercial Chapter of Audit Reports and discussed by the Public Accounts Committee (PAC) is as under.

Table – 5.16

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2005-06	1	3	1	1
2006-07	1	6	Under discussion	
2007-08	-	6	-	
Total	**2**	**15**	**1**	**1**

GOVERNMENT FRUIT PRESERVATION FACTORY

5.2.1 Loss of Rs. 15.05 lakh due to rejection of material

Defective procurement system coupled with absence of quality control in procurement of cans led to rejection of supply with consequent loss of Rs. 15.05 lakh.

The Company entered (March 2007) into a supply contract with the Army Purchase Organisation (APO) for supply of 60 MT of tinned pears to the Defence Services at a contract price of Rs. 27.36 lakh. The terms of the supply order specified that the fruit should be free from added colour; the cans on opening should show a negative pressure; the lacquer used inside the cans should be of food-grade, non-toxic and without peeling and the boxes should be coded as desired, etc.

The Company, in order to implement the contract, procured (May 2007) cans amounting to Rs. 7.38 lakh from Damini Packaging Pvt Ltd., Kolkata. The procurement procedure adopted by the Company was defective as (i) it did not resort to tendering before issuing the supply order, (ii) the cans were received by the Company without testing/inspection as the supply order did not include any clause for testing/inspection of materials and (iii) it did not include any clause for rejection in case of defective supply. Such defective procurement procedures without ensuring the financial interest of the Company are always fraught with risks of procurement at higher rates, defective supply and delay in supply with consequential loss to the Company.

The Company to complete the contract procured and processed 40 MT of pears valuing Rs. 13.68 lakh and handed over samples (September 2007) to APO for quality checking. The samples were rejected (October/November 2007) by APO citing non-conformance to their specifications that of - the outermost layer of the Corrugated Fibreboard Cartons not having moisture barrier capabilities, pressure found positive in cans opened for examination and peeling of lacquer noticed inside the cans. Thus APO rejected the entire material processed (40 MT) and also invoked the bank guarantee of Rs. 1.37 lakh for the Company's failure to comply with the contractual obligations.

Thus, due to defective procurement, absence of quality control mechanism on packaging material and consequential rejection of supplies by APO, the Company not only had to incur a loss of Rs. 15.05 lakh (including encashment of bank guarantee of Rs. 1.37 lakh) but also lost the opportunity to supply the balance quantity of 20 MT, besides losing its credibility in the market. The company in the absence of any formal agreement could not take any legal action for the supply of sub-standard cans and consequential loss was incurred.

The Management accepted the facts and stated (March 2009) that the Company had for the first time tendered for supply of tinned pears to the defence services without trial and it should have started with a smaller quantity.

Audit recommends that the Company should ensure that the agreements/supply orders are drawn up with due diligence to safeguard its own interests against such losses.

The mater was reported to the Government (April 2009); its reply was awaited (October 2009).

5.2.2 Loss due to violation of contractual agreement

Violation of contractual agreement coupled with failure to protect the interest of the Company resulted in a loss of Rs. 11.27 lakh towards damaged and time expired products, besides non-realisation of Rs. 3.63 lakh.

Government Fruit Preservation Factory, Singtam, a State owned Company undertook its sales through the Consignee Sales agent (CSA). Agreements were entered into with two CSAs[17] (February 2005 and April 2005) effective during March 2005 to March 2007 and April 2005 to April 2007 respectively further extendable on mutual consent depending upon the performance of CSAs. As per the agreements, the CSAs were to lift minimum monthly quantity of products worth Rs. 2.50 lakh/Rs. 3.00 lakh/9 MT i.e., one full truck on credit basis for a period of 35 days. The agreement also provided for replacement of expired/ damaged goods by the Company against fresh stock. However, value of such return was not to be adjusted against any outstanding dues.

Audit noticed (April 2008) that while the agency of one CSA[18] was terminated (February 2007) by the Company due to the reason that the CSA has not lifted the products of the Company after December 2006 and failed to make the payments of the consignments as per agreement within 35 days, the other CSA[19] expressed (July 2007) its inability to continue and returned back all the unsold stock and promised to pay all dues.

The CSAs returned (April-October 2007) the unsold goods worth Rs. 11.27 lakh after a period of one to six months of cancellation of agency. The returned goods by the time had either outlived their shelf life or got damaged. The Company accepted the delayed return of goods and adjusted the same against the outstanding balances of the firms contrary to the clauses in the agreement. The Company also allowed credit sales to both the CSAs, despite their failure to lift minimum requirement of products per month/ failure to make payments of the consignment lifted which resulted in the Company not being able to settle outstanding dues of Rs. 3.63 lakh from CSAs as of October 2009.

Thus defective agreements without adequate safeguards to secure company's financial interests led the company to suffer a loss of Rs. 11.27 lakh besides non realisation of outstanding dues of Rs. 3.63 lakh.

The Management while accepting the Audit observation stated (March 2009) that the marketing policy was changed w.e.f. June 2007 and vigorous efforts were being

[17] *Shree Ganesh Agencies in February 2005 and Ramdeo Enterprise in April 2005/ May 2007*
[18] *Shree Ganesh Agencies*
[19] *Ramdeo Enterprise*

made to realise the outstanding dues from the agents. The fact remains that failure of the Company to protect its financial interest resulted in a loss of Rs. 11.27 lakh and non-realisation of Rs. 3.63 lakh.

It is recommended that the Company should ensure/ verify the credentials of the outside firms prior to entering into any contractual agreements in future and the agreements/supply orders are drawn up in a manner which safeguards its interests against such business losses.

The mater was reported to the Government (July 2009); its reply was awaited (October 2009).

SIKKIM POWER DEVELOPMENT CORPORATION LIMITED

5.2.3 Avoidable expenditure

Delayed handing over of the road to the developer of the power project led to avoidable expenditure of Rs. 16.32 lakh.

An agreement was signed (November 2003) between Sikkim Power Development Corporation Limited (SPDC), Government of Sikkim (GOS) and Gati Infrastructure Ltd. (developer) for construction of 99 MW Chuzachen Hydro-Electric Project. As per the agreement the GOS permitted SPDC to construct an approach road for the project, the cost of which shall also be borne by GOS. Accordingly, the SPDC awarded (April 2005) the work of construction of the approach road to a private contractor at an estimated cost of Rs. 1.15 crore. The work could not be completed as per scheduled date (July 2005) and could formally be completed in November 2006 after a delay of 16 months with an escalated cost of Rs. 1.50 crore. It was noticed in audit (December 2008) that SPDC delayed handing over of the road (February 2009) to the developer and incurred an expenditure of Rs. 16.32 lakh on slip clearance and protection wall during the period January 2007 to January 2008 even after completion of the road in November 2006. Since, as per agreement, SPDC was in no way responsible for the maintenance of the road, it could have avoided an expenditure of Rs. 16.32 lakh on repairs/maintenance if the road had been handed over to the developer in time.

In interim reply (February 2009), the Management intimated that the approach road was handed over to the developer in February 2009 and henceforth, all future liabilities related to the road and bridge shall be borne by the developer.

The matter was referred (April 2009) to the Government/Company; their replies were awaited (October 2009).

STATE TRADING CORPORATION OF SIKKIM

5.2.4 Avoidable expenditure

Non-procurement of material directly from the manufacturers and purchasing it from the local suppliers at higher rates resulted in avoidable expenditure of Rs. 24.76 lakh to the State Exchequer.

The State Trading Corporation of Sikkim (STCS), a canalising agency for the State Government purchases, was set up in 1972 by a proclamation of Chogyal. The main objective of the Corporation was to regulate the trade activities by taking advantage of bulk purchase, minimising delivery time and procuring quality materials to achieve efficiency and effectiveness.

The Corporation was required under Sikkim Financial Rules (SFR) to procure materials in the most economical manner either directly from the manufacturers and the firms under DGSD rate contract or through invitation of open tenders after giving wide publicity in leading newspapers at least a month before the last date for submission of tenders.

Audit observed (August 2008) that the Corporation, under the approval of the Managing Director, notified the selling rates of different brands and grades of Thermo-Mechanical Treatment (TMT) bar on the basis of enquiry of the price quotations over telephone/correspondence with steel manufacturers, viz. Steel Authority of India (SAIL), SPS Rolling Mills Ltd., SRMB Udyog Ltd. and Shayam Steel Industries etc. Accordingly, the Corporation selected the suppliers from the list of empanelled local dealers and ordered them to supply the materials. Although the Corporation obtained the rates from the steel manufacturers, during the period May 2007 to April 2008, it purchased 2,242 metric ton TMT bars from local dealers for Rs. 9.02 crore without inviting tenders in violation of the Sikkim Financial Rules (Rule 127 and 130). Thus, the reasonability of the rates allowed to local dealers could not be ascertained in Audit.

A comparative scrutiny revealed that the rate of TMT bars procured from the local dealers were higher than the rates offered by SAIL during the same period.

Thus, due to procurement of material from local suppliers at higher rates instead of purchasing directly from the manufacturers or by inviting tender resulted in an avoidable expenditure of Rs. 24.76 lakh to the State Exchequer. Audit concludes that the Corporation did not observe financial propriety while procuring the material. If the Corporation continues to adopt purchase procedures which lack prudent business practices and transparency and without adhering to the SFR, the very objective of establishing the Corporation to provide efficient services to the Government &

Public at an economical rate will be defeated. Further, such non-transparent procurement system against the statutory provisions is always fraught with the risk of malfeasance with consequential loss to the Corporation.

Audit recommends that the procurement of the materials may be made directly from the manufacturers after duly complying with the provision of SFR to ensure the reasonability of rates.

The matter was referred (April 2009) to the Government/Corporation; their replies were awaited (October 2009).

ENERGY & POWER DEPARTMENT, ANIMAL HUSBANDRY, LIVESTOCK, FISHERIES & VETERINARY SERVICES DEPARTMENT, FINANCE REVENUE & EXPENDITURE DEPARTMENT, CO-OPERATION DEPARTMENT AND COMMERCE & INDUSTRIES DEPARTMENT

5.2.5 Opportunity to recover money ignored

Eight PSUs did not either seize the opportunity to recover their money or pursue the matters to their logical end. As a result, recovery of money amounting to Rs. 65.21 lakh remains doubtful.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 11 paras in respect of six PSUs involving a recovery of Rs. 65.21 lakh. As per extant instructions the PSUs in Sikkim are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end, i.e., to recover money from the concerned parties. As a result, these PSUs have so far lost the opportunity to recover their money which could have augmented their finances.

PSU wise details of paras and recovery amount are given below. The list of individual paras is given in Appendix-5.8.

Table – 5.17

(Rs. in lakh)

Sl No.	Name of the PSU	No. of paras	Amount for recovery
1.	Sikkim Power Development Corporation Ltd.	01	49.52
2.	State Bank of Sikkim	01	7.48
3.	State Trading Corporation of Sikkim	04	5.02
4.	Sikkim Livestock Processing & Development Corporation Ltd.	02	1.68
5.	Sikkim State Co-operative Bank Limited	02	0.69
6.	Sikkim Times Corporation Limited	01	0.82
	Total	**11**	**65.21**

The paras mainly pertain to non recovery of income tax, royalty, loan, outstanding advances, etc.

Above cases point out the failure of respective PSU authorities to safeguard their financial interests. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

The matter was reported to the Government (July 2009); its reply was awaited (October 2009).

COMMERCE & INDUSTRIES DEPARTMENT, ENERGY & POWER DEPARTMENT, FINANCE, REVENUE & EXPENDITURE DEPARTMENT AND CO-OPERATION DEPARTMENT

5.2.6 Lack of remedial action on audit observations

Six PSUs did not either take remedial action or pursue the matters to their logical end in respect of 10 IR paras, resulting in foregoing the opportunity to improve their functioning.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 10 paras in respect of six PSUs, which pointed out deficiencies in the functioning of these PSUs. As per extant instructions the PSUs in Sikkim are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end, i.e., to take action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU wise details of paras are given below. The list of individual paras is given in Appendix-5.9.

Table – 5.18

Sl No.	Name of the PSU	No. of paras
1.	Sikkim Times Corporation Limited	01
2.	Sikkim Power Development Corporation	03
3.	State Bank of Sikkim	03
4.	Government Fruit Preservation Factory	01
5.	TEMI Tea Estate	01
6.	Sikkim State Co-operative Bank	01
	Total	**10**

The paras mainly pertain to loss of revenue towards income tax, loss on investments, loss on waiver of interest and non reimbursement of interest rebate, etc.

Above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

The matter was reported to the Government (July 2009); its reply was awaited (October 2009).

Gangtok **(Dinesh Bhagata)**
The **Accountant General (Audit), Sikkim**

Countersigned

New Delhi **(Vinod Rai)**
The **Comptroller and Auditor General of India**

Appendix – 1.1

Statement showing operational performance of Sikkim Nationalised Transport

(Referred to in paragraph 1.3.7.1, Page 47)

(Rupees in crore)

Particulars		2004-05	2005-06	2006-07	2007-08	2008-09
Average number of vehicles held	*Buses*	88	86	79	76	77
	Trucks/tankers	84	87	86	82	84
Average number of vehicles on road	*Buses*	59	50	52	64	65
	Trucks/tankers	56	61	63	69	74
Percentage of utilisation of vehicles	*Buses*	67	58	66	84	84
	Trucks/tankers	67	70	73	84	88
Vehicles at the end of the year	*Buses*	86	85	84	86	96
	Trucks/tankers	80	90	90	85	85
	Total	166	175	174	171	181
Number of employees		983	934	885	843	836
Employee vehicle ratio		5.92:1	5.34:1	5.09:1	4.93:1	4.62:1
Number of routes operated at the end of the year (*Buses* only)		19*	46	41	40	34
Route KM (*Buses* only) (in lakh)		7.64*	18.51	16.29	14.04	15.64
KM operated (in lakh)	*(Buses): Gross*	21.96	21.86	17.80	17.31	17.60
	Effective	20.66	20.61	16.55	16.31	16.35
	Dead	1.30	1.25	1.25	1.00	1.25
	(Trucks/Tankers): Gross	18.64	20.32	17.62	15.74	15.90
	Effective	14.64	16.37	15.39	14.24	14.40
	Dead	4.00	3.95	2.23	1.50	1.50
Percentage of dead KM to gross KM	*Buses*	5.92	5.72	7.02	5.78	7.10
	Trucks/tankers	21.46	19.44	12.66	9.53	8.52
Average Effective KM covered per day	*Buses*	64.32	65.66	57.40	58.80	58.17
	Trucks/tankers	47.75	52.15	49.03	47.58	46.97
Average revenue per KM (Rs.)		28.13	31.31	46.52	51.13	57.59
Average expenditure per KM (Rs.)		43.29	43.10	51.03	52.37	62.08
Loss per KM (Rs.)		15.16	11.79	4.51	1.24	4.49
Number of operating Depots		12	12	12	12	12
Occupancy ratio (Load Factor)		41	42	58	63	63
KM obtained per litre of	*Diesel Oil*	NA	4.06	3.70	3.36	3.16
	Engine Oil	325.31	417.42	354.49	402.56	270.84

Appendix – 3.1

Statement showing the district wise lifting of rice (in MT) Class I-V

(Referred to in paragraph 3.1.9.1, Page 91)

Year	East			West			North			South			
	Allocation of rice	Rice lifted	Short lifting	Allocation of rice	Rice lifted	Short lifting	Allocation of rice	Rice lifted	Short lifting	Allocation of rice	Rice lifted	Short lifting	Total Short lifting
1	2	3	4		6	7	8	9		10	11	12	13
2004-05	623.56	-		415.90	415.90	Nil	196.58			436.00	436.00	Nil	Nil
2005-06	867.52	867.52	-	498.99	498.99		235.68	227.86	7.82	524.40	524.40	Nil	Nil
2006-07	749.70	**749.70**	-	524.20	**438.99**	85.20	168.30	**220.22**	(+)51.92	518.50	**518.50**	Nil	85.20
2007-08	786.76	**749.70**	37.06	529.25	**386.09**	143.15	166.90	**88.23**	78.67	543.97	**543.97**	Nil	258.88
2008-09	450.80	**450.80**	-	293.81	**290.00**	3.81	92.79	**88.11**	4.68	312.10	**312.10**	Nil	8.49
Total	3,478.34	2,817.72	37.06	2,262.15	2,029.97	232.16	860.25	624.42	143.09	2,334.97	2,334.97		352.48
Statement showing the district wise lifting of rice (in MT) Class VI-VIII													
Year	Allocation of rice	Rice lifted	Short lifting	Allocation of rice	Rice lifted	Short lifting	Allocation of rice	Rice lifted	Short lifting	Allocation of rice	Rice lifted	Short lifting	Total Short lifting
1	2	3	4		6	7	8	9		10	11	12	13
2008-09	382.82	340.30	42.52	205.96	161.76	44.20	56.34	30.16	26.18	21.57	21.57	-	112.90
Grand Total	3,861.16	3,158.02	79.58	2,468.11	2,191.73	276.36	916.59	654.58	169.27	2,356.54	2,356.54	Nil	**465.38**

Total Allocation = Rs. 9,602.40 lakh

* *Does not include routes operated from Gangtok depot during 2004-05 due to non availability of the records.*

Appendix – 5.1

Statement showing particulars of up to date paid-up capital, loans outstanding and Manpower as on 31 March 2009 in respect of Government companies and Statutory corporations

(Referred to in paragraph 5.1.6, page 146)

(Figures in column 5 (a) to 6 (c) are Rupees in crore)

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorporation	Paid-up Capital				Loans** outstanding at the close of 2008-09				Debt equity ratio for 2008-09 (Previous year)	Manpower (No. of employees) (as on 31.3.2009)
				State Government	Central Government	Others	Total	State Government	Central Government	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	5 (e)	6 (a)	6 (b)	6 (c)	(7)	(8)
A. Working Government Companies													
AGRICULTURE & ALLIED													
1.	Sikkim Poultry Development Corporation (SPDCL)	AH & VS	March 1991	-	-	-	-	-	-	-	-	-	3
2.	Sikkim Hatcheries Limited (SHL)	AH & VS	August 1994	-	-	0.46	0.46	-	-	-	-	-	9
Sector wise total				**-**	**-**	**0.46**	**0.46**	**-**	**-**	**-**	**-**	**-**	**12**
FINANCE													
3.	Schedule Caste, Schedule Tribe and Other Backward Class Development Corporation Limited (SABCCO)	WELFARE	April 1996	9.04	3.51	-	12.55	-	-	35.09	35.09	2.80:1(4.29:1)	22
Sector wise total				**9.04**	**3.51**	**-**	**12.55**	**-**	**-**	**35.09**	**35.09**	**-**	**22**
INFRASTRUCTURE													
4.	Sikkim Industrial Development and Investment Corporation Limited (SIDICO)	INDUSTRIES	March 1977	10.77	-	6.37	17.14	2.03	-	0.67	2.70	0.16:1(0.10:1)	43
Sector wise total				**10.77**	**-**	**6.37**	**17.14**	**2.03**	**-**	**0.67**	**2.70**	**0.16:1(0.10:1)**	**43**
MANUFACTURING													
5.	Sikkim Jewels Limited (SJL)	INDUTRRIES	July 1976	11.98 ¥	-	0.78	12.76	-	-	0.68	0.68	0.05:1(0.03:1)	107
6.	Sikkim Time Corporation Limited (SITCO)	INDUSTRIES	Oct 1976	21.03	-	-	21.03	-	-	-	-	-	113
7.	Sikkim Precision Industries Limited (SPIL)	INDUSTRIES	Feb 1999	3.94	-	-	3.94	-	-	-	-	-	72
Sector wise total				**36.95**	**-**	**0.78**	**37.73**	**-**	**-**	**0.68**	**0.68**		**292**
POWER													
8.	Sikkim Power Development Corporation (SPDC)	POWER	Dec 1998	3.40	-	-	3.40	-	85.83	68.03	153.86	45.28:1 (28.73:1)	57
Sector wise total				**3.40**	**-**	**-**	**3.40**	**-**	**85.83**	**68.03**	**153.86**		**57**

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorpo-ration	Paid-up Capital				Loans** outstanding at the close of 2008-09				Debt equity ratio for 2008-09 (Pre-vious year)	Manpower (No. of employees) (as on 31.3.2009)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Govern-ment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	5 (e)	6 (a)	6 (b)	6 (c)	(7)	(8)
SERVICE													
9.	Sikkim Tourism Development Corporation (STDC)	TOURISM	Feb 1998	6.46	-	-	6.46	-	-	-	-	-	54
Sector wise total				**6.46**	**-**	**-**	**6.46**	**-**	**-**	**-**	**-**	**-**	**54**
Total A (All sector wise working Government companies)				**66.62**	**3.51**	**7.61**	**77.74**	**2.03**	**85.83**	**104.47**	**192.33**	**-**	**480**
B. Working Statutory corporations													
FINANCE													
10.	State Bank of Sikkim (SBS)	FINANCE	June 1968	0.53	-	0.05	0.58	-	-	-	-	-	254
Sector wise total				**0.53**	**-**	**0.05**	**0.58**	**-**	**-**	**-**	**-**	**-**	**254**
SERVICE													
11.	State Trading Corporation of Sikkim (STCS)	FINANCE	March 1972	1.61	-	-	1.61	-	-	-	-	-	88
Sector wise total				**1.61**	**-**	**-**	**1.61**	**-**	**-**	**-**	**-**	**-**	**88**
Total B (All sector wise working Statutory corporations)				**2.14**	**-**	**0.05**	**2.19**	**-**	**-**	**-**	**-**	**-**	**342**
Grand Total (A + B)				**68.76**	**3.51**	**7.66**	**79.93**	**2.03**	**85.83**	**104.47**	**192.33**	**-**	**822**
C. Non working Government companies													
AGRICULTURE & ALLIED													
12.	Sikkim Livestock Processing and Development Corporation (SLPDC)	AH & VS	April1988	0.35	0.34	-	0.69	-	-	-	-	-	4
13.	Sikkim Flour Mills Limited (SFML)	INDUSTRIES	July 1976	2.44	-	-	2.44	-	-	-	-	-	-
Sector wise total				**2.79**	**0.34**		**3.13**	**-**	**-**	**-**	**-**	**-**	**4**
SERVICES													
14.	Chandmari Workshop and Automobiles Limited (CWAL)	TRANSPORT	April 1988	0.30	-	-	0.30	-	-	-	-	-	-
Sector wise total				**0.30**	**-**	**-**	**0.30**	**-**	**-**	**-**	**-**	**-**	**-**
Total C (All sector wise non working Government companies)				**3.09**	**0.34**	**-**	**3.43**	**-**	**-**	**-**	**-**	**-**	**4**
D. Non working Statutory corporations						NIL							
MANUFACTURING													
15.	Sikkim Mining Corporation (SMC)	MINES & GEO	Feb 1960	6.11	6.39	-	12.50	-	2.13	-	2.13	0.15:1 (0.04:1)	
Sector wise total				**6.11**	**6.39**	**-**	**12.50**	**-**	**2.13**	**-**	**2.13**	**0.15:1 (0.04:1)**	
Total D (All sector wise non working Statutory corporations)		-	-	**6.11**	**6.39**	**-**	**12.50**	**-**	**2.13**	**-**	**2.13**	**0.15:1 (0.04:1)**	
Grand Total (A + B + C + D)				**77.96**	**10.24**	**7.66**	**95.86**	**2.03**	**87.96**	**104.47**	**194.46**		**826**

** *Loans outstanding at the close of 2007-08 represent long-term loans only. ¥ The paid-up capital of SJL includes Rs. 4 crore as Share application money.*

Appendix –5.2
Summarised financial results of Government companies and Statutory Corporations for the latest year for which accounts were finalised
(Referred to in paragraph 5.1.16, page 149)

(Figures in column 5 (a) to (6) and (8) to (10) are Rupees in crore)

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed@	Return on capital employed$	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A. Working Government Companies														
AGRICULTURE & ALLIED														
1.	SPDCL	2007-08	2009-10	(-) 0.06	-	0.01	(-) 0.07	-	-	-	(-) 0.66	0.03	(-) 0.07	-
2.	SHL	2007-08	2009-10	(-) 0.11	-	0.04	(-) 0.15	0.61	-	0.46	(-) 1.53	0.47	(-) 0.15	-
Sector wise total				**(-) 0.17**	**-**	**0.05**	**(-) 0.22**	**0.61**	**-**	**0.46**	**(-) 2.19**	**0.50**	**(-) 0.22**	**-**
FINANCE														
3.	SABCCO	2006-07	2009-10	0.45	0.77	0.03	(-) 0.35	0.85	(+) 0.13	9.55	(-) 5.14	30.24	0.42	1.39
Sector wise total				**0.45**	**0.77**	**0.03**	**(-) 0.35**	**0.85**	**(+) 0.13**	**9.55**	**(-) 5.14**	**30.24**	**0.42**	**1.39**
INFRASTRUCTURE														
4.	SIDICO	2007-08	2009-10	0.87	0.02	0.04	0.81	1.95	-	17.14	(-) 3.35	19.58	0.83	4.24
Sector wise total				**0.87**	**0.02**	**0.04**	**0.81**	**1.95**	**-**	**17.14**	**(-) 3.35**	**19.58**	**0.83**	**4.24**
MANUFACTURING														
5.	SJL	2007-08	2009-10	(-) 0.15	0.02	0.08	(-) 0.25	2.77	(-) 0.11	11.91	(-) 1.34	2.31	(-) 0.23	-
6.	SITCO	2005-06	2009-10	(-) 1.43	0.84	0.29	(-) 2.56	0.36	-	11.99	(-) 12.42	0.86	(-) 1.72	-
7.	SPIL	2007-08	2008-09	0.12	-	0.23	(-) 0.12	0.73	-	3.79	(-) 0.64	3.10	(-) 0.12	-
Sector wise total				**(-) 1.46**	**0.86**	**0.60**	**(-) 2.93**	**3.86**	**(-) 0.11**	**27.69**	**(-) 14.40**	**6.27**	**(-) 2.07**	**-**
POWER														
8.	SPDC	2006-07	2007-08	-	-	-	-	-	-	3.40	-	78.66	-	-
Sector wise total				**-**	**-**	**-**	**-**	**-**	**-**	**3.40**	**-**	**78.66**	**-**	**-**
SERVICE														
9.	STDC	2007-08	2009-10	0.42	-	0.39	0.03	1.30	-	6.46	(-) 1.95	4.55	0.03	0.66
Sector wise total				**0.42**	**-**	**0.39**	**0.03**	**1.30**	**-**	**6.46**	**(-) 1.95**	**4.55**	**0.03**	**0.66**

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumul-ated Profit (+)/ Loss (-)	Capital employed@	Return on capital employed$	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Deprecia-tion	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Total A (All sector wise working Government companies)				**0.11**	**1.65**	**1.11**	**(-) 2.66**	**8.57**	**0.02**	**64.70**	**(-) 27.03**	**139.80**	**(-) 1.01**	**-**
B. Working Statutory corporations														
FINANCE														
10.	SBS	2004-05	2005-06	11.05	9.18	0.15	1.72	11.70	(-) 1.15	0.58	(-) 34.71	313.64	10.90	3.48
Sector wise total				**11.05**	**9.18**	**0.15**	**1.72**	**11.70**	**(-) 1.15**	**0.58**	**(-) 34.71**	**313.64**	**10.90**	**3.48**
SERVICE														
11.	STCS	2007-08	2008-09	0.68	-	0.06	0.62	11.07	(-) 0.54	1.11	7.80	8.86	0.62	7.00
Sector wise total				**0.68**	**-**	**0.06**	**0.62**	**11.07**	**(-) 0.54**	**1.11**	**7.80**	**8.86**	**0.62**	**7.00**
Total B (All sector wise working Statutory corporations)				**11.73**	**9.18**	**0.21**	**2.34**	**22.77**	**(-) 1.69**	**1.69**	**(-) 26.91**	**322.50**	**11.52**	**3.57**
Grand Total (A + B)				**11.84**	**10.83**	**1.32**	**(-) 0.32**	**31.34**	**(-) 1.67**	**66.39**	**(-) 53.94**	**462.30**	**10.51**	**2.27**
C. Non working Government companies														
AGRI														
12.	SLPDC	2006-07	2008-09	(-) 0.01	-	0.05	(-) 0.06	0.01	-	0.69	(-) 0.89	1.20	(-) 0.06	-
13.	SFML	1994-95	1995	-	-	-	-	-	-	0.60	(-) 0.13	0.85	-	-
Sector wise total				**(-) 0.01**	**-**	**0.05**	**(-) 0.06**	**0.01**	**-**	**1.29**	**(-) 1.02**	**2.05**	**(-) 0.06**	**-**
SERVICES														
14.	CWAL	1994-95	1997	(-) 0.10	-	0.04	(-) 0.14	-	-	0.00	(-) 0.02	0.69	-	-
Sector wise total				**(-) 0.10**	**-**	**0.04**	**(-) 0.14**	**-**	**-**	**0.00**	**(-) 0.02**	**0.69**	**-**	**-**
Total C (All sector wise non working Government companies)				**(-) 0.11**	**-**	**0.09**	**(-) 0.20**	**0.01**		**1.29**	**(-) 1.04**	**2.74**	**(-) 0.06**	**-**
D. Non working Statutory corporations														
MANUFACTURING														
15.	SMC	2006-07	2007-08	(-) 1.96	0.10	0.11	(-) 2.17	0.75	-	12.50	(-) 11.88	0.66	(-) 2.07	-
Sector wise total				**(-) 1.96**	**0.10**	**0.11**	**(-) 2.17**	**0.75**	**-**	**12.50**	**(-) 11.88**	**0.66**	**(-) 2.07**	**-**
Total D (All sector wise non working Statutory corporations)														
Grand Total (A + B + C + D)				**9.77**	**10.93**	**1.52**	**(-) 2.69**	**32.10**	**(-) 1.67**	**80.18**	**(-) 66.86**	**465.70**	**8.38**	**1.80**

Impact of accounts comments include the net impact of comments of Statutory Auditors and CAG and is denoted by (+) increase in profit/ decrease in losses (-) decrease in profit/ increase in losses.

@ *Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in case of finance companies/ corporations where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).*

$ *Return on capital employed has been worked out by adding profit and interest charged to profit and loss account.*

Appendix – 5.3

Statement showing grants and subsidy received/receivable, guarantees received, waiver of dues, loans written off and loans converted into equity during the year and guarantee commitment at the end of March 2009

(Referred to in paragraph 5.1.10, page 148)

(Figures in column 3 (a) to 6 (d) are Rupees in crore)

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Government	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	**(2)**	**3 (a)**	**3 (b)**	**4 (a)**	**4 (b)**	**4 (c)**	**4 (d)**	**5 (a)**	**5 (b)**	**6 (a)**	**6 (b)**	**6 (c)**	**6 (d)**
A. Working Government Companies													
AGRICULTURE & ALLIED													
1.	SPDCL	-	-	-	0.20	-	0.20	-	-	-	-	-	-
2.	SHL	-	-	-	-	-	-	-	-	-	-	-	-
Sector wise total		**-**	**-**	**-**	**0.20**	**-**	**0.20**	**-**	**-**	**-**	**-**	**-**	**-**
FINANCE													
3.	SABCCO	1.00	-	-	-	-	-	9.52	35.09	-	-	-	-
Sector wise total		**1.00**	**-**	**-**	**-**	**-**	**-**	**9.52**	**35.09**	**-**	**-**	**-**	**-**
INFRASTRUCTURE													
4.	SIDICO	-	-	-	-	-	-	-	-	-	-	0.10	0.10
Sector wise total		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.10**	**0.10**
MANUFACTURING													
5.	SJL	0.85	-	-	-	-	-	-	-	-	-	-	-
6.	SITCO	0.55	-	-	-	-	-	-	-	-	-	-	-
7.	SPIL	0.15	-	-	-	-	-	-	-	-	-	-	-
Sector wise total		**1.55**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
POWER													
8..	SPDC	-	-	2.13	1.00	-	3.13	-	50.01	113.40	-	12.89	126.29
Sector wise total		**-**	**-**	**2.13**	**1.00**	**-**	**3.13**	**-**	**50.01**	**113.40**	**-**	**12.89**	**126.29**
SERVICE													
9.	STDC	-	-	-	-	-	-	-	-	-	-	-	-
Sector wise total		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year[@]		Waiver of dues during the year			
		Equity	Loans	Central Government	State Government	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
Total A (All sector wise working Government companies)		**2.55**	**-**	**2.13**	**1.20**	**-**	**3.33**	**9.52**	**85.10**	**113.40**	**-**	**12.99**	**126.39**
B. Working Statutory corporations													
FINANCE													
10.	SBS	-	-	-	-	-	-	-	-	-	-	-	-
Sector wise total		-	-	-	-	-	-	-	-	-	-	-	-
SERVICES													
11.	STCS	0.50	-	-	-	-	-	-	-	-	-	-	-
Sector wise total		**0.50**	-	-	-	-	-	-	-	-	-	-	-
Total B (All sector wise working Statutory corporations)		**0.50**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Grand Total (A + B)		**3.05**	**-**	**2.13**	**1.20**	**-**	**3.33**	**9.52**	**85.10**	**113.40**	**-**	**12.99**	**126.39**
C. Non working Government companies													
AGRICULTURE & ALLIED													
12.	SLPDC	-	-	-	0.01	-	0.01	-	-	-	-	-	-
13.	SFML	-	-	-	-	-	-	-	-	-	-	-	-
Sector wise total		-	-	-	**0.01**	-	**0.01**	-	-	-	-	-	-
SERVICES													
14.	CWAL	-	-	-	-	-	-	-	-	-	-	-	-
Sector wise total		-	-	-	-	-	-	-	-	-	-	-	-
Total C (All sector wise non working Government companies		**-**	**-**	**-**	**0.01**	**-**	**0.01**	**-**	**-**	**-**	**-**	**-**	**-**
D. Non working Statutory corporations													
MANUFACTURING													
15.	SMC	-	-	-	-	-	-	-	-	-	-	-	-
Sector wise total		-	-	-	-	-	-	-	-	-	-	-	-
Total D (All sector wise non working Statutory corporations)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Grand Total (A + B + C + D)		**3.05**	**-**	**2.13**	**1.21**	**-**	**3.34**	**9.52**	**85.10**	**113.40**	**-**	**12.99**	**126.39**

[@] *Figures indicate total guarantees outstanding at the end of the year.*

Appendix – 5.4
Statement showing the investments made by the State Government in working PSUs whose accounts is in arrears
(Referred to in paragraph 5.1.38, page 155)

(Rs. in crore)

Sl. No	Name of PSU	Year upto which accounts finalised	Paid up capital as per latest finalised accounts	Investment made by State Government during the years for which accounts are in arrears.				
				Year	Equity	Loans	Grants	Other be specified
1.	SJL	2007-08	11.91	2008-09	0.85	Nil	Nil	Nil
2.	SITCO	2005-06	11.99	2006-07	5.69	Nil	Nil	Nil
				2007-08	2.80	Nil	Nil	Nil
				2008-09	0.55	Nil	Nil	Nil
3.	SPIL	2007-08	3.79	2008-09	Nil	Nil	Nil	Nil
4.	SIDICO	2007-08	17.14	2008-09	Nil	Nil	Nil	Nil
5.	SABCCO	2006-07	9.55	2007-08	Nil	Nil	Nil	Nil
				2008-09	1.00	Nil	Nil	Nil
6.	STDC	2007-08	6.46	2008-09	Nil	Nil	Nil	Nil
7.	SPDC	2006-07	3.40	2007-08	Nil	Nil	Nil	Nil
				2008-09	Nil	Nil	1.00	Nil
8.	SPDCL	2007-08	0.00	2008-09	Nil	Nil	0.20	Nil
9.	SHL	2007-08	0.46	2008-09	Nil	Nil	Nil	Nil
10.	SBS	2004-05	0.58	2005-06	Nil	Nil	Nil	Nil
				2006-07	Nil	Nil	Nil	Nil
				2007-08	Nil	Nil	Nil	Nil
				2008-09	Nil	Nil	Nil	Nil
11.	STCS	2007-08	1.11	2008-09	0.50	Nil	Nil	Nil
		Total	**66.39**		**11.39**	**Nil**	**1.20**	**Nil**

Source: As per the information furnished by the Government Companies and Statutory Corporations

Appendix –5.5
Statement showing financial position of Statutory Corporations
(Referred to in paragraph 5.1.16, page 149)

(Rupees in crore)

1. State Bank of Sikkim			
Particulars	**2006-07**	**2007-08**	**2008-09**
	Provisional		
A.Liabilities			
Paid up Capital	0.58	0.58	Provisional figures not furnished
Share application money	Nil	Nil	
Reserve funds and other reserves and surplus	0.11	0.11	
Deposits	432.94	725.34	
Borrowings: Reserve Bank of India	Nil	Nil	
Other Banks	Nil	0.14	
Other Institutions and Agencies	Nil	Nil	
Other liabilities and provisions	32.37	36.18	
TOTAL - A	**466.00**	**762.35**	
B. Assets			
Cash and Bank Balances	260.52	521.43	Provisional figures not furnished
Investments	34.13	34.62	
Loans and Advances	124.15	167.12	
Net fixed assets	1.28	1.41	
Other assets	18.56	22.26	
Accumulated loss	27.36	15.51	
Miscellaneous expenditure	Nil	Nil	
TOTAL – B	**466.00**	**762.35**	
C. Capital Employed*	**409.90**	**579.79**	
2. State Trading Corporation of Sikkim			
Particulars	**2006-07**	**2007-08**	**2008-09 Provisional**
A. Liabilities			
Paid up Capital	1.11	1.11	1.61
Reserve and surplus	7.17	7.80	6.88
Current Liabilities and Provisions	41.12	45.73	67.57
TOTAL - A	**49.40**	**54.64**	**76.06**
B. Assets			
Net fixed asset	0.62	0.57	0.51
Current assets, loans and advances	48.72	54.02	75.55
Inter branch transaction	0.06	0.05	0.00
TOTAL – B	**49.40**	**54.64**	**76.06**
C. Capital Employed**	8.22	8.86	8.49
3. Sikkim Mining Corporation			
Particulars	**2006-07**	**2007-08 Provisional**	**2008-09 Provisional**
A. Liabilities			
Paid up Capital	12.50	12.50	12.50
Share application money from Government of India	2.51	2.51	2.51
Reserve and surplus	0.00	0.00	0.00
Borrowings:Government of India	2.13	2.13	2.13
Grants for mine closure	0.00	0.95	0.95
Other funds for mine closure	0.00	0.15	0.38
Trade dues and current Liabilities and Provisions	1.20	1.18	1.22
TOTAL – A	**18.34**	**19.42**	**19.69**
B. Assets			
Net fixed assets	0.93	0.93	0.93
Mine Development expenditure	4.60	4.60	4.60
Current assets, loans and advances	0.93	1.24	0.78
Accumulated loss	11.88	11.88	11.88
Mine closure expenses	0.00	0.61	1.33
Value of stock concentrates written off	0.00	0.16	0.17
TOTAL – B	**18.34**	**19.42**	**19.69**
C. Capital Employed**	0.66	0.99	0.49

Source: As per the approved accounts of the PSUs

* *Capital employed represents mean of aggregate of opening and closing balance of paid up capital, free reserves, bonds, deposits and borrowings (including refinance) less accumulated losses.*

** *Capital employed represents net fixed assets (including capital Work-in-progress) plus working capital.*

Appendix –5.6
Statement showing working results of Statutory Corporations
(Referred to in paragraph 5.1.16, page 149)

(Rupees in crore)

1.	**State Bank of Sikkim**			
	Particulars	**2006-07 (Provisional)**	**2007-08 (Provisional)**	**2008-09 (Provisional)**
1	Income			
	a) Interest on loan	23.37	39.53	Figures not Furnished
	b) Other income	3.85	3.86	
	Total - 1			
2	Expenses			
	a) Interest expended	15.14	24.44	Figures not Furnished
	b) Operating expenses, Provisions and Contingencies	6.04	7.10	
	c) Other expenses	-	-	
	Total - 2			
3	Profit (+)/Loss (-) before tax (1-2)	6.05	11.84	
4	Prior period adjustments	-	-	
5	Provision for tax	-	-	
6	Profit (+)/Loss (-) after tax	6.05	11.84	
7	Other appropriation	-	-	
8	Amount available for dividend	6.05	11.84	
9	Dividend paid/payable	-	-	
10	Total return on Capital employed	21.18	36.28	
11	Percentage of return on Capital employed	5.16	6.26	
2.	**State Trading Corporation of Sikkim**			
	Particulars	**2006-07**	**2007-08**	**2008-09 (Provisional)**
1	Income			
	a) Sale of trading goods	8.83	9.13	11.42
	b) Commission	1.77	1.94	2.60
	c) Other income	0.09	0.15	0.28
	d) Increase (+)/Decrease (-) in stock	(-) 0.14	(+) 0.31	(+) 0.22
	Total – 1	10.55	11.53	14.52
2	Expenses			
	a) Purchase of Trading Goods	7.85	8.44	10.89
	b) Trade Expenses	0.39	0.24	0.29
	c) Establishment Expenses	1.36	1.60	1.68
	d) Other Expenses	0.56	0.51	2.52
	Total – 2	10.16	10.79	15.38
3	Profit (+)/Loss (-) before tax (1-2)	0.39	0.74	(-) 0.86
4	Provision for tax	0.11	0.11	0.00
5	Prior period adjustments	-	-	(-) 0.04
6	Other appropriation	-	-	-
7	Amount available for dividend	0.28	0.63	-
8	Dividend for the year	-	-	-
9	Total return on Capital employed	0.28	0.63	**
10	Percentage of return on Capital employed	3.40	7.11	-
3.	**Sikkim Mining Corporation**			
	Particulars	**2006-07**	**2007-08 (Provisional.)**	**2008-09 (Provisional.)**
1	Income			
	a) Sales of concentrates	0.73	Mining operations discontinued	Mining operations discontinued
	b) Other income	0.04		
	c) Increase (+)/Decrease(-) in stock of concentrates	(-) 0.05		
	Total - 1	0.72		
2	Expenses			
	a) Establishment charges	0.58	Mining operations discontinued	Mining operations discontinued
	b) Manufacturing expenses	0.26		
	c) Other expenses	2.05		
	Total - 2	2.89		
3	Profit (+)/Loss (-) before tax (1-2)	(-)2.17		
4	Provision for tax	-		
5	Prior period adjustments	(-) 0.0095		
6	Profit (+)/Loss (-) after tax	(-) 2.18		
7	Other appropriation	-		
8	Amount available for dividend	-		
9	Dividend for the year	-		
10	Total return on Capital employed	**		
11	Percentage of return on Capital employed	-		

*Source: As per the accounts of the PSUs, **Negative figure*

Appendix – 5.7
Statement showing operational performance of Statutory Corporations
(Referred to in paragraph 5.1.16, page 149)

Sl. No.	Particulars	2006-07	2007-08	2008-09
State Bank of Sikkim				
		(provisional)	**(provisional)**	**(provisional)**
1	Earning per share ***(Rs.)***	-	-	-
2	Number of Branches	23	23	25
3	Number of Employees	248	248	254
4	Profit per Employee ***(Rs. in lakh)***	2.50	4.43	-
5	Deposits ***(Rs. in crore)***			
	(a) Government	119.22	60.75	83.34
	(b) Others	313.71	39.15	175.56
	Total-5	**432.93**	**99.90**	**258.90**
6	Advances (including bills) ***(Rs. in crore)***			
	(a) Government	-	-	-
	(b) Others	124.23	162.18	260.17
	Total-6	**124.23**	**162.18**	**260.17**
7	Debts written off	Nil	Nil	Nil
Sl. No.	**Particulars**	**2006-07**	**2007-08**	**2008-09 (provisional)**
State Trading Corporation of Sikkim				
1.	Actual supply during the year: **(Rs. In crore)** (i) Cement (ii) G.C.I Sheet	 6.89 5.38	 8.15 6.82	 4.48 21.31
	(iii) M.S. Rod	6.70	5.70	7.63
	(iv) Others	45.32	51.22	63.92
2.	Total no. of employees of STCS as on 31st March of	105	92	88
3.	Expenditure during the year on staff salaries/ wages **(Rs. in lakh)**	124.24	148.26	157.72
4.	Percentage of expenditure on staff to total sales	1.93%	2.06%	1.62 %
5.	(a) Total no. of supply orders placed to DGS&D approved firms (b) Actual procurement	Nil	Nil	Nil
6.	Outstanding sundry debtors **(Rs. in crore)** (i) less than one year (ii) more than one year but less then five years	28.16	22.08	24.4
7.	Commission earned during the year **(Rs. in crore)**	1.68	1.78	2.58
8.	Expenditure on other administrative expenses (Rs. In lakh)	78.69	54.22	83.16

Source: As per the information furnished by the Statutory Corporations

Appendix-5.8
List of paras involving recovery of money
(*Referred to in paragraph 5.2.5, page 165*)

1. PSU Name: Sikkim Power Development Corporation

(Rupees in lakh)

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Non recovery of Income Tax	25/2002-03	49.52	Reply not furnished.
		Total	**49.52**	

2. PSU Name: State Bank of Sikkim

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Non recovery of loan	31/2000-01	7.48	Reply furnished. Out of Rs.9.90 lakh, Rs.2,41,897 has been realised from the loanee by adjusting from his retirement benefits.
		Total	**7.48**	

3. PSU Name: State Trading Corporation of Sikkim

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Outstanding advance	15/1993-94	1.11	Reply not furnished
2.	Unauthorized medical payment	15/1993-94	0.05	-do-
3.	Outstanding advances	31/1998-99	2.63	-do-
4.	Advance to private individual	31/2001-02	1.23	-do-
		Total	**5.02**	

4. PSU Name: Sikkim Livestock Processing & Development Corporation

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Loss of Government revenue due to short deduction of Income Tax	27/1994-95	1.37	No reply furnished.
2.	Non recovery of royalty	27/1994-95	0.31	No reply furnished.
		Total	**1.68**	

5. PSU Name: Sikkim State Co-operative Bank

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Non deduction of income tax on supplies	115/2003-04	0.23	Reply not furnished.
2.	Non deduction of income tax on house property	115/2003-04	0.46	-do-
		Total	**0.69**	

6. PSU Name: Sikkim Time Corporation Limited

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Non deduction of income tax and sales tax at source **Rs.81,828**	166/2003-04	0.82	Management replied that the action will be taken in this regard. However, final outcome is awaited.
		Total	**0.82**	

Appendix-5.9
List of paras involving deficiencies
(*Referred to in paragraph 5.2.6, page 166*)

1. PSU Name: Sikkim Time Corporation Limited

(Rupees in lakh)

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Loss due to non claiming of broken and damaged components amounting to **Rs.0.72 lakh**	10/ 2000-01	0.72	The management has raised the issue with New India Assurance Comp. Pvt. Ltd. However, final outcome has not been intimated to audit.
		Total	**0.72**	

2. PSU Name: Sikkim Power Development Corporation

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Loss of revenue towards income tax **Rs.47.30 lakh**	25/2002-03	47.30	Reply not received
2.	Loss of **Rs.110.94 lakh** on investment of funds	25/2002-03	110.94	Reply not received
3.	Loss of **Rs.37.63 lakh** on interest on bonds	25/2002-03	37.63	Reply not received
		Total	**195.87**	

3. PSU Name: State Bank of Sikkim

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Non reimbursement of interest rebate amounting to **Rs.13.50 crore**	9/1997-98	1,350.00	The management stated that there is no possibility of reimbursement and the amount was written-off.
2.	Loss of **Rs.128.00 lakh** due to waiving of interest component	18/1999-2000	128.00	Reply not furnished.
3.	Unauthorized sanction of overdrafts/ cash credit **Rs.86.01 lakh**	31/2000-01	85.87	The management accepted the observation and stated that cases have been filed in the Lok Adalat for recovery of dues and already recovered an amount of Rs. 0.14 lakh.
		Total	**1,563.87**	

4. PSU Name: Government Fruit Preservation Factory

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Loss of **Rs.22.94 lakh** through joint venture	35/2002-03	22.94	Management stated that decision of entering into the joint venture and absorbing the 6 employees after the closure of the factory was purely a government decision. The management accepted the audit observation.
		Total	**22.94**	

5. PSU Name: TEMI Tea

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Avoidable drainage of Rs.62.27 lakh and loss of **Rs.10.80 lakh**	23/2003-04	10.80	Management accepted the audit observation and stated that the matter was forwarded to the Industries Department.Status has not been intimated to audit.
		Total	**10.80**	

6. PSU Name: Sikkim State Co-operative Bank Ltd.

Sl No.	Para	Year of IR	Amount involved	Remarks
1.	Loss of **Rs.0.37 lakh** on non entitled items.	115/2003-04	0.37	Reply not furnished.
		Total	**0.37**	