

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 two¹ 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

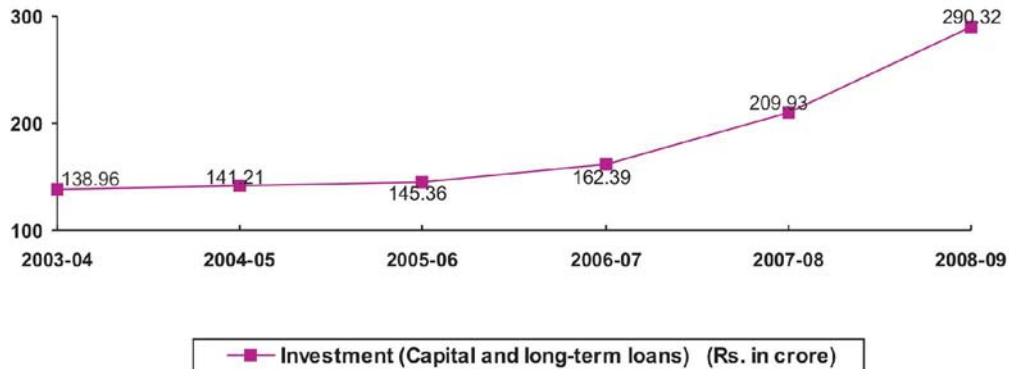
(Rs. in crore)

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.

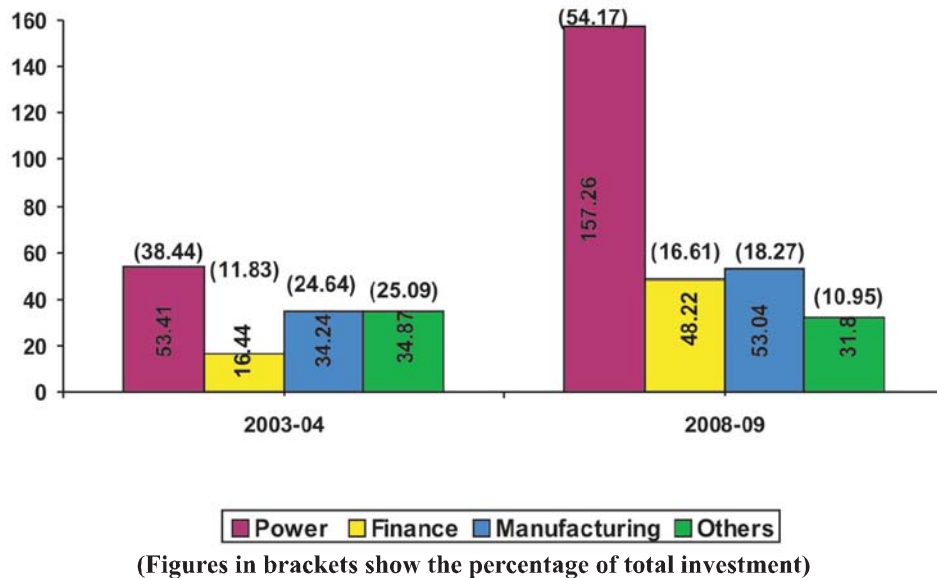
5.1.7 As on 31 March 2009, of the total investment in State PSUs, 93.78 *per cent* was in working PSUs and the remaining 6.22 *per cent* in non-working PSUs. This total investment consisted of 33.02 *per cent* towards capital and 66.98 *per cent* in long-term loans. The investment has grown by 108.92 *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



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

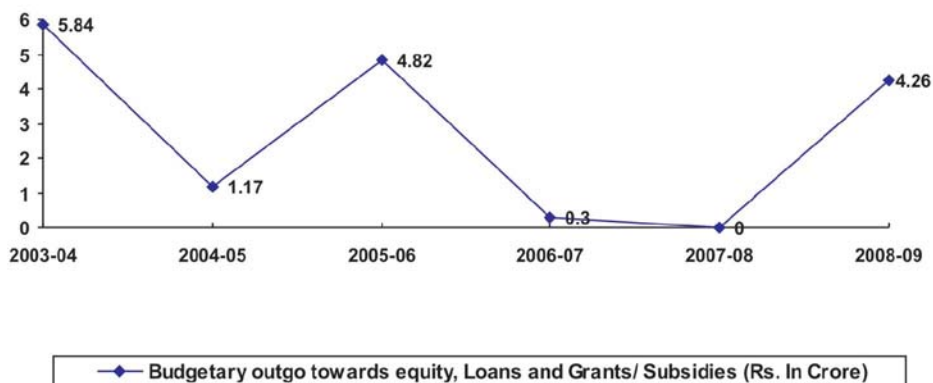
(Amount Rs. in crore)

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.

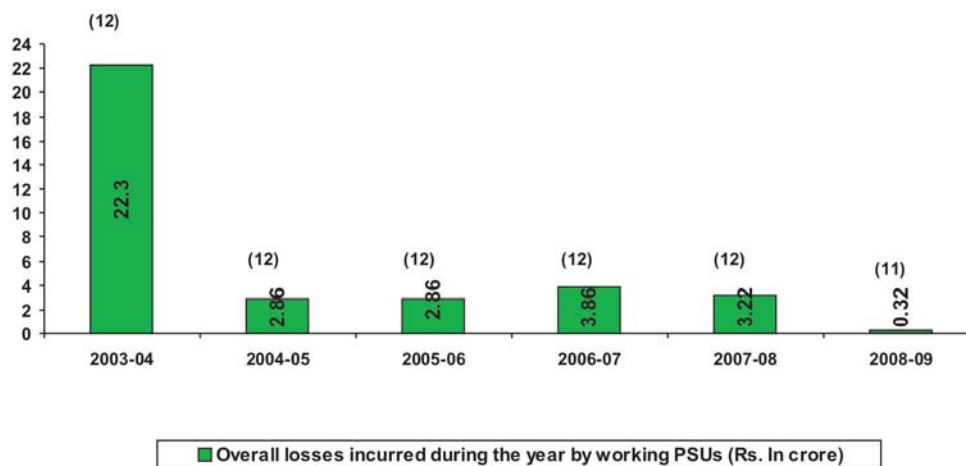
⁴ Quick Estimate

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 Losses⁶ 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 PSUs⁷ incurred a loss of Rs. 3.50 crore whereas four PSUs⁸ 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 crore⁹.

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 (<i>per cent</i>)	0.74	1.13	0.74	0.81	1.80
Debt	66.18	65.51	77.07	124.61	194.46
Turnover ⁽ⁱ⁾	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 ⁽ⁱⁱ⁾
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.

⁽ⁱ⁾ Turnover of working PSUs as per the latest finalised accounts as of 30 September.

⁽ⁱⁱ⁾ 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, incompetent 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 (SJJL)

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	1 to 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 one¹² 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 2008-09¹⁵. 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 account 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, one¹⁶ 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 to 2006-07 to 2007-08	2005-06	-	Under audit 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 CSAs¹⁷ (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 CSA¹⁸ 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 CSA¹⁹ 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 matter 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

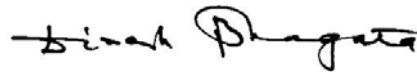
Sl No.	Name of the PSU	No. of paras
1.	Sikkim Times Corporation Limited	01
2.	Sikkim Power Development Corporation	03
3.	State Bank of Sikkim	03
4.	Government Fruit Preservation Factory	01
5.	TEMI Tea Estate	01
6.	Sikkim State Co-operative Bank	01
	Total	10

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).



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