

CHAPTER IV
ECONOMIC SECTOR
(Public Sector Undertakings)

CHAPTER IV ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

4.1 Functioning of State Public Sector Undertakings (PSUs)

4.1.1 Introduction

The Public Sector Undertakings (PSUs) consist of the State Government Companies and Statutory Corporations. The PSUs are established to carry out economic and commercial activities for the overall development of the State and its people. As on 31 March 2020, there were 16 PSUs (12 working Government Companies and four working Statutory Corporations) under the audit purview of the Comptroller and Auditor General of India (CAG). Besides, there were six non-working PSUs for which audit entrustment had not been extended to CAG by the State Government as detailed in **Paragraph 4.1.10** the details of the PSUs in Sikkim as on 31 March 2020 are given in **Table 4.1**.

Table 4.1: Total number of PSUs as on 31 March 2020

Type of PSUs	Working PSUs
Government Companies registered under Sikkim ¹⁶ Registration of Companies Act, 1961	08
Government Companies registered under Companies Act ¹⁷ , 2013	04
Statutory Corporations	04
Total	16

None of the 12 working Government companies were listed on the stock exchange. During the year 2019-20, no new PSU was incorporated and no existing PSU was closed down.

4.1.2 Investment in PSUs

4.1.2.1 State Governments investment in PSUs

The State's investment in its PSUs was by way of share capital and long term loans. As on 31 March 2020¹⁸, the investment of the State Government (capital and long term loans) in 16 PSUs amounted to ₹ 49.93 crore¹⁹ as detailed in **Table 4.2** below:

¹⁶ Audited by CAG on entrustment basis under section 20(1) of CAG (DPC)'s Act 1971

¹⁷ The Companies Act 2013/1956 had not been extended to the state of Sikkim. Hence, these four companies have their registered offices in New Delhi and Darjeeling (West Bengal).

¹⁸ Except of Sikkim Poultry Development Corporation Limited (2017-18), Sikkim Hatcheries Limited (2017-18), Sikkim Livestock Processing and Development Corporation Limited (2013-14)

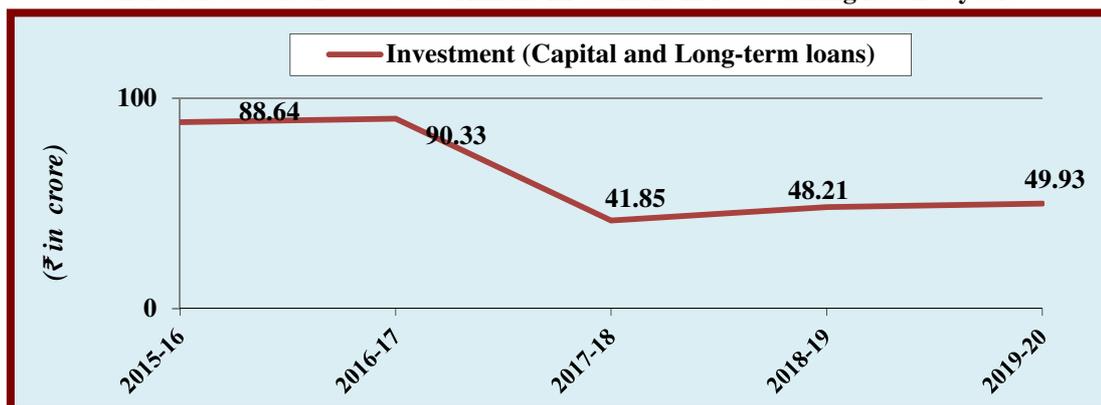
¹⁹ Investment figures are provisional and as provided by the PSUs except two PSUs (Sl. No. A8 and A9 of Appendix 4.1.1) for which investment figures have been adopted from their finalised accounts for 2018-19.

Table 4.2: Details of total investment in 16 PSUs

Year			(₹ in crore)
	Equity Capital	Long Term Loans	Total Investment
2015-16	86.61	2.03	88.64
2019-20 ²⁰	47.90	2.03	49.93

The total investment consisted of 95.93 per cent in capital and 4.07 per cent in long term loans. The investment had decreased by 43.67 per cent from ₹ 88.64 crore (2015-16) to ₹ 49.93 crore (2019-20) as shown in **Chart 4.1**.

Chart 4.1: Status of State Government Investment in PSUs during last five years



This reduction in State's investment was mainly due to liquidation of six PSUs²¹ involving aggregate investment of ₹ 51.20 crore.

4.1.2.2 Sector-wise investment in PSUs

The details of combined investment by the State Government and other stakeholders (Central Government, holding companies, Banks, Financial institutions, etc.) in PSUs under various important sectors at the end of 31 March 2016 and 31 March 2020 are given in Table 4.3:

Table 4.3: Sector-wise investment in PSUs

Name of Sector	Government Companies		Statutory Corporation		Total Investment	
	2015-16	2019-20	2015-16	2019-20	2015-16	2019-20
	Power	11112.87	17569.60	0	0	11112.87
Finance	46.95	113.34	55.52	137.27	102.47	250.61
Service	6.59	6.46	1.61	301.20	8.20	307.66
Infrastructure	153.67	333.41	0	0	153.67	333.41
Manufacturing	43.13	0	13.04	0	56.17	0
Agriculture & Allied	1.16	1.16	0	0	1.16	1.16
Total	11364.37	18023.97	70.17	438.47	11434.54	18462.44

It may be seen from Table 4.3 that during 2019-20, the thrust of PSU-investment was mainly in power sector companies²², which constituted more than 95 per cent of the

²⁰ The decrease was due to liquidation of six PSUs

²¹ Sikkim Floor Mills Limited (₹ 2.44 crore), Chandmari Workshop and Automobiles Limited (₹ 0.3 crore), Sikkim Jewels Limited (₹ 14.47 crore), Sikkim Times Corporation (₹ 23.49 crore), Sikkim Precision Industries Limited (₹ 4.39 crore), Sikkim Mining Corporation (₹ 6.11 crore).

²² Serial No. A-8,9,10 and 11 of Appendix 4.1.1

investment (₹ 18462.44 crore) in the PSUs. During the period of five years (2015-16 to 2019-20) investment in power sector PSUs has increased by ₹ 6,456.73 crore from ₹ 11112.87 crore (2015-16) to ₹ 17,569.60 crore (2019-20). The investment in power sector PSUs had mainly increased due to addition of ₹ 13,384.41 crore against 'equity capital' and 'long term loans' of two new power sector PSUs²³, which were covered under the definition of a State Government Company in August 2015.

4.1.3 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case, the figures do not agree, the Finance Department and the PSUs concerned should carry out reconciliation of differences in figures. The position in this regard as of 31 March 2020 is given in **Table 4.4**.

Table 4.4: Variation between Finance Accounts and records of PSUs

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	43.70	47.90	4.20
Loans	37.03	2.03	35.00
Guarantees	3394.34	511.72	2882.62

(₹ in crore)

As on 31 March 2020, there were unreconciled differences in the figures of equity (₹ 4.20 crore), loan (₹ 35 crore) and guarantee (₹ 2882.62 crore) as per two sets of records. The differences in equity occurred in respect of seven PSUs²⁴. Further, the difference in guarantee figures related to four PSUs namely SC, ST & OBC Development Corporation Limited, Sikkim Industrial Development and Investment Corporation Limited, Sikkim Power Investment Corporation Limited and State Trading Corporation of Sikkim.

As regards Loan figures, Audit noticed that the Finance Department disbursed the loans to various Departments of the State Government for different sectoral activities and booked the amount sector-wise in the Finance Accounts. In turn, the Departments disburse these loans to respective PSUs functioning under their administrative control. Hence, PSU-wise figures of State Government loans provided to various PSUs were not available in the State Finance Accounts. The State Government loan (₹ 37.03 crore) booked in the Finance Accounts pertained to the PSUs²⁵ under Infrastructure (₹ 2.03 crore) and power sector (₹ 35.00 crore).

Though the process of reconciliation of these differences have been initiated (September 2018) by the Office of the Sr. Deputy Accountant General (A&E), Sikkim in consultation with the Finance Department, Government of Sikkim and PSUs concerned, no significant progress has been achieved in this regard.

²³ Teesta Urja Limited (equity: ₹ 3,205.39 crore; long term loans: ₹ 8,830.06 crore) and Teesta Valley Power Transmission Limited (equity: ₹ 388.45 crore; long term loans: ₹ 960.51 crore).

²⁴ PSUs at Sl. Nos. A.4, A5, A7, A10, A11, A12 and B14 of Appendix 4.1.1

²⁵ A5 to A7 (Infrastructure sector) and A8 to A11 (Power sector) of Appendix 4.1.1

The State Government and the PSUs concerned may take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the PSUs and the Finance Accounts be updated.

4.1.4 Special support and guarantees to PSUs during the year

The State Government provides financial support to PSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans, grants/ subsidies, loans written-off and interest waived along with the position of guarantee in respect of PSUs are given in **Table 4.5** for three years ending 2019-20.

Table 4.5: Details regarding budgetary support to PSUs

Sl. No.	Particulars	2017-18		2018-19		2019-20 ²⁶	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	0	0	2	6.02	1	2.50
2.	Loans given from budget	0	0	0	0	0	0
3.	Grants/Subsidy from budget	2	11.6	2	10.79	1	6.50
	Total	2	11.6	2	16.81	2	9.00
4	Waiver of loans and interest	1	0.06	1	0.14	1	1.63
5	Guarantees issued	2	133.04	3	342.33	1	106.50
6	Guarantee Commitment	2	71.74	2	117.33	0	92.78

It may be seen from **Table 4.5** above that budgetary outgo to PSUs has decreased from ₹ 11.60 crore (2017-18) to ₹ 9.00 crore (2019-20) during the period from 2017-18 to 2019-20. During 2019-20 the State Government infused equity amounting to ₹ 2.50 crore in one PSU namely Sikkim Power Development Corporation Limited (SPDC). The State Government did not provide any loans to PSUs during the three year period.

In 2018-19, the State Government provided grants amounting to ₹ 10.79 crore to two PSUs (namely Temi Tea Estate ₹ 8.79 crore and Namchi Smart City Limited ₹ 2 crore). During 2019-20, the recipient of Government grants (₹ 6.50 crore) included Temi Tea Estate (₹ 6.50 crore). It can be noticed from Table 4.5 above that during 2019-20, the Guarantee commitment decreased by ₹ 24.55 crore from ₹ 117.33 crore (2018-19) to 92.78 crore (2019-20).

4.1.5 Accountability framework

The Companies Act, 2013 and the erstwhile Companies Act, 1956 had not been extended to the State of Sikkim. Out of 12 Government Companies existing in the State of Sikkim, four companies were registered under the Companies Act, 1956/2013 while remaining eight were registered under the 'Registration of Companies Act, Sikkim, 1961'. The four companies registered and governed by the Companies Act, 2013/1956 included Teesta Urja Limited (TUL), Teestavalley Power Transmission

²⁶ As on 31.03.2020 except of Sikkim Poultry Development Corporation Limited (2017-18), Sikkim Hatcheries Limited (2017-18), Sikkim Livestock Processing and Development Corporation Limited (2013-14)

Limited (TPTL), Namchi Smart City Limited (NSCL) and Gangtok Smart City Development Limited (GSCDL).

During the year 2015-16, one State Government Company²⁷ acquired 51 per cent of equity share capital of Teesta Urja Limited (TUL), which is the Holding company of Teestavalley Power Transmission Limited (TPTL). The other two companies, i.e., Namchi Smart City Limited (NSCL) and Gangtok Smart City Development Limited (GSCDL) were incorporated during 2016-17 and 2017-18 by the State Government under the Companies Act, 2013 with headquarters in Darjeeling, West Bengal. Thus, all these four companies are covered under the definition of State Government company owned and controlled (directly or indirectly) by the State Government.

4.1.5.1 Statutory Audit/Supplementary Audit

The accounts of eight State Government Companies registered under the 'Registration of Companies Act, Sikkim, 1961' are audited by Statutory Auditors (Chartered Accountants) directly appointed by the Board of Directors (BoDs) of the respective Companies. In addition to the statutory audit conducted by the Statutory Auditors, supplementary audit of these Companies were being conducted by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the State under Section 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The accounts of four Companies registered under Companies Act, 2013/1956 are audited by Statutory Auditors (Chartered Accountants) who are appointed by the CAG. In addition to the statutory audit conducted by the Statutory Auditors, supplementary audit of these Companies is conducted by the CAG under Section 143(6)(a) of the Companies Act, 2013²⁸.

Besides, there are four Statutory Corporations in the State, namely, State Bank of Sikkim, State Trading Corporation of Sikkim, Government Fruit Preservation Factory and Temi Tea Estate established under the proclamation of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants directly appointed by the Board of Directors (BoDs) of the respective Corporations. Supplementary Audit of these Corporations was taken up by CAG under Section 20(1)²⁹ of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

4.1.5.2 Role of Government and Legislature

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Government appoints the Chief Executives and Directors on the Board of these PSUs.

²⁷ Sikkim Power Investment Corporation Limited

²⁸ The audit of accounts of the Government Companies from the financial year 2014-15 onwards is governed by the Companies Act, 2013.

²⁹ Based on the entrustment/request for the audit of the accounts of these corporations from the Governor of the State from time to time.

The State Legislature also monitors the accounting and utilisation of Government investments in the PSUs. For this purpose, the Annual Accounts of the State Government Companies together with the Statutory Auditors report and Separate Audit Reports of CAG are required to be placed before the Legislature under Section 20 (1) of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971. The Annual Reports of four Government Companies incorporated under the Companies Act, 2013/1956 together with the Statutory Auditors Reports and comments of CAG thereon are to be placed before the legislature under Section 396 of the Companies Act, 2013. Similarly, the Annual Reports of the Statutory Corporations along with the Separate Audit Reports of CAG are required to be placed before the Legislature as per the stipulations made under Section 20(1) of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971.

4.1.6 Arrears in Finalisation of accounts

In respect of four companies registered under the Companies Act, 2013/1956, the financial statements of the companies are required to be finalised within six months of the end of the financial year i.e. by September end in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of Companies Act, 2013.

As regards eight companies registered under the Registration of Companies Act, Sikkim, 1961 and four Statutory Corporations, there is no stipulated timeframe for finalisation of financial statements in their respective governing Acts.

Table 4.6 provides the details of progress made by PSUs in finalisation of their accounts as of 30 September 2020.

Table 4.6: Position relating to finalisation of accounts of PSUs

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1.	Number of Working PSUs	12	12	16	16	16
2.	Number of accounts finalised during the year	8	14	7	39	10
3.	Number of accounts in arrears	31	29	46 ³⁰	22	27
4.	Number of Working PSUs with arrears in accounts	8	9	13	12	14
5.	Extent of arrears (numbers in years)	1 to 7	1 to 8	1 to 9	1 to 6	1 to 6

As can be seen from **Table 4.6**, the arrear of accounts of PSUs had increased due to non- finalisation of accounts by four PSUs during the year. As on 30 September 2020, the accounts of only two (Sikkim Power Investment Corporation Limited and Teestavalley Power Transmission Limited) out of 16 working SPSEs were up-to-date and remaining 27 accounts of 14SPSEs were pending for finalisation. Non-preparation or delayed preparation of accounts is fraught with the risk of misappropriation of assets, intentional or unintentional errors or omission in receipts and payments.

³⁰ Includes 2016-17 accounts of Namchi Smart City. However, the company combined the 2016-17 and 2017-18 accounts with permission from registrar as it was incorporated only in March 2017.

The delays in finalisation of accounts were mainly due to delay in compilation/ adoption of accounts by the Board of Directors of the respective PSUs. The administrative departments of the PSUs concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts of these PSUs are finalised and adopted within the stipulated period. The departments concerned were informed regularly (on quarterly basis) about the arrears in finalisation of accounts by these PSUs. As a result, there was significant reduction in arrears of accounts during 2019-20 as compared to previous year except for 2018-19.

Recommendations

- *The State Government may fix time frame of submission of annual account for the companies registered under the Registration of Companies Act, Sikkim, 1961 and may also set up a special cell to oversee the clearance of arrears and set the targets for individual PSUs, which may be monitored by the cell;*
- *The Administrative Departments overseeing the SPSEs (registered under the Companies Act, 2013/1956) having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.*

4.1.7 Placement of Separate Audit Reports

Table 4.7 shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2020) on the accounts of Statutory Corporations in the State Legislature.

Table 4.7: Status of placement of SARs in Legislature

Sl. No.	Name of Statutory Corporations	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		Reasons for delay
			Year of SAR	Date of issue to the Management/ Government for printing	
1	State Bank of Sikkim	2016-17	2017-18	23.12.2019	Nil
2	State Trading Corporation of Sikkim	2018-19	-	-	-
3	Government Fruit Preservation Factory	2011-12 to 2017-18	-	-	-

Timely placement of SARs in the State Legislature is important to ensure timely reporting on the functioning of the Corporation to the stakeholders and fix accountability of the Management for its performance.

However, it can be noticed from the **Table** above that one SAR relating to one Corporation (SBS) was pending for placement for more than nine months, since it was issued to the State Government and no reasons for this delay were intimated.

Recommendations:

- *The State Government may ensure that existing vacancies in the accounts department of PSUs are timely filled up with persons having domain expertise and experience;*
- *The PSUs may get the figures of equity and loans reconciled with the State Government Departments and arrear of accounts are cleared.*

4.1.8 Performance of PSUs as per their latest finalised accounts

The financial position and working results of working Government companies and Statutory Corporations are detailed in **Appendix 4.1**. A ratio of PSUs turnover to State Gross Domestic Product (GSDP) shows the extent of PSUs activities in the State economy. **Table 4.8** provides the details of working PSUs turnover and GSDP for a period of five years ending 2019-20.

Table 4.8: Details of PSUs turnover vis-à-vis State GDP

Particulars	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Turnover ³¹	178.81	185.64	290.83	2,119.51	2518.51
GSDP ³²	18,034	20,687	25971	28723	32496
Percentage of PSUs Turnover to GSDP	0.99	0.90	1.12	7.38	7.75

Source: GSDP- MoSPI, (GSDP for years 2018-19 and 2019-20) are Provisional figures and Quick estimates respectively

As can be noticed from Table 4.1.8, the PSU-turnover as well as GSDP have shown increasing trend during the period of five years from 2015-16 to 2019-20. During 2019-20, a growth (₹ 399 crore) in PSU-turnover was recorded mainly due to increase of ₹ 394.93 crore in the turnover of two power sector companies and one Statutory Corporation in finance sector PSU³³ during the year. This had correspondingly increased PSU-turnover to GSDP from 7.38 per cent (2018-19) to 7.75 per cent (2019-20).

4.1.8.1 Key parameters

Some other key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective years are given in Table 4.9 below.

Table 4.9: Debt Turnover Ratio relating to the PSUs of the State

Particulars	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Debt	8,936.15	12,225.77	14,080.24	13,284.89	13468.47
Turnover ³⁴	178.81	185.64	290.83	2,119.51	2518.51
Debt-turnover Ratio	49.98:1	65.86:1	48.41:1	6.27:1	5.35:1
Interest Payments	176.90	338.11	474.89	1,533.90	1725.66
Accumulated losses	328.73	798.14	756.05	2,089.94	2266.61

Debt-Turnover Ratio

A low debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can signal having too much of debt against the income of PSUs from core activities. Thus, the PSUs having lower DTR are more likely to comfortably manage their debt servicing and repayments. The DTR had

³¹ Turnover of working PSUs as per the latest finalised accounts as of 30 September of respective year.

³² Source: Department of Economic, Statistics, Monitoring and Evaluation, Government of Sikkim.

³³ The two power sector PSUs i.e. Teestavalley Power Transmission Limited and Sikkim Power Investment Corporation Limited had registered the turnover of ₹ 300.43 (2019-20) and ₹ 223.81 (2019-20) crore finalised as on 30 September 2020 as compared to the turnover of ₹ 81.53 crore (2018-19) and ₹ 78.40 crore (2017-18) finalised as on 30 September 2019. Further, one Corporation in finance sector i.e. State Bank of Sikkim had registered the turnover of ₹ 188.86 (2018-19) as compared to the turnover of ₹ 157.54 crore (2017-18)

³⁴ Turnover of working PSUs as per their latest finalised accounts as on 30 September of respective year.

decreased from 49.98:1 in 2015-16 to 5.35:1 in 2019-20. The decrease in DTR was due to increase in turnover since 2018-19.

PSU Debt

During the period of five years, the PSUs debt had registered an overall increase of ₹ 4532.32 crore (150.72 per cent) from ₹ 8936.15 crore (2015-16) to ₹ 13,468.47 crore (2019-20). Major portion of PSU debts during 2019-20 (95.38 per cent) pertained to power sector PSUs.³⁵

Further, during 2019-20, the PSU Turnover had shown growth of ₹ 2,339.71 crore (1,308.48 per cent) from ₹ 178.81 crore (2015-16) to ₹ 2,518.51 crore (2019-20) mainly due to significant appreciation in PSU-turnover after commencement of operations of Teesta Urja Limited and Teestavalley Power Transmission Limited which registered aggregate turnover of ₹ 1,913.95 crore³⁶ (2019-20) as compared to ₹ 75.47 crore (2017-18).

During the last five years (2015-16 to 2019-20), the accumulated losses of PSUs had registered an overall increase of ₹ 1,937.88 crore from ₹ 328.73 crore (2015-16) to ₹ 2,266.61 crore (2019-20). Major portion (₹ 2266.85 crore) of these accumulated losses was contributed by three power sector PSUs.³⁷

4.1.8.2 Erosion of capital due to losses

The aggregate paid-up capital and accumulated losses of 16 working PSUs as per their latest finalised accounts as on 30 September 2020 were ₹ 3,713.39 crore and (-) ₹ 2,266.61 crore respectively (Appendix 4.1.1), which included accumulated losses (₹ 3.23 crore) of four³⁸ PSUs which did not have any capital. Return on Equity (RoE) of five³⁹ out of 12 PSUs was 11.07 per cent while three PSUs was negative. The accumulated losses (₹ 1119.52 crore) of remaining four⁴⁰ PSUs had completely eroded their paid up capital (₹ 73.50 crore) and hence, RoE of these PSUs was not workable.

The primary erosion of paid up capital was in respect of four PSUs as detailed in the **Table 4.10:**

Table 4.10: PSUs with primary erosion of paid up capital

Name of PSU	Latest finalised accounts	(₹ in crore)	
		Paid up capital	Accumulated losses
Sikkim Hatcheries Limited	2017-18	0.46	(-) 2.71
Sikkim Livestock Processing and Development Corporation Limited	2013-14	0.69	(-) 1.04
Sikkim Power Investment Corporation Limited	2019-20	0.01	(-) 1000.30
Sikkim Power Development Corporation Limited	2018-19	72.34	115.47

³⁵ A8 to A11 of Appendix 4.1.1

³⁶ Turnover of two power sector PSUs as per their latest finalised accounts as on 30 September 2020.

³⁷ A8, A10 and A11 of Appendix 4.1.1

³⁸ A1, A6, B15 and B16 of Appendix 4.1.1

³⁹ A5, A9, A12, B13 and B14 of Appendix 4.1.1

⁴⁰ A2, A3, A10 and A11 of Appendix 4.1.1

Accumulation of huge losses by these PSUs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these PSUs to either improve their profitability or close their operations.

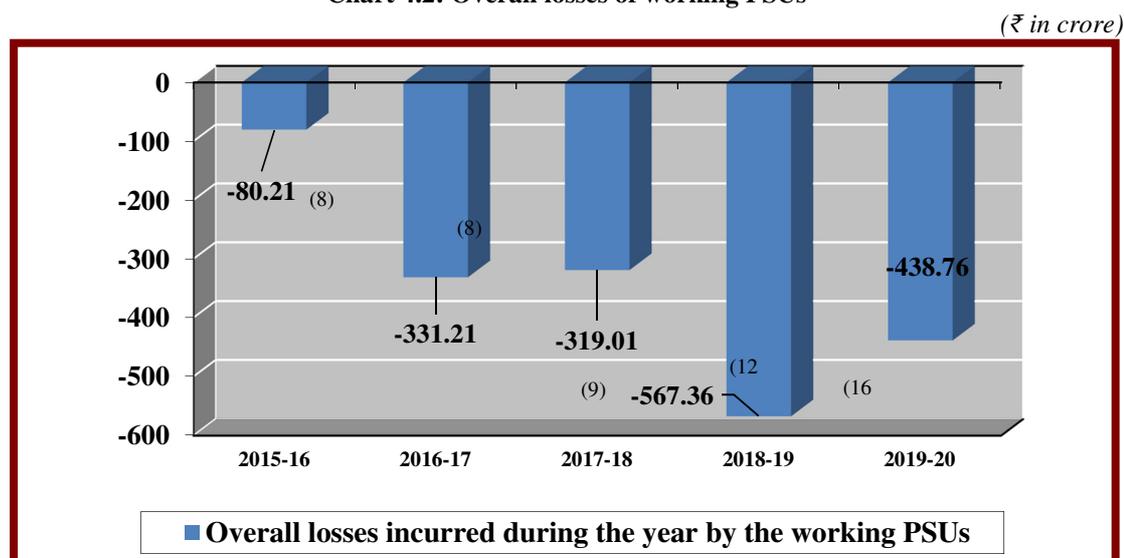
During the year 2019-20, out of 16 working PSUs, seven⁴¹ PSUs earned an aggregate profit of ₹ 59.28 crore, while nine PSUs incurred loss of ₹ 498.04 crore. Thus, there was aggregate net loss of ₹ 438.76 crore. The details of major contributors to overall profits and losses of working PSUs are given in Table 4.11:

Table 4.11: Major contributors to profits and losses of working PSUs

(₹ in crore)		
Name of PSU	Latest finalised accounts	Profit (+)/ loss (-)
Teestavalley Power Transmission Limited	2019-20	(+) 34.19
State Bank of Sikkim	2018-19	(+) 23.24
Teesta Urja Limited	2018-19	(-) 313.06
Sikkim Power Investment Corporation Limited	2019-20	(-) 184.31

The overall position of net losses incurred by the working PSUs from 2015-16 to 2019-20 as per their latest finalised accounts as of 30 September of the respective years has been depicted below in **Chart 4.2**.

Chart 4.2: Overall losses of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

From the **Chart** above, it can be seen that the working PSUs overall had incurred net losses during all the five years under reference. These losses of working PSUs during five years were mainly attributable to heavy losses incurred by the power sector PSUs during these years, which ranged between ₹ 84.11 crore (2015-16) and ₹ 463.21 crore (2019-20).

4.1.8.3 Return on Capital Employed

Return on Capital Employed (ROCE) is a profitability metric that measures the long term profitability and efficiency of the total capital employed by a company. Companies create value when they generate returns on the capital employed. ROCE is

⁴¹ A4, A5, A8,,A9, A10, A11, A12,,B13,B14 and B15 of Appendix 4.1.1

an important decision metric for long term lenders. ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed⁴².

During 2019-20, the overall Capital Employed in 16 working PSUs as per their latest accounts was ₹ 15,054.90 crore while the ROCE of the PSUs ranged from (-) 200 *per cent* (Sikkim Hatcheries Limited) to (+) 68.89 *per cent* (Government Fruits Preservation Factory). Further, out of 16 working PSUs, only ten PSUs⁴³ had positive ROCE (**Appendix- 4.1**).

4.1.9 Return on Investment on the basis of Present Value of Investment

The Rate of Real Return (RoRR) measures the profitability and efficiency with which equity and similar non-interest bearing capital have been employed, after adjusting them for their time value. To determine the RoRR on Government investments in the State PSUs, the investment of State Government in the form of equity, interest free loans and grants / subsidies given by the State Government for operational and management expenses less the disinvestments has been considered and indexed to their present value (PV) and summated. The RoRR is then calculated by dividing the Profit After Tax (PAT) of the PSUs by the sum of the PV of the Government investments.

During 2019-20, as per their latest finalised accounts, out of 10⁴⁴ working PSUs where State Government had made direct investment, five PSUs incurred loss, four PSUs earned profit and one PSU had negligible loss. On the basis of return on historical value, the State Government investment had eroded by 218.05 *per cent* as of 2019-20. As per the RoRR where the PV of investment is considered, the State Government investment eroded by 82.80 *per cent* as shown in **Appendix 4.2**.

This difference in percentage of investment erosion was on account of the adjustment made in the investment amount for time value of money.

4.1.10 Winding up of non-working PSUs

There were six non-working PSUs (five Companies⁴⁵ and one Statutory Corporation⁴⁶) for which audit entrustment to CAG had expired between 2003-04 and 2016-17. Since the audit of these six non-working PSUs has not been entrusted to CAG during 2019-20, the present report has not covered their functioning.

The Government Companies in Sikkim are registered under the Registration of Companies Act Sikkim, 1961 while Statutory Corporations are governed by the proclamation of the erstwhile Chogyal (King) of Sikkim. There was, however, no

⁴² Capital employed = Paid up share capital + free reserves and surplus + long term loans – accumulated losses - deferred revenue expenditure.

⁴³ Serial No.A4, A5, A8, A9, A10, A12, B13 and B14

⁴⁴ Excluding six PSUs at Sl. NoA1, A2, A8, A9, B15 and B16 of Appendix 4.1 which had not direct investment of the State Government.

⁴⁵ Sikkim Flour Mills Limited and Chandmari Workshop and Automobiles Limited (2002-03), Sikkim Jewels Limited and Sikkim Times Corporation (2010-2011) and Sikkim Precision Industries Limited (2012-13).

⁴⁶ Sikkim Mining Corporation Limited (2016-17)

prescribed procedure for liquidation of Government Companies/ Statutory Corporations under their respective governing Act/ Statute.

As per the latest available information, the assets of the three out of six non-working PSUs (all companies) had been disposed off and the proceeds remitted (December 2012) to the Government of Sikkim. The liquidation of one non-working PSU (Sikkim Mining Corporation) was approved (October 2016) by the Department of Mines, Minerals and Geology, Government of Sikkim and its liabilities (₹ 6.85 crore) were also waived (October 2016).

4.1.11 Impact of Audit Comments on Annual Accounts of PSUs

Seven PSUs⁴⁷ forwarded their 09 audited accounts to Principal Accountant General (Audit), Sikkim (PAG) during the year 2019-20 (October 2019 to September 2020) out of which 09 Accounts of seven PSUs were taken up for supplementary audit. The audit certificate under Companies Act 2013 for two PSUs and SARs in respect of five PSUs (Company/ Corporations⁴⁸) were issued.

The details of aggregate money value of comments of statutory auditors and CAG for last three years (2017-18 to 2019-20) are given in **Table 4.12**.

Table 4.12: Impact of audit comments on working Companies

Sl. No.	Particulars	2017-18		2018-19		2019-20	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	2.84	3	1.69	3 ⁴⁹	1.03
2.	Increase in loss	0	0	1	0.50	4	89.65
3.	Non-disclosure of material facts	0	0	2	34.97	3	328.48
4.	Errors of classification	1	2.05	0	0	0	0

4.1.11.1 Gist of some important comments of the statutory auditors and CAG in respect of accounts of the PSUs are as under:

(i) Sikkim Power Investment Corporation Limited (2019-20)

- SPICL erroneously accounted ₹ 49.52 crore as revenue instead of equity capital infused by Government of Sikkim. This resulted in understatement of “Share Capital (Share application money pending allotment)” and Accumulated losses” by ₹ 49.52 crore each.
- SPICL failed to provide for diminution in value of investment leading to overstatement of “Investments” and understatement of “Provision for losses” by ₹ 50 crore each.

(ii) State Trading Corporation of Sikkim (2018-19)

STCS did not account the appreciation in the value of Land from ₹ 0.03 crore to ₹ 2.56 crore in violation of the provisions of paragraph 13.7 of Accounting Standard

⁴⁷ SBS, TPPL, STCS, SPDC, SABCCO, - One Accounts each, GSCDL and SPICL- Two Accounts each,

⁴⁸ STCS, SBS (Corporations), SPICL (2 Accounts), SPDC and SABCCO,

⁴⁹ SBS (2018-19), STCS (2018-19), SABCCO (2014-15)

10. This has resulted in understatement of “Land” and ‘Reserves and Surplus-Revaluation Reserves’ by ₹ 2.56 crore each.

(iii) State Bank of Sikkim (2018-19)

The Cash Balances of the Government of Sikkim of ₹ 38.78 crore with the bank was depicted as ₹ 70.20 crore in the Finance Account. The difference of ₹ 31.42 crore has neither been reconciled nor the fact disclosed under the ‘notes to accounts’ of the Financial Statements of the Bank.

4.1.12 Follow up action on Audit Reports

4.1.12.1 Submission of Explanatory notes

The Report of the CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive authorities. According to instructions issued by the Finance Department, all the administrative departments concerned were required to furnish ‘explanatory notes’ on the paragraphs/ performance audits included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Public Accounts Committee (PAC). The status of receipts of explanatory notes to paragraphs/performance audits from the State Government/Administrative Departments concerned are as follows:

Table 4.13: Explanatory notes not received (as on 30 September 2020)

Year of the Audit Report	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs appeared in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		Pas	Paragraphs	PAs	Paragraphs
2013-14	17 March 2015	1	4	0	1
2014-15	28 March 2016	0	2	0	0
2015-16	18 March 2017	1	1	1	1
2016-17	12 July 2018	1	0	1	NA
2017-18	2 August 2019	0	4	NA	4
2018-19	8 December 2021	0	2	NA	2
TOTAL	-	3	11	2	8

From the **Table 4.13**, it may be seen that the ‘explanatory notes’ to eight paragraphs and two performance audits (PA), which pertained to eight Companies/Corporations/Co-operative⁵⁰, had not been received (October 2020).

4.1.12.2 Discussion of Audit Reports by Public Accounts Committee

In the state of Sikkim, there is no separate Committee on Public Sector Undertakings to discuss the audit findings on State PSUs. As such, the Public Accounts Committee (PAC) also discusses the findings relating to PSUs. The status of discussion of

⁵⁰ Serial No. A-1, A-4, A-5, A-7, A-10 and B-13 of Appendix 4.1

Performance Audit and Compliance Audit Paragraphs (relating to PSUs) featured in Audit Reports by the PAC as on 30 September 2020 has been detailed in **Table 4.14**.

Table 4.14: Performance Audits/ Paras relating to PSUs featured in Audit Reports *vis-à-vis* discussed as on 30 September 2020

Year of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2011-12	1	4	1	1
2012-13	0	2	Nil	Nil
2013-14	1	4	Nil	Nil
2014-15	0	2	Nil	Nil
2015-16	1	1	Nil	Nil
2016-17	1	0	Nil	Nil
2017-18	0	4	Nil	Nil
2018-19	0	02	Nil	Nil
Total	4	19	Nil	Nil

It can be seen from the **Table 4.13**, that eight Audit Reports containing four performance audits and 19 paragraphs relating to the PSUs were placed in the State Legislature. As on 30 September 2020, one performance audit relating Audit Report 2011-12 placed in the State Legislature was discussed by the PAC during 2019-20.

4.1.12.3 Compliance to Reports of Public Accounts Committee

As of October 2020, PAC had issued total two PAC Reports containing two recommendations relating to Audit Reports for the years 2010-11 (one recommendation) and 2011-12 (one recommendation), which were presented in the State Legislature. Action Taken Notes (ATNs) against one recommendation relating to Audit Report for the year 2011-12 has not been received from the concerned PSU.

It is recommended that the Government may ensure:

- (a) furnishing of replies/explanatory notes to Paragraphs/ Performance Audits and ATNs on the recommendations of PAC as per the prescribed time schedule;*
- (b) recovery of loss/ outstanding advances/ overpayments within the prescribed period;*
- (c) revamping of the system of responding to audit observations.*

4.1.13 Coverage of this Report

This Chapter on PSU contains one compliance audit paragraph pertaining to State Trading Corporation of Sikkim (STCS) which is under the administrative control of the Industries Department.

COMPLIANCE AUDIT PARAGRAPH

State Trading Corporation of Sikkim

4.2 Extension of undue benefit to supplier

The State Trading Corporation of Sikkim (STCS) extended undue benefit to the tune of ₹ 2.09 crore to a supplier by accepting revision of prices after the scheduled date of supply and granting ineligible advance.

State Trading Corporation of Sikkim (STCS) was established (1972) under the proclamation of the erstwhile Chogyal of Sikkim with the main objective of promoting external and internal trade in Sikkim. STCS functions as a canalising agency for procurements of the various departments of the Government of Sikkim besides rendering agency services to Indian Oil Corporation Limited for retail distribution of Liquefied Petroleum Gas. STCS procures goods for the Government Departments and charges commission for the same.

Rural Development Department (RDD) of Sikkim Government placed (7 September 2018) a supply order on STCS for 8,22,549 meters of GI Pipes of different sizes including fittings valuing ₹ 20.06 crore⁵¹ for implementation of the Rural Water Supply Schemes (RWSS) under National Rural Drinking Water Program (NRDWP) for the period 2018-19. The supply order stipulated that the supplies should be completed within 90 days (by 06 December 2018). The RDD also released (7 September 2018) an advance of ₹ 10.65 crore to STCS.

The STCS placed a supply order on same day (7 September 2018) with M/s. Indus Tubes Ltd, New Delhi for supply of 7,75,949 meters of GI Pipes⁵² including fittings valuing ₹ 20.64 crore. The price for the order was based on the rate fixed by STCS in February 2018. The supply order was placed with a condition that the supplies should be effected within 60 days *i.e.* 5 November 2018. The supplier accepted (8 September 2018) the order and demanded an advance of 40 *per cent* of ₹ 8.03 crore (total cost ₹ 20.04 crore) which was paid by the STCS on 10 September 2018.

The supplier informed STCS (06 November 2018), that the price of steel had increased and consequently sought revision in the price of GI Pipes. Accordingly, STCS revised (15 November 2018) the price and the supplier commenced supplies from 16 November 2018 at revised higher prices. The supply was completed by 03 January 2020 after a delay of 423 days.

In this connection, audit observed the following:

- a. After receiving supply order from the RDD, the STCS forwarded the supply order to M/s Indus Tubes, Delhi without calling tender as there existed a rate contract for supply between STCS and the M/s Indus Tubes on the rate fixed by STCS on February 2018.

⁵¹ GI Pipes (different sizes): ₹ 18.53 crore and GI Pipe Fittings: ₹ 1.53 crore

⁵² 7,75,949 metre of GI pipes cost ₹ 18.53 crore

- b. As per Clause 3 of terms and conditions of supply order, the supply was to commence immediately and completed within 60 days (by 5 November 2018) from date of supply order. The supplier while (08 September 2018) acknowledging the supply order requested for advance of ₹ 8.03 crore, conveyed that they would try their best to supply the GI Pipes within scheduled date and added that though the steel prices were increasing but they were not demanding any increase in price. The STCS agreed to grant advance on basis of assurance of the supplier. However, the supplier subsequently intimated STCS on 06 November 2018 (i.e. after scheduled date of completion of supply) that the price of steel had increased and consequently sought revision in the price. The STCS failed to take cognizance of the assurance given by the supplier and agreed to enhance the price on 15 November 2018. Thus, undue benefit was extended to the supplier. The supplier commenced supplies only from 16 November 2018. The STCS failed to monitor timelines in delivery of goods by the supplier and also did not counter the claim for price increase by the supplier made after the scheduled date of supply was already over. This resulted in loss amounting to ₹ 51.34 lakh to state exchequer as detailed in **Appendix-4.3**.
- c. As per Clause 8 of terms and conditions of supply order, 40 *percent* payment shall be released against proof of delivery to the handling contractor of STCS at Siliguri and the balance 60 *percent* after receipt of confirmation from RDD. Instead, STCS released 40 *per cent* of the payment on 10 September 2018 as advance. However, the supplier commenced deliveries belatedly from 16 November 2018 and completed the supplies only on 03 January 2020. Hence, STCS extended undue benefit to the supplier by extending ineligible advance of ₹ 8.03 crore for a period of 479 days⁵³. The STCS also did not levy any interest on the advance, in violation of the directions issued by the Central Vigilance Commission, thereby giving an additional undue advantage of ₹ 1.05 crore to the supplier, calculated @10 *per cent* per annum.
- d. Further, STCS deviated from the standard practise in the instant case by not including any penalty clause to ensure timely delivery, as was done in other supply orders issued by STCS. As such, though the supplier delayed the supplies, despite receiving advance of ₹ 8.03 crore, STCS could not levy any penalty on the supplier.

Thus, STCS failed to monitor the supply of materials within stipulated deadline as per order and accepted the rate revision without analysing the conditions of the contract. It also failed to include the enabling clause in the supply order under which STCS could take penal actions in case of breach of the contract agreement.

⁵³ 11 September 2018 to 02 January 2020

These collectively resulted in extending undue benefit to the supplier of ₹ 2.09 crore⁵⁴, including interest on the advance and penalty for delayed supply, to the supplier.

STCS in its reply (June 2021) stated that there was a clerical error in the supply order because of which delivery period has been mentioned as 60 days instead of 90 days. Further, STCS does not have a handling agent in Siliguri and the supply order did not contain penalty clause for delay as usually supplier's bills are settled after considerable delay without penalty payment. It is further stated that as per statutory Clause 4 of the supply order, the rates shall remain firm except for the statutory variation in cost of Steel and zinc on production of evidence from SAIL due to which rate revision requested by the supplier was accepted.

The reply is not justified as STCS did not rectify the clerical error though it had the opportunity to correct the same while issuing revised supply order in January 2019. Also as per records, STCS had a handling agent in Siliguri. In the instant case, STCS provided 40 *per cent* interest free advance to the supplier before commencement of supply. However, revision in rates was done beyond the supply window of 60 days and the supply was delayed by 423 days.

Recommendation: *The State Government should initiate steps for time bound fixing of responsibility for extending of the undue favour to the supplier and recover the amount from the supplier.*

⁵⁴ ₹ 51.34 lakh (Cost escalation) + ₹ 1.05 crore (Interest on Advance) + ₹ 52.69 lakh (Penalty @ 5 per cent as per PWD (R&B) notification dated 01 August 2012)

