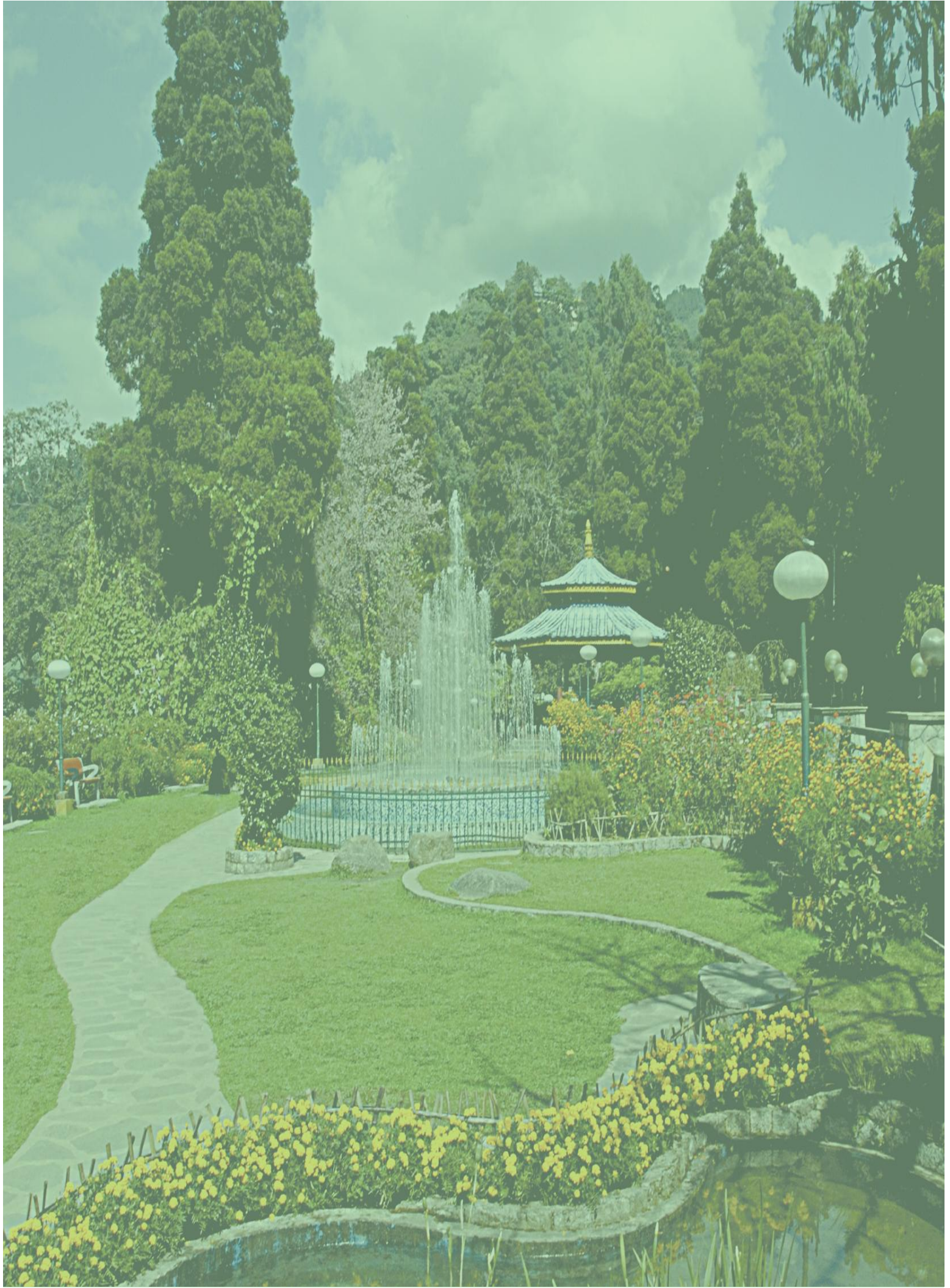


# CHAPTER – V

## Government Commercial and Trading Activities





## 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 ₹ 42.74 crore for 2009-10 as per their latest finalised accounts as of September 2010. This turnover of PSUs was equal to 1.64 *per cent* of State Gross Domestic Product (GDP) for 2009-10<sup>1</sup>. Major activities of Sikkim State PSUs are concentrated in manufacturing, infrastructure, finance and power sectors. The State PSUs incurred a loss of ₹ 1.38 crore<sup>2</sup> in the aggregate for 2009-10 as per their latest finalised accounts. They had employed 880 employees as of 31 March 2010. The State PSUs do not include two<sup>3</sup> Departmental Undertakings (DUs) and one<sup>4</sup> Co-operative Bank, which carry out commercial operations but are a part of Government departments.

**5.1.2** As on 31 March 2010, 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 <sup>5</sup>	Total
Government Companies	9	3	12
Statutory Corporations	2	1	3
<b>Total</b>	<b>11</b>	<b>4</b>	<b>15</b>

##### Audit Mandate

**5.1.3** 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 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

<sup>1</sup>As the State GDP for 2009-10 is not available, figures for 2008-09 are retained provisionally.

<sup>2</sup>Appendix 5.2

<sup>3</sup>Government Fruit Preservation factory and Temi Tea Estate

<sup>4</sup>Sikkim State Co-operative Bank Ltd.

<sup>5</sup>Non-working PSUs are those which have ceased to carry on their operations.

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.

**5.1.4** 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

**5.1.5** As on 31 March 2010, the investment (capital and long-term loans) in 15 PSUs was ₹ 560.72 crore as per details given below.

Table - 5.2

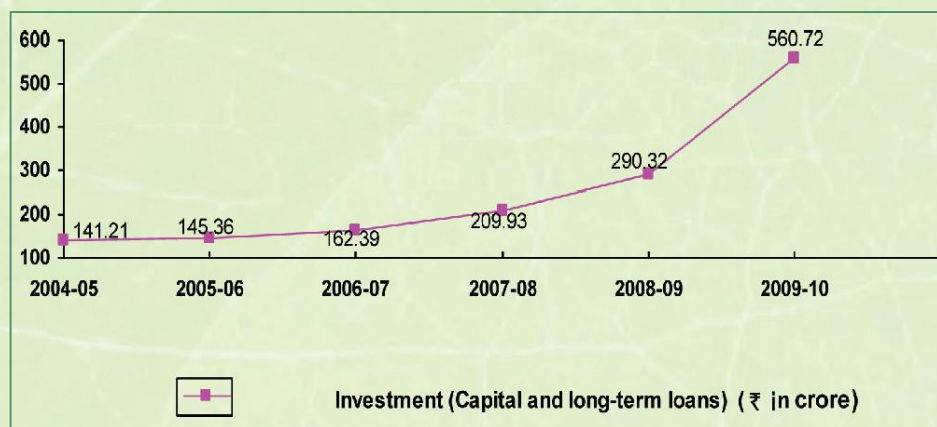
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	79.84	462.73	542.57	2.19	-	2.19	544.76
Non-working PSUs	3.43	0.03	3.46	12.50	-	12.50	15.96
<b>Total</b>	<b>83.27</b>	<b>462.76</b>	<b>546.03</b>	<b>14.69</b>	<b>-</b>	<b>14.69</b>	<b>560.72</b>

A summarised position of Government investment in State PSUs is detailed in **Appendix-5.1**.

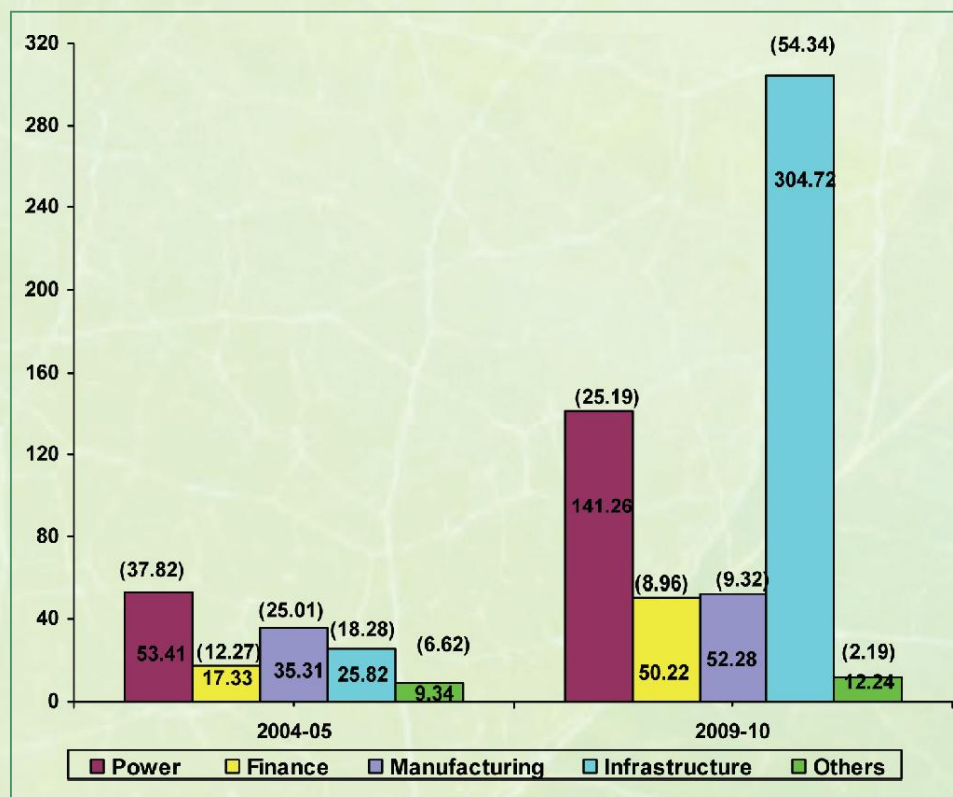
**5.1.6** As on 31 March 2010, of the total investment in State PSUs, 97.15 *per cent* was in working PSUs and the remaining 2.85 *per cent* in non-working PSUs. This total investment consisted of 17.47 *per cent* towards capital and 82.53 *per cent* in long-term loans. The investment has grown by 297.08 *per cent* from ₹ 141.21 crore in 2004-05 to ₹ 560.72 crore in 2009-10 as shown in the graph below.

Chart - 5.1



**5.1.7** The total investment in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2010 are indicated below in the bar chart.

Chart - 5.2



[Figures in brackets show the percentage of total investment (₹ in crore)]

**5.1.8** The thrust of PSUs investment was mainly in finance and power sectors during the five years 2004-05 to 2009-10. The investment in finance sector has grown by 189.79 per cent from ₹ 17.33 crore in 2004-05 to ₹ 50.22 crore in 2009-10. The power sector had also registered increase by 164.48 per cent from ₹ 53.41 crore in 2004-05 to ₹ 141.26 crore in 2009-10. The increase shown in infrastructure sector during the year 2009-10 was due to loan of ₹ 285.55 crore given to Sikkim Industrial Development and Investment Corporation Ltd. (SIDICO) to facilitate the development of infrastructure including the acquisition and development of area around the upcoming airport in Sikkim.

#### Budgetary outgo, grants/subsidies, guarantees and loans

**5.1.9** The details regarding budgetary outgo towards equity, grants / subsidies, guarantees issued 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 2010.



Table - 5.3

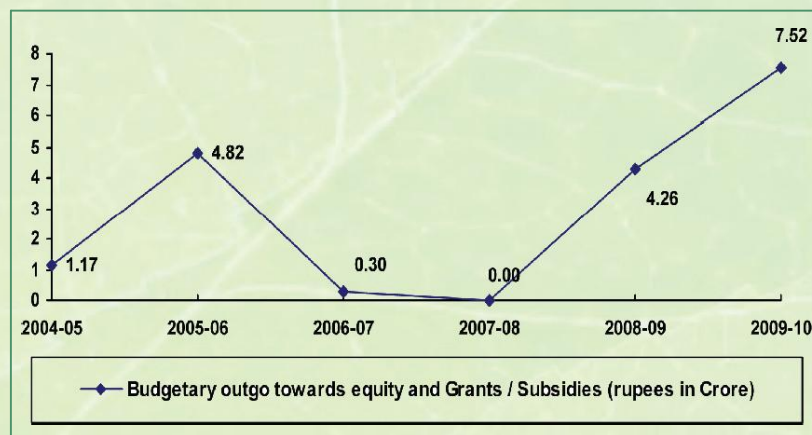
(₹ in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	-	-	5	3.05	4	2.10
2.	Grants / Subsidy received	-	-	3	1.21	2	3.22
3.	Total Outgo (1+2)	-	-	8	4.26	6	5.32
4.	Loans written off	-	-	1	113.40	-	-
5.	Interest/Penal interest written off	1	0.56	2	12.99	1	0.17
6.	Total Waiver (6+7)	1	0.56	2	126.39	1	0.17
7.	Guarantees issued	-	-	1	9.52	2	290.44
8.	Guarantee Commitment	2	75.00	2	85.10	3	187.05

**5.1.10** Sikkim Poultry Development Corporation Ltd. (SPDCL) and Sikkim Mining Corporation (SMC) had received Grant/ Subsidy to the extent of ₹ 2.25 crore and ₹ 0.97 crore respectively during the year 2009-10. Further, the waiver of dues, however, increased from nil in 2004-05 to ₹ 0.17 crore in 2009-10 due to penal interest waived off in respect of SIDICO.

**5.1.11** The details regarding budgetary outgo towards equity and grants / subsidies for past six years are given in the graph below.

Chart - 5.3



**5.1.12** The guarantee commitment at the end of year has increased from ₹ 85.10 crore in 2008-09 to ₹ 187.05 crore in 2009-10. As on 31 March 2010, guarantee amounting to ₹ 50.01 crore, ₹ 37.04 crore and ₹ 100 crore were outstanding against Sikkim Power Development Corporation (SPDC), Scheduled Tribe/Scheduled Caste & Other Backward Classes Development Corporation Limited (SABCCO) and SIDICO respectively. On any guarantee given to a public body, a guarantee commission at the rate of one per cent is charged by the State Government. An amount of ₹ 2.85 crore only was paid in July 2010 by SIDICO. No guarantee commission was paid by other concerned PSUs.

### Reconciliation with Finance Accounts

**5.1.13** 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 2010 is stated below.

Table - 5.4

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	72.58	81.28	8.70
Loans	37.03	2.03	35.00
Guarantees	75.00	187.05	112.05

**5.1.14** Audit observed that the differences occurred in respect of seven PSUs and some of the differences were pending reconciliation since 2004-05. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### Performance of PSUs

**5.1.15** The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in **Appendices 5.2, 5.5** and **5.6** 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 2004-05 to 2009-10.

Table - 5.5

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover <sup>a</sup>	35.73	34.26	45.80	44.44	31.34	41.98
State GDP	1,602.17	1,830.00	2,038.54	2,297.86 <sup>b</sup>	2,612.10 <sup>c</sup>	2,612.10
Percentage of Turnover to State GDP	2.23	1.87	2.25	1.93	1.20	1.61

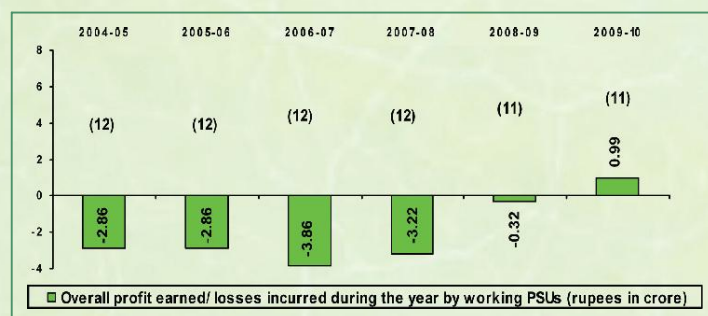
<sup>a</sup>Turnover as per the latest finalised accounts as of 30 September.

<sup>b</sup>Quick Estimate

<sup>c</sup>Advance estimate

**5.1.16** Profit earned/ Losses<sup>9</sup> incurred by the State working PSUs during 2004-05 to 2009-10 are given below in the bar chart.

**Chart - 5.4**



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

As per finalised accounts, out of 11 working PSUs, six PSUs<sup>10</sup> incurred a loss of ₹ 2.62 crore whereas four PSUs<sup>11</sup> earned a profit of ₹ 3.61 crore during the year 2009-10. One Company, SPDC did not prepare a Profit & Loss Account as its projects were under construction. The major profit was earned by SBS, STCS and SIDICO, i.e. ₹ 1.30 crore, ₹ 0.62 crore and ₹ 1.52 crore respectively.

**5.1.17** 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 working PSUs incurred losses to the tune of ₹ 13.47 crore and infructuous investment of ₹ 2.58 crore which were controllable with better management. Year wise details from Audit Reports are stated below:

**Table - 5.6**

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	Total
Net profit / (loss)	(3.22)	(0.32)	0.99	(2.55)
Controllable losses as per CAG's Audit Report	12.95	0.42	0.24	13.61
Infructuous Investment	-	-	2.58	2.58

**5.1.18** 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.

<sup>9</sup> Figures are as per the latest finalised accounts during the respective years.

<sup>10</sup> 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.

<sup>11</sup> Sikkim Industrial Development & Investment Corporation Limited, Sikkim Tourism Development Corporation Limited, State Bank of Sikkim and State Trading Corporation of Sikkim.



**5.1.19** Some other key parameters pertaining to State PSUs are given below:

**Table - 5.7**

Particulars	(₹ in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Return on Capital Employed ( <i>per cent</i> )	1.13	0.74	0.81	1.80	3.38
Debt	65.51	77.07	124.61	194.46	462.76
Turnover <sup>12</sup>	35.65	45.80	44.44	31.34	41.98
Debt/ Turnover Ratio	1.84:1	1.68:1	2.80:1	6.20:1	11.02:1
Interest Payments	18.97	16.46	29.68	5.52	7.33
Accumulated losses	57.39	58.35	58.06	66.86	68.62

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

**5.1.20** There was marginal increase in turnover while there was relatively higher increase in debts during the year 2009-10. This has increased the debt turnover ratio from 6.20:1 in 2008-09 to 11.02:1 in 2009-10, due to substantial increase in loan amount to SIDICO. Further, the increase in *per cent* return on capital employed during the year 2009-10 was due to increase in return on capital employed mainly in respect of SIDICO and SBS.

**5.1.21** The State Government had not formulated (September 2010) 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 ₹ 3.61 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.

### Arrears in finalisation of accounts

**5.1.22** 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 2010.

**Table - 5.8**

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10
1.	Number of Working PSUs	12	12	11	11
2.	Number of accounts finalised during the year	05	19	24	10
3.	Number of accounts in arrears	38	31	18	19
4.	Average arrears per PSU (3/1)	3.17	2.58	1.64	1.73
5.	Number of Working PSUs with arrears in accounts	12	12	11	11
6.	Extent of arrears (in years)	2 to 5	1 to 4	1 to 4	1 to 4

**5.1.23** 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 three<sup>13</sup> PSUs which had not

<sup>12</sup>Turnover of working PSUs as per the latest finalised accounts as of 30 September.

<sup>13</sup>State Bank of Sikkim, State Trading Corporation of Sikkim and Sikkim Precision Industries Ltd.

finalised the accounts for earlier years. None of the working PSUs finalised their accounts for the year 2009-10. The delay in finalisation of accounts is due to delay in compilation/ adoption of accounts by the BoDs of the respective PSUs.

**5.1.24** 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 15 years.

**5.1.25** The State Government had invested ₹ 6.85 crore (Equity: ₹ 3.60 crore and Grants: ₹ 3.25 crore) in seven 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.

**5.1.26** 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 expedite the process of finalisation of accounts and bring them upto date.**

#### Winding up of non-working PSUs

**5.1.27** There were four non-working PSUs (three Companies and one Statutory Corporation) as on 31 March 2010. None of the PSUs have commenced liquidation process. The numbers of non-working Companies at the end of each year during past five years are given below.

**Table - 5.9**

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
No. of non-working Companies	3	3	3	3	3
No. of non-working Corporations	-	-	-	1	1
<b>Total</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2009-10, one non-working PSUs (SMC) incurred an expenditure of ₹ 23.06 lakh towards salaries of its employees which was financed by the State Government.

**5.1.28** The stages of closure in respect of non-working PSUs are given below.

**Table - 5.10**

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 process not yet started.	2 <sup>14</sup>	1 <sup>15</sup>	3

**5.1.29** During the year 2009-10, 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

**5.1.30** Eight working Companies forwarded their eight audited accounts to the Accountant General during the year 2009-10<sup>16</sup>. Out of these, six accounts of six Companies were selected for supplementary audit. Also three accounts of two Companies received during the earlier years were selected for supplementary audit. The audit reports of statutory auditors 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.

**Table - 5.11**

(₹ in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in loss	14	1.74	02	1.13	-	-
2.	Increase in profit	-	-	-	-	1	0.03
3.	Non-disclosure of material facts	02	0.71	-	-	2	-
4.	Errors of classification	-	-	03	9.89	2	0.06
		<b>16</b>	<b>2.45</b>	<b>05</b>	<b>11.02</b>	<b>5</b>	<b>0.09</b>

**5.1.31** During the year, the statutory auditors had given unqualified certificates for six accounts and qualified certificates for two accounts. Additionally, CAG also qualified two accounts during the supplementary audit. The compliance of Companies with the Accounting Standards remained poor. There were three instances of non-compliance in two accounts during the year.

**5.1.32** Some of the important comments in respect of accounts of Companies finalised during 2009-10 are stated below.

<sup>14</sup>Sikkim Flour Mills Limited and Chandmari Workshop and Automobiles Limited.

<sup>15</sup>Sikkim Mining Corporation

<sup>16</sup>During the period October 2008 to September 2009



***Sikkim Industrial Development and Investment Corporation Limited (2008-09)***

- Excess provision of the non-performing assets resulted in understatement of Loans and Advances account and profit for the year by ₹ 11.26 lakh.
- Non-classification of unrecovered loans for more than five years under the head non-performing assets resulted in overstatement of profit by ₹ 4.26 lakh with corresponding overstatement of Loans and Advances by same amount.

**5.1.33** None of the working Statutory Corporation forwarded its accounts to the Accountant General for the year 2009-10.

**Recoveries at the instance of audit**

**5.1.34** During the course of propriety audit in 2009-10, recoveries of ₹ 36.83 crore were pointed out to the Management of various PSUs, of which, an amount of ₹ 8.82 crore was recovered during the year 2009-10.

**Disinvestment, Privatisation and Restructuring of PSUs**

**5.1.35** During the year 2009-10, 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**

**5.1.36** 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 2010) 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 - 5.12

Sl. No.	Milestone	Achievement as at March 2010 <sup>17</sup>
1.	Setting up of SERC.	Yet to be set up.
2.	100 per cent metering of all consumers.	As on date out of 77,000 consumers, 68,725 consumers were metered (September 2009).
3.	100 per cent metering and energy audit and accounting for each 11 KV feeder.	The State Government had completed the metering of all 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. (September 2009)
5.	Computerised billing and Management Information System (MIS).	Out of 22 revenue sub-divisions, computerised billing and MIS prevails in only 7 sub-divisions (September 2009).
6.	Consumer indexing.	Out of 22 revenue sub-divisions, consumer indexing has been completed only in 3 sub-divisions (September 2009).

## SIKKIM POWER DEVELOPMENT CORPORATION LIMITED

### 5.2 Deficient execution of Power Projects

**Unplanned execution and lack of monitoring mechanism in implementation of the power projects resulted in unfruitful expenditure of ₹ 8.96 crore besides cost overrun of ₹ 7.73 crore, blockage of funds ₹ 14.53 crore and irregular diversion of project funds of ₹ 16.17 crore.**

In Sikkim, power generation is carried out by Energy & Power Department (EPD). Sikkim Power Development Corporation Limited (SPDCL), a State Government undertaking incorporated in December 1998 has also been entrusted with the development of 11 hydro projects (November 2005). Of these 11 projects, 4 projects<sup>18</sup> were taken up for implementation, out of which two projects<sup>19</sup> were completed till March 2010 with delays ranging between 25 to 32 months. In the other two projects, one was abandoned and the other is under construction.

We audited four projects with the objective of assessing whether the goals set for construction of these projects were met and also the cost estimates were adhered to.

We noticed (April 2010) the following deficiencies during the execution of these four Hydro Projects (HPs).

#### 5.2.1 MANGLEYHYDRO PROJECT

##### 5.2.1.1 Unfruitful Expenditure

The State Government sanctioned (January 1998) construction of 1 MW Mangley

<sup>17</sup>Position as on 31 March 2010 not yet furnished

<sup>18</sup>Mangley, Lachung, Rongli and Rellichu

<sup>19</sup>Mangley and Lachung HP completed in June 2008 and January 2009 respectively.

Hydel Project, South Sikkim, at a project cost of ₹ 6.96 crore after conducting a detailed project analysis by the EPD.

Midway during the course of execution of civil construction work, the EPD felt that sufficient discharge of water was available for generation of more than 1MW. Accordingly, with the approval of Government, EPD approached Ministry of Non-Renewable Energy Sources (MNES) for consultation for enhancement of installed capacity to 2 MW. Alternator Hydro Energy Centre (AHEC), Roorkee was assigned task of preparation of DPR (January 2003) for 2 MW enhanced capacity project. The project was re-approved by the State Government (April 2003) in a time frame of three years at a cost of ₹ 15.92 crore.

Generation Reports for the period June 2008 to March 2010 revealed that the actual generation never crossed 0.92 MW except during November 2008 to January 2009 when it ranged between 1.08 MW and 1.19 MW. The Executive Engineer, Mangley Project, stated (March 2010) that the reason for less generation of energy was decrease in discharge in the river due to less rainfall.

We observed that while preparing the DPR for enhancement of installed capacity to 2 MW, AHEC should have considered at least past 10 years rainfall/discharge data as per the MNES guidelines to ascertain the optimum flow of water but took into account the data of river flow for the two years, 2001 & 2002 only. During these two years there was high rainfall in Sikkim and the river flow so estimated was not dependable discharge to consider it for enhancement of capacity.

Hence, enhancement of capacity to 2 MW was not justified and expenditure of ₹ 8.96 crore (₹ 15.92 crore - ₹ 6.96 crore) failed to generate revenue and proved unfruitful.

The company accepted the audit observation and stated (July 2010) that SPDCL is still examining the issue.

#### **5.2.1.2 Cost overrun**

The project was completed (June 2008) at a cost of ₹ 23.65 crore with a cost overrun of ₹ 7.73 crore. This was mainly due to payment on account of price escalation due to delay in completion and execution of additional item of works not envisaged in the DPR (₹ 3.72 crore). We noticed that the DPRs were deficient and did not account for full scope of civil works of the project and Electrical & Mechanical equipments and needed revision.

The Department stated (July 2010) that EPD started the work, but due to paucity of funds could not proceed after a certain point which ultimately led to cost overrun in completion of the project. After the projects were transferred to SPDCL, they were completed by resorting to market borrowing. The fact, however, remains that due to lack of proper planning and prudent financial management, the department could not complete the work and handed over to SPDCL.



### 5.2.1.3 *Non-realisation of revenue*

As per the Power Purchase Agreement (PPA) entered (December 2005) into by the SPDCL with the EPD, energy transmitted to the State Grid was to be billed at ₹ 2.50 per unit for the first year and further enhanced at the rate of five *per cent* per annum over the base tariff over the next corresponding years.

We observed that SPDCL could not recover revenue for energy transmitted from Mangley HP to the State Grid from July 2008 to March 2010 amounting to ₹ 2.25 crore. The non-recovery of outstanding energy bills had adversely affected the schedule of repayment of loan component to that extent.

SPDCL also failed to bill tariff at enhanced rate for the period June 2009 to March 2010 as per the agreement for energy transmitted from the Mangley project which amounted to ₹ 23 lakh.

## 5.2.2 **RELLICHU HYDRO PROJECT**

### 5.2.2.1 *Blockage of funds due to closure of project*

Rellichu HP was planned with a capacity of 6 MW and work started by EPD in October 2002. The DPR was revised (September 2006) to a capacity of 12 MW to be executed with a cost of ₹ 111.81 crore and work started (September 2006). In September 2008, the Government of Sikkim ordered stoppage of work on project and directed the SPDCL to find a Joint Venture (JV) partner to complete the project. By August 2009, when the project was completely abandoned, SPDCL had achieved physical progress of 25 *per cent* to 40 *per cent* in respect of civil works and had incurred an expenditure of ₹ 14.53 crore.

We feel that expenditure of ₹ 14.53 crore incurred on the project has been blocked since October 2008 with consequential loss of interest of ₹ 2.32 crore up to March 2010.

SPDCL replied (July 2010) that once the JV partner is identified, the expenditure made so far and the assets created shall be ascertained which will decide factors like equity participation by Government / SPDCL.

### 5.2.2.2 *Diversion of Project Funds*

For utilisation of total available fund of ₹ 44.75 crore (State fund: ₹ 4.46 crore; MNES: ₹ 7.46 crore and PFC loan: ₹ 32.83 crore) for development of Rellichu HP, the expenditure incurred on the execution of infrastructure (as stated in paragraph 5.2.2.1) was ₹ 14.53 crore (including land compensation: ₹ 1.50 crore) and ₹ 16.17 crore were diverted for payment of advances, repayment of Bonds, payment of interest, expenditure towards other projects, etc. The details of utilisation of balance fund of ₹ 14.05 crore were not available.

### **5.2.2.3 Avoidable payment of interest due to non-returning of loan to PFC**

We observed that the SPDCL availed (September 2008) loan of ₹ 32.83 crore from PFC for Rellichu HP. As per the terms and conditions of the PFC, SPDCL shall not sell / transfer or abandon the project at any stage in any manner whatsoever without the prior written consent of the PFC. However, SPDCL violated the terms and conditions of the agreement by not intimating the decision to close down the project to PFC. SPDCL did not remit back the loan amounting to ₹ 32.83 crore at the time of closure of the project to Power Finance Corporation (PFC) which resulted in incurring an interest burden of ₹ 5.81 crore up to January 2010.

The Department / SPDCL accepted the audit observation and stated (July 2010) that SPDCL has been exploring the possibility of getting a Joint Venture partner for Rellichu.

### **5.2.3 LACHUNG HYDRO PROJECT**

The Lachung HP with capacity of 3 MW was sanctioned in the year 1998 by the State Government at the cost of ₹ 18.14 crore. The work started in the year 2000. Since there were many deficiencies in project cost, a revised DPR was prepared in March 2003 with estimated cost of ₹ 25.91 crore and a completion period of three years. A part of the cost of the project was to be met through subsidy to be made available by MNES.

#### **5.2.3.1 Failure to utilise the benefit of subsidy from MNES**

The subsidy scheme announced (July 2003) by the MNES Government of India (GOI), envisaged release of subsidy in installments as per following pattern:

- Award of Work Order for the HP & furnishing copies thereof in proof: 25 per cent.
- Progressive release after demonstration of at least 1/3<sup>rd</sup> of physical and financial progress: 20 per cent.
- Progressive release after demonstration of at least 2/3<sup>rd</sup> of physical and financial progress: 30 per cent.
- After successful installation of hydel project & submission of final report: 25 per cent.

We noticed that out of total available subsidy of ₹ 13.50 crore, SPDCL obtained subsidy from MNES of ₹ 12.83 crore only. SPDCL was not able to obtain the balance ₹ 0.67 crore due to non-submission of project closure report and delayed benefit of subsidy claims (October 2010).

### **5.2.4 RONGLI HYDRO PROJECT**

The Rongli HP with capacity of 5 MW was sanctioned by the State Government in January 2002 at an estimated cost of ₹ 56.10 crore.

### 5.2.4.1 Failure to utilise the benefit of subsidy from MNES

As per the subsidy scheme of GOI, the SPDCL was eligible to claim subsidy for the project on installment basis as referred to in paragraph 5.2.3.1. However, due to non-completion of the project since November 2005, it could avail only ₹ 15.72 crore out of ₹ 17.47 crore. Thus, SPDCL could not claim the balance subsidy of ₹ 1.75 crore till date (October 2010).

The Corporation accepted the audit observation and stated (July 2010) that SPDCL has decided to change course in the execution pattern of the project and steps shall be taken to avail balance subsidy from MNES.

## SIKKIM STATE CO-OPERATIVE BANK LIMITED

### 5.3 Irregular waiver of loan

#### **Irregular waiver of loan amounting to ₹ 13.54 lakh under Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme, 2008**

The Government of India (GOI) introduced “Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme, 2008” to help the farmers by waiving their outstanding dues and enabling them to be eligible for availing fresh loans to sustain their livelihood. The scheme covered direct agricultural loans, short term production loans, investment loans for direct agricultural activities and for other allied activities by Scheduled commercial banks, Regional Rural banks, Cooperative Credit institutions and local area banks.

Clauses 3.5 to 3.7 of ADWDR scheme stipulates the criteria for classification of the farmers as marginal farmers, small farmers and other farmers with a land holding upto one hectare (2.5 acres), more than one hectare and up to two hectares (five acres) and more than two hectares (more than five acres) respectively. The classification of eligible farmers as per the above land holding criteria under the scheme would be based on the total extent of land owned by the farmer either singly or as joint holder (in case of an owner farmer) at the time of sanction of the loan, irrespective of any subsequent changes in ownership or possession. As per clause 5.1, in case of a small or marginal farmer the entire eligible amount shall be waived and as per clause 6.1, in the case of other farmers there will be a one time settlement (OTS) Scheme under which the farmer will be given a rebate of 25 *per cent* of the eligible amount subject to the condition that the farmer pays the balance of 75 *per cent* of the eligible amount.

Sikkim State Co-operative Bank Limited (SISCO) while implementing the scheme identified 529 farmers under 'Small / Marginal farmers' and 10 farmers under 'Other Farmers'.



We noticed (August 2009) that in one particular case a farmer<sup>20</sup> was sanctioned (March 2002) a loan of ₹ 15 lakh. The documents submitted for sanction of loan included the original land parcha<sup>21</sup> of land showing 9.68 acres of land jointly held by him and his brother, out of which a land measuring 4.62 acres was mortgaged (June 2003) by SISCO. While extending the benefit of scheme, the farmer was included under the list 'small / marginal farmers' instead of 'other farmers' contrary to the provisions of the scheme which made him eligible for waiver of his total outstanding dues amounting to ₹ 13.54 lakh (₹ 10.50 lakh as principal and ₹ 3.04 lakh as interest) as on 31<sup>st</sup> December 2007 which was unpaid till February 2008. As the joint land holding of the loanee at the time of sanction of loan exceeded the maximum limit of five acres, he was not eligible for waiver of loan under 'small / marginal farmers'. This irregular waiver of loan led to passing off an undue favour to the loanee of ₹ 13.54 lakh.

The Company replied (July 2010) that the farmer was placed under category of small farmer as per the land holding of 4.62 acres held by him at the time of sanction of loan. The Company's reply was not correct as the Company was well aware of the fact of joint holding of 9.68 acres of land of the farmer at the time of sanction of loan based on the 'land parcha' submitted by him which did not merit his inclusion under the 'small / marginal' farmers category as per the clause 3.7(1) of the scheme for debt waiver.

The matter was reported to Government (June 2010); its reply was awaited (September 2010).

## SCHEDULED CASTES / SCHEDULED TRIBES & OTHER BACKWARD CLASSES DEVELOPMENT CORPORATION

### 5.4 Avoidable liability

**Lack of effective mechanism in identifying the beneficiaries and delayed utilisation of funds received from National Backward Classes Finance & Development Corporation (NBCFDC) and National Scheduled Castes Finance & Development Corporation (NSFDC) resulted in an avoidable liability towards penal interest to the tune of ₹ 13.27 lakh.**

The Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation (SABCCO) is a State channelising agency (SCA) to provide financial assistance for the economic empowerment to SCs, STs, OBCs and handicapped persons living below the poverty line by way of loan at low rate of interest. Based on its Annual Action Plans (AAPs), it obtains low cost (one *per cent* to three *per cent*) refinance support from the Central apex bodies<sup>22</sup>.

<sup>20</sup> Shri S. D. Lepcha

<sup>21</sup> Land parcha defines the holding of the land as per the land records.

<sup>22</sup> National Scheduled Castes Finance & Development Corporation (NSFDC), National Backward Classes Finance & Development Corporation (NBCFDC), National Scheduled Tribes Finance & Development Corporation (NSTFDC) and National Handicapped Finance & Development Corporation (NHFD).

We observed (September 2009) that during 2007-09 the SABCCO submitted AAPs in respect of SCs and OBCs to the respective Apex bodies for disbursement of loans to 1,681 beneficiaries involving ₹ 16.27 crore against which it received only ₹ 6.14 crore during the period August 2007 to March 2009. Out of ₹ 6.14 crore received (2007-09), the actual disbursed amount was ₹ 5.93 crore covering only 339 beneficiaries. The Company did not have any proper system in place for conducting survey and identifying the beneficiaries while preparing AAPs. This led to management preparing inflated AAPs resulting in under utilisation of funds amounting to ₹ 0.21 crore which was subsequently refunded (February 2009).

Further, the funds were to be utilised within 90 days of its receipt from the Apex bodies. The period of 90 days allowed for fund utilisation was to be treated as moratorium period and the fund unutilised within 90 days from the date of release by Apex bodies attracted a higher rate of interest<sup>23</sup>. We noticed that the SABCCO failed to utilise the funds within the stipulated period of time and there was delay in utilisation of funds ranging between 108 days to 386 days which resulted in an avoidable liability towards penal interest to the extent of ₹ 13.27 lakh.

The Company stated (October 2010) that only one Apex body viz. NBCFDC charges penal interest. However, we observed that terms and conditions of lending policy of other Apex bodies also contain clauses enabling them to levy higher rate of interest on delayed utilisation of funds.

This delayed utilisation of funds resulted in an avoidable liability towards penal interest to the extent of ₹ 13.27 lakh.

The matter was reported to Government (August 2010); its reply was awaited (October 2010).

## SIKKIM TIME CORPORATION LIMITED

### 5.5 Infertuous expenditure on idle manpower

**Due to lack of effective management, an amount of ₹ 2.58 crore received as share capital from the Department became unfruitful.**

The Company was established (October 1976) to carry on the business of manufacturing and trading of semi-conductor, assembling mechanical watches, black and white television speakers. In the Report of Comptroller and Auditor General of India (Civil) for the year ended 31 March 2007 (paragraph 7.16), mention was made about the loss making Government companies / corporations in the State. Audit analysis on the

<sup>23</sup> Rate of interest has been calculated at the prevailing rates during 2007-09 in respect of NBCFDC: 1-90 days: 3 %, 91-180 days: 6 % & beyond 180 days: 8 %

reasons for losses in Sikkim Time Corporation Limited (SITCO) indicated that losses were due to unfruitful investment, decrease in sales / revenue income, closure of projects and increase in employee cost, etc. As per the latest accounts finalised, the accumulated losses in the company mounted to ₹ 16.72 crore till 31 March 2009. The Company also received share capital of ₹ 2.58 crore during the period February 2006 to March 2010 which was utilised towards repayment of loan and making payments of salaries to its employees.

The management neither ascertained the financial position of the company which was persistently incurring losses nor took any initiative to address the reasons for losses. We observed that during past 10 years the management closed down the following units due to reasons given below:

- Unfruitful investment of ₹ 2.28 crore in speaker project which was abandoned in March 2005 due to non-incorporation of a buy back arrangement clause in the agreement entered into with BPL.
- The Corporation stopped production of digital watches during 2003-04 as the HMT (a central public sector undertaking) stopped outsourcing the work which resulted in decrease in revenue income of assembly charges by 79.92 per cent as compared to 2001-02.
- Closure of crown project in 2002-03 due to uneconomical operations.

Although, the Company closed down these three units but it failed to rationalise the staff deployed in these units who remained idle resulting in increase in establishment cost which attributed towards recurring losses. Further, the Company did not utilise the idle manpower either by venturing out for new sustainable projects or entering into joint venture with private entrepreneurs.

We also noticed that the watches manufactured by SITCO had become outdated due to degradation of the mechanism and high competition in the market which rendered them useless. The prices have come down drastically; the ageing factor has set in the watches as these watches were over ten years old which led to accumulation of idle stock valuing ₹ 0.36 crore till date (September 2010). The accumulated idle stock had become obsolete /useless hence disposal of these watches was difficult in spite of deep discount offer. The Company failed to initiate any action either to revive the company or minimise the overhead cost which affects the profitability of the Company.

In interim reply, the Department stated (September 2009) that the Company is Government undertaking and hence is the policy of the Government to invest in it as the Government is not always concerned about profit or loss but rather is service oriented.

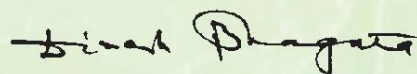
The reply of the Government is not convincing as investment in this venture cannot be



termed as service oriented as no social or service objective was being met and the aim of the venture and the investment was commercial. The public money invested in this unit by way of share capital ₹ 2.58 crore proved unfruitful.

The matter was reported to the Government (October 2010); its reply was awaited (October 2010).

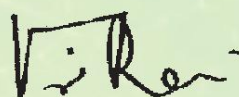
Gangtok  
The



(Dinesh Bhagata)  
Accountant General (Audit), Sikkim

Countersigned

New Delhi  
The



(Vinod Rai)  
Comptroller and Auditor General of India

