

## OVERVIEW

This Report contains 21 audit paragraphs (including 3 general paragraphs) and 4 Performance Reviews. There is also a separate chapter on Integrated Audit of Urban Development and Housing Department. According to the existing arrangements, copies of the draft audit paragraphs and draft performance reviews were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies were not received from the departments concerned in respect of 4 paragraphs.

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

#### **1.1 Elementary Education in Sikkim**

*The Right to Education was reckoned as a fundamental right by amendment of the Constitution in 2002 which expected the State Governments to provide free and compulsory education to all children between six and fourteen years of age and early childhood care and education to children upto the age of six years.*

*The State had accorded highest priority to the education sector by providing a considerably high outlay leading to highest per capita expenditure in the country. However, the State Government had neither formulated a state policy on Education nor spelt out any vision statement. While the Perspective Plan was not finalised, Annual Plans were prepared merely for the purpose of availing budgetary grants. The Gross enrolment ratio declined from 118 in 2007 to 115 in 2011 for primary level and Net enrolment ratio from 58 to 36 in case of upper primary level during the same period highlighting the need for encouraging children to join school as per appropriate age. Out of 40 schools visited by Audit 2 schools (Shipgyer PS and Rolu-Manpur PS) were not fit for holding classes, toilets at Jarong PS, Lingzya JHS, and Yalli PS, were unusable. The ceilings and classrooms were worn out at Pathing JHS, Goam JHS, Yalli PS, Jaron PS and Panthang PS. While 112 teachers (out of 324 in the forty schools test checked) did not possess the minimum prescribed educational qualification and were still untrained, irrational deployment of teachers led to concentration of excess teachers in easily accessible areas at the cost of remote areas affecting quality of education in rural areas. While majority of students fell under average and below average category; teachers were graded under C and D category indicating average quality of teaching-learning process in the State. The important Committees (State Advisory Committee and State Quality Education Committee) were not constituted as of November 2011. In the absence of these Committees, expert opinion and suggestions from the Committees could not be obtained and therefore, the important aspects of quality education remained neglected.*

**(Paragraph 1.1)**

#### **1.2 Acquisition and Allotment of Land**

*The requirement of land for developmental activities in Sikkim increased manifold over the*

*past few decades due to increase in human population and a paradigm shift of social and economic development from primarily agriculture to industrial and service based sectors.*

*The Land Revenue and Disaster Management Department had not formulated any policy relating to acquisition and management of Government land till date. There was no perspective plan relating to acquisition of land by Government for developmental activities. Acquisition was done on piece meal basis as and when requisitioned by Government Departments. There was loss of Government revenue of ₹ 82.16 lakh due to short realisation of site salami. Government sustained revenue loss of ₹ 11.42 lakh due to collection of site salami at concessional/pre-revised rate. Erroneous assessment due to simple calculation errors in nine cases resulted in extra expenditure of ₹ 22.14 crore. Government incurred unnecessary and avoidable expenditure of ₹ 3.62 crore towards solatium (incentive payable to unwilling land owners) although land owners were willing to sell their land. Arbitrary enhancement of Government rate of land resulted in undue favour to land owners and consequent extra expenditure of ₹ 1.79 crore on purchase of 22.2694 hectare of land at high rates. Government had not formulated any policy for allotment of land (house sites) till date. The allotment was based on an Act which did not provide any firm criteria for selection of beneficiaries and ceiling for allotment. The allotment was therefore, done arbitrarily. Centralised databank of all the land purchased by the Government so far had not been maintained. It was not clear how much land Government owned as on date.*

**(Paragraph 1.2)**

## **2. Audit of Transactions (Civil Departments)**

Failure of the Department to effectively monitor the execution of a project resulted in the intended benefit of providing potable water not reaching the population of Tashiding for two and half years. Besides, there was a loss of ₹ 76.35 lakh to the Government.

**(Paragraph 2.1)**

Non-compliance with statutory regulations not only caused an avoidable expenditure of ₹ 21.32 lakh but also resulted in the extension of undue financial benefit to that extent to the breweries/distilleries.

**(Paragraph 2.2)**

Adoption of rate without proper survey, analysis and investigation resulted in excess expenditure of ₹ 3.74 crore towards establishment of rural connectivity under PMGSY- Phase V.

**(Paragraph 2.3)**

Injudicious selection of inept contractor, unsuitable site and inexplicable apathy towards execution of the project resulted in price escalation of ₹ 5.20 crore, delay of more than 13

years, infructuous expenditure of ₹ 79.41 lakh, besides frustrating the basic objective of providing electricity to the intended beneficiaries of the locality.

**(Paragraph 2.4)**

Absence of detailed survey and investigation of the land profile to identify its suitability for construction of jail at Omchung ultimately led to abandoning of structure and infructuous expenditure of ₹ 5.90 crore, besides denying accommodation to the jail inmates of West district.

**(Paragraph 2.5)**

Expenditure of ₹ 1.06 crore incurred on the work, “Restoration and Re-construction of Water Conductor System of Upper Rongnichu Hydel Project (Nimtar II)” remained infructuous as the Power House could not be re-commissioned till date due to shifting of responsibilities from Energy and Power Department to RMDD and hence, the Department failed to achieve the envisaged objective of harnessing the power potential in Sikkim.

**(Paragraph 2.6)**

Procurement of HDPE pipes beyond the scope of Calamity Relief Fund led to inadmissible expenditure of ₹ 99.46 lakh besides blocking up of funds of ₹ 24.96 lakh in stock materials intended for immediate relief.

**(Paragraph 2.7)**

Expenditure of ₹ 80 lakh from CRF on the works of permanent and routine nature led to inadmissible expenditure not covered within the ambit of CRF norms.

**(Paragraph 2.8)**

### **3. Integrated Audit of Urban Development and Housing Department**

*Urban Development and Housing Department (UDHD) is responsible for development and improvement of Bazaars and Municipal areas in Sikkim, control over all building construction, bazaars and stalls along the roads in the State.*

*The Department had taken some effective steps such as banning of plastic carry bags, door to door collection of garbage, creation of footpath along the NH 31A, construction of multi-storeyed parking, establishment of ULBs, etc. However, there were certain areas of concern requiring remedial action like non-preparation of Annual Action Plan incidental to Master Plan, inadequate budgetary management, irregular permissions for construction of buildings, unabated traffic congestion, absence of basic facilities in shopping complexes/ parking places, absence of quality control in execution of works, non-utilisation and non-maintenance of assets created, inept revenue management, etc. Despite expenditure of ₹ 4.09 crore on maintenance and sanitation of Gangtok town, the maintenance of the town left much to be desired as dilapidated roads, open potholes, throwing of litter in public areas, cluttered*

*drains could be seen at many places. There was debris lying near children park, Gangtok and the electric wiring in shopping complex at Singtam was in a dilapidated condition. Basic facilities were not available for passengers waiting in taxi/jeep stand at Deorali. Garbage was disposed of in the open area at Martam Plant, Sipchu and Jorethang causing hazard to human beings and animals. The housing complex for sweepers was built at Lingding without approach road and the car parking cum shopping complex at Pakyong was lying idle since August 2005. It was also seen that a private agency was collecting parking fees at rates higher than those fixed by the Department near MG Marg, Gangtok.*

**(Paragraph 3.1)**

#### **4. Revenue Receipts**

##### **4.1 Utilisation of Declaration Forms in Inter State trade and Commerce**

*The Division did not maintain data bank of dealers involved in Inter State trade and commerce. The Division got printed declaration forms long back during 1983 without assessing its requirement taking into account the pace of issue of declaration forms, which could not be fully utilised even after 28 years and the Division did not also maintain the clear position of stock available with them. The Division continued to issue declaration forms to the dealers without ensuring submission of details of utilisation of declaration forms issued earlier and issue register of declaration forms was also not being maintained properly. The Division has not installed a system of verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax. The Division has also not installed a system of picking up samples of declaration forms and taking them up for further verification with the concerned States and also a system of uploading the details of utilisation of declaration forms in the TINXSYS website.*

*The Division did not ensure submission of CST returns by each and every dealer and failed to assess all dealers involved in Inter State trade and commerce as out of 75 dealers, only 14 dealers were assessed during 2007-08 to 2009-10. The assessments of dealers were completed without cross verification of declaration forms submitted and forms were not on record in some cases pointed out by us. Demands raised were not realised for long periods.*

##### **4.2 Audit of Transactions (Revenue)**

**Irregular grant of exemption and non-assessment/non-payment of CST dues of ₹ 6.41 crore :** The Government granted exemption of Central Sales Tax under repealed notification to M/s Akshay Ispat Ferro alloys Private Limited and neither assessed the dealer under the CST Act, resulting in unrecovered CST dues of ₹ 6.41 crore.

**(Paragraph 4.6.15)**

**Undue financial benefit:** Non-assessment of M/s Sikkim Distilleries Limited (SDL) by Commercial Tax Division provided undue financial benefit to it with consequential non-

realisation of SST/CST of ₹ 46.40 crore over a period of three to 11 years.

*(Paragraph 4.6.16)*

**Non-realisation of Environment Cess :** Non-registration of industrial dealers under Environment Cess Act and concealment of sales turnover by other dealers led to non/short realisation of Cess of ₹ 11.43 crore.

*(Paragraph 4.6.17)*

## **5. Government Commercial & Trading Activities**

### **5.1 Overview of State Public Sector Undertakings**

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

As on 31 March 2011, the State had 15 PSUs (including four non-working) which employed 881 employees. The State PSUs registered a turnover of ₹ 42.81 crore for 2010-11 as per the latest finalised accounts. This turnover was equal to 0.76 *per cent* of State GDP. The state working PSUs incurred a loss of ₹ 11.40 crore and had accumulated losses of ₹ 56.78 crore as per their latest finalised accounts.

#### ***Investment in PSUs***

As on 31 March 2011, the investment (capital and long-term loans) in 15 PSUs was ₹ 492.99 crore. It grew by 285.75 *per cent* from ₹ 145.36 crore in 2005-06. The thrust of PSUs investment was mainly in power and finance sectors during the six years 2005-06 to 2010-11. The investment in power sector has grown by 181.50 *per cent* from ₹ 53.41 crore in 2005-06 to ₹ 150.35 crore in 2010-11. The finance sector had also registered increase by 174.26 *per cent* from ₹ 17.33 crore in 2005-06 to ₹ 47.53 crore in 2010-11. The increase shown in infrastructure sector was mainly due to loan of ₹ 210.77 crore given during the year 2009-10 to Sikkim Industrial Development and Investment Corporation Ltd. (SIDICO) to facilitate the development of infrastructure including the acquisition of land and development of area

around the upcoming airport in Sikkim.

### ***Performance of PSUs***

During 2010-11, out of 11 working PSUs, seven PSUs incurred a loss of ₹ 13.72 crore whereas four PSUs earned a profit of ₹ 2.32 crore during the year 2010-11. The major profit was earned by SBS and STCS which stood at ₹ 1.30 crore and ₹ 0.62 crore respectively.

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 ₹ 3.45 crore. There is tremendous scope to improve the functioning of PSUs and reduce losses. The PSUs can discharge their role efficiently if they are financially self reliant. There is a need for professionalism and accountability in functioning of PSUs.

### ***Arrears in accounts***

The 11 working PSUs had arrear of 22 accounts as of September 2011. The arrears are due to delay in compilation / adoption of accounts by the Board of Directors of the respective PSUs. The Government may impress upon the respective PSUs to expedite the process of finalisation of accounts.

## **5.2 Performance Audit of Power Distribution Utilities**

The Energy & Power Department (EPD), as part of power sector reforms, was to be unbundled into various category of companies viz., generation co, transmission co and distribution co. However, unbundling was not carried out in the State of Sikkim, although a separate Corporation was formed during 1998 to look after the generation aspect.

The increase in transformation capacity to 162.90 MVA in 2010-11 could not match the pace of growth in consumer demand (175.73 MVA) which led to overloading of network and consequential rotational cuts in distribution of electricity.

The Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY) was belatedly commenced from 2008-09 onwards due to delayed release of funds by Rural Electrification Corporation (REC). Out of 443 villages in the State, till date (October 2011), 386 villages were electrified which constituted 87.13 *per cent*. The GOI also launched the Restructured APDRP (R-APDRP) in July 2008 and sanctioned ₹ 26.30 crore for Part A work of which ₹ 7.89 crore (30 *per cent* of the project cost) was released for implementation. There was delay in completion of the scheme and inability to spend the loan received from GOI.

Sub-transmission and distribution losses ranged between 28.89 and 31.68 *per cent* during the last five years due to which EPD sustained a revenue loss of ₹ 90.50 crore. The failure of DTRs ranged between 6.82 *per cent* to 8.85 *per cent* which was in excess of norms due to inadequate steps for preventive maintenance and over-loading.

EPD did not adopt the LT less system by replacing the LT lines with HT lines to minimise the

distribution losses as envisaged by GOI.

The realisation per unit decreased (8.33 *per cent*) from ₹ 1.56 to ₹ 1.43 during review period, the cost per unit decreased (44.34 *per cent*) from ₹ 3.09 to ₹ 1.72 during the corresponding period due to increase in share of free power. The EPD was not able to recover its cost of operations. The decrease in revenue gap has been mainly due to decrease in purchase of power, increased cost of O&M expenses and establishment expenditure and high percentage of AT & C losses.

The EPD has not set up the SERC and fixed the tariff on its own. The assessed sales had increased from 1.72 MUs to 2.50 MUs over a period of five years ending March 2011. However, the free supply was showing decreasing trend with overall reduction in assessed sales to total sales from 21.70 *per cent* in 2006-07 to 9.77 *per cent* in 2010-11 indicating an improvement in the energy billed. Instances of undue favour to consumers to the tune of ₹ 2.22 crore were noticed. The revenue realisation has decreased from 52.49 *per cent* in 2006-07 to 36.70 *per cent* in 2010-11 resulting in outstanding dues to the extent of ₹ 94.85 crore.

### **5.3 Audit of Transactions (Commercial)**

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

Loss of interest income of ₹ 51.78 lakh due to imprudent investment.

*(Paragraph 5. 3)*

Blocking of funds to the extent of ₹ 35.47 crore due to lack of monitoring and non-recovery of loan.

*(Paragraph 5. 4)*

Avoidable financial loss of ₹ 2.27 crore due to non-levy of Service Tax.

*(Paragraph 5. 5)*