CHAPTER III
ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS)

3.1 Overview of State Public Sector Undertakings

Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Sikkim, the SPSUs occupy an insignificant place in the State economy. The working SPSUs registered a turnover of ₹ 147.55 crore as per their latest finalised accounts as of September 2014.

This turnover of SPSUs was equal to 1.19 *per cent* of State Gross Domestic Product (SGDP) for 2013-14[1]. Major activities of Sikkim SPSUs are concentrated in infrastructure and power sectors. The working SPSUs incurred an overall loss of ₹ 12.99 crore[2] in the aggregate for 2013-14 as per their latest finalised accounts as on 30 September 2014. The SPSUs had employed total 645 employees (including 12 employees of non-working SPSUs) as on 31 March 2014. The SPSUs do not include two[3] Departmental Undertakings (DUs) and one[4] Co-operative Bank, which carry out commercial operations but are a part of Government departments. Audit findings of these Organisations are incorporated in other chapters of this Report along with the findings relating to the Government Departments.

3.1.2 As on 31 March 2014, there were 15 SPSUs as per the details given below. None of these companies was listed on the stock exchange(s).

Table 3.1.1

Type of SPSUs	Working SPSUs	Non-working SPSUs[5]	Total
Government Companies	6	6	12
Statutory Corporations	2	1	3
Total	**8**	**7**	**15**

Audit Mandate

3.1.3 The Companies Act 1956 as well as the new Companies Act, 2013 which was recently notified (September 2013) by the Government of India and applicable in rest of the Country have not been extended to the State of Sikkim. The Government Companies in

1 *The State GDP for 2013-14 is ₹ 12,376.69 crore (Quick estimate).*
2 *Refer **Appendix 3.1.2**.*
3 *Government Fruit Preservation Factory and Temi Tea Estate.*
4 *Sikkim State Co-operative Bank Ltd.*
5 *Non-working SPSUs are those which have ceased to carry on their operations.*

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. In addition to the statutory audit conducted by the Statutory Auditors, supplementary audit of these companies had also been taken up by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the State under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.4 There are three Statutory Corporations in the State, viz. State Bank of Sikkim (SBS), State Trading Corporation of Sikkim (STCS) and Sikkim Mining Corporation[6] (SMC) 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. Supplementary 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.

Investment in State SPSUs

3.1.5 As on 31 March 2014, the investment (capital and long-term loans) in 15SPSUs was ₹ 399.13 crore as per details given below.

Table 3.1.2

(₹ in crore)

Type of SPSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working SPSUs	63.99	273.88	337.87	2.19	-	2.19	340.06
Non-working SPSUs	46.56	0.01	46.57	12.50	-	12.50	59.07
Total	**110.55**	**273.89**	**384.44**	**14.69**	**-**	**14.69**	**399.13**

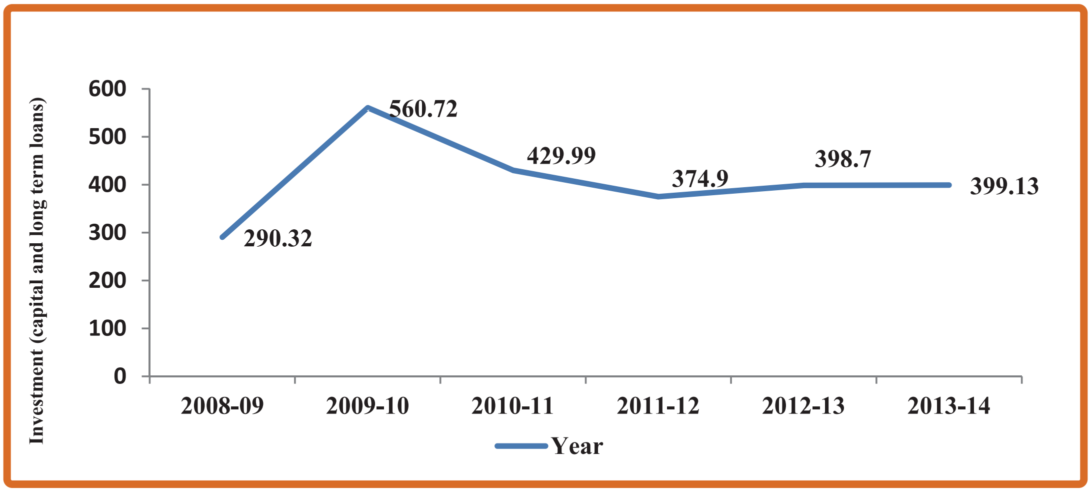
Source: Data collected from SPSUs.

A summarised position of Government investment in SPSUs is detailed in **Appendix 3.1.1**.

3.1.6 As on 31 March 2014, 85.20 *per cent* of the total investment in SPSUs, was in working SPSUs and the remaining 14.80 *per cent* in non-working SPSUs. This total investment consisted of 31.38 *per cent* towards capital and 68.62 *per cent* in long-term loans. The investment had grown by 93.14 *per cent* from ₹ 290.32 crore in 2008-09 to ₹ 560.72 crore in 2009-10. The total investment had decreased by 33.14 *per cent* from ₹ 560.72 crore (2009-10) to ₹ 374.90 crore (2011-12) due to constant decrease in the long term loans of the SPSUs after 2009-10.The total investment in SPSUs, however, marginally increased by 6.46 *per cent* to ₹ 399.13 crore (2013-14)mainly due to increase (₹ 5.61 crore) in the paid up capital of two SPSU (namely, Sikkim Schedule Castes, Scheduled Tribes and other Backward Classes Development Corporation Ltd and Sikkim Poultry Development Corporation) during the year 2013-14 as shown in the graph below:

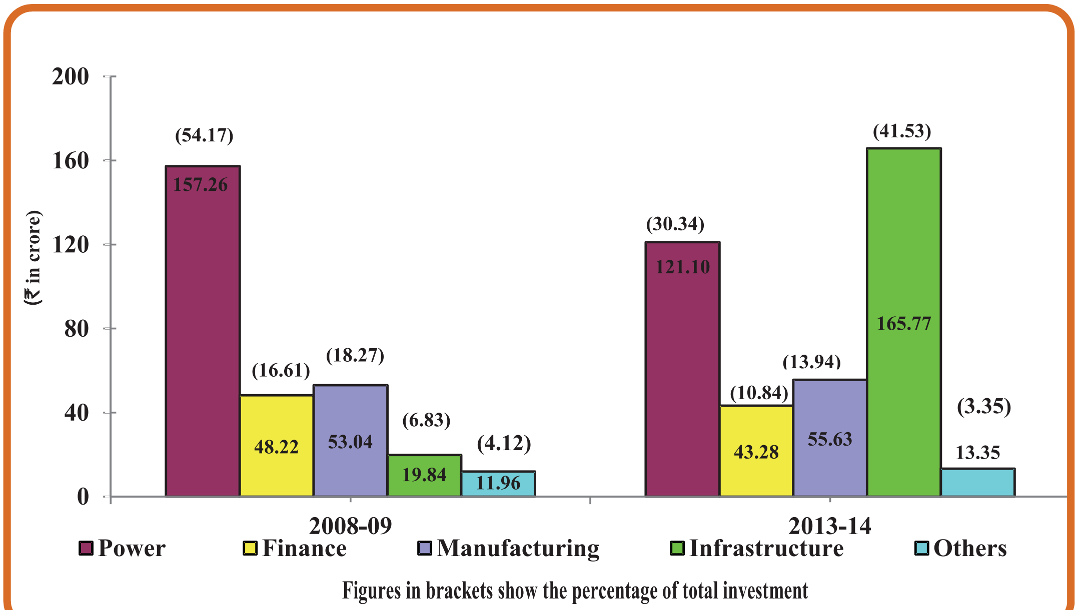
[6] *A non-working Corporation as on 30 September 2014.*

Chart 3.1.1



3.1.7 The total investments in various sectors and percentage thereof at the end of 31 March 2009 and 31 March 2014 are indicated below in the bar chart.

Chart 3.1.2



3.1.8 The investment made in SPSUs during 2008-09 to 2013-14 was mainly concentrated in power and infrastructure sectors. The investment in infrastructure sector had grown by 735.53 *per cent* from ₹ 19.84 crore in 2008-09 to ₹ 165.77 crore in 2013-14. The increase of investment under infrastructure sector was mainly due to availing of long term borrowings of ₹ 128 crore by Sikkim Industrial Development and Investment Corporation Limited (SIDICO) during 2012-13. On the other hand, there was significant reduction during five years period in the investments under power sector mainly on the account of decrease of ₹ 53.06 crore in the long term borrowings of Sikkim Power

Development Corporation Limited from ₹ 153.86 crore (2009-10) to ₹ 100.80 crore (2013-14)

Budgetary outgo, grants/subsidies, guarantees and loans

3.1.9 The details regarding budgetary outgo towards equity, grants/subsidies, guarantees issued and interest waived in respect of SPSUs are given in **Appendix 3.1.3**. The summarised details are given below for three years ended 31 March 2014.

Table 3.1.3

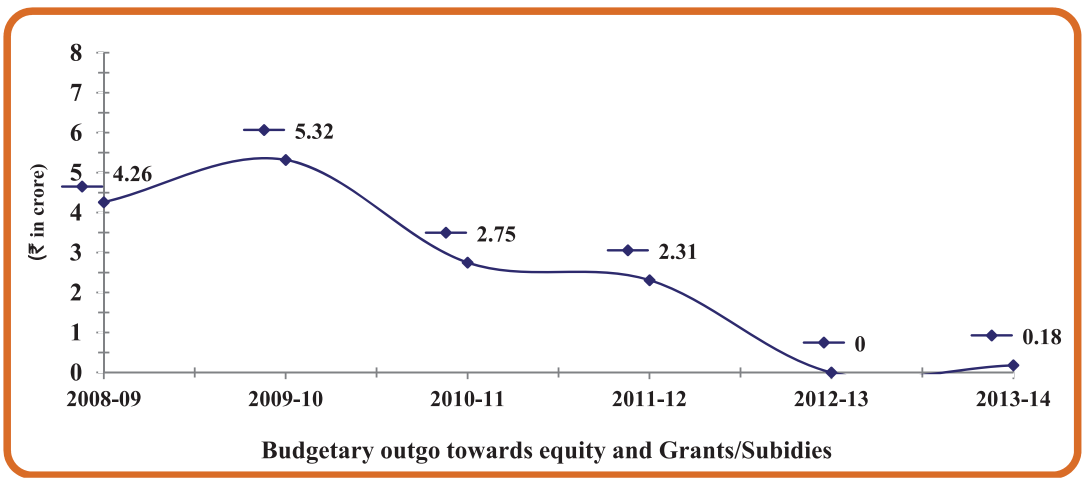
(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	-	-	-	-	-	-
2.	Grants/Subsidy received	1	2.31	-	-	1	**0.18**
3.	**Total Outgo (1+2)**	**1**	**2.31**	**-**	**-**	**1**	0.18
4.	Loans written off	-	-	1	0.84		-
5.	Interest/Penal interest waived	1	0.43	2	0.38	-	-
6.	**Total Waiver (4+5)**	**1**	**0.43**	**2**[7]	**1.22**	**-**	-
7.	Guarantees issued	1	4.08	1	1.07	2	**131.76**
8.	**Guarantee Commitment**	**2**	**163.72**	**2**	**162.84**	**2**	**120.96**

Source: Data collected from SPSUs.

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

Chart 3.1.3



3.1.11 It may be observed that during the period of six years from 2008-09 to 2013-14, the budgetary outgo was at the highest (₹ 5.32 crore) in 2009-10 and had shown decreasing trend thereafter upto 2012-13, when there was no budgetary outgo to any of the SPSUs. During 2013-14, however, there was a total budgetary outgo of ₹ 0.18 crore by way of grants to one SPSU, namely, Sikkim Poultry Development Corporation Limited. The

[7] *In respect of one SPSU (SIDICO) loan as well as interest/ penal interest were written off.*

guarantee commitment has shown a decreasing trend during three years and same has decreased from ₹ 163.72 crore (2011-12) to ₹ 120.96 crore (2013-14). As on 31 March 2014, guarantee commitments of ₹ 120.96 crore were outstanding against two SPSUs, namely, Sikkim Industrial Development and Investment Corporation Limited and Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited.

On any guarantee given to a public body, a guarantee commission at the rate of one *per cent* is charged by the State Government on the loans availed against Government guarantee. During 2013-14 SABCCO had availed loans of ₹ 24.39 crore against Government guarantee. Though a guarantee commission of ₹ 0.24 crore was payable to the State Government against the said loans, the Company did not pay the same.

Reconciliation with Finance Accounts

3.1.12 The figures in respect of equity, loans and guarantees outstanding as per records of SPSUs should agree with the figures appearing in the Finance Accounts of the State Government. In case the figures do not agree, the concerned SPSUs and the Finance Department of the State Government should carry out reconciliation of differences. The position in this regard as at 31 March 2014 is stated below.

Table 3.1.4

(*₹ in crore*)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	80.69	91.97	**11.28**
Loans*	37.03	2.03	**35.00**
Guarantees*	**121.57**	**120.96**	**0.61**

* *SPSU-wise figures of loan/ guarantee were not available in the Finance Accounts of the State.*

3.1.13 Audit observed that the differences in equity investment pertained to 12 PSUs and some of the differences were persisting since 2004-05. It was further observed that the un-reconciled differences in respect of equity of SPSUs increased by ₹ 2.75 crore during current year from ₹ 8.53 crore (2012-13) to ₹ 11.28 crore (2013-14). The Principal Accountant General (PAG) had also taken up (December 2013) the issue with the Principal Secretary (Finance) to the Government of Sikkim (GoS) and the concerned SPSUs for early reconciliation of long pending differences. The Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of SPSUs

3.1.14 The financial results of SPSUs, financial position and working results of working Statutory Corporations as per their latest finalised accounts as on 30 September 2014are detailed in **Appendices 3.1.2, 3.1.4 and 3.1.5** respectively. A ratio of SPSUs turnover to State GDP shows the extent of SPSU contribution in the State economy. Table below provides the details of working SPSUs turnover and State GDP for the period 2008-09 to 2013-14.

Table 3.1.5

(₹ in crore)

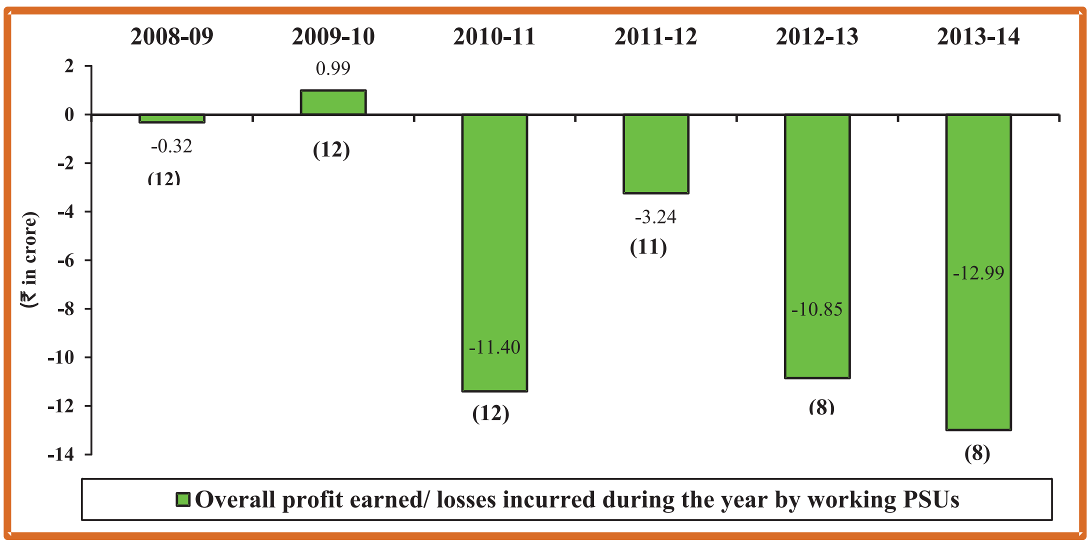
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover[8]	31.34	41.98	42.81	86.43	143.91	**147.55**
State GDP	3,229.08	6,132.76	7,411.57	8,906.64	10,472.60[9]	**12,376.69[10]**
Percentage of Turnover to State GDP	**0.97**	**0.68**	**0.58**	**0.97**	**1.37**	**1.19**

Source: Data collected from SPSUs and Department of Economics, Statistics, Monitoring and Evaluation.

The State GDP as well as the SPSUs turnover showed continuous growth during the years from 2008-09 to 2013-14. It may be noticed that during 2008-14, the State GDP had grown by 283 *per cent* while the increase in turnover of SPSUs during the corresponding period was to the extent of 371 *per cent.* Thus, there was appreciable growth in SPSUs turnover during the period of six years from 2008-09 to 2013-14 as compared to the growth in the State GDP during the corresponding period. As a result, the percentage of SPSUs turnover to State GDP has increased from 0.97 (2008-09) to 1.19 (2013-14) in six years period.

3.1.15 Profit earned/Losses[11] incurred by the working SPSUs during 2008-09 to 2013-14 are given below in the bar chart:

Chart 3.1.4



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

As per the latest finalised accounts of 8 working SPSUs as on 30 September 2014, 5 SPSUs[12] incurred an aggregate loss of ₹ 16.68 crore whereas remaining 3 PSUs[13] earned a profit of ₹ 3.69 crore. The major losses was reported by State Bank of Sikkim (₹ 7.05 crore) and State Power Development Corporation Limited (₹ 6.05 crore) while Sikkim Industrial Development and Investment Corporation Limited earned the highest profits (₹ 2.80 crore).

[8] *Turnover of working SPSUs as per their latest finalised accounts as on 30 September of respective year.*
[9] *Provisional Estimates.*
[10] *Quick Estimates.*
[11] *Figures are as per the latest finalised accounts of working SPSUs as on 30 September of the respective year.*
[12] *Sl. No.A-1, A-2, A-3, A-5 and A-7 of* ***Appendix 3.1.2****.*
[13] *Sl. No.A-4, A-6 and B-8 of* ***Appendix 3.1.2****.*

It may be observed that the working SPSUs incurred overall losses during the preceding six years ending 2013-14 excepting 2009-10 when the working SPSUs earned overall profits of ₹ 0.99 crore. During three out of six years (viz. 2010-11, 2012-13 and 2013-14), the losses of working SPSUs were highest ranging between ₹ 10.85 crore and ₹ 12.99 crore. During 2011-12, however, the losses of the working SPSUs reduced considerably to ₹ 3.24 crore mainly due to profits (₹ 11.84 crore) earned by one working SPSU (State Bank of Sikkim) and transfer of three loss making working Governments companies to 'non-working' category.

3.1.16 A review of latest Audit Reports of CAG shows that the working SPSUs incurred losses to the tune of ₹ 11.56 crore, which were controllable with better management. Year wise details from Audit Reports are stated below:

Table 3.1.6

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	Total
Net profit/(loss)	(3.24)	(10.85)	(12.99)	**(27.08)**
Controllable losses as per CAG's Audit Report	**-**	**0.51**	**11.05**	**11.56**

Source: Data collected from SPSUs and CAG Audit Reports.

The losses of SPSUs are mainly attributable to deficiencies in planning, implementation of projects, running their operations, financial management and monitoring.

3.1.17 The above losses pointed out by Audit Reports of CAG are based on test check of records of SPSUs. The actual controllable losses could be much more. The above table shows that with better management, the losses can be minimised substantially. The SPSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for improving professionalism and accountability in the functioning of SPSUs.

3.1.18 Some other key parameters pertaining to SPSUs are given below:

Table 3.1.7

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Return on Capital Employed (*per cent*)	3.38	2.00	5.24	4.30	**4.36**
Debt	462.76	395.91	260.93	279.07	**273.89**
Turnover[14]	41.98	42.81	86.43	143.91	**147.55**
Debt/Turnover Ratio	11.02:1	9.25:1	3.02:1	1.94:1	**1.86:1**
Interest Payments	7.33	24.56	64.90	87.49	**90.15**
Accumulated losses	**68.62**	**69.82**	**83.57**	**90.29**	**97.92**

(Above figures pertain to all SPSUs except for 'Turnover' which is for working SPSUs)
Source: Data collected from SPSUs.

3.1.19 There was constant improvement in Debt Turnover Ratio after 2009-10. The debt-turnover ratio improved from 11.02:1 (2009-10) to 1.86:1 (2013-14) due to constant growth in the turnover figures and reduction of ₹ 188.87 crore in the debts of SPSUs from ₹ 462.76 crore (2009-10) to ₹ 273.89 crore (2012-13). The decrease in the debts was mainly due to

[14] *Turnover of working SPSUs as per the latest finalised accounts as on 30 September of respective year.*

repayment of loans (₹ 182.21 crore) by three SPSUs[15] during 2010-11 to 2012-13. The percentage of return on capital employed had increased from 3.38 *per cent* (2009-10) to 5.24 *per cent* (2011-12) but decreased to 4.30 *per cent* in 2012-13 due to significant losses (₹ 7.05 crore) incurred by State Bank of Sikkim. It, however, remained around the same (4.36 *per cent*) during the year 2013-14.

3.1.20 The State Government had not formulated (September 2014) any dividend policy regarding payment of minimum dividend by SPSUs. As per their latest finalised accounts as on 30 September 2014, three[16] SPSUs earned an aggregate profit of ₹ 3.69 crore but only one SPSU[17] declared dividend of ₹ 0.51 crore.

Arrears in finalisation of accounts

3.1.21 The Companies Act 1956/Companies Act, 2013 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 SPSUs in finalisation of accounts by September 2014.

Table 3.1.8

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Number of Working SPSUs	11	11	8	8	**8**
2.	Number of accounts finalised during the year	10	8	7	10	**5**
3.	Number of accounts in arrears	19	22[18]	20	18	**21**
4.	Average arrears per SPSU (3/1)	1.73	2.00	2.50	2.25	**2.63**
5.	Number of Working SPSUs with arrears in accounts	11	9	8	7	**8**
6.	**Extent of arrears (in years)**	**1 to 4**	**1 to 5**	**1 to 4**	**1 to 4**	**1 to 5**

3.1.22 The table above indicates that the SPSUs were able to finalise only five accounts during 2013-14. During the period from October 2013 to September 2014, out of eight working SPSUs, one SPSUs[19] finalised total three accounts, two SPSUs[20] finalised only one year account each and remaining five SPSUs[21] did not finalise any of the accounts.

It may be observed that as of September 2014, out of total 21 arrear accounts relating to 8 SPSUs, 10 arrear accounts pertain to 2 SPSUs (namely, Sikkim Poultry Development Corporation Limited and Sikkim Hatcheries Limited) functioning under Animal Husbandry

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15 *Sikkim Industrial Development and Investment Corporation Limited, Sikkim Power Development Corporation Ltd. and Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Ltd.)*

16 *Sl. No.A-4, A-6 and B-8 of* ***Appendix 3.1.2.***

17 *SIDICO for the year 2012-13.*

18 *Including three accounts of one company (Sl. No. C-14 of* ***Appendix-3.1.2****) which became non-working during 2011-12 with other two companies (Sl. No.C-12 & C-13 of* ***Appendix-3.1.2****).*

19 *Sikkim Tourism Development Corporation Ltd.*

20 *Sikkim Power Development Corporation .Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Ltd.*

21 *Sikkim Poultry Development Corporation Limited and Sikkim Hatcheries Limited, Sikkim Industrial Development and Investment Corporation, State Bank of Sikkim, State Trading Corporation of Sikkim.*

and Veterinary Services Department each having arrears of five accounts. The delay in finalisation of accounts of the working SPSUs was due to delay in compilation/adoption of accounts by the Board of Directors of respective SPSUs.

3.1.23 The State Government had invested ₹ 0.18 crore[22] (Grants) in one working SPSU[23] during the year for which their accounts had not been finalised. Delay in finalisation of accounts might result in risk of fraud and leakage of public money.

3.1.24 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 SPSUs within the prescribed period. Though the concerned administrative departments of the State Government were informed every quarter by the audit about the arrears in finalisation of accounts, no remedial measures were taken to clear the backlog of accounts in a time bound manner.

In view of the arrear position discussed above, it is recommended that the Government may impress upon respective SPSUs to expedite the process of finalisation of accounts and bring them upto date.

Winding up of non-working SPSUs

3.1.25 There were seven non-working SPSUs (six Government Companies and one Statutory Corporation) as on 31 March 2014. None of these non-working SPSUs have commenced liquidation process. The numbers of non-working SPSUs at the end of each of the previous five years are given below.

Table 3.1.9

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
No. of non-working Companies	3	3	6	6	**6**
No. of non-working Corporations	1	1	1	1	**1**
Total	4	4	7	7	7

The stages of closure in respect of non-working SPSUs are given below.

Table 3.1.10

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working SPSUs	6	1	**7**
2	**Closure, i.e. closing orders/instructions issued but liquidation process not yet started.**	**5**[24]	**1**[25]	**6**

No Company/Corporation was, however, wound up during 2013-14. The Government may consider either winding up or revival of these seven non-working SPSUs.

[22] *Sikkim Poultry Development Corporation Limited.*
[23] *Sikkim Poultry Development Corporation Limited.*
[24] *Sikkim Jewels Limited, Sikkim Time Corporation Limited and Sikkim Precision Industries Limited, Sikkim Flour Mills Limited. And Chandmari Workshop and Automobiles Limited.*
[25] *Sikkim Mining Corporation.*

Accounts Comments and Internal Audit

3.1.26 Three working Companies[26] forwarded their five audited accounts relating to earlier years to the Principal Accountant General during the year 2013-14[27]. Out of these, four accounts were selected for supplementary audit and in respect of one year's accounts of SABCCO, non-review certificates had been issued. 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 3.1.11

(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in loss	2	0.51	3	6.99	3	**1.45**
2.	Increase in profit	-	-	3	0.04	1	**0.02**
3.	Decrease in loss	1	0..11	-	-	-	**-**
4.	Decrease in profit	4	11.05	3	5.39	-	**-**
5.	Non-disclosure of material facts	-	-	1	36.25	1	**1.34**
6.	Errors of classification	4	4.04	2	9.37	1	**0.84**
		-	**15.71**	**-**	**58.04**	**-**	**3.65**

3.1.27 During the year, out of total five accounts finalised by three SPSUs, the statutory auditors had given unqualified certificates for three accounts and qualified certificates for two accounts. Additionally, CAG also qualified four accounts during the supplementary audit.

3.1.28 Some of the important comments in respect of accounts of the SPSUs audited during 2013-14 are stated below.

Sikkim Power Development Corporation Limited (2012-13)

- The Company has shown assets held for disposal at its book value instead of at realisable value. Due to this value of assets was overstated by ₹ 0.06 crore with corresponding understatement of Net Loss for the year.
- Due to inclusion of the value of land under Capital Work in Progress, Land account was understated by ₹ 0.52 crore and Capital Work-in-progress was overstated to the same extent.
- The company has not made provision towards unrecovered mobilisation advance of ₹ 1.21 crore due since the year 2008 from a contractor who failed to execute the work. Due to non-provision for doubtful debts, Advances Account was overstated and Net loss for the year was understated to the extent of ₹ 1.21 crore each.

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26 *Sikkim Tourism and Development Corporation Limited, Sikkim Power Development Corporation Limited and Sikkim Industrial Development and Investment Corporation Limited (SIDICO).*

27 *During the period October 2013 to September 2014.*

Sikkim Tourism Development Corporation Limited (2012-13)

- Non provision for doubtful loans and advances has resulted in overstatement of current assets, loans and advances with corresponding overstatement of profit for the year by ₹ 0.04 crore.
- The consolidated accounts for the year 2012-13 did not include the accounts of Heli-service, which had incurred loss of ₹ 0.33 crore during the financial year and had accumulated loss of ₹ 1.34 crore. The account of Heli-service has been maintained separately and audited by the same auditor. The above facts have also not been mentioned in the notes on accounts of the consolidated accounts.

Recoveries at the instance of audit

3.1.29 During the course of audit in 2013-14, recoveries of ₹ 14.15 crore were pointed out to the Management of various PSUs. As against this, however, no recovery was made by the PSUs during 2013-14.

Status of placement of Separate Audit Reports

3.1.30 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory Corporations in the Legislature by the Government.

Table 3.1.12

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	State Bank of Sikkim	2007-08	2008-09 to 2010-11	December 2013	Concerned administrative department delayed forwarding of SARs for placement in Legislature.
2.	State Trading Corporation of Sikkim	2007-08	2008-09 to 2010-11	May 2014	

Delay in placement of SARs weakens the legislative control over Statutory Corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature.

Disinvestment, Privatisation and Restructuring of SPSUs

3.1.31 During the year 2013-14, Government of Sikkim had not disinvested its equity shareholding in any of the SPSUs.

STATE TRADING CORPORATION OF SIKKIM

3.2 Performance Audit on functioning of State Trading Corporation of Sikkim

The State Trading Corporation of Sikkim (Corporation) functioned as a canalising agency for all procurement 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. The Corporation was exclusively authorised to procure standard/branded material of certain specified items directly from the manufacturers and maintain sufficient stocks so as to make the stock available to various Departments in minimum delivery time. The Corporation, however, largely resorted to the commission business wherein goods were procured based on the indents of the Departments and involved direct delivery of goods by supplier to the Departments concerned. Performance Audit on the functioning of the Corporation for the period 2009-10 to 2013-14 showed that the Corporation was not efficiently discharging its role as canalising agency. The following are the main highlights of the Audit:

Highlights

The Corporation largely resorted to commission business wherein procurements were made based on the indents received from the Departments and hence, the benefits of bulk purchases could not be availed.

(Paragraph 3.2.7.1)

The Corporation failed to minimise the delivery time in absence of effective follow-up for timely supply of material and non-imposition of penalty on the suppliers for delayed supplies.

(Paragraph 3.2.7.4.1)

The Corporation did not follow tender procedures in procurement of major items of materials in violation of the provisions of Sikkim Financial Rules. It incurred avoidable expenditure (₹ 2.51 crore) on procurements due to reasons like, failure to avail full supply of material within the validity of supply order, improper tender evaluation for fixation of annual supply rate, non-availing of the benefits of Excise Duty exemption and failure to restrict the price against delayed supplies to the lower of the contracted price and prevailing market prices.

(Paragraphs 3.2.7.2; 3.2.7.2.1; 3.2.7.2.2; 3.2.7.3.1 and 3.2.7.3.3)

The Corporation did not prepare annual budgets of the projections on the estimated receipts and expenditure in absence of which, the Management could not effectively monitor the actual financial performance of the Corporation. There was also no effective system for timely realisation of dues.

(Paragraphs 3.2.7.5.1 to 3.2.7.5.3)

The Corporation failed in complying with the provisions of Acts/Rules which led to short/non collection of VAT, Cess and Service tax (₹ 2.04 crore) and avoidable payment of income tax (₹ 0.30 crore).

(Paragraphs 3.2.7.6.1 to 3.2.7.6.3)

The Human Resource Management of the Corporation was not effective as no efforts were made to impart trainings to the employees for their skill development.

(Paragraph 3.2.7.7.2)

The internal control system of the Corporation with regard to holding/accounting of inventory and control over cash collection/remittance was weak causing instances of shortages (₹ 2.49 crore) in stocks as well as unauthorised retention/defalcation of cash by its employees.

(Paragraph 3.2.7.8.3)

Introduction

3.2.1 The State Trading Corporation of Sikkim (Corporation) was established (1972) under the Proclamation[28] of the erstwhile Chogyal of Sikkim with the main objective of promoting external and internal trade in Sikkim. To attain the objectives, the Corporation was to carry out various activities including purchasing, holding, stocking, sale, export, import and transportation of any kind of materials within the State. Subsequently, the Government of Sikkim (GoS) had exclusively authorised (February 2010) the Corporation to deal with certain specified items of materials (viz. Iron & Steel materials, Cement, Office Furniture, G.I. Pipes, GCI Sheets, Vehicles, Tyres, Battery, GI/ Barbed wires, Medical and office equipment, etc.) required from time-to-time by various Departments of GoS. The Corporation was accordingly required to procure the standard/branded material of specified items directly from the manufacturers and maintain sufficient stocks so as to make the stock available to various Departments in minimum delivery time.

The Corporation was functioning under the administrative control of the Commerce and Industries Department of GoS. The Corporation is managed by a Board of Directors consisting of the Chairman, one Managing Director (MD) and five directors nominated by GoS. As on 31 March 2014, all the five directors, MD and the Chairman were in position. Apart from the above, an Advisor had also been appointed by the GoS since 1996. The MD has been delegated with full administrative powers and is assisted by four Senior General Managers in carrying out day to day affairs of the Corporation. The organisational structure of the Corporation is given in **Appendix 3.2.1**.

Activities of the Corporation

3.2.2 At present the main activities of the Corporation are to act as a canalising agency for all purchases made by various Departments of the State Government besides rendering agency services to Indian Oil Corporation Limited (IOC) for retail distribution of Liquefied

[28] *State Trading Corporation of Sikkim Proclamation of 1972.*

Petroleum Gas (LPG). The Corporation performed trading activities involving direct purchase and sales of goods (direct trading) as well as commission sales (indirect trading) wherein goods were procured for and on behalf of the Departments against their respective indents. The trading activities are performed mainly by the Head Office at Gangtok. Corporation's main source of operational revenue is income generated from direct trading activities as well as the commission earned against indirect[29] trading business. The Corporation has two unit offices respectively at Jorethang and Kolkata. While Jorethang unit was engaged in trading activities (including LPG distribution), Kolkata unit looked after liaison work, protocol and welfare activities on behalf of the GoS. Details of the procurement of major items made at these units during the five years from 2009-10 to 2013-14 have been summarised in **Appendix 3.2.2**.

Scope of Audit

3.2.3 The performance of the Corporation was last reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2006. The PAC discussed the audit findings and made two recommendations. The details of PAC's recommendations and compliance of the Corporation there against have been brought out under **paragraph 3.2.8**.

The present Performance Audit (PA) covered the activities of the Corporation for the period from 2009-10 to 2013-14. For the purpose of PA, the detailed examination of records of the two units as well as Head office of the Corporation was carried out. A sample size of 30 *per cent* of the total value of six[30] major items under both direct and commission business activities were selected for detailed examination based on the value of procurement orders by using random sampling[31].

Audit objectives

3.2.4 The audit objectives of the PA were to assess whether:

- the Corporation regulated the trading activities in an efficient and effective manner by drawing advantage of bulk purchase and minimising delivery time;
- fund management was efficient and effective;
- the Corporation complied with provisions of applicable Laws/Rules/Regulations;
- human resource management was efficient and effective; and
- monitoring, evaluation and internal control mechanism including internal audit were effective.

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[29] *Commission business.*
[30] *Iron & Steel, Cement, Bitumen, Vehicles, Office Equipment & Furniture and LPG and accessories.*
[31] *Application of Random numbers.*

Audit criteria

3.2.5 The audit criteria used for assessing the performance of the Corporation against the above audit objectives were derived from the following:

- Sikkim Financial Rules (SFR)
- Government orders authorising the Corporation to deal in specific items
- Established practices of Fund management
- Provisions of Proclamation of erstwhile Chogyal of Sikkim, Income Tax Act, Service tax, Sikkim Value Added Tax Act and other applicable Laws/Rules/Regulations
- Sikkim Government Services Rules
- Established practices and procedures for monitoring, evaluation and internal control mechanism

Audit methodology

3.2.6 The methodology adopted for attaining the audit objective consisted of explaining audit objectives to top management in the Entry Conference (01 March 2014), analysis of data/records with reference to audit criteria, examination of annual accounts, etc., of the Corporation as well as Agenda/Minutes of the BoD, interaction with the Corporation officials, raising of audit queries, issuing (August 2014) of draft audit report to the Management/GoS for comments. The draft audit report was also discussed (16 October 2014) with the representatives of the Corporation/GoS in the Exit conference. The formal replies of the Corporation to the draft report as well as the views expressed by the representatives of the Corporation/GoS in the Exit conference have been taken into consideration while finalising the Report. Formal replies of GoS, however, had not been received (October 2014).

Audit findings

3.2.7 The Audit findings relating to the PA are discussed in the succeeding paragraphs.

Audit objective-1
Regulation of the trading activities for efficient and economic functioning.

3.2.7.1 The Corporation was the canalising agency for all procurements of materials on behalf of various Departments of the GoS. For discharging the role of canalising agency, the Corporation was required to maintain sufficient stock of standard/ branded materials procured directly from manufacturers. Government Departments while submitting their indents were required to make advance payments for enabling the Corporation to initiate the procurement process. During the scrutiny of records audit observed that the Corporation largely resorted to commission business, wherein procurements were made based on the indents of the Departments and involved direct delivery of goods by the suppliers to the

Departments concerned and hence, the benefits of bulk purchases could not be availed. Under commission business, the turnover of four items[32] test checked in Audit constituted 53.55 to 89.34 *per cent* of the total turnover of the Corporation recorded during the period 2009-10 to 2013-14.

Procurement based on quotations/rate enquiry

3.2.7.2 As per SFR, all purchases valuing more than ₹ 10 lakh are to be made through tendering after giving wide publicity in leading newspapers. The Government departments and public sector undertakings also adopt the contract rates prescribed by the Director General (Supply & Disposal) (DGS&D) from time to time as parameters for procurement of goods and material. It was, however, observed that the Corporation did not follow the tendering procedure prescribed under SFR in any of the test checked 56 Supply Orders (SOs) (valued at ₹ 80.74 crore) each valuing above ₹ 10 lakh placed during the PA period. On the contrary, the Corporation procured Cement, GCI sheets, TMT bars, etc., based on quotations/rate enquiry instead of competitive bidding. Further, during the period under review, the Corporation had not made any procurement under DGS&D route. Examination of records revealed instances of incurring avoidable/additional expenditure on procurements which were mainly due to failure to take price advantage, delay in placing SOs, etc. as discussed below.

Avoidable extra burden in procurement of cement

3.2.7.2.1 (i) The Corporation placed (September 2010) a SO for procurement of 5,000 MT cement valuing ₹ 2.70 crore on ACC Cements Ltd (ACC) at their offered rates[33] with validity up to 31 December 2010. The Corporation was to make advance payment to ACC before the expiry of validity of the offer for availing supply at the agreed rate. It was observed that, despite having a fund of ₹ 3.49 crore advanced by the indenting Departments, the Corporation could procure 500 MT only within the validity of the offer. The remaining quantity of cement (4,500 MT) was procured by the Corporation at higher price after the validity (December 2010) of the offer leading to additional expenditure of ₹ 22.32 lakh in procurement of cement.

(ii) In other two instances[34], the Corporation incurred avoidable additional expenditure of ₹ 10.16 lakh in procurement of cement due to placing of SOs at higher rate by ignoring the lowest rate obtained in the rate enquiry. The reason for ignoring the lowest rate was, however, not on record.

Further, it was noticed that, in 22 out of 50 cases test checked by Audit, the Corporation had allowed upward revision in cement prices to local suppliers on account of hike in excise duty/ transportation charges. Audit, however, observed that the actual supplies in all 22 cases were delayed by the suppliers by 16 to 279 days of the scheduled dates of delivery. As the upward revision in duty/transportation had occurred after the scheduled period of delivery, the suppliers were not entitled to claim price hike on this account. The

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32 *Cement, Iron and Steel, vehicles and office equipment & furniture.*

33 *₹ 265, ₹ 255 and ₹ 258 respectively for Gangtok, Jorethang and Chisopani.*

34 *SO (dated 26.02.2011) for 44,000 bags placed with Birla Cement and SO dated 20.02.2011 for 50,000 bags of Lafarge Cements.*

Corporation, however, allowed price revision of ₹ 9.85 lakh in respect of SOs issued during the period August 2009 to March 2010.

The Management in reply stated that even though bulk order was placed, lifting of cement was restricted to then requirement and storage space available with the Department.

The plea of storage constraints is not acceptable in view of the fact that the Corporation had been simultaneously placing (August 2009 to January 2010) SOs with different suppliers to ensure the flow and timely supply of cement to the Departments. In the instant case, however, huge indent quantities remained pending for supply.

Additional burden in procurement of TMT steel

3.2.7.2.2 (i) The Corporation, against the indents of Human Resource Development Department (HRDD), placed (05 May 2010) four SOs[35] on M/s Dinesh Enterprises (DE) for procurement of 871.67 MT of TMT bars at average rate of ₹ 44,003/MT to be delivered at various destinations[36] within 60 days (4 July 2014) of placing the SOs. The supplier however, failed to commence the supply within the stipulated delivery period and consequently the delivery period was extended till December 2010. The firm supplied a total quantity of 678.67 MT during the period from August 2010 to February 2011 and balance quantity of 193 MT remained undelivered despite persuasion by the Corporation.

During extension of delivery time allowed to the supplier, the Corporation placed (22 and 23 August 2010) three SOs[37] for procurement of the similar items of materials with other firms at ₹ 37,048/MT which was much lower than the rate paid to DE during extended period of SOs. Since identical material items were available with other suppliers at lower rates, the Corporation should have either cancelled the SOs with DE and included the quantity in the newly placed SOs or revised the original SO price to the lower price while allowing extension of delivery time to DE. Thus, failure of the Corporation to exercise either of the prudent options resulted in extending of unjustified benefit to the supplier causing avoidable burden on the exchequer to the extent of ₹ 22.59 lakh[38] for the supply of 357.894 MT[39] made during the period August-November 2010.

The Management replied (October 2014) that there may be rare case when market rate was lower but most of the time the market rate was higher than the approved rate.

The reply is not acceptable in view of the fact that the Management should have taken note of the lower market prices prevailing at the time of allowing extension of delivery period and acted appropriately to protect the interest of the Corporation.

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[35] *453.18 MT TMT bars @ ₹ 44,486 per MT; 318.49 MT @ ₹ 43,361; 60MT @ ₹ 44,313 and 40MT @ ₹ 43,188.*

[36] *Gangtok Jorethang and Chisopani.*

[37] *With M/s Adhunik Industries, M/s Anmol Enterprises and United Traders for 330 MT, 336.10 MT and 309.9MT of TMT bars @ ₹ 37,221; ₹ 37,221 and ₹ 37,048 respectively.*

[38] *The excess amount paid over and above the then prevailing price for 357.894 MT worked out to 357.894MT*₹ 6,313.*

[39] *The money value of para restricted for 357.894 MT of material procured during August - November 2010 as the SOs placed after November 2010 were at higher price than that paid to DE.*

Procurement of GCI sheets at higher price

3.2.7.2.3 The Corporation placed (19 June 2013) SO for procurement of 192000 pieces of GCI Sheets at the rate of ₹ 754.62 per piece with M/s Vinod Enterprises (VE), Gangtok. It was observed that at the time of placement of SO on VE, the Corporation had a valid offered rate of ₹ 734 per piece obtained against an already initiated (April 2013) tender enquiry which was lower than the rate allowed to VE. The Corporation, however, did not place any fresh SO against the tender enquiry.

After commencement of supply, the Corporation asked the supplier to revise the price to ₹ 734 per piece. But, the supplier refused the request of the Corporation and on completion of supply claimed the price as per the SO rate.

After being pointed out by Audit, however, the Management had restricted (May 2014) the payment to the supplier based on the lower rate (₹ 734 per piece). Hence, at the instance of Audit, additional burden to the extent of ₹ 39.59 lakh on the indenting Departments could be avoided in the purchase transaction.

Additional financial burden to Department due to levy of handling charges

3.2.7.2.4 The Corporation, apart from its profit margin of three *per cent,* included ₹ 3 per bag in selling price of cement towards charges for unloading and loading (handling) operations carried out in its godowns. It was, however, observed that the Corporation had irregularly claimed handling charges in respect of cements directly delivered by the suppliers to the site/stock point of the indenting Departments even though the delivery did not involve any handling operations. Thus, collecting additional charges in respect of sales made during the period 2010-12, without doing any handling operations resulted in undue gain to the Corporation with resultant additional financial burden to the indenting Departments to the tune of ₹ 10.12 lakh.

Management while accepting the facts stated (October 2014) that the practice of charging handling charges on direct delivery to Departments by suppliers has been discontinued.

Procurement by fixing annual rates

3.2.7.3 The Corporation was to follow purchase procedures prescribed in the SFR for procurement of goods. According to Rules 127 and 130 of the SFR, all purchases above ₹ 10 lakh are to be made through tendering only after giving wide publicity in leading newspapers. With a view to establish annual contract rates for procurement of DI and GI pipes, steel bridge materials, etc., for further supply to various Departments, the Corporation periodically invites open tenders from suppliers/manufacturers. Lowest rates obtained in such tenders were approved as the procurement price which remained valid for procurement to be made from all the participated tenderers for a period of one/two year/s, as the case may be. During examination of records Audit observed instances of non-compliance with SFR as well as deficiencies in tender evaluation/approval of prices, etc., as discussed below.

Avoidable loss due to improper scrutiny of tender documents

3.2.7.3.1 The Corporation invited (March 2011) open tenders for supply of DI pressure pipes of various diameters. In response, 23 bids were received. It was observed that all the bidders had quoted their prices inclusive of Central Sales Tax (CST) component at 2 *per cent* excepting one bidder [M/s Jindal Saw Limited (JSL)] who had quoted their prices inclusive of CST at the rate of 5 *per cent*. Thus, it was necessary to bring down the CST component included in the bid of JSL to 2 *per cent* so as to make the offers of all bidders comparable. It was, however, observed that while evaluating the bids, the Corporation did not adjust the bids of JSL for the higher CST component. As a result, the L1 rates as approved by the Corporation for many items were higher than the rates offered by JST if considered at CST of 2 *per cent*. Thus, due to improper evaluation of tender documents, the Corporation lost the opportunity of getting a better rate for procurement of the above items and resulted in avoidable extra expenditure of ₹ 67.72 lakh.

The Management stated (October 2014) that even after computation of CST at two *per cent*, the rates of JSL were on higher side for all items excepting one.

The reply is not acceptable as the rates of JSL as worked out after making adjustments for higher CST were lower than L1 rates approved by the Corporation.

Fixation of low price of tender form

3.2.7.3.2 As per Rule 127 of SFR, price of tender forms was to be fixed based on the estimated value of supply order with reference to the slab rates prescribed thereunder. The Corporation, however, had not been fixing the price of tender forms as per the aforesaid rules. In many cases, price of tender forms was fixed and collected at lower rates than the prescribed. Due to this, there was short collection of an aggregate amount of ₹ 32.90 lakh[40] against price of tender forms.

The Management stated (October 2014) that the tenders invited were for establishment of procurement prices on annual basis and not specifically against any indent quantity. As the annual procurement value could not be estimated in advance, price of tender forms was tentatively fixed.

The reply is not acceptable as the Corporation should have made an analysis of the past trends to arrive at the probable value of procurement and fixed the price of tender form accordingly.

Failure to avail of eligible excise duty exemption

3.2.7.3.3 The Government of India (GoI) had extended excise duty exemption[41] to pipes and pipe fittings[42] needed in water projects for delivery of water from its source to the plant and from the plant to the first storage point. For claiming the exemption, a certificate from the district authorities to the effect that such goods are cleared for the intended use of the

[40] *Worked out based on the value of purchases made during the corresponding previous period with applicable slab rates of cost of tender.*
[41] *Vide Sr. No.7 of the notification No. 6/2006 - C.E dated 1.3.2006; as amended from time to time.*
[42] *Pipes of outer diameter 20 cm and above from 01 March 2007 and to pipes of outer diameter 10cm and above from 04 December 2009.*

concerned project was to be produced to the Central Excise Department. During 2009-12, the Corporation had procured DI and GI pipes valuing ₹ 19.33 crore for implementation of various water supply projects of GoS, which were eligible for excise duty exemption by GoI. It was, however, observed that the Corporation could not avail the benefits of duty exemption amounting to ₹ 1.18 crore on the said procurements due to non-submission of required documents to the Central Excise Department.

The Management stated (October 2014) that materials procured in respect of all drinking water projects were under exempted category.

The reply was not to the point and it does not address the issue of Corporation's failure in availing the benefits of duty exemption in respect of these cases.

Monitoring/Procedural lapses

3.2.7.4 As the canalising agency for all procurements of the Departments, the Corporation was to arrange the supply at the economic rates by fully meeting the indent specifications, quantity, time, etc. For procuring items other than those for which annual approved rates were available, the Corporation placed SOs with suppliers after making rate enquiries. Since in most of the cases materials were directly despatched by the suppliers to the consignee Departments, the Corporation was required to ensure that the suppliers delivered the materials within delivery schedule and as per indented quality/specification, etc. Audit, however, noticed deficiencies/lapses on the part of the Management in monitoring of supply and following of the prescribed procedures as discussed in succeeding paragraphs.

Delay in supply of materials

3.2.7.4.1 **T**he Corporation was to supply the materials indented by the Government Departments within the stipulated time frame. The terms of the SOs provide for levy of penalty on suppliers for delayed delivery of material, as deemed fit by the Corporation. Thus, the SOs did not contain any specific/definite penalty to be imposed on suppliers for delayed delivery. In the test check of procurement transactions Audit noticed delays ranging between 122 days and 910 days in executing indents/SOs by the Corporation/ suppliers in 7 items under 21 SOs. This delays in supply of materials in turn resulted in delay in execution of respective projects of the indenting Departments. The delays in supply, as observed, were mainly due to inadequate follow up on part of the Corporation for prompt execution of orders by the suppliers. The Management never invoked the penalty clause as per the agreed terms of SOs for non-supply or delayed supply of materials by the suppliers.

The Management accepted the audit observation and stated (October 2014) that on few occasions, the delivery of material is deferred based on the request of the indenting Departments.

The reply is not acceptable as the Corporation needs to take appropriate penal action against the suppliers wherever the delays in supplies were on their part. Failure of the Corporation in imposing penalty for delayed supplies in any of the 21 test checked cases raised doubts on the action of the Corporation.

Procurement of materials disregarding Rules/Government order

3.2.7.4.2 As authorised by the GoS, all procurements required for the Departments were to be made through the Corporation. In the case of procurement and installation of CCTV and Sensor Embedded Door System in its Assembly Complex, however, the Sikkim Legislative Assembly Secretariat (SLAS) overlooked the mandate of the Corporation. The SLAS, through its own arrangement for quotations, finalised rate as well as Supplier by itself and finally entrusted (September 2010) the Corporation for effecting the physical transaction. The Corporation carried out the procurement accordingly without ascertaining the reasonableness of the rate and genuineness of the selection of the supplier. The Committee of SLAS which scrutinised quotations also did not have a nominee member from the Corporation which was against Rule 127 of SFR.

By relying and placing SO at the rate and with the supplier as fixed by SLSA, the Corporation could not ensure the reasonableness of the rate and genuineness of the supplier. Being the authorised and specialised agency for Government procurements, the selection of supplier and finalisation of rate should have been done by the Corporation.

Audit objective-2
To assess efficiency and effectiveness of Corporation's financial management.

3.2.7.5 Prudent financial management requires that all funds due for receipt are expeditiously realised, available funds are effectively deployed for day-to-day operations and the surplus funds, if any, are invested judiciously to earn maximum interest income. Examination of records of the Corporation revealed that the Management had neither devised any policy for efficient fund management nor ensured expeditious realisation of dues or investment of short term surplus funds in a prudent manner. The deficiencies noticed in the financial management of the Corporation have been discussed in succeeding paragraphs.

Budget not prepared

3.2.7.5.1 Preparing a budget is an essential component of responsible fund management. It serves as a tool for financial management control. Further, as per clause 16 of the Proclamation, the Board of Directors of the Corporation was required to prepare budget on annual basis for the next financial year showing the projections made on estimated receipts and expenditure of that year. The Corporation however, did not prepare any budget outlining annual activities for any of the years covered in Audit (2009-14). Hence, in absence of proper budgeting system, it was difficult for the Management to effectively monitor the actual financial performance of the Corporation with reference to the targets fixed.

The Management assured (October 2014) to initiate process for preparation of budgets to establish a good financial management system in the Corporation.

Non-realisation of outstanding dues from various Departments

3.2.7.5.2 As per the generally agreed payment terms indenting Departments were required to pay 90 *per cent* of the value of the goods indented as advance to the Corporation and balance 10 *per cent* immediately on receipt of full quantity of the indented goods. It was however, observed that the indenting Departments were depositing the advances to the extent of 50 *per cent* or less of the value of goods indented contrary to the agreed terms of payment and balance amounts were also being paid belatedly.

Examination of records of the Corporation revealed that, as on 31st March 2014, an amount of ₹ 33.00 crore were recoverable from various departments/parties against supply/procurement orders already executed by the Corporation. Of this, ₹ 31.55 crore constituting 95.61 *per cent* of the total receivable amount was receivable from 15 departments. The Management, however, did not conduct any age-wise analysis of the long outstanding dues and hence the period of pendency of the amount was not available for analysis.

During examination of records of the Corporation, it was further noticed that there were unconfirmed receivable and payable balances to the extent of ₹ 1.66 crore[43] and ₹ 2.65 crore respectively in the books of Kolkata unit in respect of transactions carried out prior to 1999-2000. Although, these balances remained in the books for the last 15 years, the Management did not take any action to realise/settle the accounts. The failure of the Management in closing/settling the long pending account balances has resulted in depiction of unrealistic financial position of the Corporation to that extent.

The statutory auditors in their reports for previous two years ending 2010-11 had, *inter alia*, reported that sundry debtors' balances are subject to confirmation/reconciliation. For the past five years the Management did not confirm/reconcile yearly closing book balances of the debtors.

The Management replied (October 2014) that allout efforts are being taken to recover the dues and carry out age wise analysis of dues with the help of statutory auditors.

Unrecovered dues against employees/former officials

3.2.7.5.3 As on 31 March 2014, an amount of ₹ 16.96 lakh was pending for recovery from employees (₹ 12.19 lakh) and former Chairpersons/officials (₹ 4.77 lakh) of the Corporation. These dues include advances of ₹ 9.25 lakh pending for recovery for more than five years. Audit observed that the Management did not effectively follow-up the issue with the concerned officials/former Chairpersons and had also not initiated any legal action for recovery of long pending advances.

The Management stated (October 2014) that, as there is no chance of recovery of due from former Chairpersons/officials, the amount would be written off after approval of the BoD. It further stated that action has been initiated for recovery of the balance amount.

The reply is not acceptable in view of the fact that the Management did not act to avail the opportunity of recovering the dues (₹ 4.77 lakh) pertaining to outgoing Chairpersons/officials at the time of final settlement of their claims.

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43 *From more than 20 parties.*

Inefficient fund management

3.2.7.5.4 The funds received from indenting Departments and not immediately required for payment were being parked in short term fixed deposits so as to derive some interest income for the Corporation. The Management however, failed to exercise desirable vigil to make fruitful investment of said funds throughout the period. Examination of the records of the Corporation revealed that fund ranging between ₹ 0.20 crore and ₹ 1.05 crore remained idle in the current accounts of Jorethang branch for periods ranging from 14 to 370 days causing a potential interest loss of ₹ 3.86 lakh. Similarly, test check of balances of three months (April to June) during each of the five year period (2009 to 2014) relating to six bank accounts maintained by Head Office (HO) revealed idling of balances ranging between ₹ 0.21 crore and ₹ 1.66 crore for 17 to 69 days which caused potential interest loss of ₹ 4.59 lakh.

Test check of bank remittance details further revealed delays of 3 to 59 days on part of the banks in crediting/collection of cheques/drafts deposited by the Corporation causing interest loss on this account amounting to ₹ 3.27 lakh. The delays in realisation of cheques/drafts were mainly due to failure on the part of Management in following up the issue with banks. The Management also failed in claiming of interest from banks for the delayed periods in any of the cases.

Thus, due to inefficient fund Management and lack of effective follow up with the banks for prompt realisation of cheques there was interest loss to the tune of ₹ 11.72 lakh.

The Management while accepting the audit observations in respect of Jorethang branch stated (October 2014) that delay in collection of cheques was due to non-availability of core-banking facility with Corporation's banker (State Bank of Sikkim).

The reply is not acceptable as Corporation needs to monitor and pursue the issue with the bank for avoiding delays in realisation of cheques and also claim for interest loss on this account wherever necessary.

Audit objective-3
Compliance with provisions of applicable Laws/Rules/Regulations.

3.2.7.6 The Corporation, being a State Public Sector Undertaking is required to comply with the provisions of various State acts and rules [including Sikkim Value Added Tax Act, 2005 (SVAT), Sikkim Ecology Fund and Environment Cess Act 2008 (SEFE Cess Act), State Trading Corporation of Sikkim Employees Provident Fund Rules (Rules), etc.] in the normal course of its operations. The applicability of the Income Tax Act, 1961 (IT Act) was also extended to the State of Sikkim with effect from 1 April 2008 and hence, the Corporation was required to abide with the provisions of the IT Act from the said date. Audit noticed instances of non-compliance with the provisions of various laws, rules and regulation by the Corporation causing significant financial losses as discussed in the following paragraphs.

Short levy of VAT and Cess due to adoption of incorrect sales value

3.2.7.6.1 The Corporation performed its activities under direct trading and commission business. The Corporation levied Value Added Tax (VAT) and Cess against commission sales as per the applicable rates prescribed under SVAT. As per definition of sale given in SVAT 2005 and SEFE Cess Act, sales value for the purpose of levying VAT and Cess included the excise duty and CST components as well as value addition on the purchase price. As such when the Corporation effected commission sales to the indenting Departments it had to levy VAT and Cess on the total value of sales, including the excise duty/CST and Corporation's margin.

Test check of 80 sales transactions, however, revealed that the Corporation levied (February 2011 to December 2013) VAT and Cess on the base purchase price alone (excluding excise duty, CST and its margin) due to which there was short levy of VAT and Cess amounting to ₹ 57.14 lakh and ₹ 14.07 lakh respectively in respect of sale of goods procured from three suppliers[44] alone.

The Management stated (October 2014) that VAT/Cess is applicable on the landing cost (basic amount plus excise duty plus CST).

The reply was, however, silent on the short levy of VAT and Cess by the Corporation against the commission sales as pointed out by Audit.

Avoidable payment of income tax due to non-setting off of business loss

3.2.7.6.2 As per the provisions (section 72) of the Income Tax Act, 1961, an assessee is entitled to carry forward business loss to the following assessment year(s) and set off the same against the income of that assessment year(s) provided the assessee had filed the loss return within the prescribed date. The Corporation filed (within due dates) loss returns for the assessment years 2009-10 and 2010-11 showing business loss of ₹ 91.17 lakh and ₹ 0.60 lakh respectively. For the assessment year 2011-12 the Corporation earned taxable profit of ₹ 1.28 crore and paid (14 January 2013) a tax of ₹ 42.52 lakh.

It was noticed that the Corporation did not claim for setting off of the business loss of ₹ 91.77 lakh incurred in earlier assessment years against the taxable profit of ₹ 1.28 crore in the assessment year 2011-12. As a result, the Corporation could not avail the benefits/savings of ₹ 30.49 lakh against the total tax liability of ₹ 42.52 lakh (income tax, surcharge, etc.) for the assessment year 2011-12.

The Management while accepting the facts stated (October 2014) that the business loss would be set off and refund claimed.

The reply is not acceptable as the Corporation could have reduced the actual cash outflow by ₹ 30.49 lakh by availing benefits of setting off of previous losses and utilised the said amount for meeting its working capital requirements.

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[44] *M/s Dhariwal steel (P) Ltd, Kolkata, Indus Tubes Limited and Vishal Pipes.*

Non-collection/payment of service tax on business auxiliary services

3.2.7.6.3 The Corporation was mainly engaged in agency business of purchase and sale of various materials on behalf of Government Departments. This service is covered under the definition of 'business auxiliary services' as given under section 65(105)(zzb) of the Finance Act, 1994 and the commission earned by the Corporation against such services was subject to service tax as per the applicable rates. It was, however, observed that the Corporation did not collect and remit any service tax on commission income earned against said services during the period covered in the PA. During the period 2009-10 to 2013-14[45], the Corporation had provided services valuing ₹ 11.97 crore on which the Corporation was required to collect and remit the service tax of ₹ 1.33 crore. Non-collection of service tax by the Corporation on the commission earned during 2009-14 has resulted in loss of ₹ 1.33 crore to the public exchequer.

The Management did not offer any comments on the observation.

Non-compliance with Corporation's Contributory Provident Fund Rules

3.2.7.6.4 As per Rule 7(2) of the State Trading Corporation of Sikkim Employees Provident Fund Rules (Rules), the Corporation was required to deduct employees' contribution to the Contributory Provident Fund (CPF) from their salary and remit the same along with Corporation's matching contribution to the respective bank accounts of the employees maintained and operated by the Corporation for the purpose. During examination of records, it was noticed that the Corporation was not regular in remitting the amount of CPF deductions along with its matching contribution to the respective bank accounts. The delays ranging from 1 to 15 months were noticed on part of the Corporation in depositing the CPF contribution in specified bank accounts during the period covered in PA. As per clause 8(4) of the Rules, all the subscriptions to the fund entailed the interest earning with effect from the first day of the month of transaction. Thus, non-deposit of CPF contribution in time by the Corporation resulted in the employees being deprived of interest amounting to ₹ 2.80 lakh.

The Management, while accepting the lapses, replied (October 2014) that the delay in remittance was due to the financial crunch and was not deliberate.

Reply confirms that the Corporation needs to prioritise the payments towards CPF dues as it is a statutory obligation.

Non-deduction of income tax from salary of officials

3.2.7.6.5 As per section 192 of the Income Tax Act, 1961, the Corporation was liable to deduct income tax (TDS) from salary of its employees and remit the same to Income Tax Authorities. The Central Government, however, had exempted the Sikkimese individuals, from payment of income tax vide section 10 (26AAA) of the Act. It was observed that even though none of the employees at the Kolkata Unit was covered under the scope of the above provisions of the Act, the unit office failed to deduct income tax from the salary of its employees for the years from 2011-12 to 2013-14. In the absence of complete details, however, the amount of TDS on this account could not be quantified.

[45] *Transactions for the year 2013-14 were not complete in the accounts.*

Management accepted the observation and stated (October 2014) that action has been initiated for deduction and remittance of income tax.

Audit objective-4
To assess the efficiency and effectiveness of Human Resource Management.

3.2.7.7 Effective Human Resource Management (HRM) enables the employees to contribute effectively and productively towards achieving of the overall organisational objectives and goals. An efficient HRM also emphasises on effective utilisation of available manpower through proper orientation/training of employees and efficient management of their salaries/wages. During examination of records Audit observed instances of short payment of employee benefits and absence of imparting training to the employees as discussed below.

Short payment of retirement gratuity

3.2.7.7.1 As per the provision of Sikkim Government Services (Revised Pension) Rules 2010[46], emolument for the purpose of gratuity included dearness allowance also. The Corporation, however, calculated retirement gratuity taking into account Basic Pay and Grade Pay only. Due to this, there was short payment of gratuity in nine cases amounting to ₹ 13.46 lakh.

Management accepted the observation and stated (October 2014) that the differential amount would be paid to the concerned employees.

Need for imparting training to employees

3.2.7.7.2 Training to employees is essential for overall success of any organisation as it helps to address the problems relating to lack of skill and experience of staff as well as up-dation of their knowledge so as to keep the staff abreast of the technological advancement. Further, as the eligibility of employee for promotion in the Corporation is purely counted on seniority basis, effective training is necessary to enable them to wield higher responsibility.

The Corporation, however, did not have any system/programme in place for the continuous development of skill and morale of its employees. The Management had not imparted any training to its employees during the period under review or in the past. A general review of the working of the personnel, especially of the lower strata, suggested the need to train them. Many deficiencies, lapses, etc., noticed in Audit were the outcome of lack of proper knowledge/awareness of procedures, rules, etc., on the part of employees in the subordinate posts.

The Management accepted the facts and had assured (October 2014) to initiate necessary steps to train the employees.

[46] *Which was made effective from 1 January2006.*

Audit objective-5
To assess the effectiveness of the Monitoring, evaluation and internal control mechanism.

3.2.7.8 Internal control provides the managements with reasonable assurance that the Management objectives are being achieved in an efficient, effective and orderly manner. A good system of internal control includes proper allocation of functional responsibilities and existence of proper operating and accounting procedures so as to ensure timely recording of accurate and reliable accounting data, safeguarding of assets, internal check in the flow of transactions, internal audit, supervision and monitoring by the Management, etc., Audit observed instances of grave lapses and weakness in internal control system as well as lack of proper monitoring by the Management, etc., in performance of day-to-day operations of the Corporation which are discussed in the followings paragraphs.

Delay in finalisation of annual accounts

3.2.7.8.1 For ensuring good corporate governance and accountability of the Management, timely preparation of the annual financial statements and their certification is essential. As per clause 18 of the Proclamation, the Corporation should furnish its annual audited financial statements to the GoS within six months of closure of the respective financial year. It was, however, observed that the Corporation had finalised (May 2013) its annual financial statements for the years 2008-09, 2009-10 and 2010-11 after a delay of 44 months, 32 months and 20 months respectively from the due dates. The annual accounts for the years 2011-12 and 2012-13 are yet (September 2014) to be finalised even though the same were due for 24 months and 12 months respectively. Due to delay in finalisation of annual accounts, authenticity and correctness of opening balances brought forward in the books of accounts for the years 2012-13 and 2013-14 was not ascertainable.

The Management accepted the audit observation and had assured (October 2014) for taking all efforts to make the accounts up to date.

Failure in follow-up for renewing Bank Guarantees (BG)

3.2.7.8.2 As a part of implementation of Accelerated Power Development and Reform Programme in the State, the Energy and Power Department (EPD), GoS, awarded (September 2004) work order[47] for drawing of electric lines and allied works to M/s Sanjay Kumar Agarwal (SKA), Singtam and another work order[48] to M/s Kaushalya Infrastructure Development Corporation Limited Kolkata (KIDC) at their lowest quoted amount of ₹ 4.55 crore and ₹ 2.15 crore respectively. The terms and conditions of the work orders stipulated for supply of materials for the works[49] to be routed through the Corporation.

[47] *For drawing 66 KV SC line from Khamdong to Phodong and extension of additional 66 KV bay at Khamdong and drawing of 11 KV 3 phase heavy duty line on ACSR Dog Conductor at 66/11 KV Substation at Khamdong.*
[48] *For construction of 11 kV Heavy Duty line on DOG conductor from Rothak to Chakung and 11 kV lines associated with new 66/11 KV Sub-station.*
[49] *Supply, Transportation and delivery of materials required for the execution of the project.*

As per clause 2 of the agreements entered into with the contractors for supply of electrical items worth ₹ 2.57 crore, the Corporation released (June and November 2004) ₹ 1.14 crore received from EPD to the contractors as Mobilisation Advance (MA)[50] against the BGs furnished by the contractors to EPD.

During examination of records of the Corporation it was observed that none of the contractors has supplied any material to EPD till date (September 2014) even after a lapse of almost ten years from the release of MA. It was, however, observed that the agreement entered into with the contractors did not stipulate delivery period and penalty to be imposed in case of delay or non-supply of materials. The Corporation also failed to make necessary follow-up with the EPD for timely renewal of BGs by the contractors. As a result, the BGs furnished by contractors against MA were not renewed by them before their expiry (June 2005 and November 2005). The Corporation, however, failed to initiate any legal action against the contractors for non-supply of materials and recovery of MA till date (September 2014). Thus, ₹ 1.14 crore remained blocked up with potential loss of interest of ₹ 1.01 crore[51].

In the exit conference (16 October 2014), the Management stated that the matter has been taken up with the EPD. It also stated that the work was already completed and only adjustment of bill was pending.

The Management, however, had not provided any documentary evidence in support of the reply.

3.2.7.8.3 The internal control system of the Corporation with regard to holding and accounting of inventory, control over cash collection/remittance by staff, internal monitoring, etc., was very weak as evident from the following cases.

Table 3.2.1

Sl. No.	Issues	Cases/Instances noticed	Remarks/observation
1	Shortage of LPG refill cylinders at HO and Jorethang godowns	The Audit witnessed physical stock taking conducted by the Management on 31 March 2014 at HO and Tadong godowns. Audit observed stock shortages of LPG cylinders. After adjusting[52] the shortages pointed out in 2005-06, stock shortages occurring thereafter works out to 18,439 Nos. of domestic (14.2 Kg) and 1,829 Nos. of commercial cylinders (19 Kg) at HO Gas Section and 7,259 Nos. of domestic and 613 Nos. of commercial cylinders at Jorethang[53].	Shortages of LPG stocks occurred despite reporting the matter in earlier Report and recommendation of PAC for strengthening of internal control system with regard to inventories. The value of the stock shortages works out to ₹ 1.52 crore. The shortage in LPG cylinder stock is primarily linked with circulation of LPG cylinders against unauthorised/illegal connections. The Management had not furnished details of recovery, if any, made against the shortages noticed.
	Management replied (October 2014) that the shortage reflected is the carried forward backlog. The reply is not correct as the shortage of LPG pointed out in the paragraph was arrived after deducting the shortage reported earlier.		

[50] ₹64.24 lakh to KIDC and ₹49.67 lakh to SKA.
[51] @ 9 per cent simple interest up to September 2014.
[52] Shortages detected in 2005-06 so far was not removed from Stock Registers.
[53] Audit did not witness physical stock verification at Jorethang.

2	Shortage of materials (other than LPG)	The management did not cross verify the book stock and physical stock at the time of year end physical verification of stock. Audit observed shortage of materials to the value of ₹ 97.39 lakh (**Appendix 3.2.3**) in Tadong and HO godowns	Book stock was not ascertained at the time of physical verification in absence of updated stock register. Due to this stock shortages were not brought in to light during physical verification.
3	Delayed recovery/non-recovery of value of stock shortages and persistent deficiency in the internal control system	Wherever shortages of materials were occurred, the Management was to fix responsibility on the erring officials and recover the value of shortages from them. Audit, however, observed instances of inordinate delay on the part of the Management in fixing of responsibility for the shortages/ discrepancies of stock noticed. Even after fixation of responsibility, there was further delay, ranging from two to more than five years, in recovery of the value of shortages from the employees responsible.	In one instance audit noticed that the discrepancy/shortage of materials that occurred during the tenure of an employee was brought into notice after a lapse of more than one and a half year from his retirement. Two employees[54] incurred expenditure (₹ 4.85 lakh) for LPG distribution, out of LPG sales proceeds without any authorisation. Despite the discrepancy being noticed in the year 2011-12, the Management failed to fix responsibility on the official till now (May 2014) and hence, an amount (₹ 2.03 lakh) remained unrecovered and also the expenditure claimed to have been incurred by the official remained unaccounted in the books.
4	Non-maintenance of up-to-date stock register and Delay in accounting of purchase transactions	During audit (May 2014) it was noticed that manual stock register for Cement at Tadong was updated up to January 2012 and Stock Register at Jorethang branch was up-dated till 2012-13. Stock register maintained in Tally was also not properly maintained. Many Purchase transactions that had taken place at the first or second quarter of the years were accounted late or at the fag end of the year.	Audit observed negative stock balances in Cement, TMT bars and LPG accessories stock accounts due to failure in timely accounting of purchase transactions. Further, account balances of suppliers did not reflect correct position during the period and negative stock balances also appeared in Tally accounts.
	The Management while accepting the audit observation, stated (October 2014) that the delay were due to delay in receipt of bills from the suppliers. The reply is not acceptable in view of the fact that there were cases of abnormal delay of more than six months in accounting the purchases. If such delay was due to non-receipt of bills, the same indicates that there was no effective follow up with suppliers for obtaining the bills.		
5	Delay in remittances of sales proceeds of LPG distribution at Jorethang Unit	Audit observed unauthorised retention of sales proceeds by LPG distribution staff ranging between ₹ 0.11 lakh to ₹ 1.27 lakh for 4 to 30 days.	Sales proceeds were not remitted promptly after the distribution vehicle reported back to the Unit. Supervising officers failed to insist the remittance before issue of fresh load of LPGs.
6	Defalcation of Corporation's money by officials	Cash (₹ 6.8 lakh) defalcated by officials, prior to the year 2007 shown as cash balance in the books of Gas Section HO.	The amount was not recovered even after lapse of eight years.
	The Management stated (October 2014) that the case is with the State Vigilance Department.		
7	Retention of Corporation's money by officials	Differential LPG security amount ₹ 1.54 lakh collected (during January 2013 to June 2013) from consumers was unauthorisedly retained by official for more than six months.	Despite noticing the case in August 2013, the amount was recouped from the official in December 2013
8	Issue of pre-signed cheques	Management issued pre-signed cheques to Jorethang Branch to effect timely payment to Indian Oil Corporation Ltd (IOCL) towards supply of LPG. Some of the cheques were not crossed.	The Corporation should have adopted other appropriate method for making payment to IOCL instead of this risky practice.

54 *At Jorethang Branch.*

9	Avoidable extra payments due to failure in monitoring of subsidised LPG	The Government of India notified (September 2012) the number of subsidised LPG cylinders to domestic consumers as six per year (which was later revised to 12). Since the fixing of the subsidy cap was notified in September 2012, the number of subsidised cylinders to be issued in the remaining period of the year 2012-13 should be restricted accordingly.	Due to delay in KYC data entry, the Corporation failed to monitor the issue as above. As a result, Corporation issued excess subsidised cylinders to consumers. IOCL recovered an amount of ₹ 15.12 lakh[55] from the Corporation towards the differential cost of excess subsidised cylinders issued during the period from October 2012 to December 2012.
	The Management stated (October 2014) that there was shortcoming on the part of the Corporation/IOC in educating the Indane consumers to comply with the KYC norms which resulted in payment of the penalty. The reply is not acceptable as it is the responsibility of the Corporation to obtain KYC details from all consumers and keep monitoring of subsidised cylinders issued to consumers to avoid payment of penalty of penalty on this account.		

Non-holding of Board of Directors Meeting at prescribed time intervals

3.2.7.8.4 In terms of the Proclamation of the erstwhile Chogyal of Sikkim, the Corporation was required to convene at least four meetings of BoD a year so as to ensure effective monitoring of Corporation's day to day operations and timely corrective actions on deficiencies noticed by the Management. It was however, observed that during the five year period from April 2009 to March 2014, the BoD of the Corporation met only once (in May 2013) against the requirement of holding minimum 20 meetings. Further, on three occasions (27 July 2009, 27 September 2010 and 07 May 2012) the BoD took decision on specific matters through resolution by circulation. The BoD's last meeting was held (May 2013) after a time gap of more than four years of holding of the previous meeting (March 2009). Due to non-holding of BoD meetings at prescribed time intervals, the BoD could not effectively monitor the day to day affairs of the Corporation.

While accepting the observation, the Management stated (October 2014) that the matter would be placed before the forthcoming BoD meeting.

Absence/necessity of internal audit system

3.2.7.8.5 Most of the deficiencies discussed above were attributable to lack of appropriate internal checks in the flow of transactions and absence of proper supervision and monitoring of the affairs of the Corporation. The internal control system prevailing in respect of stock transactions was very weak and was indicative of its ineffectiveness in controlling physical stock especially in the case of LPG refill cylinders stocks. An effective internal audit system in the Corporation would be an aid to detect omissions/mistakes and probable fraudulent acts on the part of employees and thus enabling the Management to take prompt corrective and preventive actions on such incidences.

The statutory auditors in their report on the accounts for the year 2010-11[56] had also commented upon absence of an internal audit system in the Corporation commensurate with its size and nature of activities. Considering the above, in conjunction with volume of business and recurring irregularities being noticed in stock transactions, the Management

[55] *Jorethang - ₹ 5,79,264 and Head Office -₹ 9,32,983.*

[56] *Latest audited accounts.*

needs to put in place a suitable internal audit system to safeguard the assets and financial interest of the Corporation.

While accepting the audit observation, the Management stated (October 2014) that proposal would be moved for the engagement of competent personnel in the relevant task.

Absence of effective Management Information System

3.2.7.8.6 The role of Management Information System (MIS) in an organisation is vital as it provides support for decision making in the organisation. The system ensures appropriate data collection from various sources and processing/providing of valuable information to the Management. It plays a vital role in the management, administration and operations of an organisation. On a general review of the affairs of the Corporation it was observed that the Corporation did not have an effective MIS in place.

Periodical Performance/progress report showing the item wise/Department wise position of indents received, SOs placed/sales made against such indents, targets and achievement of execution of orders, indent/SO pending execution/supply, etc., were not prepared and submitted to the top management for their appraisal.

Absence of a system for providing timely, correct and meaningful information had adverse impact on the monitoring processes and decision making ability of the Management causing adverse impact on the performance of the Corporation.

The Corporation had made an attempt to bring out an indent control management system through installation of computer software. Even though the software was developed and installed in (2009-10) with the assistance of a local software firm at a cost of ₹ 2.24 lakh, the same was not implemented so far. Thus, the information needs of the Management were not duly taken care of.

The Management accepted (October 2014) the facts.

Follow up actions on PAC recommendations

3.2.8 The PAC made three recommendations[57] in respect of observations made on the Corporation in the Audit Reports for the year 2001-02 and 2005-06. The recommendations were with regard to closure of Kolkata Unit, appointment of Advisor and Inventory management. The Corporation, however, failed to comply with the recommendations made by PAC as discussed below.

[57] *Including two recommendations on the PA appeared in State Audit Report, 2005-06 and one recommendation relating to State Audit Report 2001-02.*

Table 3.2.2

<table>
<tr><th>Audit observation and Recommendation of PAC</th><th>Further observation/remarks</th></tr>
<tr><td>1. Loss due to delay in closure of Kolkata unit

The Kolkata unit of the Corporation mainly looked after liaison work, protocol and welfare activities on behalf of the State Government. No regular business of the Corporation was carried out in the Unit since the year 2000. The loss to the Corporation due to continued operation of the Kolkata unit was brought out in the CAG's Audit Report for the year 2001-02. The PAC while accepting Department's replies for closure of the unit had recommended for handing over of the unit to the Home Department.</td><td>Despite this assurance, the Corporation continued to operate the Kolkata unit which resulted in:

• Incurring idle expenditure on salary of six[58] employees amounting to ₹ 1.46 crore for the period from 2009-10 to 2013-14 despite having no regular business transactions

• Unit office incurred recurring expenditure on office maintenance, stationeries, electricity charges, etc.

• Management had not taken any measures for productive utilisation of the above idle manpower

• Unit office housed in 1258 sq.ft space owned by the Corporation in an apartment building while it owned another building (guest house) consisting six rooms[59], at Kolkata. Since the Unit required space only to house the staff as there were no business activities, the office could have been shifted to one of the rooms of the Guest House so that the office space could be leased out to earn some income besides a sizeable curtailment in recurring expenditure.</td></tr>
<tr><td colspan="2">In reply, the Management stated (October 2014) that the loss owing to payment of salary to the employees at the Unit is unavoidable till such time employees proceed on retirement.

The reply is not acceptable as the idle workforce in Kolkata unit could have been better utilised in Gangtok or Jorethang unit where the operation is at a large scale. Hence, the unit in Kolkata should have been closed as per the recommendation of the PAC.</td></tr>
<tr><td>2. Expenditure on engaging of Advisor

A reference is invited to Paragraph 7.12.8.1 of the Audit Report for the year 2005-06, with regard to the appointment of Advisor to the Corporation by GoS without any enabling provision in the Proclamation for it.

The PAC recommended that regular advice rendered by the Advisor to the Corporation on specific matters should be recorded and well maintained for future guidance.</td><td>• The Corporation failed to comply with the PAC recommendation as it did not maintain any records for services rendered by the Advisor. During the period 2009-14, the expenditure incurred on account of 'Advisor's Expenses' towards discretionary grant, HRA, vehicle charges, etc., amounted to ₹ 31.65 lakh.

• In absence of records of Advisor's service, it could not be established whether the services of the Advisor were meaningfully utilised by the Corporation.</td></tr>
<tr><td colspan="2">Management stated (October 2014) that the advices of the Advisor would be maintained in future.</td></tr>
<tr><td>3. Shortages of materials

A reference is invited to Paragraph 7.12.6.3 of the Audit Report for the year 2005-06, which pointed out shortage of LPG stock[60] valued at ₹ 1.64 crore detected in Physical verification. PAC had recommended to gear up an efficient and effective internal control mechanism and to complete the reconciliation of LPG and other related accounts for fixing accountability on the errant officials.</td><td>• Audit observed that no accountability had been fixed or recovery made against LPG shortage even after lapse of eight years, since the reporting of the shortage.

• The Management failed to strengthen the internal control system with regard to inventories, due to which stock shortages were occurred in the current review period also, as mentioned in paragraph 3.2.7.8.3 ibid.</td></tr>
<tr><td colspan="2">The Management stated (October 2014) that the matter is under vigilance enquiry and outcome is awaited.</td></tr>
</table>

[58] *Seven till October 2013.*

[59] *Measuring around 300 sq.ft each.*

[60] *39,540 Nos. of filled up LPG cylinders (14.2 kg 38,086 Nos. and 19kg 1454 Nos.) valued at ₹ 99.67 lakh at Gas Section at Head Office and 29,210 Nos. of cylinders (14.2 kg 28,829 Nos. and 19kg 381 Nos) valued at ₹ 64.21 lakh at Jorethang branch.*

Acknowledgement

We acknowledge the co-operation and assistance extended by the officers and staff of the Corporation at various stages of conducting the performance audit.

Conclusion

The Corporation was to act as a canalising agency for various Departments of the State Government to meet their material requirements. The Corporation failed to discharge its obligations effectively as it largely resorted to commission business wherein procurements were made based on the indents received from the Departments and hence, the benefits of bulk purchases could not be availed. The Corporation also failed to minimise the delivery time in absence of effective follow-up for timely supply of material and non-imposition of penalty on the suppliers for delayed supplies.

The Corporation did not follow tender procedures in procurement of major items of materials (viz. cement, GCI sheet, HDPE pipes, etc.) in violation of the provisions of Sikkim Financial Rules. There were instances of incurring avoidable expenditure (₹ 2.51 crore) on procurements due to reasons like, failure to avail full supply of material within the validity of supply order, improper tender evaluation for fixation of annual supply rate, non-availing of the benefits of Excise Duty exemption and failure to restrict the price against delayed supplies to the lower of the contracted price and prevailing market prices, etc.

There was no budgeting system prevailing in the Corporation in absence of which the Management could not effectively monitor the actual financial performance of the Corporation. The Corporation did not lay down any financial policy for efficient management of funds. As a result, the fund management of the Corporation was ineffective leading to idling of surplus funds.

The Corporation was deficient in complying with the provisions of the State and Union laws/rules. There were instances of violations of the provisions of Sikkim Value Added Tax Act 2005, Sikkim Ecology Fund and Environment Cess Act 2008, Finance Act, 1994 and Income Tax Act, 1961 by the Corporation leading to short/non collection of VAT/Cess and service tax (₹ 2.04 crore) and avoidable payment of income tax (₹ 0.30 crore).

The Human Resource Management of the Corporation was not effective as no efforts were made to impart trainings to the employees for their skill development.

The internal control system of the Corporation with regard to holding/accounting of inventory and control over cash collection/remittance was weak causing instances of shortages (₹ 2.49 crore) in stocks as well as unauthorised retention/defalcation of cash by its employees.

Recommendations

- The Corporation needs to optimise the bulk procurements to avail the price benefits in purchase of material. The Corporation should develop an appropriate system for regular follow up of supply orders and appropriate action should be taken against defaulting suppliers as per contract terms.
- Procurement procedures prescribed in SFR may invariably be followed in all cases of purchases to safeguard the financial interest of the Corporation. The Corporation may consider introducing a proper budgeting system and formulation of appropriate financial policy for improving its financial management.
- Internal control system with regard to inventory and cash transactions may be reviewed thoroughly for its strengthening by introducing the internal audit system in the Corporation.

STATE BANK OF SIKKIM

3.3 Management of Cash Credit/Overdraft Accounts

Analysis of reasons for accumulation of Non-Performing Assets against cash credit/overdraft loan accounts of SBS revealed deficiencies in obtaining adequate collateral security for CC/OD facilities, verification and evaluation of mortgaged properties, and monitoring of recovery of dues.

State Bank of Sikkim (SBS) was established under a Proclamation of the erstwhile Chogyal (King) of Sikkim with the main objective to act as a banker to the Government of Sikkim (GoS) as well as to carry on the business of banking in the State. SBS, besides acting as the banker of the GoS also provides various kinds of loans like construction loan, smart loan, cash credit (CC), overdraft (OD) facilities, etc.

CC and OD facilities are extended to customers (loanees) for short term periods of up to one year against the work orders awarded by various Government Departments for execution by the applicant loanees.CC/ODs are sanctioned after obtaining undertaking from the concerned Department for release of payments against works executed by the contractor/loanees routing through their CC account maintained in SBS. SBS also obtains mortgage of landed properties valuing twice the CC limit from the loanees against providing of the CC facility.

As of March 2013, SBS disbursed CC/OD aggregating ₹ 168.64 crore to 448 loanees. Out of the above, 372 cases (*83 per cent*) of CC loan involving an amount of ₹ 128.09 crore had become Non-Performing Assets (NPAs) as of March 2014.

Reasons for huge accumulation of NPA in the CC/OD segment of SBS were analysed by Audit by taking a sample of 25 out of 372 NPA cases involving CC/OD loans amounting to ₹ 38.01 crore (30 *per cent*) against the total NPA of ₹ 128.09 crore. Results of Audit have been brought out in the following paragraphs:

3.3.1 Inadequate collateral security against OD facility

OD facilities are extended to the customers against departmental work Orders after obtaining collateral security of landed properties valued at double the OD limit. The OD limits sanctioned are enhanced subsequently subject to commensurate enhancement in the value of the collateral securities so obtained. During the examination of records, it was revealed that, in respect of the following five NPA cases, OD limits were enhanced irregularly without proportionate increase in collateral security:

Table 3.3.1

(*₹ in crore*)

Sl. No.	Name	Month & Year of sanction	OD limit after enhancement	Security value required	Value of Security held	Shortage of securities
1	Chandra Khaling	March 04	1.50	3.00	1.55	1.45
2	Kishan Kr. Agarwal	April 2004	1.50	3.00	1.83	1.17
3	C.B. Subba	June 2005	1.40	2.80	2.42	0.38
4	Sailesh Shreshtha	December 2008	2.50	5.00	2.88	2.12
5	Balaji Water and Power Pvt. Ltd.	December 2008	3.30	6.60	4.15	2.45
	Total		**10.20**	**20.4**	**12.83**	**7.57**

From the table above, it may be observed that there were deficiencies in obtaining of collateral securities to the extent of ₹ 7.57 crore against the OD limits (₹ 10.20 crore) extended by SBS in contravention of the norms consistently followed by SBS. Examination of records further revealed that as of June 2014, total outstanding receivable against above five OD accounts stood at ₹ 14.21 crore and the securities available with SBS were deficient to cover these outstanding dues by ₹ 1.38 crore (*9.71 per cent)*.

Management stated (July 2014) that there was no guidelines/policy to obtain securities valuing double the amount of CC/OD. Mortgages obtained for CC/OD are additional security and the hypothecation of bills receivable of the contractors are the primary security.

The reply is not acceptable in view of the fact that the SBS has been consistently following the norms of collection of securities equivalent to double the CC limit. Further, recovery of CC/OD dues out of contractors' unpaid bills is also subjective depending upon timely and successful execution of works by the contractors. The case study of loanee at serial number 4 above as discussed under ***paragraph 3.3.8*** infra also established this fact. In the instant case, the SBS had failed to recover its dues as the work order of the loanee stood cancelled by Government due to poor progress of the work.

3.3.2 Deficiencies in the mechanism of obtaining collateral securities

SBS did not have a mechanism for pre and post inspection of the property mortgaged in its favour against CC/OD facility provided. As a result there were instances of cross-mortgage, mortgage of non-existent property, etc. by the loanees causing inadequacy of the collateral security to cover the CC/OD dues recoverable from these loanees. These cases have been discussed in the following paragraphs.

3.3.3 Defective Collateral Securities

The Roads and Bridges Department (Department) of GoS awarded (February 2005) work orders in favour of Shri. C.B. Subba (loanee) at an estimated value of 4.34 crore. An OD of ₹ 1.40 crore was sanctioned (June 2005) by SBS in favour of the loanee against mortgage of a nine storied building (valued at ₹ 1.20 crore) and lands (valued at ₹ 1.22 crore). Examination of records revealed that the Blue Print (BP) Plan of the building obtained by SBS as mortgage was not approved by the competent authority (UDHD[61]) since the building was constructed beyond the permissible limit. Accordingly, SBS had advised (July 2006) the loanee to get the BP plan of the building revised from the UDHD. This had not been complied with by the loanee (May 2014). In the meantime, it was observed that the loanee could not execute the work order awarded by the Department within the scheduled date. Therefore, the loanee was allowed time extension of upto December 2008 by the Department for completing the work. SBS, despite failure of the loanee to comply with the scheduled targets for completion of work, did not monitor the actual progress of the work executed by the loanee and the schedule of payments to be released by the Department with reference to milestones prescribed in the Work Order. On the contrary, the SBS had allowed (2009) the loanee to draw an additional amount of ₹ 25.63 lakh after the lapse of scheduled completion period. Thus, the OD provided by the SBS proved to be unsecured in absence of proper verification of BP Plan of the building mortgaged by loanee and also effective monitoring of work progress of the loanee.

Management stated (July 2014) that part of the building (5 and ½ floors out of constructed 9 floors) had the approval of the competent authority and the value of 5 and ½ storey building itself would be huge. Further, additional 4 landed property had also been mortgaged.

Reply is not acceptable in view of the fact that the building involving unauthorised construction in parts should be considered as illegal and recovery of dues through disposal of such building remains in doubts. Further, the value of other securities (₹ 1.22 crore) held by SBS covers less than 50 *per cent* of the outstanding dues (₹ 2.49 crore) of the loanee exposing the SBS against the risk of non-recovery of the balance dues.

3.3.4 Cross-mortgage of property

As per the policy of SBS, the CC/OD facility is provided to the customers only against the work orders awarded by different Government departments. The recoveries of dues against such CC/OD are thus, secured through payments to be released by the concerned Government Departments enrouting through the CC/OD accounts of the loanee. In the instant case, however, SBS sanctioned (July 2009) an OD limit of ₹ 50 lakh in favour of Shri Bijay Kr. Rai (loanee) without any work order having issued by any Government

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[61] *Urban Development and Housing Department.*

Department to the loanee. The OD limit was sanctioned against the mortgage of two landed properties having aggregate value of ₹ 1.67 crore. After four years of sanction of OD, the SBS realised (March 2009) that the loanee had already mortgaged (July 2005) one of the properties (value of ₹ 0.44 crore) against a housing loan availed from United Bank of India (UBI). Since the loanee had defaulted in repayment of the said housing loan, UBI had published advertisement in the local daily for disposal of the above property for recovery of their dues. As of June 2014, the loanee had an outstanding balance of ₹ 82.75 lakh and loanee had not repaid any amount towards said dues outstanding against the OD loan availed from SBS.

Management stated (July 2014) that a suit had already been filed under Sikkim Public Demands Recovery Act, 1988 (SPDR, Act) for recovery of dues of SBS.

The fact, however, remained that releasing of OD limit by SBS without integrating with a valid work order from a Government Department coupled with negligence in verification of genuineness of mortgaged property resulted in blocking up of funds besides the uncertainty involved in recovery of dues.

3.3.5 Loan against non-existing Security

An OD amount of ₹ 1 crore was sanctioned (May 2007) by SBS in favour of Shri Ram Gopal Rai, a Government contractor (loanee) against mortgage of properties belonging to four individuals (aggregate value ₹ 2 crore). The properties mortgaged against the OD included one four storied building (valued at ₹ 0.49 crore) belonging to one Shri Ongchu Lepcha. There were however, no documents on record to establish the fact that SBS had conducted any inspection of the mortgaged properties before or after sanction of OD facility so as to verify physical existence of these assets. On default in repayment of dues by the loanee, SBS conducted (March 2008) for verification of the property. On verification of the property SBS noticed that the property belonging to Shri Ongchu Lepcha was not traceable and instead of four storied RCC building, a wooden structure was existing on the said site. The loanee had an outstanding balance of ₹ 2.10 crore as of June 2014.

Management stated (July 2014) that legal action under SPDR Act would soon be initiated for recovery of dues.

Fact however, remains that due to failure of SBS in proper verification of the mortgaged properties prior to release of OD facility, dues of ₹ 2.10 crore became doubtful of recovery.

3.3.6 Non-safeguarding of interest of Bank

SBS sanctioned (December 2008) CC facility of ₹ 3.30 crore to a loanee[62] against a work order valuing ₹ 11.50 crore from Public Health Engineering Department (Department). The loan was secured, *inter alia*, against mortgage of Land and Building (value ₹ 4.15 crore) situated outside the State. The properties were duly supported by equitable[63] mortgage.

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[62] *M/s Shree Balaji Water and Power Engineer Pvt. Ltd.*

[63] *Depositing of property documents by the loanee with SBS.*

The time period for repayment of CC was up to 31st December 2011. The CC loan, however, became NPA as repayments were irregular. As on June 2014, the overdue CC amount along with interest stood at ₹ 4.74 crore.

Examination of records revealed that the mortgaged properties were not registered in favour of SBS. It was further noticed that as the properties were situated outside the State, recovery proceedings under SPDR Act could also not be initiated.

The SBS had neither registered the Equity Deed nor incorporated any terms & conditions for insurance of mortgaged properties against risks of damages by natural calamities. Thus, due to negligence in ensuring proper securities at the time of sanction of OD facilities, the financial interest of the Bank could not be safeguarded causing recovery of entire dues of ₹ 4.74 crore doubtful.

Management stated (July 2014) that since the properties are situated outside Sikkim and mortgaged under equitable mortgage, recovery suit has been filed in Debt Recovery Tribunal, Guwahati for recovery of outstanding dues.

The fact, however, remained that SBS had deviated from its normal practice of accepting registered mortgage and consequently, exposed the CC loan against risk of its becoming doubtful/bad debts.

3.3.7 OD against private works

As per the policy of SBS, CC/OD facilities are to be extended against departmental work orders only. As per the sanction order, as and when the payment from the Government Department are routed through the OD account, the sanctioned OD limit should be operated at reducing balance system. Contrary to this, SBS had sanctioned (September 2010) OD loan to Shri Urgen Bhutia (₹ 2.50 crore) and Shri Man Bahadur Thapa (₹ 0.60 crore) respectively against the work orders issued by a private company for setting up of a petrol pump. Since the works were not in the nature of departmental works, routing of release of payments against these private works through OD account of loanees operated in SBS could not be ensured. As a result, these two ODs had become NPA with outstanding dues of ₹ 3.67 crore and ₹ 1.31 crore respectively as on June 2014.

Management replied (July 2014) that in the case of Shri M.B. Thapa, recovery suit under SPDR Act had already been filed and in the case of Shri Urgen Bhutia it was under process.

The reply is not acceptable as the SBS could not ensure timely recovery of OD dues due to extension of OD facility against private work order and its failure to insist upon release of payments to loanees enrouting their OD accounts maintained in SBS.

3.3.8 Non regulation of OD limits linking with progress of work

As per the policy of SBS for grant of CC/OD limit, the payment against departmental work order was to be routed through the CC/OD account. Thus, proper monitoring of actual progress of work and linking of the release of payment with the actual work executed by the loanee was essential to minimise the NPAs of the SBS. Following cases of lapses on the part of SBS were, however, noticed in monitoring of work progress and release of payments to loanees which contributed towards accumulation of NPAs:

3.3.8.1 Shri Sailesh Shreshtha (loanee) was sanctioned OD (₹ 2.50 crore) based on three work orders valuing ₹ 8.97 crore issued by two Government Departments. One of the work orders (valuing ₹ 6.19 crore) related to centrally sponsored scheme [Pradhan Mantri Gram Sadak Yojana (PMGSY)] and the payments against this work order were to be routed through a Nationalised Bank. As a result, SBS could not adjust/recover unpaid dues of loanee in CC account out of the payments release against said work order. The Bank had not taken up the matter with the loanee/Nationalised Bank/Department for channelising the payments through SBS. It was further observed that one of the work orders valuing ₹ 1.29 crore issued to Shri Sailesh Shreshtha was cancelled (February 2013) by the Department due to slow progress of work and the contractor was also blacklisted. As against the OD limit of ₹ 2.50 crore, the loanee had an outstanding balance of ₹ 3.61 crore as of June 2014.

3.3.8.2 The Bank had sanctioned OD limits in favour of three loanees[64] against the work orders issued during the year 2004-05. Even after lapse of more than nine years, SBS neither ascertained the status of the work progress against three work order nor has pursued with the concerned Department to find out whether the work have been completed/abandoned by the contractors.

Management stated (July 2014) that in case of one loanee (Shri C B Subba), withdrawals from OD accounts till 2009 were allowed to enable him to complete the work and the Department had also confirmed that payments against outstanding bill of the loanee were pending. It was also stated that recovery suits has already been file against this loanee while the same would be filed against other two loanees.

The fact, however, remained that lapses on the part of Management in monitoring the progress of work led to blocking up of funds coupled with uncertainty in recovery of the entire outstanding dues.

3.3.9 Delay in initiation of recovery proceedings

As per the SPDR Act, an application was to be filed by SBS before the Certificate Officer for recovery of its dues. SBS had not, however, filed application before the Certificate Officer for recovery of its dues in any of the 25 cases test-checked in Audit.

Management stated (July 2014) that SBS was making all-out effort for recovery and notices in the local media were also being issued to urge the defaulters to pay up their dues.

The reply is not acceptable as the SBS failed to adopt the legal course of action against any of the defaulters under SPDR Act and for disposing of the mortgaged property to recover its dues.

Thus, deficiencies in the system of appraisal of securities, lapses in monitoring the works and non-initiation of legal course of action of recovery of dues, etc. led to accumulation of NPAs against CC/OD loans.

[64] *Shri Chandra Khaling, Shri K K Agrawal and Shri C B Subba.*

Management appreciated (July 2014) the Audit observations for highlighting the weak area management of CC/OD accounts and stated that these observations would help the SBS in taking future course of corrective action.

The matter was reported (July 2014) to the Government; their reply had not been received (September 2014).

3.4 Undue favour

SBS extended undue favour to contractors to the extent of ₹ 5.97 crore due to short collection of BG commission (₹ 2.08 crore) and margin money (₹ 3.89 crore) in violation of its laid down policy.

State Bank of Sikkim (SBS) was established (June 1968) under a Proclamation by the erstwhile Chogyal (King) of Sikkim for providing banking facilities, mobilising capital for economic development and to stimulate trade and industry in the State. As part of its prime banking activities, SBS extends Bank Guarantee [65](BG) to various contractors against performance and quality of equipment. As per extant policy of SBS, BGs issued should be backed by margin money (deposit) of 30 *per cent* and the balance amount should be secured through registered mortgage. Commission at the rate of three *per cent* per annum plus service tax is also payable by the customer on the BG amount.

Audit conducted an analysis of the performance of SBS with regard to the issuance and management of BGs. The findings of the Audit have been discussed below.

Loss of revenue due to short levy of commission

SBS was extending BG facilities to contractors at the prescribed rate of three *per cent* commission plus service tax. SBS issued (February 2013 to December 2013) BGs to 29 individuals/enterprises. It was, however, observed that in respect of 26 out of 29 BGs issued to contractors, the SBS levied commission at lower rates ranging from 0.53 *per cent* to 2.10 *per cent* as against the prescribed rate of 3 *per cent.* Charging of lower commission by SBS than applicable has resulted in extension of undue favour to the contractors to the extent of ₹ 2.08 crore.

Short realisation of margin money

Against the policy of SBS for collection of 30 *per cent* margin money for issue of BGs, in four BGs issued to RSK Construction margin money collected was only 15 *per cent* of the value of BGs issued. SBS could have utilised the short collected margin money on high interest earning activities (viz. overdraft/cash credit) and earned additional potential revenue of ₹ 0.46 crore as detailed below:

[65] *Bank Guarantee (BG) is an instrument issued by banks in which they agree to stand guarantee against non-performance of a party. As per the stipulated conditions of the BGs, the issuing bank shall compensate the beneficiary to the extent of the guaranteed amount of BGs upon its invocation.*

Table 3.4.1

Sl. No.	Name of the contractor	Period (Year)	Amount of BG	Margin money to be collected	Margin money collected (15 *per cent*)	Margin money short collected	Loss of potential interest[66]
			₹ in crore				
1	M/s RSK Construction						
	Performance Security	6	8.65	2.59	1.30	1.29	0.23[67]
	Mobilisation Advance	3	17.28	5.18	2.59	2.59	0.23[68]
	Total		**25.93**	**7.77**	**3.89**	**3.88**	**0.46**

Thus, undue favour was extended to RSK Construction through collection of margin money at a lower rate (15 *per cent*) than the prescribed rate. The action of the Management of the Bank was irregular as the same had no approval of the BoD.

Thus, SBS extended undue favour to contractors to the extent of ₹ 5.97 crore due to short collection of BG commission and margin money in violation of its laid down policy.

The Management stated (March 2014) that the SBS had formulated a new guideline for issue of BGs at reduced rates which were made effective for BGs issued after 1st February 2013. The reply is not acceptable as the new guidelines referred to by the Management were required to be approved by the BoD of SBS before implementation as per the provisions of the Proclamation. The said new guidelines have been approved (25 September 2014) by the BoD after furnishing of reply by the Management and as per BoD's approval, the new guidelines shall be effective only from the date of approval (viz. 25 September 2014).

The matter was reported (July 2014) to the Government; their reply had not been received (September 2014).

SIKKIM POULTRY DEVELOPMENT CORPORATION LIMITED

3.5 Infructuous expenditure

Infructuous expenditure of ₹ 28.16 lakh incurred towards salary and perquisites.

Under the Sikkim State Public Services Act 2006, the State Government shall employ Members of Legislative Assembly (MLA)/Non-MLA to render advisory services in connection with the affairs of the State/Public Sector Undertakings. Non-MLAs so

66 *Difference between interest payable to the contractors and potential interest income that could be earned on Overdraft/Cash credit activities.*

67 *₹129.49 lakh X 3 per cent (12 per cent - 9 per cent) X 6 yrs.= ₹23.30 lakh.*

68 *₹ 259.20 lakh X 3 per cent (12 per cent - 9 per cent) X 3 yrs.= ₹23.33 lakh.*

appointed shall be eligible for house rent allowance, telephone allowance and travelling allowance. They shall further be eligible to have three staff on co-terminus basis.

Sikkim Poultry Development Corporation Limited (Company) was incorporated (December 1991) under the Registration of Sikkim Companies Act 1961 with the main objective to promote and establish the business of poultry and poultry products in the State. Government of Sikkim (GoS) appointed (May 2009) a non-MLA as Chairman of the Company. As per Articles of Association of the Company, the Chairman shall preside over meetings of the Board of Directors (BoD) which shall mandatorily meet at least once every quarter for supervision and management of day-to-day business operations of the Company and also for approval of its annual accounts.

Examination of records revealed that the Company had not been carrying out any business operations since 2008-09. The only source of income for the Company was grants received from GoS. During the last four years ended 2012-13, the Company received ₹ 36.25 lakh as Government grants. The Company incurred an expenditure of ₹ 28.16 lakh towards the salary and other perks of the Chairman during 2009-10 to 2012-13.

It was further observed that no meeting of BoD of the Company was held during 2009-10 to 2012-13[69] as per the Articles of Association (AoA) of the Company although the BoD was required to hold minimum 16 such meetings mandatorily during the said period. Thus, the Chairman and the BoD of the defunct Company, which was surviving on Government grants, failed to fulfill their statutory obligation of holding minimum number of meetings as prescribed under the AoA of the Company. Due to non-holding of any of the meeting of the BoD in preceding four years, the audited annual accounts of the Company for the period 2009-10 to 2012-13 were pending for approval by the BoD (September 2014).

The Management while accepting the facts stated (July 2014) that the suggestions of Chairman were taken from time to time and the Chairman was provided perquisites according to his eligibility as per the notification of GoS. The reply, however, did not provide the details and nature of advice given by the Chairman particularly when the Company was non-operational since 2008-09.

Thus, due to not holding of any meeting of BoD of the Company during 2009-13, the Chairman failed to discharge his obligations and the expenditure of ₹ 28.16 lakh incurred towards salary and perquisites of Chairman proved to be infructuous.

Keeping in view the above facts, it is recommended that the Government may explore possibilities to either revive the Company through appropriate revival package or consider closure of the Company to avoid similar wasteful expenditure in future.

The matter was reported to the Government (July 2014); their reply had not been received (September 2014).

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[69] *One meeting of BoD was held (June 2013) during 2013-14.*

SIKKIM POWER DEVELOPMENT CORPORATION LIMITED

3.6 Avoidable loss

Procurement of bulldozers without approval of Board of Directors and without market analysis resulted in loss of ₹ 0.77 crore to the Company

The Sikkim Power Development Corporation Limited (Company) is mainly engaged in the business of generation, transmission, distribution and sale of power in Sikkim. The Company purchased (March 2008) four bulldozers at a total price of ₹ 2.34 crore[70] from Bharat Earth Movers Limited (BEML). These bulldozers were procured with the intention to lease them out to Independent Power Producers and Private Contractors engaged in construction of roads, etc. so as to generate additional revenue for the Company. The bulldozers had an expected life of six years. The total projected revenue per month from these bulldozers was ₹ 5.36 lakh with a payback period of four years.

The Company made a down payment of ₹ 0.47 crore to M/s BEML and made (July 2008 - September 2009) subsequent payments to the tune of ₹ 1.37 crore sourcing mainly from the revenue realised through operations of the bulldozers. Balance amount of ₹ 0.50 crore, however, remained unpaid (May 2014).

Examination of records of the Company revealed that the demand for bulldozers was very poor and Company could sparingly lease out the bulldozer for short durations during 2008-09 to 2012-13. In absence of adequate demand, the Company had to reduce (June 2011) the monthly rent of bulldozer from ₹ 2 lakh to ₹ 1.50 lakh. As a result, against the projected revenue of ₹ 3.22 crore during the five year period (2008-13), the Company could earn net revenue of only ₹ 1.28 crore. Due to poor utilisation of the bulldozers, the Management had to ultimately dispose of (June 2014) all four bulldozers at negligible price of ₹ 7.30 lakh per bulldozer.

During examination of records it was further revealed that the Company had adopted a hurried approach in procurement of the bulldozers and the purchase decision was not preceded by any market analysis of the actual demand for the machines. Further, no advance planning was made by the Company for financing the cost of the bulldozers before placing (April 2007) the procurement orders. As a result, the Company had to request (October 2007) BEML to cancel delivery of three bulldozers when these were ready for delivery. Thereafter, on mutual consideration the Company took delivery (March 2008) of three machines on deferred payment basis. The above facts also indicate that the purchase of four bulldozers was not based on sound financial considerations. The Company also failed to obtain prior approval of the BoD before placing (April 2007) of the purchase

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[70] *₹ 58,57,265 x 4.*

orders for four bulldozers. Subsequently, the Management submitted (August 2007) the proposal for purchase of only two bulldozers to the BoD against which approval for purchase of only one bulldozer was given (August 2007).

Thus, procurement of bulldozers without proper market analysis and without prior approval of the competent authority resulted in loss of ₹ 0.77 crore against investment of ₹ 2.34 crore after netting off the lease revenue earned (₹ 1.28 crore) and sales value realised (₹ 0.29 crore) on disposal of the bulldozers.

Management stated (July 2014) that the decision to purchase four bulldozers was aimed at lifting the financial condition of the Company by supplementing its revenue source under the assumption that the machines would be having significant market demand towards catering to the needs of Independent Power Producers and other Private contractors in the State. The reply is not acceptable as no document on record was available to establish the fact of conducting any market analysis or feasibility study and preparing of any business plan by the Company before procurement of bulldozers. Further, procurement of the bulldozers had no prior approval of the competent authority (BoD), which was indicative of the hurried approach of the Management in purchase of the bulldozers.

The matter was reported (July 2014) to the Government; their reply had not been received (September 2014).