

## 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 keeping in view the welfare of the people. In Sikkim, the SPSUs occupy an insignificant place in the State economy. As on 31 March 2015, there were 15 SPSUs. Of these, none of the companies were listed on the stock exchange. None of the companies were closed down during the year. The details of the SPSUs in Sikkim as on 31 March 2015 are given below.

**Table 3.1.1: Total number of SPSUs as on 31 March 2015**

Type of SPSUs	Working SPSUs	Non-working SPSUs <sup>1</sup>	Total
Government Companies	7	5	12
Statutory Corporations	2	1	3
<b>TOTAL</b>	<b>9</b>	<b>6</b>	<b>15</b>

The working SPSUs registered a turnover of ₹ 149.28 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 1.03 *per cent* of State Gross Domestic Product (GDP<sup>2</sup>) of ₹ 14,517.73 crore for 2014-15. During 2013-14, however, the turnover (₹ 147.55 crore) of working SPSUs was significantly higher at 1.19 *per cent* of State GDP (₹ 12,376.69 crore). During 2014-15, the working SPSUs had incurred an aggregate loss of ₹ 23.66 crore as per their latest finalised accounts as of September 2015 as compared to the aggregate loss of ₹ 12.99 crore incurred by SPSUs during 2013-14. The increase in the aggregate loss of working SPSUs was mainly on account of heavy losses incurred by the power sector SPSU<sup>3</sup>. The working SPSUs had employed 618 employees as at the end of March 2015.

#### Accountability framework

**3.1.2** The Companies Act 1956 as well as the New Companies Act 2013 have not been extended to the State of Sikkim. The Government Companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim 1961'. The accounts of these State Government companies are audited by Statutory Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BoDs) of the respective companies. In

<sup>1</sup> Non-working SPSUs are those which have ceased to carry on their operations.

<sup>2</sup> Source: Department of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim.

<sup>3</sup> Serial No.A-6 of Appendix 3.1.2.

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.

**3.1.3** There are three Statutory Corporations in the state, namely, State Bank of Sikkim, State Trading Corporation of Sikkim and Sikkim Mining Corporation established under the proclamation of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants directly appointed by the BoDs of the respective Corporation. 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.

### Stake of Government of Sikkim

**3.1.4** The State Government has huge financial stake in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans** - In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support** - State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
- **Guarantees** - State Government also guarantees the repayment of loans with interest availed by the SPSUs from Financial Institutions.

### Investment in SPSUs

**3.1.5** As on 31 March 2015, the investment (capital and long-term loans) in 15 SPSUs was ₹ 392.88 crore as per details given below.

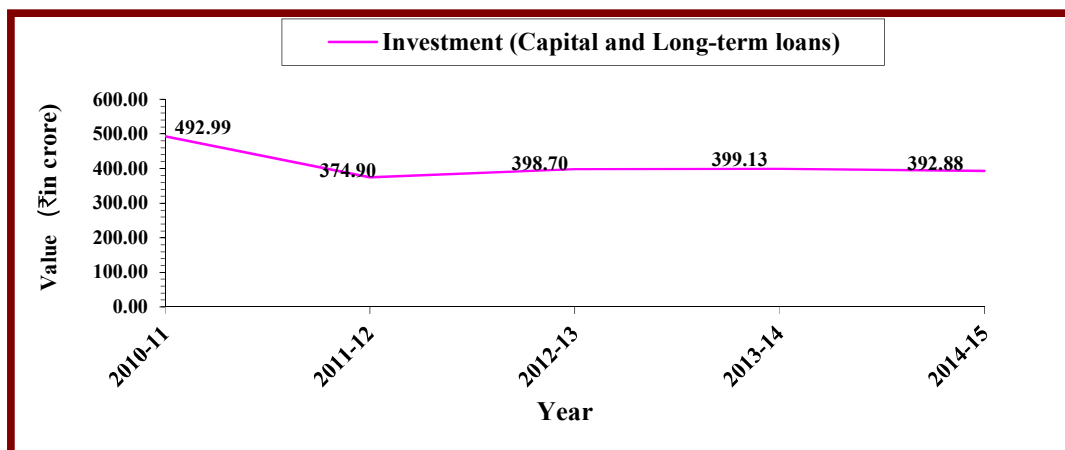
**Table 3.1.2: Total investment in SPSUs**

(₹ in crore)

Type of SPSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working SPSUs	59.07	273.25	332.32	2.19	-	2.19	334.51
Non-working SPSUs	45.87	0	45.87	12.50	-	12.50	58.37
<b>TOTAL</b>	<b>104.94</b>	<b>273.25</b>	<b>378.19</b>	<b>14.69</b>	<b>-</b>	<b>14.69</b>	<b>392.88</b>

Out of the total investment of ₹ 392.88 crore in SPSUs as on 31 March 2015, 85.14 *per cent* was in working SPSUs and the remaining 14.86 *per cent* was in non-working SPSUs. This total investment consisted of 30.45 *per cent* in capital and 69.55 *per cent* in long-term loans. The investment had decreased by 20.31 *per cent* from ₹ 492.99 crore in 2010-11 to ₹ 392.88 crore in 2014-15 as shown in **Chart-3.1.1**. The decrease (₹ 100.11 crore) was on account of repayment of long term loans by Sikkim Industrial Development and Investment Corporation Limited and Sikkim Power Development Corporation Limited.

Chart 3.1.1: Total investment in SPSUs



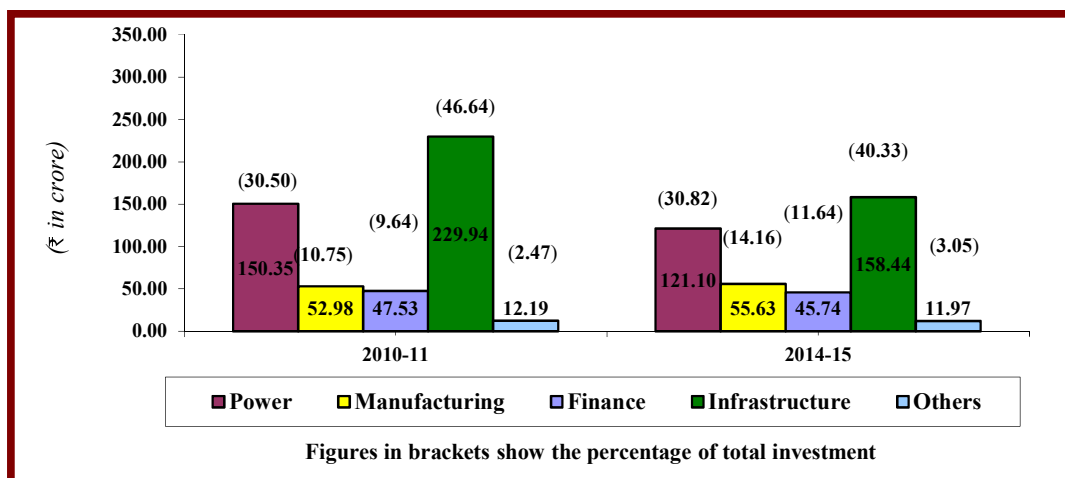
3.1.6 The sector wise summary of investments in the SPSUs as on 31 March 2015 is given below:

Table 3.1.3: Sector-wise investment in SPSUs

Name of Sector	Government/Other <sup>4</sup> Companies		Statutory corporations		Total	Investment (₹ in crore)
	Working	Non-Working	Working	Non-working		
Power	1	0	0	0	1	121.10
Manufacturing	0	3	0	1	4	55.63
Finance	1	0	1	0	2	45.74
Miscellaneous	0	0	0	0	0	0.00
Service	1	1	1	0	3	8.37
Infrastructure	1	0	0	0	1	158.44
Agriculture and Allied	3	1	0	0	4	3.60
<b>TOTAL</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>15</b>	<b>392.88</b>

The investment in five significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated in Chart-3.1.2.

Chart 3.1.2: Sector wise investment in PSUs



<sup>4</sup> 'Other Companies' as referred to under Section 139(5) and 139(7) of the Companies Act 2013.

It could be noticed from **Chart-3.1.2**, during the period of five years from 2010-11 to 2014-15, investment in SPSUs decreased in all sectors excepting the marginal increase of ₹ 2.65 crore in manufacturing sector. The significant decrease in the infrastructure sector was on account of repayment of long term loans (₹ 71.50 crore) by one SPSU (Sikkim Industrial Development and Investment Corporation Limited) during the five years. The thrust of SPSU-investment was mainly in power<sup>5</sup> and infrastructure sectors, which constituted more than 70 per cent of the total investment (₹ 392.88 crore) in SPSUs during 2014-15.

### Special support and returns during the year

**3.1.7** The State Government provides financial support to SPSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written-off and interest waived in respect of SPSUs are given in **Table-3.1.4** for three years ended 2014-15.

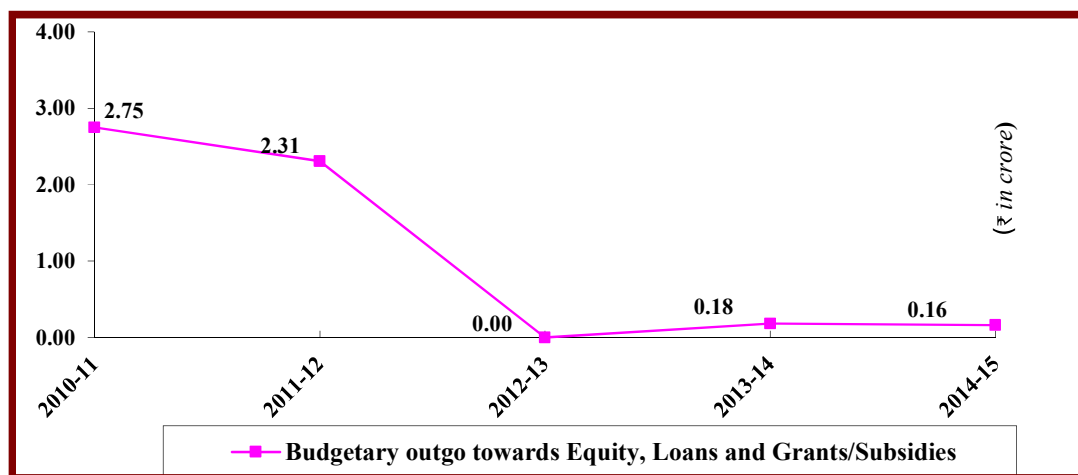
**Table 3.1.4: Details regarding budgetary support to SPSUs**

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1	Equity Capital outgo from budget	-	-	-	-	-	-
2	Loans given from budget	-	-	-	-	-	-
3	Grants/Subsidy from budget	-	-	1	0.18	1	0.16
4	<b>Total Outgo (1+2+3)</b>	-	-	<b>1</b>	<b>0.18</b>	<b>1</b>	<b>0.16</b>
5	Waiver of loans and interest	3	1.22	-	-	1	0.06
6	Guarantees issued	1	1.07	2	131.76	1	96.57
7	Guarantee Commitment	2	162.84	2	120.96	2	109.50

(₹ in crore)

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in **Chart-3.1.3**.

**Chart 3.1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies**



<sup>5</sup> Serial No.A-6 of Appendix 3.1.2.

It may be observed from **Chart-3.1.3** that during the period of five years from 2010-11 to 2014-15, the budgetary outgo was the highest (₹ 2.75 crore) in 2010-11 and had shown decreasing trend thereafter upto 2012-13, when there was no budgetary outgo to any of the SPSUs. During 2013-14 and 2014-15, there was a total budgetary outgo of ₹ 0.18 crore and ₹ 0.16 crore respectively by way of grants to one SPSU, namely, Sikkim Poultry Development Corporation Limited. As could be noticed from **Table-3.1.4**, the guarantee commitment has decreased from ₹ 162.84 crore (2012-13) to ₹ 109.50 crore (2014-15) mainly due to the repayment of loans by Sikkim Industrial Development and Investment Corporation Limited during previous three years. As on 31 March 2015, guarantee commitment of ₹ 109.50 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.

### Reconciliation with Finance Accounts

**3.1.8** The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the SPSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2015 is given in **Table-3.1.5**.

**Table 3.1.5: Equity, loans, guarantees outstanding as per Finance Accounts vis a vis records of SPSUs**

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	80.69	89.63	8.94
Loans*	37.03	2.03	35.00
Guarantees*	109.50	109.50	Nil

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

Audit observed that the differences occurred in respect of 11<sup>6</sup> SPSUs and some of the differences were pending reconciliation since 2004-05. It was further observed that the un-reconciled differences in respect of equity of SPSUs decreased by ₹ 2.34 crore during the year from ₹ 11.28 crore (2013-14) to ₹ 8.94 crore (2014-15). The Accountant General had pursued the issue regularly with the Principal Secretary (Finance), Government of Sikkim and the heads of the SPSUs concerned for early reconciliation of long pending differences. No significant progress, was, however, seen in the matter. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

### Arrears in finalisation of accounts

**3.1.9** The Companies Act 1956/Companies Act 2013 have not been extended to the State of Sikkim. The Government Companies in Sikkim are registered under the

<sup>6</sup> Except for Serial No.A-1,B-9, C-10 and C-11 of **Appendix 3.1.2**.

Registration of Companies Act, 1961 while the Statutory Corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. The **Table-3.1.6** provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2015.

**Table 3.1.6: Position relating to finalisation of accounts of working SPSUs**

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Number of Working SPSUs	11	8	8	8	9
2	Number of accounts finalised during the year	8	7	10	5	3
3	Number of accounts in arrears	22	20	18	21	28
4	Number of Working PSUs with arrears in accounts	9	8	7	8	9
5	Extent of arrears (numbers in years)	1 to 5	1 to 4	1 to 4	1 to 5	1 to 6

From the **Table-3.1.6**, it could be noticed that the number of accounts in arrears had shown a decreasing trend upto 2012-13. During previous two years, however, the working SPSUs have finalised only 8 accounts. As a result, the backlog of accounts of working SPSUs had increased from 18 accounts (2012-13) to 28 accounts (2014-15), which included arrears of 12 accounts relating to 2 SPSUs (namely, Sikkim Poultry Development Corporation Limited and Sikkim Hatcheries Limited). 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.

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 stipulated period. The Departments/Ministries concerned were informed regularly (on quarterly basis) of the arrears in finalisation of accounts by these SPSUs. No improvement was, however, noticed in the position of arrears of accounts of the SPSUs.

**3.1.10** The State Government had invested ₹ 0.16 crore in one SPSU (Sikkim Poultry Development Corporation Limited) by way of grant during the years the accounts of the SPSU have not been finalised as detailed in **Appendix 3.1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the said investment had been properly accounted for and the purpose for which the amount invested was achieved or not. Thus, Government's investment in the said SPSU remained outside the control of State Legislature.

**3.1.11** In addition to above, there were arrears in finalisation of accounts by non-working SPSUs as on 30 September 2015. None of the six non-working SPSUs were in the process of liquidation. The six non-working SPSUs have arrears of 50 accounts as of September 2015 as detailed in **Table-3.1.7**.

**Table 3.1.7: Position relating to arrears of accounts in respect of non-working SPSUs**

No. of Non-working SPSUs	Period for which accounts were in arrears	No. of accounts in arrears
2	1995-96 to 2014-15	40
1	2011-12 to 2014-15	4
3	2013-14 to 2014-15	6
<b>6</b>	<b>TOTAL</b>	<b>50</b>

### Placement of Separate Audit Reports

**3.1.12** The position depicted in **Table-3.1.8** shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

**Table 3.1.8: Status of placement of SARs in Legislature**

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
1	State Bank of Sikkim	2007-08	2008-09 to 2010-11	20 December 2013
2	State Trading Corporation of Sikkim	2010-11	-	-

### Impact of non-finalisation of accounts

**3.1.13** As pointed out above (*para 3.1.9 to 3.1.11*), the delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of SPSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State Exchequer was also not reported to the State Legislature.

**It is, therefore, recommended that:**

- **The Government may set up a cell to oversee the clearance of arrears and set targets for individual SPSUs which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lack expertise.**

### Performance of SPSUs as per their latest finalised accounts

**3.1.14** The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix 3.1.2**. A ratio of SPSU turnover to State GDP shows the extent of SPSU activities in the State economy. **Table-3.1.9** provides the details of working SPSU turnover and State GDP for a period of five years ending 2014-15.

**Table 3.1.9: Details of working PSUs turnover vis-a vis State GDP**

Particulars	₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover	42.81	86.43	143.91	147.55	149.28 <sup>7</sup>
State GDP	7,411.57	8,906.64	10,472.60	12,376.69	14,517.73 <sup>8</sup>
Percentage of Turnover to State GDP	0.58	0.97	1.37	1.19	1.03

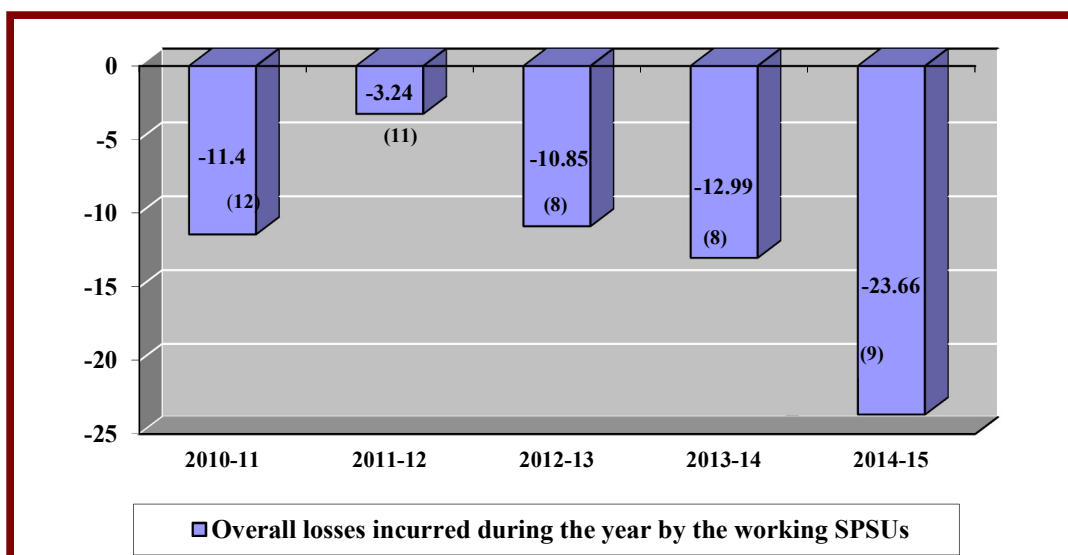
<sup>7</sup> Turnover as per the latest finalised accounts as of 30 September 2015.

<sup>8</sup> Source: Department of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim.

It may be noticed that during 2010-11 to 2014-15, the State GDP had grown by 95.88 *per cent* while the increase in turnover of SPSUs during the corresponding period was to the extent of 248.70 *per cent*. Thus, there was appreciable growth in SPSUs turnover during the period of five years from 2010-11 to 2014-15 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 0.58 (2010-11) to 1.03 (2014-15) in five years period, though it declined from the last year.

**3.1.15** Overall losses incurred by working SPSUs during 2010-11 to 2014-15 are given in **Chart-3.1.4**.

**Chart 3.1.4: Losses of working SPSUs**



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

As per the latest finalised accounts of nine working SPSUs as on 30 September 2015, three<sup>9</sup> SPSUs earned profit of ₹ 4.17 crore and six SPSUs incurred loss of ₹ 27.83 crore. The major contributor to profit was Sikkim Industrial Development and Investment Corporation Limited (₹ 3.28 crore). The heavy losses were incurred by Sikkim Power Development Corporation Limited (₹ 16.64 crore) and State Bank of Sikkim (₹ 7.05 crore). As could be noticed from **Chart-3.1.4**, the overall losses incurred by working SPSUs showed an increasing trend after 2011-12. During the four years from 2011-12 to 2014-15, the overall losses had increased by more than seven fold from ₹ 3.24 crore (2011-12) to ₹ 23.66 crore (2014-15). The increase in the overall losses of working SPSUs was mainly attributable to the losses incurred by two SPSUs (namely, Sikkim Power Development Corporation Limited and State Bank of Sikkim) during the last four years.

**3.1.16** Some other key parameters of SPSUs are given in **Table-3.1.10**.

<sup>9</sup> Serial No.A-5,7 and B-9 of **Appendix 3.1.2**.



Table 3.1.10: Key Parameters of State PSUs

Particulars	₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed ( <i>per cent</i> )	2.00	5.24	4.30	4.36	3.91
Debt	395.91	260.93	279.07	273.89	273.25
Turnover <sup>10</sup>	42.81	86.43	143.91	147.55	149.28
Debt/ Turnover Ratio	9.25:1	3.02:1	1.94:1	1.86:1	1.83:1
Interest Payments	24.56	64.90	87.49	90.15	88.16
Accumulated losses	69.82	83.57	90.29	97.92	117.72

There was constant improvement in Debt-Turnover Ratio after 2010-11. During 2014-15, it decreased by 0.03 *per cent* due to decrease in the debts of Sikkim Industrial Development and Investment Corporation Limited. Further, during last four years, the percentage of Return on capital employed has decreased from 5.24 *per cent* (2011-12) to 3.91 *per cent* (2014-15) mainly due to heavy losses incurred by two SPSUs, viz. Sikkim Power Development Corporation Limited and State Bank of Sikkim during this period.

**3.1.17** The State Government had not formulated (October 2015) any dividend policy regarding payment of minimum dividend by SPSUs. As per their latest finalised accounts as on 30 September 2015, three<sup>11</sup> SPSUs earned aggregate profit of ₹ 4.17 crore, however, only one SPSU<sup>12</sup> declared dividend of ₹ 0.51 crore.

#### Winding up of non-working SPSUs

**3.1.18** There were six non-working SPSUs (five Companies and one Statutory Corporation) as on 31 March 2015. All these SPSUs mentioned above are closed down (April 2011) under the order of the Government. The Government Companies in Sikkim are registered under the Registration of Companies Act, 1961 while Statutory Corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. There was, however, no prescribed procedure for liquidation of Government Companies/Statutory Corporations under their respective governing Act/Statute. The numbers of non-working SPSUs at the end of each year during past five years are given in Table-3.1.11.

Table 3.1.11: Non-working SPSUs

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
No. of non-working companies	3	6	6	6	5
No. of non-working corporations	1	1	1	1	1
<b>TOTAL</b>	<b>4</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>6</b>

**3.1.19** The stages of closure in respect of non-working SPSUs are given in Table-3.1.12.

Table 3.1.12: Closure of Non-working SPSUs

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1	Total No. of non-working SPSUs	5	1	6
2	Of (1) above, the No. under:	-	-	-
(a)	Liquidation by Court (liquidator appointed)	Nil	Nil	Nil
(b)	Voluntary winding up (liquidator appointed)	Nil	Nil	Nil
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	5	1	6

<sup>10</sup> Turnover of working SPSUs as per their latest finalised accounts as on 30 September of respective year.

<sup>11</sup> Serial No.A-5, A-7 and B-9 of Appendix 3.1.2.

<sup>12</sup> Serial No.A-5 of Appendix 3.1.2.

In the absence of specific provisions regarding winding up of non-working SPSUs in the Registration of Companies Act 1961/proclamation of the erstwhile Chogyal (King) of Sikkim, the Government needs to specify the procedure and initiate the liquidation process for the above mentioned six closed down SPSUs.

### Accounts Comments

**3.1.20** Three working companies forwarded their three audited accounts to Accountant General during the year 2014-15 (October 2014 to September 2015). Of these, only one year accounts of one company were selected for supplementary audit and two accounts pertaining to two companies were issued Non-Review Certificates. The details of aggregate money value of comments of Statutory Auditors and CAG are given in **Table-3.1.13**.

**Table 3.1.13: Impact of audit comments on working Companies**

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	Nil	Nil	Nil	Nil	Nil	Nil
2	Increase in loss	1	0.04	3	1.45	1	0.01
3	Non-disclosure of material facts	Nil	Nil	1	1.34	1	0.02
4	Errors of classification	Nil	Nil	1	0.84	Nil	Nil

During the year, Statutory Auditors had given qualified opinions to all the three accounts of the three SPSUs. During 2014-15, none of the Statutory Corporations had submitted their finalised accounts to the Accountant General for audit.

### Response of the Government to Audit

#### Performance Audits and Paragraphs

**3.1.21** For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, two audit paragraphs involving two Departments were issued to the Secretaries of the respective Departments with request to furnish replies within six weeks. However, the replies in respect of one audit paragraph was awaited from the State Government (October 2015).

### Follow up action on Audit Reports

#### Replies outstanding

**3.1.22** The Report of the CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. According to instructions issued by the Finance, Revenue and Expenditure Department (FRED), Government of Sikkim, all the Administrative departments concerned were required to furnish explanatory notes on the paragraphs/performance audits included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Public Accounts Committee.

Table 3.1.14: Explanatory notes not received (as on 30 September 2015)

Year of the Audit Report (Commercial/PSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2011-12	27 April 2013	1	4	1	4
2012-13	28 June 2014	0	2	0	2
2013-14	17 March 2015	1	4	1	4
<b>TOTAL</b>	-	<b>2</b>	<b>10</b>	<b>2</b>	<b>10</b>

From the Table-3.1.14, it could be seen that explanatory notes to none of the above mentioned 10 paragraphs and 2 performance audits pertaining to seven<sup>13</sup> Companies/Corporations and one Department (Energy and Power Department) were received (October 2015).

### Discussion of Audit Reports by Public Accounts Committee

**3.1.23** The status as on 30 September 2015 of Performance Audits (PAs) and paragraphs relating to SPSUs that appeared in State Audit Reports and discussed by the Public Accounts Committee (PAC) was as detailed in Table-3.1.15.

Table 3.1.15: Performance Audits/Paras relating to SPSUs appeared in Audit Reports vis-a-vis discussed as on 30 September 2015

Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2009-10	0	4	Nil	Nil
2010-11	1	3	Nil	Nil
2011-12	1	4	Nil	Nil
2012-13	0	2	Nil	Nil
2013-14	1	4	Nil	Nil
<b>TOTAL</b>	<b>3</b>	<b>17</b>	<b>Nil</b>	<b>Nil</b>

During the year 2009-10 to 2013-14 total 3 PAs and 17 paragraphs relating to SPSUs had appeared in the State Audit Reports. All 3 PAs and 17 paragraphs were, however, pending for discussion by the Public Accounts Committee (October 2015).

### Compliance to Reports of Public Accounts Committee

**3.1.24** Action Taken Notes to seven recommendations pertaining to three Reports of the Public Accounts Committee (PAC) presented to the State Legislature as of March 2015 had not been received (October 2015) as indicated in Table-3.1.16.

Table No. 3.1.16: Compliance to Reports of Public Accounts Committee

Year of the PAC Report	Total Number of PAC Reports	Total no of Recommendation in PAC Report	No of Recommendations where ATNs not received
2008-09	1	2	2
2009-10	1	3	3
2010-11	1	2	2

**It is recommended that the Government may ensure:**

<sup>13</sup> Serial No.A-1, 4, 5 and 6, B-8 and 9 and D-15 of Appendix 3.1.2.

- **furnishing of replies to Inspection Reports/Explanatory Notes/Draft Paragraphs/Performance Audits and Action Taken Notes on the recommendations of PAC as per the prescribed time schedule;**
- **recovery of loss/outstanding advances/overpayments within the prescribed period and**
- **revamping of the system of responding to audit observations.**

### **Coverage of this report**

**3.1.25** This Chapter on SPSUs contains two paragraphs involving financial effect of ₹ 0.57 crore.

### **Disinvestment, Restructuring and Privatisation of SPSUs and any reforms in power sector**

**3.1.26** The Energy and Power Department, Government of Sikkim continued to function as a Government Department and no reforms were implemented in the power sector as envisaged in the Electricity Supply Act, 2003.

## **SIKKIM STATE CO-OPERATIVE BANK LIMITED**

### **3.2 Fraudulent withdrawal of cash**

**Failure of the internal control system and serious negligence on the part of branch officials led to fraudulent withdrawal of cash aggregating ₹ 24.12 lakh at Hee Gaon Branch.**

The Sikkim State Co-operative Bank Limited (the Bank), a registered Co-operative society under Sikkim Co-operative Societies Act 1978, is the Apex Cooperative Bank for the State of Sikkim. The Bank is governed by the Banking Regulation Act 1949 and is covered under the purview of Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD). The audit of the Bank is entrusted to CAG by the Government of Sikkim in terms of Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971.

The Bank, in addition to its role as Apex Bank, functions as a developmental bank providing financial assistance for different kinds of economic activities in the State. The Bank performs the banking operations through its 14 branches spread across the State of Sikkim.

Hee Gaon Branch (Branch) of the Bank headed by a Branch Manager, was opened in the year 2012. The Branch, however, had comparatively lesser business. Normally, all transactions in the branches need to undergo proper checks by the bank staffs. Cash

withdrawals from the accounts of the customers are approved only after proper verification of cheque and its authorisation for payment by the Branch Manager.

During the audit of daily transaction vouchers of Hee Gaon Branch for the month of March 2015, Audit *prima facie* noticed several serious deficiencies in some of the payment vouchers (paid cheques) as illustrated below:

- non-authorisation of the voucher;
- unsigned cheques (only name written on the cheques);
- mismatch of the signature on the cheques with the specimen signature of the account holders;
- difference between the cheque amount written in words and figures; and
- non-mentioning of the Account Number on the cheque.

Considering the seriousness of the issue, Audit took up (25 June 2015) the detailed scrutiny of payment transactions of the Branch covering the period from January 2015 to June 2015. Scrutiny revealed the following:

- (i) A cheque book of 50 leaves (series 31601 to 31650) recorded to have been issued to Shri Dawa Gyatso Bhutia against his Account No.101234001000209 was used for cash withdrawal from the accounts of other customers bearing distinct account numbers. Besides the above, a cheque book bearing series 31326 to 31350 issued to Shri Milan Kumar Limboo in respect of Account No.101234001000489 was also used for fraudulent withdrawal from other accounts.
- (ii) Audit traced out 19 transactions of fraudulent cash withdrawals aggregating ₹ 24.12 lakh using the above cheque books as listed in **Appendix 3.2.1**.
- (iii) The Bank issued distinct series of cheques to individual account holders which could not be used for withdrawal of money from other accounts. As per the controls envisaged in the computer system, an alert notification would appear on the monitor when a cheque, different from the cheque series issued to the account holder, is entered in the system for payment. In such a situation, if the transaction is to be proceeded further, it would be possible only with another authorisation key. For accessing the computer system, only the bank officials have been provided with unique Login ID and Password. The said Login ID and Password needed to be kept secret by the Branch officials for entering, verifying and passing of transactions for payments. In the instant cases, all the cheques were out of the series; as such the payments as detailed in the **Appendix 3.2.1** have been effected only by use of additional authorisation key.
- (iv) Further, from the 19 fraudulent transaction pointed out above, it was observed that:
  - (a) in 9<sup>14</sup> cases cheques were not authorised for payment;

<sup>14</sup> Sl.No.1 to 7,16,18 and 19 of **Appendix 3.2.1**.

- (b) in 3<sup>15</sup> cases cheques did not bear Account number;
- (c) in 10<sup>16</sup> cases though signatures were verified, the same did not match with the specimen signature of the account holders and
- (d) in 1<sup>17</sup> case, although the account holder's specimen signature was in Nepali language, cheque signed in English (forged) was passed for payment.

The cases mentioned above indicated that the payment authorising official failed to verify the genuineness of the cheques before passing them for payment. Further, before making the payment against the above mentioned cheques, the cashier also failed to exercise minimum diligence of ensuring that all these cheques were properly authorised for payment.

- (v) The Concurrent Auditor of the Bank also failed to notice such obvious discrepancies in the transactions.
- (vi) One finished cheque book (series 31601 to 31625), was recovered from the possession of the security staff of the Branch. During the course of audit, it was alleged by the bank staff that the said cheque book might have been obtained by the security staff by manipulating entry in the Cheque Book Issue Register. The balance unused/cancelled cheques were, however, not found in the cheque book recovered from the security person. The bank staff claimed that the said cheques might have been destroyed by the security person.

Thus, failure of the internal control system and serious negligence on the part of branch officials led to fraudulent withdrawal of cash aggregating ₹ 24.12 lakh at Hee Gaon Branch.

The Bank stated (November 2015) that there were blatant violation of systems and procedures though no fraud or financial loss had been caused on the Bank. It was further stated that domestic enquiry into the transactions had been initiated and in order to prevent recurrence of such incidents, the Bank had introduced Internal Transaction audit of branches.

The Government replied (November 2015) that based on the above audit finding, an enquiry committee had been constituted under Sikkim Cooperatives Societies Act 1978 to ascertain the factual position of fraudulent case. It was further stated that the enquiry committee would submit its report by the first week of December 2015.

The reply of the Bank that no fraud/fraudulent transactions had taken place was not tenable in view of the facts that cash withdrawals, amounting to ₹ 24.12 lakh, were made fraudulently using illegally secured cheques, forging signatures and through unauthorised access to the system. The report of the enquiry committee stated to have constituted by the Government and action taken thereon were, however, awaited (November 2015).

---

<sup>15</sup> Sl.No.5, 8 and 9 of *Appendix 3.2.1*.

<sup>16</sup> Sl.No.8 to 15 and 17 of *Appendix 3.2.1*.

<sup>17</sup> Sl.No.10 of *Appendix 3.2.1*.

## SIKKIM TOURISM DEVELOPMENT CORPORATION LIMITED

### 3.3 Avoidable payment and idle expenditure

**The Corporation paid ₹ 0.33 crore to the contractor for the work components not executed and did not utilise components created at a cost of ₹ 0.31 crore.**

With a view to develop tourism in the State, the Government of Sikkim (GoS) envisaged the development and implementation of an interactive website providing a host of services for tourists including online booking facility for hotels, vehicles, helicopter, navigation facilities, etc. The Sikkim Tourism Development Corporation Limited (Company), which was responsible for development of tourism in the State was assigned with the responsibility to complete the above project. The project also included office automation of the Company and was taken up with 100 *per cent* financial assistance aggregating to ₹ 2.03 crore<sup>18</sup> by way of grant from North Eastern Council (NEC), Government of India.

The Company awarded (June 2010) the project work of development of e-commerce web portal to M/s SIBIN Group (Contractor) at a contract value of ₹ 2.14 crore. The project was required to be completed within one year (June 2011) after award (June 2010) of work. The scope of the work *inter-alia* included the works relating to online booking portal, helicopter booking, vehicle management system, automation of office, asset information system and employee management information system.

Review of the project records and modules hosted on the web site<sup>19</sup> of the Company revealed that the Contractor had not carried out/implemented several important components of the project works costing ₹ 0.33 crore as detailed below:

**Table 3.3.1**

Sl. No.	Scope of the envisaged Module/Software	Actual Work done	Amount (₹ in crore)
1	Online booking module in the website for Helicopter Booking by specifying search criteria like date of travel, number of passengers destination including online payment facility.	Facility for online booking and payment for Helicopter and Taxi services not installed in the web. Instead,	0.12 <sup>20</sup>
2	Online booking module in the website for Taxi Reservation by specifying search criteria like date of travel, number of passengers, destination, and vehicle type including online payment facility.	guideline/information for offline booking only was provided in the web.	0.15 <sup>21</sup>
3	Provision of an application software, viz. Vehicle Management System for effective management of the Corporation's five luxury taxis.	No such software available in the Corporation's computers.	0.06 <sup>22</sup>
<b>TOTAL</b>			<b>0.33</b>

<sup>18</sup> Released ₹ 0.24 crore in April 2010, ₹ 0.49 crore in April 2011 and ₹ 1.30 crore in March 2012.

<sup>19</sup> [www.sikkimstdc.com](http://www.sikkimstdc.com)

<sup>20</sup> System Requirement Study (SRS) and freezing ₹ 0.01 crore plus Application Development cost ₹ 0.11 crore.

<sup>21</sup> ₹ 0.01 crore for SRS and freezing and ₹ 0.14 crore for Application and Development.

<sup>22</sup> (₹ 0.01 crore for SRS and ₹ 0.05 crore for development).

Despite the above mentioned deficiencies in completion of the project work, the Company released (April 2012) the payment of ₹ 0.33 crore to the Contractor in respect of the modules not made available on the web and software/work not provided to the project.

Audit further observed that various application software components developed with a value of ₹ 0.31 crore remained unutilised/underutilised by the Company as detailed below:

Table 3.3.2

Sl. No.	Application Software installed	Utilisation of the Application Software	Amount (₹ in crore)
1	Installation of an application software, viz. Human Resource Information Management System (HRIMS) in the in-house computer system with ability to generate various employee related reports including payroll preparation. The software was installed in March 2013.	Yet to be utilised by the Company even after 17 months of its installation. Data entry not made into the software and all required reports and payroll being done manually due to delay in imparting of necessary training to the employees of the company by the contractor.	0.08 <sup>23</sup>
2	Installation of an application software, viz. Asset Management. Incorporated along with HRIMS in March 2013.		0.07 <sup>24</sup>
3	Application software for online hotel reservation system. Accordingly, an online booking system for hotels has been incorporated (since June 2013) in the web site.	Of the 22 locations <sup>25</sup> incorporated in the online booking module, only 11 hotels in two locations (10 in Gangtok and one in Pelling) were provided with hotel information and online booking.	0.16 <sup>26</sup>
<b>TOTAL</b>			<b>0.31</b>

Thus, the Company irregularly released payment of ₹ 0.33 crore to the contractor against the work components not executed and also could not fully utilise the facilities created at a cost of ₹ 0.31 crore, thereby defeating the intended objectives of the project.

The Company stated (August 2015) that the helicopter service is used mainly for the purposes like medical emergencies, departmental exigencies, etc., instead of being restricted to ferrying passengers; and thus, the use of the booking facility developed was restricted. Further, the built in facilities for online booking of Taxi service and Vehicle Management System could not be used due to small size of available vehicle fleet. The Company further stated that the Human Resource Information Management System (HRIMS) and Asset Management are installed and the details are uploaded.

The plea of the Company regarding restricted use of helicopter services and availability of small vehicle fleet raises questions on the investment made by the Company for installation of on-line booking portal under the project. Further, the reply regarding installation of HRIMS and Asset Management does not address the audit observation

<sup>23</sup> (₹ 0.01 crore for SRS + ₹ 0.07 crore for development).

<sup>24</sup> (₹ 0.01 crore for SRS and ₹ 0.06 crore for development).

<sup>25</sup> 20 in Sikkim and two outside.

<sup>26</sup> ₹ 0.01 crore for SRS and ₹ 0.15 crore for Application development cost.



regarding preparation of all related reports and pay rolls manually despite availability of system.

The matter was reported (May 2015) to the Government; their reply had not been received (October 2015).