EXECUTIVE SUMMARY

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This Audit Report has been prepared in five chapters. Chapters I to IV deal with Social, Economic, Public Sector Undertakings and Revenue Sectors and Chapter V deals with Follow up of Audit observations.

This Report contains 25 audit paragraphs (including 12 general paragraphs) and three performance audits. According to the existing arrangements, copies of the draft compliance audit paragraphs and draft performance audits were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies received have been suitably incorporated. Replies were not received for three paragraphs (2.4, 2.6 and 4.12).

SOCIAL SECTOR

The Chapter on Social Sector includes a Performance Audit on Targeted Public Distribution System and three Compliance Audit Paragraphs.

PERFORMANCE AUDIT

Targeted Public Distribution System

The State Government was responsible for identification of beneficiaries, issue of ration cards and distribution of foodgrains through Targeted Public Distribution System (TPDS) for ensuring food security at affordable prices. The Performance Audit on implementation of the TPDS in the State revealed that the State Government had not reviewed/updated the lists of beneficiaries to prevent the distribution of foodgrains to ineligible individuals/households. There was substantial difference between the number of Below Poverty Line (BPL) beneficiaries as per report of Department of Economics Statistics Monitoring and Evaluation and the BPL beneficiaries identified by the Department. The BPL beneficiaries were issued dual ration cards both under BPL and Above Poverty Line categories and were availing double benefits of rice. There was diversion of Superior Kerosene Oil (SK Oil) to various entities beyond the purview of TPDS and denial to consumers of Public Distribution System (PDS) benefits due to short lifting of sugar. The consumers were overburdened due to higher selling price of PDS items, viz. SK Oil, sugar and rice. Nominated agents responsible for milling of wheat for conversion into atta and its distribution were allowed higher refraction rate of conversion besides the distribution being inconsistent and erratic. Despite allowing higher refraction rate, quality of atta was not satisfactory depriving the beneficiaries of the prescribed quality. Consumers were denied prescribed scale of rice due to diversion of monthly allotment to other schemes implemented by the State. The delayed implementation of the National

Food Security Act in the State resulted in avoidable expenditure on payment of subsidy from State exchequer. The computerisation of Supply Chain Management system of TPDS had not been completed even after four years of commencement due to which online monitoring of foodgrains allocation, storage and movements starting from the base depots of Food Corporation of India till the Fair Price Shops (FPSs) could not be achieved.

The monitoring mechanism remained largely non-functional as system of submission of periodic returns from the FPSs to districts was non-existent and inspections of the FPSs were minimal compared to prescribed schedules. Further, the Vigilance Committees constituted at various levels to monitor proper distribution of PDS commodities remained non-functional as no meetings were held during the entire period covered by Audit.

The quality aspect of foodgrains distributed remained un-assessed as samples were not collected from FPSs and food godowns and foodgrains were not tested for determination of its nutritious value and fitness for human consumption.

(Paragraph 1.3)

COMPLIANCE AUDIT

Non-installation/non-commissioning of essential medical equipment worth ₹ 9.50 crore resulted not only in idling of machines but also deprived the poor people of the intended benefit.

(Paragraph 1.4)

Award of work without prior acquisition of land led to incomplete work with an unfruitful expenditure of ₹ 1.91 crore, besides depriving the State of an Institution for Technical Education.

(Paragraph 1.5)

The departments of Human Resource Development, Roads and Bridges and Land Revenue and Disaster Management irregularly diverted ₹ 3.14 crore from Special Central Assistance under Prime Minister's Package towards creation of new assets despite clear instructions by Planning Commission that the fund was meant for re-construction/ rehabilitation of infrastructure damaged by the earthquake.

(Paragraph 1.6)

ECONOMIC SECTOR

The Chapter on Economic Sector consists of a Performance Audit on 'Jawaharlal Nehru National Urban Renewal Mission' and six Compliance Audit Paragraphs.

PERFORMANCE AUDIT

Jawaharlal Nehru National Urban Renewal Mission

The Performance Audit on Jawaharlal Nehru National Urban Renewal Mission (JNNURM) revealed that the mandatory and optional reforms for Urban Local Bodies (ULBs) were not implemented as per the guidelines of JNNURM and the commitments made in the Memorandum of Agreement. Thus, the objective of bringing about reforms in institutional, financial and structural governance of the ULBs to make them efficient, accountable and transparent could not be achieved as had been envisaged. Non-implementation of the reforms committed by the State Government led to curtailment of funds.

Gap analysis for requirement of infrastructural development was not carried out. Majority of projects were incomplete due to non-availability of land, improper survey of project sites, revision of Detailed Project Reports, delayed forest clearances etc. Cases of irregular expenditure, avoidable payment and diversion of funds also came to light.

Deficiencies in the process of selection of beneficiaries were observed leading to risk of eligible beneficiaries not getting the benefits of JNNURM. Many completed dwelling units remained un-occupied. Cases of incorrect financial reporting to Government of India were also detected.

There were delays in releasing of Central funds from the State to the implementing agencies. It was observed that the State share was not released in full.

Project implementation under the JNNURM was further affected by lack of monitoring of the projects by the State Level Sanctioning Committee whereas District Level Review and Monitoring Committee had not been constituted.

(Paragraph 2.3)

COMPLIANCE AUDIT

Failure on part of the Building and Housing Department to finalise construction site for a Community Centre at Jorethang led to time overrun in commencement which resulted in cost overrun of ₹ 1.51 crore and also infructuous expenditure of ₹ 46.45 lakh due to change of site.

(Paragraph 2.4)

Failure to achieve the objective of the Catalytic Development Programme for generating employment and earnings and to establish sericulture as a sustainable farm based profession resulted in wasteful expenditure of ₹ 2.61 crore.

(Paragraph 2.5)

Lack of effective action by Roads and Bridges Department against the contractor and a lackadaisical approach on the progress of the work led to unfruitful expenditure of ₹ 1.10 crore.

(Paragraph 2.6)

Improper planning of the Roads and Bridges Department not only led to unfruitful expenditure of ₹ 1.02 crore but also failed to achieve intended objective to provide connectivity to the habitation.

(Paragraph 2.7)

The Tourism and Civil Aviation Department irregularly diverted ₹ 3 crore from the provision made under 13th Finance Commission for construction of Sky Walk/Tower at Bhaley Dunga, Yangyang towards Ropeway at Namchi.

(Paragraph 2.8)

Despite payment of ₹ 6.27 crore for consultancy work (which included survey, investigation and design) to M/s Empire High Tech Pvt. Ltd. for Namchi Water Supply Project, the project was awarded to another contractor along with the survey and design of the Project rendering consultancy charge infructuous.

(Paragraph 2.9)

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

The Chapter on Economic Sector (Public Sector Undertakings) consists of a Performance Audit on “Implementation of 1,200 MW Teesta Stage III hydro electric project in Sikkim” and one compliance audit paragraph.

PERFORMANCE AUDIT

Implementation of 1200 MW Teesta Stage III hydro electric project in Sikkim

The State Government set (June 2004) a target of producing 3,000 MW of additional power by the end of 11th Five Year Plan (2007-12). In line with the target, State Government took up the implementation of 1,200 MW Teesta Stage III hydro electric project (Teesta III) in February 2005 through private participation under joint sector with the State Government.

The State Government allotted (February 2005) the project to a consortium of private developers without verifying the experience of the consortium leader. The project was to be implemented by a Special Purpose Vehicle namely, Teesta Urja Limited (TUL) with committed equity contribution of 74 *per cent* (private consortium) and 26 *per cent* (State Government) in TUL’s capital. The State Government failed to ensure adherence to the agreement conditions by the private consortium with regard to change in composition of consortium and committed contribution towards project funding. The financial constraints faced by TUL on this account contributed towards delay in completion of project for more than 4 years (November 2016) with reference to the scheduled completion

(September 2012) defeating the primary objective of executing the project through private participation under joint sector with the State Government. The delay of 416 days was attributable to failure of the private developers to subscribe towards the committed equity portion of TUL for the second cost overrun of the project. Ultimately, the State Government had to take over the project through equity infusion in TUL. For the purpose, the State Government acquired 31.24 crore equity shares of TUL (face value: ₹ 10 per share) held by the private consortium at ₹ 8.53 per share, which was calculated based on the valuation report prepared by TUL for internal management analysis. While releasing payments against take over of project, the State Government failed to recover the penalty for delay in commissioning of the project (₹ 2.30 crore) and the additional costs incurred (₹ 131.37 crore) due to inefficiency of the private developers.

The State Government did not constitute multi-disciplinary committee and project level welfare committee for monitoring of the project. As a result, implementation of the project had suffered.

(Paragraph 3.2)

COMPLIANCE AUDIT

Failure of State Bank of Sikkim (SBS) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO) to file their respective income tax returns in due time resulted in an avoidable loss of ₹ 9.62 crore (₹ 7.15 crore as interest and ₹ 2.47 crore as income tax) to SBS (₹ 8.33 crore) and SIDICO (₹ 1.29 crore).

(Paragraph 3.3)

REVENUE SECTOR

The Chapter on Revenue Sector contains the results of audit on Collection of Revenue from State Excise (Abkari) and two other Compliance Audit Paragraphs. This Chapter gives an overview of revenue receipts which shows an increase of ₹ 128.50 crore on account of tax and non-tax receipts. The analysis of arrears of revenue as on 31 March 2016 showed that ₹ 237.66 crore was outstanding, of which ₹ 101.86 crore was outstanding for more than five years.

COMPLIANCE AUDIT

Audit on Collection of Revenue from State Excise (Abkari): The collection of revenue from State Excise had various non-compliance issues and improper regulation of duties which consequently resulted in loss of revenue such as loss of Excise revenue on bottling fees, loss of minimum Excise revenue due to short production of Indian Made Foreign Liquor (IMFL) from the Extra Neutral Alcohol and short production of beer from the wort consumed, loss of Excise Duty due to reduction of ex-factory price of beer, etc.

The system of issuance of licenses/permits were not monitored resulting in an under-utilisation of installed/production capacity by distilleries/breweries, non-realisation of proportionate arrear of the license fees at revised rates and non-compliance of directives of Ministry for removal of the existing liquor shops along National Highway.

There was non-accounting of holograms leading to benefits to the distilleries/breweries and inadequate assurance of authenticity of liquor.

The internal control mechanism in place was also found inadequate and ineffective as there was shortfall in testing of samples of IMFL/beer, lack of proper documentation of inspection of distillery/brewery by the departmental officers, absence of internal audit, etc.

(Paragraph 4.10)

Transport Department's failure to conduct fitness inspection of vehicles and to realise token tax resulted in revenue loss of ₹ 3.34 crore.

(Paragraph 4.11)

The Government suffered a loss of ₹ 7.63 crore due to wrong method adopted for calculating the penalties by Urban Development and Housing Department. Besides, there was short realisation of revenue of ₹ 16.98 crore.

(Paragraph 4.12)