Chapter II
Economic Sector
(Public Sector Undertakings)

CHAPTER II
ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS)

2.1 Overview of State Public Sector Undertakings

Introduction

2.1.1 The Public Sector Undertakings (PSUs) of the State consist of the State Government Companies, Statutory Corporations and Co-operative Societies. The PSUs are established to carry out economic and commercial activities for the overall development of the State and its people. As on 31 March 2018, there were 19 PSUs (including 12 Government Companies, four Statutory Corporations and three Co-operative Societies) besides four non-working PSUs for which audit entrustment had not been extended by the State Government as detailed in **Paragraph 2.1.20**. None of the companies were listed on the stock exchange and no company was closed down during the year. The details of the PSUs in Sikkim as on 31 March 2018 are given below.

Table 2.1.1
Total number of SPSUs as on 31 March 2018

Type of PSUs	Working PSUs	Total
Government Companies registered under Sikkim Registration of Companies Act, 1961	08	08
Government Companies registered under Companies Act, 2013	04	04
Statutory Corporations	04	04
Co-operative Societies registered under Sikkim Co-operative Societies Act, 1978	03	03
TOTAL	**19**	**19**

The PSUs registered a turnover of ₹ 503.89 crore as per their latest finalised accounts as of September 2018. This turnover was equal to 2.26 *per cent* of Gross State Domestic Product (GSDP[1]) of ₹ 22,248.00 crore for 2017-18. During 2016-17, however, the contribution of turnover (₹ 185.64 crore) of PSUs was lower at 0.98 *per cent* of GSDP (₹ 18,852.00 crore). During 2017-18, the PSUs had incurred an aggregate loss of ₹ 319.01 crore as per their latest finalised accounts as of September 2018 as compared to the aggregate loss of ₹ 331.21 crore incurred by PSUs during 2016-17. The PSUs had employed 1,225 employees as at the end of March 2018.

The total investment in 19 PSUs was ₹ 17,779.31 crore. The Return on Equity (RoE) in respect of three[2] out of the 19 PSUs, was negative {(-) 1.92 *per cent*} as per their latest finalised accounts as on 30 September 2018. The accumulated losses (₹ 904 crore) of the six PSUs[3] had completely eroded their share capital (₹ 68.50 crore) as per their latest finalised accounts. Hence, RoE of these six SPSUs was not workable.

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[1] *Source: Directorate of Economic, Statistics, Monitoring and Evaluation, Government of Sikkim.*
[2] *Sl No A8, A9 and B14 of Appendix 2.1.*
[3] *Sl No A1, A2, A3, A10, A11 and B15 of Appendix 2.1.*

Accountability framework

2.1.2 The Companies Act, 1956 as well as the New Companies Act, 2013 had not been extended to the State of Sikkim. Out of 12 Government Companies in Sikkim, eight were registered under the 'Registration of Companies Act, Sikkim, 1961'. The accounts of these eight 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 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.

2.1.3 During the year 2015-16, one State Government company[4] acquired 51 *per cent* of equity share capital of Teesta Urja Limited (TUL). The TUL, a Company registered under the Companies Act, 1956, is the holding company of another State Government Company, namely, Teestavalley Power Transmission Limited (TPTL). Hence, both the companies (TUL and TPTL) were governed by the provisions of the Companies Act, 1956/Companies Act, 2013. The accounts of these two companies are audited by Statutory Auditors (Chartered Accountants) who are appointed by the CAG. In addition to the statutory audit conducted by the Statutory Auditors, supplementary audit of these companies had also been taken up by the CAG under Section 143 (6) (a) of the Companies Act, 2013[5].

2.1.4 During the years 2016-17 and 2017-18, the State Government incorporated two new companies *viz*. Namchi Smart City Limited (NSCL) and Gangtok Smart City Development Limited (GSCDL) under the Companies Act, 2013 with headquarters in Darjeeling, West Bengal. The first auditors of both the Companies were yet to be appointed by the CAG under Section 139 (7) of the Companies Act, 2013.

2.1.5 There are four Statutory Corporations in the State, namely, State Bank of Sikkim, State Trading Corporation of Sikkim, Government Fruit Preservation Factory and Temi Tea Estate established under the proclamation of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are audited by 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)[6] of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

2.1.6 There are three Co-operative Societies *viz*., Sikkim State Co-operative Bank, Sikkim State Co-operative Supply and Marketing Federation and Sikkim Milk Union. The accounts of these three co-operative societies are audited by Statutory Auditors (Chartered Accountants) who are directly appointed by the BoDs of the respective co-operative societies. In addition to the statutory audit conducted by the Statutory Auditors,

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[4] *Sikkim Power Investment Corporation Limited*

[5] *The audit of accounts of the Government Companies from the financial year 2014-15 onwards is governed by the Companies Act, 2013.*

[6] *Based on the entrustment/ request for the audit of the accounts of these corporations from the Governor of the State from time to time.*

supplementary audit of these co-operative societies had also been taken up by the 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.

Stake of Government of Sikkim

2.1.7 The State Government has huge financial stake of ₹ 2,319.51 crore in these PSUs. 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 PSUs from time to time.
- **Special Financial Support-**State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-**State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in PSUs

2.1.8 As on 31 March 2018, the investment (capital and long-term loans) in 19 PSUs was ₹ 17,779.31 crore as per details given below.

Table 2.1.2
Total investment in SPSUs

(₹ in crore)

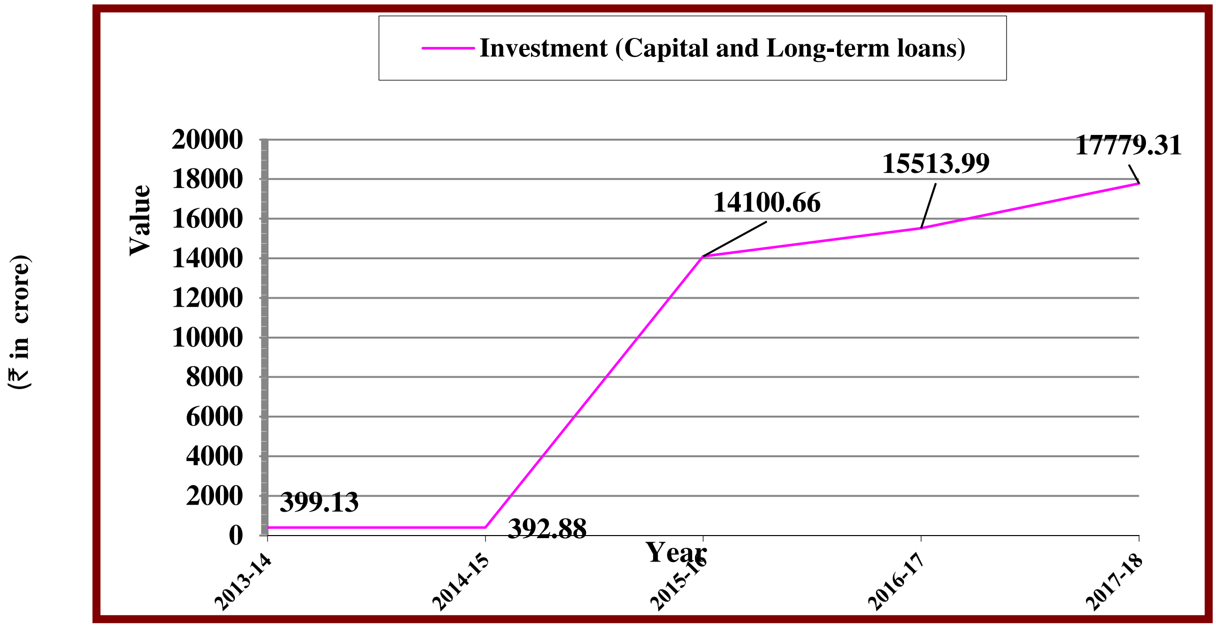
Type of PSU	Capital	Long Term Loans	Total Investment
Government Companies	3,678.46	13,884.89	17,563.35
Statutory Corporations	2.14	178.25	180.39
Co-operative Societies	18.47	17.10	35.57
TOTAL	**3,699.07**	**14,080.24**	**17,779.31**

Total investment in PSUs as on 31 March 2018 was ₹ 17,779.31 crore. This total investment consisted of 20.80 *per cent* in capital and 79.20 *per cent* in long-term loans. The investment had increased significantly by 4,354.52 *per cent* from ₹ 399.13 crore (2013-14) to ₹ 17,779.31 crore (2017-18) as shown in **Chart 2.1.1**. The increase (₹ 17,380.18 crore) in the total investment was mainly due to inclusion of investment aggregating ₹ 17,324.89 crore (capital: ₹ 3,635.35 crore; long term loans: ₹ 13,689.54 crore) as on 31 March 2018 in respect of four power sector companies[7].

[7] *A-8, A-9, A-10 and A-11 of Appendix 2.1.*

Chart 2.1.1

Total investment in PSUs



2.1.9 The sector wise summary of investments in the PSUs as on 31 March 2018 is given below:

Table 2.1.3

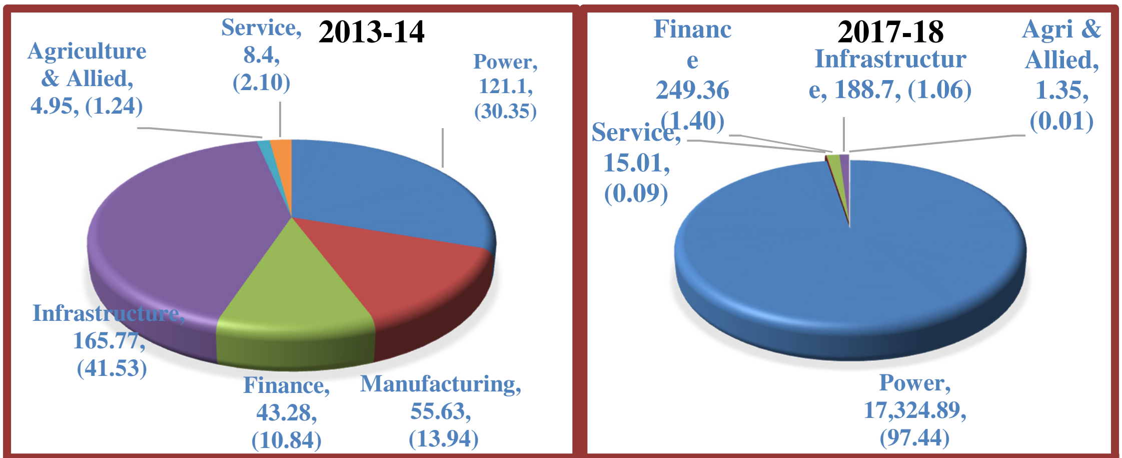
Sector-wise investment in SPSUs

Name of Sector	Government Companies	Statutory Corporation	Cooperative Societies	Total	Investment (*₹ in crore*)
Power	4	0	0	4	17,324.89
Finance	1	1	1	3	249.36
Service	1	1	1	3	15.01
Infrastructure	3	0	0	3	188.70
Agriculture & Allied	3	2	1	6	1.35
TOTAL	**12**	**4**	**3**	**19**	**17,779.31**

The investment in five significant sectors and percentage thereof at the end of 31 March 2014 and 31 March 2018 are indicated in **Chart No. 2.1.2**.

Chart 2.1.2

Sector wise investment in PSUs



Investment figures: ₹ in crore; Figures in brackets indicated percentage to total investments

It may be seen from **Chart No. 2.1.2** that during 2017-18, the thrust of PSU-investment was mainly in power sector companies[8], which constituted more than 97 *per cent* of the total investment (₹ 17,779.31 crore) in PSUs. During the period of five years from 2013-14 to 2017-18, investment in PSUs increased in four out of six sectors (*viz*., finance, service, infrastructure and power sector) and PSUs involved in manufacturing were shut down. There was decrease in investments in Agriculture and Allied sector due to closure of one PSU[9]. The investment in power sector PSUs, however, had increased significantly by ₹ 17,203.79 crore from ₹ 121.10 crore (2013-14) to ₹ 17,324.89 crore (2017-18). As mentioned under **Paragraph 2.1.8** *supra*, the significant increase in the power sector investments was mainly on account of investments relating to four power sector companies (SPDC, SPICL, TUL and TPTL).

Special support and returns during the year

2.1.10 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written-off and interest waived along with the position of guarantee in respect of PSUs are given in **Table 2.1.4** for three years ended 2017-18.

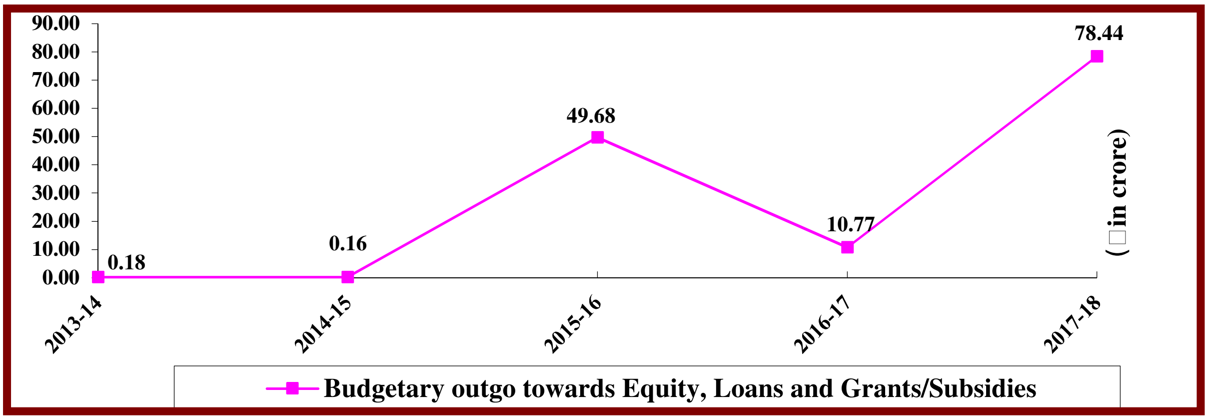
Table 2.1.4
Details regarding budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	1	4.36	1	10.66	1	11.17
2.	Loans given from budget	-	-	-	-	-	-
3.	Grants/Subsidy from budget	2	45.32	1	0.11	1	67.27
4.	**Total Outgo (1+2+3)**	**3**	**49.68**	**2**	**10.77**	**2**	**78.44**
5.	Waiver of loans and interest	1	0.05	1	13.41	1	0.06
6.	Guarantees issued	1	84.50	2	65.78	2	156.01
7.	Guarantee Commitment	2	91.02	3	81.83	2	203.83

The details regarding budgetary outgo towards equity, loans and grants/subsidies for the past five years are given in **Chart 2.1.3.**

Chart 2.1.3
Budgetary outgo towards Equity, Loans and Grants/Subsidies



[8] *Serial No. A-8,9,10 and 11 of Appendix 2.1.*
[9] *Sikkim Flour Mill Limited.*

It may be seen from **Chart 2.1.3** above that budgetary outgo to PSUs had increased by ₹ 78.26 crore from 2013-14 (₹ 0.18 crore) to 2017-18 (₹ 78.44 crore). During the four year period from 2013-14 to 2016-17, State Government had provided budgetary outgo aggregating ₹ 139.23 crore to two PSUs (Sikkim Poultry Development Corporation Limited and Sikkim Power Investment Corporation Limited). During the year 2017-18, ₹ 78.44 crore budgetary outgo was for Sikkim Power Investment Corporation Limited. As can be noticed from **Table 2.1.4** above, the Guarantee commitment increased by ₹ 122 crore from 2016-17 (₹ 81.83 crore) to 2017-18 (₹ 203.83 crore) due to obtaining of fresh loans from National Bank of Agriculture and Rural Development by Sikkim Industrial Development and Investment Corporation. As on 31 March 2018, the Guarantee commitment stood at ₹ 203.83 crore against two PSUs[10].

Reconciliation with Finance Accounts

2.1.11 Figures in respect of equity, loans and guarantees as per the records of PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case, the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of differences in figures. The position in this regard as on 31 March 2018 is given in **Table 2.1.5.**

Table 2.1.5
Equity, loans, guarantees outstanding as per Finance Accounts *vis-à-vis* records of SPSUs

(₹ in crore)

Outstanding in respect of	Amount as per records of SPSUs	Amount as per Finance Accounts	Difference	Reason for difference
Equity	2319.51	57.66	2261.85	Equity infused into SPICL not routed through budget. Equity shares of TUL purchased by Government through SPICL
Loans	2.03	39.60	37.57	Not ascertained
Guarantees	203.83	203.83	Nil	NA

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

An exercise was undertaken by the Audit to ascertain the difference in equity investment in PSUs and to reconcile the same in consultation with the PSUs and State Government. During the exercise, it was noticed that the State Government had contributed equity capital to 38 entities comprising of 27 companies, three Statutory Corporations, seven Co-operative societies and State Bank of India (SBI) including 16 PSUs, audit of which was entrusted to CAG. Out of these 16 entities, Audit observed that the differences in equity investment[11] occurred in respect of twelve PSUs[12]. The main reasons for differences were due to procurement of equity shares of Teesta Urja Limited and Teestavalley Power Transmission Limited by Government of Sikkim through Sikkim Power Investment Corporation Limited and Teesta Urja Limited respectively besides equity infusion into Sikkim Power Investment Corporation Limited without routing through the budget. In

[10] *Serial no A-4 and A-5 of Appendix 2.1.*
[11] *PSU-wise figures of loans/guarantee not available in the Finance Accounts of the State.*
[12] *Serial No. A-2, A-4,A-5,A-7 to A-10 to A-12 and C-17 to C-19 of Appendix 2.1.*

respect of the remaining 22 entities, the audit of which had not been entrusted to CAG, the relevant investment records were still awaited from the State Government.

The un-reconciled differences in respect of equity and loans stood at ₹ 2,261.85 crore and ₹ 37.57 crore respectively. The process of reconciliation of these differences has already been initiated in consultation with the Finance, Revenue and Expenditure Department (FRED), Government of Sikkim and office of the Senior Deputy Accountant General (A&E), Sikkim.

The Government and the PSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in Finalisation of accounts

2.1.12 The Companies Act, 1956/Companies Act, 2013 has not been extended to the State of Sikkim. The Government Companies in Sikkim are registered under the Registration of Companies Act, 1961 while the Statutory Corporations are governed by the proclamation of the erstwhile Chogyal (King) of Sikkim. During 2015-16, two power sector companies (TUL and its subsidiary, TPTL) which were registered under the Companies Act, 1956 became subsidiaries of one state owned company namely, Sikkim Power Investment Corporation Limited (SPICL) by virtue of acquisition of majority equity stake of TUL by SPICL.

2.1.13 During 2016-17 and 2017-18, two infrastructure companies (NSCL and GSCDL) were incorporated by the State Government as Special Purpose Vehicles (SPV). The first accounts of both the companies were yet to be prepared. **Table 2.1.6** provides the details of progress made by PSUs in finalisation of their accounts as of 30 September 2018.

Table 2.1.6
Position relating to finalisation of accounts of PSUs

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Number of Working PSUs	8	9	12	12	19
2.	Number of accounts finalised during the year	5	3	8	14	9
3.	Number of accounts in arrears	21	27	31	29	52
4.	Number of Working PSUs with arrears in accounts	8	9	8	9	13
5.	Extent of arrears (numbers in years)	1 to 5	1 to 6	1 to 7	1 to 8	1 to 9

As can be seen from **Table 2.1.6**, the arrear of accounts of PSUs had increased due to less number of accounts finalised by PSUs during the last five years. As on 30 September 2018, a total of 52 accounts of 13 SPSUs were pending for finalisation, of which, 18 accounts (35 *per cent*) pertained to two PSUs[13]. The delay in finalisation of accounts of these two PSUs was mainly due to delay in compilation/adoption of accounts by the BoDs of the respective PSUs. The administrative departments of the PSUs concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts of these PSUs are finalised and adopted within the stipulated period. The departments concerned were informed regularly (on quarterly basis) about the arrears in finalisation of accounts by these

[13] *Sl. No A-1 and A-2 of* ***Appendix 2.1.***

PSUs. No significant improvement was, however, noticed in the position of arrears of accounts of the PSUs.

Placement of Separate Audit Reports

2.1.14 The position depicted in **Table 2.1.7** shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2018) on the accounts of Statutory Corporations in the State Legislature.

Table 2.1.7
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	2012-13	2013-14 to 2015-16	08 September 2017
2.	State Trading Corporation of Sikkim	2015-16	-	-

Impact of non-finalisation of accounts

2.1.15 As pointed out above (**Paragraphs 2.1.10 to 2.1.11**), 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 PSUs to the GSDP for the year 2017-18 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 ensure timely preparation of accounts by PSUs; clear arrears in account; set targets for individual PSUs; and monitor the same.***

Performance of PSUs as per their latest finalised accounts

2.1.16 The financial position and working results of working Government companies and Statutory Corporations are detailed in **Appendix 2.1**. A ratio of PSU turnover to GSDP shows the extent of PSU activities in the State economy. **Table 2.1.8** provides the details of working PSU turnover and GSDP for a period of five years ending 2017-18.

Table 2.1.8
Details of PSUs turnover vis-a vis State GDP

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover	147.55	149.28	178.81	185.64	503.89[14]
State GDP[15]	13,862	15,407	16,954	18,852	22,248
Percentage of Turnover to State GDP	1.06	0.97	1.05	0.98	2.26

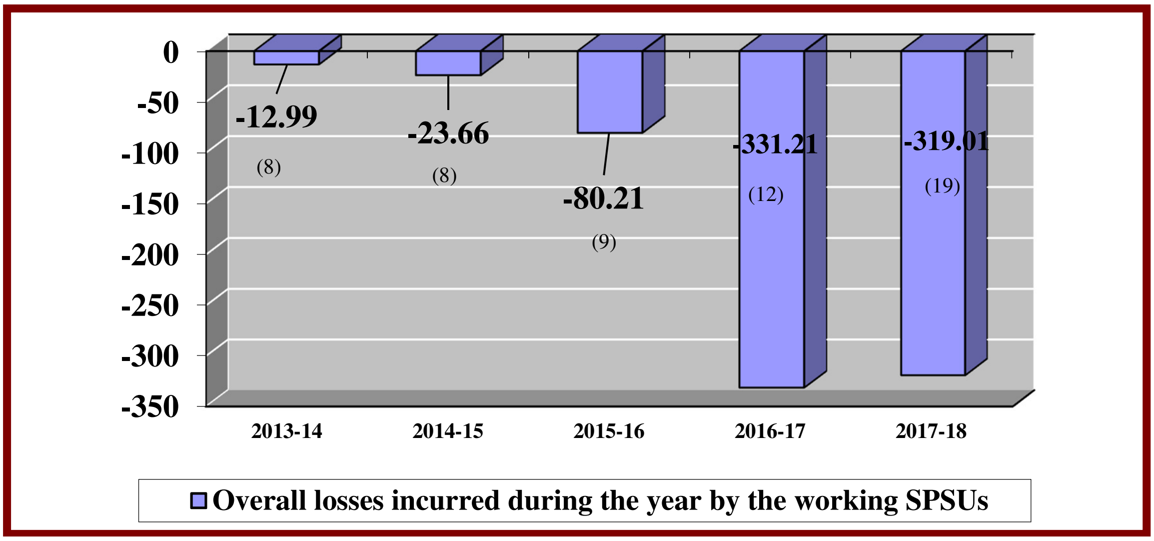
It may be noticed that during 2013-14 to 2017-18, the GSDP had grown by 60.50 *per cent* as compared to the increase of 241.50 *per cent* in the turnover of PSUs during the corresponding period. This was due to commencement of operations of TUL and TPTL during February 2017. As a result, the year-wise contribution of PSUs-turnover to GSDP

[14] *Turnover of working SPSUs as per the latest finalised accounts as of 30 September 2018*
[15] *Source: Department of Economic, Statistics, Monitoring and Evaluation, Government of Sikkim,*

for the year 2017-18 increased significantly from 0.98 *per cent* (2016-17) to 2.26 *per cent* (2017-18) of the GSDP.

2.1.17 Overall losses incurred by working PSUs during 2013-14 to 2017-18 are given in **Chart 2.1.4**.

Chart 2.1.4
Overall losses of working PSUs **(₹ in crore)**



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

As per the latest finalised accounts of 19 working PSUs as on 30 September 2018, eight PSUs[16] earned profit of ₹ 15.31 crore and 11 PSUs incurred loss of ₹ 334.32 crore. The major contributor to profit was State Bank of Sikkim (₹ 10.48 crore). The heavy losses were incurred by SPICL (₹ 235.45 crore) and TUL (₹ 57.49 crore). As could be noticed from **Chart 2.1.4** above, the overall losses incurred by working PSUs showed an increasing trend during the five years from 2013-14 to 2017-18, from ₹ 12.99 crore (2013-14) to ₹ 319.01 crore (2017-18).

2.1.18 Some other key parameters of PSUs for the last five years (2013-14 to 2017-18) as per their latest finalised accounts as on 30 September of the respective year are given in **Table 2.1.9**.

Table 2.1.9
Key Parameters of PSUs of the State

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Return on Capital Employed (*Per cent*)	4.36	3.91	10.34	9.57	8.27
Debt	273.89	273.25	8,936.15	12,225.77	14,080.24
Turnover[17]	147.55	149.28	178.81	185.64	503.89
Debt-Turnover Ratio	1.86:1	1.83:1	49.98:1	65.86:1	27.94:1
Interest Payments	90.15	88.16	1,235.63	1,659.22	1,715.35
Accumulated losses	97.92	117.72	328.72	794.95	1,008.05

From the above **Table 2.1.9**, it can be noticed that the Debt-Turnover Ratio of PSUs has increased significantly after 2014-15 mainly due to addition of three power sector

[16] *Serial No. A-4, 5, 12, B-13, 15 and C-17, 18 and 19 of* ***Appendix 2.1.***
[17] *Turnover of working SPSUs as per their latest finalised accounts as on 30 September of respective year.*

companies[18] under the audit purview of CAG during 2015-16. During 2017-18, the said three PSUs had significant debts aggregating ₹ 13,639.26 crore as per their latest finalised accounts as on 30 September 2018. The debt-turnover ratio declined from 65.86:1 in 2016-17 to 27.94:1 in 2017-18 due to commencement of operations from February 2017 by TUL and TPTL.

2.1.19 The State Government had not formulated (October 2018) any dividend policy regarding payment of minimum dividend by PSUs. As per their latest finalised accounts as on 30 September 2018, eight[19] PSUs earned aggregate profit of ₹ 15.31 crore.

Winding up of non-working SPSUs

2.1.20 There were four non-working PSUs (three Companies and one Statutory Corporation) as on 31 March 2018 for which entrustment of audit had expired and has not been renewed by the State Government. The audit of accounts of three[20] out of these four PSUs had been entrusted to CAG for five years up to 2016-17. The audit of the fourth PSU[21] was, however, entrusted to CAG for five years up to 2017-18. Three out of four PSUs mentioned above were under closure (April 2011) whereas the Statutory Corporation was under liquidation proceedings (October 2016) 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 by 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.

2.1.21 The assets of the three out of four non-working PSUs (all companies) had been disposed of and the proceeds remitted (December 2012) to the Government of Sikkim. The liquidation of the fourth non-working PSU (Sikkim Mining Corporation) was approved (October 2016) by the Department of Mines, Minerals and Geology, Government of Sikkim and its liabilities (₹ 6.85 crore) were also waived (October 2016)

Accounts Comments

2.1.22 Six companies[22] forwarded their seven audited accounts to Accountant General (Audit), Sikkim during the year 2017-18 (October 2017 to September 2018). Six accounts pertaining to five companies were selected for supplementary audit. The accounts of one company was not reviewed by CAG. The details of aggregate money value of comments of statutory auditors and CAG for last three years (2015-18) are given in **Table 2.1.10.**

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[18] *Serial no A-8, A-9 and A-10 of Appendix 2.1.*

[19] *Serial No. A-4, A-5, A-12, B-13, B-15, C-17, C-18 and C-19 of Appendix 2.1.*

[20] *Sikkim Jewels Limited, Sikkim Times Corporation closed on 30.04.2011 and Sikkim Mining Corporation closed on 06.10.2016*

[21] *Sikkim Precision Industries Limited closed on 30.04.2011*

[22] *TUL, TPTL (2 accounts), SIDICO, SPICL(Non-review), SABCCO and STDC*

Table 2.1.10
Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.01	1	2.92	2	2.84
2.	Increase in loss	2	6.57	2	6.38	0	0
3.	Non-disclosure of material facts	1	1.22	1	2.03	0	0
4.	Errors of classification	Nil	Nil	Nil	Nil	1	2.05

During the year 2017-18, two working Statutory corporations[23] had submitted two years accounts (2016-17) to the Accountants General (Audit) for supplementary audit. The audit of all the two accounts was completed and SARs also issued (February/May 2018).

Response of the Government to Audit

Performance Audits and Paragraphs

2.1.23 For the present chapter of the Report of the CAG for the year ended 31 March 2018, Government of Sikkim, three compliance audit paragraphs involving two departments[24] were issued to the Secretaries of the respective departments with request to furnish replies within six weeks.

Follow up action on Audit Reports

Replies outstanding

2.1.24 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 authorities. According to instructions issued by the FRED, all the administrative departments concerned were required to furnish explanatory notes on the paragraphs/ performance audits included in the Audit Reports of the CAG 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 (PAC). The status of explanatory notes are as follows:

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[23] *State Bank of Sikkim and State Trading Corporation of Sikkim*
[24] *Energy and Power Departments and Finance, Revenue and Expenditure Department*

Table 2.1.11
Explanatory notes not received (as on 30 September 2018)

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
2013-14	17 March 2015	1	4	1	3
2014-15	28 March 2016	0	2	0	0
2015-16	18 March 2017	1	1	1	1
2016-17	12 July 2018	1	0	1	0
TOTAL	**-**	**3**	**7**	**3**	**4**

From the **Table 2.1.11**, it may be seen that the explanatory notes to four paragraphs and three performance audits (PA) pertaining to five Companies/Corporations[25] were not received (October 2018).

Discussion of Audit Reports by Public Accounts Committee

2.1.25 The status of discussion on PAs and paragraphs as on 30 September 2018 relating to PSUs that appeared in State Audit Reports and discussed by the PAC has been detailed in **Table 2.1.12.**

Table 2.1.12
Performance Audits/Paras relating to PSUs appeared in Audit Reports *vis-à-vis* discussed as on 30 September 2018

Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2012-13	0	2	Nil	Nil
2013-14	1	4	Nil	Nil
2014-15	0	2	Nil	Nil
2015-16	1	1	Nil	Nil
2016-17	1	0	Nil	Nil
TOTAL	**3**	**9**	**Nil**	**Nil**

Compliance to Reports of Public Accounts Committee

2.1.26 Action Taken Notes (ATNs) in response of seven recommendations pertaining to three Reports of the Public accounts Committee (PAC) presented to the State Legislature as of March 2018 had not been received (October 2018) as indicated in **Table 2.1.13**.

Table 2.1.13
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
2009-10 (AR 2006-07)	1	3	Nil
2010-11 (AR 2007-08)	1	2	Nil
2013-14 (AR 2008-09)	1	Nil	NA
2015-16 (AR 2009-10)	1	Nil	NA

[25] *Serial No. A-5, A-8, A-11, B-13 and B-14 of Appendix 2.1.*

Year of the PAC Report	Total Number of PAC Reports	Total No. of Recommendation in PAC Report	No. of Recommendations where ATNs not received
2016-17 (AR 2010-11)	1	Nil	NA
2017-18	Nil	Nil	Nil
TOTAL	**5**	**5**	**Nil**

It is recommended that the Government may ensure:

(a) furnishing of replies/explanatory notes to Paragraphs/Performance Audits and ATNs on the recommendations of PAC as per the prescribed time schedule;

(b) recovery of loss/outstanding advances/overpayments within the prescribed period; and

(c) revamping of the system of responding to audit observations.

Coverage of this report

2.1.27 This Chapter on PSUs contains four compliance audit paragraphs pertaining to two PSUs *viz* Sikkim Power Investment Corporation Limited (SPICL) and Sikkim Marketing Federation (SIMFED) which are under the administrative control of the Energy and Power Department and Co-operation Department respectively.

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

2.1.28 As part of the power sector reforms introduced (May 2003) in the country, separate companies were required to be formed to look after the activities of generation, transmission and distribution of electricity in the State. The activities relating to generation, transmission and distribution of electricity in the State of Sikkim, however continued to be managed and controlled by the Energy and Power Department, Government of Sikkim (December 2018).

SIKKIM POWER INVESTMENT CORPORATION LIMITED

2.2 Blockage of funds and avoidable expenditure

Sikkim Power Investment Corporation Limited failed to undertake due diligence before infusing second tranche of borrowed funds into 120 MW Rangit IV Hydroelectric project leading to blockage of ₹ 25 crore and consequent avoidable interest expenditure of ₹ 15.14 crore.

In order to develop the 3x40 Megawatt (MW) Rangit IV Hydroelectric project (the project) on Build, Own, Operate and Transfer (BOOT) basis, the State Government entered into an Agreement (December 2005) with Jal Power Corporation Limited (JPCL). As per clause 4.9.1 of the Agreement (agreement), the State Government was to infuse 26 *per cent* equity into JPCL. The balance 74 *per cent* was to be infused by other private shareholders of

JPCL; and JPCL, on the request of the State Government, should arrange the funding for equity participation of the State Government in JPCL which would be repaid utilising the proceeds from sale of free power and dividends. However, State Government had the freedom to arrange its own equity.

The project was estimated to cost ₹ 775.30 crore to be funded by way of equity and debt in the following manner:

- Equity of ₹ 193.83 crore was to be infused into JPCL by a consortium of 11 private companies led by Coastal Project Limited (CPL) and State Government in the ratio 74:26 respectively; and
- JPCL to borrow funds of ₹ 581.47 crore from banks and other financial institutions.

Initially, JPCL was formed with a total equity of ₹ 138.89 crore contributed by a consortium of 11 private companies led by Coastal Project Limited (CPL) which held 68.25 *per cent* of the total equity of JPCL and the work on the project commenced from June 2008. CPL was awarded the contract for the work of construction of dam and Head Race Tunnel (HRT) for the project by JPCL.

As per the agreement, the State Government was to infuse ₹ 50.40 crore as equity in JPCL. In order to infuse its portion of equity share, the State Government instructed (March 2013) Sikkim Power Investment Corporation Limited[26] (SPICL) to obtain a loan of ₹ 50 crore and infuse ₹ 25 crore into JPCL (March 2013) by purchase of equity shares of JPCL. The SPICL borrowed the required funds from Power Finance Corporation (PFC).

The JPCL requested (July 2013) the State Government to infuse the balance ₹ 25.40 crore to ensure that project work continues and to draw ₹ 67 crore loan from lenders. The work on the project was suspended in October 2013 on account of non-availability of funds. The SPICL further infused ₹ 25 crore into JPCL in February 2014 on the basis of July 2013 letter of JPCL. Even after the second infusion of funds, work on the project did not resume. Due to time and cost overrun, the project cost was revised (July 2014) to ₹ 1,455.03 crore. Subsequently, in July 2014, JPCL abandoned work on the project as it was not able to obtain funding for the revised cost. The equity shareholding of JPCL since abandoning the project is detailed below:

Table 2.2.1
Details of equity shareholding of JPCL since abandoning the project

Shareholder details	Number of Shares	Value of shares in (₹ in crore)	In *per cent*
Coastal Project Limited and other private investors	13,88,87,500	138.89	73.53
SPICL	5,00,00,000	50.00	26.47
Total	18,88,87,500	188.89	100
Excess shareholding in JPCL by SPICL	8,87,797.51	0.89	0.47

In January 2018, the National Company Law Board (NCLB), Kolkata had ordered corporate insolvency proceedings on CPL, the lead private promoter of the project and civil

[26] *A wholly owned State Government company registered under Sikkim Registration of Companies Act 1961 which serves as a SPV for funding power projects in Sikkim*

contractor, due to non-repayment of loans to State Bank of India. Further, the NCLB, Hyderabad had (July 2018) admitted insolvency proceedings against JPCL based on the petition of PFC.

In this regard, audit observed that SPICL did not undertake adequate due diligence before infusion of second tranche of ₹ 25 crore as it failed to ensure following course of action:

Review of Financial Statements of JPCL and CPL

The SPICL failed to review the financial statements of JPCL and CPL before infusing the second tranche. Consequently, SPICL failed to notice the excessive borrowings of CPL and the unadjusted advance of ₹ 72.36 crore given to CPL by JPCL.

Inspection of project site

SPICL failed to inspect the project site before infusing the second tranche of funds and failed to notice the stoppage of work on the project.

Induction of State Government nominated Director in the Board of JPCL

For 26 *per cent* equity shareholding in JPCL, the State Government had the right to induct two Directors in the Board of Directors of JPCL. After acquiring 13.23 *per cent* of the equity of JPCL in March 2013, SPICL did not ensure induction of one State Government nominated Director in the Board of JPCL. Hence, the State Government could neither contribute to the monitoring of the work nor ensure the continuation of the work on the project.

Equity infusion from Private Promoters towards cost overrun

The work on the project was suspended in October 2013 as JPCL could not obtain requisite equity funds from private promoters towards cost overrun of the project. Without ensuring equity infusion from private promoters, SPICL infused the second tranche of ₹ 25 crore. Consequently, the work on the project did not recommence and the project was abandoned by JPCL in July 2014.

Compliance to Clause 4.9.1 of the agreement

In October 2013, Finance, Revenue and Expenditure Department (FRED) had instructed Energy and Power Department that, for the infusion of second tranche of ₹ 25 crore, funds may be arranged by JPCL for the State Government equity as stipulated in Clause 4.9.1 of the agreement. However, SPICL did not ensure compliance of the instructions of FRED and instead infused (February 2014) the second tranche of ₹ 25 crore by borrowing funds from PFC.

In reply, the Management stated (November/December 2018) the following:

- the second equity infusion was done with clear intent and in the interest that the project was continued. Necessary due diligence of project was carried out by the Independent Engineer appointed by the lead lender Power Finance Corporation;
- the process of nomination of State Government nominee Directors commenced in October 2013 and before it could be completed, the project construction works were stalled; and

- the PFC had sanctioned ₹ 50 crore for equity infusion in Rangit IV to SPICL and since it was at competitive interest rate, the instruction of FRED was not adopted.

The reply was not acceptable as:

- the due diligence referred by the Management pertains to the lender and not for infusion of equity funds.
- the process of induction of Directors and infusion of equity should have been simultaneously done.
- FRED had specifically instructed that the second infusion should be kept in abeyance till the shareholding agreement and articles of association of JPCL are vetted by Financial Advisor and the Committee appointed by the Government. Further, FRED specifically instructed that the second tranche of equity infusion should be arranged by private promoter as stipulated in the agreement between Government and JPCL. Had SPICL complied with the instruction of FRED, it could have avoided infusing the second tranche of equity infusion and consequent outflow of interest payments.

Thus, the failure of SPICL to undertake adequate due diligence resulted in blockage of borrowed funds of ₹ 25 crore and consequent avoidable interest expenditure of ₹ 15.14 crore[27]. Further, considering that both CPL and JPCL are under corporate insolvency resolution process, the possibility of recovery of ₹ 50 crore appears remote.

2.3 Extra expenditure

Sikkim Power Investment Corporation Limited failed to service the loan with the Independent Power Producer (IPP) on monthly basis and also reimbursed penal interest to IPP leading to extra expenditure of ₹ 2.21 crore.

A tripartite agreement was entered (November 2003) between the State Government, Sikkim Power Development Corporation Limited (SPDCL)[28] and GATI Investments Limited (GATI) for the development of 57 MW Chuzachen project (the project). As per the agreement, GATI was entitled to sell the electricity generated from the project to buyers for a period of 35 years from the date of commercial operation. GATI was to pay royalty of 12 *per cent* of power generated from the project as free power or cash equivalent and two *per cent* of the energy transmitted as wheeling charges[29] to the State Government; while access roads and transmission lines for the project was to be provided by the State Government at its own cost.

The State Government engaged (April 2005) SPDCL to construct the access roads. GATI provided (April 2005 to May 2013) a loan of ₹ 3.75 crore to SPDCL for construction of the access road as SPDCL did not have funds. GATI claimed (February 2015) an amount of

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27 ₹25 crore for the period from 1 March 2014 to 30 November 2018 (57 months) @ 12.75% per annum.

28 A company registered under Sikkim Registration of Companies Act 1961 in which the State Government holds 51 per cent stake. It is in the business of development and operation of micro and mini hydel projects in Sikkim.

29 A charge for utilising the transmission line.

₹ 9.89 crore including interest (₹ 6.14 crore) on the loan for the period from April 2005 to December 2014.

The work of constructing the transmission line for the project was entrusted (September 2008) to GATI by the State Government. GATI borrowed (January 2009) ₹ 33.80 crore, from Industrial Finance Corporation of India Limited (IFCI), for the construction of the transmission line. The transmission line was constructed at a total cost of ₹ 68.60 crore which comprised of:

Table 2.3.1
Components of cost in respect of transmission line

Components of cost in respect of transmission line	₹ in crore
Principal loan borrowed from IFCI by GATI on behalf of State Government	33.80
Interest charged by IFCI for the period from January 2009 to 06 November 2013	19.37
Interest charged by IFCI for the period from 7 November 2013 to 6 January 2015	03.38
Debt syndication, processing fees, lenders independent engineer fees	0.80
Margin money infused by GATI	06.54
Interest charged on Margin Money (January 2009 to April 2013)	04.71
Total cost of Transmission Line	**68.60**

The State Government and GATI agreed (January 2006/ 2009) that the loans taken for construction of access roads and transmission line for the project would be repaid by using the proceeds of royalty of power generated and wheeling charges due from the project. GATI claimed (February 2015) an amount of ₹ 78.49 crore from the State Government towards the loan lent to SPDCL for construction of access road (₹ 9.89 crore) and towards the cost of construction of transmission line (₹ 68.60 crore).

The project commenced commercial operation from May 2013 and GATI failed to service the loans utilising the monthly royalty and wheeling charges payable from 31 May 2013. Consequently, as of March 2015, GATI was to pay an amount of ₹ 29.63 crore to the State Government towards royalty (₹ 25.84 crore) and wheeling charges (₹ 3.79 crore) for the period from 18 May 2013 to 31 December 2014.

In March 2015, the State Government transferred the assets of the transmission line facility of the project to a State Public Sector Undertaking, Sikkim Power Investment Corporation Limited[30] (SPICL) so that SPICL could raise funds to repay GATI. Accordingly, SPICL availed a loan of ₹ 58.82 crore from Power Finance Corporation (PFC) and finally settled (May 2015) the dues of ₹ 78.49 crore to GATI after deducting ₹ 29.63 crore towards royalty and wheeling charges.

In this regard, Audit observed the following:

1. While settling the liabilities of the project, SPICL failed to adjust the loan on a monthly basis with royalty and wheeling charges which became due from May 2013. Thus, had the monthly royalty and wheeling charges been utilised on a monthly basis to service the loan taken for construction of access road, the loan could have been discharged by 30 November 2013 itself as detailed in the **Appendix 2.2**. Thus, SPICL, by not adjusting the royalty and

[30] *A wholly owned State Government company registered under Sikkim Registration of Companies Act, 1961 which serves as a SPV for funding power projects in Sikkim.*

wheeling charges on a monthly basis, incurred an extra expenditure of ₹ 1.49 crore[31] as interest as detailed in the **Appendix 2.2**.

2. In respect of construction of transmission line for the project, GATI had availed, and repaid, a loan of ₹ 33.80 crore from IFCI Ltd. As the loan was taken for the construction of the transmission line, GATI claimed reimbursement of the repayment of loan which included interest charges of ₹ 3.38 crore. The interest charges of ₹ 3.38 crore included ₹ 71.70 lakh of penal interest and liquidated damages paid by GATI to IFCI Ltd. as GATI had delayed the repayment of loan instalments. Consequently, SPICL incurred an extra expenditure of ₹ 71.70 lakh by allowing reimbursement of penal interest and liquidated damages.

The Management stated (November/December 2018) in reply that the State Government had instructed GATI to deposit the entire amount on account of royalty and wheeling charges without any deduction. The Management further added that the State Government has now engaged a Chartered Accountant to reconcile the issue.

The reply was not acceptable as SPICL had settled the loan without considering monthly servicing of loan utilising the royalty and wheeling charges.

Thus, by not servicing the loan through royalty and wheeling charges on a monthly basis and by allowing reimbursement of penal interest and liquidated damages, SPICL incurred an extra expenditure of ₹ 2.21 crore[32].

SIKKIM STATE CO-OPERATIVE SUPPLY AND MARKETING FEDERATION LIMITED

2.4 Non-adoption of open tendering resulting into additional expenditure

For procurement of Double Seated Desk & Bench, Sikkim State Co-operative Marketing Federation Limited posted the tender advertisement only on its own website and restricted the bid to only its registered suppliers resulting in additional expenditure of ₹ 0.60 crore.

The Sikkim State Co-operative Supply and Marketing Federation Limited (SIMFED) was established in 1983, under Sikkim Co-operative Societies Act, 1978 with the objectives of supply of agricultural inputs to farmers, sale/marketing of agricultural produce, carrying on trading in agricultural produce and any other essential commodities, *etc.*, as an apex marketing Co-operative Society for the State Government.

Clause 6.2 of the Purchase Manual of the SIMFED stipulated that if the estimated value of procurement was above ₹ 25 lakh, the procurement should be through open tender

[31] *₹9.89 crore – ₹. 8.40 crore.*
[32] *₹1.49 crore + ₹0.72 crore.*

advertised in one local newspaper and one national newspaper with a time frame of six weeks for submission of bids.

Human Resource Development Department, Government of Sikkim had placed (October 2015) an order with the SIMFED to supply 3,832 numbers of double seated desk and benches (furniture sets) within one month (November 2015), to be procured from authentic manufacturers or authorised dealers.

The SIMFED sought (28 October 2015), through its website, bids from its registered dealers/suppliers for supply of 3,832 furniture sets. The bids were to be submitted by 10 November 2015. In response, three registered suppliers submitted their bids. The supply order was issued (18 November 2015) to L_1 bidder at his quoted rate of ₹ 5,980 per set and the delivery was completed on November 2016. The SIMFED made a total payment of ₹ 2.22 crore between October 2016 and November 2017 towards the supply.

Audit observed that the SIMFED did not publish the Notice Inviting Tender (NIT) in leading newspapers as prescribed in the Purchase Manual despite being aware of the fact that the entire supply would cost more than ₹ 25 lakh as the SIMFED had procured similar sets of furniture way back in 2010. Instead, NIT was published only on the website of the SIMFED. Besides, although the Purchase Manual prescribed open tendering, the SIMFED adopted tendering limited only to suppliers registered with SIMFED thereby leaving out the other suppliers who would have been covered through open tendering. Scrutiny showed that the SIMFED did not insist on submission of dealership certificate along with the bid although it was one of the conditions of the NIT. Thus, the SIMFED failed to ensure that the participating bidders were either original manufacturers or authorised dealers.

Audit further observed that the L_1 bidder[33] had procured the furniture sets from a manufacturer located at Siliguri at a cost of ₹ 3,500 (FOR) per furniture set and supplied the same to the SIMFED at an inflated price of ₹ 5,980 per furniture set. Even after adding of ₹ 560[34] as the freight charges approved by the Sikkim Nationalised Transport (SNT) and another ₹ six per set[35] as unloading charges and transit insurance of ₹ 350 (10 *per cent* of the price) the cost of one furniture set comes to ₹ 4,416 only.

The SIMFED replied (September 2018) that it advertised the NIT on its website as a standard practice because it was time and cost effective. The SIMFED further added that the Siliguri based firm[36] had offered to supply the same at ₹ 5,980 per set way back in 2010. Moreover, the furniture set had to be delivered in small vehicles whose rates were higher than SNT rates.

The reply was not acceptable as the purchase manual of the SIMFED clearly prescribed for publishing NIT in local and national dailies in case of all purchases above ₹ 25 lakh. By restricting the competition, it failed to avail the latest prices at which the furniture was available in the market. Further, SIMFED's contention that the furniture had to be

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[33] *Bidder quoting the lowest price*

[34] *Freight charges (₹14) x distance (180 maximum) x Load (₹ 10 ton maximum)/ no of bench per consignment i.e min 45 set and max 49 set*

[35] *Loading Charges @ ₹3 being charged by State Trading Corporation of Sikkim (another State PSU)*

[36] *Krishna Furniture and Fabricators, Siliguri*

delivered in small vehicles in lot of 10-12 sets was not based on facts as delivery challans of SIMFED showed that single vehicle containing 45 to 49 furniture sets was used to deliver in two or more schools on the same date.

Thus, the SIMFED by not following its own purchase manual had caused an additional expenditure of ₹ 0.60 crore[37] to the State Exchequer.

2.5 Avoidable liability

Sikkim State Co-operative Supply and Marketing Federation Limited purchased a building with unauthorised construction for office purposes.

As per notification issued (28 June 2007) by the Urban Development and Housing Department (UDHD), of the Government of Sikkim (GoS) under Sikkim Building Construction (Amendment) Regulations, 1991, stipulated that the maximum construction permitted within the Gangtok town area was five and half floors only and any unauthorised construction exceeding the approved plan[38] would be liable for demolition. Accordingly, the buildings are designed and buildings' designs are prepared in such a way that such design have requisite strength and capacity to bear the load of five and half floors.

In order to purchase a building for its office needs, the Sikkim State Co-operative Supply and Marketing Federation Limited (SIMFED)[39] sought (August 2015) quotations from interested individuals/trusts/associations, *etc*. having a building with a built up area of 7,000 to 10,000 square feet (sqft). Three bidders submitted their bids along with the approved drawings and other relevant records. Out of three bids received, the bid for a building with built up area of 9,179.50 sqft at a quoted price of ₹ 3.15 crore was accepted (December 2015). The SIMFED hired the services of a Government approved valuer for valuation of the selected property. The valuer, in his report submitted that the building comprised of six and a half stories of completed Reinforced Cement Concrete (RCC) structure and calculated the value of the building at ₹ 2.93 crore based on the following considerations:

Table 2.5.1
Valuation of the building comprised of six and a half stories of completed RCC

Particulars	Area (sqft)	Rate per sqft	Total value
Basement-II Floor	1,291	1,400	18,07,400
Basement-I Floor	1,762	1,400	24,66,800
Ground Floor	1,942	2,200	42,72,400
Ist Floor	1,800	2,200	39,60,000
IInd Floor	1,800	2,200	39,60,000
IIIrd Floor	1,800	2,200	39,60,000
Top Floor	551	2,200	12,12,200
Total	**10,946**		**2,16,38,800**
Add 35.50 per cent of total for Interior furnishing, land development, water supply and electrification, etc. works			*76,81,774*
		Grand Total	**2,93,20,574**

[37] *₹1,920 (₹5,980 - ₹4,416) per set x 3,832 set = 0.60 crore.*

[38] *For any construction in Gangtok town area, the building plan has to be approved by the UDHD of the Government of Sikkim under Sikkim Building Construction (Amendment) Regulations, 1991.*

[39] *Established in 1983 for supply of agricultural inputs to farmers, sale/ marketing and trading of agricultural produce, and any other essential commodities, etc. as the agent of State Government.*

The building was purchased by SIMFED at a negotiated price of ₹ 2.72 crore in December 2015.

Scrutiny of records relating to the purchase showed that the building had the approval[40] of five and a half floor covering an area of 9,179.50 sqft. Further, despite being aware of the existence of unauthorised construction, as against the approved and legally permissible level of five and a half floors in terms of the Government Notification referred above, SIMFED went ahead with the purchase of the building.

Further, in December 2017, the UDHD in supersession to all its earlier orders notified that unauthorised construction can be regularised only on submission of geo-technical report clearly certifying the soundness of the building to bear the weight of additional floors along with the payment of regularisation fees. Otherwise such constructions are liable for demolition only.

Moreover, the notification issued by the UDHD to regularise unauthorised construction in the Gangtok area was in contravention of the Sikkim Building Construction (Amendment) Regulations, 1991. As the notification issued by the Department was not in conformity with Section 18 of the Regulations which authorised the Department to fix the ceiling/ conditions for construction but the Department was not authorised to regularise the illegal construction retrospectively under Section 17 ibid. The decision to regularise unauthorised construction/additional floor over and above the originally approved building plan, may result in collapse of the building due to the fact that the building constructed as per original design was meant for bearing the load of five and half floor only and not for additional floor. Moreover, such a building structure constructed illegally over and above the permissible floor and strength was also prone to risk of loss of life and property in case of any eventuality keeping in view the seismic zone in which Sikkim falls.

On this being pointed out (June 2018), the SIMFED did not furnish a relevant reply.

Responsibility needs to be fixed against erring officials for purchase of a building with illegal construction despite having valuer's report clearly mentioning about the illegal construction.

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[40] *As per the Completion/Occupancy certificate (September 2005), Urban Development and Housing Department, Gangtok granted only five floors for occupation.*