

**CHAPTER-V:
FUNCTIONING OF STATE
PUBLIC SECTOR ENTERPRISES
(SPSEs)**

Chapter V: Functioning of State Public Sector Enterprises

This Chapter provides an overall picture on the functioning of the State Public Sector Enterprises (SPSEs). The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned/controlled Government Companies set up under the Companies Act, 2013/ Sikkim Registration of Companies Act 1961 and Statutory Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim.

SUMMARY OF FINANCIAL PERFORMANCE OF STATE PUBLIC SECTOR ENTERPRISES

5.1 Introduction

This Chapter presents the financial performance of 'State Public Sector Enterprises'. The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned companies set up under the Companies Act, 2013, Sikkim Registration of Companies Act, 1961 and Statutory Corporations set up under the statutes enacted by the Parliament and State legislature.

A Government Company is defined in Section 2 (45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary of a Government Company.

Besides, any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government controlled other Companies.

5.2 Mandate

Audit of 'Government Companies' and 'Government Controlled Other Companies' is conducted by the Comptroller & Auditor General (CAG) of India under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made thereunder. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for Government companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has the right to conduct the supplementary audit of the financial statements of such companies.

The Companies Act, 2013 and the erstwhile Companies Act, 1956 had not been extended to the State of Sikkim. Out of 13 Government Companies existing in the State

of Sikkim, four²⁷ companies were registered under the Companies Act, 1956/2013 while remaining nine²⁸ were registered under the ‘Registration of Companies Act, Sikkim, 1961’.

The Companies registered under Registration of Companies Act, Sikkim 1961 are audited on entrustment basis, under the provisions of Section 20 (1) of the CAG’s (Duties, Powers and Conditions of Service) Act, 1971. The statutes governing some Statutory Corporations require their accounts to be audited only by CAG.

5.3 Working and non-working SPSEs

As on 31 March 2021, there were 23 SPSEs (17 working and six non-working) in Sikkim and only 17 working SPSEs were under the audit jurisdiction of the CAG in Sikkim. The State Government did not entrust the audit of six non-working SPSEs²⁹ to CAG. Therefore, the observations included in this Chapter relate to 17 SPSEs being audited by the CAG. The 17 working SPSEs audited by CAG included 13 Government Companies, and four Statutory Corporations as shown in **Table 5.1**.

Table 5.1: Details of working and non-working SPSEs

Type of SPSEs	SPSEs (all working)	Audit mandate
Government Companies registered under the Sikkim Registration of Companies Act,1961	9	Audited by CAG on entrustment basis under section 20(1) of CAG(DPC)’s Act 1971
Government Companies registered under the Companies Act,2013	4	Supplementary audit by CAG as per the provisions of the Companies Act, 2013
Statutory Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim	4	Audited by CAG under Section 19 (3) of the CAG’s (DPC) Act,1971
Total	17	

Table 5.2 below provides the comparative details of working SPSEs turnover and State GSDP for a period of three years ending 2020-21.

Table 5.2: Contribution of SPSEs-turnover to GSDP

(₹ in crore)

Particulars	2018-19	2019-20	2020-21
SPSEs-Turnover ³⁰	2,119.51	2,518.51	2,758.84
GSDP	28,402	30,809	32,724
Percentage of Turnover to GSDP	7.38	7.75	8.43

Source: As per latest finalised accounts of SPSEs.

²⁷ Teesta Urja Limited, Teestavelley Power Transmission Limited, Namchi Smart City Limited and Gangtok Smart City Development Corporation Limited

²⁸ Including one Company (Sikkim Handicraft and Handloom Development Corporation Limited) audit of which was entrusted (August 2020) to CAG during 2020-21.

²⁹ 1. Sikkim Floor Mills Limited, 2. Chandmari Workshop and Automobiles Ltd, 3. Sikkim Jewels Limited, 4. Sikkim Times Corporation, 5. Sikkim Precision Industries Limited, 6. Sikkim Mining Corporation

³⁰ As per the latest finalised accounts of working SPSEs as on 30th September of respective years.

As could be noticed from the **Table** above, the contribution of SPSEs-turnover to GSDP over the past three years from 2018-19 to 2020-21 has shown an increase from 7.46 per cent to 8.43 per cent. The major contributors to SPSEs-turnover during 2020-21 were Teesta Urja Limited (₹ 1,872.22 crore) and Teestavalley Power Transmission Limited (₹ 298.39 crore).

5.4 Investment in SPSEs

State Government's investment in SPSEs

The State's investment in the SPSEs was by way of Equity Share Capital and Long Term Loans. The figures of State investment towards Equity Capital and Loans of SPSEs as per the records of the SPSEs should agree with the corresponding figures appearing in the Finance Accounts of the State. In case of differences in the figures, the SPSEs concerned, and the Finance Department should carry out reconciliation of differences. The position in this regard for last three years is given in **Table 5.3**.

Table 5.3: Equity and Loans outstanding as per the State Finance Accounts vis-à-vis records of SPSEs for last three years

(₹ in crore)

Year	2018-19			2019-20			2020-21		
	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference
Equity	50.19	45.40	4.79	43.70	47.90	4.20	51.58	48.82	2.76
Loans	37.03	2.03	35.00	37.03	2.03	35.00	37.03	2.03	35.00

(Source: As per State Finance Accounts and as per records of SPSEs.)

Note: The figure of equity and loans (as per SPSEs records) having arrears of accounts are provisional and as provided by these SPSEs.

It can be noticed from **Table 5.3** above that, as on 31 March 2021, as per records of SPSEs, the Equity investment made by Government of Sikkim (GoS) increased by ₹ 3.42 crore from ₹ 45.40 crore (2018-19) to ₹ 48.82 crore (2020-21), an increase of 7.53 per cent. The GoS had not extended any loans to the SPSEs during the said period (2018-19 to 2020-21). However, there were differences in the figures of Equity (₹ 2.76 crore) and Loan (₹ 35.00 crore) as on 31 March 2021, as per two sets of records. Out of total 10 SPSEs where State Government had made direct investment, the difference occurred in respect of eight³¹ SPSEs.

The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the SPSEs and the Finance Accounts may be updated.

³¹ 1. Sikkim SC ST OBC Development Corporation, 2. Sikkim Industrial Development and Investment Corporation, 3. Sikkim Power Investment Corporation Limited, 4. Sikkim Power Development Corporation Limited, 5. Sikkim Tourism Development Corporation Limited, 6. Sikkim Handicraft and Handloom Development Corporation Limited, 7. Namchi Smart City Limited and 8. Sikkim Trading Corporation of Sikkim

5.5 Budgetary assistance to SPSEs

The State Government provides financial support to SPSEs in various forms through annual budgetary allocations. The summarised details of budgetary support towards Equity, Loans and Grants/subsidies extended to the SPSEs during past three years are given in **Table 5.4**.

Table 5.4: Details regarding annual budgetary support to SPSEs

(₹ in crore)

Particulars	2018-19		2019-20		2020-21	
	No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
Equity capital outgo from budget	2	6.02	1	2.50	0	0
Loans given from budget	0	0	0	0	0	0
Grants/subsidy from budget	2	10.79	1	6.50	1	6.50
Total Outgo	4	16.81	2	9.00	1	6.50

Source: As per SPSEs records

It can be noticed from **Table 5.4** that the budgetary support provided by State Government to SPSEs during 2020-21 (₹ 6.50 crore) was significantly lower as compared to 2018-19 (₹ 16.81 crore). Temi Tea Estates was the only SPSE, which received budgetary support during all three years by way of Grant of ₹ 8.80 crore (2018 -19) and ₹ 6.50 crore (2019-20 and 2020-21).

5.6 Returns from Government Companies and Corporations

Profit earned and Dividend paid by SPSEs

The position of aggregate profit earned and dividend paid by profit earning SPSEs during the past three years as per their latest finalised accounts as on 30 September of respective year is given in **Table 5.5**.

Table 5.5: Details of profits earned and dividend paid by working SPSEs

Year	2018-19	2019-20	2020-21
Number of profit earning working SPSEs	07	07	09
Aggregate profit earned (₹ in crore)	15.75	59.28	75.25
Dividend paid (₹ in crore)	1.33	1.33	1.33

As can be noticed from **Table 5.5** above, during last three years seven to nine working SPSEs earned profits ranging from ₹ 15.75 crore (2018-19) to ₹ 75.25 crore (2020-21). Only one SPSE (State Bank of Sikkim) had declared dividend during the past three years. There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the SPSEs.

During 2020-21, out of total 17 working SPSEs, nine SPSEs (five companies and four statutory corporations) earned aggregate profits of ₹ 75.25 crore as per their latest finalised accounts. Analysis of the working results of the SPSEs revealed that more than 92 *per cent* (₹ 69.34 crore) of the SPSEs aggregate profits (₹ 75.25 crore) were contributed by two SPSEs (Teestavalley Power Transmission Limited (₹ 46.10 crore) and State Bank of Sikkim (₹ 23.24 crore) as per its latest finalised accounts³² as on 30 September 2021. This indicated that the other SPSEs had contributed marginally towards the profits of the public sector enterprises.

5.7 Long Term Debt of SPSEs

The position of outstanding Long Term Debts of the SPSEs during the last three years as per their latest finalised accounts is given in **Table 5.6**.

Table 5.6: Position of Outstanding loans of the SPSEs

Particulars	(₹ in crore)		
	2018-19	2019-20	2020-21
Total Loans outstanding (State Government and Others)	13,284.89	13,468.47	14,858.77
State Government Loans outstanding	2.03	2.03	2.03
Interest on Total Loans	1,533.88	1,725.66	1,644.28
Interest on State Loan ³³	0	0	0

It can be noticed from **Table 5.6** above that during 2020-21, the total long term borrowings of the SPSEs (Companies and Corporations) from all sources registered an increase of ₹ 1,390.30 crore (10.32 *per cent*) as compared to previous year (2019-20). This was mainly due to increase of ₹ 1,238.86 crore in loans of one power sector SPSE (Teesta Urja Limited) during 2020-21 from ₹ 8,830.60 crore (2019-20) to ₹ 10,069.46 crore (2020-21). The State Government loans to SPSEs during the last three years remained constant at ₹ 2.03 crore as per their latest finalised account. There were, however, no outstanding long term loans in respect of eight out of 17 working SPSEs as per their latest finalised accounts.

5.8 Operating Efficiency of SPSEs

Key parameters

Some of the key parameters of the operational efficiency of working SPSEs for last three years as per their latest finalized accounts as on 30 September of the respective year are given in **Table 5.7** below:

³² Teestavalley Power Transmission Limited (2020-21) and State Bank of Sikkim (2018-19)

³³ Interest figures as available in the latest finalised accounts of respective SPSEs.

Table 5.7: Key parameters of operational efficiency of working SPSEs

(₹ in crore)

Year	No. of working SPSEs	Paid up capital	Net overall Accumulated profits (+)/ losses(-)	Net overall profits (+)/ losses(-)	EBIT	Capital Employed ³⁴
2018-19	16	3,693.83	-2,089.94	-567.36	1,201.19	15,006.94
2019-20	16	3,713.39	-2,266.61	-438.76	1,534.38	15,054.90
2020-21	17 ³⁵	3,716.81	-2,753.39	-349.43	1,386.56	15,961.89

From the **Table** above, it can be seen that, over the last three years the position of the Net overall losses has constantly improved and PSE losses reduced by ₹ 217.93 crore from ₹ 567.36 crore (2018-19) to ₹ 349.43 crore (2020-21). The 'Earnings before Interest and Tax' (EBIT) during the said three years has also registered an overall increase of ₹ 185.37 crore from ₹ 1201.19 crore (2018-19) to ₹ 1386.56 crore (2020-21) although the EBIT was lower by ₹ 147.82 crore during 2020-21 as compared to that during 2019-20. The Capital Employed of SPSEs during last three years has also appreciated mainly due to increase in the long term borrowings of the SPSEs from ₹ 13,284.89 crore (2018-19) to ₹ 14,858.77 crore (2020-21).

The net overall accumulated losses of SPSEs during last three years have shown an increasing trend and were recorded at ₹ 2,753.39 crore as on 31 March 2021. More than 98 per cent (₹ 2,709.24 crore) of the accumulated losses of SPSEs (₹ 2,753.39 crore) during 2020-21 were contributed by Teesta Urja Limited (₹ 1,498.26 crore) and Sikkim Power Investment Corporation Limited (₹ 1,210.98 crore). The accumulated losses of above mentioned SPSEs were set off marginally, by the accumulated profits of Teestavalley Power Transmission Limited (₹ 64.32 crore) and Sikkim Industrial Development and Investment Corporation Limited (₹ 14.17 crore).

5.9 Return on Capital Employed

Return on Capital Employed (ROCE) is a profitability metric that measures the long term profitability and efficiency of the total capital employed by a company. Companies create value when they generate returns on the capital employed in excess of the cost of capital. ROCE is an important metric for long term lenders. ROCE is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by the Capital Employed.

³⁴ **Capital Employed**= Paid up share capital plus Long Term Loans, Accumulated profits and Free reserves minus Accumulated losses and Deferred revenue expenditure.

³⁵ Including Sikkim Handloom and Handicrafts Development Corporation Limited audit of which was entrusted (August 2020) to CAG during the year 2020-21.

During 2020-21, the overall capital employed in respect of 17 working SPSEs as per their latest finalised accounts was ₹ 15,961.89 crore. Further, out of 17 working SPSEs, 11 SPSEs³⁶ had positive ROCE.

In comparison, however, the overall capital employed in respect of working SPSEs during the previous two years (2018-19 and 2019-20) was ₹ 15,006.94 crore and ₹ 15,054.90 crore respectively. Further, out of 16 working SPSEs covered under the audit preview of CAG, 9 and 10 SPSEs had positive ROCE during last two years (2018-19 and 2019-20) respectively.

5.10 Return on Equity (ROE)

Return on Equity³⁷ (ROE) is a measure of financial performance of companies calculated by dividing the 'net income earned' by the Equity. During 2020-21, nine working SPSEs had earned profits of ₹ 75.25 crore, as per their latest finalised accounts as on 30 September 2021. However, one³⁸ SPSE, which earned profit during 2020-21 had negative ROE.

The ROE of remaining eight SPSEs, which earned profit ranged from 1 to 69 per cent as detailed in **Table 5.8** below.

Table 5.8: Return on Equity

Sl. No.	Name of the Company	Year of Accounts	ROE* (in per cent)
1.	Government Fruit Preservation Factory	2018-19	69
2.	State Bank of Sikkim	2018-19	30
3.	Sikkim Handloom and Handicrafts Development Corporation	2014-15	29
4.	Sikkim Power Development Corporation Limited	2020-21	15
5.	Teestavalley Power Transmission Limited	2020-21	10
6.	State Trading Corporation of Sikkim	2018-19	2
7	Sikkim Industrial Development and Investment Corporation	2018-19	2
8	Sikkim Tourism Development Corporation	2016-17	1

*ROE rounded off to nearest absolute figures.

³⁶ Sikkim SC ST & OBC Development Corporation, Sikkim Industrial Development and Investment Corporation, Teesta Urja Limited, Teestavalley Power Transmission Limited, Sikkim Power Investment Corporation Limited, Sikkim Power Development Corporation Limited, Sikkim Tourism Development Corporation, State Bank of Sikkim, State Trading Corporation of Sikkim, Government Fruit Preservation Factory and Sikkim Handloom and Handicrafts Corporation Limited.

³⁷ **Return on Equity** = (Net Profit after Tax and preference Dividend ÷ Equity) x 100, where **Equity** = Paid up Capital plus (Free Reserves and Accumulated profits) minus (Accumulated Loss and Deferred Revenue Expenditure).

³⁸ Temi Tea Estates

5.11 SPSEs incurring Losses

The position of aggregate losses incurred by loss making working SPSEs during the past three years as per their latest finalised accounts is given **Table 5.9**.

Table 5.9: Details of loss making working SPSEs

Year	2018-19	2019-20	2020-21
Total Number of working SPSEs	16	16	17
Number of loss making working SPSEs	10	9	8
Aggregate losses (₹ in crore)	583.18	498.04	424.68

The details of major contributors to losses of working SPSEs (₹ 424.68 crore) incurred during 2020-21 are given in **Table 5.10** below:

Table 5.10: Major contributors to losses of working SPSEs during 2020-21

Sl. No.	Name of the Company	Latest finalised accounts	Net Loss
1	Teesta Urja Limited	2020-21	212.29
2.	Sikkim Power Investment Corporation Limited	2020-21	210.69

It can be noticed that more than 99 *per cent* (₹ 422.98 crore) of the losses incurred by working SPSEs (₹ 424.68 crore) during 2020-21 were contributed by the above mentioned two SPSEs.

5.12 SPSEs having complete erosion of capital

The aggregate paid-up capital and accumulated losses of 17 working SPSEs as per their latest finalised accounts as on 30 September 2021 were ₹ 3,716.81 crore and (-) ₹ 2,753.39 crore respectively. Analysis of investment and accumulated losses of these SPSEs revealed that the accumulated losses of four working SPSEs (₹ 1,322.37 crore) had completely eroded their paid-up capital (₹ 76.00 crore) as detailed in **Table 5.11**.

Table 5.11: Erosion of Capital of SPSEs

Name of SPSE	Latest finalised accounts	Paid up capital	Accumulated losses
Sikkim Hatcheries Limited	2017-18	0.46	(-) 2.71
Sikkim Livestock Processing and Development Corporation Limited	2013-14	0.69	(-) 1.04
Sikkim Power Investment Corporation Limited	2020-21	0.01	(-) 1,210.98
Sikkim Power Development Corporation	2020-21	74.84	(-) 107.64
Total		76.00	(-) 1,322.37

Recommendations: Accumulation of huge losses by above four SPSEs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these SPSEs for continuing their operations.

OVERSIGHT ROLE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

5.13 Audit of State Public Sector Enterprises (SPSEs)

The CAG of India appoints the Statutory Auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. For Companies registered under Sikkim Registration of Companies Act 1961, the Board of Directors of the respective companies appoints the Statutory Auditors. The CAG has a right to conduct a supplementary audit and supplement or comment upon the Audit Report of the Statutory Auditor in respect of companies registered under the Companies Act 2013. Besides, Supplementary Audit of the accounts of the Companies registered under Sikkim Registration of Companies Act, 1961 as well as the Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim, has been entrusted to the CAG and Audit Reports of these audits are submitted to the State Legislature.

5.14 Appointment of statutory auditors of SPSEs

Sections 139 (5) of the Companies Act, 2013 provides that the Statutory Auditor in case of a Government Company or Government Controlled Other Company is to be appointed by the CAG within a period of 180 days from the commencement of the financial year. The Statutory Auditors of four SPSEs³⁹ registered under Companies Act, 2013 and the erstwhile Companies Act, 1956, are appointed by the CAG. In respect of nine Companies registered under Sikkim Registration of Companies Act 1961 and four Corporations, the Statutory Auditors are to be appointed by the Board of Directors of the SPSEs concerned.

5.15 Submission of accounts by SPSEs

Need for timely submission

According to Section 394 of the Companies Act 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation, laid before the State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. This mechanism provides the necessary Legislative control over the utilization of public funds invested from the State budget in the four working companies, registered under the Companies Act, 2013. However, similar provisions do not exist in the Sikkim Registration of Companies Act 1961 regulating the remaining nine working Companies and, in the Acts, regulating the four working Statutory Corporations. The Separate Audit Report along with the

³⁹ *Companies Act, 1956: Teesta Urja Limited (TUL) and Teestavalley Power Transmission Limited (TPTL) and Companies Act, 2013: Namchi Smart City Limited (NSCL) and Gangtok Smart City Development Limited (GSCDL).*

Accounts of these 13 SPSEs are laid before the State Legislature under Section 20(1)/19A (3) of the C&AG's (DPC) Act 1971.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 also provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

No such provisions exist either in the Sikkim Registration of Companies Act 1961 or in the Acts regulating the Statutory Corporations, under which the nine Companies and four Statutory Corporations have been incorporated respectively.

The details of annual accounts of various SPSEs pending finalisation as on 30 September 2021 are discussed in the succeeding paragraphs

5.16 Timeliness in preparation of accounts by SPSEs

The details relating to finalisation of accounts by 17 working SPSEs (13 working Government Companies and four Statutory Corporations) during the last three years as of 30 September of respective year are given **Table 5.12**.

Table 5.12: Position relating to finalisation of Accounts of working SPSEs

Sl. No.	Particulars	2018-19	2019-20	2020-21
1.	Number of working SPSEs	16	16	17
2.	Number of Accounts finalised during the year	39	11	09
3.	Number of Accounts in arrears	22	27	40 ⁴⁰
4.	Number of Working SPSEs with arrears in Accounts	12	14	12
5.	Extent of arrears (number in years)	1 to 6	1 to 6	1 to 7

The accounts of only five⁴¹ out of 17 working SPSEs were up-to-date as on 30 September 2021. Remaining 12 working SPSEs had a backlog of 40 accounts for periods ranging from one to seven years (**Appendix 5.1**). The highest number of seven accounts were pending finalisation in respect of Sikkim Livestock Processing and Development Corporation, which finalised its accounts upto 2013-14 as on 30 September 2021.

⁴⁰ Including six Accounts (2015-16 to 2020-21) of one Company (Sikkim Handicraft and Handloom Development Corporation Limited) added under the audit purview of CAG during 2020-21.

⁴¹ Sikkim Power Development Corporation Limited, Sikkim Power Investment Corporation Limited, Teesta Urja Limited, Teestavalley Power Transmission Corporation Limited and Gangtok Smart City Development Limited

The Administrative Departments concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts of SPSEs under their control are finalised and adopted by the SPSEs within the stipulated/reasonable period. In view of the position of arrears of accounts indicated above, the actual contribution of SPSEs to the GSDP for the year 2020-21 could not be ascertained and their contribution to State exchequer could not be reported to the State Legislature.

The Principal Accountant General (Audit), Sikkim had been regularly pursuing with the Administrative Departments and concerned SPSEs for liquidating the arrears of accounts of SPSEs. However, the Departments and the SPSEs concerned could not address the issue to clear pendency of accounts of the SPSEs in a time bound manner.

5.17 CAG's oversight - Audit of accounts and supplementary audit

Financial reporting framework

Companies are required to prepare the financial statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards. However, there is no such prescribed framework under the Sikkim Registration of Companies Act 1961. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts as stipulated under the Acts governing such corporations.

5.18 Audit of accounts of Government Companies by Statutory Auditors

The Statutory Auditors appointed by the CAG under Section 139 of the Companies Act 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG provides oversight by monitoring the performance of the Statutory Auditors in audit of the PSEs with the overall objective that the Statutory Auditors discharge the functions assigned to them properly and effectively.

This function is discharged by exercising the power:

- to issue directions to the Statutory Auditors under Section 143 (5) of the Companies Act, 2013
- to supplement or comment upon the Statutory Auditor's report under Section 143 (6) of the Companies Act, 2013 and
- to supplement or comment upon the Statutory Auditor's report under Section 20 (1) and 19 (3) of the CAG DPC Act 1971.

5.19 Supplementary Audit of accounts of Government Companies

The prime responsibility for preparation of Financial Statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Acts is of the Management of an entity.

The Statutory Auditors appointed by the CAG under Section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the Financial Statements under Section 143 of the Companies Act, 2013 based on independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India (ICAI) and directions given by the CAG. The Statutory Auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the Statutory Auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the Annual General Meeting. The Separate Audit Report, containing the supplementary audit findings of the CAG, of companies registered under Sikkim Registration of Companies Act, 1961 may be placed before the State Legislature at the discretion of the CAG⁴². In respect of the Statutory Corporation, Section 19 A (3) of the CAG DPC Act 1971 stipulates that the Separate Audit Report should be placed before the State Legislature.

5.20 Result of CAG's oversight role

❖ Audit of accounts of SPSEs

Government Companies/ Government Controlled Other Companies

During 2020-21 (October 2020-September 2021), seven working companies forwarded total nine accounts to the Principal Accountant General (Audit), Sikkim for audit. During the year 2020-21, supplementary audit of six Accounts out of these nine Accounts was taken up and completed while, 'Non-Review Certificate' was issued against one year Accounts. The supplementary audit of remaining two Accounts was pending and same would be completed during 2021-22.

❖ Statutory Corporation

The Principal Accountant General (Audit), Sikkim has four Statutory Corporations under his audit purview for which the supplementary audit is conducted. However, none of these Corporations submitted any Accounts during 2020-21 to Principal Accountant General (Audit) Sikkim for audit.

The audit reports of Statutory Auditors appointed by the C&AG and the supplementary audit conducted by the C&AG indicated that the quality of maintenance of SPSEs' accounts needs to be improved substantially. The results of the review are detailed as follows:

Significant comments of the CAG issued as supplement to the statutory auditors' reports on Government Companies/Government Controlled Other Companies

⁴² As per Clause 7 of Standard Terms and Conditions for entrustment of audit to CAG under section 20(1) of the CAG(DPC) Act, 1971

Some of the significant comments issued on the financial statements of the SPSEs are detailed in **Table 5.13**.

Table 5.13: Gist of significant comments on the accounts of the SPSEs

Sl. No.	Name of the Company	Comments
1	Gangtok Smart City Development Corporation (Year of Accounts 2019-20)	<p>1. Balance Sheet</p> <p>Other Current Financial Liabilities (Note 9)</p> <p>Provision for expenses ₹ 1.41 lakh</p> <p>Non-accounting of 'Consultancy Fee' (₹ 30.02 lakh) for March 2020 resulted in understatement of 'Other Current Financial Liabilities' and 'Loss for the year' by ₹ 30.02 lakh each.</p> <p>2. Non-Current Assets</p> <p>Capital Works in Progress (Note 10C): ₹ 64.56 crore</p> <p>This is understated by ₹ 8.92 crore due to non-accounting of the 'security deposit' amount retained by the Company from the Running Account (RA) bills of two Contractors (Bharat Electronics Limited: ₹ 8.86 crore and Ashwath Infratech Private Limited: ₹ 0.06 crore) against the capital works executed. This has correspondingly resulted in understatement of 'Other Current Liabilities - Security Deposits' (Note 6) to the same extent.</p>
2	Namchi Smart City Limited (Year of Accounts: 2019-20)	<p>1. Current Assets (Note 7)</p> <p>Bharat Electronics Limited- Mobilisation Advance ₹ 9.98 crore (credit)</p> <p>During last year (2018-19), the Company had treated the entire Mobilisation Advance (₹ 16.44 crore) paid to the Contractor (Bharat Electronics Limited) as 'Project Expenses' and adjusted against 'Project Grant Fund' (Note - 3B). During current year, the Company again debited the 'Project Expenses' for the cost of works (₹ 9.98 crore) actually executed by the Contractor as on 31 March 2020 and credited the above head by an equal amount.</p> <p>Thus, double accounting of the works cost (₹ 9.98 crore) during current year (2019-20) has resulted in overstatement of 'Project Expenses' by ₹ 9.98 crore and also led to negative balance (₹ 9.98 crore) under 'Current Assets-Mobilisation Advance'. This requires rectification.</p>

5.21 Conclusion

As on 31 March 2021, the State of Sikkim had 23 SPSEs (17 working and six non-working) and only 17 working SPSEs were under the audit jurisdiction of the CAG. The State Government did not extend the audit entrustment of six non-working SPSEs to CAG. The 17 working SPSEs audited by CAG included 13 Government Companies, and four Statutory Corporations. The CAG conducts supplementary audit of four SPSEs (all companies registered under the Companies Act, 2013) as per the provisions of the Companies Act, 2013 while the audit of remaining 13 SPSEs (nine companies registered under the Sikkim Registration of Companies Act 1961 and four Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim) is conducted by CAG on entrustment basis under Section 20 (1) or Section 19 (3) of CAG's (DPC) Act, 1971.

As on 31 March 2021, there was a difference of ₹ 37.76 crore in the investment figures of the State Government (Equity: ₹ 2.76 crore; Long-term Loans: ₹ 35.00 crore) as per State Finance Accounts vis-à-vis records of SPSEs. The differences in investment figures existed in respect of eight SPSEs.

During 2020-21 the State Government has provided budgetary support of ₹ 6.50 crore to one SPSEs (Temi Tea Estates) in the form of Grants/ Subsidy.

During 2020-21, out of total 17 working SPSEs, nine SPSEs earned profits (₹ 75.25 crore) as per their latest finalised accounts. However, more than 92 per cent (₹ 69.34 crore) of the profits (₹ 75.25 crore) earned by nine SPSEs was contributed by two SPSEs, namely, Teestavalley Power Transmission Limited (₹ 46.10 crore) and State Bank of Sikkim (₹ 23.24 crore). Further, the accumulated losses (₹ 1,322.38 crore) of four out of 17 working SPSEs had completely eroded their paid-up capital (₹ 76.00 crore) as per their latest finalised accounts.

As on 30 September 2021, 12 out of 17 SPSEs had a total arrear of 40 accounts ranging from one to seven years. The highest number of accounts pending finalisation pertained to Sikkim Livestock Processing and Development Corporation (seven accounts).

5.22 Recommendations

- *The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long term Loans) of the State Government as appearing in the State Finance Accounts vis-à-vis SPSE records in a time-bound manner.*
- *Accumulation of huge losses by above four SPSEs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these SPSEs for continuing their operations.*

- *The Administrative Departments overseeing the SPSEs having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.*



Gangtok (K. S. GOPINATH NARAYAN)
The: 01 September 2022 Principal Accountant General (Audit), Sikkim

Countersigned



New Delhi (GIRISH CHANDRA MURMU)
The: 20 September 2022 Comptroller and Auditor General of India

