CHAPTER VI
GENERAL SECTOR

6.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2022 deals with the observations on audit of the State Government units under General Sector.

The names of the State Government departments and the total budget allocation and expenditure of the State Government under General Sector during the year 2020-22 are given in the table below:

Table 6.1: Details of budget allocation and expenditure

(₹ in crore)

Sl. No.	Name of the Department	Total Budget Allocation		Expenditure	
		2020-21	2021-22	2020-21	2021-22
1	Department of Personnel	23.45	28.41	10.94	13.36
2	Election Department	6.97	6.88	6.12	6.61
3	Finance Department	1,907.97	2,064.14	1,686.78	1,833.72
4	Governor	10.47	11.66	9.81	11.26
5	Home Department	89.39	98.30	79.08	83.17
6	Information and Public Relation Department	20.51	15.87	14.78	14.28
7	Information Technology Department	8.06	16.94	5.4	7.86
8	Judiciary	61.69	61.78	41.49	47.55
9	Land Revenue and Disaster Management Department	406.36	275.83	234.82	122.62
10	Law Department	3.6	3.46	3.1	3.18
11	Parliamentary Affairs Department	14.93	13.85	11.94	12.96
12	Planning & Development Department	78.88	63.60	72.72	59.89
13	Printing and Stationery Department	15.70	14.31	13.78	14.24
14	Sikkim Legislature Assembly	26.93	27.11	23.37	25.74
15	Sikkim Police	502.60	518.80	460.5	501.89
16	Sikkim Public Service Commission	6.05	6.72	5.16	5.71
17	Skill Development Department	57.56	49.85	42.05	24.89
18	State Excise (Abkari) Department	11.63	13.21	10.6	11.47
19	Vigilance Department	9.06	10.61	9.02	10.13
Total		**3,261.81**	**3,301.33**	**2,741.46**	**2,810.53**

Source: Appropriation Accounts

Besides the above, the Central Government had transferred a sizeable amount of funds directly to the State's implementing agencies under the General Sector. The State's implementing agencies received total fund of ₹ 19.15 crore during 2020-22 for implementation of flagship programmes of the Central Government, the major transfers are detailed in Table 6.2:

Table 6.2: Details of funds directly transferred to the implementing agencies during 2020-22

(₹ in lakh)

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing Agency	Funds transferred during the year	
				2020-21	2021-22
1	High Court of Sikkim	*e*-Court Phase - II	Registrar General, High Court of Sikkim	101.22	77.10
2	Land Revenue and Disaster Management Department	MPs Local Area Development Schemes (MPLADS)	District Collector, East	750	200
		Land Records Modernization Programme	Sikkim Geo-Tech Society	0.00	786.73
Total				**851.22**	**1,063.83**

Source: Finance Accounts

6.2 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments of the Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls, *etc.*

After completion of audit of each unit on a test-check basis, Inspection Reports (IRs) containing audit observations are issued to the heads of the departments. The departments are required to furnish replies to the audit findings within one month of receipt of the IRs. Whenever replies are received, audit findings are either settled based on reply/action taken or the audited entities requires taking further action for compliance. Some of the important audit observations arising out of these IRs are processed for inclusion in the Audit Reports of the Comptroller and Auditor General of India. These Audit Reports are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature for taking further appropriate action.

Test audits were conducted involving expenditure of ₹ 520.27 crore (including expenditure of ₹ 336.10 crore of previous years) during 2020-21 and ₹ 353.16 crore (including expenditure of ₹ 504.09 crore of previous years) during 2021-22 of the State Government under General Sector. The details of year-wise break-up are given in ***Appendix 6.1***.

This chapter contains two compliance audit paragraphs.

COMPLIANCE AUDIT PARAGRAPHS

LAND REVENUE & DISASTER MANAGEMENT DEPARTMENT AND FOOD SUPPLY &CIVIL SUPPLIES DEPARTMENT

6.3 Excess payment due to procurement of edible oils at higher rates

The Food and Civil Supplies Department (FCSD) procured edible oils at much higher rates than the retail rates leading to excess payment of ₹ 1.54 crore.

The Home Department, Government of Sikkim (GoS) brought out a notification on 27 March 2020 announcing free distribution of ration (rice, pulses, cooking oil, potatoes and onions) to needy families, daily wage earners etc. to mitigate hardships faced by the people due to the lockdown on accounts of prevailing COVID pandemic. The free ration was proposed to be provided over and above normal PDS entitlement subject to the family not having any member working in the Government / PSU including temporary, muster roll or ad hoc employees.

The State Government decided (31 March 2020) to meet the expenditure of distribution of free food from the State Disaster Relief Fund (SDRF) administered by the Land Revenue and Disaster Management Department. Accordingly, an amount of ₹ 17.83 crore[1] was spent from the SDRF during March-June 2020 on purchase of the food items for distribution to the general public during the pandemic. The Food and Civil Supplies Department (FCSD) and Sikkim State Co-operative Supply and Marketing Federation Ltd (SIMFED) were identified as agencies responsible for procurement and distribution of the relief materials in coordination with the Block Development Officers (BDOs) under supervision of the respective District Commissioners (DCs).

Scrutiny of records of FCSD revealed (December 2020) that Secretary, FCSD constituted (28 March 2020) a four-member Departmental Tender Selection Committee for procurement of the food items, which collected quotations from four Gangtok based agencies[2] (28 March 2020) and one Singtam based agency[3] (29 March 2020). The Committee opened the bids on 29 March 2020 and the rates quoted by a firm M/s Shiva Enterprises, Singtam (Supplier) being lowest was recommended by the Committee which in-turn approved (31 March 2020) by the Government. Supply Order was issued to the Supplier on 31 March 2020 and payment of ₹ 10.61 crore was made to the Supplier by June 2020.

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1 ₹ 12.38 crore withdrawn from the SDRF and released (3/2020 to 6/2020) to FCSD and deposited in a separate bank account in the SISCO Bank from which payments were made to the supplier for three the items - Masur dal, cooking oil & salt. ₹ 4.70 crore spent from SDRF for procurement of rice from FCI by FCSD under PDS. Purchase of onions & potatoes was done through the SIMFED at ₹ 2.52 crore (₹ 1.77crore paid from the separate FCSD account and ₹ 74.60 lakh directly from SDRF), which were also stated to be distributed to the affected families from the food godowns located at various places in the State.

2 M/s Achheylall Mangal Prasad; Swaminath Premchand; Suraj & Company and Sikkim Food Products.

3 M/s Shiva Enterprises, Singtam

During scrutiny following irregularities in tendering process and purchase of essential items were noticed:

a. Award of order for supply to unauthorised Agency

The quotations were obtained from the four Gangtok based agencies on 28 March 2020 and from the one Singtam agency the next day on 29 March 2020. It is pertinent to mention that there were 136 licensed wholesale dealers[4] of essential commodities (groceries/ provision stores) in Gangtok / Singtam. The Committee, however, collected quotations from only five dealers. Out of the five dealers from whom quotations were collected, only one dealer (M/s Swaminath Premchand) was a wholesale dealer of essential commodities while other three Gangtok based dealers (M/s Achheylall Mangal Prasad, Suraj & Company and Sikkim Food Products) were retailers. The fifth agency (M/s Shiva Enterprises) based at Singtam which was selected by the Committee did not possess the mandatory Trade License to trade in essential commodities. Audit found out that the description of business of the selected dealer (M/s Shiva Enterprises) in its Trade License were grinding, husking, oil extraction units/atta mill and transport only. Thus, while the quotation collection process was restrictive, arbitrary and casual, which lessened the chances of obtaining the best rates for the items to be procured, the selection of the agency M/s Shiva Enterprises Singtam, which did not even possess the mandatory Trade License to deal in essential commodities and hence ineligible to trade in essential commodities was highly irregular.

b. Purchase of edible oils at higher rates:

It was further seen that the retail rates of mustard oil and soya oil in Gangtok as shown in the website of the Department of Consumer Affairs (Price Monitoring Division), GoI, for the period March 2020 to June 2020, were ₹ 117.41 and ₹ 104.27 respectively *(exclusive of GST).* Though the FCSD purchased these oils in bulk, yet the purchase prices were much higher than even the retail prices as shown in the Table 6.3:

Table 6.3: Rate comparison of commodity

(Amount in ₹)

Commodity	Quantity procured (In litres)	Rate per litre		Total amount paid to the Supplier	Amount as per Retail Market Rate	Difference (*Excess Payment)*
		Paid to the Supplier	*Retail Market Rate*			
Mustard oil	1,56,194	144.00	117.41	2,24,91,936	1,83,38,738	42,63,198
Refined oil	3,06,163	134.00	104.27	4,30,77,133	3,19,23,616	1,11,53,517
Total						**1,54,16,715**

Conversion: Weight of 1 litre cooking oil (mustard, soya) = 0.92 Kg. Rates are exclusive of GST

The Committee had ignored the prevailing market rates of cooking oils in Gangtok, which were being assessed by the FCSD itself, before deciding on the reasonability of rates quoted by the selected Supplier. Hence the selection of an unauthorized dealer was not only irregular but was also done without exercising due diligence. This led to

4 Gangtok – 124 licenced dealers. Singtam – 12 wholesale dealers

excess expenditure and consequent undue favour to the tune of ₹ 1.54 crore to the Supplier.

The Department replied (August 2021) that the purchases were made invoking Section 50 of the Disaster Management Act, 2005 and by relaxing the tender procedure mandated under the Sikkim Financial Rules (SFR) by the Government. The rates offered by the Agency were not higher than the retail prices of the items in Gangtok at the time and were lower than the rates offered by the wholesale dealer M/s Swaminath. It would not be fair to compare the rates of normal time with rates offered at the time of pandemic which had lots of constraints as to availability and transportation of goods.

Replies of the Department were not acceptable as Section 50 of the DM Act 2005, *inter alia*, envisaged waiver of inviting to tenders for emergency procurement for rescue or relief but did not condone arbitrary and non-transparent collection of quotations and award of contract to an ineligible agency while there were 136 other wholesale dealers in Gangtok and Singtam out of which quotation was collected from only one wholesale dealer (M/s Swaminath). The procedure for inviting tenders prescribed by SFR by publicity in newspapers have not been commented in Audit considering relaxation of provisions of SFR by the Government.

The contention of the Department that rates offered by the Agency were not higher than retail prices was factually incorrect as the rates uploaded in the website of Department of Consumer Affairs (Price Monitoring Division), were sourced from FCSD itself. Further, constraints relating to availability and transportation of goods, it is added that the movement of essential commodities was never restricted in the State during the lockdown, moreover, the supplier was allowed additional costs towards transportation and packing charges over and above his quoted rates to mitigate the difficulties in transportation in hilly terrain and during lockdown.

Recommendation: *The Department may follow the prescribed tendering process as per General Financial Rule even if in case of all Emergency related purchases and the Department may take appropriate steps to recover the amount paid as undue favour to supplier.*

FINANCE DEPARTMENT

6.4 Avoidable payment of penalty

Finance Department (FD) failed to provide required fund to Sikkim Power Investment Corporation Limited for repayment of loan availed from Power Finance Corporation leading to delay in repayment of loan and resultant avoidable payment of penalty to the tune of ₹ 14.35 crore.

The delayed repayment of loan or interest thereon can have serious consequences in terms of additional financial burden on account of penalties and affects creditability of the Borrower in a very negative manner. Therefore, it is of utmost importance that the

Borrower carefully plans for the mobilisation of required funds to ensure repayments of principal and interest are strictly done as per schedule of repayments of the loan.

Power Department (PD), Government of Sikkim (GoS) had incorporated Sikkim Power Investment Corporation Limited (SPICL) in February 2012 for multiple objectives and one of the objectives was 'to engage in business of financing and support financial services for Power sector and other infrastructure, and its development in the State of Sikkim and in India by promotion of special purpose companies or joint ventures or otherwise.'

A tripartite agreement amongst GoS, SPICL, and Power Finance Corporation (PFC), was entered on 06 January 2017 to enable SPICL (Borrower) to avail loans aggregating to ₹ 2700.38 crore from PFC (Lender) for equity infusion in two hydel projects[5] in four tranches[6]. As per the terms and conditions of PFC for sanctioning of loans, in the event of the interest or the principal not being paid to PFC by the borrower on due date, the defaulted amount would carry further interest at the applicable lending rate of the loan besides a penal interest @ two *per cent* compounded on quarterly basis would also be charged. The PFC was to raise demand on quarterly basis and SPICL was to pay within 15 days of the demand.

Subsequently an Addendum to the tripartite agreement was signed on 24 December 2018 which provided for execution of quadripartite agreement amongst GoS, SPICL, PFC, and Teesta Urja Limited (TUL). Accordingly, a quadripartite agreement was signed on 24 December 2018 which *inter alia* included the following provisions:

1. The GoS was to furnish a revolving guarantee of ₹ 225 crore in favour of PFC for the entire loan period, which issued on 24 December 2018.

2. GoS was to provide a letter of comfort and an undertaking for the entire loan including interest, additional interest, charges and expenses, *etc.*, provided on 21 December 2018 which is valid till final settlement of the loan

3. GoS was to authorise TUL to release all the 12 *per cent* state share of revenue towards repayment of PFC loan

4. GoS was to make allocation in the State budget every year to meet the debt obligation along with interest and other charges.

The SPICL commenced the repayment of the loans from 2017-18 by sourcing the funds from TUL, PD and borrowings from State Bank of Sikkim (SBS).

Scrutiny of records of SPICL revealed that due to low energy generation during winter season TUL's did not make payment of free power at the rate of 12 *per cent* to SPICL. Despite being informed, GoS neither made allocation for repayment of loan in its budget nor provided any financial support to SPICL for its committed liability. The

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5 TeestaUrja Limited undertaking of 1200 MW Teesta-III HEP and Jal Power Corporation Limited Undertaking 120 MW Rangit IV HEP

6 ₹ 600 crore (February 2013) + ₹ 367.44 crore (December 2014) + ₹ 776.60 crore (August 2015) + ₹ 956.34 crore (January 2017)

SPICL had borrowed ₹ 132 crore from SBS for repayment of the said loans. Moreover, due to delay in repayment of loan, SPICL lost interest rebate and became liable to penal interest by PFC.

Thus, in spite of GoS/FD's commitment to make budgetary allocation for repayment of said loan, FD did not make any budgetary provision and SPICL was forced to avail loan from SBS for the same purpose as the royalty revenue from TUL was not sufficient vis-à-vis the repayment obligations. Since the SPICL does not have own source of revenue and in absence of budgetary support from GoS, SPICL did not repay the loan availed from SBS.

The Audit observed that during the period from 2017-18 to 2021-22, the SPICL had paid penal interest amounting to ₹ 14.35[7] crore to the PFC on account of delayed payment of quarterly instalments.

Thus, due to failure of FD to provide the funds required for repayment of loans and interest as per schedule, SPICL had to pay avoidable penalty to the tune of ₹ 14.35 crore.

Recommendation: *The Department may fix the responsibility for non-allocation of funds despite commitment and take prompt action to provide fund for repayment henceforth.*

[7] 2017-18: ₹ 0.14 crore, 2018-19: ₹ 5.82 crore, 2019-20: ₹ 6.92 crore, 2020-21: ₹ 0.72 crore and 2021-22: ₹ 0.75 crore.