

**CHAPTER-IV:  
QUALITY OF ACCOUNTS AND  
FINANCIAL REPORTING  
PRACTICES**



## CHAPTER IV: QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

*This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various Departments of the State Government*

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making.

### **4.1 Funds outside Consolidated Fund or Public Account of the State**

Article 266 (1) subject to the provisions of Article 267 of the Constitution of India, provides that all revenues received by the Government of a State, all loans raised by issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled the 'Consolidated Fund of the State'. Article 266 (2) provides that all other public moneys received by or on behalf of the Government of a State shall be credited to the public account of the State, as the case may be.

It has been observed that funds meant to be credited to Consolidated Fund or Public Account are credited to bank accounts as detailed in the succeeding paragraphs.

#### **4.1.1 Unaccounted Revenue and Expenditure transactions**

Sikkim Financial Rules (SFR) stipulates that all monies received by or on behalf of Government should be brought into Government account without delay; and "the head of every department/ office shall be responsible to ensure that all revenue, receipts or other sums due to Government are regularly and promptly assessed, realised and credited to Government account under the relevant head of account". Further, as per the provisions of Articles 266(3), 267(2) and 283(2) of the Constitution of India, no authority may incur any expenditure or enter into any liability involving expenditure or transfer of money for investment or deposit from Government account unless such expenditure or transfer, as the case may be, has been sanctioned by general or special orders of Government or by any authority to which power has been duly delegated in this behalf. Power Department of Sikkim (PDS) is entrusted with management of electricity operations in the State. The activities of PDS include generation of electricity, supply of electricity, create, operate and maintain infrastructure required for distribution of electricity within the State. In addition, PDS also conducts trading *i.e.*, selling and purchasing of electricity outside the State. As PDS is a Government Department, it is required to follow Government Accounting Rules for accounting of receipts and expenditure.

**Table 4.1** shows the details of irregularities with respect to accounting of receipts<sup>28</sup> and expenditure during 2021-22.

**Table 4.1: Irregularities with respect to accounting of receipts and expenditure by PDS**  
(₹ in crore)

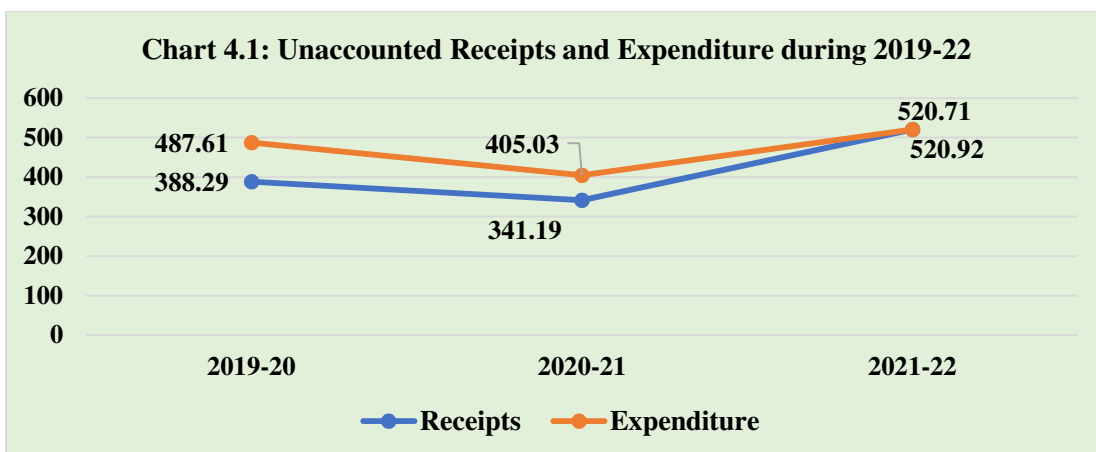
Particulars	Amount Involved	Audit Observations
<b>Receipts</b>		
Sale proceeds of electricity sold outside the State (Surplus Power)	189.16*	The government sold the excess power to outside of State.
Royalty receipts from the HEPs located in the State	331.55 <sup>#</sup>	Royalty amounting to ₹ 331.55 crore from two HEPs <sup>29</sup> had not been credited into Government Account and was transferred to the Bank Accounts maintained by the SPICIL.
<b>Total</b>	<b>520.71</b>	
<b>Expenditure</b>		
Purchase of electricity	198.13*	During the winter season, the State experiences shortage in electricity. PDS purchases electricity from the revenue earned by selling the surplus electricity and the expenditure was incurred from the same bank account in which the receipts from the sale of electricity outside the State are credited (Sl. No. 1). As such, the expenditures were being incurred without approval of Legislature and were not reflected in Government Accounts.
Repayment of Loans	322.79 <sup>#</sup>	The SPICIL had borrowed funds from PFC on the guarantee of GoS. The servicing of the loans availed by the SPICIL from PFC was done from the royalty money received from two HEPs (Sl. No. 2). Therefore, these expenses were also not included in Government Account.
<b>Total</b>	<b>520.92</b>	

Source: \*SSERC Report # SPICIL balance sheet and loan schedule

As can be seen from **Table 4.1**, Revenue Receipts of ₹ 520.71 crore earned from sale proceeds of electricity sold outside the State and royalty receipts from the HEPs located in the State, were not deposited in the Consolidated Fund of State by PDS. This led to understatement of Government Revenue Receipts by ₹ 520.71 crore. Further, an expenditure of ₹ 520.92 crore had been incurred without routing it through Government Accounts resulting in understatement of Government expenditure by ₹ 520.92 crore. This led to an overall overstatement of Revenue surplus and understatement Fiscal Deficit by ₹ 0.21 crore during 2021-22.

<sup>28</sup> The PDS has three main sources of revenue (i) sale proceeds of electricity sold to outside the State, (ii) Royalty receipts from the Hydro-electric Projects (HEPs) located in the State and (iii) sale proceeds of electricity within the State.

<sup>29</sup> i) Chuzachen (GATI)-₹ 26.47 crore, ii) Teesta Stage III (Teesta Urja Ltd)- ₹ 305.08 crore



As can be seen from **Chart 4.1**, the State had managed to carry out substantial amount of transactions involving huge receipts and expenditure without accounting them in the books of accounts. It is pertinent to mention here that despite being pointed out in the previous State Finance Audit Report<sup>30</sup>, no corrective measures to route the receipts and expenditure through the Government Account was taken by the State Government.

#### **4.1.2 Sikkim State Legal Services Authority- Non creation of State Legal Aid Fund**

As per Section 16 of the Legal Services Authorities Act, 1987, the State Authority shall establish a fund to be called the “State Legal Aid Fund” in which all grants received from Central or State Government or any donation shall be credited into this Fund.

However, the said Fund was neither notified nor created as on 31 March 2022 by the State Government. Thus, due to non- creation of the State Legal Aid Fund by the State Government, the grants and other receipts received from National Legal Services Authority was kept in a bank account and the expenditure incurred from State Government allocation were routed through the State treasury.

The Sikkim State Legal Services Authority stated (April 2022) that the matter have been taken up with the State Government for creation of Fund. Thus, due to non-creation of the Sikkim State Legal Services Authority Fund, the grants, fee and other receipts collected by the SSLSC were being kept in a bank account. As on 31 March 2022, the SSLSC Bank Account had a balance of ₹ 38.01 Lakh.

#### **4.1.3 Funds lying unutilised in the Bank Accounts of the Departments**

Rule 28 of Sikkim Financial Rules provides that no money shall be drawn from the treasury unless it is required for immediate disbursement. It is not permissible to draw money from the treasury in anticipation of demand or to prevent the lapse of budgetary grants.

As per information furnished by 21 CCOs (out of 47 CCOs in the State) to the office of Sr. DAG (A&E) Sikkim, ₹ 193.20 crore was lying in the Savings/ Current Accounts of these CCOs as on 31 March 2022 (details are given in **Appendix 4.1**), outside the Government Account.

<sup>30</sup> Paragraph 4.4.1 of the State Finance Audit Report for the year ending 31 March 2021

It was noticed that as against the fund of ₹ 193.20 crore lying in the Savings/ Current Accounts of these CCOs as on 31 March 2022, an amount of ₹ 173.65 crore was received from GoI and ₹ 19.55 crore was from State Government.

Even though this amount had already been accounted for as expenditure, it was lying un-utilised outside the Government Accounts. Thus, to the extent of amount kept lying in the bank accounts of the CCOs, the expenditure shown in the Annual Accounts cannot be asserted as correct or final. Moreover, the closing balance in the bank accounts results in overstatement of expenditure. The unspent money lying as closing balances in the bank accounts at the end of year should be refunded into the Government account.

#### 4.1.3.1 Review of funds lying unutilised in the Bank Accounts of the Departments

Sikkim Urban Development Agency (SUDA), a Society under the Government of Sikkim, was created by the State Government in May 1998 with the objective of identifying weaker sections of the Community in urban areas lying below poverty line and initiating actions for generating income and employment opportunities for them; planning, promoting and assisting in implementation of Urban Poverty Alleviation Programmes of the Government, primarily the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) launched in December 1997 by GoI.

SUDA was also responsible for overall monitoring, preparation of policy initiatives and for facilitating convergence of inter departmental schemes for urban poverty alleviation. SUDA functioned under the administrative control of Urban Development Department (UDD) with the Secretary, UDD as its Chairperson.

Scrutiny of records of the Chairman, SUDA revealed that SUDA was being used by the Government for undertaking various works not falling directly within the ambit of business of the Agency. Huge funds were found parked in the accounts of the SUDA for purposes which were not clearly defined. These funds were lying idle in the bank account of the Agency for considerable lengths of time. SUDA appeared to have long veered away from its core objective of implementing poverty alleviation schemes for the urban poor.

The following funds were lying idle in the Bank accounts of the Agency which were not associated with any activities of the Agency being undertaken presently:

**Table 4.2: Details of Funds lying idle in the bank accounts of SUDA**

Sl. No.	Particulars	Amount (₹)	Remarks
1	Infrastructure Development at Mangalbarey	12,47,746	The work was long completed and closed.
2	West Point PPP Project	3,15,13,484	Details of project and relevant records were not produced to Audit
3	Viability Gap Funding	2,59,00,000	Projects whereabouts not known. Records not produced to Audit.
4	Pakyong Master Plan	16,64,032	Projects whereabouts not known. Records not produced to Audit.
5	Savings of SJSRY Scheme	43,78,168	Scheme closed long back.
	<b>Total</b>	<b>6,47,03,430</b>	

Source: Inspection Report of SUDA

There was a balance of ₹ 6.47 crore with SUDA in respect of the above five projects/schemes. The files or any records relating to these projects could not be provided to Audit by either SUDA or the UDD authorities. Audit therefore could not ascertain the reasons for entrusting execution of these projects to SUDA, extent of actual execution of these projects and the reasons for termination of these projects.

Since the above five projects / schemes were either closed or terminated, the retention of funds in respect of these projects by SUDA was unauthorised and irregular. SUDA should re-visit the status of the above projects and take immediate steps to surrender the idle funds into the Government Account.

During the entry conference this matter was brought to the notice of the Finance Department and it was emphasised that there should be a proper controlling and monitoring mechanism on the scheme's funds released to various departments and they need to ensure the non-parking of government fund outside of its account.

#### **4.2 Off-Budget Borrowing**

Off-budget borrowings or off-budget financing generally refer to use of those financial resources by the Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/ those years for seeking grant/ appropriation, hence remaining outside legislative control. They are financed through Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the Government. However, the Government has to repay such debt and/ or service the same from its budget. Therefore, off-budget borrowings/ financing involve a) payment of interest on recurrent basis and B) repayment of the borrowings from budget as and when it is due.

Further, SFRBM Act, 2010 provides for prudent and sustainable debt management consistent with fiscal stability through limits on State Government's borrowings, including off-budget and achieving greater transparency in fiscal operation of the Government and conduct of fiscal policy in a medium-term fiscal framework<sup>31</sup> known as Medium-Term Fiscal Plan (MTFP) and for matters connected therewith or incidental thereto.

In line with SFRBM, the MTFP contains medium term fiscal objectives of the Government, evaluation of performance of the prescribed fiscal indicators in the previous year and the likely performance during the current year. Further, the MTFP also contains the policies of the State Government for the ensuing financial year relating to taxation, expenditure, borrowings and other liabilities, subsidies, lending and investments, guarantees, off-budget borrowings and activities of Public Sector Undertakings that have potential budgetary implication.

<sup>31</sup> As per Section 3 of the SFRBM Act, the State Government has to lay before the State Legislature, a Medium-Term Fiscal Plan along with Budget. The Medium-Term Fiscal Plan (MTFP) sets forth a year rolling target for the prescribed fiscal indicators.

During the year 2021-22, the State Government repaid ₹ 219.21 crore worth of loans availed by three financial institutions<sup>32</sup> for implementation of various Government projects, and interest accrued thereupon. The borrowings by these Institutions had not formed part of the outstanding liabilities of the State Government during the respective years. Further, out of the total repayments made during the year, ₹ 87.97 crore was repayment of principal and ₹ 131.24 crore was interest payment.

Payment of interest worth ₹ 131.24 crore by debiting regular Major Head understated the interest payment head (Major Head 2049) which forms part of the committed liability of the State Government. It was noticed that the repayment of such debts (principal) was wrongly accounted as 'Revenue Expenditure' (Other Expenditure/ Other Charges) under MH 2217 Repayment of loans and advances instead of 'Capital Expenditure'.

The repayment of Off-budget borrowings was 11.33 per cent of own resources (OTR and NTR) of the State (₹ 1,935.04 crore) and 3.29 per cent of Revenue Expenditure during the year 2021-22.

The details of loans availed by these Institutions, purpose of the loans and repayment made during the year are given in **Table 4.3**:

**Table 4.3 Repayment of Off-Budget Borrowing through Budget during 2021-22**

(₹ in crore)

Name of the Institution	Heads of Account	Bank/ Financial Institution	Loan Borrowed	Period of Loan	Purpose of Loan	Repayment during the year		Repayment by (Principal & Interest)
						Principal	Interest	
SHDB	2216-03-800-35-00-82	HUDCO	361.00	27.03.2017	Chief Minister Rural Housing Scheme-3000 houses	24.07	28.44	Rural Development Department
SIDICO	2216-03-800-35-00-82	Bank of Maharashtra	481.00	2020	Implementation of Sikkim Garib Awas Yojana		21.00	
STCS	2210-01-800-00-44-91	CBI	300.00	2018-2019	Multi-speciality Hospital at Accheygang	32.29	31.01	Health and Family welfare Department
<b>Total</b>						<b>56.36</b>	<b>80.45</b>	
SIDICO	3054-80-001-35-44-50 Other Charges	HUDCO	200.00	2018-2019	Upgradation and improvement of existing roads in different districts within State of Sikkim	11.70	15.66	Roads and Bridge Department
		NABARD	130.81	2018-2019	Strengthening and improvement of existing Highways in the State of Sikkim	13.08	23.43	
		HUDCO	103.70	2021	Upgradation and improvement of existing roads in State of Sikkim		0.91	
		NABARD	83.50	2020	Upgradation and improvement of existing roads in State of Sikkim and Strengthening/		7.33	

<sup>32</sup> Sikkim Housing Development Board (SHDB), State Trading Corporation of Sikkim (STCS) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO)



Name of the Institution	Heads of Account	Bank/ Financial Institution	Loan Borrowed	Period of Loan	Purpose of Loan	Repayment during the year		Repayment by (Principal & Interest)
						Principal	Interest	
					improvement of various roads in the State of Sikkim II			
	2851-00-001-60-0-50	HUDCO	113.35	2013	Development of Pakyong Township	6.83	2.76	Commerce and Industry Department
	2217-80-001-00-44-55	UBI	141.00	2022	Implementation of Sikkim Urban Garib Awas Yojana	0.00	0.70	Urban Development Department
<b>Total</b>						<b>31.61</b>	<b>50.79</b>	
<b>Total Repayment by State Government</b>						<b>87.97</b>	<b>131.24</b>	219.21

Source: Departmental Information

In addition, one SPSUs raised loans amounting to ₹ 453.55 crore during 2021-22 for implementation of various State Government Schemes/ Programmes, as detailed in Table 4.4.

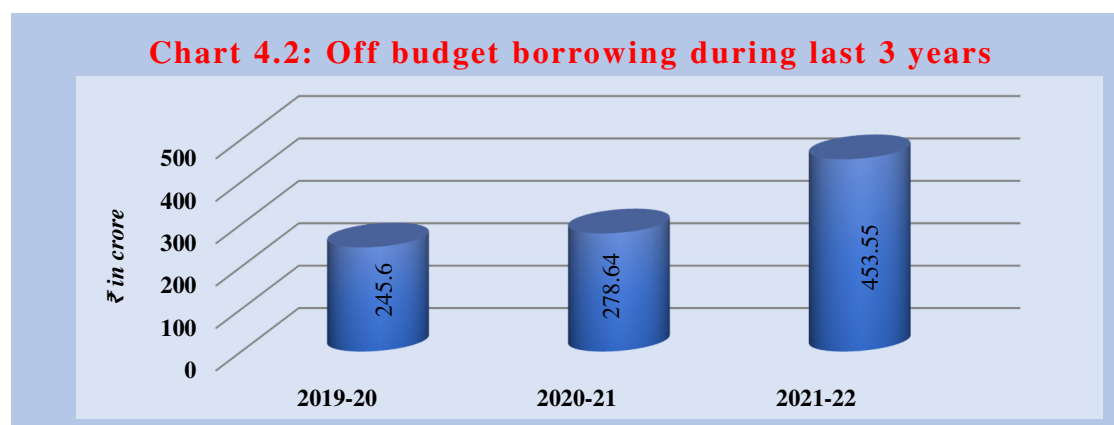
Table 4.4: Off-Budget Borrowings during 2021-22

(₹ in crore)

Name of the Institution	Bank/ Financial Institution	Total Loan Amount (Rate of Interest)	Period of Repayment	Borrowings of the Institution during 2021-22	Maximum amount Guaranteed/ LOC issued	Purpose of Loan	Source of Repayment (Principal & Interest)
Sikkim Industrial Development and Investment Corporation Limited	HUDCO	103.70 (7.90%)	15 years	65.00	103.70	Upgradation and improvement of existing State of Sikkim	Budgetary support (Roads & Bridges Department, GoS)
	Bank of Maharashtra	481.00 (7.5%)	17 years	350.55	481.00	Implementation of Sikkim Garib Awas Yojana	Budgetary Support (Rural Development Department, GoS)
	UBI	141 (MCLR + 3% p.a) (7.20%)	20 years	38.00	141.00	Implementation of Sikkim Urban Garib Awas Yojana	Budgetary Support (Urban Development Department, GoS)
<b>Total</b>				<b>453.55</b>			

Source: Departmental information

The repayment of above loans has also commenced during 2021-22 from the State budget. The purpose for which these loans have been raised is indicative of off-budget borrowings. Moreover, none of these loans amounting to ₹ 453.55 crore formed part of the outstanding liabilities of the State Government as of March 2022, which was violative of the FRBM Act. As such, these borrowings led to understatement of fiscal liabilities by ₹ 453.55 crore.



During the period 2019-22, the yearly off budget borrowing of the State increased by 84.68 per cent (₹ 207.95 crore) from ₹ 245.60 crore in 2019-20 to ₹ 453.55 crore in 2021-22. During the current year, it increased by 62.77 per cent over the previous year.

‘Off-budget borrowings’ is being raised by the Government of Sikkim from outside agencies (Banks, FIs, etc.) indirectly through Sikkim Industrial Development and Investment Corporation Limited (SIDICO a State PSU) without routing through the Consolidated Fund of State (CFS) and the State Budget. Hence, the borrowings so availed by the State Government remained outside the Legislative control. Further, the State Government has been repaying and servicing such debts from the CFS through the budget allocation.

During the Entry Conference (25 August 2022), the Secretary cum Controller of Accounts, State Finance Department stated that they have received the notification from GoI regarding off budget borrowing, and they were working on it and assured that it would be regularised soon.

#### **4.2.1 Outcome of review on Off budget borrowing in Urban Development Department**

A Review of off budget borrowing by Urban Development Department (UDD) was conducted in September 2022 and findings are as under:

The State Cabinet approved (May 2021) the proposal for implementation of housing schemes under Sikkim Urban Garib Awas Yojana (SUGAY) at the cost of ₹ 156.87 crore. The State Government through SIDICO availed loan of ₹ 141 crore from Union Bank of India (UBI) for implementation of SUGAY. The agreement between SIDICO and UBI on borrowing of ₹ 141 crore was entered into on 3 November 2021. As per standard terms and conditions, the loan of ₹ 141.00 crore was to be repaid in 34 instalments of ₹ 4.15 crore after moratorium period of three years from the date of first disbursement and interest to be paid as and when debited in the account. Interest was to be paid at 7.20 per cent per annum. The State Government stood as Guarantor.

Audit scrutiny showed that the UDD (State Government) during the year 2021-22 paid ₹ 2.11 crore (₹ 0.70 crore as interest to Union Bank of India and ₹ 1.41 crore as guarantee fees to the State Government) from Major Head (MH) 2217-Repayment of loans and advances.

The practice of availing such borrowings by the State Government not only violates the provisions and spirit of SFRBM Act but also lead to expansion of off-budget liabilities which could be detrimental to debt and monetary management.

The above borrowings did not form part of the outstanding debts and Capital Receipts of the State Government at the end of the respective year in violation of the SFRBM Act.

The State Government utilised the funds so raised on implementation of SUGAY without routing these loans through CFS. Such borrowings are repaid and serviced by the State Government out of the CFS through budgetary allocation.

**Accounting treatment by State Public Sector Enterprises (SPSEs):**

As verified from the records of SIDICO, the borrowings raised on Government's behalf (along with interest and other charges) is recorded by the SIDICO on both sides of their Balance Sheet, viz. under 'Long term Borrowings'(Liability side) and 'Loans and Advances' (Asset side). On repayment of the debts by the State Government, the 'Long term Borrowings'(Liability side) and 'Loans and Advances' (Asset side) in the balance sheet of the PSU are settled/ adjusted to that extent. Thus, the transaction has no impact on the financial position of SIDICO.

**Accounting treatment by the State Government:**

As mentioned above, the State Government has not been accounting the above borrowing (Capital Receipts) in the State Finance Accounts and hence, such borrowings did not form part of the CFS/ Liabilities of the State Government as at the close of the respective year. However, while making repayment (principal and interest) against these borrowings, the State Government has been appropriating the required funds from CFS through the budgetary allocation by accounting the transaction wrongly under Revenue Expenditure' (Other Expenditure/ Other Charges) under MH 2217- Repayment of loans and advances in the State Finance Accounts.

**Implications:**

- *The transactions clearly violate the provisions of the SFRBM Act and has the following further implications:*
- *The debts raised by Government (through SPSEs) are in the nature of 'Capital Receipts' and non-accounting the same in the State Finance Accounts/ CFS has the implication of understating the 'Capital Receipts' as well as the 'Long Term Debts of the State' outstanding at the end of the respective year (s) to that extent. This has correspondingly resulted in understatement of 'fiscal liabilities' and 'fiscal deficit' of the State for the respective year (s) to that extent.*
- *Wrong classification of 'Capital Expenditure' towards repayment of off-budget borrowings (principal and interest) as 'Revenue Expenditure' led to understatement of 'Capital Expenditure' and overstatement of 'Revenue Expenditure' to that extent.*

- This may further lead to depicting a misleading picture of the State Finances during the year, which was deliberate just to keep State Government's borrowings within the limits prescribed under SFRBM Act and to get all the benefits (Central funding/ grants and other benefits) available to FRBM compliant States.

### 4.3 Funds transferred directly to State Implementing Agencies

As per GoI decision (08 July 2015), all assistance to the Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) under the various schemes would be released directly to the State Government and not to the Implementing Agencies (IA) in the State and hence these funds would be routed through the State Budget from 2015-16 onwards. However, during 2021-22, the GoI transferred ₹ 326.22 crore directly to IAs in the State (Details in **Appendix 4.2**). The amount of such funds transferred by GoI to IAs during 2021-22, had increased as compared to the previous year's amount which stood at ₹ 201.99 crore.

Out of ₹ 326.22 crore, major portion *i.e.* ₹ 163.59 crore (50.15 *per cent*) was transferred to Jal Jeevan Mission and ₹ 74.63 crore (22.88 *per cent*) was transferred to Mahatma Gandhi National Rural Guarantee Programme. Another major scheme was India Covid-19 Emergency response and Health system preparedness scheme- ₹ 31.22 crore (9.57 *per cent*).

It was noticed that against the fund of ₹ 326.22 crore, an amount of ₹ 82.59 crore pertained to six DBT schemes.

As the funds were not routed through the State Budget/ State treasury system, the Annual Finance Accounts did not capture these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them did not represent the complete picture. Further, direct transfers from GoI to the SIAs run the risk of poor oversight.

### 4.4 Indiscriminate use of Minor Head 800

The omnibus Minor Head 800 relating to Other Receipts/ Other Expenditure is to be operated only in cases where the appropriate Minor Head has not been provided under a Major Head in the accounts. If such instances occur on a regular basis, it is the responsibility of the State Government to discuss with the Sr. DAG (A&E) and obtain approval to open appropriate Minor Heads.

During the year 2021-22, the State Government booked ₹ 459.21 crore (6.49 *per cent* of Revenue Receipts) under 800-Other Receipts under 32 Revenue Receipts Heads and ₹ 806.87 crore (10.11 *per cent* of the Revenue and Capital expenditure) under 800-Other Expenditure under 31 Expenditure Heads.

Instances where a substantial proportion (50 *per cent* or more) of the expenditure within a given Major Head, classified under the Minor Head 800- 'Other Expenditure' during 2021-22 are given in **Table 4.5**.

**Table 4.5: Significant expenditure booked under Minor Head 800–Other Expenditure during 2021-22***(₹ in crore)*

Sl. No.	Major Head	Major Schemes under Minor Head 800	Expenditure under Minor Head 800	Total Expenditure	Per cent
1.	4216-Capital Outlay on Housing	Chief Minister Rural Housing Mission Phase I & II and Stalled House (REDRH/CMRHM) <i>etc</i>	9.84	9.84	100
2.	2852-Industries	Implementation of e-Vidhan, State Data Centre (SDC) <i>etc.</i>	8.36	8.36	100
3.	2810-Non-Conventional Sources of Energy	Grants-in-Aid to SREDA	1.99	1.99	100
4.	2435-Other Agricultural Programmes	National Food Security Mission (NFSM) and Rastriya Krishi Vikash Yojana	13.68	13.68	100
5.	2407-Plantations	Management and Management Charges	8.02	8.02	100
6.	4801-Capital Outlay on Power Projects	Survey design supply erection testing and commissioning Nayabazar and Gyalshing town, Strengthening and augmentation of sub-transmission & distribution infrastructure in rural areas <i>etc.</i>	102.63	102.06	99
7.	2216-Housing	Repayment/interest payment of loan from HUDCO, House Upgradation <i>etc.</i>	114.23	108.36	95
8.	4225-Capital outlay on Welfare of SC/ST/OBC	Construction of Lepcha Primitive Tribal Girls' Hostel Lingdong Near Mangan, North Sikkim, State Share for all Construction Works <i>etc.</i>	8.45	9.35	90
9.	2225-Welfare of SC/ST/OBC	Other Charges, Scholarship, Stipend <i>etc.</i>	72.76	113.35	64
10.	2217-Urban Development	Atal Mission for Rejuvenation and Urban Transformation (AMRUY), Swachh Bharat Mission <i>etc.</i>	27.88	53.79	52
	<b>Total</b>		<b>367.84</b>	<b>428.80</b>	<b>85.78</b>

*Source: Finance Accounts*

In the case of receipts, cases where over 50 per cent of receipts were classified under Minor Head 800 – ‘Other Receipts’ are given in **Table 4.6**.

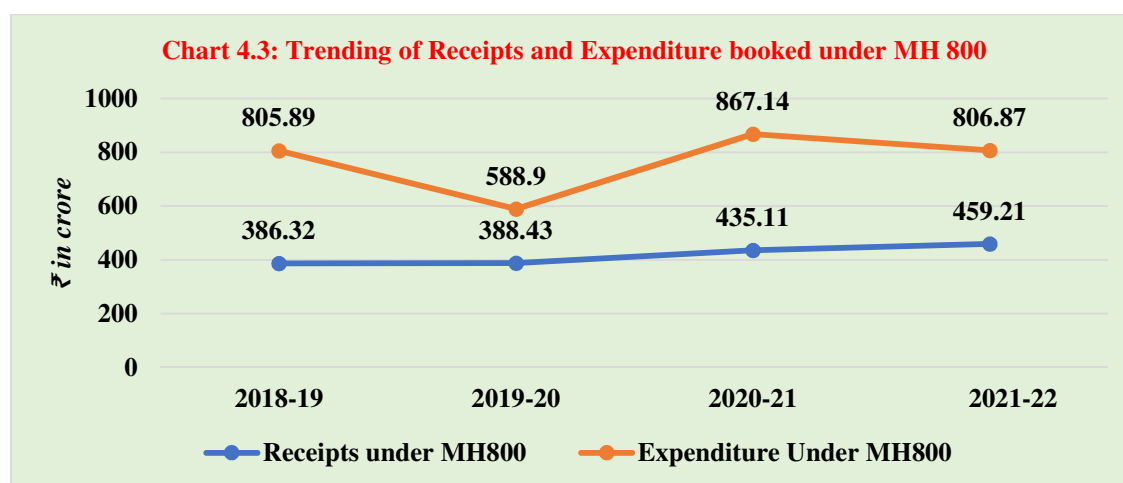
**Table 4.6: Significant receipts booked under Minor Head 800 – Other Receipts during 2021-22**

(₹ in crore)

Sl. No	Major Head	Receipt under Minor Head 800	Total Receipts	Per cent
1.	0217-Urban Development	3.08	3.08	100
2.	0801-Power	306.77	306.77	100
3.	0515-Other Rural Development	1.85	1.85	100
4.	0853-Non-ferrous Mining and Metallurgical Industries	0.25	0.25	100
5.	0235-Social Security and Welfare	0.61	0.61	100
6.	0702-Minor Irrigation	3.96	3.96	100
7.	0407-Plantation	1.35	1.35	100
8.	0029-Land Revenue	9.36	9.52	98
9.	0059-Public Works	13.99	14.84	94
10.	0070-Other Administrative services	18.19	19.45	94
11.	0852-Industries	4.58	5.50	83
12.	1452-Tourism	2.72	4.11	66
13.	0210-Medical and Public health	2.96	4.49	66
14.	0071-Contribution and Recoveries towards Pension and other retirement benefit	16.03	26.93	60
	<b>Total</b>	<b>385.70</b>	<b>402.71</b>	<b>95.78</b>

Source: Finance Accounts

Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure. The trending of Receipts and Expenditure booked under Minor Head 800 is shown in **Chart 4.3**.



As can be seen in **Chart 4.3**, the Receipts booked under Minor Head 800 is having steady increase during the period 2018-2022. The Receipts booking under MH 800 was increased by ₹ 72.89 crore from the year 2018-19 to 2021-22. In other hand, there was a fluctuation in Expenditure booked under MH 800 during the same period. But the amount booked in the year 2021-22 is almost same as 2018-19.

#### 4.4.1 Analysis of Expenditure and Receipts booked under Minor Head 800

The analysis of the use of Minor Head 800 where maximum percentage and higher amount of expenditure and receipts were booked was done by the Audit office. The booking of Expenditure and Receipts under Minor Head 800 can be categorised into 3 parts as mentioned below:

- i. There were some cases where the proper Minor Heads were available, but the State Government had booked under Minor Head 800.
- ii. In few cases, it was noticed that the Expenditure and Receipts could have been classified under one of the other Minor heads. The repayment of Off-budget borrowing some departments were also booked under MH 800.
- iii. The State Government had no option in LMMH for some cases other than book the Expenditure or Receipts under Minor Head 800. In those case, it was examined whether proper Sub-Head, Detail Head and Object Heads below the Minor Head 800 were opened to provide the purpose of expenditure.

#### 4.4.1.1 Analysis on Expenditure booked under Minor Head 800

##### Category 1: Misclassification

The Minor Heads 800 under concern Major Heads where the expenditures were booked are having proper classification of Sub Head and Detailed Heads in State Budget.

**Table 4.7: Significant Misclassification of Expenditure booked under Minor Head 800**

(₹ in crore)

Major Head	Major Head Description	Total Expenditure	Expenditure under Minor Head 800	Appropriate Heads available
2202	General Education	1224.39	110.51	Minor Heads-111, 112,113
2225	Welfare of SC/ST/OBC	113.35	72.76	Minor head- 793, 794, 796
4225	Capital outlay on Welfare of SC/ST/OBC	9.35	8.45	Minor head- 277, 283
4202	Capital outlay on Education, sports	156.76	34.18	Minor head 201, 202
	<b>Total</b>	<b>1503.85</b>	<b>225.90</b>	

Source: Detailed Appropriation Accounts

- ❖ Expenditure booked under Minor Head 800 in the Major Head 2202 was related to Samagra Shiksha, Mid-day Meal Programme and National Education Mission which has suitable Minor Heads 113, 112, 111 respectively in LMMH. The booking of these schemes expenditure in Minor Head 800 is improper and also misclassified the expenditure.
- ❖ Expenditure booked under Minor Head 800 in the Major Head 2225 related to Grands-in-Aid, Multi Sectoral Programmes for SC, ST and OBC classes. MH 2225 is having separate Minor Heads 793, 794, 796 respectively in LMMH. The booking of these schemes expenditure in Minor Head 800 is improper and also misclassified the expenditure.
- ❖ Capital Heads 4202 and 4225 were also having separate Minor Heads 201, 202 and 277, 283 respectively in LMMH. The booking of these schemes expenditure in Minor Head 800 is improper and also misclassified the expenditure.
- ❖ Capital Expenditure booked under Minor Head 800 under 4225 mostly related to construction of Hostels and schools for SC, ST and OBC students. The Major Head is having separate Minor Head 277-Education and 283-Housing and these hostel or school construction should be booked under this Minor Heads.



## Category II: Availability of alternate Heads of Accounts

**Table 4.8: Significant Expenditures booked under Minor Head 800 where Alternate Heads of Accounts available**

(₹ in crore)

Major Head	Major Head Description	Total Expenditure	Expenditure under Minor Head 800	Other heads which should be booked
2210	Medical and Public Health	531.96	53.69	2210- 104,110
2216	Housing	114.23	34.36	2216- 105,
2245	Relief on Account of Natural Calamities	143.09	70.18	2245- 106
2402	Soil and Water conservation	26.96	12.20	2402- 102, 001
2435	Other Agricultural Programmes	13.68	13.68	MH 2401
2810	Non-Conventional Sources of Energy	1.99	1.99	2810-105
2055	Police	477.72	27.26	2055-117
2852	Industries	8.36	8.36	2855-01, 2875-60-190 2852-80-001
	<b>Total</b>	<b>1317.99</b>	<b>221.72</b>	

Source: Detailed Appropriation Accounts

- ❖ The major part of expenditure booked under MH 2210, 800 is purchase of drugs, which can be booked under other heads like 104-Medical stores Depots or 110- Hospitals and Dispensaries.
- ❖ The PM Awas Yojana expenditure booked under MH 800 have separate head 105 available. Another ₹ 32.00 crore was transferred as grant to beneficiaries for home upgradation. From the voucher, it was not clear under which scheme this fund was transferred to beneficiaries and significantly this fund was transferred on 31<sup>st</sup> March to Rural Development Department Bank account.
- ❖ In MH 2245, landslide repair works are the major portion booked under Minor Head 800, but these works expenditure should be booked suitable Minor Head 106- Repairs and restoration of damaged roads and bridges.
- ❖ In MH 2402, all wages were booked under Minor Head 800. The wages which are related to Soil conservation related activities should be booked Under Minor Head 102-Soil conservation, the wages related to establishment can be booked under 001-Direction and Administration.
- ❖ All the expenditure booked in the Minor Head 800 under 2435- Other Agricultural Programme is related to National Food Security Mission and Rastriya Krishi Vikash Yojana which should be booked under Major Head 2401- Crop Husbandry in suitable Minor Head available under it.
- ❖ Expenditure booked under 800 in Major Head 2810 is Grant-in-Aid to Sikkim Renewal Energy Development Agency which can be booked under Minor Head 105-Supporting Programmes.
- ❖ Minor Head 800 under 2055-Police is being operated to book the expenditure incurred towards check post administration where major part of expenditure is being reimbursed by the Government of India. As a border State, this special



expenditure is being incurred and subsequently being reimbursed by GoI. This expenditure should be booked under Minor Head 117-Internal Security.

- ❖ Expenditure related to Grant-in-Aid to Sikkim Industrial Development Corporation, State Trading Corporation and other SPSEs are being booked under Minor Head 800 in 2851-Industries. But this expenditure can be booked under 2885-01- (Industrial Financial Institutions) 101-Assistance to Industrial Financial Institutions or under 2875-60 (Other Industries)-190-Assistance to Public Sector and Other Undertakings.
- ❖ The other major expenditure booked under MH 2852-07-800 was salary and other establishment expenditure of Information and Technology Department. This should be booked under 2852-80-001-Direction and Administration.

### Category III: Non availability of other Heads in List of Major and Minor Heads (LMMH):

**Table 4.9: Significant Expenditure booked under Minor Head 800 where no other Heads Available**

Major Head	Major Head Description	Total Expenditure	Expenditure under Minor Head 800
2217	Urban Development	53.79	27.88
2407	Plantations	8.02	8.02
2801	Power	284.90	31.19
4216	Capital Outlay on Housing	9.84	9.84
2210	Medical and Public Health	531.96	63.00
2216	Housing	114.23	74.00
	<b>Total</b>	<b>1002.74</b>	<b>213.93</b>

(₹ in crore)

Source: Detailed Appropriation Accounts

- ❖ Expenditure booked under 800 in MH 2217 were related to garbage disposal, Swachh Bharat Mission and AMRUT scheme. Since no suitable minor heads are available, these expenditure were booked under Minor Head 800 with proper classification of Sub-Head, Detail Head, Object Head to provide the purpose of expenditure.
- ❖ Expenditure incurred by Temi Tea Board was booked under Minor Head 800 with proper classification of Sub-Head, Detail Head, Object Head to provide the purpose of expenditure. The Sub Major Head 01-Tea under Major Head 2407 does not have any other minor head for booking this kind of expenditure.
- ❖ Maintenance and wages expenditure were booked under Minor Head 800 in Major Head 2801. As per LMMH each power scheme will be Minor Head and each expense will have Sub Heads. The expenditures were booked under Minor Head 800 with proper classification of Sub-Head, Detail Head, Object Head to provide the purpose of expenditure.
- ❖ Special schemes of Chief Minister Rural Housing Scheme and Sikkim Garib Awas Yojna expenditures were booked under 4216-03-800 (Rural Housing-Other expenditure). Since no other Minor Heads are available in LMMH, these scheme expenditures were under Minor Head 800 with proper classification of Sub-Head, Detail Head, Object Head to provide the purpose of expenditure.

- ❖ A major part of expenditure ₹ 63.00 crores booked under MH 2210 in Minor Head 800 was repayment of off budget borrowing. Since no other Minor Heads are available in LMMH, these scheme expenditures was booked under Minor Head 800 with proper classification of Sub-Head, Detail Head, Object Head to provide the purpose of expenditure.
- ❖ A major part of expenditure ₹ 74.00 crores booked under MH 2216 in Minor Head 800 was repayment of off budget borrowing. Since no other Minor Heads are available in LMMH, these scheme expenditures was booked under Minor Head 800 with proper classification of Sub-Head, Detail Head, Object Head to provide the purpose of expenditure.

#### 4.4.1.2 Analysis on Receipts booked under Minor Head 800

The Major Heads where substantial number of receipts was booked under Minor Head 800 were analysed and findings are given below:

**Table 4.10: Significant Receipts booked under Minor Head 800**

(₹ in crore)

Major Head	Major Head Description	Total Receipts	Receipt under Minor Head 800	Remarks
0071	Contributions and Recoveries towards Pension and other Retirement Benefits	26.94	16.03	Should be credited to 8342-117
0853	Non-ferrous Mining and Metallurgical Industries	0.25	0.25	No division under 800. Normally these receipts are Royalties, rent for minor minerals- MH 102 (Minerals fee, royalty, rent) to be booked
0059	Public Works	14.84	13.99	Division under Minor head major part is Roads and Bridge – Major receipts are related to Roads and Bridge, may be booked under MH-1054 (Roads and bridge)
0217	Urban Development	3.08	3.08	The parking fee, rent from premises are major revenue. As per the provision of LMMH the state government can open separate Minor head for schemes.
0055	Police	112.38	40.83	Reimbursement for supplying of home guard from GoI. MH 800 is classified with suitable sub heads and object heads.
0070	Other Administrative Services	19.44	18.19	Election expenditure reimbursement has no minor head hence it is being booked under 800 with sub head and detail head.
0235	Social Security and Welfare	0.61	0.61	No minor heads for receipt collection in LMMH. The division of sub head is incorporated
0801	Power	306.77	306.77	Sale of power receipts were booked under 800 with proper classification under it since there is no minor head in LMMH.
0852	Industries	5.50	4.58	Industries development fund as no other minor heads under 0852.

Major Head	Major Head Description	Total Receipts	Receipt under Minor Head 800	Remarks
1452	Tourism	4.11	2.72	The receipts other than rent and catering booked under other receipts without further classification.
0210	Medical and Public health	4.49	2.96	The receipts other than from patients being booked without any further classifications
0029	Land Revenue	9.52	9.36	Other than Land Tax all receipts are credited here. There is no division below Minor head
0407	Plantations	1.35	1.35	No other heads for sale of products in LMMH. There is no division under MH 800.
0702	Minor Irrigation	3.96	3.96	There is no division under Minor head 800- unable to know the nature of receipts
<b>Total</b>		<b>513.24</b>	<b>424.68</b>	

- ❖ The reimbursement of pension paid to AIS pensioners of Sikkim cadre by other states were booked under 0071. These transactions should be booked under 8342-117.
- ❖ Royalties and Rent receipts from Minerals were booked under 800 in the Major Head 0853. This can be booked under Minor Head 102-Minerals fee, royalty, rent *etc.* with suitable sub head, object head and details head.
- ❖ The major receipts booked under Minor Head 800 in MH 0059-Public works; is related to Roads and Bridge receipts which has own Major Head 1054. Normally public works receipts to other Major Heads are booked under concern Heads only, for example Housing. The tolls levied other than by an Act of legislature has to be booked under 1054-Roads and Bridge. There are thousands of Roads and bridge receipts booked under 0059 which need to be analysed and may be booked under MH 1054. It is pertinent to mention that from the Sikkim budget book it is understood that MH 1054 is not in operation.
- ❖ The parking fee, rent from premises are major revenue receipts booked under Minor Head 800 in 0217-Urban Development. These transactions are regular receipts, as per the provision of LMMH the State Government can open separate Minor Head for each scheme
- ❖ Major portion of receipts booked under Minor Head 800 in Sikkim was Power Department receipts. The LMMH provides only 800 under Major Head 0801 (Power). Hence the State Government has option other than booking a sale of power and other receipts under Minor Head 800.

The Finance Department in its detailed reply (November 2022) accepted the audit findings on booking of expenditure in Minor Head 800 and assured suitable reclassification wherever possible would be done in next year budget. The reclassification heads also proposed by the Department in its letter. In some cases, the

Finance Department requested AG office's suggestion to reclassify the expenditure booked under Minor Head 800. The Department may take up this issue to O/o the Sr. DAG (A&E) Sikkim to resolve this issue.

## 4.5 Utilisation Certificates

### 4.5.1 Delay in submission of Utilisation Certificates of Grants-in-Aid

Rule 115 of SFR states that in the case in which conditions are attached with the utilisation of a grant in the form of specification or particular objects or expenditure or the time within which the money must be spent, or otherwise, the sanctioning authority shall be primarily responsible for certifying to the Accountant General, where necessary, the fulfilment of conditions attached to grant, unless there is any special rule or order to the contrary. Further, Rule 116 (1) of the SFR stipulates that every grant made for a specific object is subject to implied conditions: (i) that the grant shall be spent upon the object within a reasonable time of one year from the date of issue of the letter sanctioning grant and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government.

Utilisation Certificates (UCs) outstanding beyond the specified periods indicate absence of assurance on utilisation of the grants for intended purposes and the expenditure shown in the accounts to that extent cannot be treated as final.

Grantor obtains assurance through means of UCs about proper utilisation of the funds placed at the disposal of the Grantee for the sanctioned purpose. Any delay in furnishing UCs to the Grantor or an inaccuracy in such reporting essentially undermines the control mechanism designed to prevent the diversion from the intended purposes as well as timely utilisation of grants. To the extent of non-receipt of UCs, the expenditure shown in accounts cannot be treated as final nor can it be confirmed that the amount has been expended for the purpose sanctioned.

Department-wise status of outstanding UCs as per the records of the office of the Sr. DAG (A&E) Sikkim is given at **Appendix 4.3**.

**Table 4.11: Age-wise arrears in submission of Utilisation Certificates**

(₹ in crore)

Year	Opening Balance		Additions		Clearance		Closing Balance	
	Nos.	Amount	Nos.	Amount	Nos.	Amount	Nos.	Amount
Upto 2019-20	1,306	172.21	306	65.96	174	34.18	1,438	203.99
2020-21	1,438	203.99	274	72.39	48	16.57	1,664	259.81
2021-22	1,664	259.81	474*	98.33*	223	51.75	1,441	210.03

Source: VLC data

\* Except sanction orders states otherwise, Utilisation Certificates for grants disbursed during 2021-2022 become due during 2022-2023.

Year-wise break-up of outstanding UCs for the period 2003-22 is given in **Table 4.12**.

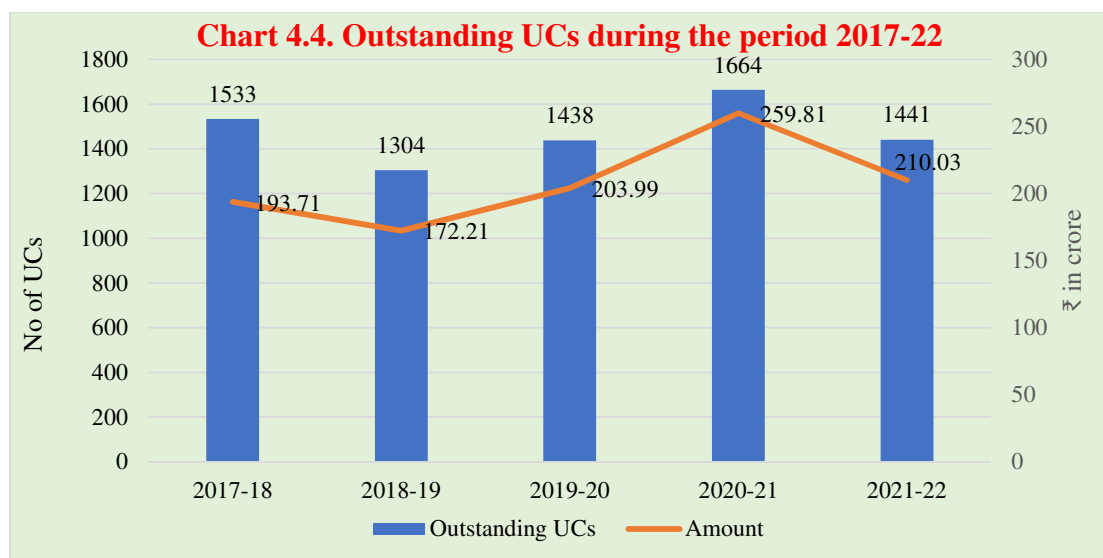
**Table 4.12: Year wise break up of outstanding UCs**

Year due for Submission	Number of UCs	Amount (₹ in crore)
2002-03	63	1.03
2003-04	47	1.34
2004-05	56	0.92
2005-06	38	1.13
2006-07	21	0.80
2007-08	95	4.54
2008-09	108	6.08
2009-10	92	4.50
2010-11	30	0.48
2011-12	28	1.43
2012-13	22	5.69
2013-14	17	3.66
2014-15	15	0.29
2015-16	37	1.84
2016-17	64	12.17
2017-18	85	40.39
2018-19	128	39.91
2019-20	263	40.08
2020-21	232	43.74
<b>Total</b>	<b>1441<sup>33</sup></b>	<b>210.03</b>

Source: VLC data

As can be seen from **Table 4.12**, out of 1,441 outstanding UCs involving ₹ 210.03 crore, 110 outstanding UCs amounting to ₹ 2.37 crore which were due for submission in 2004-05, were still awaited as on 31 March 2022.

High pendency of UCs was fraught with the risk of misappropriation, thus it is imperative that the State Government should monitor this aspect closely and hold the concerned persons accountable for submission of UCs in a timely manner.



As can be seen from **Chart 4.4**, the outstanding UC has decreased from 1,664 in 2020-21 to 1,441 in 2021-22.

<sup>33</sup> OB for 2021-22 = 1664 minus 223 clearance

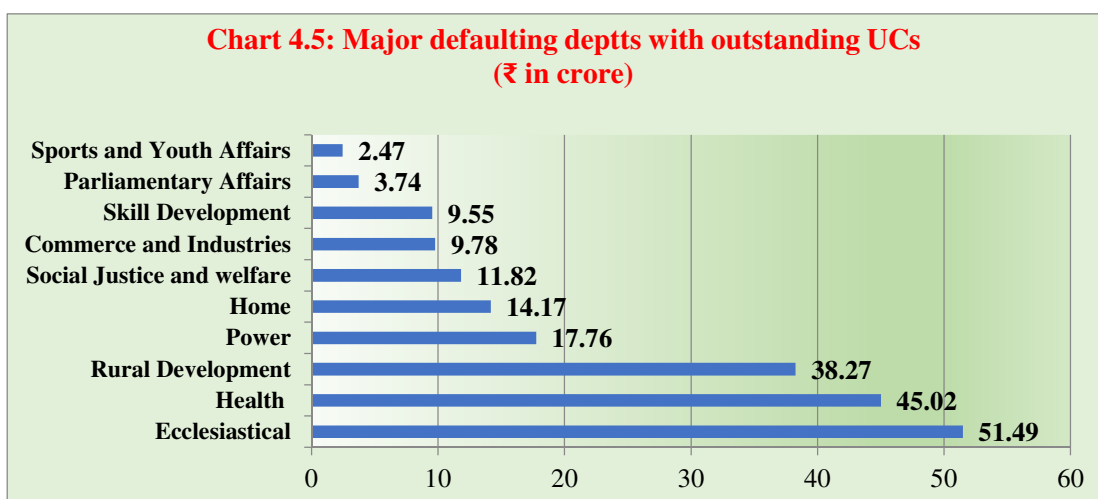
The major defaulting departments are listed in **Table 4.13**.

**Table 4.13: Major defaulting departments who had not submitted UCs**

Major Defaulting Department	Number	Amount (₹ in crore)	Percentage of outstanding UCs
Ecclesiastical	122	51.49	24.52
Health	36	45.02	21.44
Rural Development	99	38.27	18.22
Power	21	17.76	8.45
Home	19	14.17	6.75
Social Justice and welfare	336	11.82	5.63
Commerce and Industries	26	9.78	4.66
Skill Development	10	9.55	2.43
Parliamentary Affairs	342	3.74	1.78
Sports and Youth Affairs	116	2.47	1.18

Source: VLC data

The major defaulting department which failed to submit utilisation certificates with ten per cent or more of the total outstanding UCs were Ecclesiastical with ₹ 51.49 crore (24.52 per cent), Health ₹ 45.02 crore (21.44 per cent), Rural Development ₹ 38.27 crore (18.22 per cent), and Power– 17.76 crore (8.45 per cent).



#### 4.5.2 Outcome of review on pendency in submission of UCs in Education Department

A review of pending UCs in respect of Grants-in-Aid sanctioned by Education Department to various colleges, institutes, pathshalas and universities as recorded in the VLC data of the office of Sr. DAG (A&E) Sikkim was conducted in October 2022.

Education Department had sanctioned Grants-in-Aid through Schemes, Programme and Mission to various schools, colleges, institutes, pathshalas and universities for providing universal education, promoting quality education and for infrastructure development. The names of these schemes, programmes and mission are given as below:

- i) Scheme for Infrastructure Development (IDMI)
- ii) National Programme of Mid Day Meal in School
- iii) National Education Mission

#### 4.5.2.1 Pendency of Utilisation Certificates

Age-wise break-up of pending UCs in respect of Grants-in-Aid sanctioned by the Department as per VLC data is depicted in **Table 4.14**.

**Table 4.14: Age-wise break up of pending UCs**

Year	No. of Grants-in-aid for which UCs not received	Amount of Grant (₹ in crore)
2014-15	1	0.02
2015-19	0	0.00
2019-20	1	0.35
2020-21	1	1.51
<b>Total</b>	<b>3</b>	<b>1.88</b>

Source: VLC data

Out of total three cases for which UCs were pending, UCs involving Grants-in-Aid of ₹ 0.02 crore released to Sanskrit Pathshala during 2014-15 were yet to be submitted as of 2021-22.

**Table 4.15: Grantee-wise break up of pending UCs**

Sl. No.	Name of Grantee Organisation	No. of UCs pending	Value of Grant for which UCs were pending (₹ in crore)
1	Seven Colleges of Sikkim	1	0.35
2	Scheme for Infrastructure Development (IDMI)	1	1.51
3	Sanskrit Pathshala	1	0.02
	<b>Total</b>	<b>3</b>	<b>1.88</b>

Source: VLC data

#### 4.5.2.2 Audit Observation

##### ➤ *Non-reconciliation of receipt of UCs with Office of the Sr. Deputy Accountant General*

Audit verification of the grants released by Education Department up to March 2022 vis-à-vis the UCs shown pending in the books of Sr. DAG (A&E) revealed that four UCs for grants amounting to ₹ 1.18 crore had been received by the Education Department. However, the status of receipt of these UCs had not been reconciled by the Education Department with the Office of Sr. DAG (A&E). Details of the UCs received but not reconciled are depicted in **Table 4.16**.

**Table 4.16: Unreconciled UCs with A & E office**

(₹ in crore)

Sl. No.	Name of Grantee Organisation	Year of Grant	No. of UCs	Amount of Grant for which UCs received but not reconciled
1.	2202-80-1-60-0-31 (Seven Colleges of Sikkim)	2019-20	1	0.35
2.	2202-3-103-78-0-31 (GIA to Sikkim Institute of Science & Technology)	2021-22	1	0.25
3.	2202-3-103-79-0-31(GIA to Sikkim National Law University)	2021-22	1	0.25
4.	2202-80-1-60-0-31(GIA given to Thirteen Colleges )	2021-22	1	0.33
		<b>Total</b>	<b>4</b>	<b>1.18</b>

Source: VLC data



Education Department had not maintained any Register to record and monitor the payment of Grants-in-Aid and the receipt of the UCs against each GIA.

➤ **Non-adherence of regulations while sanctioning Grants-in-Aid**

It was seen that Education Department did not adhere to even the basic provisions of SFR while sanctioning Grants-in-Aid to these organisations, as elucidated below:

- Education Department had not indicated in the sanction orders whether the Grants-in-Aid were recurring or non-recurring in nature. The sanction orders neither specified the objectives for which the Grants-in-Aid were given, nor the conditions attached to the Grants-in-Aid. The sanction orders also did not specify the time limit within which the grants or each instalment of the same were to be spent.
- The Education Department had not certified that the unspent balance of the previous grant had either been surrendered to Government or taken into account while sanctioning the subsequent grants to the same organisations for the same purposes, were incorporated in the sanction letters of recurring Grants-in-aid.
- Whether organisations receiving grants exceeding ₹ 1 lakh per annum of recurring nature or ₹ 5 lakh non-recurring of nature had maintained subsidiary accounts of such grants, could not be ascertained from the records in Education Department.
- No records were available in Education Department to show whether the sanctioning authority had certified to the Sr. DAG (A&E), the fulfilment of conditions attached to the grants, in the cases where conditions were attached to the utilisation of a grant in the form of specification of particular objects or expenditure or the time within which the money must be spent, or otherwise.

#### **4.6 Pendency in submission of Detailed Countersigned Contingent (DC) Bills against Abstract Contingent (AC) Bills**

The drawal of contingent charges on items of expenditure by a State Government, for which final classification and supporting vouchers is not available at the time of drawal are made on 'Abstract Contingent' (AC) Bills. Initially made as advance, its subsequent adjustments are ensured through submission of DC bills within a stipulated period of drawal of AC bill. DC bill consists of abstract of expenditure along with sub-vouchers for amount drawn through AC bill. Drawing and Disbursing Officers (DDOs) are required to present DC bills duly countersigned by the Controlling Officer in all these cases within period prescribed in the State Treasury Rules.

Circular No. 168/Fin (Accts) dated 27 December 1983 issued by the Finance Department, states that DDOs are required to present DC Bills containing vouchers in support of final expenditure within three months of the withdrawal of AC Bills. Besides, the DDOs should not make payments through AC Bills unless DC Bills for previous month have been submitted to the Controlling Officers. Non-submission of DC Bills renders the expenditure under AC Bills opaque. Details of AC Bills outstanding as on 31 March 2022 are given below.



Table 4.17: Details of AC Bills

(₹ in crore)

Year	Opening Balance		Additions		Clearance		Closing Balance	
	Nos.	Amount	Nos.	Amount	Nos.	Amount	Nos.	Amount
Up to 2019-20	2,489	56.00	754	15.16	269	3.28	2,974	67.88
2020-21	2,974	67.88	521	20.82	362	13.52	3,133	75.18
2021-22	3,133	75.18	539	28.49	1175	44.69	2,497	58.98

Source: NTA and VLC data of office of the Sr. DAG (A&E)

It was seen that out of ₹ 28.49 crore drawn through 539 AC Bills during 2021-22, ₹ 5.29 crore (14 per cent) was drawn through 78 AC Bills in March 2022 and of this, ₹ 4.25 crore (80.34 per cent) was drawn through 18 AC Bills on the last day of financial year.

Year-wise trend of unadjusted AC bills for the period 2001-2022 is given in **Table 4.18**.

Table 4.18: Year-wise break-up of unadjusted AC bills

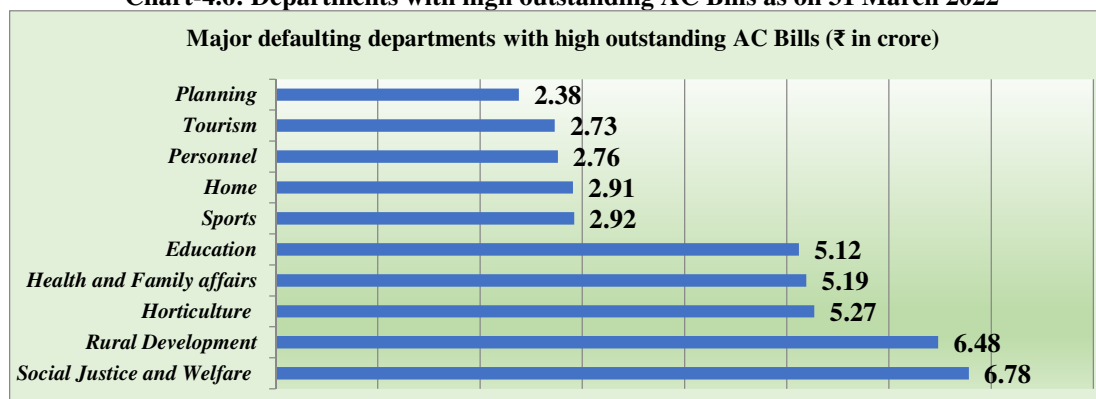
Year	No. of Bills	Amount (₹ in crore)
2001-2002	56	0.18
2002-2003	131	1.28
2003-2004	191	1.29
2004-2005	122	1.33
2005-2006	96	1.03
2006-2007	108	2.43
2007-2008	108	0.76
2008-2009	101	0.90
2009-2010	100	2.00
2010-2011	63	0.40
2011-2012	74	1.30
2012-2013	100	2.25
2013-2014	80	0.73
2014-2015	51	4.17
2015-2016	60	1.65
2016-2017	103	1.99
2017-2018	136	7.43
2018-2019	174	9.16
2019-2020	193	3.63
2020-2021	200	7.07
2021-2022	250	8.00
<b>Total</b>	<b>2497</b>	<b>58.98</b>

Source: VLC Data

Out of 2,497 unadjusted AC bills involving ₹ 58.98 crore, 56 oldest outstanding AC Bills amounting to ₹ 0.18 crore pertaining to 2001-02, Department-wise details are given in **Appendix 4.4**.

Major defaulting departments with high outstanding AC Bills as on 31 March 2022 are given in **Chart 4.6**.

**Chart-4.6: Departments with high outstanding AC Bills as on 31 March 2022**



As can be seen from **Chart 4.6**, Social Welfare Department was at the top with ₹ 6.78 crore (11.50 per cent of total outstanding AC bills) worth of outstanding AC bills. In terms of number of outstanding AC bills, Home Department with 292 numbers and Rural Development Department with 202 numbers of outstanding AC bills were the top defaulters.

The office of Sr. DAG (A&E) has been highlighting the status of outstanding DC bills to the Finance Department on monthly basis, however the outstanding balances persisted. Department-wise pending DC bills for the years up to 2021-22 are detailed in **Appendix 4.5**.

Non-adjustment of advances for long periods is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of DC bills. Further, to the extent of non-receipt of DC bills, the expenditure shown in the Finance Accounts cannot be asserted as correct or final.

#### 4.7 Suspense and Remittances

The Finance Accounts reflect the net balances under Suspense and Remittance Heads. The outstanding balances under these heads are worked out by aggregating the outstanding debit and credit balances separately under various heads. The position of gross figures under major suspense heads for the last three years is given in **Table 4.19**.

**Table 4.19: Outstanding Balances under Suspense and Remittance Heads**

Particulars	2019-20		2020-21		2021-22	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<b>(I) Major Head (MH) 8658- Suspense</b>						
<b>Minor Head</b>	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>
101-PAO - Suspense	5.20	1.05	8.35	5.43	0.50	-
<b>Net</b>	<b>Dr 4.15</b>		<b>Dr.2.92</b>		<b>Dr.0.50</b>	
102-Suspense Account (Civil)	2.46	2.98	14.46	13.83	-0.71	-0.67
<b>Net</b>	<b>Cr 0.52</b>		<b>Dr 0.63</b>		<b>Dr 0.04</b>	
112 – Tax Deducted at Source	8.83	16.91	11.31	20.40	5.16	11.24
<b>Net</b>	<b>Cr 8.08</b>		<b>Cr 9.09</b>		<b>Cr 6.08</b>	
123-AIS Suspense	0.01	0.33	0.01	0.34	(-)0.02	0.00
<b>Net</b>	<b>Cr 0.32</b>		<b>Cr 0.33</b>		<b>Cr 0.02</b>	
135-Cash Settlement between Sikkim and other States	0.31	0.09	0.86	0.19	0.87	0.78
<b>Net</b>	<b>Dr 0.22</b>		<b>Dr 0.67</b>		<b>Dr 0.09</b>	

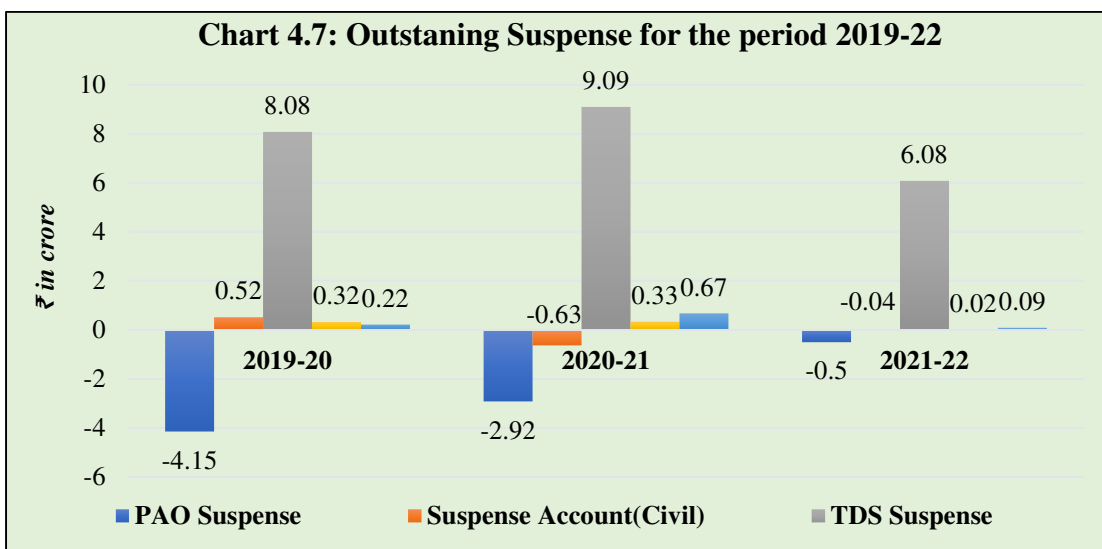
Particulars	2019-20		2020-21		2021-22	
<b>(II) MH 8658- Cash Remittance and adjustment between officers rendering accounts to same Accounts Officers</b>						
102-Public Works Remittances	3473.54	3622.89	1768.08	2282.71	1915.88	2289.62
<b>Net</b>	<b>Cr 149.35</b>		<b>Cr 514.63</b>		<b>Cr 373.74</b>	
103-Forest Remittances	120.38	130.61	47.47	48.80	70.13	70.31
<b>Net</b>	<b>Cr 10.23</b>		<b>Cr 1.33</b>		<b>Cr 0.18</b>	
108-Other Remittances	233.23	231.99	82.29	79.99	81.15	77.21
<b>Net</b>	<b>Dr 1.24</b>		<b>Dr 2.30</b>		<b>Dr 3.94</b>	

Source: Finance Accounts

Outstanding debit balance under 101-PAO Suspense head would mean that payments have been made by the State on behalf of PAOs of Central Government, which were yet to be recovered. Outstanding credit balance would mean that payments have been received by the State on behalf of a PAO, which were yet to be paid.

The variation in net balance of the components under Suspense is given below:

- The net debit balance under the PAO suspense head decreased from ₹ 2.92 crore in 2020-21 to ₹ 0.50 crore in 2021-22. On clearance/ settlement of this, the cash balance of the State Government will increase.
- The Civil Account suspense head decreased from ₹ 0.63 crore in 2020-21 to ₹ 0.04 crore in 2021-22.
- Receipts on account of TDS are credited to TDS suspense and the balances under this suspense head are to be cleared when the receipts of TDS are transferred to the Income Tax Department. There was outstanding credit balance of ₹ 6.08 crore under this head as on 31 March 2022.
- The net AIS suspense balance during previous three years remained almost same at ₹ 0.32 crore to ₹ 0.33 crore, but it decreased to ₹ 0.02 crore.
- The Cash Settlement balance between Sikkim and other states decreased to ₹ 0.09 crore in 2021-22 as against previous year's balance of ₹ 0.67 crore.



#### 4.8 Reconciliation of Receipts and Expenditure between CCOs and Sr. Deputy Accountant General (A&E):

To exercise effective control of expenditure, to keep it within the budget grants and to ensure accuracy of their accounts, all Chief Controlling Officers (CCOs) are required to reconcile the Receipts and Expenditure recorded in their books every month during the financial year with the figures accounted for in the Office of the Sr. DAG (A&E).

As per the records of Office of Sr. DAG (A&E), the State Government had reconciled 100 per cent of all their Receipts and Expenditure through CCOs and DDOs with the figures booked in the accounts of the Sr. DAG (A&E).

#### 4.9 Reconciliation of Cash Balances

Under a resolution passed in the year 1968-69, State Bank of Sikkim (SBS) has been vested with the responsibility by GoS of receiving money on behalf of Government and making all Government payments and keeping custody of the balances of government. It was seen that there were differences in cash balances as per the records of Sr. DAG (A&E) and SBS each year. As per records of Sr. DAG (A&E), the cash balance of Government with State Bank of Sikkim as on 31 March 2021 was ₹ 43.45 crore. But as per the record of State Bank of Sikkim, the cash balance stood at ₹ 0.45 crore leaving behind an unreconciled balance of ₹ 43.00 crore.

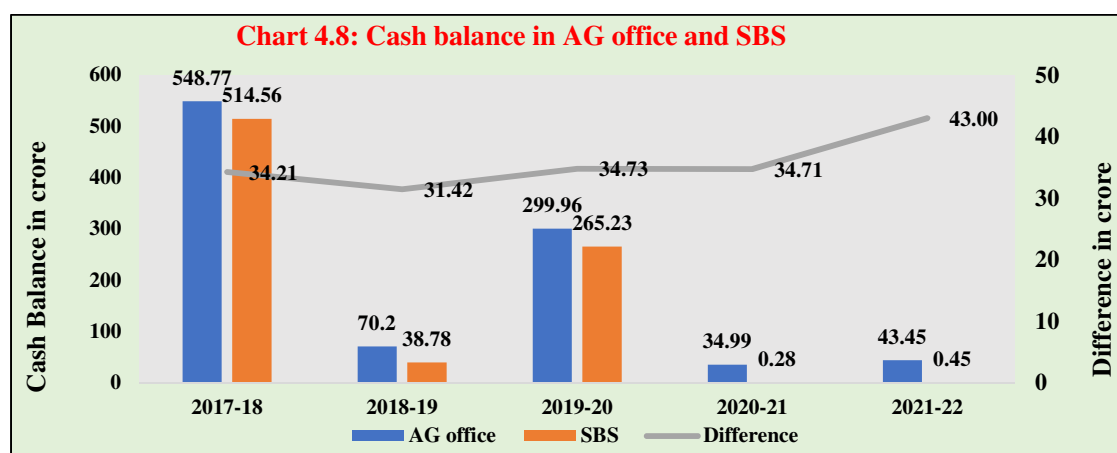
The difference in cash balance between the figures of Sr. DAG (A&E) and SBS for the last five years is shown below:

Table 4.20: Differences in cash balances

Financial Year	As per records of office of Sr. DAG (A&E)	As per records of State Bank of Sikkim (SBS)	Difference
2017-18	548.77	514.56	34.21
2018-19	70.20	38.78	31.42
2019-20	299.96	265.23	34.73
2020-21	34.99	0.28	34.71
2021-22	43.45	0.45	43.00

Source: Finance Accounts

The difference was mainly due to non-reconciliation of figures by the State Treasuries with SBS.



#### 4.10 Compliance with Accounting Standards

Three Indian Government Accounting Standards (IGASs) have been notified by Ministry of Finance, GoI viz., IGAS 1- Guarantees given by the Government, IGAS 2- Accounting and classification of Grants-in-Aid and IGAS 3- Loans and Advances made by Government. These three Accounting Standards describe the disclosure norms for Guarantees, Principles for Accounting and Classification of Grants-in-Aid and disclosure norms for Loans and Advances made by Government in the Financial Statements of Government respectively.

The disclosure requirements as per IGAS 2 and IGAS-3 have been complied with in the Finance Accounts of Government of Sikkim.

But the disclosure requirements as per IGAS 1 has not been complied with in the Finance Accounts. Guarantees given by the Governments', though the State Government has disclosed, sector wise details, class-wise details of guarantees are not disclosed in Statements 9 and 20 of the Finance Accounts. Further, detailed figures, body, or authority wise to whom guarantees have been extended, are also not made available by the State Government for incorporation in Statement 20.

#### 4.11 Arrears in Accounts submission by Autonomous Bodies

The audit of accounts of 14 Autonomous Bodies (ABs) of State Government has been entrusted to the CAG under Section 20(1) of the C&AG (DPC) Act, 1971 in the State.

Seventy-three accounts of above 16 ABs were pending for submission to Audit with pendency ranging between one and 15 years and details of pendency are given in **Appendix 4.6**.

#### 4.12 Arrears in Accounts submission by State Public Sector Undertakings

The audit of accounts of State Public Sector Undertakings of State Government has been entrusted to the CAG under Section 20(1) and 19 (3) of the C&AG (DPC) Act, 1971 in the State.

36 accounts of 10 SPEs were pending for submission to Audit with pendency ranging between one and seven years and details of pendency is shown at **Table 4.21**.

**Table 4.21: Arrears in accounts submission by PSUs as on March 2022**

Sl. No.	Name of Public Sector Units	Accounts pending since	No. of Accounts pending up to financial year 2021-22
1	Sikkim Poultry Development Corporation Limited	2018-19 to 2020-21	3
2	Sikkim Hatcheries Limited	2018-19 to 2020-21	3
3	Sikkim Livestock Processing Development Corporation Limited	2014-15 to 2020-21	7
4	ST/SC & OBC Development Corporation Limited	2016-17 to 2020-21	5
5	Sikkim Tourism Development Corporation	2017-18 to 2020-21	4
6	Sikkim Handloom & Handicrafts Development Corporation Limited	2015-16 to 2020-21	6
7	State Bank of Sikkim	2019-20 to 2020-21	2
8	Government Fruit Preservatory Factory	2019-20 to 2020-21	2
9	Temi Tea	2018-19 to 2020-21	3
10	Namchi Smart City Limited	2020-21	1
	<b>TOTAL</b>		<b>36</b>

Source: Annual Accounts

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.

#### 4.13 Non-submission of information on financial assistance given to Autonomous Bodies/ Authorities

In order to identify new institutions which, attract audit under Sections 14 and 15 of the CAG's (DPC) Act, 1971, the State Government/ Heads of the Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. None of the departments had submitted this information though specifically called for.

The substantially funded Autonomous Bodies/ Authorities are required to submit their annual accounts for audit by the CAG under the provision *ibid.* A total of 31 annual accounts of 24 Autonomous Bodies/ Authorities for the period from 2019-20 to 2021-22 had not been received in the office of Principal Accountant General till October 2022 as detailed in *Appendix 4.7*. The age-wise delay in submission of accounts is detailed in the table below.

**Table 4.22: Statement Showing Age-wise Non-furnishing of Accounts**

Sl. No.	Range of delays in number of years	Total number of accounts
1	Three and four years	2
2	Two years and below	29
<b>Total</b>		<b>31</b>

*Source: Annual Accounts*

Due to non-finalisation of accounts, the same could not be audited. Thus, it could not be ensured whether the grants and expenditure had properly been accounted for and whether the purpose for which the grants were provided had actually been achieved.

Due to non-finalisation of accounts, the stakeholders were not able to assess financial status of these bodies. Besides, delay in finalisation of accounts carries the risk of financial irregularities remaining undetected apart from violation of the provision of the respective legislations under which these bodies were constituted.

Thus, there is a need for the Autonomous Bodies/ Authorities to submit their accounts to Audit in a timely manner.

#### 4.14 Constitution of State Finance Commission and recommendation there of

Constitution of State Finance Commission every five years is mandated in Article 243I (1) and 243Y of 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment ACT (CAA) of India, 1993. The State Finance Commissions are assigned the task of reviewing the financial position of local bodies and making recommendations on the sharing and assignment of various taxes, duties, tools, fees, *etc.* and grants-in-Aid to be given to the local bodies from Consolidated Fund of the State.

The Fifth State Finance Commission (FSFC) was constituted by the Governor of Sikkim on 17<sup>th</sup> August 2016 to review the financial position of the Panchayat & Municipalities; to give recommendation to improve the financial position of the Panchayats as well as the Municipalities; to examine the resources of the local bodies; maintenance and upkeep of the Capital assets created by local bodies or transferred by the Government to the local bodies; to work out a factor for determination of devolution of taxes; duties; grants-in-Aid; to indicate the basis and to make available the estimates and expenditure of each tier of local bodies during the period 2020-2025. The Commission submitted (August 2017) its Report to the Government on covering all aspects of its mandate.

The position of recommendation vis-à-vis acceptance and status of short/excess release relating to Local Bodies by 5<sup>th</sup> SFC is given in **Table 4.23**.

**Table 4.23: Statement showing SFC recommendation, accepted by Government and its status of implementation**

Sl. No	Item of Recommendation	Accepted by Government	Status of implementation
1	4.50 % of net proceeds of State's Tax Revenue should be devolved to PRIs and ULBs.	The Government accepted the recommendation of the FSFC for devolving 4.50% of the net proceeds of the State's taxes, fees and levies to the PRIs and ULBs for the period 2020-25 subject to the actual collection.	Fund was released by the State Government as per recommendation. In fact, the release was in excess of recommendation by ₹ 2.72 crore during 2020-21
2	0.50 % of net proceeds of State's Tax Revenue should be allocated for Capacity building of PRIs and ULBs.	The Government accepted the recommendation.	No fund was released during 2020-21. The provision of ₹ 3.19 crore was surrendered.
3	0.5 % of the net proceeds of the State's Tax Revenue should be allocated for Special Support to most backward PRIs and ULBs.	The Government accepted the recommendation.	The fund is being released.

#### 4.15 Misappropriations, losses, thefts, etc.

State Financial Rules lay down detailed instructions regarding responsibility for losses sustained through fraud or negligence of individuals, loss or destruction of Government property and report thereof to the Police/ Accountant General.

##### Details Received from the Departments:

There were six cases of misappropriation involving Government money amounting to ₹ 264 lakh {RDD (₹ 97.40 lakh), Transport Department (₹ 8.78 lakh), Building & Housing (₹ 157.56 lakh) and Finance Department (₹ 0.26 lakh)} out of which an amount of ₹ 1.78 lakh was recovered from the SNT driver in February 2020. The unrecovered amount of ₹ 262.22 lakh is lying pending at the end of 2019-20 where the final action was still pending. The department-wise break-up of pending cases and age-wise analysis of misappropriation cases are given in **Table 4.24**.



**Table 4.24: Profile of pending cases of misappropriation, loss, defalcation, etc.**

Age-profile of the pending cases				Nature of the cases	Action taken by the Department	Amount Received
Range in years	Number of cases	Name of the Department	Amount involved (₹ in lakh)			
0-5	02	RDD	7.99	Cash transaction was not recorded in the cash book	Action yet to be taken by the Department	Status report not furnished.
			89.41	Short supply of stock materials by Block Office to the Beneficiaries	Enquiry conducted by the O/o the ADC (Dev), Rabongla, South Sikkim	Status report not furnished.
	01	BHD	157.56	Misappropriation	Case under investigation by Vigilance Department	Status report not furnished.
	01	Food & Supplies	2.24	Misappropriation	Case has been registered by the Vigilance Department and under investigation	Status report not furnished. Nil report given by Dept
10-15	1	Finance	0.26	Cash embezzlement by staff	Person involved in the case of theft is still untraceable. The proposal for write off of Government money involved is under process for approval of the Government.	Status report not furnished.
15-20	01	Transport	07.00	Shortage of POL during transportation in SNT tanker	Case referred to Vigilance Department for investigation	Status report not furnished.
<b>Total</b>	<b>06</b>		<b>264.00</b>			<b>1.78</b>

Source: Departmental and audited figures

Findings during the Inspections:

**Table 4.25: Profile of pending cases of misappropriation, loss, etc detected during inspection.**

Age-profile of the pending cases				Nature of the cases	Action taken by the Department	Amount Received
Range in years	Number of cases	Name of the Department	Amount involved ₹ in lakh			
0-5	01	Cooperation	1.92	Fraudulent withdraw of money in Bank	The Department did not take any step to recover the lost amount from the fraudulent person through concerned bank. Further the Department did not inform the Finance Department and AG office.	Nil
5-10	01	RDD	19.85	Drawing of salary even after superannuation for 6 years by the Government Employee.	The department has stopped the pay and allowance. But, yet to recover the salary paid to retired staff.	Nil

#### 4.16 Follow up action on State Finances Audit Report

The preparation of Report on State Finances started in 2008-09 and the Reports for the years 2009-10 and 2012-13 had been discussed by the Public Accounts Committee



(PAC). PAC recommended compliance with the recommendations as contained in the Report of the Comptroller and Auditor General of India on State Finances. Reports on State Finances up to 2012-13 have been discussed in the PAC and 2013-14 to 2019-20 have not been discussed by the PAC and Report of 2020-21 yet to be placed in the Legislative Assembly.

#### 4.17 Conclusion

During the year 2021-22, all the Controlling Officers reconciled the Government receipts and expenditure with the figures in the books of the Sr. DAG (A&E).

Audit noticed that Revenue Receipts of ₹ 520.71 crore earned from sale proceeds of electricity sold outside the State and royalty receipts from the HEPs located in the State, were not deposited in the Consolidated Fund of State by PDS. This led to understatement of Government Revenue Receipts by ₹ 520.71 crore. Further, an expenditure of ₹ 552.17 crore had been incurred without routing it through Government Accounts resulting in understatement of Government expenditure by ₹ 552.17 crore. This led to an overall overstatement of Revenue surplus and understatement of Fiscal Deficit by ₹ 31.46 crore during 2021-22.

As on 31 March 2022, the SSLSC Bank Account had a balance of ₹ 38.01 Lakh and due to non-creation of the State Legal Aid Fund, the grants, fee and other receipts collected by the SSLSC were being kept in a bank account.

As informed by 21 CCOs to the office of Sr. DAG (A&E) Sikkim, an amount of ₹ 193.20 crore was lying in the Savings/ Current Accounts of these CCOs as on 31 March 2022.

State Government has not opened SNA for all the schemes. A total of 98 SNA were opened in which 79 Central Schemes were linked.

During the year 2021-22, the State Government repaid ₹ 219.21 crore worth of loans availed by three financial institutions for implementation of various Government projects, and interest accrued thereupon. The borrowings by these Institutions had not formed part of the outstanding liabilities of the State Government during the respective years.

The Power Department have not adjusted the loan given to SPDC even after State Cabinet approval, the same has been appearing in the Finance Accounts as loans for power projects under MH 6801. This led to overstatement of Loans and Advances given by state government under MH 6801 in the Finance statements 7 and 18.

The GoI transferred ₹ 326.22 crore directly to Implementing Agencies (IAs) in the state, during 2021-22. The amount of such funds transferred by GoI to IAs during 2021-22, had increased as compared to the previous year's amount (₹ 201.99 crore).

During year 2020-21, the State government booked 6.49 *per cent* of total revenue receipts and 10.11 *per cent* of total expenditure under Minor Head 800- Other Receipts and Minor Head 800-Other Expenditure.

The practice of not furnishing UCs in a timely manner resulted in pendency of large number of UCs. At the end of March 2022, 1,441 UCs involving an aggregate amount of ₹ 210.03 crore were pending for submission even after a lapse of one to nineteen years by various Departments.

Out of 539 AC bills amounting to ₹ 28.49 crore drawn during the year 2021-22, 78 AC bills amounting to ₹ 5.29 crore (14 per cent) were drawn in March 2022. DC Bills in respect of a total of 2497 AC bills amounting to ₹ 58.98 crore as on 31 March 2022 were not received.

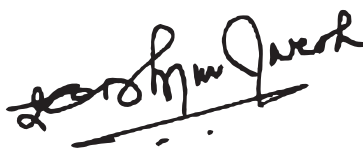
Non-furnishing of detailed information about financial assistance given to various institutions and non-submission of accounts by 14 Autonomous Bodies/ Authorities as per timelines led to non-compliance with Financial Rules. There were also delays in placement of SARs to Legislature.

There were six cases of misappropriation involving Government money in respect of four Departments with the money value of ₹ 2.64 crore at the end of 2021-22 where final action was pending.

#### **4.18 Recommendations**

- *Departments should adhere to the Government Accounting Rules and all the financial transactions, should be routed through Government Accounts, to reflect actual financial position of the State.*
- *The Government may enhance the scope and coverage of budget provision by including the extra budgetary resources given to various State Government PSUs/ entities for implementation of various State Schemes/ Programmes etc.*
- *The Government may adjust the loan given to SPDC in their account properly which will fix the overstatement of Loan and Advance given by State government.*
- *Finance Department may draw up an action plan for monitoring and ensuring submission of all pending UCs especially keeping in view that UCs from 2002-03 onwards are still due for submission. Release of subsequent grants should be linked with submission of outstanding UCs.*
- *Finance Department may make special efforts to settle old outstanding AC bills specially keeping in view that submission of DC bills from 2001-02 onwards are still pending for submission. At the same time, the DDOs should be asked to ensure that the DC bills are submitted within prescribed time, in order to stem the accretion of unadjusted AC bills. Advances should be monitored closely for effective control and old outstanding AC bills should be adjusted by making special efforts in a time bound manner.*
- *Timely reconciliation may be done with figures of the PAO and AG's office to avoid discrepancies in Accounts. The special efforts to be taken for reconciliation of State Bank of Sikkim and PAO figures.*
- *To make accounts transparent, the Government should operate appropriate Minor Heads instead of booking under Minor Head 800.*

- *Finance Department should consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies in order to assess their financial position.*
- *The Government may take appropriate measures to get the unspent money lying in the bank accounts, refunded into the Government account and may also frame suitable orders to this effect.*
- *The Government should prepare a time bound framework for taking prompt action in cases of misappropriation, loss, theft, etc. and strengthening the internal control system in Departments to prevent recurrence of such cases.*



**Gangtok**  
**The: 25 March 2023**

**(HIMANSHU KASHYAP DHARMADARSHI)**  
**Principal Accountant General (Audit), Sikkim**

**Countersigned**



**New Delhi**  
**The: 27 March 2023**

**(GIRISH CHANDRA MURMU)**  
**Comptroller & Auditor General of India**