CHAPTER – VII
GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government Companies and Statutory Corporations

7.1 Introduction

As on 31 March 2006, there were 12 Government Companies (nine working companies and three non-working* companies) and three working Statutory Corporations under the control of the State Government, with no change in position from that of 31 March 2005. The Companies Act 1956 is not extended to the State of Sikkim. The Government Companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim 1961'. The accounts of these companies are audited by the Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BOD) of the respective companies. Over and above this statutory audit, Audit of these companies had also been taken up by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the State under Section 20(1)/20(2) of the Comptroller and Auditor General's (CAG) (Duties, Powers and Conditions of Service) Act, 1971.

There are three Statutory Corporations in the State *viz*. Sikkim Mining Corporation (SMC), State Bank of Sikkim (SBS) and State Trading Corporation of Sikkim (STCS) established in February 1960, June 1968 and March 1972 respectively under the proclamations of the erstwhile Chogyal of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants, directly appointed by the BOD of the respective Corporations. Audit of these Corporations was taken up by CAG under Section 19(3) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 on the request of the State Government as detailed below:

Table-7.1

Name of the Statutory corporation	Audit arrangement	Authority for Audit by CAG
1. Sikkim Mining Corporation (SMC)	Statutory audit by the Chartered Accountant and Supplementary audit by CAG.	Section 19 (3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act.
2. State Bank of Sikkim (SBS)		
3. State Trading Corporation of Sikkim (STCS)		

There are two departmentally managed undertakings *viz.* Sikkim Tea Board and Government Fruit Preservation Factory under the Commerce and Industries Department. The accounts of these undertakings are also audited by the Chartered Accountants who are directly appointed by the Commerce and

* *Non-working companies are those which are under the process of liquidation/closure/merger etc.*

Industries Department. The Audit of these undertakings has also been taken up by the CAG.

7.2 Working Public Sector Undertakings (PSUs)

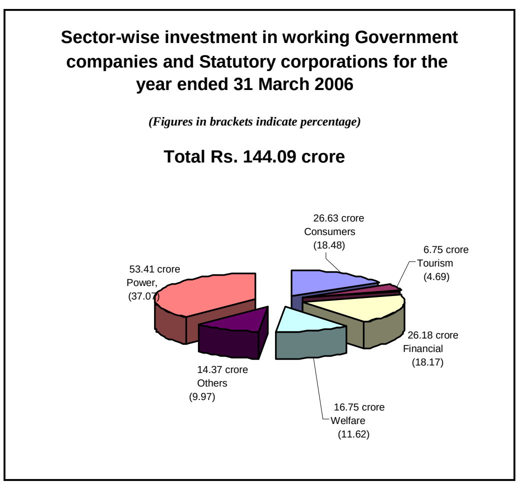
7.2.1 Investment in working PSUs

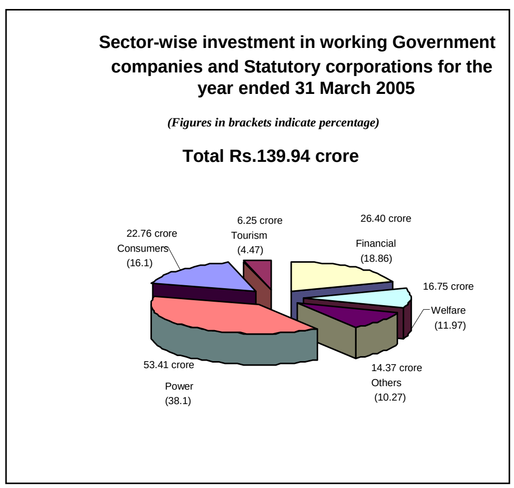
As on 31 March 2006, the total investment in 12 PSUs (nine Government Companies and three Statutory Corporations) was Rs. 144.09[#] crore (equity: Rs. 78.58 crore and long-term loans[%]: Rs. 65.51 crore) against the total investment of Rs. 139.94 crore (equity: Rs. 73.76 crore and long term loans[%]: Rs. 66.18 crore) in the same number of working PSUs as on 31 March 2005. Increase in total investment was due to increase in equity mainly in the PSUs in consumer industries and tourism sectors. The analysis of investment in working PSUs is given in the following paragraphs:

7.2.2 Sector-wise investment in working Government Companies and Statutory Corporations

The investment (equity including share application money and long term loans) in various sectors and percentage thereof for the years ended 31 March 2006 and 31 March 2005 are indicated in the pie charts as follows:

Chart-7.1





Consumer Tourism Financial Welfare Power Others

7.2.3 Working Government Companies

The total investment in working Government companies at the end of March 2005 and March 2006 was as follows:

[#] *State Government investment was Rs. 65.55 crore (others: Rs. 78.54 crore). Figure as per Finance Accounts 2005-06 is Rs. 63.52 crore. The difference is under reconciliation.*

[%] *Long term loans mentioned in para 6.2.1, 6.2.2, 6.2.3 and 6.2.4 are excluding interest accrued and dues on such loans.*

Table-7.2

(Rupees in crore)

Year	Number of companies	Equity	Loans	Total
2004-05	9	60.06	65.64	125.70
2005-06	9	64.88	64.97	129.85

Investment in the current year has increased over the previous year due to increase in equity in the consumer industries and tourism sectors.

As on 31 March 2006, the total investment in working Government companies comprised 49.97 *per cent* of equity and 50.03 *per cent* of loans as compared to 47.78 *per cent* and 52.22 *per cent* respectively as on 31 March 2005.

The summarised statement of Government investment in working Government Companies in the form of equity and loans is detailed in ***Appendix-XVI.***

7.2.4 Working Statutory Corporations

The total investment in the three working Statutory Corporations at the end of March 2005 and March 2006 was as follows:

Table-7.3

(Rupees in crore)

	2004-05			2005-06		
	Capital	Loan	Total	Capital	Loan	Total
State Bank of Sikkim	0.58	-	0.58	0.58	-	0.58
Sikkim Mining Corporation	12.01	0.54	12.55	12.01	0.54	12.55
State Trading Corporation of Sikkim	1.11	-	1.11	1.11	-	1.11
Total	**13.70**	**0.54**	**14.24**	**13.70**	**0.54**	**14.24**

As on 31 March 2006, the total investment in the working Statutory Corporations comprised 96.21 *per cent* of equity and 3.79 *per cent* of loans with no change in position from that of 31 March 2005.

The summarised statement of Government investment in the working Statutory Corporations in the form of equity and loans is detailed in ***Appendix-XVI.***

7.3 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government Companies and working Statutory Corporations are given in ***Appendix-XVI*** and ***XVIII.***

The budgetary outgo in the form of equity capital, loans and grants/subsidy from the State Government to the working Government Companies and working Statutory Corporations for the three years ending upto March 2006 are given below:

Table-7.4

(Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital	5	4.90	1	0.94	3	0.91	1	0.26	3	4.82	-	-
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-	-	-
Subsidy	-	-	-	-	-	-	-	-	-	-	-	-
Total	**5***	**4.90**	**1***	**0.94**	**3***	**0.91**	**1***	**0.26**	**3***	**4.82**	**-**	**-**

**These are actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective years.*

During the year 2005-06, the Government had not extended any guarantee to any PSU. At the end of the year, guarantees amounting to Rs. 80.07 crore against three[Σ] Government companies (Rs. 80 crore) and one Statutory Corporation (Rupees seven lakh) were outstanding. There was no case of loans having been written off, interest having been waived off moratorium on loan repayment and conversion of loans into equity capital in any company or corporation during the year.

7.4 Finalisation of accounts by working PSUs

Accountability of PSUs to the Legislature is achieved through the submission of audited annual accounts/reports within the time schedule to the Legislature. ***Appendix-XVII*** shows that out of nine working Government companies, only one company – Sikkim Jewels Limited had finalised its accounts for the year 2005-06 and none of the three Statutory Corporations had finalised its accounts for the year 2005-06 within the stipulated period (30th September).

During the period from October 2005 to September 2006, four working Government companies had finalised their accounts for the previous years. Similarly, during this period two Corporations finalised their accounts for the previous years.

The accounts of eight working Government Companies and three working Statutory Corporations were in arrears for the periods ranging from one to four years as on 30 September 2006 as detailed below:

Σ *Schedule Caste, Schedule Tribe and Other Backward Class Development Corporation Ltd. (Rs. 25 crore), Sikkim Time Corporation Ltd. (Rs. 5 crore) and Sikkim Power Development Corporation Ltd. (Rs. 50 crore)*

Table-7.5

Sl. No	Name of company/corporation	Period upto which accounts were finalised	Period for which accounts were in arrears	No. of years for which accounts were in arrears
	A. Name of the company			
1	Sikkim Time Corporation Limited	2003-04	2004-05 2005-06	2
2	Scheduled Caste, Scheduled Tribes, Other Backward Class Development Corporation Limited	2003-04	2004-05 2005-06	2
3	Sikkim Tourism Development Corporation	2004-05	2005-06	1
4	Sikkim Industrial Development and Investment Corporation Limited	2004-05	2005-06	1
5	Sikkim Power Development Corporation	2004-05	2005-06	1
6	Sikkim Poultry Development Corporation Limited	2001-02	2002-03 2003-04 2004-05 2005-06	4
7	Sikkim Hatcheries Limited	2001-02	2002-03 2003-04 2004-05 2005-06	4
8	Sikkim Precision Industries Limited	2004-05	2005-06	1
	B. Name of the Statutory corporation			
1	State Bank of Sikkim	2004-05	2005-06	1
2	Sikkim Mining Corporation	2004-05	2005-06	1
3	State Trading Corporation of Sikkim	2003-04	2004-05 2005-06	2

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were informed every quarter by Audit of the arrears in finalisation of accounts, no remedial measures had been taken as a result of which the net worth of these PSUs could not be assessed in Audit.

7.5 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government Companies and Statutory Corporations) as per their latest finalised accounts are given in ***Appendix-XVII***. Besides, statements showing the financial position and working results of individual working Statutory Corporations for the latest three years for which accounts had been finalised are given in ***Appendix-XIX*** and ***XX*** respectively.

According to the latest finalised accounts of eight working Government Companies and three working Statutory Corporations, seven♣ companies and

♣ *Sikkim Jewels Ltd (2005-06), Sikkim Times Corporation Ltd (2001-02), Sikkim Precision Industries Ltd (2003-04), SC, ST & OBC Development Corporation Ltd (1996-97), Sikkim Tourism Development Corporation (2002-03), Sikkim Poultry Development Corporation Ltd (1996-97), Sikkim Hatcheries Ltd (1998-99).*

one[♠] corporation had been making losses for varying periods (indicated in the brackets against each companies/ corpoartion) and had incurred an aggregate loss of Rs. 4.83 crore and Rs. 1.43 crore respectively and one company and two corporations had earned an aggregate profit of Rs. 0.56 crore and Rs. 2.84 crore, respectively. One Government Company, *i.e.* Sikkim Power Development Corporation (SPDC), was at the implementation stage.

7.5.1 Working Government Companies

(i) Profit earning working companies and dividend

As per the latest finalised accounts, Sikkim Industrial Development and Investment Corporation Limited (SIDICO), which had finalised its accounts for 2004-05, earned a profit of Rs. 0.56 crore but did not declare any dividend.

(ii) Loss incurring working companies

Of the seven loss incurring working Government Companies, Sikkim Hatcheries Limited had accumulated losses aggregating Rs. 49.05 lakh, which exceeded its paid-up capital of Rs. 45.83 lakh.

7.5.2 Working Statutory corporations

(i) Profit earning Statutory Corporation and dividend

Two Corporations (*viz*. State Bank of Sikkim and State Trading Corporation of Sikkim) which finalised their accounts for previous years (SBS: 2004-05 and STCS: 2003-04) by September 2006, earned aggregate profit of Rs. 2.84 crore but did not declare any dividend.

(ii) Loss incurring Statutory corporation

One Statutory Corporation *viz*. Sikkim Mining Corporation which finalised its accounts for 2004-05 by September 2006, suffered loss of Rs. 1.43 crore and had accumulated losses aggregating Rs. 9.90 crore wiping of 82 *per cent* of its paid up capital of Rs. 12.01 crore .

(iii) Operational performance of working Statutory Corporations

The operational performance of the working Statutory Corporations for the last three years is given in ***Appendix-XXI.*** It will be seen from ***Appendix-XXI*** that in case of Sikkim Mining Corporation, percentage of capacity utilisation came down from 26 in 2003-04 to 17 in 2005-06.

(iv) Return on Capital Employed

As per the latest finalised annual accounts of PSUs, the capital employed[∇] worked out to Rs. 57.86 crore in nine working companies and the total return[ϒ] thereon amounted to Rs. 0.99 crore which is 1.71 *per cent* as compared to total return of Rs. 0.53 crore (0.53 *per cent*) in the previous year. Similarly, the

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[♠] *Sikkim Mining Corporation (1992-93).*

[∇] *Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).*

[ϒ] *For calculating total return on capital employed, interest on borrowed fund is added to net profit/ subtracted from the loss as disclosed in the Annual Accounts.*

capital employed and total return thereon in case of working Statutory Corporations as per the latest finalised annual accounts worked out to Rs. 284.78 crore and Rs. 2.90 crore (1.02 *per cent*), respectively, as against the total return of Rs. 2.32 crore (0.82 *per cent*) in the previous year. The details of capital employed and total return on capital employed in case of working Government Companies and Statutory Corporations are given in ***Appendix-XVII.***

7.6 Non-working Public Sector Undertakings (PSUs)

7.6.1 Investment in non-working PSUs

As on 31 March 2006, the total investment in three non-working PSUs (Government Companies) was Rs. 1.27⊕ crore (equity: Rs. 1.27 crore) and there was no change in this position since 31 March 2002.

The status of non-working PSUs is as under:

Table-7.6

(Rupees in crore)

Sl. No.			Investment Companies Equity	Investment Companies Long terms loan
1	Under closure	2	0.58	-
2	Other*	1	0.69	-
	TOTAL	**3**	**1.27**	-

**The operational function has been leased out.*

Of the above non-working Government Companies, two Government Companies were under closure for six years involving a substantial investment of Rs. 58 lakh. Effective steps need to be taken to expedite closure.

7.6.2 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to non-working Government Companies are given in ***Appendix-XVI*** and ***XVIII.***
The State Government had not given any budgetary support to these non-working PSUs during 2005-06.

7.6.3 Total establishment expenditure on non-working PSUs

The year-wise details of total establishment expenditure incurred by non-working Government Companies and the sources of financing them during the last three years up to 2005-06 could not be analysed due to non-finalisation of accounts by these PSUs.

⊕ *State Government investment was Rs. 92.90 lakh (others: Rs. 34 lakh).*

7.6.4 Finalisation of accounts by non-working PSUs

The accounts of all the non-working Companies were in arrears for the periods ranging from three to 11 years as on 30 September 2006 as could be noticed from ***Appendix-XVII.***

7.6.5 Financial position and working results of non-working PSUs

The summarised financial results of non-working Government Companies as per their latest finalised accounts are given in ***Appendix-XVII.***

The summarised details of paid-up capital, net-worth, cash loss / profit and accumulated loss / profit of non-working PSUs as per their latest finalised accounts are given below:

Table-7.7

(Rupees in crore)

Name of the Company *(Year of Accounts)*	Paid-up capital	Net-worth♠	Cash loss (-) / Cash profit (+)Π	Accumulated loss(-)/ accumulated profit (+)
1. Sikkim Flour Mills Limited (1994-95)	0.60	0.47	-	(+) 0.13
2. Sikkim Livestock Processing and Development Corporation Limited (2002-03)	0.69	0.04	(+) 0.01	(-) 0.65
3. Chandmari Workshop and Automobiles Limited (1994-95)	0.002	(-) 0.02	(-) 0.14	(-) 0.02

7.7 Status of placement of Separate Audit Reports of Statutory Corporations in the Legislature

The following table indicates the status of placement in the State Legislature of various Separate Audit Reports (SARs) issued by the CAG on the accounts of the Statutory Corporations:

Table-7.8

Sl. No.	Corporation	Years for which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1	Sikkim Mining Corporation (SMC)	2002-03	2003-04	Not yet issued	Audit is yet to be programmed
2	State Bank of Sikkim (SBS)	2002-03	2003-04	-do-	Under process
3	State Trading Corporation of Sikkim (STCS)	2000-01	2001-02	-do-	Under process

♠ *Net worth represents paid up capital plus free reserves less accumulated loss.*

Π *Cash loss/profit represents loss/profit for the year plus depreciation for the year.*

7.8 Disinvestment, privatisation and restructuring[≈] of Public Sector Undertakings

During the year 2005-06, there had been no privatisation (partial or complete) of any activity of these companies or corporations, and the Government had also not gone for disinvestments of shares in any company/corporation.

7.9 Results of Audit by the Comptroller and Auditor General of India

During the period from October 2005 to September 2006, the accounts of three working companies and two working Statutory corporation were selected for Audit. The net impact of the important Audit observations as a result of Audit of the accounts of these PSUs was decrease in profit by Rs. 26.55 lakh in two working companies and one corporation and increase in loss by Rs. 7.37 crore in one working company and one working Statutory corporation.

Some of the major errors and omissions noticed in the course of Audit of annual accounts of some of the above Companies and Statutory Corporations are mentioned below**:**

Sikkim Precision Industries Limited (2003-04)

- The land valuing Rs. 9 lakh was not exhibited under “Fixed Assets”. As a result, the Fixed Assets stood understated to the extent of Rs. 9 lakh.

State Bank of Sikkim (2003-04)

- Non-provision of tax liability has resulted in understatement of loss of the Bank by Rs. 43.08 lakh.
- No provision was made for advances amounting to Rs. 6.93 crore disbursed to employees of the bank and other loanees who died without clearing their dues. This has resulted in overstatement of Advances by Rs. 6.93 crore and understatement of loss by Rs. 6.93 crore.

State Trading Corporation of Sikkim (2001-02)

- No provision was made for long outstanding loans and advances and sundry debtors amounting to Rs. 24.30 lakh, which resulted in overstatement of Current Assets, Loans & Advances by Rs. 24.30 lakh with corresponding overstatement of profit.

Non-provision of Income tax liability in the Accounts

As per notification issued (21 April 1970) by the Income and Sales Tax Department of the Government of Sikkim, all the Government Companies and Corporations were liable to pay income tax on their turnover at the prescribed rate. It was, however, noticed in Audit that none of the Companies/Corporations made provisions for this liability in their accounts. This resulted not only in overstatement of profit/understatement of loss of the respective companies/corporations but also resulted in loss of revenue to the Government. The amount of such liability for the latest year for which Audit was completed worked out to Rs. 72.47 lakh in respect of seven companies and two corporations.

≈ *Restructuring includes merger and closure of PSUs*

7.10 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during Audit and not settled on the spot are communicated to the Heads of PSUs and concerned departments of the State Government through inspection reports (IRs). The Heads of the PSUs are required to furnish replies to the inspection reports within four weeks of the issue of IR. Inspection reports issued up to March 2006 pertaining to 15 PSUs (including two departmental undertakings) disclosed that 148 paragraphs relating to 54 inspection reports of 10 companies, three statutory corporations and two departmentally managed undertaking remained outstanding at the end of September 2006. Department-wise break up of inspection reports and paragraphs outstanding as of September 2006 is given in ***Appendix-XXII.***

Similarly, draft paragraphs and performance reviews on the working of PSUs are forwarded to the Principal Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of three draft paragraphs and one performance review report issued to the various departments between June to September 2006 as per details in ***Appendix-XXIII,*** replies to the performance review report and the draft paragraphs are awaited (December 2006) from the administrative department.

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who fail to send replies to inspection reports/ draft paragraphs/performance review reports within the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule, and (c) the system of responding to Audit observation is revamped.

7.11 Position of discussion of Commercial Chapter of Audit Reports by the Public Accounts Committee (PAC)

Two paragraphs and one performance audit report of the Commercial Chapter of the Audit Report (2004-05) of the Government of Sikkim were pending for discussion by the Public Accounts Committee as at the end of March 2006.

STATE TRADING CORPORATION OF SIKKIM

7.12 Functioning of State Trading Corporation of Sikkim

<u>Highlights</u>

Internal control for proper inventory management was virtually non-existent. Physical verification of stores and stock was never done during the period of Audit. When done at the instance of Audit it revealed shortages of Rs. 2.68 crore.

(Paragraph- 7.12.6.3)

The Corporation significantly deviated from its main line of trading activities by increasingly dealing in commission business, thereby depriving departments and public of economical rates that could have accrued as a result of bulk purchases directly from the manufacturers. There were also delays in supply of materials to the Departments.

(Paragraph- 7.12.6.1 & 7.12.6.4)

Non-closure or non-transfer of Kolkata unit to Sikkim Tourism Development Corporation led to operational losses of Rs. 53.37 lakh during 2001-02 to 2003-04.

(Paragraph- 7.12.6.1)

The Corporation invariably did not adhere to the prescribed purchase procedure of inviting broad based tenders for competitive rates while making purchases. Cement worth Rs. 9.14 crore was purchased from local dealers without calling for tenders out of cement valuing Rs. 13.92 crore purchased during 2001-02 to 2005-06.

(Paragraph- 7.12.6.2)

The Corporation failed to recover dues of Rs. 68.09 lakh from the Building & Housing Department leading to blockage of funds.

(Paragraph- 7.12.6.5)

Appointment of an Advisor and Officer on Special Duty without any provision in the Proclamation resulted in wasteful establishment expenditure of Rs. 26.97 lakh.

(Paragraph- 7.12.8.1 & 7.12.8.2)

Internal controls were very weak in the organisation. Added to this, failure to conduct regular Board Meetings adversely affected the functioning of the Corporation to a large extent.

(Paragraph- 7.12.9)

7.12.1 Introduction

The State Trading Corporation of Sikkim (Corporation) was established on 30 March 1972 under a proclamation of the erstwhile Chogyal[1] of Sikkim. The activities of the Corporation are to:

- Purchase, hold, stock, sell, clear, forward and transport materials inside and outside Sikkim;
- Procure trading goods of Rs. 10,000 and above on behalf of various Departments of the State Government;
- Distribute Liquid Petroleum Gas (LPG) cylinders and accessories in Sikkim (since 1975) on behalf of the Indian Oil Corporation Ltd as agent.

The trading activities are performed mainly by the Head Office at Gangtok. The Corporation has three units at Jorethang, Siliguri and Kolkata. While Jorethang unit is involved in trading activities including LPG distribution, Kolkata unit looks after liaison work, protocol and welfare activities on behalf of the State Government. The unit at Siliguri is engaged in receipt and transportation of goods from suppliers/manufacturers either to the Corporation stores or to various destinations of indenting departments.

[1] *Maharaja of Sikkim*

The Corporation is managed by a Board of Directors consisting of a Chairman and six Directors, all nominated by the State Government. As on 31 March 2006, all the six Directors and the Chairman were in position including the Managing Director (MD)[Π] Apart from this, an Advisor was appointed by the Government of Sikkim since 1996. The MD has been delegated with full administrative powers for carrying out day to day affairs of the Corporation. The organisational structure of the Corporation is given in ***Appendix-XXV.***

The Corporation has a total strength of 67 regular staff including the MD, two Chief General Managers and six General Managers. Apart from this, the Corporation also had 17 casual/contract staff as on 31 March 2006.

7.12.2 Scope of Audit

The present Performance Audit conducted during the period April 2006 to June 2006 covers various activities of the Corporation for the period from 2001-02 to 2005-06. A sample check of 25 *per cent* of the total value of six[2] major items under both trading and commission business activities were selected on the basis of probability proportionate to size (volume of expenditure) for three years ending March 2004 (accounts finalised and approved by the Board upto March 2004 only) was taken as a basis for scrutiny at Head office and Jorethang unit for all the five years upto 2005-06. Details are shown in ***Appendix-XXVI.***

7.12.3 Audit objectives

The Audit objectives were to ascertain whether:

- the objectives of the Corporation of regulating the trading activities by drawing advantage of bulk purchase, minimising delivery time and procuring quality materials were achieved efficiently, effectively and economically;
- Fund Management was efficient and effective to ensure profitability;
- Human Resource Management was efficient and effective; and
- Monitoring, evaluation and internal control mechanism including internal audit was effective.

7.12.4 Audit criteria

The Audit criteria used for assessing the achievements of Audit objectives were:

- Policy/procedures prescribed by the Government/Corporation to regulate the trading activities;
- Policy of the Corporation for Fund Management;
- Sikkim Financial Rules;
- Norms prescribed for Inventory control management;
- Recruitment policy and norms for manpower management;

[Π] *Glossary of terms* ***are shown in Appendix-XXIV.***

[2] *Iron & steel; Cement; LPG cylinders & burners; Office equipment and furniture; Tyres, tubes & batteries and Vehicles.*

- Procedure prescribed for monitoring, evaluation and internal control mechanism.

7.12.5 Audit methodology

The following Audit methodology was adopted for attaining the Audit objectives:

- Analysis of procedures laid down in the Proclamation;
- Examination of agenda and minutes of BOD meetings, Corporation's annual accounts, management directives and instructions;
- Examination of procurements/purchase policy, details of turnover under trading and commission business, fixation of prices etc.;
- Scrutiny of records relating to delivery of goods, storage and their issue, monitoring, evaluation and internal control;
- Issue of Audit enquiries and interaction with the Management;

Audit findings

Audit findings arising from the performance review were reported (June 2006) to the Corporation/Government and the replies received (June - September 2006) from the Management were considered while finalising the report. The review was also discussed in the Exit Conference with the representatives of the Corporation and Government held in September 2006.

7.12.6 Activities

The main activities of the Corporation are to act as a canalising agency for all purchases made by various departments of the State Government coupled with rendering agency services to Indian Oil Corporation Limited towards refilling and supply of LPG cylinders, etc. with a view to provide efficient services to the Government/public at an economical rate. Records relating to six major items/activities[3] involving Rs. 296.67 crore for the period from 2001-02 to 2005-06, out of a total of 10 items, were test checked in Audit and the Audit findings were as under:

7.12.6.1 Regulating trading activities

- ***Deviation from main activities***: The main activity of the Corporation was to regulate trading activities in the State by procuring goods directly from the manufacturers and thus, availing trade discounts on bulk purchases; yet it engaged itself mostly in commission business by merely functioning as a commission agent between the indenting departments and the suppliers. During the period 2001-02 to 2005-06, the commission business in respect of the six items test checked in Audit, increased from 76.24 *per cent* (2002-03) to 98.18 *per cent* (2005-06) with a corresponding decrease in trading activities. As the Corporation failed to execute bulk purchases, the Government Departments and public were deprived of economical rates and discount on bulk orders. This also led to payment of higher rates by the Departments on account of the 3 *per cent* commission loaded on the

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[3] *Cement; Iron & steel; Office equipment & furniture; Tyres, tubes & batteries; Vehicles and Electrical goods.*

cost over and above the sale price, and also led to idling of existing godowns at Head Office, Siliguri and Jorethang and their manpower to a large extent.

- ***Loss due to delay in closure of Kolkata unit:*** Mention was made in CAG of India's Audit Report 2001-02 regarding losses in the Kolkata unit meant for liaison activities. The Public Accounts Committee while accepting Department's replies for closure of the units had recommended that the report of handing over of the unit to the Home Department may be intimated to the next Committee. Despite this assurance, the Corporation continued to operate the Kolkata unit and incurred operational loss of Rs. 53.37 lakh during the period 2001-02 to 2003-04 as the unit performed negligible business and its revenue progressively declined from Rs. 3.34 lakh (2001-02) to Rs. 0.45 lakh (2003-04). Thus, continuance of the unit even after merger of the State when liaison work had become unnecessary resulted in avoidable recurring losses, thereby adversely affecting the overall performance of the Corporation.

In reply, the Management stated (July 2006) that the State Government reconsidered (November 2005) its earlier decision of 2002 and decided to strengthen the unit in view of increased commercial and liaison activities expected with the opening of border trade (July 2006) with China through the Nathula Pass. The reply is not tenable as the list of items (agriculture implements, textiles, coffee, rice, dry fruits, tobacco and spices, etc) notified for trade through Nathula border did not include the usual items dealt with by the Corporation such as cement, iron and steel, furniture, electrical goods and tyres and tubes, etc.

7.12.6.2 Procurement

The Corporation was to follow purchase procedures incorporated in the Sikkim Financial Rules (SFR). The following deficiencies as regards procurement were noticed in Audit:

- ***Non-adherence to established purchase procedure:*** According to SFR (Rule 127 & 130), all purchases above Rs. one lakh are to be made through wide publicity by inviting tenders in leading newspapers. It was, however, noticed in Audit that the Corporation procured 7,299 tyres and tubes valuing Rs. 2.36 crore during the last five years based on the rates offered by the local dealers for supply to various Departments/Government Organisations in contravention of the codal provisions.

  In their reply (June 2006), the Management stated that there was no extra financial burden on the indenting Departments as the procurements were made from the authorised distributors/dealers on the negotiated rates which were below the maximum retail sale price fixed by the manufacturers even after adding the commission. In the absence of competitive tender rates from the manufacturers in response to tender, the reply was not verifiable. Also, no reasons for non-adherence of codal provision were given.

- ***Procurement of cement in violation of prescribed purchase procedure:*** Similarly, in case of procurement of cement, the Corporation fixed the purchase price on the basis of enquiry from the manufacturers over telephone/ correspondence on pick and choose basis instead of competitive bids or negotiating annual rate contracts for bulk purchases for obtaining economical prices. The casually obtained rates served as a basis for finally procuring from the lowest quoting "local" dealer after obtaining the consent of the indenting Departments. In a few cases, procurements were made from Madhya Pradesh-based manufacturer. During the period 2001-02 to 2005-06, the Corporation procured cement valuing Rs. 13.92 crore, of which cement valuing Rs. 9.14 crore was procured from the local dealers, which the indenting Departments could themselves have procured thereby saving 3 *per cent* commission of Rs. 27.42 lakh paid by them to the Corporation. Thus, the procedure adopted by the Corporation besides being in contravention of codal provisions, also lacked prudent business practices and transparency consequently depriving the State Departments and public of economically priced cement.

- ***Avoidable excess payment on procurement of GI pipes:*** The Corporation finalised (August 2003) two agreements[4] for supply of different sizes of GI pipes and accordingly rate contract agreements (valid for two years) were entered into (September 2003) with the firms. The terms and conditions of the rate contract, *inter-alia* stipulated supply of pipes within 90 days from the date of issue of orders and the rates were to remain firm and fixed throughout the currency of the contract period, and that no price escalation claims entertained on any account.

  It was, however, noticed in Audit that enhanced rates were allowed to the firms from retrospective date (September 2003) followed by revision of prices twice (February 2004 and 2005) on the ground of increase in basic price of raw materials of GI pipes. This led to avoidable additional payment of Rs. 2.07 crore over and above the agreed price by 4.29 to 39.05 *per cent* on the supply. Although this was done with the concurrence of the concerned Departments, it resulted in extending undue financial benefit to the suppliers without any enabling provision in the agreement.

  In reply, the Management stated (July 2006) that price revisions were made with the approval of the State Government. The reply is not tenable as there was no provision for price escalation in the rate contract agreements, Departmental concurrence notwithstanding.

7.12.6.3 Inventory management

One of the important activities of the Corporation was to stock the materials procured for supply to the Departments under trading activities. It was noticed by Audit that inventory controls and store management was very weak; physical verification of stocks was never conducted by the management resulting in startling shortages in cement and LPG as elaborated below:

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[4] *Good Luck Steel Tubes Ltd., Ghaziabad and Indus Tubes Ltd., New Delhi.*

- ***Shortages of cement and LPG valuing Rs. 2.68 crore:*** **According to SFR, physical verification of all stores must be carried out at least once in a year by the head of the Department or such other officer as may be specifically authorised by him in this behalf and all discrepancies noticed must be brought into account immediately.**

  It was, however, noticed that physical verification of stores and stocks was never conducted by the management. Physical verification of different stores conducted (May/June 2006) by the in-charges of the stores at the express instance of Audit revealed huge shortages of Rs. 2.68 crore between the book balances and actual physical balances in respect of LPG cylinders, burners/ other accessories, cement, iron and steel and GI sheets etc. The details of the shortages found during such physical verification of stores at Head Office and Jorethang unit are given in *Appendix-XXVII.*

  Out of the total shortages of Rs. 2.68 crore, major portion of Rs. 1.64 crore pertained to LPG cylinders (Head Office: Rs. 99.67 lakh and Jorethang stores: Rs. 64.22 lakh) followed by cement (Rs. 88.68 lakh). Scrutiny by Audit revealed that issues were not properly accounted for in the stock registers. Besides failing to carry out the mandatory year end physical verification, the Corporation had also failed to put in place any internal control mechanism including internal check/inspections/audit with regard to stores, thereby leaving ample scope for misappropriation of the store items. The Corporation also had not implemented a rotation policy in the stores to ensure that no vested interest developed and that custody of stores was safe and accounted for. The supervisory officers had also failed to carry out any check of the inventory at any time during this period.

  In reply, the Management stated (September 2006) that shortages of cement valuing Rs. 62.28 lakh was already detected by them during 2003-04 and a show-cause notice was also issued to the delinquent store keeper. The concerned storekeeper admitted the discrepancies and Rs. 26 lakh had already been recouped in June 2006. As regards shortage of LPG, the storekeepers in charge of the LPG cylinders were instructed to reconcile the figures between book balances and physical balances with the records of the Indian Oil Corporation and the results of the same would be intimated to Audit. It was further added that four officials in-charge of LPG had died while in service due to which proper procedure could not be followed in handing/taking over charges, the benefits payable to the dependent family have been withheld and shortages pointed out by Audit would be recovered from the dues of the concerned employees after due verification.

  The reply of the Management shows the casual approach. Though the Management stated that it detected cement shortages of Rs. 62.28 lakh, the actual shortage during the verification conducted at the instance of Audit was much larger *i.e.*, Rs. 88.68 lakh. There was also

no evidence of this shortage purported to have been detected by the Management earlier than Audit as it had not been taken into account in the books though immediately required to be so done in terms of provisions of SFR. Further, upto June 2006 only Rs. 26 lakh had been recovered leaving a balance of Rs. 36.28 lakh and the person immediately responsible for the shortage being allowed to continue to be the custodian of the cement stores. In respect of the LPG shortages, the Management have not stated whether the entire value of shortages (Rs. 1.64 crore) would be made good from the dues of the lowly paid deceased employees. Had the Corporation put in place an efficient and effective internal control mechanism, followed codal provision regarding physical verification of inventory and had a rotation policy for storekeepers and other staff, such losses could have been avoided. The matter was referred to the State Government in January 2007 for detailed investigation.

- ***Non-moving and obsolete stores of Rs. 3.19 lakh**:* Scrutiny of store records revealed that 44 items of different stores valuing Rs. 3.19 lakh procured under trading activity remained un-issued for periods ranging from 25 to 30 years at the Head Office store premises. The exact dates of procurement of these store items could not be furnished to Audit. As these items could not be utilised/ issued for the purposes for which they were procured, the total stock had become non-moving and obsolete. The Corporation did not take any action to write off the same with the approval of the Board.

  In reply the Management (June 2006) stated that a proposal to dispose off these items through open auction would be moved or alternatively write-off orders from the Board obtained.

7.12.6.4 Supply to the Departments

One of the important activities of the Corporation was to obtain orders from the Departments for supply of goods[5] and to supply the same within the stipulated time frame usually within 90 days from the date of issue of orders.

A test check by Audit, however, revealed that the delay in executing supply orders ranged between 28 days and 673 days despite receipt of advance payment against the value of goods to be supplied from the indenting Departments. This inordinate delay primarily occurred as the Corporation had not tied up with the manufacturers or entered into rate contracts with the firms on DGS&D rate contracts which led to non-adherence to the agreed condition of delivery of goods within the due period (90 days).

In reply, the Management stated (June 2006) that delivery schedules were fixed in consultations with the Department concerned. In case of cement, the concerned Departments normally requested for deferred supplies commensurate with the actual progress of work. The reply is not tenable as

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[5] *Cement, iron & steel, GI pipes, tyres & tubes, GCI sheets, office equipments, vehicles.*

delay was reckoned taking into account the schedule delivery time mentioned in the supply orders which was fixed in consultation with the Departments.

7.12.6.5 Realisation of sale price

As per the generally agreed conditions between the indenting Departments and the Corporation, 90 *per cent* of the value of the goods was to be deposited in advance before placing firm supply orders on the Corporation. The balance 10 *per cent* alongwith other incidentals was to be remitted to the Corporation immediately on receipt of full quantity of goods.

Scrutiny of records by Audit in respect of two major Works Departments (Building & Housing and Rural Management Development Departments) revealed that while no dues were pending against the Rural Management and Development Department, Rs. 68.09 lakh were recoverable from the Building and Housing Department. Analysis further revealed that the Corporation neither realised full amount nor ensured the recovery of agreed advances of 90 *per cent* before executing the orders, in the absence of which, the Corporation had to utilise its own funds ranging between Rs. 22.28 lakh to Rs. 1.04 crore during the period 2002-03 to 2005-06 in making payments to the suppliers.

The Management accepted (June 2006) the Audit observations.

7.12.7 Financial Management

Prudent financial management requires that all funds due to be received should be expeditiously realised, available funds are deployed effectively for the operations of the organisation and funds not required immediately for operational purposes judiciously invested to earn maximum interest.

It was noticed by Audit that the Management had neither laid down any policy for efficient fund management nor ensured expeditious realisation of dues or investment of surplus funds as discussed in the following paragraphs:

7.12.7.1 Accumulation of outstanding dues

Analysis of outstanding dues revealed that the sundry debtors and advances showed a rising trend from Rs. 15.60 crore (Sundry Debtors- Rs. 9.75 crore and Loans & Advances- Rs. 5.85 crore) in March 2002 to Rs. 29.08 crore (Debtors - Rs. 18.28 crore and Loans & Advances - Rs. 10.80 crore) in March 2004, indicating an increase of 86 *per cent*. Out of the total dues, Rs. 19.11 crore were recoverable from the various Departments/Government organisations and Rs. 9.97 crore were recoverable from individuals/private organisations.

Age-wise analysis of these outstanding dues upto March 2004 revealed that outstanding dues for more than three years stood at Rs. 87.10 lakh (Sundry Debtors-Rs. 31.07 lakh, Loans & Advances- Rs. 56.03 lakh) as can be seen from the details in the following table:

Table- 7.9

(Rupees in lakh)

Sl.	Unit	Less than 1 year		1 to 3 years		More than 3 years		Total	
		Sundry Debtors (3)	Loans & Advances (4)	Sundry Debtors (5)	Loans & Advances (6)	Sundry Debtors (7)	Loans & Advances (8)	Sundry Debtors (3+5+7) (9)	Loans & Advances (4+6+8) (10)
1	Head Office	1,483.91	554.28	3.62	53.99	29.66	44.89	1,517.19	653.16
2	Gas Section	1.13	4.69	0.83	0.69	0.92	9.46	2.88	14.84
3	Jorethang Unit	258.76	18.51	4.13	-	0.49	1.68	263.38	20.19
	Total	**1,743.80**	**577.48**	**8.58**	**54.68**	**31.07**	**56.03**	**1,783.45**	**688.19**

It was observed by Audit that adequate steps were not taken to realise the outstanding dues, particularly the debts of Rs. 87.10 lakh which were outstanding for 3 to 30 years.

7.12.7.2 Interest loss due to imprudent fund management

Test check by Audit of records relating to Cash and Bank balances for the five years' period pertaining to Head Office, Gas Section (Hqrs) and Jorethang unit revealed that sizeable surplus funds ranging between Rs. 3.98 lakh to Rs. 4.18 crore were parked under various Current Accounts and Rs. 3.21 lakh to Rs. 19.65 lakh were held in cash. Failure to invest surplus funds for short period of three months resulted in loss of interest of Rs. 16.37 lakh[6].

7.12.7.3 Loss of interest due to non-crediting of cheques deposited for encashment

The Corporation maintained two specific bank accounts in the State Bank of India and State Bank of Sikkim for remitting all cash relating to transactions of cement trading. Scrutiny of Bank Reconciliation Statements of these accounts revealed that 18 cheques (Rs.2.21 lakh) deposited by the Corporation between 1979 and 2005 had not been credited till the date of Audit (June 2006), resulting in a loss of interest of Rs. 5.87 lakh[7] as of March 2006.

In reply, the Management stated (July 2006) that while cheques for Rs. 0.11 lakh had been credited by the State Bank of India in May 2005, the matter was being pursued with the concerned banks for early crediting of the remaining cheques. As of August 2006, the remaining cheques were not credited.

7.12.7.4 Non-issue of share certificates

The Corporation exhibited 1,11,377 shares valuing Rs. 1.11 crore (Rs. 100 per share) as "Issued, subscribed and paid-up capital" fully held by the Government of Sikkim as against the actual issue of 49,577 shares valuing Rs. 49.58 lakh in its accounts (upto 2003-04). It also declared (July 1997 and August 2004) dividend of Rs. 11.14 lakh each for 1995-96 and 2001-02 on its entire share capital including the un-issued share certificates.

In reply, the Management stated (July 2006) that Rs. 61.80 lakh was initially given as share capital and accordingly booked under share capital, which was subsequently earmarked by the Government for the purpose of procurement of

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[6] Interest has been worked out at rates ranging from 4 to 5.5 per cent on the average monthly balance of surplus funds during the period April 2001 to March 2006.
[7] Principal (Rs.2.21 lakh) & interest (Rs. 3.66 lakh) at the interest rate of 14 % applicable for overdrafts (as the Corporation had overdraft)

vehicles for the Ministers. The reply is not tenable, as the Corporation should have exhibited this amount under Share Application Money instead of paid up capital and not declared dividend on the un-issued share capital.

7.12.8 Human resources management

7.12.8.1 Appointment of Advisor

The Government of Sikkim appointed (June 1996) an Advisor to the Corporation, without any enabling provision in the Proclamation for such appointment. From the date of appointment to the end of March 2006, the Corporation had incurred an expenditure of Rs. 18.44 lakh on the Advisor towards discretionary grant, HRA, vehicle charges, salary of driver and other staff attached with him, medical facilities, etc. No records of any advice being rendered by the Advisor to the Corporation during his entire tenure with the Corporation, however, could be shown to Audit. Thus, it could not be established whether the services (which cost Rs. 18.44 lakh to the Corporation) of the Advisor were gainfully utilised by the Corporation.

7.12.8.2 Avoidable expenditure on appointment of Officer on Special Duty (OSD)

The Corporation appointed (November 2000) a medical doctor as an Officer on Special Duty (OSD) for its Kolkata unit (whose main activity was liaison work) on contract basis initially for one year and subsequently on deputation (the same officer) from the Health and Family Welfare Department (H&FWD). The officer was continuing in the post till the date of Audit (August 2006)

It was observed that there was no requirement of an OSD post at the unit as protocol, liaison and welfare activities associated with the unit were virtually non-existent. Further the Corporation had already in place a medical attendant for attending to welfare activities. The Corporation approached (March 2004) the H&FWD to bear the salary of the OSD, which was, however turned down (March 2004) by the latter on the ground that the OSD was nominated by the State Government despite its (H&FWD's) reservation on the matter. The Corporation did not pursue the matter further with the State Government while the officer continued in the post without any work. Thus, the expenditure of Rs. 8.53 lakh (November 2000 to April 2006) incurred by the Corporation on the salary and allowances of the OSD proved wasteful besides being a drain on the overall resources of the Corporation. As a result of Audit observation, the BOD decided to place the services of the OSD under Sikkim Tourism Development Corporation, Kolkata as she was basically appointed to look after the affairs of the New Sikkim House which was not related with the activities of the Corporation.

The Management replied (July 2006) that it was compelled to bear the establishment expenditure of the officer under the orders of the State Government. However, the Corporation did not request the Government for reimbursement of salary and allowances of the Doctor

7.12.8.3 Avoidable expenditure due to operation of excess staff

Consequent upon disposal of six vehicles by the Corporation in February 2003, the post of five drivers became surplus. The posts of these drivers were re-designated as "peon-cum-messenger" without the approval of the Board. The Corporation already had 10 peon-cum-messengers on its roll and as such the possibility of gainfully utilising the services of these drivers as peon-cum-messenger was very remote. Thus the expenditure of Rs. 14.43 lakh incurred on their salary and allowances (March 2003 to March 2006) was unfruitful.

The Management replied (June 2006) that the surplus drivers were being utilised as peon-cum-messenger by the Corporation for distribution of LPG cylinders and added that their services might be required for the proposed trading activity with China at Nathula. The reply is an after thought as adjustment of surplus drivers as peon-cum-messengers was not need based and same was not approved by the BOD. Further it is not prudent to continue with the services of the surplus drivers in anticipation of their use in future, which is uncertain.

7.12.8.4 Irregular appointments / regularisation of service

The Corporation was appointing staff on contract basis and during January 1998 to August 2001, five Lower division clerks were appointed on contract basis. The BODs, however, decided (29 August 2001) that no such fresh appointments were to be made by the Corporation till further orders and all representations and recommendations received for appointment of fresh candidates to be placed before the Board for its consideration.

In violation of the above orders of the BOD, one person was appointed in June 2004 by the Corporation as a "Purchase & Sales Assistant" initially on contract basis but subsequently regularised ignoring the five senior incumbents who had already been on the roll of the Corporation on contract basis since January 1998. Approval of the BOD was not taken for this transgression.

In reply, the Management stated (June 2006) that appointment and regularisation of services of the above officials was made under the orders of the State Government. The reply is not tenable as i) the matter relating to the appointments / regularisation of service of staff of the Corporation came under the domain of the Board and ii) the referred orders of the State Government could not be shown to Audit.

7.12.9 Monitoring, evaluation and Internal Control Mechanism

Internal control is a management tool used to provide reasonable assurance that the management objectives are being achieved in an efficient, effective and orderly manner. A good system of internal control comprises, *inter-alia,* proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure accuracy and the reliability of accounting data, efficiency in operations (evaluation) and safeguarding of assets, competence of personnel commensurate with their responsibilities and duties and review/ monitoring of the work of one individual by another whereby possibility of fraud or error due to collusion is minimised. Internal Audit is an essential component of any internal control mechanism. Audit observed that no Internal Audit or management information system was established by the Corporation to foresee periodical evaluation of performance and progress of various wings / functions of the Corporation, so that weak areas, irregularities could be exposed for timely remedial action.

Some of the inadequacies noticed are mentioned below:

7.12.9.1 Inadequate number of Board meetings

In terms of the Proclamation, at least four Board meetings were to be held in a year and the interval between such meetings was to be not more than three months. Against the requirement of holding 20 meetings during the period 2001-02 to 2005-06, the Board met only four times during this period. While no Board meeting was held in 2003-04, it met only once in each of rest of the four years.

The reply of the Management (June 2006) that the Board could not meet as required under the Proclamation due to preoccupation of the Board members consisting of Secretaries to the State Government and Members of Legislative Assembly is not tenable as there was no indication in the files that the Management had approached the Board members at appropriate intervals requesting dates for such meetings.

7.12.9.2 Non-preparation of budget

The Corporation did not prepare any budgets outlaying its annual activities for any of the years covered during Audit, though required under the Proclamation (Clause 16). Hence performance of the Corporation could not be analysed. Further, as per Clause 18 of the proclamation, the Corporation should furnish to the Government of Sikkim, within six months of the close of the financial year, a statement of its assets and liabilities at the close of that year together with the Profit and Loss Account for the year, auditors report and the report on the working of the Corporation during the year. The Corporation could not comply with the above provisions due to delay in finalisation of accounts ranging from 1 year 9 months to 2 years 11 months. As of December 2006, the Corporation could finalise accounts only upto 2003-04.

7.12.9.3 Demarcation of responsibilities for monitoring not done

The Corporation had not evolved any monitoring mechanism in respect of receipt, custody and issue of stores. No specific allocation of duties and responsibilities among the staff had been made with a view to fix responsibility for shortages and discrepancies. The Corporation also failed to evolve any rotation policy among the staff. An analysis of staff incumbency during the last ten years starting from the DGM/GM onwards revealed that for the last ten years (1997-2006) no rotation of posting had been done in respect of seven officials.

7.12.10 Acknowledgement

Audit acknowledges the co-operation and assistance extended by different level of officers of the Corporation/Government at various stages of conducting the Performance Audit.

The above matters were reported to the Government in June 2006; their replies are awaited (December 2006).

7.12.11 Conclusion

The Corporation was not able to discharge its responsibilities successfully as assigned to it especially in respect of purchase and supply of goods at economical rates by obtaining the material directly from the manufacturers or through DGS&D rate contracts. It also failed to reduce the time gap between the date of orders and delivery of material to the indenting Departments. Physical verification of stores at the instance of Audit revealed startling shortages of Rs. 2.68 crore. Board meetings were held infrequently. Proper tender procedures were not followed in purchase of cement and tyres & tubes in any of the years during 2001-06. The overall internal controls in the Corporation were very weak.

7.12.12 Recommendations

- Bulk procurement should be resorted to from the manufacturers and / or DGS&D rate contract firms to avail maximum discount and procurement at economical rates. An item rate contract should be entered into with the manufacturers.
- Tender formalities should invariably be followed in all cases of purchases for obtaining competitive rates.
- A prudent financial management should be evolved so as to invest the surplus funds in term deposits depending upon the requirement of funds instead of keeping the surplus funds in current accounts.
- Internal control mechanism should be strengthened especially with regard to annual physical verification of stores and rotation of employees. Reasons for shortages of stocks worth Rs. 2.68 crore noticed during physical verification conducted at the instance of Audit should be investigated.
- Board of Directors should meet once in three months as required under the Proclamation to enable prompt policy decisions and direction.

MINES, MINERALS AND GEOLOGY DEPARTMENT (SIKKIM MINING CORPORATION)

7.13 Avoidable loss

Failure of the Management in initiating timely action for reduction of contractual demand of power from 400 KVA to 100 KVA resulted in avoidable loss of Rs. 30.73 lakh.

The Sikkim Mining Corporation (SMC) is a joint venture undertaking of the Government of Sikkim and the Government of India for promoting mining activities in the State.

The SMC got reduced (October 1991) its contracted demand for high tension electric power supply from the Energy and Power Department (EPD), from the existing 600 KVA level to 400 KVA level, due to reduced demand. Ever since, the SMC has been paying minimum demand charges for 400 KVA high-tension supply of power to the EPD.

A test check of records in Audit revealed (July 2005) that due to decline in production during 2002-03 to 2005-06, the running hours of the plant also declined. As a result, the consumption of electricity decreased from 77 KVA (92,400♣ units) in April 2002 to 16.37 KVA (19,650♦ units) in March 2006. Though the peak demand was 77 KVA during the last four years, the Management failed to approach (as of September 2006) the Energy and Power Department for reduction of contracted load from 400 KVA to 100 KVA. Had this been done in time, the SMC would have had minimum demand charges of Rs. 4.80 lakh on 100 KVA (actual load of 77 KVA) instead of Rs. 28.40 lakh on 400 KVA and could have thus saved Rs. 24 lakh♥ during the period from April 2002 to March 2006.

Further, due to non-reduction of the contracted load from 400 KVA to 100 KVA energy charges were billed at Rs. 2.50 per unit (applicable for contracted load of 400 KVA) instead of Rs. 2 per unit (applicable for 100 KVA) resulting in further avoidable expenditure of Rs. 6.73Σ lakh towards energy charges for 13,46,992 units consumed during 2002-03 to 2005-06.

Thus, negligence of the Management in getting the contractual demand of electricity reduced in time resulted in avoidable loss of Rs. 30.73 lakh towards demand (Rs. 24 lakh) and energy charges (Rs. 6.73 lakh) to the SMC. Failure on the part of SMC was completely unwarranted as it was already incurring regular losses and it was in its own interest to have ensured reduction of load when production had gone down.

In reply, the Management stated (August 2006) that the matter had been taken up with Energy and Power Department. As of December 2006, however, the contracted/committed load had not been reduced.

The above matter was reported to the Government in April 2006; their reply is awaited (December 2006).

COMMERCE AND INDUSTRIES DEPARTMENT (TEMI TEA BOARD)

7.14 Loss of interest

Absence of an efficient fund investment management system led to non-investment of surplus funds ranging between Rs. 10.45 lakh and Rs. 93.72 lakh during April 2001 to March 2005 and consequential loss of interest amounting to Rs. 10.19 lakh.

Temi Tea Board, a departmentally managed undertaking under the Commerce & Industries Department, maintained its current accounts in the State Bank of

♣ *KVA (77) x 500 x 2.4 (Multiplying factor of the energy meter) = Units consumed (92,400)*

♦ *KVA (16.37) x 500 x 2.4 (Multiplying factor of the energy meter) = Units consumed (19,650)*

♥ *Rate for 400 KVA (Rs. 150/KVA) - Rate for 100 KVA (Rs.100/KVA) = Rs. 50/KVA X period (48 months) = 24,00,000.*

Σ *Rate billed (Rs. 2.50/unit – Rate applicable (Rs. 2.00/ unit) = Rs. 0.50/ unit X unit consumed (13,46,992) = Rs. 6,73,496.*

Sikkim (SBS) at Singtam branch for transactions arising out of its day to day operations.

A scrutiny by Audit of records of Manager, Temi Tea Board for the period from April 2001 to March 2005 revealed (July 2005) that the Management had not formulated any fund investment management policy for investment of surplus funds either in short-term or long-term fixed deposits in banks so that there is no loss of interest. It was also noticed that no system had been formulated for analysing and assessing monthly/yearly/periodic requirement of funds based on past trends of expenditure to identify surplus funds so that there is no loss of interest on account of idle funds.

The Management without any analysis and assessment arbitrarily invested surplus funds of Rs. 20 lakh for 4 months, Rs. 25 lakh for 75 days, Rs. 25.25 lakh for 170 days and Rs. 25.64 lakh for 90 days in the fixed deposits in November 2001, January 2003, January 2004 and February 2005 respectively. Audit analysis revealed that after deducting the investments made, the actual expenditure incurred during the month in question and a provision of 10 *per cent* towards unforeseen expenditure during that month, the unit still had idle surplus funds ranging between Rs. 10.45 lakh (July 2001) to Rs. 93.72 lakh (November 2003) between April 2001 and March 2005.

Had the Management formulated an efficient and effective fund investment management policy, the surplus funds indicated above could have been invested in long-term fixed deposits of Rs. 10 lakh for four years and the remaining amounts as short-term fixed deposit of 30 days duration at the rate of 4.25 to 5.50 *per cent* per annum and interest of Rs. 11.40 lakh* could have been earned as against the actual interest earning of Rs. 1.21 lakh only during April 2001 to March 2005, leading to loss of Rs. 10.19 lakh (Rs. 11.40 lakh *minus* Rs. 1.21 lakh).

The above matter was reported to the Board/ Government in June 2006; their replies are awaited (November 2006).

COMMERCE AND INDUSTRIES DEPARTMENT
(SIKKIM JEWELS LIMITED)

7.15. Wasteful expenditure

Establishment of disposable plastic syringe project without proper market survey and feasibility study led to wasteful expenditure of Rs. 50.05 lakh.

Sikkim Jewels Limited Company is mainly engaged in the business of manufacturing, trading in all kinds of synthetic sapphire jewels, bearings for meters, instruments, watches, gramophone needles, watch stones and similar and allied products. The Government appointed a consultant to prepare a

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a) Rs. 10.00 lakh for 4 years @ 9.5 % compounded quarterly	=	*Rs. 4.56 lakh*
b) Rs. 627.85 lakh @ 5.50 % / 365 days x 30 days	=	*Rs. 2.84 lakh*
c) Rs. 54.42 lakh @ 4.51 % /365 days x 30 days	=	*Rs. 0.20 lakh*
d) Rs. 1090.02 lakh @ 4.25 % / 365 x 30 days	=	*Rs. 3.80 lakh*
	Total	*Rs. 11.40 lakh*

turnaround proposal for the Company to make it a viable unit. The consultant proposed diversification of the Company's manufacturing activities to disposable plastic syringes and needles. The Managing Director appointed (August 2001) an agency[♠] to prepare the Detailed Project Report (DPR) by September 2001 The agency was instructed to (i) prepare the project report within the cost limit of Rs. 40 lakh and, (ii) ensure tie-up with the foreign parties for sale of products.

The Management released (December 2001) the agreed consultancy fee of Rs. 40,000 to the agency. The DPR submitted (February 2002) by the agency advised manufacture of disposable syringes and needles in 2 ml (50 lakh), 5 ml (25 lakh) and 10 ml (25 lakh) sizes with an annual capacity of one crore syringes at a project cost of Rs. 55.42 lakh. The DPR clearly mentioned that the Company had conducted market survey of the products in both the domestic as well as international markets and assessed that there was very good scope for marketing of these products. It was further suggested that the sale in the domestic market would be done through existing distributors'/agents' network of the Company all over India. Foreign companies would also be tied up for buy back agreement to penetrate the international market.

The proposal was placed (February 2003) before the BOD and the project was approved at a cost of Rs. 55.42 lakh and the State Government (Secretary, Industries Department) was requested to provide equivalent funds. There was, however, nothing on record to indicate if the Management and the Board had carried out any independent analysis of the feasibility and viability of the project and the returns that would accrue to the Company from such investment, before approving the project and its implementation.

The Government released Rs. 55.40 lakh in two installments in February 2004 (Rs. 24.31 lakh) and October 2004 (Rs. 31.09 lakh) as equity participation in the project. The Management accordingly placed orders for machinery and equipments between July and August 2004 and received the same between January and March 2005 after incurring an expenditure of Rs. 49.65 lakh upto August 2005.

The Board decided (September 2005) to abandon the project and dispose off the machineries at suitable price since (i) adequate market linkage for the sale of products had not been worked out at all as the local market demand was far too small (30,000 pieces per annum) compared to the installed capacity of one crore pieces per annum, (ii) huge working capital was required and excessive administrative expenses were involved due to untrained staff and (iii) marketing efforts were deficient. The Board further resolved that "the line of product chosen for diversification does not suit at all"

Failure to carry out a proper and realistic market survey as well as an independent analysis of the feasibility study of the project and completely relying on the inflated projections of the consultant ultimately led to the abandonment of the project leading to wasteful expenditure of Rs. 50.05 lakh (Rs. 49.65 lakh + Rs. 0.40 lakh).

♠ *M/s Goldline Projects, New Delhi*

In reply, the Management stated (August 2006) that the efforts are being made to dispose off the machinery and equipments through advertisements in leading newspapers. It was, however, observed that the Corporation could get the maximum offer of Rs. 25 lakh only and the Management had decided to advertise again in Economic Times. But as of December 2006, no further progress had been made towards disposal of the idle machinery and equipments.

The above matter was reported to the Government in April 2006; their reply is awaited (November 2006).

Gangtok	**(Amar Patnaik)**
The	**Accountant General (Audit),**
	Sikkim, Gangtok

Countersigned

New Delhi	**(Vijayendra N. Kaul)**
The	**Comptroller and Auditor General of India**