

OVERVIEW

This Report contains 27 audit paragraphs and six performance audits apart from comments on the Finance Accounts and Appropriation Accounts. There is a separate chapter on Internal Control System in respect of DOPART. According to existing arrangements, copies of the draft audit paragraphs and draft performance audits were sent to the Secretary to the State Government of the Department concerned by the Accountant General (Audit) with the request to furnish replies within four weeks. In respect of 27 audit paragraphs and six performance audits included in this Report, replies were received from the Secretary concerned of the respective departments of the State Government for 23 paragraphs and five performance audits.

I. Finances of the State Government

The fiscal health of the State as reflected in terms of trends in key fiscal parameters- RD, FD & PD has shown a sign of improvement during 2005-06 over the previous year. However, the State finances are heavily dependent on Central transfers, which account for about 76 *per cent* of its revenue receipts and helped the State Government to maintain revenue surplus during the period 2000-06. Although the State had maintained revenue surplus throughout the period 2000-06, fiscal deficit not only persisted during the period but it has increased steeply during the last two years primarily on account of substantial step up in capital expenditure during these years. The State's own resources mobilised in the form of its own tax revenue and non-tax revenue during 2005-06 being much lower than the normative projections made by the TFC indicates large potential of raising them by exploiting untapped sources of revenue available in the State. On the other hand, the increasing fiscal liabilities accompanied by persistent fiscal deficit and primary deficit together with quantum spread being negative during most of the years might result in a cycle of deficit, debt and debt service payments, unless suitable measures are taken to arrest the persistent increase in fiscal liabilities. Besides, zero rate of return on Government investments and inadequate recovery of cost on loans and advances also adversely affected the fiscal position of the State. In this context, an efficient and productive use of funds would be of critical importance both from the point of view of putting the State's economy in the high growth trajectory and providing qualitative social and economic services to the people and in enhancing the ability of the Government to meet its financial liabilities that will become due in future.

(Paragraph 1.1 to 1.11)

2. *Allocative priorities and appropriation*

- The excess expenditure of Rs. 28.78 crore for the years 2002-03 to 2004-05 under 20 grants and appropriations required regularisation under Article 205 of the Constitution of India.
- The excess of Rs.10.96 crore in seven grants and two appropriations during the year 2005-06 require regularisation under Article 205 of the Constitution of India.
- Supplementary provisions of Rs. 63.57 crore in 17 cases during the year 2005-06 proved unnecessary.

(Paragraphs 2. 3.2 & 2.3.4)

3. *Performance Audits*

3.1 *Accelerated Power Development and Reforms Programme (APDRP)*

Performance Audit of implementation of APDRP revealed that although revenue realisation had substantially improved since 2004-05 after implementation of the programme, it was far below the targeted level. The objective of breaking even by the year 2005 and positive returns thereafter, as contemplated in the MOA, could not be fulfilled as of March 2006 indicating that commercial viability may not be achieved within a conceivable time frame unless drastic steps were taken to cut down operational costs, economise capital expenditure, contain energy loss and improve revenue realisation further. The power sector was yet to be re-structured and reformed and the State Electricity Regulatory Commission (SERC) was yet to be constituted even after more than three years of the target date. Metering of feeders and consumers was still incomplete, transmission and distribution (T&D) loss was still high at 30 per cent and critical issues of the reforms agenda such as consumer indexing and energy accounting and auditing were not accorded desired priority. The monitoring mechanism was ineffective to this extent.

- The T&D loss which was targeted to be reduced to around 10 per cent stood at 30 per cent as at the end of 2005-06 indicating the Department's failure to achieve the target stipulated under the APDRP.
- Energy accounting and auditing was not initiated despite an expenditure of Rs. 15.93 crore on metering.
- 7,232 consumer meters valuing Rs.1.31 crore were found defective after their installation. No action was taken to get these meters replaced although the meters were guaranteed for 5/10 years.
- Against the anticipated benefit of Rs. 39.93 crore in 2004-06 projected in the DPRs, there was actual realisation of Rs. 21.84 crore only, indicating unrealistically high projection.
- Monitoring was found wanting in case of i) metering of consumers and feeders, ii) Computerised billing and iii) Mapping and indexing of consumers due to which there was high incidence of defective meters in the feeders / consumer premises and failure to introduce computerised billing.

(Paragraph 3.1)

3.2 Implementation of Acts and Rules relating to Consumer Protection

Performance Audit of implementation of various Acts and Rules relating to consumer protection during the period 2001-06 in Sikkim revealed that the enforcement of the Acts in protecting the interests of the consumers against adulterated foods and exploitation through incorrect weighing and measurement was grossly inadequate. It was further compounded by non-fixation of targets for collection of food samples for analysis under PFA, non-achievements of targets under SWM and absence of dedicated monitoring mechanism at the State level to review and evaluate the extent of successful implementation of these Acts in the State.

- Establishment of the State Consumer Disputes Redressal Commission and the District Consumer Disputes Redressal Forums was delayed by 31 months due to Government's inaction.
- The District Forums disposed off 10 per cent (2001) to 57 per cent (2002) of consumer dispute cases within the prescribed 90/150 days. The performance of the State Commission in disposal of cases during the same period was nil to 50 per cent and left much to be desired.
- Monitoring mechanism was neither introduced at the State Commission nor in the Consumer Affairs Department to ensure speedy disposal of grievances.

(Paragraph-3.2)

3.3 Health care management

The State was yet to formulate a Health Policy to provide policy directions and enable perspective planning, absence of which led to lower allocation of funds to the health sector, non-fixation of realistic targets, etc. Infrastructure management was characterised by inadequate essential infrastructure both in terms of number of CHCs, PHCs and PHSCs and also availability of required facilities. Analysis of human resources management revealed acute shortage of specialists, wide inter-district variations in deployment of doctors and nurses, irrational deployment of paramedical and medical staff, shortfall in imparting integrated and specialised training. Effectiveness of delivery of medical care and services was affected by shortage of medicines, non-operation of drug testing laboratory, delay in construction of CHC at Mangan, drug de-addiction centres at Namchi and Geyzing, non-commissioning of machines and equipments etc.

- There was acute shortage of Specialists (75%), Health Educators (62%) and Laboratory Technician (11%) amongst others and wide inter-district disparities in their deployment.
- Of the two blood banks in the State, STNM showed remarkable improvement in collection of blood from voluntary donors from 4 per cent in 2001 to 52 per cent in 2005, Namchi (CHC, South) was far behind the target with 2 to 9 per cent of total collection.

(Paragraph- 3.3)

3.4 Sarva Shiksha Abhiyan

Performance Audit of Sarva Shiksha Abhiyan (SSA) for the period 2001-02 to 2005-06 disclosed deficient planning, delayed and short release of funds, excessive management cost, appointment of teachers in excess of requirement, etc. The State failed in achieving the main objective of SSA to bring back all out-of-school children to school within 2003. Implementation of SSA did not contribute towards quality improvement of education as envisaged in the programme as course curriculum was not revised, training of teachers was far below the target and research and development activity was not accorded desired priority. Monitoring and evaluation of the programme was never conducted to gauge its success.

- Despite incurring considerable expenditure towards implementation of SSA, SIS failed to bring back 6,310 out-of-school children indicating a shortfall of 42 per cent even after five years of implementation.
- In spite of receipt of Rs. 1.72 crore, SIS was far behind in achieving the target of training 8,766 teachers. Shortfall ranged between 72 to 100 per cent from 2002-03 to 2005-06.
- Research and Development (R&D) activities were not carried out despite release of Rs. 23.94 lakh.

(Paragraphs 3.4)

3.5 Urban Water Supply

Performance Audit of Urban Water Supply System revealed non-framing of 'State Water Policy' in line with the 'National Water Policy' and absence of long-term perspective planning. Baseline survey for assessing actual requirement of potable water and preservation of water sources had never been conducted. Contamination of water was prevalent due to inadequate and ineffective water treatment and alignment of pipelines through drains and jhoras. Leakages and wastage of water was rampant as the Department failed to put in place vigilance mechanism to detect un-authorized connections and wastage of water. There was excess and unnecessary expenditure in execution of works while beneficiary participation in creation of assets could not be obtained. Water tariff fixed by the Department was devoid of any cost analysis and revenue collection lax leading to huge gap between the revenue earned vis-à-vis operation and maintenance costs.

- The Department had no basis to give assurance that sufficient drinking water was supplied to the consumers as it had neither conducted any baseline survey nor evaluated its supply systems with a view to assess the sufficiency of water supplied.
- Quality of water supplied to the consumers could not be assured as bacteriological contamination was prevalent due to inadequate and ineffective treatment and alignment of pipelines through drains and jhoras¹.
- Non-metering of consumers led to wastage of water and consequent loss of revenue of Rs. 1.51 crore per annum.

¹ Mountain streams usually carrying filthy water.

- Failure to realise 5 per cent capital cost from the beneficiaries led to loss of Rs. 3.64 crore to the Government.

(Paragraph- 3.5)

3.6 Functioning of State Trading Corporation of Sikkim

The State Trading Corporation of Sikkim (STCS) functions as a canalising agency for all procurement of the State Government. Audit of performance of the Corporation for the period 2001-02 to 2005-06 disclosed that the Corporation was not successful in obtaining materials at economical rates; took inordinately long time to supply the materials to the indenting departments thereby affecting the schedule date of completion of work; etc. Financial management was characterised by imprudent investment of surplus funds to earn optimum interest; non-crediting of deposited cheques; accumulation of outstanding dues, etc. Physical verification of stores was never attempted leading to huge differences between book balance and actual balance of store materials. Internal control mechanism was virtually non-existent.

- Virtual non-existence of internal control mechanism for physical verification of stores led to pilferage of store material worth Rs. 2.68 crore.
- The Corporation failed to recover the dues of Rs. 68.09 lakh from Building & Housing Department leading to blockage of funds.
- Irregular appointment of an advisor and Officer on Special Duty without any provision in Proclamation resulted in infructuous establishment expenditure of Rs. 26.97 lakh.

(Paragraph- 7.12)

4 Internal Control Mechanism in DOPART

Audit review of the internal controls in the Department of Personnel, Administrative Reforms, Training, Public Grievances, Career Options & Employment, Skill Development and Chief Minister's Self Employment Scheme (DOPART) revealed deficient budgetary and expenditure control, poor operation and supervisory controls relating to creation of posts, cadre review, promotions, deployment as enumerated in the succeeding paragraphs.

- Against the sanctioned strength of four, the Department appointed three Advisors and promoted seven officers to the post of Principal Secretaries in contravention of GOI norms resulting in extra expenditure of Rs. 43.79 lakh.
- Subsequent to the ban imposed by the Government in 1999 for creation of new posts, the Department created 443 posts resulting in extra annual expenditure of Rs. 4.70 crore.
- The posts vacated on account of VRS were not abolished resulting in avoidable expenditure of Rs. 2.24 crore upto March 2006.

(Paragraph 5.1)

5. Audit of Transactions

Misappropriation / Loss

Undue favour to a seller in purchase of his unsuitable building, in a non-transparent manner, disregarding repeated recommendations of the Screening Committee, resulted in wasteful expenditure of Rs. 16.60 lakh.

(Paragraph-4.1.1)

Fictitious utilisation of 11,440.34 quintals of rice costing Rs. 91.52 lakh under the Mid-Day Meal Scheme, besides violation of Supreme Court's direction for providing cooked meal for specified school days.

(Paragraph-4.1.2)

Fictitious utilisation of funds of Rs. 12.35 lakh shown by an NGO under the Integrated Education for Disabled Children scheme and consequential denial of benefit to disabled children.

(Paragraph-4.1.3)

Wasteful/Infructuous/Unfruitful Expenditure

Expenditure of Rs. 39.86 lakh on establishment of a Poultry Farm was rendered infructuous as the farm closed down its operation after running for only a year due to poor management.

(Paragraph-4.2.1)

Improper and un-planned implementation of the 'Development of Sanskrit Education' scheme resulted in wasteful expenditure of Rs. 1.30 crore.

(Paragraph-4.2.2)

Unauthorised allotment of two vehicles each to 15 Police officers without entitlement for a second vehicle led to avoidable expenditure of Rs. 64.33 lakh.

(Paragraph-4.2.3)

Undue favour to a seller by the Department in purchase of his unsuitable land, despite negative reports from the Mines & Geology Department led to wasteful expenditure of Rs. 65.76 lakh.

(Paragraph-4.2.4)

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

(Paragraph 7.15)

Regularity Issues

Decision of the Department to appoint 205 adhoc teachers without conducting any selection test and/ or interview was not only irregular but also led to recruitment of unsuitable candidates in excess of the requirement resulting in avoidable expenditure of Rs. 59.79 lakh.

(Paragraph- 4.5.2)

Failure of the Relief Commissioner, Calamity Relief Fund to invest the available funds in accordance with the stipulated rules of the CRFS framed by the GOI resulted in loss of interest of Rs. 5.35 crore to the Fund, besides contravention of the guideline of the scheme.

(Paragraph- 4.5.3)

Loss of Revenue

Failure of the Excise Department to levy and collect excise duty on the basis of “actual” transit loss of Extra Neutral Alcohol (ENA) imported by three distilleries resulted in revenue loss of Rs. 1.49 crore.

(Paragraph- 6.9.1)

Failure to recover CST from four firms by the Finance, Revenue and Expenditure Department (Income and Commercial Taxes Division) dealing in inter-State trade resulted in non-realisation of revenue of Rs. 3.99 crore.

(Paragraph- 6.9.2)

Allowance of inadmissible deductions from turnover by the Finance, Revenue and Expenditure Department (Income and Commercial Taxes Division) resulted in short-realisation of tax of Rs. 59.23 lakh.

(Paragraph- 6.9.3)