CHAPTER – VII
GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government Companies and Statutory Corporations

7.1. Introduction

As on 31 March 2007, there were 12 Government Companies (nine working companies and three non-working[1] companies) and three working Statutory Corporations under the control of the State Government, with no change in position from that of 31 March 2006. 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, 1971.
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

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

Accountants who are directly appointed by the Commerce and Industries Department. The Audit of these undertakings has also been taken up by the CAG.

7.2 Working Public Sector Undertakings (PSUs)

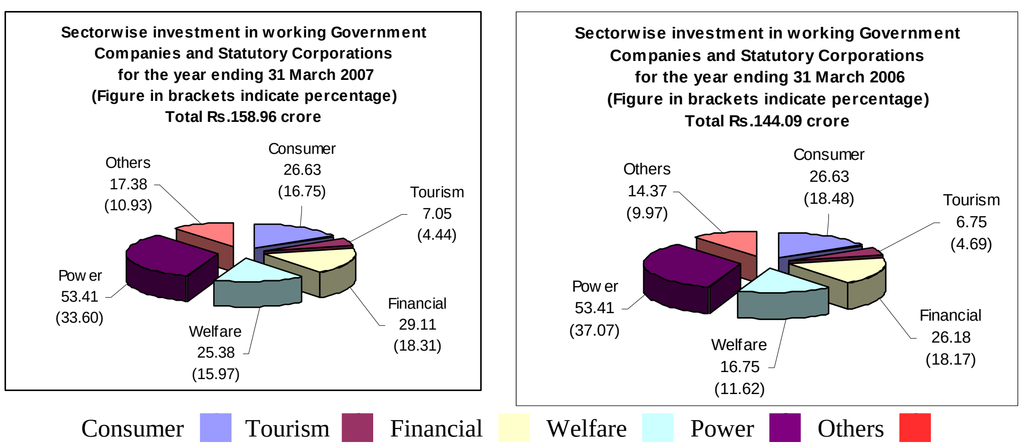
7.2.1 Investment in working PSUs

As on 31 March 2007, the total investment in 12 PSUs (nine Government Companies and three Statutory Corporations) was Rs.158.96 crore (equity: Rs. 81.89 crore and long-term loans: Rs. 77.07 crore) against the total investment of Rs. 144.09 crore (equity: Rs. 78.58 crore and long term loans[2]: Rs. 65.51 crore) in the same number of working PSUs as on 31 March 2006. Increase in total investment was due to increase in investment in the equity of Sikkim Tourism Development Corporation Limited under tourism sector. 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 2007 and 31 March 2006 are indicated in the pie charts as follows:

Chart-7.1



7.2.3 Working Government Companies

The total investment in working Government companies at the end of March 2006 and March 2007 was as follows:

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[2] *Long term loans mentioned in para 7.2.1, 7.2.2 and 7.2.3 are excluding interest accrued and dues on such loans.*

Table-7.2

(Rupees in crore)

Year	Number of companies	Equity	Loans	Total
2005-06	9	64.88	64.97	129.85
2006-07	9	65.18	73.39	138.57

Source: As per the approved accounts of the PSUs

Investment in the current year has increased over the previous year due to increase in equity in PSUs in the tourism sector.

As on 31 March 2007, the total investment in working Government companies comprised 47.04 *per cent* of equity and 52.96 *per cent* of loans as compared to 49.97 *per cent* and 50.03 *per cent* respectively as on 31 March 2006.

The summarised statement of Government investment in working Government Companies in the form of equity and loans is detailed in ***Appendix-7.1***

7.2.4 Working Statutory Corporations

The total investment in the three working Statutory Corporations at the end of March 2006 and March 2007 was as follows:

Table-7.3

(Rupees in crore)

	2005-06			2006-07		
	Capital	**Loan**	**Total**	**Capital**	**Loan**[3]	**Total**
State Bank of Sikkim	0.58	-	0.58	0.58	3.14	3.72
Sikkim Mining Corporation	12.01	0.54	12.55	15.02	0.54	15.56
State Trading Corporation of Sikkim	1.11	-	1.11	1.11	-	1.11
Total	**13.70**	**0.54**	**14.24**	**16.71**	**3.68**	**20.39**

Source: As per the approved accounts of the PSUs

As on 31 March 2007, the total investment in the working Statutory Corporations comprised 81.95 *per cent* of equity and 18.05 *per cent* of loans as compared to 96.21 per cent and 3.79 per cent respectively as on 31 March 2006.

The summarised statement of Government investment in the working Statutory Corporations in the form of equity and loans is detailed in ***Appendix-7.1***

[3] *Long term loans mentioned in para 7.2.4 is excluding interest accrued and dues on such loans*

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-7.1*** and ***7.3.***

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 2007 are given below:

Table-7.4

(Rupees in crore)

	2004-05				2005-06				2006-07			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital	3	0.91	1	0.26	3	4.82	-	-	1	0.30	-	-
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-	-	-
Subsidy	-	-	-	-	-	-	-	-	-	-	-	-
Total	**3***	**0.91**	**1***	**0.26**	**3***	**4.82**	**-**	**-**	**1***	**0.30**	**-**	**-**

Source: As per the approved accounts of the PSUs

* *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 2006-07, the Government had not extended any guarantee to any PSU. At the end of the year, guarantees amounting to Rs. 80 crore were outstanding against three[4] Government companies. In case of one[5] Government company, the interest was waived off to the tune of Rs. 60 lakh. There was no case of loans having been written 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-7.2*** shows that none of the nine working Government companies had finalised its accounts for the year 2006-07 and out of the three Statutory Corporations, only one Statutory Corporation (Sikkim Mining Corporation) had finalised its accounts for the year 2006-07 as on 31 October 2007.

4 *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)*

5 *Sikkim Industrial Development & Corporation Limited*

During the period from October 2006 to October 2007, three working Government companies had finalised their accounts for the previous years. Similarly, during this period all the three Corporations finalised their accounts for the previous years/current year.

The accounts of nine working Government Companies and two working Statutory Corporations were in arrears for the periods ranging from one to five years as on 31 October 2007 as detailed below:

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 2006-07	3
2	Scheduled Caste, Scheduled Tribes, Other Backward Class Development Corporation Limited	2005-06	2006-07	1
3	Sikkim Tourism Development Corporation	2005-06	2006-07	1
4	Sikkim Industrial Development and Investment Corporation Limited	2005-06	2006-07	1
5	Sikkim Power Development Corporation	2004-05	2005-06 2006-07	2
6	Sikkim Poultry Development Corporation Limited	2001-02	2002-03 2003-04 2004-05 2005-06 2006-07	5
7	Sikkim Hatcheries Limited	2001-02	2002-03 2003-04 2004-05 2005-06 2006-07	5
8	Sikkim Precision Industries Limited	2004-05	2005-06 2006-07	2
9	Sikkim Jewels Limited	2005-06	2006-07	1
	B. Name of the Statutory corporation			
1	State Bank of Sikkim	2005-06	2006-07	1
2	State Trading Corporation of Sikkim	2003-04	2004-05 2005-06 2006-07	3

Source: As per the information furnished by the PSUs

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-7.2***. 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-7.4*** and ***7.5*** respectively. According to the latest finalised accounts of nine working Government Companies and three working Statutory Corporations, seven[6] companies and one[7] corporation had been making losses for varying periods (the year from which Companies/Corporations have continuously been incurring losses are indicated in the brackets against each company/ corporation) and had incurred an aggregate loss (during the year) of Rs. 4.93 crore and Rs. 2.17 crore respectively and one company and two corporations had earned an aggregate profit (during the year) of Rs. 0.62 crore and Rs. 2.43 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 2005-06, earned a profit of Rs. 0.62 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 Corporations and dividend

Two Corporations (*viz*. State Bank of Sikkim and State Trading Corporation of Sikkim) which finalised their accounts for previous years (SBS: 2005-06 and STCS: 2003-04) by August 2007, earned aggregate profit of Rs. 2.43 crore but did not declare any dividend.

(ii) Loss incurring Statutory Corporations

[6] *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).*

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

One Statutory Corporation *viz*. Sikkim Mining Corporation which finalised its accounts for 2006-07 by August 2007, suffered loss of Rs. 2.17 crore and had accumulated losses aggregating Rs. 11.88 crore wiping of 79 *per cent* of its paid up capital of Rs. 15.02 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-7.6.*** It will be seen from ***Appendix-7.6*** that in case of Sikkim Mining Corporation, percentage of capacity utilisation came down from 19 in 2004-05 to 15 in 2006-07.

(iv) Return on Capital Employed

As per the latest finalised annual accounts of PSUs, the capital employed[8] worked out to Rs. 73.42 crore in nine working companies and the total return[9] thereon amounted to Rs. 1.03 crore which is 1.53 *per cent* as compared to total return of Rs. 0.99 crore (1.71 *per cent*) in the previous year. Similarly, the capital employed and total return thereon in case of working Statutory Corporations as per the latest finalised annual accounts worked out to Rs. 391.39 crore and Rs. 2.44 crore (0.68 *per cent*), respectively, as against the total return of Rs. 2.90 crore (1.02 *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-7.2.***

7.6 Non-working Public Sector Undertakings (PSUs)

7.6.1 Investment in non-working PSUs

As on 31 March 2007, the total investment in three non-working PSUs (Government Companies) was Rs. 3.43[10]crore (equity: Rs. 3.43 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	Long terms loan
1	Under closure	3	3.43	-
	TOTAL	**3**	**3.43**	**-**

Source: As per the approved accounts of the PSUs

All the above Government Companies were under closure for seven years and a substantial investment of Rs. 3.43 crore has been blocked in these companies.

8 *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).*

9 *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.*

10 *State Government investment was Rs. 309.16 lakh (others: Rs. 34 lakh).*

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-7.1*** and ***7.3***

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The State Government had not given any budgetary support to these non-working PSUs during 2006-07.

7.6.3 Total establishment expenditure on non-working PSUs

The year-wise details of establishment expenditure incurred by non-working Government Companies and the sources of financing them during the last three years up to 2006-07 could not be analysed due to non-finalisation of accounts by these PSUs.

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 four to 12 years as on 31 August 2007 as could be noticed from ***Appendix-7.2.***

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-7.2*.**

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[11]	Cash loss (-) / Cash profit (+)[12]	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

Source: As per the approved accounts of the PSUs

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 to 2006-07	Not yet issued	The annual accounts were received during August 2005 to August 2007. Audit upto 2006-07 was completed and preparation of SARs is under progress.
2.	State Bank of Sikkim (SBS)	2002-03	2003-04	30 July 2007	To be placed in next session of the Legislature
			2004-05	Not yet issued	Under process
			2005-06	-do-	Audit is yet to be programmed
3.	State Trading Corporation of Sikkim (STCS)	2000-01	2001-02	30 July 2007	To be placed in next session of the Legislature
			2002-03 2003-04	Not yet issued	Audit was completed and preparation of SARs is under progress.

Source: As per the records maintained by the office

7.8 Disinvestment, privatisation and restructuring[13] of Public Sector Undertakings

[11] *Net worth represents paid up capital plus free reserves less accumulated loss.*
[12] *Cash loss/profit represents loss/profit for the year plus depreciation for the year.*

[13] *Restructuring includes merger and closure of PSUs*

During the year 2006-07, 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 2006 to August 2007, the accounts of three[14] working companies were selected for Audit. The net impact of the important Audit observations as a result of Audit of the accounts of two PSUs was increase in loss by Rs. 1.41 crore (2003-04) and decrease in profit by Rs. 1.33 crore (2004-05) in one working company(SJL) and decrease in loss by Rs. 2.72 lakh in one working company(STDC).

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

Sikkim Tourism Development Corporation Limited (2004-05)

- Due to non-raising of demand for recovery of the lease rent of Rs. 3.97 lakh from the then Director, Tourism Department, Government of Sikkim for stay at Kolkata unit, Sundry Debtors were understated and loss overstated by Rs. 3.97 lakh.

Sikkim Jewels Limited (2003-04)

- The investment of Rs. 99.32 lakh in Sikkim Bank Limited became doubtful as the private bank was merged with Union Bank of India (UBI) and after the merger, UBI did not offer any final settlement. This has resulted in overstatement of investment by Rs. 99.32 lakh and understatement of loss by the similar amount.

Sikkim Jewels Limited (2004-05)

- No provision has been made for doubtful debts pending for more than three years amounting to Rs. 18.98 lakh recoverable from other companies, majority of which were either closed or referred to BIFR. This has resulted in overstatement of Sundry Debtors by Rs. 18.98 lakh and overstatement of profit by the similar amount.

Non-provision of Income tax liability in the Accounts

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[14] *Profit & loss a/c was not prepared in respect of SPDC as it is under implementation stage. Hence, effect of profit or loss for this company could not be made.*

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. 1.21 crore in respect of five companies and one departmental undertaking.

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 2007 pertaining to 15 PSUs (including two departmental undertakings and one non working company) disclosed that 161 paragraphs relating to 55 inspection reports of 10 companies, three statutory corporations and two departmentally managed undertaking remained outstanding at the end of August 2007. Department-wise details of inspection reports and paragraphs outstanding as of August 2007 are given in ***Appendix-7.7.***

Similarly, draft paragraphs and performance reviews on the working of PSUs are forwarded to the Principal Secretary of the administrative departments 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 six draft paragraphs and one performance review report issued to the various departments between July to August 2007 as per details in ***Appendix-7.8,*** replies to the performance review report and the draft paragraphs are awaited (October 2007) from the administrative departments.

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 observations is revamped.

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

Out of 12 paragraphs and 2 performance review reports of the commercial chapter of Audit Reports for the years 2001-02 to 2005-06, presented in the State legislature on 19 July 2003, 19 September 2004, 25 August 2005, 10 June 2006 and 26 March 2007 respectively, 6 paragraphs were discussed by the PAC as at the end of October 2007.

SIKKIM STATE CO-OPERATIVE SUPPLY AND MARKETING FEDERATION LIMITED

7.12 Functioning of Sikkim State Co-operative Supply and Marketing Federation Limited.

Highlights

The Federation was not able to discharge its main responsibilities successfully as procurement of items other than agricultural items grew much more as compared to agricultural items.

(Paragraph- 7.12.6.1)

The Federation did not adhere to the prescribed purchase procedure of inviting open tenders for getting competitive rates while making purchases. Different items worth Rs. 113.43 crore were purchased from local dealers instead of manufacturers or DGS&D approved suppliers.

(Paragraph- 7.12.6.2)

Uniforms worth Rs. 1.23 crore were procured (2006-07) for the police department on limited tender basis without calling open tenders.

(Paragraph-7.12.6.3)

The State Income Tax amounting to Rs. 1.82 crore recovered from the suppliers bills was not remitted to the IT&ST department.

(Paragraph-7.12.8.5)

Trade discount of Rs. 3.72 crore obtained from various suppliers was retained by the Federation without passing the benefit to the indenting departments.

(Paragraph-7.12.8.6)

Grant-in-aid of Rupees one crore received from the Agricultural Department was diverted by investing the funds in the fixed deposits.

(Paragraph-7.12. 8.7)

Lack of prudent financial management resulted in non-recovery of Rs. 2.59 crore from the HRD department. Surplus funds available were not invested in the fixed deposits and sundry debtors increased to Rs. 9.68 crore.

(Paragraph- 7.12.8.1, 8.9)

The Accounts were not maintained and prepared properly depicting a true and fair financial health of the Federation due to non-incorporation of purchases and sales in the relevant years.

(Paragraph- 7.12.10)

Internal controls were very weak in the Federation. Added to this, failure to conduct regular BODs and Annual General Meetings adversely affected the functioning of the Federation to a large extent.

(Paragraph-7.12.10)

7.12.1 Introduction

Sikkim State Cooperative Supply and Marketing Federation Limited (SIMFED) is an apex level cooperative Society established in 1983 under the Sikkim Co-operative Societies Act 1978 with a two tier structure - grass root level primary co-operative societies and the SIMFED. According to its bye laws, the main objective was to extend business support to the societies and undertake procurement and marketing of agricultural produce (from farmers or societies by offering reasonable prices to them) and also to market consumer durable items either by obtaining distributorship of various reputed companies or directly involving itself in the manufacturing and marketing activity within or outside the State.

The Federation was managed by a Board of Directors headed by the Chairman and thirteen Directors (eight from primary societies by election, one from the financing bank, Sikkim State Cooperative Bank Limited (SISCO) and three nominated by the State Government) as on 31 March 2007. The Managing Director is the Chief Executive of the Federation and has been delegated with full administrative powers for carrying out the day to day functioning of the Federation. He is assisted by Deputy General Manager (1), Deputy Managers (4).

The detailed organisational chart is given at ***Appendix- 7.10.***

7.12.2 Scope of Audit

The Performance audit, covering a period of five years from 2002-03 to 2006-07 was conducted during April to June 2007 by test check of records at the Head Office and two[15] branches out of five branches, based on the sample check of 25 *per cent* of the total value of all the items under both agricultural and non-agricultural business activities on probability proportionate to size (volume of expenditure). Details of purchases and sales are shown in ***Appendix-7.11***.

7.12.3 Audit Objectives

The audit objectives were to ascertain whether:

- the objectives of the Federation of developing the co-operative movement in the State was achieved in an efficient manner;

[15] *(i) Siliguri and (ii) Super market, Gangtok*

- the trading activities were handled efficiently and effectively by drawing advantage of bulk purchase, minimizing delivery time and procuring quality materials;
- fund management was efficient and effective to ensure timely availability of funds;
- manpower 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 adopted for assessing the achievement of audit objectives were:

- policy/procedures/ Acts/ rules/ instructions/ guidelines prescribed by the Government/ Registrar of Co-operative Societies for regulating co-operative/trading activities;
- policy of the Federation for Fund Management, bye laws of the Federation and Sikkim Financial Rules;
- guidelines and directives issued by the Board of Directors (BOD)/Government; and
- procedure prescribed for monitoring, evaluation and internal control.

7.12.5 Audit Methodology

The following mix of Audit methodologies was adopted for attaining the Audit objectives:

- analysis of procedures laid down in the Bye Laws;
- examination of agenda and minutes of BODs meetings, Federation's annual accounts, directives and instructions of the Registrar of Co-operative Societies;
- examination of procurements/purchase policy, details of turnover under agricultural and non-agricultural business, fixation of prices *etc*;
- scrutiny of records relating to procurement and delivery of goods;
- examination of monitoring, evaluation and internal control mechanism; and
- issue of Audit enquiries and interaction with the Management.

Audit findings

Audit findings arising from the performance review were reported (June 2007) to the Federation/Government and the replies received (August 2007) from the Management were considered before finalizing the report. The report was discussed in the Exit Conference held on 31 August 2007with the representatives of the Federation and Government. The views expressed in the meeting have been taken in view while finalising the report.

7.12.6 Activities

Being an apex co-operative society, the Federation was dealing in procurement and marketing of agricultural tools and implements, machinery, seeds, pesticides, animal feed and uniform *etc*. to the departments of the State Government. The State Government entrusted (December 2002) the Federation with the additional responsibility of procurement and supply of non-agricultural goods *viz.*, cement, iron and steel, office furniture, equipment and other accessories to 15 specified departments of the State Government (earlier being handled by the State Trading Corporation of Sikkim). The instructions (December 2002) of the State Government provided that highest priority should be accorded in marketing of agricultural produce in keeping with the main objective of the Federation and items should be procured directly from the manufacturers or from firms having DGS&D rate contract. The Federation, however, failed to adhere to the above instructions of the State Government as is evidenced from the following:

7.12.6.1 Deviation from main objectives

As mentioned in preceding para the Federation commenced trading activities in cement, iron and steel, furniture and office equipment *etc*. with effect from December 2002. Audit analysis revealed that although the financial performance of the Federation improved during 2002-07, the percentage of sale of non-agricultural items to total sales during the above period varied from 55.27 to 73.41 *per cent*. Whereas percentage of sale of agricultural items to total sales during the above period ranged between 26.59 to 44.73 percent indicating that in all the five years, sale of non-agricultural items was more than the sale of agricultural items. The details of deviations are given in ***Appendix- 7.12.***

Thus, the deviation from main activities not only led to non- achieving of its primary objective of marketing agricultural produce from farmers but also proved detrimental to the welfare of the farmers/co-operative societies for which the Federation was set up. So much so that Federation dealt in trading activities of iron and steel, computers, electronic and stationary items which were even not assigned to it as per the above orders of the State Government.

The contention of the Management (August 2007) that the main objective of marketing the agricultural produce could not be achieved due to decrease in production of agricultural produce (ginger, potato, etc) is not tenable as 64 *per cent* of the population continues to be dependent upon agriculture as per economic survey (2006-07) and the production of ginger increased from 23,000 tonnes in 2002-03 to 36,000 tonnes in 2005-06 in the State and that of cardamom showed marginal dip from 4,200 tonnes in 2002-03 to 3,520 tonnes in 2005-06.

7.12.6.2 Non-adherence to established purchase procedure

Any procurement procedure must conform to exemplary norms of best practices to ensure efficiency, economy and accountability in the system. It was noticed (June 2007) that since inception the Federation had neither framed its own purchase procedure nor followed the purchase procedure as enshrined in Sikkim Financial Rules. The Federation had also not adhered to the directions (September 2003, March 2005 and April 2007) of its BODs as regards (i) obtaining dealership for all the major items from the main producers, (ii) procurement to be made directly from the manufacturers, (iii) quotations/tenders for purchases upto Rs. three lakh and Rs. five lakh to be invited and published in local and national news papers respectively so as to avail the best economic rates. During 2002-07, the Federation procured various items worth Rs. 113.43 crore from the local suppliers in contravention of standard purchase procedures which was fraught with the risk of formation of cartel by the local suppliers and defeated the very purpose of obtaining competitive rates. The Federation did not make any efforts to evaluate the past performance of the local suppliers in ensuring timely and quality supplies at competitive rates. In majority of the cases, the names of suppliers were finalised by the State Government Departments themselves and the Federation issued purchase orders in favour of these local suppliers in contravention of prescribed procurement procedures, as evidenced from the following:

7.12.6.3 Procurement of liveries: The Home Department entrusted (February 1992) the responsibility of supply of liveries to drivers and class IV staff of various departments to the Federation. As per the orders of the State Government, the process of selection of items, rates and quality *etc* was to be assigned to a Selection Committee comprising of representatives from the Home and Finance departments and SIMFED. During the last five years, these items worth Rs. 4.02 crore were procured and supplied to the various Departments.

It was noticed (June 2007) that the materials were procured from Gangtok based local authorised dealers on piece-meal basis depending on receipt of indents from the indenting Departments. Rates finalised (October 2002) by the Home Department were taken as basis without any rationale for all subsequent purchases. No effort was initiated to obtain rates from the manufacturers like Bhilwara, Essal and BATA whose products were being procured from the local dealers on piecemeal basis. The Federation also failed to collect adequate advances from the Departments as a result Rs. 7.74 lakh was still pending (March 2007) for realisation from the Departments.

The Management stated (August 2007) that advertisement was given in Sikkim Herald and Telegraph duly calling for open tenders for supply of liveries to Class IV and drivers. The reply is not tenable as the advertisement was issued for procurement of other items and not for procurement of liveries for Class IV and drivers. Further, normal purchase procedure as laid down in the SFR was not followed:

7.12.6.4 Supply of knitting and sewing machines, woolen and cotton yarn, etc:

Scrutiny of procurement records relating to knitting and sewing machines, woolen and cotton yarn, water storage tanks and tarpaulin revealed that the Federation is not following the general purchase procedure as prescribed in the Sikkim Financial Rules while procuring these items. A cross check of rates being paid by the

Director of Handloom and Handicrafts (DHH) for procurement of these items revealed that the procurement rates of these items being paid by the Federation were much higher than the rates being paid by DHH resulting in avoidable additional financial burden of Rs. 26.87 lakh on procurement of these items by the Federation for supply to the concerned Departments during the period from July 2004 to June 2006. Similarly, procurement of cattle feed, poultry feed, pig feed *etc* during 2005-06 and 2006-07 was made at higher rates than that of rates being charged by Himalayan Cooperative Milk Producers' Union Limited (HIMUL) on supply of these items resulting in excess financial burden of Rs. 6.27 lakh on the concerned Departments. This was more disquieting as the quality of feed supplied by HIMUL was found to be superior[16] (by the Animal Husbandry, Livestock, Fisheries and Veterinary Services Department) as compared to the feed supplied by SIMFED.

7.12.6.5 Procurement of police uniform without tender

- For the financial year 2005-06, the Federation procured cloth for uniform for police personnel worth Rs. 1.41 crore. As per the SFR 1979[17], open tenders were to be invited for procurements costing above Rupees one lakh. The Federation, however, floated (June 2004) only a limited tender to the local suppliers and not manufacturers. In response, quotations were received (November 2004) from ten local suppliers. The six member committee (representing four from Police Department, one from Finance Department and one from SIMFED) appointed for short-listing the suppliers, did not follow a uniform procedure in selection of suppliers (for 61 items) as it overlooked the suppliers who quoted lower rates on the ground that quality of the samples submitted by them was not acceptable. This procedure was against the provisions in SFR since quality considerations could not be brought in after opening price bids and thus placement of orders at higher rates ignoring the lower rates resulted in extra financial burden of Rs. 29.30 lakh in respect of 38 items. Since the procurements related to branded items like cloth and shoes and value of purchase was for more than Rupees one lakh, the Federation should have floated open tenders as per the procedure prescribed in SFR 1979 so that procurement of branded items from the established manufacturers could have been made at economical rates.

- During 2006-07, the Federation placed purchase order on a local supplier, without even calling for open tenders, based on the recommendation of the Chief Minister (December 2006) who ordered that the supplier may be allowed to take up this supply work for executing as per the norms of the

[16] As per Para 4.1.1 of Report of the CAG of India – Govt. of Sikkim for the year ended 31 March 2005.

[17] *As per the Rule 127 and 130 of the SFR 1979*

Government (Finance Department). The Federation without following norms raised proforma invoice (January 2007) for Rs. 1.23 crore which were procured at a cost of Rs. 1.41 crore. Action of the Federation to place supply order on nomination basis was in violation of the prescribed procedure and speaks poorly on the functioning of the top management. This was further compounded by poor quality of materials supplied by the firm.

The Management stated (August 2007) that suppliers were short-listed during 2005-06 on quality consideration and contended that the purchase committee had the power to accept higher rates under Rule 131 of SFR. As regards procurement made in 2006-07, the Management stated that the procurement was resorted to from local dealer on nomination basis as the requirement was urgent and calling tenders would have taken longer time and also the local dealer offered one *per cent* trade discount on previous procurement rates. The reply is not tenable, as the Federation did not follow any of the provisions of the SFR and quality considerations could not be brought in after opening price bids. The contention of the Federation that procurement was done on nomination basis to avoid time lag is not tenable as it is against the financial prudence.

7.12.7 Inventory Control

***7.12.7.1 Obsolete and missing stores**:* As the Federation was procuring material and supplying to various departments on commission basis, it did not have stock holding except for uniform and fertilizers. Based on the supply orders, the suppliers directly delivered the goods to the indenting Departments and payments released by the Federation to the suppliers on the basis of stock receipt certificates given by the concerned Departments on delivery challans. While no discrepancies between the book balances and the physical balances of uniform, shoes and dress materials were noticed, chemicals/fertilizers valuing Rs. 2.01 lakh procured between January 2003 and June 2005 had become unuseable due to expiry of the shelf life of these fertilizers. Similarly, fertilizer worth Rs. 0.62 lakh at Geyzing stores was not physically available.

The Management stated (August 2007) that chemical fertilizers had become obsolete due to ban imposed by the State Government on its use and that write-off orders from the BODs were being proposed. As of date (August 2007) write off orders had, however, not been obtained.

***7.12.7.2 Non-accountal of stock material*:** A test check of stock registers of the Horticulture Department's stores at Tadong for the two year period (2002-03 and 2006-07) revealed that different materials worth Rs. 25.50 lakh supplied by the Federation were not accounted for in the relevant stock registers and supplier's bills were settled for payment without ensuring the receipt of material. This was due to failure of the Federation to verify itself the receipt of stock at Department's godowns and failure to insist for folio numbers of the stock registers in which the receipts were said to have been entered. Further, construction materials like cement, iron and steel and GI Pipe fitting *etc* valuing Rs. 80.53 lakh were supplied by the Federation to the Engineering Section of the above Department during 2006-07, but the concerned stock registers were not produced to audit for verification.

The Management stated (August 2007) that the Federation cleared payments after receipt of the delivery challans duly acknowledged by the Department. The reply is not tenable, as the delivery challans were issued at the Head Office of the Federation instead of issuing the same at the godowns after confirming the actual receipt of the material.

7.12.8 Financial Management

Bye-Laws of the Federation envisaged maintenance of books of accounts and other records as prescribed in Rule 38 and 39 of the Sikkim Co-operative Societies Rules, 1981. Before 15 July annually, the BOD was required to draw up a statement showing the (i) receipts and disbursements, (ii) assets and liabilities, (iii) profit and loss for the previous year and a copy of these statements be submitted to the Cooperative Department before 15 of August every year. Besides, the Federation was also required to submit such returns and statements as the Registrar may specify from time to time. The audit of accounts of the Federation is conducted by the Statutory Auditors as per Rule 59 of the Sikkim Co-operative Societies Rules, 1981. The Federation finalised its accounts upto 2005-06. While the accounts upto 2005-06 have already been approved by the BOD, the accounts for the year 2006-07 are yet to be prepared. Audit of annual accounts by the Statutory Auditors has been completed upto 2005-06. The transaction and annual accounts audit by the Government auditors has been completed upto 2004-05 and 2001-02 respectively due to delay in receipt of approved accounts from the Federation. The financial position and ratio analysis of the Federation for the four years period ending March 2006 is given in ***Appendix -7.13.***

Prudent financial management requires that all funds due to be received should be expeditiously realised, available funds are deployed effectively and efficiently for the operations of the organisation and funds not required immediately for operational purposes judiciously invested to earn maximum profits. It was noticed (June 2007) that the Management had neither laid down any policy for efficient fund management nor ensured expeditious realization of dues or investment of surplus funds as evidenced from the following paragraphs:

7.12.8.1 Accumulation of outstanding dues: Analysis of outstanding sundry debtors showed a rising trend during 2003-04 to 2006-07 from NIL in March 2002, it increased to Rs. 4.27 crore in March 2004 and Rs. 9.68 crore in March 2007, indicating an abnormal increase. The Federation did not initiate any effective steps to realise the dues, nor kept provision for bad and doubtful debts in the absence of age-wise analysis of the dues. Audit scrutiny revealed that against the additions of

Rs. 59.09 crore during 2002-03 to 2006-07, recovery was to the extent of Rs. 49.41 crore (83.62 *per cent*).

The Management stated (August 2007) that increase in sundry debtors was due to increase in the volume of the business and all the supplies were made only to the Government Departments, hence provision towards doubtful debts was not necessary. The reply is not tenable as the Federation even failed to collect mandatory ninety percent of advance before supply of material which resulted in accumulation of huge amounts of debtors which was fraught with the risk of delayed/non recovery of dues due to non-reconciliation besides blockage of funds.

7.12.8.2 Delay in adjustment of advance of Rs. 14.61 lakh: Scrutiny of the General Ledger revealed that advances to the extent of Rs. 14.61 lakh sanctioned (April 1997 to March 2007) to the employees to meet office expenses (Rs. 11.35 lakh), tour advance (Rs. 0.92 lakh) and advance released to outside parties (Rs. 2.34 lakh) remained unadjusted (March 2007). Out of Rs.11.35 lakh pending under office expenses an amount of Rs. 0.18 lakh is due from two ex-chairmen of the Federation for more than eight to ten years and the remaining amount of Rs. 11.17 lakh was paid during 2006-07. The amount of Rs. 0.92 lakh was pending as TA advance from ex-chairman and ex-GM for more than three to nine years. The advance of Rs. 2.34 lakh released to five outside parties during 1984-85 to 1997-98 is still pending for adjustment. Audit observed that adequate steps were not taken to realise the outstanding dues particularly adjustment of advances given to individuals.

The Management stated (August 2007) that the matter would be taken up in the next meeting of the BOD for proper guidance and the outcome of the same would be intimated to Audit.

7.12.8.3 Delay in clearance of old debit and credit balances: “Notes to the Accounts” (Schedule 17) for the year 2005-06 mentioned Rs. 53.98 lakh as old debit and credit balances (debit Rs. 51.21 lakh and credit Rs. 2.77 lakh). The age-wise analysis and reasons for pendency of advances were not available with the Management and accordingly the balances were carried forward for past several years. The BOD was apprised about the non-availability of records relating to old debit balances as late as in May 2007 in 4^{th} AGM. Non-availability of details was indicative of ineffective financial management which was endorsed by the MD in the above AGM.

The Management stated (August 2007) that Rs. 5.05 lakh receivable from branches were accumulated losses of several years for which details were yet to be received from the respective units and for the remaining amounts which were due the matter would be put before the BODs for a proper guidance. The reply is not tenable since proper pursuance was not made with the units to collect the required information to clear the old debit and credit balances.

7.12.8.4 Interest loss due to imprudent fund management: The Federation maintained two current accounts with State Bank of India and Sikkim State Cooperative Bank Limited (SISCO) and one saving account with State Bank of Sikkim, Gangtok. Audit scrutiny revealed that sizeable surplus funds ranging between Rs. 0.15 lakh to Rs. 5.38 crore were parked in the above current/saving accounts. Failure to invest surplus funds in short term deposits even for a minimum period of one month resulted in loss of interest of Rs. 20.51[18] lakh.

The Management stated (August 2007) that the surplus funds were kept in the accounts to make payments to the suppliers and it was not in a position to anticipate the exact amounts payable to the suppliers. The reply is not tenable, as audit had calculated loss of interest by considering the minimum surplus funds available through out the month with minimum rate of interests.

7.12.8.5 Irregular retention of State* Income Tax*: It was noticed that the Federation deducted from the supplier bills three *per cent* of State Income Tax at source amounting to Rs. 2.83 crore during 2002-07. Similarly, the concerned Departments also deducted income tax of Rs. 2.66 crore from SIMFED bills. The Federation, however, remitted to the Tax Authorities only one *per cent* (provisionally worked out on the tax deducted by the Departments.) of the tax amounting to Rs. 0.88 crore by retaining the balance amount of Rs. 1.82 crore. This was done based on the certificate issued (April 2000) by the Income and Sales Tax Department to Entel Motors Private Limited which stated that the Company was liable to pay only one percent of income tax since its turnover exceeded Rupees one crore per annum during 1999-2001. As this concession was allowed to the above Company it could not be extended to the Federation unless specific gazette notification was issued by the Government or necessary amendment was made in the State Income Tax Manual. Hence, retention of income tax without the approval of the State Government was irregular.

The Management assured (August 2007) to take up the matter with the State Government as well as Income Tax Department for appropriate clarification.

7.12.8.6 Unauthorised retention of Trade Discount: The MD, from time to time, issued instructions to all branches for availing trade discounts from various suppliers on purchases being made on behalf of various State Government departments. Purchase orders were placed on the suppliers who agreed to allow trade discounts. It was noticed that the Federation obtained a total trade discount of Rs. 3.72 crore from different local suppliers between 2002-03 and 2006-07, but did not pass on the benefit of the same to the ultimate buyers *i.e.* indenting departments on whose behalf the goods were actually procured by the Federation. The Federation not only retained the entire trade discount, but also reflected the same as deduction from purchases instead of showing the same as income. The Board and the Registrar of Co-operative Societies were never apprised of this fact. Thus, by not passing on the benefit of trade discount to the departments, the very

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[18] *Interest has been worked out on monthly basis at rates ranging from 4 to 5.5 percent on the minimum surplus funds available for a month during the period April 2002 to March 2007.*

purpose for which the Federation was selected as an intermediary agency got defeated.

The Management stated (August 2007) that the trade discount was retained to meet expenditure on transportation, supervision charges and other overheads. The reply is not tenable, as the Federation was allowed to levy three percent commission on the sale price since 2001 to meet the overhead charges and the transportations costs were met by the departments.

7.12.8.7 Irregular utilisation of grant: SIMFED received (November 1995) Rupees one crore from the State Department of Agriculture, as grant-in-aid for procurement and distribution of fertilizer with the condition that the fund should be operated as a revolving fund. During the last five years (upto March 2007), SIMFED made a business of Rs. 2.57 crore in procurement and marketing of fertilizers. It was noticed (June 2007) that the grant was neither fully utilised for the intended purpose nor was it operated as a revolving fund. The Federation diverted (March 2007) Rs. 1.10 crore by investing the same in fixed deposits with SBI, without the concurrence of either the Agricultural Department or the Registrar of Cooperative Societies.

The Management stated (August 2007) that due to ban on chemical fertilisers, the total grant was not utilised and surplus amount was invested in fixed deposits. It was stated that on receipt of pending transport subsidy from the Central Government, the fertiliser account would be closed and put before the competent authority for guidance. The reply is not tenable, as the Federation failed to appraise the facts either to the BOD or to the State Government for proper guidance.

7.12.8.8 Delay in realisation of sale price: As per the generally agreed procedure/ conditions between the indenting departments and the Federation, 90 *per cent* of the value of the goods was to be deposited in advance by the concerned indenting Department before placing the supply order on the Federation. The balance 10 *per cent* along with other incidentals was to be remitted to the Federation immediately on receipt of full quantity of goods.

Scrutiny of records of the Federation in respect of HRD and Animal Husbandry Departments revealed that Rs. 35.95 lakh and Rs. 22.61 lakh respectively were due from these departments, even though bills of the suppliers towards material supplied (December 2001 to March 2007) were fully settled. Thus, due to failure to recover the full cost of the material supplied, an amount of Rs. 58.56 lakh remained blocked with consequential loss of interest of Rs. eight lakh on the unrealised amount.

The Management accepted (August 2007) the audit observations and replied that the matter would be taken up with the two departments for realisation of the balance amounts.

7.12.8.9 Non-reconciliation of advances received: Reconciliation of accounts between the Federation and the HRD department revealed that Rs. 2.59 crore was due and accumulated over a period of five years since 2002 from the Department (March 2007), whereas the Department contended that an advance payment of Rs. 4.02 crore had already been made for supply of materials and the same was pending for adjustment. Thus, there was a difference of Rs. 6.61 crore which was to be reconciled. Similarly, there was a difference of Rs. 6.32 lakh between the SIMFED records (Rs. 22.61 lakh) and the Animal Husbandry Department (Rs.16.29 lakh) as the Department contended that it had to pay Rs. 16.29 lakh only to SIMFED.

The Management stated (August 2007) that periodical reconciliation with the various departments for the advances received would be undertaken without any failure.

7.12.8.10 Avoidable financial burden: Suppliers for cement were selected from the list of empanelled local dealers maintained by the Federation. Before finalising the suppliers, the Federation resorted to enquiry of rates from the manufacturers over telephone on pick and choose basis and the rates collected from such enquiries were adopted as the basis in finalising the local suppliers with the approval of the concerned departments. The procedure adopted by the Federation lacked transparency. By adopting this procedure, the Federation failed to obtain economical rates as the procurement was not done either directly from the manufacturers or the DGS&D rate contract suppliers. It had also failed to invite open tenders for bulk procurement of cement as required under the provisions of SFR.

Scrutiny of supply orders placed on the cement suppliers revealed that all the terms and conditions of supply orders were not uniformly adopted. In some cases price variation clause was incorporated in the supply orders by stating that the rate of cement shall remain firm unless change in Government duties during the stipulated delivery period takes place. In some other cases, the price variation clause was not incorporated in the supply orders. It was noticed (June 2007) that suppliers were allowed enhancement in rates aggregating to Rs. 12.77 lakh in fifteen cases during the period March 2002 to October 2006, on the basis of increase in market rates. Although such claims were neither made by the suppliers nor there was any enabling provision in the supply orders for such payments, the Federation paid the price increase. It was further noticed that the Federation did not levy any penalty for supply of cement after the delivery schedule.

The contention of the Management (August 2007) that prevailing market rates were paid to the suppliers in consideration of the increase in the cement rates with the consent of the indenting departments is not tenable as the agreements did not provide for payment of such enhancements.

7.12.8.11 Improper pursuance with the banks: The Federation maintained three current/saving accounts in different banks. Scrutiny of Bank Reconciliation Statements of the SBS (saving account) as on 31 March 2006 revealed that three cheques worth Rs. 5.17 lakh deposited by the Federation during 2003-04 had not been credited till the date of audit (June 2007), resulting in blocking up of funds besides an interest loss of Rs. 0.78 lakh (March 2007). Further, fourteen cheques worth Rs. 2.67 lakh issued (2003-04 to 2005-06) to different parties were not presented in the banks before the validity period (six months from the date of issue). The Federation failed to take back the value of these time-barred cheques in the cash book, due to which, the Cash Book did not reflect the correct cash balance with the Federation.

The Management stated (August 2007) that the matter was being pursued with SBS for early settlement of cheques already deposited and assured that the time-barred cheques would be taken back into the cash book after due verification. The reply is not tenable, as reconciliation was done on yearly basis instead of monthly basis and the reconciliation has been done only upto March 2006.

7.12.8.12 Delay in claiming Transport Subsidy: The Union Ministry of Fertilizer sanctioned (October 2000) reimbursement of freight charges at the rate of Rs. 325 per tonne for decontrolled fertilizers under 'Concession Scheme for decontrolled fertilizers along with Special Freight Reimbursement'. It was noticed (June 2007) that claim worth Rs.12.38 lakh, although approved (August 2006) by GOI had not been obtained (March 2007) for want of submission of ink-signed copy of the claims. This also led to interest loss of Rs. 2.27 lakh on the unrealised amount.

The Management stated (August 2007) that a second set of ink-signed pre-receipted claims have already been sent and further stated that an officer would be sent to the Ministry for follow up action in the matter.

7.12.8.13 Improper pursuance in obtaining Sales Tax/VAT deductions certificates: The Federation had two type of tax liability, *i.e*. State income tax and sales tax. Primary responsibility of remitting the tax deducted from the department bills to the concerned tax authorities lies with the Federation. The departments are, however, directly recovering the two taxes from SIMFED bills and sending Tax Deduction Certificates (TDCs) to the Federation. On receipt of these certificates, concerned expenditure heads were debited. By doing so, the tax liability to the extent of TDCs not received was not accounted for in the accounts. This discrepancy was rectified in the accounts (2005-06), by making a provision of Rs. 60.18 lakh under current liabilities towards non-receipt of VAT deduction certificates. Similar liability was, however, not created for preceding three years (2002-03 to 2004-05).

The Management stated (August 2007) that provision for non-receipt of Tax Deduction Certificates for 2005-06 was made under VAT regime and for the previous years provision was not made as tax liabilities were maintained on cash basis. The reply is not tenable, as the Federation was to account the total value of TDCs not received under current liabilities in all the years irrespective of VAT regime.

7.12.8.14 Inefficient maintenance of Contributory Provident Fund:
Under the Contributory Provident Fund (CPF) Rules, both employer and employees contribute to the Fund equally on monthly basis. The federation kept the proceeds of the fund in a savings bank account (with SBI) and major amount of the fund was invested in fixed deposits to earn interest income. The Federation prepared an Income & Expenditure statement of the CP fund on annual basis. Scrutiny of these statements for the period upto March 2005 revealed that there was a deficit of Rs. 8.23 lakh (March 2005) as SIMFED did not invest the surplus funds properly in the banks which offered higher interest rates. Based on the instructions (November 2006) of the BOD, the deficit was made good by transferring the amount (March 2007) from SIMFED General Fund to the CPF account. Thus, due to imprudent fund management, the Federation was put into a financial loss of Rs. 8.23 lakh (March 2005).

The Management stated (August 2007) that the interest received on the fixed deposits was less than the interest payable to the employees on their CPF deposits and the interest rates applicable to the CPF deposits were as per the rates fixed by the Government of India. The reply is not tenable, as the Federation invested an amount of Rs. 21 lakh in 2004 in Oriental Bank of Commerce, Gangtok, for a period of three to four years with an interest rate of 5.5 percent per annum, without considering the investment at higher interest rates offered by other banks.

7.12.9 Human Resources Management

7.12.9.1 Non-adherence to proper service rules: The federation did not adopt a uniform procedure in service matters since its inception due to non-framing of its own Service Rules. The process of preparation of service rules was started in July 2005 and the draft rules were submitted belatedly to the Law Department (April 2007) for vetting. The federation also failed to adopt any recruitment, promotion and rotation policies. It was observed (June 2007) that the Federation did not work out its actual requirement of man power as per volume of business nor got the manpower required sanctioned from the competent authority as on March 2007. Some of the discrepancies noticed in service matters are discussed below:

- The Federation had 39 employees as on 31 March 2007. It was observed (June 2007) that the designation of Senior Manager-cum-Secretary was redesignated as General Manager-cum-Secretary in the same pay scale, without the approval of the BOD.

- The post of Commercial Manager was upgraded (October 2000) to Deputy General Manager (DGM) while giving promotion to an officer who was on deputation. This post was subsequently redesignated (May 2001) as Senior Manager and at the time of completion of deputation period (April 2004) the post was once again redesignated as DGM without changing the pay scale. It was observed that designation of the post was frequently altered with the intention to entrust more powers to one individual (Shri Menla Ethenpa)

- It was noticed (June 2007) that the personal file of Ex-Manager (Shri P.K.Adhikari) did not have any relevant documents (date of birth, proof of age, educational certificates, original copy of appointment letter and joining report) and his Service Book was also not found. The Management did not take any effective steps either to build up the personal file along with Service Book or to intimate these facts to Sikkim Time Corporation Limited (SITICO), where the officer was on deputation for two years till July 2007. The officer has reported back in SIMFED (August 2007) after completion of his deputation term at SITICO. It was observed that the above records were not found during the period (2000 to 2005) when the officer himself was in charge of the Administration section. The primary responsibility of maintaining all establishment records lies with the management as every entry in the Service Book must be attested by the Head of the Department and all the Government servants should also sign, once a year, in their service books.

The Management stated (August 2007) that strict compliance to the service rules would be made once it is approved by the Law department of the State Government. The reply is indicative of weak internal control in the Federation as regards administration and establishment matters and the same was prone to misuse.

7.12.10 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. It was observed that no Internal Audit or Management Information System (MIS) was established by the Federation to foresee periodical evaluation of performance and progress of various wings/functions of the Federation, so that weak areas, irregularities could be exposed for timely remedial action.

Some of the inadequacies noticed in audit are mentioned below:

- A mention was made in the accounts for the years 2003-04 and 2005-06 that due to errors or omissions in the preparation of the financial statements certain purchases and sales of the relevant year were not booked in the same year but accounted for in the subsequent year as prior period items as allowed by the Accounting Standard 5 issued by the Institute of Chartered Accountants of India.

During the year 2002-03, purchases and sales worth Rs. 7.91 crore and Rs. 8.34 crore respectively were not accounted for in the same year but taken into accounts in the next year (2003-04). Similarly, during 2004-05, purchases and sales worth Rs. 57.74 lakh and Rs. 14.85 lakh were not accounted in the same year but accounted in the subsequent year 2005-06. As huge amounts of sales and purchases were not accounted in the same years, the accounts prepared and certified by the Statutory Auditors did not reflect a true and fair view. The Management also failed to investigate these lapses to fix the responsibility on the delinquent officials who were responsible for omission/booking of purchases and sales in the relevant years. This also indicated weak internal controls and lack of co-ordination between Purchases/Sales and Accounts wings.

The Federation failed to maintain individual procurement/purchase and sales files though it had a separate division (Programme Division) for all the procurements. All the important documents like the correspondence with the suppliers, indents, Proforma Invoices, Delivery Challans and correspondence made with the suppliers/ departments were kept along with the voucher itself instead of in separate individual files.

- As per the Bye Laws of the Federation, the BODs should meet once in a quarter. Scrutiny of the minutes of the meetings of BOD revealed that against the requirement of holding 20 meetings during the period 2002-03 to 2006-07, the Board met only nine times, resulting in a shortfall of eleven (55 *percent)* meetings. Due to shortfall, the federation could not get proper guidance and directions required from its BOD, from time to time, in taking major policy decisions. The Board thus, failed to exercise adequate supervisory control over the senior management. The bye laws further stipulated that Annual General Meeting should be held within ninety days of the closure of the Cooperative year. During last 24 years since inception, only four AGMs were held, latest being in May 2007. Thus, due to shortfall in conducting AGMs, the members of the General Body and the State Government who were the major stake holders in the Federation were not properly informed about the working results and performance of the Federation since annual accounts were not approved in AGM every year.

  The reply of the Federation (August 2007) that the BOD could not meet as required under the Bye Laws 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 Federation had approached the Board members at appropriate intervals requesting dates for such meetings. No reply was given for delay in conducting AGMs.

- Despite increase in business activities of the Federation in the last five years, especially, after issue of the notification in December 2002, the Federation had not initiated action for forming an Internal Audit Wing for conducting internal audit. In the absence of an Internal Audit Wing, the Co-operative Department should have taken up the audit of the Federation atleast once in each co-operative year (July to June) as required under the Sikkim Co-operative Societies Act 1978 (Section 64). It was observed that the audit of the Federation by the Cooperative Department was conducted only upto 2000-01 and as such there was a backlog of six years (2001-02 to 2006-07) in conducting the audit by the Cooperative Department.

- Scrutiny of the Bye-Laws of the Federation revealed that the Bye-Laws were not amended by the Management after 27 May 2002, even though certain amendments to the Bye-Laws, such as, increase in authorised capital, strength of the representatives of the primary societies in the Board and quorum for the Board meetings were approved by the Board of Directors, thus indicating the poor functioning of the administration section. Section 50 of the Bye Laws did not specify the time period within which any amendment was to be incorporated in the Bye Laws.

  The Management accepted (August 2007) the audit observations.

- ***Procurement of cement****:* Scrutiny of records relating to cement procurement revealed that the Federation had placed a purchase order on Larsen & Turbo (L&T) during April 2002 for supply of 32,500 bags of cement for use by the Department of Education. Prior to this, Education Department on its own had also placed a supply order (30 March 2002) on L&T for the supply of 32,500 bags of cement and paid advance of Rs.48.18 lakh to the firm. After placing the purchase order, the Department sent a copy of the same to the Federation to monitor supply and payment schedules. It was noticed (June 2007) that the Department violated the established system to place indents on the Federation for supply of cement by placing supply order directly on the firm. Despite the firm's (L&T) failure to adhere to delivery schedule for 15,440 bags which was received between June 2002 and January 2003 instead of May 2002, the Federation failed to levy any penalty on L&T in the absence of any suitable clause in the supply order.

  The Management stated (August 2007) that the Department placed order on telephone as their requirement was urgent and contended that there was no extra financial burden on the departments as the price paid was below MRP. The reply is not tenable as normal purchase procedure was not followed in the instant case.

- ***Supply of furniture**:* It was noticed that in four cases relating to supply of furniture to Horticulture and Human Resources Development Departments, the Federation raised proforma invoices of Rs. 13.64 lakh before the receipt of indents from the concerned departments. As per the normal purchase procedure, on receipt of indents from the departments, the Federation had to issue Proforma Invoices against the departments but not vice-versa.

7.12.11 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 2007, their replies are awaited (August 2007).

7.12.12 Conclusion

The Federation was not able to discharge its responsibilities successfully as an apex level cooperative society for marketing of agricultural produce as during the period from December 2002 onwards procurement of items other than agricultural items showed an increasing trend as compared to agricultural items. The procurement was done through local dealers only by neglecting manufacturers and DGS&D rate contract firms. Proper tender procedure as laid down in the Sikkim Financial Rules was not followed in all the procurements. Trade discount obtained from various suppliers was retained by the Federation and not passed on the benefit to the indenting departments. The financial management was poor as there was huge accumulation of outstanding dues, delay in adjustment of advances, non-clearance of old debit and credit balances and keeping the funds in bank accounts having lower rate of interest. The meetings of the BODs and AGMs were not held regularly. The overall internal controls in the Federation were very weak as books of accounts and establishment records were not maintained properly.

7.12.13 Recommendations

- **Precedence should be given to the agricultural and co-operative activities** rather than non-agricultural activities to strengthen the cooperative movement in the State.
- Procurement should be made through manufactures and/or DGS&D rate contract firms so as to obtain economical rates and quality goods. Tender procedure followed should comply with the provisions of SFR.
- A prudent financial management should be evolved to invest surplus funds in term deposits and outstanding dues from debtors should be recovered in time.

- Meetings of the BODs and AGMs should be conducted as per the Bye Laws so that the directors and members are apprised on all the important matters for proper guidance.
- Grants-in-aid should be utilised for the intended purposes only to achieve the intended benefits.
- Due diligence should be exercised in preparation of financial accounts to exhibit a true and fair view of the affairs of the Federation

SIKKIM TIME CORPORATION LTD.

7.13 Loss of interest due to defective agreement besides non-recovery of principal amount

Due to defective agreement with HMT and failure to initiate legal proceedings in time, SITCO suffered interest loss of Rs. 42.78 lakh besides non-recovery of principal amount of Rs. 16.26 lakh.

The Sikkim Time Corporation Limited (SITCO) in association with the Hindustan Machine Tools, Bangalore (HMT) was assembling and supplying mechanical watches since 1976. The raw-material was being supplied by HMT to the unit and assembly charges were being paid by HMT to the SITCO. The payments receivable by SITCO from HMT against the assembly charges were regular up to 1996. The HMT, however, did not pay the assembly charges regularly thereafter resulting in accumulation of dues of Rs. 59.04 lakh payable to the SITCO (March 2007) (including interest of Rs. 42.78 lakh calculated at the rate equivalent to the rate charged by bankers to SITCO on overdrafts). HMT attributed (March 2005) this to drastic changes in the market scenario, competition and entry of spurious watches into the market coupled with its own financial problems since 1997.

Scrutiny of the agreement entered into (July 1976) between SITCO and HMT revealed that there was no provision/clause for levying interest on delayed payments. Though HMT requested (March 2005) for non-levy of any interest on the outstanding dues, it did not pay even the principal amount as of 31 March 2005. The Board of Directors of SITCO agreed (April 2005) to non-levy of interest but referred the matter to the Department of Finance, of the State Government, which however turned down the proposal (August 2005) as there was no provision in the Sikkim Financial Rules for waiver of any Government dues. Accordingly, SITCO requested HMT several times during April 2005 to July 2006 for payment of the amount due, but there was no positive response from HMT (March 2007). The Corporation neither took any legal action against HMT nor enforced the arbitration clause in the agreement. Further, Audit observed that the agreement which had expired on 22 July 1979 was not renewed further.

Thus, due to defective agreement with HMT and failure to renew the agreement on the expiry of the same in July 1979, SITCO could not recover the principal amount of Rs.16.26 lakh alongwith interest of Rs. 42.78 lakh thereon from HMT.

The matter was reported to the Government in December 2006; their reply has not been received (August 2007).

SCHEDULED CASTE, SCHEDULED TRIBE AND OTHER BACKWARD CLASSES DEVELOPMENT CORPORATION

7.14 Non-utilisation/Misutilisation of central funds

Availing of undue financial assistance from apex bodies by submitting exaggerated number of beneficiaries in the Annual Action Plans and furnishing false utilization certificates while keeping the money invested in fixed deposits in banks.

The Scheduled Caste, Scheduled Tribe and Other Backward Classes Development Corporation (SABCCO), provided financial assistance to weaker sections of the society who are living below the poverty line, by obtaining low cost (one percent to three percent) refinance support from three central apex bodies, namely, the National Backward Classes Finance & Development Corporation (NBCFDC), National Scheduled Tribe Financial Development Corporation (NSTFDC) and the National Scheduled Caste Financial Development Corporation (NSCFDC). These bodies provided financial assistance to SABCCO based on its Annual Action Plans (AAP). While releasing funds under the “General Loan Scheme” and the “Micro Finance Scheme”, the apex bodies stipulated several conditions, which, *inter-alia*, included that utilisation certificates were to be furnished for the funds received, the unutilised funds were to be refunded and that the funds were not to be in any case reappropriated for repayments.

Audit scrutiny revealed that during 2004-06 the Corporation submitted AAPs to the above apex bodies for disbursement of loans to 2418 beneficiaries involving Rs. 21.45 crore, whereas actually, it disbursed loans amounting to Rs. 7.22 crore only to 800 beneficiaries during the above period. The coverage of beneficiaries ranged from 19.81 *per cent* (2004-05, NBCFDC) to 46.54 *per cent* (2005-06, NSTFDC) over the projected number of beneficiaries as per AAPs. Against the total funds of Rs.13.71 crore received (2004-05 and 2005-06), an amount of Rs. 7.22 crore only was disbursed (2004-05 and 2005-06). In contravention of the guidelines, the balance amount of Rs. 5.77 crore was invested in fixed deposits in banks and Rs. 72 lakh was spent on inadmissible administrative expenses such as establishment expenditure and purchase of vehicles. While submitting utilisation certificates to the apex bodies, these facts were suppressed and false utilisation certificates were submitted duly certifying that the total funds have been fully utilised. This was deliberately done to avoid refund of unutilised funds to the financing bodies as per terms and conditions of the refinance support. The details are indicated in the table below:

(Rupees in lakh)

Year	Name of Apex Corporation	Projected number of beneficiaries as per AAPs	Actual Number of beneficiaries to whom loan were disbursed	Funds proposed	Funds received	Funds actually disbursed	Balance Funds diverted
04-05	NBCFDC	525	104 (19.81%)	410.05	149.81	85.00	64.81
05-06	NBCFDC	384	175 (45.57%)	361.05	485.05	126.00	359.05
04-05	NSFDC	315	74 (23.49%)	254.20	156.91	74.00	82.91
05-06	NSFDC	348	130 (37.36%)	361.57	68.67	94.00	-25.33
04-05	NSTFDC	412	115 (27.91%)	359.80	116.00	127.00	-11.00
05-06	NSTFDC	434	202 (46.54%)	398.34	394.13	216.00	178.13
Total		**2418**	**800**	**2145.01**	**1370.57**	**722.00**	**648.57**

Source: As per the information furnished by the Federation

Scrutiny also revealed that the Management had shown the total number of beneficiaries on a higher side in the AAPs against the actual disbursement to the beneficiaries with the intention to avail more funds from the apex bodies. No survey was conducted by the Management to identify the actual number of beneficiaries prior to preparation of AAPs. **Despite these false certificates, SABCCO was selected as better performing SCAs by NBCFDC and was asked to submit its claim for the award.**

While accepting the facts, the Management stated (September 2007) that the AAPs were prepared with sole objective to avail as much funds as possible from the Apex bodies. It was further replied that utilisation certificates sent to apex bodies did not pertain to a particular year, hence utilisation figures and disbursement figures did not match. The reply is not tenable since amount kept in fixed deposits and administrative expenditure incurred was not reflected in the utilisation certificates sent to apex bodies.

SIKKIM TIME CORPORATION LTD.

7.15 Loss in unviable operation

Unviable operation of the Speaker Manufacturing Unit leading to its eventual closure resulted in loss of Rs. 2.28 crore.

The Board of Directors (BOD) of the Sikkim Times Corporation Limited (SITCO) approved (May 2000) a proposal for setting up a "Speaker Manufacturing Unit" in technical collaboration with BPL Engineering, a private company, with an initial investment of Rs. 3 crore. The project report (prepared by BPL) projected that the Black and White television speakers had a good market potential and there was increasing trend in demand for low end colour televisions. The key features of this collaboration were said to be buy back arrangement with BPL for three years from the date of commencement of production, renewable thereafter and assistance by BPL to locate markets both within and outside India. The proposal was approved (June 2000) by the State Government with an equity participation of Rs. 1.20 crore. The Company also availed a term loan (Rs. 1.00 crore) and cash credit (Rs. 1.10 crore) from the Central Bank of India, Gangtok.

After commencement of production in December 2001, the project did not become viable as BPL failed to lift the total quantity as per the stated buy back arrangement. The reasons attributed for non lifting of material were market recession, low demand for domestic products in the country coupled with internal difficulties faced by BPL. The Company could not dispose-off the stock to other parties as its selling prices were higher than the market prices mainly due to high incidence of transportation costs and availability of Chinese made speakers at cheaper rates in the market. But SITCO carried on its manufacturing activity till December 2004 and subsequently the unit was closed (January 2005). Out of 2,88,095 pieces manufactured, the Company was able to sell 2,64,407[19] pieces and balance quantity of 23,688 pieces remained unsold (March 2007). Though SITCO received order from other parties (IWAI & LGEIL), it could not honour the orders for want of working capital.

Audit scrutiny revealed (November 2006) that the buy back clause was not incorporated in the agreement entered into (July 2000) with BPL. This omission was also not pointed out either by the Administrative Department or the Law Department which vetted the draft agreement. The MD had wrongly apprised (May 2002) the BOD that though there was a buy-back clause in the agreement; BPL could not lift the stock. It was again apprised (April 2005) to the BOD that the project was closed due to break down of business with BPL and non-availability of working capital. The closure of the unit had an adverse impact on the overall performance of the Company so much so that the Company could not honour its financial commitments after April 2006 with the Central Bank of India, which impounded (October 2006) the Company's cash credit account. This had also resulted in idle capital investment of Rs. 1.96 crore (before depreciation) towards building and plant & machinery which could not be disposed off. Further, pre-

[19] *Out of 2,88,095 pieces manufactured, 31891 pieces were sold at job work rate, 2,07,472 pieces for profit, 25,000 pieces at loss and remaining 44 pieces were disposed as sample sale.*

operative expenditure of Rs. 27.66 lakh was rendered wasteful. The Company also failed to recover an amount of Rs. 7.35 lakh (as of March 2007) from BPL. This had a huge negative effect on the overall financial health of the company resulting in total operational loss of Rs. 2.28 crore[20] (March 2007).

Due to abrupt closure of the speaker unit, 56 employees {(34 permanent and 22 muster roll (MR)} deployed in the unit became idle. At this juncture, the Company should have transferred the idle permanent staff to other needy divisions of the Company and removed the MR staff who were recruited on casual basis. This was, however, not done resulting in wasteful establishment expenditure of Rs. 51.33 lakh towards salary (Rs. 35.84 lakh) and wages (Rs. 15.49 lakh) upto March 2007. This situation was neither apprised to the BOD nor to the State Government.

The Management stated (April 2007), that the services of permanent staff are being utilized in other divisions of the Company as and when required. It was further stated that the services of MR staff could not be dispensed with since they were trained manpower and their services could be required in future. The reply is not tenable since the management neither removed the MR staff immediately after the closure of the unit nor the permanent staff is gainfully utilised.

Thus, due to deficiency in the pre-production market survey in assessing the demand for speakers, omission of the very vital buy back clause in the agreement, incompetitive prices due to high incidence of transportation costs, lack of adequate working capital towards the later stages, the project ultimately did not come up as expected resulting in total loss of Rs. 2.28 crore.

The matter was reported to the State Government in December 2006; their reply has not been received (August 2007).

COMMERCE & INDUSTRIES DEPARTMENT, SOCIAL JUSTICE, EMPOWERMENT & WELFARE DEPARTMENT, TOURISM DEPARTMENT, ANIMAL HUSBANDRY, LIVESTOCK, FISHERIES & VETERINARY SERVICES DEPARTMENT AND FINANCE REVENUE & EXPENDITURE DEPARTMENT

7.16 Loss making Government Companies/Corporations

Introduction

As on 31 March 2007, the State had 15 public sector undertakings (PSUs) comprising 12 Government Companies (nine working companies and three non-working companies) and three Statutory Corporations. Out of 12[21] working Government companies/corporations, six companies/ corporations with accumulated losses of Rs. 44.82 crore were selected for review, the details of their paid up capital, accumulated losses *etc.* are given in the ***Appendix-7.14***. Reasons for losses suffered by these six companies/corporations are discussed in the succeeding paragraphs.

Sikkim Time Corporation Limited:

The Company was incorporated in October 1976 to carry on the business of manufacturing, assembling, trading and dealing in all kind of watches, clocks and other horological equipment of all types etc. The company has been incurring losses since 2001-02 and the accumulated loss as on 31 March 2004 was Rs. 2.93 crore against the paid up capital of Rs. 11.23 crore. The reasons for losses as observed by audit are as follows:

- Unfruitful investment of Rs. 2.28 crore in speaker project which was abandoned in March 2005 due to non-incorporation of a buy back arrangement clause in the agreement entered into with BPL.
- Decrease in revenue income of assembly charges by 79.92 *percent* during 2003-04 as compared to 2001-02 as HMT, a central public sector undertaking, stopped outsourcing the work.
- Decrease in sales by Rs. 1.16 crore during 2003-04 as compared to 2000-01 due to lower market demand of the brand watches.
- Closure of crown project in 2002-03 due to uneconomical operations.
- Increase in employee cost by Rs. 25.73 lakh during 2003-04 as compared to 2001-02.

SC, ST AND OBC DEVELOPMENT CORPORATION LIMITED:

[21] *Nine companies and three statutory corporations*

The Company was established in April 1996 to promote economic and development activities for the benefit of Scheduled Castes, Scheduled Tribes and Other Backward Classes and to assist individuals or groups of individuals belonging to Scheduled Castes, Scheduled Tribes and Other Backward Classes by way of loans and advances for income and employment generating activities of the above groups. The company has been incurring losses since inception and accumulated loss as on 31 March 2006 was Rs. 4.80 crore against the paid up capital of Rs. 9.55 crore. The reasons for losses as observed by audit are as follows:

- Low recovery of loans and advances granted to the beneficiaries which ranged between 3.79 and 4.91 *per cent* of total dues.

- High incidence of expenditure towards interest payable on loans taken, ranging between 56 and 72 *per cent* of the income earned.

- High incidence of provision towards Non Performing Assets to the extent of Rs. 2.41 crore upto 2005-06.

SIKKIM TOURISM DEVELOPMENT CORPORATION LIMITED:

The Company was established in February 1998 to develop tourism in the State of Sikkim, to take over and manage existing hotels and sell, construct, purchase, acquire, lease and other allied activities. The company has been incurring losses since 2002-03 and the total accumulated loss of the company as on 31 March 2006 was Rs. 3.06 crore against the paid up capital of Rs. 7.46 crore. The reasons for losses as analysed by audit are as follows:

- Decrease in total income by Rs. 51 lakh in 2005-06 *vis-à-vis* 2003-04 due to lower operating income.
- Increase in operating/sales expenses from 139.61 to 162.47 *per cent* on the gross turnover during 2003-04 to 2005-06.
- High incidence of operating losses amounting to Rs. 41.24 lakh on helicopter service.

SIKKIM POULTRY DEVELOPMENT CORPORATION LIMITED:

The Company was established in March 1991 to promote, establish, administer, own, run, improve, develop, finance directly or indirectly, production, processing, storage and sale of poultry products/ feeds/equipment and to provide sources and assistance for the said purposes. The Company has been incurring losses since 1996-97 and the accumulated loss of the Company as on 31 March 2002[22] was Rs. 14.22 lakh. The main reasons for the low performance of the company are:

[22] The paid-up capital of the company as on this date was NIL as the State Government did not make investment in the Company in the form of equity.

- Low operational performance of the company since inception as it did not generate any income on its business activities.

- High incidence of revenue expenditure which adversely affected the operational performance of the company.

- Unfruitful investment of Rs. 43.83 lakh in Sikkim Hatcheries Limited (SHL) towards share capital.

- Due to overlapping of main objectives and nature of business with SHL, continuous losses were being incurred.

SIKKIM HATCHERIES LIMITED:

The Company was established in August 1994 and promoted by the Sikkim Poultry Development Corporation Limited. The main objective of the company was to set up a breeding farm for broiler and layer breeders and marketing the same. The Company has been incurring losses since inception and the total accumulated loss of the company as on 31 March 2002 were Rs. 49.05 lakh against the paid up capital of Rs. 45.80 lakh. The main factors which contributed for the low performance of the company are as follows:

- Lack of proper planning in completion of essential balance civil works due to which the company could not reach its operational capacity to the full extent.

- High incidence of operative expenses and administrative expenses in all the years.

- High incidence of loans and advances amounting to Rs. 45.16 lakh in 2001-02 as compared to Rs. 9.38 lakh in 1998-99.

STATE BANK OF SIKKIM:

The Bank was established in June 1968 for providing banking facilities, mobilizing capital for economic development and to stimulate trade and industry in the State. The total accumulated losses of the Bank as on 31 March 2006 was Rs. 33.40 crore against the paid up capital of Rs. 58.38 lakh. The main reasons for low performance of the Bank are:

- Increase in Non Performing Assets (NPA) due to low realisation of loans and advances to the extent of Rs. 6.82 crore from the loanees who expired without clearing their dues. The Management pointed out that there was no chance to recover the above dues as there was no security for recovery other than demand promissory notes.
- Implementation of VRS scheme for its employees by incurring

Rs.84.11 lakh.

- Allowing interest rebate of Rs. 4.87 crore to the loanees under the existing scheme.

Audit analysis revealed that majority of the Companies/ Corporations have been continuously incurring heavy losses which had an adverse impact on the State Exchequer as the Government investment in the form of equity/ loan was getting eroded to the extent of loss.

SIKKIM INDUSTRIAL DEVELOPMENT & INVESTMENT CORPORATION LIMITED

7.17 Loss due to imprudent investment decisions

Due to imprudent decision while sanctioning the loans and making investments in Sikkim Jewels Limited the Company suffered financial loss of Rs. 5.08 crore.

Sikkim Industrial Development & Investment Corporation Limited (S1D1CO) sanctioned (May 1989) a loan of Rs. 124.75 lakh (Term loan Rs. 99.75 lakh and Bridge loan Rs. 25 lakh) to Sikkim Jewels Limited (SJL), another State Government owned Company towards expansion and modernization of the plant. SJL, however, could not pay the outstanding interest of Rs. 47.70 lakh (due upto February 2000) which was converted (February 2000) into equity. A further interest of Rs. 18.80 lakh due upto March 2003 was waived and interest (Rs. 20.88 lakh) due for the subsequent period (April 2003 to March 2007) was frozen. Despite the above concessions extended by the Corporation, SJL could not pay the outstanding principal amount of Rs. 79.88 lakh under one time settlement scheme. An amount of Rs. 53.92 lakh was, however, paid (June 2003 to March 2007) by the SJL in monthly instalments.

The Corporation sanctioned (December 1989) another loan of Rs.1.69 crore to five ancillary units of SJL for the proposed new project for manufacture of watch jewels. The project did not come up as anticipated and ultimately abandoned. Out of the total interest of Rs. 3.42 crore due upto March 2007, the Corporation levied interest of Rs. 1.29 crore only upto February 1997. As the ancillary units failed to repay both principal and interest, SIDICO filed a petition in the local court under the SPDR (Sikkim Public Demand Recovery) Act 1988 for realisation of outstanding dues. The Corporation filed an executive petition (April 2005) after it obtained (April 1997) a certificate of Public Demand to recover the outstanding dues. The executive petition could not be disposed off for want of issue of a relevant notification by the Government. Meanwhile, IDBI, which also financed (1989-90) another five ancillary units, consistently pursued the recovery aspect with SJL and ultimately recovered (June 2006) Rs. 4.60 crore under onetime settlement.

The Corporation also invested Rs. 1.65 crore (Rs. 1.16 crore in SJL and Rs. 48.75 lakh in ten ancillary units) towards equity participation as of March 2006. Out of Rs. 1.16 crore invested in SJL, shares valued Rs. 5.43 lakh were purchased at Rs. 43.46 lakh by paying a premium amount of Rs. 38.03 lakh. It was seen that due to imprudent investment decisions, SIDICO was compelled to make a provision of Rs. 83.79 lakh towards diminution in value of shares. The State Vigilance Department seized (June 2004) the files of SJL for an investigation, which is still pending (October 2007).

The factors contributing to financial loss to the Corporation in sanction of loans and making investment in SJL and ancillary units are as follows:

- Waival of interest (Rs. 18.80 lakh) and freezing of further interest (Rs. 20.88 lakh) was done without considering the financial interest of the Corporation.
- Equity shares were purchased at a premium of Rs. 38.03 lakh without any financial considerations under the directions of the State Government, which ultimately resulted in making a provision for Rs. 83.79 lakh (Rs. 35.04 lakh in mother unit and Rs. 48.75 lakh in ancillary units) towards diminution in value of investments.
- Conversion of interest of Rs. 47.70 lakh into the equity without any valid reasons, which resulted in undue financial advantage to the SJL.
- Failure to recover the entire loan amount of Rs. 1.69 crore sanctioned to five ancillary units since the units did not come up as expected and ultimately closed down.
- Failure to recover the interest of Rs. 1.29 crore on the above loan and further delay due to legal problems faced in getting execution petition discharged in its favour.

The Management stated (December 2006) that outstanding dues as on March 2003 was considered as NPA (Non Performance Asset) and in view of certain concessions extended by other lenders like SBI and IDBI, similar concessions were also extended by it. It was further stated that the matter of one time settlement as done by IDBI would also be taken up with the Industries Department of the State Government. The reply is not tenable as IDBI by consistently pursuing the matter could recover an amount of Rs. 4.60 crore from SJL. Non-recovery of Rs. 1.69 crore from ancillary units of SJL is all the more serious as these units are in the private sector. Further, important financial decisions, which ultimately resulted in treating the outstanding amounts as NPA were not properly analysed as these were not based on past performance of SJL and proper feasibility of ancillary units.

The matter was reported to the Government (December 2006); their reply has not been received (September 2007).

7.18 Doubtful recovery of loan

Recovery of loan amount of Rs. 6.20 crore (principal Rs. 5.07 crore and interest Rs. 1.13 crore) under CMSE Scheme became doubtful due to improper monitoring mechanism.

The Chief Minister's Self Employment (CMSE) Scheme was started in March 2002 with the main objective of generating and facilitating self-employment opportunities for the unemployed educated youth of Sikkim by providing financial assistance in the form of loan of Rs. one lakh for graduates / above graduates and Rs. 50,000 for class X passed and diploma holders in the age group of 18 to 35 years. The loan was repayable in eight half yearly instalments with six *per cent* interest per annum, after a moratorium period of two years for male and three years for female entrepreneurs. The Sikkim Industrial Development & Investment Corporation Limited (SIDICO) was appointed as the Nodal Agency for implementation of the scheme. The scheme envisaged reputed non-government organisations, MLAs and other departments to be associated in selection, training of entrepreneurs and guidance in setting up new ventures.

The details of the Phase I of the scheme are given as follows:

Sl. No.	Name of the scheme	Period	No of beneficiaries covered	Amount disbursed (Rs.in crore)	Moratorium period ended on	Total amount due as on 31 March 2007 (Rs. in crore)	Amount recovered up to 31 March 2007 (Rs. In crore)	Basis of selection of beneficiaries
1.	CMSE I	2002-04	3183	19.88	2005-06 (male) 2006-07 (female)	6.47	0.27 (4.24 *per cent*)	Recommendation of MLAs

Source: As furnished by the Company

The following deficiencies were noticed (December 2006) during the implementation of the scheme:

- The beneficiaries did not furnish any progress reports and utilisation certificates for the loans taken.

- Though micro-monitors[23] were appointed for periodical check of the progress of implementation of the scheme, they did not send any reports to SIDICO as of March 2007.

- Joint physical verification by audit and officials of SIDICO conducted during August 2007 in respect of 159 beneficiaries (selected at random) covering five percent of the total beneficiaries (3183 beneficiaries) under Phase I, revealed that 106 beneficiaries utilised the loan amounts for the purposes for which the loans were sanctioned.

- The remaining 53 beneficiaries (33.33 *per cent*) either diverted or mis-utilised the loan amounts, e.g. loans sanctioned for nursery were diverted for purchase of vehicles and loans sanctioned for piggery farms/ restaurant were diverted for other personal purposes etc.

- SIDICO failed to incorporate any provision in the agreements entered into with the beneficiaries for hypothecation/mortgage of property but secured only against personal guarantee.

- The documents required for the sanctioning of loan were copies of Sikkim Subject/ Domicile Certificate/Certificate of Identification, renewed employment card, birth certificate etc which by no means would make the loan secured.

- SIDICO evaluated (March 2005) the scheme through Voluntary Health Association of Sikkim (VHA) at a cost of Rs. 2.38 lakh, follow up action on their report was not taken. The Evaluation cum Impact study of the scheme, confirmed (October 2006) that out of 2242 (70 *per cent*) beneficiaries, 53 *per cent* utilised the loans fully, 16 *per cent* partially, 23 *per cent* diverted the funds to other businesses and the remaining eight per *cent* did not utilise the funds at all.

- Other than VHA, the SIDICO had not set up its own effective monitoring and supervisory mechanism for the scheme.

Due to these inherent lapses, the recovery of the outstanding loan along with interest became doubtful.

Phase II of the above scheme was implemented from August 2005 onwards, under which two beneficiaries from each legislative constituency of the State totalling 64 were covered. The beneficiaries were selected by the MLAs as in case of phase I. The terms and conditions of the scheme were modified by increasing the maximum loan limit to Rs. five lakh per beneficiary. Other salient features of the scheme and deficiencies noticed in the implementation of Phase II of the scheme were that:

[23] *Respected persons of the society who were entrusted with responsibility of monitoring the scheme on the ground, appointed by SIDICO.*

- Loans were to be secured by mortgage/hypothecation of land, building and plant & machineries and a third party surety/undertaking by a Government employee.
- The loans were interest free for two years after which six *per cent* interest was to be charged.
- In 18 cases (28.13 *per cent*), the first instalment of the loan amount of Rs. 19 lakh was disbursed during August 2005 to January 2006 without obtaining any mortgage/hypothecation of land and building and also third party guarantee from the Government employees.
- These beneficiaries subsequently did not come forward to draw the remaining instalments amounting to Rs. 34.50 lakh on due dates even after lapse of more than one year (as of September 2007) from the date of disbursement of first instalment.
- A joint inspection of the projects was also not taken up as the whereabouts of these beneficiaries were not known.
- Neither the Management had made any efforts/correspondence with the concerned beneficiaries nor had it served any notices to the loanees for realisation of the first instalments.
- The Management also failed to conduct any periodical checks of the progress of the projects, if any, supposed to have been created out of the loan amount.

The recovery of the unsecured loans of Rs.19 lakh was therefore doubtful and objectives for which the scheme was framed got completely defeated.

The Management stated (January 2007) that while granting loans, the beneficiaries furnished promissory notes and security bonds executed by the sureties/guarantors and for the loans above Rupees one lakh under Phase II, it had obtained mortgage documents. The reply is not tenable as the limitation period for promissory notes was three years, which had already expired and further renewal was not done. The financial status of these beneficiaries was *ab-initio* weak, being unemployed and that of their guarantors was never assessed/ascertained with proper due diligence by the Corporation at any time. Regarding Phase II, documentation, such as, mortgage/hypothecation of land, building, plant and machinery and a third party surety/undertaking by a Government employee *etc*. which were mandatory was not done in all the 18 cases.

The matter was referred (August 2007) to the Government; their reply has not been received (October 2007).

(Amar Patnaik)

The **Accountant General (Audit), Sikkim**

Countersigned

New Delhi **(Vijayendra N. Kaul)**

The **Comptroller and Auditor General of India**