OVERVIEW

This Report contains 35 audit paragraphs and four performance reviews apart from comments on the Finance Accounts and Appropriation Accounts. There is a separate chapter on Internal Control System in Finance, Revenue & Expenditure Department. According to existing arrangements, copies of the draft audit paragraphs and draft performance reviews were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within four weeks. Replies were not received from the department concerned in respect of four paragraphs.

1. Finances of the State Government

The fiscal health of the State as reflected in terms of trends in key fiscal parameters- Revenue Deficit, Fiscal Deficit and Primary Deficit has shown significant improvement during 2006-07 over the previous year. However, the State finances are heavily dependent on Central transfers, which account for about 71 per cent of its revenue receipts and helped the State Government to maintain revenue surplus during the period 2002-07. Although the State had maintained revenue surplus throughout the period 2002-07, fiscal deficit continued to persist primarily on account of the fact that a part of capital expenditure was being financed through borrowed funds during these years. A further analysis of expenditure reveals that the NPRE at Rs 637 crore is significantly higher than the normative assessment of Rs. 512 crore for the State for 2006-07. Moreover, its four components, viz. expenditure on salaries, pensions, interest payments and subsidies constituted 96 per cent of NPRE during 2006-07. The increasing fiscal liabilities accompanied by a zero rate of return on Government investments and inadequate recovery of cost on loans and advances continued to be cause of concern affecting the fiscal position of the State. The State Government needs to initiate suitable measures to contain the NPRE and put the resources to productive use as well as upgrade the quality of social and economic services in the ensuing years.

(Paragraph 1.1 to 1.11)

2. Allocative priorities and appropriation

- The excess expenditure of Rs. 39.74 crore for the years 2002-03 to 2005-06 under 29 grants and appropriations required regularisation under Article 205 of the Constitution of India.
- The excess of Rs. 2.64 crore in five grants and one appropriation during the year 2006-07 requires regularisation under Article 205 of the Constitution of India.
- Supplementary provision of Rs. 124.26 crore in 28 cases during the year 2006-07 proved unnecessary.

(Paragraphs 2. 3.2 & 2.3.4)

3. Performance Reviews

3.1 Border Area Development Programme

The Border Area Development Programme (BADP) is being implemented as a centrally sponsored programme from Seventh plan period with a view to achieve balanced development of border areas through adequate provision of infrastructural facilities. The performance audit of BADP revealed that the State Government had neither undertaken any study of the remote villages nor conducted any survey to ascertain the special needs of the people living in remote, inaccessible areas situated near the borders. Critical gaps in physical and social infrastructure were never assessed and long term perspective plan for each border block was not initiated for facilitating overall balanced development of the region. Implementation of schemes under the programme was characterised by unauthorised expenditure as the schemes were implemented in the blocks which were neither along the international border nor approved by the Empowered Committee, execution of schemes in replacement of normal State Plan schemes in violation of programme guidelines, etc. Fund management was also inadequate as evidenced from accumulation of liabilities in excess of available fund, non-availing of Central assistance, etc. Monitoring of the programme was lax and evaluation was never attempted during the period covered under audit.

- The State Government neither conducted any survey to identify the needs of the people and the critical gaps in physical and social infrastructure in the border blocks nor prepared any perspective plan for achieving overall balanced development of the region.

- The State Government incurred Rs. 8.21 crore during 2002-07 on implementation of 46 schemes which did not qualify for implementation under the programme as the blocks were neither along the international border nor approved by the Empowered Committee

- In contravention of the programme guidelines, the State Level Screening Committee approved four schemes amounting to Rs. 2.45 crore for implementation in replacement of normal State Plan schemes.

- Schemes were implemented without any weightage to area or the population of the blocks. While 3 blocks received disproportionately higher share of funds, 9 blocks did not get their due share affecting the balanced development of the region.

- Monitoring of the schemes by the State Government was inadequate resulting in delayed implementation of the schemes. Evaluation of the programme was never carried out by any agency.

(Paragraph 3.1)

3.2 Disaster Management

Performance audit of Disaster Management revealed State Government's lackadaisical approach in implementation of the important aspects of disaster prevention, mitigation and preparedness as envisaged in the National Disaster Management Framework and the State Disaster Management Act. The State Disaster Management Authority (SDMA) constituted (October 2004) under the Chairmanship of the Chief Minister for overseeing activities relating to disaster prevention, mitigation and preparedness had met only once in July 2005 since its formation and was virtually non-functional as the concerned departments had not acted upon the resolution in right earnest. The Land Revenue and Disaster Management Department (LRDMD), although being the nodal Department for coordinating activities relating to disaster management, was acutely lagging in its functions as it was mainly engaged in relief related activities from the Calamity Relief Fund (CRF)/National Calamity Contingency Fund (NCCF) scheme instead of pursuing a holistic approach to disaster management including disaster prevention, mitigation and preparedness. The CRF/NCCF scheme was implemented in total disregard of the objectives for which it was constituted as funds from the scheme were utilised on inadmissible items of works. Monitoring and supervision of the activities under CRF / NCCF scheme was virtually non-existent as the monthly and quarterly returns prescribed by the Government of India were never sent by the LRDMD. Similarly, periodical reporting by the district level functionaries to the State level functionaries relating to delivery of the relief measures was not done.

- The State Disaster Management Authority (SDMA) met only once (July 2005) since inception (October 2004).

- The State Government had not yet ensured incorporation of disaster mitigation and prevention plans into the development process. The State policy on disaster management had also not been finalised as of July 2007.

- Rs. 4.38 crore was incurred from CRF on the recommendation of public representatives in violation of norms of the scheme as the proposals for post-disaster relief were not routed through DLRC.

- Restoration works undertaken under the CRF scheme were delayed by 1 to 24 months since the occurrence of disaster, rendering the authenticity of such occurrence doubtful.

- The Energy and Power Department was irregularly granted Rs. 1.30 crore from the CRF for repair and renovation of water conduits and power houses, which despite repairs, were still non-functional.

- Monitoring of the administration of relief measures by the Ministry of Home Affairs, Relief Commissioner and the State Level Relief

Committee and the district level functionaries was virtually non-existent, though prescribed.

(Paragraph 3.2)

3.3 Land degradation in and around Gangtok

Performance audit of land degradation in and around Gangtok revealed that the State Government had not framed a comprehensive policy for control of land degradation. Enforcement of building laws, zonation, waste disposal, Forest Conservation Act etc was not stringent leading to non-compliance by the citizens. This was further compounded by fragmented policy among Government bodies for controlling land degradation and absence of a coherent approach to monitor progress and ensure compliance. There was no ownership on the part of the concerned Departments and also citizens, to contain land degradation.

- Despite being aware of the factors responsible for land degradation, the State Government did not formulate comprehensive policy encompassing various aspects of prevention and control of land degradation in State

- The State Government did not conduct any study to assess the extent of land degradation in urban areas especially in and around Gangtok caused due to unrestrained construction in violation of seismic zonation norms, Sikkim Building (Construction) Regulations and inadequate waste disposal etc

- Urban Development and Housing Department failed to enforce the Sikkim Building (Construction) Regulations, 1991 leading to failure in restriction of buildings heights within the permissible limit, non-adherence of BIS norms relating to disaster resistant features and non-provision of gully between two buildings for facilitating aeration and reducing the impact of earthquake

- Management of solid wastes was characterised by inherent defects of partial collection, non-identification of landfill sites and setting up of waste disposal facilities with lesser capacity than the requirement besides delayed commissioning of treatment plant.

- Only one hospital had obtained authorisation from the Land Use and Environment Board for treatment of bio-medical waste by itself while 57 hospitals had not taken any permission.

- In violation of Forest (Conservation) Act, the user agencies utilised forest land for non-forestry purposes without obtaining forest clearance

(Paragraph 3.3)

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

The Federation was not able to discharge its responsibilities successfully as an apex level cooperative society for marketing of agricultural produce as 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 approved suppliers. Proper tender procedure as laid down in the Sikkim Financial Rules was not followed in the procurements. Benefit of trade discount obtained from various suppliers was retained by the Federation and not passed on to the indenting departments. The financial management was poor and resulted in 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.

- Federation concentrated only on the non-agricultural business activities rather than agricultural activities which ultimately defeated the main objective of developing the cooperative movement in the State.
- 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.
- Uniforms worth Rs. 1.23 crore for the police department during 2006-07 were procured on limited tender basis without calling open tenders.
- Trade discount of Rs. 3.72 crore obtained from various suppliers was retained by the Federation without passing the benefit to the indenting departments.
- The State Income Tax amounting to Rs. 1.82 crore recovered from the suppliers bills was retained by the Federation and not remitted to the IT&ST department.

(Paragraph 7.12)

4. Internal Control System in FRED

Audit review of the internal controls in the Finance, Revenue and Expenditure Department (FRED) and its five Directorates revealed deficient budgetary, receipts and expenditure control. Much was desired in the areas of operational *controls pertaining to maintenance of records, cash, liabilities, deposits, investment, stores, suspense accounts etc. Even supervisory controls in respect of adjustment of advances, purchase and allotment of vehicles, recovery of outstanding dues, payment of allowances, reimbursement of pension already paid, regulation of General Insurance Scheme/General Provident Fund, operation of separate bank accounts, and drawal and disbursement through Chief Pay and Accounts Office etc. was extremely lax and inadequate. The system of internal audit and mechanism for settlement of audit objections was grossly deficient.*

- Absence of budgetary control led to unnecessary supplementary provisions, persistent savings, and non-surrendering of anticipated savings, both in FRED and other departments. FRED was also unaware of the spill over liabilities of the Government incurred by other departments which stood at Rs. 2.83 crore at the end of 2005-06.

- Failure to identify false certificates of adjustments of AC bills resulted in non-adjustment of outstanding advances in FRED itself to the tune of Rs. 60.49 lakh, besides Rs. 101.50 crore in other departments

- Despite orders of the Supreme Court, FRED failed to recover outstanding dues of Rs. 49.96 lakh from a private party. Failure to comply with orders of Supreme Court also resulted in irregular annual expenditure of Rs. 30.71 lakh towards payment of special duty allowance.

- Internal Audit could not ensure effective internal control mechanism in expenditure in Government due to low coverage of units and non-existent follow up action on its inspection reports.

(Paragraph 5.1)

5. Audit of Transactions

(a) Civil

Doubtful expenditure of Rs. 21.02 was incurred on procurement of organic manure and bio-fertilisers for demonstration of wheat/mustard crop for Rabi season.

(Paragraph 4.1)

Failure of the officers of Text Book Unit of the Department to ascertain the actual enrolment of students led to excess procurement of text books, uniforms and exercise books worth Rs.2.63 crore. The Joint Director of the districts showed fictitious utilisation of Rs. 61.90 lakh on account of issue to the students who were not on roll.

(Paragraph 4.2)

The deal for acquisition of a private land by the UDHD at a cost of Rs 4.21crore from four private individuals on the direction of the Minister, without any plan for its utilisation, ignoring the observation of the PDD, without provision of funds in the budget and including unwarranted cost of solatium of Rs. 1.23 crore was irregular.

(Paragraph 4.4)

The implementation of innovative education component of Sarva Shiksha Abhiyan was not effective and did not benefit the students as envisaged in the programme guidelines. Apart from not achieving the objectives of the programme, its implementation in Sikkim has also resulted in undue benefit to a Firm to the extent of Rs.2.62 crore.

(Paragraph 4.5)

Payment of erection charges on all items without considering the actual requirement of erection for all such items led to loss of Rs. 32.20 lakh and also undue favour to the contractors.

(Paragraph 4.6)

The Rural Management and Development Department extended undue benefit of Rs. 1.54 crore to the contractors due to incorrect calculation of escalation cost. Excess payment of Rs.13.73 lakh was made to 18 contractors due to incorrect formulation of item rate

(Paragraph 4.9 (a) & (b))

Allowance of excess labour in Stone masonry work resulted in excess expenditure of Rs. 2.09 crore

(Paragraph 4.10)

Irregular deviation from norms under area expansion scheme for cultivation of vegetables led to avoidable expenditure of Rs. 60.36 lakh

(Paragraph 4.11)

Loading of ‘Agency Charges’ of Rs. 6.83 crore by the Roads and Bridges Department in the road and bridge construction projects sanctioned by the GOI under the NEC package was superfluous, which, besides unduly inflating the project cost, gave scope to the Department to irregularly divert project funds for unauthorized purposes and make irregular deposit in Government Revenue.

(Paragraph 4.19)

(b) Revenue

The percentage of minimum assured revenue payable by the marketing agent for managing the new games of lottery was fixed without justification at a rate substantially lower than that being paid by him for managing other lottery games in the State of Sikkim and resulted in loss of revenue of Rs. 15.70 crore.

(Paragraph 6.2)

Failure of the ITO to assess the actual gross turnover of a dealer led to short realisation of income tax of Rs. 33.50 lakh.

(Paragraph 6.3)

Failure of the department to incorporate a suitable clause for deduction of State income tax in the agreement in violation of the Government directives led to loss of Rs. 72.63 lakh.

(Paragraph 6.5)

Non-verification of the actual number of subscribers of a cable operator led to non-realisation of entertainment tax of Rs. 4.72 crore and penalty of Rs. 14.52 lakh.

(Paragraph 6.6)

Non-maintenance of database of private schools engaged in imparting education in the State led to non-levy of licence fee and fine leading to loss of revenue of Rs. 20.68 lakh.

(Paragraph 6.7)

Lack of initiative on the part of the department in framing relevant rules under the Sikkim Irrigation Water Tax Act was not only against the intent of the Legislature but also led to potential loss of revenue of Rs. 30.79 lakh.

(Paragraph 6.8)

(c) Commercial

Six out of 12[1] working Government companies/corporations with accumulated losses of Rs. 44.82 crore have continuously been incurring heavy losses which had an adverse impact on the State Exchequer as Government investment in the form of equity/ loan was getting eroded to the extent of losses.

(Paragraph 7.16)

Due to imprudent decisions while sanctioning the loans and making investments in Sikkim Jewels Limited the Sikkim Industrial & Investment Corporation Limited suffered financial loss of Rs. 5.08 crore.

(Paragraph 7.17)

Recovery of loan amount of Rs. 6.20 crore (principal Rs. 5.07 crore and interest Rs. 1.13 crore) under CMSE Scheme was doubtful due to improper monitoring mechanism in Sikkim Industrial Development & Investment Corporation Limited.

(Paragraph 7.18)

[1] *Nine companies and three statutory corporations*