CHAPTER-IV
AUDIT OF TRANSACTIONS

Misappropriation/ Loss

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

4.1 Non-availing of excise duty concession on pipes

Non-availing of the excise duty concession on pipes led to loss of Rs. 2.50 crore.

The Union Ministry of Finance (Department of Revenue) exempted (September 2002) pipes needed for delivery of water from its source to a water treatment plant from payment of excise duty. Such exemption was to be granted by the Deputy Commissioner (Central Excise) on the basis of a certificate to be obtained by the applicant from the Deputy Commissioner of the district in which the plant is located to the effect that the goods were meant for the intended use. The exemption came into effect from the date of issue of the notification.

Scrutiny of records (June 2008) revealed that the Department purchased (2003-08) GI/DI pipes and associated fittings meant for delivery of water from its source to water treatment plants at a cost of Rs. 15.82 crore for various water supply schemes under ARWSP through the State Trading Corporation of Sikkim (STCS). Although the Department could have availed concession towards excise duty in procurement of pipes and fittings, no attempt was made to take advantage of the incentives provided by the GOI. Non-availing of the concession led to loss of Rs. 2.50 crore to the scheme.

The Department accepted the observation and stated that the concession would be availed of in future.

The matter was referred to the Government (August 08), reply has not been received (September 2008).

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.2 Inordinate delay in construction of District Institute of Education and Training building

Lackadaisical approach of the Department to operationalise District Institute of Education and Training (DIET) in the State resulted in the objective remaining unachieved even after a lapse of 18 years.

Irregular diversion of Central assistance (1988-89) for establishment of DIET was mentioned in the Comptroller and Auditor General of India's Audit Report for the year 1999-2000 on the Government of Sikkim.

The land acquired (April 1997) for construction of DIET building at a cost of Rs. 82.56 lakh at Burtuk, East Sikkim, remained unutilised till 2006-07 even after a lapse of seventeen years due to lack of initiative of the Department to start construction and operationalise DIET in the State. In 2006-07 a supplementary grant of Rs. 50 lakh was provided in the State budget for the purpose. The Detailed Project Report for construction at an estimated cost of Rs. 4.33 crore was approved by the State Government (August 2006) while the approval of GOI is still awaited (June 2008). Work order for construction was issued (April 2007) to a Gangtok based contractor[1] for completion of the work by May 2009. The entire fund of Rs. 50 lakh as provided for civil work was released (31 March 2007) to SIMFED and STCS (Government enterprises engaged in supply of materials to the Government departments) as advance for supply of materials (cement: 6,515 bags and tor steel: 230.30 MT) on the last day of the financial year in order to avoid lapse of fund. No date was stipulated for completion of supply in the supply order given to SIMFED and STCS. The two agencies did not supply the material and an amount of Rs. 50 lakh remained outside the Government account till date (September 2008).

During the execution of the work, the Sikkim Tourism Development Corporation Ltd. (STDCL) raised (June 2007) objection that after construction of DIET just below the helipad at Burtuk, operation of helicopter service would be impossible. It was therefore, decided in a meeting chaired by the Chief Secretary (June 2007) to shift the DIET to another location and the contractor was asked (June 2007) to suspend work immediately. The Department subsequently acquired (February 2008) land at Ranka, East Sikkim at a total cost of Rs. 1.65 crore for DIET. Further development in this regard is awaited.

Thus, lackadaisical approach of the Department to operationalise DIET in the State for which money was received from the GOI in 1988-89 resulted in the objective remaining unachieved even after a lapse of 18 years. Besides, this also resulted in additional outflow of Rs. 1.65 crore on purchase of land.

The Department stated (August 2008) that since no objection was raised during the initial stages of purchase of land, publication of notice inviting tenders in various newspapers etc. by STDCL, the Department had to accept the decision of the Government. But the fact however, remains that inordinate delay in operationalising DIET has resulted in the objectives remaining unachieved.

The matter was referred to the Government (July 2008); reply has not been received (September 2008).

[1] *Shri Kedar Somani, Gangtok.*

Undue favour

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

4.3 Undue benefit to the contractor

Erroneous rate analysis for the 'cement cost per bag for pressure grouting' resulted in undue benefit to the contractor and loss to the Government to the tune of Rs. 44.61 lakh.

Estimates of civil works are prepared on the basis of Schedule of Rates (SOR). For each item of work, the cost and quantity of material, labour, labour overhead and job overhead required per unit are specified in the Analysis of Rates (AOR) on the basis of which, SOR is prepared. The actual cost of labour overhead required for execution of a particular quantity of work can thus be worked out from the AOR.

The work of construction of Pilgrimage-cum-Cultural Centre (Phase-I at Solophok, Namchi, South Sikkim) was awarded (December 2004) to M/s Hindustan Steelworks Construction Ltd. (HSCL), a Central Public Sector Undertaking on turnkey basis at a fixed lump sum cost of Rs. 34.73 crore with a stipulation to complete the work within 36 months from December 2004. An additional sanction of Rs. 18.50 crore for extension work was obtained (December 2006) from the Cabinet for the development of Pilgrimage-cum-Cultural Centre at Solophok. The work is still in progress (March 2008) and the HSCL had been paid Rs. 36.87 crore as of March 2008. During execution of work, the additional work (drilling and grouting operations for stabilising soil under Lord Shiva statue) at a total cost of Rs. 4.97 crore was executed by the Department through the contractor. This additional work was completed (March 2006) and final payments made (April 2006). As the items of work under 'drilling and grouting operations for stabilising soil under Lord Shiva statue' were not provided in the SOR, the Department analysed their rates before execution of work. While analysing the unit rate of 'cement cost per bag for pressure grouting', the overhead charge was erroneously calculated on the total cost of materials and labour instead of labour cost alone as included in the AOR/SOR. This resulted in inflation of unit cost of cement per bag for pressure grouting by Rs. 45.31 per unit. This erroneous rate analysis resulted in undue benefit to the contractor and loss to the Government to the tune of Rs. 44.61 lakh[2].

The Department stated (April 2008) that had proper estimates been prepared, duly taking into consideration head load charges of materials, cost of consumables like HSD, mobil, lubricants and PVC tanks for provision of

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[2] *Cement cost per bag for pressure grouting worked out by audit:*

Unit cost of cement cost per bag for pressure grouting excluding overhead charge and contractors profit Rs.328.68	
Less cost of materials including carriage, storage (cement only)	*Rs.228.00*
Difference	*Rs. 100.68*
20 percent overhead of Rs.100.68	*Rs. 20.14*
10 percent contractors profit on Rs.328.68	*Rs. 32.87*
Admissible unit cost on account of cement per bag for pressure grouting (Rs.328.68+Rs.20.14+Rs.32.87) =	*Rs.381.69*
Excess amount included in the analysis (Rs.427.00 - Rs.381.69) =	*Rs.45.31 per bag*
Total excess Payment (Rs.45.31 X 98450 bags) =	*Rs.44.61 lakh*

water, running operation cost of hire charges of grouting and water pump, labour and job overhead etc., the cost per bag would have been Rs. 468 instead of Rs. 427 at which the payment was made.

The rate of Rs. 468 worked out by the Department was arrived at by inflating the cost of HSD, Mobil, head load of stock materials (inclusive of cost of sundries and water and electricity charges[3]), cost of 1,969 PVC tanks[4] etc., which is not acceptable.

HUMAN RESOURCE DEVELOPMENT DEPARTMENT & POLICE DEPARTMENT

4.4 Undue benefit to contractors

The Human Resource Development and Police Department allowed higher rates for execution of works even though other similar works were executed during the same period at lower rates resulting in undue favour of Rs. 74.42 lakh to the contractors.

Para 198 of SPW Code read with the notification issued by the Finance, Revenue and Expenditure Department (December 1997) provided that works valuing above rupees five lakh should be awarded after giving wide publicity through national dailies.

Scrutiny of records (March and June 2008) relating to execution of works in the Human Resource Development and Police Department revealed the following:

i) Before awarding of ‘construction of India Reserve Battalion (IRB) Complex at Pipley, Phase II, West Sikkim’ in Police Department wide publicity through national dailies as required were not given which restricted the scope for fair competition in the process of ascertaining reasonability of rate. It was observed that the civil work portion of the project valuing Rs. 5.83 crore was awarded (March 2005) at Rs. 8.46 crore at the tendered rate of 44.93 *per cent* above the estimated cost, framed on the basis of SOR 2002, with a stipulation to complete the same by March 2007. However, the rate allowed (44.93 *per cent)* was on the higher side as similar nature of works (*i.e.* construction of BDO Complex in different parts of the State) during the same period was awarded to other contractors at 38 *per cent* above the SOR 2002. Action of the Department to allow higher rate was not only against the spirit of the provisions of the SFR and SPW Code but also unjust and led to undue favour of Rs. 40.44 lakh[5] to the contractor.

The matter was referred to the Department/Government (August 08), their reply has not been received (September 2008).

ii) 10 works relating to Human Resource Development Department for construction of school buildings were tendered during October 2005 to

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[3] *These items included in the AOR effective from 1 April 2007.*
[4] *For 50 bags of cement, one PVC tank was stated to have been used. Detailed analysis in support of 1,969 PVC tanks was not furnished by the department.*
[5] *(44.93-38.00) per cent of Rs. 583.49 lakh = Rs. 40.44 lakh*

February 2006. Out of these, two works were awarded at par and the remaining eight works were awarded at 20 *per cent* to 30 *per cent* above the estimated cost. Scrutiny revealed that two works tendered during the same period having similar items of works were awarded and executed at estimated cost. This resulted in extension of undue financial benefit to the contractors with consequential avoidable expenditure to the tune of Rs. 33.98 lakh.

The Department stated (July 2008) that they have taken into consideration the cost escalation which was ranging from 35 *per cent* to 38 *per cent*. The reply is not acceptable as other similar works were awarded and executed at estimated cost.

Avoidable/Excess expenditure

ENERGY AND POWER DEPARTMENT

4.5 Cost and time over run

Failure of the Department to conduct survey prior to taking up a project, led to relocation of the project site, involving cost escalation of Rs. 1.03 crore and time over run of over three years.

Construction of a 66 KV single cable transmission line from Mayongchu to Chungthang sub-station with 2X5 MVA transformer at Chungthang and one feeder bay at Mayong was approved by the Cabinet (October 2004) at an estimated cost of Rs. 9.41 crore (including Rs. 86 lakh on land compensation, establishment and contingency). The work was awarded (October 2004) to a contractor[6] at Rs. 8.55 crore for completion within 12 months (September 2005). The expenditure was to be met from the funds provided by the Union Ministry of Development of North Eastern Region under Non Lapsable Central Pool of Resources (NLCPR) to the extent of Rs. 6.84 crore and the balance by the State Government from its own resources.

While the construction work started in November 2004, Rs 2.14 crore was released (December 2004) to the contractor as mobilisation advance. After completion of a part of the work, M/s Athena Project Pvt. Ltd. (APPL, engaged in establishment of Independent Power Projects in the State) requested (April 2005) the Department to stop the work on the ground that the proposed dam site of Teesta Stage-II Hydel Electric Project being undertaken by the APPL falls in the same location. Despite the fact that the work was undertaken by APPL at a later date, after carrying out the survey and investigation, on its request, the construction work of the substation was stopped (April 2005) and the sub-station was relocated to Martin, eight kilometres away from the earlier site. The change of site involved extra financial implication of Rs. 1.03 crore (Rs. 3.65 lakh on land compensation, Rs. 99.59 lakh on revision of cost necessitated by inclusion of additional items of work, additional quantity within the same items of work etc.). While the work in the new site is in progress (July 2008), Rs. 5.37 crore was paid to the

[6] *C.G. Lachungpa*

contractor (December 2007) against the 3rd RA bill. As of now, the project has already been delayed by nearly three years.

The Department had not conducted any survey prior to taking up the project, to determine an appropriate location for the sub-station. The entire work relating to survey, design and drawings for the present work was conducted by the contractor himself after the work was awarded to him. This indicated that the scope of work as well as the cost and quantities indicated in the project report submitted earlier to the Union Government for funding, were not based on actual survey but on an approximation and were unrealistic, resulting in time over run of nearly three years with an extra expenditure of Rs. 1.03 crore.

The matter was reported to the Government/Department (December 2007); their reply has not been received (July 2008).

FINANCE, REVENUE AND EXPENDITURE DEPARTMENT (PENSION, GIS AND GPF WING)

4.6 Excess payment of leave encashment

Failure to exercise proper check while sanctioning leave encashment in respect of retired Government employees resulted in excess payment of Rs. 37.27 lakh.

Rule 36 of Sikkim Government Service (Leave) Rules 1982 provides that cash payment in lieu of unutilised earned leave on the date of retirement will be made to retired Government servants, subject to a maximum of 300 days. Rule 40 (1) prescribes that a Government Servant who proceeds on earned leave or commuted leave is entitled to leave salary equal to the emoluments drawn immediately before proceeding on earned leave or commuted leave. Explanation under Rule 40 (1) says that emoluments includes all allowances being drawn immediately before proceeding on leave, but the special pay or allowances being drawn, if any, by the Government Servant proceeding on leave shall not be admissible if the period of leave exceeds 30 days at one stretch. Again, Rule 40 (2) states that a Government Servant on half pay leave is entitled to leave salary equal to half the pay and full allowances being drawn immediately before proceeding on such leave subject to explanation under sub-rule (1) of Rule 40. Therefore, special pay or allowances are not admissible in the leave encashment for period exceeding 30 days.

Scrutiny of leave encashment cases of retired officers/officials of the State Government for the period January 2004 to November 2006 revealed that in 145 cases of leave encashment, emoluments inclusive of House Rent Allowance (HRA) and Sikkim Border Compensatory Allowance (SBCA) were included in leave encashment, which led to an excess payment of Rs. 37.27 lakh[7].

[7] *Actually paid amount of leave encashment in 145 cases =Rs.2,69,85,108*
Admissible amount of leave encashment in 145 cases =Rs. 2,32,58,085
Excess payment =(Rs.2,69,85,108 - Rs. 2,32,58,085)= Rs. 37,27,023

While verifying the procedure for sanctioning of leave encashment and other retirement benefits in the Department, it was seen that the Department had not considered the provisions and had calculated leave encashment merely on the basis of pay and allowances being drawn by the Government servants before their retirement. The Chief Accounts Officer (Pension) failed to exercise proper checks while sanctioning leave encashment cases, which led to excess payment of Rs. 37.27 lakh.

The Department stated (July 2008) that retiring Government employees are entitled for encashment of leave salaries under Rule 36. While the entitlement for encashment is not questioned, the admissibility of special allowances for such encashment is in contravention of rules.

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

4.7 Extension of double benefits to beneficiaries

The Rural Housing Scheme intended for people below poverty line was implemented without any list of beneficiaries. Besides, assistance was provided to the same beneficiaries twice resulting in undue benefit of Rs. 29.20 lakh.

The Government of Sikkim launched the Rural Housing Scheme (1988-89) to provide assistance to people below the poverty line (BPL), in the form of 30 pieces of Galvanised Corrugated Iron (GCI) sheets and cash assistance of Rs. 20,000 to be given in two equal instalments of Rs. 10,000 to each such beneficiary. The scheme was financed by the State Government from the funds borrowed from Life Insurance Corporation of India (LIC) and General Insurance Corporation (GIC).

Scrutiny of records revealed that the Rural Management and Development Department (RMDD), which was the implementing department of the scheme, did not have the details of BPL population in the State. The beneficiaries were selected by the District Level Committees (DLCs) on the recommendation of the respective Gram Sabhas. Implementation of a welfare scheme, without a comprehensive list of the beneficiaries for whom it was intended, carries the risk of extension of benefits to ineligible people.

Out of 6,000 beneficiaries in two districts (East and South), who availed of the benefits, 76 beneficiaries were provided with assistance twice during three years (2004-05 to 2006-07). This led to undue benefit to the tune of Rs. 29.20[8] lakh. While accepting the distribution of double benefits, the Department stated (May 2008) that this was due to either oversight or need of the beneficiaries depending upon the size of the family. The reply regarding need of the beneficiaries or the size of a family is not acceptable, as there was no provision in the scheme regarding this aspect.

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[8] *Cost of 30 GCI sheets as given by the Department = Rs. 18,425.40.*
Therefore, excess payment = 76 X 20,000 + 76 X 18,425.40 = Rs. 29.20 lakh.

The matter was referred to the Government in June 2008; reply had not been received (September 2008).

SIKKIM HOUSING AND DEVELOPMENT BOARD

4.8 Avoidable loss

Failure to repay the loan within the stipulated time led to an avoidable payment of interest to the tune of Rs. 62.63 lakh.

Sikkim Housing & Development Board (SHDB), since its inception (1979), had availed of loans from different financial institutions, mainly from Housing and Urban Development Corporation Limited (HUDCO), for financing various activities in the State. The Board managed to make repayment till June 1997, but thereafter, started defaulting in paying installments and the accumulated liability amounted to Rs. 57.15 crore, as on 31 March 2002.

A rehabilitation package was approved (October 2002) by HUDCO on the proposal of the Board for payment of the liability of Rs. 57.15 crore in the following manner:

- 25 *per cent* of the One Time Settlement (OTS) amount (Rs. 14.29 crore) would be paid @ Rs. 12 crore by 31 October 2002 and the balance Rs. 2.29 crore on or before 31 March 2003 carrying interest at 12.5 *per cent* from 1 October 2002.
- Balance 75 *per cent* (Rs. 42.86 crore) would be paid in four equal annual installments commencing from 1 October 2003.

The Board repaid Rs. 14.29 crore in January 2003 and requested for waiver of interest, which was rejected by HUDCO. As a result of delay in payment and rejection of waiver of interest, the Board had to pay an additional interest of Rs. 44.65 lakh.

Similarly, even with regard to payment of 75 *per cent* of the agreed amount (Rs. 42.86 crore), the Board failed to adhere to the prescribed time schedule and the delay in payment ranged between four days to three months in the case of second, third and fourth installments, necessitating an avoidable payment of interest of Rs. 17.98 lakh[9].

Audit analysis revealed that delay in repayment of first installment was primarily due to the time taken in obtaining Cabinet sanction (obtained on 26 November 2002) and finalisation of agreement (executed on 1 February 2003). The delay in payment of subsequent installments was due to the non-release of grants by the State Government towards repayment of loan.

The Board stated (July 2008) that they had left no stone unturned to make timely repayment to HUDCO except on the occasion beyond its control. The fact remained that due to non-adherence to the agreed time schedule for payment of the committed liability by the Board/ Government, there was an avoidable payment of interest amounting to Rs. 62.63 lakh.

[9] *Interest of Rs. 9.98 lakh for Rs. 399.27 lakh of 2nd installment delayed by 84 days + interest of Rs. 6.65 lakh for Rs. 202.86 lakh delayed by 3 months + interest of Rs. 1.35 lakh for Rs. 1125.06 lakh delayed by four days.*

TRANSPORT DEPARTMENT (SNT DIVISION)

4.9 Avoidable expenditure

Failure of the departmental officers in taking timely action to dispose of the liabilities of a closed Government undertaking led to avoidable payment of interest to the tune of Rs. 58.65 lakh.

The erstwhile Chandmari Workshop and Automobiles Limited (CWAL), a company owned by the State Government under the administrative control of the Sikkim Nationalised Transport Division (SNTD), Transport Department started functioning since April 1988 with the responsibility of carrying out the business of maintaining and repairing Government vehicles.

Since no working capital was provided to the CWAL, it was availing over draft facility from the State Bank of India, Gangtok (SBI) against the security of Rs. 1.10 crore deposited as Secured Temporary Deposit Receipt (STDR) by the State Bank of Sikkim, Gangtok (SBS), the banker of the State Government.

Due to its non-viability, the CWAL was closed down in February 2002. As on 31 March 2002, the CWAL had an over draft liability of Rs. 57.35 lakh, which subsequently increased to Rs. 75.72 lakh due to accrual of interest till June 2004 with the SBI.

With the approval (June 2004) of the Finance, Revenue & Expenditure Department (FRED), the SBS paid (June 2004) Rs. 75.72 lakh to SBI to clear the over draft liability of CWAL with a view to get its pledged STDR released from SBI under instruction from FRED to claim reimbursement of this amount from SNTD. The SBS requested (July 2004) the Department to reimburse this amount.

Despite several letters and persuasion by the SBS, the Department did not reimburse the above amount. The SBS, in turn started charging interest on the amount paid by it to SBI from July 2004 onwards and till March 2007, the amount increased to Rs. 1.17 crore with interest. The Department paid (August 2007) Rs. 1.16 crore to the SBS as full and final settlement of the account, after taking approval from the Cabinet (including Rs. 58.65 lakh on account of interest for the period April 2002 to March 2007).

Scrutiny of records revealed (February 2008) that ever since the closure of CWAL (February 2002), the Department did not take any action, not even on the letters written by SBS, till April 2007. During February 2002 to April 2007, no proposal was initiated to dispose of the liabilities of the CWAL. This resulted in an avoidable expenditure of Rs. 58.65 lakh towards payment of interest.

The Department stated (July 2008) that after receipt of reimbursement claim from the SBS in July 2004, the matter was pursued from time to time, but it remained pending till March 2007 due to fund position of the State Government. Scrutiny of extract of departmental notes furnished to Audit

(September 2008) by the Department revealed that while the issue of outstanding liabilities was pursued during August 2004 and September 2006 without any outcome, the main issue of seeking additional funds from the State Finance Department towards settlement of outstanding liabilities was not pursued.

WATER SECURITY AND PUBLIC HEALTH ENGINEERING DEPARTMENT

4.10 Excess expenditure

Payment at rates higher than those approved, resulted in excess expenditure of Rs. 28.40 lakh.

The Water Security and Public Health Engineering Department (WSPHED) fixes procurement rates for different items like galvanised iron (GI) pipes and cast iron (CI)/GI fittings required for water supply works on the basis of quotations received from suppliers. The rates so fixed, remain applicable till its revision again through invitation of quotations from suppliers.

For execution of six water supply works, the WSPHED procured (February 2006 to March 2007) GI pipes and GI/CI fittings against which, payments were released in February 2007 and June 2007 at rates higher[10] than those approved by the Department for this period. The items purchased related to regular water supply schemes and did not pertain to emergent restoration works. For subsequent procurements however, the Department adopted the approved and applicable rates.

Purchase of pipes at rates higher than the approved rates resulted in an excess expenditure of Rs. 28.40 lakh.

The Department stated (September 2008) that due to frequent fluctuation in the price of GI pipes/fittings in the market and for completion of works within the scheduled date for supply of drinking water to the consumers, material had to be procured from different suppliers at different rates prevailing in the market. It was further stated that whenever the market price was higher than the latest approved rates of 2004-05, the Department procured materials at the approved rate and thereby saved some amount of Government money. The reply is not acceptable, as the action of the Department negates the very purpose of fixation of rates after ascertaining the reasonability of rates through invitation of quotations.

[10] *GI pipes (9464.74 mtrs) with higher rates varying from Rs.56.06 (8 per cent) to Rs.280 (26 per cent) per mtr and GI/CI fittings (1960 nos) with higher rates varying from Rs.23.15 (4 per cent) to Rs.7568 (641 per cent) per unit.*

4.11 Excess expenditure

Purchase of Ductile Iron (DI) pipes and fittings by the Water Security and Public Health Engineering Department (WSPHED) at higher rates, ignoring special offer made by the manufacturer resulted in excess expenditure of Rs. 36.49 lakh.

The Water Security and Public Health Engineering Department (WSPHED) uses DI pipes widely in its water supply schemes. These pipes are purchased by the WSPHED through the State Trading Corporation of Sikkim (STCS), which in turn, places supply orders with the local dealers of the manufacturer, M/s Electrosteel Castings Limited (ECL), Kolkata. On some occasions, purchases are also made directly from the local dealers.

The WSPHED placed orders on the STCS (2005-07) for supply of DI pipes and fittings, which included pipes and fittings of size 80 mm diameter and above, for various water supply schemes in the State.

Scrutiny (March 2008) of records of the Secretary, WSPHED revealed that ECL informed the Department in October 2005 that supply of 80 mm diameter DI pipes had become a manufacturing constraint to them due to non-availability of moulds from international sources, forcing it to discontinue their production. The manufacturer, as a special case, offered to supply the required quantity of DI pipes and fittings of 100 mm diameter in lieu of the 80 mm diameter pipes and fittings ordered by the Department, without any additional cost.

Following the ECL's offer, the Department wrote (July 2006) to the STCS to replace its earlier orders for 80 mm diameter pipes and fittings with 100 mm diameter pipes and fittings. No mention, whatsoever, was made about the special offer of the manufacturer that there would be no extra cost due to the change in the specification of the pipes and fittings.

The STCS supplied the 100 mm diameter pipes at the higher rate of Rs. 1,120 per metre, ignoring the special offer extended by the ECL. In terms of the special offer, STCS should have supplied the 100 mm diameter pipes at Rs. 977 per metre, which was the supply rate of the replaced 80 mm diameter pipes.

The Department stated (September 2008) that as the STCS purchased pipe fittings directly from the manufacturers, the concessions can be availed of by the STCS only. The reply is not acceptable, as the Department failed to follow up on the offer of the dealer with STCS and thereby incurred an excess expenditure of Rs. 36.49 lakh.

4.12 Excess payment

Payments at unusually higher and unjustified rates on the items not included in the revised SOR and failure to verify workable rates allowed in the execution of other similar works resulted in excess payment of Rs. 25.46 lakh.

The Water Security and Public Health Engineering Department (WSPHED) is responsible for supply of drinking water to all urban consumers of the State. The Schedule of Rates (SOR) prepared by the Sikkim Public Works Department (SPWD) is applicable to all Departments of the State Government for preparation of estimates. The SOR 2002, did not however, include the rates of various items for execution of water supply works and hence the WSPHED followed the prescribed rate for different items of works on water supply contained in the SOR 1997 for preparation of estimates for water supply works in the State.

Scrutiny of records of the Principal Chief Engineer-cum-Secretary, WSPHED revealed (January 2007 and April 2008) that the Department continued to make payment for laying, fitting and fixing of pipes at the rates of Rs. 23, Rs. 18 and Rs. 16 per meter for 150 mm, 100 mm and 80 mm dia pipes respectively for various water supply schemes at the SOR of 1997 till March 2008. In the case of the work, 'Water Supply Scheme for newly developed satellite town of Pangthang and Bojoghari, Gangtok' however, payment was made to the contractor at much higher rates of Rs. 125, Rs. 100 and Rs. 75 per meter for laying, fitting and fixing of 12,990 mts. of 150 mm, 4,100 mts. of 100 mm and 8,726 mts. of 80 mm dia Galvanised Iron (GI) pipes respectively (including 17 *per cent* above SOR) without any justification. This led to an excess payment of Rs. 25.46 lakh.

The Department stated (September 2008) that the work was tendered and the contractor quoted 25 *per cent* 'above' the value put to tender for execution and completion of the project and that the Department negotiated the rate with the contractor and brought it down to 17 *per cent* above as the contractor might not have agreed, had the rate of laying of pipes and fittings been on the lower side. The reply is not acceptable as all other similar works of laying, fitting and fixing of pipes were awarded at par with the estimated rate as per the SOR 1997 even after execution of these two works.

Infructuous/ wasteful expenditure

IRRIGATION AND FLOOD CONTROL DEPARTMENT AND RURAL MANAGEMENT & DEVELOPMENT DEPARTMENT

4.13 Infructuous expenditure

Improper survey of work by the Rural Management & Development Department and lack of supervision and monitoring of works by the Irrigation & Flood Control Department led to an infructuous expenditure of Rs. 39.72 lakh.

The Cabinet approved (November 2004) the execution of Jhora Training Work (JTW) on Tenzing and Tenzing Jhora, Gangtok at an estimated cost of Rs. 56.96 lakh under the North East Council Schemes (Grant:Loan::90:10). The Irrigation and Flood Control Department (IFCD) issued the work order (July 2005) to a contractor[11] at a cost of Rs. 65.50 lakh with a stipulation to complete it by February 2007.

Scrutiny of records revealed (October 2007) that against the first RA bill of Rs. 39.72 lakh preferred by the contractor, an adhoc amount of Rs. 5 lakh was released (December 2006) based on the measurement taken on 8 July 2006. The contractor intimated on 2 December 2006 about the completion of the work in all respects to the IFCD and served a legal notice to the Department for non-payment of bills. After this the Department released another adhoc payment of Rs. 10 lakh in June 2007 but did not reply to the contractor regarding the legal notice. The Department had not taken any final measurement of the work.

Meanwhile the contractor intimated (February 2007) that the work had been completely damaged by falling boulders and stones from the site of another construction work undertaken by the RMDD. After a joint verification of work by RMDD and IFCD (April 2007), the IFCD intimated (June 2007) RMDD for rectification of damaged work estimated at Rs. 4.10 lakh. RMDD however, has not rectified the damage till the date of physical verification of work by Audit (October 2007 in the presence of departmental officers). It was seen that the guide wall of JTW was totally damaged by falling boulders and stones from another work above. While the RMDD undertook a work without proper survey about the possibility of its damaging other assets being created by an agency, lack of supervision and monitoring on the development of works by IFCD resulted in an infructuous expenditure of Rs. 39.72 lakh (including the committed liability of Rs. 24.72 lakh) besides failing to achieve the envisaged objective of irrigation and flood control. The IFCD is yet to co-ordinate with RMDD for rectification of the damage.

The IFCD stated (August 2008) that while the JTW was neither completed nor taken over from the contractor, they are consistently pursuing the matter with the RMDD to set right the damaged portion of work or to compensate the IFCD for the cost of the work. Final reply is awaited (September 2008).

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[11] *Shri Rameshwar Tamang*

SOCIAL JUSICE, EMPOWERMENT AND WELFARE DEPARTMENT

4.14 Denial of supplementary nutrition to children, pregnant and lactating women.

Lack of planning resulted in denial of supplementary nutrition valuing Rs. 1.23 crore to the malnourished children, pregnant and lactating women for seven months, besides unfruitful expenditure of Rs. 30.19 lakh on idle wages and electricity charges.

The Supplementary Nutrition Programme (SNP) of the Integrated Child Development Services (ICDS) scheme is an ongoing nutrition programme under the State plan which aims at providing nutrition to the children in the age group of three to six years and pregnant and lactating women. The programme was implemented in the State by providing ready-to-eat (RTE) food to the beneficiaries.

Scrutiny revealed that the programme was not implemented during March to November 2007. The Government food processing plant at Tadong, which was the sole producer of the ready-to-eat food, was leased out to a contractor from October 2001. Based on a direction from the Supreme Court (October 2004) that contractors should not be engaged for supply of supplementary nutrition, the Social Justice, Empowerment and Welfare Department (SJEWD) took over the plant in March 2007 with an intention to run it departmentally. The Department however, could run it only in November 2007 after a delay of seven months.

The Department was aware of the Supreme Court directive since October 2004. It however, failed to prepare a plan of action to ensure uninterrupted supply of RTE food in the event of non-functioning of the plant. It did not explore the possibility of obtaining the supply through alternative sources and engaging agencies like NGOs and self help groups for delivery of food despite the availability of funds. As a result, the targeted beneficiaries were deprived of nutritional support for seven months (March to November 2007). Further, the Department incurred an unfruitful expenditure of Rs. 30.19 lakh towards idle wages of 40 staff (Rs. 26.39 lakh) and electricity charges (Rs. 3.80 lakh) of the Plant.

Thus, failure of the Department to ensure supply of supplementary nutrition resulted in non-utilisation of Rs. 1.23 crore meant for the purpose and unfruitful expenditure of Rs. 30.19 lakh on idle wages and electricity charges besides depriving the target groups of nutritional support.

The Department accepted the delay in implementation of the programme and attributed (July & September 2008) it to inadequacy of infrastructure of NGOs, self-help groups, NPOs, PRIs, etc., remoteness of ICDS centres, time taken in tendering, settling the issues relating to the status of employees, transportation, power supply, etc. The reply is not acceptable as the Department did not initiate any steps to make alternative arrangements for provision of nutritional support to the targeted beneficiaries as per norms.

4.15 Irregular expenditure on Old Age Pension

Failure of the Department to exercise even the most rudimentary and routine checks before selecting beneficiaries for old age pension led to extending of benefits amounting to Rs. 60.07 lakh to ineligible persons.

National Old Age Pension Scheme (NOAPS), a centrally Sponsored Scheme(CSS), envisaged that a monthly pension would be given to a person aged 65 years and above, holding a Below Poverty Line (BPL) card and with little or no regular means of subsistence from his/ her own sources of income or through financial support from family members or other sources. From 2000-01, the rate of monthly pension was Rs. 200 till May 2004, Rs. 300 from June 2004 to March 2007 and Rs. 400 from April 2007 onwards.

Mention was made in Para No. 4.1.5 of Comptroller and Auditor General of India's Audit Report for the year ended 31 March 2004 regarding irregular selection of beneficiaries for the Old Age Pension resulting in excess expenditure of Rs. 29.22 lakh. In view of the Departmental reply (August 2004) that identification of beneficiaries was being done strictly as per the guidelines thereafter, the Public Accounts Committee did not make any recommendations.

Scrutiny of records, however, revealed that the Department had added 1440 new beneficiaries after 2003-04 to the already existing 13,429 beneficiaries. Of the 1440 newly added beneficiaries, records pertaining to identification and selection of 603 (42 *per cent*) were checked in audit (October 2007 and June 2008). It was seen that in 390 cases (65 *per cent* of the cases), benefits of Old Age Pension were being extended to ineligible persons or persons whose cases were not genuine as detailed below:

Table – 4.1

Irregularities observed	Number of cases	Amount of OAP paid during April 2004 to March 2008 (Rs. in lakh)
Thumb impression / signature of the beneficiary was not affixed on the application form	4	0.62
Thumb impression / signature of the applicant was not affixed. BPL certificate and income certificate were also not attached	7	1.08
Thumb impression / signature of the applicant was not affixed. BPL certificate and income certificate was also not attached. The applicant was below 65 years of age	2	0.31
Thumb impression / signature of the applicant was not affixed. The applicant was below 65 years of age	3	0.46
Pension awarded below the age of 65 years of age	40	6.16
The applicants did not come under BPL status as neither BPL certificate nor income certificate was attached with the application forms	282	43.43
The pension awarded to persons below 65 years age and the applicants did not come under BPL status as neither BPL certificate nor income certificates were attached with the application forms	47	7.24
The applicants did not come under BPL status as neither BPL certificates nor income certificates were attached with the application forms and neither date of birth certificates were attached nor age was certified.	5	0.77
Total	**390**	**60.07**

The above instances, besides casting doubts on the genuineness of the cases, reveal the failure of the Department to exercise even the most rudimentary and routine checks while processing the applications. Considering that this is only a sample check, where 65 *per cent* of the sampled cases were ineligible for NOAPS, the Department needs to take a complete relook at the total number of 14,869 beneficiaries in the State, who are currently drawing pension under NOAPS.

While accepting the fact, the Department stated (May 2008) that due to receipt of applications recommended by the VIPs at the fag end of release of pension, the Department did not have much scope for in depth examination of the applications.

FINANCE, REVENUE AND EXPENDITURE DEPARTMENT

4.16 Information Technology Audit of Computerisation of Treasuries in Sikkim

Computerisation of Treasuries in Sikkim was undertaken during 2002-03 incurring a total cost of Rs. 1.10 crore. Computerisation of works vouchers was not undertaken and only civil portion of the transactions have been computerised so far. There were cases of absence of validation checks and controls in the software leading to faulty processing of bills.

1 Introduction

Directorate of Treasury, Pay and Accounts Office, Sikkim under the administrative control of Finance, Revenue and Expenditure Department (FRED) is responsible for transacting the business of payments and compilation of all receipts and expenditure of the Government and rendition of Accounts to the Accountant General in the prescribed formats. Besides, the Directorate of Pension, General Provident Fund (GPF) and General Insurance Scheme (GIS) is responsible for maintenance and authorisation of payment of GPF, GIS and Pension of the State Government employees and Central Government employees. The Treasuries maintain records of financial transactions and conduct necessary checks as per Sikkim Handbook of Drawing and Disbursing Officer (DDO) and Sikkim Financial Rules. There are five treasuries in the state which are known as Pay and Accounts offices.

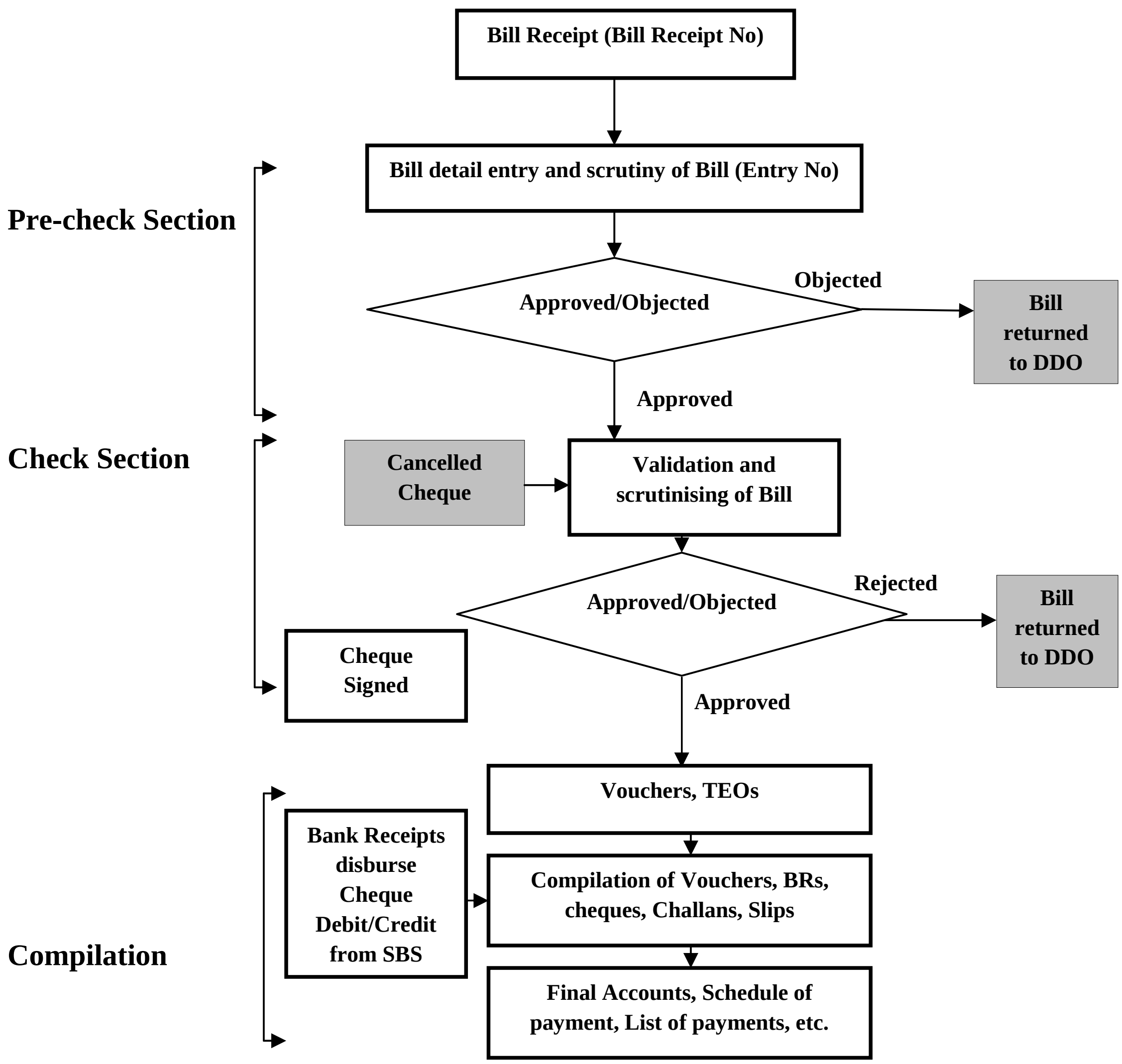
Computerisation of Treasuries in Sikkim was undertaken during 2002-03 incurring Rs. 1.10 crore. NIC developed the application which is based on MS-SQL Server as the database, Visual Basic as the front end running in a Windows NT OS environment.

2 Organisational set-up

Directorate of Treasury, Pay and Accounts Office is headed by Director and assisted by Additional Director. There are five Pay and Accounts Offices (PAOs) in Sikkim headed by Chief Pay and Accounts Officers. In addition to this, there is a separate Pay and Accounts Office under State Legislative Assembly which is not computerised.

3 Work-flow of Bill processing and accounting

When the bill is received from the Department, bill receipt number is given and passed on to the Pre Check section where calculation in the bills, allocation of budget and other provisions are checked. The passed bills come to the cheque section for issue of cheques either to the concerned departments or to the party. After the voucher number is assigned to the bill, it is considered as voucher. The Compilation Section in turn receives vouchers from Cheque Section and disbursed cheques, bank receipts, challans, debit/credit slips from the State Bank of Sikkim. The instruments viz. vouchers, Bank Receipts and disbursed cheques are compiled for generating MIS reports.



4 Audit Objectives

Audit of the treasuries' computerisation was carried out to assess whether:

- Objectives of computerisation of treasuries in the state were achieved;

- IT controls in place were adequate and effective thereby ensuring data completeness, accuracy and reliability; and
- The design of the computerised system was such that the business rules and procedures, as stipulated by various treasury code, statutes and departmental manuals, were correctly mapped on to the computerised system.

5 Scope and methodology of Audit

Test-check of records for the period 2002-03 to 2007-08 was conducted in the Directorate, Chief Pay and Accounts Office, Gangtok and the Chief Pay and Accounts Offices at four districts during April-May 2008. Data maintained electronically in the computerised system was analysed through an audit software tool viz. 'Interactive Data Extraction and Analysis (IDEA)' to ensure completeness, regularity, integrity, and reliability.

Audit Findings

6 Project Management

Partial computerisation

Treasuries were not fully computerised even after five years of commencement of computerisation. Works vouchers could not be computerised. In addition, payments related to pension and GIS were not computerised.

Lack of Feasibility study, user manual, testing

The Directorate of treasuries had not conducted any feasibility study before taking up the computerisation of Pay and Accounts offices (treasuries). Documentation relating to User Manual, testing, system maintenance manuals etc. did not exist. Documentation relating to various stages in the system development had also not been prepared. Thus, the system development methodology adopted was not discernible and was ad-hoc.

Program Change Controls

An IT system requires regular review to identify and sort out any programming bugs and carry out changes as per new requirement. Though changes had been made in the system several times, the Department had not kept any documentation of the changes nor had it adopted any change management policy to control the changes. In the absence of a uniform version running in all the treasuries, it was not assured that business rules of the treasury operations were being followed uniformly in the entire state.

7 Application controls

Application controls in an IT environment include controls that help to ensure the proper authorisation, completeness, accuracy, and validity of transactions, etc. The following were noticed during substantive testing of data maintained by the computerised system.

(a) Absence of provision for checking irregular drawal on AC Bills

Financial Rules provide that a certificate shall be attached to every Abstract Contingent Bill (AC Bill) to the effect that the Detailed Contingent Bills (DC Bills) have been submitted to the controlling officer in respect of AC Bills drawn more than a month before the date of that bill. It was however noticed that the system accepts all AC bills without checking for any details related to pending DC bills. In fact, provision for capturing details of this certificate did not exist in the system. It was seen by audit that there was an outstanding balance of unadjusted AC bills amounting to Rs. 182.56 crore as on 31 March 2008. Due to non-existence of any provision in the system to link the AC bills with the DC bills, the clearance of the AC bills was not reflected.

(b) Control on excess expenditure over provision

One of the main functions of the PAOs was to control the excess expenditure over budget provision. Even though the system does not accept the excess expenditure, there was excess expenditure of Rs. 2.63 crore over and above the budget provision in Revenue Sector in three[12] grants during 2007-08. This indicated that the master data relating to budget provisions was manipulated without legislative sanctions to enable the system to accept even excess expenditure.

(c) Recovery of professional tax

According to the Sikkim tax on professions, trades, callings and employments Act, 2006, professional tax from the salary and wage which include pay, dearness allowance and all other remunerations received by any person on regular basis was to be deducted at the rates Rs. 125, Rs. 150 and Rs. 200 per month from the salaries' / wages' ranges of Rs. 20,001 to Rs. 30,000, Rs. 30,001 to Rs. 40,000 and Rs. 40,001 and above respectively from 2006-07 onwards. However, in 2,097 cases, profession tax was not deducted from the Government employees and in 366 cases, profession tax deducted was less than the prescribed rate. This was verified from the manual vouchers as well in such cases arising out of substantive testing of the computerised data. Further scrutiny revealed that the deductions of profession tax were not calculated by the system and rather it was being fed into the system after manual calculation which led to discrepancies in many cases. Thus absence of mapping of business rule in the IT system for deduction of Profession Tax resulted in non-deduction/short deduction of profession tax leading to excess payment of Rs. 2.74 lakh to the employees.

(d) Calculation of various allowances

House Rent Allowances (HRA)

According to Sikkim Service Rules, HRA for Government employees posted within Sikkim will be 15 *per cent* of basic pay, dearness pay (DP), non-practicing allowance, and extra pay. However, in 2,242 cases the HRA paid to the employees exceeded the prescribed 15 *per cent* of the BP, DP and other allowances, in violation of the prescribed rules, resulting in excess payment of Rs. 1.25 lakh to the employees.

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[12] Grant No 30 (POLICE) Rs 85.91 lakh, 35(RMDD) Rs.174.02 lakh and Public Service Commission Rs.2.81 lakh..

Dearness Pay (DP)

DP for Government employees, in terms of the prescribed rules, was to be 50 *per cent* of the basic pay. However, in 409 cases, the DP paid to the employees exceeded the prescribed amount of 50 *per cent* of the BP by Rs. 3.34 lakh.

Sikkim Border Compensatory Allowance (SBCA)

In terms of the Sikkim Service Rules, the SBCA admissible was 10 *per cent* of BP, DP and other allowances. However, in 2,482 cases, SBCA paid to the employees exceeded the prescribed amount of 10 *per cent* of the BP, DP and other allowances by Rs. 2.96 lakh.

The payment of excess HRA, DP and SBCA over and above the prescribed amount as pointed out above was due to faulty input data and inappropriate mapping of business rules in the existing IT system for processing the pay and allowances of the Government employees.

GPF subscription

According to GPF Rules, GPF subscription should be minimum 6 *per cent* of basic pay and maximum equal to basic pay. However, in 654 cases, the GPF subscription exceeded the basic pay. This indicated not just prevalence of deficiencies in the system but also resulted in loss of Government revenue due to less deduction of income tax as the entire GPF subscription was deductible from the taxable turnover. In 6,532 cases GPF was deducted less than the mandatory six *per cent* of basic pay.

(e) Absence of validation checks in the software

Analytical review of data for various bills revealed the following:

- In seven cases (South District- 3 and North District- 4), the gross amount of bill was less than the net paid amount which was implausible.
- Bill date was entered in the bills by the concerned department at the time of preparation of the bill. Bill receipt date was entered as and when bill was received from the Department in the bill receipt counter of Pay and Accounts Offices and the bills were then sent to pre-check section where 'bill detail entry and date' are recorded. However, in 640 cases (Headquarters-193, North District-227, South District-74 and East District-46), the bill receipt date was earlier than the bill dates of the departments and in 870 cases (Headquarters-239, North District-418, South District-1406 and East District-34), entry date in the pre-check section preceded the bill date, which was not possible.
- In 8527 cases (South District-5,627, North District-2900) involving 716 employees (South District-586, North District-130), GPF account numbers were not recorded in the bills ranging from 1 to 42 months indicating non-allotment of GPF Account numbers. Further, for GPF Account number, name of the employee were recorded in some cases and "A/F" in remaining other cases.
- In 154 cases (Headquarters-143, East District-5, North District-6) both GPF and CPF were deducted from same employee.

- In 38 cases of West District, bill amount was shown as zero but cheques were issued.

Above findings indicate that there was absence of application controls in the software which may ensure acceptance of only logical and appropriate data and processing as per the prevailing business rules. A direct consequence was that the data as recorded in the database could not be termed as reliable.

8 Conclusion

Even after five years of implementation of the project, only partial computerisation consisting of civil portion was done. The validation checks and controls in the software were lacking leading to excess expenditure over provisions, non linkage between AC bills and DC bills, and irregularities in payments of entitlement to employees.

9 Recommendations

- Complete computerisation including works portion, pension, GIS alongwith interlinking with the banks needs to be implemented.
- The software needs to be improved by incorporating necessary input/processing controls which will facilitate validation of data input into the system and correct processing. The cases cited by audit may be investigated to identify the problem areas.
- A detailed user manual and system maintenance manuals should be prepared in respect of the duties to be performed by various functionaries.

General

4.17 Recovery of excess payment and revision of rule/statute at the instance of Audit

i) After being pointed out in Audit (November 2007) about the excess payment of Rs. 31.19 lakh to the contractors towards additional stacking charges, the Building and Housing Department recovered the excess payment (March 2008).

ii) After being pointed out in Audit (October 2007) about the erroneous application of rates for carriage charges in the Analysis of Rates 2002 with consequential avoidable expenditure of Rs. 1.21 crore, the Roads and Bridges Department revised the Schedule of Rates 2006 which was notified on 1 March 2008.

4.18 Audit Committee Meetings

The position of outstanding Inspection Reports (IR) and Audit paragraphs in respect of State Civil and Works departments at the beginning of the year (2007-08) was as mentioned in **Table 4.2** below:

Table -4.2

Pendency	Opening Balance		Additions		Clearance		Closing Balance	
	IRs	Paragraphs	IRs	Paragraphs	IRs	Paragraphs	IRs	Paragraphs
Upto 1 year	134	497	70	270	12	143	192	624
1 to 2 years	105	259	Nil	Nil	16	71	89	188
More than 3 years	391	708	Nil	Nil	62	165	329	543
Total	**630**	**1,464**	**70**	**270**	**90**	**379**	**610**	**1,355**

Audit Committee Meetings were being held on a regular basis to settle the outstanding audit paragraphs. Fifteen Audit Committee Meetings were held during 2007-08 wherein 77 IRs and 276 paragraphs were discussed and 25 IRs and 156 paragraphs were settled.