

CHAPTER-VI

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government companies and Statutory corporations

6.1 Introduction

6.1.1 As on 31 March 2004, there were 12 Government companies (nine working companies and three non-working* companies) and three working Statutory corporations with no change in position from that as on 31 March 2003 under the control of the State Government. The Companies Act, 1956 is not extended to the State of Sikkim. The companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim, 1961'. The accounts of the Government companies are audited by the Auditors who are directly appointed by the Board of Directors of the respective companies. The Audit of these companies had been taken up by the Comptroller and Auditor General of India (CAG) on the request of the State Government under Section 20(1)/20(2) of the Comptroller and Auditor General's (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 who are directly appointed by the Board of Directors of the respective corporations. Audit of these corporations was taken up by CAG under Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Condition of Service) Act, 1971 at the request of the State Government as detailed below:

Table-6.1

Name of the Statutory corporation	Authority for Audit by CAG	Audit arrangement
1. Sikkim Mining Corporation (SMC)	Section 19 (3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	Audited by Chartered Accountant and superimposed Audit by CAG
2. State Bank of Sikkim (SBS)	-do-	-do-
3. State Trading Corporation of Sikkim (STCS)	-do-	-do-

There are two departmentally managed undertakings viz. Sikkim Tea Board and Government Fruit Preservation Factory under the Industries Department.

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

The accounts of these departmentally managed undertakings are audited by Chartered Accountants who are directly appointed by the Industries Department. Audit by the CAG is taken up under Section 13 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

6.2 Working Public Sector Undertakings (PSUs)

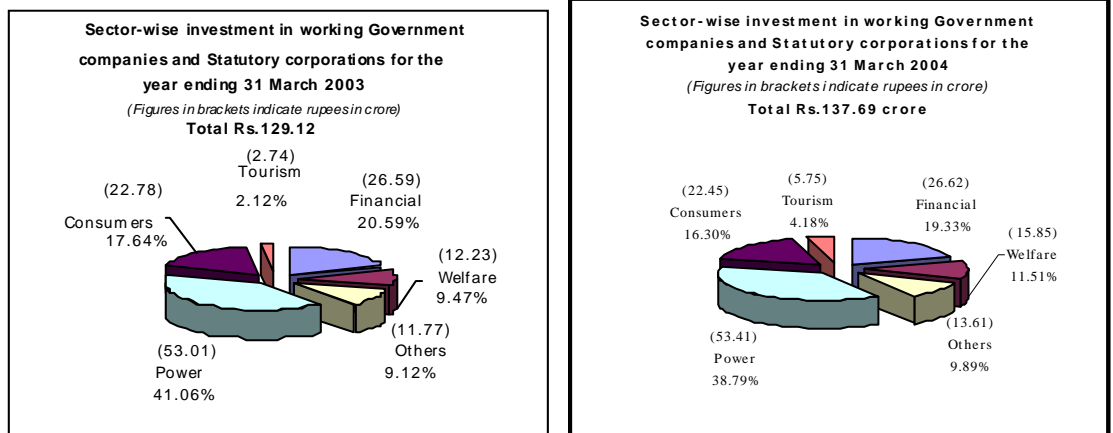
Investment in working PSUs

6.2.1 As on 31 March 2004, the total investment in 12 PSUs (nine Government companies and three Statutory corporations) was Rs. 137.69[†] crore (equity Rs. 72.03 crore and long-term loans*: Rs. 65.66 crore) as against a total investment of Rs. 129.12 crore (equity: Rs. 64.21 crore and long term loans : Rs. 64.91 crore) in 12 PSUs (nine Government companies and three Statutory corporations) as on 31 March 2003. Increase in total investment was due to increase in equity and loans mainly in tourism, welfare and miscellaneous sectors. The analysis of investment in working PSUs is given in the following paragraphs:

Sectorwise investment in working Government companies and Statutory corporations

6.2.2 The investment (equity including share application money and long term loans) in various sectors and percentage thereof for the years ended 31 March 2003 and 31 March 2004 are indicated in the pie charts as below:

Chart-6.1



Working Government companies

6.2.3 The total investment in working Government companies at the end of March 2003 and March 2004 was as follows:

[†] Figure as per Finance Accounts 2003-04 is Rs. 58.46 crore, the difference is under reconciliation.

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

(Rupees in crore)

Year	Number of companies	Equity	Loans	Total
2002-03	9	53.12	64.37	117.49
2003-04	9	59.09	65.12	124.21

Investment in the current year has increased over the previous year due to increase in equity and loans mainly in tourism and welfare sectors.

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

As on 31 March 2004, the total investment in working Government companies comprised 47.57 per cent of equity capital and 52.43 per cent of loans as compared to 45.21 per cent and 54.79 per cent respectively as on 31 March 2003.

Working Statutory corporations

6.2.4 The total investment in three working Statutory corporations at the end of March 2003 and March 2004 was as follows:

Table-6.2

(Rupees in crore)

Name of corporation	2002-03		2003-2004	
	Capital	Loan	Capital	Loan
State Bank of Sikkim (SBS)	0.58	-	0.58	-
Sikkim Mining Corporation (SMC)	9.39	0.54	11.25	0.54
State Trading Corporation of Sikkim (STCS)	1.11	-	1.11	-
Total	11.08	0.54	12.94	0.54

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

As on 31 March 2004, the total investment in working Statutory corporations comprised 96 per cent of equity capital and 4 per cent of loans as compared to 95.35 per cent and 4.65 per cent respectively as on 31 March 2003.

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

6.3.1 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies and working Statutory corporations are given in **Appendix-XXII** and **XXIV**.

The budgetary outgo in the form of equity capital, loans and subsidy from the State Government to working Government companies and working Statutory corporations for the three years ending 2003-04 is given below:

Table-6.3

(Rupees in crore)

	2001-2002				2002-2003				2003-2004			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital	5	4.50	1	0.50	7	3.35	1	0.50	5	4.90	1	0.94
Loans	1	0.30	-	-	-	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-	-	-
Subsidy	-	-	-	-	-	-	-	-	-	-	-	-
Total	5[‡]	4.80	1	0.50	7	3.35	1	0.50	5	4.90	1	0.94

During the year 2003-04, the Government had guaranteed loans aggregating Rupees seven crore obtained by two working companies. At the end of the year, guarantees amounting to Rs. 78.07 crore against three Government companies (Rs. 78 crore) and one Statutory corporation (Rupees seven lakh) were outstanding. There was no case of loans written off, interest waived, moratorium on loan repayment, conversion of loans into equity capital in any company or corporation during the year.

6.4 Finalisation of accounts by working PSUs

6.4.1 Accountability of Public Sector Undertakings to Legislature is to be achieved through the submission of audited annual accounts/reports within the time schedule to the Legislature. It could be noticed from **Appendix-XXIII** that out of nine working Government companies, none of the companies had finalised its accounts for the year 2003-04 and similarly, out of three Statutory corporations, none of the corporations had finalised their accounts for the year 2003-04 within the stipulated period.

During the period from October 2003 to September 2004, two working Government companies finalised accounts for previous years. Similarly, during this period only two working Statutory corporations finalised their accounts for the previous year.

The accounts of nine working Government companies and three working Statutory corporations were in arrears for the periods ranging from one to four years as on 30 September 2004 as detailed below:

[‡] These are the actual number of companies/ corporations which have received budgetary support in the form of equity and loans from the Government during the respective years.

Table-6.4

Sl. No	Name of company / corporation	Period upto which accounts finalised	Period for which accounts in arrears	No. of years for which accounts in arrears
I	A. Name of the company			
	i. Sikkim Time Corporation Ltd.	2001-2002	2002-2003 2003-2004	2
	ii. Scheduled Caste, Scheduled Tribes, Other Backward Class Development Corporation Ltd.	2002-2003	2003-2004	1
	iii. Sikkim Tourism Development Corporation	2002-2003	2003-2004	1
	iv. Sikkim Jewels Ltd	2002-2003	2003-2004	1
	v. Sikkim Industrial Development and Investment Corporation Limited	2002-2003	2003-2004	1
	vi. Sikkim Power Development Corporation	2001-2002	2002-2003 2003-2004	2
	vii. Sikkim Poultry Development Corporation Limited	2001-2002	2002-2003 2003-2004	2
	viii. Sikkim Hatcheries Limited	2001-2002	2002-2003 2003-2004	2
	ix. Sikkim Precision Industries Limited	2002-2003	2003-2004	1
II	B. Name of the Statutory corporation			
	i. State Bank of Sikkim	2002-2003	2003-2004	1
	ii. Sikkim Mining Corporation	2002-2003	2003-2004	1
	iii. State Trading Corporation of Sikkim	1999-2000	2000-2001 2001-2002 2002-2003 2003-2004	4

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within stipulated period. Though the concerned administrative departments and officials of the Government were apprised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government, and as a result, the net worth of these PSUs could not be assessed in Audit.

6.5 Financial position and working results of working PSUs

6.5.1 The summarised financial results of working PSUs (Government companies and Statutory corporations), as per their latest finalised accounts are given in *Appendix-XXIII*. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years for which accounts were finalised are given in *Appendix-XXV* and *XXVI* respectively.

According to the latest finalised accounts of eight working Government companies and three working Statutory corporations, five companies and two corporations had incurred an aggregate loss of Rs. 2.12 crore and Rs. 23.07 crore respectively, three companies and one corporation earned an aggregate profit of

Rs. 2.58 crore and Rs. 0.31 crore respectively. One company, Sikkim Power Development Corporation (SPDC) is at the implementation stage.

6.6 Working Government companies

Profit earning working companies and dividend

6.6.1 As per the latest finalised accounts, three companies viz. Sikkim Jewels Limited (S JL), Sikkim Precision Industries Limited (SPIL) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO) which finalised their accounts for 2002-03 earned profit of Rs. 2.58 crore. None of the companies declared dividend during the year for which accounts were finalised.

Loss incurring working companies

6.6.2 One company*, out of five loss incurring working Government companies, had accumulated losses aggregating Rs. 49.05 lakh, which exceeded its paid up capital of Rs. 45.83 lakh.

Working Statutory corporations

Profit earning Statutory corporation and dividend

6.6.3 As per latest finalised accounts, State Trading Corporation of Sikkim (STCS) which finalised its accounts for 1999-2000, earned a profit of Rs. 31.52 lakh but had not declared any dividend.

Loss incurring Statutory corporation

6.6.4 One corporation viz. State Bank of Sikkim out of the two loss incurring working Statutory corporations, had accumulated losses aggregating Rs. 44.84 crore which exceeded its aggregate paid up capital of Rs. 58.38 lakh.

Operational performance of working Statutory corporations

6.6.5 The operational performance of the working Statutory corporations for the last three years for which required information had been furnished by only two corporations is given in **Appendix-XXVII**. It will be observed that in case of Sikkim Mining Corporation, percentage of capacity utilisation which was 56 in 2001-2002 came down to 26 in 2003-2004.

Return on Capital Employed

6.6.6 As per the latest finalised accounts, the capital employed[§] worked out to Rs. 103.01 crore in nine working companies and the total return^{**} thereon amounted to Rs. 2.58 crore from three working companies which is 2.50 per cent as compared to total return of Rs. 16.85 lakh (0.17 per cent) in three companies

* Sikkim Hatcheries Limited.

§ 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).

** 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.

in previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts worked out to Rs. 248.43 crore and Rs. 31.52 lakh (0.13 *per cent*), respectively, against the total return of Rs. 31.52 lakh (0.17 *per cent*) in 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-XXIII*.

6.7 Non-working Public Sector Undertakings (PSUs)

Investment in non-working PSUs

6.7.1 As on 31 March 2004, the total investment in three non-working PSUs (Government companies) was Rs. 1.27 crore (equity: Rs. 1.27 crore) and there was no change from the position since 31 March 2002.

The classification of non-working PSUs is as under:

Table-6.5

Sl. No.	Status of Non-working Government Companies	Number of companies	<i>(Rupees in crore)</i>	
			Investment	
			Equity	Companies Long terms loan
i.	Under closure	2	0.58	-
ii.	Other*	1	0.69	-
	TOTAL	3	1.27	-

* *The operational function has been leased out.*

Of the above non-working PSUs, two Government companies were under closure for five years and a substantial investment of Rs. 58 lakh was involved in these companies.

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

6.7.2 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to three non-working PSUs are given in *Appendix -XXII* and *XXIV*.

The State Government had not given any budgetary support during 2003-04 to these non-working PSUs.

Total establishment expenditure of non-working PSUs

6.7.3 The year-wise details of total establishment expenditure of two non-working Government companies and the source of financing them during the last three years up to 2003-04 could not be analysed due to non-finalisation of accounts by the respective PSUs. One non-working company *viz.* Sikkim Livestock Processing and Development Corporation Limited is under lease. An amount of Rs. 2.44 lakh was spent towards establishment expenditure during 2002-03 from the grant received from the State Government.

Finalisation of accounts by non-working PSUs

6.7.4 The accounts of three non-working companies were in arrears for the periods ranging from one to nine years as on 30 September 2004 as could be noticed from *Appendix-XXIII*.

Financial position and working results of non-working PSUs

6.7.5 The summarised financial results of non-working Government companies as per latest finalised accounts are given in *Appendix-XXIII*.

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

Table-6.6

(Rupees in crore)

Name of the Company (Year of Accounts)	Paid-up capital	Net-worth ^{††}	Cash loss (-) / ^{‡‡} Cash profit (+)	Accumulated loss (-) / accumulated profit (+)
A. Non-working companies				
i. Sikkim Flour Mill Ltd. (1994-1995)	0.60	0.47	-	(-) 0.13
ii. Sikkim Livestock Processing and Development Corporation Ltd (2002-03)	0.69	0.04	(+) 0.01	(-) 0.65
iii. Chanmari Workshop and Automobiles Ltd (1994-95)	0.002	(-) 0.02	(-) 0.14	(-) 0.02

6.8 Status of placement of Separate Audit Reports of Statutory corporations in Legislature

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

Table-6.7

Sl. No.	Name of Statutory corporation	Year up to 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
i	Sikkim Mining Corporation (SMC)	1999-2000	2000-2001	20-09-2004 Not yet issued	Under printing -
ii	State Bank of Sikkim (SBS)	1999-2000	2000-2001 2001-2002	Not yet issued -do-	Under printing -do-
iii	State Trading Corporation of Sikkim (STCS)	1997-1998	1998-1999 1999-2000	Not yet issued 20-09-2004	Under printing To be placed by the Government in the next session of legislature.

^{††} Net worth represents paid up capital plus free reserves less accumulated loss.

^{‡‡} Cash loss/profit represents loss/profit for the year plus depreciation for the year.

6.9 Disinvestment, privatisation and restructuring* of Public Sector Undertakings

6.9.1 During the year 2003-04, there has been no privatisation (partial or complete) of any activity of these companies or corporations, and the Government has also not gone for disinvestments of shares in any company/corporation.

6.10 Results of Audit by Comptroller and Auditor General of India

6.10.1 During the period from October 2003 to September 2004, the Audit of nine accounts of eight working companies, two accounts of three working Statutory corporations and one account of one non working company were selected for review. The net impact of the important Audit observations as a result of review of the PSUs was as follows:

Table-6.8

Details	No. of accounts			Rupees in lakh		
	Government companies		Statutory corporations	Government companies		Statutory corporations
	Working	Non-working	Working	Working	Non-working	Working
(i) Decrease in profit	4	-	-	29.60	-	-
(ii) Increase in loss	3	-	2	141.68	-	40.36

Some of the major errors and omissions noticed in the course of Audit of annual accounts of some of the above companies and corporations are mentioned below:

Sikkim Time Corporation Limited (2001-02)

- Non-charging of “Deferred Revenue Expenditure” towards advertisement and sales promotion in the accounts resulted in understatement of loss by Rs. 78 lakh.

Sikkim Tourism Development Corporation Limited (2002-03)

- The amount of Rs. 50 lakh and Rs. 60 lakh released by Government of Sikkim to Sikkim Tourism Development Corporation (STDC) during 2001-02 and 2002-03 respectively as equity was booked under administrative grant. This resulted in understatement of paid up share capital by Rs. 1.10 crore.

6.11 Response to inspection reports, draft paragraphs and reviews

6.11.1 Audit observations noticed during Audit and not settled on the spot are communicated to Heads of PSUs and concerned departments of State Government through Inspection Reports. The Heads of the PSUs are required to furnish replies to the Inspection Reports within a period of four weeks. Inspection Reports up to March 2004 pertaining to 14 PSUs disclosed that the 171 paragraphs relating to

* Restructuring includes merger and closure of PSUs

36 inspection reports remained outstanding at the end of September 2004. Department-wise break up of inspection reports and Audit observations outstanding as on 30 September 2004 are given in **Appendix-XXVIII**.

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

6.12.1 The reviews and paragraphs of the Commercial Chapter of the Audit Report, Government of Sikkim pending for discussion by Public Accounts Committee as at the end of March 2004 were as below:

Table-6.9

Period of Audit Report	Total number of reviews and paragraphs in the Commercial Chapter		No. of reviews and paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
2001-2002	-	3	-	3
2002-2003	-	3	-	3

6.13 Operational loss

SIKKIM TOURISM DEVELOPMENT CORPORATION

6.13.1 Operational loss

Rendering helicopter services to the public and tourists at a very low fare, which was far below the cost of running the services, resulted in a loss of Rs. 59.60 lakh.

Ministry of Home Affairs, Government of India, subsidised 75 per cent of the cost of the hire charge of the helicopter service of the Department of Tourism, Government of Sikkim. Remaining 25 per cent and administrative expenses were to be borne by the State Government. With the formation (February 1999) of Sikkim Tourism Development Corporation (STDC) the responsibility of running the helicopter service was entrusted to the STDC without any formal agreement containing the terms and conditions.

Test check of records of helicopter services revealed that STDC suffered huge loss in operation of this service. During the period from February 1999 to March 2003 the loss worked out to Rs. 59.60 lakh after taking into account the subsidy reimbursement of Rs. 7.24 crore by Government of India and a portion of operational cost reimbursed by State Government. The State Government, which was meeting the remaining cost of services up to the date of handing over of the operation to STDC, did not fully compensate the loss in the operation.

Considering the huge recurring losses, a proposal to revise the fare from Rs. 1,500 to Rs. 1,900 per passenger from Gangtok to Bagdogra and vice-versa, Rs. 6,000 to Rs. 7,500 for 20 minutes tour to West Sikkim etc., was placed (October 2003)

before the Board of Directors, with a view to make the helicopter services economically viable, after taking into account subsidy from Government of India and State Government. This revision, however, was not approved (October 2003) by the Board of Directors in view of the forthcoming general election. Failure of the Management to enter into formal agreement with the State Government for meeting the net operational loss and also failure to revise the fare suitably led to huge losses on operation of helicopter services.

While accepting the fact that the Corporation was incurring huge losses due to low fare and non payment of adequate compensation to off set loss by State Government, the Management stated (August 2004), that the matter would be placed again in next Board meeting (August 2004). As of October 2004, neither the proposed revision of fare nor assurance from State Government for making good the loss had taken place.