



SUPREME AUDIT INSTITUTION OF INDIA  
लोकहितार्थं सत्यनिष्ठा  
Dedicated to Truth in Public Interest

**Report of the  
Comptroller and Auditor General of India  
on  
Performance Audit on Functioning of State Bank  
of Sikkim for the year ended March 2023**



**GOVERNMENT OF SIKKIM**  
**Report No. 2 of 2025**

**Report of the  
Comptroller and Auditor General of India  
on  
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of Sikkim for the year ended March 2023**

**Government of Sikkim  
Report No. 2 of 2025**



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## **PREFACE**

This Report of the Comptroller and Auditor General of India containing the results of Performance Audit on the functioning of the State Bank of Sikkim for the period from 2017-18 to 2022-23 has been prepared for submission to the Governor of Sikkim under Article 151 of the Constitution of India.

The State Bank of Sikkim (SBS) was established under the State Bank of Sikkim Proclamation, 1968 by the then Chogyal of Sikkim to carry on the business of banking; borrow or raise money; to lend money by making loans and advances; to buy, sell, collect and deal in bills of exchange, hundies, promissory notes, drafts, bills of lading, debentures and other instruments. The SBS also acts as an agent of the Government of Sikkim. It is not regulated by the Reserve Bank of India. The focus of the audit is to assess the role of the SBS in providing the envisaged banking services to its customers in an efficient way.

Audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.



## EXECUTIVE SUMMARY





## EXECUTIVE SUMMARY

### About the Report:

The Report is about the results of a Performance Audit on the Functioning of the State Bank of Sikkim (SBS). We covered the period from 2017-18 to 2022-23. The audit examination includes analysing the data in the Core Banking Solution System, test check of records at Head Office and 18 selected branches and three extension counters.

### What has been covered in this audit?

In this Performance Audit, we have focussed on the overall functioning of the SBS and the regulatory framework under which it operates. We have assessed the banking operations parameters, processes of credit appraisal, sanction, recovery, *etc.* We have reviewed the Non- Performing Asset (NPA) cases along with schemes such as One Time Settlement Scheme and COVID rehabilitation scheme. Adequacies of Fraud Risk Management system, IT systems and Human Resource Management were also reviewed.

### What have we found?

We found significant areas for improvement in the functioning of the SBS as highlighted below: -

### Chapter I: Introduction and Audit Framework

State Bank of Sikkim (SBS/ Bank) was constituted (September 1968) under the State Bank of Sikkim Proclamation, 1968 (Proclamation) by the then Chogyal (King) of Sikkim, for providing banking facilities in Sikkim. Section 19 (1) (a) of the Proclamation further empowered the Government of Sikkim to appoint SBS to act as an Agent of Government of Sikkim (GoS), to accept moneys on behalf of GoS and make payments up to the amount standing to the credit of GoS and carry out GoS remittances, besides other banking operations.

A Performance Audit (PA) on the functioning of SBS was taken up in view of the existing high level of Gross Non-Performing Assets (GNPA) aggregating ₹1,682.04 crore (52.23 *per cent*) of its total advance as on 31 March 2023.

*(Paragraph 1.1)*

### Chapter II: Governance

#### Regulatory framework

Audit noticed certain limitations in the Proclamation and the State Government has not made any efforts to ensure that the proclamation is aligned with generally accepted best practices of commercial banking in India.

*(Paragraph 2.1)*

#### Absence of Lender of Last Resort

Since the SBS is not a bank licensed under the Banking Regulation (BR) Act, 1949 it does not have a lender of last resort. Also, as per Section 4 (3) of the Proclamation, the liability of the shareholders shall be limited to the amount, if any unpaid on the shares held by them. Hence, considering the alarming rate of non-performing assets (currently

52.23 per cent), in the untoward event of a “Bank Run” occurring, there is no lender of the last resort to bail out the SBS from insolvency.

*(Paragraph 2.1.1)*

### **Impact of RBI’s absence**

Audit observed that without RBI’s regulatory framework, the Bank may be more vulnerable to financial crises due to lack of supervisory oversight, as they might not adhere to strict standards for capital adequacy or liquidity, and they are more prone to risky lending practices and inadequate monitoring of loan recovery, resulting in accumulation of bad loans.

*(Paragraph 2.1.3)*

### **Non-formulation of Critical Policies**

Audit noticed that SBS had not framed critical policies viz., Compliance Policy, Anti-Fraud policy, Whistle Blower policy, Credit policy, Investment policy, IT Policy, Legal Audit policy, Rotation and mandatory leave policy for establishing the organisational culture, robust ‘control and oversight system’. Thus lack of these policies led to credit lending without proper credit appraisal, regular follow-ups and credit/ legal audit, etc., resulting in accumulation of NPAs and series of irregularities and fraudulent activities prevalent in the Bank.

*(Paragraph 2.2.1)*

### **Non-Compliance of the provisions of the Proclamation**

Audit noticed that the SBS did not comply with important provisions of State Bank of Sikkim Proclamation, 1968 such as non-submission of returns/reports to GoS, declaring dividends without first providing adequate provisions for bad and doubtful debts, etc.

SBS has not set up any oversight committees such as Audit Committee, Fraud Monitoring Committee. In absence of such oversight committees, audit noticed several irregularities with respect to the financial reporting practices of the Bank especially regarding the classification of NPAs and misreporting of NPAs.

*(Paragraph 2.3.1)*

### **Non-Compliance of Board of Directors’ directives**

The SBS had not complied with several directives of the Board such as formulation of necessary policies/ guidelines as recommended by the C&AG, setting up internal audit wing, etc.

*(Paragraph 2.3.2)*

### **Lack of oversight by the State Government**

The State Government had a supervisory role for monitoring the activities of SBS and to provide necessary guidance on issues of significance to develop and establish a robust ‘control and oversight system’. However, audit observed that the same was not carried out by the Finance Department, GoS.

*(Paragraph 2.3.4)*

**Recommendations**

- *The State Government may establish robust control and oversight system for monitoring the activities of SBS.*
- *The State Government may put in place an effective regulatory oversight to ensure better financial discipline, reduce NPAs, and safeguard the stability of the banking system.*
- *SBS may formulate and implement critical policies such as Compliance policy, Anti-Fraud policy, Whistle Blower policy, Credit policy, Investment policy, etc.*
- *SBS may establish governance committees like Audit Committee and Fraud Monitoring Committee to oversee key areas for transparent functioning of the Bank.*
- *SBS may strictly comply with the provisions of the SBS Proclamation, 1968 and the directions of the Board of Directors.*

**Chapter III: Banker to the Government****Excess claim of Agency Commission from the State Government**

Examination of the records (May 2023) relating to claims of agency commission raised on the Finance Department revealed that although rates notified by the RBI were on *per transaction* basis with different rates for physical mode and e-mode transactions, the SBS, stuck to the lumpsum rate of 0.118 *per cent* without giving cognisance to the rates notified by the RBI from time to time as was stipulated in the agreement. Further, claim was inflated by not excluding the Receipts from GoI and Loans raised by GoS. This resulted in excess claim of agency commission amounting to ₹ 32.81 crore from Government of Sikkim.

(Paragraph 3.1)

**Loans to Government Departments/ PSUs/ ABs**

The SBS had sanctioned 34 term loans amounting to ₹ 913.37 crore to six departments, three PSUs and one Autonomous Body between March 2013 to March 2023. While availing the loans, the Finance Department had assured that the departmental loans would be repaid through budgetary allocation to the concerned departments. However, due to non-repayment of loan instalments 25 out of 34 accounts have turned into NPA with total outstanding balance of ₹ 555.93 crore as on 31 March 2023. This indicates that there is lack of financial discipline by the State Government in repaying the debts and there seems to be an overall lack of segregation of roles between the State Government and the SBS due to which substantial amount has been left unpaid.

(Paragraph 3.2)

**Recommendations**

- *SBS may claim agency commission as per the agreement with the State Government and the state Government may on its part check the veracity of the claims raised by SBS, before accepting the claim.;*

- *SBS may establish a robust mechanism to ensure that there are no revenue leakages on collection of government revenue by the employees of SBS.*

## **Chapter IV: Commercial Banking**

### **Capital Adequacy Requirement**

During 2017-23, the entire paid-up capital of ₹ 0.53 crore was held by the GoS. The GoS had not framed any regulatory Capital Adequacy Norms for the Bank. The SBS, however, had voluntarily disclosed the Capital Adequacy Ratio (CAR) as per Basel-I Capital Accord for the last five financial years. The SBS had not maintained adequate CAR (nine *per cent*) and the same ranged between 4.35 to 6.72 *per cent*.

*(Paragraph 4.1.6)*

### **Lack of adequate banking facilities**

Audit noticed that in absence of a license from the RBI, the SBS is unable to provide Electronic Fund Transfer facilities on its own. However, as an alternative measure, it had tied up with the YES bank to provide the same to its customers. Apart from this, the SBS did not offer important services/ features such as net banking facilities, mobile banking services, credit card facilities, *etc.* to its customers even though these services have become an intrinsic component in the modern-day banking business.

*(Paragraph 4.2.1)*

### **Lack of Complaint Redressal Mechanism**

An effective grievance redressal mechanism is essential to create a more harmonious and productive environment for all stakeholders of an entity. However, there was no robust complaint redressal mechanism to which SBS had assured to formulate a General Rule and Code of Ethics (GRACE) for the benefit of its customers.

Audit highlighted in *the C&AG's Audit Report No. 1 of 2018, Government of Sikkim* that there was no robust complaint redressal mechanism to which SBS had assured to formulate a General Rule and Code of Ethics (GRACE) for the benefit of its customers. Despite the assurance, no action was initiated by SBS as of March 2023. Grievance Redressal Mechanism assumes significance in view of the fact that SBS customers also do not have options like Ombudsman.

*(Paragraph 4.2.3)*

### **Non-compliance to Prevention of Money-Laundering Act, 2002**

Audit noticed that the SBS did not have any written down KYC norms, nor did it have any Customer Acceptance Policy.

In absence of proper KYC norms due to which the customer's accounts/ transactions are not being critically monitored, the SBS is unable to put in place a system to ascertain and/ or prevent the bank from being used, intentionally or unintentionally for money laundering activities.

*(Paragraph 4.3)*

### **Credit Appraisal, Recovery of Loans & Non-Performing Assets**

The credit appraisal process at SBS was found to be inadequate, as it did not adopt essential risk mitigation mechanisms such as gathering market intelligence, verifying legal matters, checking wilful defaulters' details with the RBI, or utilizing credit scoring agencies like CIBIL. Due diligence on loan applications was minimal, leading to poor credit decisions. Additionally, an audit scrutiny of 224 NPA cases in May 2023 revealed that the Loan Recovery Policy was not effectively implemented, and loan recovery was conducted arbitrarily. Weak recovery efforts stemmed from sanctioning loans to uncredit worthy accounts, inadequate security cover, not initiating legal action against defaulters, undue favoritism, and non-compliance with both pre- and post-disbursement conditions, including monitoring the end use of funds. The absence of inspections, irregular monitoring, and lack of follow-ups further worsened the situation. As a result of these lapses in credit functions, the quality of advances at SBS deteriorated significantly, with gross NPAs reaching an alarming 52.23 per cent (₹ 1,682.04 crore) vis-à-vis its total advance in the corresponding period (₹ 3,220.67 crore) as on 31 March 2023.

*(Paragraph 4.4.1, 4.4.4 & 4.4.6)*

### **Under-Provisioning against Non-Performing Assets**

Audit observed that SBS has neither carried out any age-wise analysis of its loan assets to classify them as per its Asset Classifications and Provisioning Guideline's nor it has made adequate provisions for NPAs.

Instead of making provisions based on the classification of assets into different categories as per its own guidelines, it had made a general provision over the years. This has resulted in under provisioning of the NPA accounts amounting to ₹ 225.28 crore as on 31 March 2023. Even if SBS had made minimum provisions at 15 per cent as per its own guidelines, the profit earned during each year would have turned into losses during the last five years ended 31 March 2023.

*(Paragraph 4.4.6.3)*

### **Selection of NPAs for One Time Settlement (OTS)**

One Time Settlement (OTS) scheme is a negotiated agreement between the bank and the borrower to settle a loan or debt for an amount that is less than the total outstanding balance.

SBS had formulated 'Loan Recovery Policy, 2014' which stipulated with respect to NPAs, that the compromise should be a negotiated settlement which would ensure recovery of dues to the maximum extent possible at minimum expenses and within shortest possible time frame.

Audit noticed that the SBS neither outlined the method of selecting the NPAs for OTS, nor did it approach the defaulters for settling the outstanding dues under NPA. Further, the SBS did not create any awareness about the scheme to all its borrowers unlike the SCBs which follows the practice to publicise its OTS schemes through its web portal to disseminate the information widely.

Thus, in absence of any predetermined and widely publicised eligibility criteria, the selection of loanees was not transparent and the possibility of preferential treatment to certain account holders could not be ruled out.

*(Paragraph 4.4.6.4 (a))*

#### **Non-reconciliation of Inter Branch transactions and other bank accounts**

The reconciliation of bank accounts is a fundamental financial practice that contributes to accuracy, transparency and control over an entity's financial affairs. It is an essential tool for error detection, fraud prevention, financial planning, *etc.* Regular reconciliation promotes financial stability and informed decision making.

However, audit noticed that an unreconciled balance of ₹ 9.44 crore for the period prior to 2017 has been lying as Branch Adjustment under other assets in the books of accounts as on 31 March 2023. It was also observed that nine out of 38 accounts were not reconciled for period ranging from two months to eight years due to which there is an unreconciled figure of ₹ 33.48 crore as on 31 March 2023. Further, in 10 out of the 29 reconciled accounts, it was noticed that the reconciliation had been done by posting a bulk amount/ figure as a cut off difference which was yet to be reconciled. These accounts had an unreconciled balance of ₹ 23.72 crore,

*(Paragraph 4.5 (a))*

#### **Insecure CBS infrastructure**

Audit noticed that the SBS had not adopted proper security measures in the operation of its Core Banking Solutions System as the system was not restricted to be operated within its own network through VPN and as such it could be operated through any network inside or outside the bank, through mobile hotspots, *etc.* No boundaries were set up for the operations of the IT infrastructure of the bank. As such, the CBS can be operated outside the Bank's premises creating a possibility of security breach.

*(Paragraph 4.6.1)*

#### **Sharing of user IDs and passwords**

Audit observed that the Branch / Section heads and the staff were not adhering to the Standard Operating Procedures as in 13 out of 21 (test checked) branches, user IDs of the Managers/ officers/ staff were utilised to carry out the transactions during such periods when they were either on leave or were out of station. There is no record of who had accessed their credentials in their absence indicating absence of critical internal controls. The user ids and passwords were saved in the devices used by the employees and anyone getting hold of the computer systems were able to log in through the saved ids and carry out transactions in CBS. Audit also noticed that in one case, a private individual had access to the Core Banking Solution System (CBS) of an employee and issued bank statement without the consent of the staff.

*(Paragraph 4.6.2)*

#### **Compromised Data Integrity: a risky oversight**

Data integrity, is crucial for the smooth functioning of any financial institution. When data integrity is compromised, it can lead to a range of negative consequences such



as inconsistent records, data entry errors, fragmented systems, compliance risks and operational inefficiencies.

Audit observed several inconsistencies in the CBS software such as reporting of closed/null accounts as NPAs, mismatch in the reported figures of NPAs in terms of both number and amount, positive balances (excess recoveries) were marked as NPAs, closed accounts were reflecting outstanding balances and there was divergence in reporting of NPAs as the gross NPAs reported by SBS was ₹ 1,682.04 crore whereas the gross NPAs as worked out by audit was ₹ 1,798.62 crore.

(Paragraph 4.6.3)

### **Recommendations**

*The Bank may*

- *endeavour to maintain its Capital Adequacy Ratio as per the industry standards;*
- *make KYC norms mandatory to prevent the risk of money laundering and ensure proper verification of customers before processing transactions.*
- *ensure proper provisioning against non-performing assets as per its own guidelines to accurately reflect asset quality and mitigate financial risks.*
- *implement a transparent and well-defined policy for the One Time Settlement (OTS) scheme;*
- *provide adequate banking facilities to its customers and put in place a Complaint Redressal Mechanism;*

## **Chapter V: Fraud Risk Management**

### **Non framing of Fraud Risk Management framework/policy**

Audit noticed that the SBS had neither framed any Fraud Risk Management framework/policy nor had a sound Fraud Risk Management system in vogue.

(Paragraph 5.1)

### **Illicit transactions from borrowers to accounts of bank employees**

Audit noticed that substantial funds amounting to ₹ 3.65 crore had been deposited into the Bank's employees personal accounts from 166 loanees accounts (loan account, savings accounts, current account, etc.) out of which, in 64 instances amounting to ₹ 1.29 crore, the date of deposit in employee's personal accounts corresponded directly to the date of disbursement of loan to the loanees.

These transactions seem to be cases of **suspected fraudulent transactions**.

(Paragraph 5.2.1)

### **Irregularities in recruitment of Assistant Managers (AMs)**

Audit noticed that candidates scoring lesser marks in written examination were selected for the post of AM while other candidates falling under same categories had scored higher marks but were not selected for appointment.

Further, candidates scoring as low as 26 to 42 marks were called for interview and ultimately got selected, whereas candidates scoring in between 55 to 69 were not even called for the interview.



Thus, the selection process adopted by SBS was irregular and the possibility of fraud and favouritism in selecting the candidates, could not be ruled out.

*(Paragraph 5.2.4)*

### **Non-existence of Internal Audit Wing**

The introduction of Risk-Based Internal Audit system was mandated for all Scheduled Commercial Banks. As part of effective risk management, the SBS should have established its own Internal Audit Wing and developed a well-defined policy on Risk Based Internal Audit.

The SBS had neither formulated a Risk Based Internal Audit policy nor had established its own Internal Audit Wing. It is pertinent to mention that this issue was already highlighted in the C&AG's Audit Report No. 1 of 2018 for Government of Sikkim.

*(Paragraph 5.4)*

### **Non-existence of Mandatory Leave and Rotation Policy**

Mandatory leave for staff was introduced after the RBI saw a sharp increase in frauds in banks following forensic studies. Audit noticed that SBS neither framed the Rotation Policy nor policy on Mandatory Leave as is being done by SCBs. Thus, SBS was unable to facilitate early detection of frauds/ financial irregularities carried out by the bank officials.

*(Paragraph 5.6)*

### **Recommendations**

- *SBS may investigate the irregularities regarding illicit transactions from borrowers to accounts of bank employees, nonmonitoring of high value deposits, temporary misappropriation of cash at Namchi Branch and irregularities in recruitment of Assistant Managers and take appropriate action against the concerned employees.*
- *SBS may formulate and enforce a robust Fraud Risk Management policy including a Code of Ethics and establish a Compliance and monitoring mechanism;*
- *SBS may formulate a Risk-Based Internal Audit policy and establish an Internal Audit Wing to provide assurance to its Board of Directors and senior management regarding the quality and effectiveness of its internal control, risk management and governance framework;*
- *SBS may frame Mandatory Leave and Rotation Policy, so as to ensure rotation of employees and mandatory leaves especially in critical posts.*

***The cases pointed out are based on test checks conducted by Audit. The Bank may initiate to comprehensively examine similar cases and take necessary corrective action. The overall functioning of the Bank may also be critically analysed, and loopholes/ deficiencies may be addressed as per the industry best practices.***

**CHAPTER I:  
INTRODUCTION AND  
AUDIT FRAMEWORK**



## Chapter I- INTRODUCTION AND AUDIT FRAMEWORK

### 1.1 Introduction

State Bank of Sikkim (SBS/ Bank) was constituted (September 1968) under the State Bank of Sikkim Proclamation, 1968 by the then Chogyal (King) of Sikkim, for providing banking facilities in Sikkim. The Charter includes accepting of deposits for the purpose of lending or investment, repayable on demand or otherwise and withdrawal by cheques, draft, order or otherwise and to mobilise capital for economic development and to stimulate trade and industry and various other public purposes.

Section 19 (1) (a) of the Proclamation further empowered the Government of Sikkim to appoint SBS to act as an Agent of Government of Sikkim (GoS), to accept moneys on behalf of GoS and make payments up to the amount standing to the credit of GoS and carry out GoS remittances, besides other banking operations. As per the notification issued (September 1968) by GoS, SBS was to act as Banker and Agent of GoS with effect from 09 September 1968. According to Section 3(2) of the Proclamation, SBS shall be a body corporate by the name of State Bank of Sikkim having perpetual succession and a common seal and shall by the said name sue and be sued.

By the Constitution (Thirty-sixth Amendment) Act, 1975, Sikkim became a State of the Union of India with effect from 26 April 1975. A new article, 371F was inserted in the Constitution stipulating special provisions with respect to the State of Sikkim. As per Article 371F(k) of the Constitution of India, all laws in force immediately before the appointed day (*viz.*, 26 April 1975) in the territories comprised in the State of Sikkim or any part thereof shall continue to be in force therein until amended or repealed by a competent Legislature or other competent authority. The State Bank of Sikkim Proclamation, 1968, being a law in force prior to the appointed day, was still operational as of March 2023. Thus, SBS is neither a Company<sup>1</sup> nor a Co-operative Bank<sup>2</sup> as defined in the Banking Regulation Act, 1949 (BR Act, 1949) and is not governed by the Reserve Bank of India (RBI).

As of March 2023, the entire paid-up share capital (₹ 0.53 crore<sup>3</sup>) of SBS was held by GoS.

A Performance Audit (PA) on the functioning of SBS was taken up in view of the existing high level of Gross Non-Performing Assets (GNPA) aggregating ₹1,682.04 crore (52.23 *per cent*) of its total advance as on 31 March 2023.

### 1.2 Organisational set-up

As per Section 8(1) of the Proclamation, the general superintendence and direction of the affairs and business of SBS was vested in the Board of Directors (Board). The

<sup>1</sup> 'Company' means any company as defined in Section 3 of the Companies Act, 1956 and includes a foreign company.

<sup>2</sup> 'Co-operative bank' means a state co-operative bank, a central co-operative bank and a primary co-operative bank.

<sup>3</sup> Excluding the paid up value (₹ 0.05 crore) of 10,000 shares (partly paid @ ₹ 50 per share) held by United Commercial Bank Limited (UCO bank), which were surrendered by UCO bank and amount refunded (June 2006) by SBS. The paid up share capital of SBS was, accordingly, reduced (2014-15) by SBS to that extent.

composition of the Board as on 31 March 2023 was as shown in **Table 1.1**.

**Table 1.1: Composition of Board of Directors**

Designation	Position in the Board
Former MLA	Chairman
Secretary to the Chief Minister, GoS	Director
Secretary, Department of Personnel and Training	Director
Controller of Accounts-cum-Secretary, Finance Department	Director
Managing Director, SIDICO <sup>4</sup>	Director
Managing Director, State Bank of Sikkim	Managing Director

*Source: Government Notification*

The entire oversight of SBS operations rested with the Board and the Managing Director (MD) was responsible for the general management of the business of SBS. As on 31 March 2023, apart from the Head Office, SBS had 55 branches and eight extension counters<sup>5</sup> across the State.

### **1.3 Audit Objectives**

The audit objectives were to get a reasonable assurance that;

- SBS was compliant of the provisions of State Bank of Sikkim Proclamation, 1968.
- the targets and growth of deposits and advances were achieved efficiently, effectively and economically;
- the role of SBS as a Banker to the Government was efficiently fulfilled;
- the objectives for borrowing, raising, lending/ advancing and investment of funds were achieved;
- the Risk Management procedures and methodologies including implementation of Non-Performing Assets (NPA) Recovery Policy are adequate and in accordance with RBI standards;
- the IT systems management was efficient and effective; and
- the Human Resource Management policies and procedures were effective.

### **1.4 Audit Criteria**

The audit criteria that were applied for assessing the achievement of the audit objectives are;

- Provisions of the State Bank of Sikkim Proclamation, 1968.
- The Sikkim Public Demand Recovery Act, 2006.
- The State Bank of Sikkim Recovery Policy, 2014.
- The State Bank of Sikkim (Classification, Recruitment and Promotion) Regulations, 2011 and the State Bank of Sikkim Service Regulations, 2011.
- Policies/procedures prescribed by the Board and senior Management of SBS for regulating its banking operations.

<sup>4</sup> *Sikkim Industrial Development and Investment Corporation Limited.*

<sup>5</sup> *Extension counters are those counters which are specifically opened for collection of Government revenue such MV tax, Power and water bills, etc. These counters do not accept public deposits or lend advances.*

- Generally accepted National and International Good Practices in the Banking Sector and Corporate sector.

### 1.5 Audit Scope and Methodology

Audit reviewed the banking operations of SBS for a period of six years from 2017-18 to 2022-23. An entry conference was held (20 September 2022) with the Managing Director wherein the scope, audit objectives, audit criteria and the methodology were explained. The methodology included examination of data/ records at the Head Office and visiting the selected branch offices.

For this purpose, audit selected 18 branches and three extension counters (out of 55 branches and eight extension counters) for detailed examination using 'random sampling without replacement' sampling technique based on the quantum of deposits and volume of transactions for the branches and the extension counters respectively. Further, out of 3,664 cases of NPA involving ₹ 1,682.04 crore, 224 cases amounting to ₹ 572.70 crore (34.05 *per cent*) pertaining to major sectors<sup>6</sup> including cases settled through One Time settlement (OTS) were selected for detailed scrutiny.

An exit meeting was held (29 January 2024) with the Chief Secretary, Government of Sikkim, the Managing Director of State Bank of Sikkim and other officers from the Finance Department and State Bank of Sikkim. The views expressed in the meeting have been suitably incorporated in the Report.

### 1.6 Disclaimer and Acknowledgement

This Performance Audit Report has been prepared based on information/ records furnished and made available by the SBS. The responsibility of the correctness of the information/ data vests with the Bank.

Accountant General (Audit), Sikkim wishes to acknowledge the co-operation extended by the Management of State Bank of Sikkim and Government of Sikkim at each stage of the audit process.

<sup>6</sup> Cash Credit, Construction, Business loans & Start-up scheme and OTS (all 30 files furnished by SBS).



## **CHAPTER II: GOVERNANCE**





## Chapter II- GOVERNANCE

Governance refers to the way an organisation is managed and controlled. It sets the framework for how power and authority are exercised and how decisions are made and implemented in the organisation.

A sound governance mechanism is critical for any bank as it ensures prudent decision-making, identifies and manages risks effectively and most importantly protects the interests of its customers. The RBI Act, 1934 and the BR Act, 1949 are the major legislations governing commercial banking in India. The RBI Act constituted Reserve Bank of India (RBI), which acts as regulator of the banking sector of India. The BR Act enables RBI to issue rules and regulations for the sound governance and management of commercial banks in India. SBS, however, does not come under the regulatory purview of RBI and is still regulated by the provisions of the SBS Proclamation of 1968.

### 2.1 Regulatory framework

Audit studied the regulatory framework under which the SBS operates, and the governance structure adopted by the Bank. SBS was established under and governed by the State Bank of Sikkim Proclamation, 1968. Audit noticed (July 2023) certain limitations in the Proclamation and the State Government has not made any efforts to ensure that the Proclamation, drawn in 1968, is aligned with the best practices of commercial banking in India such as the Banking Regulations Act, 1949, which significantly reduced the efficiency of operations of SBS, as detailed in the succeeding paragraphs.

#### 2.1.1 Absence of Lender of Last Resort

In India, the BR Act, 1949 empowers the RBI to inspect and supervise the commercial banks through on-site inspection and off-site surveillance. As a Banker to the banks, RBI also acts as the “*lender of the last resort*” as it bails out the banks in distress from possible temporary liquidity crisis and the banking system from a possible breakdown.

Since SBS is not a bank licensed under the BR Act, it does not have a lender of the last resort. Also, as per Section 4 (3) of the Proclamation, the liability of the shareholders shall be limited to the amount, if any unpaid on the shares held by them. Audit opines that, in the context of an alarming rate of non-performing assets in SBS (currently 52.23 *per cent*), in the untoward event of a “Bank Run”<sup>7</sup> occurring, there is no lender of the last resort to bail out SBS from insolvency as Government of Sikkim has a limited liability to the extent of its shareholdings which stood at ₹ 53 lakh.

SBS did not provide a relevant reply.

#### 2.1.2 Deposit insurance

Deposit insurance helps in ensuring financial stability and enhances customer confidence in banks. The Deposit Insurance and Credit Guarantee Corporation of India (DICGC), a subsidiary of the RBI insures all deposits offered by the banks up to a maximum of ₹ five lakh for both principal and interest amount. In case of a bank failure or a Bank Run,

<sup>7</sup> A bank run is when the customers of a bank or other financial institutions withdraw their deposits at the same time over fears about the bank's solvency. As more people withdraw their funds, the probability of default increases, which in turn, can cause more people to withdraw their deposits.

the DICGC Act, 1961 guarantees the reimbursement of up to the maximum amount per depositor, regardless of the number and type of deposits held in such a bank. Since SBS is not covered under the DICGC Act, the depositors of SBS cannot avail the facilities offered by the DICGC in case of a bank failure.

Audit observed (July 2023) that since SBS is not governed by BR Act, 1949, it is outside the ambit of DICGC Act, 1961. Audit is of the opinion that the State Government needs to take necessary steps to bring SBS under RBI's regulatory mechanism and get the status of SBS changed to 'Insured Bank' in order to safeguard the investor's interests.

*The SBS accepted the audit contention.*

### **2.1.3 Impact of RBI's absence**

RBI's regulations and supervision play a crucial role in ensuring that banks maintain healthy asset quality and minimise the risk of financial instability. Entities that are not directly supervised by RBI face several limitations. One major constraint is the lack of oversight in terms of financial stability and risk management. Without RBI's regulatory framework, these entities may be more vulnerable to financial crises, as they might not adhere to strict standards for capital adequacy or liquidity. Audit observed certain limitations in the functioning of SBS as follows:

- **Lack of regulatory oversight:** The RBI monitors banks' financial health, including their NPA levels. If a bank's NPAs are deemed excessive, RBI can take corrective actions, such as imposing restrictions or even appointing administrators. In extreme cases, RBI may initiate the liquidation of the bank, protecting depositors and other stakeholders through the Deposit Insurance and Credit Guarantee Corporation (DICGC). Thus, in absence of RBI's supervision, NPAs were allowed to grow unchecked (52.23 *per cent* as on March 2023), leading to a significant deterioration in the financial health of SBS. Without stringent regulatory oversight, SBS was more prone to risky lending practices and inadequate monitoring of loan recovery, resulting in accumulation of bad loans.
- **Unsecured loans:** The RBI, for economic or legal reasons relating to the borrower's financial difficulty, permits the banks to restructure the loans of the customers, grants concessions to the borrower that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances/ securities, which would generally include alteration of repayment period/ repayable amount/ the amount of instalment/ rate of interest. RBI normally does not allow the banks to grant loans to an already NPA account. Audit observed that as SBS was not under the supervisory purview of RBI, SBS at its discretion sanctioned loans to NPA accounts and these too turned bad subsequently (as discussed in paragraph 4.4.1). Thus, SBS was not guided by any financial prudence.
- **Provisioning Coverage Ratio (PCR):** This is essentially the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses. RBI had advised SCBs under its regulatory purview to maintain the PCR at 70 *per cent* by September 2010. Audit, however, observed that the PCR of SBS was a meagre 1.61 *per cent vis-à-vis* that of SCBs, the majority of whom had achieved the target of 70 *per cent* within the stipulated target date. Thus,

a meagre provisioning coverage ratio, especially in the context of having no *lender of the last resort*, is a significant risk for the stability of the Bank.

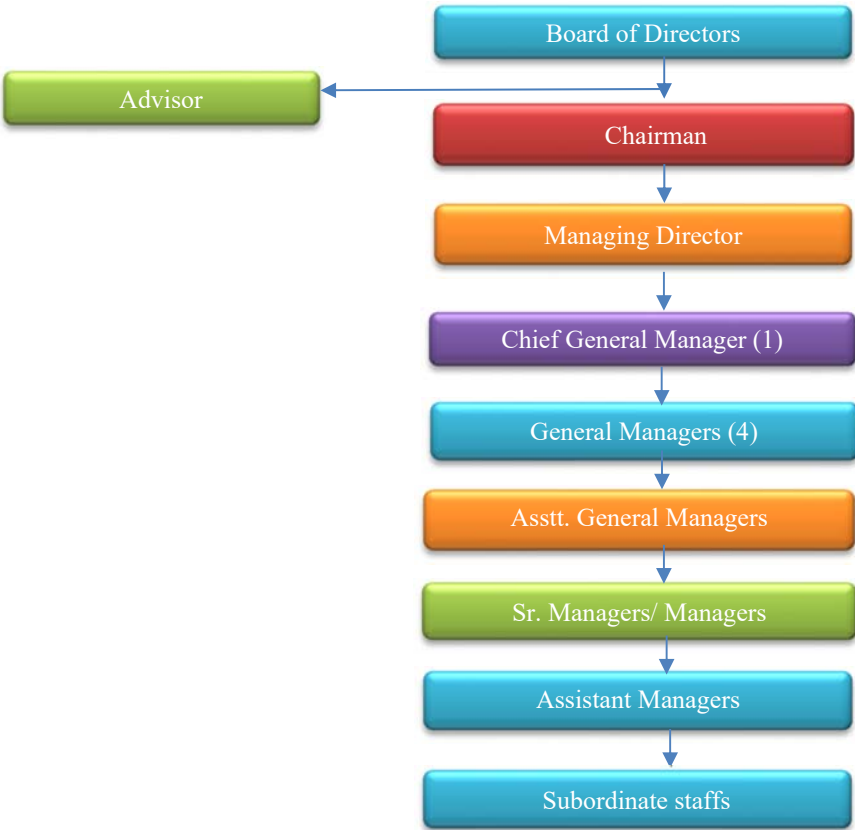
- **Operations outside Sikkim:** Since SBS does not have a license issued by RBI, it is not permitted to open a branch outside state. As a result, growth of business of the Bank outside Sikkim is not possible. Further, the services of SBS are not available to its customers outside the State and the customers have to rely on other banks for their travel and business needs outside the State. It also restricts its customers from inter banking operations within Sikkim.

*In the exit meeting, the MD, SBS stated (January 2024) that GoS and GoI were actively considering bringing SBS under the ambit of RBI and once this is achieved, all related matters would be duly addressed.*

2.2 Corporate Governance

The Management of SBS is vested in a Board of Directors (BoD). As on 31 March 2023, the BoD comprised of six Directors including the Chairman and the MD. As on 31 March 2023, SBS had Head Office at Gangtok controlling 63 branches (including eight extension counters) across Sikkim. The organisational structure of SBS is as shown in the chart below:

Chart-2.1: Organisational structure



2.2.1 Board of Directors: Composition and its functioning

The Board of Directors of a corporate entity plays critical and multifaceted role in ensuring governance, management, and overall success of the institution. The Board is expected

to play a pivotal role in ensuring that the Bank operates ethically, responsibly, and in the best interests of its stakeholders, including shareholders, employees, customers, and the community at large. Their duties encompass a wide range of responsibilities such as strategic oversight, risk management, financial oversight, corporate governance, ethical responsibility, and crisis management.

According to Section 9 of the Proclamation, the maximum number of members (including the Chairman and the MD) on the Board are fixed at seven. The power of nominating the Chairman is vested with GoS. As on 31 March 2023, six directors (including the Chairman and MD) were on the Board, and all were nominated by GoS.

Audit studied the functioning of the Board of SBS. Observations in this regard is discussed below:

➤ **Non-formulation of Critical Policies**

Considering the growing complexities in functioning of the banking sector and as per the best practices adopted by the other banks in the country, it was important for SBS to formulate various board-approved policies such as Compliance Policy, Anti-Fraud policy, Whistle Blower policy, Credit policy, Investment policy, IT Policy, Legal Audit policy, Rotation and mandatory leave policy for establishing the organisational culture, robust ‘control and oversight system’ and also for effective decision making.

Audit noticed (October 2023) that SBS had not framed any such policies. Non-formulation of such policies has led to:

- credit lending without proper credit appraisal, regular follow-ups and credit/ legal audit, *etc.*, resulting in accumulation of NPAs (discussed in detail in *paragraph 4.4.1 & 4.4.4*),
- a series of irregularities and fraudulent activities and no effective actions were initiated. (discussed in detail in *paragraph 5.3*),

*SBS accepted (January 2024) the audit observation. The MD, SBS, in the exit meeting, further stated (January 2024) that all policies will be reviewed comprehensively and policies will be framed by hiring professional experts within six months.*

## **2.3 Compliance**

Compliance is a fundamental aspect of responsible and sustainable business and governance. Organisations that prioritise compliance are better positioned to navigate the challenges of a rapidly changing world, protect their stakeholders’ interests, and contribute positively to the society.

Lapses in compliances noticed in Audit are discussed below:

### **2.3.1 Non-Compliance of the provisions of the Proclamation**

Examination of the records (October 2023) showed that the Bank did not comply with important provisions of the Proclamation as detailed in **Table 2.1**:

Table 2.1: Non-compliances to the provisions of the Proclamation

Section	Non-compliances
17	Section 17 of the Proclamation allows the Board to constitute committees as it deems fit. However, despite its business as well as the banking sector in the country undergoing significant transformation over the years in terms of complexity as well as size, SBS has not set up any oversight committees such as Audit Committee, Fraud Monitoring Committee. In absence of such oversight committees, audit noticed several irregularities with respect to the financial reporting practices of the Bank especially regarding the classification of NPAs and misreporting of NPAs as discussed in <i>paragraphs 4.4.6.2, 4.4.6.3 and 4.6.3</i> . Audit also noticed several instances of <b>suspected</b> fraudulent acts in areas such as cash management and recruitment as discussed in <i>paragraph 5.2</i> .
27A (2) and 28 (1)	No quarterly returns on the position of the assets and liabilities of the SBS were submitted by SBS to GoS/designated authority as per the requirements.
Section 34 (1)	The Bank was to declare dividends only after creating provisions for bad and doubtful debts and other provisions. However, it was noticed that SBS had declared dividends of ₹ 8.01 crore during 2017-18 to 2022-23 without first providing adequate provisions for bad and doubtful debts as per its own guidelines.
Section 35	Contrary to the provisions which stipulated that an Annual General Meeting (AGM) shall be held annually within six months from the date on which the annual accounts are closed or such extended time on a request from SBS, no AGM was held between 2017-18 and 2021-22.

Source: Management reply and Annual Report

SBS while accepting the audit observation, stated (January 2024) that the compliances of un-complied provisions of the Proclamation will be ensured in future. It was further stated that at the instance of audit, the Bank is conducting AGM since 2023.

### 2.3.2 Non-Compliance of Board of Directors' directives

Compliance with the directives of the Board is vital for effective governance, risk management and overall success of an organisation. The Senior Management is responsible for carrying out the bank's activities in a manner consistent with the business strategy under the guidance of the Board.

Audit observed (July 2023) that SBS Management did not comply with several directives of the Board, as discussed below:

- i) Formulation of necessary policy/guidelines: In its 169<sup>th</sup> meeting (28 November 2017), the Board directed the management to formulate all necessary policy/guidelines pointed out in the C&AG Audit Report No. 1 of 2018 on top priority. However, no policy/guidelines were formulated in the last six years despite confirming the decisions taken in this meeting, in the succeeding meetings.

*SBS while accepting the audit observation, stated (January 2024) that the policies would be formulated by engaging professionals of the banking industry.*

- ii) Meeting of the Board: As per the best practices followed by SCBs in India, a minimum of four meetings of the Board is usually held in a year. Further, the Chairman of the Board in 173<sup>rd</sup> meeting (01 October 2020) had also directed the



MD to hold meetings of the Board at frequent intervals. Audit observed that a total of 10 meetings of the Board were held during the period from 2017-18 to 2022-23. Moreover, despite the Chairman's directions referred above, the Management could manage to hold only five meeting during October 2020 to 31 March 2023. Audit opines that, the frequency of the meeting was not commensurate with the role the Board has to play in the overall functioning of the Bank.

*SBS attributed (January 2024) the delay in holding meetings to unavailability of the Government appointed Directors, who remains busy most of the time.*

- iii) Setting up of Internal Audit: In 174<sup>th</sup> meeting (19 March 2021), the Board expressed serious concern over the sudden spurt of frauds in SBS and advised to set up its own Internal Audit team. However, no such Internal Audit Team has been set up so far.

*SBS informed (January 2024) that the Bank had initiated the effort to establish Internal Audit Wing and has approached Finance Department, GoS to extend the service of its internal audit wing for the purpose.*

- iv) Reduction of Interest rate: The Board has sanctioned loans at the rate of 12 *per cent* to four borrowers. Subsequently, the management, without the approval of the Board, had reduced the interest rates during the years from 2019-20 to 2022-23 and consequently forgone interest of ₹ 1.61 crore<sup>8</sup>.

*The Bank stated (January 2024) that the matter is duly appraised to the BoD and post facto approvals are obtained. The Chief Secretary, in the exit meeting, while agreeing to the audit observation stated (January 2024) that reducing the interest rates by bypassing the Board was highly irregular. The reply reaffirms the audit contention that the decision to reduce the interest rates by bypassing the competent authority (BoD) was irregular.*

### **2.3.3 Non-fulfilment of the assurances on C&AG's Audit Report**

SBS did not comply with its various assurances given to the C&AG while replying to the Performance Audit Report on "Functioning of State Bank of Sikkim" featured in *the C&AG's Audit Report No. 1 of 2018, Government of Sikkim*. The major assurances that were not complied with are detailed below:

- Formulation of necessary policies as referred to in Paragraph 2.2.
- Asset Classification and Provisioning Guidelines of SBS.
- Complete the reconciliation processes in a reasonable time and to formulate Accounting and Operational Manual.

*SBS stated (January 2024) that all such recommendations will be complied within six months.*

### **2.3.4 Lack of oversight by the State Government**

As per Section 31 A of Proclamation, the State Government had a supervisory role for monitoring the activities of SBS and to provide necessary guidance on issues of

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<sup>8</sup> *Mungipa Trades: ₹ 19,46,688, Sunil K Agarwal: ₹ 31,89,311, Skipping Stone: ₹ 38,47,890, Teesta Rangit Pvt Ltd: ₹ 71,13,929.*

significance to develop and establish a robust ‘control and oversight system’. However, audit observed that the same was not carried out by the Finance Department, GoS.

Audit further noticed that as per the Section 31 (1) of Proclamation, the GoS may request RBI to cause an inspection to be made, by one or more of its officers, of SBS and its books and accounts. However, since 1968, GoS has not made any such request. Thus, the State Government not only was unable in monitoring the activities of SBS but did not provide necessary guidance for establishment of a robust control and oversight system also.

*In the exit meeting, the Chief Secretary stated (January 2024) that SBS does not fall under any administrative department and Finance Department would be proposed as an administrative department for which “Allocation of Business” rule needs amendment. The reply however confirms the audit contention that the State Government did not fulfill the role assigned to it under the Proclamation.*

## 2.4 Conclusion

Audit observed that the governance structures within SBS have left much to be desired. The role of the Board of Directors in the overall governance of the Bank assumes great significance as SBS neither has a lender of last resort nor any regulators to regulate its activities. The Bank has not been able to keep pace with the transformations in the banking sector within the country and globally. The absence of supervision by the Reserve Bank of India played a crucial role in the unchecked rise of Non-Performing Assets, ultimately leading to a severe deterioration in the financial health of the bank. Further, non-formulation of critical policies, not setting up important committees, non-compliance to the provisions of the Proclamation, non-adherence to the Board’s directives, indicate weak governance structures. In the absence of a lender of the last resort or an external regulator coupled with lack of oversight from the State Government, these issues pose grave concerns for the financial stability of the Bank as well as the customer confidence.

## 2.5 Recommendations

- *The State Government may establish robust control and oversight mechanism for monitoring the activities of SBS;*
- *The State Government may put in place an effective regulatory oversight to ensure better financial discipline, reduce NPAs and safeguard the stability of the banking system;*
- *SBS may formulate and implement Critical policies such as compliance policy, Anti-Fraud policy, Whistle Blower policy, Credit policy, Investment policy, etc.;*
- *SBS may establish governance committees like Audit Committee and Fraud Monitoring Committee to oversee key areas for transparent functioning of the Bank;*
- *SBS may strictly comply with the provisions of the State Bank of Sikkim Proclamation, 1968 and the directions of the Board of Directors;*





**CHAPTER III:  
BANKER OF THE  
GOVERNMENT**



### Chapter III: Banker of the Government

Typically, the Government transactions of a State are carried out by the RBI being the Central Bank, in terms of the agreement entered into with the State Governments under section 21A of the RBI Act, 1934. As of now, such agreements exist between RBI and all the State Governments except Government of Sikkim.

In the absence of role of RBI as a banker to Government of Sikkim, SBS, with the powers conferred to it by the Proclamation, acts as the Banker of the State Government. Thus, SBS is vested with the responsibility of receiving money on its behalf and making all payments and keeping custody of the balances in current accounts (Major Head 8999) as well as investment of cash balances.

GoS maintains only one current account at SBS, *i.e.*, Government Account, wherein all government receipts are deposited, and payments are made there from. Further, SBS on the instruction of the State Government either invest such amount with itself by withdrawing from the Government Account or transfers funds from the Government Account to other banks/financial institutions. Subsequently, SBS forwards the monthly compilation of transactions (receipts and payment) to the Central Pay and Accounting Office (CPAO)/ Treasury based on which CPAO/Treasury works out its Cash Balance. Monthly transactions (receipts and payment) of the State Government are also forwarded to the office of the Senior Deputy Accountant General (Sr. DAG) (A&E), Sikkim for compilation of accounts.

Audit scrutinised the activities of SBS as a banker to the government and the observations in this regard are discussed in the succeeding paragraphs.

#### 3.1 Excess claim of Agency Commission from the State Government - ₹ 32.81 crore

SBS entered (October 2001) into an agreement with the State Government for carrying out the general banking business of the State Government on payment of agency commission by the State Government at such rates as were made applicable from time to time by the RBI for nationalised banks with effect from 01 April 2000, after excluding receipts from Government of India and other financial Institutions/Banks.

The RBI, from time to time, have revised the rates and methodology of claiming commission. During the audit period, the rates for claiming agency commission were based on the number of transactions as given in table below:

Table 3.1: Rate of Commission

Sl. No.	Types of Transaction	Unit	1 July 2017 to 30 July 2019	1 August 2019 onwards
1	Receipts- Physical Mode	Per Transaction	₹ 50/-	₹ 40/-
2	Receipts- e-mode	Per Transaction	₹ 12/-	₹ 9/-
3	Pension payment	Per Transaction	₹ 65/-	₹ 75/-
4	Payment other than pension	Per ₹ 100 turnover	5.5 paise	6.5 paise

Source: the RBI circulars

Scrutiny of records (May 2023) showed that during the period from 2017-18 to 2021-22, SBS raised agency commission claim of ₹ 72.77 crore which was accepted by the Finance Department, GoS and payment was made accordingly. In this connection, Audit observed the following:

- ❖ The claim of agency commission by SBS was based on the *lumpsum* rate of 0.118 *per cent* without taking into cognisance of the rates notified by the RBI from time to time as was stipulated in the agreement (October 2001);
- ❖ The claim of SBS based on Receipts accepted and Payment made on behalf of GoS, was inflated by not excluding the Receipts from GoI and Loans raised by GoS, leading to excess claim of agency commission amounting to ₹ 12.26 crore, as detailed in the table below:

**Table 3.2: Excess commission claimed**

(₹ in crore)

Year	Claims made by SBS			Claims as calculated by Audit based on Finance Accounts			Excess agency commission claimed by SBS
	Receipts	Payment	Commission	Receipts	Payment	Commission	
2017-18	5,167.61	5,889.53	15.39	1,592.27	5,675.58	10.12	5.27
2018-19	5,657.23	6,923.13	17.52	1,605.72	6,564.46	11.38	6.14
2019-20	2,181.82	7,416.84	13.37	1,663.81	6,922.75	11.96	1.41
2020-21	1,662.00	7,259.93	12.42	1,628.99	7,882.53	13.24	-0.82
2021-22	2,015.25	8,264.83	14.07	1,935.05	7,985.47	13.81	0.26
<b>Total</b>	<b>16,683.91</b>	<b>35,754.26</b>	<b>72.77</b>	<b>8,425.84</b>	<b>35,030.79</b>	<b>60.51</b>	<b>12.26</b>

Source: Management's records

- ❖ While processing the claims for agency commission, the Finance Department accepted the statement of claims submitted by the SBS without verifying the calculations.

Audit further observed that although rates notified by the RBI were on per transaction basis with different rates for physical mode and e-mode transactions, SBS raised claims on lumpsum rate of 0.118 *per cent*. As per the terms of the agreement (*i.e.*, applicable rates of RBI), SBS was eligible for agency commission of ₹ 39.96 crore for the period 2017-18 to 2021-22 calculated on per transaction basis. However, SBS did not honour the rates as revised by RBI and claimed agency commission of ₹ 72.77 crore by adopting the RBI rates that was prevalent in 2001. Thus, SBS claimed excess agency commission of ₹ 32.81 crore from Government of Sikkim.

Further, audit noticed that the claims were not vetted by the State Government before release of agency commission to SBS. This would have helped avoid excess claims made on government exchequer.

Thus, the Bank had claimed excess agency commission of ₹ 32.81 crore which were released by the State Government without due diligence, resulting in extra financial burden to the State Exchequer.

*SBS stated (January 2024) that the commission is claimed as per the agreement and that the Government and the Bank were working to revise the rates of commission. The State Government stated (January 2024) that considering the outreach of SBS in remote locations where there is no access to other Nationalised Banks, the cost per transactions is obviously high. SBS is still issuing Bank Receipts for cash transactions and information furnished to audit also pertained to transactions done in physical mode. Thus, the functioning of SBS will be reviewed with respect to the rate of commission published by RBI vis-à-vis the ease of doing business, reliability of e-mode transaction*

and other enabling environments. Accordingly, the Finance Department will suitably revise the rate of agency commission payable to SBS.

The justification provided by SBS and the State Government is not acceptable as the terms of agreement stipulated that the rates for agency commission were to be levied at such rates as were made applicable from time to time by the RBI for nationalised banks. SBS did not adhere to the modified rates and methodology of charging commission issued by RBI, in violation of the agreement. Further, SBS had erroneously claimed agency commission on the Central Government receipts also.

### 3.2 Loans to Government Departments/PSUs/ABs

Audit noticed that SBS had sanctioned 34 term loans amounting to ₹ 913.37 crore<sup>9</sup> to six departments<sup>10</sup>, three PSUs<sup>11</sup> and one Autonomous Body<sup>12</sup> between March 2013 to March 2023. All these loans were taken on behalf of the Government and subsequently, due to non-repayment of loan instalments 25 out of 34 accounts have turned into Non-Performing Assets (NPA) with total outstanding balance of ₹ 555.93 crore (*Appendix I*) as on 31 March 2023. While availing the above loans, the Finance Department had assured that the above loans would be repaid through budgetary allocation to the concerned departments.

From the records made available to audit, it was noticed in one instance that the SBS had sanctioned term loans amounting to ₹ 209.27 crore to Sikkim Power Investment Corporation Limited (SPICL) to enable the company to meet up its other financial commitments, for which SPICL was in default. The term loans were secured by (i) 1<sup>st</sup> charge on the receivables of the Corporation from sources other than the Teesta III HEP, (ii) 2<sup>nd</sup> charge of the receivables on account of 12 *per cent* free power from Teesta III HEP, (iii) Corporate Guarantee to be executed by the corporation in favour of the SBS, and (iv) Charge on the share of SPICL in Teesta Urja Limited. The total outstanding dues as on 31 December 2022 stood at ₹ 338.50 crore.

Audit observed (October 2023) that the major source of revenue of SPICL was the revenue from free power received/ receivable from Teesta III HEP and Chuzachen project and these revenues were already pledged (February 2012) with the Power Finance Corporation (PFC) and the REC in its entirety for repayment of loan taken by SPICL on behalf of the GoS. No other source of revenue was available with SPICL. However, the SBS had subsequently sanctioned<sup>13</sup> and released the loans to SPICL without verifying the repayment capacity of SPICL.

Audit also noticed that the loan sanctioned by the SBS was for servicing interest liability with the PFC as SPICL was unable to meet its commitments to PFC from the revenue generated from free power of the above two HEPs. This implies that SPICL's only source of revenue was insufficient to service the PFC loans itself. Hence, the decision

<sup>9</sup> (₹ 88.64 crore prior to April 2017; during 2017-23: ₹ 824.73 crore).

<sup>10</sup> Power Department, Roads and Bridges, Buildings, Urban Development Department, Rural Development and Tourism.

<sup>11</sup> Sikkim Power Investment Corporation Limited (SPICL), Sikkim Power Development Corporation and Sikkim Industrial Development and Investment Corporation (SIDICO).

<sup>12</sup> State Institute of Capacity Building.

<sup>13</sup> First loan sanctioned in October 2013.

of sanctioning loan on the second charge of revenues was taken without due diligence and was highly irregular.

Moreover, as the entire loan was taken on behalf of the Government of Sikkim for implementation of the above two HEPs, the SBS should have incorporated a provision for the GoS to provide budgetary provision to secure its financial interests. However, neither the SBS incorporated the same nor did the GoS provide any budgetary support for the said loans.

This indicates that there is lack of financial discipline by the State Government in repaying the debts and there seems to be an overall lack of segregation of roles between the State Government and the SBS due to which substantial amount has been left unpaid.

*The SBS stated (January 2024) that the State Government had repaid an amount of ₹ 200 crore during the year 2022-23 and matter is regularly apprised to the government for repayment of loan. The State Government while accepting (January 2024) the audit observation stated that the adjustment of loan taken from SBS is top priority of Government and settlement will be considered in phased manner through necessary budgetary support.*

### **3.3 Irregularities in collection of Government Revenue by Rangpo Extension Counter**

Extension counters are opened exclusively for collecting and remitting Government revenue such as motor vehicle tax, power and water bills, *etc.* These counters do not accept public deposits or lend advances. The revenue collected at these counters is immediately credited into the Government accounts. Monitoring these extension counters is of vital importance as there is a possibility of leakage of government revenue from these extension counters.

In one instance, Sikkim Nationalised Transport (SNT), GoS filed a complaint (December 2019) to the SBS that the bank receipts (BRs) issued by SBS's extension counter at *Rangpo* check post were subsequently deleted by them. SNT stated that once the Bank Receipts (BR) are issued by the bank to the customers on payment of supervision charges, SNT issues a supervision receipt and the same is accounted for as revenue in the books of accounts of SNT. Thus, if these BRs are subsequently deleted after handing over the same to the driver/staff of vehicle, there is a loss to the state exchequer. As such, SNT submitted the details of deleted transactions to SBS for recovering the amount from the concerned staffs and crediting to the Government Account. Subsequently, the Finance Department constituted (24 December 2019) a special audit team supervised by the Joint Director, Internal Audit/Local Fund Audit. The internal audit team reported (October 2020) that an amount of ₹ 16.72 lakh had been misappropriated by cancelling on an average 73 BRs/ *Challans* per month *w.e.f.* April 2018 to December 2019 and deleting on an average 43 BRs per month during the same period. As such, these amounts have not been actually received into the government revenue account of SNT. This was possible as CBS system had a provision for cancellation of the BRs/*challans*. Further, reconciliation of the amount collected and deposited into the government account was also not carried out between SBS and SNT. Consequently, SBS issued show cause notice against the **suspected** employees and initiated a preliminary inquiry against the

**suspected** employees. However, no progress was achieved. Rather, SBS stated that SNT has initiated inquiry at their end. This action is not justified as the cancellation/deletion of the BRs were not possible without the involvement of the bank employees.

During the verification of records of the extension counter at *Rangpo* check post, audit observed (April 2023) that only one employee was manning the extension counter at a given point of time. It was noticed that the employee had issued a Bank Receipt (BR) towards supervision charges of SNT amounting ₹ 1,335. However, the Bank employee had wrongly credited the major head (MH0041) pertaining to Motor Vehicle Department (MVD) instead of crediting the same to SNT (MH 1055). Since, the issued BR could not be cancelled in the CBS system, to rectify the mistake, a new BR was issued and credited in the correct major head of SNT. However, instead of rectifying the wrong entry under MH 0041 by following up with the MVD, five permits were issued to five different individuals without issuing any BRs but by writing the amount over a piece of paper until entire amount of ₹ 1,335 got adjusted. These unusual practices followed by the SBS also had the acceptance of the personnel of MVD posted in the check post.

It was further observed that there is no checking/inspection being carried out by the nearest branch head or by the officials of Head office. Discrepancy in cash balance of ₹ 337 was also noticed on the day of audit. This practice is fraught with the risk of misappropriation/ embezzlement.

*SBS stated (January 2024) that the case is being investigated by Internal Audit cell of GoS. The State Government replied (January 2024) that any misappropriation/ fraud leading to leakage of Government revenue is viewed seriously. As such, an Internal Audit wing has been engaged to carry out an exhaustive audit and submit the findings within a stipulated time frame. Further, in the exit meeting, the Chief Secretary also stated (January 2024) that there is a possibility of defalcation or misuse of money in such circumstances. Thus, the CS directed SBS to open a 24x7 counter in the controlling branches to enable the extension counters to deposit the cash without delay.*

### 3.4 Conclusion

The above observations highlight the inadequacies in functioning of SBS as a Banker of the Government. SBS claimed excess agency commission from the State Government, resulting in financial burden to the State Exchequer. SBS could not ensure collection, deposit and accounting of government receipts in its extension counters. SBS also did not exercise due diligence while sanctioning loans to the State Government departments and State PSUs/Autonomous bodies.

### 3.5 Recommendations

- *SBS may claim agency commission as per the agreement with the State Government and the State Government may on its part check the veracity of the claims raised by SBS, before accepting the claim;*
- *SBS may establish a robust mechanism to ensure that there are no revenue leakages on collection of government revenue by the employees of SBS.*





## **CHAPTER IV: COMMERCIAL BANKING**



## Chapter IV: COMMERCIAL BANKING

One of the important operations of SBS is to accept deposits from and extend advances to the public. SBS accepts deposits from customers through various forms *viz.*, savings bank deposits, term deposits, current account deposits, *etc.* Interest payments are made to the customers for their deposits. Advances granted by the Bank take various forms such as term loans, cash credit, *etc.* Interest in Advances is one of the major sources of revenue for the Bank.

### 4.1 Banking operations

#### 4.1.1 Balance sheet

The summarised details of the financial position of SBS for the years 2017-18 to 2022-23 are given in **Table: 4.1**.

**Table 4.1: Financial Position**

(₹ in crore)

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 <sup>14</sup>
<b>A. Liabilities</b>						
Capital	0.53	0.53	0.53	0.53	0.53	0.53
Reserve & Surplus	55.34	77.25	93.09	108.24	133.08	144.45
Deposits	2512.52	2963.05	2934.75	3164.63	4508.72	4401.34
Borrowings	214.60	67.61	136.75	185.34	45.65	210.76
Other Liabilities & Provisions	91.69	109.05	100.79	98.71	104.53	46.75
<b>Total</b>	<b>2874.68</b>	<b>3217.49</b>	<b>3265.91</b>	<b>3557.45</b>	<b>4792.51</b>	<b>4803.83</b>
<b>B. Assets</b>						
Cash in hand	13.99	18.54	13.44	13.16	20.52	17.75
Balance with RBI	0.62	0.32	0.32	0.32	0.27	0.27
Balances with Other Banks and Money at Call and Short Notices	1299.17	1288.88	1015.65	1062.42	1876.89	1452.45
Investments	374.11	426.92	109.45	114.95	157.05	168.05
Advances	1037.26	1410.33	2054.05	2297.53	2657.86	3085.25
Fixed Assets	25.24	24.25	27.71	28.20	29.17	31.64
Other Assets	124.29	48.25	45.29	40.88	50.75	48.42
<b>Total</b>	<b>2874.68</b>	<b>3217.49</b>	<b>3265.91</b>	<b>3557.46</b>	<b>4792.51</b>	<b>4803.83</b>

Source: Financial Statements of SBS

The summarised details of deposits, advances and investments during the period of audit are as follows:

**Table 4.2: Deposits, Advances and Investments**

(₹ in crore)

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Deposits	2,512.52	2,963.05	2,934.75	3,164.63	4,508.72	4,401.34
Advances	1,037.26	1,410.33	2,054.05	2,297.53	2,657.86	3,085.25
Investments	1,536.22	1,435.08	994.77	1,005.63	1,908.65	1,454.00

Source: Management's records      Investment includes FD held with other Banks

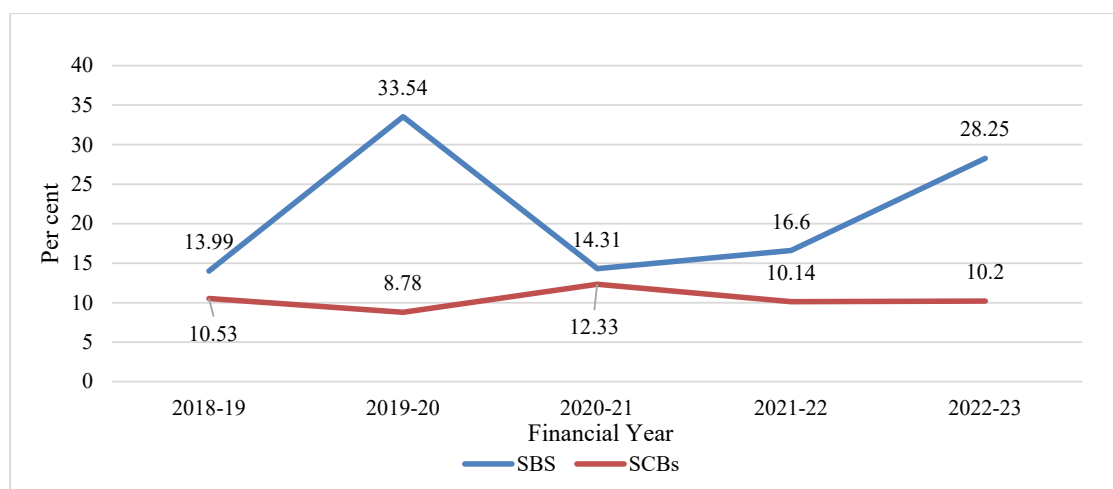
<sup>14</sup> Draft Separate Audit Report for the year 2022-23 is under finalization.

Over a period of six years, the deposits and advances have grown by ₹ 1,888.82 crore<sup>15</sup> and ₹ 2,047.99 crore<sup>16</sup> respectively. At the same time, investments have decreased by ₹ 82.22 crore from ₹ 1,536.22 crore in 2017-18 to ₹ 1,454.00 crore in 2022-23.

#### 4.1.2 Deposits

As on 31 March 2023, there were 1,78,420 bank accounts<sup>17</sup> being operationalised with SBS. It was seen that as compared to SCBs, SBS recorded a higher year-on-year growth rate in its deposits<sup>18</sup> as depicted in the chart below:

Chart 4.1: Growth rate of deposits



Source: Annual Report of SBS and RBI websites

#### 4.1.3 Advances

The year-on-year growth of advance of SBS during the year 2017-18 to 2022-23 is depicted in Table 4.3.

Table 4.3: Growth in Advances

Year	Advance (₹ in crore)	Year over Year growth (per cent)
2017-18	1037.26 <sup>19</sup>	166.05 (19.06)
2018-19	1410.33	373.07 (35.97)
2019-20	2054.05	643.72 (45.64)
2020-21	2297.53	243.48 (11.85)
2021-22	2657.86	360.33 (15.68)
2022-23	3085.25	427.39 (16.08)

Source: Management's records

SBS has recorded an increase of ₹ 2047.98 crore (197.44 per cent) from ₹ 1037.27 crore in 2017-18 to ₹ 3085.25 crore in 2022-23 under Advances. It was further noticed that as compared to SCBs, the growth rate of Advances to the public was higher in all the years as depicted in Chart 4.2.

<sup>15</sup> (from ₹ 2,512.52 crore in 2017-18 to ₹ 4,401.34 crore in 2022-23).

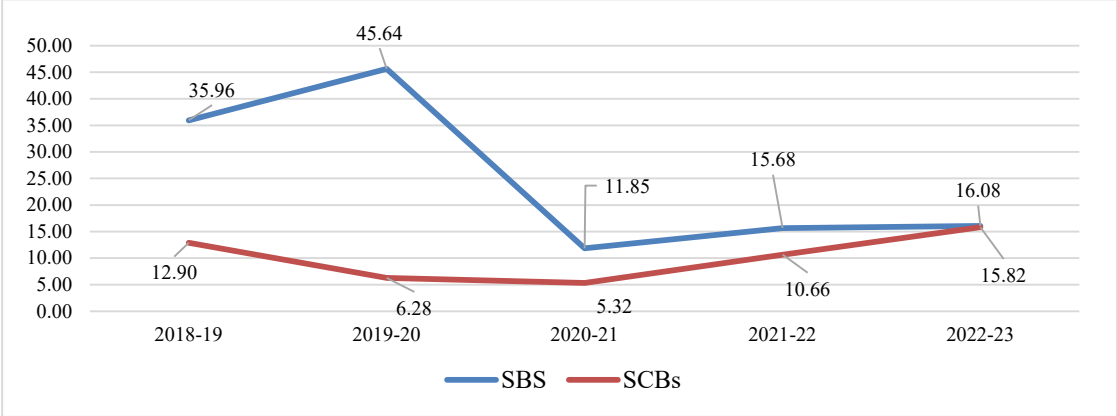
<sup>16</sup> From ₹ 1,037.26 crore in 2017-18 to ₹ 3085.25 crore in 2022-23.

<sup>17</sup> Source: CBS software; Saving accounts: 1,35,648, Current accounts: 4,029, Cumulative Deposit: 20,905 Recurring deposits: 4,134 and Fixed deposits: 13,704.

<sup>18</sup> While making comparison of SBS vis-à-vis SCBs, government deposits have not been considered.

<sup>19</sup> Advance 2016-17=₹ 871.21 crore.

Chart 4.2: Growth of Advances of SBS vis-à-vis other banks (per cent)



Source: Annual Report of SBS and RBI as available in their websites

It can be seen from the chart above that the growth rate (*per cent*) of Advances of SBS had always remained higher in comparison to SCBs. This must be viewed along with the fact that SBS does not have a robust Credit Appraisal, Lending and Recovery Mechanism. Audit has observed that due to arbitrary sanction and weak recovery of loans, a significant portion of its advances<sup>20</sup> (37.55 *per cent*) has turned into NPA as on 31 March 2022 as discussed in *paragraph 4.4.6.1*.

*SBS stated that higher than national average growth in advance is due to huge demand of credit from SBS due to credit not being provided by other banks in view of difficult land laws prevalent in the State. Further, NPA of SBS is on the higher side due to poor economic scenario of the State.*

The reply is not acceptable by Audit as the SCBs are providing credit in Sikkim year on year. Moreover, controlling its NPA by having proper credit appraisal mechanism, monitoring mechanism, *etc.* is in the best interest of SBS to protect its financial interest and stability.

4.1.4 Investment

Lack of diversification of Investment Portfolio

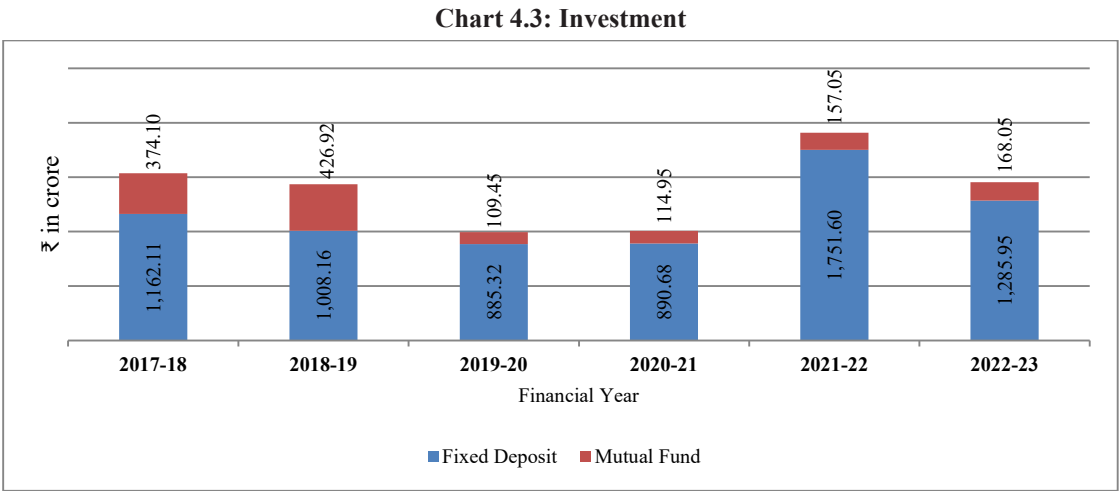
Diversification is a risk management strategy that creates a mix of various investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles such as fixed deposits, government securities, government bonds, *etc.* in an attempt to limit exposure to any single asset or risk. A well-designed portfolio is expected to yield higher long-term returns and lower the risk of any individual holding or security.

Audit noticed that the investment portfolio of SBS was not diverse as it comprised only Fixed Deposit with SCBs and investment in Mutual Funds (MFs). SBS had invested substantially in fixed deposits<sup>21</sup> with SCBs and in MFs<sup>22</sup>. The position of investments during 2017-18 to 2022-23 is tabulated in **Chart 4.3**.

<sup>20</sup> Excluding NPAs under Government Loans.

<sup>21</sup> 70-92 *per cent* of total investment.

<sup>22</sup> 8-30 *per cent* of total investment.



Source: Management’s records

In the exit meeting, the MD, SBS stated (January 2024) that investment in direct stocks was riskier and the Bank had invested majority of funds in Fixed Deposits and partially in Mutual Funds as they preferred liquidity.

**4.1.5 Profitability**

The summarised details of the ‘net profits’ earned by SBS during the six years from 2017-18 to 2022-23 have been presented in **Table 4.4**:

**Table 4.4: Profitability of SBS during 2017-23**

(₹ in crore)

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Total Income (a)	177.76	212.72	220.12	220.65	247.81	264.93
Total Expenditure (b)	158.84	180.76	195.06	203.52	203.25	245.97
Net Profit (a-b)	18.92	31.96	25.06	17.13	44.56	18.96

Source: Management’s records

It can be seen that during 2017-18 to 2022-23, the Bank has clocked a net profit ranging from ₹ 17.13 crore to ₹ 44.56 crore. Examination of records, however, showed that the profit had been arrived at without creating mandatory provisions. Audit observed that after taking into consideration the mandatory provisions, the reported profits during the period under review would turn into losses, as discussed in detail in paragraph 4.4.6.3.

**4.1.6 Capital Adequacy Requirement**

Capital Adequacy Ratio (CAR) indicates the strength and potential of a bank to absorb the probable losses which may occur in its day-to-day functioning. The CAR is expressed as the ratio of ‘Regulatory Capital Funds’ to ‘Risk-Weighted Assets’ (RWA), which internationally active banks would be required to maintain. The regulatory framework for the CAR for banks is globally framed by the Basel Committee on Banking Supervision (BCBS). Till date, three sets of Basel norms have been issued. Global standards on the regulatory capital requirements for banks were issued (1988) by BCBS, which was known as Basel-I Accord.

The Basel-I Accord was imposed on the banking sector globally through a minimum CAR. The RBI norms, however, had been more stringent than the Basel norms. As

against the Basel norms of minimum CAR of eight *per cent*, the RBI prescribed (July 2015) a CAR of nine *per cent* for Indian banks.

During 2017-23, the entire paid-up capital of the SBS, ₹ 0.53 crore, was held by the GoS. The GoS had not framed any regulatory Capital Adequacy Norms for the Bank so far (November 2023). The SBS, however, had voluntarily disclosed the CAR as per Basel-I Capital Accord for the last six financial years as depicted in the table below:

**Table 4.5: Capital Adequacy Ratio of SBS**

Financial Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Capital Adequacy Ratio – (Basel-I) disclosed by SBS.	5.33	6.29	5.77	6.72	4.35	4.86

Source: Management's records

It was evident from the above table that the present CAR was less than the rates prescribed under Basel-I (eight *per cent*) and by the RBI (nine *per cent*). Moreover, the SBS, unlike the scheduled/ nationalised banks, does not have a banker of the last resort to bail them out in case it ever faces a “Bank Run”<sup>23</sup>.

*The SBS stated (July 2023) that it is not bound to follow Basel Accord. However, in order to bring in best practice, the SBS is computing its CAR under Basel-I Accord on its own. Since there is no infusion of the capital by the Government, it has not been able to meet the minimum requirement. In the exit meeting, the MD, SBS further stated (January 2024) that the infusion of capital to increase the CAR is under consideration by the State Government.*

## 4.2 Customer Services

Customer service helps retain and attract customers and also contributes to the bank's reputation, profitability and long-term sustainability.

Modern day banking offers a wide range of facilities and services (like online banking, mobile banking, ATMs, Debit and Credit cards, Electronic Fund Transfers (EFT), *etc.*) that have transformed the way individuals, businesses and institutions manage their finances. These facilities are of paramount importance as they provide convenience, accessibility and efficiency, enhancing financial inclusion and economic growth. The status of services provided by SBS to its customers is as under.

### 4.2.1 Lack of adequate banking facilities

Audit noticed (July 2023) that in absence of a license from RBI, SBS is unable to provide EFT facilities on its own. However, as an alternative measure, it had tied up with YES bank to provide the same to its customers. Apart from this, SBS could not offer important services/features such as net banking facilities, mobile banking services, credit card facilities, *etc.* to its customers even though these services have become an intrinsic component in the modern-day banking business.

Further, audit, with respect to provision of ATM facilities, noticed that although SBS had 55 branches across the State, it had provided only 14 ATMs, as detailed below.

<sup>23</sup> A bank run or run on the bank occurs when many clients withdraw their money from a bank, because they believe the bank may fail in the near future.



Table 4.6: Allocation of ATM vis-à-vis ATM cards issued

District	No. of ATMs	No. of Branches with ATM installed	No. of Branches without ATM	No. of ATM cards issued by branches without ATM	Distance from the branches without ATMs to the nearest branch having ATM (km)
East	8	7	19	2,322	1 to 29 km
West	2	2	11	796	1 to 41 km
North	1	1	6	153	21 to 59 km
South	3	2	7	642	11 to 34 km
		<b>12</b>	<b>43</b>	<b>3,913</b>	

Source: Management's records

As can be seen from the above table, that in 43 branches where ATMs were not installed, 3913 account holders were issued an ATM card. In absence of sufficient ATMs installed across the State, these ATM card holders have to travel between 1<sup>24</sup> and 59<sup>25</sup> kms to withdraw money from SBS ATMs. Since these ATM cards cannot be used outside the SBS's ATM network, issue of ATM cards to these customers becomes ineffective.

SBS while accepting (January 2024) that payment gateway is essential to enhance the provision of quality banking services to the customers, stated that due to non-availability of payment gateway from RBI, the Bank has not been able to provide many facilities to the customers. In the exit meeting, the MD, SBS further stated (January 2024) that GoS and GoI were actively considering bringing SBS under the ambit of RBI and once this is achieved, all related matters would be duly addressed.

#### 4.2.2 Lack of product diversification

Product diversification is a vital strategy for banks to remain competitive, manage risks and cater to the diverse needs of their customers. By offering a wide range of financial products and services, banks can build stronger relationships with customers, achieve stable revenue streams and position themselves for sustainable growth.

The summarised details of products/services provided by SBS vis-à-vis other banks are as shown in the table below:

Table 4.7: Number of products offered by banks

Bank	Types of products offered by the bank		
	Savings	Term Deposits	Current
State Bank of Sikkim	3	6	2
State Bank of India	15	21	13
Central Bank of India	10	18	5
Jammu & Kashmir Bank	10	13	6

Source: official website of respective banks <https://bank.sbi/><https://www.jkbank.com/>

It can be seen from the above table that in comparison to the other banks, SBS offered very few products under its portfolio. For instance, the services provided by other banks such as (i) Auto-sweep (MOD) accounts, (ii) special packages under savings accounts scheme to defence/railway/police personnel such as zero balance accounts, offering attractive rates for loans, locker facilities, etc. (iii) annuity deposit scheme, (iv) public provident fund scheme, (v) Sukanya Samriddhi Scheme, etc. were not provided by SBS.

<sup>24</sup> Sichey.

<sup>25</sup> Lachen.

As such, audit observed that SBS has not diversified its portfolios as per the needs of customer and to keep up with its competitors.

*SBS while accepting the audit observation stated that it was unable to develop several products as is done by other banks as SBS operates outside the purview of the BR Act, 1949 and does not have access to a payment gateway. SBS assured that the Bank is endeavouring to acquire payment gateway from RBI for offering such facilities to its customers.*

### **4.2.3 Lack of Complaint Redressal Mechanism**

An effective grievance redressal mechanism is essential to create a more harmonious and productive environment for all stakeholders of an entity.

Audit highlighted in *the C&AG's Audit Report No. 1 of 2018, Government of Sikkim* that there was no robust complaint redressal mechanism to which SBS had assured to formulate a General Rule and Code of Ethics (GRACE) for the benefit of its customers. Despite the assurance, no action was initiated by SBS as of March 2023. Grievance Redressal Mechanism assumes significance in view of the fact that SBS customers also do not have options like Ombudsman.

## **4.3 Non-compliance to Prevention of Money-Laundering Act, 2002**

Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, form the legal framework on Anti-Money Laundering (AML) and Countering Financing of Terrorism (CFT). In terms of the provisions of the PML Act, 2002 and the PML Rules, 2005, Regulated Entities (REs) are required to follow certain customer identification procedures such as framing Customer Acceptance Policy, categorising the customers under low, medium and high-risk category and monitoring their transactions, *etc.* Accordingly, the RBI issued (25 February 2016) a master direction on Know Your Customer (KYC).

### **4.3.1 Absence of written down KYC norms**

KYC is essential for the Bank to ensure compliance with regulations, manage risks effectively, protect their reputation, and prevent financial crime. By verifying the identity of customers, monitoring their transactions, and assessing associated risks, Bank can uphold regulatory standards, safeguard their reputation, and mitigate potential financial threats. It also fosters trust and confidence among customers and stakeholders, thereby ensuring the integrity and stability of the financial system.

Audit noticed that the SBS does not have any written down KYC norms, nor does it have any Customer Acceptance Policy. Bank also had not categorised its customers for monitoring their transactions. It was seen that address/identity proof, PAN, Aadhaar, *etc.* are usually obtained and maintained by the SBS while opening accounts. However, where PAN/Aadhaar details were obtained, the Bank did not have a mechanism to verify the same with the issuing authority, thus rendering the process ineffective.

It was noted from the records of SBS that out of 1,78,420 accounts, in 1,39,357 accounts KYC<sup>26</sup> has been done. Even in these accounts, the following issues were noticed:

<sup>26</sup> *Non collection of documents and/or non updation of documents.*

**(a) Non-uploading of signatures and Photos**

Audit observed that in 3,969 KYC accounts, customers' signatures were not uploaded and in 3,638 KYC accounts photographs were not uploaded. Thus, instant identification of customers through CBS system was not possible in respect of these accounts which may result in customer inconvenience especially RTI/LTI/senior citizen customers.

**(b) Non-linking of PANs**

Audit observed that out of 1,39,357 KYC accounts, PAN details were not available in case of 52,572 accounts (37.72 per cent). Moreover, out of 86,785 KYC accounts having PAN details, false PAN details were fed in the CBS system for 239 accounts as there was no mechanism to ensure authentication of PAN.

**(c) Non-seeding of Aadhaar**

Aadhaar seeding is a process of linking Aadhaar number with primary bank account number which helps the bank to authenticate its customers and act as an important tool for authorities to monitor the financial transactions individuals engage in. Further, this would also enable customers to operate their accounts through Aadhaar Enabled Payment System (AEPS) and to receive various DBT subsidies.

To be able to seed the Aadhaar numbers of the customers, the Bank must possess a valid agreement from Unique Identification Authority of India (UIDAI) for availing the authentication service as Authentication User Agencies (AUA), sub-AUA or Authentication Service Agency (ASA).

Audit observed (September 2023) that the SBS did not have an existing arrangement with UIDAI and no efforts were taken in this regard.

*SBS accepted (January 2024) the audit observation and stated that the matter would be addressed in new software.*

As KYC norms have not been made mandatory, SBS was unable to put in place a system to ascertain and/ or prevent the bank from the risk of being used, intentionally or unintentionally, for money laundering activities.

*SBS accepted (January 2024) the audit observation and noted for addressing the issues in new software.*

**4.4 Credit Functions**

The credit function involves the process of extending loans, granting credit lines, etc. to the borrowers based on their creditworthiness. Interest charges and fees associated with credit products contribute to the profitability of financial institutions, enabling them to sustain their operations and continue providing financial services to the community.

SBS provided various credit facilities, such as Cash Credits/Overdrafts (CC/OD), Employees Personal Loan, Construction Loan and various other loans to its customers. The category wise details of 'Loans and Advances' disbursed during the years from 2017-18 to 2022-23 have been depicted in the table below:

Table 4.8: Disbursement of Loans &amp; Advances during 2017-23

(₹ in crore)

Sl. No.	Particulars		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total
1	Term Loan Government and PSUs	No	1	5	6	4	4	6	26
		Amount	0.10	139.04	151.24	145.00	127.00	262.35	824.73
2	Cash Credit	No	32	81	47	40	67	41	308
		Amount	39.98	78.03	123.93	77.30	107.19	33.65	460.08
3	Construction Loan	No	109	165	71	29	75	71	520
		Amount	36.86	108.41	136.19	11.91	28.59	31.82	353.78
4	SBS Home Loan	No	152	161	227	120	239	259	1158
		Amount	37.43	45.57	64.23	32.16	65.15	71.08	315.62
5	Business Loan	No	81	122	76	48	64	51	442
		Amount	9.02	30.47	84.75	43.15	64.34	48.10	279.83
6	Others <sup>27</sup>	No	1180	1139	936	635	1298	2524	7712
		Amount	87.09	73.60	61.70	40.58	106.87	169.92	539.76

Source: Management's records

The credit function within financial institutions involves several key activities like the following:

- Credit appraisal
- Valuation of securities.
- Disbursement and Loan Documentation
- Safe keeping/ custody of loan documents.
- Post sanction follow-up and Recovery
- NPA management

Audit studied these processes and the observations in this regard are discussed below:

#### 4.4.1 Credit appraisal

Credit risk is the uncertainty of default by the borrowers on repayment of the loan amount. Banks generally adopt an effective credit appraisal mechanism before sanctioning the loans. This involved assessing the creditworthiness of potential borrowers, evaluating their financial history, income levels, existing debts, and other relevant factors, to evaluate the risk associated with lending money to the borrower.

Typically, SCBs employ various methods such as gathering market intelligence from public domain, information from other lenders, legal matters, wilful defaulters' details with the RBI, etc. Apart from these, credit scoring agencies like CIBIL help banks decide on the credit worthiness of the applicant and thereby mitigate risk.

Audit observed that SBS adopted none of the above mechanisms and the due diligence on the loan applications was minimal.

As shown in **Table 4.8**, SBS had sanctioned 10,166 loans amounting to ₹ 2,773.80 crore to various categories of borrowers during 2017-23. As on May 2023, out of 10,166 loans (₹ 2,773.80 crore) sanctioned during 2017-18 to 2022-23, 890 loans worth ₹ 863.73 crore had turned into NPA.

<sup>27</sup> Personal Loan, employee construction loan, Home Loan, Sikkim Youth Start up Scheme, etc.

While in 17 cases highlighted in **Appendix 2**, these loans became NPAs, resulting in an outstanding amount of ₹109.69 crore against a total sanctioned amount of ₹ 88.37 crore as of September 2022 and the duration for which these accounts remained classified as NPAs ranged from seven to 73 months.

Audit noted that there were 3,664 NPA accounts in SBS as of March 2023, audit scrutiny (July 2023) of 224 random NPA accounts showed that the sanction of credit was not based on any laid down criteria like obtaining credit ratings of the borrowers, ascertaining the repayment capacity, etc.

It was observed that 10 out of 224 NPA accounts which had become NPA with outstanding balance of ₹ 17.56 crore were given fresh loans/enhancements under Construction loan, Cash Credit, business loan, etc. These fresh loans/enhancements also (except one<sup>28</sup>) had subsequently turned NPAs with an outstanding balance of ₹ 25.52 crore. This indicates that, SBS did not verify data available with themselves regarding loan applicants. In two cases<sup>29</sup>, loans amounting to ₹ 4.65 crore were sanctioned as take-over loans from Central Bank of India (₹ 3.65 crore) and SISCO (₹ one crore). However, these loans were already NPAs with these banks. These loans taken over by SBS subsequently turned into NPAs with SBS also. Thus, SBS did not safeguard its financial interest by taking over these NPA accounts from other banks.

*SBS while accepting the audit observation stated (August 2023) that a new system of loan appraisal has been implemented with scope for credit rating of borrower for processing of loan. However, no documentary evidence was submitted in support of its reply.*

*In the exit meeting, the MD, SBS further stated (January 2024) that the Bank had sanctioned fresh loans to these 10 NPA accounts to complete/revive the projects with a view to recover the dues once the projects were successfully completed. SBS further stated that the practice of infusing fresh loans to an already NPA account was not followed by SCBs. Thus, the State Government directed the Bank to discontinue such practices.*

The reply vindicates the audit contention that the credit appraisal of SBS was weak and the 10 loans sanctioned to NPAs were highly irregular.

#### **4.4.2 Collateral securities**

SBS sanctions Cash Credit loans to the contractors based on the works orders of various government departments. For securing the loan, the bank obtains two types of securities viz., (i) primary securities i.e., the bills receivable from the government departments, and (ii) collateral securities i.e., land and other immovable properties.

Audit noticed that government departments are also not made a party to the loan agreement to ensure that SBS has a first charge on the payments due to the contractors and that payments are released to SBS. As such, the agreements lacked enforceability. Moreover, limits on Cash Credit were not being reduced proportionately after payments were released by the government departments concerned, resulting in under securing its loan. Further, SBS could not manage the risks effectively and exposed

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<sup>28</sup> Mr. Chabilal Gurung.

<sup>29</sup> RM Rasaily (₹ 3.65 crore), Champa Darjee (₹ one crore).



itself to unnecessary financial losses and weaken its legal standing as SBS did not invoke guarantees submitted by the third parties at the time of sanction of loans. As guarantees are designed to protect the bank, failing to act on them has resulted in missed opportunities for recovery.

Audit further noticed lapses in valuation of collateral securities as detailed below:

- As per the policy guidelines of SBS on Asset Classification and Provisioning, SBS must empanel valuers with it who will carry out the valuation of collateral securities and periodically revalue the collateral securities once in three years for provisioning purpose. However, audit noticed that empanelment of valuers was not done by SBS.
- In two cases, management while sanctioning the loans had noticed and remarked that the collateral securities were valued on a higher side. However, the same was not revalued by the management, and the loans were sanctioned on higher valuations.
- In one case, the valuer had given two different valuations on the same day for the same property. However, SBS had sanctioned the increase in CC limit from ₹ 0.10 crore to ₹ 1.10 crore without going for independent revaluation to protect its financial interest.
- In one case, the bank had enhanced (February 2009) the OD limit from ₹ 1.50 crore to ₹ 2.50 crore against the mortgage of additional property worth ₹ 1.73 crore. Despite the fact that the loan was not serviced regularly, and the Bank having issued (March 2011) legal notice to the loanee, the limit was again enhanced (February 2014) to ₹ three crore wherein the additional property mortgaged in 2009 was revalued at ₹ 6.15 crore. Since the valuation of properties had seen a sharp rise in 2014 *vis-à-vis* valuation in 2009, the Loan Section of SBS should have reconfirmed the valuation from the Revenue Officer concerned before sanctioning the additional loan. However, the same was not ensured. Moreover, the properties originally mortgaged were also released on the loanee's request as the revaluation of the additional property was sufficient to cover the OD limit. Subsequently, the loan had turned into NPA with outstanding amount of ₹ 3.38 crore as of March 2017. The same property was again valued at ₹ 2.70 crore in October 2019 when the loanee had request for further enhancement. This corroborates that the valuation done in 2014 was not proper and the possibility of over valuation of property to avail more loan could not be ruled out either. Thus, due to the enhancement of the OD limit and release of other collateral securities, the collateral securities available (₹ 2.70 crore) with the Bank was not sufficient to cover the loan amount (₹ 3.38 crore).

This indicates that SBS did not have a proper system for valuation of properties mortgaged, which results in considerable risk to the bank. Unlike other banks, who employ independent valuers for the purpose, General Manager (Credit) did not take any initiative to have empanelled valuers as mandated by its own rules.

The above instances indicate that the valuation processes adopted by SBS were arbitrary thereby substantially increasing the credit risk for SBS.

SBS while accepting (January 2024) the audit observation stated that the variation in value as depicted is the result of change in valuation accepting system of the Bank. In order to ensure practical valuation, the bank has started rejecting unreasonable valuation. As such, values of earlier valued properties got revised considerably. Thus, it has enabled the bank to hold more realistic securities.

The Chief Secretary, in the exit meeting, advised (January 2024) SBS that in the Bank's own interest, it should have its own empanelled valuers.

The justification provided by SBS is not acceptable in view of the fact that Policy Guidelines on Asset Classification and Provisioning already provided for revaluation of collateral securities once every three years, which SBS did not comply with.

#### 4.4.3 Safe custody of the Documents

After completion of the process of sanction and documentation, proper safekeeping of the original documents is very important to safeguard the Bank's interest. However, the Loan section was maintaining a single file for all loan files and was not storing the files (containing all original documents) securely as these were stored in sectional almirahs and the same were left unlocked at times. As such, a few loan files were missing and no steps could be taken to recover the same. To overcome this issue, the Managing Director issued a circular (SBS/GTK (HO)/52/2021/349 dated 25 January 2021) with the following directions to the Loan section;

- to securely store all the legal documents (original) under proper lock and key and only a file containing sanction letters and correspondence must be kept for day-to-day use;
- original files could be used during review of accounts in exceptional circumstances only;
- All storage facilities must be of double lock system and keys to be held by two officers as joint custodians.

The joint custodians responsible for safe keeping of original documents were designated as shown in the table below:

Table 4.9: Joint Custodian details

Sl. No	Category of loans	Joint Custodian officers
1	All loans of ₹ one crore and above	General Manager (Credit) and AGM/Sr. Manager (Credit) or as may be decided by GM (Credit).
2	All loans between ₹ 10 lakh to ₹ one crore	Assistant General Manager (Credit)/Sr. Manager (Credit) and Manager (Credit)/ Asst. Manager (Credit) or as may be decided by GM (Credit).
3	All loans below ₹ 10 lakh	Concerned section in charge together with any other officer as decided by GM (Credit).

Source: Management's records

The General Manager (Credit) was vested with the overall responsibility to adhere and take necessary steps to comply with the circular. Audit, however, noticed that the instructions were not adhered to by General Manager (Credit) and all the loan files (maintained as single file with all original documents) were kept in the respective sections. Further, the loan files sanctioned prior to the issuance of circular were also not reviewed and maintained in multiple sets as outlined in the circular.

The Loan section (Cash Credit) was unable to furnish one loan file to audit for scrutiny as the Bank said that the file was untraceable indicating the risks with the present approach. This has consequently led to non-safeguarding the interest of the SBS and has also limited the auditing process.

This issue assumes more significance as during the 168<sup>th</sup> Board meeting (30 March 2017), SBS had written off 435 old NPA/loss loan amounting to ₹ 8.01 crore citing that the chances of recovery from these accounts were very slim due to non-availability of securities/ documents.

*SBS while accepting the audit observation (January 2024) stated that the circulars issued for safe keeping of documents shall be strictly implemented and any lapses would be looked into.*

#### 4.4.4 Recovery of Loans

The Loan Recovery Policy, 2014 of SBS was framed with an objective to provide framework to recover the entire book dues along with accrued interest from the borrowers, to reduce the NPA level of the bank by resorting to various recovery measures including compromise settlement of NPA and Bad debts accounts with minimum sacrifice wherever it is deemed necessary.

Audit scrutiny (May 2023) of 224 NPA cases showed that the Loan Recovery Policy, 2014 was not followed in spirit and the recovery of loans was done in an arbitrary manner. The recovery was very weak due to sanctioning of loans to credit unworthy accounts, inadequate security cover, not initiating legal action against the defrauders, undue favour to the defaulters, non-enforcement of internal control procedures, non-compliance of pre or post-disbursement conditions of the sanctions such as verifying end use of the fund, diversion of loans, *etc.* lack of inspection and irregular monitoring, lack of post inspection follow up, *etc.*

##### 4.4.4.1 Post Sanction follow-up activities

Bank, as per its Recovery Policy, 2014 must undertake review of its advance portfolio on regular basis as a part of internal control for timely detection of warning signals and taking preventive measures for avoiding possible slippage into NPAs.

Audit, however, noticed that SBS did not have any established procedure for post sanction monitoring of credit facilities. The follow-up of loans and advances was arbitrary. The following important deficiencies were noticed in the monitoring and follow-up action of SBS;

- There was no written down policy/Standard Operating Procedure to subject the borrower accounts having high exposure to internal credit audit annually. Thus, SBS did not carry out credit audit during the audit period;
- Based on the test check of records, it was noticed that contrary to its Recovery Policy,
  - (i) regular inspection of assets mortgaged with SBS as security was not carried out;
  - (ii) monitoring of guarantors and value of collateral security was not done; and



- (iii) regular inspections were not carried out to ensure that the borrowed funds were utilised for the intended purposes.
- the progress reports (physical or financial) on the activities/progress of works of the borrowers pertaining to Cash Credit for carrying out government contract works, Construction and Business loans were not obtained and reviewed;
- statements showing the operational results/balance sheets of the borrowers were not scrutinised on a periodic basis;
- the periodical stock/assets statements were not obtained. There was no system of periodical audit of stock/assets of the borrowers to ensure correctness and adequacy of securities against the loan amount; and
- follow-up and persuasion with the defaulters at initial stage of default in repayment of loan instalments was also done on *ad hoc* basis. Regular follow-up and negotiation with the defaulters to secure the financial interests of the Bank was missing.
- SBS does not have any legal audit policy/stipulated procedures/ practice to conduct legal audit of its borrower accounts to avoid slippage of the account into NPA. Loan Section and the Legal Cell remained effectively inactive as a meagre number of reminders (456)/legal notices (94) were served by them during the six year period ending March 2023.

*SBS while accepting the audit observation stated (January 2024) that credit/recovery policies will be framed in due course and the recommendation are acknowledged for future guidance.*

#### **4.4.5 Status of recovery of loan under SPDR, Act**

The purpose of debt recovery Acts is to create a fair and orderly process for resolving debt-related disputes while protecting the rights of both creditors and debtors. These acts play a crucial role in maintaining the functioning of credit markets and supporting economic stability.

In Sikkim, the debt related disputes are resolved through the Sikkim Public Debt Recovery (SPDR) Act, 2022 (as amended). The SPDR Act provides the Certificate Officer (the District Collector) with same powers as conferred on the Civil Court under the Code of Civil Procedures, 1908 for the purpose of any enquiry into any dispute relating to issue of certificate for money and the enquiry by the Certificate Officer would be deemed as a judicial proceeding. The Act was legislated for resolving debt related disputes in Sikkim. As such, the ‘Certificate Debtor’<sup>30</sup> is bound by the outcome of the proceedings of the case under this Act.

As on March 2023, 41 cases were pending for recovery under the SPDR Act, 2006. Out of which, proclamation of sale orders were issued in two cases<sup>31</sup> involving ₹ 1.73 crore, decrees in favour of SBS were executed in 11 cases involving ₹ 11.40 crore while 10 cases involving ₹ 26.94 crore filed more than three years back, were still pending.

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<sup>30</sup> The person named as a debtor in the Certificate filed under the Act.

<sup>31</sup> Rameswar Tamang, C.c. Shangderpa & Tenzing Zigdel Khangserpa.

Audit noticed that in the two cases wherein proclamation of sale orders were issued, the properties in question could not be auctioned due to lack of interest shown by the prospective buyers. The SBS was in the process of re-auctioning the properties. Audit further noticed that no action has been taken for the remaining 3,623<sup>32</sup> NPA cases.

SBS while accepting (January 2024) the audit observation stated that SBS has obtained about 30 certificates for execution. All pending cases in the court are vigorously followed by the Bank.

4.4.6 Non-Performing Assets

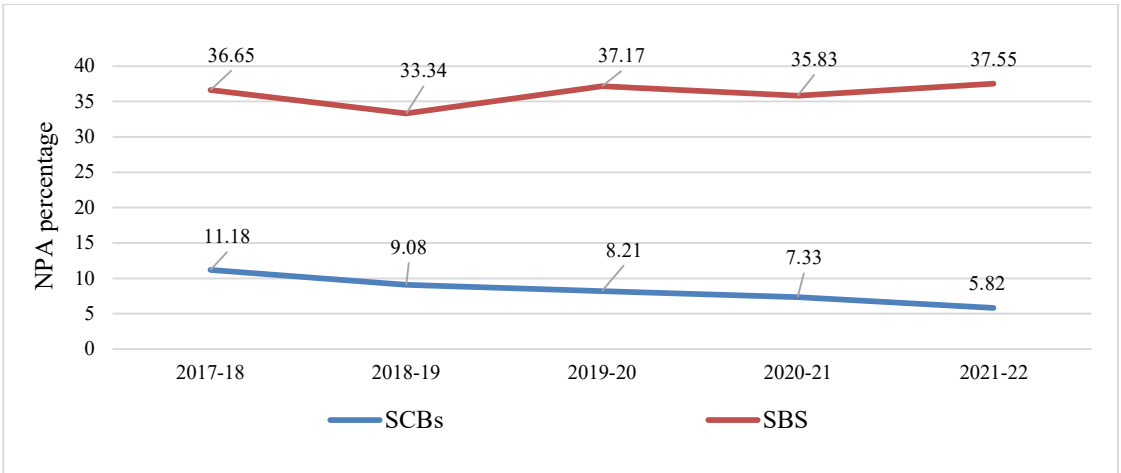
Non-Performing Assets (NPAs) in banks are loans that have become non-performing due to borrower’s inability to meet repayment obligations for an extended period. Managing and reducing NPAs is a critical aspect of a bank’s risk management and financial stability efforts. As per the Bank’s policy, an account becomes an NPA if no payments are received for 90 days.

As SBS did not carry out its due diligence in various key activities under credit functions, the quality of advances was deteriorating and the gross NPAs as on 31 March 2023 stood at an alarming rate of 52.23 per cent (₹ 1,682.04 crore) vis-à-vis its total advance in the corresponding period (₹ 3,220.67 crore<sup>33</sup>).

4.4.6.1 Gross NPA ratio

The Gross NPA ratio of SBS in respect of non-Government/PSUs advances was extremely high vis-à-vis that of Scheduled Commercial Banks in the country as depicted in the chart below:

Chart 4.4: Comparison of Gross NPA ratio of the SBS with the Industry



Source: Annual reports of the SBS and the RBI website; (figures for 2022-23 in respect of SCBs not available)

Analysis of category-wise NPA vis-à-vis total NPA of SBS showed that the category-wise percentage was highest in the three categories viz., Government and PSUs, Cash Credit and Construction Loans. As on 31 March 2023, NPAs under these categories

<sup>32</sup> Total NPA 3664 minus 41 cases.  
<sup>33</sup> The figure is furnished by the Bank from its database and the same differs from the Financial Statements as these are subject to adjustments.

were 34.87 per cent, 30.36 per cent and 22.30 per cent respectively as depicted in Table 4.10.

Table 4.10: Category-wise NPA vis-à-vis total NPA

(in per cent)						
Category	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Cash Credit	45.22	38.11	44.06	37.31	31.5	30.36
Construction Loan	25.9	36.34	27.77	23.17	21.55	22.3
Government & PSUs	21.57	17.56	21.38	32.65	38.79	34.87
Others	7.31	7.99	6.79	6.87	8.16	12.47
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Management's records

It could be seen from the table above that the NPA percentage under Government and PSUs, Cash Credit and Construction Loans was alarmingly high as compared to total NPA per Year over the period 2017-23. Despite the increase in risk exposure in these categories of loans, viz., Government and PSU, Cash Credit and Construction, SBS did not carry out any credit concentration risk analysis of its credit portfolio to assess its limit position and devising further lending strategies. It was observed that during the last two years, SBS had disbursed ₹ 389.35 crore, ₹ 140.84 crore and ₹ 60.41 crore in these three categories respectively. As the NPAs under the three categories are very high, immediate remedial measures are required to be put in place to effect recovery of these NPAs.

SBS accepted (January 2024) the audit observation and noted the same for future compliance.

#### 4.4.6.2 Asset Classification

SBS had adopted the 'Asset Classification and Provisioning Guidelines' (Guidelines) and Loan Recovery Policy 2014, according to which, if interest or instalment of principal remained overdue for more than 90 days, loans were to be classified as Non-Performing Assets (NPAs) i.e. into Substandard, Doubtful and Loss Assets. Audit, however, noticed that the Credit department had categorised the loan assets into two broad head namely Standard and Sub-standard assets which was in contravention of its own guidelines.

The table below depicts the summarised details of classification of the loan assets by SBS as on 31 March during last six financial years (2017-18 to 2022-23):

Table 4.11: Asset Classification

Particulars		As on 31 March					
		2018	2019	2020	2021	2022	2023
Standard Assets	No of accounts	15,615	19,895	12,275	12,578	13,111	14,429
	Amount (per cent)	634.64 (58.84)	1,010.71 (65.11)	1,315.97 (60.42)	1,403.26 (57.75)	1,432.44 (51.14)	1,538.67 (47.77)
Sub Standard Assets	No of accounts	2,347	2,758	2,775	2,899	3,013	3,664
	Amount (per cent)	443.90 (41.16)	541.57 (34.89)	862.21 (39.58)	1,026.47 (42.25)	1,368.79 (48.86)	1,682.04 (52.23)
<b>Total Assets</b> <sup>34</sup>	<b>Amount</b>	<b>1078.54</b>	<b>1552.28</b>	<b>2178.18</b>	<b>2429.73</b>	<b>2801.23</b>	<b>3320.71</b>

Source: Management's records

<sup>34</sup> These figures differ from figures reflected in table 4.1 (source: Financial Statements) because the amount of advances reflected in the Financial Statements is after adjustments made for Bad Debts and interest suspense.

#### 4.4.6.3 Under-Provisioning against Non-Performing Assets

Audit observed that SBS has neither carried out any age-wise analysis of its loan assets to classify them into the above class of assets nor it has made adequate provisions for NPAs.

SBS must make provisions based on the classification of assets into different categories as per its own guidelines. However, it had made a general provision over the years. This has resulted in under provisioning of the NPA accounts amounting to ₹ 225.28 crore as on 31 March 2023. Even if SBS had made minimum provisions at 15 per cent as per its own guidelines, the profit earned during each year would have turned into losses as detailed in the table below:

**Table 4.12: Short provisioning**

(₹ in crore)

Year	As on 31 March					
	2018	2019	2020	2021	2022	2023
Substandard Assets	443.90	541.57	862.21	1,026.47	1,368.79	1,682.04
Provision to be created @ 15 per cent	66.59	81.23	129.33	153.97	205.32	252.31
Actual provision created	3.00	10.00	17.00	22.00	22.03	27.03
Short Provisioning	63.59	71.23	112.33	131.97	183.29	225.28
Profit/ (Loss) for the year as per the financial statements	18.92	31.96	25.06	17.13	44.56	18.96
Actual Profit/ (Loss)	(44.67)	(39.27)	(87.28)	(114.84)	(138.73)	(206.32)

Source: Financial Statements and Management's records

As a matter of fact, even with minimum prescribed provision, the Bank would have been running into losses which will increase year after year. The accumulated losses would have eroded the capital.

The high level of Gross NPAs had correspondingly reduced the availability of funds for carrying out the credit and lending activities of SBS to that extent. Furthermore, such a high level of NPAs also has the potential to create a negative reputational consequence as borrowers would not be inclined to repay their loans. This possesses significant threat to the business continuity of any bank.

‘The major lapses of the Bank on executing the credit functions are highlighted as case studies in **Appendix 2** of this Report. These include sanctioning of loans without due diligence as to the valuation of securities, allowing the loanees to draw over and above the sanction limits, improper valuation of securities mortgaged, enhancement of loan after account turning NPA, granting loans on sublet works without ensuring recoverability capacity of the borrowers, improper recovery follow ups, inability to verify the end use of the funds, etc.

*SBS while accepting the audit observation stated that although it does not come under the purview of RBI, as a responsible Banking institution, it has adopted the policy of Income Recognition and Assets Classification of RBI but despite its best efforts, the Bank was unable to implement the policy totally.*

#### 4.4.6.4 One Time Settlement

One Time Settlement (OTS) scheme is a negotiated agreement between the bank and the borrower to settle a loan or debt for an amount that is less than the total outstanding balance.

SBS had formulated 'Loan Recovery Policy, 2014' which stipulated with respect to NPAs, that the compromise should be a negotiated settlement which would ensure recovery of dues to the maximum extent possible at minimum expenses and within shortest possible time frame.

#### (a) Selection of NPAs for OTS

Audit observed (September 2023) that SBS neither outlined the method of selecting the NPAs for OTS, nor did it approach the defaulters for settling the outstanding dues under NPA. Further, SBS did not create any awareness about the scheme to all its borrowers unlike SCBs, which follow the practice to publicise its OTS schemes with predetermined eligibility criteria through its web portal to disseminate the information widely.

Thus, in absence of any predetermined and widely publicised eligibility criteria, the selection of loanees was not transparent and the possibility of preferential treatment to certain account holders could not be ruled out.

*SBS stated (January 2024) that the recovery through OTS is as practiced by the other banks. The Bank issues notices to the defaulters and they approach the Bank for settlement.*

#### (b) Grading of loan account

As per the guidelines, the loans selected to be settled under OTS were to be graded based on various parameters to derive at the settlement amount and higher the grading, recovery would be more. The minimum settlement amount can vary from 100 per cent of the principal amount of NPA to any amount that may be possible to recover. However, SBS would be well within its jurisdiction to exclude a particular class of borrowers from the scheme in the interests of its financial health.

Following discrepancies were noticed on grading of loans for OTS:

Table 4.13: Grading of loans

Sl. No.	Parameters for grading	Audit Observation
1	Realisable value of securities	In ten out of 30 cases scrutinised in audit, SBS had graded the securities as 'easily marketable' and the balance were graded as 'not easily marketable or very difficult to market.' However, no documentary evidence was available to substantiate the rational of such assessment of the marketability of such properties, by SBS.
2	Aggregate means of borrowers/ guarantors	In four cases, aggregate means of borrowers were graded the highest, in 25 cases, it was graded as moderate and in one case, it was graded as lowest ( <i>i.e.</i> , no means for recovery). However, no documentary evidence was available to substantiate or justify such grading.
3	Business Activity of the borrower	The loan accounts were graded under this parameter without any verification as to end use of the loan, any other successful venture of the loanee, <i>etc.</i> and without any documentary evidence.

Source: Management's records

#### (c) Irregular settlement of loans under OTS

As per the records made available to audit, SBS had stated to have settled 91 NPA accounts during the period under review involving ₹ 51.14 crore under OTS wherein it had recovered ₹ 37.55 crore and sacrificed ₹ 13.59 crore.

The SBS furnished 33 OTS files for scrutiny, out of which three files were not amongst the 91 OTS cases settled by SBS during the audit period. This is indicative of the fact that the Loan Section neither had a comprehensive list of cases taken up for OTS nor was it aware of the financial implications of these cases. Audit scrutinised 30 NPA accounts<sup>35</sup> with total outstanding dues of ₹ 28.35 crore which were settled at ₹ 19.02 crore resulting in a sacrifice of ₹ 9.33 crore (principal sacrifice: ₹ 0.31 crore; interest sacrifice: ₹ 9.02 crore). The following was observed:

- As per the guidelines, when an account is classified as an NPA, the interest charged but not recovered must be reversed back. However, this reversal of interest is to be added back along with a notional interest @ nine per cent (*simple interest*) to arrive at the total outstanding dues for the purpose of OTS. Moreover, the notional interest was to be charged on the total outstanding dues after adding back the reversal of interest.

It was however observed that in 13 cases, the notional interest was charged on the ledger balance without adding back the reversal of interest. Thus, SBS has under reported the sacrifice amount by ₹ 1.91 crore and as such, the Board was misled in terms of the sacrifice SBS was actually making.;

- As per RBI norms, wilful defaulter is an account who has defaulted on the repayment even when it has the capacity to repay the same, diverted the funds for other purposes, has siphoned off the funds, *etc.* The Loan Recovery Policy of SBS stipulates that the OTS in the case of wilful defaulters should be avoided to the possible extent and basic principle shall be to allow law to take its own course. However, audit observed that One Time Settlement has been awarded to 13 loanes<sup>36</sup> whom SBS themselves have categorised as wilful defaulters which was against its own policy and sacrificed ₹2.84 crore;
- The management had opted for OTS in seven cases<sup>37</sup> due to insufficient documentation resulting in sacrifice of ₹ 2.67 crore which could have been avoided with proper documentation and better record keeping;
- In one case<sup>38</sup>, SBS had sanctioned (19 June 2018) another loan amounting to ₹ 1.20 crore to the loanee whose earlier loan had turned into an NPA. Subsequently, the NPA loan was processed (07 August 2018) through OTS for settlement against which the payment was routed through the new loan account. Subsequently, the entire fresh loan also turned into NPA as on March 2019.

The above observations indicate that, SBS implemented the OTS scheme in an arbitrary manner resulting in substantial loss to the bank.

The major lapses of the Bank on OTS are highlighted as case studies in **Appendix 3** of this Report

<sup>35</sup> Three files were incomplete.

<sup>36</sup> Kharka Kumar Gurung, Nar Bahadur Rai, Krishna Bahadur Chettri, Krishna Kumari Dahal, Phurden Lama, Tashi Palaki Bhutia, Tamanna Rai, Ugen Dorjee Bhutia, Chandra Bahadur Gurung, Karna Prasad Sharma, Suresh Kumar Chettri, Sushil Tamang, Ram Kumar Chettri.

<sup>37</sup> Sushila Chamling, Kishan K Agrawal, Karma T Namgyal, Melodin Rai, Nar Bahadur Rai, Imtiyaz Ahmed, Sonam Wangchuk Bhutia.

<sup>38</sup> Sushila Chamling.



The MD, SBS, in the exit meeting, accepted the audit observation and assured (January 2024) to review the OTS policy. The State Government also instructed the Bank to bring in necessary reforms in OTS. The State Government further stated that filing of FIRs and intervention of the Enforcement Directorate was instrumental in effecting recoveries in many cases.

#### 4.4.7 Issuance of Bank Guarantees

SBS offers the facility of Bank Guarantee (BG) to various contractors as required by them to fulfil the conditions of their work agreements with the implementing departments/agencies. These Bank Guarantees are issued in accordance with SBS's policy guidelines over 'Issuance of Inland letter of Guarantee'. The rates of commission and processing fees were clubbed with the GST and revised rates are implemented w.e.f. 01 November 2017. Again, rates of commission charges were revised in 2019 and 2020. The rates of minimum cash margin and commission charges w.e.f. 01 November 2017 are as shown in Table 4.14.

Table 4.14: Rate of BG commission

Particulars	Up to ₹ 1.00 cr.	₹ 1.00 cr. to ₹ 5.00 cr.	Above ₹ 5.00 cr.	Up to ₹ 1.00 cr.	₹ 1.00 cr. to ₹ 5.00 cr.	Above ₹ 5.00 cr.	Up to ₹ 1.00 cr.	₹ 1.00 cr. to ₹ 5.00 cr.	Above ₹ 5.00 cr.
	w.e.f. 01 November 2017			w.e.f. 01 January 2019			w.e.f. 28 May 2020		
Minimum cash Margin	25%	20%	15%	25%	20%	15%	25%	20%	15%
Commission for BG with cash margin up to 99%	2.48% p.a.	1.89% p.a.	1.53% p.a.	2.48% p.a.	2.10 % p.a.	1.80 % p.a.	2.48% p.a.	2.10% p.a.	1.80% p.a.
Commission for BG with cash margin of 100%	25% of commission as applicable above			₹ 5000/-			₹ 59/- per lakh of BG Amount		
Processing Fee	1,180	2,950	11,800	1,180	2,950	11,800	1,180	2,950	11,800
Renewal of BG	Not prescribed. Renewed as per rates shown above			(a) 50% of Normal rate (effective from date of expiry) (b) 75% of Normal rate (effective from a subsequent date)					

Source: Management's records

The cash margin enables SBS to limit its exposure and risk in such transactions. The BG was to be issued for a minimum of six months and commission on BG was to be charged on quarterly basis<sup>39</sup> for BGs exceeding six months period. The power to revise the commission rates and cash margin was vested with the Board of Directors alone.

As per Policy guidelines on 'Issuance of inland letter of Guarantee', it must ensure the following;

- At the time of issuing guarantees, SBS must exercise due caution and have sufficient experience with the customer to satisfy themselves that the customer has the necessary experience, capacity and means to perform the obligations under the contract and is not likely to commit any default; and
- Minimum cash margin from third party can also be accepted with lien in favour of SBS backed by personal surety of the deposit holder.

The Bank Guarantees issued during the audit period were scrutinised and the observations thereon are discussed in the succeeding paragraphs:

<sup>39</sup> Portion of a quarter to be treated as full quarter.

**4.4.7.1 Loss of ₹ 1.35 crore towards commission due to clubbing of Bank Guarantees**

As per paragraph 4(i) of the BG policy of the Bank, the minimum cash margin prescribed was only an indicator and while sanctioning BG, effort should be made to increase the cash margin to maximum possible. Only Board shall have the power to lower cash margin from the prescribed minimum level as above.

It was further noticed that out of 935 BGs issued (fresh issue-493 BGs and renewed-442 BGs) during the period 2017-18 to 2022-23, amount of 407 BGs were clubbed together for the purpose of charging commission which resulted in loss of ₹ 1.35 crore to SBS and extension of undue benefit to contractors. Similarly, due to clubbing of the amount of BGs, SBS also collected Cash Margin at a lesser rate thereby exposing itself to an unsecured risk of ₹ 13.86 crore during the period 2017-18 to 2022-23.

*SBS accepted the issue of short collection of Cash Margin and stated that SBS has already asked the customers to create a margin money FD for the deficit amount. However, SBS did not offer any comment on the loss of ₹ 1.35 crore.*

**4.4.7.2 Issue of Bank Guarantee to a NPA account**

As per Section 11 (d) of the BG policy, the Bank should exercise due caution and have sufficient experience with the customer to satisfy themselves that the customer has the necessary experience, capacity and means to perform the obligations under the contract and is not likely to commit any default. SBS has granted (24 Jul 2009) Cash Credit facility amounting to ₹ one crore to a contractor. Due to non-payment of dues, the account became NPA and ₹ 1,58,36,575 remained outstanding as on 07 September 2017. However, SBS issued three Bank Guarantees amounting to ₹ 4.07 crore to the same contractor between July 2017 to September 2017 despite knowing the fact that the account was already a NPA with the bank which was in contravention to the policy guidelines. Moreover, SBS had obtained a fixed deposit amounting to ₹ 40 lakh from a third party as Margin Money. However, no certificate of lien in favour of SBS was insisted upon from the deposit holder.

Thus, in violation of its own policy guidelines and against principles of prudent financial management, SBS provided bank guarantees to a defaulter.

*SBS stated that the Bank issued BG to the borrower as the borrower was awarded a government contract work in the year 2017 and SBS sensed the fair opportunity to recover its dues and settle the accounts from the payment received against the execution of the contract work.*

*The justification provided by SBS is not acceptable as BG was issued in violation of its own BG Policy and SBS could not recover its dues or settle the NPA account as on 31 March 2023, as claimed by the Bank.*

**4.5 Functioning of Branches**

State Bank of Sikkim has 55 branches across the State. Audit scrutinised a sample of 18 branches<sup>40</sup> to assess their functioning, and the observations are discussed below:

<sup>40</sup> Excluding three extension counters at Rangpo, Melli and SNT.



**(a) Non-reconciliation of Inter Branch transactions and other bank accounts**

The reconciliation of bank accounts is a fundamental financial practice that contributes to accuracy, transparency and control over an entity's financial affairs. It is an essential tool for error detection, fraud prevention, financial planning, *etc.* Regular reconciliation promotes financial stability and informed decision making.

Audit observed (September 2023) the following:

***Non-reconciliation of Inter-branch transactions***

With the implementation of Core Banking Solution System (CBS) in SBS in April 2017, the accounts are automatically reconciled at the end of the day. However, prior to April 2017, reconciliation of inter-branch transactions was done manually due to lack of inter-connectivity in the previous application software between the branches and Head Office (HO) and between branches themselves. Accordingly, the inter-branch accounts were reconciled at HO and unreconciled entries were sent to branches for their response.

Examination of the records revealed that an unreconciled balance of ₹ 9.44 crore for the period prior to 2017 is lying as Branch Adjustment under other assets in the books of accounts as on 31 March 2023.

*SBS stated (January 2024) that the reconciliation process is underway and is a continuous process. The reply is is not acceptable as no reduction in the Branch Adjustment Amount was noticed even after seven years.*

***Non-reconciliation of accounts maintained with other banks***

SBS (HO and 18 branches) has maintained 38 accounts with various commercial banks to facilitate smooth banking operations. It was observed that nine out of 38 accounts were not reconciled for period ranging from two months to eight years due to which there is an unreconciled figure of ₹ 33.48 crore as on 31 March 2023. Further, in 10 out of the 29 reconciled accounts, it was noticed that the reconciliation had been done by posting a bulk amount/figure as a cut off difference which was yet to be reconciled. These accounts had an unreconciled balance of ₹ 23.72 crore, thus leaving an amount of ₹ 57.20 crore unreconciled as on 31 March 2023. Due to non-reconciliation of these accounts, the reasons for the differences were not known to the management.

Both these unreconciled amounts could be an outcome of an error. At the same time, the possibility of frauds/misappropriation in these unreconciled transactions could not be ruled out either.

*SBS while accepting (January 2024) the audit observation stated that the reconciliation process is underway and is a continuous process and in the exit meeting, the MD, SBS stated (January 2024) that considering the gravity of the matter, the same would be expedited by engaging external agencies.*

**(b) Delayed deposit of collections by Rangpo & Melli Check Post extension counters**

SBS, through its branches including 24x7 revenue counters, collects various government revenues on behalf of the State Government and credits the same into the Government account immediately. The 24x7 counters are operational on a 24x7 basis and as such

these counters deposit the cash in lieu of the revenue collected on the next working day to their respective branches who are responsible for its supervision.

Audit noticed (April 2023) that there was substantial delay in remittance of government revenue by extension counters under two check posts as detailed in the table below:-

**Table 4.15: Delayed remittance**

Branch	Collection Period	Amount (₹ in crore)	No. of instance (delayed remittance)	Delayed remittance (₹ in crore)	Remarks
Rangpo CP	May 2019 to March 2022	61.19	74	4.34	₹ 0.01 lakh to ₹ 21.20 lakh was deposited with a delay <sup>41</sup> ranging from one to nine days
Melli CP	June 2019 to March 2022	15.43	78	1.12	

Source: Management's records

SBS stated (January 2024) that the collection amount is credited on the same day and delay in transfer of cash collected is on account of holidays. The reply is factually incorrect as the cases of delayed deposits pointed out in audit all occurred during working days and the money lies outside the bank account of SBS for the period of delay.

In the exit meeting, the Chief Secretary also stated (January 2024) that there is a possibility of defalcation or misuse of money in such circumstances. Thus, the CS directed SBS to open a 24x7 counter in the controlling branches to enable the extension counters to deposit the cash without delay as the practice followed by these extension counters is fraught with the risk of temporary misappropriation of public money.

#### **(c) Mismatch of signature/thumb impression with specimen signature**

On test check of vouchers in respect of sample branches, it was observed that the signature in the withdrawal form/cheque was not tallying with the specimen signature in the system in 151 cases under 12 Branches<sup>42</sup>. Further, under six branches<sup>43</sup>, audit noticed that third parties had withdrawn money through withdrawal slip and self-bearing cheques, indicating major violation of internal controls.

In all the above cases, the concept of Maker<sup>44</sup> & Checker<sup>45</sup> though available in the banking system was not followed in letter and spirit by the branch personnel as transactions were authorised despite mismatch/non availability of specimen signatures.

SBS while accepting (January 2024) the audit observation stated that the circular has been issued to ensure strict checking of signature and thumb impression.

#### **(d) Non submission of document for cash deposit**

As per section 114 B of the Income Tax Act, 1961, every person shall quote his permanent account number (PAN) in all documents pertaining to Deposit (exceeding ₹ 50,000 at a time) with any bank or financial institution including post offices.

<sup>41</sup> The delay in days of deposit has been worked out considering the official holidays based on the State Government's official calendar.

<sup>42</sup> Namthang, Secretariat, Sang, Pakyong, Soreng, Rakdong-Tintek, Mangalbaria, Singtam, Mangan, Namchi, Rhenock & Ravangla.

<sup>43</sup> Secretariat, Sang, Pakyong, Soreng, Rakdong Tintek & Namchi.

<sup>44</sup> Maker is the employee who makes the vouchers while making payment/ receiving money.

<sup>45</sup> Checker is the higher officer who authorises the voucher/ entries.

However, it was noticed that in several cases the branches did not insist upon submission of PAN details wherein the deposits exceeded ₹ 50,000 at a time.

#### ***(e) Non verification of vouchers***

As per the general practice, banks must have a system of Voucher Verification at the end of the day. It is one of the comprehensive risk control systems introduced by the Bank to prevent frauds, and safeguard and protect the interest of the Bank.

However, it was noticed that SBS had not adopted any system of voucher verification at the end of the day closing.

*SBS has accepted (January 2024) the audit observation and noted the same for future compliance.*

### **4.6 Information Technology Systems**

#### **4.6.1 Insecure CBS infrastructure**

Use of Information Technology by banks and their constituents has grown rapidly and is now an integral part of the operational strategies of banks. Thus, it is important for the Bank to identify the inherent risks and the controls in place to adopt appropriate cyber-security framework. Depending on the level of inherent risks, the banks are required to identify their riskiness as low, moderate, high and very high or adopt any other similar categorisation. The IT architecture should be designed in such a manner that it takes care of facilitating the security measures to be always in place. The same needs to be reviewed and upgraded, if required, as per their risk assessment in a phased manner. Banks are also responsible for keeping customer data safe and protecting it from cyber-attacks or unauthorised access.

Thus, banks employ various safe practices such as blocking access to social websites, personal emails, and USB ports for its employees, access controls using VPN, *etc.* to ensure that the systems remain safe from unwarranted access.

Audit noticed (April 2023) that SBS had not adopted proper security measures in the operation of its Core Banking Solutions System as detailed below:

- The system was not restricted to be operated within its own network through VPN. The CBS system could be operated through any network inside or outside the bank, through mobile hotspots, *etc.* No boundaries were set up for the operations of the IT infrastructure of the bank. As such, the CBS can be operated outside the Bank's premises creating a possibility of security breach;
- Access to other websites, personal emails were also not restricted.
- Moreover, USB ports were not blocked.

Thus, audit observed that basic security practices required for a banking IT system were not in place. This poses a serious risk to the data security of SBS system and the bank's financial resources and operations are not safe from unauthorised access and cyber-crimes.

*SBS while accepting the audit observation stated (January 2024) that the bank is now migrating to new application which incorporates all security measures and is a proper banking software capable to addressing all banking issues.*

#### 4.6.2 Sharing of user IDs and passwords: Control failure

SBS implemented Core Banking Solution System in April 2017. To carry out the banking operations, each employee has been provided with a unique user ID and password. The management of SBS circulated (01 February 2020) the Standard Operation Procedure for safe keeping, updating and maintaining of user passwords. As per this SOP, user IDs and passwords are confidential and must not be shared with anyone to prevent any unauthorised access as it invites the risk of fraudulent activities exposing SBS as well as the public transacting with SBS to great risk. Audit observed that the Branch/Section heads and the staffs were not adhering to these as discussed below.

- In 13 branches<sup>46</sup>, the staffs including the Branch Managers (in some branches) had shared their user IDs and passwords amongst themselves. In all these 13 branches, user IDs of the Managers/ officers/ staff were utilised to carry out the transactions during such periods when they were either on leave or were out of station. There is no record of who had accessed their credentials in their absence indicating absence of critical internal controls.
- In one branch (*Namchi*), a private insurance agent was also given access to the CBS systems and user IDs/ passwords and had accessed the CBS account of the staff and issued bank statement without the consent of the staff.
- The Bank employees were not sufficiently made aware of the importance of safe practices. In nine branches<sup>47</sup>, the user IDs and passwords were saved in the computer systems itself and were available to anyone operating it. Thus, anyone getting a hold of the computer systems can log in through the saved ids and carry out transactions in the CBS.

The instances pointed out by audit indicate gross violation of SOP of SBS itself.

*SBS while accepting the audit observation stated (January 2024) that the circulars had been issued to discontinue the practice of sharing User IDs and passwords, warning ID owners of the consequences they would face. It was further stated that the matter relating to engagement of private person getting access to CBS system is being investigated. The Chief Secretary, in the exit meeting instructed (January 2024) SBS to issue show cause notice to the branch head for giving access to a private individual.*

#### 4.6.3 Compromised Data Integrity: a risky oversight

Data integrity, or the accuracy, consistency, and reliability of data, is crucial for the smooth functioning of any financial institution. When data integrity is compromised, it can lead to a range of negative consequences such as inconsistent records, data entry errors, fragmented systems, compliance risks and operational inefficiencies.

Audit observed several inconsistencies in the CBS software such as:

<sup>46</sup> *Deorali, Namthang, Rangpo, Singtam, Soreng, Pakyong, Sang, Mangalbaria, Secretariat, Phodong, Mangan, Namchi, KSC.*

<sup>47</sup> *Soreng, Singtam, Rangpo, Mangan, Sang, Pakyong, Secretariat, Deorali & KCS.*

- The NPA as of March 2023 stood at ₹ 1682.04 crore pertaining to 3664 accounts. However, as per the report generated from the CBS software depicted the NPA at ₹ 1681.97 crore pertaining to 3651 accounts.
- The CBS report had reflected nine accounts as NPA although the current status of these accounts was closed/Null.
- Eight accounts where overpayment (₹2.73 lakh) i.e. positive balance was apparent were marked as NPA.
- In two cases, although the sanction amount was Nil, the outstanding balance of ₹ 11.10 lakh was being reflected under the standard accounts.
- In 16 cases, although the accounts were closed, the database was reflecting an outstanding of ₹ 7.28 lakh.
- In 983 accounts, although the repayment was not received beyond 90 days, these accounts were reflected as standard assets. Thus, there was divergence of ₹ 116.58 crore in the reporting of gross NPAs as on March 2023. The gross NPAs reported by SBS was ₹ 1,682.04 crore whereas the gross NPAs as worked out by audit was ₹ 1,798.62 crore.

*SBS while accepting the audit observation stated (January 2024) that the bank is now migrating to new application which incorporates all security measures and is a proper banking software capable to addressing all banking issues.*

However, the above inconsistencies present significant risks, ranging from operational inefficiencies to regulatory non-compliance and customer dissatisfaction. This undermines SBS's ability to maintain accurate, reliable information, which is essential for both day-to-day operations and long-term strategic decisions.

#### **4.6.4 Other deficiencies in CBS System**

Other deficiencies observed in the CBS system are as under;

- The CBS system was not configured to enable various features such as:
  - (i) automated categorisation of the loan accounts as Standard/NPA which was being done manually;
  - (ii) provision to add/update the details of primary/collateral securities in the CBS system and were instead maintained physically in the respective files
  - (iii) provision for issuance of a Bank Guarantee and the same is being done manually
  - (iv) system to check CIBIL score while sanctioning the loan;
  - (v) renewal of term deposits of customers attaining the age of 60 year at the applicable interest rates is done on manual basis;

*SBS accepted (January 2024) the audit observation and noted for addressing the issues in new software.*

#### **4.6.5 Absence of Management Information System**

An MIS, or Management Information System, in banking terms is a system that provides managers with the information they need to make informed decisions about the bank's operations. This information is typically presented periodically in the form of reports,



dashboards, and other visualisations that help managers understand the bank's financial performance, customer behaviour, and other key metrics at a glance. The goal of an MIS in banking is to improve decision-making, increase efficiency, and enhance overall performance. Overall, MIS plays a vital role in the banking sector by enabling banks to manage their resources efficiently, make informed decisions, mitigate risks, and provide better customer service.

It was, however, noticed that the Management of SBS did not implement an effective MIS system to monitor the overall performance of SBS. In the absence of an effective MIS system in place, there would be considerable delays in furnishing information to the top-level management and outside agencies as and when they are required. It is pertinent to mention here that during audit many such information requisitioned by audit were furnished either with incomplete/ wrong details (for instance details of NPAs and its provisioning, *etc.*) or with considerable delays (for instance employee data, fortnightly deposits data, *etc.*). As such, it is recommended that SBS may devise its own MIS system laying down the reporting structure to the top-level management on a periodical basis.

*SBS accepted (January 2024) the audit observation and noted the same for future compliance.*

#### 4.7 Human Resource Management

The management of people in the organisation along with handling the financial and economic risks at the wider level is the most potent challenge in front of the banking industry in any given time frame. Efficient and skilled manpower in the sector can only manage the financial risks that the banks need to take on regular basis.

The details of SBS's business and manpower for the last six years ending 31 March 2023 are given in the table below:

**Table 4.16: SBS business and manpower**

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Number of employees (Permanent and Temporary)	444	473	598	623	701	784
Total Business (₹ in crore)	3549.78	4373.38	4988.80	5462.16	7166.58	7624.30
Business per employee (₹ in crore)	8.00	9.25	8.34	8.77	10.22	9.72
Number of branches <sup>48</sup>	49	52	60	61	63	64
Employee per branch	9.25	9.10	9.97	10.21	11.13	12.25
Employee cost (₹ in crore)	34.43	37.87	39.73	32.08	30.69	37.86
Cost per employee (₹ in crore)	0.08	0.08	0.07	0.05	0.04	0.05

*Source: Data furnished by the Bank & Financial Statements*

It can be seen from the above table that the number of employees has increased from 444 in 2017-18 to 784 in 2022-23. Business per employee had also increased from ₹ eight crore in 2017-18 to ₹ 9.72 crore in 2022-23. Cost per employee had seen a decrease from ₹ 0.08 crore in 2017-18 to ₹ 0.05 crore in 2022-23.

However, this is to be viewed with the fact that there has been substantial recruitment of temporary staff in the corresponding period. These employees are drawing a monthly

<sup>48</sup> Including Head Office and Extension Counters.

salary of ₹ 9,000 to ₹ 10,500. Further, the average employee per branch has also seen an increase from 9.25 employees per branch in 2017-18 to 12.25 employees per branch in 2022-23.

Audit studied the HR policies of the bank and the observations in this regard are discussed below.

### 4.7.1 Lack of manpower analysis

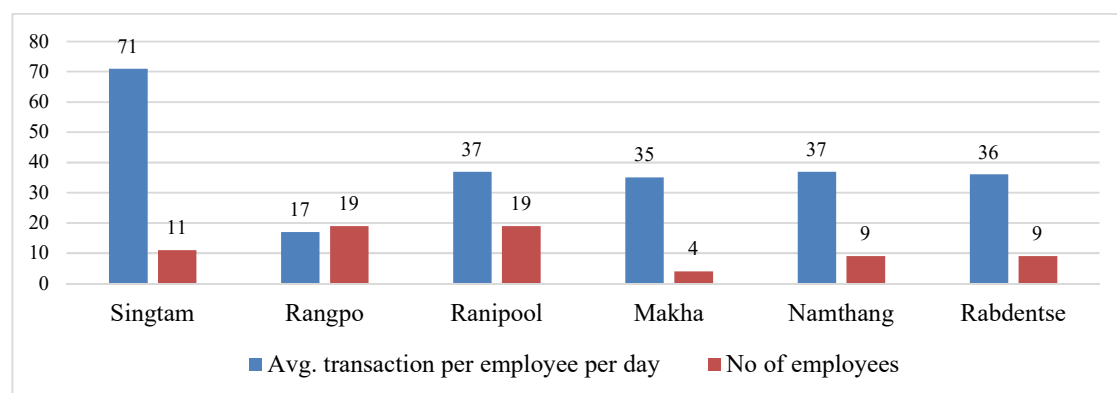
SBS neither has any system to analyse its manpower requirement for deployment of resources within its network of branches nor it has ever analysed the manpower requirement. Audit analysed the adequacy of manpower posted in the branches by correlating the number of officials posted at the branches *vis-à-vis* the number of vouchers prepared by each branch during the year 2022-23.

It was seen that 25 branches were preparing less than 20 vouchers per employee in a day and only 12 branches were preparing more than 40 vouchers per employee in a day. On an average, a branch per employee is preparing 28 vouchers per day. Although average transaction handled by each employee varied between 2.64 to 103, the deployment of manpower was not based on any rational.

Audit observed that the volume of transaction was less when compared with the number of people posted in these branches. For example, in *Singtam* branch 11 employees were performing an average 71 transactions whereas in *Rangpo* branch 19 employees were performing an average only 17 transactions. Similarly, in 16 other branches where the average transaction per employee (between 13 to 66) was much less than *Singtam* branch (71), more employees per branch was posted ranging between 12 to 25 employees *vis-à-vis* 11 employees in *Singtam*.

The chart below details deployment of manpower *vis-à-vis* average number of transactions.

Chart 4.5: Deployment of manpower



Source: Management’s records

The above chart clearly shows that for similar number of average transactions, there was no uniformity in deployment of manpower. Hence, it can be concluded that there is no rationale for employee deployment in the branches.

Audit noticed that despite having very less transaction in majority of the branches, SBS had appointed another 360 employees during the last six years in violation of its own recruitment policy as highlighted in paragraph 4.7.2. Moreover, as SBS has appointed

manpower without any analysis, optimum utilisation of the services of its employees will not be possible.

*The MD, SBS, in the exit meeting, while accepting the audit observation stated (January 2024) that the manpower analysis would be carried out relating to deployment of manpower*

#### 4.7.2 Irregular recruitment of lower cadre officials

State Bank of Sikkim had increased its branches from 48 branches during 2017-18 to 63 branches during 2022-23. During the same period, the bank had recruited 360 employees (126 Peons/ Office Attendants/ drivers and 234 Junior Accounts Assistants). As per the Recruitment Policy, 2011, the post of Peon and Jr. AAs were to be recruited through 100 per cent direct recruitment with a minimum eligibility criterion being Class-VIII passed and Class-X passed respectively. In this regard, audit observed (June 2023) that out of 360 appointments made during the last six years, none of them were recruited as per its existing Recruitment Policy 2011, viz., by way of conducting a written test and interview which was in violation of the laid down recruitment policy of SBS. During the period from 2017-18 to 2022-23, 52 employees working as peon on temporary post were absorbed in substantive post. Similarly, 40 employees working as Jr. Accounts Assistant respectively on temporary basis were also absorbed in substantive post. SBS had resorted to recruitment on temporary basis without conducting any formal exam/interview and then regularising their services. Thus, SBS had violated its own recruitment policy and the possibility of nepotism and fraud in selecting the candidates, cannot be ruled out.

#### 4.8 Conclusion

Audit observed that the Bank's financial reporting was highly inflated due to maintaining a meagre provisioning coverage ratio and its Capital Adequacy Ratio was below the norms of nine per cent followed by the SCBs in the country. The customer services offered by SBS was a bare minimum as audit observed lack of adequate banking facilities and lack of effective complaint redressal mechanism.

SBS did not have a properly formulated KYC policy as mandated by the PML Act. The completeness and reliability of the customer data is also doubtful as important information such as signatures and photographs of customers were not uploaded in CBS system, Aadhaar was not seeded and PAN was not linked with the concerned authorities.

Credit facilities were extended to credit unworthy accounts due to ineffective credit appraisal mechanism as the Bank did not obtain credit ratings of the borrowers, ascertain the repaying facilities, etc. The Bank did not follow its own recovery policy properly and the recovery of loan was done in an arbitrary manner. The Bank did not adhere to the post sanction conditions of sanction, the end use of the funds was not verified by the Bank.

The Bank did not classify its loan assets as per its own guidelines and also did not make adequate provisions against the NPAs. The NPAs of the Bank was abnormally high as compared to the SCBs in the country. The OTS scheme was executed in an arbitrary manner and BGs were issued by flouting its own BG policy and even the Board's directives were not adhered to by the Bank.



The branches were not effectively functioning as considerable accounts were left unreconciled, signatures were not verified before releasing payments to the customers, and there were delays in deposit of collection. The sanctity of the CBS was severely compromised by poor security practices relating to access to the CBS system which might not only jeopardise their own viability but also undermines the trust and stability of the banking ecosystem.

The Management of Human Resources needs marked improvement and recruitment must be based on proper manpower analysis and considering all eligible criteria.

#### **4.9 Recommendations**

*The State Bank of Sikkim may:*

- *endeavour to maintain its Capital Adequacy Ratio as per the industry standards;*
- *make KYC norms mandatory to prevent the risk of money laundering and ensure proper verification of customers before processing transactions.*
- *ensure proper provisioning against non-performing assets as per its guidelines to accurately reflect asset quality and mitigate financial risks.*
- *implement a transparent and well-defined policy for the One Time Settlement scheme.*
- *provide adequate banking facilities to its customers and put in place a Complaint Redressal Mechanism;*
- *take necessary steps to bring down its NPA ratio, in line with accepted industry standards. The Bank may conduct thorough due diligence check on potential borrowers and regularly review the financial health of the existing customers to prevent credit assets turning into NPAs.*
- *initiate enquiries on the individual cases highlighted under credit functions (Appendix 2) and fix the responsibilities against erring officials, if any.*
- *implement data quality standards and data governance, provide training and awareness to its employees to minimise entry errors and mishandling and carry out periodic reviews/ data audit to ensure more reliable reporting and decision-making in the future.*
- *conduct a proper manpower analysis to assess staffing needs and ensure all recruitments follow the bank's approved policy and guidelines to maintain fairness and transparency..*

## **CHAPTER V: FRAUD RISK MANAGEMENT**



## Chapter V: FRAUD RISK MANAGEMENT

Fraud risk management is of paramount importance for banks to ensure financial stability as well as customer trust. Board and Management of the Bank must focus on the “Fraud Prevention and Management Function” to enable, among others, effective investigation of fraud cases and prompt as well as accurate reporting to appropriate regulatory and law enforcement authorities.

Audit studied the fraud risk management practices of SBS and found lacunae with same as detailed in the succeeding paragraphs.

### 5.1 Inadequate Fraud Risk Controls

#### ➤ *Non -framing of Fraud Risk Management framework*

SBS had neither framed any Fraud Risk Management framework/ policy nor established sound Fraud Risk Management systems in place.

It is pertinent to mention that SBS in its reply to *Paragraph 3.2.8.10 “Fraud and Misappropriation” of the C&AG’s Audit Report No. 1 of 2018, Government of Sikkim* stated that SBS has recognised the importance of bringing in a proper control system in place and would also be coming out with an Anti-Fraud Policy of its own to minimise the instances of frauds. However, no such system was put in place as on date (September 2023) due to which there were no adequate deterrent controls in SBS as a result further cases of frauds were noticed.

*SBS accepted (January 2024) the audit observation and noted the same for future compliance.*

### 5.2 Instances of illicit transactions, presumptive frauds/ misappropriation cases noticed in audit

#### 5.2.1 Suspicious transactions linked to loan facilitation indicating possible misconduct

Audit scrutinised the accounts of all Key Managerial Personnel (up to General Manager level) and employees (up to the level of Jr. AA) posted in the Credit/Loan section at Head Office (including legal wing and BG cell) and officials of the 21 branches test checked in audit for the period April 2017 to March 2023 and observed that:

- Substantial funds totalling to ₹ 3.65 crore had been deposited into the Bank’s employees personal accounts from 166 loanees’ accounts (loan account, savings account, current account, *etc.*) as detailed in **Table 5.1**.

Table 5.1: Details of funds deposited into Bank employees' personal accounts from loanees

Sl. No.	Name of the Employees	Designation	Total amount received (in ₹)
1	KB Chamling	Ex-Chairman	5,00,000
2	SR Karki	CGM	26,58,000
3	K T Lepcha	GM	1,95,000
4	Reena Basnett Rai	AGM	28,20,000
5	Ratna Bdr Gurung		1,14,000
6	Durga Chettri	Sr. Manager	5,70,000
7	Sunil Kr Tamang		20,42,000
8	Rabden Tshering Bhutia		4,00,000
9	Susan Sharma		1,43,62,700
10	Krishna K Pradhan	Manager	25,12,000
11	Laden Bhutia		2,50,000
12	Lekhraj Dhakal		25,000
13	Pawang Tamang	Manager (IT)	14,94,500
14	Sangay C Bhutia		14,73,000
15	Aarti Sherstha	Asst. Manager	7,67,500
16	Uma Pradhan		20,000
17	Sova Gurng		2,54,000
18	Lalita Karki		3,00,000
19	Areena Chettri	Sr. Accounts Assistant	5,35,000
20	Jigmic W Bhutia		2,50,000
21	Karma Thupden Bhutia		45,000
22	Ram kr Tewari		20,000
23	Tshering Thendup Bhutia		10,31,000
24	Suresh Rai		2,00,000
25	Bal Bdr Chettri		3,73,000
26	Sanchaman Subba		73,000
27	Jigmee W Bhutia		4,50,000
28	Bal Bdr Dahal		1,50,000
29	Pintso Doma Bhutia		69,400
30	Urmila rai	Account Assistant	10,62,000
31	Keshab Khatiwara		62,000
32	Youmanti Rai		1,90,000
33	KT Choppel Bhutia	Junior Accounts Assistant	6,89,000
34	Renuka Rai		4,87,000
35	Ritu Chamling		12,000
Total			3,64,56,100

Source: Management's records

- Out of the above, in 64 instances (₹ 1.29 crore), the date of deposit in employee's personal accounts corresponds directly to the date of disbursement of loan to the loanees (**Appendix 4**). Further, 29 loan accounts (17 per cent) pertaining to the above transactions have turned into NPA as on date.

The above transactions are suggestive of suspected fraudulent activities related to the facilitation of the loans.

The above highlighted cases are illustrative and not exhaustive and cover a period from 2017-18 to 2022-23 only.

*SBS while accepting (January 2024) the audit observation stated that the matter has been taken up seriously by the Bank and show cause notice were issued to all involved employees. The matter is being investigated.*

*In the exit meeting, the Chief Secretary also stated (January 2024) that the matter has been taken seriously and exemplary action would be taken against the erring officials to set as a future deterrence and the outcome would be intimated to audit.*

### 5.2.2 Non-monitoring of high value deposits

As per the industry best practice, all transactions in cash deposits over a certain limit (as set out by the management) in any bank official's accounts would either automatically be flagged by the CBS system or are monitored microscopically by a designated officer and such bank officials are to compulsorily disclose the source of such deposits.

It was noticed (July 2023) that SBS had neither set a limit on deposits by its own employees, nor did it establish such controls in its system to monitor such high deposits to verify the source. In absence of any control mechanism, it was noticed that in 17 staff accounts, ₹ 3.95 crore had been deposited over a five-year period 2017-18 to 2022-23. However, in absence of any mechanism to monitor cash deposits in the employees' accounts which would keep the employees away from indulging in any suspicious activities, the SBS was unable to verify the source of cash deposit in the bank accounts of these officials.

In addition, audit noticed that there were high value transactions (₹ one lakh and above) which have been credited/ routed in the saving account of SBS officials from the saving/ current account of third parties which amounted to ₹ 4.19 crore which merits detailed verification.

*SBS accepted (January 2024) the audit observation and noted the same for future reference.*

### 5.2.3 Temporary misappropriation of cash at Namchi Branch ₹ 0.12 crore

Audit observed (March 2023) that the branch had kept huge amount of cash<sup>49</sup> in the form of coins ranging from ₹ 1,76,259 (01 February 2023) to ₹ 5,31,880 (25 September 2019).

<sup>49</sup> For the period from 08 February 2018 to 01 February 2023.

As such, a joint physical verification of cash balance was conducted 02 February 2023 by the branch officials in presence of audit, wherein it was observed that the Branch had kept the coin under a separate vault but in a haphazard manner which implied that the coins were not verified for a long time.

On physical counting of coins by the officials in presence of audit team, it was seen that against the book balance (coins) of ₹ 1,76,259 on 01 February 2023, ₹ 91,430 only was physically available resulting in shortfall of ₹ 84,829. Considering the shortage, explanation was called for from the officials of the branch and it was stated that after the day closing, those staff in need of immediate cash would withdraw money from the vault without debiting their account and returned the amount as and when they were able to repay the same.

However, to conceal the discrepancies and reconcile the cash summary register, the coin amounts were manipulated by recording them as deposits at the time of physical cash withdrawal and as withdrawals when returning the cash. This entire deposit/withdrawal process occurred off the books.

Based on the shortage of cash and the system of withdrawal, which is entirely off the books, these transactions are cases of temporary misappropriation. As such, detailed scrutiny of cash summary book from 08 February 2018 to 08 April 2022 was carried out wherein it was observed that several transactions were made coins both as deposits and withdrawals. For instance, there was a deposit of coin of ₹ 1,50,000 (23 September 2019) and withdrawal of ₹ 1,00,000 (28 September 2019). However, neither any vouchers were prepared, nor were any entries made in the CBS system. Audit noted total temporary misappropriation of ₹ 0.12 crore based on the test check of records. This issue assumes more significance as the Preventive Check team, though visited the branch several times (12 February 2018, 03 March 2020 & 08 April 2022) and verified the cash balance, did not highlight and flag this issue.

*SBS while accepting (January 2024) the audit observation stated that the matter has been taken up seriously by the Bank, show cause notice has been issued and departmental enquiry has been proposed.*

#### **5.2.4 Irregularities in recruitment of Assistant Managers**

As per the 169<sup>th</sup> Board Meeting dated 28 November 2017, the Board approved recruitment of 20 Assistant Managers (AMs) through direct recruitment. Subsequently, the Board approved<sup>50</sup> to recruit 26 AMs. Considering the 100-point Roster Model being the norms of the State Government, reservations for various categories were made by SBS on its own as shown in **Table 5.2**.

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<sup>50</sup> *Vide 173<sup>rd</sup> board meeting dated 01 October 2020 and 174<sup>th</sup> Board meeting dated 19 March 2021.*

Table 5.2: category-wise reservation of AMs post

UR	BL	BL (W <sup>51</sup> )	BL (BPL <sup>52</sup> )	OBC (CL <sup>53</sup> )	OBC (CL) women	OBC (CL) BPL	OBC (SL <sup>54</sup> )	OBC (SL) women	OBC (SL) BPL	ST	ST (W)	SC	SC (W)	PT	Total <sup>55</sup>
5	2*	2	1	3	1	1	2	2	1	2	1	1	1	1	26

Source: Management's records

Note: Out of 26 posts, one post under BL category shall be reserved for State Government certified SPAE (Sport Persons and Artisans of Excellence)

Subsequently, SBS had floated an advertisement (25 May 2021) calling for applications of eligible candidates for the post of AM. The advertisement stipulated that the candidates had to qualify in written test by securing a passing mark as decided by SBS.

In response to the same, 3,513 applicants submitted the forms out of which 2,270 applicants had appeared for the written examination held on 21 November 2021. The examination process consisted of Objective Test of 200 marks on Optical Marks Recognition (OMR) system consisting of five sections wherein the candidate had to qualify the test by securing passing marks to be decided by SBS. The adequate number of candidates in each category as may be decided by SBS (approx. 3-4 times the number of vacancies) were to be shortlisted for the interview which carried 25 marks. Accordingly, on the basis of the results of written examination (November 2021), 69 candidates were called for the interview (December 2021) and 26 candidates (**Appendix 5**) were selected for the post of AMs (February 2022).

To ascertain the fairness in the selection process, audit had called for following information:

- Name of Agency/Committee who had prepared Questionnaires,
- Evaluation Sheet (written exams & interview),
- Name of Agency/Committee scrutinised the Evaluation sheet,
- Members of Interview panel,
- Authority constituting the Interview Panel and committee,
- Cut off mark for written exam *i.e.* ST/SC and General, and
- Attendance sheet for Interview.

However, SBS had did not furnish the above information to audit and furnished only few records *viz.*, one set of question paper and the answer keys, list of applicants that had applied for the examination, the final list of candidates who appeared for the said examination and their answer sheets. Accordingly, based on availability of basic records such as answer sheet and answer key, audit re-evaluated the answer sheets of all the 69 candidates (**Appendix 6**) who had been called for the interview.

Audit observed (July 2023) that:

<sup>51</sup> Women.

<sup>52</sup> Below poverty line.

<sup>53</sup> Central list.

<sup>54</sup> State list.

<sup>55</sup> UR-Unreserved, BL-Bhutia Lepcha, OBC-Other Backward Classes, ST-Scheduled Tribes, SC-Scheduled Caste, PT-Primitive Tribe.



- Candidates scoring lesser marks in the written examination were selected over those candidates who had scored higher marks falling under the same categories (i.e. SC/ ST/OBC/General/ Primitive Tribe) as detailed in the table below:

**Table 5.3: Selection of candidates scoring lesser marks**

Category	Selected Candidates		Candidates not selected	
	Name	Score	Name	Score
BL	Yada Bhutia	92	Ugen Tenzing Bhutia	128
PT	Pema Dorjee Lepcha	42	Tashi Tshering Lepcha	99
OBC	Khagen Chettri	35	Suraj Basnett	98
OBC	Sujan Rai	28	Praney Rai	102
OBC	Manu Gautam	26	Shreya Gautam	100

Source: Management's records

Audit considered only those cases where the difference in marks between the two groups was more than 25 which implies that had the selected candidates scored full marks in the interview also, it would be substantially less than the marks obtained by the candidates (who were not selected) in the written exam alone.

*SBS replied that there were no other BPL candidates in the given category scoring higher marks than the three candidates who were selected. One candidate is selected under Primitive Tribe (PT) category. Other candidates who scored higher under PT category were disqualified based on the past record/non-production of a certificate. Further, one candidate being in OBC-SL was selected under SPAE category as the management has interchanged SPAE category with OBC-SL in absence of candidate from SPAE category.*

*The reply is not acceptable as SBS had neither furnished the tabulation/evaluation sheet for written exam nor a copy of BPL/OBC-SL certificate of all four candidates who were selected to justify their selection. Further, the reason for non-selection of its own staff based on the past records lacks justification as he was already acquitted from the case he was allegedly involved in and was also allowed to appear for the written exam. Hence, disqualifying him lacked justification.*

- Candidates scoring as low as 26 to 42 marks were called for interview and ultimately got selected, whereas on a test check basis it was noticed that candidates scoring in between 55 to 69 were not even called for the interview.

*SBS replied that due to reservation system in some category, the candidates scoring lower marks had to be selected. The reply is not acceptable as it is unreasonable to select applicants based on him/ her scoring the highest amongst the candidates, without considering the minimum qualifying marks to ensure that even with reservation benefits, candidates meet a basic competency level. Moreover, SBS did not furnish evaluation sheet for written exam to justify that there were no other candidates under the reserved category who had scored more than the selected candidates.*

- In respect of one selected candidate<sup>56</sup>, it was noticed that the answer sheet neither bear the signature of candidate nor the invigilator. Thus, his candidature must have been forfeited.

*SBS has accepted the audit observation and stated that it was a case of oversight on SBS's part. However, the fact remains that the candidature of the applicant was not cancelled and rather he was selected for appointment. Hence, the possibility of suspected fraud cannot be ruled out in audit.*

- The advertisement stipulated that the candidates had to qualify in written test by securing a passing mark as decided by the bank. However, it was not mandatory for the candidates to qualify in each section of the written exams unlike in other banking examinations conducted across the country wherein the candidates have to qualify securing qualifying marks in each section in order to be eligible for interview call. Eight<sup>57</sup> candidates out of 26 candidates had either scored very less marks in a particular section specially under "Data Analysis & Interpretation" or had not attempted the section at all. This issue assumes significance, as the written examination is conducted to ascertain the general aptitude of the candidates. However, they were also selected for the post of AMs although the candidates lacked general aptitude in the particular field.

*SBS has accepted the audit observation and stated that since minimum passing marks for individual sections were not stipulated, there was no scope for disqualifying the candidates based on not attempting certain section of the examination.*

*The reply is not acceptable as setting a minimum qualifying mark for each section of the exam would have ensured that candidates achieved a basic level of competency.*

- As per the advertisement, adequate number of candidates in each category as may be decided by SBS (approx. 3-4 times the number of vacancies) would be shortlisted for the interview. This works out to 78-104 candidates. However, only 69 candidates were shortlisted for the interview.

*SBS stated that inviting candidates with lower marks had no scope of making it to the merit list even after awarding full marks in the interview. As such, very low scoring candidates were left out to avoid unnecessary inconvenience to them. The reply is not acceptable as SBS had invited candidates scoring lesser marks while ignoring/ not-inviting candidates who scored higher marks for the interview.*

- Although the advertisement was published duly depicting the category wise vacancies and post to be filled up, category-wise results were not published.

<sup>56</sup> Sudhershana Chettri.

<sup>57</sup> Sumiran Pradhan, Jeten Subba, Kesang Doma Sherpa, Anjana Chettri, Manu Gautam, Khagen Chettri, Pema Dorjee Lepcha & Sarju Sunwar.

*SBS replied that selection is made category and sub-category wise merit list under the reservation system in terms of the Government notification. Final selection is based on total score from written and interview. The reply is not acceptable as the category-wise results were not published and no records were provided to prove that such category wise selection was done.*

- The vacancies were not filled according to the roster system as instances were noticed wherein under five categories<sup>58</sup> the suitable candidates (five) were not available for selection. However, instead of keeping it vacant and carrying forward the vacancy for next recruitment process, these vacancies were filled by inducting more candidates<sup>59</sup> (five) under other categories<sup>60</sup> thereby exceeding their limits.

*SBS replied that vacancies were filled in terms of Government Notification. The reply is not acceptable as SBS did not furnish the government notification.*

Thus, the selection process adopted by SBS was irregular and the possibility of fraud and favouritism in selecting the candidates, could not be ruled out.

*The MD, SBS, in the exit meeting, stated (January 2024) that the matter will be forwarded to Department of Personnel & Training, GoS for detailed investigation. The State Government also noted the issue for necessary action.*

### **5.3 Ineffective punitive action against the cases of Fraud/ Misappropriation**

During 2020-21, four cases of fraud were noticed by the Bank based on the complaints and inspection by the PCM<sup>61</sup> team as detailed below;

- **Rangpo extension counter:** In 2019, based on the complaint from the Sikkim Nationalised Transport (SNT) Department, GoS, a fraud was unearthed wherein the Bank Receipts (BR) issued to the customers on account of various Government revenue deposits were subsequently deleted from the CBS system by the Bank employee which resulted in misappropriation of ₹ 16.72 lakh (*discussed in detail in paragraph 3.3*). Consequently, the facility of deleting bank receipts were disabled in its CBS system.
- **Mangalbaria:** The Bank deputed (September 2020) a team consisting of General Manager (Operations) and General Manager (AM/R) for immediate investigation of the branch. During the surprise check, it was noticed that the payments made by the branch were not entered into the CBS system and a cash shortage of ₹ 3.73 lakh was detected from the cash vault. The team filed a general diary with the nearest police station. On further investigation, it was noticed that ₹ 27.54 lakh was misappropriated by the Junior Accounts Assistant in connivance with the Branch Manager by withdrawing from the customer's account without their authorisation.

<sup>58</sup> BL (W), BL (BPL), OBC (CL) BPL, OBC (SL) BPL & SC (W).

<sup>59</sup> OBC (SL)-3, ST-1 & SC-1.

<sup>60</sup> This was arrived at by audit duly considering the top five candidates under "unreserved" category irrespective of their actual categories.

<sup>61</sup> PCM is an alternative to an Internal Audit Wing wherein the task of conducting PCM of one branch is assigned to an officer/ branch head of the other branches on rotation basis.

Both employees were suspended and the matter was under investigation by the Disciplinary committee of SBS.

In an earlier instance (2010), while being posted at M.G. Marg branch, the said Branch Manager was also accused of misuse of Temporary Deposit Receipt (TDR) forms (August 2010) and was detained by Sikkim Vigilance police. However, due to lack of inquiry on the part of SBS, the then enquiry committee could not decide the gravity of the loss and recommended for revocation of suspension. Thereafter, the said Branch Manager was reinstated and posted (October 2018) to *Mangalbaria* branch. Though the said Branch Manager was reinstated, the case relating to misuse of TDR is still under investigation under Sikkim Vigilance police.

- **Phodong:** During PCM (October 2020), a cash shortage of ₹ 10.41 lakh was detected which was fraudulently withdrawn by Branch Manager in-charge by writing withdrawal slip in his account without making entry in the system and debiting the bank. In view of the above, the Management suspended the Branch Manager and initiated disciplinary action against him. It was also seen that the Management had issued an order (22 June 2021) relieving the Branch Manager in charge from the services of SBS. However, it was seen that the Board of Directors in its 175<sup>th</sup> board meeting had decided that since the money was refunded by the Branch Manager and considering his misconduct to be the first time, the suspension was revoked and as a penalty, downgraded him to the post of a Junior System Analyst.
- **Namthang:** Based on the complaint received, the Bank inspected (October 2020) the branch wherein initially a cash shortage of ₹ two lakh was unearthed. During questioning, the cashier in charge stated that the then Branch Manager threatened him and asked him to make payments in the name of a customer who was yet to come to the branch. He then took the money forcefully with the assurance to replenish the same. However, before replenishing the cash, the then branch manager passed away. On further investigation, the Bank noticed that the Cashier along with the Assistant Manager had also withdrawn money from the customer's account without their authorisation. Thus, the late Branch Manager together with other employees had misappropriated in total ₹ 13.80 lakh from the customers' accounts without their authorisation. In this regard, a show cause notice was issued to all employees involved and the enquiry is being conducted by SBS. The outcome of the said enquiry is still awaited (November 2023).

Status of fraud cases noticed by SBS is as under:

Table 5.4: Status of Cases of fraud

Branch	Name of the officer/official involved	Amount involved (₹)	Period	Details of disciplinary action taken against the officials	Remarks
Phodong	Mr. Bhupen Suji Sr. System Assistant	10,40,590	2019-20	Downgrade to the post of System Assistant in Level-9 of the pay matrix from the existing post of Sr. System Assistant in Level-11.	Whole amount was recovered
Namthang	i) Late Bal Kumar Rai (then Branch Incharge) ii) Smt. Uma Pradhan (Branch Staff) iii) Shri. Bal Bahadur Chettri	13,80,000	2018-19	Inquiry completed. Order yet to be passed.	Out of ₹ 13.80 lakh, ₹ two lakh have been recovered from the CPF account of Late Bal Kumar Rai and ₹ 1.50 lakh has been recovered during enquiry from other staffs of the branch and remaining amount is yet to be recovered.
Mangalbaria	i) Shri Pema Wangyal Bhutia/ Branch in Charge ii) Shri Pradeep Rengang (Darjee)	27,54,333	2020-21	Inquiry completed. Shri Pradeep Rengang (Darjee) is under suspension. Shri Pema Wangyal Bhutia retired from service. Order yet to be passed	Not yet recovered. Retirement benefits of the branch manager withheld.
Head Office (24x7 Extension counter)	Mr. Bhanu Chettri	4,68,908	2022-23	Not Applicable	Whole amount was recovered. Involved employee was terminated by the management
Extension counter at Rangpo Check Post	-	16,72,000	April 2018 to December 2019	No action taken against the employees of the branch	Departmental enquiry at SBS's end has been stopped. It was stated by SBS that the same has been initiated by the SNT Department and the enquiry is still under process.

Source: Management's records

It can be seen from the above table that out of five cases of misappropriation detected by the management, only in two cases the management was able to complete the enquiry and initiated action against the fraudsters. However, in two cases the

management was still unable to complete the enquiries even after a lapse of three to five years.

The above paragraphs indicate not only that the controls in place to prevent the irregularities were ineffective, but also that SBS could not take timely punitive action. This effectively means that there were no deterrent controls either.

Thus, the SBS did not take effective actions against the employees engaged in fraudulent acts thus setting a wrong precedence.

*SBS replied (January 2024) that in all the cases, action has been taken to investigate the incident and appropriate punitive actions were taken. The reply is not acceptable as the actions taken by the Bank such as downgrading of post by the Board (after initially terminating the employee), reinstating the employee due to lack of effective enquiry by the Bank and due to pressure from various quarters to reinstate him and not concluding its investigation in time were not commensurate with the scale of misconducts.*

#### **5.4 Non-existence of Internal Audit Wing**

An independent and effective internal audit function in a financial entity provides vital assurance to the Board and its senior management regarding the quality and effectiveness of the entity's internal control, risk management and governance framework.

The introduction of Risk-Based Internal Audit system was mandated for all Scheduled Commercial Banks. As part of effective risk management, SBS must have established its own Internal Audit Wing and developed a well-defined policy on Risk Based Internal Audit.

SBS had neither formulated a Risk Based Internal Audit policy nor had established its own Internal Audit Wing. It is pertinent to mention that this issue was already highlighted in the C&AG's Audit Report No. 1 of 2018, Government of Sikkim.

However, as an alternative, SBS had devised a system of Preventive Check Measures (PCM) wherein the task of conducting PCM of one branch is assigned to an officer/branch head of the other branches on rotation basis. However, it was seen that the bank had not devised any policy for PCM. In absence of it, all its branches were not subjected to periodical review and even the basis for selection of branches was not documented.

*SBS accepted (January 2024) the audit observation and stated that it had initiated the effort to establish internal audit wing. It was proposing to approach Finance Department to extend its service of the internal audit wing for the purpose.*

#### **5.5 Non appointment of Chief Risk Officer**

The role of Chief Risk Officer (CRO) in a bank is to facilitate the analysis of risks and interrelationships of risks across market, credit and operational risks, to review the risk profile and to prioritise action to mitigate the potential risks. As such, all SCB's of



the country were advised by the RBI to appoint a CRO. SBS however, has not appointed a Chief Risk Officer.

*SBS accepted (January 2024) the audit observation and noted the same for future compliance.*

### **5.6 Non-existence of Mandatory Leave and Rotation Policy**

Mandatory leave for staff was introduced after the RBI saw a sharp increase in frauds in banks following forensic studies. The SCBs were advised to immediately put in place a 'staff rotation policy' and policy for mandatory leave for staffs. As a prudent operational risk management measure, it is imperative that employees posted in sensitive positions or areas of operations are covered under a 'Mandatory Leave' policy wherein such employees are required to compulsorily avail of leave for a few days (say 10 working days) in a single spell every year, during their posting in such areas. The bank must also identify such highly sensitive positions where the bank will, *without any prior intimation*, advise the employee to be away from his desk for a specified number of working days each year.

Audit noticed that SBS neither framed the Rotation Policy nor policy on Mandatory Leave as is being done by SCBs. Thus, SBS was unable to facilitate early detection of frauds/ financial irregularities carried out by the bank officials.

As per the leave details furnished by SBS, it was noticed that during 2017-18 to 2021-22 (five-year period), 81 employees had not availed a single leave (Privilege Leave & Medical Leave).

*SBS accepted (January 2024) the audit observation and noted the same for future compliance.*

### **5.7 Conclusion**

SBS was not able to detect and prevent irregularities in the organisation due to inadequate fraud risk controls and lack of internal control mechanism. This situation highlights the need for a comprehensive review and improvement of the management practices and processes. SBS could not enforce timely and commensurate punitive action against the erring employees. This has resulted in a breakdown of ethical culture from the top to bottom of the organisation, necessitating a complete overhaul of the management and its processes.

### **5.8 Recommendations**

- *SBS may investigate the irregularities regarding illicit transactions from borrowers to accounts of bank employees, non monitoring of high value deposits, temporary misappropriation of cash at Namchi Branch, irregularities in recruitment of Assistant Managers (refer paragraphs 5.2.1 to 5.2.4) and take appropriate action against the concerned employees.*
- *SBS may formulate and enforce a robust Fraud Risk Management policy including a Code of Ethics and establish a compliance and monitoring mechanism;*

- *SBS may formulate a Risk-Based Internal Audit policy and establish an Internal Audit Wing to provide assurance to its Board of Directors and senior management regarding the quality and effectiveness of its internal control, risk management and governance framework;*
- *SBS may frame Mandatory Leave and Rotation Policy, so as to ensure rotation of employees and mandatory leaves especially in critical posts.*



(NARMADHA R.)

Accountant General (Audit), Sikkim

Gangtok  
The 01 July 2025

Countersigned



(K. SANJAY MURTHY)

Comptroller and Auditor General of India

New Delhi  
The 11 July 2025





# APPENDICES



**Appendix 1**  
**Statement showing the loan sanctioned to Government Department/SPSUs/ABs**  
*(Reference: Paragraph 3.2)*

Sl. No.	Account No.	Name	Type of Loan	Principal amount (in ₹)	Sanction date	Outstanding as on 31.03.2023 (in ₹)	NPA Date	Purpose
1	xxxx800001	SIDICO Ltd	Term Loan	150000000	28.01.2013	144999708	31 Mar 2017	Development infrastructure including acquisition and development of land around the upcoming airport in Pakyong, East Sikkim
2	xxxx800002	SIDICO Ltd	Term Loan	350000000	27.07.2013	369947422	31 Mar 2017	For repayment of loan installments
3	xxxx800003	SPICL Ltd	Term Loan	170000000	11.10.2013	202587055	31 Mar 2017	For meeting its committed liabilities
4	xxxx800004	State Institute of capacity Building	Term Loan	30000000	10.02.2014	1862015	31 Mar 2017	For repayment of loan installments
5	xxxx800005	SPICL	Term Loan	45000000	31.03.2014	50706271	31 Mar 2017	
6	xxxx800006	SPICL	Term Loan	46500000	14.10.2014	49143023	31 Mar 2017	
7	xxxx800007	SPICL	Term Loan	47400000	12.01.2015	48641623	31 Mar 2017	
8	xxxx800008	SPICL	Term Loan	47500000	30.03.2015	53036272	31 Mar 2017	
9	xxxx800011	Secretary RMDD	Term Loan	400000000	11.10.2018	243773764	30 Sept 2020	For repayment of loan installments
10	xxxx800010	SPICL	Term Loan	400000000	12.07.2018	421930448	22 Jan 2020	
11	xxxx800012	SPCIL	Term Loan	220000000	13.03.2019	242310362	21 Apr 2020	For repayment of loan installments
12	xxxx800014	Power Department	Term Loan	166400000	30.03.2019	209530079	22 Jan 2020	
13	xxxx800015	Principal CE cum Secretary Roads	Term Loan	552447786	04.10.2019	340265	30 Sept 2020	For repayment of loan installments
14	xxxx800016	Buildings & Housing Department	Term Loan	10000000	04.10.2019	367353652	30 Sept 2020	
15	xxxx800019	Tourism & Civil Aviation Dept	Term Loan	300000000	25.02.2020	309162333	30 Sept 2020	For repayment of loan installments
16	xxxx800018	SPICL	Term Loan	250000000	12.02.2020	279749573	10 Dec 2021	
17	xxxx800020	SPICL	Term Loan	250000000	12.03.2020	251369863	30 Sept 2020	For repayment of loan installments
18	xxxx800017	Power Department	Term Loan	150000000	19.12.2019	154318554	30 Sept 2020	
19	xxxx800022	Secretary, Road	Term Loan	350000000	23.10.2020	365620269	10 Dec 2021	For repayment of loan installments
20	xxxx800024	Tourism & Civil aviation Dept	Term Loan	300000000	05.03.2021	302367123	10 Dec 2021	
21	xxxx800023	Power Department	Term Loan	600000000	05.03.2021	240605781	31 Mar 2022	For repayment of loan installments
22	xxxx800021	SPICL	Term Loan	200000000	09.04.2020	200000000	30 Sept 2020	
23	xxxx800026	Tourism & Civil aviation Dept	Term Loan	500000000	22.09.2021	500000000	31 Mar 2022	For repayment of loan installments
24	xxxx800027	Power Department	Term Loan	300000000	26.11.2021	300000000	31 Mar 2022	
25	xxxx800029	Power Department	Term Loan	249900000	29.09.2022	249900000	31 Mar 2023	For repayment of loan installments
				6085147786		5559255455		

Source: Management's records

## Appendix 2

### Case Studies: Non-Performing Assets

(Reference: Paragraph 4.4.6.3)

Cash Credit						
SBS sanctions Cash Credit facilities to individuals, entrepreneurs, government contractors, business firms, etc. mostly based on the work orders of the government departments. The loans are secured by way of mortgage of land and other properties, hypothecation of bills receivables.						
Case No.	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
1	2.50	-	2.50	0	3.86	March 2017
<ul style="list-style-type: none"> <li>SBS had sanctioned (September 2010) ₹ 2.50 crore to Mr. <i>Ugen Dorjee Bhutia</i> as a clean overdraft for “Civil works of <i>Paradise Pvt. Limited Company</i> (Paradise Breweries) at <i>Kamling, Rinchenpong</i>, West Sikkim”. As a collateral security, he had mortgaged land bearing <i>Khatyan</i> No 210, plot no 23, 25, 26, 57, 157, 24/604 at <i>Panchgharey</i> block, South Sikkim valuing ₹ five crore.</li> <li>The GoS stated (August 2022) that the Commerce &amp; Industries Department was in process of acquiring the land at ₹ 14.49 crore to implement its own projects. However, while initiating the registration process, the Department found that the land was mortgaged with SBS.</li> <li>The loanee had defrauded the Department by selling the already mortgaged land with SBS to the Department and also accepted ₹ 13.00 crore as part compensation from the Department.</li> <li>However, he had not repaid his outstanding dues to SBS. Thus, he seems to be a wilful defaulter.</li> </ul> <p><i>SBS stated (January 2024) that the Bank was not aware of proprieties being acquired by the Government and money released to him. As the property document is still under mortgage with SBS and transfer of title before settlement of loan is out of question. The Bank has made it clear that the loan needs to be cleared before the document is released. The reply is not acceptable as even after the issue was brought to the notice of the Bank and being defrauded by the loanee by selling the already mortgaged land to the Department, the Bank did not take any criminal action against the defaulter.</i></p>						
2	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
	0.15	3.00	3.00	0.00	3.38	March 2017
<ul style="list-style-type: none"> <li>SBS had sanctioned (May 2008) ₹ 0.15 crore to Mr. <i>Buddha Singh Tamang</i> as a clean overdraft for execution of contractual works. As a collateral security, he had mortgaged his properties valuing ₹ 0.42 crore. Subsequently, his limit was enhanced over the period with final enhancement of CC limit to ₹ three crore being carried out during February 2014 against additional mortgage of properties and work orders from the department.</li> <li>The borrower was permitted to withdraw over and above the CC limit several times</li> <li>The loanee’s own properties mortgaged was valued at ₹ 30/ sq. ft in the year 2009. While requesting for enhancement of CC limit to ₹ three crore, the same property was revalued at ₹ 114/sq.ft. in 2014. However, while requesting for further enhancement of CC Limit to ₹ seven crore the same properties was again revalued at ₹ 50/sq. ft. The valuation of properties had seen a sharp rise in 2014 <i>vis-à-vis</i> valuation in 2009. Thus, the loan section must have reconfirmed the valuation report from the Revenue Officer concerned before sanctioning the additional loan. This is corroborated by the fact that the same property was again revalued at ₹ 50/ sq. ft in 2019.</li> </ul>						

	<ul style="list-style-type: none"><li>The account had turned into NPA and SBS had given several time extensions for closing the loan account. However, instead of repaying the loan, the loanee requested for further enhancement of limit to ₹ three crore.</li><li>In spite of the account being turned into NPA, SBS had considered the request of loanee for enhancement of CC limit. The proposal (May 2013) to take legal action for defaulting in repayment of loan amount was set aside. Rather, the request for enhancement of CC limit to ₹ three crore was granted (December 2013) to the loanee and again withdrawals were made by the loanee from his CC account.</li><li>Thus, though the outstanding loan is not being paid up SBS knowingly had further enhanced the credit limit and given unfair advantage to the loanee.</li></ul> <p>SBS while accepting (January 2024) the audit observation stated that the recovery suit has been filed for recovery.</p>																				
3	<b>Amount Sanctioned (₹ in crore)</b>	<b>Enhanced Amount (₹ in crore)</b>	<b>Total Amount Released (₹ in crore)</b>	<b>Amount paid (₹ in crore)</b>	<b>Amount outstanding (₹ in crore)</b>	<b>Outstanding Since</b>															
	2.00	4.00	4.00	1.20	4.49	April 2020															
	<ul style="list-style-type: none"><li>SBS had sanctioned (March 2015) ₹ two crore to Mr. Binod Kumar Subba as a clean overdraft against the mortgage of landed properties valued at ₹ 2.06 crore. Subsequently, the CC limit was enhanced (September 2018) by ₹ one crore and the loanee submitted a work order dated 03 February 2018 for “construction of approach road to Hee Bazaar- ₹ 5.04 crore”. The department had already released part payment and the balance work amounting to ₹ 3.08 crore remained unexecuted/ unpaid.</li><li>The valuer (Building Space and Designs) had valued the mortgaged land as under:</li></ul> <table><tr><td><b>Amount of CC limit (₹ in crore)</b></td><td><b>Area of land (sq.ft)</b></td><td><b>Valuation of land per sq. ft. (in ₹)</b></td><td><b>Total value of land (in ₹)</b></td><td><b>Date of valuation</b></td></tr><tr><td>2.00</td><td>32,493.14</td><td>350</td><td>1,13,72,599</td><td>12.03.2015</td></tr><tr><td>3.00</td><td>32,493.14</td><td>154</td><td>50,03,943</td><td>22.02.2019</td></tr></table> <p>As can be seen from above table, the value of the land had decreased from ₹ 350/ sq. ft. in 2015 to ₹ 154/ sq. ft. in 2019 contrary to the characteristics of the land which appreciates over a period of time. It was apparent that the initial valuation was extremely exaggerated in order to comply with the terms and conditions for sanction.</p> <ul style="list-style-type: none"><li>Enhancements were also extended (September 2018, March 2019 &amp; March 2021) to the loanee on his request even though he had time and again defaulted on his payments. In one occasion (March 2019), the CC limit was enhanced in-spite of the fact that CC limit had exceeded the previous limit. This indicates a weak internal control system.</li><li>While floating the proposal for enhancement of loan to ₹ three crore, the asset coverage ratio was misreported as 1.50 instead of 0.67. Thus, even though the securities were not sufficient to cover the loan amount, the enhancement was made anyhow. Thus, SBS had not obtain adequate security cover.</li><li>Although the balance work amounted to ₹ 3.08 crore, second enhancement of ₹ one crore was extended to the loanee thereby increasing the total limit to ₹ four crore. Thus, the recoverability of the same was doubtful to that extent at the initial stage itself.</li></ul> <p>Though the loan committee had agreed for increase in CC limit to ₹ four crore subject to mortgaging additional properties of the loanee, no such mortgages was done.</p> <p>SBS while accepting (January 2024) the audit observation stated that the recovery suit has been filed for recovery.</p>						<b>Amount of CC limit (₹ in crore)</b>	<b>Area of land (sq.ft)</b>	<b>Valuation of land per sq. ft. (in ₹)</b>	<b>Total value of land (in ₹)</b>	<b>Date of valuation</b>	2.00	32,493.14	350	1,13,72,599	12.03.2015	3.00	32,493.14	154	50,03,943	22.02.2019
<b>Amount of CC limit (₹ in crore)</b>	<b>Area of land (sq.ft)</b>	<b>Valuation of land per sq. ft. (in ₹)</b>	<b>Total value of land (in ₹)</b>	<b>Date of valuation</b>																	
2.00	32,493.14	350	1,13,72,599	12.03.2015																	
3.00	32,493.14	154	50,03,943	22.02.2019																	

4	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
	2.40	00	2.40	0.03	2.67	April 2022
<ul style="list-style-type: none"> <li>SBS had sanctioned (June 2020) ₹ 2.40 crore to Mr. Sukhang Limboo for executing the sublet work (25 per cent of original work) “ Road and Junction improvement at Gangtok” project under Smart City awarded to Mr. K B Gurung. The loan was covered by mortgage of loanee’s landed property valued at ₹ 0.97 lakh and third-party mortgage of ₹ 2.41 crore.</li> <li>Though the work order was issued in March 2019 and the loan was sanctioned in June 2020, SBS did not ensure the status of work from the Gangtok Smart City Development Limited.</li> <li>The loanee was a grade IV contractor and was ineligible to participate in the original bid exceeding ₹ one crore and above. As such the loanee did not have the required capacity to execute the works. Since the repayment was based on the completion of the works, SBS should have factored in on this issue before sanctioning the loans. However, the same was not done.</li> <li>The then MD had suggested that SBS must discourage granting loans on sublet works and third-party mortgage. However, SBS allowed the loanees to avail loans on sublet works and against third party mortgages.</li> <li>Though SBS had secured the loan through primary security of hypothecation of bills receivable, this security is as good as having no security. Because the Department is obliged to release the bills to the primary contractors only and the repayment by the loanee was subject to release of funds by the primary contractor to loanee. Thus, securing the loan with hypothecation of loanee’s bills was a futile exercise and timely repayment was not ensured.</li> </ul> <p>SBS while accepting (January 2024) the audit observation stated that the recovery suit has been filed for recovery.</p>						
5	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
	1.50	6.50	6.50	0.21	7.83	April 2022
<ul style="list-style-type: none"> <li>SBS had sanctioned (August 2018) ₹ 1.50 crore to Mr. Som Bahadur Subba for executing the balance work (sublet) against the mortgage of properties valued at ₹ 2.29 crore. Subsequently, the SBS had increased the CC limit to ₹ 6.50 crore by sanctioning an additional amount of ₹ five crore for executing the other sublet works.</li> <li>The loanee was a grade IV contractor and was ineligible to participate in the original bid exceeding ₹ one crore and above. As such, the loanee did not have the required capacity to execute the works. Since the repayment was based on the completion of the works, SBS must have factored in this issue before sanctioning the loans. However, the same was not done.</li> <li>Though SBS had secured the loan through primary security of hypothecation of bills receivable, this security is as good as having no security. Because the Department is obliged to release the bills to the primary contractors only and the repayment by the loanee was subject to release of funds by the primary contractor to loanee. Thus, securing the loan with hypothecation of loanee’s bills was a futile exercise and timely repayment was not ensured.</li> <li>SBS had not ensured whether the concurrence of the Department was obtained for subletting the works.</li> <li>Considering that the valuer has done the valuation of mortgaged land for ₹ 2.29 crore, the then CGM had remarked that the valuation was on a higher side and for all practical purpose, the valuation was ₹ 1.20 crore. Thus, SBS did not obtain adequate security cover.</li> </ul>						

	<ul style="list-style-type: none"><li>The limit of the CC was increased from ₹ 1.50 crore to ₹ 6.50 crore, although the loanee had already defaulted in repayment of its dues and the total outstanding at the time of enhancement stood at ₹ 1.68 crore. Thus, the Loan Appraisal Committee did not consider the performance of the borrower before enhancing the limit of CC.</li></ul> <p><i>SBS stated (January 2024) that the MD as CEO is vested with powers to sanction loan. The sanctions are reported to BoD and are subsequently ratified. The reply is incorrect as the power of sanctioning loans was delegated to the MD only in 2019 whereas the loan was sanctioned in August 2018 when the power to sanction loans above ₹ 10 lakh was vested with the BoD.</i></p>					
6	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
	1.00	1.70	1.70	0.00	1.77	April 2020
	<ul style="list-style-type: none"><li>Mr. <i>Indra Bahadur Rai</i> had an existing loan of ₹ one crore for construction of hotel which was diverted for other uses and the account had turned into NPA. However, SBS extended the loan by ₹ 0.30 crore and agreed to convert the loan as fresh CC for executing various works that were sublet to him and adjusted the previous NPA account. Further enhancement of ₹ 0.40 crore was also extended to the loanee on his request even though he once again defaulted on his payments and had exceeded his CC limit.</li><li>Though SBS had secured the loan through primary security of hypothecation of bills receivable, this security is as good as having no security. Because the Department is obliged to release the bills to the primary contractors only and the repayment by the loanee was subject to release of funds by the primary contractor to loanee. Thus, securing the loan with hypothecation of loanee's bills was a futile exercise and timely repayment was not ensured.</li><li>The CC was sanctioned based on the work orders issued to Co-operative societies and one sublet work. However, SBS had not ensured whether the concurrence of the Department was obtained for subletting the works. Moreover, since the first two works were awarded to the co-operative societies, sanction of loans on the strength of those two work orders was highly irregular.</li><li>Follow-up with the Departments/ Organisations were not done to ensure that the payments were not released without first adjusting the same towards loan repayment.</li></ul> <p><i>SBS while accepting (January 2024) the audit observation stated that the recovery suit has been filed for recovery.</i></p>					
Business Loan						
State Bank of Sikkim (SBS) provides loans to individuals, entrepreneurs, and business firms for setting up of new business ventures and expansion of existing business. These loans are provided to the public based on mortgage of land/buildings/hypothecation of goods.						
Case No.	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
7	0.70	-	0.70	0.01	0.79	April 2022
	<ul style="list-style-type: none"><li>SBS had sanctioned ₹ 0.70 crore to Mr <i>Gopal Prasad Timsina</i> for purchase of excavator and tripper (truck) against the hypothecation of assets created out of loan along with the collateral securities of properties of borrower valued at ₹ 0.98 crore.</li><li>Against the EMI due of ₹ 24 lakh, the loanee had repaid amount of ₹ one lakh only as on August 2023.</li><li>Against the proforma invoice submitted by the Loanee amounting to ₹ 0.80 crore (Bansal Earthmover private limited) and ₹ 0.22 crore (Nim DAO Motors), SBS had released ₹ 0.60 crore and ₹ 0.09 crore to the vendors respectively.</li></ul>					



	<ul style="list-style-type: none"> <li>SBS had neither insisted on submission of copies of original invoices/vehicle registration documents nor was any physical verification carried out to find out whether the loan amount has been utilised for purchasing the above vehicles.</li> <li>On the instance of audit, SBS obtained registration certificates and photographs of vehicles purchased from the loanee. However, on verifying the credentials of the owner of the vehicle<sup>62</sup> in e-parivahan portal, the vehicle was not found registered in loanee's name. As such, the borrower had defrauded SBS by falsifying the documents.</li> <li>On pointing out the same, the Management insisted the loanee to furnish written letter (November 22) certifying the utilisation of funds. Subsequently, the loanee stated that he had purchased the excavator only and diverted the remaining funds for other purposes. Thus, in absence of the follow up exercise by SBS, the loanee did not purchase the vehicle although the money was released directly to vendors.</li> <li>The fact that the loanee had furnished wrong details relating to existence of the vehicle proves that the loanee has defrauded the bank by producing false documents.</li> <li>However, SBS neither initiated criminal lawsuit against the loanee nor any action was taken against the vendor.</li> </ul> <p>SBS while accepting (January 2024) the audit observation stated that the matter is being investigated and criminal suit is being proposed. The fact remains that the Bank had not verified the end use of the loan fund. As such, the Bank must fix responsibility/ accountability to the erring officials.</p>					
8	<b>Amount Sanctioned (₹ in crore)</b>	<b>Enhanced Amount (₹ in crore)</b>	<b>Total Amount Released (₹ in crore)</b>	<b>Amount paid (₹ in crore)</b>	<b>Amount outstanding (₹ in crore)</b>	<b>Outstanding Since</b>
	6.00	-	5.85	0.26	5.96	April 2022
	<ul style="list-style-type: none"> <li>SBS had sanctioned (December 2019) a loan of ₹ six crore<sup>63</sup> to Mr Dhu Tshering Sherpa and Shanti Kr Basnett for setting up of stone crusher unit at Yangang, South Sikkim with a total project cost of ₹ eight crore.</li> <li>Against the EMI due of ₹ 2.52 crore, the loanee had repaid amount of ₹ 26 lakh only as on August 2023.</li> <li>The loan was secured by way of mortgage of landed property valuing ₹ 5.09 crore (18 November 2019) of the co-borrower and hypothecation of plant and machineries and other assets in the unit.</li> <li>SBS had obtained land valuing ₹ 5.09 crore against the loan sanction of ₹ six crore. Thus, the bank did not secure its loan fully.</li> <li>SBS had not insisted on submission of trade license to execute such projects by the loanees.</li> <li>SBS did not verify the end use of the fund, as out of sanctioned amount, ₹ two crore had only been released to the vendor, whereas the remaining balance had been paid directly to loanee. Thus, SBS did not verify whether the plant &amp; machinery were purchased or not. Further, SBS had not listed the items that were hypothecated under Plant &amp; Machinery. Moreover, stock audit was never carried out by the bank.</li> <li>The Co-borrower had stated (Jan 2022) that the stone crusher plant had not been set up as proposed. He further questioned SBS as to how such a huge amount of money was released without any spot verification. Despite receiving such complaint, no action has been taken against the primary borrower.</li> <li>SBS did not carry out any post sanction inspection/ follow up. During the physical verification (24 Jan 2023) carried out by audit party along with officials of SBS, it was seen that the project was yet to be constructed/ started.</li> </ul>					

<sup>62</sup> Only the credentials of truck was verified from the portal since the JCBs are not being registered in Sikkim.

<sup>63</sup> As on date amount of ₹ 5.68 has been released as on date (₹ 1.50 crore in 28 Jan 2020, ₹ 2.00 crore on 23 March 2020 and ₹ 2.18 crore in 19 Oct 2020).

	SBS while accepting (January 2024) the audit observation stated that the matter is being investigated and criminal suit is being proposed. The fact remains that the Bank had not verified the end use of the loan fund. As such, the Bank must fix responsibility/ accountability to the erring officials.					
9	<b>Amount Sanctioned (₹ in crore)</b>	<b>Enhanced Amount (₹ in crore)</b>	<b>Total Amount Released (₹ in crore)</b>	<b>Amount paid (₹ in crore)</b>	<b>Amount outstanding (₹ in crore)</b>	<b>Outstanding Since</b>
	2.50	5.00	5.00	0	5.28	April 2018
	<ul style="list-style-type: none"> <li>The SBS had sanctioned (28 January 2015) ₹ 2.50 crore to Mr. <i>Padam Bahadur Chettri</i>. This was further increased to ₹ five crore with sanction of an additional amount of ₹ 2.50 crore (April 2016) against the mortgage of landed properties (extension of existing mortgage and fresh mortgage) valued at ₹ 5.78<sup>64</sup> crore.</li> <li>Against the EMI due of ₹ 6.16 crore, the loanee did not repay a single EMI as on August 2023.</li> <li>Although initially the proposal was to construct a tourist lodge, there were frequent changes in plan from setting up of petrol pump and construction of commercial flat at National Highway to the final proposal for construction of four storied building along with one banquet hall, children park and swimming pool at the original site. Thus, SBS without verifying the feasibility of the projects agreed to the request of the loanee for change in plans multiple times.</li> <li>The loanee had land valued ₹ 45 lakh mortgaged (January 2015) against the loan of ₹ 2.50 crore thereby under securing the loan. Subsequently, the loanee had mortgaged (May 2015) additional land (valued at ₹ 2.82 crore) in favour of SBS.</li> <li>The loanee had not repaid even a single instalment (August 2023).</li> <li>Though the loan amount had been released in a phase manner, SBS did not verify the end use of loan before release of the subsequent instalment.</li> <li>Since the end use of the fund was not verified, a joint physical verification exercise was carried out on 7 January 2023 by the audit with the Bank officials. It was observed that the borrower did not set up any of the projects as proposed, as only barren land was found under his possession. As such, releasing the entire loan amount without post sanction inspection/ follow up by SBS is highly irregular.</li> <li>As the loanee did not repay the loan amount, SBS had filed an FIR on May 2020 against the loanee for misuse of loan amount. However, it did not fix any accountability for such lapse against its erring officials.</li> </ul> <p>SBS stated (January 2024) that the matter is under investigation with the ED. However, the fact remains that the Bank had not verified the end use of the loan fund. As such, the Bank must fix responsibility/ accountability to the erring officials.</p>					
10	<b>Amount Sanctioned (₹ in crore)</b>	<b>Enhanced Amount (₹ in crore)</b>	<b>Total Amount Released (₹ in crore)</b>	<b>Amount paid (₹ in crore)</b>	<b>Amount outstanding (₹ in crore)</b>	<b>Outstanding Since</b>
	2.00	-	2.00	0.20	1.82	June 2020
	<ul style="list-style-type: none"> <li>SBS had sanctioned (07 April 2015) ₹ two crore to Mr. <i>Manoj Kumar Rai</i> for setting up of a Stone Crusher plant at 13<sup>th</sup> Mile, <i>Gangtok Nathula</i> Road and subsequently, SBS considering the request of loanee (30 November 2015) agreed to change plant location to <i>Karek</i>, South Sikkim.</li> <li>Against the EMI due of ₹ 2.89 crore, the loanee had repaid ₹ 20.00 lakh only as on August 2023.</li> </ul>					

<sup>64</sup> Tika Ram Sharma ₹ 45 lakh, Padam Bahadur Chettri ₹ 2.51 crore and Shanti Sharma ₹ 2.82 crore.

	<ul style="list-style-type: none"><li>SBS, considering the delay in implementation of project decided 8 July 2016) to reschedule the loan account with tenure of seven years six months and additional moratorium period of 21 months.</li><li>The loanee had mortgaged land valuing ₹ 1.50 crore against the loan sanction of ₹ two crore thereby not securing the loan for the full amount.</li><li>Apart from money receipt of ₹ 1.13 crore for purchase of plant and machineries, no other records were available.</li><li>The loanee did not have a valid license for stone crusher plant.</li><li>Since the end use of the fund was not verified, joint physical verification (30 January 2023) was carried out by audit with the Bank officials wherein it was noticed that the project did not exist. Thus, the SBS did not verify the license for the plant, progress of the project, and in general the end use of the funds.</li></ul>					
11	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
	2.50	-	2.50	0.04	2.73	April 2022
	<ul style="list-style-type: none"><li>SBS had sanctioned (March 2021) ₹ 2.50 crore to Mr. <i>Bishal Chettri</i> for establishment of dairy farm and fodder nursery cum fodder processing plant against the hypothecation of livestock, plant and machinery along with mortgage of landed properties registered in the name of borrower and third parties having a value of ₹ 0.68 crore and ₹ 1.46 crore thereby under securing the loan.</li><li>Against the EMI due of ₹ 1.14 crore, the loanee had repaid ₹ 4.25 lakh only as on August 2023.</li><li>As per the DPR, a total of 80 cows were proposed to be purchased. However, during the joint physical verification carried out by the audit with the Bank officials, only 17 cows and nine calves were found on the spot. Further, the loanee did not set up the project completely.</li><li>Even though the fund were released in instalment basis, the Bank did not verify the utilisation of previous instalment before releasing the subsequent instalment. The fund was required to be released on an instalment basis subject to proper utilisation of previous releases. However, SBS had released the entire loan amount without post sanction inspection/ follow up.</li></ul> <p><i>SBS while accepting (January 2024) the audit observation stated that FIR has been filed with the Police and bank filed recovery suit and decree has been obtained. The fact remains that the Bank had not verified the end use of the loan fund. As such, the Bank must fix responsibility/ accountability to the erring officials.</i></p>					
Construction Loan						
State Bank of Sikkim (bank) offers construction loans for the purpose of self-construction of residential house property or for commercial buildings. These loans are provided to the public based on mortgage of land/buildings and potential projected revenue.						
Case No.	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
12	40.00	-	40.00	0.74	52.23	Oct 2022
	<ul style="list-style-type: none"><li>SBS had sanctioned (26 August 2019) a term loan of ₹ 40 crore to M/s <i>Teesta Rangit (p) Ltd</i> /M/s <i>Hotel Royal Plaza</i> located at <i>Syari</i>, Gangtok for takeover of existing loan from SBI and PNB amounting to ₹ 16.34 crore and ₹ 23.66 crore for expansion and refurbishing of hotel.</li><li>Against the EMI due of ₹ 11.50 crore, the loanee had repaid amount of ₹ 74.00 lakh only as on August 2023.</li></ul>					

<ul style="list-style-type: none"> <li>The loan was secured by mortgage of lease (landed) properties on which the hotel is located for a period of 99 years. Further, during February 2021, SBS has sanctioned an additional loan amount of ₹ 50 lakh under Covid Rehabilitation Scheme.</li> <li>Although the loan sanctioning authority is the Board of Directors, the loan was sanctioned/ released by the MD before its approval by the Board. The same was ratified by Board during the meeting held on 18 September 2019.</li> <li>While issuing the sanction letter the interest rate was depicted as 11 per cent whereas, the loan was approved by SBS and ratified by the Board at the rate of 12 per cent interest. Further, as per the loan statement interest was charged at the rate of 12 per cent. However, the management revised the interest rate to 11 per cent though the same was approved by board at the rate of 12 per cent. This has resulted in the loss of interest of ₹ 81.00 lakh as on date of NPA (30 September 2022).</li> <li>The loanee had neither serviced the interest portion during the moratorium period nor repaid the EMI after expiry of extended moratorium period). Moreover, EMI for takeover loan was not specified.</li> <li>The financial position of the Company (loanee) was not sound as the company had a total accumulated loss of ₹ 37.51 crore. However, SBS did not recognise the same before sanctioning the loan.</li> <li>The entire loan amount was sanctioned without any post sanction inspection/ follow up by SBS.</li> </ul> <p><i>SBS replied that in order to make the rates competitive with other banks, the loan was actually sanctioned at 11 per cent. However, it was wrongly mapped at 12 per cent in the system, which was later rectified. As such, there is no interest loss. The reply is not acceptable as the loan was put up for approval of the Board at 12 per cent rate of interest only and so approved by the Board. Thus, by arbitrarily reducing the rate, the Bank did not follow the Board's directives. Further, SBS does not have a system of credit rating of its borrowers.</i></p> <p><i>SBS further replied that the fund had been used for the development of the project and the bank has ensured proper utilisation. The reply is not acceptable as no records were available in the files produced to audit to justify the proper utilisation of the fund.</i></p>						
13	<b>Amount Sanctioned (₹ in crore)</b>	<b>Enhanced Amount (₹ in crore)</b>	<b>Total Amount Released (₹ in crore)</b>	<b>Amount paid (₹ in crore)</b>	<b>Amount outstanding (₹ in crore)</b>	<b>Outstanding Since</b>
	1.50	3.70	3.70	0.07	3.77	-
<ul style="list-style-type: none"> <li>SBS had sanctioned (October 2017) construction loan of ₹ 1.50 crore to Mr. Chabilall Gurung for construction of hotel at Yangang, South Sikkim</li> <li>The loan amount was mortgage against the project land and building value at ₹ 1.40 crore and another property valued at ₹ 1.38 crore.</li> <li>Against the sanctioned of ₹ 1.50 crore, the loanee had utilised ₹ 23 lakh for closing the NPA account of ₹ 10 lakh taken during the year 2006.</li> <li>This loan had also turned into NPA. However, SBS had further sanctioned a business loan of ₹ 3.70 crore for settlement of NPA account (₹ 1.50 crore). Thus, SBS did not verify the credibility of the loanee, as despite the accounts being NPA<sup>65</sup>, the bank had agreed to finance the borrower multiple times.</li> <li>The land valuing ₹ 2.78 crore was mortgaged against the loan sanction of ₹ 1.50 crore. However, on the enhancement of loan, the SBS had obtained security amounting to ₹ 3.13 crore against the total loan sanction of ₹ 3.70 crore. Thus, the SBS did not obtain adequate security cover.</li> <li>It was observed that the post sanction verification was not done after 2019 in case of construction loan and post verification was never carried out after sanction of business loan.</li> </ul>						

<sup>65</sup> Loan released in May 2006 and October 2017.

	<p>SBS replied that while financing such projects, the Bank's fund when utilised in the project enhances its value. Property if valued now will be more than the loan value. As such loan is adequately covered. The reply is not acceptable as the security obtained during enhancement of loan was inadequate to cover the loan amount. Further, the contention that the value of the securities would increase over time is hypothetical and is against the financial interest of SBS.</p> <p>SBS further replied that the end use of the fund has been ensured. The reply is not acceptable as no documented follow up exercises carried out by SBS was available on record.</p>					
14	Amount Sanctioned (₹ in crore)	Enhanced Amount (₹ in crore)	Total Amount Released (₹ in crore)	Amount paid (₹ in crore)	Amount outstanding (₹ in crore)	Outstanding Since
	5.00	10.00	10.00	0.00	12.55	April 2019
	<ul style="list-style-type: none"><li>SBS had sanctioned (November 2015) ₹ five crore to Mr Sonamla Ethenpa, Namchi for setting up of a hotel, which was later increased to ₹ 10.00 crore by sanctioning ₹ three core (July 2017) and ₹ two crore (July 2018).</li><li>Against the EMI due of ₹ 9.98 crore, the loanee did not repay a single EMI as on August 2023.</li><li>The loan was sanctioned against mortgage of land and under construction building valued at property valued at ₹ 14.61 crore (land valuation ₹ 2.38 crore along with personal guarantee of Mrs. Ongmu Bhutia one of the promoters of company.</li><li>Post sanction follow up inspections were not carried out by SBS except for one inspection in 2016. As the fund was required to be released in phased manner, releasing the entire loan amount without post sanction inspection/ follow up by SBS was not a prudent practice. The loanee had not paid even a single instalment in eight years.</li><li>SBS did not verify the end use of the loan amount.</li><li>Thus, the defaulter had defrauded SBS and diverted huge amounts without a single repayment. However, no concrete action was taken against the defaulter.</li></ul> <p>SBS replied that the project could not be completed by the promoter and no income generation has taken place. Post disbursement follow-up is regularly done and release of funds was in phased manner.</p> <p>The reply is not acceptable as no documented follow up exercises carried out by the SBS was available on record.</p>					
Sikkim Youth Startup Scheme:						
<p>The Government of Sikkim had introduced (August 2020) Skilled Youth Startup Schemes (SYSS) with a vision to reduce unemployment and create adequate self-employment opportunities. The eligibility criteria is as detailed below</p> <ul style="list-style-type: none"><li>The applicant should possess Certificate of Identification (COI) /Residential Certificate (for urban areas) of self/ father;</li><li>The applicant should be unemployed possessing minimum educational qualification of Class-V. For technical projects/ manufacturing and service sector, the applicants should possess certificate from Technical Institute;</li><li>Only one member of a family shall be eligible to avail the benefits under the Scheme;</li><li>The family income shall not exceed eight lakhs per annum;</li><li>In case of Government servant, ‘C’ and ‘D’ employee’s children can only avail this benefit;</li><li>The beneficiary should not be a defaulter in SBS/ other banks; and</li><li>A person who has already availed subsidy under CMSS/ PMEGP shall not be eligible under the scheme.</li></ul>						

<b>Case No.</b> <b>15 to 17</b>	<ul style="list-style-type: none"> <li>• The bank sanctioned multiple loans under the scheme, including ₹ 14.25 lakh each to Mr. <i>Jit Bahadur Limboo</i> (21 December 2021) &amp; Mr. <i>Budhi Raj Limboo</i> (11 January 2022) for starting up Homestay at <i>Sribadam</i>, West Sikkim, ₹ 14.25 lakhs to Miss <i>Winona Lepcha</i> (20 April 2021) for a homestay at <i>Lingthem, Dzongu</i>, North Sikkim, and ₹14.25 lakh to Mr. <i>Gom Tshering Lepcha</i> (20 August 2021) for a homestay at <i>Gerethang</i>, West Sikkim.</li> <li>• However, against the EMI dues of ₹ 17.08 lakh, only ₹ 3.30 lakh had been repaid as on August 2023.</li> <li>• The bank sanctioned loans without adhering to the prescribed eligibility criteria, proper due diligence, and post-sanction monitoring, leading to potential misuse and default.</li> <li>• Loans were granted to ineligible applicants who either lacked the required educational qualifications, exceeded the prescribed income limits, or were already engaged in similar businesses, thereby defeating the scheme's objective.</li> <li>• Mandatory documentation, such as EDP training certificates, was not obtained before loan disbursal.</li> <li>• In the case of Mr. <i>Jit Bahadur Limboo</i> &amp; Mr. <i>Budhi Raj Limboo</i>, there were indications of possible collusion and fraud, as identical photographs were submitted for fund utilization verification.</li> <li>• The bank did not conduct post-sanction physical inspections and follow-ups, resulting in a lack of oversight on loan utilization.</li> <li>• The lack of due diligence, weak monitoring mechanisms, and non-adherence to scheme guidelines have led to financial mismanagement and potential misuse of funds, ultimately increasing the risk of NPAs for the bank.</li> </ul> <p><i>SBS stated (January 2024) that the screening of candidates and projects were done by the Commerce and Industries Department and the projects were forwarded to the Bank after verification by the concerned department. Releasing of loan before EDP training was at the request of the department. The reply is not acceptable as considerable fund of the Bank has been released to the beneficiaries as loans, recovery of which is the responsibility of the Bank. Thus, as per financial prudence, the Bank should have carried out a minimum due diligence while sanctioning the loans. Moreover, the beneficiary has falsified the documents to avail the subsidy. Hence, the issue may be investigated to ascertain whether the beneficiary is eligible for subsidy or not. Further, the fact remains that the beneficiaries were ineligible for the subsidy.</i></p>
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**Appendix 3**  
**Case studies under OTS**  
*(Reference: Paragraph 4.4.6.4)*

Case No.	Brief Observations
01	<ul style="list-style-type: none"> <li>This case has been discussed at Annexure 1 case no. 1.</li> <li>Although the SBS was fully aware that Mr. Ugen Dorjee Bhutia had received ₹ 13 crore from the Department towards advance payment for sale of land which was still mortgaged with the SBS, the loan with the total outstanding of ₹ 9.82 crore was processed (1 March 2023) through OTS at ₹ five crore sacrificing ₹ 4.82 crore. Since the defaulter had received ₹ 13 crore, he was in a position to repay the loan in full. Hence, the action of the SBS to settle the loan under OTS by sacrificing ₹ 4.82 crore was not justified and highly irregular.</li> <li>Moreover, as the Department was already in the process of purchasing the mortgaged land and a substantial amount had also been paid to the defaulter, there was no marketability issue of the land. However, while processing the loan for OTS, the SBS had categorised it under “Very difficult to market.”</li> </ul> <p><i>The SBS stated (January 2024) that the SBS was not aware of the transaction of mortgaged land with the government, and it was only after agreeing to settle the loan, the bank was aware of the same. As far as marketability of the land is concerned, acquisition of land by the government is on rare occasion only which does not signify good marketability.</i></p> <p><i>The reply is not acceptable as the Commerce and Industries Department had already notified the Bank (August 2022) regarding the acquisition process with the defaulter before the Bank entered into OTS settlement (March 2023). In this instant case, the land was highly marketable as before the loan was proposed for OTS, a substantial amount of ₹ 13 crore had been already paid to the defaulter. However, the bank instead of initiating a criminal action against the defaulter had extended undue favour to him by settling the loan at lower amount.</i></p>
02	<ul style="list-style-type: none"> <li>The SBS had sanctioned a construction loan to Mr. Sushil Tamang amounting to ₹ 1.50 crore on 10 October 2015. Due to non-payment of instalment, the loan was declared NPA on 31 March 2017.</li> <li>On 26 May 2022 and 31 May 2022, the borrower had requested to settle the loan through One Time Settlement (OTS) as an investigation was initiated against him by Enforcement Directorate (ED) in connection with the loan.</li> <li>The SBS management had negotiated with the defaulter and arrived at the settlement amount of ₹ 200 lakhs and sacrifice amount of ₹ 24.53 lakh.</li> <li>While computing the running ledger balance, in contravention to its own policy, the SBS did not add back the reversal of interest w.e.f. April 2017 to February 2018 amounting to ₹ 18.65 lakh.</li> <li>The SBS has disbursed ₹ 1.45 crore to the borrower out of sanctioned amount ₹ 1.50 crore. However, ₹ 5.00 lakh was also paid to the borrower which was directly adjusted towards payment of instalment on the borrower’s request. Thus, the SBS has disbursed ₹ 1.50 crore to the borrower.</li> <li>The outstanding balance of the borrower’s loan account as on 31 May 2022 would work out to ₹ 2.82 crore (taking interest up to date). The defaulter was under investigation by the ED for money laundering and as such he had no other option but to settle the loan. Thus, the SBS should have recovered its outstanding dues to the maximum. However, the bank settled for ₹ 2.00 crore against ₹ 2.82 crore.</li> <li>Thus, the SBS has extended undue benefit of ₹ 82.40 lakh to the borrower through OTS.</li> </ul> <p><i>SBS stated (January 2024) that recovery of loan was possible only after the bank had filed an FIR. Thus, there is no undue favour. The reply is not acceptable as the bank while considering the repayment of the borrower had inordinately considered ₹ 13 lakh as payments made post OTS agreement. Moreover, since the defaulter was being investigated by ED for money laundering, he had no other option but to settle the loan. However, the bank went ahead with OTS instead of recovering the entire dues which has resulted in undue favour to the defaulter.</i></p>

Case No.	Brief Observations
03	<ul style="list-style-type: none"> <li>SBS had sanctioned (8 December 2008) a construction loan of ₹ 40 lakh to <i>Mr. C.B. Gurung</i>. Due to non-payment of dues, the loan account was declared NPA on 31 March 2014.</li> <li>On 3 June 2022, the borrower had requested to settle the loan through One Time Settlement (OTS) as an investigation was initiated against him by Enforcement Directorate (ED) in connection with the loan.</li> <li>The last date of payment in this account was done on 1 June 2010, however, the account was marked as NPA only on 31 March 2014.</li> <li>The outstanding dues under this account amounted to ₹ 86.79 lakh which was settled at ₹ 71 lakh and balance amount of ₹ 15.79 lakh was sacrificed.</li> <li>While arriving at the outstanding balance, SBS did not compound the interest amount although the last payment was made in June 2010. As such, the actual sacrifice amount if OTS was done as per the policy would work out to ₹ 30 lakh.</li> <li>The outstanding balance of the borrower's loan account as on 31 May 2022 would work out to ₹ 1.55 crore (taking interest up to date). The defaulter was under investigation by the ED for money laundering and as such he had no other option but to settle the loan. Thus, SBS should have recovered its outstanding dues to the maximum. However, the SBS settled for ₹ 71 lakh against ₹ 1.55 crore. Thus, the SBS has extended undue benefit of ₹ 83.98 lakh to the borrower through OTS.</li> </ul> <p><i>SBS stated (January 2024) that there is no undue favour as for the bank, NPAs are recovered through its efforts. The reply is not acceptable as the defaulter was being investigated by ED for money laundering and he had no other option but to settle the loan. However, the bank went ahead with OTS instead of recovering the entire dues which has resulted in undue favour to the defaulter.</i></p>
04	<ul style="list-style-type: none"> <li>The SBS had sanctioned (22 July 2009) a Cash Credit amounting ₹ three crore to <i>Mr. Karma T Namgyal</i>. However, the same is not linked with any saving/current account in SBS.</li> <li>The loan was declared NPA on 31.03.2016 (w.e.f. 31 March 2015) and the outstanding balance of ₹ 2.95 crore was shown as NPA in the books of account. However, it was noticed that the last date of payment was April 2015. As such, the account would have become NPA only on 31 July 2015 with an outstanding balance of ₹ 3.07 crore.</li> <li>The customer had approached SBS on 20 March 2018 and 29 Dec 2019 to settle his loan account through One Time Settlement (OTS) and assured to settle the account on receipt of pending bill of ₹ 2.94 crore from the department.</li> <li>The North Eastern Development Financial Corporation Ltd and Forest Department had requested SBS for credit worthiness report of <i>Mr. Karma T Namgyal</i> on March 2018 and December 2018 respectively. However, SBS had prepared (March 2018 &amp; December 2018) the credit worthiness report depicting the account as standard account although it had already become an NPA (March 2016). This wrong reporting of credit worthiness is misleading. This kind of misreporting of the borrower's credit worthiness could have a negative impact on the goodwill of the SBS.</li> <li>Although the borrower stated to have had a receivable of ₹ 2.94 crore from the department, the loan was settled at a lower value <i>i.e.</i>, ₹ 2.80 crore. As such, against the total outstanding of ₹ 422 lakh including interest as on 31 March 2018, the SBS had sacrificed ₹ 1.42 crore to the borrower through OTS.</li> </ul> <p><i>The SBS stated (January 2024) that the credit worthiness reporting shall be looked into. The account stands close as on date. However, the fact remains that the Bank had misreported the defaulter as standard account.</i></p>



Case No.	Brief Observations
05	<ul style="list-style-type: none"> <li>The SBS had sanctioned (21.04.2005) a Cash Credit of ₹ two crore to Mr. Kishan Kumar Agarwal.</li> <li>The repayment of loan was irregular, however, the account was never declared as NPA. No payment was made after August 2012 and the limit had already exceeded several times. Further, the SBS stopped charging interest from 30 November 2014 thereby leaving an outstanding balance of ₹ 2.17 crore.</li> <li>On the request of the defaulter, the SBS had settled the loan under OTS at a compromise settlement of ₹ 72 lakh and sacrificing ₹ 2.17 crore including principal write off of ₹ 30 lakh.</li> <li>The SBS had ascertained that the borrower was doing well in his other businesses. As such, the borrower was a wilful defaulter.</li> <li>While processing the loan under OTS, the property has been categorised under ‘not easily marketable’. However, no analysis was made by the SBS to verify the marketability of the properties.</li> </ul> <p><i>The SBS stated (January 2024) that recovery of NPA stands in advantage to the bank. As on date, the account stands closed. The reply is not acceptable as the Bank did not carry out minimum due diligence and also sacrificed principal beyond permissible limit which is in contrary to its own scheme guidelines.</i></p>

*Source: Management's records*

**Appendix 4**  
**Statement showing suspected transaction in the account of bank officials**  
*(Reference: Paragraph 5.2.1)*

Name of the Official	Date of credit	Mode of transaction	Amount credited into account of the bank officials	Details of Transferee	Disbursement of loan/ installment to loanee during the same period
SR Karki	07 July 2018	By Transfer SB Cheque No 628336	15,000.00	Gawari Maya Chettri loan account	₹ 15 lakh released on 7 July 2018
	12 November 2020	Cheque No 282383	550,000.00	Sudesh Subba loan account	₹ 35 lakh released on 12 November 2020
	23 May 2018	by amount transferred from SB Cheque No 133353	200,000.00	Mani Kumar Sherpa loan account	₹ seven lakh disbursed on 23 May 2018
Krishna Kala Pradhan	23 March 2021	By Transfer from Khem Raj Nepal	5,000.00	Khem Raj Nepal loan account	₹ five lakh EPL disbursed on 23 May 2021
	20 January 2022	By amount transferred from Tarachand Lagun	300,000.00	Tarachand Lagun CC account	20 January 2022, ₹ three lakh transferred from CC account and ₹ 26 lakh withdrawn on same day
	27 January 2022	By transfer Om Kumari Chettri	225,000.00	Om Kumari Chettri loan account	₹ 2.25 lakh transferred on same day
	04 April 2022	By Cheque No 584412 dated 04 April 2022	150,000.00	Yam Kumar Pradhan loan account	₹ 1.50 lakh transferred on same day
	06 April 2022	By loan amount. transferred vide telephonic conversation with Yam Kumar Pradhan	300,000.00	Yam Kumar Pradhan loan account	₹ three lakh transferred on same day
	11 August 2022	By SB Cheque No 952581 dated 11.08.2022	15,000.00	Kidiara Bhutia loan account	₹ two lakh transferred on same day
	17 September 2022	By amount transferred from Manoj Kr Thapa	12,000.00	loan account	₹ two lakh released on same day
	28 September 2022	By amount. transferred	200,000.00	Ashok Pradhan loan account	₹ 10 lakh released on same day
	19 January 2023	By amount transfer SB ac 281100140224284	200,000.00	Manoj Kr rai loan account	₹ 10 lakh released on same day
	21 January 2023	By Cash Manoj Kr Rai	200,000.00	Manoj Kr rai loan account	₹ 4.55 lakh released on same day
	04 February 2023	By amount transferred	30,000.00	Pema Doma Bhutia loan	₹ 5.50 lakh released on same day
KT Choppel Bhutia	12 April 2022	By amount transferred from Mingma Tshering	5,000.00	loan account	₹ two lakh released on same day
Reena Basnett Rai	24 August 2020	By amount of transferred from SB Ac	20,000.00	Transferred from Sonam Sherpa Business Loan	₹ 18 lakh was released on same day

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Name of the Official	Date of credit	Mode of transaction	Amount credited into account of the bank officials	Details of Transferee	Disbursement of loan/ installment to loanee during the same period
	08 October 2020	By amount transferred from SB Cheque No. 450380 dt.08.10.20.	100,000.00	Dupden Bhutia Construction loan	₹ three lakh disbursed on same day
	31 August 2021	By Transfer Loan Sanction	1,000,000	Noel Sharma Loan account	₹ 10 Lakh released on same day
	08 September 2021	By amount transferred of loan disbursed	150,000	Abikeshar Dahal & Dhan Bdr Dahal Loan account	₹ 18 lakh was released on same day
	08 November 2021	By SBS Cheque No.744285	10000	Jangu Tamang	₹ 16 lakh was released on same day
Renuka Rai	13 September 2022	By amount transferred. from 2811100140218248	100,000.00	Shyam Kr Rai loan account	₹ three lakh pension loan was disbursed on same day
Urmila rai	17 March 2022	By amount transferred from Anita Rai	137,000	Anita Rai Start up loan	Directly transferred from loan account, as the whole installment released was transferred to staff account
	21 April 2022	By amount transferred from 2811100140224468	145,000	Anita Rai Start up loan	
KB Chamling	16 October 2017	By Cheque No. 939884	500000	Garjamang Gurung Loan account	Transferred from saving ₹ 40 lakh withdrawn from CC account on same day
Susan Sharma	19 September 2018	By Transfer from P T Sherpa	82,000.00		Passang Tempa Sherpa EPL of ₹ six lakh released on same day
	11 January 2019	By Transfer from N Gurung	63,000.00		EPL of ₹ 9.20 lakh on same day N Gurung
	27 February 2019	By Transfer from R. Balmaki	110,000.00		EPL of ₹ 9.80 lakh released on 27 February 2019
	28 February 2019	By Transfer from D C Bhutia	400,000.00		EPL of ₹ 10 lakh released on same day D C Bhutia
	16 April 2019	By Transfer from M K Gurung and K T Bhutia	245,000.00		₹ 10 lakh released on same day to Account no xxxx500593 and ₹ 1.20 lakh released on same day to account no xxxx500592
	17 April 2019	By Transfer Cheque No. 735813	592,500.00		₹ six lakh EPL released on same day Tulshi Chettri
	26 April 2019	By Transfer from Bharati Gurung	196,000.00		₹ 3.50 lakh EPL loan released on same day Bharati Gurung
	29 July 2019	By Kearsing Poudyal	7,000.00		EPL ₹ nine lakh released on same day Kearsing Poudyal
	18 November 2019	By transfer Tempo Tshering Bhutia	505,000.00		₹ 6.50 lakh EPL loan released on same day Tempo Tshering Bhutia

Name of the Official	Date of credit	Mode of transaction	Amount credited into account of the bank officials	Details of Transferee	Disbursement of loan/ installment to loanee during the same period
	10 December 2019	By Transfer Yadram Balmiki	483,000.00		₹ 9.50 lakh released on same day EPL loan Yadram Balmiki
	11 December 2020	By Transfer Cheque No. 451702	650,000.00		Karma Tenzing Bhutia EPL ₹ 10 lakh released on same day
	23 February 2021	By G Tamang Cheque No. 455301	546,000.00		EPL of ₹ 10 lakh released on same day Gagan Tamang
	24 August 2021	By Transfer Cheque No. 456613	195,000.00		Topgay Bhutia ₹ 9.50 lakh EPL released on same day
	17 January 2022	By Transfer Cheque No. 457832 R Gurung	220,000.00		Roshan Gurung EPL of ₹ 2.50 lakh released on same day
	20 January 2022	By Transfer Cheque No. 298105	220,000.00		Pumphra Rai EPL of ₹ five lakh transferred on same day
	25 January 2022	By Transfer from Thendup Bhutia	140,000.00		EPL ₹ three lakh released on same day
	01 February 2022	By Transfer from 202635	60,000.00		EPL ₹ four lakh released on same day Rinzing Sherpa
	2 March 2022	By Transfer Cheque No. 337142	215,000.00		EPL ₹ 10 lakh released on same day Leela Maya Gurung
	5 April 2022	By Transfer Cheque No. 945201	175,000.00		EPL ₹ nine lakh released on same day Nischal Gurung
	7 April 2022	By Transfer Cheque No. 945273	100,000.00		EPL ₹ nine lakh released on same day Raj Hang Thebey
	1 November 2022	By Transfer from 203667	50,000.00		₹ one lakh EPL disbursed on same day Binod Tamang
	1 November 2022	By Transfer Cheque No. 196809	200,000.00		₹ six lakh EPL disbursed on same day Birendra Subba
	14 November 2022	By Transfer Cheque No. 964344	295,000.00		₹ three lakh Pension loan disbursed on same day Bhaichung Lepcha
	14 November 2022	By Transfer amount from Cheque No. 203678	220,000.00		₹ nine lakh EPL disbursed on same day Passang Tempa Sherpa
	6 December 2022	By Mahendra Kumar Limboo Cheque No. 107533	55,000.00		₹ 20 lakh under Business loan disbursed on same day Mahendra Kumar Limboo
	17 February 2023	By Palman Chettri	30,000.00		EPL ₹ three lakh released on same day Pahal Man Chettri

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Name of the Official	Date of credit	Mode of transaction	Amount credited into account of the bank officials	Details of Transferee	Disbursement of loan/ installment to loanee during the same period
	14 March 2023	By Transfer Cheque No. 945300	200,000.00		EPL ₹ two lakh released on same day Mamta Gurung
	21 March 2023	By Cheque No. 317210	55,000.00		EPL ₹ five lakh released on same day Kamal Chettri
Pawan Tamang	18 March 2020	By Transfer Cheque No. 575254	200,000.00		EPL ₹ nine lakh released on same day Tashi Dadul Bhutia
	24 December 2020	By Transfer Cheque No. 563456	200,000.00		EPL ₹ 4.5 lakh released on same day Samir Kumar Tamang
	4 February 2021	By Transfer Cheque No. 488885	100,000.00		EPL ₹ 10 lakh released on same day Som Bahadur Limboo
	20 September 2018	By Transfer	7,500.00		Transferred from three EPL account disbursed on same day
	7 December 2018	By Transfer from Som Bahadur Limbu	377,000.00		₹ eight Lakh EPL disbursed on same day
	15 February 2019	By Transfer	190,000.00		₹ 6.5 Lakh EPL disbursed on same day
Tshering Thendup Bhutia	09 January 2018	By Transfer	200,000.00		Wangyal N Bhutia EPL ₹ four lakh released on same day
Suresh Rai	22 November 2019	By Transfer	200,000.00		Transfer from Suva Lachhi Rai SBS home loan ₹ two lakh released on same day
Jigme Wangchuk Bhutia	16 August 2021	By transferred from account no. xxxxx203835	450,000.00		Shepo Bhutia Demand loan sanctioned on 16 August 2021
Sangay C Bhutia	5 January 2019	Received on EPL No. 35500367	10,000.00		EPL ₹ 10 lakh disbursed on same day Pranita Chettri
	11 March 2019	By transfer	10,000.00		EPL ₹ 10 lakh disbursed on same day Subash Bagdas
	19 March 2019	By Cheque No. 436376 dated 19 March 2019	100,000.00		₹ two lakh EPL disbursed on same day Mahesh Rai
<b>Total</b>			<b>12,923,000.00</b>		

Source: Management's records

**Appendix 5**  
**Statement showing the details of candidates selected for the post of Assistant Manager**  
*(Reference: Paragraph 5.2.4)*

Sl. No	Roll No	Name of Candidates
1	20210168	Sujan Rai
2	20210325	Anjana Chettri
3	20210566	Pravesh Tamang
4	20210669	Rinzing Ongmu Bhutia
5	20210865	Khagen Chettri
6	20210956	Nitesh Dahal
7	20211061	Pema Dorjee Lepcha
8	20211149	Lochan Gajmer
9	20211193	Sumiran Pradhan
10	20211397	Manu Gautam
11	20211406	Yada Bhutia
12	20211474	Sagar Sharma
13	20211616	Sarju Sunar
14	20211665	Abhisekh Rai
15	20211716	Ashish Gurung
16	20211776	Jeten Subba
17	20211788	Prasan Gurung
18	20211879	Dibya Rekha Gurung
19	20212316	Chewang Tamang
20	20212478	Yankey Tamang
21	20213073	Ugen Gyamtso Bhutia
22	20213261	Dechen Gurung
23	20213261	Kesang Doma Sherpa
24	20213318	Lukchyo Lepcha
25	20213392	Sudharshan Chettri
26	20213465	Vijay Sharma

*Source: Management's records*

Appendix 6

Statement showing the details of evaluation sheet re-assessed by the Audit for all the candidates called for interview for the post of Assistant Manager

(Reference: Paragraph 5.2.4)

Sl. No	Roll No	Name of the Candidate	Written Exam mark	Interview mark	Total	Remarks
1	20211474	Sagar Sharma	136	Not furnished	136	Selected
2	20210879	Ugen Tenzing Bhutia	128	Not furnished	128	Not Selected
3	20213261	Kesang Doma Sherpa	125	Not furnished	125	Selected
4	20213073	Ugen Gyamtso Bhutia	125	Not furnished	125	Selected
5	20211665	Abhisekh Rai	124	Not furnished	124	Selected
6	20211716	Ashish Gurung	122	Not furnished	122	Selected
7	20210956	Nitesh Dahal	120	Not furnished	120	Selected
8	20212316	Chewang Tamang	117	Not furnished	117	Selected
9	20213261	Dechen Gurung	116	Not furnished	116	Selected
10	20210325	Anjana Chettri	116	Not furnished	116	Selected
11	20210669	Rinzing Ongmu Bhutia	115	Not furnished	115	Selected
12	20213392	Sudharshan Chettri	115	Not furnished	115	Selected
13	20211776	Jeten Subba	115	Not furnished	115	Selected
14	20213465	Vijay Sharma	114	Not furnished	114	Selected
15	20210566	Pravesh Tamang	114	Not furnished	114	Selected
16	20211788	Prasan Gurung	112	Not furnished	112	Selected
17	20211879	Dibya Rekha Gurung	112	Not furnished	112	Selected
18	20211193	Sumiran Pradhan	112	Not furnished	112	Selected
19	20213318	Lukchyo Lepcha	106	Not furnished	106	Selected
20	20210307	Sandhya Pradhan	106	Not furnished	106	Not Selected
21	20210513	Landup Dorjee Sherpa	104	Not furnished	104	Not Selected
22	20212738	Praney Rai	102	Not furnished	102	Not Selected
23	20211027	Tashi Rabden Bhutia	100	Not furnished	100	Not Selected
24	20210204	Sanjhna Shree Pradhan	100	Not furnished	100	Not Selected
25	20210732	Shreya Gautam	100	Not furnished	100	Not Selected
26	20211038	Tashi Tshering Lepcha	99	Not furnished	99	Not Selected
27	20210952	Kesang Doma Bhutia	99	Not furnished	99	Not Selected
28	20212028	Suraj Basnett	98	Not furnished	98	Not Selected
29	20210319	Laden Bhutia	98	Not furnished	98	Not Selected
30	20212436	Nima Gyalpo Thapa	98	Not furnished	98	Not Selected
31	20212561	Sanjiv Tamang	95	Not furnished	95	Not Selected
32	20213419	Paden Bhutia	95	Not furnished	95	Not Selected
33	20212286	Abinnandan Lamsal Sharma	93	Not furnished	93	Not Selected
34	20210544	Rigzen Wangchuk Bhutia	93	Not furnished	93	Not Selected
35	20211968	Krishan Kumar Manger	92	Not furnished	92	Not Selected
36	20211406	Yada Bhutia	92	Not furnished	92	Selected
37	20211915	Cheten Gurung	91	Not furnished	91	Not Selected
38	20213208	Abinash Ghimirey	91	Not furnished	91	Not Selected
39	20212079	Suresh Sharma	89	Not furnished	91	Not Selected
40	20212075	Pratiksha Sharma	93	Not furnished	91	Not Selected
41	20212940	Pema Lhamu Bhutia	90	Not furnished	90	Not Selected
42	20210768	Diken Sharma	89	Not furnished	89	Not Selected
43	20211235	Mangil Rai	88	Not furnished	88	Not Selected
44	20212098	Nischal Sharma	88	Not furnished	88	Not Selected
45	20210053	Ram Singh Rai	87	Not furnished	87	Not Selected
46	20212364	Kalzang C Athupo Bhutia	87	Not furnished	87	Not Selected
47	20210841	Thinlay Dorjee Bhutia	87	Not furnished	87	Not Selected
48	20211426	Rinchen Lama	87	Not furnished	87	Not Selected
49	20210374	Rajiv Rai	85	Not furnished	85	Not Selected



Sl. No	Roll No	Name of the Candidate	Written Exam mark	Interview mark	Total	Remarks
50	20211149	Lochan Gajmer	85	Not furnished	85	Selected
51	20212314	Nikhil Rai	84	Not furnished	84	Not Selected
52	20211083	Nihal Rai	83	Not furnished	83	Not Selected
53	20212398	Srijana Tamang	82	Not furnished	82	Not Selected
54	20211403	Monika Rai	81	Not furnished	81	Not Selected
55	20213482	Moore Subba	78	Not furnished	78	Not Selected
56	20212478	Yankey Tamang	74	Not furnished	74	Selected
57	20211616	Sarju Sunar	74	Not furnished	74	Selected
58	20211188	Phurmit Lepcha	73	Not furnished	73	Not Selected
59	20211618	Satyam Suji	73	Not furnished	73	Not Selected
60	20213434	William Songrowla	68	Not furnished	68	Not Selected
61	20212327	Santosh Ghimeray	68	Not furnished	68	Not Selected
62	20211194	Pancha Bahadur Rasaily	64	Not furnished	64	Not Selected
63	20213015	Anugra Rasaily	62	Not furnished	62	Not Selected
64	20211358	Bikash Biswakarma	61	Not furnished	61	Not Selected
65	20211061	Pema Dorjee Lepcha	42	Not furnished	42	Selected
66	20210673	Bilano Tamang	36	Not furnished	39	Not Selected
67	20210865	Khagen Chettri	35	Not furnished	35	Selected
68	20210168	Sujan Rai	28	Not furnished	28	Selected
69	20211397	Manu Gautam	26	Not furnished	26	Selected

Source: Management's records





# **GLOSSARY**



## GLOSSARY

Abbreviations	Full Forms
A&E	Accounts & Entitlement
AB	Autonomous Body
AEPS	Aadhaar Enabled Payment System
AGM	Annual General Meeting
AGM (IT)	Assistant General Manager (Information Technology)
AML	Anti-Money Laundering
AMs	Assistant Managers
ASA	Authentication Service Agency
ATM	Automatic Teller Machine
AUA	Authentication User Agencies
BCBS	Basel Committee on Banking Supervision
BG	Bank Guarantee
BL	Bhutia/Lepcha
BoD	Board of Directors
BPL	Below Poverty Line
BR	Bank Receipts
BR Act	Banking Regulation Act
C & AG	Comptroller and Auditor General
CAR	Capital Adequacy Ratio
CBS	Core Banking Solution
CC	Cash Credit
CCBS	Cooperative Core Banking Solutions
CD Ratio	Credit Deposit Ratio
CFO	Chief Financial Officer
CFT	Countering Financing of Terrorism
CGM	Chief General Manager
CIBIL	Credit Information Bureau (India) Limited
CIDs	Customer Identification Numbers
CL	Central List
CMSS	Chief Minister's Startup Scheme
COI	Certificate of Identification
CP	Check Post
CPAO	Chief Pay and Accounts Officer
CPSEs	Central Public Sector Enterprises
CRO	Chief Risk Officer
CTO	Chief Technical Officer
CVO	Chief Vigilance Officer
DBT	Direct Benefit Transfer
DICGC	Deposit Insurance and Credit Guarantee Corporation of India
DOPART	Department of Personnel Administrative Reforms, Training and Public Grievances
DPR	Detailed Project Report
DRATs	Debts Recovery Appellate Tribunals
DRTs	Debts Recovery Tribunals

Abbreviations	Full Forms
EAs	External Auditors
ED	Enforcement Directorate
EDP	Entrepreneurship Development Programme
EFT	Electronic Fund Transfers
EMI	Equated Monthly Instalment
EPL	Employee Personal Loan
FD	Fixed Deposit
FIR	First Information Report
GNPA	Gross Non-Performing Assets
GoS	Government of Sikkim
GRACE	General Rule and Code of Ethics
GST	Goods & Service Tax
HEP	Hydro Electric Project
HO	Head Office
HR	Human Resource
IDs	Identities
IRAC	Income Recognition and Asset Classification
Jr. AA	Junior Accounts Assistant
KYC	Know Your Customer
LAC	Loan Appraisal Committee
LTI	Left Thumb Impression
MD	Managing Director
MF	Mutual Fund
MH	Major Head
MIS	Management Information System
NEDs	Non-Executive Directors
NPA	Non-Performing Assets
OBC	Other Backward Class
OD	Overdrafts
OMR	Optical Marks Recognition
OTS	One Time Settlement
PA	Performance Audit
PAN	Permanent Account Number
PCM	Preventive Check Measures
PCR	Provisioning Coverage Ratio
PFC	Power Finance Corporation
PMEGP	Prime Minister's Employment Generation Programme
PMLA	Prevention of Money-Laundering Act
PNB	Punjab Nationalised Bank
PSBs	Public Sector Banks
PSUs	Public Sector Undertakings
PT	Primitive Tribe
RBI	Reserve Bank of India
RC	Registration Certificate
REC	Rural Electrification Corporation

Abbreviations	Full Forms
REs	Regulated Entities
RTI	Right Thumb Impression
RWA	Risk-Weighted Assets
SARFAESI Act	Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act
SBI	State Bank of India
SBS	State Bank of Sikkim
SC	Scheduled Caste
SCBs	Scheduled Commercial Banks
SEBI	Security and Exchange Board of India
SIDICO	Sikkim Industrial Development and Investment Corporation
SL	State List
SMS	Short Message Service
SNT	Sikkim Nationalised Transport
SOP	Standard Operation Procedure
SPAE	Sport Persons and Artisans of Excellence
SPD	Sikkim Public Debt Recovery
SPICL	Sikkim Power Investment Corporation Limited
Sr. AA	Senior Accounts Assistant
Sr. DAG	Senior Deputy Accountant General
ST	Scheduled Tribe
SYSS	Skilled Youth Startup Schemes
TDR	Temporary Deposit Receipt
TDS	Tax Deducted at Source
UIDAI	Unique Identification Authority of India
UR	Unreserved
USB	Universal Serial Bus
VPN	Virtual Private Network



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