REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

for the year ended 31 March 2006

GOVERNMENT OF SIKKIM

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APPENDICES

PREFACE

1. *This Report has been prepared for submission to the Government under Article 151 of the Constitution.*

2. *Chapters I and II of this report respectively contain audit observations on matters arising from the examination of Finance Accounts and Appropriation Accounts of the State Government for the year ended 31 March 2006.*

3. *The remaining chapters deal with performance audits and audit of transactions in various departments including the Public Works and Irrigation Department, revenue receipts, audit of stores and stock, audit of autonomous bodies, statutory corporations, Government companies and departmentally run commercial undertakings.*

4. *The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2005-06 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2005-2006 have also been included wherever necessary.*

OVERVIEW

OVERVIEW

This Report contains 27 audit paragraphs and six performance audits apart from comments on the Finance Accounts and Appropriation Accounts. There is a separate chapter on Internal Control System in respect of DOPART. According to existing arrangements, copies of the draft audit paragraphs and draft performance audits were sent to the Secretary to the State Government of the Department concerned by the Accountant General (Audit) with the request to furnish replies within four weeks. In respect of 27 audit paragraphs and six performance audits included in this Report, replies were received from the Secretary concerned of the respective departments of the State Government for 23 paragraphs and five performance audits.

1. Finances of the State Government

The fiscal health of the State as reflected in terms of trends in key fiscal parameters- RD, FD & PD has shown a sign of improvement during 2005-06 over the previous year. However, the State finances are heavily dependent on Central transfers, which account for about 76 *per cent* of its revenue receipts and helped the State Government to maintain revenue surplus during the period 2000-06. Although the State had maintained revenue surplus throughout the period 2000-06, fiscal deficit not only persisted during the period but it has increased steeply during the last two years primarily on account of substantial step up in capital expenditure during these years. The State's own resources mobilised in the form of its own tax revenue and non-tax revenue during 2005-06 being much lower than the normative projections made by the TFC indicates large potential of raising them by exploiting untapped sources of revenue available in the State. On the other hand, the increasing fiscal liabilities accompanied by persistent fiscal deficit and primary deficit together with quantum spread being negative during most of the years might result in a cycle of deficit, debt and debt service payments, unless suitable measures are taken to arrest the persistent increase in fiscal liabilities. Besides, zero rate of return on Government investments and inadequate recovery of cost on loans and advances also adversely affected the fiscal position of the State. In this context, an efficient and productive use of funds would be of critical importance both from the point of view of putting the State's economy in the high growth trajectory and providing qualitative social and economic services to the people and in enhancing the ability of the Government to meet its financial liabilities that will become due in future.

(Paragraph 1.1 to 1.11)

2. *Allocative priorities and appropriation*

- The excess expenditure of Rs. 28.78 crore for the years 2002-03 to 2004-05 under 20 grants and appropriations required regularisation under Article 205 of the Constitution of India.
- The excess of Rs.10.96 crore in seven grants and two appropriations during the year 2005-06 require regularisation under Article 205 of the Constitution of India.
- Supplementary provisions of Rs. 63.57 crore in 17 cases during the year 2005-06 proved unnecessary.

(Paragraphs 2. 3.2 & 2.3.4)

3. *Performance Audits*

3.1 Accelerated Power Development and Reforms Programme (APDRP)

Performance Audit of implementation of APDRP revealed that although revenue realisation had substantially improved since 2004-05 after implementation of the programme, it was far below the targeted level. The objective of breaking even by the year 2005 and positive returns thereafter, as contemplated in the MOA, could not be fulfilled as of March 2006 indicating that commercial viability may not be achieved within a conceivable time frame unless drastic steps were taken to cut down operational costs, economise capital expenditure, contain energy loss and improve revenue realisation further. The power sector was yet to be re-structured and reformed and the State Electricity Regulatory Commission (SERC) was yet to be constituted even after more than three years of the target date. Metering of feeders and consumers was still incomplete, transmission and distribution (T&D) loss was still high at 30 per cent and critical issues of the reforms agenda such as consumer indexing and energy accounting and auditing were not accorded desired priority. The monitoring mechanism was ineffective to this extent.

- The T&D loss which was targeted to be reduced to around 10 *per cent* stood at 30 *per cent* as at the end of 2005-06 indicating the Department's failure to achieve the target stipulated under the APDRP.
- Energy accounting and auditing was not initiated despite an expenditure of Rs. 15.93 crore on metering.
- 7,232 consumer meters valuing Rs.1.31 crore were found defective after their installation. No action was taken to get these meters replaced although the meters were guaranteed for 5/10 years.
- Against the anticipated benefit of Rs. 39.93 crore in 2004-06 projected in the DPRs, there was actual realisation of Rs. 21.84 crore only, indicating unrealistically high projection.
- Monitoring was found wanting in case of i) metering of consumers and feeders, ii) Computerised billing and iii) Mapping and indexing of consumers due to which there was high incidence of defective meters in the feeders / consumer premises and failure to introduce computerised billing.

(Paragraph 3.1)

3.2 Implementation of Acts and Rules relating to Consumer Protection

Performance Audit of implementation of various Acts and Rules relating to consumer protection during the period 2001-06 in Sikkim revealed that the enforcement of the Acts in protecting the interests of the consumers against adulterated foods and exploitation through incorrect weighment and measurement was grossly inadequate. It was further compounded by non-fixation of targets for collection of food samples for analysis under PFA, non- achievements of targets under SWM and absence of dedicated monitoring mechanism at the State level to review and evaluate the extent of successful implementation of these Acts in the State.

- Establishment of the State Consumer Disputes Redressal Commission and the District Consumer Disputes Redressal Forums was delayed by 31 months due to Government's inaction.
- The District Forums disposed off 10 *per cent* (2001) to 57 *per cent* (2002) of consumer dispute cases within the prescribed 90/150 days. The performance of the State Commission in disposal of cases during the same period was nil to 50 *per cent* and left much to be desired.
- Monitoring mechanism was neither introduced at the State Commission nor in the Consumer Affairs Department to ensure speedy disposal of grievances.

(Paragraph-3.2)

3.3 Health care management

The State was yet to formulate a Health Policy to provide policy directions and enable perspective planning, absence of which led to lower allocation of funds to the health sector, non-fixation of realistic targets, etc. Infrastructure management was characterised by inadequate essential infrastructure both in terms of number of CHCs, PHCs and PHSCs and also availability of required facilities. Analysis of human resources management revealed acute shortage of specialists, wide inter-district variations in deployment of doctors and nurses, irrational deployment of paramedical and medical staff, shortfall in imparting integrated and specialised training. Effectiveness of delivery of medical care and services was affected by shortage of medicines, non-operation of drug testing laboratory, delay in construction of CHC at Mangan, drug de-addiction centres at Namchi and Geyzing, non-commissioning of machines and equipments etc.

- There was acute shortage of Specialists (75%), Health Educators (62%) and Laboratory Technician (11%) amongst others and wide inter-district disparities in their deployment.
- Of the two blood banks in the State, STNM showed remarkable improvement in collection of blood from voluntary donors from 4 *per cent* in 2001 to 52 *per cent* in 2005, Namchi (CHC, South) was far behind the target with 2 to 9 *per cent* of total collection.

(Paragraph- 3.3)

3.4 Sarva Shiksha Abhiyan

Performance Audit of Sarva Shiksha Abhiyan (SSA) for the period 2001-02 to 2005-06 disclosed deficient planning, delayed and short release of funds, excessive management cost, appointment of teachers in excess of requirement, etc. The State failed in achieving the main objective of SSA to bring back all out-of -school children to school within 2003. Implementation of SSA did not contribute towards quality improvement of education as envisaged in the programme as course curriculum was not revised, training of teachers was far below the target and research and development activity was not accorded desired priority. Monitoring and evaluation of the programme was never conducted to gauge its success.

- Despite incurring considerable expenditure towards implementation of SSA, SIS failed to bring back 6,310 out-of-school children indicating a shortfall of 42 *per cent* even after five years of implementation.
- Inspite of receipt of Rs. 1.72 crore, SIS was far behind in achieving the target of training 8,766 teachers. Shortfall ranged between 72 to 100 *per cent* from 2002-03 to 2005-06.
- Research and Development (R&D) activities were not carried out despite release of Rs. 23.94 lakh.

(Paragraphs 3.4)

3.5 Urban Water Supply

Performance Audit of Urban Water Supply System revealed non-framing of 'State Water Policy' in line with the 'National Water Policy' and absence of long-term perspective planning. Baseline survey for assessing actual requirement of potable water and preservation of water sources had never been conducted. Contamination of water was prevalent due to inadequate and ineffective water treatment and alignment of pipelines through drains and jhoras. Leakages and wastage of water was rampant as the Department failed to put in place vigilance mechanism to detect un-authorised connections and wastage of water. There was excess and unnecessary expenditure in execution of works while beneficiary participation in creation of assets could not be obtained. Water tariff fixed by the Department was devoid of any cost analysis and revenue collection lax leading to huge gap between the revenue earned vis-à-vis operation and maintenance costs.

- The Department had no basis to give assurance that sufficient drinking water was supplied to the consumers as it had neither conducted any baseline survey nor evaluated its supply systems with a view to assess the sufficiency of water supplied.
- Quality of water supplied to the consumers could not be assured as bacteriological contamination was prevalent due to inadequate and ineffective treatment and alignment of pipelines through drains and *jhoras*[1].
- Non-metering of consumers led to wastage of water and consequent loss of revenue of Rs. 1.51 crore per annum.

[1] *Mountain streams usually carrying filthy water.*

- Failure to realise 5 *per cent* capital cost from the beneficiaries led to loss of Rs. 3.64 crore to the Government.

(Paragraph- 3.5)

3.6 Functioning of State Trading Corporation of Sikkim

The State Trading Corporation of Sikkim (STCS) functions as a canalising agency for all procurement of the State Government. Audit of performance of the Corporation for the period 2001-02 to 2005-06 disclosed that the Corporation was not successful in obtaining materials at economical rates; took inordinately long time to supply the materials to the indenting departments thereby affecting the schedule date of completion of work; etc. Financial management was characterised by imprudent investment of surplus funds to earn optimum interest; non-crediting of deposited cheques; accumulation of outstanding dues, etc. Physical verification of stores was never attempted leading to huge differences between book balance and actual balance of store materials. Internal control mechanism was virtually non-existent.

- Virtual non-existence of internal control mechanism for physical verification of stores led to pilferage of store material worth Rs. 2.68 crore.
- The Corporation failed to recover the dues of Rs. 68.09 lakh from Building & Housing Department leading to blockage of funds.
- Irregular appointment of an advisor and Officer on Special Duty without any provision in Proclamation resulted in infructuous establishment expenditure of Rs. 26.97 lakh.

(Paragraph- 7.12)

4 Internal Control Mechanism in DOPART

Audit review of the internal controls in the Department of Personnel, Administrative Reforms, Training, Public Grievances, Career Options & Employment, Skill Development and Chief Minister's Self Employment Scheme (DOPART) revealed deficient budgetary and expenditure control, poor operation and supervisory controls relating to creation of posts, cadre review, promotions, deployment as enumerated in the succeeding paragraphs.

- Against the sanctioned strength of four, the Department appointed three Advisors and promoted seven officers to the post of Principal Secretaries in contravention of GOI norms resulting in extra expenditure of Rs. 43.79 lakh.
- Subsequent to the ban imposed by the Government in 1999 for creation of new posts, the Department created 443 posts resulting in extra annual expenditure of Rs. 4.70 crore.
- The posts vacated on account of VRS were not abolished resulting in avoidable expenditure of Rs. 2.24 crore upto March 2006.

(Paragraph 5.1)

5. Audit of Transactions

Misappropriation / Loss

Undue favour to a seller in purchase of his unsuitable building, in a non-transparent manner, disregarding repeated recommendations of the Screening Committee, resulted in wasteful expenditure of Rs. 16.60 lakh.

(Paragraph-4.1.1)

Fictitious utilisation of 11,440.34 quintals of rice costing Rs. 91.52 lakh under the Mid-Day Meal Scheme, besides violation of Supreme Court's direction for providing cooked meal for specified school days.

(Paragraph-4.1.2)

Fictitious utilisation of funds of Rs. 12.35 lakh shown by an NGO under the Integrated Education for Disabled Children scheme and consequential denial of benefit to disabled children.

(Paragraph-4.1.3)

Wasteful/Infructuous/Unfruitful Expenditure

Expenditure of Rs. 39.86 lakh on establishment of a Poultry Farm was rendered infructuous as the farm closed down its operation after running for only a year due to poor management.

(Paragraph-4.2.1)

Improper and un-planned implementation of the 'Development of Sanskrit Education' scheme resulted in wasteful expenditure of Rs. 1.30 crore.

(Paragraph-4.2.2)

Unauthorised allotment of two vehicles each to 15 Police officers without entitlement for a second vehicle led to avoidable expenditure of Rs. 64.33 lakh.

(Paragraph-4.2.3)

Undue favour to a seller by the Department in purchase of his unsuitable land, despite negative reports from the Mines & Geology Department led to wasteful expenditure of Rs. 65.76 lakh.

(Paragraph-4.2.4)

Establishment of disposable plastic syringe project by Sikkim Jewels Limited without proper market survey and feasibility study led to wasteful expenditure of Rs. 50.05 lakh.

(Paragraph 7.15)

Regularity Issues

Decision of the Department to appoint 205 adhoc teachers without conducting any selection test and/ or interview was not only irregular but also led to recruitment of unsuitable candidates in excess of the requirement resulting in avoidable expenditure of Rs. 59.79 lakh.

(Paragraph- 4.5.2)

Failure of the Relief Commissioner, Calamity Relief Fund to invest the available funds in accordance with the stipulated rules of the CRFS framed by the GOI resulted in loss of interest of Rs. 5.35 crore to the Fund, besides contravention of the guideline of the scheme.

(Paragraph- 4.5.3)

Loss of Revenue

Failure of the Excise Department to levy and collect excise duty on the basis of "actual" transit loss of Extra Neutral Alcohol (ENA) imported by three distilleries resulted in revenue loss of Rs. 1.49 crore.

(Paragraph- 6.9.1)

Failure to recover CST from four firms by the Finance, Revenue and Expenditure Department (Income and Commercial Taxes Division) dealing in inter-State trade resulted in non-realisation of revenue of Rs. 3.99 crore.

(Paragraph- 6.9.2)

Allowance of inadmissible deductions from turnover by the Finance, Revenue and Expenditure Department (Income and Commercial Taxes Division) resulted in short-realisation of tax of Rs. 59.23 lakh.

(Paragraph- 6.9.3)

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

CHAPTER – I
FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (***Appendix-I: Part A***). The Finance Accounts of the Government of Sikkim are laid out in 19 Statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The layout of the Finance Accounts is depicted in ***Appendix-I: Part B***.

Functions of the Reserve Bank of India for Government transactions were not extended to Sikkim. State Bank of Sikkim has been vested with the responsibility of receiving money on behalf of the Government, making all payments and keeping custody of the balances of the Government in current account as well as in fixed deposits.

The State Government had not enacted the Fiscal Responsibility and Budget Management (FRBM) Act as of September 2006 although a Memorandum of Understanding with the GOI had been entered into in April 1999 for bringing about fiscal reforms in the State.

1.1.1 Summary of Receipts and Disbursements for the year

Table -1.1 summarises the finances of the State Government of Sikkim for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from ***Statement-1*** and other detailed Statements of Finance Accounts.

Table – 1.1
SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2005-06

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
					Non Plan	Plan	Total
Section – A: Revenue							
1,892.40	Revenue Receipts*	1,964.36	1,723.49	Revenue Expenditure•	1,473.40	294.20	1,767.60
116.95	Tax revenue	147.23	1,140.63	General services•	1,156.27	7.15	1,163.42
992.47	Non-tax revenue*	990.10	306.64	Social Services▲	191.46	146.33	337.79
107.35	Share of Union Taxes/ Duties	182.13	276.22	Economic Services▲	125.66	140.73	266.39
675.63	Grants from Government of India	644.90	-				
Section – B: Capital							
--	Miscellaneous Capital Receipts	--	353.54	Capital Outlay	--	345.73	345.73
(-) 0.24	Recoveries of Loans and Advances	0.14	0.68	Loans and Advances disbursed	--	--	0
192.99	Public debt receipts	145.06	83.72	Repayment Public Debt	32.40	--	32.40
0.50	Contingency Fund	--	0	Contingency Fund	0.10	--	0.10
1,415.38	Public Account receipts	1,456.53	1,244.65	Public Account disbursements	1,470.09	--	1,470.09
207.47	Opening Balance	302.42	302.42	Closing Balance		--	252.59
3,708.50	**Total**	**3,868.51**	**3,708.50**	**Total**		--	**3,868.51**

Major portion of the total receipts of the State comprised revenue receipts of Rs. 1,964.36 crore (50.78 *per cent*) followed by Public Account receipts of Rs. 1,456.53 crore (37.65 *per cent*). The grants-in -aid from the Government of India (GOI) constitute 16.67 *per cent* of the total receipt. Similarly, bulk of the total disbursements was on account of revenue expenditure of Rs. 1,767.60 crore (45.69 *per cent*) followed by Public Account disbursements of Rs. 1,470.09 crore (38 *per cent*) and capital outlay of Rs. 345.73 crore (8.94 *per cent*). Revenue expenditure comprised general services (65.82 *per cent*), social services (19.11 *per cent*) and economic services (15.07 *per cent*).

1.2 Overview of Fiscal Situation of the State

1.2.1 Trend of Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table-1.2** below:

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* *Revenue receipts and Non-tax revenue are inclusive of gross receipt (Rs. 898.35 crore) from State Lotteries.*

• *Revenue expenditure and General Services (Non-plan) are inclusive of expenditure (Rs. 876.16 crore) in State Lotteries.*

▲ *Includes grants-in-aid contribution under Social Services (Rs. 11.75 crore) and Economic Services (Rs. 22.81 crore) aggregating Rs. 34.56 crore.*

Table - 1.2

(Rupees in crore)

2004-05	Sl. No	Major Aggregates	2005-06
1,011.29	1	**Revenue Receipts (2+3+4+5)**	**1,088.20**
116.95	2	Tax Revenue	147.23
111.36	3	Non-Tax Revenue*	113.94
675.63	4	Other Receipts	644.90
107.35	5	State share of Union taxes and others	182.13
(-) 0.24	6	**Non-Debt Capital Receipts**	**0.14**
(-) 0.24	7	*Of which*, Recovery of Loan	*0.14*
1,011.05	**8**	**Total Receipts (1+6)**	**1,088.34**
605.04	9	**Non-Plan Expenditure (10+12+13)**	**597.24**
604.36	10	On Revenue Account**	597.24
99.19	11	*Of which*, Interest Payment	102.60
--	12	On Capital Account	--
0.68	13	On Loans disbursed	--
591.56	14	**Plan Expenditure (15+16+17)**	**639.93**
238.02	15	On Revenue Account	294.20
353.54	16	On Capital Account	345.73
--	**17**	On Loans disbursement	--
1,196.60	**18**	**Total Expenditure (9+14)**	**1,237.17**
185.55	**19**	**Fiscal Deficit (18-1-6)**	**148.83**
(-) 168.91	**20**	**Revenue Deficit (+) / (-) Surplus (10+15-1)**	(-) 196.76
86.36	**21**	**Primary Deficit(+) / (-)Surplus (19-11)**	**46.23**

Revenue surplus increased from Rs. 168.91 crore in 2004-05 to Rs. 196.76 crore in 2005-06 primarily due to substantial increase in the revenue receipts of the State (Rs. 76.91 crore). Consequently, fiscal deficit decreased from Rs. 185.55 crore in 2004-05 to Rs. 148.83 crore in 2005-06 and primary deficit from Rs. 86.36 crore in 2004-05 to Rs. 46.23 crore in 2005-06. Interest payments increased from Rs. 99.19 crore in 2004-05 to Rs. 102.60 crore in 2005-06 which contributed to the decrease in primary deficit.

1.3 Audit Methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary, these have been analysed in the light of time series data (***Appendix-II to V***) and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The new GSDP series with 1993-94 as base, as published by the Department of Economic, Statistics, Monitoring and Evaluation, Government of Sikkim have been used for the purpose. For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volume and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resources mobilisation efforts, debt

* *Non-tax revenue for the year 2005-06 includes net of gross receipt of Rs 898.35 crore from State Lotteries after adjustment of expenditure of Rs. 876.16 crore under the head.*

** *Expenditure excludes Rs. 876.16 crore on State Lotteries against which there was gross receipt of Rs. 898.35 crore under the same head.*

servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are also listed in this Section; some of the terms used in this context are explained in ***Appendix-I: Part C.***

1.4 State finances by key indicators

1.4.1 Resources by volumes and sources

Resources of the State Government consist of revenue and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account.

The total receipts of the State Government for the year 2005-06 were Rs. 2,689.93 crore as shown in **Table-1.3** below. Of these, the revenue receipts of the State Government were Rs. 1,088.20 crore only, constituting 40 *per cent* of the total receipts. The balance receipts came from borrowings and the Public Account.

Table - 1. 3: Resources of State of Sikkim

(Rupees in crore)

I.		Revenue Receipts		**1,088.20**
II.		Capital Receipts		**145.20**
	(a)	Miscellaneous Receipts	--	
	(b)	Recovery of Loans and Advances	0.14	
	(c)	Public Debt Receipts	145.06	
III.		Contingency Fund Receipts	--	
IV.		Public Account Receipts		**1,456.53**
	(a)	Small Savings, Provident Fund, etc.	73.81	
	(b)	Reserve Fund	28.55	
	(c)	Deposits and Advances	28.23	
	(d)	Suspense and Miscellaneous	888.65	
	(e)	Remittances	437.29	
Total Receipts				**2,689.93**

Suspense and Miscellaneous balances constituted 61 *per cent* (Rs. 888.65 crore) of the Public Account receipts followed by remittances which constituted 30 *per cent* (437.29 crore). 92 *per cent* of the suspense and miscellaneous balances consisted of treasury cheques. 86 *per cent* of the remittance balance pertained to public works remittances, 10 *per cent* to other departmental remittances and the balance 4 *per cent* to forest remittances.

1.4.2 Revenue Receipts

Statement – 11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts of the State comprise mainly its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in **Table-1. 4**.

Table-1.4: Revenue Receipts- Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR) (Rupees in crore)	**750.09**	**908.04**	**898.99**	**1,011.29**	**1,088.20**
Own Taxes *(per cent)*	80.39 (10.72)	105.53 (11.62)	108 (12.01)	116.95 (11.56)	147.23 (13.53)
Non-tax Revenue *(per cent)*	71.12 (9.48)	143.36 (15.79)	95.04 (10.57)	111.36 (11.01)	113.94 (10.47)
Central tax Transfers *(per cent)*	84.83 (11.31)	77.20 (8.50)	112.33 (12.50)	107.35 (10.62)	182.13 (16.74)
Grants-in-aid *(per cent)*	513.75 (68.49)	581.95 (64.09)	583.56 (64.92)	675.63 (66.81)	644.90 (59.26)
Rate of Growth of RR*(per cent)*	**17.35**	**21.06**	**(-)1.00**	**12.50**	**7.61**
GSDP (Rs. in crore)	1,072.37	1,234.24(P)	1,386.18(P)	1,530.40(Q)	1,717.00(Q)
R R/GSDP *(per cent)*	69.95	73.57	64.85	66.08	63.38
Revenue Buoyancy (Ratio)	1.76	1.40	*	1.20	0.62
State's own taxes Buoyancy (ratio)	2.33	2.07	0.19	0.80	2.12
Revenue Buoyancy with reference to State's own taxes	0.76	0.67	*	1.51	0.29
GSDP Growth *(per cent)*	9.84	15.09	12.31	10.40	12.19
Rate of growth of own taxes	22.94	31.27	2.34	8.29	25.89

* *Rate of growth of Revenue Receipts was negative. P=Provisional, Q=Quick*

1.4.2.1 General Trends

The revenue receipts of the State increased by 45 *per cent* from Rs. 750.09 crore in 2001-02 to Rs. 1,088.20 crore in 2005-06.

While 76 *per cent* of the revenue receipts during 2005-06 came from Central tax transfers and grants-in-aid, State's own resources comprising taxes and non-taxes together contributed only 24 *per cent* of the total revenue.

1.4.2.2 Tax Revenue

The receipts from own taxes at Rs. 147.23 crore during 2005-06 was lower by Rs. 327.77 crore than the normative projection of Rs. 520 crore made by the Twelfth Finance Commission (TFC) for the State for 2005-06. Sales tax was the major contributor (38 *per cent*) of State's own tax revenue followed by taxes on Income other than Corporation Tax (32 *per cent*), State Excise (22 *per cent*), taxes on vehicles (3 *per cent*), Stamps and Registration fees (2 *per cent*), and other taxes (3 *per cent*). However, contribution of sales tax to tax revenue decreased from 44 *per cent* during 2001-02 to 38 *per cent* during 2005-06.

1.4.2.3 Non-Tax Revenue

Receipts from non-tax revenue sources (Rs. 113.94 crore) during 2005-06 was less by Rs. 401.06 crore as compared to the projection of Rs. 515 crore made by the TFC. Of the non-tax revenue sources, principal contribution came from Power (25 *per cent*) followed by State Lotteries (20 *per cent*), Road Transport and Police (12 *per cent* each) and Forest (8 *per cent*). Against the TFC projection of annual rate of growth of 12.5 *per cent* for revenue receipts under general services and 25 *per cent* for both social and economic services for the forecast period (2005-10), the growth recorded was 3.22, 8.66 and 4.19 *per cent* for general services, social services and economic services respectively over the previous year, indicating the need for the State to achieve a greater degree of cost recovery in these services.

1.4.2.4 Central Tax Transfers

Central tax transfers increased by 70 *per cent* from Rs. 107.35 crore in 2004-05 to Rs. 182.13 crore in 2005-06 mainly due to phenomenal increase of 160 *per cent* in share of net proceeds of Service tax and 95 *per cent* share of net proceeds of Customs.

1.4.2.5 Grants-in aid

Grants-in-aid decreased by Rs. 30.73 crore (4.55 *per cent*) from Rs. 675.63 crore in 2004-05 to Rs. 644.90 crore in 2005-06 mainly due to decrease in grants for Central plan schemes (Rs. 122.28 crore) followed by grants for centrally sponsored schemes (Rs. 37.43 crore) and Non-plan grants (Rs. 2.79 crore).

1.4.2.6 Revenue Arrears

In spite of reminders, details of arrears of revenue were not furnished by 20 Departments. Out of 23 Departments which furnished the information, 13 Departments had no revenue arrears. Arrears of revenue of the remaining 7 Departments[§] increased by 617 *per cent* - from Rs. 12.08 crore in 2001-02 to Rs. 86.61 crore at the end of 2005-06. Major portion of the arrears of revenue amounting to Rs. 76.32 crore for the year 2005-06 pertained to State lotteries under Finance Department.

1.4.3 Source of Receipts

The sources of total receipts under different heads as well as GSDP during 2001-06 are indicated in **Table – 1.5** below:

Table – 1.5
Sources of Receipts- Trends

(Rupees in crore)

Year	Revenue receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-debt Receipts	Debt Receipts	Accruals in Public Account		
2001-02	750.09	1.14	91.37	967.41	1,810.01	1,072.37
2002-03	908.04	1.28	78.53	1,356.15	2,344.00	1,234.24 (P)
2003-04	898.93	1.08	137.02	1,193.34	2,230.37	1,386.18 (P)
2004-05	1,011.29	(-) 0.24	192.99	1,415.38	2,619.42	1,530.40 (Q)
2005-06	1,088.20	0.14	145.06	1,456.53	2,689.93	1,717.00 (Q)

P =Provisional, Q=Quick

The total receipts of the State increased from Rs. 1,810.01 crore in 2001-02 to Rs. 2,689.93 crore in 2005-06.

While only 40 *per cent* of the total receipts during 2005-06 have come from revenue receipts, debt receipts and accruals in Public Account contributed 60 *per cent* of the total revenue.

§ *Police Department; SPWD(R&B); SPWD (Buildings); Animal Husbandry, Livestock, fisheries & Veterinary Services Department; Department of Mines, Minerals & Geology; Finance Department and SNT Division of the Transport Department*

1.5 Application of resources

1.5.1 Growth of Expenditure

Statement-12 of the Finance Accounts depicts the detailed revenue expenditure minor head-wise and capital expenditure major head-wise. States raise resources to perform their sovereign functions; maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investment and discharge their debt service obligations. The total expenditure of the State increased by 51.23 *per cent* from Rs. 818.08 crore in 2001-02 to Rs. 1,237.17 crore in 2005-06. The rate of increase of total expenditure (3.39 *per cent*) was lower than the rate of increase of revenue receipts (7.61 *per cent*) during 2005-06.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in **Table-1.6** below:

Table-1.6
Total Expenditure- Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure(TE)* *(Rupees in crore)*	818.08	919.18	950.27	1,196.60	1,237.17
Rate of Growth *(per cent)*	18.36	12.36	3.38	25.92	3.39
TE/GSDP Ratio *(per cent)*	76.29	74.47	68.55	78.19	72.05
Revenue Receipts/ TE Ratio *(per cent)*	74.23	77.26	77.74	70.44	72.05
Buoyancy of Total Expenditure with reference to:					
GSDP *(ratio)*	1.87	0.82	0.27	2.49	0.28
R R *(ratio)*	1.06	•	0.94	2.07	0.45

•*RR had a negative growth.*

Total expenditure of Rs. 818.08 crore in 2001-02 increased to Rs. 1,237.17 crore in 2005-06. The rate of growth of total expenditure did not show uniform trend as it declined from 18.36 *per cent* in 2001-02 to 12.36 *per cent* in 2002-03 which sharply declined to 3.38 *per cent* in 2003-04 and thereafter steeply increased to 25.92 *per cent* in 2004-05 and again dipped to 3.39 *per cent* in 2005-06. In relative terms, the revenue and capital components have increased by 46.82 *per cent* and 64.06 *per cent* respectively during the period 2001-06. However, in absolute terms, increase was of the order of Rs. 284.28 crore in revenue expenditure and Rs. 135 crore in capital account during 2005-06 compared to 2001-02. This trend indicates that the increase in capital and revenue expenditure was in the ratio of 1:2.13 during the last 5 year period. An increase of Rs. 40.57 crore in total expenditure (3.40 *per cent)* during 2005-06 over the previous year was mainly due to increase in revenue expenditure by Rs. 49.06 crore.

1.5.2 Trends in Total Expenditure by Activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services, Interest payments, Social and Economic Services, grants-in-aid and other contributions to institutions and loans and advances. Relative share of these components in total expenditure is indicated in **Table-1.7** below:

Table-1.7

Components of Expenditure- Relative Share

	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	205.07 (25)	243.76 (27)	259.58 (27)	276.01 (23)	304.64 (25)
Interest Payments	84.16 (10)	89.53 (10)	92.50 (10)	99.19 (8)	102.60 (8)
Social Services	308.25 (37)	322.40 (35)	360.28 (38)	438.28 (37)	446.76 (36)
Economic Services	312.71 (38)	351.96 (38)	330.31 (35)	481.63 (40)	485.77 (39)
Loans and Advances	0.19 (0.02)	0.06 (0.01)	0.10 (0.01)	0.68 (0.06)	Nil
Grants in aid	12.07 (1.48)	7.80 (0.85)	37.14 (3.91)	22.55 (1.88)	34.56 (3)

(Figures in brackets represent percentages)

Interest payments and expenditure on General Services, considered as non-developmental expenditure, together accounted for 25 *per cent* of total expenditure in 2005-06 while expenditure on Social and Economic Services accounted for 75 *per cent*. The trends in the relative share of these components indicate only marginal changes in their share in total expenditure during the period 2000-06.

1.5.3 *Incidence of Revenue expenditure*

Of the total expenditure, predominant share was that of revenue expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in **Table-1.8** below:

Table-1.8

Revenue Expenditure: Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (*Rupees in crore*)	607.16	710.14	738.68	842.38	891.44
Non-Plan Revenue Expenditure(NPRE)	414.49	461.11	492.36	604.36	597.24
Plan Revenue Expenditure(PRE)	192.67	248.03	246.32	238.02	294.20
Rate of Growth (*per cent*)					
NPRE	7.94	11.49	6.55	22.75	-1.18
PRE	23.56	28.73	-0.69	-3.37	23.60
NPRE as *per cent* of TE	50.67	50.17	51.81	63.60	48.27
NPRE as *percent* of RR	55.26	50.78	54.77	59.76	54.88
RE/GSDP	56.62	57.54	53.29	55.04	51.92
RE as percentage of TE	74.22	77.26	77.73	70.40	72.05
RE as percentage of RR	80.94	78.21	82.17	83.30	81.92
Buoyancy of Revenue Expenditure with (*per cent*)					
GSDP	1.27	1.12	0.33	1.35	0.48
Revenue Receipts	0.72	0.81	-4.01	1.12	0.77

Overall revenue expenditure of the State increased from Rs. 607.16 crore in 2001-02 to Rs. 891.44 crore in 2005-06, showing an increase of 46.82 *per cent* over the period. The trends and pattern of revenue expenditure vis-à-vis the normative projection made by the TFC for various components of revenue expenditure are given in **Table-1.9**. The non-plan revenue expenditure during the period 2001-02 to 2005-06 increased from Rs. 414.49 crore to Rs. 597.24 crore, showing an increase of 44.09 *per cent*. However, the share of non-plan revenue expenditure (NPRE) in total revenue expenditure marginally declined by 1.27 percentage points from 68.27 *per cent* in 2001-02 to 67 *per cent* in 2005-06. The plan revenue expenditure, on the other hand, increased by Rs. 101.53 crore (52.70 *per cent*) during 2001-06 increasing its share in revenue expenditure from 31.73 *per cent* to 33 *per cent* during the period.

Table – 1.9

(Rupees in crore)

Particulars	Assessed by TFC	Actual	Excess (+) / deficit (-)
Interest payments	94.75	102.60	7.85
Pensions	34.60	41.05	6.45
Other general services	110.61	15.60	(-) 95.01
Social services	171.64	191.46	19.82
Economic Services	66.67	125.66	58.99
Total	**478.27**	**476.37**	**(-) 1.90**

1.5.4 Committed Expenditure

Expenditure on Salaries and Wages

Salaries alone accounted for nearly 39.15 *per cent* of the revenue receipts and 47.79 *per cent* of the revenue expenditure of the State during 2005-06. The expenditure on salaries increased from Rs. 355.97 crore during 2003-04 to Rs. 426.04 crore during 2005-06 registering an increase of 19.68 *per cent* as indicated in **Table-1.10** below:

Table – 1.10
Expenditure on Salaries

(Rupees in crore)

Heads	2003-04	2004-05	2005-06
Salary expenditure	355.97	347.02	426.04
Of which			
Non-plan Head	237.71	260.34	320.42
Plan Head	118.26	86.68	105.62
As a percentage of GSDP	26.21	22.68	24.81
As a percentage of Revenue Receipts	39.60	34.31	39.15
As a percentage of Revenue Expenditure	48.19	41.20	47.79

Salaries and wages accounted for 24.81 *per cent* of State's GSDP and 39.15 *per cent* of the revenue receipts during 2005-06 as against the TFC norms of 35 *per cent*. The sharp increase in salary expenditure was due to payment of arrears arising out of merger of 50 *per cent* of dearness allowances with salary to bring it at par with Central Government employees.

Pension payments

Payment of pension and other retirement benefits increased by 95.07 *per cent* from Rs. 21.29 crore in 2001-02 to Rs. 41.53 crore in 2005-06 as indicated in **Table-1.11** below:

Table – 1.11

(Rupees in crore)

Year	Expenditure	Percentage to total RR	Percentage to total GSDP
2001-02	21.29	5.54	1.98
2002-03	29.18	3.21	2.37
2003-04	39.82	4.43	2.87
2004-05	30.77	3.04	2.01
2005-06	41.53	3.82	2.42

Payment of pension and other retirement benefits as a percentage of GSDP also increased from 1.98 in 2001-02 to 2.42 in 2005-06.

Pension payments registered an increase of 35 *per cent* in 2005-06 over 2004-05 primarily due to (i) increased number of retirees *i.e.* 280 against 210 in the previous year (2004-05) and (ii) payment of arrears on account of merger of 50 *per cent* of dearness allowances as dearness pay in the pay structure which was introduced by the State Government with effect from April 2004.

Interest payments

Interest payments and percentage of interest payment with reference to revenue receipts and revenue expenditure were as shown in **Table-1.12** below:

Table-1.12

(Rupees in crore)

Year	Total Revenue Receipts	Interest payments	Percentage of interest payment with reference to	
			Revenue Receipts	Revenue Expenditure
2001-02	750.09	84.16	11.22	13.86
2002-03	908.04	89.53	9.86	12.61
2003-04	898.93	92.50	10.29	12.52
2004-05	1,011.29	99.19	9.81	11.77
2005-06	1,088.20	102.60	9.43	11.51

Interest payments increased by 22 *per cent* from Rs. 84.16 crore in 2001-02 to Rs. 102.60 crore in 2005-06 primarily due to increase in borrowings. The interest payments of Rs. 102.60 crore in 2005-06 pertained to Internal Debt *(Rs. 45.21 crore)*, loans received from Central Government *(Rs. 37.06 crore)* and Small Savings, Provident Fund, etc. *(Rs. 20.33 crore)*.

Subsidies

The trend in the subsidies given by the State Government is shown in **Table-1.13** below:

Table-1.13
Subsidies

Year	Amount *(Rupees in crore)*	Percentage increase(+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2001-02	0.73	(-)270	0.09
2002-03	5.36	634	0.09
2003-04	7.07	32	0.74
2004-05	8.23	18	0.69
2005-06	10.06	22	0.81

Payment of subsidies steadily increased by 1278 *per cent* from Rs. 0.73 crore in 2001-02 to Rs. 10.06 crore in 2005-06. Percentage of subsidies also increased from 0.09 to 0.81 from 2001-02 to 2005-06. The major portion of expenditure on subsidies was on account of issue of subsidised rice and wheat under public distribution system (94.76 *per cent*) to the families living below the poverty line, followed by assistance to co-operatives (2.62 *per cent*) and manure and fertilisers (2.47 *per cent*) to farmers.

1.6 Expenditure by Allocative priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table-1.14** below gives these ratios during 2000- 01 to 2005-06.

Table-1.14
Expenditure on Social and Economic Services

(Rs. in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	150.92	210.73	208.98	211.49	353.54	345.73
Revenue Expenditure	539.92	607.16	710.14	738.68	842.38	891.44
Of which						
Social and Economic Services with						
(i) Salary & Wage component	180.49	185.20	206.92	248.32	262.18	323.49
(ii) Non-Salary & Wage component	338.62	435.76	467.43	442.28	657.73	609.04
As *per cent* of Total Expenditure						
Capital Expenditure	21.85	25.77	22.74	22.26	29.56	27.95
Revenue Expenditure	78.15	74.23	77.26	77.74	70.44	72.05

Revenue expenditure continues to have a dominant share in total expenditure, which is nearly 72.05 *per cent* in 2005-06. Though the increase of Rs. 49.06 crore in revenue expenditure during 2005-06 over that of 2004-05 was minimal (5.82 *per cent*), it increased by 65.11 *per cent* over 2000-01. The increase of Rs. 49.06 crore in revenue expenditure in 2005-06 over 2004-05 was due to increase of Rs. 27.75 crore (10.69 *per cent*) on general services, Rs. 31.14 crore (10.16 *per cent*) on social services and decline of Rs. 9.83 crore (3.56 *per cent*) on economic services. The share of capital expenditure to total expenditure showed fluctuating trend during 2000-06 and ranged between 21.85 *per cent* and 29.56 *per cent* respectively during 2000-01 and 2005-06.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table-1.15** summarises the expenditure incurred by the State Government in expanding and strengthening the social services in the State during 2000-06.

Table-1.15
Expenditure on Social Services

(Rs. in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Education, Sports, Art and Culture						
Revenue Expenditure	113.78	121.47	134.02	142.67	160.40	198.00
Of which						
(a) Salaries & Wage Component	101.66	101.65	114.60	116.81	138.53	171.30
(b) Non-salaries & wage component	12.12	19.82	19.42	25.87	21.87	26.70
Capital Expenditure	20.31	30.97	27.17	31.48	29.47	24.95
Health and Family Welfare						
Revenue Expenditure	31.73	36.98	39.91	38.95	53.55	51.89
Of which						
(a) Salaries & Wage Component	20.38	20.38	26.29	27.75	30.35	37.41
(b) Non-salaries & wage component	11.35	16.60	13.62	11.20	23.20	14.48
Capital Expenditure	2.99	4.40	3.33	3.86	3.41	7.94
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure	25.47	36.94	31.86	42.27	42.17	38.13
Of which						
(a) Salaries & Wage Component	2.99	4.64	5.84	28.58	7.84	9.20
(b) Non-salaries & wage component	22.48	32.30	26.02	13.69	34.33	28.93
Capital Expenditure	25.74	25.96	48.95	60.81	96.80	75.95
Other Social Services						
Revenue Expenditure	21.51	31.27	32.95	38.96	50.52	49.77
Of which						
(a) Salaries & Wage Component	3.12	3.67	5.15	6.62	7.39	8.85
(b) Non-salaries & wage component	18.39	27.60	27.80	32.34	43.13	40.92
Capital Expenditure	1.29	-	-	1.29	1.96	0.13
Total Social Services						
Revenue Expenditure	192.49	226.68	238.74	262.85	306.64	337.79
Of which						
(a) Salaries & Wage Component	128.14	130.34	139.83	179.75	184.11	226.76
(b) Non-salaries & wage component	64.35	96.33	98.91	83.10	122.53	111.03
Capital Expenditure	50.33	81.58	83.66	97.44	131.64	108.97

Source: Demand for Grants

Out of the development expenditure (revenue and capital expenditure on social and economic services) of Rs. 932.53 crore during 2005-06, social services accounted for about 47.91 *per cent* (Rs. 446.76 crore). Expenditure on Education, Sports, Art & Culture, Health & Family Welfare, Water Supply & Sanitation, Urban Development & Housing constituted about Rs. 396. 86 crore (88.83 *per cent*) of expenditure on social sector.

The trends in revenue and capital expenditure on social services during 2000-06 revealed that the share of capital expenditure remained static at around 24 *per cent* which indicated that the revenue expenditure was dominant. Of the revenue expenditure on social services, the share of salary and wage component has increased from 60.04 *per cent* in 2004-05 to 67.13 *per cent* in 2005-06 implying less expenditure on non-salary component including on their maintenance which might result in a deterioration in quality of social sector services. The non-salary and wage expenditure on social services has decreased by 9.39 *per cent* (Rs. 11.51 crore) during 2004-06 from Rs. 122.53 crore in 2004-05 to Rs. 111.02 crore in 2005-06. Within the social sector, although the non-salary and wage component continues to have a dominant share in respect of Water Supply and Sanitation, Housing and Urban Development, Art and Culture, high salary and wage expenditure during 2000-06 under Health and Family Welfare and Education, without a commensurate increase in non-salary component might have a reflection on the quality of education and health services.

1.6.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditures which are applied, directly or indirectly, to promote productive capacity within the States' economy. The expenditure on economic services (Rs. 485.77 crore) accounted for 39.27 *per cent* of the total expenditure (**Table-1.16**) during 2005-06. Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 77 *per cent* of the expenditure.

Table-1.16
Expenditure on Economic Services

(Rs. in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities						
Revenue Expenditure	59.81	69.40	71.73	69.49	86.70	100.52
Of which						
(a) Salaries & Wage Component	21.32	29.22	31.14	33.21	40.30	44.75
(b) Non-salaries & wage component	38.49	40.18	40.59	36.27	46.40	55.77
Capital Expenditure	5.33	5.70	3.00	1.72	3.94	5.11
Irrigation and Flood Control						
Revenue Expenditure	16.48	15.91	19.00	13.56	6.76	8.56
Of which						
(a) Salaries & Wage Component	1.30	1.43	1.93	2.30	2.50	2.49
(b) Non-salaries & wage component	15.18	14.48	17.07	11.26	4.26	6.07
Capital Expenditure	3.07	5.16	2.91	1.64	2.45	1.95
Power and Energy						
Revenue Expenditure	25.87	26.75	50.67	36.35	92.20	41.89
Of which						
(a) Salaries & Wage Component	10.82	11.16	11.87	12.60	14.52	17.41
(b) Non-salaries & wage component	15.05	15.60	38.80	23.75	77.68	24.48
Capital Expenditure	32.35	49.69	53.83	43.78	99.58	88.02
Transport						
Revenue Expenditure	32.91	37.84	44.71	41.68	51.73	42.72
Of which						
(a) Salaries & Wage Component	12.07	12.71	13.52	13.79	14.05	18.29
(b) Non-salaries & wage component	20.84	25.13	31.19	27.89	37.68	24.43
Capital Expenditure	40.25	55.65	39.62	40.36	71.74	71.47
Total Economic Services						
Revenue Expenditure	180.16	183.56	238.12	229.03	276.23	266.39
Of which						
(a) Salaries & Wage Component	52.35	54.86	67.09	71.56	78.07	96.73
(b) Non-salaries & wage component	127.81	128.70	171.03	157.47	198.15	169.65
Capital Expenditure	96.13	129.15	113.83	101.28	205.41	219.38

Source: Demand for Grants

The expenditure on Economic Services during 2005-06 (Rs. 485.77 crore) accounted for 39.27 *per cent* of the total revenue and capital expenditure. The non-salary and wage expenditure on Economic Services has declined by Rs. 28.50 crore (14.38 *per cent*) during 2004-06 *i.e.* from Rs. 198.15 crore in 2004-05 to Rs. 169.65 crore in 2005-06 indicating low priority accorded to the maintenance of services. On the other hand, the share of salary and wage components increased by 23.90 *per cent* from Rs. 78.07 crore in 2004-05 to Rs. 96.73 crore in 2005-06 indicating increasing committed revenue expenditure.

1.6.4 Financial Assistance to Local Bodies and other Institutions

The quantum of assistance provided by way of grants (Rs. 34.56 crore) to different local bodies, cooperative societies etc, during the five year period 2001-06 is presented in **Table-1.17** below:

Table- 1.17
Financial Assistance

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Zilla Parishads and other Panchayati Raj Institutions	2.42	4.47	24.05	6.91	21.77
Cooperative Societies	0.45	0.89	0.34	2.65	0.96
Universities and Educational Institutions	2.68	1.82	0.97	1.35	1.05
Others (including State Housing Corporation)	6.52	0.62	11.78	11.64	10.78
Total	**12.07**	**7.80**	**37.14**	**22.55**	**34.56**
Percentage of increase (+)/decrease (-) over previous year	43.86	(-)35.38	376.15	(-) 60.72	53.25
Assistance as a percentage of revenue expenditure	0.04	-	3.14	1.31	1.96

The total assistance at the end of 2005-06 had grown by 186.33 *per cent* over the level of 2001-02 primarily owing to increased allocation to Gram Panchayats by the State Government. The assistance to local bodies as a percentage of total revenue expenditure increased from 0.04 *per cent* in 2001-02 to 1.96 *per cent* in 2005-06.

1.6.5 Delay in furnishing utilisation certificates

At the end of September 2006, 80 utilisation certificates (UCs) for grants amounting to Rs. 3.95 crore released upto March 2006 were outstanding from Departments as detailed below:

Table -1.18

Sl. No	Department	Number of UCs outstanding	Amount (Rupees in crore)
1	Panchayati Raj and Rural Development	18	0.27
2	Others	62	3.68
	Total	**80**	**3.95**

1.6.6 Abstract of performance of autonomous bodies

The Audit of accounts of 23 bodies in the State has been entrusted to the Comptroller and Auditor General of India. The position of finalisation of accounts and Audit of autonomous bodies is indicated in ***Appendix-VI.***

1.7 Assets and liabilities

In the Government accounting system, comprehensive accounting of the fixed assets like land, buildings etc, owned by Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. ***Appendix-II*** gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the GOI and receipts from the Public Account and Reserve Funds, assets comprise mainly capital outlay, loans and advances given by the State Government and cash balances. ***Appendix-II*** shows that while the liabilities grew by 6.78 *per cent,* assets increased by 11.38 *per cent.* Liabilities had full back up of assets as defined. The liabilities of Government of Sikkim depicted in the Finance Accounts, however, do not include pension and other retirement benefits payable to retired State employees. Abstract of receipts and disbursements for the year 2005-06, Sources and Applications of funds and the Time Series Data on State Government Finances for the period 2001-06 are given in ***Appendices III, IV and V*** respectively.

1.7.1 Incomplete projects

As of March 2006, there were 149 incomplete projects in which Rs. 313.16 crore were blocked as given in **Table-1.19.**

Table-1.19

(Rs. in Crore)

Department	*Number of incomplete Project*	*Initial budgeted cost*	*Revised total cost of Project*	*Cum. Actual Exp. (As on 31.3.2006)*
Human Resources Development Department	77	21.13	21.62	12.53
Building & Housing Department	14	44.13	44.99	17.73
Urban Development and Housing Department	16	109.32	109.32	9.31
Health Care, Human Services and Family Welfare Department	19	8.69	8.69	4.00
Energy and Power Department	14	313.81	434.23	268.87
Irrigation & Flood Control Department	9	38.42	38.42	0.72
Total	149	535.5	657.27	313.16

Source: Information furnished by respective departments to A&E office during the course of preparation of Finance Accounts

There was cost overrun of Rs. 121.77 crore in 149 incomplete projects indicating 22.74 *per cent* of the initial budgeted cost.

1.7.2 Departmental Commercial Undertaking

Activities of quasi-commercial nature are performed by certain Government / Departmental Undertakings. These undertakings are required to prepare Proforma Accounts annually in prescribed formats showing the results of financial operations, so, that Government can assess their functioning. The Heads of Departments in Government are to ensure that undertakings funded by budgetary releases prepare the accounts in time and submit them to Accountant General for Audit.

As of 31 March 2006, there were two departmentally managed commercial and quasi-commercial undertakings under the control of Government of Sikkim. However, the preparation of Proforma Accounts for one unit was in arrears for two year as follows:

Table -1.20

Sl. No.	Name of departmentally managed commercial and quasi-commercial undertakings	Proforma Accounts received upto	Proforma Accounts due
1.	Temi Tea Board	2004-05	-
2.	Government Fruit Preservation Factory	2002-03	2003-04
			2004-05

1.7.3 Investments and returns

As on 31 March 2006, Government had invested Rs. 82.48 crore in its Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies. Government's return on this investment was less than 1.19 *per cent* in the last three years. With an average interest rate of 9.57 *per cent* being paid by Government on its borrowings, the average annual subsidy amounted to 8.39 *per cent* and the implicit subsidy during the period 2003-06 was Rs. 19.70 crore.

Table -1.21: Return on Investment

	2003-04	2004-05	2005-06	Average
Investment (*Rupees in crore*)	75.63	77.46	82.48	78.52
Returns (*Rupees in crore*)	0.74	0.92	1.14	0.93
Percentage of return	0.98	1.19	1.38	1.18
Average interest rate paid by Government	10.32	9.29	9.10	9.57
Difference between interest rate and return	9.34	8.10	7.72	8.39
Implicit subsidy (*Rupees in crore*)	7.06	6.27	6.37	6.57

Financial performance of the Corporations and Government Companies is detailed in ***Appendix-XVII***.

1.7.4 Loans and advances by State Government

In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these bodies. Total outstanding balance as on 31 March 2006 was Rs. 6.08 crore. Interest on these was not received in any of the years 2001-06 (**Table-1.22**). Total implicit subsidy during 2001-06, on such loans was Rs. 3.66 crore.

Table-1.22

Average interest received on loans advanced by the State Government

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	8.45*	7.50	6.28	5.30	6.22
Amount advanced during the year	0.19	0.06	0.10	0.68	--
Amount repaid during the year	1.14	1.28	1.08	(-) 0.24	0.14
Closing Balance	7.50	6.28	5.30	6.22	6.08
Net addition	**(-) 0.95**	**(-) 1.22**	**(-) 0.98**	**0.92**	**0.14**
Interest Received	Nil	Nil	Nil	Nil	Nil
Interest Received as percentage to Loans advanced	Nil	Nil	Nil	Nil	Nil
Weighted Interest Rate (in *per cent*) paid on borrowings by State Government	10.96	10.70	10.09	9.57	8.35
Average interest paid by the State (*per cent*)	12.14	11.47	10.32	9.29	9.10
Difference between Weighted interest paid and received (*per cent*)	10.96	10.70	10.09	9.57	8.35
Implicit subsidy	1.09	0.86	0.65	0.49	0.57

* *The variation of opening balance for 2001-02 is due to proforma correction in the Finance Accounts.*

Interest received was negligible during 2001-06 primarily because loans and advances granted to statutory corporations/ Government companies had failed to pay the interest. Considering the scenario, it is unlikely that the State will achieve the targeted rate of growth of 7 *per cent* in interest receipts by the terminal year (2009-10) on outstanding loans and advances as recommended by the TFC.

1.8 Undischarged liabilities

1.8.1 Fiscal liabilities - Public debt and Guarantees

There are two sets of liabilities, namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund - Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. However, no such law has been passed by the State to lay down any such limit. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. **Table-1.23** below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table-1.23:Fiscal Liabilities-Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities (*rupees in crore*)*	806.06	867.68	966.45	1,107.07	1,350.87
Rate of Growth (*per cent*)	10.51	7.64	11.38	14.55	22.02
Ratio of Fiscal Liabilities to					
GSDP(*per cent*)	75.17	70.30	69.72	72.34	78.68
Revenue Receipts (*per cent*)	107.46	95.56	107.51	109.47	124.14
Own Resources (*per cent*)	532.02	348.62	475.99	484.90	118.78
Buoyancy of Fiscal Liabilities to					
GSDP(ratio)	1.07	0.51	0.92	1.40	1.81
Revenue Receipts(ratio)	1.38	0.44	0.54	-14.50	2.90
Own resources (ratio)	0.67	0.12	-0.21	0.07	8.76

**Includes internal debt, loans and advances from GOI and other obligations*

Overall fiscal liabilities of the State increased from Rs. 806.06 crore in 2001-02 to Rs. 1,350.87 crore in 2005-06 with an average growth rate of 22.02 *per cent* during 2001-06. The ratio of these liabilities to GSDP increased from 75.17 *per cent* in 2001-02 to 78.68 *per cent* in 2005-06. The buoyancy of these liabilities with respect to GSDP during the year was 1.81 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.81 *per cent.*

1.8.2 Status of guarantees - Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Position of guarantee during the last 5 years was as under:

Table-1.24

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding guarantee
2001-02	Nil	95.70
2002-03	Nil	95.70
2003-04	Nil	86.10
2004-05	88.10	82.47
2005-06	84.47	84.47

Government has guaranteed loans raised by various Corporations and others. At the end of 2005-06 outstanding guarantee stood at Rs. 84.47 crore which showed an increase over the previous year. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

1.8.3 Debt Stabilisation and its Sustainability

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time and also the sufficiency of liquid assets to service the debt. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the interest rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*interest rate spread), Debt sustainability condition states that if quantum spread together with primary deficit is zero, Debt–GSDP ratio would be constant or sustainable. On the other hand, if PD persistently exceeds QS, Debt-GSDP ratio would eventually rise and PD with QS is positive, debt-GSDP ratio would fall in coming years.

Table-1.25

Debt Sustainability- interest Rate and GSDP Growth (in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Outstanding Debts	806.06	867.68	966.45	1,107.07	1,350.87
Interest Payment	84.16	89.53	92.50	99.19	102.60
Average Interest Rate paid by the Government	12.14	11.47	10.32	9.29	9.10
Weighted Interest Rate*	10.96	10.70	10.09	9.57	8.35
GSDP Growth	9.84	15.09	12.31	10.40	12.19
Interest spread	(-)1.13	4.40	2.22	0.84	3.84
Quantum Spread *(Rs. in crore)*	(-)9.11	38.18	21.46	9.30	51.87
Primary Deficit *(Rs. in crore)*	17.31	79.67	42.24	86.36	46.23

**Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities) /2]*100. The declining trend is due to (i) fall in average interest rate paid by the Government and (ii) lower rate of increase in the quantum of interest payment as compared to the rate of increase in the quantum of outstanding debt.*

Sustainability embodies concern about not only the ability of the State to service its debt but also to its stabilisation in terms of GSDP ratio. Debt would therefore be sustainable only if it stabilises and the borrowings are used for adding to the productive capacity of the economy so that adequate funds are generated to service the debt. **Table-1.25** reveals that primary deficit together with quantum spread was negative in four out of five years during 2000-06. It was only during 2005-06 that positive quantum spread exceeded the primary deficit, the impact of which might be reflected in coming years if this favourable condition continues to persist. Since the State has surplus in its revenue account, debt could be sustained in the short run but for its long term sustainability, the necessary condition would be that borrowed funds should be able to generate adequate incremental revenue receipts to service their debt obligations.

1.8.4 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of borrowed funds after payment of principal and interest. **Table-1.26** below gives the position of receipts and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from total receipts on account of public debt, loans and advances from GOI and other debt receipts (including Public Account) was 10.53 *per cent* in 2005-06 as against 12.10 *per cent* during 2001-02, as depicted in the following table.

Table -1.26
Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Internal debt					
Receipts	39.10	34.81	75.96	110.32	122.07
Repayment (Principal + Interest)	37.83	45.33	59.96	88.69	65.56
Net Funds Available	1.27	(-)10.52	16.00	21.63	56.51
Net Funds Available (*per cent*)	3.25	-	21.07	19.61	46.29
Loans and advances from GOI					
Receipts	52.27	43.73	61.06	82.67	22.99
Repayment (Principal + Interest)	60.49	64.71	97.83	72.73	49.11
Net Funds Available	(-)8.22	(-)20.98	(-)36.77	9.93	(-) 26.12
Net Funds Available (*per cent*)	-	-	-	12.01	--
Other obligations					
Receipts	92.09	114.85	65.09	69.79	73.81
Repayment (Principal + Interest)	62.94	81.12	86.12	98.76	81.15
Net Funds Available	29.15	33.73	(-)21.03	(-) 28.97	(-)7.34
Net Funds Available (*per cent*)	31.65	29.37	-	-	-
Total liabilities					
Receipts	183.46	193.39	202.11	262.77	218.87
Repayment (Principal + Interest)	161.26	191.16	243.91	260.18	195.82
Net Funds Available	22.20	2.23	(-)41.80	2.59	23.05
Net Funds Available (*per cent*)	12.10	1.15	-	0.99	10.53

1.9 Management of deficits

Deficit in Government accounts represents the gap between its receipts and expenditure. The extent of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the manners in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

Fiscal deficit representing the total borrowings of the Government and the total resource gap increased from Rs. 66.85 crore in 2001-02 to Rs. 148.83 crore in 2005-06 (**Table-1.27**).

Table-1.27: Fiscal Imbalances- Basic Parameters
(Values in crore of rupees and ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Surplus	142.93	197.90	160.25	168.91	196.76
Fiscal Deficit	(-)66.85	(-)9.86	(-)50.26	(-) 185.55	(-) 148.83
Primary Deficit/Surplus	17.31	79.67	42.24	86.36	46.23
FD/GSDP	(-)6.23	(-)0.80	(-)3.63	(-) 12.12	(-) 8.67
PD/GSDP	1.61	6.45	3.05	5.64	2.69

(Negative figures indicate deficit)

The revenue account of the State presents the trends in its revenue expenditure and revenue receipts over a definite time period. The revenue account of the State had exhibited consistent improvement during the period 2000-06 as the State had not only maintained revenue surplus but its surplus position has improved during the last two years. An increase of Rs. 28 crore in revenue surplus during the current year was mainly on account of enhancement in revenue receipts by Rs. 77 crore due to increase in tax revenue (Rs. 30 crore) and State's share in Central pool of taxes and duties (Rs. 75 crore) as against the increase of Rs. 77 crore in revenue expenditure during 2005-06 over the previous year. However, despite a revenue surplus of Rs. 169 crore in 2004-05, fiscal deficit has increased steeply over the previous year primarily on account of an increase of Rs. 142 crore (67 *per cent*) in capital expenditure during 2004-05 over the previous year. The momentum in capital expenditure continued in 2005-06 as it was maintained almost at the level of 2004-05. As a result, despite a revenue surplus in 2005-06, fiscal deficit continues to persist although it declined by about 20 *per cent* from the level of 2004-05. Although interest payments have consistently increased during the period 2000-06, the behaviour of primary account could largely be explained by the trends in revenue receipts affecting the primary revenue balance, non-interest revenue expenditure and capital expenditure during the period.

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.28** below presents a summarised position of Government finances over 2001-06, with reference to certain key indicators that help in assessing the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important features.

Table -1.28: Indicators of Fiscal Health (in *per cent*)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06
I. Resource Mobilisation					
Revenue Receipts/ GSDP	69.95	73.57	64.85	66.08	63.38
Revenue Buoyancy	1.76	1.40	*	1.20	0.62
Own tax/ GSDP	2.33	2.07	0.19	0.80	2.12
II Expenditure Management					
Total Expenditure/GSDP	76.29	74.47	68.55	78.19	72.05
Total Expenditure/ Revenue Receipts	91.69	98.79	94.60	84.51	87.96
Revenue Expenditure/ Total Expenditure	74.23	77.26	77.74	70.44	72.05
Salary Expenditure on Social and Economic Services/RE	30.50	29.14	33.62	31.12	36.29
Non-Salary Expenditure on Social and Economic Services/RE	71.77	65.82	59.87	78.08	68.31
Capital Expenditure/ Total Expenditure	25.77	22.74	22.26	29.56	27.95
Capital expenditure on Social and Economic Services/Total Expenditure	25.76	21.49	20.91	28.17	26.54
Buoyancy of TE with RR	1.06	**	0.94	2.07	0.45
Buoyancy of RE with RR	0.72	0.81	(-)4.01	1.12	0.77

III. Management of Fiscal Imbalances					
Revenue Surplus (*Rupees in crore*)	142.93	197.90	160.25	168.91	196.76
Fiscal Deficit (*Rupees in crore*)	(-) 66.85	(-) 9.86	(-) 50.26	(-) 185.55	(-) 148.83
Primary Deficit/Surplus (*Rupees in crore*)	17.31	79.67	42.24	86.36	46.23
Revenue Deficit/ Fiscal Deficit	$	$	$	$	$
IV. Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/ GSDP	75.17	70.30	69.72	72.34	78.68
Fiscal Liabilities/ RR	107.46	95.56	107.51	109.47	124.14
Buoyancy of FL with RR	1.38	0.44	0.54	(-)14.50	2.90
Buoyancy of FL with OR	0.67	0.12	(-)0.21	0.07	8.76
Primary deficit *vis a vis* quantum spread	17.31/ (-) 9.11	79.67/ 38.18	42.24/ 21.46	86.36/ 9.30	46.23/ 51.87
Net Funds Available	12.10	1.15	-	0.99	10.53
V. Other Fiscal Health Indicators					
Return on Investment	0.02	2.53	0.98	1.19	1.38
BCR (*Rupees in crore*)	(-)38.83	77.84	(-) 15.64	(-) 101.78	15.77
Financial Assets/ Liabilities	1.73	1.88	1.97	1.13	2.0

** Rate of growth of Revenue Receipts was negative. ** Rate of growth of expenditure was negative. $ State had a revenue surplus in all these years*

The ratio of own taxes to GSDP had shown continuous decline from 2.33 in 2001-02 to 0.19 in 2003-04 and thereafter an increasing trend from 0.80 to 2.12 during 2004-06. The ratio of revenue receipts to GSDP showed inter-year variations during 2001-06. Revenue expenditure comprised 72 *per cent* of total expenditure in 2005-06 leaving very little for capital formation or asset creation. Fiscal deficit over the last five years indicated growing fiscal imbalances of the State.

The net availability of funds from its borrowings was very negligible due to a larger portion of these funds being used for debt servicing. The State's insignificant return on investment indicated huge implicit subsidy and utilisation of high cost borrowing for investments that yielded little.

1.11 Conclusion

The fiscal health of the State as reflected in terms of trends in key fiscal parameters- RD, FD & PD has shown a sign of improvement during 2005-06 over the previous year. However, the State finances are heavily dependent on Central transfers, which account for about 76 *per cent* of its revenue receipts and helped the State Government to maintain revenue surplus during the period 2000-06. Although the State had maintained revenue surplus throughout the period 2000-06, fiscal deficit not only persisted during the period but it has increased steeply during the last two years primarily on account of substantial step up in capital expenditure during these years. The State's own resources mobilised in the form of its own tax revenue and non-tax revenue during 2005-06 being much lower than the normative projections made by the TFC indicates the large potential of raising them by exploiting untapped sources of revenue available in the State. On the other hand, the increasing fiscal liabilities accompanied by persistent fiscal deficit and primary deficit together with quantum spread being negative during most of the years might result in a cycle of deficit, debt and debt service payments, unless suitable measures are taken to arrest the persistent increase in fiscal liabilities. Besides, zero rate of return on Government investments and inadequate recovery of cost on loans and advances also adversely affected the fiscal position of the State. In this context, an efficient and productive use of funds would be of critical importance both from the point of view of putting the State's economy in the high growth trajectory and providing qualitative social and economic services to the people and in enhancing the ability of the Government to meet its financial liabilities that will become due in future.

CHAPTER-II

ALLOCATIVE PRIORITIES AND APPROPRIATION

CHAPTER – II
ALLOCATIVE PRIORITIES AND APPROPRIATION

2.1 Introduction

The Appropriation Accounts prepared annually indicate capital and revenue expenditure on various specified services vis-à-vis those authorised by the Appropriation Act in respect of charged as well as voted items of the budget.

Audit of Appropriations by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various grants was within the authorisation given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution was so charged. It also ascertains whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2005-06 against 44 grants / appropriations (42 Grants and 2 Appropriations) are indicated in **Table-2.1:**

Table-2.1

(Rupees in crore)

Name of Expenditure		Original grant / Appropriation	Supplementary grant/ Appropriation	Total	Actual expenditure	Saving (-)/ Excess(+)
Voted	I. Revenue	1,667.26	76.18	1,743.44	1,661.40	(-)82.04
	II. Capital	416.37	107.25	523.62	345.73	(-)177.89
	III. Loans and Advances	0.15	Nil	0.15	Nil	(-) 0.15
Total Voted		**2,083.78**	**183.43**	**2,267.21**	**2,007.13**	**(-)260.08**
Charged	IV Revenue	117.43	Nil	117.43	120.87	(+) 3.44
	V. Capital	Nil	Nil	Nil	Nil	Nil
	VI. Public Debt	45.58	Nil	45.58	32.39	(-) 13.19
Total Charged		**163.01**	**Nil**	**163.01**	**153.26**	**(-) 9.75**
Appropriation to Contingency Fund (if any)	Nil	-	-	-	-	-
Grand Total		**2,246.79**	**183.43**	**2,430.22**	**2,160.39**	**(-) 269.83**

2.3 Fulfilment of Allocative Priorities

2.3.1 Appropriation by allocative priorities

Out of overall savings of 269.83 crore, major savings of Rs. 189.25 crore (70 *per cent*) occurred under 12 grants as mentioned below:

Table-2.2

(Rupees in crore)

Grant No. & name	Section	Grant			Actual Expenditure	Saving
		Original	Supplementary	Total		
1 – Food Security & Agriculture Development	Revenue	20.91	7.86	28.77	27.33	1.44
3 – Building & Housing	Capital	17.53	3.00	20.53	17.98	2.55
7 - Human Resources Development (Voted)	Capital	35.78	6.39	42.17	17.15	25.02
19 – Irrigation & Flood Control (Voted)	Revenue	12.23	0.21	12.44	9.01	3.43
19 – Irrigation & Flood Control (Voted)	Capital	6.22	1.00	7.22	1.94	5.28
31 – Energy and Power (Voted)	Capital	110.88	24.90	135.78	88.12	47.66
33 – Water Security and Public Health Engineering (Voted)	Capital	31.08	3.22	34.30	25.03	9.27
34 – Roads & Bridges (Voted)	Revenue	30.83	0	30.83	22.09	8.74
34 – Roads & Bridges (Voted)	Capital	92.12	5.99	98.11	58.67	39.44
35 – Rural Management and Development (Voted)	Revenue	53.08	1.22	54.30	46.14	8.16
37 – Sikkim Nationalised Transport (Voted)	Revenue	23.51	0.07	23.58	18.83	4.75
38 – Social Justice, Empowerment and Welfare (Voted)	Revenue	29.89	1.88	31.77	24.31	7.46
38 – Social Justice, Empowerment and Welfare (Voted)	Capital	2.38	0.08	2.46	0.13	2.33
40 – Tourism (Voted)	Capital	19.44	5.83	25.27	13.59	11.68
41 – Urban Development & Housing (Voted)	Capital	5.12	9.8	14.92	2.88	12.04
Total		**491**	**71.45**	**562.45**	**373.20**	**189.25**

Reasons for savings as intimated by the Departments were as follows:

i) The savings under Food Security & Agriculture Development grant (Revenue) was due to non-submission of bills by the suppliers and contractors, less claims on account of travelling allowances, non-payment of wages and non-receipt of anticipated funds from GOI towards centrally sponsored scheme.

ii) The savings under Building & Housing grant (Capital) was attributed to non-receipt of anticipated funds from GOI for office complex for Judicial Administration (Central Share), non-finalisation of earmarked works by Prison Administration under modernisation of Prison Administration timely and non-raising of bills at the fag end of the year.

iii) The savings under Human Resource Development grant (Capital) was due to delay in the process of payment for land compensation of Rhenock Degree College and Sanskrit Mahavidhyalaya, Samdong and restriction of expenditure to the extent of fund received from North Eastern Council Secretariat and also due to slow pace of works.

iv) The savings under Energy and Power grant (Capital) was due to non-receipt of bills for the works-in-progress and also due to non-receipt of anticipated funds from GOI.

v) The savings under Water Security and Public Health Engineering (Capital) was due to non-receipt of funds from GOI.

vi) The savings under Revenue heads of Roads & Bridges grant was due to restriction of expenditure under maintenance and repairs and non-clearing of bills by PAO (West) and savings that of Capital head was due to non-receipt of anticipated funds from GOI towards centrally sponsored schemes.

vii) The savings under Sikkim Nationalised Transport grant (Revenue) was due to discontinuance of Petrol, Oil and Lubricants (POL) business and various recoveries on salaries and regularisation of muster rolls staffs.

viii) The savings under Social Justice, Empowerment and Welfare grant (Revenue) was due to non-release of second instalment of quota of rice by the Government of India and savings under Capital head was due to non-receipt of funds from GOI.

ix) The savings under Tourism grant (Capital) occurred due to rejection of surrender proposal on 17.04.06 by the Finance Department.

xi) The savings under Urban Development & Housing grant (Capital) was due to non-completion of formalities such as preparation of Comprehensive Detailed Project (CDP), signing of MOA etc. for the scheme and non-receipt of Central share.

xii) No reasons for major savings by Irrigation & Flood Control and Rural Management and Development Departments were furnished.

Areas in which major savings occurred in these 12 grants are given in **Appendix-*VII*.**

2.3.2 *Excess requiring regularisation*

i) Excess over provision relating to previous years requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for the State Government to get the excess over a grant/appropriation regularised by the State Legislature. The year-wise position of excesses yet to be regularised is indicated in **Table 2.3** below:

Table-2.3

(Rupees in crore)

Year	No. of grants/ appropriations	Grant/ Appropriation No(s)	Amount of excess	Amount for which explanations not furnished to PAC
2002-03	09	5,10,12,14,19,20,23,30,38	2.75	2.75
2003-04	06	2,15,20,23,31,32	1.21	1.21
2004-05	05	2,10,23,24 and Governor	24.82	24.82
Total	**20**		**28.78**	**28.78**

ii) Excess over provision during 2005-06 requiring regularisation

In Revenue Section, there was an excess of Rs. 10.96 crore in seven grants and two appropriations. These excesses (details given below) require regularisation under Article 205 of the Constitution of India.

Table-2.4

(In Rupees)

Grant No.	Description of the grant/appropriation	Section	Total grant / appropriation	Actual expenditure	Amount in excess
A	**Voted**		*Rupees*	*Rupees*	*Rupees*
2	Animal Husbandry, Livestock, Fisheries and Veterinary Services	Revenue	17,82,68,000	18,37,23,346	54,55,346
3	Building and Housing	Revenue	6,41,84,000	6,72,83,849	30,99,849
7	Human Resource Development	Revenue	1,83,63,02,000	1,88,78,37,753	5,15,35,753
14	Home	Revenue	11,11,62,000	12,32,54,641	1,20,92,641
23	Law	Revenue	1,57,50,000	1,58,10,530	60,530
24	State Legislature	Revenue	3,71,10,000	3,94,88,653	23,78,653
	Total: A – Voted		**2,24,27,76,000**	**2,31,73,98,772**	**7,46,22,772**
B	**Charged**				
10	Finance, Revenue and Expenditure	Revenue	1,11,99,60,000	1,15,32,04,163	3,32,44,163
	Governor	Revenue	2,05,34,000	2,19,21,505	13,87,505
	Public Service Commission	Revenue	54,03,000	57,29,651	3,26,651
	Total: B – Charged		**1,14,58,97,000**	**1,18,08,55,319**	**3,49,58,319**
	Total: A and B		**3,38,86,73,000**	**3,49,82,54,091**	**10,95,81,091**

2.3.3 Supplementary provision

Supplementary provisions (Rs. 183.43 crore) made during the year constituted 8.16 *per cent* of the original provision (Rs. 2,246.79 crore) as against 7.37 *per cent* in the previous year.

2.3.4 Unnecessary /inadequate supplementary provisions

Supplementary provision of Rs. 63.57 crore made in 17 cases during the year proved unnecessary in view of aggregate savings of Rs. 183.36 crore as detailed in ***Appendix-VIII***.

In 12 cases, against additional requirement of Rs. 35.10 crore, supplementary grants of Rs. 84.61 crore were obtained, resulting in savings in each case exceeding Rs. 10 lakh, aggregating Rs. 49.51 crore. Details of these cases are given in ***Appendix-IX.***

In six cases, though expenditure exceeded budget provision by Rs. 5.26 crore, no supplementary grants were obtained. Details of these cases are given in ***Appendix-X.***

In two cases, supplementary provision of Rs. 14.79 crore proved insufficient leaving an uncovered excess expenditure of Rs. 5.69 crore. Details of these cases are given in ***Appendix-XI.***

2.3.5 Persistent savings

Persistent savings of 10 *per cent* and above were noticed in four grants during last three years. Out of four, in one grants there was persistent saving of above Rs. 9 crore ranging from 23 *per cent* to 35 *per cent* of the provision as detailed in ***Appendix-XII.***

2.3.6 Anticipated savings not surrendered

According to the rules framed by the Government, the spending Departments are required to surrender the grants/appropriations, or portion thereof, to the Finance Department as and when savings are anticipated at the close of the year. Unutilised funds amounting to Rs. 12.91 crore in three cases, however, were not surrendered during the year as detailed below:

Table-2.5

(Rupees in crore)

Grant No.	Name of Department	Section	Amount
2	Animal Husbandry, Livestock, Fisheries and Veterinary Services	Capital	0.80
40	Tourism	Revenue	0.43
40	Tourism	Capital	11.68
Total			**12.91**

2.3.7 *Injudicious/ unnecessary re-appropriation*

Re-appropriation is transfer of funds within a Grant from one unit of appropriation where savings are anticipated to another unit where additional funds are needed. Financial Rules enjoin that re-appropriation of funds shall be made only when it is known or anticipated that the re-appropriation from the unit from which funds are to be transferred will not be utilised in full. Further, funds shall not be re-appropriated from a unit with the intention of restoring the diverted appropriation to that unit when savings became available under other units later in the year.

Scrutiny of re-appropriation orders revealed non-observance of the rules resulting in incorrect re-appropriation. Some important instances are given in ***Appendix-XIII.***

2.3.8 *Trend of recoveries and credits*

Under the system of gross budgeting, the demands for grants presented to the Legislature are for gross expenditure and exclude all receipts and recoveries which are adjusted in the accounts as reduction of expenditure. The anticipated recoveries and credits are being shown separately in the budget estimates.

During the year 2005-06, against the estimated recoveries of Rs. 17.77 crore actual recoveries were Rs. 14.67 crore as shown in ***Appendix-XIV.***

CHAPTER-III

PERFORMANCE AUDIT

CHAPTER – III
PERFORMANCE AUDIT

ENERGY & POWER DEPARTMENT

3.1 ACCELERATED POWER DEVELOPMENT AND REFORMS PROGRAMME

Performance Audit of implementation of APDRP revealed that although revenue realisation had substantially improved since 2004-05 after implementation of the programme, it was far below the targeted level. The objective of breaking even by the year 2005 and positive returns thereafter, as contemplated in the MOA, could not be fulfilled as of March 2006 indicating that commercial viability may not be achieved within a conceivable time frame unless drastic steps were taken to cut down operational costs, economise capital expenditure, contain energy loss and improve revenue realisation further. The power sector was yet to be re-structured and reformed and the State Electricity Regulatory Commission (SERC) was yet to be constituted even after more than three years of the target date. Metering of feeders and consumers was still incomplete, transmission and distribution (T&D) loss was still high at 30 per cent and critical issues of the reforms agenda such as consumer indexing and energy accounting and auditing were not accorded desired priority. The monitoring mechanism was ineffective to this extent.

Highlights

The Department had not undertaken reform / restructuring of power sector as envisaged under Accelerated Power Development and Reforms Programme and as reported by the Administrative Staff College of India (ASCI) in May 2005.

(Paragraph 3.1.8.1)

The State Electricity Regulatory Commission (SERC) had not been set up even after more than three years of the target date contemplated in the MOA. As a consequence, no follow-up measures could be initiated.

(Paragraph 3.1.8.2)

The T&D loss which was targeted to be reduced to around 10 *per cent* stood at 30 *per cent* as at the end of 2005-06 indicating the Department's failure to achieve the target stipulated under the APDRP.

(Paragraph 3.1.9)

Energy accounting and auditing was not initiated despite an expenditure of Rs. 15.93 crore on metering.

(Paragraph 3.1.10.1)

Although the Department exhausted the entire provision of Rs. 72 lakh meant for computerised billing and MIS, only two sub-divisions out of 24 sub-divisions had been computerised, as Rs. 66 lakh was unauthorisedly diverted.

(Paragraph 3.1.8.12)

Consumer indexing had been done in only six sub-divisions out of 24 sub-divisions in the State.

(Paragraph 3.1.8.13)

7,232 consumer meters valuing Rs. 1.31 crore were found defective after their installation. No action was taken to get these meters replaced although the meters were guaranteed for 5/10 years.

(Paragraph 3.1.10.1)

Against the anticipated benefit of Rs. 39.93 crore in 2004-06 projected in the DPRs, there was actual realisation of Rs. 21.84 crore only, indicating unrealistically high projection.

(Paragraph 3.1.13)

There was time overrun ranging from 3 months to 3 years in 12 works.

(Paragraph 3.1.10.3)

The Department had not constituted vigilance squad for conducting regular raids to detect theft of electricity. During the period 2001-02 to 2005-06, raid was conducted in only two occasions.

(Paragraph 3.1.17)

Monitoring was found wanting in case of i) metering of consumers and feeders, ii) Computerised billing and iii) Mapping and indexing of consumers due to which there was high incidence of defective meters in the feeders / consumer premises and failure to introduce computerised billing.

(Paragraph 3.1.18.1)

3.1.1 Introduction

With a view to bring about efficiency as well as commercial viability in the power sector, Government of India (GOI) identified "distribution reforms" as a key area and launched a massive programme of upgradation of Sub-Transmission and Distribution (ST&D) systems including energy accounting and metering and reduction of Transmission and Distribution (T&D) losses under the Accelerated Power Development Programme (APDP) during the year 2000-01. The scheme was to continue till the end of 11th Plan (2012). The original APDP was rechristened (2002-03) as 'Accelerated Power Development & Reforms Programme' (APDRP) after integrating incentive financing with the existing investment programme to expedite the reform process and help the State power utilities achieve commercial viability.

The main objectives of APDRP were:

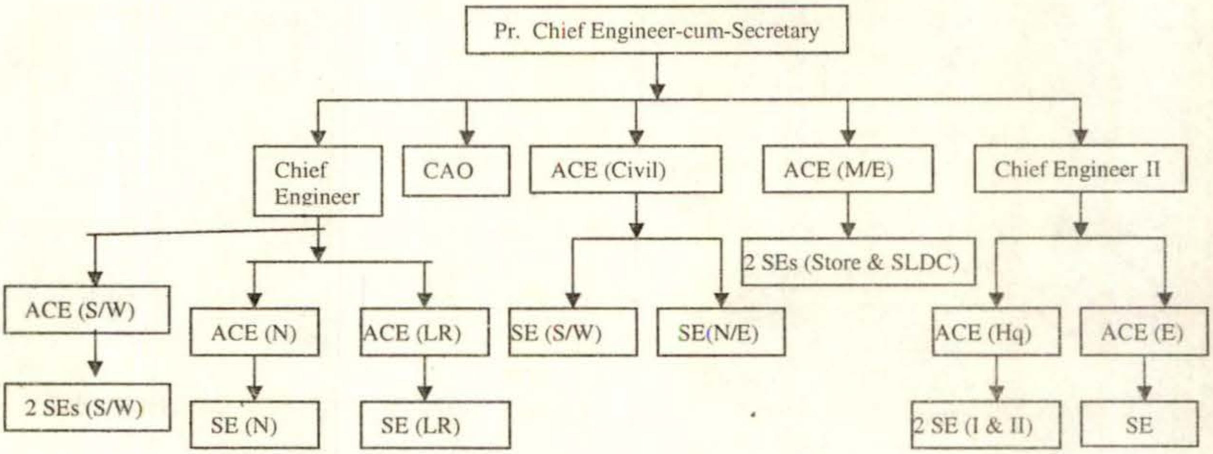
- Reduction of Aggregate Technical and Commercial (AT&C) losses;
- Bring about commercial viability in the power sector;
- Reduce outages and interruptions;
- Increase consumer satisfaction;
- Adopt systems approach with MIS;
- Bring about transparency through computerisation.

3.1.2 Organisational set-up

In Sikkim, the APDRP is being implemented by the Energy and Power Department (EPD), headed by the Principal Chief Engineer-cum-Secretary, a

Chief Accounts Officer (CAO), five Additional Chief Engineers and a host of Junior level engineering staff as shown in the chart below:

Chart: 3.1.1



3.1.3 Scope of Audit

Performance Audit of APDRP was conducted with a view to assess the performance of the Energy and Power Department (EPD) in conceptualisation and implementation of the programme and its achievements in the State with reference to the objectives set for the programme, covering the period from 2000-01 to 2005-06, on the basis of records maintained in the Secretariat of the Department at Gangtok, various Circle offices[1] located at Jorethang (South district), Gyalshing (West district), Namchi (South district) and Mangan (North district). Out of the total expenditure of Rs. 161.11 crore, expenditure of Rs. 80.99 crore (50 *per cent*) was covered during test check (August-October 2006) in Audit.

3.1.4 Audit objectives

The Audit objectives were to verify whether:

- The programme was carefully designed with adequate planning;
- The funding requirements were realistically assessed;
- Funds were sanctioned and released on time at all levels and were used efficiently, economically and effectively to achieve the objectives of the programme;
- The AT&C losses were reduced in accordance with the action plan and targets;
- The extent of increase in revenue collection was commensurate with the expectations from the programme; and
- The satisfaction levels of consumers had improved in terms of quality, regularity and cost of power supplied.

[1] *Although there were 6(six) Circles, Ministry of Power, GOI considered the entire State as one Circle (Sikkim).*

3.1.5 Audit criteria

The basic principles, norms, standards, terms and conditions, information and instructions contained in the following documents / sources of information were used as criteria for drawing the Audit conclusions:

- Memorandum of Agreement signed between the State Government and the GOI;
- Guidelines issued by the Ministry of Power from time to time for implementation of APDP/APDRP;
- Technical Manual prepared by the Committee of Experts in November 2001;
- Cabinet Note and the document containing Six level interventions for effective implementation;
- Government decisions and orders in files regarding implementation of the programme;
- Tariff orders / notifications;
- National Electricity Policy, Electricity Act 2003 and Central Electricity Authority norms.
- Prescribed monitoring mechanism.

The above criteria were discussed in detail and agreed with the implementing authorities.

3.1.6 Audit methodology

The methodology adopted for Audit, *inter alia,* included group discussions with various stake-holders *(Advisor-cum-Consultant (A-c-C), ex-bureaucrats and implementers)*; setting of benchmarks, test check of records selected on random sampling basis; obtaining information through questionnaire, analysis of data and joint physical inspections. An entry conference was held with the Departmental officers in August 2006 wherein Audit objectives, scope and methodology were discussed. All the four projects[2] relating to APDRP that were implemented in the State were selected for Audit and 25 *per cent* of the works under each of these projects were selected at random for detailed scrutiny.

Exit conference was held with the Departmental officers in October 2006. Replies of the Government / Department have not been received (November 2006).

3.1.7 Funding arrangement and financial management

The APDRP was funded through a combination of grant (90 *per cent*) and soft loan (10 *per cent*) as additional Central plan assistance. The funds received under APDP/APDRP from the GOI during the period 2000-01 to 2005-06 were as under:

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[2] *(i) Metering, (ii) Sub-Transmission & Distribution (South-West & Lagyap), (iii) Improvement of Sub-Transmission & Distribution, and (iv) Supplementary Project for Sub-Transmission & Distribution.*

Table-3.1.1

(Rs. in crore)

Year	Opening balance	Amount received from GOI			Expenditure	Closing balance
		Grant	Loan	Total		
2000-01	Nil	5.74	0.64	6.38	Nil	6.38
2001-02	6.38	Nil	Nil	Nil	5.34	1.04
2002-03	1.04	15.48	1.72	17.20	18.11	0.13
2003-04	0.13	54.15	6.02	60.17	18.00	42.30
2004-05	42.30	69.62	7.73	77.35	60.00	59.65
2005-06	59.65	00.00	00.00	00.00	54.30	5.35
Total		**144.99**	**16.11**	**161.10**	**155.75**	5.35

Source: Information furnished by the Department.

Although availability of funds was not a constraint to the programme, the expenditure in 2003-04 and 2004-05 was significantly low compared to the amounts received from GOI. This was due to less provision made in the State budget by the Finance Department compared to the actual amount received from GOI as detailed below:

3.1.7.1 Non-opening of separate bank account

The APDRP guidelines categorically stipulated opening of a separate bank account by the State Government for temporary parking of funds received for implementation of the programme. The State Government was to release funds to the State EPD within a week of receipt of funds from GOI and send confirmation to this effect, failing which, it was to be treated as diversion of funds and the diverted amount along with 10 *per cent* penal interest was to be adjusted against the subsequent instalment of Central plan assistance. But when the EPD approached the Finance, Revenue and Expenditure Department (FRED) for permission to open a separate bank account, it was not agreed to on the plea that separate head of account within the Government accounts would suffice, there being no State Electricity Reforms Commission (SERC) in the State unlike in other States. Accordingly a separate accounting classification under the major head '4801-05-800-70.00.81 APDRP (Plan)' was opened within the Government accounts (existing budget heads) and all funds received from GOI under APDRP were credited to the Consolidated Fund of the State in violation of the programme guidelines. This resulted in the EPD being unable to spend money beyond the budget provision made under this head by the FRED though funds from GOI were available with the State Government. The EPD had already spent whatever was provided for the programme in the budget during these years. GOI had not imposed any penalty on the State Government for retaining the APDRP funds beyond the period stipulated in the guidelines.

3.1.7.2 Loss of interest and diversion of fund

Funds ranging from Rs. 1.04 crore to Rs. 83.43 crore received from GOI remained continuously blocked in Government accounts during the period 2001-02 to 2005-06 and were not used for APDRP though the EPD had already spent its budgeted provision during this period and needed more funds for expenditure under the programme. This retention of APDRP funds in the accounts of the State Government for more than a week was in contravention of the programme guidelines.

3.1.8 Policy formulation and planning

In order to achieve commercial viability in the power sector, the Union Ministry of Power formulated a six level intervention strategy at the National level, State level, SEB / Utility level, distribution circle level, feeder level and consumer level.

The strategy involved technical, commercial, financial and IT interventions, organisational and re-structuring measures and an incentive mechanism for cash loss reduction.

The main reforms envisaged were as follows:

- Setting up of State Electricity Regulatory Commission (SERC),
- Restructuring of SEBs, *i.e.* unbundling into separate entities for generation, transmission and distribution and corporatisation of unbundled entities,
- Securitisation of dues of Central PSUs,
- 100 *per cent* metering and energy audit and accounting for each 11 KV feeder,
- 100 *per cent* metering of all consumers and,
- Distribution circles to be operated as independent profit centres and 11 KV feeders to be operated as business units.

The Union Ministry of Power (MOP) set (January 2001) the State Government the pre-condition of signing a Memorandum of Agreement (MOA) with it charting out a path of mainly 15 points reforms with the ultimate objective of making the power sector commercially viable, for release of any assistance to the State Power Department under the programme. The Department could sign the MOA only as late as December 2002 thereby pushing behind the reforms process by almost two years.

Even after signing the MOA in December 2002, the performance of the State Government in honouring the covenants of the MOA was very poor as elaborated in the succeeding paragraphs:

3.1.8.1 Delay in restructuring of the State Power Utility

The EPD is responsible for generation, transmission and distribution of electricity and related activities in the State. Restructuring of the State power utility and its corporatisation was one of the most important conditions of the MOA. The State Government created (December 1998) Sikkim Power Development Corporation (SPDC), a wholly owned corporation of the State Government with the principal objective of taking over the functions of generation, transmission and distribution and sale of electricity. But as of the date of Audit, the SPDC was involved only in development of new hydro projects; the functions of generation, transmission, distribution and sale of electricity were yet to be transferred to it. In keeping with the conditionality laid down in the APDRP guidelines, the State Government decided (2002-03) to introduce reforms and restructure the power sector in the State and accordingly, appointed the Administrative Staff College of India (ASCI), Hyderabad as consultants at a fee of Rs. 30 lakh during 2002-03. The ASCI submitted its final report in May 2005, in which, it, *inter alia,* recommended that (i) the power sector in Sikkim be corporatised, (ii) the entire generation, transmission and distribution be handed over to the SPDC, and (iii) the SPDC be organised into three Strategic Business Units / profit centres for pursuing the activities of the power sector more efficiently in future.

The State was, however, yet to take up the reformatory measures/restructuring of the power sector as recommended by the consultants as of September 2006, even after more than three years of signing the MOA with GOI and more than a year of submission of report by the consultants, without any recorded reasons. While the Government had not given any reply to the Audit observations, discussions with the Advisor-cum-Consultants to the State Government on power sector reforms (Power Grid Corporation of India Limited) and the ex-bureaucrats revealed that the reformatory measures could not be initiated mainly due to opposition from the employees who were apprehensive of losing their jobs/benefits in the event of corporatisation / privatisation. Thus implementation of the reform measure in so far as re-structuring of the power sector was concerned was unsuccessful (September 2006).

3.1.8.2 Non-formation of State Electricity Regulatory Commission (SERC)

The SERC was targeted for setting up by May 2003, nonetheless the same had not been set-up as of September 2006. In terms of the Electricity Act 2003, the State Government was to constitute a three member Selection Committee for the purpose of selecting members of the SERC.

While the State Government constituted the Selection Committee in November 2004, the SERC could not be set up (September 2006) due to disagreement of the members over the procedure for appointment of the Chairman of the SERC.

3.1.8.3 Non-filing of tariff petitions etc.

Setting up of the SERC was linked to a chain of follow-up reform measures. Its establishment was expected to bring tariff fixation (both bulk and retail) under regulatory regime duly involving the consumers through public hearing. This would have put the onus on the power utility to improve its performance as the tariff fixation would not be based on a simple cost plus basis but would be linked to performance, particularly reduction of T & D losses, etc. The power utility was required to maintain upto date accounts of income and expenditure and details of performance of different consumer services and account for the energy consumed by the subsidised categories. All these measures were expected to improve financial viability of the power utility.

The MOA signed by the State Government with GOI stipulated filing of tariff petitions by May 2003. There being no SERC in the State, this stipulation could not be achieved. Also, none of the activities associated with its setting up could be initiated even after a lapse of more than three years of the target date (May 2003). Thus the reforms associated with formulation of the SERC and filing of tariff petitions could not be initiated.

3.1.8.4 Designation of the SEs as CEOs and JEs as feeder managers and signing of MOUs.

In terms of the MOA, Superintending Engineers (SEs) of the circles had to be designated as CEOs and Junior Engineers (JEs) as feeder managers. MOUs were to be signed between the State Government and CEOs and the CEOs and feeder managers, with a view to enhance accountability and responsibility towards energy accounting & auditing and proper monitoring of achievements and activities in the respective circles. Though the SEs and JEs had been designated as CEOs and feeder managers and MOUs signed as early as January 2003, this action proved to be perfunctory as (i) mechanism for regulating allocation of power to a feeder at the point of import for regulating over drawal / under drawal had not been put in place, (ii) energy accounting and auditing had not been initiated, and (iii) monitoring was ineffective leading to piling up of huge outstanding revenues and delay in completion of schemes. Hence, the reform measure in this respect failed to yield any positive result.

3.1.8.5 Handing over parts of distribution system on management contract or on lease to local bodies, franchisees etc.

The MOA stipulated formulation of suitable policy for handing over parts of distribution system on management contract or on lease to local bodies, franchisees etc. No action in this regard had been initiated by the Department as on the date of Audit (September 2006). The reforms in this regard had thus failed to yield any result.

3.1.8.6 Formulation of suitable policy for outsourcing activities like consumer indexing, meter reading, billing etc.

The State Government had not formulated any policy to enable the Department to outsource activities like consumer indexing, meter reading, billing, bill delivery and periodic maintenance of DTs, as contemplated in the MOA, as on date of Audit (September 2006). These activities were being carried out by the Department itself. To this extent, the reform measure had failed.

3.1.8.7 Finalisation of standard specification for turnkey contracts and evolution of a rate contract system for equipments of repetitive nature

The works under APDRP were executed in the usual manner, and by following the usual procedure of calling tenders and selecting the lowest bidder. Revised procedure of formulating standard specifications and evolving rate contract system with an accredited list of contractors, as stipulated in the MOA, was not adopted.

3.1.8.8 Mandatory installation of capacitor for consumers of more than 10 HP

The MOA conditionality required mandatory installation of capacitor for consumers of more than 10 HP by the Department. The Department had not even identified the load centres, as of September 2006, where such capacitors were required to be installed. Hence, the question of installation of these capacitors did not arise and the anticipated benefits from the activity remained unfulfilled.

3.1.8.9 Digital interface for data logging at Sub-Station

This activity had not yet commenced even as of September 2006. The data from the sub-stations thus could not be accessed / extracted.

3.1.8.10 Outages on feeders, their causes and corrective/preventive actions taken to be entered into computer at the sub-stations

No computer existed in any of the sub-stations till date (September 2006). Only a register was being maintained where such data was recorded. Hence, this activity contemplated in the reform conditionality remained unfulfilled.

3.1.8.11 Development of system for recording consumer complains and recording of corrective / preventive action

No such system had been developed as of September 2006 to record consumer complaints, as contemplated in the MOA.

3.1.8.12 Computerised billing and Management Information System (MIS)

Computerised billing and generation of MIS report was one of the important activities introduced under APDRP to bring about transparency and efficiency in billing the energy consumed by various categories of consumers. Rs. 72 lakh were provided for the purpose.

While the Department expended (December 2003) the entire amount for purchase of 41 computers and accessories, computerised billing was introduced in only two sub-divisions *(at a cost of Rs. 6.00 lakh)* located in the Departmental headquarters at Gangtok out of 24 sub-divisions in the State, indicating a mere 3 *per cent* physical achievement. Most of the computers (31) purchased were being used for other purposes, hence the MIS report in the desired format as contemplated under APDRP was yet to be in place and could not be generated. Thus, non-use of computers for computerised billing and generating MIS, besides non-fulfilment of the intended objectives, also resulted in unauthorised diversion of funds to the tune of Rs. 66 lakh for other purposes.

3.1.8.13 Consumer indexing

Consumer indexing captures all users of electricity and connects them upto distribution transformers and feeder level. This helps in identification of overloading of equipments; identification of non-billed consumers; better load management, maintenance of equipments, billing and revenue collection; reduction of technical and commercial losses; and improvement in quality and reliability of power supply.

A provision of Rs. 18 lakh was kept for the purpose. Out of the 24 revenue sub-divisions in the State, consumer indexing in respect of only six sub-divisions located in the Departmental headquarters at Gangtok and Mangan was completed as of September 2006 indicating physical achievement of only

25 *per cent.* It was further noticed that the sub-division wise targets and likely date of completion of consumer indexing was not fixed. Since this was the most crucial component of metering, energy accounting and audit, its abysmally low coverage questioned the very seriousness of the intent of the State Government to usher in power sector reforms in the true sense (as delineated in the MOA) in the State.

Thus it would be seen that out of the 15 main points of reforms suggested in the programme, the Department failed to initiate any action in respect of ten points, while in the remaining five points, although action was initiated, the achievement was either nil or very poor.

3.1.9 Status of achievement of benchmark parameters

The APDRP was implemented with the main objectives of reducing aggregate technical and commercial losses, bringing about commercial viability in the power sector, reducing outages and interruptions and increasing consumer satisfaction. The data relating to the energy input, metered, billed and revenue realised and the T&D and AT & C losses in the State over the period 2001-02 to 2005-06, as calculated by Audit from available data of the Department was as under:

Table-3.1.2

Sl. No	Descriptions	Year				
		2001-02	2002-03	2003-04	2004-05	2005-06
1	Input Energy (MU)	178.80	161.02	201.34	239.91	308.24
2	Metered Energy (MU)	n.a	n.a	n.a	n.a	n.a
3	Metering efficiency	n.a	n.a	n.a	n.a	n.a
4	Billed energy (MU)	65.19	73.27	100.18	160.54	216.17
5	Billing efficiency (%)[3]	36.46	36.39	49.76	66.92	70.13
6	Revenue Billed *(Rs. in crore)*	12.31	14.06	16.53	23.92	32.21
7	Revenue realised* *(Rs. in crore)*	11.84	13.31	13.57	21.97	27.01
8	Collection efficiency (%)[4]	96.18	94.67	87.89	91.84	83.86
9	Revenue Realised(MU)	62.70	69.36	82.24	147.45	181.27
10	T&D losses (%)	63.54	63.61	50.24	33.08	29.69
11	AT&C losses (%)	64.93	65.56	59.15	38.54	41.19

*Source: Departmental records. *Includes arrears of earlier periods.*

- The metered energy and metering efficiency could not be worked out in Audit as metering of consumers and feeders had not been completed and hence the data relating to metered energy exhibited by the Department could not be relied upon.
- In terms of the APDRP, the T&D loss was to be reduced to around 10 *per cent.* As at the end of 2005-06, the T&D loss worked out to around 30 *per cent* indicating that the Department still had a long way to go before it could achieve the target stipulated by the programme.
- In the Detailed Project Report (DPR) for Sub-transmission & distribution (ST&D) improvement, the Department had projected annual reduction of T & D losses by 28 MU on completion of the project. The project was completed by 2004-05. The T& D loss in 2005-06 over the year 2004-05 in terms of this should have been 73.98

[3] *Billing Efficiency = Billed Energy X 100 / Input Energy.*

[4] *Collection Efficiency = Revenue realised X 100 / Revenue billed*

MU[5] whereas the same was 92.07[6] MU indicating shortfall in achievement of the target set in the DPR by 18.10 MU.

Thus, although the reformatory measures had succeeded in bringing down the T&D losses from 63.54 *per cent* in 2001-02 to 29.69 *per cent* in 2005-06, it had failed to achieve the targeted level of 10 *per cent.* This could mainly be attributed to failure of the Department in achieving 100 *per cent* metering and energy accounting and auditing.

It was however noticed that the figures furnished by the Department to the GOI on the benchmark parameters significantly varied with the above figures, as shown below:

Table – 3.1.3

Sl No.	Descriptions	Year				
		2001-02	2002-03	2003-04	2004-05	2005-06
1	Input Energy (MU)	205.84	173.56	126.26	120.98	272.14
2	Metered Energy (MU)	49.28	45.86	68.15	65.05	248.54
3	Metering efficiency	23.94	26.42	53.98	53.77	91.33
4	Billed energy (MU)	123.27	117.14	81.45	76.46	184.35
5	Billing efficiency (%)	59.89	67.49	64.51	63.20	67.74
6	Revenue Billed *(Rs. in crore)*	20.98	20.07	22.39	20.64	30.47
7	Revenue realised *(Rs. in crore)*	15.00	13.84	16.29	18.41	27.10
8	Collection efficiency (%)	96.18	94.67	87.89	91.84	83.86
9	Revenue Realised(MU)	62.70	69.36	82.24	147.45	181.27
10	T&D losses (%)	63.54	63.61	50.24	33.08	29.69
11	AT&C losses (%)	64.93	65.56	59.15	38.54	41.19

Audit could not vouchsafe authenticity of the figures reported by the Department to the GOI.

3.1.10 Implementation

For implementation of the APDP/APDRP in the State, the Department prepared four DPRs. Details of the DPRs with funds sanctioned, released and upto date expenditure is given below:

Table-3.1.4

(Rs. in crore)

Sl No	Name of project	Sanctioned cost	Funds released	Expenditure (upto 2005-06)	Balance	Physical progress (%)
1	**Metering**					
	Phase – I & II	6.38	6.38	6.38	00.00	100
	Phase - III	5.83	5.83	5.83	00.00	100
2	ST & D improvement for South-West & Lagyap	2.23	2.23	2.23	00.00	100
3	DPR for ST&D Improvement	55.42	55.42	55.42	00.00	100
4	Supplementary Project for ST&D improvement (including Phase - IV metering)	91.25	91.25	85.90	5.35	60
	Total	**161.11**	**161.11**	**155.76**	**5.35**	

Source: Departmental records

[5] $\frac{(239.91 - 160.54) \times 308.24}{239.91} = 101.97 - 28.00 = 73.98.$

[6] *308.24 – 216.17 = 92.07*

Project-wise analysis and Audit observations are given below:

3.1.10.1 Metering

The Department submitted (August 2000) a proposal for 100 *per cent* metering of all consumers, high tension feeders and sub-stations amounting to Rs. 16.32 crore to GOI, against which GOI sanctioned and released Rs. 15.93 crore in three instalments - Rs. 6.38 crore (March 2001) for Phase I & II metering covering East & Commercial (Gangtok) circles, Rs. 5.83 crore (April 2002) for Phase III of the programme covering 2002-03 & 2003-04 and Rs. 3.72 crore towards 'balance metering' for Phase – IV during 2004-05. Departmental records indicated 100 *per cent* physical achievement in metering of consumers. Audit scrutiny revealed that the same had been compiled on the basis of reports submitted by Assistant Engineers from the revenue sub-divisions, who in turn, based their report on the basis of household survey conducted by Junior Engineers and Meter Readers working under them.

But the details of meters purchased under the programme and the upto date status of metering is shown below:

Table-3.1.5

No of consumers before implement-ation of APDRP	Meters in working condition before commencement of 100 % metering	No of consumers as on 1st September 2006	No of meters required	No of meters purchased	Difference	Defective meters
A	B	C	D = C – B	E	F = E – D	
59,947	6,278	70,195	63,917	70,230	6,313	7,232

Source: Departmental records

It would be seen that against the requirement of 63,917 consumer meters, the Department purchased 70,230 meters between 2001-02 and 2004-05 resulting in excess purchase of 6,313 meters worth Rs. 1.14 crore.

Further, 7,232 meters, valuing Rs. 1.31 crore, were found defective after their installation in the premises of the consumers, but the replacement/ repair of these defective meters had not been done by the suppliers although the meters were guaranteed for 5/10 years as per the terms of supply. The Department neither persuaded the suppliers, inspite of the guarantee clause, to replace the defective meters nor initiated any action against the suppliers for supply of defective meters. Further, the Department also failed to replace the defective meters with the 6,313 meters that lay idle to avoid leakage of revenues.

Audit scrutiny revealed that although the Department commenced installation of meters as early as 2001-02 and claimed to have by and large completed 100 *per cent* metering, consumer indexing in the form of identification of the consumers with their respective distribution transformers, feeders and the sub-station, which was mandatory for energy accounting, had not yet been done in

18 out of 24 sub-divisions. Even in the 6[7] sub-divisions where consumer indexing had been completed, energy auditing had not been initiated as of September 2006. No action had been taken to identify areas of high energy losses. Further, in addition to 7,232 defective consumer meters, seven system meters installed in 66 & 11 KV feeders procured during 2001-05 under the 100 *per cent* metering programme were found defective on physical inspection (October 2006) of the feeders by Audit in the presence of departmental officers. The Department had not insisted upon test certificates from the suppliers and also had not conducted any quality/ performance test of the meters on its own.

Thus, even given that 100 *per cent* metering has been achieved, the expenditure of Rs. 15.93 crore (including installation charges) incurred on the same had not yet yielded the desired benefits as envisaged under the APDRP in the absence of proper energy accounting and auditing.

3.1.10.2 Sub -Transmission and Distribution Improvement

Out of 81 works incorporated in three DPRs prepared during 2001-04 relating to 'Sub-Transmission and Distribution Improvement' at a cost of Rs. 161.11 crore, 19 works involving expenditure of Rs. 68.78 crore were selected for examination in Audit. Results of Audit are detailed in the succeeding paragraphs.

3.1.10.3 Time overrun – delay in completion of works

None of the 19 works examined in Audit was completed within the stipulated time with delay ranging from 3 months to 6 months in one case, 6 months to 1 year in one case, 1 to 2 years in 8 cases and 2 to 3 years in 2 cases. The delay was mainly due to delay in obtaining Forest clearance, land acquisition etc.

3.1.10.4 Irregular payment for templates used in setting up of transmission towers

The improvement of sub-transmission and distribution works involved erecting transmission towers for stringing electric conductors. Metal structures called 'templates' of different sizes are used for setting up and fitting transmission towers of various dimensions *(large angle, medium angle and small angle tension towers with extensions)*. The templates, however, do not form part of the towers as these are used only for erecting the towers and are removed by the contractors to be used elsewhere for erecting other towers. The payment for the cost of templates to the turnkey contractors thus did not arise.

The Department, however, paid Rs. 27.55 lakh to contractors in six (out of 19) works involving erection of these towers towards cost of 115 templates, which was irregular and totally undue and excessive as the contractors were being paid 15 *per cent* erection charges over and above the cost of materials, which covered the use of templates as tools for erection of towers in the works.

[7] *1.Phodong,2.Mangan,3.Chungthang,4.Gangtok I 5.Gangtok II 6.GangtokIV*

3.1.10.5 Excess consumption of cement in concrete works

For all cement concrete works, the Schedule of Rates (SOR) of the Sikkim Public Works Department specifies the quantity of cement, sand and stone to be used per unit volume (cubic metre) of such work. In nine (out of 19) works test checked in Audit, which required concreting of the base of power transmission towers in 1:2:4 and 1:3:6 cement concrete mix and allied protective works in 1:4:8 mix coursed / random rubble stone masonry, the Department had paid excess amount of Rs. 35.81 lakh during the period 2003-06 to the contractors towards the cost of 14,323 bags of excess cement claimed to have been consumed over and above the quantities prescribed in the SOR. This consumption of cement by the contractors was abnormally high ranging from 5 to 12 *per cent* as compared to the quantity prescribed in the SOR.

3.1.10.6 Excess expenditure on execution of RCC works

In the civil works portion of the contracts relating to erection of transmission towers, the base of the towers were constructed as a established practice in cement concrete mix of ratio 1:2:4 and 1:3:6 and protective works in 1:4:8 mix. Out of 13 works involving construction of transmission towers *(of the 19 works executed during 2003-06)*, in 12 works, the Department constructed the base of towers in cement concrete mix of the prescribed ratio as indicated above. However, in departure from the established practice, the Department in one case[8] incorporated the item 'supply, bending and binding of steel' totalling 35.65 metric tonnes valued at Rs. 17.32 lakh in construction of the base of the towers, over and above the cement concrete works (ratio 1:2:4 and 1:3:6) and protective works (1:4:8 mix), resulting in excess expenditure to that extent.

3.1.10.7 Extra payment to contractors

The terms of contract in respect of the works executed by various contractors under the APDRP stipulated that the rates of various items of work were inclusive of all charges including erection, commissioning, testing and transportation. Despite this fact, extra charges @ 25 *per cent* of the cost of items of works over and above the rates quoted by the contractors was allowed (2003-06) to two[9] (out of 19 test checked in Audit) contractors in two works towards erection, commissioning, testing and transportation resulting in undue extra payment of Rs. 2.07 crore to the contractors.

3.1.10.8 Irregular utilisation of provision under works contingency

Sikkim Public Works Code (SPWC) provides the kind of expenditure that could be incurred from the contingency provision of works. Expenditure of Rs. 29.03 lakh were sanctioned by the Secretary of the Department during December 2003 to March 2005 for making payments on items such as computers and accessories (Rs. 17.13 lakh), electricity bill forms (Rs. 11.90 lakh) etc from the contingency provision of various works which was not covered by codal provision contained in para 191 and 192 of the SPWC and hence irregular.

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[8] *Construction of 66 KV DC Transmission Line from PGCIL Sub-station at LLHP for interfacing of Sikkim Transmission network with Eastern Regional Grid etc. Contractor - M/s Himal Projects & Investment Pvt. Ltd*

[9] *1) 2x5 MVA 66/11 S/s at Mangan (Rs.1.25 Crore) & 2) LILO of 66 KV LLHP Rongli line and commissioning of 2x10 MVA Transformer (Rs.0.82 crore). Total Rs. 2.07 crore*

3.1.10.9 Excess projection of number of transmission towers

In terms of the norms for laying of transmission lines, the number of towers required for transmission was three towers per Km. During 2003-06, in three works[10] involving 24.1 Km of transmission lines, the requirement of towers as per the norm was 73 against which, the Department used 84 towers resulting in excess expenditure of Rs. 30.14 lakh.

3.1.10.10 Irregular payment of mobilisation advances

There is no provision for payment of mobilisation advance to contractors either in the Sikkim Financial Rules (SFR) or in the Sikkim Public Works Code (SPWC). The Public Accounts Committee (PAC) in relation to an Audit Para on payment of mobilisation advance by another Department *(Building and Housing Department, Audit Report 1997-98)* had recommended that the practice of paying mobilisation advances to contractors/suppliers should be stopped forthwith. The Government however did not act on the PAC recommendation while the Department paid interest free mobilisation advance of Rs. 16.74 crore to 30 contractors in 30 works (awarded between February 2003 to March 2006), which, besides violating the rules/codes resulted in undue favour to the contractors and consequent loss of interest of Rs.0.34 crore to the project on account of cost of borrowing calculated at 8 *per cent per annum.*

3.1.10.11 Irregular, unnecessary and excess procurement of vehicles

The EPD had 26 officers *(including one Advisor and one Chairman)*, in the level of Joint Secretary and above in the departmental headquarters at Gangtok who were entitled to individual vehicles as per notification (January 1997) issued by Home Department. Besides, there were 33 other officers in the departmental headquarters below the level of Joint Secretary who were also collectively entitled to 11 pool vehicles on sharing basis (each vehicle to be shared by three officers). Thus the total requirement of vehicles was 37. Against this requirement, the Department already had a fleet of 59 vehicles under its control indicating an excess of 22 vehicles over and above the entitlement. Despite this, the Department incurred Rs. 60 lakh from funds provided under the APDRP *(communication / mobile van component)* towards procurement (November 2004) of additional 11 vehicles (1 Bolero, 10 Gypsy). Thus incorporation of the component 'communication / mobile van' under APDRP was wholly unnecessary in the first place resulting in unnecessary excess expenditure of Rs. 60 lakh from the project fund. The DPRs prepared by the Department did not, therefore, take the economy aspect of implementation of the projects into account while preparing the same and sending to GOI for approval.

3.1.11 Revenue vis-à-vis O&M

The position of revenue earned vis-à-vis O&M cost of generation and supply of electricity during the five year period 2001-02 to 2005-06 was as under:

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[10] 1) 66 KV D/C line from PGCIL (Rs. 26.46 lakh); 2) LILO of 66KV LLHP to Rongli Tr.line (Rs.1.02 lakh) & 3) Const. of 66 KV S/C line from Khamdong to Phodong (Rs. 2.66 lakh). Total Rs. 30.14 lakh.

Table-3.1.6

(Rs. in crore)

Year	Operation & Maintenance cost	Revenue earned through sale of power*	Surplus (+) / Deficit (-)
2001-02	21.07	11.85	(-) 9.22
2002-03	42.56	13.31	(-) 29.25
2003-04	27.76	13.57	(-) 14.19
2004-05	32.06	21.97	(-) 10.09
2005-06	31.36	27.01	(-) 4.35
Total	**154.81**	**87.71**	**(-) 67.10**

*Source: Departmental records. *Does not include revenue from trading of electricity outside the State.*

As seen from above,

- The huge expenditure of Rs. 42.56 crore during 2002-03 was due to clearing of outstanding liabilities of period prior to 2000-01.
- While the O & M cost increased by 49 *per cent* from 2001-02 to 2005-06, the corresponding increase in revenue was 128 *per cent.*
- From 2003-04 to 2005-06, the gap between the O&M cost and the revenue earned gradually declined from Rs. 14.19 crore in 2003-04 to Rs. 4.35 crore in 2005-06 indicating a positive trend.
- The substantial leap in revenue earning from 2004-05 onwards could be attributed to improvement in quality of supply of electricity and consequent increase in consumption of electricity, metering, billing and realisation of revenue.

3.1.12 Incentive Financing

The GOI had provision under the APDRP for payment of incentive to the State Government proportionate to the actual loss reduction. The objective was to encourage the State Power Utility to reduce cash losses.

The EPD had, however, not worked out the actual loss reduction till date and hence not submitted any incentive claim to the GOI. It was seen in Audit that revenue realisation went up since 2004-05 and the gap between the operational expenditure *(O&M cost)* and income *(revenue realised)* gradually narrowed indicating substantial loss reduction. Further, the T&D loss was also found to have been substantially reduced from 63.54 *per cent* in 2001-02 to 29.69 *per cent* in 2005-06. Despite this fact, the Department's casual approach in working out the actual loss reduction and pursuance with GOI for incentives led to loss of incentives (grants) to the State to that extent.

3.1.13 Revenue collected vis-à-vis anticipated financial benefits in the DPRs

Comparison of the actual increase in the revenue collected vis-à-vis anticipated financial benefits in the DPRs is shown below:

Table-3.1.7

(Rs. in crore)

Anticipated annual Benefits in the DPRs	Actual financial benefits	
	In 2004-05 over 2003-04	In 2005-06 over 2003-04
29.09	8.40	13.44

Source: Departmental records.

The actual payback from the projects was evident from 2004-05 onwards. However, this benefit was still far below the anticipated target projected in the DPRs. The three projects – i) Metering Phase I, II & III, ii) Short term measures for ST & D improvement of South / West & Lagyap and iii) DPR for ST&D improvement had become operational / were scheduled to be operational by March 2004 and the fourth project 'Supplementary project for ST&D Improvement' was scheduled to be completed by July 2005. Considering this fact, the financial benefits during the years 2004-05 and 2005-06 should at least have been Rs. 10.84 crore and Rs. 29.09 crore respectively. However, the actual realisation of Rs. 8.40 crore during 2004-05 and Rs. 13.44 crore during 2005-06 was far below anticipation. Thus, the projections made in the DPRs were unrealistically high.

3.1.14 Arrears of revenue

Year-wise position of number of consumers, revenue billed vis-à-vis collected, arrears of revenue and collection efficiency during the period 2001-02 to 2005-06 was as under:

Table-3.1.8

(Rs. in crore)

Sl No	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1	Number of consumers	59,947	60,820	61,949	63,260	70,195
2	Dues at the beginning of the year	13.49	13.96	14.71	17.67	19.62
3	Revenue billed during the year	12.31	14.06	16.53	23.92	32.21
4	Total (2 + 3)	25.80	28.02	31.24	41.59	51.83
5	Revenue collected during the year*	11.84	13.31	13.57	21.97	27.01
6	Outstanding revenue at the end of the year	13.96 *(54.11%)*	14.71 *(52.50%)*	17.67 *(56.56%)*	19.62 *(47.17%)*	24.82 *(47.89%)*

*Source: Departmental records. *Include arrears of earlier periods.*

Although the percentage of outstandings compared to the total billed amount *(including dues of earlier years)* decreased from 54 *per cent* at the end of 2001-02 to 47.89 *per cent* at the end of 2005-06, the actual amount of dues progressively increased from Rs. 13.96 crore in 2001-02 to Rs. 24.82 crore in 2005-06. The Department had neither formulated any time bound plan for reducing the arrears nor initiated any legal action against the defaulters indicating laxity of the Department in this regard.

3.1.15 Cost recovery of power supplied

There existed a huge gap between the cost of power and its sale as indicated below:

Table-3.1.9

Year	Average cost (Rs. per unit)	Average tariff (Rs. per unit)	Gap (Rs. per unit)	Percentage cost recovery
2001-02	3.10	1.89	1.21	60.97
2002-03	3.34	1.92	1.42	57.49
2003-04	2.64	1.65	0.99	62.50
2004-05	2.66	1.49	1.17	56.02
2005-06	2.66	1.50	1.16	56.39

Source: Departmental records

Although the average cost of power per unit ranged between Rs. 2.66 to Rs. 3.34, the average tariff per unit was between Rs. 1.49 to Rs. 1.92 indicating a gap ranging from Rs. 0.99 to Rs. 1.21 per unit. Thus the percentage cost recovery which ranged between 56 (2004-05) to 62.50 (2003-04) *per cent* was appallingly low. Despite expenditure of Rs. 155.75 crore so far (2001-02 and 2005-06) in reforming this sector through the APDRP scheme by decreasing aggregate transmission and commercial losses (AT & C) and improving energy accounting and Auditing and the State Government indicating 100 *per cent* physical achievement in three out of four of its projects, the failure to reign in the average cost per unit of power supplied is cause of concern. The reforms have obviously failed to deliver the desired results.

3.1.16 Quality of power supply

The quality of supply of power is determined by the reduction in the failure rate of transformers and reduction in the incidence of outages and tripping of the feeders. The position in this regard during the period 2001-02 to 2005-06 was as under:

Table-3.1.10

Year	Incidence of		
	Trippings (in hours)	Number of DT failure	% of DT fail
2001-02	NA	NA	NA
2002-03	NA	NA	NA
2003-04	132	684	7.95
2004-05	483.17	1,765	10.79
2005-06	395.07	346	8.71

Source: Departmental records maintained in manual registers at sub-stations.

It would be seen from above that while tripping increased from 132 hours in 2003-04 to 395 hours in 2005-06, there was improvement in stability of distribution transformers (DT) as the DT failure decreased from 684 in 2003-04 to 346 in 2005-06. Since the feeder trippings and failure rate of DTs did not show a uniform trend of reduction from the year 2003-04 onwards, reliability of the supply of power to the consumers could not be assured. Data for the period prior to 2003-04 was not available with the Department.

3.1.17 Vigilance mechanism to detect theft/pilferage of power

The Department had not constituted any vigilance squad for conducting regular and routine raids to detect theft / pilferage of electricity. During the period 2001-02 to 2005-06, raids were conducted only on two occasions – during November/December 2005 and April/May 2006 that too in just one

Sub-division (Commercial Sub-division – I, Gangtok). Although 12 offenders were found, they were let off after payment of the differential amount of tariff for the extra energy consumed as assessed by the raiding officials. No penalty, whatsoever, was imposed for the theft of energy, over and above the normal energy charges. Names of the offenders were neither posted in prominent places nor displayed in the print and electronic media to serve as deterrent to other such offenders.

3.1.18 Monitoring and evaluation

3.1.18.1 Monitoring

The Department had constituted (October 2003) a six member Monitoring Committee comprising the Chief Engineer as Chairman, four Superintending Engineers as members and one Executive Engineer as member Secretary. The function of the Committee was to monitor the execution of works to ensure that the schemes were result oriented and also to compile information obtained from the districts on monthly basis for submission to the Government. Audit verification revealed that the work files were referred to the Committee for verification before releasing payments to the contractors. Out of 19 works examined in Audit (including metering), the Committee recorded its findings in 17 works in the respective work files after inspection of the works. However, monitoring was found wanting in case of the most crucial components of the scheme, namely, i) metering of consumers and feeders, ii) computerised billing and iii) mapping and indexing of consumers. This is the reason why high incidence of defective meters in the feeders / consumer premises remained undetected / un-rectified. This lack of effective monitoring also resulted in failure to introduce computerised billing in 22 out of total 24 sub-divisions and, failure to implement consumer indexing in 18 out of 24 sub-divisions. There was also no semblance of monitoring of the activities relating to the energy accounting and Auditing. This vital activity could not even be initiated so far. Thus while the monitoring committee concentrated its efforts in monitoring the physical aspects of construction works *(where money was being spent),* it missed the point of the reforms agenda in the power sector completely by not effectively monitoring key areas such as metering of feeders, consumer indexing, setting up computerised billing and MIS, energy accounting and Audit mechanism etc *(which are less capital intensive in nature).*

3.1.18.2 Evaluation

The Union Ministry of Power awarded evaluation of APDRP works in Sikkim to 'The Energy and Resource Institute' (TERI), New Delhi in December 2004. The scope of works for evaluation covered only those projects where more than 50 *per cent* works had been completed. The TERI submitted its Evaluation Report in July 2005 which, inter alia, summarised the following:

- The project reports were prepared in a hurry without making any system studies to avoid changes in the scope of works.
- Actual field conditions like terrain conditions, transportation, forest clearance, low working season, exorbitant land acquisition cost etc. were not properly accounted for resulting in delay in completion of works and also change in the scope of works.

- Quality and reliability of electricity supply improved over the last few years due to improved voltage conditions, reduced interruptions and breakdowns, less billing complaints and reduction in fault rectification time.
- On the whole, the quality of works carried out by the Electricity and Power Department was rated as 'very good'.

This is the only evaluation of the implementation of the scheme done in the State so far. This report was however deficient to the extent that it did not point out slippages of the State Government in achieving most of the covenants of the MOA signed with the GOI.

3.1.19 Conclusion

Performance Audit of implementation of APDRP indicated that none of the targets incorporated in the MOA could be achieved. The power sector reforms and restructuring thereof was yet to be implemented. Although revenue realisation and quality of power supply had substantially improved since 2004-05 after implementation of the programme, it was far below the targeted level. The objective of breaking even by the year 2005 and positive returns thereafter, as contemplated in the MOA, was a far cry as of March 2006 giving rise to the apprehension that commercial viability may not, after all, be achievable within a conceivable time frame unless drastic steps were taken to cut down operational costs, economise on capital expenditure, contain energy loss and improve revenue realisation further. There was abysmal failure in critical areas of reforms such as consumer indexing, computerised billing and MIS and energy accounting and Audit. The monitoring mechanism in place also failed to address these issues instead concentrating more on progress of construction works.

3.1.20 Recommendations

The Department should take immediate steps to:

- Constitute State Electricity Regulatory Commission and file tariff petition expeditiously;
- Ensure 100 *per cent* metering, repair the defective meters and take immediate steps towards energy accounting and Auditing;
- Take appropriate steps to improve billing and collection efficiency and reduce T&D and AT & C losses as contemplated in the APDRP scheme;
- Expedite implementation of computerised billing system.
- Strengthen vigilance mechanism and take stringent action against theft of electricity.
- Strengthen monitoring activity in the areas of metering, billing and energy accounting and Auditing;
- Wherever Department undertakes works / projects, it should display information as required under the Right to Information Act.
- Department should publicise works undertaken and completed.

FOOD & CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT AND HEALTH CARE, HUMAN SERVICES & FAMILY WELFARE DEPARTMENT

3.2 Implementation of Acts and Rules relating to Consumer Protection

Performance Audit of implementation of various Acts and Rules relating to consumer protection viz. the Consumer Protection (CP) Act 1986, the Prevention of Food Adulteration (PFA) Act, 1954 and the Standards of Weights and Measures (Enforcement) (SWM) Act 1985 during the period 2001-06 in Sikkim revealed that the enforcement of the Acts in protecting the interests of the consumers against adulterated foods and exploitation through incorrect weighment and measurement was grossly inadequate. It was further compounded by non-fixation of targets for collection of food samples for analysis under PFA, non- achievements of targets under SWM and absence of dedicated monitoring mechanism at the State level to review and evaluate the extent of successful implementation of these Acts in the State.

Highlights

Establishment of the State Consumer Disputes Redressal Commission and the District Consumer Disputes Redressal Forums was delayed by 31 months due to Government's inaction.

(*Paragraph-3.2.6.1*)

Despite availability of Central assistance of Rs. 90 lakh, there was delay of five years in completion of construction of buildings for the State Commission and District Forums. Handing over of the District Forum, North District was abnormally delayed by a further 34 months.

(*Paragraph-3.2.6.3*)

The District Forums disposed off 10 *per cent* (2001) to 57 *per cent* (2002) of consumer dispute cases within the prescribed 90/150 days. The performance of the State Commission in disposal of cases during the same period was nil to 50 *per cent* and left much to be desired.

(*Paragraph-3.2.6.6 & 3.2.6.7*)

44 consumer awareness camps representing less than nine camps in a year were organised by Food & Civil Supplies and Consumer Affairs Department (FCSCAD) during the period 2001-06 indicating that the Government had not initiated serious measures to sensitise the public under the CP and other Acts.

(*Paragraph-3.2.9.2*)

Monitoring mechanism was neither introduced at the State Commission nor in the Consumer Affairs Department to ensure speedy disposal of grievances.

(*Paragraph-3.2.10*)

3.2.1 Introduction

The Consumer Protection Act 1986, (CP Act), a Central Act, came into force from July 1987. It was primarily aimed at providing simple, speedy and inexpensive redressal to consumer grievances in respect of goods purchased and services availed and paid for by them. It provided for the additional remedy of "compensation" to the consumers.

While the Prevention of Food Adulteration (PFA) Act was enacted in April 1997 with a view to ensuring availability of unadulterated food and articles other than drugs to consumers, the Standards of Weights and Measures (Enforcement) (SWM) Act 1954 and 1985 was enacted in September 1985 (amended) to protect consumers against unfair trade practices of manufacturers and against exploitation through incorrect weighment and measurement. The SWM and PFA Acts do not, however, provide for awarding monetary compensation to consumers; they contain mostly preventive and punitive measures against defaulters.

3.2.2 Implementation Arrangement

The CP Act stipulated establishment of a separate three-tier quasi-judicial consumer dispute redressal machinery (otherwise called Consumer Courts) at the National, State and District levels by the State Governments with assistance from the Government of India (GOI). The Food and Civil Supplies & Consumers' Affairs (FCSCA) Department headed by the Principal Secretary administered, enforced and monitored the implementation of CP Act as well as the Standards of Weights and Measures (Enforcement) (SWM) Act, assisted by others subordinate staff. Besides, the Presidents of the State Commission and the Districts Forums at the District-level were responsible for implementation of the provisions of the Act.

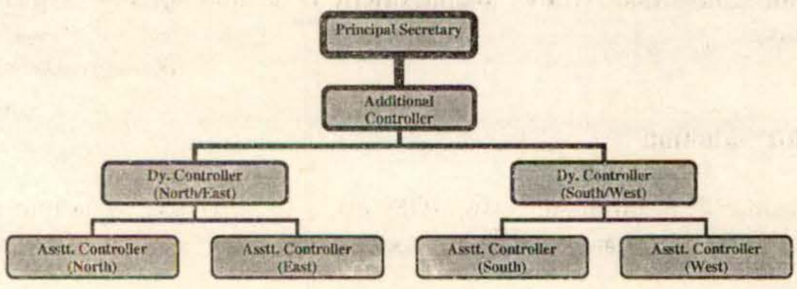
Similarly, in respect of the Prevention of Food Adulteration (PFA) Act, the Secretary, Health Care, Human Services and Family Welfare (HCHSFW) Department was responsible for implementation of the Act, assisted by an Additional Director and his subordinates.

Overall, however, the FCSCA Department is the nodal agency responsible for creating awareness and ensuring empowerment of consumers and protecting their rights in the State.

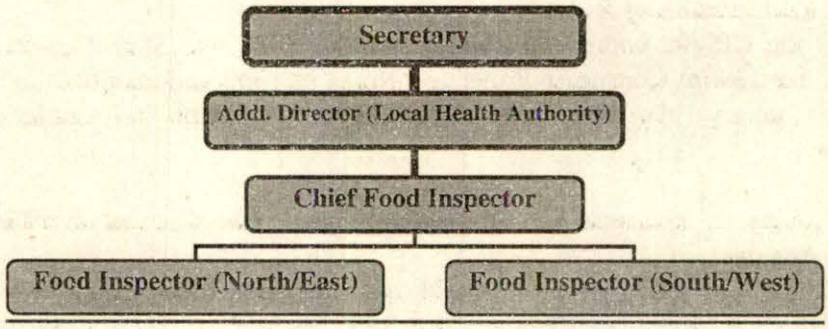
Organisational charts of both FCS&CAD and HCHS&FWD are given below:

Chart -3.2.1

Food and Civil Supplies & Consumers' Affairs Department(FCS&CAD)



Health Care, Human Services and Family Welfare Department (HCHS&FWD)



3.2.3 Scope of Audit

Implementation of the Acts and Rules relating to Consumer Protection for the period 2001-02 to 2005-06 was reviewed in Audit during April 2006 through a test check of the records of the State Commission and the Administrative Departments (FCS&CAD and HCHSFWD) along with their subordinate offices located in four[11] districts of the State.

3.2.4 Audit objectives

The objectives of Audit examination were to assess/verify whether:

- the adjudication mechanism for implementation of the Acts was adequate and effective;
- the Acts and Rules succeeded in providing simple, speedy and inexpensive redressal to consumer grievances (as specifically envisaged under the CP Act);
- the awareness and empowerment efforts of the consumers were adequate and effective; and
- the execution mechanism was efficient, effective and economical for the consumers.

3.2.5 Audit criteria and methodology

Prescribed provisions of the Acts and Rules were adopted as criteria to arrive at Audit conclusions. These criteria were discussed with the Departments concerned in an entry conference (April 2006) and was agreed by them. All the points raised during the course of Audit were discussed and views of the implementing authority obtained in an exit conference (May 2006) at the conclusion of Audit.

3.2.6 Consumer Protection Act, 1986

3.2.6.1 Delay in establishment of Consumer Courts

The State Government set up the State Consumer Disputes Redressal Commission (State Commission) and four District Forums at the district

[11] *East, West, North and South*

headquarters only on 30 January 1990 after a delay of 31 months (July 1987) as prescribed in sub-section 2 of Section 30 of the CP Act.

3.2.6.2 Formulation of Rules

Though the CP Act came into force from July 1987, the State Government framed the Sikkim Consumer Protection Rules in 1990 and adopted the same from 30 January 1990. There was thus a delay of 31 months in formulation of the Rules.

3.2.6.3 Delay in construction of buildings for State Commission/District Forums

Though the State Government received one time Central assistance of Rs. 90 lakh[12] between November 1995 and May 1997 for infrastructure development, the FSC&CAD completed the infrastructure development works by renovating its existing old buildings at Gangtok and Mangan at a cost of Rs. 48.74 lakh (Rs. 45.66 lakh at Gangtok and Rs. 3.08 lakh at Mangan) for accommodating the State Commission and the East District Forum at Gangtok and the North District Forum at Mangan, while a new building was constructed at Namchi at Rs. 15.70 lakh to house the South District Forum between January and September 2002 after a delay of more than five years of receipt of fund from the GOI and 12 years after issue of notification (1990) by the State Government setting up these bodies. It was seen that there was a further abnormal delay of 34 months in handing over the building of District Forum, North District by the executing Department (Building & Housing). The Department attributed the delay to non-availability of land at suitable and prominent location. But no infrastructure had been created to house the West District Forum at Gyalshing till April 2006; it was functioning from the office of the District and Session Judge, West, Gyalshing.

3.2.6.4 Office Infrastructure

Supporting infrastructure like fax, scanner, high-speed printer and sufficient furniture were not provided to the District Forums except xerox machines to East, North and South District Forums. During joint inspection (September 2006) conducted by Audit team with Departmental officers, it was found that even basic equipments like fax machine, xerox machine etc. were not found provided in any of the District Fora.

3.2.6.5 Amenities for consumers

Joint inspection (September 2006) by Audit team and Departmental officers confirmed that seating arrangements for consumers were not provided in any of the District Fora.

3.2.6.6 Functioning of Consumer Courts

The Act provided for speedy and inexpensive redressal of consumer disputes within a prescribed time frame. Rule 4 (9) of Sikkim Consumer Protection Rules 1990 (effective 30 January 1990) stipulated that endeavour was to be made to decide the complaint within a period of three months (90 days) from the date of receipt of notice by opposite party, where the complaint does not

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[12] *State Commission: Rs. 50 lakh and District Forum in four districts: Rs.10 lakh each*

require analysis or testing of commodities and five months (150 days) if it required analysis or testing of the commodities. Analysis of the position of consumer dispute cases filed and disposed of during the years 2001-02 to 2005-06 in respect of the State Commission and District Forums revealed that despite extremely low number of cases filed, there were no disposals in 2005 and 2006 (upto March) in the State Commission. As for other years, the extent of disposal on time was about 33-75 *per cent* as shown below:

Table- 3.2.1

Calendar year	State Commission					District Forums				
	Opening balance	Cases filed during the year	Total	Disposal during the year	Cases pending to the end of the year	Cases (opening balance	Cases filed during the year	Total	Disposal during the year	Closing balance
2001	1	2	3	1 (33)	2 (67)	3	16	19	12 (63)	7 (37)
2002	2	2	4	2 (50)	2 (50)	7	14	21	15 (71)	6 (29)
2003	2	3	5	2 (40)	3 (60)	6	9	15	12 (80)	3 (20)
2004	3	1	4	3 (75)	1 (25)	3	8	11	7 (64)	4 (36)
2005	1	-	1	- (0)	1 (100)	4	11	15	9 (60)	6 (40)
2006	1	1	*2	- (0)	2 (100)	6	5	*11	3 (27)	8 (73)
Total	**1**	**9**	**-**	**8**	**2**	**3**	**63**	**-**	**58**	**8**

* *Figure upto March 2006.(Source: State Commission & District Fora). Figures in brackets represent percentage.*

It was also noticed that the percentage of cases disposed by the District Forums within the prescribed 90/150 days ranged from 10 *per cent* to 57 *per cent* only during 2001-06 while the performance of the State Commission during the same period ranged from 'nil' to 50 *per cent* working out to less than two cases disposed per year as shown in table below:

Table- 3.2.2

Year	State Commission/ District Forms	Cases disposed						
		OB	New cases	Total cases	within 90 days	within 150 days	beyond 150 days	Pending
2001-02	*SC*	1	3	4	-	1 (25)	3 (75)	-
	DF	5	20	25	6 (24)	5 (20)	11 (44)	3
2002-03	*SC*	-	3	3	2 (67)	-	1 (33)	-
	DF	3	11	14	8 (57)	3 (21)	2 (14)	1
2003-04	*SC*	-	1	1	-	-	1 (100)	-
	DF	1	7	8	3 (38)	3 (38)	1 (13)	1
2004-05	*SC*	-	1	1	-	-	-	1
	DF	1	9	10	5 (50)	-	1 (10)	4
2005-06	*SC*	1	1	2	-	-	-	2
	DF	4	14	18	4 (22)	3 (17)	3 (17)	8
Total	*SC*		**10***	**10**	**2 (20)**	**1 (10)**	**5 (20)**	**2**
	DF		**66**	**66**	**26 (39)**	**14 (21)**	**18 (27)**	**8**

*Source: State Commission & District Fora. * Including opening balance of 2001-02. Figures in bracket represent percentage.*

3.2.6.7 Non-disposal of cases within the prescribed time limit

According to Section 13 (3A) of the CP Act 1986 as amended in 2002 (effective 15 March 2003) read with Rule 4(9) of Sikkim Consumer Protection Rules 1990 (effective 30 January 1990), in the event of non-disposal of complaint within the time specified, the District Forum was to record in writing the reasons for delay at the time of final disposal. Similar provision existed (Section 19-A and Rule 8 *ibid)* for disposal of appeal cases within 90 days by the State Commission.

Audit analysis revealed that the State Commission (SC) and District Forums (DF) could not dispose off 22 *per cent* of cases within the prescribed time limit during the period covered under Audit. Reasons, whatsoever, were neither recorded as envisaged in the Act nor furnished either by the SC or the DF for such delay beyond the prescribed time limit.

3.2.7 Sikkim State Consumer Welfare Fund (CWF)

In pursuance of the directives (April 1999) of the GOI, the Sikkim State Consumer Welfare Fund Scheme, 2000 was set up (September 2000) by the Government of Sikkim with a view to provide financial assistance to Voluntary Consumer Organisations (VCOs) to enable them to undertake publicity measures and other activities to promote and protect the welfare of the consumers and strengthen the voluntary consumer movement in the State, especially in the rural areas.

Scrutiny of records revealed that though the fund was being generated mainly from contribution from sale of petroleum and diesel, issue of new photo identity ration cards, accrued interest on deposit and contribution from GOI and State Government towards the State Consumer Welfare Fund, the Department did not initiate sufficient measures to utilise the available Fund leading to savings ranging between 12 *per cent* and 38 *per cent* during the years 2001-02 to 2005-06.

3.2.7.1 Short deposits towards CWF

It was noticed that out of 23 petrol dealers operating in the State, only Rs. 10.58 lakh was received during 2003-04 to 2005-06 from 12 petrol dealers as their share towards the CWF while the remaining dealers did not credit the amount recovered from the consumers to CWF. While the Department had not initiated any action to realise the dues from the defaulting dealers, it also had no idea about the outstanding amount due, periodicity of outstanding etc. as it had not maintained dealer-wise details of lifting and distribution of HSD and petrol.

The Department assured (May 2006) that action would be initiated for recovery of the dues, if any, from the dealers. But no time frame was given for the same.

3.2.7.2 Irregular expenditure from CWF

The Department irregularly incurred Rs. 5.57 lakh from out of CWF towards the purchase of 5,000 shares of Citizens Co-operative Bank Ltd., Gangtok (Rs. 5 lakh), and payment of muster roll (MR) (Rs. 0.57 lakh) of District Consumers Information Centres (DCIC) of East and West districts for the years 2004-05 and 2005-06. This expenditure was neither permissible under the provisions of the Fund nor contributed towards strengthening the consumer movement in the State.

The Department accepted the irregularity.

3.2.8 Other Acts relating to protection of consumers' interests

The implementation of Prevention of Food Adulteration (PFA) Act, 1954 (enforced by the Health Care, Human services and Family Welfare Department) and the Standards of Weights and Measures (Enforcement) (SWM) Act, 1985 (enforced by FCS&CA Department) was also found deficient in safeguarding the interests of consumers as discussed below:

3.2.8.1 Non-fixation of target for the collection of samples for analysis

Rule 9A of PFA Rules, 1955 prescribed that all licensed establishments for the manufacture, storage or sale of food articles should be inspected by Food Inspectors (FIs) at prescribed intervals and suspected samples sent to the Public Analyst for analysis and report to the Health authorities.

It was noticed in Audit that the Department had neither set up laboratory for analysis of food samples of its own nor prescribed any procedure on targets for collection and testing of samples. A total of 229 samples, however, were collected and sent for analysis to Public analysts, Guwahati between 2001-02 and 2004-05 of which 49 (21 *per cent)* were found adulterated. A joint inspection conducted (September 2006) by the Departmental officers in the presence of Audit in 29 hotels/restaurants and roadside stalls revealed that the kitchens of four road side hotel/stalls were unhygienic.

It was also revealed during the joint inspection that:

- Five hotels/stalls could not produce the copy of licence issued under PFA Act by HCHSFW to the inspecting team.
- Two hotels had failed to renew the licences for the period 2003-04 and 2006-07 respectively.
- Out of 4 samples collected during joint inspection which were sent *(September 2006)* to the Public Analyst, Guwahati for analysis, one sample was found adulterated in terms of the specifications laid down in the PFA Act.

The Department should have immediately closed the hotels/ stalls operating without licenses / renewal of licenses issued under the PFA Act, which it failed to do. The Department had also failed to take any action against the adulterators as of November 2006.

3.2.8.2 Vacancies in the post of Food Inspectors

Scrutiny of records of the Department revealed that four out of six posts of Food Inspectors (FIs)/ Senior FIs were vacant for over five to eleven years as of March 2006, leading to the possibility of adulterated food articles being sold in the market going undetected for want of collection of sufficient number of samples.

3.2.8.3 Non-achievement of inspection targets

According to Rule 15 (7) of the Sikkim Standards of Weights and Measures (Enforcement) Rules, 1987, the Department fixed the number of surprise checks/ raids to be conducted annually by the Inspectors/Assistant Controller on a year to year basis, as shown below:

Table – 3.2.3

District	2001-02	2002-03	2003-04	2004-05	2005-06
East	70	70	75	80	170
South	20	20	25	27	120
West	15	15	18	20	115
North	10	10	12	13	110

Source: Food Civil Supplies & Consumer Affairs Department (FCSCAD)

The Office Order prescribed that reports after such checks/raids were to be submitted to the Additional Controller by 10^{th} of the following month by Inspectors/Assistant Controller. However, records relating to the surprise checks/ raids conducted were not submitted to the Additional Controller (Weights & Measures) through their respective Deputy Controllers in the absence of which, the extent of cheating on account of defective weights and measuring instruments etc. by the shopkeepers could not be vouchsafed in Audit.

3.2.9 Awareness and empowerment of consumers

One of the key elements of Government intervention in the consumer movement was to promote the concept of consumer rights and to empower the consumer through well thought out awareness campaign programmes to take full advantage of the redressal mechanism provided under the CP and other allied Acts. But the spread of awareness in the State was grossly inadequate as discussed below:

3.2.9.1 Non-utilisation of electronic/print media

Out of the total allocation of Rs. 44.09 lakh for awareness campaign during 2001-06, the Department spent Rs. 26.60 lakh on awareness generation through printing of booklets, organising consumer camps, programmes and banners, while only Rs. 5.26 lakh were spent in 2001-06 for awareness generation through public media like TV, Radio and installation of electronic scroll based at Gangtok. An amount of Rs. 12.23 lakh was still lying (May 2006) in Government account.

3.2.9.2 Holding of Consumer Awareness Programmes/Camps

For spreading consumer awareness with a view to making the consumers aware of their rights, the FCS&CA Department was organising consumer awareness programmes and camps departmentally as well as through NGOs/ Voluntary Consumer Organisations (VCO). During the period 2001-02 to 2005-06, the Department organised 44 programmes besides holding consumer awareness programmes and camps every year on the occasion of World Consumer Rights Day and National Consumer Day on 15 March and 24 December respectively.

Even the World Consumer Rights Day and the National Consumer Day Programmes were mostly organised in Gangtok while in other districts, only banners and hoardings were displayed. This indicated that the Department's awareness programmes lacked rural and mass-base focus.

The State Consumer Welfare Fund was created (May 2000) to assist VCOs in undertaking publicity measures and other activities relating to consumer protection. However, scrutiny of records revealed that against the 44 awareness programmes, 16 awareness programmes were organised by involving three[13] VCOs/ NGOs. The Department had not taken any action to create or encourage other VCOs/ NGOs.

3.2.9.3 Non-utilisation of funds by District Consumer Information Centres

Although the District Consumer Information Centres (DCICs) were set up, all of them were being run by the Department itself in the absence of financially stable and capable VCOs to manage and run the DCICs as per the norms. While three DCICs had been set up (East, South and North) the Government had not set up the DCIC in the West District till April 2006 though the GOI had sanctioned and released a grant of Rs. 9.25 lakh (March 2002 to October 2003) for establishment of the DCICs, against which an expenditure of Rs. 8.10 lakh was incurred (2001-02 to 2004-05) leaving an unspent balance of Rs. 1.15 lakh as of March 2006.

3.2.10 Monitoring and evaluation

The State Government did not have a separate cell for monitoring consumer related activities in the State. The Department had not yet created facilities for computer network interlinking all the three tiers of the consumer courts for better analysis of various data relating to receipt and disposal of consumer cases in these courts and their monitoring and transparent functioning in the interest of the consumers.

3.2.11 Conclusion

The *State Government had not initiated serious measures for spreading the message of consumer rights by organising adequate awareness programmes. Though the adjudication mechanism was put in place, significant number of complaints (30 per cent) were not decided within the prescribed time limit of 90/150 days. Similarly no action was taken against hotels for non-renewal of licences. This way the effectiveness of the concerned Acts was compromised. The enforcement machinery in respect of PFA and SWM Acts, was grossly deficient with staff vacancies and inadequate monitoring at the Government level. In short, Government has a long way to go for building up a vibrant consumer movement in the State so that consumers get speedy and inexpensive redressal of their genuine grievances.*

[13] *Kalyan Pariwar, South Sikkim; Federation of Consumer Association, Sikkim and Upabhokta Jagaran Samiti, East Sikkim.*

3.2.12 Recommendations

Following recommendations are made:

- The Department should take initiatives to encourage more VCOs/NGOs for creating awareness among consumers in the urban/ rural areas as per the provisions/ facilities provided under the CP Act. Department should also publicise its activities and functions.
- Target for inspection/raids/collection of food samples should be fixed for each Food Inspectors/ Assistant Controllers under the PFA and SWM Acts and regularly monitored.
- Department should expedite filling up of vacancies of food inspectors.
- Establishment of a food testing laboratory should be expedited.
- Department should display information about its activities as required under the Right to Information Act.
- Actions against defaulters of concerned Acts should be expedited so that effectiveness of the Act is not compromised.

HEALTH CARE, HUMAN SERVICES AND FAMILY WELFARE DEPARTMENT

3.3 Health Care Management

Performance Audit of health care management revealed that though the State was faring well in terms of general health indicators and programme management, it was deficient in the area of policy perspectives, fund management, infrastructure development and its upkeep, deployment of medicos and para-medicos and delivery of services as detailed below.

The State was yet to formulate a Health Policy to provide policy direction and enable perspective planning, absence of which led to lower allocation of funds to the health sector, non-fixation of realistic targets, etc. Infrastructure management was characterised by inadequate facilities both in terms of the number of CHCs, PHCs and PHSCs and also availability of required facilities such as water, electricity, labour[14] table, anaemia measuring machine, BP machine etc in the existing PHCs and PHSCs. Analysis of human resources management revealed acute shortage of specialists, wide inter-district variation in deployment of doctors and nurses, irrational deployment of paramedical and medical staff, shortfall in imparting integrated and specialised training. Effectiveness of delivery of medical care and services was affected by shortage of medicines, non-operation of drug testing laboratory, delay in construction of CHC at Mangan, drug de-addiction centres at Namchi and Geyzing, non-commissioning of machines and equipments etc.

[14] *Child delivery table.*

Highlights

The Department failed to formulate 'State Health Policy' indicating policy direction and road map. This resulted in casual approach to health activities in the State as well as less allocation of Rs. 29.12 crore as per norms.

(Paragraph-3.3.7)

Existing infrastructure of PHSC and CHC fell short of requirement by 8 and 33 *per cent* respectively depriving the easy access of heath care facilities to the people.

(Paragraph- 3.3.9.1)

There were acute shortage of Specialists (75%), Health Educators (62%) and Laboratory Technician (11%) amongst others and wide inter-district disparities in their deployment.

(Paragraph- 3.3.10.1)

Effective delivery of health care facilities was handicapped owing to non-availability of basic amenities in PHCs and PHSCs. Medicines and injections prescribed by doctors for issue to the poorer patients could not be provided to the extent of 43 and 44 *per cent* respectively owing to inadequate stock.

(Paragraph- 3.3.11.2)

Of the two blood banks in the State, STNM showed remarkable improvement in collection of blood from voluntary donors from 4 *per cent* in 2001 to 52 *per cent* in 2005, Namchi (CHC, South) was far behind the target with 2 to 9 *per cent* of total collection.

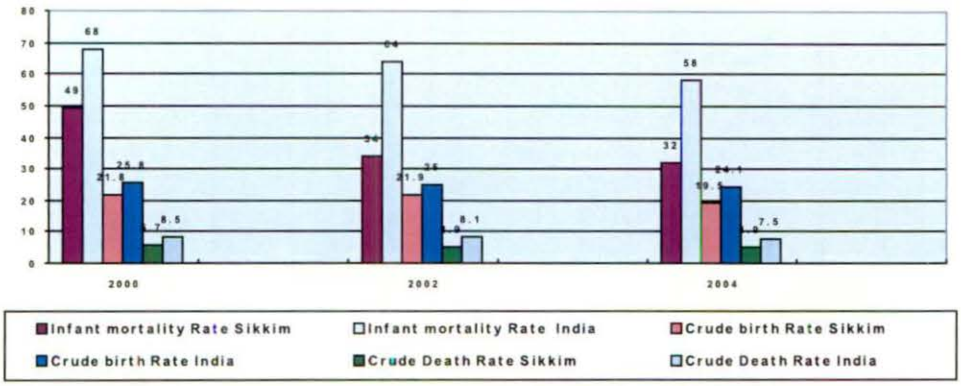
(Paragraph- 3.3.12.1)

3.3.1 Introduction

Providing economic, efficient, effective health care to all the citizens is the prime responsibility of any welfare State. Towards this end, the thrust of the State Government is to implement various national and State run programmes in the health and family welfare sector and undertake policy initiatives to improve and create quality health care facilities and ensure their easy delivery to the general public in the State, particularly the poor and the downtrodden. Consequently, consolidating, strengthening and modernising the health care infrastructure, upgrading technical skills of medicos, paramedics, nursing personnel and other non-medical officers and ensuring their easy access to the common people are some of the major activities that come under the responsibility of the State.

The State of Sikkim was faring well in respect of some general health indicators such as Infant Mortality Rate (IMR), Crude Birth Rate and Crude Death Rate compared to the national average as can be seen from the graph below:

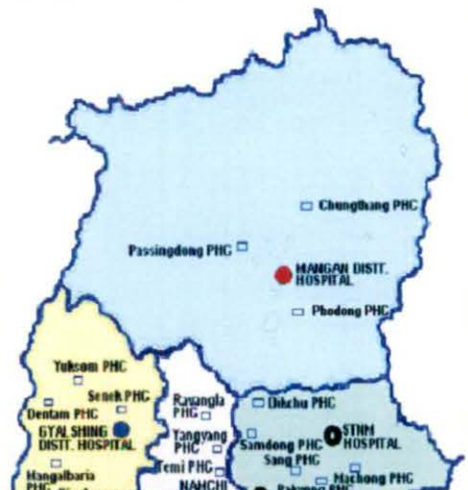
Graph- 3.3.1



(Source: Annual Report and Sample Registration Survey (SRS) bulletin)

3.3.2 Organisational set-up

Health Care, Human Services and Family Welfare Department, Government of Sikkim is responsible for health care in the State of Sikkim. The Department implemented various national and State-sponsored programmes in the areas of health care and family welfare as well as prevention and control of diseases, through a network of 147 Primary Health Sub-Centres (PHSCs), 24 Primary Health Centres (PHCs), 4 Community Health Centres (CHCs) and one 300 bedded State Referral Hospital[15] at Gangtok besides a Hospital-cum-Medical college.[16] Location of CHCs/ district hospitals, PHCs, PHSCs and State Referral Hospital (STNM) is shown below in the map of the State:



<u>Distance from Gangtok to:</u>

(Not in Scale)

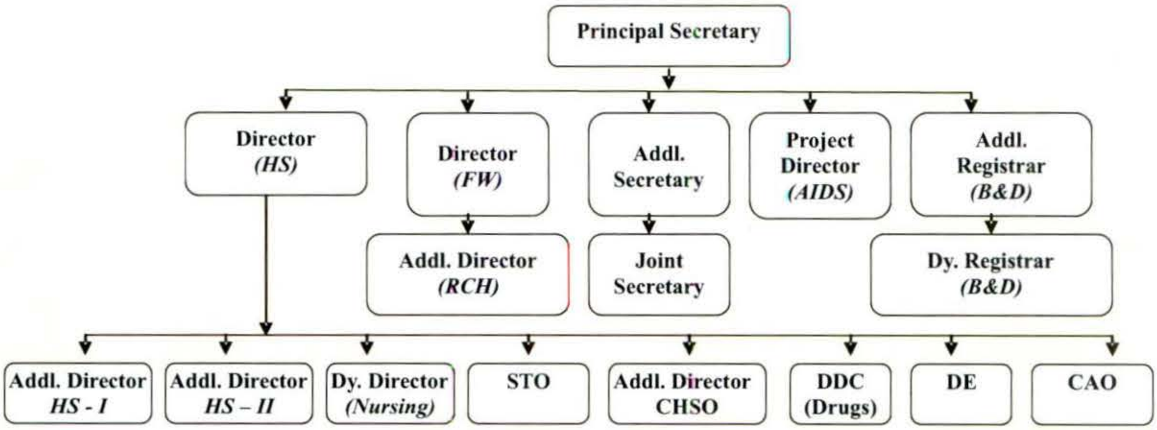
Mangan: *67 Kms;* ***Gyalshing***: *103 Kms*
Namchi: *84 Kms;* *STNM: 0 Kms*

The overall administrative control of the Department is vested with the Principal Secretary who is assisted by Directors (2), Addl. Secretary (1),

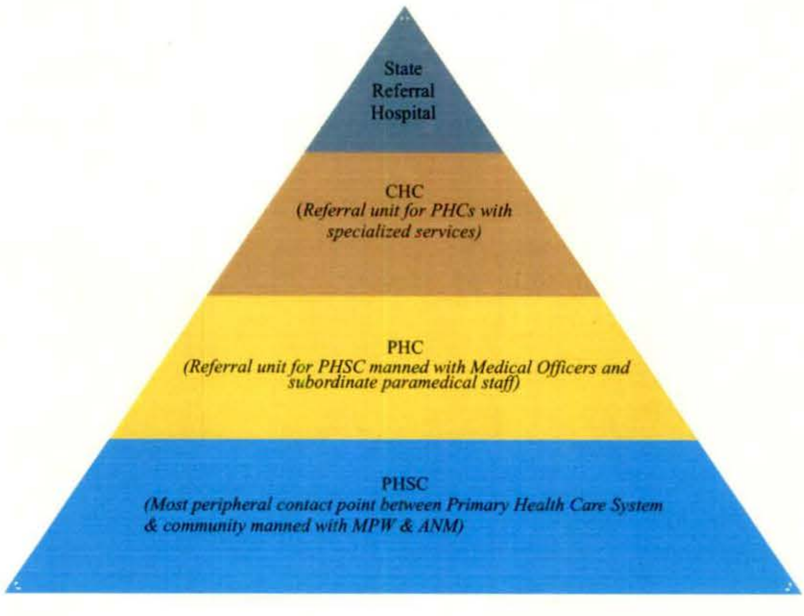
15 *Sir Tashi Namgyal Memorial Hospital, Gangtok*
16 *Central Referral Hospital, Tadong (a joint venture between the Manipal group and the State Government).*

Project Director (1) and Additional Registrar (1) besides a team of subordinate officers/ medical officers as shown in the chart[17] below:

Chart 3.3.1



In Sikkim, health care is delivered through a four-tier network comprising of PHSCs, PHCs, CHCs/ district hospitals and State Referral Hospital as shown below:



Details of roles of all the four tiers and the availability of level of medical professional under each of them is given below:

17 *HS: Health Services; FW: Family Welfare; AIDS: Acquired Immune deficiency syndrome; RCH: Reproductory and child health; B&D: Birth & Death; STO: State TB Officer; DDC: Dy. Drug Controller; DE: Divisional Engineer; CAO: Chief Accounts Officer; CHSO: Central Health Stores Organisation.*

Sl.	Units	Roles
1	State Referral Hospital	➢ Named as STNM and is situated at Gangtok; ➢ Headed by Director-cum- Medical Superintendent; ➢ It has specialists in the field of Cardiology, Medicine, Surgery, Obstetrics & gynaecology, Dermatology & venerology, Ophthalmology, Dental, Paediatrics, Otolaryngology and Psychiatry; ➢ Amenities for Pathology, Radiology, and blood transfusion, etc; ➢ Provides secondary and tertiary level health care to public.
2	CHC	➢ Established at the district headquarters in North, South and West districts and at Singtam for East district; ➢ Provides secondary level medical care; ➢ Manned by medical specialists *i.e* surgeon, physician, and gynaecologist, paediatricians supported by paramedical and other staff.
3	PHC	➢ First contact point between community and the Medical Officer; ➢ Provides primary level health care; ➢ Envisaged to provide an integrated curative and preventive health care to the rural population with emphasis on preventive and promotive aspects of health care; ➢ Manned by Medical Officers supported by paramedical and other staff.
4	PHSC	➢ Serves as the most peripheral and first contact point between the primary health care system and the community; ➢ Provides primary level health care; ➢ interpersonal communication with the community in order to bring about behavioral change; ➢ Provide services in relation to maternal and child health, family welfare, nutrition, immunisation, diarrhea control and control of communicable diseases; ➢ Provides basic drugs for minor ailments needed for taking care of essential health needs of people; ➢ Manned by Auxiliary Nurse Midwives (ANM), Male health workers and Lady health workers.

3.3.3 Scope of Audit

Performance Audit of the health care management system in the State covering a period of five years from 2001-02 to 2005-06 was conducted by a test check of the records in the office of the Principal Secretary, Health Care, Human Services and Family Welfare Department and all the four Chief Medical Officers of district hospitals/ CHCs and Central Medical Stores, Gangtok. Besides the State Referral Hospital (STNM), eight PHCs and 27 PHSCs were also test checked during Audit, selected on the basis of a two-stage sampling process *i.e* population (*census of 2001*) and the distance of the PHC from the district for selection of PHSCs. Out of total expenditure of Rs. 318.48 crore, Rs. 84.17 crore (26 *per cent*) pertaining to the above units was test checked in Audit.

3.3.4 Audit objectives

The main objectives of the performance Audit of 'Health Care Management' were to assess whether:

➢ A clear policy frame work was in place and allocation and utilisation of funds for the health sector was adequate;

- Programme and schemes were implemented economically, efficiently and effectively for providing acceptable standards of health care to the people especially the vulnerable sections of the society;
- Deployment of manpower was efficient and effective compared to the requirement;
- Delivery mechanism in health care was adequate, economical, efficient, effective and equitable; and,
- Monitoring and evaluation mechanism was appropriate, timely and effective.

3.3.5 Audit Criteria

For arriving at conclusions against the above objectives, the following criteria were adopted:

- Policy pronouncements by the State Government and GOI (National Health Policy and National Blood Policy of 2002);
- National averages of success in IMR, MMR and similar other acceptable indicators;
- GOI norms / WHO norms regarding availability of quality infrastructure, medicos and para-medicos;
- Sikkim Public Works Code and Manual, Sikkim Financial Rules, Orders/notifications issued by the State and Central Government,
- Monitoring mechanism prescribed.

3.3.6 Audit Methodology

The performance Audit commenced with an entry conference with the Departmental officers in May 2006, wherein the Audit objectives, scope, criteria and methodology were discussed and the inputs of the Department were obtained. Audit conclusions were arrived at on the basis of a test check of records as detailed in paragraph 3.3.3 and replies of the Department to the questionnaire issued. The report was finalised after taking into consideration the points put forth by the Department during an exit conference held in September 2006 with the Principal Secretary and other officers of the Department.

Audit findings

3.3.7 Policy frame work

The GOI announced a revised '*National Health Policy*' in 2002 which, *inter alia,* stipulated i) framing of a State policy taking into consideration the specific conditions prevailing in the State, ii) increase in State health sector spending from 5.5 to 7 *per cent* of the budget by 2005 with a view to achieve an acceptable standard of good health among the general populace of the State, iii) improve access to health care and iv) render effective service delivery by augmenting existing health infrastructure and creating new infrastructure in deficit areas.

It was however, noticed that the State Government had not yet (as of September 2006) formulated a comprehensive health policy for implementation of various measures towards quality health care in the State.

The State also lagged behind in allocating adequate resources for health sector. The health sector allocation ranged between 3.9 to 4.6 *per cent* of the State plan during the period 2001-02 to 2005-06 and was short of the stipulation of the National Health Policy by 1.3 to 3.1 *per cent,* aggregating Rs. 29.12 crore during 2001-06. In fact, the gross allocation decreased from 4.6 *per cent* in 2001-02 to 3.9 *per cent* in 2005-06 as shown below:

Table – 3.3.1

(Rupees in crore)

Year	State plan size	Allocation to health sector	Stipulation of National Health Policy		Short allocation
			Percentage	Amount	
2001-02	281.50	13.00 (4.6)	5.5	15.48	2.48 (0.9)
2002-03	350.00	16.00 (4.6)	5.5	19.25	3.25 (0.9)
2003-04	370.00	17.00 (4.6)	5.5	20.35	3.35 (0.9)
2004-05	446.33	19.00 (4.2)	5.5	24.54	5.54 (1.3)
2005-06	470.00	18.40 (3.9)	7.0	32.90	14.50 (3.1)
Total					**29.12**

(Source: Demand for grant). Figures in brackets represent percentage.

In reply, Principal Secretary, Health Care, Human Services and Family Welfare Department stated (September 2006) that the matter would be taken up with the State Government for suitable enhancement in allocation.

3.3.8 Financial Performance

Budget provision, actual expenditure, savings and excess expenditure under revenue and capital heads during the period 2001-02 to 2005-06 were as under:

Table-3.3.2

(Rupees in crore)

Year	*Budget provision*			*Actual expenditure*			*Savings (-) / Excess (+)*		
	Capital	*Revenue*	*Total*	*Capital*	*Revenue*	*Total*	*Capital*	*Revenue*	*Total*
2001-02	4.47	41.60	46.07	4.40	37.72	42.12	(-)0.07 *(2)*	(-)3.88 *(9)*	(-)3.95 (9)
2002-03	3.32	45.40	48.72	3.33	40.77	44.10	(+)0.01 *(0.30)*	(-)4.63 *(10)*	(-)4.62 (10)
2003-04	3.85	42.51	46.36	3.85	39.86	43.71	0.00 *(0)*	(-)2.65 *(7)*	(-)2.65 (6)
2004-05	4.04	57.86	61.90	3.87	54.46	58.33	(-)0.17 *(4)*	(-)3.40 *(6)*	(-)3.57 (6)
2005-06	8.92	54.68	63.60	7.94	52.81	60.75	(-) 0.98 (11)	(-)1.87 (3)	(-)2.85 (4)

(Source: Appropriation Accounts). Figures in brackets represent percentage.

Availability of funds was not a constraint to the Department. As is evident from the above table, the savings ranged between 3 and 10 *per cent* of the provision. Audit analysis revealed that major portion of savings ranging between Rs. 2.69 crore (101 *per cent*) in 2003-04 and Rs. 4.43 crore (96 *per cent*) in 2002-03 were from plan funds meant for developmental purposes as shown below:

Table-3.3.3

(Rupees in crore)

Year	Total savings	Plan	Non-plan
2001-02	3.95	3.78 (96)	0.17 (4)
2002-03	4.62	4.43 (96)	0.19 (4)
2003-04	2.65	2.69 (101)	(-) 0.06 (0)
2004-05	3.57	3.58 (100)	(-) 0.01 (0)
2005-06	2.85	2.78 (98)	0.07 (2)

Audit analysis further revealed that sizeable funds meant for implementation of various programmes such as National Programme for Control of Blindness (NPCB), Reproductory and Child Health (RCH), Revised National Tuberculosis Programme (RNTCP), and National Mental Health Programme (NMHP) were not utilised in full in all the five years as shown below:

Table- 3.3.4

(Rupees in lakh)

Programme	*Particulars*	*Year*				
		2001-02	*2002-03*	*2003-04*	*2004-05*	*2005-06*
NPCB	*Available fund*	***24.33***	***11.60***	***9.60***	***15.70***	***Not furnished***
	Utilised	***24.18 (99)***	***2.81 (24)***	***2.05 (21)***	***3.63 (23)***	***Not furnished***
RNTCP	*Available fund*	***114.90***	***86.24***	***60.17***	***78.50***	***94.75***
	Utilised	***100.43(87)***	***78.89(91)***	***58.51(97)***	***63.82(81)***	***79.85(84)***
NMHP	*Available fund*	28.50	***15.40***	***10.32***	***18.11***	***12.44***
	Utilised	***13.10 (46)***	***5.08 (33)***	***3.70 (36)***	***5.67(31)***	2.62 (21)
RCH	*Available fund*	***158.36***	***211.15***	***212.99***	***298.19***	***361.90***
	Utilised	***69.14 (44)***	***78.87 (37)***	***180.43 (85)***	***255.40 (86)***	***126.69 (35)***

Source Annual Accounts and Information furnished by the Department. Figures in brackets represent percentage.

Availability of funds was not a constraint to the schemes. Fund utilisation was very poor in all these schemes during some years. Savings under these programmes occurred primarily due to absence of plans for incurring expenditure, non-identification of beneficiaries, delay in finalisation of tenders, partial implementation of schemes, non-appointment of staff, etc. These cases also indicated that the programme management in the Department was not satisfactory resulting in denial of intended benefits to the targeted groups.

While accepting the fact, the Department stated (September 2006) that efforts were being initiated to ensure timely implementation of the schemes to minimise the savings in future.

3.3.9 Infrastructure

Scrutiny of records revealed that while essential infrastructural facilities (such as water supply, electricity, labour room, operation table, telephone connection, etc) relating to delivery of medical facilities to the public was by and large adequate in secondary and tertiary sectors, these were deficient in primary sectors *i.e.* PHSCs and PHCs. The shortages of hospitals led to denial of easy access of health care facilities to the populace as envisaged in the National Policy. It was noticed in Audit that the Department failed to not only ensure completion of construction works within the stipulated time frame but also slipped in creating associated infrastructure for making the equipment and machines operational. The Department was also found deficient in expeditious completion and commissioning of infrastructure within the stipulated time frame, and their upkeep. The cases noticed during the course of Audit are elucidated below:

3.3.9.1 Inadequacy of CHCs, PHCs and PHSCs

According to GOI norms, one PHSC, PHC and CHC each should be set up for a population size of 3,000, 20,000 and 80,000 respectively. Although the Department showed 100 *per cent* achievement in coverage of PHSC, PHC and CHC in the State to the GOI through its monthly/ quarterly returns, the existing number of PHSCs and CHCs were found short of the norm by 13 (8 *per cent*) and 02 (33 *per cent*) considering population size as per Census – 2001. Details are shown below:

Table- 3.3.5

Institutions	Particulars	State	Districts			
			East	North	South	West
Population as per 2001 census		4,80,488	1,91,803	39,775	1,27,560	1,21,300
CHCs	*Required*	6	2	1	2	1
	Existed	4	1	1	1	1
	Shortage	*2 (33)*	*1 (50)*	-	*1(50)*	-
PHCs	*Required*	24	10	2	7	6
	Existed	24	8	3	7	6
	Shortage	*nil*	*2 (20)*	*(-)1*	-	-
PHSCs	*Required*	160	64	13	43	40
	Existed	147	48	19	41	39
	Shortage	*13 (8)*	*16 (25)*	*(-)6*	*2 (5)*	*1 (3)*

(Source: Quarterly Progress Report on Rural Health Schemes- quarter ending March 2006)
Figures in brackets represent percentage.

The shortage was more pronounced in secondary sector[18] (33 *per cent*) followed by primary sector[19] (8 *per cent*). The district-wise analysis revealed that the shortage was most in East District (secondary 50 *per cent*, primary *i.e* PHC and PHSC by 20 and 25 *per cent* respectively) followed by South district (secondary by 50 *per cent* and primary *i.e.* PHSC by 5 *per cent*).

While accepting the shortages, the Department intimated (September 2006) that 100 *per cent* achievement was shown as per 1991 census and further informed that projection in 11th Five Year Plan had been made for establishment of new health infrastructure in the deficient area.

3.3.9.2 Inordinate delay in construction of 100 bedded Community Health Centre

The construction of 100 bedded Community Health Centre at Mangan, North Sikkim was taken up (April 1997) through the Building and Housing Department (BHD) at an estimated cost of Rs. 4.41 crore with a stipulation to complete within 36 months (March 2000). It was, however, noticed that the hospital remained incomplete even after eight years of commencement of

[18] *CHCs.*
[19] *PHSCs and PHCs.*

Work, primarily due to paucity of funds under capital head. This not only deprived the people of North district from availing proper health care facilities but also led to blocking of funds of Rs. 5.27 crore as of March 2006 for more than eight years besides cost escalation of Rs. 23.68 lakh towards difference in the cost of material.

The Department informed (September 2006) that the matter had been taken up with the BHD for early completion of CHC.

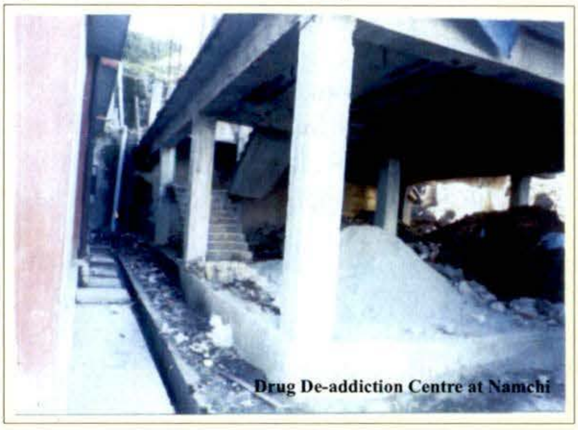
3.3.9.3 Non-establishment of drug testing facilities

The Department did not have any laboratory facilities in the State for drug testing and thus drug samples were sent to Guwahati for testing which took on an average six months time for analysis by which time drugs were utilised/ consumed by the patients. To overcome the problem, GOI based on the proposal submitted (July 1999) by the State Government approved and sanctioned (August 2000) Rs. 15.80 lakh for construction of Drugs Testing Laboratory (DTL) at Deorali, Gangtok. Although, construction was completed (April 2005) at a cost of Rs. 15.80 lakh, it was allotted to the Central Health Medical Stores instead of DTL. The drugs samples continued to be sent to Guwahati for testing. Thus, despite expenditure of Rs. 15.80 lakh, the long felt need of the Department to establish drug testing facility locally, especially to meet emergent need of testing and obviate administration/distribution of possible sub-standard and/or spurious drugs to the patients was not achieved.

While accepting the fact, the Department informed (September 2006) that the proposal for vertical extension of the building by two more floors had been initiated to accommodate the DTL. Thus the purpose for which the building was constructed was defeated. As of date (November 2006), drug testing laboratory had not been made operational and samples continued to be sent to Guwahati for testing.

3.3.9.4 Non-completion of Drug De-addiction centres

GOI sanctioned (September 1997) Rs. 8 lakh for construction of drug de-addiction centres at District hospital, Namchi with the stipulation to utilise the grant within 18 months from the date of sanction. The fund was not utilised within the stipulated period and only as late as in December 2000 the work was taken up departmentally at an estimated cost of Rs. 19.33 lakh. It was noticed that even after spending Rs. 19.33 lakh (March 2006), the construction remained incomplete and the centre could not be operationalised for treatment of drug addicts of South district.



Drug De-addiction Centre at Namchi

In reply, Principal Secretary informed (September 2006) that the remaining work had since been taken up departmentally with revised estimate and the building was likely to be completed by December 2006.

Similarly, Rs. 8 lakh sanctioned (November 1999) for West district for drug de-addiction centre was utilised for acquiring (May 2003) a building (an erstwhile food godown belonging to Food and Civil Supplies Department) at a cost of Rs. 15.49 lakh. But the drug de-addiction centre had not become operational till the date of Audit (June 2006).

The Principal Secretary informed (September 2006) that the building being old was proposed to be dismantled and a new drug de-addiction centre constructed during the eleventh five year plan.

On account of the casual approach of the Government, the people of the State were deprived of two drug de-addiction centres.

3.3.9.5 Non- Commissioning of essential machines

Three x-ray machines purchased (between October 1997 and 2003) at a cost of Rs. 6 lakh were not commissioned due to lack of supporting infrastructure facilities such as proper room, electrical connection etc. and were lying at Rangpo, Soreng and Dentam PHCs depriving the needy patients of much needed facilities. Further, an anaesthetic machine and a horizontal auto-clave machine purchased during October 2001 and March 2002 for Rs. 15.11 lakh and Rs. 16.40 lakh respectively were lying unused at Mangan Hospital in the absence of adequate space.

These cases point towards absence of proper planning before finalising purchases at the level of Secretary and lack of initiation on the part of the concerned Medical Officer and Chief Medical Officers in-charge of the respective PHCs to make the equipment operational at the earliest. Thus the above equipment could not be used for the purpose it was purchased depriving the people of diagnostic, surgical operation and life saving facilities.

3.3.9.6 Non- repair of machines and equipment

Equipment worth Rs. 1.21 crore[20] was lying in unserviceable condition in STNM Hospital as of March 2006 since April 2002 due to its non-repair. Although, work orders were issued (February 2003) to one Gangtok based firm,[21] based on the lowest offer, for carrying out repair works within one month at a cost of Rs. 2.06 lakh, the firm declined (November 2004) citing its inability to repair. The Director-cum- Superintendent of STNM had neither initiated any alternative measures to make the equipment functional nor penalised the firm for backing out after acceptance of work order. Similarly, other important and useful equipments such as operating microscope (2); slit lamp, dager SA2 OT ventilator; image processors, pringer for echo machine; Oxy monitor sat BPL; etc. were also lying non-functional for a considerable period of time.

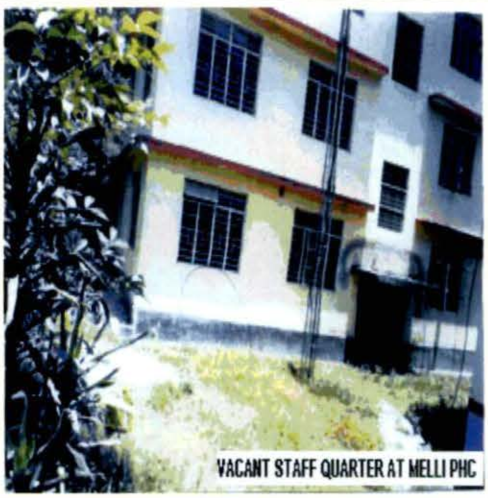
20 *Digital Elecro-Myograph: Rs.22.11 lakh, Holter Monitor with Telemetry: Rs. 30.59 lakh, Surgical Laser: Rs.38.14 lakh and Blood Gas Analyser: Rs. 30.25 Lakh.*

21 *M/s Bright Scientific Instruments.*

The Principal Secretary, while accepting faulty planning for purchase of equipment in the past assured (September 2006) synchronisation of all purchases with associated facilities in future.

3.3.9.7 Vacant staff quarter for medical staff

12 units of class II staff quarters, constructed between 1988 and 2003 for Rs. 52.44 lakh, remained vacant in East[22] (4 units costing Rs. 16.16 lakh) and South[23] (8 units costing Rs. 36.28 lakh) districts since the date of construction mainly because there were no takers as most of the staff posted in the PHCs and PHSCs were local residents. Further, 10 residential quarters in four districts were occupied only for a short period and thereafter remained vacant; cost of these quarters was not available with the Department.


VACANT STAFF QUARTER AT MELLI PHC

The fact that there were no takers indicated that the quarters were constructed without proper assessment of the requirement. The fund which remained blocked in these unused quarters instead could have been fruitfully utilised towards construction of 29 PHSCs (out of total 147 PHSCs) as these were functioning from rented buildings as of May 2006.

While accepting the facts, the Principal Secretary stated (September 2006) that in order to encourage occupation of the existing Government quarters, a proposal was being mooted for recovery of nominal house rent from the health functionaries posted in the remote health Centre.

3.3.10 Manpower management

Analysis of sanctioned strength, men-in-position and deployment of specialists, doctors and nurses revealed that the Department did not have any mechanism for monitoring the cadre-wise position of sanctioned and effective staff strength of various categories of medical personnel at appropriate intervals for proper management of manpower resources as is evident from the following paragraphs:

3.3.10.1 Shortage of specialists and para-medicos

Audit analysis of sanctioned strength vis-a-vis men in position revealed that against the sanctioned strength of 639 posts, 118 posts (18 per cent) remained vacant as shown below:

22 *Bering PHSC (2) and Pachak PHSC (2).*

23 *Melli PHC (6) and Katang bonray PHSC (2).*

Table - 3.3.6

Category	Sanctioned	In-position	Shortages
(i)	*(ii)*	*(iii)*	*(iv)*
Surgeon	4	1	3 (75)
Obstetrician/Gynaecologist	4	1	3 (75)
Physician	4	1	3 (75)
Paediatrician	4	1	3 (75)
Anaesthetist	4	1	3 (75)
Block Extension Educator	9	3	6 (33)
Pharmacist	28	3	25 (89)
Health Assistant(F)/LHV	29	25	4 (72)
Health Workers(F)/ANM	293	286	7 (2)
Health Assistant(M)	30	8	22(73)
Health Worker(M)	171	149	22 (87)
Lab. Technician	36	32	4 (11)
Radiographer	8	5	3 (25)
Public Health Nurse	2	0	2 (100)
Health Educator	13	5	8(62)
Total	**639**	**521**	**118**

(Source: Quarterly progress report for the quarter ending March 2006)
Figures in brackets represent percentage.

It would be seen from above that the shortages were higher in the cadre of specialists[24] (75 *per cent*) followed by Health Educators (62 *per cent*) and Laboratory Technicians (11 *per cent*).

Acute shortages of specialists adversely affected the health care system, especially in secondary and tertiary level in all the four districts of the State and led to referral of patients outside the State for treatment, involving considerable expenditure from the State exchequer as reimbursement. The Department attributed (August 2006) the shortages of specialists to non-availability of qualified manpower. No tangible action was, however, initiated by the Department to overcome this phenomenon.

3.3.10.2 Irrational deployment of doctors and nurses

State Government had not fixed any norms for deployment of doctors, nurses etc. as fixed by GOI. Audit analysis revealed that deployment of doctors, para- medicals and others in PHCs, PHSCs and CHCs had no bearing with that of total population, patients' turnout or even the identified cases as shown below:

Table- 3.3.7

Particulars	GOI norms#	Deployment ratio[25]				
		State as a whole	East	West	North	South
Population / Doctor	3,500	2,121	1,441	3,852	2,735	3,461
Population / Nurse	5,000	3,401	1,960	12,326	5,861	7,737
Population / Health Workers	3,000	1,762	2,042	1,666	1,001	1,827
Population / Health Assistants	20,000	16,389	15,315	24,651	13,677	14,612
Population / Lab Tech	10,000	10,401	9,075	12,326	10,257	11,957

(Source: Information furnished by the Department)
 # 1 post catering to the designated population size.

24 *Surgeons, Obstetricians/Gynecologists, Physicians, Pediatricians, Anesthetists.*
25 *Population covered by one doctor/nurse/health worker etc.*

In the absence of any norms fixed by the State Government, comparison with national norms was done in Audit. It was seen that there was overall surplus in doctors, nurses, health workers and health assistants category in the State compared to the national norm, though there were wide inter-district variations. While East district had higher concentration of nurses (1,960:1), North, South and West districts were deprived due to less deployment of nurses as compared to the norms, the ratio being 5,861, 7,737 and 12,326 respectively for one nurse.

In reply, the Principal Secretary admitted the fact and stated (September 2006) that absence of health policy led to irrational posting of doctors and health functionaries which would be eliminated after formulation of State health policy.

3.3.10.3 Doctor-bed ratio

Similarly, doctor-bed ratio was also not considered before deciding the deployment of doctors, specialists, staff-nurses, auxiliary nurses and midwives (ANMs), etc., as shown below, leading to wide inter-district disparities in delivery of medical services:

Table- 3.3.8

Name of Hospital	STNM[26]	South	West	North	East
No. of beds	300	100	100	50	100
No. of specialists	44 (6.8)	7 (14.3)	3[27](33.3)	1[27](50)	4(25)
No. of MOs	61(4.9)	18(5.6)	13(7.7)	3(17)	12(8.3)
Total No. of Doctors	105(2.9)	25(4)	16(6.3)	4(12)	16(6.3)
Staff nurses	115(2.6)	15(7)	10(10)	7(7)	3(33.3)

Source: Information furnished by Department.
Figures in brackets represent number of beds per doctor/nurse.

3.3.11 Delivery of service

3.3.11.1 Absence of basic amenities in primary sector

While basic amenities such as water supply, electricity, labour table, telephone connections, anaemia measuring machines etc. relating to delivery of medical facilities to the public was by and large adequate in the secondary and tertiary sectors, these were deficient in the primary sector *i.e.* PHSCs and PHCs. In the 8 PHCs and 27 PHSCs test checked in Audit, the following deficiencies were noticed:

- 2 PHCs[28] and 12 PHSCs[29] were functioning without proper water facility;
- All 27 PHSCs were functioning without electricity connection;
- 1 PHC[30] and 6 PHSCs[31] did not have appropriate Labour table;

26 *Sir Tashi Namgyal Memorial Hospital*
27 *Dentist*
28 *Dikchu & Namthang*
29 *Makha, Middle Camp, Tarethang, Gor, Lum, Spantok, Pakki, Singling, Zoom, Rateypani, Katang, Phong.*
30 *Namthang*
31 *Tarethang, Gor, Phong, Uttarey, Boomtar, Hee Yangthang.*

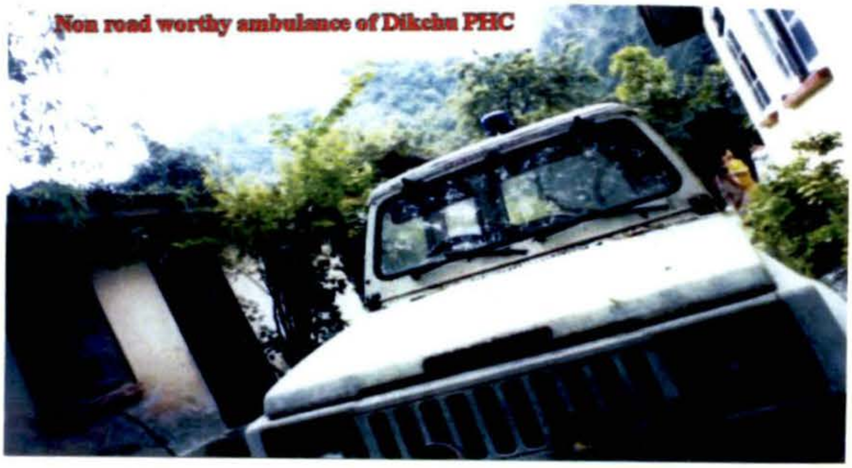
- Anaemia measuring machines for measuring the haemoglobin level in pregnant women and other patients for treatment of anaemia was not available in any of the 27 test checked PHSCs;
- In 4 PHSCs, there were no sphygmomanometers (a pressure gauge for measuring blood pressure);
- 7 PHSCs and 1 PHC were not connected by motorable road;

Damaged approach road to Passingdang PHC

- Existing building of 10 PHSCs require immediate repairs.

Damaged PHSC at Linkey

- Ambulances in two PHCs were not found to be in road - worthy condition while in 7 other PHCs, these were more than eight years old.



It indicated lack of urgency on the part of the Department to take care of the basic health care need of the people and equip the PHSCs and PHCs adequately for the purpose.

In reply, the Principal Secretary informed (September 2006) that all the health centres in the State would be fully equipped in terms of basic equipment/instruments by 2006-07 with the sanction of 'Up-gradation of Hospitals and Health Centres' project. The Department further added that the road connectivity to the Sub-Centres as well as adequate provision for replacement of ambulances and programme vehicles would be taken up in the 11th Five Year Plan.

3.3.11.2 Shortage of medicines

Excluding charges for x-ray, CT-scan, ECG, private room etc., all other medical facilities are provided free of cost by the State Government.

Test check of records revealed that on an average, only 43 per cent of tablets, 44 per cent of injections and 24 per cent of capsules prescribed by the doctors were supplied to the indoor patients forcing the poor and needy patients to buy the same from open market or compromise without adequate doses. Central Medical Health Stores (CMHS), responsible for procurement and issue of medicines for the entire Department, attributed (August 2006) this to lack of adequate funds. Had the sectoral allocation been kept at the GOI stipulated 5.5 and 7 per cent, as discussed in paragraph 3.3.7, and also full utilisation of the allocated fund, shortage of funds could have been obviated and the poor and needy patients would not have been denied the basic health care facilities.

In reply, the Principal Secretary informed (September 2006) that with the implementation of the National Rural Health Mission in the State the shortage of drugs and medicines was expected to be reduced to some extent.

In view of what has already been stated by Audit, the reply of the Government is not tenable.

3.3.11.3 Status of institutional deliveries (child birth)

Considering the very high Maternal Mortality Rate (MMR) in India, deliveries in hospitals are encouraged for safe delivery and survival of the child. It was seen that while institutional deliveries increased from 47 *per cent* in 2001-02 to 57 *per cent* in 2005-06 in the State, deliveries by untrained attendants decreased from 17 *per cent* to 11 *per cent* in the corresponding period. Analysis, however, revealed that 37 to 45 *per cent* of the institutional deliveries emanated from STNM Hospital (*Urban Family Welfare Centre*) indicating that there was not much of improvement in the functioning of primary and secondary sectors as would be seen from the data given below:

Table- 3.3.9

Year	Total deliveries	Home deliveries		Institutional deliveries	
		Untrained attendants	Trained attendants	Total institutional deliveries	Deliveries in STNM
2001-02	8,410	1,400 (17)	3,087(37)	3,923(47)	1,448(37)
2002-03	8,507	1,111(13)	3,506(41)	3,791(45)	1,496(39)
2003-04	9,525	1,262(13)	3,437(36)	4,826(51)	2,078(43)
2004-05	8,515	879(10)	2,637(31)	4,999(59)	2,243(45)
2005-06	9,590	1,074(11)	3,090(32)	5,526(57)	2,488(45)
Total	44,547	5,726	15,757	23,065	9,753

Source: Annual Report of the Department.
Figures in brackets represent percentage.

In fact, no delivery took place in two PHSC (Gor and Lingding under Passidong PHC) and three PHSCs (Linkey, Bearing and Tarethang under Machung) primarily due to non-availability of basic facilities in the PHSCs and PHCs and absence of availability of specialists in CHC/district hospitals as stated in para 3.3.11.1 and 3.3.10.1 respectively.

It was also noticed that the number of deliveries (child births) reported by the PME cell of the Department was 34,957 against 43,117 (44,590 minus 1,473 birth at CRH, Tadong) deliveries recorded by the Birth and Death Cell for the period 2001-02 to 2004-05[32] indicating that 8,160 cases of delivery (19 *per cent*) were not reported to the Department and were, thus, not covered by institutional deliveries or deliveries attended by trained attendants, depriving them of much needed access to health care facilities relating to safe deliveries.

While accepting the observation, the Principal Secretary stated (September 2006) that almost all the referred cases from all over the State were brought to STNM hospital taking the figure high as compared to rural areas and added that action for 24 hours services at district hospitals and PHCs and labour rooms with labour tables to all the Sub-Centres was being initiated.

3.3.12 Hospital management

3.3.12.1 Blood transfusion

A well organised Blood Transfusion Service (BTS) is a vital component of healthcare delivery system. The GOI formulated 'National Blood Policy'

[32] *Data relating to the period 2005-06 was not yet finalised by the birth and Death Cell.*

(NBP) in 2002 (adopted by the State Government in January 2005), to ensure easy accessibility and adequate supply of safe and quality blood and blood components from voluntary blood donors by gradual phasing out of replacement donors in a time bound programme. The GOI subsequently set a target of 95 *per cent* for voluntary blood donation by 2007.

Sikkim has two Government blood banks at (i) STNM hospital and (ii) district hospital, Namchi. An analysis of blood collection revealed that while STNM had showed remarkable improvement from 4 *per cent* in 2001 to 52 *per cent* in 2005 in collection of blood from voluntary donors, the District Hospital, Namchi was far behind the target (95 *per cent*) as their collection from voluntary donors ranged between 2 and 9 *per cent* of total collection during the corresponding period as shown below:

Table- 3.3.10

Calendar year	Total units of Blood collected		Collected through voluntary donors		Replacement	
	STNM	Namchi	STNM	Namchi	STNM	Namchi
2001	769	339	34 (4)	11 (3)	735 (96)	328 (97)
2002	748	325	34 (5)	5 (2)	714 (95)	320 (98)
2003	955	240	125 (13)	10 (4)	830 (87)	230 (96)
2004	811	576	136 (17)	47 (8)	675 (83)	529 (92)
2005	857	380	443 (52)	34 (9)	414 (48)	346 (91)

Source: Information furnished by the Department. Figures in brackets represent percentage.
 # Upto March

The Department stated (September 2006) that fund constraints were the main reasons for low performance in voluntary donation in respect of Namchi Hospital resulting in lack of Information, Education and Communication (IEC) activities in the district.

3.3.12.2 Bio-waste management

The GOI sanctioned (May 2001) and released (June 2001) Rs. 1.36 crore for 'Hospital Waste Management'. It was noticed in Audit that while incinerators at Geyzing, Mangan and STNM hospital were not commissioned as of May 2006, incinerator at Singtam, though commissioned in July 2005, was closed down in August 2005 due to non-provisioning of fuel.

While non-commissioning at STNM and Mangan was attributed to lack of required electrification and likely shifting of CHC to new building respectively, no reason was furnished by the Department for Geyzing. Thus, failure to commission the incinerators despite an expenditure of Rs. 1.60 crore not only violated the Bio-Medical Waste (Management and Handling) Rules, 1998 which stipulated setting up of waste treatment facilities by December 2001 for hospitals having 200 to 500 beds and December 2002 for hospitals having 50 to 199 beds but also led to blocking of funds. Absence of proper treatment of bio-medical waste was fraught with the risk of environmental hazards.

3.3.12.3 Referral cases

According to Rule 8(i) of Sikkim Medical Facilities Rules, referral outside the State can be made in case adequate facilities for treatment of specialised disease (cancer etc.) were not available within the State. It was, however, noticed that STNM hospital referred patients to other States who could have otherwise been treated within the State thereby saving substantial Government funds on reimbursement of medical expenses. During the years 2001 to 2006 (upto March) 50,486 patients comprising 8 to 12 *per cent* of the total patients, suffering from major and minor diseases, were referred outside the State and Rs. 2.05 crore was incurred by the Department in this regard as shown below:

Table- 3.3.11

Year	In patient admitted	Patients referred outside
2001	8,863	738 (8)
2002	9,993	848 (8)
2003	9,859	1,025 (10)
2004	10,051	1,142 (11)
2005	9,607	1,169 (12)
2006 (upto March)	2,113	264 (12)
Total	**50,486**	**5186 (10)**

Source: Information furnished by the Department.
Figures in brackets represent percentage.

This is all the more inexplicable in view of the fully functional Central Referral Hospital at Tadong (set up as a joint venture between the Manipal Group and the State Government) where facilities were either free or at a very nominal rate to the patients of the State.

Thus referral of minor-diseases outside the State was not justified.

The Principal Secretary assured that referral cases would be reduced in future with the upgradation of the STNM hospital and full functioning of the Manipal Hospital.

3.3.12.4 Recovery of charges

The Government of Sikkim, through the Department, notified the charges/fees for various investigations and tests, from time to time, under STNM and other District hospitals. According to the latest notification (10 November 2004) Rs. 5 per card was to be realised as fee from patients other than below poverty line (BPL) patients towards issue of out patient department (OPD) card at STNM and District hospitals. It was noticed that while three District hospitals (East, North and South) and STNM hospital were realising this fee irrespective of above poverty line /below poverty line status, no fee was levied by District hospital, Geyzing.

While realisation of fee from poor patients was against the intent of the Government to extend easy accessibility of health care facilities to BPL families, non-realisation of fee in West district led to loss of revenue.

3.3.13 Monitoring and evaluation

The Department had in place a Planning, Monitoring and Evaluation (PME) cell headed by the Director, Health Services, mainly engaged in obtaining information periodically from the CHCs, PHCs and PHSCs on vital events like birth, death, immunisation, treatment of patients etc. There were minor discrepancies in the number of immunisation and number of births between initial records and what was reported. Cross verification of data submitted by various field functionaries was never attempted.

Monitoring for the effective management of hospitals was however wanting both at the Directorate and CMO level as data relating to basic amenities like medicines, equipments (x-ray, anaemia measuring machine, labour table), bed occupancy ratio, turnover interval[33], doctor bed ratio, doctor patient ratio, status of medical equipments etc. were never reported and as a consequence corrective action in this regard could not be taken. This was despite the appointment of medical records technicians to work out and compile the above data. The Director and the CMOs had thus failed to effectively supervise and monitor the management of hospitals.

During 2001-06, the status of health services was neither evaluated by the State Government nor by any other external agencies.

3.3.14 Conclusion

Although the State was performing well in terms of achievement of general health indicators and containment of diseases, it lacked in the area of policy perspectives, rational deployment of available medicos, infrastructure management, etc. Acute shortage of Specialists, non-synchronisation of purchase of equipment with that of associated facilities leading to its non-use, shortages of medicines, etc reduced the effectiveness of health care management in Sikkim. While the primary sector (PHSCs and PHCs) lacked basic amenities, secondary and tertiary sectors suffered from acute shortage of Specialists affecting delivery of services to the public.

3.3.15 Recommendations

The following recommendations are made:

- The State Government should formulate '*State Health Policy*' to provide policy perspectives and directions for implementation of various measures towards improving health care in the State.
- Allocation to health sector should be enhanced to 7 *per cent* of plan fund as envisaged in National Health Policy of 2002.
- Efforts should be initiated to create adequate infrastructure in terms of CHCs, PHCs and PHSCs; operationalise the first referral units in the remaining three districts; ensure essential associated facilities such as machines and equipment are in proper condition; fill up the vacant post of specialists, arrest inter-district disparities in deployment of doctors and nurses.
- Rational deployment of man power may be ensured for optimum utilisation of facilities in State referral hospital so that poor people get treatment in proximity to their homes.

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[33] *It is the average period in a day a bed remains vacant between one discharge and another admission. It may be negative or positive. A negative is indicative of scarcity of beds and over utilization; a long positive is indicative of under utilization because of either defective admission procedures or poor quality medical care.*

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

3.4 SARVA SHIKSHA ABHIYAN

Performance Audit of Sarva Shiksha Abhiyan (SSA) for the period 2001-02 to 2005-06 disclosed deficient planning, delayed and short release of funds, excessive management cost, appointment of teachers in excess of requirement, etc. The State failed in achieving the main objective of SSA to bring back all out-of –school children to school within 2003. Implementation of SSA did not contribute towards quality improvement of education as envisaged in the programme as course curriculum was not revised, training of teachers was far below the target and research and development activity was not accorded desired priority. Monitoring and evaluation of the programme was never conducted to gauge its success.

Highlights

Short as well as delay in release of State's matching share of Rs. 8.09 crore led to non-release of further instalment of Central share of Rs. 17.07 crore.

(Para 3.4.7.2)

Inspite of availability of Rs. 1.72 crore, the target of training 8,766 teachers was not achieved. Shortfall ranged between 72 to 100 *per cent* during 2002-03 to 2005-06.

(Para 3.4.8.8)

Despite considerable expenditure towards implementation of SSA, SIS failed to bring back 6,310 out-of-school children indicating a shortfall of 42 *per cent* even after five years of implementation.

(Para 3.4.8.2)

Research and Development (R&D) activities were not carried out despite release of Rs. 23.94 lakh.

(Para 3.4.9)

3.4.1 Introduction

Sarva Shiksha Abhiyan (SSA) is a flagship programme of GOI, launched in January 2001, to achieve Universal Elementary Education (UEE) in the country in a mission mode by providing useful and relevant elementary education to all children in the age group 6 to 14 years by 2010. The main objectives of the programme were as follows:

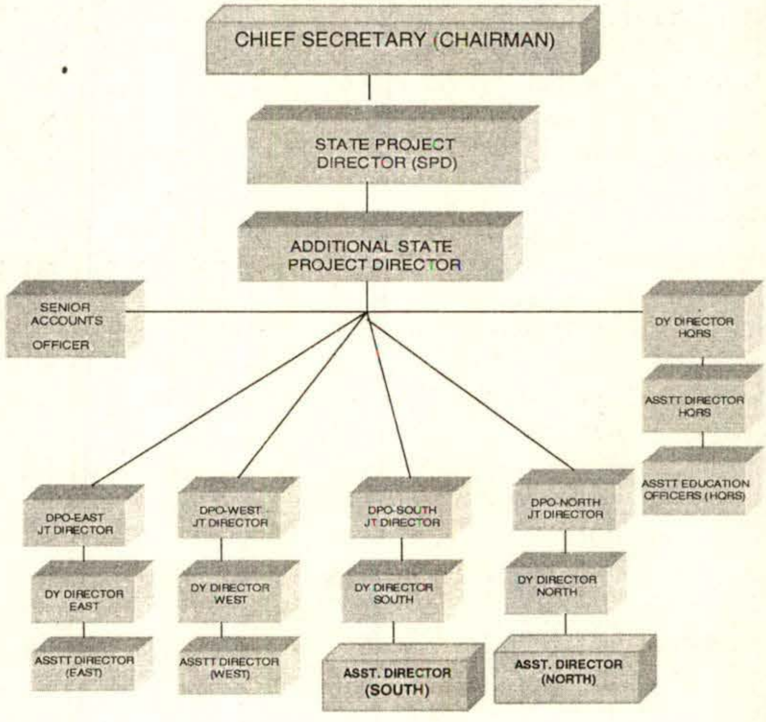
- To have all children in school, education guarantee centre, alternative schools and 'back to school' camps by 2003 (revised to 2005 in March 2005);
- To ensure that all children complete five years of primary schooling by 2007;
- To ensure all children complete eight years of elementary schooling by 2010;

- Focus on elementary education of satisfactory quality with emphasis on education for life;
- Bridge all gender and social category gaps at primary stage by 2007 and at elementary education stage by 2010;
- Universal retention by 2010.

3.4.2 Organisational set-up

In Sikkim, SSA was implemented through "Sarva Shiksha Abhiyan State Mission Authority" (SSASMA), a society registered (February 2001) under the Sikkim Society Act. The General Body of the SSASMA was formed in September 2002 with the Chief Minister as the President and Minister of Education and Welfare as Vice – Presidents amongst other members. To administer the affairs of the Mission, an Executive Committee was constituted (September 2002) with the Chief Secretary as the Chairman and Principal Secretaries of Education and Welfare Departments as the Vice- Chairmen, amongst others. Similarly, District Units of SSA Mission (SSAM) were established (February to August 2002) with District Collectors as Chairmen for all the four districts of the State. All the State level activities relating to the scheme were done at the Directorate known as State Project Office (SPO) and district level execution was carried out by the District offices of the Education Department known as District Project Units (DPUs). Organogram of the SSA in the State is shown below:

Chart-3.4.1



3.4.3 Scope of Audit

Performance Audit of SSA for the period 2001-02 to 2005-06 was carried out through a test check of records maintained in the State Project Office and all the four District Project Offices located at East, West, North and South Districts relating to entire expenditure of scheme. The Audit was conducted during August-September 2005 and was updated during April-May 2006.

3.4.4 Audit Objectives

Performance Audit of SSA was carried out with a view to assess whether:

- All the targeted children were enrolled in schools, Education Guarantee Centres, alternative schools, back to school camp by 2003;
- The major interventions under SSA were carried out as per the norms fixed in SSA guidelines;
- The quality of educational standard as envisaged in the programme guidelines were achieved;
- Planning for implementation of various programmes through NGOs was efficient.

3.4.5 Audit criteria

Following criteria were used to ascertain:

- Annual work plans, standards of output and benchmarks of performance for each component of the scheme;
- Norms for appointment of teachers and facilities to be provided in schools;
- Standards of education including curricula, teaching learning materials and teachers' training;
- Coverage of special target groups as prescribed;
- Monitoring mechanism specified by the GOI.

3.4.6 Audit methodology

Performance Audit of SSA commenced with entry conference (July 2005) in which the Director and Additional Director besides other senior officers of the Education Department responsible for implementation of SSA participated. Audit was carried out based on an analysis of the procedures existing in the implementing Department, State implementing agency, District implementing agencies, block resource centres, cluster resource centres and schools and analysis of data provided by these agencies to obtain specified results. Questionnaires were also issued and replies were examined with reference to original records before arriving at Audit conclusions. Social and Rural Research Institute (SRI), a specialist unit of Indian Market Research Bureau (IMRB) was commissioned by Audit for assessing the impact of SSA from the perspective of the beneficiaries and their parents. The findings of SRI have been incorporated in this report. The report was finalised after obtaining the views of the State Project Director and Commissioner-cum Secretary, Human Resources Development Department.

Audit findings

3.4.7 Fund Management

3.4.7.1 Funding pattern

The expenditure under SSA was financed by the GOI and the State Government in the ratio of 85:15 during IX Plan (1997-2002), 75:25 during X Plan (2002-07) and 50:50 thereafter. The funds from GOI were to be released directly to the State Implementing Society (SIS). The State Government was required to give written commitments to transfer its share to the SIS within thirty days of the receipt of Central contribution. The appraisal and approval of plans were to be completed in time for the first instalment, to meet the proposed expenditure of the first six months to be released by 15^{th} April. Release of further instalments to the SIS was to be made only after the State Government had transferred its share to the SIS and expenditure of at least 50 *per cent* of the available funds (Centre and State) was incurred. Details of approved work plan and budget, Central and State share and its release, expenditure, etc for the period 2001-02 to 2005-06 was as shown below:

Table – 3.4.1

(Rupees in lakh)

Year	Annual Work Plan & Budget	Share		Released		Total release	Expenditure
		Central	State	Central	State		
2001-02	146.22	124.29	21.93	62.00 (50)	11.00 (50)	73.00	73.00
2002-03	566.86	425.14	141.72	425.14 (100)	75.00 (53)	500.14	309.93
2003-04	1,096.60	822.45	274.15	269.73 (33)	140.24 (51)	409.97	618.04
2004-05	1,600.68	1,200.51	400.17	600.25 (50)	200.00 (50)	800.25	755.00
2005-06	1989.87	1,492.40	497.47	1,000.25(67)	100.00(20)	1,100.25	964.64
Total	**5,400.23**	**4,064.79**	**1,335.44**	**2,357.37(58)**	**526.24(39)**	**2,883.61**	**2,720.61**

(Figures in brackets represent percentages)

Source: Annual Report 2004-05 and 2005-06 of State Project Office of SSA and Departmental figure

3.4.7.2 Short release of funds

According to the financing pattern of SSA, Rs. 40.65 crore[34] and Rs. 13.35 crore[35] was required to be released by GOI and the State Government respectively as per the Annual Work Plan of Rs. 54 crore for the years 2001-02 to 2005-06. However, as against this, GOI and the State Government released Rs. 23.57 crore (58 *per cent*) and Rs. 5.26 crore (39 *per cent*) indicating a shortfall of 42 and 61 *per cent* respectively.

Audit analysis revealed that the State Government neither kept adequate provision in the budget nor gave written commitments as required under guidelines and released only Rs. 5.26 crore against the requirement of Rs. 13.35 crore indicating a shortfall of Rs. 8.09 crore.

Thus the short release of funds by the State Government and the consequent curtailment of the GOI share led to less availability of funds to the extent of

[34] *Rs. 124.29 lakh (85% of Rs. 146.22 lakh) for 2001-02 and Rs. 3940.50 lakh (75% of Rs. 5254.01lakh) for the years 2002-03 to 2005-06= Rs. 4,064.79 lakh.*

[35] *Rs. 21.93 lakh (15% of Rs. 146.22 lakh) and Rs. 1313.51 lakh (25% of Rs. 5254.01lakh) for the years 2002-03 to 2005-06= Rs. 1,335.44 lakh.*

Rs. 25.17 crore for the years 2001-02 to 2005-06 which adversely affected implementation of the programme as elucidated in subsequent paragraphs.

While accepting the facts, the SPD, SSA stated (September 2006) that the State Project Office would approach the Government to release the shortfall in regard to the State's share.

3.4.7.3 Delayed release of funds

Inspite of clear stipulation in the guidelines to release first instalment by the GOI within 15 April and subsequent instalments after the release of matching share to the Society by the State Government, funds were released belatedly by both the Central and the State Governments. Notwithstanding this, even during 2004-05 (Rs. 6 crore) and 2005-06 (Rs. 10 crore) when funds were released in time by GOI, corresponding matching share (Rs. 2 crore & Rs. 1 crore) was released by the State Government at the fag end of the year with the delay ranging between 79 and 288 days which adversely affected the implementation of programme as the required fund was not available for incurring expenditure as envisaged in the approved plan.

While accepting the facts, the State Project Director (SPD) stated (September 2006) that the matter would be taken up with the State Government for timely release of funds to make the programme successful.

3.4.8 Programme implementation

SSA envisaged following major interventions to achieve the scheme objectives:

- Household surveys, planning, studies, community mobilisation, school based activities, trainings etc;
- Opening of new primary schools and upper primary schools, EGS centres, Alternative schools, and innovative Education centres;
- Appointment of teachers;
- Construction of additional classrooms, other basic facilities and repairs & maintenance of existing school buildings;
- Free text books to all girls and SC/ST children;
- Teaching learning equipment (TLE) for Upper Primary Schools;
- School grants and teachers grants;
- Training to teachers and community leaders;
- Management cost;
- Setting up of BRCs and CRCs;
- Innovative activities *i.e.* girls education, early child care and education (ECCE), children belonging to SC/ST community, computer education in UPS level; and
- Research, Evaluation, Supervision and Monitoring.

Audit observations relating to above major interventions are detailed below:

3.4.8.1 Planning

The planning process starts at the habitational level and moves upwards to block level, district level, and then to State level. It was noticed that critical steps involved in planning such as strengthening / setting up of district education offices and selection of personnel at district/ block/ cluster level; formation of core planning teams at district, block and village level; training and orientation of these teams; collection of various data, undertaking household survey and baseline studies; plan formulation by consolidating the habitational/ cluster/ block level plans; etc were although appropriately done, matching funding was not forthcoming from the State Government leading to curtailment of funds by the Central Government which affected programme implementation as brought out in the previous paragraphs. Project Appraisal Board (PAB) meeting for approval of plan and sanction of funds for first instalment was held belatedly between July (2004-05)/May (2005-06) during 2001-02 to 2005-06 instead of April each year. PAB meeting for second instalment was usually held at the fag end of the year which obviously affected programme implementation.

3.4.8.2 Out of school children

The main objective of the SSA was to enrol all the children in schools, education guarantee centres, alternative schools and back to school camps by 2003. It was noticed in Audit that out of 15,033 out-of-school children identified by SIS in 2001 only 8,723 (58 *per cent*) children could be brought back to school as of March 2006 leaving 6,310 out-of-school children indicating a shortfall of 42 *per cent*. Thus, the SIS failed to achieve the basic objectives of SSA to bring back all the children to school by 2003 even after five years of implementation of the scheme and involvement of considerable expenditure. On the contrary, enrolment at elementary stage was progressively decreasing from 1,05,213 in 2003 to 1,01,485 in 2004 and 99,905 in 2005 academic session instead of increasing indicating less impact of SSA intervention.

The reply (September 2006) of the SPD confirmed the above position.

3.4.8.3 Opening of new Upper Primary Schools (UPS)

SSA guidelines laid down one upper primary school (UPS) for every two primary schools (PS). As on date of Audit, the ratio between UPS (288) and primary schools (782) was 1:2.8 indicating a shortage of 103 UPS in the State as can be seen from the table below:

Table – 3.4.2

District	Primary school	Upper primary school	Ratio
East	242	95	1:2.54
West	225	74	1:3.04
South	225	89	1:2.68
North	90	30	1:3.00
Total	**782**	**288**	**1:2.72**

Source: District Information System of Education (DISE) Report

Mismatch between the desired ratio (1:2 between UPS and PS) and actual ratio was indicative of improper planning which was bound to have adverse impact on effective programme implementation.

In reply, the SPD stated (September 2006) that there was no mismatch between the desired and actual ratio in the State as per the required ratio of 1:2. The reply is factually incorrect as the ratio was worked out by Audit on the basis of actual number of UPS and PS.

3.4.8.4 Education Guarantee Scheme (EGS) Centres

SSA guidelines (*Para 3.2)* envisaged opening of Education Guarantee Scheme (EGS) centres for bringing back out-of-school children to schools with the help of NGOs. To achieve this, opening of 87 EGS centres in the State was approved (December 2002) and Rs. 42.52 lakh was sanctioned (between 2002-03 and 2004-05) and released by the GOI (December 2002).

It was noticed during Audit that:

- Only as late as in March 2005, 22 EGS centres were opened with the involvement of 5 NGOs and another 29 additional EGS centres were opened during 2005-06 which accommodated 256 out-of- school children.
- Inspite of projected requirement and sanction of funds, EGS centres were not opened in time and as a result even after five years only 8,723 out-of-school children from the total of 15,033 (April 2001) could be brought back to school till March 2006.
- No financial assistance was released to the NGOs for running the EGS centre so far in the absence of which it was highly unlikely that the NGOs would be either able or willing to carry out any worthwhile work.

Thus, opening of EGS centres contributed little towards achieving the SSA programme objectives of bringing back all out-of-school children to school.

3.4.8.5 Excess appointment and irregular deployment of Coordinators and teachers appointed under SSA

SSA guidelines envisaged appointment of:

- At least two teachers in a primary school ;
- One graduate teacher for every class in the upper primary schools opened under SSA;
- One co-coordinator each in BRCs and CRCs.

It was seen that 111 graduate teachers, 106 monastic teachers and 140 coordinators were appointed for schools opened under SSA, of which 14 graduate teachers, 38 monastic teachers and 26 coordinators were posted to Government schools which were not covered under SSA, without any recorded reasons. Thus, the expenditure of Rs. 1.75 crore incurred on salaries of these teachers and coordinators did not contribute towards development of education under SSA and instead led to diversion of SSA funds.

In case of primary schools opened under SSA, SIS appointed (2003-04) 82 School Mothers (SM) and 80 Primary Teachers (PRT) during 2003-04 against the requirement of 30 school mothers and 60 PRTs for 30 completed schools under SSA. This led to appointment of 52 excess SM and 20 PRTs. Expenditure of Rs. 1.41 crore incurred on the salaries of SM (Rs. 69.36 lakh) and PRTs (Rs. 71.86 lakh) thus stood diverted. Details are shown below:

Table -3.4.3

(Rupees in lakh)

Year	Appointment		No. of primary schools		Requirement as per norms		Excess teachers		Excess expenditure on salary	
	PRT	SM	Constructed	Progressive total	PRT	SM	PRT	SM	PRT	SM
2003-04	80	82	11	11	22	11	58	71	34.80	25.56
2004-05	-	-	10	21	42	21	38	61	22.80	21.96
2005-06	-	-	9	30	60	30	20	52	14.26	21.84
Total	**80**	**82**	**30**	**30**		**30**		--	**71.86**	**69.36**

Source: Annual Report

While accepting the facts, SPD informed (September 2006) that the 20 PRTs and 82 SMs were deployed in schools other than SSA schools. The reply is not tenable as the guidelines did not provide for appointment of PRT and SM for non-SSA schools.

3.4.8.6 Non-execution of civil works for infrastructure development

As per the SSA norms infrastructure such as new school buildings, additional rooms, block resource centres, etc should be created according to the plan prepared by the District Project Offices (DPOs) and approved in the AWP. Annual plans prepared by the DPOs were approved by the PAB as AWP for phase-wise implementation. Audit scrutiny revealed that the SIS failed to execute the civil works relating to creation of infrastructure as per the targeted plan. No civil works were executed for creation of infrastructure during 2001-02 and 2002-03. Other basic amenities (toilets, drinking water facilities, electrification of new primary schools and other upgraded UPS schools) which were required for schools were also not provided as per the approved plan. From 2003-04, although some progress was shown in the civil works, the total achievement as on April 2006 was far from satisfactory. While the shortfall in construction of new school buildings was 33 *per cent*, shortfall in additional rooms was 57 *per cent*, construction of block resource centres was 56 *per cent* and cluster resource centres was 65 *per cent*. Slow progress of the civil works led to huge pendency of civil works as can be seen from the table below:

Table – 3.4.4

Component	2001-02		2002-03		2003-04		2004-05		2005-06		Total		Shortfall
	T	A	T	A	T	A	T	A	T	A	T	A	*(per cent)*
New school building	2	Nil	11	Nil	23	11	4	10	5	9	45	30	15 (33)
Addl rooms	3	Nil	44	Nil	105	29	124	75	-	15	276	119	157 (57)
BRCs	-	-	-	-	7	Nil	2	1	-	3	9	4	5 (56)
CRCs	-	-	8	Nil	3	6	22	Nil	35	18	68	24	44 (65)
Fencings	-	-	-	-	56	14	80	13	40	113	176	140	36 (20)
Toilets	120	Nil	299	Nil	114	366	111	67	75	196	719	629	90 (13)
Drinking water	65	Nil	212	Nil	140	113	74	161	38	84	529	358	171 (32)
Electricity connections	-	-	-	-	165	40	150	50	70	153	385	243	142 (37)

Source: Annual Report. T= Target, A= Achievement.

Further, as per the norms of SSA, two classrooms with verandah and a room for the Headmaster was to be provided in each of the upper primary schools. Although 37 primary schools were upgraded to upper primary schools under SSA during 2002-03 to 2005-06 incurring Rs. 1.51 crore, rooms for the

Headmaster as envisaged in the SSA guidelines was not provided in any of the 37 upgraded primary schools. Audit scrutiny revealed that slow pace of civil works was primarily due to shortage of funds as major chunk of available funds were utilised towards meeting the salary of the teachers appointed under SSA.

The beneficiary survey conducted by SRI also confirmed slow pace of progress in civil works as evidenced from the following:

- While none of the upper primary schools completed construction of new buildings, only 14.3 *per cent* of primary schools and 5.6 *per cent* of high schools completed construction;
- While none of the primary schools and upper primary schools undertook repairs of compound walls and installation of gates, only 1.6 *per cent* of high schools undertook construction of compound walls;
- While none of the upper primary school reported construction of staff quarters, only 1.6 *per cent* of primary schools and high schools constructed staff quarters and separate room for the Headmaster respectively;
- About 3.2 *per cent* of primary schools, 1.6 *per cent* upper primary and high schools .each reported utilising funds from SSA to construct water supply installation in the schools;
- 1.6 *per cent* each of primary schools and high schools had constructed staff rooms for the teachers and separate room for the Headmaster respectively, while none of the upper primary schools reported construction of staff rooms.

While accepting the facts, the SPD stated (September 2006) that civil works for infrastructure development could not be executed in time due to funds constraint as the available funds were utilised towards teachers' salary and informed that civil works had since been initiated.

3.4.8.7 Shortfall in training of BRCs and CRCs

SSA envisaged establishment of BRCs / CRCs to work as resource centres for catering to a group of schools in a block / cluster by way of professional upgradation of primary school teachers through conducting various in-service training programmes at block level itself. The BRCs and CRCs were required to impart training to teachers, visit schools, train SMC members for proper implementation of SSA at grass root level and identify issues and problems inside and outside the classroom.

It was noticed that although sufficient funds were earmarked for training of SMC members, co-ordinators, community leaders' etc. training provided to them fell short of requirement as detailed below.

Table – 3.4.5

Particulars	2003-04		2004-05		2005-06		Total		
	T	A	T	A	T	A	T	A	Shortfall in percentage
Training of SMC members/ community leaders	4,378	1,673	4,378	1,673	5,302	2,250	1,4058	5,596	60
Training of Coordinators	140	Nil	140	Nil	140	Nil	420	Nil	100

Source: Annual Report. T= Target, A= Achievement.

It was also noticed that the services of Coordinators (BRC/CRC) were not utilised as coordinators but instead were deployed as teachers in the Government schools. Thus, the very objective of the scheme to appoint them as co-ordinators was defeated and their appointment did not also contribute towards quality improvement of education in SSA schools as envisaged in the guidelines. This was also confirmed during joint physical verification conducted by Departmental officers in presence of Audit team.

3.4.8.8 Shortfall in teachers' training

To upgrade the skills of teachers, the SSA provided for 20 days in-service course for all teachers each year, 60 days refresher course for untrained teachers and 30 days orientation for fresh recruits. The State had one institute each of District Institute of Education and Training (DIET) and State Council of Education, Research and Training (SCERT) located at Gangtok. According to the annual plan of SSA, the responsibility of teachers' training was assigned to DIET and SCERT and accordingly Rs. 1.72 crore was released to them between 2002-06 for training 8,766 teachers.

Test check of records revealed that against the target of 8,766 teachers only 1,872 teachers were imparted training in various categories leaving 6,794 teachers untrained. Shortfall of training in various categories ranged between 72 and 100 *per cent*, both in physical as well as financial terms indicating that the objective of training the teachers, with the ultimate goal of improvement in quality of education, remained largely unfulfilled. Details are shown below:

Table – 3.4.6

Training Category	Physical							Financial						
	Target			Achievement			Shortfall (%)	Target			Achievement			Shortfall (%)
	2004-05	2005-06	Total	2004-05	2005-06	Total		2004-05	2005-06	Total	2004-05	2005-06	Total	
60 days	690	1,050	1,740	-	-	-	100	28.68	44.10	72.78	-	-	-	100
30 days	225	252	477	56	-	56	88	4.73	10.29	15.02	1.18	-	1.18	92
20 days	4,270	2,279	6,549	699	1,117	1,816	72	50.78	33.31	171.89	9.78	15.02	25.98	72
Total	5,185	3,581	8,766	755	1,117	1,872	78	84.19	87.70	171.89	10.96	15.02	25.98	86

Note: The programme was not implemented till 2003-04

No reply was furnished by the SPD.

3.4.8.9 Excess expenditure on management cost

Programme guidelines forbade expenditure in excess of 6 *per cent* of yearly budget of a district plan towards 'management cost' for meeting expenditure such as office expenses, hiring of experts, POL, community planning processes, civil works, and development of effective teams at State/District/Block/Cluster levels.

It was, however, noticed that the SPO and four districts incurred expenditure towards management cost for the period 2003-04 to 2005-06 aggregating Rs. 2.70 crore indicating 14 *per cent* as against the permissible 6 *per cent* limit of Rs. 1.17 crore. Details are given below:

Table – 3.4.7

(Rupees in lakh)

Year	Budget	Permissible expenditure (6 *per cent* of cost)	Actual expenditure			Excess expenditure
			Districts	SPO	Total	
2003-04	404.54	24.27	61.42	22.73	84.15 (21)	59.88
2004-05	600.00	36.00	58.79	40.24	99.03 (17)	63.03
2005-06	942.25	56.54	66.27	20.15	86.42 (9)	29.88
Total	**1,946.79**	**116.81**	**186.48**	**83.12**	**269.60 (14)**	**152.79**

Source: Annual Reports & Monthly Progress Report

Thus there was an excess expenditure of Rs. 1.53 crore (8 *per cent*) which not only resulted in irregular expenditure on management cost beyond the permissible limit but also led to the curtailment of other components already approved in AWP&B.

It was also seen that the South district incurred the maximum expenditure with 14 *per cent* followed by the North district (10 *per cent*), East district (8 *per cent*) and West district (7 *per cent*) beside the SPO comprising 31 *per cent* of the total expenditure on management cost.

In reply, the SPO stated (September 2006) the expenditure of Rs. 2.70 crore towards management cost was within the prescribed limit of 6 *per cent* of the approved budget. Further, the SPO also stated that it was not possible to restrict the expenditure on the basis of actual receipt of the funds as SMA would not know the likely receipt of funds at the year end. The reply of the SPO is not tenable as guidelines categorically stipulated restriction of management cost to 6 *per cent* of the budget of the district plan.

3.4.8.10 Non-maintenance of assets registers

According to the conditions of sanction of grants, asset register indicating all assets acquired out of the grant upto the end of the period of the return was to be maintained and submitted at the close of the financial year along with certified copies of such register.

Details of funds released by the GOI and State Government to DPOs and SPOs are detailed below:

Table – 3.4.8

(Rs. In lakh)

Year	*West*	*North*	*East*	*South*	*SPO*	*Total*
2001-02	7.07	6.72	5.96	8.34	-	28.09
2002-03	-	-	-	-	4.31	4.31
2003-04	8.20	37.48	33.40	35.34	4.03	118.45
2004-05	65.58	45.98	10.90	24.98	128.36	275.80
2005-06	99.55	84.25	51.15	40.02	140.10	415.07
Total	**180.40**	**174.43**	**101.41**	**108.68**	**276.80**	**841.72**

It was seen during Audit that although the major chunk (Rs. 8.42 crore) of funds released by the GOI and State Government for implementation of the programme was utilised towards creation of assets (*i.e* school buildings and other infrastructure, computers, furniture, vehicles, Xerox machines and other fixed assets), the asset registers as required under the terms and condition of sanctions were not maintained by the SIS nor the yearly returns furnished to the Ministry. The joint physical verification carried out by Departmental officers and Audit also confirmed the above facts.

The reply of the SPD (September 2006) that the assets registers were being maintained is not tenable as the SIS could not produce any of the assets registers even after repeated reminders.

3.4.9 Research and Development

SSA considered Research and Development (R&D) activity as one of the important activities to bring about improvement in quality education and accordingly provided Rs. 1,500 per school per year for research, evaluation, and supervision and monitoring under the programme.

Test check of records revealed that out of Rs. 23.94 lakh sanctioned and released between 2002 and 2006, only Rs. 5.96 lakh (25 *per cent*) was spent on R&D activities which was indicative of the fact that the work on this front was not given due importance by the SIS.

During exit conference (September 2006), the Departmental officers admitted that the sanctioned amount was not properly utilised for the appropriate purposes. Thus, the objective of SSA to bring about quality improvement through research and development was not achieved.

3.4.10 Monitoring and evaluation

Monitoring of the implementation of the SSA programme was to be done at two levels i.e local level and State level. Professional institutes were also required to be involved with supervision and monitoring of SSA. To facilitate effective monitoring, quarterly and six-monthly reports were to be obtained from DPOs etc for consolidation at the State level.

It was noticed in Audit that the monitoring was severely lacking as local level monitoring by village education committees was almost absent and SPO had not attempted any evaluation of quality improvement of education as envisaged in the SSA guidelines. No report indicating any monitoring ever conducted by the professional institute (North Bengal University) was produced to Audit. No Action Plan was ever drawn for monitoring of SSA activities by the DPOs and SPO. Even General Body and executive committee had not attempted any evaluation studies to gauge the success of the programme. This was indicative of the fact that emphasis was more on spending than monitoring the progress of SSA in bringing down number of out-of-school children and improving quality of education, etc.

3.4.11 Conclusion

Even after completion of five years of implementation of SSA in the State, 6,310 out- of- school children in the age group of 6-14 years could not be *brought back to the mainstream of the education system. EGS centres and alternative schools were opened only as late as February 2005. Major chunk of available funds were utilised towards teachers' salary, civil works, computer education and management cost while crucial activities like research and development, curriculum development, teacher training, etc remained neglected. Monitoring of the scheme was not attempted either by the State Government or the Ministry to gauge the effectiveness of the programme. The emphasis was more pronounced on spending rather than the actual attainment of the programme objectives.*

3.4.12 Recommendations

Considering the status of the implementation, following recommendations are made:

- All out effort should be made to bring back out- of- school children to mainstream of education without further delay;
- Teachers training, curriculum development, R&D activities should be given due priority to bring about quality improvement in the education;
- Proper monitoring mechanism be instituted to check misutilisation/ diversion of funds;
- Infrastructure facilities such as school buildings and other basic amenities (toilets/drinking water/boundary wall/ electrification etc.) should be created expeditiously.
- In respect of programmes undertaken by the SSA information should be displayed as required under the Right to Information Act.

WATER SECURITY AND PUBLIC HEALTH ENGINEERING DEPARTMENT

3.5 Urban Water Supply

Performance Audit of Urban Water Supply System revealed non-framing of 'State Water Policy' in line with the 'National Water Policy' and absence of long-term perspective planning. Baseline survey for assessing actual requirement of potable water and preservation of water sources had never been conducted. Contamination of water was prevalent due to inadequate and ineffective water treatment and alignment of pipelines through drains and jhoras. Leakages and wastage of water was rampant as the Department failed to put in place vigilance mechanism to detect un-authorised connections and wastage of water. There was excess and unnecessary expenditure in execution of works while beneficiary participation in creation of assets could not be obtained. Water tariff fixed by the Department was devoid of any cost analysis and revenue collection lax leading to huge gap between the revenue earned vis-à-vis operation and maintenance costs.

Highlights

The State Government failed to formulate its State Water Policy as envisaged in the National Water Policy (NWP) 2002 leading to absence of policy directives.

(Para- 3.5.7)

The Department gave assurance that sufficient drinking water was supplied without conducting any baseline survey evaluating its supply systems.

(Para- 3.5.7 & 3.5.12)

Supply of quality drinking water could not be assured in the absence of effective treatment and alignment of pipelines through drains and *jhoras*[36].

(Para- 3.5.10.2)

Non-metering of consumers led to wastage of water and consequent loss of revenue of Rs. 1.51 crore per annum.

(Para- 3.5.7.4)

There was a huge gap of Rs. 14.24 crore between the revenue realised and the operation and maintenance cost during the period under Audit.

(Para- 3.5.7.5)

Failure to realise 5 *per cent* capital cost from the beneficiaries led to loss of Rs. 3.64 crore to the Government.

(Para- 3.5.11.1)

3.5.1 Introduction

The Water Security and Public Health Engineering Department (WS&PHED) is responsible for ensuring sufficient supply of clean and safe drinking water to all consumers of the capital town of Gangtok, eight other notified towns[37] and 55 Rural Marketing Centres (RMCs)[38] in Sikkim. This primarily involved (i) planning and implementation of new water supply schemes/programmes, (ii) adequate and timely maintenance and repairs of the existing water supply systems and (iii) developing strategies to meet the increasing demand for water due to population growth, besides timely formulation of water tariff and collection of revenue.

3.5.2 Organisational set-up

The responsibility of all activities relating to urban water supply system vested with the Principal Chief Engineer-cum-Secretary, Water Security and Public Health Engineering Department (WS&PHED), supported by an Additional Chief Engineer at the Headquarters and a number of other engineers and staff as shown in the chart below:

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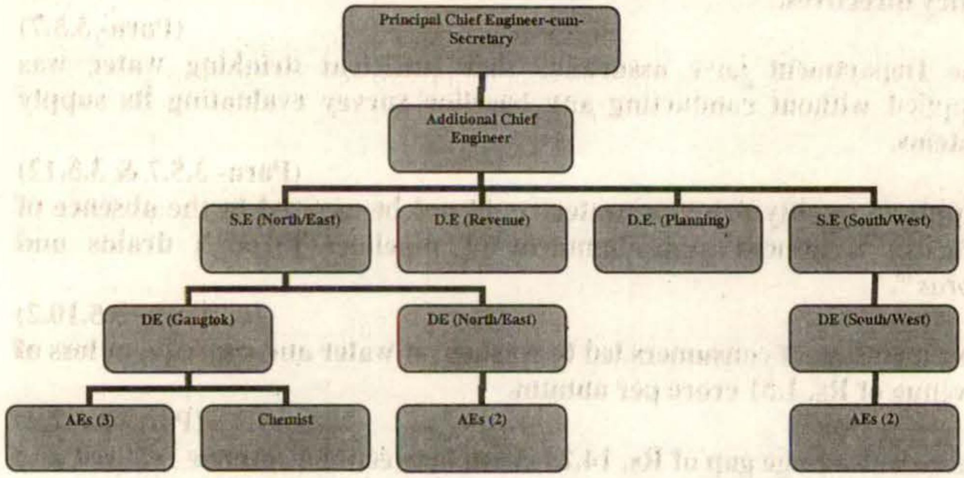
[36] *Mountain streams usually carrying filthy water.*

[37] *Jorethang, Namchi, Naya Bazar, Rongpo, Singtam, Mangan, Gyalshing and Melli.*

[38] *RMCs are small bazaars in rural areas away from the main towns.*

Chart- 3.5.1



3.5.3 Scope of Audit

Records relating to the period from 2001-02 to 2005-06 in the office of the Principal Chief Engineer-cum-Secretary and three (North-East, Gangtok and Revenue) out of the five Divisional Engineers' offices were reviewed during the Performance Audit carried out between May and June 2006. About 40 *per cent* (Rs. 40 crore) of the total expenditure of Rs. 100 crore on water supply schemes undertaken/ completed during the period were test-checked in Audit during this period.

3.5.4 Audit Objective

The primary objective of the Performance Audit was to assess the efficiency and effectiveness of various programmes in the WS&PHE Department in ensuring supply of sufficient and safe drinking water to the consumers. This entailed assessing and verifying whether:

- The State Water Policy was formulated and implemented in an efficacious manner;
- Sustainability of the water sources was ensured;
- Adequate treatment facility existed for ensuring prescribed drinking water quality;
- Infrastructure maintenance / up-gradation was adequate;
- Works were executed economically, efficiently and effectively; and
- Monitoring, evaluation and vigilance mechanism was adequate, efficient and effective.

3.5.5 Audit criteria

For arriving at conclusions against the above Audit objectives, the following criteria were adopted in Audit:

- Targets and milestones set in the policy pronouncements of the Government,
- Norms / scale for discharge capacity of water sources and requirement of water per consumer as prescribed,
- Treatment as per prescribed norms for ensuring quality,
- Codal provisions for execution of works, and
- Norms / standards for replacement/ up-gradation and maintenance of assets.

3.5.6 Audit methodology

The Performance Audit process began with group discussions (February 2006) with various stake holders, followed by selection of sample based on multi-stage sampling combining simple random sampling and probability proportionate to size (expenditure). Before commencement of the field Audit, Audit engagement letter (April 2006) was sent to the Department followed by entry conference (May 2006) wherein the broad performance indicators and criteria for evaluating implementation of the water supply system were discussed and agreed to.

Questionnaires were issued on various aspects like targets, achievement and status of various water supply projects etc. The data provided by the Department was analysed with reference to original records in three divisional offices and head office and discussed with senior officers of the Department. At the end of the Audit, exit conference was held (September 2006) and the report finalised after taking into consideration the views of the Department during the exit conference.

Audit findings

3.5.7 Policy and planning

A National Water Policy (NWP) adopted in September 1987 and reviewed and updated in April 2002 *inter alia* envisaged formulation of State Water Policy (SWP) backed by an operational action plan to achieve the desired objective of provision of safe drinking water to entire population. The State Government, however, had neither formulated a SWP nor worked out any long term perspective plan to build capacity for increased demand in future. Besides, no base line survey was ever conducted to assess the present and future requirements of water given the population growth and expansion of urban conglomerates. Absence of policy directives resulted in the following deficiencies:

3.5.7.1 No annual targets fixed

The WS&PHED did not have annual targets for accomplishing various works (new construction, up-gradation and maintenance) since there was no long term perspective plan in place. Audit analysis revealed that even the broad based targets *(institutional reforms, preparation of master plan, outsourcing revenue collection, contain leakages and establishment of water testing laboratories in all districts)* mentioned in the State Plan documents (2002-07) were not achieved as of September 2006. There was no time frame set by the Department as to when each of these targets would be met. The Department while accepting the Audit observation stated (September 2006) that necessary steps would be initiated to formulate SWP, master plan, institutional reforms and establishment of laboratories.

3.5.7.2 Misplaced priority

In terms of population coverage, the capital town of Gangtok was shown as *'fully covered'* while the seven notified towns and 34 Rural Marketing Centres (out of 55) were shown as *'partially covered'*. But despite the fact that there was still some coverage to be done / achieved, the Department took up construction of water fountain and beautification works like laying of tiles and compound lighting etc. at Selep in Gangtok for Rs. 71.50 lakh during 2005-06 as can be seen from the photograph. This indicated misplaced priorities by the Department in its planning.

Beautification works in Selep Treatment Plant: Laying of tiles, etc.

3.5.7.3 Preservation of water sources

The water supply systems of the State were based on snow-fed rivers and mountain streams which were sensitive to pollution, population growth and environmental degradation. Audit scrutiny revealed that the Department had not conducted any detailed study to record the gradual decline in the yield of water from the sources and had not initiated any tangible action for preservation of ecology and water sources.

3.5.7.4 Non-metering of consumers

Sikkim Water Supply and Water Tax Act 1986 stipulated fixation of water charges for supply of water under the Act on metered basis or on the basis of number of taps installed. The Department chose to fix water charges on the basis of number of taps installed rather than on metered consumption although the former had several well known inherent deficiencies.

The Government fixed (Notification dated 3 October 2001) water charges on metered basis at the rate of Rs. 3 per 1,000 litres (minimum) for industrial units, commercial establishments and residential premises where the Department made bulk supply of water. In terms of the notification, water meters were to be procured and installed by the consumers themselves. The average consumption of water per capita per day for urban areas was estimated at 135 litres by the Department, which translated to 4,050 litres per capita per month, indicating bulk consumption. At this rate, annual water consumption for the year 2005–06 would be 60,750 lakh litres for a population of 1.25 lakh of Gangtok. The revenue from water charges for the year 2005-06 would, therefore, work out to Rs. 1.82 crore, if realised on metered basis. Against this, the revenue realised on the prevailing tap based tariff for the year 2005-06 was only Rs. 30.53 lakh – a difference of Rs. 1.51 crore in one year alone. Metering of domestic connections was also recommended (February 2005) in a report by AUSAID[39]. However, the Department had failed to adopt a clear policy on this issue so far.

In reply, the Department stated (September 2006) that metering of the water supply system of Gangtok would be taken up once the detailed project report submitted to Asian Development Bank for funding was cleared.

3.5.7.5 Revenue generation vis-à-vis O & M cost

Scrutiny revealed that the methodology adopted by the Department to fix water charges was not based on an analysis of the operating cost, depreciation and assets replacement cost vis-à-vis the anticipated revenue. Tariff structures were neither revised periodically nor the Department/Government fixed any norms for such regular revision. During 2001-02 to 2005-06, water tariff was revised only once (October 2001). Thus there was a huge gap between the operation & maintenance cost (not including depreciation) and the corresponding revenue realised as indicated below:

Table- 3.5.1

(Rupees in lakh)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	Total
O & M	320.20	325.26	417.94	334.71	332.46	1,730.57
Revenue	38.34	57.29	56.96	73.71	80.69	306.99
Difference	*281.86*	*267.97*	*360.98*	*261.00*	*251.77*	*1,423.58*

Source: Detailed Appropriation Accounts and Finance Accounts

It was seen that while formulating the water supply schemes, the Department invariably projected a favourable cost benefit ratio on the basis of which the projects were sanctioned by the funding agencies. However, in reality, the Department did not take resolute steps to translate the projections into a reality leading to gap between the revenue earned and the O & M cost and consequential huge financial liability of Rs. 14.24 crore during the five year period alone.

3.5.7.6 Leakage / wastage of water

The Department had not fixed any norms for probable maximum quantity of leakage from a water supply system. The *'Gangtok Water Supply System'*, supplied 30 to 36 million litres per day (mld) of water for catering to the requirement of the city. For the Gangtok population of 1.25 lakh the requirement of water per day would be 16.86 mld[40] at the rate of 135 lpcd[41].

[39] *Australian Aid Agency.*

[40] *Million litre/day*

[41] *Litre per capita/day*

Thus 13.14 mld of water, which constituted 44 *per cent* of the minimum daily discharge (30 mld) from the treatment plant was unaccounted for. Similarly, the loss/leakage of water from systems in the other towns and RMCs ranged from 7 to 80 *per cent* of the quantity of water released from the respective sources.

The Central Public Health & Environmental Engineering Organisation norm for leakage / loss was 10 *per cent*. Compared to this norm, the loss/leakage/pilferage of water at 44 *per cent* for Gangtok and 20 to 80 *per cent* for other towns and RMCs was abnormally high. The Department had not put in a policy to mitigate the problem by installation of bulk meters at various points in the feeder lines, strengthening of vigilance and surveillance mechanism etc.

In reply, the Department stated (September 2006) that after completion of the ongoing augmentation works wastage/leakages in Gangtok would be minimised and similar exercise shall be carried out in other towns and RMCs in a phased manner.

3.5.8 Budget and Financial Management

Budget estimates, actual expenditure, savings and excess figures under revenue and capital head during the period from 2001-02 to 2005-06 were as under:

Table- 3.5.2

(*Rupees in lakh*)

Year	Budget Provision			Actual Expenditure			Saving (-)/Excess (+)		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
2001-02	521.15	976.32	. 1,497.47	520.44	974.30	1,494.74	-0.71 (0.14)	-2.02 (0.21)	-2.73 (0.18)
2002-03	543.45	1,031.01	1,574.46	541.00	1,030.85	1,571.85	-2.45 (0.45)	-0.16 (0.02)	-2.61 (0.17)
2003-04	661.62	966.87	1,628.49	663.02	893.43	1,556.45	1.40 (0.21)	-73.44 (7.59)	-72.04 (4.42)
2004-05	352.55	2,183.12	2,535.67	349.93	2,186.92	2,536.85	-2.62 (0.74)	3.80 (0.17)	1.18 (0.05)
2005-06	603.18	2,413.13	3,016.31	609.93	2,201.92	2,811.85	6.75 (1.12)	-211.21 (8.75)	-204.46 (6.78)
Total	2681.95	7570.45	10252.40	2684.32	7287.42	9971.74	2.37	-283.03	-280.66

Source: Appropriation Accounts. Figures in brackets represent percentage

Analysis of budgetary and financial management revealed the following defects:

3.5.8.1 Significant savings

Significant savings of Rs. 0.72 crore during 2003-04 and Rs. 2.04 crore in 2005-06 was due to delayed/non-receipt (December 2003) of funds from GOI.

3.5.8.2 Substantial committed liability

The Department incurred substantial financial liability year after year without adequate budgetary support in contravention of the State Public Works Code leading to accumulated committed liability increasing from Rs. 57.74 lakh in 2001-02 to Rs. 1.10 crore in 2003-04. It however dipped thereafter to Rs. 92.18 lakh in 2004-05 and Rs. 28.23 lakh in 2005-06[42]. The spending

[42] *The figure for 2005-06 was provided by the Department; for remaining years calculation was made by Audit in the value of works physically completed but payment not made/partially made.*

Department as well as the Finance, Revenue and Expenditure Department failed to impose any restriction on creation of liabilities beyond the approved allocation indicating inadequate budgetary control. The Department stated (September 2006) that it shall be more vigilant in future.

3.5.9 Implementation of Projects/Schemes

During the period 2001-06, the Department had undertaken 43 schemes/projects for execution, out of which 28 were completed and 15 were under progress *(ranging between 20 to 99 per cent of completion)* as of March 2006. Out of the above, 14 projects were selected for scrutiny in Audit; the results are enumerated in the succeeding paragraphs:

3.5.9.1 Avoidable wasteful expenditure on abandonment of Rangpo Water Supply System due to faulty design

The Department took up (January 2003) the "augmentation of the Rangpo water supply system by lifting water from Rangpo Khola" at an estimated cost of Rs. 1.31 crore though it was fully aware of the design flaw issues in the new venture pointed out (July 2001) to it by the Principal Secretary-cum-Development Commissioner, Planning and Development Department. A similar project by the Animal Husbandry & Veterinary Services (AH & VS) Department had also failed in the past. The result was that while the civil works and procurement of pipes and fittings were progressing, the entire foundation work of the Pumping Station and the intake structure were damaged due to flooding of the river during May 2003, as initially apprehended. To make good the damage and ensure viability of the project, the Department proposed revision of the original estimates of Rs. 1.31 crore to Rs. 1.87 crore by making extensive changes to the scope of work. The revised proposal was however turned down (January 2004) by NABARD and in the absence of fund, the project was suspended after incurring Rs. 1.02 crore. The Additional Chief Engineer also proposed (September 2005) closure of the project. No decision on the matter had been taken as of September 2006. Thus, despite failure of AH & VS in similar project and knowing there was design flaws the Department went ahead with the Rangpo water supply System rendering the whole expenditure as wasteful.

3.5.9.2 Irregular and excess contingency provision

The Department irregularly inflated the contingency provision to Rs. 1.16 crore (13 *per cent* of the work value) as against the stipulated provision of 3 *per cent* (Rs. 26.13 lakh) as per the Sikkim Public Works Code, in case of the 'Augmentation of Gangtok Water Supply Scheme, Phase – II' project thereby making excess provision of Rs. 89.79 lakh. This excess amount was diverted in meeting expenditure on muster roll, maintenance of sewerage system and buildings, etc which were not related to the project.

3.5.9.3 Avoidable excess projection of expenditure in carpeting works

The project 'Augmentation of Gangtok Water Supply Scheme, Phase – II' envisaged carpeting of damaged road surfaces wherever the pipelines were laid along the roads for total length of 14,150 metres in 28 sub-works. However, in the analysis of costs for carpeting works, the width of the surface to be carpeted was taken as 100 cm instead of 60 cm *(actual width of the trench),* thereby unduly inflating the quantities of labour and materials consumed and incurring excess expenditure of Rs. 22.64 lakh.

3.5.9.4 Excess purchase of sockets

In addition to procurement of pipes for laying of water supply lines, the Department also purchased sockets for connecting the pipes. Test check revealed that all the pipes procured by the Department invariably came with a socket attached at one end. The Department, however, never took into account the sockets that came with the pipes and instead procured additional sockets worth Rs. 24.87 lakh during the year 2001-02 to 2005-06 leading to extra expenditure as there was no requirement for additional sockets for joining the pipes.

In reply, Department stated (September 2006) that cutting of pipes to shorter lengths at places necessitated additional sockets. The reply is not tenable as the Department had never taken into account the sockets already available with pipes when newly purchased, as seen during scrutiny of their purchase proposals.

3.5.9.5 Estimation of quantity of steel for RCC works

Audit scrutiny revealed that in all *nine*[43] schemes out of 14 involving construction of RCC structures, the method of estimation of steel by the Department was fundamentally flawed as the detailed drawings of RCC structures and the *bar bending schedules*[44] as prescribed in principles of civil engineering were never prepared. Resultantly, the Department used different quantities of steel per unit volume of RCC in different schemes within the same State for the same type of work as can be seen from the table below:

Table-3.5.3

Sl	*Item of work*	*Requirement of steel*
1.	RCC sedimentation tanks	130 kg per cum (1 case) , 160 kg per cum (2 cases) and 192.44 kg per cum (3 cases).
2.	Intake tanks	160 kg per cum (1 case), 130 kg per cum (4 cases) and 128 kg per cum (2 cases)
3.	Reservoir/ distribution tanks	160 kg per cum (5 cases) and 130 kg per cum (1 case)
4.	Distribution chambers	82 kg per cum, 110 kg per cum and 130 kg per cum

In reply, the Department stated (September 2006) that the quantity of steel varied widely from 47 to 300 kg/cum of concrete and the same was permissible under Indian Standard Code of Practice for re-enforced concrete works. The reply was not tenable as it did not explain the reasons for such a wide variation, particularly when all these structures were built for similar purposes in almost similar terrain.

[43] *Strengthening of Distribution System, Pakyong WSS, Augmentation of Jorethang WSS, Augmentation of Gangtok WS: Ph-II, Augmentation of Singtam WSS, Lachen WSS, Augmentation of Pakyong WSS, Chungthang WSS, WSS to tourist cultural centre at Chemchey.*

[44] *Detailed statement containing calculation sheet of different size, shape, position and quantity of steel bars required in RCC works.*

3.5.10 Water quality

Water supplied to public must be potable from the point of view of its chemical, physical and biological characteristics. The Department was, however, found wanting in this respect despite substantial investments so far in this sector during the period under Audit as is evident from following observations:

3.5.10.1 Pre distribution treatment

The Department had not attached the desired importance to pre-distributed water treatment as out of 35 water supply systems in the State, only five had full water treatment facilities *(with sedimentation, filtration and disinfection)* while the remaining 30 systems had partial treatment facilities *(physical application of bleaching powder and alum only)*. Inadequate treatment of water was fraught with the risk of health hazard, outbreak of water borne diseases, etc. Audit point was borne out by the fact that instances of water borne diseases like diarrhoea, gastroenteritis, cholera afflicting 42,843, 48,573 and 50,617 persons resulting in five, two and one death had come to notice of the Health Department of the State Government during 2003, 2004 and 2005 respectively due to consumption of contaminated water. In reply, the WS & PHED stated (September 2006) that it would provide full treatment facilities for all the systems under its purview in a phased manner as per availability of resources. But Audit scrutiny revealed that the Department had not made any time bound plan for achieving the same.

3.5.10.2 Ineffective water treatment

Scrutiny of test reports of Central Water Testing Laboratory, Selep for 34 months between June 2002 to October 2005 revealed bacterial contamination of water in one or the other consumer points in the reports of as many as 30 months indicating ineffective treatment of bacteriological contamination. This rendered the expenditure on chemicals, salaries and wages of chemist, lab attendants and the equipments largely ineffective. Similarly, test reports (June 2002) in respect of Mangan, Phodong and Chungthang in the North District also indicated bacteriological contamination. In reply, the Department stated (September 2006) that the consumers lines were laid through jhoras and drains which may probably be the source of contamination for which remedial measures had been initiated. However as of September 2006, no progress could be seen during physical verification by the departmental officials in the presence of Audit.

3.5.10.3 En-route contamination of water

Survey (November 2002) conducted under the Aus-aid project indicated coliform contamination of water leading to high gastro-intestinal related morbidity. Physical verification by Audit in the presence of Departmental Officers confirmed the enroute contamination of water due to cross-contamination between sewer lines and drains with water lines *as can be seen from the photograph below:*

Pipelines running through drain in Tibet Road area

While accepting the Audit observation, the Department assured (September 2006) to initiate action for removal of consumer supply lines from the jhoras / drains to mitigate the problem.

3.5.11 People participation and recovery of charges

With a view to inculcate a sense of participation and ownership, it is widely advocated to ensure beneficiary participation and recover user charges so as to offset O&M cost to the maximum extent possible. The GOI guidelines on Accelerated Urban Water Supply Programme (AUWSP) stipulated 5 *per cent* beneficiary contribution towards creation of water supply systems. The Department was found wanting in this respect as elucidated in the following paragraphs:

3.5.11.1 Recovery of beneficiary contribution

The Department proposed (June 2000) to proportionately offset 5 *per cent* of estimated cost as community participation by way of carriage of materials, land donation, *shram daan* etc. while implementing AUWSP in Jorethang and Singtam at an expenditure of Rs. 4.62 crore (Singtam - Rs. 1.26 crore, Jorethang - Rs. 3.36 crore) during 2002-04. However, during actual execution, the Department failed to achieve this and instead incurred an expenditure of Rs. 23.10 lakh. During 2004-05, in a water supply scheme implemented under the Aus-Aid project in the Arithang area of Gangtok, a local NGO (ECOSS) could offset 30 *per cent* (Rs. 23.44 lakh) of the project cost (Rs. 77.33 lakh) through the community participation whereas the Department failed to seek the full and unequivocal support and participation of the beneficiary communities.

The Department could have saved Rs. 3.64 crore (5 *per cent* of Rs. 72.70 crore)[45] during the period 2001-06 had it ensured community participation. Reply of the Department (September 2006) that people's participation was realised through donation of land is not tenable as no value was mentioned for land and no community participation in the form of labour was taken. As mentioned above the NGO managed to offset 30 *per cent* of the cost in case of the Aus-aid project.

[45] *Capital cost of creation of water supply systems during 2001-02 to 2005-06*

3.5.11.2 Arrears of revenue

As mentioned in preceding paragraph, every consumer was billed on the basis of the number of taps and was required to pay the water charges every month. It was, however, noticed that the Revenue divisions of the Department had failed to collect the revenue in time from the consumers leading to substantial increase in arrears of revenue from Rs. 52.40 lakh in 2001-02 to Rs. 56.57 lakh as of March 2006. The major defaulter was Gangtok sub-division (Rs. 32.52 lakh) followed by Namchi sub-division (Rs. 11.53 lakh).

The huge arrear of revenue is indicative of the lackadaisical approach of departmental authority to ensure timely collection of Government revenue.

3.5.12 Monitoring and Evaluation

The Department had not created any monitoring and evaluation cell till date. There was no central authority within the Department to independently monitor the schemes and evaluate their effectiveness. There was no periodic inspection of supply connections to consumers to detect cases of unauthorised connections, leakages and losses of water despite presence of adequate staff (JEs & AEs) to do the same. The level of oversight required to be exercised at the highest level (PCE-cum-Secretary and Additional Chief Engineers) was also found inadequate. It was seen that the monthly progress reports furnished to Planning & Development Department and the Chief Minister's office were mostly incomplete as vital information like scheduled date of commencement of projects, actual date of commencement and completion, revised cost of works, reasons for delay and cost revision etc were not mentioned in most cases.

In reply, the Department agreed (September 2006) to set up a monitoring and evaluation cell.

The Department had also not undertaken any evaluation of its water supply systems during the last five years to assess whether the consumers were being supplied with sufficient drinking water and to identify weak areas and take consequent remedial actions. A study conducted (February 2005) by Aus-aid on Gangtok water Supply systems, *inter alia*, concluded that there was very high incidence of unauthorised connections, leakage / wastage of water and cross contamination of water with drain and sewer lines.

3.5.12.1 Inventory of Assets

The Department had not evolved any system of asset accounting in the form of Asset Registers. Due to this deficiency, an accurate track of assets created by the Department since inception till date could not be made available to Audit. It was also not clear how the Department calculated its budget estimate and how it monitored the requirement of regular maintenance/ replacement to its assets suffering erosion due to time and usage in the absence of a comprehensive listing of its assets.

In reply, the Department stated (September 2006) that it shall initiate the work in this regard during the current financial year itself.

3.5.12.2 Testing for quality of material

There was no system in the Department to conduct test to determine the quality of materials like pipes and fittings, steel, cement, sand and stone aggregates used extensively in construction of the projects. No quality testing laboratory was established in the State till date. In reply, Department stated that it was proposing to establish a testing laboratory during 11th Plan period.

3.5.12.3 Vigilance mechanism to detect un-authorised connections

Survey conducted (February 2005) under Aus-aid project indicated a very high incidence of un-authorised connections, against the Department's assessment of un-authorised connections of 17 *per cent (1,676 nos.)*. Despite the above facts, the Department had not constituted any vigilance mechanism towards regular vigil and detection of un-authorised connections although the Department was not short of manpower. Detection and regularisation of unauthorised connections could have earned the Department minimum recurring revenue of Rs. 6.23 lakh per annum calculated at the minimum rate of Rs. 31 per connection per month.

In reply, the Department stated (September 2006) that unauthorised connections were being checked and would be eliminated by the next two years.

3.5.13 Conclusion

The Water Security and Public Health Engineering Department failed to conduct baseline survey for assessing the actual requirement and usage of water by the consumers. As contamination of water was prevalent due to inadequate and ineffective water treatment and alignment of pipelines through drains and jhoras, the quality of water supplied to the consumers also could not be assured. Due to absence of an effective monitoring and vigilance mechanism, un-authorised connections, leakage / wastage of water continued unchecked.

3.5.14 Recommendations

Following recommendations are made:

The Department should take immediate steps to:

- Expedite formulation of a State Water Policy;
- Conduct baseline survey and prepare master plan for future planning;
- Prioritise activities to accord utmost priority to uncovered areas;
- Improve water quality to supply hygienic and safe water by adequate pre-distribution treatment and prevent en-route contamination;
- Introduce volumetric tariff for making the Department a self sustaining entity;
- Inculcate sense of participation and ownership among the users by realising beneficiaries contribution and publicise all its programme;
- Evolve system of asset accounting in the form of Asset Registers;
- In respect of projects completed and in progress it should display information as required in the Right to Information Act.

CHAPTER-IV

AUDIT OF TRANSACTIONS

CHAPTER – IV
AUDIT OF TRANSACTIONS

4.1 Misappropriation / Loss

FOREST, ENVIRONMENT AND WILDLIFE MANAGEMENT DEPARTMENT

4.1.1 Undue favour in acquisition of a private building resulting in wasteful expenditure

Entertaining of unsolicited offer for purchase of residential building, not required immediately, without proper survey of its physical condition resulted in wasteful expenditure of Rs. 16.60 lakh.

Based on an unsolicited offer received (May 2000) from an individual[1] offering sale of his building located at Namchi, South Sikkim, the Principal Chief Conservator of Forest cum Secretary (PCCFS) initiated (September 2000) a proposal for its purchase stating that the building was immediately required to provide residential accommodation to two Divisional Forest Officers of Social Forestry and Wildlife Circles and to house Range Offices of Land Use and Social Forestry Ranges of Namchi Division. Audit observed that this requirement was projected only after receipt of this unsolicited offer and not before that.

The State Government had constituted (April 1996 / March 2001) a Screening Committee (SC)[2] to examine and clear proposals for acquisition of new office buildings by various State Government Departments. On examining the above proposal of the PCCFS, the SC sought (December 2001) justification for purchasing such a building with reference to its existing strength of staff/officers at Namchi and proposed expenditure to make the building suitable for residential purpose etc. On receipt of reply (March 2002), the SC referred (April 2002) the matter to the Finance Department for detailed examination.

The Finance Secretary advised (April 2002) "*floating of tender for wider publicity and for the sake of transparency*". The PCCFS accordingly published (May 2002) a notice inviting offers, however, conditions/stipulations of proposed building were so tailored that it almost matched the specifications of the building already proposed by them. Expectedly, Shri Phurden Lepcha whose offer was already with the Department, sent his offer and the same was placed again before the SC.

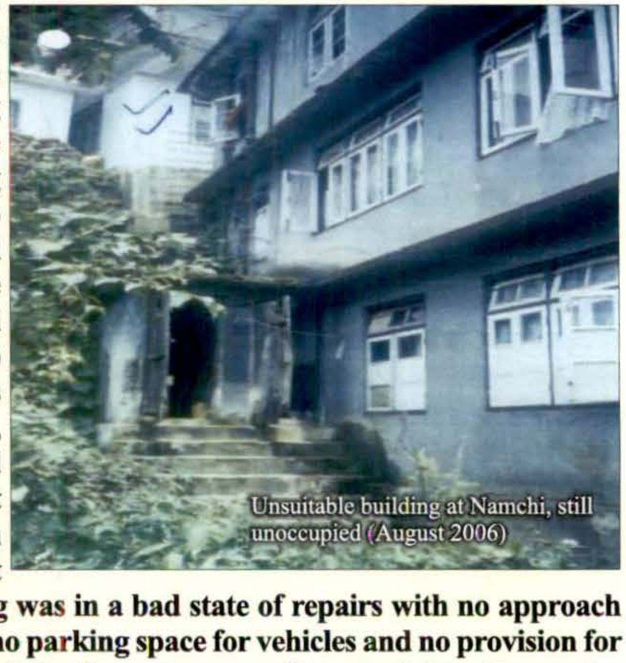
1 *Phurden Lepcha, a resident of Namchi, South Sikkim and son of the incumbent the then Forest Minister of the Government of Sikkim Shri D.T. Lepcha.*

2 *Comprising the Chief Secretary/Addl. Chief Secretary as Chairman and Development Commissioner, Finance Secretary, Secretary to the Chief Minister, District Collectors & Secretary, Building and Housing Department as members.*

The PCCFS categorically stated (May 2002) that the building was approachable by road and had provision for electricity and water supply and that no additional cost would be required to make the building habitable for residential purposes. The SC, however, observed (August 2002) that the expenditure on acquisition of the private building would be wasteful in view of construction of residential quarters and mini-secretariat building at Namchi by Building & Housing Department with the same objective of accommodating Government employees and officers located in the district.

However, despite such repeated rejection of the proposal by the SC, the PCCFS went ahead and acquired (December 2002 / March 2003) the private building at a cost of Rs. 16.60 lakh by obtaining the approval and sanction (November 2002) of the Cabinet.

Though the Department stated (February 2005) that the first and the second floors of the building had been allotted to two DFOs of the Land Use and Wildlife Divisions during February 2004 and the ground floor was being used to accommodate two Range offices of the Social Forestry and Land Use divisions, physical inspection (August 2006) of the building by officers of the Forest, Environment and Wildlife Management Department (FEWD) in the presence of Audit revealed that the building was in a bad state of repairs with no approach footpath to the building, no parking space for vehicles and no provision for supply of water and electricity; it was temporarily occupied by the muster roll staff of the Department.



Unsuitable building at Namchi, still unoccupied (August 2006)

Thus investment of Rs. 16.60 lakh proved unfruitful and wasteful and the purpose for which the building was purchased was defeated as the decision of the PCCFS was only meant to benefit the seller.

In reply, PCCFS, FEWD while accepting the Audit observation, stated (August 2006) that effort would be taken to restore/repair the building to make it suitable for accommodating the proposed offices[3] and residential quarters for ministerial staff.

The matter needs to be investigated by the State Government.

[3] *Office of the Range Officer (Social Forestry and Land Use)*

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.1.2 Fictitious utilisation of rice

Fictitious utilisation of 11,440.34 quintals of rice costing Rs. 91.52 lakh under the Mid-Day Meal Scheme, besides violation of Supreme Court's direction for providing cooked meal for specified school days.

The State Government through the Human Resources Development Department (HRDD) approved implementation of the Mid-Day Meal (MDM), a Centrally sponsored scheme with effect from 25 August 2003. The scheme provided for free supply of food grains from the nearest godowns of Food Corporation of India (FCI) at the rate of 100 gm of wheat/rice per student per day, for the children of primary stage (Class I to V) in Government schools.

Test check (October 2005 and May 2006) of records revealed that the Joint Directors of the districts had lifted 16,572.44 quintals and 21,265.90 quintals of rice from FCI godowns during the academic sessions 2004 and 2005 respectively and showed the entire quantity as utilised by various schools. Audit scrutiny, however, revealed huge gaps between the quantity of rice lifted and rice that could have been utilised on the basis of 85 *per cent* average attendance rate (AAR), fixed by the Department, as shown below:

Table 4.1

Year	Total no. of students enrolled	No. of students attended schools as per AAR	No. of school days	No. of school days MDM was distributed	Value of actual utilisation of rice @ 100 gm per student per day (quintals)	Quantity lifted from FCI (in quintals)	Unaccounted difference (quintals)
a	*b*	*c*	*d*	*e**	*f*	*g*	*h*
2004	98,259	83,520	217	160	13,363.00	16,572.44	3,209.44
2005	98,934	84,094	222	155	13,035.00	21,265.90	8,230.90
Total	1,97,193	1,67,614	439	315	26,398.00	37,838.34	11,440.34

$*e = c \times d \times 100 / 10^5$

From the above table, it was evident that 11,440.34 quintals of rice costing Rs. 91.52.lakh[4] remained unaccounted for.

Physical inspection (August 2006) by the Departmental officers in the presence of Audit and also interviews by Audit (September 2006) with the Principals / Headmasters of 27 schools revealed that the AAR was below 85 *per cent*; and MDM was distributed 4 days in a week for a total of 155

[4] *Value at the central issue price of FCI of Rs. 8.00 / kg from the Rangpo Depot for Public Distribution System purpose*

to 160 days only during 2004 and 2005. Social Research Institute, New Delhi during a survey in February 2006 also recorded the AAR as 82.5 *per cent*.

Thus, utilisation of 11,460.30 quintals of rice worth Rs. 91.52 lakh was fictitious.

By distributing cooked meal only for 160 days in 2004 and 155 days in 2005, the Department also violated the Supreme Court's direction (November 2001) for providing cooked mid- day meal for 200 days in an academic year.

The matter was referred to the Department/ Government (August 2006); reply had not been received (November 2006).

The matter needs to be investigated by the State Government.

4.1.3 Fictitious expenditure by an NGO

Fictitious utilisation of funds of Rs. 12.35 lakh shown by an NGO under the Integrated Education for Disabled Children scheme and consequential denial of benefit to disabled children.

Based on the proposal (August 2002) of the Human Resource Development Department (HRDD), Government of Sikkim, Union Ministry of Human Resource Development (MHRD) approved and sanctioned (September 2002) Rs. 24.70 lakh for implementation of the Integrated Education for Disabled Children (IEDC) scheme, a 100 *per cent* Centrally sponsored scheme, for a target group of 488 disabled children in 40 identified Government schools in Sikkim. The MHRD accordingly released Rs. 12.35 lakh as first installment in September 2002.

The Principal Secretary, HRDD with the approval of the Minister decided (November 2002) to implement the scheme through Helping Hands Organisation (HHO), a local Non Governmental Organisation (NGO). Although in terms of the Memorandum of Understanding (MOU) signed (March 2003) between Government of Sikkim in the HRDD and the HHO, the HHO was to be provided grant by HRDD on quarterly / half yearly basis only, the entire amount of Rs. 12.35 lakh received from GOI as first installment was paid (March 2003) as advance to the HHO at one go. The HHO after expending the entire fund (Rs. 12.35 lakh) by March 2003 closed (August 2005) the project on the ground of non-receipt of funds as the GOI did not release the remaining funds due to non-furnishing of Utilisation certificate by the HRDD for the first installment.

Scrutiny of records in Audit revealed (August 2006) that the figures projected by the Principal Secretary, HRDD with regard to the number of disabled children (488) was for 223 schools all over the State, and not just the 40 schools identified by the Department.

Joint physical inspection (August 2006) of the schools and interview with the Principals / Headmasters *(where this scheme was supposed to have been implemented by the NGO)* of 42[5] schools (out of the 223), by the officials of the HRDD in the presence of Audit also revealed that the scheme was not implemented in any of the schools during 2002-03 and 2003-04 by the HHO indicating that the expenditure of Rs. 12.35 lakh shown utilised by the HHO for 488 beneficiaries was fictitious. The scheme was actually found to have been implemented only during June 2004 to July 2005 in just one school, Chujachen Senior Secondary School, where there were only 10 disabled children.

Thus fictitious utilisation of Rs. 12.35 lakh and subsequent closure of the project by the HHO led to denial of benefits to the disabled children besides loss of second installment of Rs. 12.35 lakh and subsequent funding by the GOI.

The Secretary, HRDD in reply stated (July 2006) that the Department was taking measures to ensure proper and smooth running of the project by formulating more effective strategies to be adopted as soon as the Annual Plan 2006-07 was approved by MHRD, GOI. This indicated complete lack of information about the actual state of affairs in so far as the implementation of the scheme on the ground / field was concerned.

The matter needs to be investigated by the State Government.

4.2 Infructuous / Wasteful expenditure

ANIMAL HUSBANDRY, LIVESTOCK, FISHERIES AND VETERINARY SERVICES DEPARTMENT

4.2.1 Infructuous expenditure

Expenditure of Rs. 39.86 lakh on establishment of a Poultry Farm was rendered infructuous as the farm closed down its operations after running for only a year due to poor management.

The GOI sanctioned (August 2000) Rs. 45 lakh for establishment of a backyard Poultry Farm at Chujachen under the *cent per cent* Centrally sponsored scheme "Assistance to State Poultry Farms". The scheme envisaged maintenance of breeding stock of poultry birds requiring low input technology and backed by adequate health coverage for the birds. The scheme was targeted to benefit marginal farmers, landless labourers, women in groups and other socially backward sections of the society.

[5] *12 schools out of the sample of 42 pertained to the list of original 40 schools included in the Department's proposal to the GOI.*

The Animal Husbandry, Livestock, Fisheries and Veterinary Services (AHLFVS) Department incurred Rs. 39.86[6] lakh during 2001-03 for establishment and running of the farm without first identifying the targeted beneficiaries as envisaged under the scheme.

Audit scrutiny (August 2005) revealed that the poultry farm commenced operations during August 2002 with 908 birds, of which, 574 birds (63 *per cent)* were recorded as dead, 318 birds were sold and the balance 16 birds could not be accounted for as of August 2005. The farm recorded production of 5,126 eggs between February and August 2003 out of which 4,919 were shown sold, 57 eggs broken and the balance 150 eggs spoiled. The farm closed down (August 2003) with no birds and eggs. No effort was made thereafter to revive the Farm as of February 2006 and the staff were shifted out and re-deployed in other units of the Department.

Though the farm had purchased 12 Gas brooder equipment worth Rs. 1.74 lakh, the Chief Veterinary Officer (CVO), who was in charge of the farm, had not initiated any action to prepare a stock of breeding chicks so that they could be used for multiplication of birds in the farm subsequently. The CVO also failed to contain the mortality rate to the minimum, which was very high at 63 *per cent*. Thus, the Department's failure in initiating appropriate and timely measures to maintain a breeding stock of poultry birds for multiplication rendered Rs. 39.86 lakh on establishment of the poultry farm infructuous and wasteful, besides denial of the intended benefits to the targeted group under the scheme.

In reply, Secretary of the Department attributed (May 2006) the non-functioning of the farm to out break of some uncontrollable disease leading to heavy mortality and defect in construction of building and further added that the farm was being revived. The reply is not tenable as the CVO records did not reveal any single instance of bringing such a matter either to the notice of higher authority or initiating any corrective action himself to contain the problem.

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.2.2 Wasteful expenditure

Improper and un-planned implementation of the 'Development of Sanskrit Education' scheme resulted in wasteful expenditure of Rs. 1.30 crore.

In response to the GOI's *cent per cent* assisted scheme of "providing facilities for teaching Sanskrit in secondary schools" under the "Development of Sanskrit education" scheme, the Commissioner-cum-Secretary, Human Resource Development Department (HRDD), Government of Sikkim submitted (July 2001) a proposal to the GOI for appointment of 29 Post

[6] *Civil Works (Rs.19.46 lakh), Equipments (Rs.15.05 lakh), feed (Rs.4.64 lakh), procurement of hatching eggs (Rs.0.50 lakh) and miscellaneous expenditure (Rs.0.21 lakh).*

Graduate and 29 Graduate Sanskrit teachers. However, GOI approved (November 2001) appointment of 14 Post Graduate and 15 Graduate Sanskrit teachers only and accordingly sanctioned and released Rs. 40.02 lakh (March 2002), Rs. 43.84 lakh (March 2005) and Rs. 46.14 lakh (January 2006) towards their salaries.

To implement the scheme, the HRDD, with the concurrence of Finance Department, created (September 2002) 14 posts of Post Graduate Sanskrit teachers and 15 posts of Graduate Sanskrit teachers in as many number of schools and appointed the teachers in February 2003.

Audit scrutiny revealed (November 2005) that (i) prior to this appointment, no Sanskrit teacher had ever been appointed in any Government school in Sikkim since Sanskrit was not taught as an elective or as a regular language subject in any of the Government schools in the State; (ii) one of the conditions laid down by the GOI for appointment of Graduate / Post- Graduate Sanskrit teachers was that the teachers should possess degree/diploma in teaching besides being graduate/post graduate degree holders in Sanskrit, but, the appointees did not possess any degree or diploma in teaching indicating that they were not even qualified teachers; (iii) while text-books and question papers on all subjects *(including vernacular)* were being demanded for and accordingly arranged by the Secretary, HRDD as per the prescribed indenting procedure in place, none of the Government schools indented for Sanskrit text-books or question papers. Sanskrit text-books / question papers were also not arranged by the HRDD on its own.

It was further seen that Sanskrit had not been recognised by the HRDD as an elective/language subject for the Board Examinations at the end of Classes VIII, X and XII as of November 2005 (also accepted by the Department in its reply dated April 2006). As a consequence, the question of any student offering Sanskrit as a subject in the aforesaid Board Examinations did not, therefore, arise and also Sanskrit was not being taught in the primary classes in any of the schools as of February 2006. Therefore, the possibility of students choosing this subject at the secondary school stage or even at the higher level in future was remote.

Inspection (August 2006) of the schools by the Joint Director (East), HRDD in the presence of Audit and interviews (September 2006) with the School Principals and Headmasters of 12 Schools in the East district, besides corroborating the above Audit findings, further revealed that (i) Sanskrit teachers were sent to the schools with the appointment order but without any guidelines and instructions to the school Principals / Headmasters of the schools regarding their deployment and teaching of the language; (ii) the Sanskrit teachers were mainly engaged in teaching vernacular languages (Hindi & Nepali), attending games classes and standing in for absentee teachers. Sanskrit teaching constituted a few classes in a week which was largely informal due to non-prescription of syllabus and non-availability of books and reference materials for the students. The Sanskrit teachers made their own arrangement of the teachers' copy of reference book. Thus, the HRDD had taken up the scheme without proper planning and need analysis and without even carrying out rudimentary groundwork for successful implementation of the new scheme in the State, merely to avail 100 *per cent* funding by the GOI. This rendered the expenditure of Rs. 1.30 crore (March 2003 to March 2006) towards salary and allowances of these 29 Sanskrit teachers wasteful. Further, the possibility of this wasteful expenditure continuing as the teachers had already been appointed on regular basis though the scheme was solely dependent on GOI assistance to sustain itself, cannot also be ruled out.

In reply, Secretary, HRDD stated (April 2006) that all the Sanskrit teachers posted in secondary and senior secondary level schools possessed Sastri and Acharya degrees which is equivalent to BA and MA degrees respectively in formal education system. The Department further added that internal assessment was being conducted and it was seriously being considered to supply proper teaching materials and introduce Sanskrit in lower classes in future. The reply is not tenable since the scheme guidelines prescribed degree/diploma in teaching besides graduate/post graduate degree in Sanskrit as eligibility criteria for appointment as Sanskrit teacher. Further, the planning sought to be done now or in future should actually have been done while submitting proposal to GOI and appointing the teachers.

POLICE DEPARTMENT

4.2.3 Unwarranted expenditure on procurement of additional vehicles

Unauthorised allotment of two vehicles each to 15 Police officers without entitlement for a second vehicle led to avoidable expenditure of Rs. 64.33 lakh.

Test check of records of the Director General of Police (DGP), for the period from July 2004 to April 2005, revealed (July 2005) that in contravention of the State Government's (Home Department) notification (January 1997) to allot one vehicle for officers of rank/ level of Additional Secretary/ Joint Secretary, the DGP allotted 15 officers of the rank of Superintendent of Police (SP) and above two vehicles each from 'Modernisation of State Police Forces (MSPF)' (Rs. 44.42 lakh) and North-East package (Rs. 3.6 lakh) of GOI fund and State's normal budget (Rs. 16.31 lakh).

No driver was recruited for driving the additional vehicle and no log book was maintained to record the movement of these vehicles. But vehicle charges at Rs. 500 per month (Rs. 1,000 for two vehicles) was deducted from the salary of the respective officers indicating that the additional vehicle was provided for the private use of the officers concerned. Approval of Home Department (Administrative Department) was also not obtained for this transgression.

Thus, allotment of additional vehicles to the police officers was not only without authority, entitlement and valid justification but also injudicious rendering the expenditure of Rs. 64.33 lakh towards purchase of these vehicles avoidable.

The reply (May 2006) of the DGP that allotment of vehicles was made to Sikkim Police as per the scale prescribed by the Bureau of Police Research & Development (BPR&D) is not tenable as the BPR& D norms did not prescribe allotment of additional vehicles to police officers for their personal use and approval of Home Department was also not obtained before making such additional allotment.

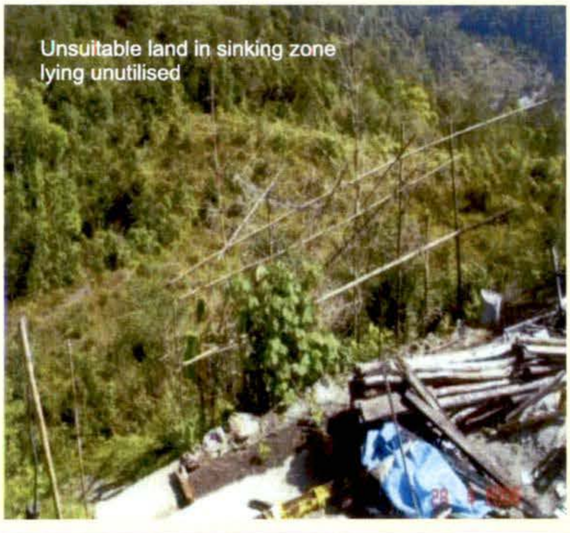
SCIENCE & TECHNOLOGY DEPARTMENT

4.2.4 Undue favour in purchase of an unsuitable land resulting in wasteful expenditure

Undue favour to a seller by the Department in purchase of his unsuitable land, despite negative reports from the Mines & Geology Department led to wasteful expenditure of Rs. 65.76 lakh.

With the objective of establishing a Planetarium and Science Complex in the State, a High Powered Committee approved (15 April 1998) acquisition of six to 10 acres of land.

On receipt of an unsolicited offer (22 May 1998) from one Shri Palzor Lachungpa to sell his land for the purpose, the Executive Committee of the State Council of Science and Technology requested for a report (December 1998) on soil stability from the Mines & Geology Department (MGD) before taking any steps for acquisition of the land. The MGD in its report (January 1999), indicated that the proposed land was unsuitable for establishment of the Science Complex in its present condition (with a relative stability rating of 3 only).



Despite being aware of the unsuitability of the land, Science and Technology Department acquired 1.9120 hectares of the land at a cost of Rs. 65.76 lakh[7] in March 1999. Subsequent soil test and geological engineering appraisal (August 2001) by a Kolkata based firm[8] selected by the Birla

7 *Rs.25 lakh paid in March 1999 & Rs.40.76 lakh paid in September 1999.*
8 *S.K.Mitra & Associates, Kolkata.*

Institute of Technology Museum (BITM), Kolkata also observed that the land was located in a sinking zone unsuitable in its present state for heavy construction.

Six years after acquisition of the land, the Department finally (April 2005) abandoned the idea of establishing the proposed Planetarium and Science Complex in the said location and decided to shift to another location at Marchak, East Sikkim which, however, had not materialised till date (August 2006). Thus, the decision of the Department in acquiring the said land despite negative report (January 1999) from the MGD resulted in wasteful expenditure of Rs. 65.76 lakh, besides undue favour to the seller.

In reply, the Department stated (April 2006) that it was proposing to set up the Sikkim Bio-technology Centre at the site. However, as of September 2006, the land still remained vacant as revealed during physical verification (April 2006) by the officers of the Council in the presence of Audit.

The matter needs to be investigated by the State Government.

4.2.5 Unfruitful expenditure

Improper planning and flawed conceptualisation of the 'Gem Cutting Training Centre' by the State Council of Science and Technology led to unfruitful expenditure of Rs. 12. 63 lakh.

The State Council of Science and Technology (SCST), Sikkim submitted (October 1997) a proposal to the Ministry of Science and Technology, Government of India for establishment of a 'gem-cutting centre' for providing training facilities to rural women in gem-cutting so that they could be developed into entrepreneurs who could, after being trained, install the machines at their houses, work in their free time or employ other workers and earn their livelihood. According to the Detailed Project Report (DPR) (1997), the SCST formulated the project after wide ranging consultations with various development departments, industries and NGOs and envisaged both forward and backward linkages with Sikkim Jewels Ltd., and projected enormous social benefit to rural women and other weaker sections of society for gainful employment.

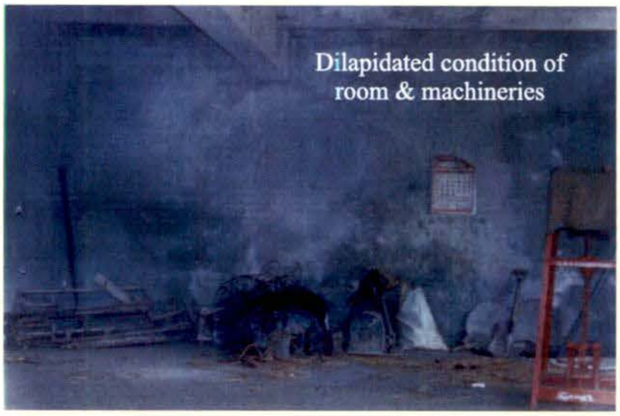
The Government of India (GOI) sanctioned (October 1998) Rs. 19.66 lakh for the project and released Rs. 18 lakh in two installments of Rs. 10 lakh (November 1998) and Rs. 8 lakh (May 2002). The second installment was received even when the first installment had not been fully utilised by the SCST.

Audit scrutiny (July 2005) revealed that after incurring an expenditure of Rs. 12.63 lakh,[9] the venture could not take off for want of trained manpower, difficulty in procurement of raw materials, marketing of products etc. These constraints were required to have been identified by the SCST before proposing the project to Government of India for funding. But the project

[9] *Equipments (Rs. 5.06 lakh), Salaries, Wages (Rs. 5.57 lakh), and workshop (Rs.2 lakh)*

proposed by the SCST had failed to address these fundamental and critical issues. Scrutiny of the DPR in Audit revealed that the same was prepared without undertaking any field survey and without reference to the actual ground realities.

As an alternative, the SCST decided (November 2003) to switch over to another project *i.e.*, "Khada[10] (scarf) Training Centre". The Government of India, however, turned down (May 2004) the switch over proposal and instead, instructed the SCST to refund the balance of Rs. 5.38 lakh.



Thus, failure of the SCST to address fundamental and critical issues relating to the project at the conception stage itself led to the entire expenditure of Rs. 12.63 lakh incurred on the project as of March 2005 being rendered unfruitful, besides denial of any benefit to the targeted group of rural women.

Physical verification (May 2006) of the workshed carried out by the officers of the council in the presence of Audit revealed that the workshed was in an absolutely dilapidated condition as can be seen from the photograph. The doors and glass panes of the windows were not fitted and the leaf cup making machine was dumped in one room.

In reply, the Department stated (April 2006) that the project could not take off as most of the staff employed for the project left mid-way and the remaining staff were asked to leave as the project came to an abrupt end. The reply, however, did not address the issue as to why detailed field survey was not undertaken at the stage of formulation of the DPR and ground realities analysed before taking up the project.

TRANSPORT DEPARTMENT

4.2.6 Wasteful expenditure on Smart Card System

Hasty decision to switchover from one system to another and then to another without adequately analysing the need resulted in wasteful expenditure of Rs. 34.68 lakh on Smart Card System.

The General Manager, SNT[11] moved (January 2004) a proposal to replace the existing system of issuing pre-paid paper coupon for issue of petrol, diesel and

10 *Khada is a kind of customary scarf, which is used, in almost all social functions, as a mark of respect in local tradition.*

11 *Sikkim Nationalised Transport (Transport Department)*

mobil oil to Government officers who are entitled for use of Government vehicles by introducing a Smart Card System (SCS), similar to that of the ATM system of banking at Rs. 29.58 lakh. The Cabinet approved (January 2004) the proposal.

After one year of operation, the Private Secretary to Chief Secretary proposed (January 2005) resumption of the old system on the ground that the SCS allowed drawal of petrol from only a limited number of pumps in Gangtok where the system was installed.

The Finance Department sought (21 March 2005) reconsideration of the matter and proposed adoption of cash payment on monthly basis in lieu of SCS on ground of inconvenience to the user Departments and non-accrual of any benefit to SNT. The proposal was approved (31 March 2005) by the Chief Minister and the new (the third one) system of cash payment in lieu of Smart Cards was introduced (April 2005).

The SNT had, meanwhile, incurred Rs. 34.68 lakh on installation of the SCS by May 2004 as against the Cabinet Sanction of Rs. 29.85 lakh in January 2004. Thus, the decision to switchover from one system to another and then to another was very hasty, not based on adequate need and problem analysis and inputs from various users there by rendering the entire expenditure of Rs. 34.68 lakh incurred as of May 2004 on introduction of the SCS wasteful.

The Principal Secretary, Transport Department, while accepting that the SCS was functioning smoothly, stated (March 2006) that the system was discontinued in view of inconvenience to many Departments especially the VIPs and touring officers as this facility was not available outside the State. The reply reinforced the Audit contention that the Department had switched over from one system to another without adequate analysis of need and problems and without obtaining adequate inputs from various users. The Principal Secretary, Finance, Revenue and Expenditure Department reiterated (August 2006) the reply of Transport Department, resulting in wasteful expenditure of Rs. 34.68 lakh.

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

4.2.7 Infructuous expenditure and loss of revenue

Construction of houses for providing shelter to the urban poor without pre-construction demand survey, inordinate delay in fixing the allotment criteria and non-identification of genuine beneficiaries resulted in infructuous expenditure of Rs. 47.71 lakh.

With a view to uplifting the living conditions of the urban poor, the Urban Development and Housing Department (UDHD) took up 'construction of double storied houses with RCC frameworks' having two bedrooms and a kitchen, under the 'Twenty Points Programme of Social Housing'. The State

Cabinet approved (March 2001) construction of 28 such units alongwith six-seater public toilets at Rangpo, Rongli and Mangan at a cost of Rs. 47.71 lakh. The construction work commenced in March 2001 and was completed between March 2002 (Rangpo and Mangan) and December 2002 (Rongli).

Inspection (March-April 2006) of the housing units by Departmental authorities in presence of Audit revealed that all the housing units were lying idle in dilapidated condition, had no water supply and electricity connection and were yet to be occupied.

Test check of records of the Secretary, UDHD revealed (October 2004) that the Department had neither fixed the allotment criteria nor conducted any demand assessment before commencing construction. It was only as late as March 2005 the Department issued the notification specifying the criteria for allotment of these houses, that is after a lapse of five years from the commencement of the construction and more than three years after completion of the same. The reason for the delay in fixing the allotment criteria was attributed (April 2006) by the Department to constant change/transfer of the dealing officers. This reason however was not justifiable as there was only one change in the post of Head of the Department and one in that of Additional/ Special Secretary who dealt with the Social Housing Programme during the period from March 2003 to March 2005. Further, even after the finalisation of allotment criteria, identification and selection of genuine beneficiaries had not (as of March 2006) been completed (in case of Rangpo) due to inordinate delay (ranging upto 312 days) by local MLAs in sending their recommendations of beneficiaries to the Department which was the practice in vogue.

Thus, due to non-assessment of demand before starting construction, inordinate delay in fixing the allotment criteria by the Department and non-identification of genuine beneficiaries, expenditure of Rs. 47.71 lakh incurred on construction of houses meant for providing shelter to the urban poor remained infructuous for more than three years after completion of the units. Besides, the Department also sustained an estimated loss of Government revenue to the extent of Rs. 1.87 lakh[12] as of March 2006 on account of rent due to non-occupation of these houses.

The matter was reported (June 2006) to the Department/ Government; reply is awaited (August 2006).

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[12] *Rangpo @ Rs. 150 X 16 units X 48 months (w.e.f April 2002 to March 2006) = Rs. 1,15,200*
Mangan @ Rs. 150 X 4 units X 48 months (w.e.f. April 2002 to March 2006) = Rs. 28,800
Rongli @ Rs. 150 X 8 units X 36 months (w.e.f January 2003 to March 2006) = Rs. 43,200
Total Rs. 1,87,200

ZILLA PANCHAYAT, NORTH DISTRICT

4.2.8 Wasteful expenditure on establishment of a cardamom drying system

Fundamental flaws in the conception stage in the proposal aggravated by absence of a proper feasibility study while establishing a 'Radio Frequency Drying System' at Mangan, for drying of large cardamom fruits ultimately led to wasteful expenditure of Rs. 81.19 lakh.

The Adhyaksha, North District Zilla Panchayat (NDZP) submitted (March 2000) a proposal to the Secretary, Union Ministry of Information Technology (MIT) for assistance to set up a 'Radio Frequency Drying System' (RFDS) at Mangan (district headquarter of the North district) with the help of technology developed by the Society for Applied Microwave Electronic Engineering and Research (SAMEER), Mumbai, for providing a scientific system of drying large cardamom fruits grown extensively in the North District of the State. It was envisaged in the proposal that after the existing traditional furnaces brought down the moisture content of the raw cardamom from a level of 85 to 25 *per cent,* the product could be further processed faster than the traditional method in the RFDS to bring down the moisture content to the desired level of 8 to 10 *per cent* without losing natural colour and aroma of cardamom fruits. Thus, a high quality end product could be ensured which would fetch better price to the farmers.

As directed by the MIT, the SAMEER in consultation with NDZP prepared (May 2000) a project proposal for the NDZP which was approved by the GOI on December 2000 at a total outlay of Rs. 75.50 lakh, subsequently enhanced to Rs. 81.19 lakh in March 2002.

Test check (October 2004) of records of the Adhyaksha, NDZP revealed that though the project was finally completed in December 2002 at the approved outlay of Rs. 81.19 lakh (which was met by the GOI as a grants-in-aid to the NDZP), the NDZP had not yet taken over the system as of August 2006 despite insistence by GOI, on the ground that the system could be put to use only after a pre-drier and washing unit was installed. As of August 2006, the system remained completely idle as no action was taken to make it functional.

Audit observed that the project was fundamentally flawed right from the conception stage. The proposition that the initial drying of the cardamoms would be done by the farmers themselves using firewood to bring down the moisture content to 25 *per cent* level and thereafter the product would be brought to the Radio Frequency Drying System for further drying proved impractical leading to wasteful expenditure of Rs. 81.19 lakh on design and development of the system besides deterioration of the equipment due to prolonged non-use.

In reply, Adhakshya (NDZP) stated (May 2006) that pending conduct of mass trials on cardamom by the SAMEER and construction and testing of predriers, NDZP was not in a position to take over the running and maintenance of the project drier. The reply is not tenable as the NDZP and SAMEER should have carried out proper feasibility study using prototypes prior to setting up of the full-fledged Radio Frequency Drying System to save such huge unproductive expenditure (as of August 2006) later and mass trials should have been conducted immediately after completion (December 2002) of the project.

4.3 Undue benefit

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.3.1 Avoidable payment of consultancy fees

Failure to modify the effective date of operation of contract and payment of consultancy fees beyond the contractual period resulted in avoidable payment of Rs. 40 lakh as consultancy fees to the NBCC.

The Project Director (PD), Directorate of Technical Education signed (November 2002) an agreement with the National Buildings Construction Corporation (NBCC) for providing architectural Consultancy-cum-Project Management Services for two World Bank aided construction projects[13] for a period of 24 months (effective 22 November 2002) at a total contractual cost of Rs. 77.32 lakh[14], payable at 3.95 *per cent* of the value of work done or Rs. 2.50 lakh per month, whichever was higher. Further, if the work extended beyond the period of contract (with NBCC) due to unforeseen reasons or reasons not attributable to the NBCC, then the latter were to be paid fees of Rs. 2.50 lakh per month for the extended period.

The first project (CCCT at Chisopani) was to be completed within 24 months from date of signing the agreement (August 2002) with the executing contractor, M/s Simplex Projects Ltd., Kolkata.

Test check of records revealed (June 2005 / March 2006) that due to delay[15] in handing over site to the executing contractor, (M/s Simplex Projects Ltd., Kolkata) the work was subsequently reckoned to have been commenced from 2 January 2003 and accordingly the date of its completion was reckoned as 1 January 2005. The work, however, actually commenced from February 2003, after a delay of one month after the revised date. But the PD, Directorate of Technical Education, failed to modify the effective date of operation of the Consultancy-cum-Project Management Services contract with the NBCC, accordingly.

Even after the delayed commencement of the works (February 2003), the executing contractor failed to adhere to the completion schedule of 24 months

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[13] *(i) Centre for Computer and Communication Technology (CCCT) at Chisopani, South Sikkim and (ii) Advance Technical Training Centre (ATTC) at Bardang, Singtam*

[14] *Consultancy fee = 3.95% of Rs. 19.58 crore (Work Value)*

[15] *Due to i) existence of standing trees at the work site & ii) absence of water supply.*

and the work still remained incomplete as of March 2006, leading to a total delay of 16 months[16] while the NBCC was paid Consultancy cum Project Management Services right from January 2003 to March 2006.

Thus, besides non-accrual of intended benefits from the project on time, the delay resulted in avoidable payment of Rs. 40 lakh[17] towards consultancy fees to the NBCC.

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

4.3.2 Undue benefit to contractors

Failure of the Department in not deducting the cost of stones available at site from two contractors' bills and allowing carriage for these stones and spoils resulted in undue benefit of Rs. 43.60 lakh to the contractors.

The work 'Construction of storm water drain along NH 31 'A' from White Hall to Ranipool Bridge' (12.83 Km) was awarded (June 2003) to two[18] contractors in two parts for Rs. 3. 42 crore (at 20 *per cent* above the tendered amount) and Rs. 2.02 crore (at 18 *per cent* above the tendered amount) respectively. The items of work *inter-alia* included hill cutting and excavation of foundation trenches in three categories of earth profiles, *viz*. i) mixed soil, ii) soft rock and iii) hard rock.

The entire stretch (12.83 km) of this work lay on the hill-ward side of the National Highway 31A. The rock cutting works were, therefore, to be carried out manually (by chiseling) and not by using detonators. Therefore, the entire quantity of stones obtained from such hill cutting and excavation of trenches in hard rock were to be salvaged for use in other items of works within the project as was originally envisaged while awarding the work.

It was, however, seen (October 2004) during Audit that although 10,007.85 cum (3,066.92 from first work + 6,940.93 from second work) of stone were available from hard rock cutting in these two works, no deductions towards these were made from the contractors' bills. Besides, the Department also allowed undue carriage cost for another 6,014.77 cum of stones to both the contractors amounting to Rs. 18.85[19] lakh and 6,940.93 cum of spoils amounting to Rs. 11.97[20] lakh to the second contractor.

Thus, failure of the Department in not deducting the cost of stones available at site (from rock cutting) from the two contractors' bills and allowing

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[16] *January'03 to February '03 (1 **month**) and January'05 to March'06 (15 months), **total = 16 months***

[17] *16 months @ Rs.2.50 lakh per month = Rs.40 lakh.*

[18] ***Shri T. Lachungpa (first 7.11 Km) and Shri Megh Raj Pradhan (next 5.72 Km)***

[19]

i) Shri T. Lachungpa (first 7.11 Km)	*Carriage of 1208.4842 cum stones:*	*Rs. 5.20 lakh*
ii) Shri Megh Raj Pradhan (next 5.72 Km)	*Carriage of 4806.2900 cum stones :*	*Rs. 13.65 lakh*
	Total 6014.7742 cum stones:	*Rs. 18.85 lakh*

[20]

Shri Megh Raj Pradhan (next 5.72 Km)	*2129.42 cum X Rs. 179.80 per cum plus 18 % above*	*= Rs. 4.52 lakh*
	4811.51 cum X Rs.131.20 per cum plus 18 % above	*= Rs. 7.45 lakh*
	Total	***Rs.11.97 lakh***

unnecessary carriage cost for stones and spoils resulted in undue benefit of Rs. 43.60[21] lakh to the contractors.

The Department stated (June 2006) that the stone extracted from hard rock cutting could not be used due to small size, inferior quality and difficulty in stacking due to heavy traffic. The reply is not tenable as the same quality of stones obtained from hard rock-cutting was salvaged and utilised in another three stretches[22] (150.10 cum, 759.72 cum and 948.00 cum) of the same work along the same National Highway and the cost of stones was deducted from the contractors' bills.

4.4 Idle Investment / Blocking of Funds

URBAN DEVELOPMENT & HOUSING DEPARTMENT

4.4.1 Delay in allotment of shops and revenue loss

Implementation of IDS&MT Scheme at Singtam was characterised by negligent vetting of the estimate by departmental engineers, idling of assets worth Rs. 1.45 crore besides revenue loss of Rs. 14.76 lakh.

The Urban Development and Housing Department (UD&HD) submitted (February 1998) a proposal for construction of a four storied shopping complex with 104 shop-rooms and 14 showrooms along with associated facilities in Singtam town at a cost of Rs. 98 lakh under 'Integrated Development of Small and Medium Towns' (IDS&MT), a Centrally sponsored scheme. The GOI, however, approved (March 1998) Rs. 72 lakh only for the project, thus necessitating exclusion of some structures (*Yatri Niwas*) from the original proposal of the State Government. The revised proposal was approved by the State Government in November 1998. The work was awarded (March 2000) at 32 *per cent* above the estimated cost with stipulation to complete the work within two years *i.e.* by March 2002.

Audit scrutiny revealed (November 2004) the following:

- After executing major portion of building works (Rs. 54.91 lakh), the Department revised (December 2001) the scope of work to Rs. 1.45 crore due to omission of provision for slabs in the first, second and the third floors in the original approved estimates, though the same had been vetted by qualified engineers (Junior Engineer, Assistant Engineer & Superintendent Engineer) of the Department.
- Completion of shopping complex was delayed by one year (from October 2002 to August 2003) without any valid reason.

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21 *First contractor (Sh T.Lachungpa) :Rs.10.21 lakh (cost of stone - Rs.5.01 lakh & carriage of stone - Rs 5.20 lakh).*
Second contractor (Sh Meghraj Pradhan): Rs.33.39 lakh (cost of stone - Rs.7.77 lakh, carriage of stone - Rs 13.65 lakh & throwing of spoils - Rs.11.97 lakh).

22 *2 cases of hill- cutting and 1 case of excavation of foundation trenches (MB No. 350 & 626/UDHD) in respect of the first work (first 7.11 km)*

- The construction of the building work was then scaled down to only three floors with 40 shop-rooms and was finally completed in October 2002 at Rs. 1.45 crore.
- Despite good response for the shop-rooms (on rental basis) from more than 100 applicants as of December 2002 and more than 200 applicants as of December 2004, the shops remained unoccupied owing to non-finalisation of allotment criteria by the Department till December 2004. Even after approval of allotment criteria by the Cabinet in December 2004 and of the rent structure for these shop-rooms in March 2005, the shop-rooms remained vacant as of August 2006.

Thus, non-allotment of the shop-rooms in time not only led to loss of potential revenue of Rs. 14.76 lakh[23] towards rent as of August 2006 but also led to idling of assets worth Rs. 1.45 crore for more than three years (August 2003 to August 2006).

While admitting the lapses in vetting the estimates, the Department stated (June 2006) that the allotment of shops to identified beneficiaries would be completed within a month (*i.e.* June 2006). However, subsequent physical verification by the Departmental officials in the presence of Audit revealed (August 2006) that the shops were yet to be allotted as of August 2006.

4.5 Regularity issues

CULTURE AND HERITAGE DEPARTMENT

4.5.1 Loss of interest

The Department suffered a loss of Rs. 12.14 lakh as interest due to injudicious and negligent investment decisions for shorter periods of time and failure to renew the fixed deposits in time.

With a view to strengthening and upgrading the network of public libraries in the country, the Eleventh Finance Commission (EFC) provided Rs. one crore to each State for State Level Libraries (SLL). In addition, Rs. 20 lakh were also provided to each district for upgradation of public libraries in the rural areas. The Culture and Heritage Department received Rs. 1.80 crore in 3 installments (2001-02: Rs. 1.07 crore, 2002-03: Rs. 0.35 crore and 2003-04: Rs. 0.38 crore) for this purpose.

The EFC guidelines, inter alia, enjoined upon the States to create a corpus fund, invest it and use the returns from it for purchase of books and periodicals every year on a sustainable basis.

Test check of records revealed (May/June 2005) that the Department invested these amounts (Rs. 1.07 crore, Rs. 0.35 crore and Rs. 0.38 crore) on 09 June 2002, 05 May 2003 and 02 December 2003 respectively as fixed deposits in

[23] *Rs. 86,819 per month X 17 months = Rs. 14.76 lakh i.e. from April 2005 (after approval of rent structure by the Chief Minister) to August 2006*

the State Bank of Sikkim (SBS) at interest rates ranging from 5.25 *per cent* to 6.75 *per cent* per annum for periods upto one year and earned interest of Rs. 36.12 lakh for the period from 09 June 2002 to 08 May 2006 from these fixed deposits. Audit scrutiny revealed that a higher rate of interest ranging from 5.75 *per cent* to 8.25 *per cent* available from the Bank by making the investment for a longer duration i.e more than a year had not been considered by the Department. Since the fund given by the GOI was meant to create a corpus, the Department could have invested this in fixed deposits for periods above three years and earned interest of Rs. 44.63 lakh. Failure to do this led to loss of interest of Rs. 8.51 lakh.

It was further seen that the Department failed to renew the fixed deposits on six occasions during February 2004 and July 2005 leading to break periods ranging from 77 to 95 days resulting in further loss of interest of Rs. 3.63 lakh. Thus, the Department suffered a total interest loss of Rs. 12.14 lakh as of 05 May 2006 due to injudicious investments for shorter periods of time and failure to renew the fixed deposits in time. Further, the Department had not even utilised the interest earned from investments of the corpus fund to fulfill the objectives of the scheme, *i.e.*, upgradation of public libraries, purchase of books, etc.

The Department, while accepting the Audit observation, stated (May 2006) that proposal for investment for longer period had been initiated. However, as of September 2006, no development had taken place.

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.5.2 Irregular appointment of excess teachers

Decision of the Department to appoint 205 adhoc teachers without conducting any selection test and/ or interview was not only irregular but also led to recruitment of unsuitable candidates in excess of the requirement resulting in avoidable expenditure of Rs. 59.79 lakh.

Education Department[24] (Primary Teachers, Graduate and Post Graduate Teachers) Recruitment Rules 1991 (amended in February 2003) laid down the eligibility criteria for recruitment of teachers as per which the Human Resources Development Department (HRDD), was to fill up the vacant posts of teachers by inviting applications from interested and eligible candidates through advertisement in local papers and selection of teachers was to be made on the basis of written test and viva-voce.

Audit scrutiny of the records of the Secretary, HRDD, revealed (October 2005) that in violation of the above laid down norms, HRDD appointed (August 2005) 66 new Primary Teachers and 139 Graduate Teachers on adhoc basis for three months (upto 9 December 2005), purely on the recommendation of public representatives/Member of Legislative Assembly, without conducting any selection test and/ or interview to ascertain their suitability.

[24] *Rechristened 'Human Resources Development Department'*

It was further noticed that although there were 86 excess primary teachers in various Government schools in and around capital town of Gangtok in East District, the HRDD had appointed (August 2005) these 66 new primary teachers against the existing 30 vacancies in other districts leading to a total excess of 122 primary school teachers in regular (56) and adhoc (66) capacity.

Similarly 139 untrained Graduate Teachers were appointed (August 2005) to fill up the vacancies created due to retirement/promotion of regular teachers although they did not possess the desirable technical qualification of Bachelor of Education as was envisaged in Recruitment Rules. While doing so, the Department had also conspicuously not considered 191 teachers appointed under Sarva Shiksha Abhiyan during 2003-04 while computing the vacancies, for filling up these posts.

Thus, the decision of the Department to appoint 205(66 + 139) teachers on ad-hoc basis without conducting any selection test and/ or interview was not only irregular but also led to appointment of unsuitable teachers, far in excess of requirement, resulting in avoidable expenditure of Rs. 59.79 lakh on their pay and allowances.

In reply, Secretary of the Department stated (August 2006) that excess teachers have been re-deployed to rural areas where there were shortages.

In reply to a specific Audit query, the Department further stated (November 2006) that ad-hoc appointments were resorted to without conducting interview on the recommendations of the public representatives in the best interest of the students. The reply is not convincing as not only did it violate the Recruitment Rules in vogue but was also against the recent rulings (10 April 2006) of the Supreme Court which held that *"vacancies cannot be filled up with adhoc appointment and that regular appointments have necessarily to be resorted to by following the recruitment Rules in order to fill up vacancies"*.

The matter needs to be investigated by the State Government.

LAND REVENUE AND DISASTER MANAGEMENT DEPARTMENT

4.5.3 Loss of interest to the Calamity Relief Fund due to non-investment of balances

Failure of the Relief Commissioner, Calamity Relief Fund to invest the available funds in accordance with the stipulated rules of the CRFS framed by Government of India resulted in loss of interest of Rs. 5.35 crore to the Fund, besides contravention of the guideline of the scheme.

According to the revised scheme of "*Constitution and Administration of the Calamity Relief Fund and Investment there from*" effective from 1 April 2000, periodical contribution to the Fund as well as other income of the Fund were to be invested in one or more interest earning securities and deposits of Central Government or scheduled commercial/co-operative banks. In case it was not feasible to invest in the aforesaid manner, the amount could be kept in the Public Account of the State Government on which the State Government pays interest at one and half times of the rate applicable to overdraft under Overdraft Regulation Scheme of the Reserve Bank of India. The Public Accounts Committee (13^{th} Lok Sabha) in its 28^{th} Report also instructed the Ministry of Agriculture to direct the State Governments to follow the norms of investment scrupulously.

Scrutiny of records of Relief Commissioner, Calamity Relief Fund revealed (June 2004) that a total fund of Rs. 48.10 crore was released by GOI and the State Government during 2000-01 to 2004-05 as allocation towards the Fund. After utilisation of some funds towards relief measures during April 2000 to March 2005, the Department had at its disposal balances ranging from Rs. 2.38 crore to Rs. 14.46 crore which was available for investment according to the terms of the Calamity Relief Fund Scheme (CRFS) during this period. But the Department made a single investment of Rs. 2.50 crore only in November 2001 in the Sikkim State Co-Operative Bank Limited as fixed deposit. The State Government also failed to pay any interest to the Fund at the prescribed rate as per terms of the CRFS.

Thus, failure of the Relief Commissioner to invest the available funds in accordance with the stipulated rules of the CRFS, framed by Government of India, resulted in loss of interest of Rs. 5.35 crore to the Fund, besides contravention of the guideline of the scheme.

In reply (March 2006), the Additional Secretary of the Department, while accepting the Audit observation, stated that henceforth available balances would be invested in the State Co-operative Banks or any other nationalised Bank.

4.6 General

Audit arrangement for local bodies

4.6.1 Introduction

Autonomous bodies and authorities are set up to discharge generally non-commercial functions or public utility services. These bodies and authorities usually receive substantial financial assistance from the Government. The grants are intended essentially for construction and maintenance of educational institutions, hospitals and charitable institutions and improvement of roads and other communication facilities under the local bodies, besides others.

During 2005-06, financial assistance of Rs. 18.01 crore was released to various autonomous bodies and institutions, broadly grouped as under:

Table-4.2

(Rupees in crore)

Name of institutions	No. of sanctions	Amount of assistance given
Universities and Educational Institutions	09	1.14
Zilla Parishad and Panchayati Raj Institutions	18	0.27
Development Agencies	04	10.40
Hospitals and other Charitable Institutions	13	0.31
Other Institutions	176	5.89
Total	**220**	**18.01**

Source: Departmental figures.

4.6.2 *Delay in furnishing utilisation certificates*

The financial rules of the Government require that where grants are given for specific purposes, certificates of utilisation should be obtained by the departmental offices from the grantees and, after verification, these should be forwarded to the Accountant General within one year from the date of sanction unless otherwise specified.

Out of 220 utilisation certificates aggregating Rs. 18.01 crore involving 33 departments only 140 certificates aggregating Rs. 14.06 crore were received by the grant releasing departments by September 2006 and 80 certificates pertaining to six departments for Rs. 3.95 crore were in arrears. Department-wise and age-wise break-up of outstanding utilisation certificates was as follows:

Table-4.3

(Rupees in crore)

Department	More than 1 year but less then 2 years		More than 6 months but less than 1 year		Total	
	No. of certificate	Amount	No. of certificate	Amount	No. of certificate	Amount
Food Security & Agriculture Development	12	0.07	Nil	Nil	12	0.07
Cultural Affairs & Heritage	31	0.48	24	0.44	55	0.92
Health Care, Human Services and Family Welfare	04	0.10	04	2.66	08	2.76
Horticulture and Cash Crops Development	Nil	Nil	02	0.04	02	0.04
Sikkim Legislative Assembly	01	0.05	Nil	Nil	01	0.05
Sports & Youth Affairs	Nil	Nil	02	0.11	02	0.11
Total	**48**	**0.70**	**32**	**3.25**	**80**	**3.95**

4.6.3 Audit arrangement

The primary Audit of local bodies (Zilla Parishads and Gram Panchayats), educational institutions and others is conducted by the State Government. The Audit of co-operative societies is also conducted by the State Government. Only four bodies/authorities attracted Audit under section 20 (1) of the Comptroller and Auditor General's (DPCs) Act 1971. The period and date of entrustments, status of submission of accounts by these organisations and completion of their audits as of September 2006 are given below:

Table-4.4

Name of body	Entrustment		Annual accounts	
	Period	Date	Received upto	Audited upto
Sikkim Khadi and Village Industries Board	2005-06 to 2009-10	22.12.2005	2004-05	2004-05
Sikkim Co-operative Milk Producers Union Limited (SMU)	2003-04 to 2007-08	18.11.2002	2005-06	2005-06
Sikkim Co-operative Supply and Marketing Federation Ltd. (SIMFED)	2005-06 to 2009-10	22.12.2005	2004-05	2004-05
Panchayat Raj Institutions (PRI)	2001-02 to 2005-06	27.08.2001	2004-05[25]	2004-05

Against 19 Institutions, which attracted Audit under section 14 of the Comptroller and Auditor General's (DPC) Act 1971, the accounts of only three bodies are up to date. The accounts of 11 bodies were finalised and audited upto 2004-05 and the accounts of the remaining five bodies were in arrears for two arrears.

[25] *Only West district Zilla Panchayat submitted the accounts for 2004-05 prior to this no account was submitted by any of the PRI.*

CHAPTER-V

INTERNAL CONTROL SYSTEM & INTERNAL AUDIT ARRANGEMENT IN GOVERNMENT DEPARTMENTS

CHAPTER – V
INTERNAL CONTROL SYSTEM & INTERNAL AUDIT ARRANGEMENT IN GOVERNMENT DEPARTMENTS

DEPARTMENT OF PERSONNEL, ADMINISTRATIVE REFORMS, TRAINING, PUBLIC GRIEVANCES, CAREER OPTIONS & EMPLOYMENT, SKILL DEVELOPMENT AND CHIEF MINISTER'S SELF EMPLOYMENT SCHEME

5.1 Internal Control Mechanism in DOPART

Audit review of the internal controls in the Department of Personnel, Administrative Reforms, Training, Public Grievances, Career Options & Employment, Skill Development and Chief Minister's Self Employment Scheme (DOPART) revealed deficient budgetary and expenditure control, poor operation and supervisory controls relating to creation of posts, cadre review, promotions, deployment as enumerated in the succeeding paragraphs.

Highlights

The control mechanism in the Department to watch the progress of expenditure leading to savings, surrenders and unnecessary supplementary provision was virtually non-existent.

(*Paragraph 5.1.7*)

Against the sanctioned strength of four, the Department appointed three Advisors and promoted seven officers to the post of Principal Secretaries in contravention of GOI norms resulting in extra expenditure of Rs. 53.79 lakh.

(*Paragraph 5.1.9.1*)

Department failed to conduct periodical review of actual requirement of staff vis-à-vis staff position in various cadres.

(*Paragraph 5.1.9.2*)

Subsequent to the ban imposed by the Government in 1999 for creation of new posts, the Department created 443 posts resulting in extra annual expenditure of Rs. 4.70 crore.

(*Paragraph 5.1.9.3*)

The posts vacated on account of VRS were not abolished resulting in avoidable expenditure of Rs. 2.24 crore upto March 2006.

(*Paragraph 5.1.9.4*)

In 20 cases Government servants were promoted to next higher grade in substantive capacity in contravention of eligibility of minimum required length of service in the lower post.

(*Paragraph 5.1.10.1*)

Department wise sanctioned strength of each category of staff was not available with the DOPART.

(*Paragraph 5.1.10.3*)

Norms for transfer of Government servant were not formulated.

(*Paragraph 5.1.11.1*)

Internal audit wing was not set up in the Department to ensure compliance of the existing rules and regulations of the Department.

(*Paragraph 5.1.16.1*)

5.1.1 Introduction

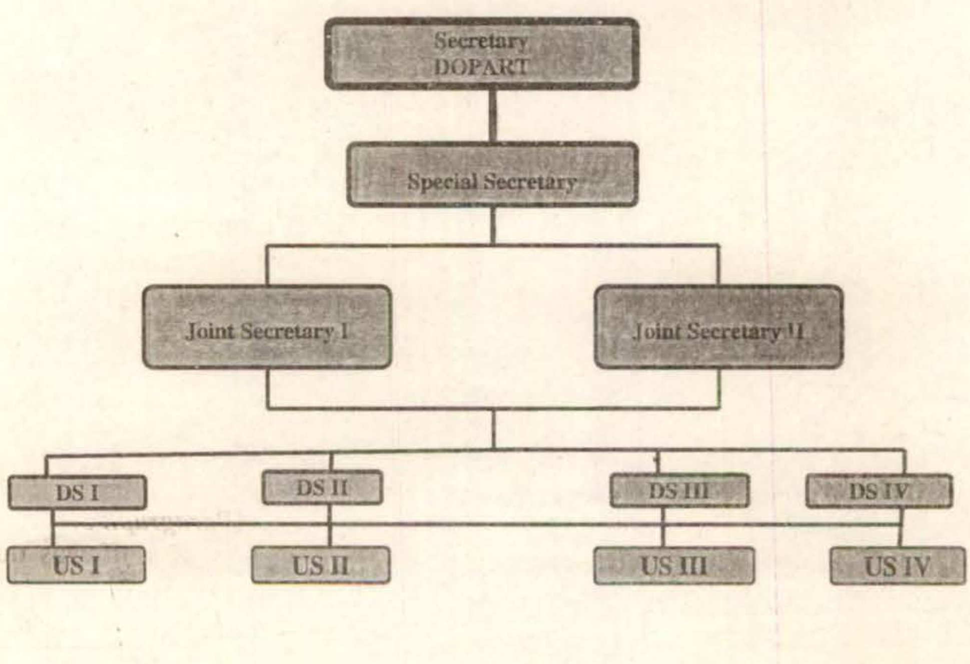
Internal Control Mechanism (ICM) in an organisation aims at ensuring that, its operations are carried out according to the applicable laws, rules and regulations in an economical, efficient and effective manner. It provides the top management with reasonable assurance regarding the achievement of the organisational objectives and safeguards the assets and other resources of the organisation from wastage, mismanagement, fraud etc.

The DOPART was formed in 1975 with the main objective of regulating service conditions, recruitment, promotions, posting, transfer and deputation of All India Services (AIS) officers and other gazetted officers of the State Government; and officers of the Sikkim Subordinate (Ministerial and Executives) service; bring reforms in Government departments for their smooth functioning, and nominate Government officials (both probationers and in-service candidates) for training as a part of continuous skill development.

5.1.2 Organisational set-up

The Secretary is the overall in-charge of the Department, assisted by Special Secretary (1), Joint Secretaries (2) and other subordinate officers.

Chart 5.1



5.1.3 Scope of Audit

The functioning of ICM of the Department of personnel, administrative reforms, training, public grievances, career options & employment, skill development and Chief Minister's self employment scheme (DOPART) covering a period of five years (2001-06) was evaluated with reference to the records maintained in the office of the Secretary, DOPART, Gangtok during April and May 2006.

5.1.4 Audit Objectives

The Audit was carried out with a view to assess and ascertain the adequacy and efficacy of various internal controls in the Department and evaluate if these were in place and were being implemented/complied appropriately to ensure achievement of the broad goals of the Department in an economic, effective and efficient manner. The following controls were assessed in this regard:

- Budgetary and expenditure Controls;
- Operational Controls;
- Supervisory and Monitoring Controls; and
- Internal Audit.

5.1.5 Audit Criteria

For fulfillment of the above objectives the following criteria were used.
Provisions of:

- General Financial Rules and Sikkim Financial Rules;
- Indian Administrative Service (Cadre) Rules, 1954;
- Sikkim Service Rules;
- Other rules and regulations specified by Central and State Government relating to service matters.

5.1.6 Audit Methodology

The Audit of ICM was carried out on the basis of available rules and regulations framed and amended by the Government from time to time governing the service matters as regards promotions, transfers and posting, placement of officials, nomination of officials for training in probation as well as in-service training matters and concerning administrative reforms.

Test check of records as made available by the Department in response to requisitions issued by the Audit as well as analysis of data collected was also carried out to obtain specified results.

Audit findings

5.1.7 Budgetary and expenditure Controls

Internal controls with respect to financial aspects of the functioning of a Department are generally governed by the Budget Manual which inter-alia prescribes the methodology for preparation of budget, watching of progress of expenditure to facilitate re-appropriations, eventual surrender/ savings or supplementary funds etc. However, the State Government had not framed its budget manual. Sikkim Financial Rules (SFR), however, briefly mentioned the control mechanism prescribing the procedure for preparation of budget, withdrawal of money from Government Account, watching the progress of expenditure and control thereof. Audit scrutiny revealed that control mechanism as prescribed in the SFR was also not adhered to by the Department as evidenced from the following paragraphs:

5.1.7.1 Failure to watch the progress of expenditure

Table- 5.1.1

(Rupees in lakh)

Year	Budget provision			Expenditure	Savings (-) with ref. to col. 3	Amount surrenderd during the year with ref. to col. 5
	1	2	3	4	5	6
	Original	Supplementary	Total			
2001-02	134.66	5.20	139.86	114.72	(-) 25.14 (18)	7.63 (30)
2002-03	132.55	Nil	132.55	126.33	(-) 6.22 (5)	3.85 (62)
2003-04	154.00	6.00	160.00	150.26	(-) 9.74 (6)	6.75 (69)
2004-05	311.83	Nil	311.83	255.06	(-) 56.77 (18)	Nil
2005-06	283.85	175.00	458.85	290.49	(-) 168.36 (37)	175.85 (104)
Total	**1016.89**	**186.20**	**1203.09**	**936.86**	**(-) 266.23 (22)**	**194.08 (73)**

Source: Appropriation Accounts. *Figures in brackets represent percentage.*

It would be seen from the above table that budgetary and financial control by the Department was deficient as there was savings in all the years 2001-06. Besides there were following deficiencies:

- During 2001-02 to 2005-06 there were persistent savings. There was wide variation between budget provision and actual expenditure ranging from 5 to 37 *per cent* and savings were not anticipated in time. Savings of Rs. 168.36 lakh in 2005-06 had not been surrendered. As a result, the Finance Department was not able to reallocate the amount to other needy departments.
- Against the actual savings of Rs. 266.23 lakh during 2001-06, only Rs. 194.08 lakh were surrendered and Rs. 71.15 lakh retained.
- During 2001-02 and 2003-04 the Department took supplementary provision of Rs. 5.20 lakh and Rs. 6 lakh yet the savings were more than the supplementary provision. In 2005-06, the entire supplementary provision of Rs. 175 lakh was surrendered against the actual savings of Rs. 168.36 lakh. The amount surrendered ranged between 30 to 104 *per cent* of the total savings of the respective years.

5.1.8 Operational and Supervisory Controls

The Administration and Establishment (A&E) Manual (for Central Government Officers) prescribed various rules and procedures relating to service matters to enable HOD and other controlling officers to exercise their powers and discharge their responsibilities in an efficient and effective manner in conformity with the rules and procedures. The A&E Manual incorporating basic rules, regulations and orders governing appointment, promotion, confirmation, resignation etc. had not been compiled and circulated by the Department to serve as a readymade guide for effective discharge of duties of the officers and staff in an appropriate manner for any service. Absence of prescribed rules and procedures indicates non-delineation of responsibilities which led to the following irregularities:

5.1.9 Appointment

All India Services (AIS)

5.1.9.1 Non-adherence of IAS rules

- According to the Indian Administrative Service (Cadre) Rules, 1954 the strength and composition of IAS cadre is determined by the Central Government. The State Government concerned, however, may add one or more posts carrying duties or responsibilities of a like nature to cadre posts of the State for a period of one year which could be further extended for another two years with the approval of the Central Government. The State Government had appointed (September 2003, May 2004 and November 2004) three Advisors in the scale of Rs. 26,000 fixed (1) and Rs. 22,400-525-24,500 (2). It was noticed in Audit that in contravention of rules, the appointment continued for a period of more than three years in one case and two years in two cases as no approval from the GOI was obtained. Thus, continuation of appointment of Advisors for a period beyond one year was not only irregular but indicative of failure of internal control to observe the cadre rules of appointment and continuation of posts by DOPART. This also led to filling up of equal number of posts by other officers resulting in an extra outgo of Rs. 36.90 lakh[1] at the minimum of the pay scale towards promotions of junior officers on their pay and allowances till the end of March, 2006.
- Similarly, DOPART also promoted seven officers in the next higher grade (Rs. 22,400-525-24,500) of Principal Secretary against the sanctioned strength of four posts leading to excess operation of three posts involving extra expenditure of Rs. 16.89 lakh (in the minimum of the pay scale) per annum on their pay and allowances.

  While accepting the Audit contention, the Department stated (September 2006) that promotion of the IAS officers to the next higher grade of Principal Secretary had become imperative as large number of officers were inducted into IAS in the initial year (1977) of merger of Sikkim with Indian Union and had eventually become fairly senior for promotion to the higher grade. The reply is not tenable as the promotion to the next higher grade is subject to availability of clear vacancies.

Non -All India Services

5.1.9.2 Absence of re-examination of cadre strength

The Central Government observes established rules and procedures for review

[1] *Sh.T.W.Barfungpa, (2004-06)-Rs.11.62 lakh; Sh.Tashi Topden, (2003-06) -Rs.15.35 lakh; Sh.T.W.Tenzing, (2004-06)-Rs.9.93 lakh:* ***Total - Rs.36.90 lakh***

of cadre strength from time to time. The All India Service Manual also prescribes review of cadre strength every three years in consultation with the concerned State Government. The State Government however had not put in place the system of review of cadre strength in line with that of the Central Government in spite of stipulation to this effect. It was noticed that the cadre strength of various State Civil services was altered on a number of occasions without adhering to any laid down norms by cadre review committees instituted for the specific purpose as evidenced from the following paragraph:

5.1.9.3 Failure to conduct need-analysis while creating posts

The Sikkim Government Establishment Rule (13) forbids creation of post (except in emergent situations) during the year unless there is a provision for it in the approved budget. Mere provision in the Department budget, however, does not constitute authority for incurring liability on any new post. Despite this clear stipulation, 10 departments proposed creation of 443 posts which was approved by the DOPART on 15 occasions between July 2001 and July 2005 in a routine manner, without carrying out need or job analysis leading to additional financial burden to the tune of Rs. 4.70 crore per annum (calculated on an average). The action of the DOPART and also of Finance, Revenue and Expenditure Department (FRED) in submitting proposals for creation of posts and financial concurrence respectively, especially in the absence of specific job analysis and ban on creation of posts in terms of Memorandum of Understanding signed (June 1999) between the Government of Sikkim and GOI was indicative of casual approach of Government in creation of posts without justification.

The Department while admitting (September 2006) that there was a ban on creation of posts, stated that DOPART recommended creation of additional posts to FRED for financial concurrence based on the requirement of the respective departments. The reply is not tenable as in the absence of need analysis by the departments concerned, DOPART approval was not justified. Similarly, FRED also failed in its duties to scrutinise the proposals in right earnest before according financial concurrence.

5.1.9.4 Non-compliance with provisions of Voluntary Retirement Scheme (VRS)

With a view to right size the Government on the one hand and to provide an opportunity to employees to retire from service voluntarily before the date of their superannuation, the State Government introduced (January 2003) Voluntary Retirement Scheme (valid for one month *i.e.* February 2003). The scheme also stipulated abolition of the post vacated by the retiring incumbent. Scrutiny of records relating to implementation of VRS by DOPART revealed control failure as elucidated below:

- Although 131 Government servants availed the benefit under VRS and retired (March 2003) from their respective posts, only 99 posts were abolished and 32 posts continued to be operated in the category of Junior grade (10 posts), Senior grade (11 posts), Selection grade II (6 posts), Selection grade I (3 posts), Super time grade I (1 post) and 1 post in the rank of Secretary leading to violation of the spirit of VRS. Non-adherence to VRS policy indicated lack of administrative control and led to avoidable expenditure of Rs. 2.24 crore[2] (upto March 2006) on account of pay and allowances at the minimum of the pay scale.

- The Government restructured (June 2003) the cadres of Director and Additional Director of Sikkim Finance and Accounts Service after availing of VRS by two of its Additional Directors (March 2003). Restructuring enhanced the sanctioned strength of Directors from 4 to 6 while the sanctioned strength for the post of Additional Director was reduced from 6 to 4, vitiating the spirit of VRS.

The DOPART stated (September 2006) that Government reviewed the cadre strength to meet the requirement of the concerned departments. Reply of the DOPART is not tenable as action of the Department to enhance the sanctioned strength was against the spirit of right sizing the Government under VRS and control of expenditure under pay and allowances.

5.1.10 Promotion & Deployment

5.1.10.1 Non-adherence to prescribed rules during promotions

According to Sikkim State Services Rules of various Gazetted services, no officer shall be considered for promotion to the next higher post unless he has rendered the required length of service in lower post as prescribed in the Recruitment Rules of the said post.

Test check of six[3] services revealed that in 57 cases from all the six services, officials had been promoted to next higher grade in officiating capacity without having rendered the required length of service in the lower post.

Further, in 20 cases (out of 443 cases test checked) Government servants were promoted to next higher grade in substantive capacity without having rendered the minimum required length of service in the lower post. The officials were promoted to next higher grade without completing the length of service criteria in the lower post ranging from 1 to 6 years, indicating absence of internal control mechanism in respect of promotions and also indicative of disregard of allocated duties by the officers responsible for effecting promotions without verifying the eligibility in the DOPART and resulted in undue extension of benefits of higher pay and allowances and other related benefits. This resulted in extra outgo of Rs. 64.12 lakh from the Government exchequer towards pay and allowances[4].

In reply, the Department stated (September 2006) that all promotions to substantive capacity are made only after the completion of the required length of service as per the cadre rules through the State Public Service Commission. The reply is factually incorrect as the particulars of promotion were taken from original records of the individual officer from their respective service

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[2] *Junior Grade Rs. 0.53 crore; Sr. Grade Rs.0.73 crore; Selection Gr.II Rs.0.48 crore; Selection Gr.I Rs.0.27 crore; Super-time Gr.II Rs.0.10 crore and Super-time Gr.I Rs.0.13 crore.*

[3] *State Civil Engineering Service, State Mechanical Engineering Service, State Electrical Engineering Service, State Finance and Accounts Service, State Agriculture Service, and State Civil Service.*

[4] *Calculated at the minimum of the pay scale.*

books and information furnished by the Department.

This indicated lack of effective administrative control in the Department regarding promotion from one grade to another in the service mainly in Engineering and Accounts services.

5.1.10.2 Absence of uniform promotion criteria

There was no uniform criteria for promotion to next grade with identical pay scale. It was noticed that while Engineering and Finance & Accounts services were required to render eight years to become eligible for senior grade II in the pay scale of Rs. 9,000 – 16,250, officers of the State Civil Services had to render only six years. Similarly, while State Civil services and Finance & Accounts services had to render four years each for promotion to the next higher grade of Rs. 11,000 – 17,000, Engineering services required six years. This indicated DOPART's failure to work out uniform promotion criteria for different cadres. The details are given below:

Table-5.1.2

Services	Junior Grade to Senior Grade (7000-11500)-(9000 -13800)	Senior Grade to Selection Grade II (9000 -13800)-(11000-16250)	Selection Grade II to Selection Grade I (11000-16250)-(12500-17000)	Selection Grade I to Suppertime Grade II (12500-17000)-(14300-18300)	Suppertime Grade II to Suppertime Grade I (14300-18300)-(17200-21250)
Engineering	6 years	8 years	6 years	4 years	2 years
State Civil Services	6 years	6 years	4 years	4 years	2 years
Finance and Accounts	6 years	8 years	4 years	8 years	2 years

(Source: Departmental records)

The Department stated (September 2006) that the prescribed length of service in all the services from junior grade to Super time grade are uniform. The reply of the Department is factually incorrect as in terms of the Sikkim State Civil Services Rules 1977, Sikkim State Engineering (Civil, Electrical, Mechanical) Service Rules 1989 and Sikkim Finance and Accounts Rules, 20 years, 24 years and 26 years length of service is required for promotion from Junior Grade to Super time grade in State Civil, Engineering, and Finance & Accounts Services respectively.

5.1.10.3 Irrational deployment of manpower

Sikkim State Service Rules, 1977 prescribed that the strength and composition of service shall be reviewed by the State Government from time to time. As of March 1998, the total strength of the State Civil Service was 427 comprising of Secretary (5), Special Secretary (5), Additional Secretary (25) and Joint Secretary (68), etc. This was inclusive of deputation reserve (20%), training reserve (15%) and leave reserve (5%). Restructuring of composition and cadre strength of various categories of posts under the State Civil Services were last done during February 2004. However, the department-wise structure and composition of the cadre strength was not done on the last occasion (February 2004) after restructuring. Records relating to necessity for restructuring the cadre were also not produced to Audit. Further, after cadre restructuring (February 2004) department-wise structure and composition of the cadre strength was not prepared, which resulted in irrational deployment of manpower in various departments as illustrated below:

Table 5.1.3

Name of Department	Name of Post	Number of men-in-position				
		2001-02	2002-03	2003-04	2004-05	2005-06
Art and Culture	Addl. Secy	1	2	1	Nil	1
	Jt. Secy	2	1	1	Nil	2
	Dy.Secy	1	1	1	Nil	3
	U.Secy	1	2	1	Nil	1
Tourism	Addl. Secy	2	1	1	Nil	1
	Jt.Secy	1	Nil	6	3	3
	Jt. Dir	1	Nil	Nil	Nil	1
	OSD	2	Nil	1	Nil	1
	Dy.Secy	3	Nil	1	2	4
	U.Secy	1	Nil	2	2	Nil
Planning and Dev.	Addl. Secy	Nil	Nil	2	Nil	Nil
	US	Nil	1	2	3	3
Sports & Youth	Addl. Secy	Nil	1	Nil	1	1
	Sp. Secy	Nil	Nil	Nil	Nil	1
	JS I	Nil	Nil	Nil	Nil	1

(*Source: OAD Inspection Reports*)

This indicated inadequate/absence of internal control mechanism in respect to deployment of personnel by the DOPART.

5.1.10.4 Deployment of excess manpower

Similarly, DOPART had also failed to exercise any control over promotions of Deputy Superintendent of Police (DSP). It was noticed that men-in-position in DSP cadre were more than the sanctioned strength owing to promotions granted by DOPART in excess of the sanctioned strength. Details are shown below:

Table-5.1.4

Year	Name of the post	Sanctioned Strength	Men in Position	Excess
2001-02	DSP	25	32	07
2002-03	DSP	25	35	10
2003-04	DSP	25	33	08
2004-05	DSP	40	45	05
2005-06	DSP	40	45	05
	TOTAL	**155**	**190**	**35**

(Source: Departmental records)

While accepting the fact, the Department stated (September 2006) that Government appointed excess number of DSPs through direct recruitment in compliance with High Court directives (1994). The number of DSPs further increased as the Inspectors who had stagnated at the grade were promoted under promotion quota resulting in increase in the existing strength of DSPs. The Department further added that deployment, however, was made as per the requirement of Sikkim Police. The reply is not tenable as the cadre strength review in December 2004 had already taken into account the requirement of the Sikkim Police while enhancing the cadre strength to 40 posts. This indicated the Police Department as well as DOPART's failure to exercise control over actual requirement of DSPs before according promotions.

5.1.11 Transfer and posting

5.1.11.1 Absence of rules regarding transfer

Periodical inter-departmental transfers is a normal feature of Government services for providing adequate exposure to enable the individual officer to gain experience to contribute to the efficiency of the State administration. DOPART had not initiated any concrete efforts towards this direction to facilitate transfer of IAS as well as of State Civil Services in a systematic manner.

It was observed in Audit, that, absence of laid down transfer policy led to transfer of some of the officers frequently while others were retained in the same place for a considerable period. Test check of records relating to 15 officers revealed that nine officers were transferred frequently, the duration ranging between 6 days to 14 months, while 6 officers continued in the same post and in the same place for 3 to 5 years. Thus, no rationale was followed while effecting transfers. While accepting the fact, the Department assured (September 2006) that necessary steps would be initiated to obviate such lapses in future.

5.1.12 Training

5.1.12.1 Non-formulation of training policy

Government of Sikkim (Allocation of Business) Rules enjoin all responsibility relating to training of Government employees to the DOPART. Audit scrutiny revealed that DOPART had neither identified the training requirements of the employees nor formulated any plan or policy, calendar of training programme for sponsoring and imparting training to various employees and post training deployment of personnel to utilise the skill acquired/ developed during training. The Department had maintained only a training register indicating 658 persons (604 persons in India and 54 persons abroad) trained in various fields during the period 2001-02 to 2005-06. However, feedback from the trainees and their controlling officers as to the usefulness of the programme and improvement of efficiency in the work field during post training period was not obtained or maintained. In the absence of this vital information, the impact of training and benefit to State Government could not be assessed by Audit.

5.1.13 Skill Development

5.1.13.1 Absence of monitoring control on trainees

The State Government launched 'Skill Development scheme' with the annual allocation of Rs. one crore to assist local educated unemployed youth in developing their skills to become entrepreneurs or assist them in seeking jobs.

Funds amounting to Rs. 48.09 lakh (December 2004) and Rs. 37.00 lakh (May 2005) were sanctioned by the State Government for implementation of the scheme by DOPART in 2004-05 and 2005-06 respectively. DOPART was to sponsor eligible candidates for Special Vocational Training Courses in different disciplines under the scheme.

Test check of records revealed the following control failures:

During 2004-05, DOPART decided to depute 35 candidates for training to 'Amity Institute of Vocational and Industrial Training' at New Delhi based on advertisement in local dailies for which entire fees were to be borne by the State Government. All candidates were required to give an undertaking through their parents, that, expenses incurred on their training would be refunded to the Government in case of non-completion of training. It was seen, that, the DOPART displayed a total lack of control in implementation of the scheme as 22 candidates who undertook training in 'International Certification Course' did not appear in the examination, 5 trainees returned back without even completing their courses, no feed back from trainees as to the attendance, quality of training, completion and above all pursuance of the trainees to complete the training was attempted. Expenditure of Rs. 21.16 lakh incurred towards training of these candidates, thus, did not contribute in achieving the objectives of the scheme.

5.1.14 Administrative Reforms

Administrative Reforms in the Government Department is one of the key areas for effective discharge of the responsibility in most efficient, effective and economical manner with concise human resources. The State Government assigned this responsibility to DOPART to bring about administrative reforms in the area of classification of offices, inspection and checking of administrative lapses, work study of various departments for assessing staff requirement etc. in Government departments. It was noticed in Audit that no steps were initiated by the DOPART except the amalgamation of four[5] departments into two departments. So much so, that the allocation of duties and responsibilities for initiating administrative reforms required to be taken by DOPART was not delineated by the Department. The Department could not produce any record to indicate initiation of proposals for administrative reforms indicating failure of administrative and supervisory control at all levels.

In reply, the Department stated (September 2006) that although administrative reforms and manpower research was initiated through a Commission (constituted in 1990) and Department of Economics, Statistics, Monitoring and Evaluation (DESME) and report submitted by them in March 1992 and June 2002 respectively; the Government had not accepted the reports as yet. Besides, the Department was also engaged in framing Recruitment Rules and other notifications dealing with welfare measures like compassionate

[5] *Motor vehicle Department and Sikkim transport Department as Transport Department, and Social Welfare Department and SC&ST Welfare Department as Social Welfare*

appointment, ex-gratia appointments etc. The reply of the Department is not tenable as no progress was made towards classification of offices, inspection and checking of administrative lapses, work study of various departments for assessing staff requirement, etc.

5.1.15 Monitoring controls

5.1.15.1 Delay in finalisation of disciplinary cases

Sikkim allocation of Business Rules enjoins upon the DOPART to regulate service conditions, recruitment, promotions posting, transfer and deputation to various services. Sikkim Government Servant (Discipline and Appeals) Rules, 1985 prescribed speedy disposal of disciplinary cases by DOPART.

Test check of records revealed that two cases of disciplinary proceeding were pending, one from October 1999 and another from June 2002 against the members of IAS of Sikkim cadre as of August 2006 due to failure of the departmental authority to initiate adequate measures towards disposal of the cases. Further, records relating to disciplinary cases pending against other than IAS cadre were not maintained by the Department indicating total absence of monitoring mechanism in the Department. The Department informed (September 2006) that due care would be taken to obviate the weaknesses.

5.1.15.2 Service verification not done

According to Rule 44 of the Sikkim Service Rules, every entry in the Service Book must be attested by the Head of the Department or a Gazetted Officer authorised to do so, and must be verified by him at least once a year. Test check of service books of officers maintained in the Department revealed that service verification from April 2002 to March 2006 had not been undertaken in respect of 36 officers of All India Service, 53 officers of Sikkim Civil Service, 53 officers belonging to Agriculture service and 57 officers from Finance and Accounts service, indicating that concerned authority of the Department had failed to discharge their assigned work and control mechanism at supervisory level was virtually non-existent facilitating such lapses. This was fraught with the risk of non-reflection of vital service records such as completion of probation period, confirmation of services, promotions, leave availed, leave travel concessions availed, foreign assignments, training/ workshops attended, etc in the absence of which, the Department would be unable to take appropriate decisions regarding various career related issues as well as settlement of final dues at the time of superannuation. While accepting the fact, the Department stated (September 2006) that attempt would be made to systematise the annual service verification process.

5.1.15.3 Non-submission of returns

According to the IAS (Cadre) Rules, 1954 the Department was required to furnish quarterly returns to GOI in prescribed proforma indicating authorised number of posts, utilisation of post, details of posts lying vacant, vacant since, reasons for keeping vacant etc. It was noticed that quarterly returns for the period April 2001 to December 2005 had not been furnished to GOI by the DOPART. The Department stated (September 2006) that the quarterly returns for the quarter ending on 31 March 2006 were forwarded to the GOI.

5.1.15.4 Failure of senior officials to enforce accountability and protect interest of State Government

Audit scrutiny revealed that senior officers in DOPART had failed to enforce accountability and protect interest of the State Government indicating lack of internal control mechanism and casual approach to Audit.

Observations on the accounts of various departments noticed during Audit and not settled on the spot were communicated to the Heads of Departments/ offices through Inspection Reports (IRs). The Heads of Departments/officers were required to take corrective action in the interest of the State Government and furnish compliance on Audit observations within a period of four weeks. Seven inspection reports containing 15 Audit observations relating to the DOPART were pending for want of settlement by the Department as on March 2006, indicating failure of the Heads of Department/officers to discharge due responsibility as even after 4 years 10 months they had failed to send even the first reply to six IRs and no remedial measures were taken to ameliorate the discrepancy pointed out by the Audit.

5.1.15.5 Non-production of records

In spite of repeated reminders, a number of records /information pertaining to deployment of manpower, disposal/pending court cases, cases of ad-hoc promotions, training of officials and their feedback, deputation and absorption thereof, sanctioned strength and men-in-position, records of public grievances, inter-departmental transfers, etc were not produced to Audit as a result of which vital information could not be verified in Audit. Details are shown in *Appendix-XV.*

5.1.16 Internal Audit

5.1.16.1 Absence of Internal audit

Internal audit is an independent appraisal of the internal control mechanism in the Department by the Auditors. The responsibility of carrying out internal audit of DOPART was assigned to Finance Department (Directorate of Internal Audit). It was however noticed that the Director of Internal Audit had not inspected the records of the Department during any of the years under Audit review. Consequently, weaknesses, lacunae in the internal control mechanism were not brought to the notice of the Department to initiate necessary corrective measures.

5.1.17 Conclusion

The ICM of the Department with regard to implementation of rules and regulations framed by the Government, manpower control, cadre strength, review of sanctioned strength for proper placement of manpower in Government departments, promotion policies and verification of service records of personnel, steps towards bringing reforms in the administration etc. were beset with weaknesses. In the absence of built-in mechanism for proper supervision and inspection at higher level, the Department could not benefit from the ICM in making its working effective, efficient and economical. The

Department also failed to discharge its responsibility relating to training of employees and initiate administrative reforms.

5.1.18 *Recommendations*

The following recommendations are made:

- Strict adherence to the provisions of the financial rules and procedures should be ensured to exercise control and avoid unnecessary budget provisions.
- Codes and Manuals for dealing with personnel matters of all Gazetted officers of the State and of non-gazetted officials of Sikkim Subordinate (Ministerial and Executive) Service of Government departments should be prepared and updated from time to time.
- Cadre Rules may be formulated to provide uniform career prospect and promotion among different cadres for the employees in their specific cadre, examination of cadre strength and creation of posts in judicious manner.
- Checking of eligibility criteria before effecting promotions and adoption of uniform transfer policy.
- Initiate steps towards administrative reforms and imparting of training to officials at suitable intervals on identified need basis.
- Internal audit system should be made effective and should be used as an instrument for streamlining the internal system.
- Reporting and monitoring system need to be strengthened.

CHAPTER-VI

REVENUE RECEIPTS

CHAPTER – VI
REVENUE RECEIPTS

6.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Sikkim during the year 2005-06, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year 2005-06 and the corresponding figures for the preceding four years are given below :

Table-6.1

(Rupees in crore)

		2001-02	2002-03	2003-04	2004-05	2005-06
I.	**Revenue raised by the State Government**					
(a)	Tax Revenue	80.39	105.53	108.00	116.95	147.23
(b)	Non-tax revenue	1,128.21 (71.12)	1,315.84 (143.36)	537.29 (95.04)	992.47 (111.36)	990.10 (113.94)
	Total	1,208.60 (151.51)	1,421.37 (248.89)	645.29 (203.04)	1,109.42 (228.31)	1,137.33 (261.17)
II.	**Receipts from the Government of India**					
(a)	State's share of divisible Union taxes	84.83	77.20	112.33	107.35*	182.13
(b)	Grants-in-aid	513.75	581.95	583.56	675.63	644.90
	Total	598.58	659.15	695.89	782.98	827.03
III.	**Total receipts of the State**	1,807.18 (750.09)	2,080.52 (908.04)	1,341.18 (898.93)	1,892.40 (1,011.29)	1,964.36 (1,088.20)
IV.	**Percentage of I to III**	67	68	48	59	58

Bullet *The figures shown in brackets are net of expenditure of lotteries conducted by the Government. *For details, please see 'Statement No.11 – Detailed Accounts of Revenue by Minor Heads' in the Finance Accounts of the Government of Sikkim.*

6.1.1 Tax Revenue

The details of tax revenue raised during the year 2005-06 along with the figures for the preceding four years are given below:

Table-6.2

(Rupees in crore)

Sl. No.	Head of Revenue	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+) / decrease (-) in 2005-06 over 2004-05
1.	Sales tax	34.97	41.42	48.87	48.18	56.65	(+)17.58
2.	Taxes on income other than corporation tax	22.03	32.67	26.76	29.09	47.82	(+)64.39
3.	State excise	17.59	22.45	25.25	32.69	32.96	(+)0.83
4.	Stamps and Registration fees	1.30	3.45	1.14	1.43	2.27	(+)58.74
5.	Taxes on vehicles	1.97	2.35	2.74	3.24	4.24	(+)30.86
6.	Other taxes and duties on commodities and services	2.02	2.79	3.06	1.88	2.68	(+)42.55
7.	Land revenue	0.51	0.40	0.18	0.44	0.61	(+)38.64
	Total	**80.39**	**105.53**	**108.00**	**116.95**	**147.23**	(+)25.89

* *State share of Union taxes and duties have declined owing to decline in share of net proceeds mainly from Customs and Union Excise duties during 2004-05.*

The reasons for variations were as under:

Taxes on income other than corporation tax: The increase was due to more realisation of Income tax levied under State law.

State excise: The increase in revenue realisation was due to better management of revenue collection.

Stamps & registration: The increase was due to upward revision of registration fee and increase in sale of stamp documents.

Taxes on vehicles: The increase was due to registration of more number of vehicles.

Land revenue: The increase was due to upward revision of land rent.

Reasons for variation in respect of Sales tax and Other taxes and duties on commodities and services were not furnished by the concerned departments (November 2006).

6.1.2 Non-tax Revenue

The details of the non-tax revenue raised during the year 2005-06 alongwith the figures for the preceding four years are given below:

Table-6.3

(Rupees in crore)

Sl. No.	Head of revenue	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+)/ decrease (-) in 2005-06 over 2004-05
1.	Interest receipts	6.02	7.17	2.73	8.03	6.31	(-)21.42
2	Road transport	15.56	17.26	17.33	21.52	13.67	(-)36.48
3.	Plantations	2.01	1.78	1.92	1.63	2.01	(+)23.31
4.	Dividends & profits	0.01	1.76	0.74	0.92	1.14	(+)23.91
5.	Forestry and wild life	6.65	7.15	7.24	7.92	9.97	(+)25.88
6.	Tourism	0.67	0.54	0.79	0.78	0.81	(+)3.85
7.	Crop husbandry	0.43	0.50	0.31	0.31	0.36	(+)16.13
8.	Power	11.84	12.97	13.67	21.41	28.00	(+)30.78
9.	Printing & stationery	0.98	1.12	1.04	1.07	1.65	(+)54.21
10.	Medical and public health	0.35	0.36	0.44	0.98	0.91	(-)0.07
11.	Village & small industries	0.64	0.63	0.58	0.08	0.14	(+)75.00
12.	Public works	0.99	2.41	1.64	2.46	3.09	(+)25.61
13.	Police	3.86	1.40	10.20	4.38	14.14	(+)222.83
14.	Animal husbandry	0.24	0.24	0.23	0.31	0.41	(+)32.26
15	Industries	0.01	0.01	0.02	0.01	0.19	(+)1800.00
16	State lotteries[†]	1,074.40 (17.31)	1,256.72 (84.24)	473.72 (31.47)	912.27 (31.16)	898.35 (22.19)	(-)1.53 (-)28.79
17	Others	3.55	3.82	4.69	8.39	8.95	(+)6.67
	Total	**1,128.21**	**1,315.84**	**537.29**	**992.47**	**990.10**	

The reasons for variations for the following items as stated by the departments were as under:

Interest receipts: The decrease was due to less realisation of interest from investment of cash balance.

[†] *Figures in brackets represent net receipts.*

Road transport: The decrease was due to less realisation of passenger fare and dip in sale of POL.

Plantations: The increase was due to enhancement of realisation from Temi Tea Estate on account of sale of tea leaves.

Forestry and wild life: The increase was due to more realisation under other receipts.

Crop husbandry: The increase was due to imposition of token fees on all CSS schemes.

Tourism: The increase was due to leasing out of way side amenities, cafeterias etc.

Power: The increase was due to more realisation on account of sale of power.

Printing & stationery: The increase was due to realisation of outstanding dues.

Public works: The increase was due to more realisation on account of hire charges of machinery and equipments.

Police: The increase was due to more realisation under miscellaneous receipts of the Department.

Industries: The increase was due to leasing out of Sikkim Flour Mill, Tadong.

State lotteries: The decrease was due to non-stability of lottery market owing to ban on sale of lottery tickets in certain states and higher incidence of sales tax on sale of lottery tickets by some states.

Reasons for variations in respect of the remaining heads of revenue were not received (November 2006) though called for in June 2006.

6.2 Analysis of budget preparation

Budget estimate, revised estimate and actuals in respect of principal heads of revenue for the last five years are as below:

Table-6.4

(Rupees in crore)

Head	2001-02			2002-03			2003-04			2004-05			2005-06		
	BE	RE	Act-uals	BE	RE	Act-uals	BE	RE	Act-uals	BE	RE	Act-uals	BE	RE	Act-uals
Sales Tax	18.00	21.50	34.97	21.50	21.50	41.42	27.00	27.00	48.87	35.00	35.00	48.18	40.00	47.00	56.65
State Excise	16.00	17.00	17.59	19.50	20.57	22.45	22.00	22.81	25.25	26.00	29.47	32.69	26.48	26.60	32.96
Taxes on vehicles	1.20	1.20	1.97	1.38	1.38	2.35	1.45	1.45	2.74	1.75	1.80	3.24	2.00	2.00	4.24
Stamps and Registration	0.56	0.56	1.30	0.57	0.61	3.45	0.66	0.67	1.14	0.71	1.09	1.43	1.28	1.54	2.27

Analysis of above table indicate that though the departments met the targets fixed, budget estimates in almost all the cases were made without considering the actuals of preceding year and were thus unrealistic.

6.3 Variations between budget estimates and actuals

The variations between budget estimates and actuals of revenue receipts for the year 2005-06 in respect of the principal heads of tax and non-tax revenue are given below:

Table-6.5

(Rupees in crore)

	Head of revenue	Budget estimates	Actuals	Variations excess (+) or shortfall (-)	Percentage of variation
A	**Tax revenue**				
1.	Land revenue	0.81	0.61	(-)0.20	(-) 24.69
2.	Stamps & registration fees	1.54	2.27	(+)0.73	(+) 47.40
3.	State excise	26.60	32.96	(+)6.36	(+) 23.91
4.	Sales tax	47.00	56.65	(+)9.65	(+)20.53
5	Taxes on vehicles	2.20	4.24	(+)2.04	(+)92.73
6	Service tax	12.03	16.97	(+)4.94	(+)41.04 41.06
7	Other taxes and duties on commodities and services	5.02	2.68	(-)2.34	(-)41.06 41.61
B	**Non-tax revenue**				
8	Interest	3.57	6.31	(+)2.74	(+)76.75
9	Dividends & profits	0.72	1.14	(+)0.42	(+)58.33
10	Police	12.50	14.14	(+)1.64	(+)13.12
11	Printing & stationery	1.20	1.65	(+)0.45	(+)37.50
12	Public works	1.77	3.09	(+)1.32	(+)74.58
13	Other administrative services	1.21	2.92	(+)1.71	(+)141.32
14	Education, sports, art & culture	0.55	0.95	(+)0.40	(+)72.73
15	Medical & public health	0.79	0.91	(+)0.12	(+)15.19
16	Water supply & sanitation	0.77	1.16	(+)0.39	(+)50.65
17	Urban development	0.43	0.68	(+)0.25	(+)58.14
18	Forestry & wild life	7.00	9.97	(+)2.97	(+)42.43
19	Road transport	11.28	13.66	(+) 2.00	(+)21.07

The reasons for variations between budget estimates and actuals were as follows:

State excise: The increase was due to better management of revenue collection.

Taxes on vehicles: The increase was due to increase in number of vehicles in the State.

Stamps & registration: The increase was due to revision of registration fee and increase in sale of stamp documents.

Land revenue: The decrease was due to less transaction.

Forestry and wild life : The increase was due to receipt of fund from NHPC for crop compensation.

Printing & stationery: The increase was due to realisation of outstanding dues.

Public works: The increase was due to more tender works, receipt of lease rent, settlement of pending final bills, receipt of more hire charges of machinery and equipment.

Other administrative services: The increase was stated to be due to more receipt of charges from guest house & hostels etc.

Police: The increase was due to receipt of reimbursement by the Government of India during 2005-06 against the expenditure for 2003-04.

Road Transport: The revenue increase was due to unusual demand of NHPC as the project was at completion stage.

Reasons for variations in respect of the remaining heads of revenue were not received (October 2006) though called for in June 2006.

6.4 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2003-04, 2004-05 and 2005-06 alongwith the relevant all India average percentage of expenditure on collection to gross collection for 2004-05 were as follows.

Table-6.6

(Rupees in crore)

Sl.No.	Head of Revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India Average percentage for the year 2004-05
1.	Sales tax	2003-04	48.87	1.09	2.23	0.95
		2004-05	48.18	1.10	2.28	
		2005-06	56.65	1.66	2.93	
2.	State excise	2003-04	25.25	1.37	5.43	3.34
		2004-05	32.69	1.49	4.56	
		2005-06	32.96	1.76	5.34	
3.	Taxes on vehicles	2003-04	2.74	0.43	15.69	2.74
		2004-05	3.24	0.43	13.27	
		2005-06	4.24	0.58	13.68	

It would be seen from the table that the percentage of expenditure to gross collection during 2005-06 as compared to the corresponding all India average percentage for 2004-05 was high in the case of sales tax, State excise and taxes on vehicles due to lower rate of tax coupled with high establishment expenditure.

6.5 Analysis of arrears of revenue

32.97

The arrears of revenue as on 31 March 2006 in respect of some principal heads of revenue amounted to Rs. 33.92 crore of which Rs. 0.22 crore were outstanding for more than 5 years as detailed below:

0.03

Table-6.7

(Rupees in crore)

Sl. No.	Head of Revenue	Amount outstanding as on 31 March 2006	Amount outstanding for more than 5 years as on 31 March 2006
1.	Public Works (Bldgs)	0.11	Nil
2.	Road Transport – SNT	3.20	Nil
3.	Hire charges of machinery & equipment	2.82	Nil
4.	Tourism-rent & catering receipt	0.02	Nil
5.	Power	26.73	*Not Available
6.	Printing & stationery	0.09	0.03
	Total	**32.97**	**0.03**

**Figures for Sl. 5 outstanding amount not received from Power Department despite repeated reminders.*

6.6 Arrears in assessments

The details of cases pending assessment at the beginning of the year 2005-06, cases becoming due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of the year 2005-06 as furnished by the Income & Commercial Tax Division of Finance, Revenue & Expenditure Department in respect of State income tax was as follows:

Table-6.8

Name of tax	Opening balance	New cases due for assessment during 2005-06	Total assessments due	Cases disposed of during 2005-06	Balance at the end of the year	Percentage of Column 5 to 4
(1)	(2)	(3)	(4)	(5)	(6)	(7)
State Income Tax	1,962	26	1,988	719	1,269	36.16

It would be seen that the percentage of disposal under State income tax was 36.16 *per cent* only. Figures for other heads were not furnished by the concerned departments despite repeated reminders.

6.7 Failure of senior officials to enforce accountability and protect interest of Government

Audit observations on loss of revenue/short levy of demand & energy charges/under valuation/short assessment/irregular waiver etc. noticed during local Audit are intimated through inspection reports (IRs) to departmental officers, heads of departments and also to Government where necessary. The points mentioned in the IRs are to be settled as expeditiously as possible and first replies should be sent within four weeks from the date of receipt of IRs by the departments.

The position of IRs (with money value) in respect of revenue heads issued upto the end of December 2005 but remaining outstanding as at the end of June 2006 was as under:

Table-6.9

(Rupees in crore)

Sl. No.	Head of Revenue	No. of Inspection Reports	No. of Audit Objection	Amount
1	Sales tax	10	48	16.79
2	State income tax	11	43	11.60
3	Forestry and wild life	30	69	1.30
4	Land revenue	15	16	0.32
5	Taxes on vehicles	4	12	0.81
6	Urban development	6	14	2.17
7	Power	7	16	3.95
8	Non-ferrous mining and metallurgical industries	2	2	0.02
	Total	**85**	**220**	**36.96**

6.8 Results of Audit

Test check of records of Income and Commercial Tax, Urban Development, Forest and Environment Management, Energy and Power, Mines, Minerals & Geology, Transport (Motor Vehicle Division), State Lotteries, State Excise, conducted during the year 2005-06 revealed loss of revenue/short levy of demand & energy charges/under valuation/short assessment/irregular waiver etc. aggregating to Rs. 28.91 crore in 69 cases. A few illustrative cases involving Rs. 8.04 crore highlighting important Audit observations are mentioned in the following paragraphs.

The Department/Government accepted one case involving money value of Rs. 59.23 lakh and recovered Rs. 47.76 lakh.

6.9 Loss of Revenue

EXCISE DEPARTMENT

6.9.1 Non-levy of excise duty on short accountal of Extra Neutral Alcohol

Failure of the Department to levy and collect excise duty on the basis of "actual" transit loss of Extra Neutral Alcohol (ENA) imported by three distilleries resulted in revenue loss of Rs. 1.49 crore.

Sikkim Excise (Distillery for manufacture of spirit and foreign liquor) Rules 2000 stipulate that an allowance shall be made for actual loss in transit by leakage and evaporation of spirits transported subject to maximum limit ranging between one and two *per cent* towards transit loss for period of journeys as specified. Besides, an additional loss of 0.05 *per cent* is also allowable for temperature variation of one degree Fahrenheit between time of dispatch and receipt.

Scrutiny of records in January 2005 revealed that 289.69 lakh LPL[‡] ENA was imported by three distilleries[§] during the years 2001-02 to 2005-06. Of these, 1.67 lakh LPL was lost in transit as certified by the excise officials after proper gauging and proving of the strength of ENA on arrival. The balance 288.02 lakh LPL ENA was to be taken as stock by the distilleries against which 285.32 lakh LPL was accounted for by the distilleries. This resulted in short-accountal of 2.70 lakh LPL with consequential evasion of excise duty to the tune of Rs. 1.49 crore.

After this was pointed out, the Secretary and Commissioner, Excise Department stated between March 2005 and August 2006 that due to requirement of the rules of the exporting states, transit loss was artificially restricted to 0.5 *per cent* despite actual higher incidence. The Secretary, Excise Department further stated in October 2006 that the difference was due to allowable wastage which was upto a maximum of five *per cent* and one *per cent* for storage on account of loss during storage in metal and wooden vessels respectively.

[‡] *London Proof Litre.*

[§] *Sikkim Distilleries Ltd., Mount Distilleries Ltd. And Himalayan Distilleries Ltd.*

The replies are not acceptable as the Rules provide for maximum allowance of transit loss subject to actual loss which in these cases was 0.5 *per cent* as recorded by the excise officials and allowance of transit loss on ENA imported to the State of Sikkim is governed by Sikkim Act and Rules framed thereunder without any prejudice to provisions of Act and Rules of exporting States. Further, losses pointed out in Audit pertained to the losses occurring in transit only and not loss/ wastage in the processes involved thereafter like storage, blending and bottling.

FINANCE, REVENUE & EXPENDITURE DEPARTMENT (INCOME AND COMMERCIAL TAX DIVISION)

6.10

6.9.2 Non-realisation of CST

Failure to recover CST from four firms dealing in inter-State trade resulted in non-realisation of revenue of Rs. 3.99 crore.

Section 8 (5) of the Central Sales Tax (CST) Act 1956 empowers a State Government either to exempt any goods or class of goods from payment of tax or to impose lower rates of tax than those specified, for any dealer dealing in inter-State trade provided that such exemption/reduction is notified in an official gazette of that State Government. State Government of Sikkim had not issued any such notification as of September 2006.

6.10.1 Test check of records of the Commissioner, Income Tax and Commercial Tax Division (IT & CTD), Finance, Revenue & Expenditure Department for the period from April 2003 to March 2004 revealed in September 2005 that four industries sold goods in course of interstate trade valued at Rs. 40.02 crore during April 2001 to June 2005. Though the dealers submitted their returns, they did not pay tax of Rs. 3.99 crore as detailed below:

Table-6.10

Sl No	Name of firm	Commencement of commercial production	Period of Returns	Total turnover (Rs.)	CST due calculated at 10 *per cent* of turnover (Rs.)
1	M/S Akshay Ispat & Ferro alloys Pvt. Ltd.	December 2003	1.3.2004 to 30.6.2005	21,07,26,523	2,10,72,652
2	M/S Denzong Laboratories Pvt. Ltd. •	July 1999	1.4.2001 to 31.3.2005	5,63,07,114	56,30,711
3	M/S Sarda Boiron Sikkim Pvt. Ltd. •	April 1995	1.4.2001 to 31.3.2004	79,76,731	7,97,673
4	M/S Sheela Foams Pvt. Ltd.	October 2003	1.1.2004 to 31.3.2005	12,51,90,248	1,24,33,362*
	Total			**40,02,00,616**	**3,99,34,398**

* *Tax for the turnover amounting to Rs. 8,56,631 was paid.*

• *In case of firms at Sl. no. 2 and 3 above, tax amounting to Rs. 1.19 crore had also not been paid since commencement of commercial production from July 1999 and April 1995 respectively.*

After this was pointed out, the Department in their reply stated in April 2006 that the matter was referred to the Department of Commerce and Industries (DCI) in

April 2006 for clarification since there was inconsistency in the extent and mode of tax benefit to be granted by the State Government under the industrial policies. The reply is not tenable as exemption/reduction in rate of tax under industrial exemption scheme was also to be notified by the Taxation Department under Section 8(5) of CST Act which was not done till November 2006. The DCI, however, clarified in April 2006 that all the four units were required to pay tax.

The IT&CTD stated in April 2006 that after receiving clarification from the DCI, they had initiated the assessment process. Results of assessment along with particulars of recovery of tax are awaited (November 2006).

Irregular exemption of CST resulted in non-realisation of revenue of Rs. 82.58 lakh.

6.10.2 Similarly test check of records of Special Secretary, IT&CTD, Finance, Revenue and Expenditure Department for the period from April 2003 to March 2004 revealed in September 2005 that the Deputy Commissioner allowed exemption to a dealer from payment of CST amounting to Rs. 82.58 lakh♥ on two occasions for a period of five years each from December 1993 to December 1998 and from November 1999 to November 2004 under the provisions of the State Scheme of Incentives for Small Scale Industries 1988 and Sikkim Industrial Promotion and Incentive Act 2000 respectively. Audit scrutiny revealed that the exemptions were not regular as both the incentive scheme and Act of 1988 and 2000 did not contain any provision for exemption of CST. Further, the IT&CTD also did not issue any notification under Section 8(5) of the CST Act which was mandatory for allowing such exemptions. This resulted in irregular exemption of tax of Rs. 82.58 lakh out of which Rs. 31.20 lakh pertained to the period from 1999-2000 to 2003-04.

After this was pointed out, the Special Secretary, IT&CTD while accepting Audit observation stated in August 2006 that the dealer was issued certificate allowing exemption from levy of CST on the basis of approval of the then Hon'ble Deputy Chief Minister in-charge of Finance Department and that the matter was submitted to Government for consideration and development in this regard would be intimated to Audit. The reply is not tenable as exemption of CST cannot be granted in this case without issuing notification under Section 8(5) of CST Act. Further reply is awaited (November 2006)

6.11 6.9.3 Short assessment of sales tax

Allowance of inadmissible deductions from turnover resulted in short-realisation of tax of Rs. 59.23 lakh.

Section 4A of the Sikkim Sales Tax Act 1983 read with Rules and orders issued by Government of Sikkim from time to time, requires every dealer to pay sales tax

♥

Year	*Gross Turnover*	*Less stock transfer etc.*	*Net Taxable turnover*	*CST (@ 10 %)*
1993-94 to 1998-99	*5,91,56,983*	*77,71,744*	*5,13,85,239*	*51,38,524*
1999-00 to 2003-04	*39,05,3373*	*78,56,017*	*3,11,97,356*	*31,19,736*
Total CST due			***8,25,82,595***	***82,58,260***

each year on the taxable turnover for transfer of property in goods whether as goods or in some other form involved in the execution of works contract at the rate of four *per cent*.

Scrutiny of records in September 2005 in the IT&CTD of Finance, Revenue and Expenditure Department revealed that while finalising the assessments between September and October 2004 for the period 2001-02 to 2003-04, taxable turnover of a company* was determined by the assessing authority by allowing inadmissible deductions on account of income tax, royalty, retention money, security deposit and sales tax from the gross turnover resulting in short assessment of tax by Rs. 59.23 lakh for the period from 2001-02 to 2003-04 as detailed below:

Table -6.11

(In rupees)

Year	Gross turnover (GT)	Deductions admissible from GT for determining taxable turnover	Actual taxable turnover due to be assessed (2-3)	Taxable turnover assessed by Department	Sales tax actually payable (@ 4 *per cent of col 4*)	Sales tax assessed by Department	Short-assessment (6-7)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
2001-02	8,71,02,787	7,60,75,756	1,10,27,031	22,99,748	4,41,081	91,990	3,49,091
2002-03	47,41,69,871	41,57,05,283	5,84,64,588	1,26,43,118	23,38,584	5,05,725	18,32,859
2003-04	83,21,06,588	71,15,80,420	12,05,26,168	2,70,00,690	48,21,047	10,80,028	37,41,019
TOTAL	**13933,79,246**	**1,20,30,64,299**	**19,00,17,787**	**4,19,43,556**	**76,00,712**	**16,77,743***	**59,22,969**

** This does not include penalty of Rs.10,000, Rs. 90,198 and Rs. 20,000 imposed during 2001-02, 2002-03 & 2003-04 respectively.*

After this was pointed out, the Special Secretary, IT&CTD stated in November 2006 that the reassessment was done and tax of Rs. 47.76 lakh has also been recovered. Report on recovery of balance tax, copies of reassessment order have however, not been received (November 2006).

TRANSPORT DEPARTMENT
(*SIKKIM NATIONALISED TRANSPORT DIVISION*)

6.12

6.9.4 Non-recovery of income tax deducted from the claims of freight charges

Inadequate follow up action to get refund of income tax deducted at source from carriage bills led to non-recovery of Rs. 1.39 crore.

Central Income Tax Act stipulates that deduction of income tax at source from bills preffered by Sikkim Nationalised Transport (SNT) is not required as it is a Government Department. Also as per Central Board of Direct Taxes (CBDT)

* *Contractor engaged for excavating and concreting of 13.8 kilometre Head RaceTunnel of Teesta (Stage V) Hydroelectric Power Project being executed by the National Hydroelectric Power Corporation Limited (NHPC) at Makha in East Sikkim since October 2001.*

clarification[**], Government departments / Agencies are not liable to pay income tax.

SNT transports goods of different Central Government organisations/departments to different destinations of Sikkim and prefers bills toward freight charges to the respective organisations.

Scrutiny of records revealed in August 2005 that against Rs. 69.50 crore preferred by the SNT being freight charges during April 1994 to March 2006, the organisations[††] paid Rs. 68.11 crore after deducting Rs. 1.39 crore at source as income tax at the rate of two *per cent* from the bills in contravention of the Central Income Tax Act.

The Department stated in November 2005 that the matter was referred to the Chairman, CBDT and the Deputy Commissioner Income Tax, Siliguri who advised the Department to file return under Section 139 of the Income Tax Act for getting refund. The State Finance Department, however, advised the Department in September 2005 to maintain *status quo.* Thereafter, the Department did not initiate appropriate action to get refund of the amount already deposited with the income tax authorities.

Thus, due to inadequate follow up action by the SNT to get refund of irregular deduction of tax at source, Government was deprived of Rs. 1.39 crore as of November 2006.

FOREST, ENVIRONMENT & WILDLIFE MANAGEMENT DEPARTMENT

6.13

6.9.5 Loss of revenue due to less realisation of Government share

Lack of concerted effort by the Department to realise appropriate Government share resulted in loss of revenue of Rs. 1.66 crore.

Forest Conservation Act, 1980 and the Sikkim Forest Water Courses and Road Reserve (Preservation and Protection) Act, 1988 forbid use of forest land for non-forest activities. The Acts, however, provided for an alternative economic base for such persons engaged in non-forest activities by associating them collectively in afforestation activities under the concept of Joint Forest Management (JFM), introduced in June 1998 in the State.

During test check of records, it was noticed that 384 hectares[‡‡] of forest land in three[‡‡] forest divisions were being occupied by private individuals for non-forestry purposes (cardamom growing). While in South division, individuals were illegally occupying forest land, the cardamom growers had been allowed to

[**] *CBDT circular No 715 dated 8 August 1995.*

[††] *Bharat Petroleum Corporation, Food Corporation of India, Indian Army, Indo-Burma Petroleum, Indian Oil Corporation and National Hydroelectric Power Corporation.*

[‡‡] *East Division: 82 ha.; North Division: 2 ha. and South Division: 300 ha.*

occupy forest land by the Department on produce sharing basis in East and North divisions on the lines of the JFM. Again, in the East division, the Department sold the produce after obtaining the same from the growers, whereas the Department auctioned it to the highest bidder in the North division.

In the meeting of JFM in December 2000 in East division, it was decided that the produce sharing basis will be 50:50 between the inhabitants and Government. Scrutiny revealed that though the Department continued to receive 50 *per cent* of the production as reported by the lessee, it was without reference to the average cardamom yield during 2002-03 to 2005-06 as recorded by the Spices Board, Gangtok or without any other proper and independent verification of the yield by the Department/Divisional Forest Officer (DFO). On the basis of average production and selling rate of cardamom in the State as per the figures of Spices Board, Gangtok, the Department thus sustained a loss of revenue of Rs. 26.14 lakh as shown below:

Table -6.12

Year	Average production as per Spices Board, Gangtok (kg/hec)	Total production in 82 hectares (kg)	Average sale price as per Spices Board, Gangtok (Rs. /kg)	Value of total production (Rs. in lakh)	Agreed share (50 *per cent*) (Rs. in lakh)	Share (amount) actually received (Rs. in lakh)	Difference (Rs. in lakh)
2002-03	188	15,416	140.37	21.64	10.82	1.93	8.89
2003-04	242	19,844	115.20	22.86	11.43	1.56	9.87
2004-05	235	19,720	89.88	17.72	8.86	1.48	7.38
2005-06	201	16,482	86.22	14.21	7.11	*	
Total							**26.14**

** Information on quantity of produce yet to be received in Division Office and also yet to be sold.*

0.65 lakh

Similarly, in North division, the DFO could only realise Rs. 65,390 during 2002-03 to 2005-06, as against Rs. 1,12,234 (*worked out on the basis of rate obtained from Spices Board, Gangtok*) from two hectares of land leased out, leading to short realisation of Rs. 46,844. 0.47 lakh

In South division, though the Department did not renew the lease in respect of 300 hectares of forest land under cardamom cultivation after 1999, the cultivators continued to cultivate without giving any share to Government. The Department also failed to bring them under JFM and finalise agreement for Government share of production as was done in case of East and North divisions, resulting in loss of potential revenue of Rs. 1.39 crore for the year 2002-03 to 2005-06 as shown below:

Table -6.13

Year	Average production (kg/hec) as per Spices Board, Gangtok	Total production in 300 hectares (kg)	50 *per cent* Government Share (kg)	Average price (Rs./kg) as per Spices Board, Gangtok	Value of Government share (Rs. in lakh)
2002-03	188	56,400	28,200	140.37	39.58
2003-04	242	72,600	36,300	115.20	41.82
2004-05	235	70,500	35,250	89.88	31.68
2005-06	201	60,300	30,150	86.22	26.00
Total					**139.08**

Mention was made in the report of the Comptroller and Auditor General of India for the year 2000-01 regarding short realisation of State's share. The Public Accounts Committee had then recommended in March 2003 that Government should spell out necessary measures so that such idle portion of valuable forest land is harnessed fruitfully. Even after three years of such recommendation, Government failed to initiate action in keeping with the provisions of Forest Conservation Act to utilise the forest land to the optimum, maintaining a balance on both afforestation and revenue earnings of the State. The cardamom growers, however, continued to cultivate in forest land without giving appropriate share to Government which resulted in loss of revenue of Rs. 1.66 crore during the period 2002-03 to 2005-06.

After this was pointed out, the Department in August 2006 stated that the average production of cardamom for Government fields is low as compared to the fields maintained by Spices Board due to age of the crops, maturity of the crops, disease, etc. and the quality of harvest on leased land cannot be compared with that grown on research plots of Spices Board. The reply was not tenable as the figures of the Spices Board were also derived on the basis of harvests recorded from farmers' fields selected through proper scientific sampling techniques throughout the State and not from any fields maintained by the Spices Board.

26.14
0.47
139.08
165.69

CHAPTER-VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

CHAPTER VII
GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government Companies and Statutory Corporations

7.1 Introduction

As on 31 March 2006, there were 12 Government Companies (nine working companies and three non-working* companies) and three working Statutory Corporations under the control of the State Government, with no change in position from that of 31 March 2005. The Companies Act 1956 is not extended to the State of Sikkim. The Government Companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim 1961'. The accounts of these companies are audited by the Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BOD) of the respective companies. Over and above this statutory audit, Audit of these companies had also been taken up by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the State under Section 20(1)/20(2) of the Comptroller and Auditor General's (CAG) (Duties, Powers and Conditions of Service) Act, 1971.

There are three Statutory Corporations in the State *viz.* Sikkim Mining Corporation (SMC), State Bank of Sikkim (SBS) and State Trading Corporation of Sikkim (STCS) established in February 1960, June 1968 and March 1972 respectively under the proclamations of the erstwhile Chogyal of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants, directly appointed by the BOD of the respective Corporations. Audit of these Corporations was taken up by CAG under Section 19(3) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 on the request of the State Government as detailed below:

Table-7.1

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

There are two departmentally managed undertakings *viz.* Sikkim Tea Board and Government Fruit Preservation Factory under the Commerce and Industries Department. The accounts of these undertakings are also audited by the Chartered Accountants who are directly appointed by the Commerce and

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

Industries Department. The Audit of these undertakings has also been taken up by the CAG.

7.2 Working Public Sector Undertakings (PSUs)

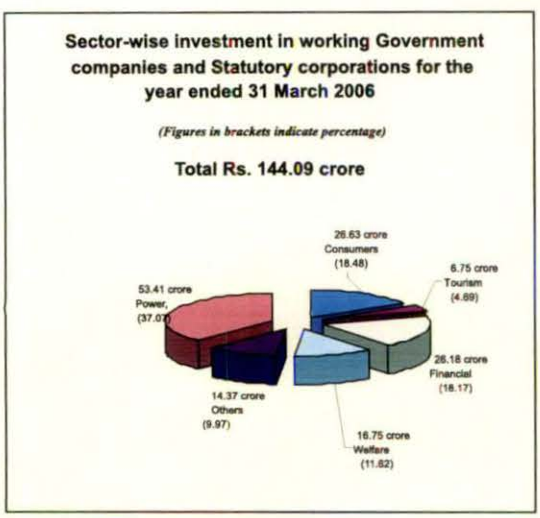
7.2.1 Investment in working PSUs

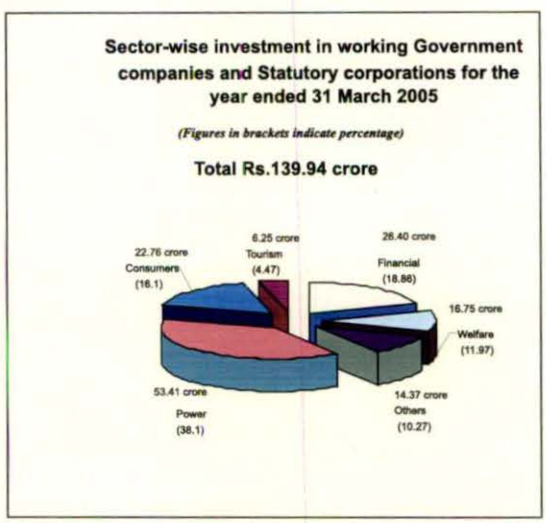
As on 31 March 2006, the total investment in 12 PSUs (nine Government Companies and three Statutory Corporations) was Rs. 144.09[#] crore (equity: Rs. 78.58 crore and long-term loans:[%] Rs. 65.51 crore) against the total investment of Rs. 139.94 crore (equity: Rs. 73.76 crore and long term loans[%]: Rs. 66.18 crore) in the same number of working PSUs as on 31 March 2005. Increase in total investment was due to increase in equity mainly in the PSUs in consumer industries and tourism sectors. The analysis of investment in working PSUs is given in the following paragraphs:

7.2.2 Sector-wise investment in working Government Companies and Statutory Corporations

The investment (equity including share application money and long term loans) in various sectors and percentage thereof for the years ended 31 March 2006 and 31 March 2005 are indicated in the pie charts as follows:

Chart-7.1





Consumer ■ Tourism ■ Financial □ Welfare □ Power ■ Others ■

7.2.3 Working Government Companies

The total investment in working Government companies at the end of March 2005 and March 2006 was as follows:

\# *State Government investment was Rs. 65.55 crore (others: Rs. 78.54 crore). Figure as per Finance Accounts 2005-06 is Rs. 63.52 crore. The difference is under reconciliation.*

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

Table-7.2

(Rupees in crore)

Year	Number of companies	Equity	Loans	Total
2004-05	9	60.06	65.64	125.70
2005-06	9	64.88	64.97	129.85

Investment in the current year has increased over the previous year due to increase in equity in the consumer industries and tourism sectors.

As on 31 March 2006, the total investment in working Government companies comprised 49.97 *per cent* of equity and 50.03 *per cent* of loans as compared to 47.78 *per cent* and 52.22 *per cent* respectively as on 31 March 2005.

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

7.2.4 Working Statutory Corporations

The total investment in the three working Statutory Corporations at the end of March 2005 and March 2006 was as follows:

Table-7.3

(Rupees in crore)

	2004-05			2005-06		
	Capital	**Loan**	**Total**	**Capital**	**Loan**	**Total**
State Bank of Sikkim	0.58	-	0.58	0.58	-	0.58
Sikkim Mining Corporation	12.01	0.54	12.55	12.01	0.54	12.55
State Trading Corporation of Sikkim	1.11	-	1.11	1.11	-	1.11
Total	**13.70**	**0.54**	**14.24**	**13.70**	**0.54**	**14.24**

As on 31 March 2006, the total investment in the working Statutory Corporations comprised 96.21 *per cent* of equity and 3.79 *per cent* of loans with no change in position from that of 31 March 2005.

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

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

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government Companies and working Statutory Corporations are given in ***Appendix-XVI*** and ***XVIII.***

The budgetary outgo in the form of equity capital, loans and grants/subsidy from the State Government to the working Government Companies and working Statutory Corporations for the three years ending upto March 2006 are given below:

Table-7.4

(Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital	5	4.90	1	0.94	3	0.91	1	0.26	3	4.82	-	-
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-	-	-
Subsidy	-	-	-	-	-	-	-	-	-	-	-	-
Total	5*	**4.90**	1*	**0.94**	3*	**0.91**	1*	**0.26**	3*	**4.82**	-	-

**These are actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective years.*

During the year 2005-06, the Government had not extended any guarantee to any PSU. At the end of the year, guarantees amounting to Rs. 80.07 crore against three$^{\Sigma}$ Government companies (Rs. 80 crore) and one Statutory Corporation (Rupees seven lakh) were outstanding. There was no case of loans having been written off, interest having been waived off moratorium on loan repayment and conversion of loans into equity capital in any company or corporation during the year.

7.4 Finalisation of accounts by working PSUs

Accountability of PSUs to the Legislature is achieved through the submission of audited annual accounts/reports within the time schedule to the Legislature. ***Appendix-XVII*** shows that out of nine working Government companies, only one company – Sikkim Jewels Limited had finalised its accounts for the year 2005-06 and none of the three Statutory Corporations had finalised its accounts for the year 2005-06 within the stipulated period (30th September).

During the period from October 2005 to September 2006, four working Government companies had finalised their accounts for the previous years. Similarly, during this period two Corporations finalised their accounts for the previous years.

The accounts of eight working Government Companies and three working Statutory Corporations were in arrears for the periods ranging from one to four years as on 30 September 2006 as detailed below:

Σ *Schedule Caste, Schedule Tribe and Other Backward Class Development Corporation Ltd. (Rs. 25 crore), Sikkim Time Corporation Ltd. (Rs. 5 crore) and Sikkim Power Development Corporation Ltd. (Rs. 50 crore)*

Table-7.5

Sl. No	Name of company/corporation	Period upto which accounts were finalised	Period for which accounts were in arrears	No. of years for which accounts were in arrears
	A. Name of the company			
1	Sikkim Time Corporation Limited	2003-04	2004-05 2005-06	2
2	Scheduled Caste, Scheduled Tribes, Other Backward Class Development Corporation Limited	2003-04	2004-05 2005-06	2
3	Sikkim Tourism Development Corporation	2004-05	2005-06	1
4	Sikkim Industrial Development and Investment Corporation Limited	2004-05	2005-06	1
5	Sikkim Power Development Corporation	2004-05	2005-06	1
6	Sikkim Poultry Development Corporation Limited	2001-02	2002-03 2003-04 2004-05 2005-06	4
7	Sikkim Hatcheries Limited	2001-02	2002-03 2003-04 2004-05 2005-06	4
8	Sikkim Precision Industries Limited	2004-05	2005-06	1
	B. Name of the Statutory corporation			
1	State Bank of Sikkim	2004-05	2005-06	1
2	Sikkim Mining Corporation	2004-05	2005-06	1
3	State Trading Corporation of Sikkim	2003-04	2004-05 2005-06	2

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were informed every quarter by Audit of the arrears in finalisation of accounts, no remedial measures had been taken as a result of which the net worth of these PSUs could not be assessed in Audit.

7.5 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government Companies and Statutory Corporations) as per their latest finalised accounts are given in ***Appendix-XVII***. Besides, statements showing the financial position and working results of individual working Statutory Corporations for the latest three years for which accounts had been finalised are given in ***Appendix-XIX*** and *XX* respectively.

According to the latest finalised accounts of eight working Government Companies and three working Statutory Corporations, seven* companies and

* *Sikkim Jewels Ltd (2005-06), Sikkim Times Corporation Ltd (2001-02), Sikkim Precision Industries Ltd (2003-04), SC, ST & OBC Development Corporation Ltd (1996-97), Sikkim Tourism Development Corporation (2002-03), Sikkim Poultry Development Corporation Ltd (1996-97), Sikkim Hatcheries Ltd (1998-99).*

one[♠] corporation had been making losses for varying periods (indicated in the brackets against each companies/ corpoartion) and had incurred an aggregate loss of Rs. 4.83 crore and Rs. 1.43 crore respectively and one company and two corporations had earned an aggregate profit of Rs. 0.56 crore and Rs. 2.84 crore, respectively. One Government Company, *i.e.* Sikkim Power Development Corporation (SPDC), was at the implementation stage.

7.5.1 Working Government Companies

(i) Profit earning working companies and dividend

As per the latest finalised accounts, Sikkim Industrial Development and Investment Corporation Limited (SIDICO), which had finalised its accounts for 2004-05, earned a profit of Rs. 0.56 crore but did not declare any dividend.

(ii) Loss incurring working companies

Of the seven loss incurring working Government Companies, Sikkim Hatcheries Limited had accumulated losses aggregating Rs. 49.05 lakh, which exceeded its paid-up capital of Rs. 45.83 lakh.

7.5.2 Working Statutory corporations

(i) Profit earning Statutory Corporation and dividend

Two Corporations (*viz.* State Bank of Sikkim and State Trading Corporation of Sikkim) which finalised their accounts for previous years (SBS: 2004-05 and STCS: 2003-04) by September 2006, earned aggregate profit of Rs. 2.84 crore but did not declare any dividend.

(ii) Loss incurring Statutory corporation

One Statutory Corporation *viz.* Sikkim Mining Corporation which finalised its accounts for 2004-05 by September 2006, suffered loss of Rs. 1.43 crore and had accumulated losses aggregating Rs. 9.90 crore wiping of 82 *per cent* of its paid up capital of Rs. 12.01 crore .

(iii) Operational performance of working Statutory Corporations

The operational performance of the working Statutory Corporations for the last three years is given in ***Appendix-XXI.*** It will be seen from ***Appendix-XXI*** that in case of Sikkim Mining Corporation, percentage of capacity utilisation came down from 26 in 2003-04 to 17 in 2005-06.

(iv) Return on Capital Employed

As per the latest finalised annual accounts of PSUs, the capital employed[∇] worked out to Rs. 57.86 crore in nine working companies and the total return[ϒ] thereon amounted to Rs. 0.99 crore which is 1.71 *per cent* as compared to total return of Rs. 0.53 crore (0.53 *per cent*) in the previous year. Similarly, the

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♠ *Sikkim Mining Corporation (1992-93).*

∇ *Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).*

ϒ *For calculating total return on capital employed, interest on borrowed fund is added to net profit/ subtracted from the loss as disclosed in the Annual Accounts.*

capital employed and total return thereon in case of working Statutory Corporations as per the latest finalised annual accounts worked out to Rs. 284.78 crore and Rs. 2.90 crore (1.02 *per cent*), respectively, as against the total return of Rs. 2.32 crore (0.82 *per cent*) in the previous year. The details of capital employed and total return on capital employed in case of working Government Companies and Statutory Corporations are given in ***Appendix-XVII.***

7.6 Non-working Public Sector Undertakings (PSUs)

7.6.1 Investment in non-working PSUs

As on 31 March 2006, the total investment in three non-working PSUs (Government Companies) was Rs. 1.27[⊕] crore (equity: Rs. 1.27 crore) and there was no change in this position since 31 March 2002.

The status of non-working PSUs is as under:

Table-7.6

(Rupees in crore)

Sl. No.			Investment	
			Companies	
			Equity	Long terms loan
1	Under closure	2	0.58	-
2	Other*	1	0.69	-
	TOTAL	**3**	**1.27**	-

**The operational function has been leased out.*

Of the above non-working Government Companies, two Government Companies were under closure for six years involving a substantial investment of Rs. 58 lakh. Effective steps need to be taken to expedite closure.

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

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to non-working Government Companies are given in ***Appendix-XVI*** and ***XVIII.*** The State Government had not given any budgetary support to these non-working PSUs during 2005-06.

7.6.3 Total establishment expenditure on non-working PSUs

The year-wise details of total establishment expenditure incurred by non-working Government Companies and the sources of financing them during the last three years up to 2005-06 could not be analysed due to non-finalisation of accounts by these PSUs.

⊕ *State Government investment was Rs. 92.90 lakh (others: Rs. 34 lakh).*

7.6.4 Finalisation of accounts by non-working PSUs

The accounts of all the non-working Companies were in arrears for the periods ranging from three to 11 years as on 30 September 2006 as could be noticed from ***Appendix-XVII.***

7.6.5 Financial position and working results of non-working PSUs

The summarised financial results of non-working Government Companies as per their latest finalised accounts are given in ***Appendix-XVII.***

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

Table-7.7

(Rupees in crore)

Name of the Company *(Year of Accounts)*	Paid-up capital	Net-worth*	Cash loss (-) / Cash profit (+)Π	Accumulated loss(-)/ accumulated profit (+)
1. Sikkim Flour Mills Limited (1994-95)	0.60	0.47	-	(+) 0.13
2. Sikkim Livestock Processing and Development Corporation Limited (2002-03)	0.69	0.04	(+) 0.01	(-) 0.65
3. Chandmari Workshop and Automobiles Limited (1994-95)	0.002	(-) 0.02	(-) 0.14	(-) 0.02

7.7 Status of placement of Separate Audit Reports of Statutory Corporations in the Legislature

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

Table-7.8

Sl. No.	Corporation	Years for which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1	Sikkim Mining Corporation (SMC)	2002-03	2003-04	Not yet issued	Audit is yet to be programmed
2	State Bank of Sikkim (SBS)	2002-03	2003-04	-do-	Under process
3	State Trading Corporation of Sikkim (STCS)	2000-01	2001-02	-do-	Under process

* *Net worth represents paid up capital plus free reserves less accumulated loss.*

Π *Cash loss/profit represents loss/profit for the year plus depreciation for the year.*

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

During the year 2005-06, there had been no privatisation (partial or complete) of any activity of these companies or corporations, and the Government had also not gone for disinvestments of shares in any company/corporation.

7.9 Results of Audit by the Comptroller and Auditor General of India

During the period from October 2005 to September 2006, the accounts of three working companies and two working Statutory corporation were selected for Audit. The net impact of the important Audit observations as a result of Audit of the accounts of these PSUs was decrease in profit by Rs. 26.55 lakh in two working companies and one corporation and increase in loss by Rs. 7.37 crore in one working company and one working Statutory corporation.

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

Sikkim Precision Industries Limited (2003-04)

- The land valuing Rs. 9 lakh was not exhibited under "Fixed Assets". As a result, the Fixed Assets stood understated to the extent of Rs. 9 lakh.

State Bank of Sikkim (2003-04)

- Non-provision of tax liability has resulted in understatement of loss of the Bank by Rs. 43.08 lakh.
- No provision was made for advances amounting to Rs. 6.93 crore disbursed to employees of the bank and other loanees who died without clearing their dues. This has resulted in overstatement of Advances by Rs. 6.93 crore and understatement of loss by Rs. 6.93 crore.

State Trading Corporation of Sikkim (2001-02)

- No provision was made for long outstanding loans and advances and sundry debtors amounting to Rs. 24.30 lakh, which resulted in overstatement of Current Assets, Loans & Advances by Rs. 24.30 lakh with corresponding overstatement of profit.

Non-provision of Income tax liability in the Accounts

As per notification issued (21 April 1970) by the Income and Sales Tax Department of the Government of Sikkim, all the Government Companies and Corporations were liable to pay income tax on their turnover at the prescribed rate. It was, however, noticed in Audit that none of the Companies/Corporations made provisions for this liability in their accounts. This resulted not only in overstatement of profit/understatement of loss of the respective companies/corporations but also resulted in loss of revenue to the Government. The amount of such liability for the latest year for which Audit was completed worked out to Rs. 72.47 lakh in respect of seven companies and two corporations.

≈ *Restructuring includes merger and closure of PSUs*

7.10 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during Audit and not settled on the spot are communicated to the Heads of PSUs and concerned departments of the State Government through inspection reports (IRs). The Heads of the PSUs are required to furnish replies to the inspection reports within four weeks of the issue of IR. Inspection reports issued up to March 2006 pertaining to 15 PSUs (including two departmental undertakings) disclosed that 148 paragraphs relating to 54 inspection reports of 10 companies, three statutory corporations and two departmentally managed undertaking remained outstanding at the end of September 2006. Department-wise break up of inspection reports and paragraphs outstanding as of September 2006 is given in ***Appendix-XXII.***

Similarly, draft paragraphs and performance reviews on the working of PSUs are forwarded to the Principal Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of three draft paragraphs and one performance review report issued to the various departments between June to September 2006 as per details in ***Appendix-XXIII,*** replies to the performance review report and the draft paragraphs are awaited (December 2006) from the administrative department.

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who fail to send replies to inspection reports/ draft paragraphs/performance review reports within the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule, and (c) the system of responding to Audit observation is revamped.

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

Two paragraphs and one performance audit report of the Commercial Chapter of the Audit Report (2004-05) of the Government of Sikkim were pending for discussion by the Public Accounts Committee as at the end of March 2006.

STATE TRADING CORPORATION OF SIKKIM

7.12 Functioning of State Trading Corporation of Sikkim

Highlights

Internal control for proper inventory management was virtually non-existent. Physical verification of stores and stock was never done during the period of Audit. When done at the instance of Audit it revealed shortages of Rs. 2.68 crore.

(Paragraph- 7.12.6.3)

The Corporation significantly deviated from its main line of trading activities by increasingly dealing in commission business, thereby depriving departments and public of economical rates that could have accrued as a result of bulk purchases directly from the manufacturers. There were also delays in supply of materials to the Departments.

(Paragraph- 7.12.6.1 & 7.12.6.4)

Non-closure or non-transfer of Kolkata unit to Sikkim Tourism Development Corporation led to operational losses of Rs. 53.37 lakh during 2001-02 to 2003-04.

(Paragraph- 7.12.6.1)

The Corporation invariably did not adhere to the prescribed purchase procedure of inviting broad based tenders for competitive rates while making purchases. Cement worth Rs. 9.14 crore was purchased from local dealers without calling for tenders out of cement valuing Rs. 13.92 crore purchased during 2001-02 to 2005-06.

(Paragraph- 7.12.6.2)

The Corporation failed to recover dues of Rs. 68.09 lakh from the Building & Housing Department leading to blockage of funds.

(Paragraph- 7.12.6.5)

Appointment of an Advisor and Officer on Special Duty without any provision in the Proclamation resulted in wasteful establishment expenditure of Rs. 26.97 lakh.

(Paragraph- 7.12.8.1 & 7.12.8.2)

Internal controls were very weak in the organisation. Added to this, failure to conduct regular Board Meetings adversely affected the functioning of the Corporation to a large extent.

(Paragraph- 7.12.9)

7.12.1 Introduction

The State Trading Corporation of Sikkim (Corporation) was established on 30 March 1972 under a proclamation of the erstwhile Chogyal[1] of Sikkim. The activities of the Corporation are to:

- Purchase, hold, stock, sell, clear, forward and transport materials inside and outside Sikkim;
- Procure trading goods of Rs. 10,000 and above on behalf of various Departments of the State Government;
- Distribute Liquid Petroleum Gas (LPG) cylinders and accessories in Sikkim (since 1975) on behalf of the Indian Oil Corporation Ltd as agent.

The trading activities are performed mainly by the Head Office at Gangtok. The Corporation has three units at Jorethang, Siliguri and Kolkata. While Jorethang unit is involved in trading activities including LPG distribution, Kolkata unit looks after liaison work, protocol and welfare activities on behalf of the State Government. The unit at Siliguri is engaged in receipt and transportation of goods from suppliers/manufacturers either to the Corporation stores or to various destinations of indenting departments.

[1] *Maharaja of Sikkim*

The Corporation is managed by a Board of Directors consisting of a Chairman and six Directors, all nominated by the State Government. As on 31 March 2006, all the six Directors and the Chairman were in position including the Managing Director (MD)[Π] Apart from this, an Advisor was appointed by the Government of Sikkim since 1996. The MD has been delegated with full administrative powers for carrying out day to day affairs of the Corporation. The organisational structure of the Corporation is given in ***Appendix-XXV.***

The Corporation has a total strength of 67 regular staff including the MD, two Chief General Managers and six General Managers. Apart from this, the Corporation also had 17 casual/contract staff as on 31 March 2006.

7.12.2 Scope of Audit

The present Performance Audit conducted during the period April 2006 to June 2006 covers various activities of the Corporation for the period from 2001-02 to 2005-06. A sample check of 25 *per cent* of the total value of six[2] major items under both trading and commission business activities were selected on the basis of probability proportionate to size (volume of expenditure) for three years ending March 2004 (accounts finalised and approved by the Board upto March 2004 only) was taken as a basis for scrutiny at Head office and Jorethang unit for all the five years upto 2005-06. Details are shown in ***Appendix-XXVI.***

7.12.3 Audit objectives

The Audit objectives were to ascertain whether:

- the objectives of the Corporation of regulating the trading activities by drawing advantage of bulk purchase, minimising delivery time and procuring quality materials were achieved efficiently, effectively and economically;
- Fund Management was efficient and effective to ensure profitability;
- Human Resource Management was efficient and effective; and
- Monitoring, evaluation and internal control mechanism including internal audit was effective.

7.12.4 Audit criteria

The Audit criteria used for assessing the achievements of Audit objectives were:

- Policy/procedures prescribed by the Government/Corporation to regulate the trading activities;
- Policy of the Corporation for Fund Management;
- Sikkim Financial Rules;
- Norms prescribed for Inventory control management;
- Recruitment policy and norms for manpower management;

[Π] *Glossary of terms* ***are shown in Appendix-XXIV.***

[2] *Iron & steel; Cement; LPG cylinders & burners; Office equipment and furniture; Tyres, tubes & batteries and Vehicles.*

- Procedure prescribed for monitoring, evaluation and internal control mechanism.

7.12.5 Audit methodology

The following Audit methodology was adopted for attaining the Audit objectives:

- Analysis of procedures laid down in the Proclamation;
- Examination of agenda and minutes of BOD meetings, Corporation's annual accounts, management directives and instructions;
- Examination of procurements/purchase policy, details of turnover under trading and commission business, fixation of prices etc.;
- Scrutiny of records relating to delivery of goods, storage and their issue, monitoring, evaluation and internal control;
- Issue of Audit enquiries and interaction with the Management;

Audit findings

Audit findings arising from the performance review were reported (June 2006) to the Corporation/Government and the replies received (June - September 2006) from the Management were considered while finalising the report. The review was also discussed in the Exit Conference with the representatives of the Corporation and Government held in September 2006.

7.12.6 Activities

The main activities of the Corporation are to act as a canalising agency for all purchases made by various departments of the State Government coupled with rendering agency services to Indian Oil Corporation Limited towards refilling and supply of LPG cylinders, etc. with a view to provide efficient services to the Government/public at an economical rate. Records relating to six major items/activities[3] involving Rs. 296.67 crore for the period from 2001-02 to 2005-06, out of a total of 10 items, were test checked in Audit and the Audit findings were as under:

7.12.6.1 Regulating trading activities

- ***Deviation from main activities:*** The main activity of the Corporation was to regulate trading activities in the State by procuring goods directly from the manufacturers and thus, availing trade discounts on bulk purchases; yet it engaged itself mostly in commission business by merely functioning as a commission agent between the indenting departments and the suppliers. During the period 2001-02 to 2005-06, the commission business in respect of the six items test checked in Audit, increased from 76.24 *per cent* (2002-03) to 98.18 *per cent* (2005-06) with a corresponding decrease in trading activities. As the Corporation failed to execute bulk purchases, the Government Departments and public were deprived of economical rates and discount on bulk orders. This also led to payment of higher rates by the Departments on account of the 3 *per cent* commission loaded on the

[3] *Cement; Iron & steel; Office equipment & furniture; Tyres, tubes & batteries; Vehicles and Electrical goods.*

cost over and above the sale price, and also led to idling of existing godowns at Head Office, Siliguri and Jorethang and their manpower to a large extent.

- ***Loss due to delay in closure of Kolkata unit:*** Mention was made in CAG of India's Audit Report 2001-02 regarding losses in the Kolkata unit meant for liaison activities. The Public Accounts Committee while accepting Department's replies for closure of the units had recommended that the report of handing over of the unit to the Home Department may be intimated to the next Committee. Despite this assurance, the Corporation continued to operate the Kolkata unit and incurred operational loss of Rs. 53.37 lakh during the period 2001-02 to 2003-04 as the unit performed negligible business and its revenue progressively declined from Rs. 3.34 lakh (2001-02) to Rs. 0.45 lakh (2003-04). Thus, continuance of the unit even after merger of the State when liaison work had become unnecessary resulted in avoidable recurring losses, thereby adversely affecting the overall performance of the Corporation.

In reply, the Management stated (July 2006) that the State Government reconsidered (November 2005) its earlier decision of 2002 and decided to strengthen the unit in view of increased commercial and liaison activities expected with the opening of border trade (July 2006) with China through the Nathula Pass. The reply is not tenable as the list of items (agriculture implements, textiles, coffee, rice, dry fruits, tobacco and spices, etc) notified for trade through Nathula border did not include the usual items dealt with by the Corporation such as cement, iron and steel, furniture, electrical goods and tyres and tubes, etc.

7.12.6.2 Procurement

The Corporation was to follow purchase procedures incorporated in the Sikkim Financial Rules (SFR). The following deficiencies as regards procurement were noticed in Audit:

- ***Non-adherence to established purchase procedure:*** According to SFR (Rule 127 & 130), all purchases above Rs. one lakh are to be made through wide publicity by inviting tenders in leading newspapers. It was, however, noticed in Audit that the Corporation procured 7,299 tyres and tubes valuing Rs. 2.36 crore during the last five years based on the rates offered by the local dealers for supply to various Departments/Government Organisations in contravention of the codal provisions.

  In their reply (June 2006), the Management stated that there was no extra financial burden on the indenting Departments as the procurements were made from the authorised distributors/dealers on the negotiated rates which were below the maximum retail sale price fixed by the manufacturers even after adding the commission. In the absence of competitive tender rates from the manufacturers in response to tender, the reply was not verifiable. Also, no reasons for non-adherence of codal provision were given.

- ***Procurement of cement in violation of prescribed purchase procedure:*** Similarly, in case of procurement of cement, the Corporation fixed the purchase price on the basis of enquiry from the manufacturers over telephone/ correspondence on pick and choose basis instead of competitive bids or negotiating annual rate contracts for bulk purchases for obtaining economical prices. The casually obtained rates served as a basis for finally procuring from the lowest quoting "local" dealer after obtaining the consent of the indenting Departments. In a few cases, procurements were made from Madhya Pradesh-based manufacturer. During the period 2001-02 to 2005-06, the Corporation procured cement valuing Rs. 13.92 crore, of which cement valuing Rs. 9.14 crore was procured from the local dealers, which the indenting Departments could themselves have procured thereby saving 3 *per cent* commission of Rs. 27.42 lakh paid by them to the Corporation. Thus, the procedure adopted by the Corporation besides being in contravention of codal provisions, also lacked prudent business practices and transparency consequently depriving the State Departments and public of economically priced cement.

- ***Avoidable excess payment on procurement of GI pipes:*** The Corporation finalised (August 2003) two agreements[4] for supply of different sizes of GI pipes and accordingly rate contract agreements (valid for two years) were entered into (September 2003) with the firms. The terms and conditions of the rate contract, *inter-alia* stipulated supply of pipes within 90 days from the date of issue of orders and the rates were to remain firm and fixed throughout the currency of the contract period, and that no price escalation claims entertained on any account.

  It was, however, noticed in Audit that enhanced rates were allowed to the firms from retrospective date (September 2003) followed by revision of prices twice (February 2004 and 2005) on the ground of increase in basic price of raw materials of GI pipes. This led to avoidable additional payment of Rs. 2.07 crore over and above the agreed price by 4.29 to 39.05 *per cent* on the supply. Although this was done with the concurrence of the concerned Departments, it resulted in extending undue financial benefit to the suppliers without any enabling provision in the agreement.

  In reply, the Management stated (July 2006) that price revisions were made with the approval of the State Government. The reply is not tenable as there was no provision for price escalation in the rate contract agreements, Departmental concurrence notwithstanding.

7.12.6.3 Inventory management

One of the important activities of the Corporation was to stock the materials procured for supply to the Departments under trading activities. It was noticed by Audit that inventory controls and store management was very weak; physical verification of stocks was never conducted by the management resulting in startling shortages in cement and LPG as elaborated below:

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[4] *Good Luck Steel Tubes Ltd., Ghaziabad and Indus Tubes Ltd., New Delhi.*

- ***Shortages of cement and LPG valuing Rs. 2.68 crore:*** **According to SFR, physical verification of all stores must be carried out at least once in a year by the head of the Department or such other officer as may be specifically authorised by him in this behalf and all discrepancies noticed must be brought into account immediately.**

It was, however, noticed that physical verification of stores and stocks was never conducted by the management. Physical verification of different stores conducted (May/June 2006) by the in-charges of the stores at the express instance of Audit revealed huge shortages of Rs. 2.68 crore between the book balances and actual physical balances in respect of LPG cylinders, burners/ other accessories, cement, iron and steel and GI sheets etc. The details of the shortages found during such physical verification of stores at Head Office and Jorethang unit are given in *Appendix-XXVII.*

Out of the total shortages of Rs. 2.68 crore, major portion of Rs. 1.64 crore pertained to LPG cylinders (Head Office: Rs. 99.67 lakh and Jorethang stores: Rs. 64.22 lakh) followed by cement (Rs. 88.68 lakh). Scrutiny by Audit revealed that issues were not properly accounted for in the stock registers. Besides failing to carry out the mandatory year end physical verification, the Corporation had also failed to put in place any internal control mechanism including internal check/inspections/audit with regard to stores, thereby leaving ample scope for misappropriation of the store items. The Corporation also had not implemented a rotation policy in the stores to ensure that no vested interest developed and that custody of stores was safe and accounted for. The supervisory officers had also failed to carry out any check of the inventory at any time during this period.

In reply, the Management stated (September 2006) that shortages of cement valuing Rs. 62.28 lakh was already detected by them during 2003-04 and a show-cause notice was also issued to the delinquent store keeper. The concerned storekeeper admitted the discrepancies and Rs. 26 lakh had already been recouped in June 2006. As regards shortage of LPG, the storekeepers in charge of the LPG cylinders were instructed to reconcile the figures between book balances and physical balances with the records of the Indian Oil Corporation and the results of the same would be intimated to Audit. It was further added that four officials in-charge of LPG had died while in service due to which proper procedure could not be followed in handing/taking over charges, the benefits payable to the dependent family have been withheld and shortages pointed out by Audit would be recovered from the dues of the concerned employees after due verification.

The reply of the Management shows the casual approach. Though the Management stated that it detected cement shortages of Rs. 62.28 lakh, the actual shortage during the verification conducted at the instance of Audit was much larger *i.e.*, Rs. 88.68 lakh. There was also

no evidence of this shortage purported to have been detected by the Management earlier than Audit as it had not been taken into account in the books though immediately required to be so done in terms of provisions of SFR. Further, upto June 2006 only Rs. 26 lakh had been recovered leaving a balance of Rs. 36.28 lakh and the person immediately responsible for the shortage being allowed to continue to be the custodian of the cement stores. In respect of the LPG shortages, the Management have not stated whether the entire value of shortages (Rs. 1.64 crore) would be made good from the dues of the lowly paid deceased employees. Had the Corporation put in place an efficient and effective internal control mechanism, followed codal provision regarding physical verification of inventory and had a rotation policy for storekeepers and other staff, such losses could have been avoided. The matter was referred to the State Government in January 2007 for detailed investigation.

➢ *Non-moving and obsolete stores of Rs. 3.19 lakh:* Scrutiny of store records revealed that 44 items of different stores valuing Rs. 3.19 lakh procured under trading activity remained un-issued for periods ranging from 25 to 30 years at the Head Office store premises. The exact dates of procurement of these store items could not be furnished to Audit. As these items could not be utilised/ issued for the purposes for which they were procured, the total stock had become non-moving and obsolete. The Corporation did not take any action to write off the same with the approval of the Board.

In reply the Management (June 2006) stated that a proposal to dispose off these items through open auction would be moved or alternatively write-off orders from the Board obtained.

7.12.6.4 Supply to the Departments

One of the important activities of the Corporation was to obtain orders from the Departments for supply of goods[5] and to supply the same within the stipulated time frame usually within 90 days from the date of issue of orders.

A test check by Audit, however, revealed that the delay in executing supply orders ranged between 28 days and 673 days despite receipt of advance payment against the value of goods to be supplied from the indenting Departments. This inordinate delay primarily occurred as the Corporation had not tied up with the manufacturers or entered into rate contracts with the firms on DGS&D rate contracts which led to non-adherence to the agreed condition of delivery of goods within the due period (90 days).

In reply, the Management stated (June 2006) that delivery schedules were fixed in consultations with the Department concerned. In case of cement, the concerned Departments normally requested for deferred supplies commensurate with the actual progress of work. The reply is not tenable as

[5] *Cement, iron & steel, GI pipes, tyres & tubes, GCI sheets, office equipments, vehicles.*

delay was reckoned taking into account the schedule delivery time mentioned in the supply orders which was fixed in consultation with the Departments.

7.12.6.5 Realisation of sale price

As per the generally agreed conditions between the indenting Departments and the Corporation, 90 *per cent* of the value of the goods was to be deposited in advance before placing firm supply orders on the Corporation. The balance 10 *per cent* alongwith other incidentals was to be remitted to the Corporation immediately on receipt of full quantity of goods.

Scrutiny of records by Audit in respect of two major Works Departments (Building & Housing and Rural Management Development Departments) revealed that while no dues were pending against the Rural Management and Development Department, Rs. 68.09 lakh were recoverable from the Building and Housing Department. Analysis further revealed that the Corporation neither realised full amount nor ensured the recovery of agreed advances of 90 *per cent* before executing the orders, in the absence of which, the Corporation had to utilise its own funds ranging between Rs. 22.28 lakh to Rs. 1.04 crore during the period 2002-03 to 2005-06 in making payments to the suppliers.

The Management accepted (June 2006) the Audit observations.

7.12.7 Financial Management

Prudent financial management requires that all funds due to be received should be expeditiously realised, available funds are deployed effectively for the operations of the organisation and funds not required immediately for operational purposes judiciously invested to earn maximum interest.

It was noticed by Audit that the Management had neither laid down any policy for efficient fund management nor ensured expeditious realisation of dues or investment of surplus funds as discussed in the following paragraphs:

7.12.7.1 Accumulation of outstanding dues

Analysis of outstanding dues revealed that the sundry debtors and advances showed a rising trend from Rs. 15.60 crore (Sundry Debtors- Rs. 9.75 crore and Loans & Advances- Rs. 5.85 crore) in March 2002 to Rs. 29.08 crore (Debtors - Rs. 18.28 crore and Loans & Advances - Rs. 10.80 crore) in March 2004, indicating an increase of 86 *per cent*. Out of the total dues, Rs. 19.11 crore were recoverable from the various Departments/Government organisations and Rs. 9.97 crore were recoverable from individuals/private organisations.

Age-wise analysis of these outstanding dues upto March 2004 revealed that outstanding dues for more than three years stood at Rs. 87.10 lakh (Sundry Debtors-Rs. 31.07 lakh, Loans & Advances- Rs. 56.03 lakh) as can be seen from the details in the following table:

Table- 7.9

(Rupees in lakh)

Sl.	Unit	Less than 1 year		1 to 3 years		More than 3 years		Total	
		Sundry Debtors (3)	Loans & Advances (4)	Sundry Debtors (5)	Loans & Advances (6)	Sundry Debtors (7)	Loans & Advances (8)	Sundry Debtors (3+5+7) (9)	Loans & Advances (4+6+8) (10)
1	Head Office	1,483.91	554.28	3.62	53.99	29.66	44.89	1,517.19	653.16
2	Gas Section	1.13	4.69	0.83	0.69	0.92	9.46	2.88	14.84
3	Jorethang Unit	258.76	18.51	4.13	-	0.49	1.68	263.38	20.19
	Total	**1,743.80**	**577.48**	**8.58**	**54.68**	**31.07**	**56.03**	**1,783.45**	**688.19**

It was observed by Audit that adequate steps were not taken to realise the outstanding dues, particularly the debts of Rs. 87.10 lakh which were outstanding for 3 to 30 years.

7.12.7.2 Interest loss due to imprudent fund management

Test check by Audit of records relating to Cash and Bank balances for the five years' period pertaining to Head Office, Gas Section (Hqrs) and Jorethang unit revealed that sizeable surplus funds ranging between Rs. 3.98 lakh to Rs. 4.18 crore were parked under various Current Accounts and Rs. 3.21 lakh to Rs. 19.65 lakh were held in cash. Failure to invest surplus funds for short period of three months resulted in loss of interest of Rs. 16.37 lakh[6].

7.12.7.3 Loss of interest due to non-crediting of cheques deposited for encashment

The Corporation maintained two specific bank accounts in the State Bank of India and State Bank of Sikkim for remitting all cash relating to transactions of cement trading. Scrutiny of Bank Reconciliation Statements of these accounts revealed that 18 cheques (Rs.2.21 lakh) deposited by the Corporation between 1979 and 2005 had not been credited till the date of Audit (June 2006), resulting in a loss of interest of Rs. 5.87 lakh[7] as of March 2006.

In reply, the Management stated (July 2006) that while cheques for Rs. 0.11 lakh had been credited by the State Bank of India in May 2005, the matter was being pursued with the concerned banks for early crediting of the remaining cheques. As of August 2006, the remaining cheques were not credited.

7.12.7.4 Non-issue of share certificates

The Corporation exhibited 1,11,377 shares valuing Rs. 1.11 crore (Rs. 100 per share) as "Issued, subscribed and paid-up capital" fully held by the Government of Sikkim as against the actual issue of 49,577 shares valuing Rs. 49.58 lakh in its accounts (upto 2003-04). It also declared (July 1997 and August 2004) dividend of Rs. 11.14 lakh each for 1995-96 and 2001-02 on its entire share capital including the un-issued share certificates.

In reply, the Management stated (July 2006) that Rs. 61.80 lakh was initially given as share capital and accordingly booked under share capital, which was subsequently earmarked by the Government for the purpose of procurement of

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[6] *Interest has been worked out at rates ranging from 4 to 5.5 per cent on the average monthly balance of surplus funds during the period April 2001 to March 2006.*

[7] *Principal (Rs.2.21 lakh) & interest (Rs. 3.66 lakh) at the interest rate of 14 % applicable for overdrafts (as the Corporation had overdraft)*

vehicles for the Ministers. The reply is not tenable, as the Corporation should have exhibited this amount under Share Application Money instead of paid up capital and not declared dividend on the un-issued share capital.

7.12.8 Human resources management

7.12.8.1 Appointment of Advisor

The Government of Sikkim appointed (June 1996) an Advisor to the Corporation, without any enabling provision in the Proclamation for such appointment. From the date of appointment to the end of March 2006, the Corporation had incurred an expenditure of Rs. 18.44 lakh on the Advisor towards discretionary grant, HRA, vehicle charges, salary of driver and other staff attached with him, medical facilities, etc. No records of any advice being rendered by the Advisor to the Corporation during his entire tenure with the Corporation, however, could be shown to Audit. Thus, it could not be established whether the services (which cost Rs. 18.44 lakh to the Corporation) of the Advisor were gainfully utilised by the Corporation.

7.12.8.2 Avoidable expenditure on appointment of Officer on Special Duty (OSD)

The Corporation appointed (November 2000) a medical doctor as an Officer on Special Duty (OSD) for its Kolkata unit (whose main activity was liaison work) on contract basis initially for one year and subsequently on deputation (the same officer) from the Health and Family Welfare Department (H&FWD). The officer was continuing in the post till the date of Audit (August 2006)

It was observed that there was no requirement of an OSD post at the unit as protocol, liaison and welfare activities associated with the unit were virtually non-existent. Further the Corporation had already in place a medical attendant for attending to welfare activities. The Corporation approached (March 2004) the H&FWD to bear the salary of the OSD, which was, however turned down (March 2004) by the latter on the ground that the OSD was nominated by the State Government despite its (H&FWD's) reservation on the matter. The Corporation did not pursue the matter further with the State Government while the officer continued in the post without any work. Thus, the expenditure of Rs. 8.53 lakh (November 2000 to April 2006) incurred by the Corporation on the salary and allowances of the OSD proved wasteful besides being a drain on the overall resources of the Corporation. As a result of Audit observation, the BOD decided to place the services of the OSD under Sikkim Tourism Development Corporation, Kolkata as she was basically appointed to look after the affairs of the New Sikkim House which was not related with the activities of the Corporation.

The Management replied (July 2006) that it was compelled to bear the establishment expenditure of the officer under the orders of the State Government. However, the Corporation did not request the Government for reimbursement of salary and allowances of the Doctor

7.12.8.3 Avoidable expenditure due to operation of excess staff

Consequent upon disposal of six vehicles by the Corporation in February 2003, the post of five drivers became surplus. The posts of these drivers were re-designated as "peon-cum-messenger" without the approval of the Board. The Corporation already had 10 peon-cum-messengers on its roll and as such the possibility of gainfully utilising the services of these drivers as peon-cum-messenger was very remote. Thus the expenditure of Rs. 14.43 lakh incurred on their salary and allowances (March 2003 to March 2006) was unfruitful.

The Management replied (June 2006) that the surplus drivers were being utilised as peon-cum-messenger by the Corporation for distribution of LPG cylinders and added that their services might be required for the proposed trading activity with China at Nathula. The reply is an after thought as adjustment of surplus drivers as peon-cum-messengers was not need based and same was not approved by the BOD. Further it is not prudent to continue with the services of the surplus drivers in anticipation of their use in future, which is uncertain.

7.12.8.4 Irregular appointments / regularisation of service

The Corporation was appointing staff on contract basis and during January 1998 to August 2001, five Lower division clerks were appointed on contract basis. The BODs, however, decided (29 August 2001) that no such fresh appointments were to be made by the Corporation till further orders and all representations and recommendations received for appointment of fresh candidates to be placed before the Board for its consideration.

In violation of the above orders of the BOD, one person was appointed in June 2004 by the Corporation as a "Purchase & Sales Assistant" initially on contract basis but subsequently regularised ignoring the five senior incumbents who had already been on the roll of the Corporation on contract basis since January 1998. Approval of the BOD was not taken for this transgression.

In reply, the Management stated (June 2006) that appointment and regularisation of services of the above officials was made under the orders of the State Government. The reply is not tenable as i) the matter relating to the appointments / regularisation of service of staff of the Corporation came under the domain of the Board and ii) the referred orders of the State Government could not be shown to Audit.

7.12.9 Monitoring, evaluation and Internal Control Mechanism

Internal control is a management tool used to provide reasonable assurance that the management objectives are being achieved in an efficient, effective and orderly manner. A good system of internal control comprises, *inter-alia,* proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure accuracy and the reliability of accounting data, efficiency in operations (evaluation) and safeguarding of assets, competence of personnel commensurate with their responsibilities and duties and review/ monitoring of the work of one individual by another whereby possibility of fraud or error due to collusion is minimised. Internal Audit is an essential component of any internal control mechanism. Audit observed that no Internal Audit or management information system was established by the Corporation to foresee periodical evaluation of performance and progress of various wings / functions of the Corporation, so that weak areas, irregularities could be exposed for timely remedial action.

Some of the inadequacies noticed are mentioned below:

7.12.9.1 Inadequate number of Board meetings

In terms of the Proclamation, at least four Board meetings were to be held in a year and the interval between such meetings was to be not more than three months. Against the requirement of holding 20 meetings during the period 2001-02 to 2005-06, the Board met only four times during this period. While no Board meeting was held in 2003-04, it met only once in each of rest of the four years.

The reply of the Management (June 2006) that the Board could not meet as required under the Proclamation due to preoccupation of the Board members consisting of Secretaries to the State Government and Members of Legislative Assembly is not tenable as there was no indication in the files that the Management had approached the Board members at appropriate intervals requesting dates for such meetings.

7.12.9.2 Non-preparation of budget

The Corporation did not prepare any budgets outlaying its annual activities for any of the years covered during Audit, though required under the Proclamation (Clause 16). Hence performance of the Corporation could not be analysed. Further, as per Clause 18 of the proclamation, the Corporation should furnish to the Government of Sikkim, within six months of the close of the financial year, a statement of its assets and liabilities at the close of that year together with the Profit and Loss Account for the year, auditors report and the report on the working of the Corporation during the year. The Corporation could not comply with the above provisions due to delay in finalisation of accounts ranging from 1 year 9 months to 2 years 11 months. As of December 2006, the Corporation could finalise accounts only upto 2003-04.

7.12.9.3 Demarcation of responsibilities for monitoring not done

The Corporation had not evolved any monitoring mechanism in respect of receipt, custody and issue of stores. No specific allocation of duties and responsibilities among the staff had been made with a view to fix responsibility for shortages and discrepancies. The Corporation also failed to evolve any rotation policy among the staff. An analysis of staff incumbency during the last ten years starting from the DGM/GM onwards revealed that for the last ten years (1997-2006) no rotation of posting had been done in respect of seven officials.

7.12.10 Acknowledgement

Audit acknowledges the co-operation and assistance extended by different level of officers of the Corporation/Government at various stages of conducting the Performance Audit.

The above matters were reported to the Government in June 2006; their replies are awaited (December 2006).

7.12.11 Conclusion

The Corporation was not able to discharge its responsibilities successfully as assigned to it especially in respect of purchase and supply of goods at economical rates by obtaining the material directly from the manufacturers or through DGS&D rate contracts. It also failed to reduce the time gap between the date of orders and delivery of material to the indenting Departments. Physical verification of stores at the instance of Audit revealed startling shortages of Rs. 2.68 crore. Board meetings were held infrequently. Proper tender procedures were not followed in purchase of cement and tyres & tubes in any of the years during 2001-06. The overall internal controls in the Corporation were very weak.

7.12.12 Recommendations

- Bulk procurement should be resorted to from the manufacturers and / or DGS&D rate contract firms to avail maximum discount and procurement at economical rates. An item rate contract should be entered into with the manufacturers.
- Tender formalities should invariably be followed in all cases of purchases for obtaining competitive rates.
- A prudent financial management should be evolved so as to invest the surplus funds in term deposits depending upon the requirement of funds instead of keeping the surplus funds in current accounts.
- Internal control mechanism should be strengthened especially with regard to annual physical verification of stores and rotation of employees. Reasons for shortages of stocks worth Rs. 2.68 crore noticed during physical verification conducted at the instance of Audit should be investigated.
- Board of Directors should meet once in three months as required under the Proclamation to enable prompt policy decisions and direction.

MINES, MINERALS AND GEOLOGY DEPARTMENT (SIKKIM MINING CORPORATION)

7.13 Avoidable loss

Failure of the Management in initiating timely action for reduction of contractual demand of power from 400 KVA to 100 KVA resulted in avoidable loss of Rs. 30.73 lakh.

The Sikkim Mining Corporation (SMC) is a joint venture undertaking of the Government of Sikkim and the Government of India for promoting mining activities in the State.

The SMC got reduced (October 1991) its contracted demand for high tension electric power supply from the Energy and Power Department (EPD), from the existing 600 KVA level to 400 KVA level, due to reduced demand. Ever since, the SMC has been paying minimum demand charges for 400 KVA high-tension supply of power to the EPD.

A test check of records in Audit revealed (July 2005) that due to decline in production during 2002-03 to 2005-06, the running hours of the plant also declined. As a result, the consumption of electricity decreased from 77 KVA (92,400♣ units) in April 2002 to 16.37 KVA (19,650♦ units) in March 2006. Though the peak demand was 77 KVA during the last four years, the Management failed to approach (as of September 2006) the Energy and Power Department for reduction of contracted load from 400 KVA to 100 KVA. Had this been done in time, the SMC would have had minimum demand charges of Rs. 4.80 lakh on 100 KVA (actual load of 77 KVA) instead of Rs. 28.40 lakh on 400 KVA and could have thus saved Rs. 24 lakh♥ during the period from April 2002 to March 2006.

Further, due to non-reduction of the contracted load from 400 KVA to 100 KVA energy charges were billed at Rs. 2.50 per unit (applicable for contracted load of 400 KVA) instead of Rs. 2 per unit (applicable for 100 KVA) resulting in further avoidable expenditure of Rs. 6.73[Σ] lakh towards energy charges for 13,46,992 units consumed during 2002-03 to 2005-06.

Thus, negligence of the Management in getting the contractual demand of electricity reduced in time resulted in avoidable loss of Rs. 30.73 lakh towards demand (Rs. 24 lakh) and energy charges (Rs. 6.73 lakh) to the SMC. Failure on the part of SMC was completely unwarranted as it was already incurring regular losses and it was in its own interest to have ensured reduction of load when production had gone down.

In reply, the Management stated (August 2006) that the matter had been taken up with Energy and Power Department. As of December 2006, however, the contracted/committed load had not been reduced.

The above matter was reported to the Government in April 2006; their reply is awaited (December 2006).

COMMERCE AND INDUSTRIES DEPARTMENT
(TEMI TEA BOARD)

7.14 Loss of interest

Absence of an efficient fund investment management system led to non-investment of surplus funds ranging between Rs. 10.45 lakh and Rs. 93.72 lakh during April 2001 to March 2005 and consequential loss of interest amounting to Rs. 10.19 lakh.

Temi Tea Board, a departmentally managed undertaking under the Commerce & Industries Department, maintained its current accounts in the State Bank of

♣ *KVA (77) x 500 x 2.4 (Multiplying factor of the energy meter) = Units consumed (92,400)*

♦ *KVA (16.37) x 500 x 2.4 (Multiplying factor of the energy meter) = Units consumed (19,650)*

♥ *Rate for 400 KVA (Rs. 150/KVA) - Rate for 100 KVA (Rs.100/KVA) = Rs. 50/KVA X period (48 months) = 24,00,000.*

Σ *Rate billed (Rs. 2.50/unit – Rate applicable (Rs. 2.00/ unit) = Rs. 0.50/ unit X unit consumed (13,46,992) = Rs. 6,73,496.*

Sikkim (SBS) at Singtam branch for transactions arising out of its day to day operations.

A scrutiny by Audit of records of Manager, Temi Tea Board for the period from April 2001 to March 2005 revealed (July 2005) that the Management had not formulated any fund investment management policy for investment of surplus funds either in short-term or long-term fixed deposits in banks so that there is no loss of interest. It was also noticed that no system had been formulated for analysing and assessing monthly/yearly/periodic requirement of funds based on past trends of expenditure to identify surplus funds so that there is no loss of interest on account of idle funds.

The Management without any analysis and assessment arbitrarily invested surplus funds of Rs. 20 lakh for 4 months, Rs. 25 lakh for 75 days, Rs. 25.25 lakh for 170 days and Rs. 25.64 lakh for 90 days in the fixed deposits in November 2001, January 2003, January 2004 and February 2005 respectively. Audit analysis revealed that after deducting the investments made, the actual expenditure incurred during the month in question and a provision of 10 *per cent* towards unforeseen expenditure during that month, the unit still had idle surplus funds ranging between Rs. 10.45 lakh (July 2001) to Rs. 93.72 lakh (November 2003) between April 2001 and March 2005.

Had the Management formulated an efficient and effective fund investment management policy, the surplus funds indicated above could have been invested in long-term fixed deposits of Rs. 10 lakh for four years and the remaining amounts as short-term fixed deposit of 30 days duration at the rate of 4.25 to 5.50 *per cent* per annum and interest of Rs. 11.40 lakh* could have been earned as against the actual interest earning of Rs. 1.21 lakh only during April 2001 to March 2005, leading to loss of Rs. 10.19 lakh (Rs. 11.40 lakh *minus* Rs. 1.21 lakh).

The above matter was reported to the Board/ Government in June 2006; their replies are awaited (November 2006).

COMMERCE AND INDUSTRIES DEPARTMENT
(SIKKIM JEWELS LIMITED)

7.15. Wasteful expenditure

Establishment of disposable plastic syringe project without proper market survey and feasibility study led to wasteful expenditure of Rs. 50.05 lakh.

Sikkim Jewels Limited Company is mainly engaged in the business of manufacturing, trading in all kinds of synthetic sapphire jewels, bearings for meters, instruments, watches, gramophone needles, watch stones and similar and allied products. The Government appointed a consultant to prepare a

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	a) Rs. 10.00 lakh for 4 years @ 9.5 % compounded quarterly	=	*Rs. 4.56 lakh*
	b) Rs. 627.85 lakh @ 5.50 % / 365 days x 30 days	=	*Rs. 2.84 lakh*
	c) Rs. 54.42 lakh @ 4.51 % /365 days x 30 days	=	*Rs. 0.20 lakh*
	d) Rs. 1090.02 lakh @ 4.25 % / 365 x 30 days	=	*Rs. 3.80 lakh*
		Total	*Rs. 11.40 lakh*

turnaround proposal for the Company to make it a viable unit. The consultant proposed diversification of the Company's manufacturing activities to disposable plastic syringes and needles. The Managing Director appointed (August 2001) an agency* to prepare the Detailed Project Report (DPR) by September 2001 The agency was instructed to (i) prepare the project report within the cost limit of Rs. 40 lakh and, (ii) ensure tie-up with the foreign parties for sale of products.

The Management released (December 2001) the agreed consultancy fee of Rs. 40,000 to the agency. The DPR submitted (February 2002) by the agency advised manufacture of disposable syringes and needles in 2 ml (50 lakh), 5 ml (25 lakh) and 10 ml (25 lakh) sizes with an annual capacity of one crore syringes at a project cost of Rs. 55.42 lakh. The DPR clearly mentioned that the Company had conducted market survey of the products in both the domestic as well as international markets and assessed that there was very good scope for marketing of these products. It was further suggested that the sale in the domestic market would be done through existing distributors'/agents' network of the Company all over India. Foreign companies would also be tied up for buy back agreement to penetrate the international market.

The proposal was placed (February 2003) before the BOD and the project was approved at a cost of Rs. 55.42 lakh and the State Government (Secretary, Industries Department) was requested to provide equivalent funds. There was, however, nothing on record to indicate if the Management and the Board had carried out any independent analysis of the feasibility and viability of the project and the returns that would accrue to the Company from such investment, before approving the project and its implementation.

The Government released Rs. 55.40 lakh in two installments in February 2004 (Rs. 24.31 lakh) and October 2004 (Rs. 31.09 lakh) as equity participation in the project. The Management accordingly placed orders for machinery and equipments between July and August 2004 and received the same between January and March 2005 after incurring an expenditure of Rs. 49.65 lakh upto August 2005.

The Board decided (September 2005) to abandon the project and dispose off the machineries at suitable price since (i) adequate market linkage for the sale of products had not been worked out at all as the local market demand was far too small (30,000 pieces per annum) compared to the installed capacity of one crore pieces per annum, (ii) huge working capital was required and excessive administrative expenses were involved due to untrained staff and (iii) marketing efforts were deficient. The Board further resolved that "the line of product chosen for diversification does not suit at all"

Failure to carry out a proper and realistic market survey as well as an independent analysis of the feasibility study of the project and completely relying on the inflated projections of the consultant ultimately led to the abandonment of the project leading to wasteful expenditure of Rs. 50.05 lakh (Rs. 49.65 lakh + Rs. 0.40 lakh).

* *M/s Goldline Projects, New Delhi*

In reply, the Management stated (August 2006) that the efforts are being made to dispose off the machinery and equipments through advertisements in leading newspapers. It was, however, observed that the Corporation could get the maximum offer of Rs. 25 lakh only and the Management had decided to advertise again in Economic Times. But as of December 2006, no further progress had been made towards disposal of the idle machinery and equipments.

The above matter was reported to the Government in April 2006; their reply is awaited (November 2006).

Gangtok
The 7th March 2007

(Amar Patnaik)
Accountant General (Audit),
Sikkim, Gangtok

Countersigned

New Delhi
The

(Vijayendra N. Kaul)
Comptroller and Auditor General of India

APPENDICES

APPENDIX – I

Part A

Structure and Form of Government accounts

(Ref: Paragraph 1.1; Page 1)

State Government Funds and the Public Account

Part-I: Consolidated Fund	Part-II: Contingency Fund	Par-III: Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled "Consolidated Fund of State" established under Article 266(1) of the Constitution of India.	Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent and unforeseen expenditure pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of Government which related to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

APPENDIX – I

Part B

LAYOUT OF FINANCE ACCOUNTS

(Ref: Paragraph 1.1; Page 1)

Layout of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government- receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss etc.

Statement No. 4 indicates the summary of debt position of the State, which includes internal debt, borrowings from Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2006..

Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and capital expenditure major head wise.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, cooperative banks and societies etc. up to the end of the current year.

Statement No. 15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts, disbursements and balance under heads of account relating to debt, Contingency Fund and Public Account.

Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Sikkim, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19 gives the details of balances of earmarked funds.

APPENDIX – I

Part C

List of terms used in Chapter I and basis for their calculation

(Ref: Paragraph 1.3; Page 4)

Terms	Basis for calculation
Buoyancy of a parameter	Rate of Growth of the parameter GSDP Growth
Buoyancy of a parameter (X) with respect to another parameter (Y)	Rate of Growth of the parameter (X) Rate of Growth of the parameter (Y)
Rate of Growth (ROG)	[(Current year Amount/Previous year Amount)-1] *100
Trend/ Average	Trend of growth over a period of 5 years [LOGEST (Amount of 1998-99: Amount of 2003-04)-1] *100
Share shift/Shift rate of a parameter	Trend of percentage shares, over a period of 5 years, of the parameter in Revenue or Expenditure as the case may be
Development Expenditure	Social Services + Economic Services
Weighted Interest Rate (Average interest paid by the State)	Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100
Interest spread	GSDP growth – Weighted Interest Rates
Interest received as *per cent* to Loans Advanced	Interest Received [(Opening balance + Closing balance of Loans and Advances)/2]*100
Revenue Deficit	Revenue Receipt – Revenue Expenditure
Fiscal Deficit	Revenue Expenditure + Capital Expenditure + Net Loans and Advances – Revenue Receipts – Miscellaneous Capital Receipts
Primary Deficit	Fiscal Deficit – Interest Payments
Balance from Current Revenue (BCR)	Revenue Receipt minus Plan grants and Non-Plan Revenue Expenditure excluding debits under 2048-Appropriation for Reduction or Avoidance of Debt.

APPENDIX – II

(Ref: Paragraph 1.3; Page 3)

SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF SIKKIM AS ON 31 MARCH 2006

(Rupees in crore)

As on 31.03.2005		Liabilities		As on 31.03.2006
467.49		Internal Debt		569.21
	331.68	Market Loans bearing interest	420.03	
	62.02	Loans from LIC	68.91	
	73.79	Loans from other institutions	80.27	
316.74		Loans and Advances from Central Government-		327.68
	5.49	Pre 1984-85 Loans	4.94	
	71.96	Non-Plan Loans	88.99	
	224.25	Loans for State Plan Schemes	216.62	
	11.84	Loans for Central and Centrally Sponsored Plan Schemes	13.63	
			3.50	
	3.20	Loans for special schemes	--	
	---	Ways and Means Advances		
511.71				486.96
	1.00	Contingency Fund	0.90	
	291.90	Small Savings, Provident Funds, etc.	304.88	
	21.90	Deposits	24.99	
	67.46	Reserve Funds	83.06	
	129.45	Remittance Balances	73.13	
1,206.48		Surplus on Government Accounts		1403.24
	1,037.57	Last year balance	1206.48	
	168.91	Add Revenue Surplus	196.76	
2,502.42		**Total**		**2787.09**
As on 31.03.2005		**Assets**		**As on 31.03.2006**
2,219.75		Gross Capital Outlay on Fixed Assets-		2565.48
	77.46	Investments in shares of Companies, Corporation, etc.	82.48	
	2,142.29	Other Capital Outlay	2483.00	
6.23		Loans and Advances-		6.09
	4.96	Other Development Loans	4.95	
	1.27	Loans to Government servants and Miscellaneous loans	1.14	
		Reserve Fund Investments		
1.03		Advances		1.03
(-) 27.01		Suspense and Miscellaneous Balances		(-) 38.10
302.42		Cash		252.59
--		Cash in Treasuries and Local Remittances		
	81.58	Deposits with other Bank	170.93	
	0.77	Departmental Cash Balance	0.75	
	161.64	Cash Balance Investments	9.76	
	58.43	Earmarked Funds Invested	71.15	
2,502.42		**Total**		**2787.09**

APPENDIX – III

(Ref: Paragraph 1.3, Page 3)

Abstract of Receipts and Disbursements for the year 2005-06

(Rupees in crore)

Receipts				Disbursements					
2004-05			**2005-06**	**2004-05**		**Non-Plan**	**Plan**	**Total**	**2005-06**
1011.29	**Section A: Revenue**								
	I-Revenue Receipts		1088.20	**842.38**	*I- Revenue expenditure*				**891.44**
	Tax revenue	**147.23**			General services	1156.28	7.14	287.26	
	Non-tax revenue	**113.94**			Social Services			0	
	State's share of Union Taxes	182.13			Education, Sports, Art and Culture	119.58	78.42	198.00	
	Non-Plan Grants	158.71			Health and Family Welfare	30.48	21.41	51.89	
					Water Supply, Sanitation, Housing and Urban Development	16.33	21.80	38.13	
					Information and Broadcasting	1.49	2.40	3.89	
	Grants for State Plan Schemes	366.36			Welfare of Scheduled Caste, Scheduled tribes and Other Backward Classes	0.74	5.40	6.14	
	Grants for Central and Centrally Sponsored Plan Schemes	119.83			Labour and labour Welfare	0.79	0.71	1.50	
					Social Welfare and Nutrition	18.09	16.18	34.27	
					Others	3.96	--	3.96	
					Economic Services				
					Agriculture and Allied Activities	51.20	49.32	100.52	
					Rural Development	0.54	31.86	32.40	
					Special Areas Programmes	--	2.30	2.30	
					Irrigation and Flood Control	1.41	7.16	8.57	
					Energy	32.09	9.80	41.89	
					Industry and Minerals	4.15	20.42	24.57	
					Transport	33.99	8.74	42.72	
					Science Technology and Environment	--	1.07	1.07	
					General Economic Services	2.28	10.08	12.36	
	II-Revenue deficit carried over to Section-B	--		**168.91**	**II-Revenue surplus carried over to Section-B**			*891.44*	**196.76**
1011.29			**1088.20**	**1011.29**					**1088.20**

Receipts				Disbursements					
2004-05			2005-06	2004-05		Non-Plan	Plan	Total	2005-06
	Section-B								
207.47	**III-Opening Cash balance including Permanent Advances and Cash Balance Investment**		**302.42**	**353.54**	***III-Capital Outlay***	--	**345.73**	**345.73**	**345.73**
	IV Miscellaneous Capital receipts				***General services***		17.37	17.37	
					Social Services		108.97	108.97	
					Education, Sports, Art and Culture		24.95	24.95	
					Health and Family Welfare		7.94	7.94	
					Water Supply, Sanitation, Housing and Urban Development		75.95	75.95	
					Welfare of Scheduled Caste, Scheduled tribes and Other Backward Classes		0.13	0.13	
					Social Welfare		--	--	
					Others		--	--	
					Economic Services		219.39	219.39	
					Agriculture and Allied Activities		5.11	5.11	
					Rural Development		6.51	6.51	
					Special Areas Programmes		24.83	24.83	
					Irrigation and Flood control		1.95	1.95	
					Energy		88.02	88.02	
					Industry and Minerals		7.91	7.91	
					Transport		71.47	71.47	
					General Economic Services		13.59	13.59	
(-) 0.24	**V-Recoveries of Loans and Advances**		**0.14**	**0.68**	**IV-Loans and Advances disbursements**				
	From Power Projects				**To Government Servants**	--			
	From Government Servants and				**To Others**	--			
	From Others				**V -Revenue deficit brought down**	--			
168.91	**VI-Revenue surplus brought down**		**196.76**						
192.99	**VII-Public debt receipts**		**145.06**	**83.72**	**VI-Repayment of Public Debt**				**32.40**
	External debt	--			External debt				
	Internal debt other than ways and means Advances and overdraft	122.07			Internal debt other than Ways and Means Advances and Overdraft	--	20.35		
	Net transaction under Ways and Means Advances including over draft				Net transaction under Ways and Means Advances including overdraft				
	Loans and Advances from Central Government	22.99			Repayment of Loans and Advances to Central Government		12.05		
0.50	**VIII-Amount transferred to Contingency Fund**				**VII-Expenditure from Contingency Fund**				**0.10**
1415.37	**IX-Public Account Receipts**		**1456.53**	**1244.64**	**VIII-Public Account disbursements**				**1470.09**

Receipts				Disbursements					
2004-05			2005-06	2004-05		Non-Plan	Plan	Total	2005-06
	Small Savings and Provident fund	73.81			Small Savings and Provident Funds		60.82		
	Reserve funds	28.55			Reserve Funds		12.94		
	Suspense and Miscellaneous	888.65			Suspense and Miscellaneous		877.57		
	Remittance	437.29			Remittances		493.61		
	Deposits and Advances	28.23			Deposits and Advances		25.15		
				302.42	**IX- Cash balance at the end**				**252.59**
					Cash in Treasuries and Local Remittances			162.81	
					Deposits with Reserve Bank			8.12	
					Departmental Cash Balance including permanent Advances			71.90	
					Cash Balance Investment			9.76	
1985.00	***Total***		**2100.91**	**1985.00**	***Total***				**2100.91**

APPENDIX – IV

(Ref: Paragraph 1.3; Page 3)

Statement showing Sources and Application of Funds

(Rupees in crore)

2004-05		Sources		2005-06
1011.29	1.	Revenue receipts		1,088.20
(-) 0.24	2.	Recoveries of Loans and Advances		0.14
109.26	3.	Increase in Public debt other than overdraft		112.66
170.74	4.	Net receipts from Public Account		(-) 13.56
		Increase in Small Savings	12.98	
		Increase in Deposits and Advances	3.09	
		Increase in Reserve Funds	15.60	
		Net effect of Suspense and Miscellaneous transactions	11.09	
		Net effect of remittance transactions	(-) 56.32	
1,291.05		**Total**		**1,187.44**
2004-05		**Application**		**2005-06**
842.38	1.	Revenue expenditure		891.44
0.68	2.	Lending for development and other purposes		-
353.54	3.	Capital expenditure		345.73
(-) 0.50	4.	Net effect of contingency fund transaction		0.10
94.95	5.	Increase in Cash Balance		(-)49.83
1,291.05		**Total**		**1,187.44**

APPENDIX – V

(Ref: Paragraph 1.3, Page 3)

Time Series Data on State Government Finances

(Rupees in crore)

		2001-02	2002-03	2003-04	2004-05	2005-06
		Part A. Receipts				
1	**Revenue Receipts**	**750.09 (95)**	**908.04 (96)**	**898.93 (91)**	**1,011.29 (91)**	**1,088.20 (93)**
	(i) Tax Revenue	80.39 (10.72)	105.53 (5.07)	108.00 (8.05)	116.95 (6.18)	147.23 (13.52)
	Taxes on Sales. Trade. Etc.	34.97 (43.50)	41.42 (39.05)	48.87 (45.24)	48.18 (41.20)	56.65 (38.48)
	State Excise	17.59 (21.88)	22.45 (21.27)	25.25 (23.38)	32.69 (27.95)	32.96 (22.39)
	Taxes on Vehicles	1.97 (2.45)	2.35 (2.23)	2.74 (2.55)	3.24 (2.77)	4.24 (2.88)
	Stamps and Registration fees	1.30 (1.62)	3.45 (3.27)	1.14 (1.05)	1.43 (1.22)	2.27 (1.54)
	Land Revenue	0.51 (0.63)	0.40 (0.37)	0.18 (0.17)	0.44 (0.37)	0.61 (0.41)
	Other Taxes	2.02 (2.51)	2.78 (2.63)	3.06 (2.83)	1.88 (1.61)	2.68 (1.81)
	Taxes on Income other than Corporation Taxes	22.03 (27.4)	32.67 (30.96)	26.76 (24.78)	29.09 (24.87)	47.82 (32.49)
	(ii) Non-Tax Revenue	*71.12 (9.48)*	*143.36 (15.79)*	*95.04 (10.57)*	*111.36 (11.01)*	*113.94 (10.47)*
	(iii) State's share in Union taxes and duties	*84.83 (11.31)*	*77.20 (8.50)*	*112.33 (12.50)*	*107.35 (10.62)*	*182.13 (16.74)*
	(iv) Grants in aid from GOI	*513.75 (68.49)*	*581.95 (64,09)*	*583.56 (64.92)*	*675.63 (66.81)*	*644.90 (52.26)*
2	Misc. Capital Receipts	-	-	-	--	--
3	Total revenue and Non-debt capital receipts (1+2)	750.09	908.04	898.94	1,011.29	1,088.20
4	Recovery of loans and advances	1.14	1.28	1.08	(-) 0.24	0.14
5	**Public Debt Receipts**	91.37 (5)	78.53 (4)	137.02 (9)	192.99 (9)	145.06 (7)
	Internal Debt (excluding Ways and Means Advances and Overdraft)	39.10 (42.79)	34.81 (44.33)	75.96 (55.44)	110.32 (57.16)	122.07 (84.15)
	Net transactions under Ways and Means Advances and Overdraft	-	-	-	--	--
	Loans and Advances from Government of India#	52.27 (57.21)	43.72 (55.67)	61.06 (44.56)	82.67 (42.84)	22.99 (15.85)
6	**Total receipts in the Consolidated Fund (3+4+5)**	842.60	987.85	1,037.04	1204.04	1,233.40
7	**Contingency Fund receipts**	-	-	0.03	0.50	--
8	**Public Account receipts**	967.41	1,356.15	1,193.34	1,415.38	1,456.53
9	**Total receipts of Government (6+7+8)**	1,810.01	2,344.00	2,230.41	2,619.92	2,689.93

		2001-02	2002-03	2003-04	2004-05	2005-06
		Part B. Expenditure/Disbursement				
10	**Revenue Expenditure**	607.16 (74.22)	709.14 (77.15)	738.68 (77.73)	842.38 (70.40)	891.44 (72.05)
	Plan	*192.67 (31.73)*	*248.03 (34.98)*	*246.32 (33.35)*	*238.02 (28.26)*	*294.20 (33.00)*
	Non-plan	*414.49 (68.27)*	*461.11 (65.02)*	*492.36 (66.65)*	*604.36 (71.74)*	*597.24 (67.00)*
	General Services (including interest payments)	196.93 (32.43)	232.27 (32.75)	246.81 (33.41)	259.52 (30.81)	287.27 (32.23)
	Social Services	226.67 (37.34)	238.74 (33.67)	262.84 (35.58)	306.64 (36.40)	337.78 (42.38)
	Economic Services	183.56 (30.23)	238.13 (33.58)	229.03 (31.01)	276.22 (32.79)	266.39 (37.89)
	Grants-in-aid and contributions[1]	12.07	7.80	37.14	22.55	34.56
11	**Capital expenditure**	210.73 (25.68)	208.98 (22.74)	211.49 (22.26)	353.54 (29.56)	345.73 (27.95)
	Plan	*210.73 (100)*	*208.98 (100)*	*211.49 (100)*	*353.54 (100)*	*345.73 (100)*
	Non-plan	-	-	-	--	--
	General Services	8.14 (3.86)	11.49 (5.50)	12.77 (6.04)	16.49 (4.66)	17.37 (5.02)
	Social Services	73.44 (34.85)	83.66 (40.03)	97.44 (46.07)	131.64 (37.23)	108.97 (31.52)
	Economic Services	129.15 (61.29)	113.83 (54.47)	101.28 (47.89)	205.41 (58.11)	219.39 (63.46)
12	**Disbursement of Loans and Advances**	0.19 (0.02)	0.06 (0.01)	0.100 (.01)	0.68 (0.05)	--
13	**Total (10+11+12)**	818.08	919.18	950.27	1,196.60	1,237.17
14	**Repayment of Public debt**	34.20	40.35	84.17	83.72	32.40
	Internal Debt (excluding Ways and Means Advances and Overdraft)	3.00	7.70	16.47	43.65	20.35
	Net transactions under Ways and Means Advances and Overdraft	-	-	-	--	--
	Loans and Advances from Government of India	31.20	32.65	67.70	40.07	12.05
15	**Appropriation to Contingency Funds**	-	-	-	--	--
16	**Total disbursement out of Consolidated Fund (13+14+15)**	1,909.37	2,132.01	1,476.69	2,161.43	2,145.73
17	**Contingency Fund disbursements**	-	0.03	0.50	0.00	0.10
18	**Public Account disbursements**	908.38	1,311.79	1,204.82	1,244.64	1,470.09
19	**Total disbursements by the State (16+17+18)**	2,817.75	3,443.83	2,681.98	3,406.07	3,615.92

[1] *Forms part of Social and Economic Services*

		2001-02	2002-03	2003-04	2004-05	2005-06
	Part C. Deficit					
20	**Revenue Deficit (10-1)**	(+) 142.93	(+) 197.90	(+)160.25	(+) 168.91	(+) 196.76
21	**Fiscal Deficit (1+2+4-13)**	66.85	9.86	50.26	185.55	148.83
22	**Primary Deficit (21-23)**	17.31	79.67	42.24	86.36	46.23
	Part D. Other data					
23	**Interest Payments (included in revenue expenditure)**	84.16	89.53	92.50	99.19	102.60
24	**Arrears of Revenue (percentage of Tax & Non-Tax Revenue receipts)**	1.36	2.16	15.11	3.91	7.86
25	**Financial Assistance to local bodies etc.**	12.07	7.80	36.84	22.55	34.56
26	**Ways and Means Advances/ Overdraft availed (days)**	-	-	-	-	--
27	**Interest on Ways and Means Advances/Overdraft**	-	-	-	--	--
28	**Gross State Domestic Product (GSDP)**	1,139.25	1,251.35 (P)	1,358.18 (P)	1,530.40 (Q)	1,717.00 (Q)
29	**Outstanding fiscal liabilities (year end)**	806.06	867.68	966.45	1,107.07	1,350.87
30	**Outstanding guarantees (year end)**	95.70	95.70	86.10	82.47	84.47
31	**Maximum amount guaranteed (year end)**	-	-	-	88.10	84.47
32	**Number of incomplete projects**	37	36	76	60	149
33	**Capital blocked in incomplete projects.**	24.64	13.60	184.19	222.84	313.16

APPENDIX – VI

(Ref: Paragraph 1.6.6; Page 14)

Position of accounts and audit of autonomous bodies

Sl.	Name of Body	Annual Accounts	
		Finalised upto	Audited upto
1	Council of Science and Technology	2004-05	2004-05
2	Institute of Hotel Management	2003-04	2003-04
3	State Health and Welfare Society	2003-04	2003-04
4	National Aids Control Society	2004-05	2004-05
5	Paljor Namgyal Girls Higher Secondary School	2003-04	2003-04
6	Prevention and Control of Blindness Socity	2004-05	2004-05
7	Sikkim Co-operative Supply and Marketing Federation Limited (SIMFED)	2004-05	2004-05
8	Sikkim Institute of Rural Development (SIRD)	2004-05	2004-05
9	Sikkim Milk Union (SMU)	2005-06	2005-06
10	Sikkim Renewable Energy Development Agency (SREDA)	2004-05	2004-05
11	Sikkim Research Institute of Tibetology	2004-05	2004-05
12	Sikkim Rural Development Agency (SRDA)	2004-05	2004-05
13	Sikkim State Commission for Women	2005-06	2005-06
14	Sikkim State Illness Fund Association	2003-04	2003-04
15	Sikkim Urban Development Agency (SUDA)	2004-05	2004-05
16	Small Farmers Agri Business Consortium	2004-05	2004-05
17	State Legal Service Authority (SLSA)	2004-05	2004-05
18	State Leprosy Society	2005-06	2004-05
19	Tashi Namgyal Academy (TNA)	2003-04	2003-04
20	Sikkim Co-operative Milk Producers Union Limited (SMU)	2004-05	2004-05
21	Sikkim Khadi and Village Industries Board	2005-06	2005-06
22	Sikkim Co-operative Supply and Marketing Federation Ltd. (SIMFED)	2004-05	2004-05
23	Panchayat Raj Institutions (PRI)	2004-05[2]	2004-05

[2] *Only West district Zilla Panchayat submitted the accounts for 2004-05 prior to this no account was submitted by any of the PRI.*

APPENDIX – VII

(Ref: Paragraph 2.3.1; Page 25)

Statement showing areas in which major savings occurred

(Rupees in crore)

Sl. No	Grant No.	Section	Areas in which major savings occurred	Savings
1	1	Revenue	2435 – Other Agricultural Programme – others - Other Macro Management in Agriculture (100% CSS)	0.48
2	3	Capital	4059 – Capital outlay on Public Works – Office building – Construction – Building and Housing Department	1.52
3	7	Capital	4202 – Capital Outlay on Education, Sports, Art & Culture-General Education-University and Higher Education-Building	2.38
4	19	Revenue	2702 – Minor Irrigation – Suspense – Irrigation Department	0.76
5	19	Capital	4711 – Capital Outlay on Flood Control Project – Drainage – Civil Works – East District	4.96
6	31	Capital	4801 – Capital Outlay on Power Projects – Accelerated Power Development an Reform Programme (East) (CSS)	5.22
7	33	Capital	4215 – Capital Outlay on Water Supply and Sanitation – Sewerage and Sanitation – Sewerage Services – Drainage and Sewerage System in Gangtok	2.00
8	34	Revenue	3054 – Roads & Bridges – District & Other Roads – Road Works – District Roads	0.03
9	34	Capital	5054 – Capital Outlay on Roads and Bridges – Surface Strengthening	1.99
10	35	Revenue	2216 – Housing – Rural Housing – Distribution of GCI Sheets to the Rural poor	1.97
11	37	Revenue	3055 – Road Transport – Sikkim Nationalised Transport – Operation	0.04
12	38	Revenue	2236 – Nutrition – Other Expenditure	0.08
13	38	Capital	4235 – Capital Outlay on Social Security and Welfare – Construction of Anganwadi Centre – Major Works (100% CSS)	1.25
14	40	Capital	5452 – Capital Outlay on Tourism – Construction of Indian Himalayan Centre for Adventure & Eco Tourism at Chamchey (100% CSS)	2.95
15	41	Capital	4217 – Capital Outlay on Urban Development – National Urban Renewal Mission	9.80

APPENDIX – VIII

(Ref: Paragraph 2.3.4; Page 27)

Statement showing unnecessary supplementary provisions

(Rupees in crore)

Sl. No.	Grant No.	Name of Grant	Section	Original provision	Supplementary provision	Total provision	Expenditure during the year	Savings
1	4	Cooperation	Capital	0.27	1.00	1.27	0.21	1.06
2	7	Human Resources Development	Capital	35.78	6.39	42.17	17.15	25.02
3	12	Forestry and Environment Management (Capital)	Capital	3.57	0.25	3.82	2.49	1.33
4	16	Commerce and Industries	Revenue	12.06	0.25	12.31	11.70	0.61
5	19	Irrigation & Flood Control	Revenue	12.23	0.21	12.44	9.01	3.43
6	19	Irrigation & Flood Control	Capital	6.22	1.00	7.22	1.95	5.27
7	31	Energy and Power	Capital	110.88	24.90	135.78	88.12	47.66
8	33	Water Security and Public Health Engineering	Capital	31.08	3.22	34.30	25.03	9.27
9	34	Roads & Bridges	Capital	92.12	5.99	98.11	58.67	39.44
10	35	Rural Management and Development	Revenue	53.08	1.22	54.30	46.14	8.16
11	37	Sikkim Nationalised Transport	Revenue	23.51	0.07	23.58	18.83	4.75
12	38	Social Justice, Empowerment and Welfare	Revenue	29.89	1.88	31.77	24.31	7.46
13	38	Social Justice, Empowerment and Welfare	Capital	2.38	0.08	2.46	0.13	2.33
14	39	Sports & Youth Affairs	Capital	8.30	1.00	9.30	7.32	1.98
15	40	Tourism	Capital	19.44	5.83	25.27	13.59	11.68
16	41	Urban Development & Housing	Revenue	18.80	0.48	19.28	17.41	1.87
17	41	Urban Development & Housing	Capital	5.12	9.80	14.92	2.88	12.04
Total				**464.73**	**63.57**	**528.30**	**344.94**	**183.36**

APPENDIX – IX

(Ref: Paragraph 2.3.4; Page 27)

Statement showing cases where supplementary provision obtained proved excessive (Saving in each case being more than Rs. 10 lakh)

(Rupees in crore)

Sl. No	Grant No.	Name of Grant	Section	Original provision	Supple-mentary provision	Total provision	Expendi-ture during the year	Savings
1	1	Food Security & Agriculture Development	Revenue	20.90	7.87	28.77	27.33	1.44
2	5	Culture Affairs and Heritage	Revenue	4.25	1.14	5.39	4.44	0.95
3	7	Human Resources Development	Capital	35.78	6.39	42.17	17.15	25.02
4	12	Forestry and Environment Management (Capital)	Revenue	21.39	3.89	25.28	25.07	0.21
5	13	Health Care, Human Services and Family Welfare	Capital	4.80	4.12	8.92	7.94	0.98
6	16	Commerce and Industries	Capital	2.54	8.33	10.87	7.87	3.00
7	18	Information Technology	Revenue	2.60	11.43	14.03	13.88	0.15
8	22	Land Revenue and Disaster Management	Revenue	24.61	12.96	37.57	35.10	2.47
9	30	Police	Revenue	62.82	6.86	69.68	67.48	2.20
10	30	Police	Capital	3.10	3.60	6.70	3.36	3.34
11	35	Rural Management and Development	Capital	54.03	15.24	69.27	61.87	7.40
12	39	Sports & Youth Affairs	Revenue	5.49	2.78	8.27	5.92	2.35
Total				**242.31**	**84.61**	**326.92**	**277.41**	**49.51**

APPENDIX – X

(Ref: Paragraph 2.3.4; Page 27)

Statement showing cases where expenditure exceeded Budget Provision but no supplementary grant was obtained

(Rupees in crore)

Grant No.	Name of Grant/Appropriation	Section	Original provision/ Appropriation	Expenditure during the year	Excess
3	Building & Housing (Voted)	Revenue	6.42	6.73	0.31
10	Finance, Revenue and Expenditure (Charged)	Revenue	111.99	115.32	3.33
Appropriation	Governor (Charged)	Revenue	2.05	2.19	0.14
14	Home (Voted)	Revenue	11.12	12.33	1.21
24	Legislature (Voted)	Revenue	3.71	3.95	0.24
Appropriation	Public Service Commission (Charged)	Revenue	0.54	0.57	0.03
	Total		**135.83**	**141.09**	**5.26**

APPENDIX – XI

(Ref: Paragraph 2.3.4; Page 27)

Statement showing cases where supplementary provision proved insufficient

(Rupees in crore)

Grant No.	Name of Grant/Appropriation	Section	Original provision	Supplementary Provision	Actual Expenditure	Final excess
2	Animal Husbandry, Livestock, Fisheries and Veterinary Services	Revenue	17.35	0.48	18.37	0.54
7	Human Resources Development	Revenue	169.32	14.31	188.78	5.15
Total			**186.67**	**14.79**	**207.15**	**5.69**

APPENDIX – XII

(Ref : Paragraph 2.3.5; Page 27)

Statement showing persistent savings

(Rupees in crore)

Sl. No	Grants No	Name	Section	2003-04	2004-05	2005-06
1	16	Commerce and Industries	Capital	2.88 (60)	1.11 (15)	3.00 (28)
2	31	Energy and Power	Capital	13.27 (23)	35.81 (26)	47.66 (35)
3	39	Sports & Youth Affairs	Revenue	0.49 (17)	1.22 (31)	2.35 (28)
4	40	Tourism	Capital	1.81 (23)	10.13 (62)	11.68 (46)

(Figures in brackets indicates percentage to total provision)

APPENDIX – XIII

(Ref: Paragraph 2.3.7; Page 28)

(a) Statement showing cases in which funds were injudiciously withdrawn by re-appropriation although the account showed an excess expenditure over provision (original plus supplementary)

(Rupees in lakh)

Sl. No	.Grant No.	Major Head affecting the grant	Total Grant (Original plus supplementary)	Actual Expenditure	Excess	Amount of re-appropriation
1	2	2403 – Animal Husbandry, Livestock, Fisheries and Veterinary Services 001 – Direction & Administration 60 Administration	157.75	177.15	19.40	0.50
2	2	2405 – Fisheries 001 – Direction & Administration 60 – Establishment	80.57	96.32	15.75	0.20
3	7	2202 – General Education 01 – Elementary Education 101 – Government Primary School 62 – Primary School	353.00	353.44	0.44	1.00
4	12	2406 – Forestry and Wild Life 02 – Environmental Forestry and Wild.Life 112 – Public Gardens	84.75	88.34	3.59	1.34
5	13	2210 – Medical and Public Health 06 – Public Health 101 – Prevention and Control of Diseases 66 – National Malaria Eradication Programme	81.75	95.01	13.26	2.13
6	22	2029 – Land Revenue 001 – Direction and Administration	70.38	78.32	7.94	0.07
7	22	2053 – District Administration 093 – District Establishment	252.78	267.47	14.69	1.37
8	22	2053 – District Administration 094 – Other Establishments 60 – Sub-Divisional Establishments	104.94	116.26	11.32	1.04

(b) Cases where funds were withdrawn by re-appropriation in excess of available savings

(Rupees in lakh)

Sl. No	Grant No.	Head of Account	Total Grant (Original plus supplementary)	Actual Expenditure	Actual Savings	Amount of Appropriation
1	2	2403 – Animal Husbandry 103 – Poultry Development 68 – Intensive Poultry Development	72.16	32.75	39.41	42.50
2	7	2202 - General Education 108 - Text Book	100.00	50.15	49.85	65.00
3	7	4059 – Capital Outlay on Public Works 01 - Office Building 051 - Construction 81 - Strengthening/Modernisation of existing ITI (100% CSS)	72.42	24.85	47.57	50.94
4	13	2210 - Medical and Public Health 01 Urban Health Service 001 - Direction & Administration 60 – Establishment	307.35	245.97	61.38	71.70
5	16	2851 – Village and Small Industries 102 - Small Scale Industries 65 Hand made paper unit	27.57	20.11	7.46	7.59
6	19	4711 – Capital Outlay on Flood Control 01 Flood Control 800 - Other expenditure	200.00	168.65	31.35	41.15
7	30	2055 – Police 116 - Forensic Service	27.74	26.81	0.93	4.08
8	35	4215 – Capital Outlay on Water Supply and Sanitation 46 - West District 81 - Accelerated Rural Water Supply Programme (100% CSS)	150.00	74.10	75.90	77.56
9	39	4202 – Capital Outlay on Education, Sports, Art & Culture 03 - Sports and Youth Services 102- Sports Stadia 61 - Stadium, Gymnasium and Playgrounds	930.28	731.89	198.39	200.00

(c) Cases in which funds were injudiciously augmented by re-appropriation of funds in excess of what was actually required to cover the excess expenditure over the provision (Original plus supplementary) which ultimately resulted in savings

(Rupees in lakh)

Sl. No	Grant No.	Head of Account	Total grant (Original plus supplementary)	Actual Expenditure	Excess	Amount of Appropriation
1		2	3	4	5	6
1	1	2402 – Soil and Water Conservation 001 – Direction & Administration 01 – Agriculture Department	147.40	162.28	14.88	25.43
2	13	2210 – Medical and Public Health 110 – Hospital & Dispensaries 62 – Central Referral Hospital, Gangtok (STNM)	1,015.05	1,105.55	90.50	96.10
3	15	2401 – Crop Husbandry 104 Agriculture Farms 16 – Horticulture Department	219.59	219.69	0.10	7.46
4	16	2851 – Village and Small Industries 200 – Other Village Industries 68 – District Industries Centre	90.00	92.56	2.56	3.80
5	38	2235 – Social Security and Welfare 02 – Social Welfare 001 – Direction and Administration 39 – Social Welfare Department	207.49	224.69	17.20	20.64

(d) Cases in which funds were injudiciously augmented by re-appropriation of funds even though the actual expenditure fell far short of the provision (original plus supplementary)

(Rupees in lakh)

Sl NO.	Grant	Head of Account	Total Grant (Original plus supplementary	Actual Expenditure	Savings	Amount of Re-appropriation
1	3	2216 - Housing 01 - Government Residential Buildings 106 - General Pool accommodation 03 - Building & Housing Department	95.55	93.76	1.79	3.62
2	12	3435 - Ecology and Environment 03 - Environmental Research and Ecological Regeneration 001 - Direction & Administration	15.34	13.30	2.04	0.96
3	40	3452 - Tourism 102 - Tourist Accommodation 60 - Establishment	57.21	55.51	1.70	1.93
4	40	3452 - Tourism 104 - Promotion & Publicity 63 - Tourist Development Activities	295.00	272.68	22.32	17.95

APPENDIX – XIV

(Ref: Paragraph 2.3.8; Page 28)

Statement showing trend of recoveries and credits

(Rupees in crore)

Grant No	Grant No. and Name of the Grant	Budget Estimate	Actuals	Actuals compared with the Budget Estimate More(+)/Less(-_)
3	Building & Housing	0.49	0.41	(-) 0.08
12	Forestry & Environment Management	1.00	0.85	(-) 0.15
19	Irrigation & Flood Control	1.00	0.45	(-) 0.55
22	Land Revenue and Disaster Management	14.42	12.10	(-) 2.32
31	Energy and Power	0	0.02	(+) 0.02
34	Roads & Bridges	0.36	0.84	(+) 0.48
35	Rural Management and Development	0.50	0	(-) 0.50
Total		**17.77**	**14.67**	**(-) 3.10**

APPENDIX – XV
Statement showing non-production of records
(Ref: Paragraph 5.1.15.5; Page 139)

Date & Requisition No.	Department	Records requisitioned for	Reminder issued on	What could not be verified
01.04.2006/01	DOPART	1.Deployment of man power, sanctioned strength,		1. Insufficient information provided and audit could not verify the actual Man in Position of each department in the absence of records.
	-DO-	2. Records regarding conduction of examination and recruitment/conditions of service of Ministerial and Executive posts.	10.04.2006 18.4.06	2. Any flaws regarding recruitment and conditions of service matters alongwith actual number of recruitment for placement.
	-DO-	3. Cases of Ad-hoc promotions	01.05.2006 01.5.06 05.05.2006	3. Necessity of ad-hoc promotions
	-DO-	4.Training of officials and feedback	09.05.2006 18.10.2006 07-11-06	4. Whether training were imparted as per norms and evaluation done on performance.
	-DO-	*Deputation and absorption thereof		• Whether absorption resulted into any irrational deployment of manpower.
	-DO-	*Sanctioned strength and Records of public grievances		• Unbiased views on public grievance and timely disposal of such cases.
		* Files/Records of inter departmental transfer and posting		• Systematic and logical transfer and posting.
		Notification in respect of uniform length of service for promotion from junior grade to suppertime grade		Reply of the DOPART could not be verified.
7.11.06/01	-DO-	Restructuring of Sikkim State Civil Service Cadre.		Upgradation of posts could not be analysed.
-DO-		Copy of High Court Directives and direct appointment of DSP		Excess men-in-position in DSP
-DO-		Reasons for savings of budget		Control of sanctioned grants/ appropriation by the Head of the department.
19.10.06/-	Forest	Sanctioned strength of IFS and SFS		Verification of actual placement of manpower
28.10.2006/-	SPWD/R&B	Justification of creation of additional posts		-D0-
Do	DESME	Do		Do
Do	Power and energy	Do		Do
Do	HRDD	Do		Do

APPENDIX – XVI

(*Ref: Paragraphs 7.2.3, 7.2.4, 7.3 & 7.6.2; Pages 157 & 161*)

Particulars of paid up capital, budgetary outgo, loans given out of budget and loans outstanding as on 31 March 2006 in respect of Government companies and Statutory corporations

(Figures in column 3(a) to 4(f) are Rupees in lakh)

Sl	Sector and name of company	Paid up capital as at the end of current year					Equity/loans received out of Budget during the year		Other loans received during the year	Loans# outstanding at the close of 2005-06			Debt equity ratio for 2005-06 (Previous years) 4(f)/3(e)
		State Government	Central Government	Holding companies	Others	Total	Equity	Loans		Government	Others	Total	
1	2	3(a)	3(b)	3(c)	3(d)*	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	5
A.	**Working Government Companies**												
	I. Consumer Industries												
1	Sikkim Jewels Limited (SJL)	981.02	-	-	78.13	1,059.15	356.00	-	-	-	35.50	35.50	0.03:1(0.11:1)
2	Sikkim Time Corporation Limited (STCL)	1198.54	-	-	-	1,198.54	76.00	-	-	-	-	-	-
3	Sikkim Precision Industries Limited (SPIL)	370.00	-	-	-	370.00	-	-	-	-	-	-	-
	Sector wise Total	**2,549.56**	**-**	**-**	**78.13**	**2,627.69**	**432.00**	**-**	**-**	**-**	**35.50**	**35.50**	**0.01:1(0.04:1)**
	II. General Financial and Trading Institutions												
4	Sikkim Industrial Development and Investment Corporation Limited (SIDICL)	1.682.50	-	-	636.80	2,319.30	-	-	-	202.87	36.87	239.74	0.10:1(0.11:1)
	Sector wise Total	**1,682.50**	**-**	**-**	**636.80**	**2,319.30**	**-**	**-**	**-**	**202.87**	**36.87**	**239.74**	**0.10:1(0.11:1)**
	III. Welfare												
5	Schedule Caste, Schedule Tribe and Other Backward Class Development Corporation Limited (SC/ST/OBCDCL)	328.60	151.30	-	-	479.90	-	-	-	-	1,195.47	1,195.47	2.49:1(2.49:1)
	Sector wise Total	**328.60**	**151.30**	**-**	**-**	**479.90**	**-**	**-**	**-**	**-**	**1,195.47**	**1,195.47**	2.49:1(2.49:1)
	IV. Tourism												
6	Sikkim Tourism Development Corporation	674.87	-	-	-	674.87	50.00	-	-	-	-	-	-
	Sector wise Total	**674.87**	-	-	-	**674.87**	**50.00**	**-**	**-**	**-**	**-**	**-**	**-**
	V. Power												
7	Sikkim Power Development Corporation (SPDC)	340.00	-	-	-	340.00	-	-	-	-	5,001.00	5,001.00	14.71:1(14.71:1)
	Sector wise Total	**340.00**	**-**	**-**	**-**	**340.00**	**-**	**-**	**-**	**-**	**5,001.00**	**5,001.00**	**14.71:1(14.71:1)**
	VI. Animal Husbandry												
8	Sikkim Poultry Development Corporation (SPDC)	-	-	-	-	-	-	-	-	-	-	-	-
9	Sikkim Hatcheries Limited (SHL)	-	-	43.83	2.00	45.83	-	-	-	-	25.55	25.55	0.56:1(0.56:1)
	Sector wise Total	**-**	**-**	**43.83**	**2.00**	**45.83**	**-**	**-**	**-**	**-**	**25.55**	**25.55**	**0.56:1(0.56:1)**
Total A	**(Working Government Companies)**	**5,575.53**	**151.30**	**43.83**	**716.93**	**6,487.59**	**482.00**	**-**	**-**	**202.87**	**6,294.39**	**6,497.26**	**1.00:1(1.09:1)**

B.	**Working Statutory Corporations**												
	I. Financing												
1	State Bank of Sikkim (SBS)	53.38	-	-	5.00	58.38	-	-	-	-	-	-	-
	Sector wise Total	**53.38**	-	-	**5.00**	**58.38**	-	-	-	-	-	-	-
	II. Miscellaneous												
2	Sikkim Mining Corporation (SMC)	611.50	589.00	-	-	1,200.50	-	-	-	-	54.00	54.00	0.04:1 (0.04:1)
3	State Trading Corporation of Sikkim (STCS)	111.38	-	-	-	111.38	-	-	-	-	-	-	-
	Sector wise Total	**722.88**	**589.00**	-	-	**1,311.88**	-	-	-	-	**54.00**	**54.00**	**0.04:1 (0.04:1)**
	Total B (Working Statutory Corporations)	**776.26**	**589.00**	-	**5.00**	**1,370.26**	-	-	-	-	**54.00**	**54.00**	**0.04:1 (0.04:1)**
	Grand Total (A + B)	**6351.79**	**740.30**	**43.83**	**721.93**	**7,857.85**	**482.00**	-	-	**202.87**	**6,348.39**	**6,551.26**	**0.83:1 (0.90:1)**
C.	**Non-working Government Companies**												
	I. Consumer Industries												
1	Sikkim Flour Mills Limited (SFML)	27.90	-	-	-	27.90	-	-	-	-	-	-	-
	Sector wise Total	**27.90**	-	-	-	**27.90**	-	-	-	-	-	-	-
	II. Animal Husbandry												
2	Sikkim Livestock Processing and Development Corporation (SLPDC)	35.00	34.00	-	-	69.00	-	-	-	-	-	-	-
	Sector wise Total	**35.00**	**34.00**	-	-	**69.00**	-	-	-	-	-	-	-
	III. Transport												
3	Chandmari Workshop and Automobiles Limited (CWAL)	30.00	-	-	-	30.00	-	-	-	-	-	-	-
	Sector wise Total	**30.00**	-	-	-	**30.00**	-	-	-	-	-	-	-
	Total C (Non-working Government Companies)	**92.90**	**34.00**	-	-	**126.90**	-	-	-	-	-	-	-
D.	**Non-working Statutory Corporations**												
	Nil	-	-	-	-	-	-	-	-	-	-	-	-
	Total D (Non-working Statutory Corporations)	-	-	-	-	-	-	-	-	-	-	-	-
	Grand Total (C + D)	**92.90**	**34.00**	-	-	**126.90**	-	-	-	-	-	-	-
	Grand Total (A+B+C+D)	**6444.69**	**774.30**	**43.83**	**721.93**	**7,984.75**	**482.00**	-	-	**202.87**	**6,348.39**	**6,551.26**	**0.82:1 (0.88:1)**

Note: *Except in respect of companies and corporations which finalised their accounts for 2005-06, figures are provisional and as given by the companies/corporations. Figures in column 3(b) to 3(d) and column 4(b) to 4(e) taken from latest Annual Accounts of the PSUs.*

\# *Loans outstanding at the close of 2005-06 represents long term loans only.*

APPENDIX – XVII

(Ref: Paragraphs 7.4, 7.5, 7.5.2 (iv), 7.6.4 & 7.6.5; Pages 158,159,161 & 162)

Summarised financial results of Government Companies and Statutory Corporations for the latest year for which accounts were finalised

(Figures in columns 7 to 12 and 15 are Rupees in lakh)

Sl	Name of the Company/Corporation	Name of Department	Date of incorporation	Period of Account	Year in which accounts finalised	Net Profit(+)/ Loss (-)	Net impact of audit comments	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital Employed ♥	Total return on capital employed	Percentage of total return on capital employed	Arrears of accounts in terms of years	Total turnover	Number of employees
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*
A.	**Working Government Companies**														
	I. Consumer Industries														
1	Sikkim Jewels Limited (SJL)	Industries	Jul. 1976	2005-06	2006-07	(-) 40.61	-	790.36	(-) 3.03	578.03	-	-	-	240.89	121
2	Sikkim Time Corporation Limited (STCL)	Industries	Oct. 1976	2003-04	2005-06	(-) 329.13	-	1,122.54	(-) 292.67	468.63	-	-	2	239.51	134
3	Sikkim Precision Industries Limited (SPIL)	Industries	Feb. 1999	2004-05	2005-06	(-) 35.80	0.60	370.00	(-) 49.29	311.34	-	-	1	22.71	65
	Sector wise Total					**(-) 405.54**		**2,282.90**	**(-) 344.99**	**1,358.00**	**-**	**-**		**503.11**	**320**
	II. General Financial and Trading Institutions														
4	Sikkim Industrial Development and Investment Corporation Limited (SIDICL)	Industries	Mar. 1977	2004-05	2005-06	(+) 56.00	3.20	1,714.30	(-) 628.44	1,277.93	(+) 61.09	4.78	1	108.76	37
	Sector wise Total					**(+) 56.00**		**1,714.30**	**(-) 628.44**	**1,277.93**	**(+) 61.09**	**4.78**		**108.76**	**37**
	III. Welfare														
5	Schedule Caste, Schedule Tribe and Other Backward Class Development Corporation Limited (SC/ST/OBC DCL)	Welfare	Apr. 1996	2003-04	2004-05	(-) 12.73		955.15	(-) 438.52	1,712.10	(+) 38.10	2.23	2	90.13	23
	Sector wise Total					**(-) 12.73**		**955.15**	**(-) 438.52**	**1,712.10**	**(+) 38.10**	**2.23**		**90.13**	**23**
	IV. Tourism														
6	Sikkim Tourism Development Corporation (STDC)	Tourism	Feb. 1998	2004-05	2005-06	(-) 41.03		646.37	(-) 257.74	389.22	-	-	1	78.12	84
	Sector wise Total					**(-) 41.03**		**646.37**	**(-) 257.74**	**389.22**	**-**	**-**		**78.12**	**84**
	V. Power														
7	Sikkim Power Development Corporation (SPDC)	Power	Dec. 1998	2004-05	2005-06	(*)		340.00	-	950.56	-	-	1	-	35
	Sector wise Total							**340.00**	**-**	**950.56**	**-**	**-**		**-**	**35**
	VI. Animal Husbandry														
8	Sikkim Poultry Development Corporation Ltd (SPDCL)	AH & VS	Mar. 1991	2001-02	2003-04	(-) 11.82		-	(-) 26.04	9.72	-	-	4	-	5
9	Sikkim Hatcheries Limited (SHL)	AH & VS	Aug. 1994	2001-02	2003-04	(-) 12.29		45.83	(-) 49.05	88.41	-	-	4	120.05	21
	Sector wise Total					**(-) 24.11**		**45.83**	**(-) 75.09**	**98.13**	**-**	**-**		**120.05**	**26**
Total A (Working Government Companies)						**(-) 427.41**		**5,984.55**	**(-) 1,744.78**	**5,785.94**	**(+) 99.19**	**1.71**		**900.17**	**525**

B.	**Working Statutory Corporation**														
	I. Financing														
1	State Bank of Sikkim (SBS)	Finance	Jun. 1968	2004-05	2005-06	(+) 171.66		58.38	(-) 3,470.81	27,807.42	(-) 177.21	0.63	1	1,169.73	269
	Sector wise Total					**(+) 171.66**		**58.38**	**(-) 3,470.81**	**27,807.42**	**(+) 177.21**	**0.63**		**1,169.73**	**269**
	II. Miscellaneous														
2	Sikkim Mining Corporation (SMC)	Mines & Geology	Feb. 1960	2004-05	2006-07	(-) 142.79		1200.50	(-) 990.04	13.80	-	-	1	58.20	87
3	State Trading Corporation of Sikkim (STCS)	Finance	Mar.1972	2003-04	2005-06	(+) 112.67		111.38	(+) 545.48	656.86	(+) 112.67	17.15	2	1,436.50	85
	Sector wise Total					**(-) 30.12**		**1311.88**	**(-) 444.56**	**670.66**	**(+) 112.67**	**16.80**		**1,494.70**	**172**
	Total B (Working Statutory Corporations)					**(+) 141.54**		**1370.26**	**(-) 3,915.37**	**28,478.08**	**(+) 289.88**	**1.02**		**2,664.43**	**441**
	Grand Total (A + B)					**(-) 285.87**		**7354.81**	**(-) 5,660.15**	**34,264.02**	**(+) 389.07**	**1.14**		**3,564.60**	**966**
C.	**Non-working Government Companies**														
	I. Consumer Industries														
1	Sikkim Flour Mills Limited (SFML)	Industries	Jul.1976	1994-95	1995	Nil		60.16	(-) 12.76	84.50	-	-	11	Nil	
	Sector wise Total					**Nil**		**60.16**	**(-) 12.76**	**84.50**	-	-		-	
	II. Animal Husbandry														
2	Sikkim Livestock Processing and Development Corporation (SLPDC)	AH & VS	Apr.1988	2002-03	2004	(-) 4.80		69.00	(-) 64.73	133.76	-	-	3	Nil	
	Sector wise Total					**(-) 4.80**		**69.00**	**(-) 64.73**	**133.76**	-	-		-	
	III. Transport														
3	Chandmari Workshop and Automobiles Limited (CWAL)	Transport	Apr. 1988	1994-95	1997	(-) 14.19		0.20	(-) 1.53	69.00	-	-	5 (Closed w.e.f. 12/1999)	Nil	
	Sector wise Total					**(-) 14.19**		**0.20**	**(-) 1.53**	**69.00**	-	-		-	
	Total C (Non-working Government Companies)					**(-) 18.99**		**129.30**	**(-) 79.02**	**287.26**	-	-		-	
D.	**Non-working Statutory Corporations**														
	Nil							-	-	-	-	-		-	
	Total D (Non-working Statutory Corporations)							-	-	-	-	-		-	
	Grand Total (C + D)					**(-) 18.99**		**129.30**	**(-) 79.02**	**287.26**	-	-		-	
	Grand Total (A+B+C+D)					**(-) 304.86**		**7,484.11**	**(-) 5,739.17**	**34,551.28**	**389.07**	**1.13**		**3,564.60**	**966**

♥ *Capital employed represents net fixed assets (including works-in-progress) plus working capital except in case of finance companies/corporation where the capital employed is worked out as a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance)*

* *Project under implementation*

APPENDIX – XVIII

(Ref: Paragraphs 7.3 & 7.6.2; Page 157 & 161)

Statement showing subsidy received, guarantees received, waiver of dues, loans on which moratorium allowed, loans converted into equity during the year, subsidy receivable and guarantees outstanding at the end of March 2006

(Figures in columns 3(a) to 7 are Rupees in lakh)

Sl	Name of the Public Sector Undertaking	Subsidy received during the year				Guarantees received during the year and outstanding at the end of the year*					Waiver of dues during the year				Loans on which moratorium allowed	Loans converted into equity during the year
		Central Government	State Government	Others	Total	Cash credit from banks	Loans from other sources	Letters of credit opened by banks in respect of imports	Payment obligation under agreement with foreign consultants or contracts	Total	Loans repayment written off	Interest waived	Penal interest waived	Total		
1	*2*	*3(a)*	*3(b)*	*3(c)*	*3(d)*	*4(a)*	*4(b)*	*4(c)*	*4(d)*	*4(e)*	*5(a)*	*5(b)*	*5(c)*	*5(d)*	*6*	*7*
A.	**Working Government Companies**															
1	SC, ST & OBC Development Corporation Limited	-	-	-	-	-	- (2,500)	-	-	- (2,500)	-	-	-	-	-	-
2	Sikkim Time Corporation	-	-	-	-	-	200 (500)	-	-	- (500)	-	-	-	-	-	-
3	Sikkim Power Development Corporation	-	-	-	-	-	- (5,000)	-	-	- (5,000)	-	-	-	-	-	-
Total – A							**200 (8,000)**	**-**	**-**	**- (8,000)**						
B.	**Working Statutory Corporations**															
1	Sikkim Mining Corporation	-	-	-	-	-	- (7.00)	-	-	- (7.00)	-	-	-	-	-	-
Total – B							**- (7.00)**	**-**	**-**	**- (7.00)**						
Grand Total (A + B)							**200 (8,007)**	**-**	**-**	**- (8,007)**						

* *Figures in bracket indicate guarantees outstanding at the end of the year*

APPENDIX – XIX

(*Ref: Paragraph 7.5; Page 159*)

Statement showing financial position of Statutory Corporations

(***Rupees in crore***)

1. State Bank of Sikkim			
Particulars	**2003-04**	**2004-05**	**2005-06 (Provisional)**
A. Liabilities			
Paid up Capital	0.53	0.53	0.53
Share application money	0.05	0.05	0.05
Reserve funds and other reserves and surplus	0.11	0.11	0.11
Deposits	239.84	380.76	382.56
Borrowings: Others	4.82	0.69	3.14
Other liabilities and provisions	24.30	27.87	31.45
TOTAL - A	**269.65**	**410.01**	**417.84**
B. Assets			
Cash and Bank Balances	174.42	305.49	273.37
Investments	11.25	0.90	15.79
Loans and Advances	28.70	53.30	74.21
Net fixed assets	0.69	0.69	1.22
Other assets	18.17	14.92	19.85
Accumulated loss	36.42	34.71	33.40
Miscellaneous expenditure	-	-	-
TOTAL – B	**269.65**	**410.01**	**417.84**
C. Capital Employed*	**242.41**	**278.07**	**350.10**

2. State Trading Corporation of Sikkim			
Particulars	**2003-04**	**2004-05**	**2005-06**
A. Liabilities			
Paid up Capital	1.11	Provisional figures not furnished	Provisional figures not furnished
Reserve and surplus	5.45		
Trade dues and current Liabilities and Provisions	28.03		
TOTAL - A	**34.59**		
B. Assets			
Gross Block	1.12	Provisional figures not furnished	Provisional figures not furnished
Less Depreciation	(-) 0.53		
Net fixed assets	0.59		
Current assets, loans and advances	34.00		
TOTAL – B	**34.59**		
C. Capital Employed**	**6.57**		

3. Sikkim Mining Corporation			
Particulars	**2003-04**	**2004-05**	**2005-06**
A. Liabilities			
Paid up Capital	11.74	12.00	Provisional figures not furnished
Share application money from Government of India	-	0.50	
Reserve and surplus	0.07	-	
Borrowings: Government	1.86	1.99	
Trade dues and current Liabilities and Provisions	1.26	1.77	
TOTAL – A	**14.93**	**16.26**	
B. Assets			
Gross Block	2.90	2.91	
Less Depreciation	(-)1.59	(-) 1.74	
Net fixed assets	1.31	1.17	
Mine Development expenditure	4.49	4.46	
Current assets, loans and advances	0.82	0.73	
Accumulated loss	8.31	9.90	
TOTAL – B	**14.93**	**16.26**	
C. Capital Employed**	**0.88**	**13.80**	

* *Capital employed represents mean of aggregate of opening and closing balance of paid up capital, free reserves, bonds, deposits and borrowings (including refinance) less accumulated losses.*

** *Capital employed represents net fixed assets (including capital Work-in-progress) plus working capital.*

APPENDIX – XX

(Ref: Paragraph 7.5; Page 159)

Statement showing working results of Statutory Corporations

(Rupees in crore)

	1. State Bank of Sikkim			
	Particulars	2003-04	2004-05	2005-06 (Provisional)
1	Income			
	a) Interest on loan	11.47	11.70	20.69
	b) Other income	3.33	4.20	3.51
	Total - 1	**14.80**	**15.90**	**24.20**
2	Expenses			
	a) Interest on long-term and short-term loans	8.68	9.18	17.40
	b) Provision for non-performing assets	-	-	-
	c) Other expenses	7.08	5.00	5.73
	Total - 2	**15.76**	**14.18**	**23.13**
3	Profit (+)/Loss (-) before tax (1-2)	(-) 0.96	(+) 1.72	(+)1.07
4	Prior period adjustments	-	-	0.23
5	Provision for tax	-	-	-
6	Profit (+)/Loss (-) after tax	(-) 0.96	(+) 1.72	(+)1.30
7	Other appropriation	-	-	-
8	Amount available for dividend	-	1.72	1.30
9	Dividend paid/payable	-	-	-
10	Total return on Capital employed	-	1.72	1.30
11	Percentage of return on Capital employed	-	0.62	0.37

	2. Sikkim Mining Corporation			
	Particulars	2003-04	2004-05	2005-06
1	Income			Provisional figures not furnished
	a) Sales of concentrates	0.52	0.52	
	b) Other income	0.19	0.17	
	c) Increase (+)/Decrease(-) in stock of concentrates	0.01	(-)0.05	
	Total - 1	**0.72**	**0.64**	
2	Expenses			
	a) Establishment charges	1.11	0.58	
	b) Manufacturing expenses	0.40	0.31	
	c) Other expenses	0.61	1.18	
	Total - 2	**2.12**	**2.07**	
3	Profit (+)/Loss (-) before tax (1-2)	(-) 1.40	(-) 1.43	
4	Provision for tax	-	-	
5	Prior period adjustments	(-) 0.24	(-)0.16	
6	Profit (+)/Loss (-) after tax	(-) 1.64	(-) 1.59	
7	Other appropriation	-	-	
8	Amount available for dividend	-	-	
9	Dividend for the year	-	-	
10	Total return on Capital employed	**	**	
11	Percentage of return on Capital employed	-	-	

	3. State Trading Corporation of Sikkim			
	Particulars	2003-04	2004-05	2005-06
1	Income			
	a) Sale of trading goods	12.46	Provisional figures no furnished	Provisional figures not furnished
	b) Other income	2.29		
	c) Increase (+)/Decrease (-) in stock	(+)0.66		
	Total - 1	15.41		
2	Expenses			
	a) Purchase of Trading Goods	12.00		
	b) Trade Expenses	0.52		
	c) Establishment Expenses	1.16		
	d) Other Expenses	0.41		
	Total – 2	**14.09**		
3	Profit (+)/Loss (-) before tax (1-2)	1.32		
4	Provision for tax	0.15		
5	Prior period adjustments	-		
6	Other appropriation	-		
7	Amount available for dividend	1.17		
8	Dividend for the year	-		
9	Total return on Capital employed	1.17		
10	Percentage of return on Capital employed	18		

** *Negative figure*

APPENDIX – XXI

(*Ref: Paragraph 7.5.2 (iii); Page 160*)

Statement showing operational performance of Statutory Corporations

Sl	Particulars	2003-04	2004-05	2005-06
	State Bank of Sikkim			
1	Earning per share (***Rs.***)	-	2.94	1.30
2	Number of Branches	22	22	23
3	Number of Employees	272	269	269
4	Profit per Employee (***Rs. in lakh***)	(-) 0.34	0.64	0.62
5	Deposits (***Rs. in crore***)			
	(a) Government	83.29	74.02	159.22
	(b) Others	156.55	306.74	223.34
	Total-5	**239.84**	**380.76**	**382.56**
6	Advances (including bills) (***Rs. in crore***)			
	(a) Government	-	-	-
	(b) Others	28.70	53.31	74.21
	Total-6	**28.70**	**53.31**	**74.21**
7	Debts written off	Nil	Nil	Nil
	Sikkim Mining Corporation			
1	Total mining area in possession (***Hectare***)	34.8	34.8	34.8
2	Mining area excavated (***Hectare***)	9.8	9.8	9.8
3	Number of Employees	190	100	87
4	Installed capacity (***TPD***)			
	(a) Ore	100	100	100
	(b) Waste Rock	-	-	-
	(c) Others	-	-	-
	Total-4	**100**	**100**	**100**
5	Targets (***MT***)			
	(a) Ore	6,000	9,000	5,400
	(b) Waste Rock	Nil	Nil	Nil
	(c) Others	Nil	Nil	Nil
	Total-5	**6,000**	**9,000**	**5,400**
6	Actual production of Waste Rock (***MT***)			
	(a) Own	Nil	313	106
	(b) Contractual	-	-	-
	Total-6	**Nil**	**313**	**106**
7	Actual production (***MT***)	7,663	5,741	5,227
8	Percentage of capacity utilisation	26	19	17
9	Production of by-products, if any			
	(a) Targets (***MT***)	Nil	Nil	Nil
	(b) Production (***MT***)	Nil	Nil	Nil
	(c) Capacity utilisation in *per cent*	Nil	Nil	Nil

Note: TPD = Tonnes per day, Working days = 300 days

APPENDIX – XXII

(Ref: Paragraph 7.10; Page 164)

Statement showing Department-wise outstanding Inspection Reports (IRs)

Sl. No.	Name of Department (*Administrative Department*)	No. of PSUs	No. of outstanding IRs	No. of outstanding paragraphs	Years from which paragraphs outstanding
1	Commerce and Industries	6	19	51	1997-98
2	Animal Husbandry, Livestock, Fisheries and Veterinary Services	3	6	14	1994-95
3	Social Justice, Empowerment and Welfare	1	3	6	1999-2000
4	Finance, Revenue and Expenditure	2	14	26	1991-92
5	Mines, Minerals and Geology	1	4	9	2001-02
6	Tourism	1	6	30	2001-02
7	Energy and Power	1	2	12	2002-03
	Total	**15**	**54**	**148**	

APPENDIX – XXIII

(Ref: Paragraph 7.10; Page 164)

Statement showing department wise draft paragraph / reviews reply to which are awaited.

Sl. No	Name of Department	Number of draft paragraphs	Number of Reviews	Period of issue	Perod of reply received
1	Commerce & Industries Department	1 -	- 1	June 2006 September 2006	July 2006 Reply awaited
2	Mines & Geology Department	1	-	June 2006	August 2006
3	Finance, Revenue & Expenditure	1	-	June 2006	August 2006
4	Animal Husbandry & Veterinary Services	1	-	June 2006	June 2006
	Total	**4**	**1**		

APPENDIX – XXIV
(Ref: Paragraph 7.12.1; Page 166)

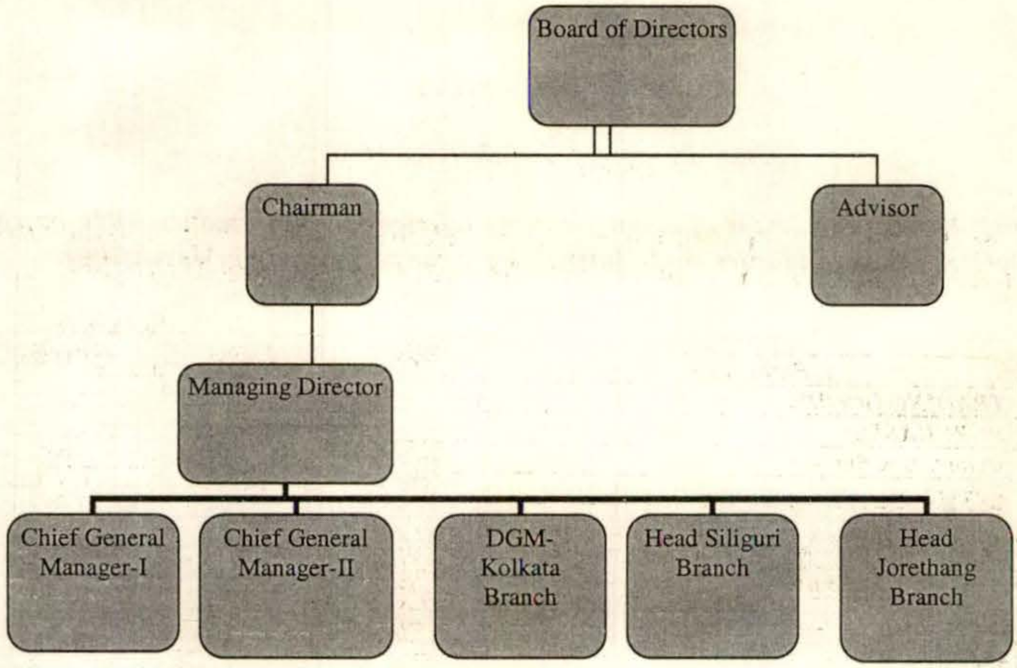
Glossary of terms and References or bibliography for Performance Audit on'Functioning of State Trading Corporation of Sikkim' (*Para 7.12*)

STCS	:	State Trading Corporation of Sikkim
PV	:	Physical verification
SFR	:	Sikkim Financial Rules
ASBI	:	Accounting Standard Board of India
P&L	:	Accounts: Profit & Loss accounts
MD	:	Managing Director
CGM	:	Chief General Manager
OSD	:	Officer on Special Duty
LDC	:	Lower division Clerk
STDC	:	Sikkim Tourism Development Corporation
DGS&D	:	Director General of Supply & Disposal

APPENDIX – XXV

(Ref: Paragraph 7.12.1; Page 166)

Organisational chart of the Corporation



APPENDIX – XXVI

(Ref: Paragraph 7.12.2; Page 166)

Statement showing the details of major six items selected for Performance Audit based on the total purchase and sales made during three year period ending March 2004

(Rs. In lakh)

Sl.no	Particulars	2001-02	2002-03	2003-04
I	TRADING GOODS:			
	PURCHASES:			
1	Cylinders & Burners	473.10	674.95	776.62
2	Cement	356.29	470.49	318.07
3	Iron & Steel	21.63	49.78	11.64
4	Office Equipment & Furniture	81.42	77.56	73.09
5	Tyre, Tubes & Batteries	28.00	20.09	10.63
6	Vehicles	188.95	203.66	-
	Total	1149.39		
	SALES:			
1	Cylinders & Burners	494.89	702.55	764.99
2	Cement	417.68	495.47	368.54
3	Iron & Steel	20.21	52.84	12.77
4	Office Equipment & Furniture	91.84	82.87	73.77
5	Tyre, Tubes & Batteries	36.06	20.03	12.18
6	Vehicles	194.73	209.37	0.22
	Total			
II	COMMISSION GOODS (Purchases and Sales)			
1	Cement	25.91	185.98	639.00
2	Iron & Steel	2181.25	1339.11	3562.04
3	Office Equipment & Furniture	1.00	-	0.00
4	Tyres & Tubes	8.30	45.59	55.69
5	Vehicles	240.73	336.40	609.46
6	Electrical Goods	839.99	360.48	1548.00
	Total			

APPENDIX – XXVII

(Ref: Paragraph 7.12.6.3; Page 170)

STATEMENT SHOWING THE DETAILS OF DIFFERENCES BETWEEN BOOK BALANCES AND PHYSICAL BALANCES OF DIFFERENT STORE ITEMS HELD BY THE COPORATION AT HEAD OFFICE AND JORETHANG

SL. No	Name of the Units		Items	Quantity as per Book balance/ stock register (In nos.)	Quantity as per physical verification (In nos.)	Difference in quantity (In nos.)	Rate adopted (In Rs.)	Value of differential stock (In Rs.)
1	2		3	4	5	6	7	8
1	Head Office	i	Cylinders (Domestic-14.2 Kg.)	38453	367	38086	232.25	8845473.50
		ii	Cylinders (Commercial)	1473	19	1454	752.37	1093945.98
		iii	Cylinders (5 Kg.)	375	42	333	84.00	27972.00
		iv	Single Burner	339	150	189	350.00	66150.00
		v	Double Burner	795	314	481	728.00	350168.00
		vi	Gas Lighter	1162	600	562	40.00	22480.00
		vii	Rubber Tube	5500	59	5441	21.00	114261.00
		viii	Cement (in bags)	55454	182	55272	159	8788248
		ix	TMT Bar (8 mm) (in Kgs)	490	0	490	177.21	86832.90
		x	TMT Bar (10 mm) (in Kgs)	898	0	898	176.14	158173.72
		xi	TMT Bar (12 mm) (in Kgs)	1	0	1	176.14	176.14
		xii	TMT Bar (16 mm) (in Kgs)	67	0	67	167.58	11227.86
		xiii	TMT Bar (20 mm) (in Kgs)	4	0	4	159.02	636.08
		xiv	GCI sheet (8 ft) (pics)	269	0	269	332.16	89351.04
		xv	GP sheet (8 ft)(Pics)	42	0	42	332.16	13950.72
2	Jorethang	i	Cylinders (Domestic-14.2 Kg.)	29476	647	28829	217.29	6264253.41
		ii	Cylinders (Commercial)	390	9	381	410.57	156427.17
		iii	Cylinders (5 Kg.)	20	4	16	84.00	1344.00
		iv	Single Burner	29	8	21	308.75	6483.75
		v	Double Burner	1366	581	785	728.00	571480.00
		vi	Gas Lighter	798	530	268	40.00	10720.00
		vii	Cement (in bags)	893	468	425	189.00	80325.00
		viii	GI Sheets	668	565*	103	410.48	42279.44
TOTAL								26802359.71

**Note: 565 nos of GI sheets include 555 nos issued to RMDD on loan basis for which separate comment was made.*