P R E S S   B R I E F

लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

CAG'S REPORTS ON THE GOVERNMENT OF SIKKIM FOR THE YEAR ENDED 31 MARCH 2018

ACCOUNTANT GENERAL (AUDIT) SIKKIM

PRESS BRIEF

In accordance with the provisions contained in Article 151 of the Constitution, the Comptroller and Auditor General of India is required to submit his Reports on Accounts as well as major findings on audit of transactions to the Governor, who causes them to be laid on the table of the State Legislature. Once laid on the table, the Reports stand referred to the Public Accounts Committee/Committee on Public Undertakings for discussion and suitable recommendations.

The Report on Accounts and major audit findings of the Comptroller and Auditor General of India for the year ended 31 March 2018 on Government of Sikkim has been laid before the State Legislature on 2 August 2019.

(i) Report of the Comptroller and Auditor General of India on State Finances

Report on State Finances contains audit findings on matter arising from examination of Finance Accounts and Appropriation Accounts of the State Government for the year ended 31 March 2018 and an overview and status of the State Government's compliance with various financial rules, procedures and directives during the current year.

(ii) Report of the Comptroller and Auditor General of India (Economic, PSUs, Revenue and General Sectors)

This Audit Report has been prepared in five chapters. Chapters I to IV deal with Economic, PSUs, Revenue and General Sectors and the Chapter V deals with Follow Up of audit observations.

This Report contains fourteen general paragraphs, one Follow Up Audit and two Performance Audits viz. Development of Manufacturing Industries in Sikkim and Utilisation of Thirteenth and Fourteenth Finance Commission Grants.

A synopsis of the important findings contained in the two Reports are presented below:

A. REPORT ON STATE FINANCES

1. Finances of the State Government*:* The fiscal position of the State viewed in terms of key fiscal parameters-revenue surplus, fiscal deficit, primary deficit, *etc*., indicated that the State had been able to maintain revenue surplus during the last five years and suffered fiscal deficit during 2017-18. Revenue surplus recorded increase (₹ 238.72 crore) during the year as compared to the previous year. This was due to increase in Revenue Receipts by 13.07 *per cent* (₹ 602.49 crore) and increase in Revenue Expenditure of only 9.60 *per cent* (₹ 363.77 crore) during 2017-18 as compared to 2016-17. Further, fiscal surplus of ₹ 86.30 crore during 2016-17 turned to fiscal deficit of ₹ 461.88 crore during 2017-18.

Revenue Receipts: Revenue Receipts increased by ₹ 602.49 crore (13.07 *per cent*) from ₹ 4,610.30 crore in 2016-17 to ₹ 5,212.79 crore in 2017-18. During 2017-18, 74.24 *per cent* of the Revenue Receipts were from Government of India as Central transfers in the form of State's share of taxes and Grants-in-aid contributions while only 25.76 *per cent* revenue was collected from State's own sources (*i.e.* Tax and Non-Tax Revenue). The Tax Revenue Receipts at ₹ 688.33 crore was lower by ₹ 942.67 crore than the projections made by XIV FC (₹ 1,631 crore). However, Non-Tax Revenue was higher by ₹ 256.38 crore.

Expenditure: During 2017-18, the Total Expenditure increased by 25.42 *per cent* from ₹ 4,525.37 crore in 2016-17 to ₹ 5,675.58 crore during 2017-18. Revenue Expenditure constituted 73.15 *per cent*, Capital Expenditure constituted 26.55 *per cent* and loans and advances constituted 0.30 *per cent* of Total Expenditure during 2017-18. The expenditure on Social and Economic Sectors, which are considered as Development Expenditure, accounted for 69.02 *per cent* of Total Expenditure in 2017-18. Capital Expenditure increased by 109.19 *per cent* (₹ 786.49 crore) over the previous year.

Fiscal Correction Path : Revenue surplus was higher than the budget estimate and the target fixed by XIV FC. There was fiscal deficit during the current year. Ratio of total outstanding debt of the Government to GSDP was higher than the target fixed by XIV FC but slightly lesser than the target proposed in budget proposal and projected in Five-year Fiscal Plan/MTFP.

Fiscal Liabilities : Fiscal liabilities of the State increased by ₹ 1,019.61 crore (18.55 *per cent*) from ₹ 5,495.45 crore in 2016-17 to ₹ 6,515.06 crore in 2017-18.

The growth rate of outstanding fiscal liabilities which was 12.86 *per cent* in 2016-17 increased to 18.55 *per cent* in 2017-18

The buoyancy of the liabilities with respect to Gross State Domestic Product (GSDP) during the year was 1.66 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.66 *per cent.*

Debt-GSDP Ratio for the year 2017-18 was 24.50 *per cent* which was higher than the recommended target (19.66 *per cent*) of XIV FC.

Investment and Returns: The return from investments was 2.85 *per cent*. However, some of the Companies/ Corporations were incurring recurring losses.

State Government may review the working of the units which were incurring losses and take appropriate action to avoid further financial burden on the Government.

Financial Management and Budgetary Control : The State Government had not framed a Budget Manual detailing the procedures for preparation of budget estimates, realisation of revenue, control over expenditure, *etc*. Against the total provision of ₹ 7,463.79 crore during 2017-18, an expenditure of ₹ 6,019.07 crore was incurred. This resulted in an unspent provision of ₹ 1,444.82 crore (19.36 *per cent*). Excess expenditure of ₹ 82.96 crore during 2012-13 to 2017-18 required regularisation under Article 205 of the Constitution. The supplementary provision of ₹ 269.33 crore in 32 cases was found to be unnecessary. In 51 cases, ₹ 868.47 crore was surrendered on the last working day of the financial year. An amount of ₹ 77.78 crore drawn during 2013-18 as advances remained unsettled distorting the amount of expenditure being shown as such.

A Budget Manual should be prepared immediately enumerating detailed procedures for better financial management.

The Budget should be more realistic and cases of persistent non-utilisation of funds, excessive provision of funds should be avoided.

Financial Reporting: During the year 2017-18, all the Controlling Officers reconciled the Government receipts and expenditure with the figures in the books of the Accountant General. However, the practice of not furnishing Utilisation Certificates in time against grants received, irregular expenditure by diverting funds, release of grants without obtaining any Detailed Project Reports /Detailed Estimates by the Ecclesiastical Affairs Department which is in violation of the norms framed by the Department, of not furnishing of detailed information about financial assistance given to various Institutions and of not submitting of 72 annual accounts by 32 Autonomous Bodies/Authorities from 2010-11 to 2017-18 in time indicated that financial rules were not complied with. There were also delays in placement of Separate Audit Reports in the State Legislature.

There is a need to ensure that the Separate Audit Reports of the Autonomous Bodies are placed in the Legislature on time, Utilisation Certificates are submitted by recipient of grants within the prescribed time and expenditures are incurred in terms of norms framed by the Department and Government.

B. AUDIT REPORT ON ECONOMIC, REVENUE AND GENERAL SECTORS

Performance Audit

2. Development of Manufacturing Industries in Sikkim

Despite notification of the State Industrial Policy in December 1996 more than two decades ago, the Commerce and Industries Department (C&ID) lagged in implementation of the policy objectives there being no specific plan for developing, creating or maintaining basic infrastructure for promoting industrial growth in co-ordination with the concerned line departments. The State had a long way to go in ensuring employment to its people in the industries as only 43 per cent local people were found employed in the industries, that too, mostly in the unskilled category.

The benefits derived by the State from the phenomenal growth of manufacturing sector post implementation of the North East Industrial and Investment Promotion Policy (NEIIPP), 2007 by the Government of India remained unclear as no study had been conducted by the C&ID to evaluate such benefits. The huge growth of manufacturing industries inflated the per capita income (PCI) of the State by 60 to 64 *per cent* but failed to contribute to either the State's revenue or the income of the local people as the revenues from the industries went to the manufacturing companies based outside the State.

The C&ID also failed to ensure contribution towards Corporate Social Responsibility (CSR) activities by the industrial units and to realise the industrial development fund which could have been used for creation/maintenance of industrial infrastructure. There was short contribution on CSR activities of ₹ 176.51 crore by 15 units and short realisation of industrial development fund of ₹ 11.10 crore from 40 units.

The benefit envisaged from Development of an industrial Growth Centre at Marchak, East Sikkim could not be realised as implementation of the scheme was characterised by non-transparent allotment of land without fixing standard norms and procedures, non-utilisation of acquired land (₹ 2.67 crore), recurring loss of ₹ 2.87 crore per annum due to low allotment rate etc.

The C&ID also was ineffective in monitoring the operations of the industrial units as it failed to follow up with the industrial units for submission of the prescribed reports and returns. Neither any study had been conducted so far about the status and impact of industrialisation in the State nor any exit strategy formulated for handling the infrastructure and manpower engaged by the industries, after conclusion of the incentive period.

3. Utilisation of Thirteenth and Fourteenth Finance Commission Grants

The Thirteenth Finance Commission (TFC) and the Fourteenth Finance Commission (FFC) were constituted on 13 November 2007 and 02 January 2013 respectively by the President of India to give recommendations to strengthen fiscal condition of the states by way of tax devolution and Grant-in-aid to the states for the period 2010-20 (five years each). The TFC recommended General and State Specific Grant for Sikkim and FFC recommended only General Grant. A total of ₹ 888.87 crore (₹ 569.58 core of General grant and ₹ 319.29 crore of state specific grant) was released by GoI on the recommendations of TFC and FFC up to March 2018 and an expenditure of ₹ 888.54 crore (₹ 569.27 core general grant and ₹ 319.27 crore State Specific grant) was incurred by the State Government.

Performance Audit on Utilisation of Thirteenth and Fourteenth Finance Commission Grant disclosed various areas of concern which needed attention of the State Government viz.,: non-fulfilment of the conditions prescribed by the TFC which led to curtailment of funds to Local Bodies, delay in completion of Skywalk project and Village Tourism projects beyond award period leading to short release of fund from GoI, diversion of funds from the State Disaster Relief Fund (SDRF), General Basic Grant and the work Skywalk at Bhaley Dhunga, idling of residential quarters of Police Department even after completion of the works and absence of modalities for functioning of Rural Tourism Facilitation Centres. Monitoring of utilisation of funds was limited to assessing progress of works without any follow up action.

Other important observations

4. The Roads and Bridges Department failed to provide connectivity to five interior villages of South Sikkim despite incurring ₹ 11.32 crore and releasing ₹ 61.18 lakh to contractor towards Security Deposit (₹ 35.91 lakh) and outstanding bills (₹ 25.27 lakh) on rescinding of contract instead of retaining the same to partially make up the additional cost. Besides, steel bars valuing ₹ 24.20 lakh for the work were never put to use.

5. The Roads and Bridges Department failed to ensure productive use of steel bars leading to idling of stores of ₹ 46.18 lakh for more than six years. Prolonged storage of steel bars in an open area without any protection from natural elements would make them useless due to corrosion and would also entail further expenditure to make them reusable.

6. The award of works by Roads and Bridges Department to various Co-operative Societies without ascertaining their credential and capacity led to abandonment/non-completion of works after incurring ₹ 6.08 crore besides non-recovery of Mobilisation Advances to the tune of ₹ 1.15 crore and non-imposition of penalty of ₹ 1.40 crore.

7. The Rural Management and Development Department included contractors profit and overhead charges twice for stone aggregates, first during the preparation of basic rates and again while determining item rates of construction of Granular Sub Base and Water Bound Macadam grading II and III leading to excess payment of ₹ 1.28 crore to three contractors in 23 works.

8. Out of ₹ 34.38 crore transferred from the Cess fund to the Health Care, Human Services and Family Welfare Department, the Department utilised only ₹ 1.05 crore for bio-medical waste management system for protection and improvement of environment while the balance of ₹ 33.33 crore was irregularly utilised for construction of the 1,000 bedded hospital at Sichey against the intent of the Sikkim Ecology Fund and Environment Cess Act, 2005.

9. The decision of the Urban Development and Housing Department to proceed with the acquisition of Star Cinema Hall Complex at Gangtok for construction of Multilayer Car Park-cum-Commercial Complex despite being aware of the tenants' occupying the building led to infructuous expenditure of ₹ 6.49 crore on acquisition, continued occupation of the building by tenants without payment of any rent, and non-commencement of work of construction of Multilayer car park cum Commercial Complex.

10. Sikkim Power Investment Corporation Limited failed to undertake due diligence before infusing second tranche of borrowed funds into 120 MW Rangit IV Hydroelectric project leading to blockage of ₹ 25 crore and consequent avoidable interest expenditure of ₹ 15.14 crore.

11. Sikkim Power Investment Corporation Limited failed to service the loan with the Independent Power Producer (IPP) on monthly basis and also reimbursed penal interest to IPP leading to extra expenditure of ₹ 2.21 crore.

12. For procurement of Double Seated Desk and Bench, Sikkim State Co-operative Supply and Marketing Federation Limited posted the tender advertisement only on its own website and restricted the bid to only its registered suppliers resulting in additional expenditure of ₹ 0.60 crore.

13. Sikkim State Co-operative Supply and Marketing Federation Limited purchased a building with unauthorised construction for office purposes.

14. Non-compliance of Model Agreement issued by Government of India and provisions of Sikkim Financial Rules in contracts with Marketing Agents of online lotteries by the Directorate of Sikkim State Lotteries led to loss of Government revenue of ₹ 1.07 crore.

15. Failure of the Information Technology Department to ensure conformity to the required design and specifications in construction of the call centre infrastructure by the Building and Housing Department and its negligence to follow up with private agencies for setting up the call centre in Gangtok led to wasteful expenditure of ₹ 54.77 lakh besides defeating the objective of providing a viable source of employment to local youth.

16. Implementation of the project 'Construction of 2nd and 3rd IRB Complex at Mangley' by the Police Department was characterised by commencement of the project by the Police Department without ensuring availability of encumbrance free land at free of cost by the State Government, unauthorised diversion of project funds of ₹ 4.74 crore, inordinate delay of more than two years in completion of project and idling of completed works of ₹ 6.26 crore for more than a year.

17. Failure to ensure hindrance free site before start of work and inordinate delay in completion of the project 'Restoration, Renovation and Modernisation of Lower Lagyap Hydel Project' by the Energy and Power Department led to loss of potential revenue of ₹ 81.24 crore to the State and idle expenditure of ₹ 35.90 crore.

18. Follow Up Audit: Report on Performance Audit on "Acquisition and Allotment of Land" for the period 2006-11 covering two Departments, viz. Land Revenue and Disaster Management Department (LRDMD) and Urban Development and Housing Department (UDHD) was included in the Audit Report of the Comptroller and Auditor General of India (C&AG) for the year ended 31 March 2011 (Report No. 2). The Report was discussed by the Public Accounts Committee of the State Legislature of Sikkim in July 2016.

The Audit Report comprised of four audit recommendations containing 13 actionable points. Follow up Audit on the above actionable points revealed that the departments had implemented the audit recommendation regarding notification of the Sikkim State Site Allotment Rules, 2012 duly incorporating reservation for weaker sections, SC/ST, land less labour, etc. and indicating maximum and minimum ceiling limit of area for allotment of house sites, notification of Block rates for determining market rate of land and streamlining the system of checking of assessment of land compensation.

Substantial implementation was also noticed relating to mutation of Government land and centralised monitoring system for Government land. However, the State Government had not achieved much progress relating to formulation of State Land Policy, obtaining stability and vulnerability report from Mines, Minerals and Geology Department before acquisition of land, instituting penalty against encroachers of Government land, formulation of Departmental Code and Manual and maintenance of comprehensive data bank for urban land.

Sd/-

Dy. Accountant General