# CHAPTER – V

# GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

## 5.1 Overview of State Public Sector Undertakings

### Introduction

**5.1.1** The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Sikkim, the State PSUs occupy an insignificant place in the State economy. The State PSUs registered a turnover of ₹ 42.81 crore as per their latest finalised accounts as of September 2011. This turnover of PSUs was equal to 0.76 *per cent* of State Gross Domestic Product (GDP) for 2010-11[1]. Major activities of Sikkim State PSUs are concentrated in power, finance and infrastructure sectors. The State working PSUs incurred a loss of ₹ 11.40 crore[2] in the aggregate for 2010-11 as per their latest finalised accounts. They had employed 881 employees as of 31 March 2011. The State PSUs do not include two[3] Departmental Undertakings (DUs) and one[4] Co-operative Bank, which carry out commercial operations but are a part of Government departments.

**5.1.2** As on 31 March 2011, there were 15 PSUs as per the details given below. None of these companies were listed on the stock exchange(s).

**Table – 5.1**

| Type of PSUs | Working PSUs | Non-working PSUs[5] | Total |
|---|---|---|---|
| Government Companies | 9 | 3 | 12 |
| Statutory Corporations | 2 | 1 | 3 |
| **Total** | **11** | **4** | **15** |

### Audit Mandate

**5.1.3** 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 Statutory Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BoDs) of the respective companies. Besides the 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 (Duties, Powers and

[1] *The State GDP for 2010-11 is ₹ 5,652.01 crore.*
[2] *Appendix 5.2*
[3] *Government Fruit Preservation Factory and Temi Tea Estate*
[4] *Sikkim State Co-operative Bank Ltd.*
[5] *Non-working PSUs are those which have ceased to carry on their operations.*

Conditions of Service) Act, 1971.

**5.1.4** There are three Statutory Corporations in the State, *viz*. State Bank of Sikkim (SBS), State Trading Corporation of Sikkim (STCS) and Sikkim Mining Corporation (SMC) established under the proclamations of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants, directly appointed by the BODs 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.

## Investment in State PSUs

**5.1.5** As on 31 March 2011, the investment (capital and long-term loans) in 15 PSUs was ₹ 492.99 crore as per details given below.

**Table – 5.2**

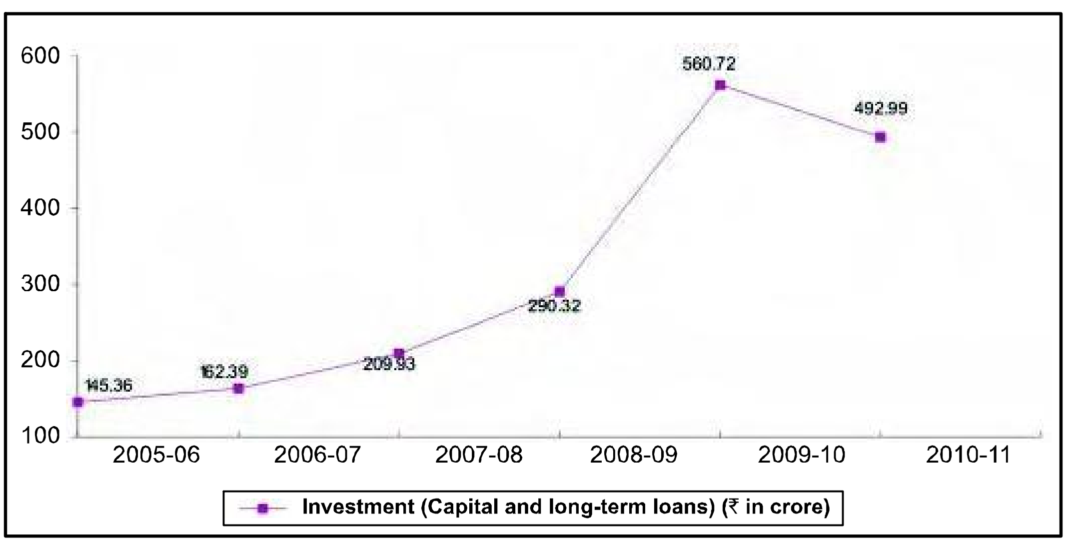
*(₹ in crore)*

| Type of PSUs | Government Companies | | | Statutory Corporations | | | Grand Total |
|---|---|---|---|---|---|---|---|
| | Capital | Long Term Loans | Total | Capital | Long Term Loans | Total | |
| Working PSUs | 78.96 | 395.90 | 474.86 | 2.19 | - | 2.19 | 477.05 |
| Non-working PSUs | 3.43 | 0.01 | 3.44 | 12.50 | - | 12.50 | 15.94 |
| ***Total*** | ***82.39*** | ***395.91*** | ***478.30*** | ***14.69*** | - | ***14.69*** | ***492.99*** |

A summarised position of Government investment in State PSUs is detailed in **Appendix-5.1**.

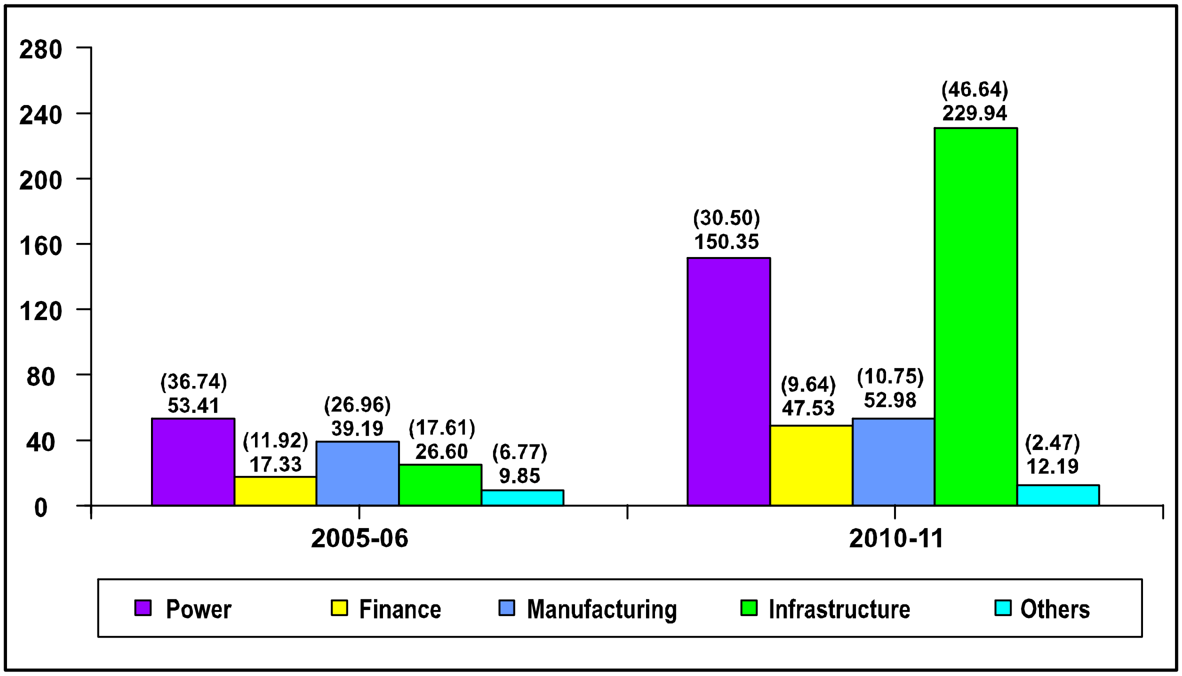
**5.1.6** As on 31 March 2011, of the total investment in State PSUs, 96.77 *per cent* was in working PSUs and the remaining 3.23 *per cent* in non-working PSUs. This total investment consisted of 19.69 *per cent* towards capital and 80.31 *per cent* in long-term loans. The investment has grown by 285.75 *per cent* from ₹ 145.36 crore in 2005-06 to ₹ 560.72 crore in 2009-10. However, due to decrease in the long term loans, the total investment has decreased to 12.08 *per cent* from ₹ 560.72 crore in 2009-10 to ₹ 492.99 crore in 2010-11 as shown in the graph below.

**Chart – 5.1**



**5.1.7** The total investments in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart.

**Chart – 5.2**




*[Figures in brackets show the percentage of total investment (₹ in crore)]*

**5.1.8** The thrust of PSUs investment was mainly in power and finance sectors during the six years 2005-06 to 2010-11. The investment in power sector has grown by 181.50 *per cent* from ₹ 53.41 crore in 2005-06 to ₹ 150.35 crore in 2010-11. The finance sector had also registered increase by 174.26 *per cent* from ₹ 17.33 crore in 2005-06 to ₹ 47.53 crore in 2010-11. The increase shown in infrastructure sector was mainly due to loan of ₹ 210.77 crore given during the year 2009-10 to Sikkim Industrial Development and Investment Corporation Ltd. (SIDICO) to facilitate the development of infrastructure including the acquisition of land and development of area around the upcoming airport in Sikkim.

## Budgetary outgo, grants/subsidies, guarantees and loans

**5.1.9** The details regarding budgetary outgo towards equity, grants / subsidies, guarantees issued and interest waived in respect of State PSUs are given in **Appendix-5.3**. The summarised details are given below for three years ended 31 March 2011.

**Table – 5.3**

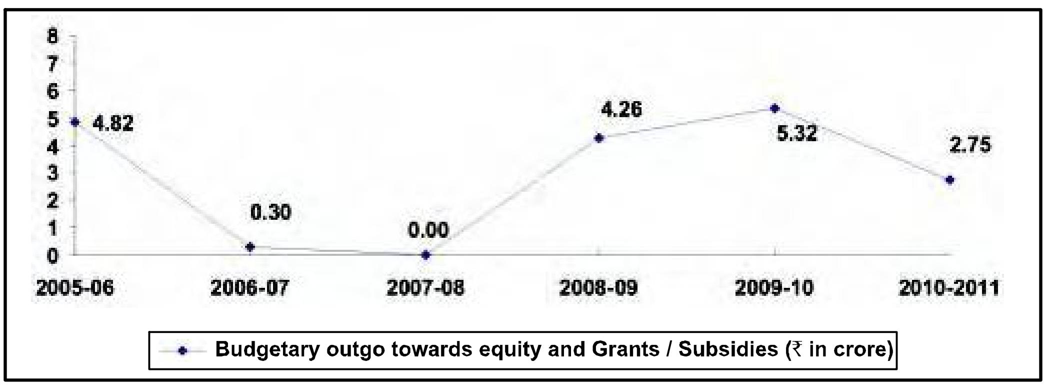
*(₹ in crore)*

| Sl. No. | Particulars | 2008-09 | | 2009-10 | | 2010-11 | |
|---|---|---|---|---|---|---|---|
| | | No. of PSUs | Amount | No. of PSUs | Amount | No. of PSUs | Amount |
| 1. | Equity Capital outgo from budget | 5 | 3.05 | 4 | 2.10 | 4 | 0.96 |
| 2. | Grants/Subsidy received | 3 | 1.21 | 2 | 3.22 | 1 | 1.79 |
| 3. | **Total Outgo (1+2)** | **8** | **4.26** | **6** | **5.32** | **5** | **2.75** |
| 4. | Loans written off | 1 | 113.40 | - | - | - | - |
| 5. | Interest/Penal interest written off | 2 | 12.99 | 1 | 0.17 | 1 | 0.12 |
| 6. | **Total Waiver (4+5)** | **2** | **126.39** | **1** | **0.17** | **1** | **0.12** |
| 7. | Guarantees issued | 1 | 9.52 | 2 | 290.44 | 1 | 3.28 |
| 8. | Guarantee Commitment | 2 | 85.10 | 3 | 187.05 | 2 | 246.70 |

**5.1.10** Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Ltd. (SABCCO) had received grant of ₹ 1.79 crore from the Government of Sikkim (GOS) in the financial year 1998-99. The same had been wrongly included as shares held by Social Welfare Department, GOS till financial year 2009-10. The correct nature of receipt has been accounted for during the financial year 2010-11. In addition, Sikkim Power Development Corporation Ltd. (SPDC) had received subsidy to the extent of ₹ 3.00 crore from Ministry of Non Renewable Energy during the year 2010-11. Further, the waiver of dues of ₹ 0.12 crore has been made in 2010-11 due to penal interest waived off in respect of Sikkim Industrial Development and Investment Corporation Limited (SIDICO).

**5.1.11** The details regarding budgetary outgo towards equity and grants / subsidies for past six years are given in the graph below.

**Chart – 5.3**




**5.1.12** The guarantee commitment at the end of year has increased from ₹ 187.05 crore in 2009-10 to ₹ 246.70 crore in 2010-11. As on 31 March 2011, guarantee amounting to ₹ 35.93 crore and ₹ 210.77 crore were outstanding against SABCCO and SIDICO respectively. On any guarantee given to a public body, a guarantee commission at the rate of one *per cent* is charged by the State Government. An amount of ₹ 2.85 crore only was paid in July 2010 by SIDICO. No guarantee commission was paid by other concerned PSUs.

## Reconciliation with Finance Accounts

**5.1.13** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2011 is stated below.

**Table – 5.4**

***(₹ in crore)***

| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of PSUs | Difference |
|---|---|---|---|
| **Equity** | 73.57 | 80.40 | 6.83 |
| **Loans** | 37.03 | 2.03 | 35.00 |
| **Guarantees** | 246.69 | 246.70 | 0.01 |

**5.1.14** Audit observed that the differences occurred in respect of eight PSUs and some of the differences were pending reconciliation since 2004-05. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

## Performance of PSUs

**5.1.15** The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in **Appendices 5.2, 5.5, 5.6** and **5.7** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2005-06 to 2010-11.

**Table – 5.5**

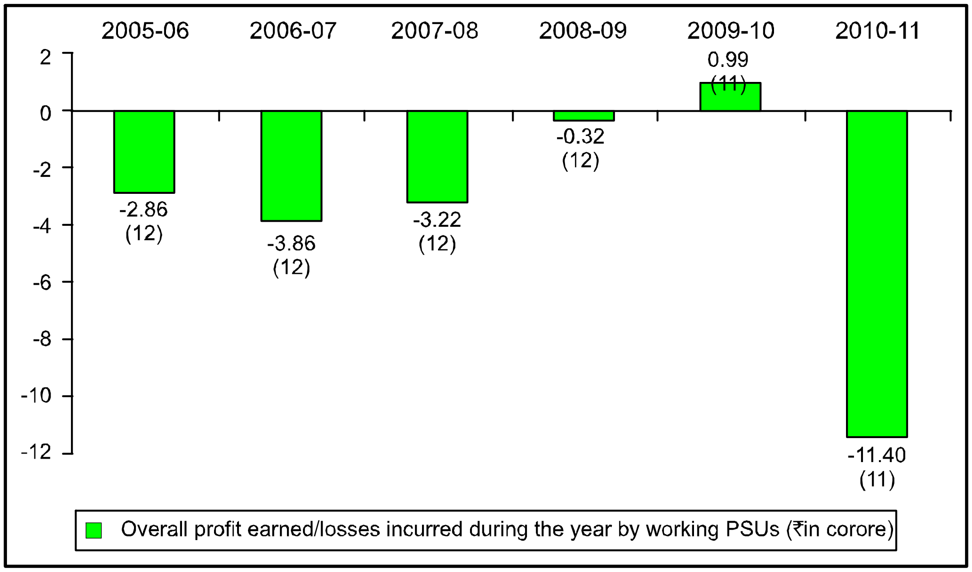
***(₹ in crore)***

| Particulars | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| Turnover[6] | 34.26 | 45.80 | 44.44 | 31.34 | 41.98 | 42.81 |
| State GDP | 1,993.11 | 2,161.45 | 2,506.34 | 3,229.44 | 4,740.42[7] | 5,652.01[8] |
| Percentage of Turnover to State GDP | 1.72 | 2.12 | 1.77 | 0.97 | 0.89 | 0.76 |

**5.1.16** Profit earned/ Losses[9] incurred by the State working PSUs during 2005-06 to 2010-11 are given below in the bar chart.

[6] *Turnover as per the latest finalised accounts as of 30 September 2011.*
[7] *Provisional Estimate*
[8] *Quick Estimate*
[9] *Figures are as per the latest finalised accounts during the respective years.*

**Chart – 5.4**




*[Figures in brackets show the number of working PSUs in respective years]*

As per finalised accounts, out of 11 working PSUs, seven PSUs[10] incurred a loss of ₹ 13.72 crore whereas four PSUs[11] earned a profit of ₹ 2.32 crore during the year 2010-11. The major profit was earned by SBS and STCS, i.e. ₹ 1.30 crore and ₹ 0.62 crore respectively.

**5.1.17** The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State working PSUs incurred losses to the tune of ₹ 3.45 crore. Year wise details from Audit Reports are stated below:

**Table – 5.6**

***(₹ in crore)***

| Particulars | 2008-09 | 2009-10 | 2010-11 | Total |
|---|---|---|---|---|
| Net profit / (loss) | (0.32) | 0.99 | (11.40) | (10.73) |
| Controllable losses as per CAG's Audit Report | 0.42 | 0.24 | 2.79 | 3.45 |
| Infructuous Investment | - | 2.58 | - | 2.58 |

**5.1.18** The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

**5.1.19** Some other key parameters pertaining to State PSUs are given below:

*[10] Sikkim Poultry Development Corporation (SPDCL), Sikkim Hatcheries Limited (SHL), Scheduled Tribe/Scheduled Caste & Other Backward Classes Development Corporation Limited (SABCCO), Sikkim Jewels Limited (SJL), Sikkim Times Corporation Limited (SITCO), Sikkim Power Development Corporation (SPDC) and Sikkim Precision Limited (SPIL).*
*[11] Sikkim Industrial Development & Investment Corporation Limited (SIDICO), Sikkim Tourism Development Corporation Limited (STDC), State Bank of Sikkim (SBS) and State Trading Corporation of Sikkim (STCS).*

**Table – 5.7**

*(₹ in crore)*

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Return on Capital Employed (*per cent*) | 0.74 | 0.81 | 1.80 | 3.38 | 2.00 |
| Debt | 77.07 | 124.61 | 194.46 | 462.76 | 395.91 |
| Turnover[12] | 45.80 | 44.44 | 31.34 | 41.98 | 42.81 |
| Debt/ Turnover Ratio | 1.68:1 | 2.80:1 | 6.20:1 | 11.02:1 | 9.25:1 |
| Interest Payments | 16.46 | 29.68 | 5.52 | 7.33 | 24.56 |
| Accumulated losses | 58.35 | 58.06 | 66.86 | 68.62 | 69.82 |

*(Above figures pertain to all PSUs except for turnover which is for working PSUs).*

**5.1.20** There was marginal increase in turnover and relatively more decrease in debts during the year 2010-11. The decrease in the debts was mainly in respect of SIDICO and SABCCO. Further, there was marginal decrease in percentage return on capital employed during the year 2010-11.

**5.1.21** The State Government had not formulated (September 2011) any dividend policy under which PSUs are required to pay a minimum return on their paid up share capital. As per their latest finalised accounts, four PSUs earned an aggregate profit of ₹ 2.32 crore but none of the PSUs declared any dividend. The State Government may frame a dividend policy to ensure that a minimum return is received on its investment.

## Arrears in finalisation of accounts

**5.1.22** 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, 1961 and the statutory corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2011.

**Table – 5.8**

| Sl. No. | Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| 1. | Number of Working PSUs | 12 | 12 | 11 | 11 | 11 |
| 2. | Number of accounts finalised during the year | 05 | 19 | 24 | 10 | 8 |
| 3. | Number of accounts in arrears | 38 | 31 | 18 | 19 | 22 |
| 4. | Average arrears per PSU (3/1) | 3.17 | 2.58 | 1.64 | 1.73 | 2.00 |
| 5. | Number of Working PSUs with arrears in accounts | 12 | 12 | 11 | 11 | 9 |
| 6. | Extent of arrears (in years) | 2 to 5 | 1 to 4 | 1 to 4 | 1 to 4 | 1 to 5 |

**5.1.23** The table above indicates that the PSUs were able to finalise and gradually reduce the backlog in arrears of accounts with exception of three[13] PSUs which had not finalised the accounts for earlier years. Only two[14] working PSUs had finalised their accounts for the year

[12] *Turnover of working PSUs as per the latest finalised accounts as of 30 September 2011.*
[13] *State Bank of Sikkim, State Trading Corporation of Sikkim and Sikkim Precision Industries Ltd.*
[14] *Sikkim Jewels Ltd. and Sikkim Times Corporation Ltd.*

2010-11. The delay in finalisation of accounts of the remaining nine working PSUs was due to delay in compilation/ adoption of accounts by the BoDs of the respective PSUs.

**5.1.24** In addition to above, there were arrears in finalisation of accounts by non-working PSUs ranging from two to 15 years.

**5.1.25** The State Government had invested ₹ 5.45 crore (Equity ₹ 1.36 crore and Grants ₹ 4.09 crore) in four working PSUs during the years for which accounts have not been finalised as detailed in **Appendix- 5.4**. In the absence of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested had been achieved. Government's investments in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts might also result in risk of leakage of public money.

**5.1.26** The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed by Audit about the arrears in finalisation of accounts, majority of the PSUs failed to finalise their accounts in time. As a result, the net worth of these PSUs could not be assessed in audit.

**In view of above state of arrears, it is recommended that the Government may impress upon respective PSUs to expedite the process of finalisation of accounts and bring them upto date.**

## Winding up of non-working PSUs

**5.1.27** There were four non-working PSUs (three Companies and one Statutory Corporation) as on 31 March 2011. None of the PSUs have commenced liquidation process. The numbers of non-working Companies at the end of each year during past five years are given below.

**Table – 5.9**

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| No. of non-working Companies | 3 | 3 | 3 | 3 | 3 |
| No. of non-working Corporations | - | - | 1 | 1 | 1 |
| **Total** | **3** | **3** | **4** | **4** | **4** |

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2010-11, one non-working PSU[15] incurred an expenditure of ₹ 19.20 lakh towards salaries of its employees which was financed by the State Government.

**5.1.28** The stages of closure in respect of non-working PSUs are given below.

[15] *Sikkim Mining Corporation*

**Table – 5.10**

| Sl. No. | Particulars | Companies | Statutory Corporations | Total |
|---|---|---|---|---|
| 1. | Total No. of non-working PSUs | 3 | 1 | 4 |
| 2. | Closure, i.e. closing orders/ instructions issued but liquidation process not yet started. | 2[16] | 1[17] | 3 |

**5.1.29** During the year 2010-11, no Company/ Corporation was wound up. The Government may make a decision regarding winding up of these three non-working PSUs.

**5.1.30** The Government of Sikkim decided to close down three working PSUs[18] which were incurring losses as there was no possibility of their turnaround. These three PSUs had stopped their operations and employees were relieved during April 2011.

## Accounts Comments and Internal Audit

**5.1.31** Four working Companies forwarded their eight audited accounts to the Accountant General during the year 2010-11[19]. Out of these, five accounts of two Companies were selected for supplementary audit. Also two accounts of one Company received during the earlier years were selected for supplementary audit. In respect of one working company, a non-review certificate was issued. The audit reports of statutory auditors and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

**Table – 5.11**

***(₹ in crore)***

| Sl. No. | Particulars | 2008-09 | | 2009-10 | | 2010-11 | |
|---|---|---|---|---|---|---|---|
| | | No. of accounts | Amount | No. of accounts | Amount | No. of accounts | Amount |
| 1. | Increase in loss | 2 | 1.13 | - | - | 6 | 29.93 |
| 2. | Increase in profit | - | - | 1 | 0.03 | 1 | 2.59 |
| 3. | Decrease in loss | - | - | - | - | 3 | 1.49 |
| 4. | Decrease in profit | - | - | - | - | 1 | 1.05 |
| 5. | Non-disclosure of material facts | - | - | 2 | - | - | - |
| 6. | Errors of classification | 3 | 9.89 | 2 | 0.06 | 5 | 7.77 |
| | | **5** | **11.02** | **5** | **0.09** | **16[20]** | **42.83** |

**5.1.32** During the year, the statutory auditors had given unqualified certificates for three accounts and qualified certificates for four accounts. Additionally, CAG also qualified seven accounts during the supplementary audit.

**5.1.33** Some of the important comments in respect of accounts of Companies finalised

[16] *Sikkim Flour Mills Limited and Chandmari Workshop and Automobiles Limited.*
[17] *Sikkim Mining Corporation*
[18] *Sikkim Jewels Limited, Sikkim Time Corporation Limited and Sikkim Precision Industries Limited*
[19] *During the period from October 2010 to September 2011*
[20] *Significant impact on 16 instances of seven PSUs*

during 2010-11 are stated below.

**State Bank of Sikkim (2005-06)**

- Non-provision towards service tax payable to the Central Excise Department, resulted in understatement of Other Liabilities & Provisions by ₹ 0.52 crore and consequential overstatement of profit for the current year by ₹ 0.33 crore and understatement of accumulated loss by ₹ 0.19 crore.
- Non-provision in respect of dues, shown as recoverable from the employees and parties, who expired resulted in overstatement of Advances with consequent understatement of accumulated loss to the extent of ₹ 6.20 crore.
- The commission on transactions made on behalf of government was undercharged during 2005-06 as the Bank continued to charge commission on turnover basis rather than on transaction basis. This resulted in understatement of the Other Income by ₹ 2.03 crore and also led to understatement of profit with a consequential overstatement of accumulated loss for the year by similar amount.
- As per the notification issued by the Income Tax Department, Government of Sikkim, the bank was liable to pay income tax on its turnover. During the year 2005-06 the bank accrued an income tax liability of ₹ 0.62 crore on the total turnover of ₹ 20.69 crore. The bank, however, did not provide for the tax liability, which resulted in overstatement of profit by ₹ 0.62 crore with corresponding understatement of other liabilities & provisions by similar amount.

**Sikkim Jewels Limited (2008-09)**

- Non-provision towards outstanding dues from ancillary units resulted in overstatement of investment by ₹ 6.51 crore and understatement of loss for the year 2008-09 to that extent.
- The company invested ₹ 49.15 lakh towards the needle & Syringe Project during 2004-05 to manufacture disposable syringes for supply to hospitals. Since the project was abandoned during September 2005 itself and the company could not dispose off these machines, the amount of ₹ 49.15 lakh accounted towards the project cost had to be written off. This had resulted in overstatement of Current Assets, Loans & Advances and understatement of Loss for the year by ₹ 49.15 lakh.

**Sikkim Jewels Limited (2010-11)**

- The Government of Sikkim has communicated (March 2011) the decision of the Cabinet to close down the company, along with two other sick PSUs. The company had calculated the liability towards the amount of compensation payable to the employees on its closure. Since the company was aware of its liability towards the compensation, necessary provisions were not created in the accounts to meet the above liability. This had resulted in understatement of current liabilities and provisions and the loss for the year 2010-11 by ₹ 8.13 crore.

**5.1.34** None of the working Statutory Corporation forwarded its accounts to the Accountant General for the year 2010-11.

## Recoveries at the instance of audit

**5.1.35** During the course of propriety audit in 2010-11, recoveries of ₹ 36.82 crore were pointed out to the Management of various PSUs. No recovery was made by the PSUs.

## Status of placement of Separate Audit Reports

**5.1.36** The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory Corporations in the Legislature by the Government.

**Table – 5.12**

| Sl. No. | Name of Statutory Corporation | Year up to which SARs placed in Legislature | Year for which SARs not placed in Legislature | | |
|---|---|---|---|---|---|
| | | | Year of SAR | Date of issue to the Government | Reasons for delay in placement in Legislature |
| 1. | State Trading Corporation of Sikkim | 2004-05 | 2005-06 to 2007-08 | August 2011 | Yet to be presented |
| 2. | State Bank of Sikkim | 2004-05 | 2005-06 | August 2011 | Yet to be presented |

Delay in placement of SARs weakens the legislative control over Statutory Corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature(s).

## Disinvestment, Privatisation and Restructuring of PSUs

**5.1.37** During the year 2010-11, there had been no privatisation (partial or complete) of any activity of these Companies or Corporations, and the Government had also not contemplated for disinvestments of shares in any Company/ Corporation.

## Reforms in Power Sector

**5.1.38** The State Government targeted the setting up of State Electricity Regulatory Commission (SERC) by May 2003. In terms of the Electricity Act 2003, the State Government was also required to constitute a three member Selection Committee for purpose of selecting members of the SERC. The State Government finally constituted the State Regulatory Commission on April 2011.

A Memorandum of Understanding (MoU) was signed (December 2002) between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below:

**Table – 5.13**

| Sl. No. | Milestone | Achievement as at March 2011 |
|---|---|---|
| 1. | Setting up of SERC. | SERC in the State has been set up in April 2011. |
| 2. | 100 *per cent* metering of all consumers. | As on date, out of 83,034 consumers, 59,152 consumers (71.24 *per cent*) were metered (September 2011). |
| 3. | 100 *per cent* metering and energy audit and accounting for each 11 KV feeder. | 11 KV feeder metering has been completed but due to malfunctioning of meters at a number of installations, proper energy auditing for each 11 KV feeder could not be accomplished. However, under R-APDRP the metering of 11 KV feeders in Gangtok and Upper Tadong town has been taken up and is expected to be completed by March 2012. |
| 4. | Mandatory installation of capacitor for consumers of more than 10 HP. | As motors of 10 HP capacity are installed in industrial applications/units only, the concerned units have installed capacitors of required capacities. |
| 5. | Computerised billing and Management Information System (MIS). | Computerised billing is being done in four Sub-divisions in Gangtok. The MIS was under implementation under R-APDRP scheme for Gangtok. |
| 6. | Consumer indexing. | Consumer Indexing has been started at Gangtok under R-APDRP Scheme. The detail indexing was being done as per Government of India guidelines and expected to be completed within this current financial year. |

## 5.2 Performance Audit of Power Distribution Utilities

### Executive Summary

*The distribution system of the power sector constitutes the final link between the power section and the consumer. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. The real challenge of reforms in the power sector lies in efficient management of the distribution system. The National Electricity Policy (NEP) in this regard inter-alia emphasises on the adequate financing support to aid restructuring of distribution utilities, efficiency improvements and recovery of cost of services provided to consumers to make power sector sustainable with reasonable and affordable prices.*

*The Energy & Power Department (EPD), as part of power sector reforms, was to be unbundled into various category of companies, viz. generation co, transmission co and distribution co. However, unbundling was not carried out in the State of Sikkim, although a separate Corporation was formed during 1998 to look after the generation aspect. The business of the power distribution in Sikkim is carried out by EPD. The turnover of the EPD was ₹ 100 crore in 2010-11, which was equal to 1.77 per cent of State Gross Domestic Product*[21]*.*

***Audit objectives***

*The performance review on the power distribution utilities of the EPD was conducted to ascertain whether the department was able to adhere to the aims and objectives stated in the National Electricity Policy / Plan. The objectives of the performance review were to assess whether the network planning and execution was adequate and effective. The implementation of the Central Scheme, additions to distribution network, operational, billing and collection efficiency, energy conservation and monitoring were also assessed.*

[21] *Quick Estimate*

***Distribution Network Planning***

*The increase in transformation capacity to 162.90 MVA in 2010-11 could not match the pace of growth in consumer demand (175.73 MVA). This led to overloading of network and consequential rotational cuts in distribution of electricity.*

***Implementation of Centrally sponsored Schemes***

*The Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY) was launched in April 2005 and the scheme was implemented through the Rural Electrification Corporation (REC). REC had sanctioned ₹ 148.91 crore (February 2009) for implementation of RGGVY Scheme in Sikkim, out of which EPD had spent ₹ 92.10 crore for rural electrification. However, in the state of Sikkim, the scheme was belatedly commenced from 2008-09 onwards due to delayed release of funds by Rural Electrification Corporation (REC). Out of 443 villages in the State, till date (October 2011) 386 villages were electrified which constituted 87.13 per cent. The GOI launched the Restructured APDRP (R-APDRP) in July 2008 and sanctioned ₹ 26.30 crore for Part A work. Out of which ₹ 7.89 crore (30 percent of the project cost) was released for implementation. There was delay in completion of the scheme and inability to spend the loan received from GOI. The AT&C losses had increased from 38.69 per cent in 2006-07 to 46.81 per cent in 2010-11, significantly higher than the prescribed norm of 15 per cent laid down by the Central Electricity Authority (CEA) with overall financial implication of ₹ 95.71crore.*

***Operational Efficiency***

*Sub-transmission and distribution losses ranged between 28.89 and 31.68 per cent during the last five years due to which EPD sustained a revenue loss of ₹ 90.50 crore. The failure of DTRs ranged between 6.82 per cent to 8.85 per cent which was in excess of norms due to inadequate steps for preventive maintenance and overloading. No capacitor bank had been installed by the department. Further, the EPD did not adopt the LT less system by replacing the LT Lines with HT lines to minimise the distribution losses as envisaged by GOI.*

***Financial Management***

*Rush of expenditure particularly in closing month of the financial year was noticed which is regarded as a breach of financial regularity. Failure to follow prudent financial management norms in formulating its budget resulted in persistent savings. The realisation per unit decreased (8.33 per cent) from ₹ 1.56 to ₹ 1.43 during review period, the cost per unit decreased (44.34 per cent) from ₹ 3.09 to ₹ 1.72 during the corresponding period due to increase in share of free power.*

***Recovery of cost of operations***

*The EPD was not able to recover its cost of operations. The decrease in revenue gap has been mainly due to decrease in purchase of power, increased cost of O&M expenses and establishment expenditure and high percentage of AT & C losses.*

***Tariff fixation***

*The tariff was lower than the breakeven level. The deficit in recovery of cost was alarming and the same could be brought down by improving reduction in/control of AT & C losses, conversion of LT lines to HT lines, metering of unmetered connections/defective meters, improving billing and collection efficiency.*

***Subsidy and cross subsidisation***

*The GoS does not provide any subsidy to the EPD. The Department did not maintain the level of cross subsidy at plus or minus 20 per cent of average cost of supply as laid down in the NEP.*

***Billing Efficiency***

*The EPD has not set up the SERC and fixed the tariff on its own. The assessed sales had increased from 1.72 MUs to 2.50 MUs over a period of five years ending March 2011. However, the free supply was showing* *decreasing trend with overall reduction in assessed sales to total sales from 21.70 per cent in 2006-07 to 9.77 per cent in 2010-11 indicating an improvement in the energy billed. Instances of undue favour to consumers to the tune of ₹ 2.22 crore were noticed.*

***Revenue Collection Efficiency***

*The revenue realisation has decreased from 52.49 per cent in 2006-07 to 36.70 per cent in 2010-11 resulting in outstanding dues to the extent of ₹ 94.85 crore.*

***Consumer Satisfaction***

*The EPD has not constituted any cell for redressal of grievances of consumers. On feedback received from the consumers on quality of supply of power, majority of the consumers were satisfied with the power supply and prompt action taken against their complaints. Receipt bills on time and prompt rectification of the error in the bill as and when it was brought to the notice.*

***Conclusion and Recommendations***

*The Department could not recover the cost of operations in any of the five years under review. This was mainly due to operational inefficiencies, inefficient revenue collection and increase in cost of expenditure etc. It also failed to complete the schemes within the time schedule as stipulated resulting in delayed benefit to the consumers.*

*The review contains the following recommendations;*

- *Plan the capacity addition in accordance with the load growth to ensure stable and quality power supply.*
- *The Department must ensure timely completion/ implementation of the Central Schemes such as RGGVY and R-APDRP in order to avoid further delay and cost over run.*
- *The Department should keep in place a system to check that the estimates for the projects are correctly assessed.*
- *The Department must take steps to bring down transmission and distribution losses to the approved levels.*
- *The Department must prescribe a preventive maintenance schedule to avoid frequent failure of distribution transformers. History cards, Asset Registers must be maintained by all divisions.*
- *The Department should install capacitor bank to improve the power factor by regulating the current flow and voltage regulation.*
- *The Department should adopt LT less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses.*
- *The Department should ensure that the funds available for the implementation of the schemes are utilised wisely.*
- *The Department must take adequate measures for providing incentives for energy conservation.*
- *The Department must take up energy audit in order to have better and more accurate monitoring of the consumption of electricity by consumers; elimination of wastages and increase in revenue.*

## Introduction

**5.2.1** Electricity is an essential requirement for all facets of our life. It has been recognised as a basic human need. It is a critical infrastructure on which the socio-economic development of the country depends. Supply of electricity at reasonable rate to rural India is essential for its overall development. Equally important is availability of reliable and quality power at competitive rates to Indian industry to make it globally competitive and to enable it to exploit the tremendous potential of employment generation. Service sector has made significant contribution to the growth of our economy. Availability of quality supply of electricity is very crucial to sustained growth of this segment. Recognising that electricity is one of the key drivers for rapid economic growth and poverty alleviation, the nation has set itself the target of providing access to all households in next five years.

The distribution system of the power sector constitutes the final link between the power section and the consumer. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. However, it constitutes the weakest part of the sector, which is incurring huge losses. In view of the above, the real challenge of reforms in the power sector lies in efficient management of the distribution system. The National Electricity Policy in this regard *inter alia* emphasises on the adequate transition from financing support to aid restructuring of distribution utilities, efficiency improvements and recovery of cost of services provided to consumers to make power sector sustainable with reasonable and affordable prices besides others.

***Power sector reforms in Sikkim***

**5.2.2** As part of power sector reforms, the Energy & Power Department (EPD) was to be unbundled into various category of companies, viz. generation co, transmission co and distribution co. but no unbundling were carried out in the State of Sikkim, although a separate corporation was formed during 1998 to look after the generation aspect. However, the Department still has 12 generation stations under their control. Consequently, the business of distribution of power in Sikkim is carried out by EPD. The day-to-day operations are carried out by the Principal Chief Engineer-cum-Secretary of the Department with the assistance of Chief Engineers, Executive Engineers and Divisional Engineers.

***Vital parameters of Electricity Supply in Sikkim***

**5.2.3** Sale of energy increased from 211.93 Million Units (MUs) in 2006-07 to 384 MUs in 2010-11 registering an increase of 81.19 *per cent* during 2006-11. As on 31 March 2011, the State (Department) had distribution network of 7,783.27 CKM, 18 sub-stations and 1,868 transformers of various categories. The number of consumers was 0.83 lakh. The turnover of the Department was ₹ 100 crore in 2010-11, which was equal to 1.77 *per cent* of State Gross Domestic Product. It employed 3,850 employees as on 31 March 2011.

NEP aims to bring out reforms in the Power Distribution sector with focus on system upgradation, controlling and reduction of T & D losses and power thefts and making the sector commercially viable besides financing strategy to generate adequate resources. It further aims to bring out conservation of energy to optimise utilisation of electricity with focus on demand side management and load management. In view of the above, we conducted performance review on the working of the Power Distribution Utilities in the State Sector to ascertain whether they were able to adhere to the aims and objectives stated in the National Electricity

Policy & Plan and how far the distribution reforms have been achieved.

***Performance review on power sector***

**5.2.4** A review on Transmission & Distribution of Power Department was included in the Report of the Comptroller and Auditor General of India (Civil), Government of Sikkim for the year ended 31 March 2003. The Report was discussed by PAC which gave its recommendations in its 59th Report (June 2005).

## Scope and Methodology of Audit

**5.2.5** The present performance audit conducted during February 2011 to April 2011 covers the performance of the department during the period from 2006-07 to 2010-11. The review mainly deals with Network Planning and execution, Implementation of Central Schemes, Operational Efficiency, Billing and Collection efficiency, Financial Management, Consumer Satisfaction, Energy Conservation and Monitoring. The audit examination involved scrutiny of records at the Head Office and 10 out of 18 sub-stations.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, Scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management for comments.

## Audit Objectives

**5.2.6** The objectives of the performance audit were to assess:

- Whether aims and objectives of National Electricity Policy/Plans were adhered to and distribution reforms achieved;
- Adequacy and effectiveness of network planning and its execution;
- Efficiency and effectiveness in implementation of the central schemes such as, Restructured Accelerated Power Development & Reform Programme (RAPDRP) and Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY);
- Operational efficiency in meeting the power demand of the consumers in the state;
- Billing and Collection Efficiency of revenue from consumers;
- Whether Financial Management was effective and surplus funds, if any, were wisely invested;
- Whether a system is in place to assess consumer satisfaction and redressal of grievances;
- That energy conservation measures were undertaken; and
- That a monitoring system is in place and the same is utilised in review of overall working of Energy & Power Department (EPD).

## Audit Criteria

**5.2.7** The audit criteria adopted for assessing the achievement of the audit objectives were:

- Provisions of Electricity Act 2003;
- National Electricity Plan, Plans and norms concerning distribution network of EPD and Planning criteria fixed by the EPD;
- Terms and conditions contained in the Central Scheme Documents;
- Standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- Norms prescribed by various agencies with regard to operational activities;
- Norms of technical and non-technical losses;
- Guidelines/ instructions/ directions of State Government; and
- Best performance under various parameters in the regions/ all India averages.

## Audit Findings

**5.2.8** We explained the audit objectives to the Department during an 'Entry Conference' held on 1 February 2011. Subsequently, audit findings were reported to the Department and the State Government in July 2011 and also discussed in an 'Exit Conference' held on 18 October 2011. The Exit Conference was attended by Principal Chief Engineer-cum-Secretary and Chief Engineers of the EPD. The department/ State Government replied to audit findings in August/October 2011. The views expressed by them have been considered while finalising this Review. The audit findings are discussed in subsequent paragraphs.

## Distribution Network Planning

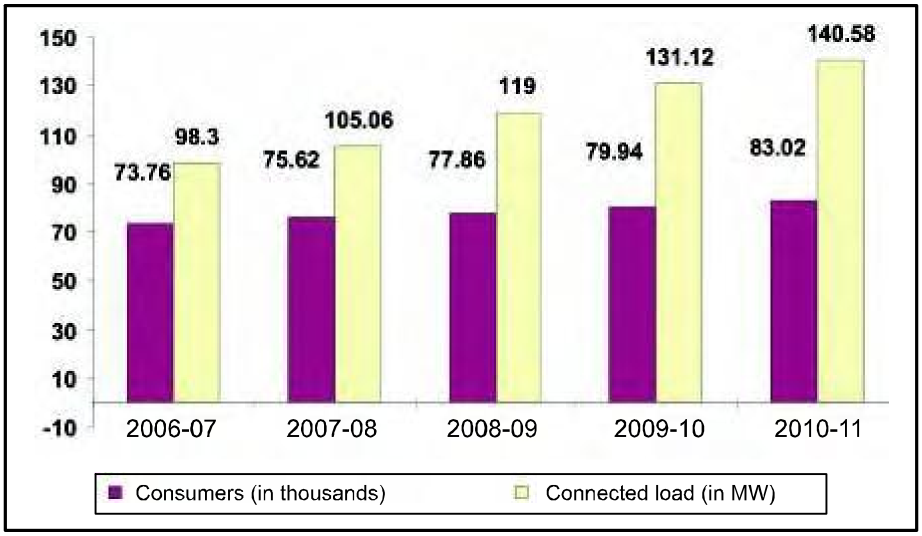
**5.2.9** The National Electricity Policy was evolved with the following aims and objectives to be achieved.

- Access to electricity –Available for all household in next five years from 2005.
- Supply of reliable and quality power of specified standards in an efficient manner and reasonable rates.

To ensure access by all to electricity the Power Department in the State are required to prepare annual plan for creation of infrastructural facilities for efficient distribution of electricity so as to cover maximum population in the State. Besides the Department is required to upkeep the existing network, additions in distribution network as planned keeping in view the demand/connected load, anticipated new connections and growth in demand. We observed that EPD prepared plans for augmentation of their distribution Network on need basis and techno-economical viability.

The particulars of consumers and their connected load during review period is given below in bar chart.

**Chart – 5.5**




While the system improvement and rural electrification schemes have been dealt with separately under subsequent paragraphs, the particulars of distribution network planned vis-à-vis achievement there against in the State as a whole is depicted in **Appendix - 5.8**. As compared to the growth (43.01 *per cent*) of connected load of 98.30 MW in 2006-07 to 140.58 MW (equivalent to 175.73 MVA at 0.80 Power Factor) in 2010-11 as depicted in the graph, the increase in transformer capacity was from 117.93 MVA to 162.90 MVA only (38.13 *per cent*). Thus, the increase in distribution capacity could not match the pace of growth in consumer demand. Further, taking into account the connected load of 140.58 MW as at the end of March 2011, the requirement of transformers capacity would be 175.73MVA. However, this capacity was not adequate to meet the projected load demand as per the report of 17 Electric Power Survey Committee. This would lead to overloading of network and consequential rotational cuts in distribution of electricity.

The Department accepted (October 2011) that there was a difference in consumer demand and supply.

Some of the observations on poor planning are discussed below:

***Inadequate transformation capacity***

**5.2.9.1** Transformer is a static device installed for stepping up or stepping down voltage in transmission and distribution of electricity. The energy received at high voltage (132 KV, 66 KV, 33 KV) from primary sub-stations is transformed to lower voltage (11 KV) at 33/11 KV sub-stations of the Distribution to make it usable by the consumers. In order to cater to the entire connected load, the transformation capacity should be adequate. The ideal ratio of transformation capacity to connected load is considered as 1:1. The table below indicates the details of transformation capacity at 66/11 KV sub-stations and connected load of the consumers in the State during the period 2006-11.

**Table – 5.14**

*(in MVA)*

| | Transformation Capacity | Connected load | Gap in Transformation capacity | Ratio of Transformation capacity to connected load |
|---|---|---|---|---|
| 2006-07 | 117.93 | 122.75 | 4.82 | 0.96 |
| 2007-08 | 127.34 | 131.30 | 3.96 | 0.97 |
| 2008-09 | 145.19 | 148.74 | 3.55 | 0.98 |
| 2009-10 | 157.06 | 163.85 | 6.79 | 0.96 |
| 2010-11 | 162.90 | 175.17 | 12.27 | 0.93 |

It can be seen from the table above that the ratio of transformation capacity to total connected load ranged between 0.93 and 0.98. Thus, the gap in transformation capacity ranges from 2 *per cent* to 7 *per cent*. Such gap of transformation capacity led to overloading of the system resulting in frequent tripping and adverse voltage regulation with consequential higher quantum of energy losses.

The Department stated (November 2011) that the gap in transformation capacity and connected load has not affected supply of power to consumers. However, the Department assured that efforts would be made to increase the transformation capacity vis-à-vis the connected load.

## Implementation of Centrally Sponsored Schemes

## Rural Electrification

***Rajiv Gandhi Grameen VidyutikaranYojna (RGGVY)***

**5.2.10** The National Electricity Policy states that the key objective of development of the power sector is to supply electricity to all areas including rural areas for which the Government of India (GOI) and the State Governments would jointly endeavour to achieve this objective.

Accordingly, the GOI launched (April 2005) 'Rajiv Gandhi Grameen VidyutikaranYojana (RGGVY) with the goal of electrifying all un-electrified villages and providing access to electricity (free of charge to consumers coming under Below Poverty Line (BPL) category) to all households in the next five years. For implementation of the programme, GOI was to provide 90 *per cent* of the expenditure as grant and Rural Electrification Corporation (Nodal Agency) the balance 10 *per cent* as loan. REC had sanctioned ₹ 148.91 crore (February 2009) for implementation of RGGVY Scheme in Sikkim.

Besides, the GOI notified the Rural Electrification Policy (REP) in August 2006. The REP *inter alia* aims at providing access to electricity for all households by 2009 and Minimum lifeline consumption of one Unit per household per day as a merit good by the year 2012. The other RE schemes, viz., Accelerated Electrification of one lakh villages and one crore households, Minimum Needs Programme were merged into RGGVY. The features of the erstwhile 'KutirJyoti Programme' were also suitably integrated into this scheme.

However, in the state of Sikkim, the RGGVY scheme belatedly commenced from 2008-09 onwards due to delayed release of funds by REC. Out of ₹ 132.48 crore received from REC up to 31 March 2011, EPD had spent ₹ 92.10 crore for rural electrification. The position of the funds available vis-à-vis utilised during the three years ending 31 March 2011 is depicted in the table below.

**Table – 5.15**

***(₹ in crore)***

| Year | Opening Balance | Funds received during the year | Total funds available | Funds Utilised | Unspent funds at the end of the year |
|---|---|---|---|---|---|
| 2008-09 | - | 43.97 | 43.97 | 3.22 | 40.75 |
| 2009-10 | 40.75 | 44.89 | 85.64 | 63.28 | 22.36 |
| 2010-11 | 22.36 | 43.62 | 65.98 | 25.60 | 40.38 |

Out of 25 virgin villages, 23 villages had been electrified. In respect of 418 selected villages for intensive electrification, 363 villages had been electrified till October 2011. Thus the total 386 villages were electrified which constituted 87.13 *per cent.* The overall electrification included the coverage of 8,801 BPL households (76.8 *per cent)* as against the target of 11,458 BPL households (October 2011).

### 5.2.10.1 Loss of interest due to release of free mobilisation advances

The Department had released interest free Mobilisation Advance (MA) aggregating to ₹ 33.36 crore to the contractors before commencement of the project. However, there was no provision for grant of MA to the contractors either in Sikkim Financial Rules or in Sikkim PWD Code and Manual. The Department, in contravention of the provision of rules provided MA in April/ May 2009 to eight contractors which remained unadjusted for the period ranging between 176 days to 699 days. This resulted in loss of interest of ₹ 2.49 crore since the Department had been paying interest at the rate of 12.25 *per cent* for loan availed from REC. This was also contrary to the recommendation (February 2005) of the Public Accounts Committee (PAC) that grant of MA should be discouraged. Further instructions of Central vigilance Commission also do not encourage interest free mobilisation advance, it should be need based and interest needs to be charged, its recovery schedule and other relevant details explicitly stipulated in the tender document upfront. However the Letter of Award specified only provision of Mobilisation Advance of 25 *per cent* of total erection charges as initial advance and not as interest free advance.

The very purpose of releasing the MA was to avoid delay in completing the works due to financial constraints. However, it was noticed that the work was not completed as per the scheduled completion period (July 2010) i.e. 18 months from the date of issue of the letter of intent (Feb. 2009). Even after a lapse of 10 months, out of 443 villages, 386 (87.13 *per cent*) have been electrified till date (October 2011).

The Department appreciated the audit contention and intimated that with the amendment of the Sikkim Public Works Manual (effective from September 2009), department had started to invariably charge interest on MA.

### 5.2.10.2 Acceptance of exorbitant rate in RGGVY Scheme

EPD had awarded (February 2009) the works under RGGVY in eight packages (one in East, two in West, three in North & two in South) to the lowest bidders in each districts. Comparative scrutiny of rates of RGGVY scheme with other similar nature of works of different schemes like NEC, NLCPR and other maintenance works executed during the same period by the Department (March 2011) revealed that while the rates for other schemes arrived after tender were at par with Schedule of Rates (SOR) 2008, the rates accepted for RGGVY Scheme were exorbitantly high, almost 200 *per cent* above the SOR 2008. For instance, the rate of 11/0.43 KV, 3 phase 25 KVA Distribution Transformer as per SOR 2008 was ₹ 55,800 whereas the rate as per RGGVY estimate was ₹1,68,286 (201 *per cent* above the SOR).

Evaluation of nine out of 23 payment bills pertaining to RGGVY Scheme with the rates of prevailing SOR 2008 revealed that the rates were much higher than SOR 2008.The financial implication worked out on the basis of rates of items available in the SOR 2008 was ₹ 11.20 crore in excess which benefited the contractor.

In reply, the Department stated (August 2011) that though the DPR was submitted as per the SOR of 2008, the rates submitted by the lowest bidder in eight packages were approved by the Government/REC. The reply was not acceptable as the rates for similar nature of works of different schemes like NEC, NLCPR and similar nature of maintenance work carried out by the Department (March 2011) with same specification executed during the same period were on the lower side which the tender committee should have analysed and accordingly retendered the entire works.

### 5.2.10.3 Irregular selection of consultancy

MECON Limited (A Government of India Enterprise) was appointed (February 2007) as a consultant for implementing the RGGVY Scheme. The procedure adopted by the Department was not transparent as appointment of the consultancy was done without publicity and obtaining the best economical rates. It charged 7 *per cent* of the total project cost as consultancy fees. However, other Works Department was paying 2.5 *per cent* of entire architectural & related service in implementation of the project. Even MECON Limited had admitted (January 2010) to surrender 3.5 *per cent* of consultancy fee on the revised estimates as the rate charged by them was on higher side. Further, an adhoc payment of ₹ 2.50 crore had been made (March 2009) to MECON which included ₹ 1.25 crore in excess, considering the consultancy fee of 3.5 *per cent* to be surrendered. However, the Department has so far paid ₹ 6.62 crore but the excess payment of ₹ 1.25 crore has not been recovered from M/s Mecon till date.

Further, it was seen that the engineers of Energy & Power Department prepared DPR based on the Schedule of Rate 2003-04 upon which Ministry of Power (MOP), GOI through REC sanctioned (June 2006) a sum of ₹ 56.25 crore. The cost of RGGVY Project was enhanced (February 2009) to ₹ 148.91 crore and the revised cost was supervised by MECON Limited. However, the records relating to the enhancement of project cost to ₹ 148.91 crore was not available with the Department. Hence, the correctness of cost escalation could not be verified in audit.

The Department confirmed (May 2011) that MECON was engaged on nomination basis without tendering to avoid delay in selection of Consultant and to get the best expertise and quality for execution of the project. The Department further considered (November 2011) the audit observations and assured to adjust rebate of 3.5 *per cent* from the subsequent payments. The reply of the department was not tenable in view of the fact that CVC in its circular (5 July 2007) emphasised that the award of contract on nomination basis is prohibited as it interferes with the fundamental right guaranteed under Article 14 of the Constitution unless the case falls within the exceptions such as natural calamities, emergencies, availability of single source of supply and non-availability of supplies in spite of repeated tendering.

### 5.2.10.4 Irregular appointment of Consultant

The Ministry of Power, GOI (January 2008) had launched a "National program on Franchise Capacity building" to impart training to franchisees and also to build a cadre capable of trainers within the Utilities/ department to supplement this initiative. Based on the guidelines issued by REC, the EPD adopted (October 2008) "Model C – Input based Franchisees" as the same Module was adopted by Meghalaya State Electricity Board having similar pattern. Accordingly, the engineers of EPD had undergone training to implement franchisee and in addition the guidelines for franchisee development in Sikkim were readily made available by REC.

Thereafter, the EPD entered into an agreement (May 2009) with M/s Feedback Ventures Pvt. Ltd., Gurgaon as Consultant for implementation of Rural Franchisee at retainer fee of ₹ 45.51 lakh for initial period of nine months. The same was later extended for another nine months and the firm claimed additional cost of ₹ 45.51 lakh since there was delay in implementation of RGGVY scheme by the Department.

Audit is of the view that the appointment of M/s Feedback Ventures Pvt. Ltd. as consultant for deployment of franchise in Sikkim was only duplication of work as the Officers of EPD had already undergone training to implement franchisee and in addition the guidelines for franchisee development in Sikkim were readily made available by REC. This resulted in avoidable expenditure of ₹ 91.02 lakh.

In reply, the department stated (August 2011) that the additional cost of ₹ 45.51 lakh has not been paid and only ₹ 40 lakh have been paid till date. The additional fund had been requisitioned from REC and the liability of ₹ 50.02 lakh would remain to be paid due to non completion of RGGVY Scheme.

### 5.2.10.5 BPL electrification

The Rural Electrification Policy (REP) was framed in August 2006. The REP *inter alia* aims at providing access to electricity for all households by 2009 and minimum lifeline consumption of one Unit per household per day as a merit good by the year 2012. The Department of Economics, Statistics, Monitoring & Evaluation, Government of Sikkim, based on certain criteria had listed out 21,618 households under BPL category in the State. However, it was noticed that the selection of BPL households were done as per the recommendation of the Panchayats and as approved by the DDO's of the respective districts totaling to 11,458 households. The criterion for selection of the BPL households by the Panchayats' was not on record. We observed that only 8,801 BPL households had been electrified till October 2011.

- The expenditure per household was calculated at the rate of ₹ 1,800 and ₹ 2,200 for the $10^{th}$ and $11^{th}$ Plan respectively and the Department had indented various suppliers for supply of materials required to provide one point free connection service to the BPL households in respect of 5,460 households only out of 11,458 households as identified by the Department. It was seen that power connection in respect of East and South districts were made at the rate of ₹ 2,200 per household and for West at the rate of ₹ 1,500 per household. On analysis of the items of work, it was noticed that the materials supplied for West District did not include items like G.I. service pipe, PVC/ HR PVC insulated unsheathed s/c electrolytic annealed copper wire (used for internal wiring), F.T. switch 6A one way and G.I. earthing spike with nuts, bolts and washer. As these items were integral part and without which the electrification of any household is incomplete, it can be construed that the very objective of providing quality free power supply to the BPL households in West district got defeated. Thus, the payment of ₹ 26.82 lakh was wasteful since electrification work without the above items would not serve any purpose.
- In reply, the department stated (August 2011) that the selection of BPL household was done on the basis of recommendations by the Gram Panchayat unit and for the difference in cost of ₹ 700, correspondence was being made to REC for sanction of additional cost to meet the liability. The reply was not correct as Department had formulated its own criteria for selection of BPL household and there was mismatch between the number of BPL household selected by the Department and by the Economics, Statistics, Monitoring and Evaluation Department.

## Project and Contract Management

### 5.2.11 Utilisation of funds for additional work not covered under approved DPR to the extent of ₹ 92.15 lakh

As per the DPR prepared by the EPD, the administrative approval to the work on renovation, improvement and strengthening of 66 KV Switch Yard and construction of 1x7.5 MVA, 66/11KV Substation at lower Lagyap Hydel Project Ranipool, East Sikkim at an estimated cost of ₹ 4.66 crore was accorded (October 2009) by the GOI under North East Council (NEC) funding. Accordingly the work was put to tender (January 2010) with work value of ₹ 4.18 crore. The Department awarded (August 2010) the above work to a Government contractor, the lowest bidder, at the quoted rate of 22 *per cent* below the tender value. Thus, there was saving of ₹ 92.15 lakh.

We observed that in order to utilise the saving amount of ₹ 92.15 lakh the Department prepared an estimate for supplementary work valuing ₹ 1.13 crore. The supplementary work was awarded to same contractor at 22 *per cent* below the work value since the proposed work were integrated or correlated with the ongoing work.

This additional works valuing ₹ 1.13 crore was neither covered under the sanctioned estimated cost of DPR forwarded to NEC nor was any approval obtained to use the saving amount from NEC. The Department, basically to avoid saving and to limit the expenditure within estimated cost of ₹ 4.66 crore had taken the additional work which was irregular. Besides, if the execution of supplementary work was necessary then the same should have been incorporated in the DPR forwarded to NEC.

The Department stated (February 2011) that the items included in the supplementary estimate was earlier included in the scheme which was turned down as it was not within the ambit of their guidelines and used the saving amount for the supplementary work.

## Restructured Accelerated Power Development and Reforms Programme

**5.2.12** GOI had approved the Accelerated Power Development and Reforms Programme (APDRP) to leverage the reforms in power sector through the State Governments. This scheme was implemented by the EPD through the State Government with the objective of upgradation of sub-transmission and distribution system including energy accounting and metering, for which financial support was provided by GOI.

In order to carry on the reforms further, the GOI launched the Restructured APDRP (R-APDRP) in July 2008 as a Central Sector Scheme for XI Plan. The R-APDRP scheme comprises of Part A and B. Part A was dedicated to establishment of IT enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA[22]/Distribution Management System. For this, 100 *per cent* loan is provided, and was convertible into grant on completion and verification of same by Third Party independent evaluating agencies. The Part B of the scheme deals with strengthening of regular sub-transmission & distribution system and upgradation of projects.

### 5.2.12.1 Financial Performance

The details of the funds released by GOI, mobilised from other agencies (including REC/ PFC/ Commercial Banks), utilisation there against and balances in respect of the EPD in the State is depicted below.

**Table – 5.16**

***(₹ in crore)***

| Year | Funds released by | | Funds available | Funds utilised | Balance | Percentage of balance to funds available |
|---|---|---|---|---|---|---|
| | GOI | Others | | | | |
| 2009-10 | - | 6.37 | 6.37 | - | 6.37 | 100 |
| 2010-11 | - | 1.52 | 7.89 | 0.54 | 7.35 | 93 |

[22] *Supervisory Control And Data Acquisition – It generally refers to industrial control systems: computer systems that monitor and control industrial, infrastructure, or facility-based processes.*

### 5.2.12.2 Delay in execution of project under R-APDRP scheme

EPD appointed (February 2009) M/s Wipro Limited as an IT Consultant from amongst the empanelled list of IT Consultants for implementation of the scheme. Under Part (A) scheme two towns, viz. Gangtok and Upper Tadong (which were eligible for consideration under R-APDRP) were selected. Accordingly, Wipro prepared (June 2009) DPR with the estimated cost of ₹ 26.30 crore which was approved (September 2009) by GOI with the stipulation that the work was to be completed within three years (i.e. by September 2012) from the date of approval of the scheme. Accordingly, the PFC (the Nodal Agency) for implementation of R-APDRP released (March 2010), ₹ 7.89 crore (30 percent of the project cost).

On implementation of R-APDRP scheme, the following deficiencies were noticed:

- Even after a lapse of 24 months, only 60 percent of the work was completed for which the payment had been made by the EPD. The delay in work was attributed to belated placement of order (June 2010) to IT Implementing agency (TCS) for software and hardware network equipments for Data Center and obtaining of meters from the suppliers for ring fencing work by the department.
- Due to this delay the Department was unable to spend the loan received from PFC and invested (20 May 2010) ₹ 7 crore in short term deposits at an interest rate of 4.75 *per cent*, after keeping the fund idle for 44 days in the current account, which could have earned ₹ 4.01 lakh towards interest by investing the idle fund in term deposit, for a minimum period of three months.
- On maturity the amount was further reinvested along with interest for another 200 days. Had the Department invested the fund for a year at a stretch, it could have earned an interest of ₹ 60.20 lakh whereas the Department earned only ₹ 38.39 lakh by investing in two short term periods. Thus there was an interest loss of ₹ 21.81 lakh.
- Although the validity period for Bank Guarantee from M/s Wipro had expired (December 2010), the same has not been renewed till date.

The Department stated (October 2011) that the delay was due to belated placement of order to IT implementing agency (TCS) for software and hardware equipments for data centre and the decision to club Sikkim with West Bengal for achieving cost benefit. Further, there was a delay of 18 months for finalising the rates as TCS was unwilling to take up the work in Sikkim at par with the rates charged in West Bengal.

### 5.2.12.3 Establishment of IT enabled system

Part – A of the R-APDRP scheme is dedicated to establishment of IT enabled system and SCADA/ Distribution Management System.

Out of ₹ 7.90 crore received, EPD made payments of ₹ 54.03 lakh towards consultancy charges, but till date (October 2011) only initial works such as ring fencing works had been completed subject to certification by third party inspection. The certification has not been issued by the third party so far and project is scheduled to be completed by September 2012 which is doubtful.

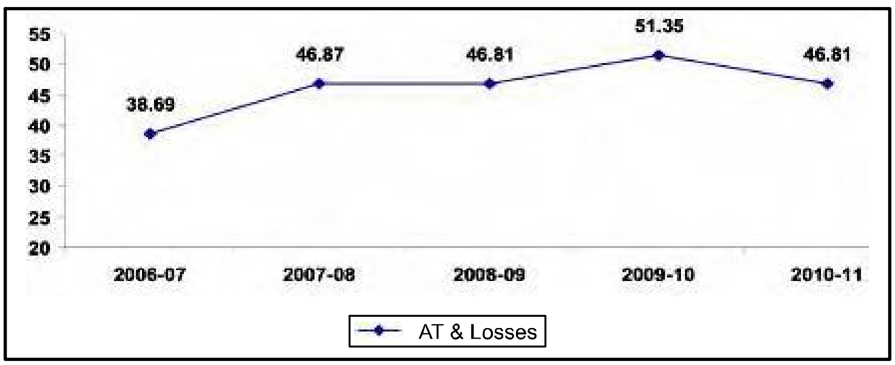
### 5.2.12.4 Strengthening of sub-transmission and distribution system

Part-B of the Scheme deals with strengthening of regular sub-transmission & distribution system and also upgradation of the distribution system. The focus in this part was on reduction of AT&C losses on sustainable basis. 90 *per cent* of the cost was to be provided as loan by GOI which would be converted into grant being a special category State on achieving 15 *per cent* AT&C loss for five years in the Project area. 10 *per cent* was to be provided as loan from PFC/REC/other sources. PFC sanctioned (August 2010) the scheme and the first installment of ₹ 20.54 crore was released in March 2011. However, the department has stated that the works relating to Part B have been taken up in two divisions identified under the scheme.

### 5.2.12.5 Aggregate Technical & Commercial Losses

One of the prime objectives of R-APDRP scheme was to strengthen the distribution system with the focus on reduction of Aggregate Technical & Commercial Losses (AT & C losses) on sustainable basis. The graph below depicts the AT & C losses over the review period in the Department.

**Chart – 5.6**




AT & C losses is a new concept in monitoring of performance indices in power sector for the State. It may be seen that the AT&C losses had increased from 38.69 *per cent* in 2006-07 to 46.81 *per cent* in 2010-11, significantly higher than the prescribed norm of 15 *per cent* laid down by the Central Electricity Authority (CEA). The main reasons for such high energy losses were insufficient transformation capacity, non-installation of capacitor banks and significant quantum of unmetered consumers. Further, due to non-constitution of SERC, the Department had not been able to formulate any conclusive reformatory measures and also not succeeded in bringing down the AT&C losses. The total losses in excess of norm during the five years ending 31 March 2011 aggregated to 676.16 MUs with overall financial implication of ₹ 95.71 crore **(Appendix - 5.9).**

The Department had confirmed (August 2011) that steps were being taken to meter all the consumers along with installation of capacitor banks to reduce the AT&C losses. The SERC has now been constituted (April 2011) in the State.

### 5.2.12.6 Consumer metering

Attainment of 100 *per cent* metering was one of the objectives of the R-APDRP scheme. But the same could not be completed. As on 31 March 2011, there were 28.75 *per cent* un-metered consumers in the State.

## Operational efficiency

**5.2.13** The operational performance of the EPD is judged on the basis of availability of adequate power for distribution, adequacy and reliability of distribution network, minimising line losses, detection of theft of electricity, etc. These aspects have been discussed below.

## Purchase of Power

**5.2.13.1** The demand for energy has been increasing year after year in the State due to economic development. Assessment of future demand and requirement of power is calculated on the basis of past consumption trends, present requirement, load growth trends and T & D losses and its trend.

The details of demand of power assessed for the State based on the report of 17 EPS and actual power purchased during the period 2006-07 to 2010-11 in respect of the State as a whole were as under:

**Table – 5.17**

***(in Million Units)***

| Year | Demand assessed in EPS | Actual power purchased | Power surplus |
|---|---|---|---|
| (1) | (2) | (3) | (4) = (3 – 2) |
| 2006-07 | 234 | 560.33 | 326.33 |
| 2007-08 | 247 | 580.21 | 333.21 |
| 2008-09 | 264 | 540.18 | 276.18 |
| 2009-10 | 285 | 490.49 | 205.49 |
| 2010-11 | 305 | 450.00 | 145 |

The Department purchases power as per the entitlement for schedule of drawl of power allotted by Eastern Regional Power Committee (ERPC) which is in excess of the demand assessed in EPS. Hence, the surplus power is being traded outside.

## Sub-transmission & Distribution Losses

**5.2.13.2** The distribution system is an important and essential link between the power generation source and the ultimate consumer of electricity. While energy is carried from the generation source to the consumer, some energy is lost in the network. For efficient functioning of the system, it must be ensured that there are minimum losses in sub-transmission and distribution of power. The losses at 33KV stage are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. These are based on the difference between energy received (paid for) by the Distribution Department and energy billed to consumers. The percentage of losses to available power indicates the effectiveness of distribution system. The losses occur mainly on two counts, i.e., technical and commercial. Technical losses occur due to inherent character of equipment used for transmitting and distributing power and resistance in conductors through which the energy is carried from one place to another. On the other hand, commercial losses occur due to theft of energy, defective meters and drawal of unmetered supply, etc.

The table below indicates the energy losses for the EPD in the State as a whole for last five years upto 2010-11.

**Table – 5.18**

*(In Million Units)*

| Sl. No. | Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| 1. | Energy purchased | 310.20 | 375.22 | 393.48 | 512.12 | 540.00 |
| 2. | Energy sold (billed) | 211.93 | 260.25 | 277.31 | 363.30 | 384.00 |
| 3. | Energy losses (T&D) (1 – 2) | 98.27 | 114.97 | 116.17 | 148.82 | 156.00 |
| 4. | Percentage of energy losses (*per cent*) {(3 / 1) x 100} | 31.68 | 30.64 | 29.52 | 29.06 | 28.89 |
| 5. | Average realisation rate per unit (in ₹ ) | 1.56 | 1.45 | 1.45 | 1.30 | 1.43 |
| 6. | Value of T&D losses (₹ in crore) (3 x 5) | 15.33 | 16.67 | 16.84 | 19.35 | 22.31 |

The T&D losses ranged between 28.89 and 31.68 *per cent* during the last five years ending 31 March 2011. In the absence of SERC, the Department had not fixed norms for T&D losses. However, the total value of the T&D losses over the period of five years was ₹ 90.50 crore. Reduction in these losses is the most significant step towards making the Department financially self-sustaining. The importance of reducing losses can be gauged from the fact that a one *per cent* decrease in losses could add ₹ 0.22 crore[23] to the revenue of the Department annually.

The Department stated (May 2011) that on successful completion of schemes like reduction of LT lines, higher voltage profile and upgradation of distribution substations T&D loss will be reduced to the target set by the Central Utilities.

### 5.2.13.3 Performance of Distribution Transformers

In absence of SERC, the Department had not fixed any norms for failure of Distribution Transformers (DTRs). The details of actual DTRs failed and the expenditure incurred on their repairs is depicted in the table below.

**Table – 5.19**

| Sl. No. | Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| 1. | Existing DTRs at the close of the year (in Number) | 1,459 | 1,525 | 1,614 | 1,710 | 1,868 |
| 2. | DTR Failures (in Number) | 129 | 135 | 110 | 122 | 133 |
| 3. | Percentage of failures | 8.84 | 8.85 | 6.82 | 7.13 | 7.12 |
| 4. | Norms allowed by Deptt. (in percentage) | 4 | 4 | 4 | 4 | 4 |
| 5. | Excess failure percentage over norms | 4.84 | 4.85 | 2.82 | 3.13 | 3.12 |
| 6. | Expenditure on repair of failed DTRs (₹ in crore) | 0.26 | 0.33 | 0.29 | 0.48 | 0.57 |

[23] *156.00 MUs x 1 per cent x 1.43*

The failure of DTRs ranged between 6.82 *per cent* and 8.85 *per cent.* Failure of DTRs could be minimised by taking adequate steps for preventive maintenance and avoiding overloading of the same. Cause-wise analysis of failure of DTRs revealed that the percentage of failure due to overloading ranged between 39.09 to 48.06 *per cent* during the years under review as shown in the table below.

**Table – 5.20**

| Year | Total Number of DTRs failed during the year[24] | Number of failures due to over-loading | Percentage of failures due to over-loading |
|---|---|---|---|
| 2006-07 | 129 | 62 | 48.06 |
| 2007-08 | 135 | 60 | 44.44 |
| 2008-09 | 110 | 43 | 39.09 |
| 2009-10 | 122 | 48 | 39.34 |
| 2010-11 | 133 | 56 | 42.11 |

The percentage of failure due to overloading though alarming has decreased from 48.06 in 2006-07 to 42.11 in 2010-11. We observed that History cards and Asset Registers were not maintained for distribution transformers and power transformers. As a result, the procurement date and the periods for which the transformers were in service were not ascertainable. No age-wise analysis of transformers was carried out.

The Department had not prescribed any maintenance schedule for distribution transformers or any system of feedback of maintenance performed by the divisions to the circle / Head Office for monitoring and control.

The maintenance of transformers was done on need basis. Whenever any fault/ defect was noticed in transformer, it was sent to the private repair center and was subsequently replaced by another transformer. The replacement of transformer was based on availability of transformer with the supplier. On completion of repairs of the defective transformer the same would be sent to other sub-stations as per the requirement. Thus, the defective transformers sent for repair by one Sub-Division never came back to same Sub-Division as it would be forwarded to another sub-station according to requirement. Hence, scheduled delivery by the firm after repair could not be monitored indicating inadequate planning mechanism.

The Department noted (May 2011) the audit observation and assured to take steps for its implementation in future.

### 5.2.13.4 Capacitor Banks

Capacitor bank improves power factor by regulating the current flow and voltage regulation. In the event of voltage falling below normal, the situation can be set right by providing sufficient capacity of capacitor banks to the system as it improves the voltage profile and reduces dissipation of energy to a great extent thereby saving loss of energy. However, no capacitor banks have been installed in the State of Sikkim.

The Department stated (November 2011) that the capacitor banks was not required to be

[24] *Excluding failures due to manufacturing defects*

installed in the sub-stations as the load pattern was generally resistive. However, the capacitor banks had been installed in the industrial units having mostly inductive loads.

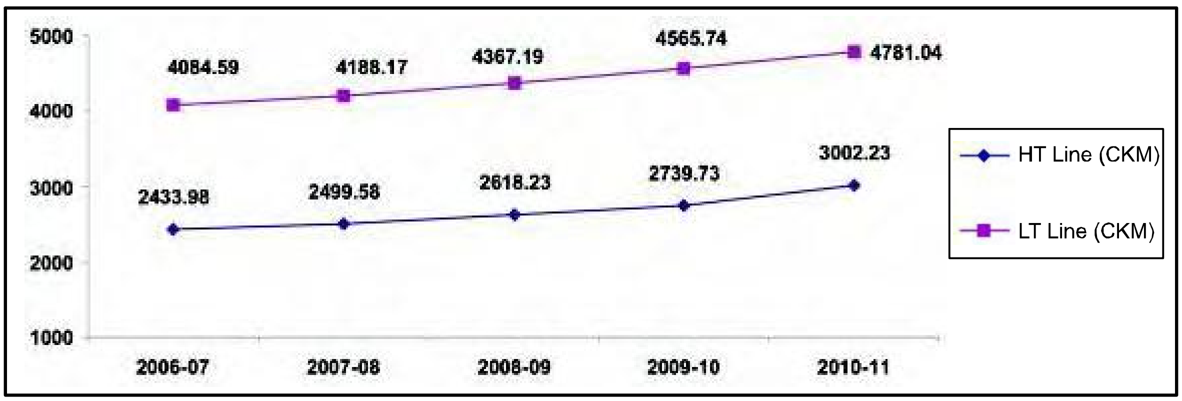
### 5.2.13.5 Commercial losses

The majority of commercial losses relate to consumer metering and billing besides pilferage of energy. While the metering and billing aspects have been covered under implementation of R-APDRP scheme and billing efficiency, respectively, the other observations relating to commercial losses are discussed below.

### 5.2.13.6 Implementation of LT less system

High voltage distribution System is an effective method of reduction of technical losses, prevention of theft, improved voltage profile and better consumer service. The GOI had also stressed (February 2001) the need to adopt LT less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses. The HT-LT ratio over the review period is depicted in the graph below:

**Chart – 5.7**




The distribution network in the State was comprised of more of LT lines compared to HT Lines, which indicated that the EPD could not adopt the LT less system by replacing the LT Lines with HT lines to minimise the distribution losses as envisaged by GOI.

The Department stated (October 2011) that they have started to adopt LT less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses.

### 5.2.13.7 Conversion of LT Conductors into Aerial Bunch Cables

Aerial Bunch cables prevent illegal tapping of low voltage distribution lines and help in reducing overloading of Distribution Transformers and maintain voltage of the supply. However, the Department had not installed the Aerial Bunch cables till date.

### 5.2.13.8 High incidence of theft

Substantial commercial losses are caused due to theft of energy by tampering of meters by the consumers and unauthorised tapping/hooking by the non-consumers. As per section 135 of

Electricity Act 2003, theft of energy is an offence punishable under the Act. The Department had not constituted any vigilance squad for conducting regular and routine raids to detect theft/ pilferages of electricity.

The department had not fixed any targets for checking theft cases. However on examination of records of west circle, it revealed that 83 cases were detected by the officers of the EPD, however, no case was filed against the offenders and no fine was imposed for theft of energy. The Division also failed to enforce the codal provision providing for compounding of the offence and realising a minimum fee of ₹ 4,000 from the offenders. This resulted in non-realisation of revenue of ₹ 3.32 lakh (83 x ₹ 4,000). No such records were maintained by other divisions.

### 5.2.13.9 Performance of Raid Team

In order to minimise the cases of pilferage/loss of energy and to save the Department from sustaining heavy financial losses on this account, Section 163 of Electricity Act 2003, provides that the licensee may enter in the premises of a consumer for inspection and testing the apparatus. The Department had not constituted any vigilance squad for conducting regular and routine raids to detect theft/ pilferages of electricity.

## Financial Management

**5.2.14** Being a State Government Department, EPD receives funds from the State Government through the budget. The Department had been meeting its expenditure as per the budget allocation of the Government and the revenue was deposited to the Government account. It did not resort to raising of funds from the public. Hence, the financial structure was different from that of a commercial undertaking as follow:

**Table – 5.21**

***(₹ in thousand)***

| Sl No | Particulars | 2007-08 | | 2008-09 | | 2009-10 | | 2010-11 | |
|---|---|---|---|---|---|---|---|---|---|
| | | Plan | Non Plan | Plan | Non Plan | Plan | Non Plan | Plan | Non Plan |
| 1 | Grant through State Budget | 5,64,902 | 2,11,385 | 7,69,877 | 2,55,162 | 1,266,042 | 3,53,969 | 7,35,924 | 3,66,246 |
| 2 | Expenditure during April to December | 2,51,789 | 1,53,696 | 3,98,928 | 1,86,024 | 5,15,869 | 1,85,313 | 4,79,718 | 2,74,837 |
| 3 | Expenditure during January | 94,139 | 13,434 | 41,110 | 11,882 | 11,820 | 27,576 | 97,959 | 28,199 |
| 4 | Expenditure during February | 51,184 | 21,131 | 64,158 | 15,006 | 41,978 | 50,650 | 81,544 | 25,241 |
| 5 | Expenditure during March | 1,63,181 (29 %) | 22,937 (11 %) | 2,65,430 (35 %) | 41,369 (16 %) | 4,97,585 (47 %) | 90,985 (26 %) | 73,086 (10 %) | 37,433 (10 %) |
| | **Total Expenditure** | **5,60,293** | **2,11,198** | **7,69,626** | **2,54,281** | **10,67,252** | **3,54,524** | **7,32,307** | **3,65,710** |
| 6 | Excess (+)/ Savings (-) | (-) 4,609 | (-) 187 | (-) 251 | (-) 881 | (-) 1,98,790 | 555 | (-)3,617 | (-)536 |

Rush of expenditure particularly in closing month of the financial year was regarded as a breach of financial regularity. However, expenditure during the month of March varied from

47 *per cent* to 10 *per cent* of the total expenditure for the years 2007-08 to 2010-11. The Department could not meet the plan expenditure during the five years ending March 2011. Failure to follow prudent financial management norms in formulating its budget resulted in persistent savings.

The particulars of cost of electricity vis-à-vis revenue realisation per unit therefrom are indicated below.

**Table – 5.22**

***(₹ in crore)***

| Sl. No. | Description | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| **1.** | **Income** | | | | | |
| (i) | Revenue from Sale of Power | 33.16 | 37.66 | 40.31 | 47.39 | 55.00 |
| (ii) | Revenue subsidy & grants | - | - | - | - | - |
| (ii) | Other income - | - | - | - | - | |
| | **Total Income** | **33.16** | **37.66** | **40.31** | **47.39** | **55.00** |
| **2.** | **Distribution (In MUs)** | | | | | |
| (i) | Own generation | 34.55 | 46.21 | 48.00 | 38.54 | 43.00 |
| | Free power | 23.58 | 44.16 | 262.13 | 348.34 | 352.00 |
| | Purchases (net of trading) | 252.07 | 284.85 | 83.35 | 125.24 | 145.00 |
| (ii) | Net Power available for Sale | 310.20 | 375.22 | 393.48 | 512.12 | 540.00 |
| (iii) | Less: Sub-transmission & distribution losses | 98.27 | 114.97 | 116.17 | 148.82 | 156.00 |
| | **Net power sold** | **211.93** | **260.25** | **277.31** | **363.30** | **384.00** |
| **3.** | **Expenditure** | | | | | |
| **(a)** | **Fixed cost** | | | | | |
| (i) | Establishment & Administrative expenses | 9.59 | 9.59 | 12.46 | 22.20 | 22.86 |
| (ii) | Depreciation | - | - | - | - | - |
| (iii) | Interest and finance charges | - | - | - | - | - |
| (iv) | Other Expenses | - | - | - | - | - |
| | **Total fixed cost** | **9.59** | **9.59** | **12.46** | **22.20** | **22.86** |
| **(b)** | **Variable cost** | | | | | |
| (i) | Purchase of Power | 46.38 | 58.96 | 20.34 | 34.07 | 30.02 |
| (ii) | Electricity Duty | - | - | - | - | - |
| (iii) | Transmission/ Wheeling Charges | - | - | - | - | - |
| (iv) | Repairs & Maintenance | 9.27 | 8.51 | 10.51 | 11.77 | 12.76 |
| (v) | Other expenses | 0.32 | 0.45 | 0.46 | 0.48 | 0.53 |
| | **Total variable cost** | **55.97** | **67.92** | **31.31** | **46.32** | **43.31** |
| **(c)** | **Total cost 3(a) + (b)** | **65.56** | **77.51** | **43.77** | **68.62** | **66.17** |
| 4. | Realisation (₹ per unit) | 1.56 | 1.45 | 1.45 | 1.30 | 1.43 |
| 5. | Fixed cost (₹ per unit) | 0.45 | 0.37 | 0.45 | 0.61 | 0.59 |
| 6. | Variable cost (₹ per unit) | 2.64 | 2.61 | 1.13 | 1.27 | 1.13 |
| 7. | Total cost per unit (in ₹) (5+6) | 3.09 | 2.98 | 1.58 | 1.88 | 1.72 |
| 8. | Contribution (4-6) (₹ per unit) | (-) 1.08 | (-) 1.16 | 0.32 | 0.03 | 0.30 |
| **9** | **Profit (+)/Loss(-) per unit (in ₹) (4-7)** | **(-) 1.53** | **(-) 1.53** | **(-) 0.13** | **(-)0.58** | **(-)0.29** |

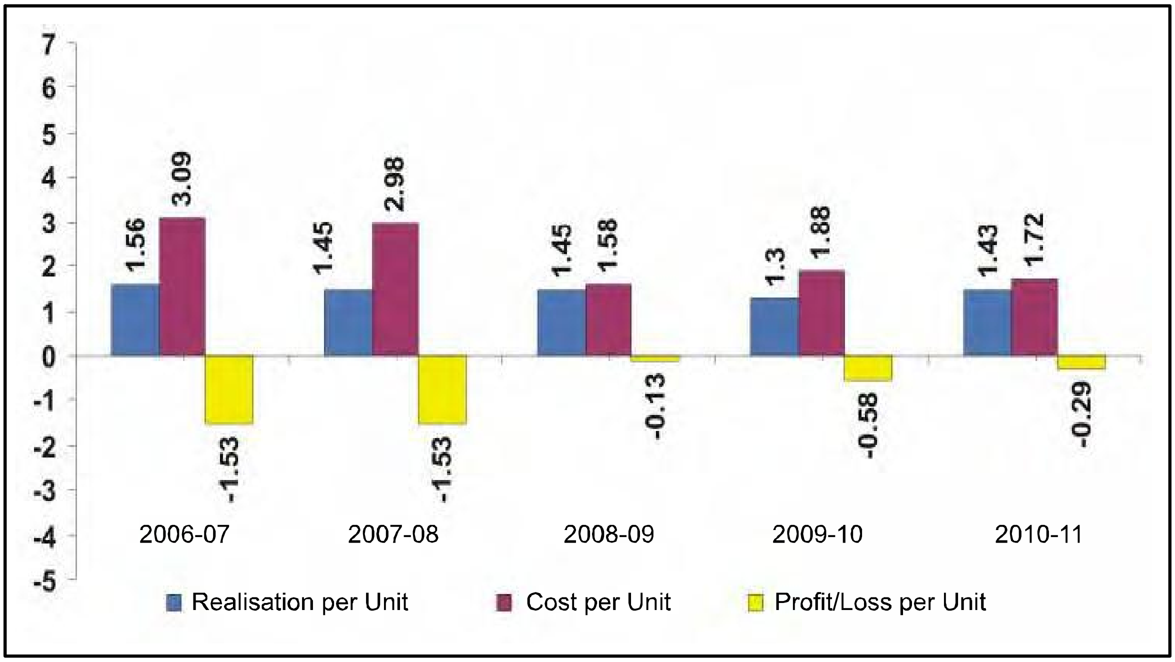
It may be seen that though the realisation per unit decreased from ₹ 1.56 to ₹ 1.43 during review period (8.33 *per cent*), the cost per unit decreased from ₹ 3.09 to ₹ 1.72 (44.34 *per cent*) during the corresponding period due to increase in share of free power. Further, the contribution per unit had increased by 127.78 *per cent* during the period 2006-11.

The expenditure relates to the department as a whole. EPD has not apportioned the expenditure for Distribution sector separately.

### 5.2.14.1 Recovery of cost of operations

The EPD was not able to recover its cost of operations. During the last five years ending 2010-11, the loss per unit showed as given in the graph below:

**Chart – 5.8**




The working results indicate that there was a revenue gap of ₹ 32.40 crore in 2006-07 which decreased to ₹ 11.17 crore during 2010-11. This was mainly due to availability of more free power and decrease in purchase of power and even though the cost of operational and maintenance expenses and establishment expenditure had increased.

The financial viability of the EPD was generally influenced by the various factors which are discussed in following paragraphs:

### 5.2.14.2 Adequacy of revision of tariff to cover the cost of operation

The EPD had not set up the SERC as envisaged under Section 82(1) of the Electricity Act, 2003. In the absence of the Commission, the Department had been fixing and regulating the tariff under the provisions of Electricity Act. The Department had not revised the tariff to reduce revenue losses during the period covered by audit.

The last electricity tariff revision was made in February 2006. The criteria adopted by the Department while revising the tariff was based on the purchase price of electricity from the Central Sector Generating Stations which was on elevated side than the tariff fixed for the domestic consumers. It had increased the tariff (2005-06) by 15 *per cent* in respect of all categories of consumers with an expected annual increase of ₹ 3 crore in revenue.

The EPD had not revised its power tariff during the last five years ending March 2011 even though the cost of generation and procurement of power has gone up significantly. Tariffs have not kept pace with the increase in cost. No remedial action on fixation of a rational and realistic tariff was taken by the Department due to which Department had sustained revenue loss of ₹ 106.24 crore during the period 2006-07 to 2010-11.

The Department accepted and stated (August 2011) that SERC had been constituted in April 2011 and the entire Tariff petition for fixation of tariff in future would be filed to the SSERC taking into consideration the increase in price of power and establishment cost.

### 5.2.14.3 Subsidy Support and cross subsidisation

The Government of Sikkim does not provide any direct subsidy to the EPD.

#### *5.2.14.3.1 Cross subsidisation*

Section 61 of Electricity Act 2003 stipulates that the tariff should progressively reflect the average cost of supply (ACOS) of electricity and also reduce cross subsidy in a phased manner as specified by the Commission. National Tariff Policy envisaged that the tariff of all categories of consumer should range within plus or minus 20 *per cent* of the ACOS by the year 2010-11. The position as regards cross-subsidies in various major sectors is depicted in the table below.

**Table – 5.23**

| Particulars | 2006-07 | | 2007-08 | | 2008-09 | | 2009-10 | | 2010-11 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Average cost of supply (ACOS) (paise per unit) | 309 | | 298 | | 158 | | 188 | | 172 | |
| Average Revenue from | | | | | | | | | | |
| | Paise per unit | Percentage of ACOS | Paise per unit | Percentage of ACOS | Paise per unit | Percentage of ACOS | Paise per unit | Percentage of ACOS | Paise per unit | Percentage of ACOS |
| Domestic | 160 | 51.78 | 160 | 53.69 | 160 | 101.27 | 160 | 85.11 | 160 | 93.02 |
| Commercial | 260 | 84.14 | 260 | 87.25 | 260 | 164.56 | 260 | 138.30 | 260 | 151.16 |
| Industrial | 255 | 82.52 | 255 | 85.57 | 255 | 161.39 | 255 | 135.64 | 255 | 148.26 |
| Agricultural | N.A | N.A | N.A | N.A | N.A | N.A | N.A | N.A | N.A | N.A |
| Others[25] | 150 | 48.54 | 150 | 50.34 | 150 | 94.94 | 150 | 79.79 | 150 | 87.21 |

The average cost of supply (ACOS) had gradually come down from ₹ 3.09 per unit in 2006-07 to ₹ 1.72 per unit in 2010-11 due to availability of more free power from National Hydroelectric Power Corporation. Without increasing the tariff, the cross subsidy underwent changes during the years from 2008-09 to 2010-11. While all types of consumers were enjoying the supply of electricity at price much lower than the average cost of supply during 2006-07 and 2007-08, the industrial and commercial consumers started paying at the increased rate during 2008-09 to 2010-11. However, the EPD did not control the supply rate to

[25] *Including Railways, Public Works, Street lighting, etc.*

the prescribed limit plus or minus 20 *per cent* of ACOS as laid down under NEP.

The Department stated (November 2011) that due to non-increase of tariff, EPD was not able to maintain the level of 20 *per cent* of ACOS but efforts would be made to reduce the deviation from NEP.

**5.2.14.4 Revenue billing and collection efficiency**

***5.2.14.4.1 Billing efficiency***

As per procedure prescribed in the tariff, the Department is required to take the reading of energy consumption of each consumer at the end of the notified billing cycle. After obtaining the meter readings, the Department issues bill to the consumers for consumption of energy. Sale of energy to metered categories consists of two parts, viz., metered and assessed units. The assessed units refer to the units billed to consumers in case meter reading is not available due to meter defects, door lock, etc. Billing of all the consumers were being done at division level. Consumers were billed on monthly basis. The efficiency in billing of energy lies in distribution/sale of maximum energy by the Department to its consumers and realise the revenue from them in time.

**Table – 5.24**

***(Figures in MUs)***

| Sl. No. | Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| 1. | Energy available for sale | 211.93 | 260.25 | 277.31 | 363.30 | 384.00 |
| 2. | Energy billed | 165.94 | 219.67 | 237.36 | 324.98 | 346.50 |
| 3 | Free Supply | 44.27 | 38.64 | 38.00 | 36.00 | 35.00 |
| 4. | Assessed sales | 1.72 | 1.94 | 1.95 | 2.32 | 2.50 |
| 5. | Total Assessed sales (3+4) | 45.99 | 40.58 | 39.95 | 38.32 | 37.50 |
| 6. | Assessed sales as percentage of total sales | 21.70 | 15.59 | 14.41 | 10.55 | 9.77 |

The assessed sales had increased from 1.72 MUs to 2.50 MUs over a period of five years ending March 2011. However, the free supply was showing decreasing trend with overall reduction in assessed sales to total sales from 21.70 *per cent* in 2006-07 to 9.77 *per cent* in 2010-11 indicating an improvement in the energy billed.

**Instances of undue favour to consumers in various forms are illustrated below:**

***Incorrect application of tariff***

***5.2.14.4.2 Irregular billing of street light and observation thereof***

The Tariff Schedule stipulated that energy charges for public and street lighting in urban areas would be paid at the rate of ₹ 3.50 per unit by the Urban Development and Housing Department and ₹ 1.95 per unit by the RMMDD in rural areas.

We observed (April 2011) that the energy consumption for street light was assessed on lump sum basis[26] by the EPD, despite provisions in the Tariff Schedule for installation of meter /

[26] *No. of bulbs x 70 watts x 0.6 (load factor) x 10 hours x 30 days x 12 months x ₹ 1.50*

metering equipments. The same was not done till date (September 2011). We also observed that the Department had levied ₹ 1.50/per unit irrespective of rural and urban areas. Thus, the gap between the tariff rate and average tariff ranged from ₹ 2 to ₹ 0.45 per unit. Since the Department did not segregate the urban and rural energy consumption separately, the loss of revenue on account of less levy of rate per unit could not be quantified by Audit.

The department stated (November 2011) that measures were being initiated for installation of energy meters in all rural and urban areas and streamline the tariff for the same.

#### *5.2.14.4.3 Under assessment of revenue*

According to Clause XVIII of departmental tariff effective from 04 March 2006, in case the meter of a consumer was found defective, the consumer would be billed for the period on the basis of average consumption of previous three months prior to the date of meter becoming defective.

We observed that the Department was billing consumers with defective meter at an average rate based on the total load of the consumer instead of average rates of previous three months as per the departmental tariff. However, the average monthly reading could have been worked out by taking into consideration the previous three months reading prior to the meter being defective which was readily available in the demand registers. Had the department billed these customers as per the norms fixed in the tariff, it could have avoided loss of revenue to the extent of ₹ 1.69 crore.

The Department stated (November 2011) that the matter would be verified and corrective measures be taken accordingly.

#### *5.2.14.4.4 Non-levy of late payment surcharge*

Tariff order (March 2006) issued by the Department had provided levy of late payment surcharge (LPS) at the rate of 10 *per cent* per annum on domestic, commercial and LTIS consumers and at the rate of 15 *per cent* per annum on HTIS and Bulk supply consumers on an Annual basis on the amount of bill remaining unpaid. It was observed in divisions of EPD that late payment surcharge of ₹ 53.29 lakh was not levied on consumers for late payment/non-payment of bills.

The Department stated (June 2011) that surcharge was levied upto the month of February and the arrears of March had been levied in the subsequent year. It was observed that the arrears of March are levied after a period of 11 months in the next subsequent year resulting in loss of revenue.

### Revenue collection efficiency

**5.2.15** As revenue from sale of energy is the main source of income of EPD, prompt collection of revenue assumes great significance. The salient features of the collection mechanism being followed by the Department are as follows:

- Consumers other than HT make payments of the bills by cash into the Government account at the counters of State Bank of Sikkim (SBS) (which is banker to the State

Government) and cheques at the Department. The Department reconciles receipt of revenue into Government account on receipt of bank challan from SBS.

- Revenue billed in respect of HT services was collected in cheque by Revenue inspectors and the same was deposited into Government account maintained at SBS and reconciled subsequently.
- All consumers were required to pay current charges within 15 days from the date of the billing, failing which the consumers could not avail of the rebate at the rate of 10 *per cent* on the billed amount provided by the Department and surcharge for arrears outstanding at the end of financial year were levied at the rate of 10/15 *per cent*.

The table below indicates the balance outstanding at the beginning of the year, revenue assessed during the year, revenue collected and the balance outstanding at the end of the year during last five years ending 2010-11.

**Table – 5.25**

***(₹ In crore)***

| S. No. | Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| 1 | Balance outstanding at the beginning of the year | 26.22 | 30.01 | 41.51 | 54.61 | 76.32 |
| 2 | Revenue assessed/Billed during the year | 36.95 | 49.16 | 53.41 | 69.10 | 73.53 |
| 3 | Total amount due for realisation (1+2) | 63.17 | 79.17 | 94.92 | 123.71 | 149.85 |
| 4 | Amount realised during the year | 33.16 | 37.66 | 40.31 | 47.39 | 55.00 |
| 5 | Amount written off during the year | - | - | - | - | - |
| 6 | Balance outstanding at the end of the year | 30.01 | 41.51 | 54.61 | 76.32 | 94.85 |
| 7 | Percentage of amount realised to total dues (4/3) | 52.49 | 47.57 | 42.47 | 38.31 | 36.70 |

- The balance dues outstanding at the end of the year increased from ₹ 30.01 crore in 2006-07 to ₹ 94.85 crore in 2010-11.
- No age-wise analysis of above outstanding had been done by the EPD.

The Department stated (November 2011) that action was being initiated to recover the balance dues from the consumers wherever possible.

## Consumer Satisfaction

**5.2.16** One of the key elements of the Power Sector Reforms was to protect the interest of the consumers and to ensure better quality of service to them. The consumers often face problems relating to supply of power such as non-availability of the distribution system for the release of new connections or extension of connected load, frequent tripping on lines and/ or transformers and improper metering and billing.

The Department was required to introduce consumer friendly actions like introduction of computerised billing, online bill payment, establishment of customer care centres, etc. to enhance satisfaction of consumers and reduce the advent of grievances among them. The billing issues have already been discussed in preceding paragraphs. The redressal of grievances is discussed below.

### 5.2.16.1 Redressal of Grievances

The EPD had not constituted any cell for redressal of grievances of consumers. To enable the compilation of complaints for assessing the performance on this account, separate registers were to be maintained by the Department. However, it was seen that the Department was not consistent in maintaining the records such as complaint registers, as only few of the sub-divisions maintained these basic records. Complaint registers in respect of five sub divisions of West District and two sub divisions of East District were made available.

On quality of power supply provided to consumers, Audit circulated questionnaires to various consumers in each district. On the feedback received, majority of the consumers were satisfied with the power supply and prompt action taken against complaints from the consumers, received bills on time and any error on bills were rectified promptly without delay. Some consumers had suggested that the Department should take steps to lay underground cable rather than overhead line and the Department should organise power awareness camp for safe power.

## Energy Conservation

**5.2.17** Recognising the fact that efficient use of energy and its conservation is the least-cost option to mitigate the gap between demand and supply, the GOI enacted the Energy Conservation Act, 2001. The conservation of energy being a multi-faceted activity, the Act provides both promotional and regulatory roles on the part of various organisations. The promotional role includes awareness campaigns, education and training, demonstration projects, R & D and feasibility studies. The regulatory role includes framing rules for mandatory audits for large energy consumers, devising norms of energy consumption for various sectors, implementation of standards and provision of fiscal and financial incentives.

We observed that the EPD had neither taken any measures providing incentives for energy conservation nor for encouraging reduction of T&D losses. But the department had initiated to install Compact Fluorescent lamp (CFL) under RGGVY scheme. Also the Department had taken initiative to replace the existing high wattage street light fittings with LED lamp. Energy conservation under BEE programme incandescent lamps were being replaced by free low wattage Light Emitting Diodes (LED) lamps.

## Energy Audit

**5.2.18** A concept of comprehensive energy audit was not put in place with the objective of identifying the areas of energy losses and taking steps to reduce the same through system improvements besides accurately accounting for the units purchased/ sold and losses at each level. The main objectives of energy audit are as follows:

- Better and more accurate monitoring of the consumption of electricity by consumers;
- Elimination of wastages;
- Reduction of downtime of equipment;
- Massive savings in operational costs and increase in revenue, etc.

No Energy Audit had been done by the EPD. The Department stated that the Energy audit was being initiated.

## Monitoring by top Management

**5.2.19** The EPD plays an important role in the State economy. For such a giant organisation to succeed in operating economically, efficiently and effectively, there must be a Management Information System (MIS) for monitoring by top management. However, we noticed that the co-ordination between the divisions, sub divisions and the Headquarters was found wanting which was evident from the fact that the data/ information were not being sent to the Headquarters for consolidation.

Although management replied that MIS was in place yet no records were furnished.

## Acknowledgement

**5.2.20** Audit acknowledges the co-operation and assistance extended by the staff and the Management of the EPD at various stages of conducting the performance review.

## Conclusion

- *In Sikkim, the electricity generation, transmission and distribution still remains with the Department. Although the State Electricity Regularity Commission was established in April 2011, the electricity reforms are yet to take place in the State.*
- *The process of unbundling of the Department into various categories of companies, viz. generation, transmission and distribution companies required to be initiated.*
- *The distribution transformation capacity could not match with the connected load which resulted in overloading and consequential failure of DTRs and rotational power cuts.*
- *The Department failed to complete the Centrally sponsored schemes within the stipulated time schedule resulting in delayed benefit to the consumers.*
- *The Department could not recover the cost of operations in any of the five years under review. This was mainly due to increase in cost of expenditure and inefficient revenue collection, etc.*
- *The concept of comprehensive energy audit was not put in place.*

## Recommendations

***Distribution Network Planning***

- Plan the capacity addition in accordance with the load growth to ensure stable and quality power supply.

***Implementation of Central Schemes***

- The Department must ensure timely completion/ implementation of the Central Schemes such as RGGVY and R-APDRP in order to avoid further delay and cost overrun.

***Project & Contract management***

- The Department should keep in place a system to check that the estimates for the projects are correctly assessed.

***Operational efficiencies***

- The Department must take steps to bring down transmission and distribution losses to the approved levels.

- The Department must prescribe a preventive maintenance schedule to avoid frequent failure of distribution transformers. History cards, Asset Registers must be maintained by all divisions.

- The Department should install capacitor bank to improve the power factor by regulating the current flow and voltage regulation.

- The Department should adopt LT less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses.

***Financial management***

- The Department should ensure that the funds available for the implementation of the schemes are utilised wisely.

***Energy Conservation***

- The Department must take adequate measures for providing incentives for energy conservation.

***Energy Audit***

- The Department must take up energy audit in order to have better and more accurate monitoring of the consumption of electricity by consumers; elimination of wastages and increase in revenue.

# SIKKIM INDUSTRIAL DEVELOPMENT AND INVESTMENT CORPORATION LIMITED

## 5.3 Loss of interest

**Loss of interest income of ₹ 51.78 lakh due to imprudent investment**

The Government of Sikkim has identified Sikkim Industrial Development & Investment Corporation (SIDICO) to undertake the accelerated development of infrastructure including the acquisition and development of area around the upcoming airport in Sikkim (Project). SIDICO, for the purpose of the project, proposed to avail loan of ₹ 330 crore from different banks and financial institutions. The Government appointed SBI Capital Market Limited (SBI Caps) as Financial Adviser for preparation of Information Memorandum and raising of funds. SBI Caps arranged (March 2010) term loan of ₹ 285 crore as against the proposed loan of ₹ 330 crore from the different scheduled banks.

According to the loan arrangement, out of ₹ 285 crore, ₹ 10 crore was to be kept under Debt Service Reserve Account to compensate the service charges for the services rendered by the SIDICO. The Government provided guarantee for the term loan.

We observed (August 2010) that the term loan of ₹ 285[27] crore at an interest rate of 10 *per cent* per annum was sanctioned (March 2010) by the consortium of banks arranged by SBI Caps. As per the directives of the Government the banks had disbursed the entire sanctioned amount in one instalment and SIDICO credited the same in the current account maintained in the respective banks. Out of the above amount, SIDICO had invested ₹ 80 crore under term deposits for 180 days at the interest rate ranging from 4.5 to 6.25 *per cent* per annum in the same banks from where the loan was disbursed, as shown below:

**Table – 5.26**

| Sl. No. | Name of the Bank | Amount kept in term deposits (₹ in crore) for 180 days | Date of investment in FD | Rate of interest on FD (*per cent*) |
|---|---|---|---|---|
| 1. | Bank of Maharashtra | 20 | 30/03/2010 | 6.25 |
| 2. | Dena Bank | 30 | 03/04/2010 | 4.50 |
| 3. | UCO Bank | 30 | 07/04/2010 | 4.50 |

The prudent financial management requires that all funds received should be utilised effectively and efficiently. The available funds which are not required should also be wisely invested to earn maximum profit. The SIDICO without assessing the higher rates of interest available invested ₹ 60 crore in Dena Bank and UCO Bank which had lower rates of interest as compared to Bank of Maharashtra during the same period. This resulted in loss of earning of interest of ₹ 51.78 lakh[28].

[27] *Dena Bank ₹ 60 crore, Allahabad Bank ₹ 75 crore, UCO Bank ₹ 100 crore and Bank of Maharashtra ₹ 50 crore*
[28] *₹ 60 crore x 1.75% x 180/365 =51,78,082*

In reply, the Management stated (May 2011) that the amount was invested in the respective Banks from where the loan was availed of and later on, at the time of renewal, investment was made on the basis of highest rate quoted. The fact remained that due to imprudent investment SIDICO suffered loss of interest of ₹ 51.78 lakh.

The matter was reported to the Government (May 2011); its reply was awaited (September 2011).

## SIKKIM SCHEDULED CASTES, SCHEDULED TRIBES AND OTHER BACKWARD CLASSES DEVELOPMENT CORPORATION LIMITED

### 5.4 Blocking of fund

**Blocking of funds to the extent of ₹ 35.47 crore due to lack of monitoring and non recovery of loan**

The Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited (SABCCO) was established in February 1996 with the main objective for promoting economic and development activities for the benefit of Scheduled Castes, Schedule Tribes and Other Backward Classes of Sikkim by providing financial assistance in the form of loan obtained from the Apex bodies. The SABCCO recovers the loan from the beneficiaries in instalments ranging from five to ten years including moratorium period of three to six months. In case of default, interest would be levied at rates ranging from 4 to 7 *per cent* depending upon the quantum of loan disbursed to beneficiaries.

The details of disbursement of loans (scheme wise) are as follows:

**Table – 5.27**

| Sl. No. | Name of the scheme | No. of beneficiaries covered | Amount disbursed (₹ in crore) | Default beneficiaries as on March 2010 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Number | Amount (₹ in crore) | | |
| | | | | | Principal | Interest | Total |
| 1. | NSTFDC[29] | 2,455 | 30.92 | 1466 | 10.69 | 3.97 | 14.66 |
| 2. | NBCFDC[30] | 2,157 | 23.51 | 1316 | 8.98 | 4.18 | 13.16 |
| 3. | NSFDC[31] | 994 | 7.64 | 525 | 2.57 | 0.73 | 3.30 |
| | **TOTAL** | 5,606 | 62.07 | 3307 | 22.24 | 8.88 | 31.12 |

The above table indicates that the recovery performance of the SABCCO was very weak. As against loan of ₹ 62.07 crore disbursed, an amount of ₹ 31.12 crore including principal and interest was outstanding as on 31 March 2010 from 3,307 beneficiaries for more than three to ten years from its disbursement. This constitutes 50 *per cent* of the total loan disbursed.

We further observed that due to lack of monitoring and internal control, 111 default cases amounting to ₹ 1.45 crore relating to Scheduled tribes wherein the beneficiaries did not pay even a single instalment till March 2011. This resulted in blocking of working capital to the

[29] *National Scheduled Tribes Finance and Development Corporation*
[30] *National Backward Classes Finance and Development Corporation*
[31] *National Scheduled Castes Finance and Development Corporation*

extent of ₹ 1.45 crore which deprived the SABCCO to plough back the funds for further loaning activities and make repayment to the Apex Bodies.

During the test check we also noticed the following deficiencies in implementation of the scheme:

- The management sanctioned Hotel/Grocery/Restaurant loans but failed to insist for a copy of trade Licenses as stipulated in Application Form for disbursement of loan.
- Details of the project report/profile were not obtained to analyse the technical and financial viability of the project.
- The beneficiaries applied loan for electrical goods shop whereas the management sanctioned the same as loan for guest house/lodge. Thus, there was a mismatch between the requirement by the beneficiaries and the purpose for which the loan was sanctioned.
- As per policy of SABCCO, all the outstanding loans and advances upto 2003 were treated as Non-Performing Assets (NPA). The management neither filed any recovery suits against the defaulters nor issued reminders /notices for recovery of dues which has become either bad or doubtful.
- As per the terms and conditions of the Apex bodies, the channelising agency (SABCCO) shall form a project implementation committee where the Apex body's nominee would be included for monitoring the implementation of the project. No joint inspection was conducted for monitoring the implementation of the project of the beneficiaries.

The Management stated (July 2011) that ₹ 31.12 crore reflected as principal default in the table was actually pertained to the outstanding amount and not the default amount. As against ₹ 62.07 crore disbursed, their demand overdue payment to Apex bodies was ₹ 11.74 crore only. The Management further stated that the cases where no payment had been made, priority was given to send legal notices to the concerned beneficiaries. The reply of Management was not in line with the observation raised by audit since the amount projected by the Management as ₹ 11.74 crore was the amount overdue for payment to the Apex bodies and not the amount pending recovery from the beneficiaries. Further, as on March 2011, the pending loan recovery more than three to ten years old has increased to ₹ 35.47 crore from 5,789 beneficiaries.

The matter was reported to the Government (April 2011); its reply was awaited (September 2011).

# STATE BANK OF SIKKIM

## 5.5 Avoidable financial loss

**Avoidable financial loss of ₹ 2.27 crore due to non-levy of Service Tax**

State Bank of Sikkim (SBS) acts as an agency bank for the Government of Sikkim for undertaking various Banking and other financial services. The Bank claims agency commission for the banking service it renders to the Government. Apart from this, the Bank also caters to the demands from the general public.

The banking and other financing services provided by a banking company or financial institution including a non banking financial company were brought under the net of service tax with effect from July 2001 and other commercial entities from September 2004 as per the Finance Act, 2001. Service tax is an indirect tax, the incidence of which shall be passed on to persons to whom banking services are rendered.

We observed (September 2010) that the SBS neither collected / levied service tax from the Government/customers for the services rendered nor paid service tax on the revenue earned from such services for the period from September 2004 to March 2010. As a consequence, Central Excise (CE) Department demanded (September 2009) the particulars of the agency commissions/turnover commissions received from the Government/ customers for undertaking various banking and other financial services for the period from September 2004 to September 2009. The SBS obtained (March 2010) registration from CE authorities and commenced collection of service tax from the Government / customers for providing banking services with effect from April 2010 and remitted the same to CE.

The SBS represented (April 2010) to CE authorities that due to lack of awareness it did not collect service tax from customers for remittance to Central Government.

We further noticed that against the total liability of ₹ 2.89 crore towards service tax, the SBS had remitted (August 2010) ₹ 2.23 crore for the period from September 2004 to August 2009 to CE from its own resources and requested the CE Department for waiver of penal interest amounting to ₹ 0.66 crore. In addition, the SBS had also paid ₹ 3.66 lakh towards service tax for the period from September 2009 to March 2010 from its own resources as the same was not collected from the customers.

Thus, payment of service tax aggregating ₹ 2.27 crore from its own resources was avoidable had it been recovered from the customers. This resulted in avoidable financial loss to the extent of ₹ 2.27 crore.

The Management stated (May 2011) that from April 2010 onwards they had initiated the collection of service tax from the customers. They further stated that only after Service Tax Department summoned the bank, the provisions of Service Tax were known to them. The reply was not convincing as the Service Tax was introduced since 1994 and the compliance of the provisions of Service Tax was a statutory requirement. Due to non adhering to the provisions of the Service Tax Act, the SBS suffered avoidable financial loss of ₹ 2.27 crore which could otherwise be collected from its customers.

The matter was reported to Government (April 2011); its reply was awaited (September 2011).

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