

EXECUTIVE SUMMARY

This Audit Report has been prepared in six chapters. Chapters I to V deal with Social, Economic, Public Sector Undertakings, Revenue and General Sectors and Chapter VI deals with Follow up of Audit observations.

This Report contains 30 audit paragraphs (including 14 general paragraphs) and three Performance Audits. According to the existing arrangements, copies of the draft compliance audit paragraphs and draft performance audits were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies were received from the departments concerned except in respect of 4 paragraphs (1.3, 2.7, 2.8 and 3.3).

SOCIAL SECTOR

COMPLIANCE AUDIT

Against the financial propriety, Human Resource Development Department (HRDD) procured laptops at an expenditure of ₹ 47.43 crore for free distribution to the students. Due to drawal of loan on behalf of and for the HRDD, the Sikkim State Cooperative Supply and Marketing Federation Limited (SIMFED) suffered a loss of ₹ 1.22 crore towards payment of interest on loan.

(Paragraph 1.3)

ECONOMIC SECTOR

PERFORMANCE AUDIT

Implementation of Re-Structured Accelerated Power Development and Reforms Programme in Sikkim

In order to restore the commercial viability of the power distribution sector, Government of India (GoI) introduced (2000-01) the Accelerated Power Development Programme (APDP), which was later renamed (2002-03) as Accelerated Power Development and Reforms Programme (APDRP). The objectives of APDRP were to improve financial viability of State Power Utilities, reduce Aggregate Technical and Commercial (AT&C) losses and increase reliability and quality of power supply. The GoI continued (September 2008) 'Re-structured Accelerated Power Development and Reform Programme (R-APDRP) with revised terms and conditions. The R-APDRP scheme was to be implemented in two parts - Part-A involved establishment of an IT system capable

of energy accounting, auditing and measuring AT&C loss and Part-B involved improvement of distribution infrastructure.

The Energy and Power Department (EPD), Government of Sikkim (GoS) selected two towns namely Gangtok and Upper Tadong for the implementation of the Scheme in the State which had AT&C loss of around 59 and 54 *per cent* before the implementation of the scheme. Part-A of the Scheme, which was approved (September 2009) had been completed (November 2013). The works relating to Part-B of the Scheme, which was approved (August 2010) by GoI were ongoing (October 2015).

The Performance Audit on the implementation of the R-APDRP scheme by EPD for the period from 2010-11 to 2014-15 showed that due to delay in release of counterpart funding by GoS, GoI stalled release of balance funds (₹ 41.07 crore) towards its share of project funding causing adverse impact on implementation of the projects. Detailed Project Reports prepared for Part-B project works were not realistic due to adoption of unverified data of AT&C losses. Further, EPD made certain revisions in the approved DPRs of the projects without approval of PFC/GoI contrary to the scheme conditions. The implementation of the project by EPD was found to be deficient as instances of sub-contracting of project works by the Contractors were noticed in violation of the agreed terms of the works contract. EPD did not plan for dismantling and disposal of the replaced assets leading to possibility of damages/theft of these assets as well as unnecessary occupation of the available space.

Despite the mandatory requirement of the Scheme, EPD did not ensure an active State Level Distribution Reforms Committee in place for monitoring of the Scheme works. EPD also failed to submit the Monthly Progress Reports on the Scheme works to the Power Finance Corporation Limited/GoI for monitoring of the project works and utilisation of project funds. In absence of an effective monitoring mechanism for implementation of the Scheme works, Part-A works of the project were completed after a delay of 18 months from the scheduled date of completion while the Part-B works could be completed to the extent of 45.13 *per cent* only even after lapse of more than one year of the scheduled completion date.

As against the envisaged target of reducing the AT&C losses to the level of 15 *per cent* for a continuous period of five years, EPD could bring down the AT&C losses in respect of two cities (Gangtok and Upper Tadong towns) covered under the Scheme to 36.97 and 34.32 *per cent* respectively during the first five years of Scheme implementation. Due to failure in achieving the targeted level of AT&C loss as well as non-completion of the Part-B project works within five years of sanctioning (August 2010) of the Scheme, EPD was not likely to get the benefit of conversion of GoI loan into grants under the scheme.

The progress of installation of consumer electronic meters by EPD was slow due to taking up the work departmentally.

(Paragraph 2.3)

Horticulture Development in Sikkim

Considering the varied topography, scattered and marginal land holdings of the farmers in Sikkim, horticultural crops were thought to be a viable alternative in generating employment and supplementing farmers' income beyond subsistence level. The efforts of the Department through technological transfer, input and infrastructure support such as green houses, irrigation facilities, etc. had helped the farmers in supplementing their income to an extent. Some of the farmers have also excelled and earned income ranging between ₹ 0.50 and ₹ 2.5 lakh per annum. However, majority of the farmers were not able to come above the subsistence level primarily owing to small land holding and absence of adequate marketing facilities. The Department also needed to expedite the base line survey, formulation of TSG, appropriate preparation of Perspective Plan and Annual Action Plans. The infrastructural facilities such as Integrated Floriculture Pack House, Sorting and Grading line for Sikkim mandarin, etc. should be put to their intended use. The mother blocks should be executed in CoEs to ensure contribution towards improved varieties of various crops as was done in Odisha, Haryana, etc. Suitable steps were required to be initiated to enhance the productivity of fruits, vegetables and spices to catch up with similarly placed States and all India average. This will help to realise full potential of the horticulture and make it an effective tool for accelerating development in the State. The Horticulture Development will receive further fillip once the Department initiates corrective actions in the areas of concern pointed out in this report.

(Paragraph 2.4)

COMPLIANCE AUDIT

Imprudent decision of Energy and Power Department for re-tendering of work led to extra expenditure of ₹ 2.27 crore on execution.

(Paragraph 2.5)

Failure of Energy and Power Department to communicate the Government approved terms for release of Mobilisation Advance (MA) to the contractor led to non-recovery of interest of ₹ 2.79 crore on MA.

(Paragraph 2.6)

The unwarranted inclusion of item of work Water Bound Macadam (WBM)-III in addition to WBM-I and WBM-II in construction of road works by Roads and Bridges Department led to extra avoidable expenditure of ₹ 2.32 crore in 16 works.

(Paragraph 2.7)

Non-adherence to the provision of SPW Manual in tendering process by Roads and Bridges Department, absence of competitive bidding and award of work at abnormally higher tender rate over and above Schedule of Rates (SOR) 2012 rates resulted in an extra expenditure with consequential undue financial benefit to the contractor to the tune of ₹ 2.27 crore and further committed extra benefit of ₹ 5.21 crore on residual work.

(Paragraph 2.8)

Unrealistic assessment of damaged houses, improper planning and execution of works by Rural Management and Development Department resulted in delay in reconstruction of houses, failure in extending intended benefits of providing emergent shelters to displaced victims due to earthquake. Avoidable expenditure of ₹ 1.09 crore was also incurred.

(Paragraph 2.9)

Failure of Sikkim Housing Development Board to recover and adjust the outstanding loans against the retirement/terminal benefits of the Government employees led to non-recovery of loan to the tune of ₹ 63.94 lakh over a period since May 1994. Also, ₹ 33.57 lakh given to 6 ineligible private persons remained to be recovered and no action had been initiated in respect of 59 employees against the outstanding loan of ₹ 23.51 lakh from the Government employees on roll.

(Paragraph 2.10)

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKING)

COMPLIANCE AUDIT

Failure of the internal control system in Sikkim State Co-operative Bank Limited and serious negligence on the part of branch officials led to fraudulent withdrawal of cash aggregating ₹ 24.12 lakh at Hee Gaon Branch.

(Paragraph 3.2)

Sikkim Tourism Development Corporation paid ₹ 0.33 crore to the contractor for the work components not executed and did not utilise components created at a cost of ₹ 0.31 crore.

(Paragraph 3.3)

REVENUE SECTOR

COMPLIANCE AUDIT

Collection of Revenue from outsourced activities in Motor Vehicles Tax: The State Government had outsourced three activities, viz. implementation of HSRP, Smoke emission testing and sale of various forms for availing services under MV Act and Rules. Though the Department successfully implemented the HSRP scheme in the State, however, implementation process lacked efficiency and effectiveness. The data on vehicles' population was not reliable as there was marked difference in the report furnished by the Department based on its computerised system with that shown in its own Annual Reports. The Department failed to assess the reasonability of rates while awarding the contract to the successful bidder for affixing HSRP resulting in higher cost of HSRP affixation in the State as compared to other States. The Department did not float NIT well in time to protect the revenue interest of the State and could not avail competitive rates for subsequent term and instead kept on renewing the contract to the existing firm for a period exceeding a year.

Two Auto Emission Testing Centres were being operated in the State by one firm at an annual royalty of ₹ 0.90 lakh which was increased to ₹ 2.53 lakh as of March 2015. The contract with the existing firm continued to be renewed periodically despite submission of offers from other interested firms for operating the centres. This indicated absence of transparency and competitive bidding in selection process resulting in failure to safeguard the revenue interest of the State. Revenue sharing model was defective as it did not ensure linkage between the increasing number of vehicles and revenue to be deposited to the Government by the firm. Due to incorporation of defective clause in the contract agreement as well as in SMV Rules requiring the owners to undertake pollution control check every six months right from the date of registration even for new vehicles as against the provision of CMV Rules requiring pollution check only after expiry of 12 months from date of initial registration resulted into extra financial burden on vehicle owners. Only 7 to 9 *per cent* of registered vehicles in the State had obtained Pollution Under Control (PUC) certificates which indicated weakness of enforcement mechanism creating the possibility of increasing vehicular pollution in the State.

The services relating to sale of forms for availing various services under Motor Vehicles was outsourced to one agent since 1990-91 against the instruction of the Ministry of Surface Transport, GoI for issue of forms free of cost resulting in extra financial burden to the vehicle owners.

(Paragraph 4.12)

The Audit of Commercial Taxes Division revealed system and compliance deficiencies in the Input Tax Credit system. In the existing system, the ITC module is not directly linked with the quarterly returns module as a result of which there were differences in ITC sales figure as compared with the 'sales to registered dealer' figure reflected in the returns or ITC purchase figure as compared with the local purchase figure reflected in the returns. In most of the cases, scrutiny of returns of selling dealers revealed that the sale to registered dealer were more than ITC allowed by them. Provisions of SVAT 2005 were not incorporated in the system.

(Paragraph 4.13)

Inadequate action on the part of the Assessing Authorities at Commercial Taxes Division to scrutinise the e>Returns submitted by the hoteliers in respect of sales of cooked food and non-alcoholic beverages for the period 2012-13 and 2013-14 led to loss of revenue of ₹ 2.59 crore.

(Paragraph 4.14)

Failure of Energy and Power Department to install Maximum Demand Indicator resulted in non-levy of Demand Charges of ₹ 0.42 crore from High Tension Supply consumers for the load exceeded over and above the Contract/Sanctioned demand.

(Paragraph 4.15)

Excise (Abkari) Department failed to realise committed payment of ₹ 5.79 crore from the person entrusted with management, control and governance of Sikkim Distilleries Limited (SDL) during December 2009 to March 2015. The State exchequer also suffered

a resultant loss of ₹ 1.20 crore towards interest that could have been earned from the investment of revenue not realised.

(Paragraph 4.16)

Error in language in the notification by Excise (Abkari) Department for imposing bottling fee resulted in a revenue loss of ₹ 4.32 crore during the years 2011-12 to 2013-14.

(Paragraph 4.17)

Without issue of original license by Directorate of Sikkim State Lotteries which should have been obtained against payment of ₹ five crore for five years, renewal of the same @ ₹ 50 lakh per annum for five years resulted in revenue loss of ₹ 2.5 crore.

(Paragraph 4.18)

GENERAL SECTOR

PERFORMANCE AUDIT

Performance Audit on “Effectiveness in the functioning of State Pollution Control Board”

The Board did not prepare Annual Action Plans since its inception in 1992. There was no inventorisation of industries, stones crusher/hot-mix plants, DG sets, hotels, HCFs, etc. which resulted in operation without consent as well as non-realisation of revenue by the Board. Several industries, municipalities, healthcare establishments were operating without valid/renewed Consent for Operation. Out of 13 towns, 12 towns were operating without any sewage treatment facilities. Some of the industries were not having any ETPs and in some of the industries, ETPs were not functioning. Municipal waste was not treated properly and treatment facilities were not sufficient to treat waste generated in the State as most of the towns were not having such facilities. The UDHD had not so far constructed any landfill site for disposal of untreated non-biodegradable waste. Hazardous waste was also not disposed in prescribed time as most of the industries had kept accumulated hazardous waste in their premises openly. Out of 69 HCFs, only 20 HCFs had obtained BMW authorisation. Some of the HCFs were not having required treatment equipment. The Board was not fully equipped with lab equipment to carry out various types of water and air testing and monitoring facilities. No Air Quality Monitoring Stations were established despite incurring expenditure of ₹ 30.77 lakh on procurement of equipment. There was no authorised collection centre and registered dealer in the State for handling of e-waste. There was huge shortage of water and air stack lab equipment in the Central Lab of the Board. Out of total funds of ₹ 13.70 crore available with the Board during the period of PA, the Board could utilise ₹ 8.02 crore only with a saving of ₹ 5.68 crore. The Board failed to enforce Water Cess Act and hence could not collect water cess of ₹ 0.60 crore. There was diversion of funds towards various purposes like construction, payments on salaries, purchase of vehicles, furniture, computers, establishment of saw mills, etc. amounting to ₹ 90.01 crore from the Sikkim

Ecology Funds and Environment Cess, which was collected to protect and improve the quality of environment, control and abate environment pollution and to take measures for restoration of ecological balance of the State. The Board did not categorise the industries into 'Red', 'Orange' and 'Green' as a result of which there was substantial shortfall in conducting inspections in these industries. There was no monitoring exercised by the Board on compliance of environmental norms by industries, stone crushers, STPs, MSW Plants, etc. Despite such large number of violations, the Board failed to initiate legal action to contain pollution.

(Paragraph 5.3)