Chapter IV
General Sector

CHAPTER IV
GENERAL SECTOR

4.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2018 deals with the observations on audit of the State Government units under General Sector.

The names of the State Government departments and the total budget allocation and expenditure of the State Government under General Sector during the year 2017-18 are given in the table below:

Table 4.1.1
Details of budget allocation and expenditure

(₹ in crore)

Sl. No.	Name of the Department	Total Budget Allocation	Expenditure
1	Development Planning, Economic Reforms and North Eastern Council Affairs	79.66	35.71
2	Election	7.83	7.83
3	Governor	7.01	6.66
4	Finance, Revenue and Expenditure	1,368.55	1,290.74
5	Home	60.28	50.65
6	Information and Public Relation	16.35	15.78
7	Information Technology	19.86	4.75
8	Judiciary	37.11	30.20
9	Land Revenue and Disaster Management	198.85	132.71
10	Law	1.86	1.76
11	Legislature	17.88	17.13
12	Parliamentary Affairs	9.62	9.50
13	Personnel, Administrative Reforms and Training, Public Grievances	9.75	8.28
14	Police	327.44	304.19
15	Printing and Stationery	13.53	13.53
16	Public Service Commission	4.48	4.48
17	Science, Technology and Climate Change	3.46	3.45
18	Skill Development and Entrepreneurship	72.94	29.72
19	Sports and Youth Affairs	26.60	17.82
20	State Excise (Abkari)	7.76	7.46
21	Vigilance	9.18	6.79
	TOTAL	**2,300.00**	**1,999.16**

Source: Appropriation Accounts 2017-18.

Besides the above, the Central Government had been transferring a sizeable amount of funds directly to the implementing agencies under the General Sector to different departments of the State Government. The major transfers for implementation of flagship programmes of the Central Government are detailed below:

Table 4.1.2
Details of funds directly transferred to the implementing agencies

(₹ *in lakh*)

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing Agency	Funds transferred during the year
1	High Court of Sikkim	e-court phase - II	Registrar General, High Court of Sikkim	1,164.32
2	Land Revenue and Disaster Management Department	MPs Local Area Development Schemes MPLADS.	District Collector, East	1,250.00
3	Sikkim Information Commission	Propagation of RTI Act – Improving Transparency and Accountability in Government.	Sikkim Information Commission	3.00
4	Sports and Youth Affairs	National Service Scheme	Sikkim State NSS Cell	92.79
	TOTAL			**2,510.11**

Source: Finance Accounts 2017-18.

4.2 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments of the Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls, *etc.*

After completion of audit of each unit on a test-check basis, Inspection Reports (IRs) containing audit observations are issued to the heads of the departments. The departments are required to furnish replies to the audit findings within one month of receipt of the IRs. Whenever replies are received, audit findings are either settled based on reply/action taken or further action is required by the audited entities for compliance. Some of the important audit observations arising out of these IRs are processed for inclusion in the Audit Reports of the Comptroller and Auditor General of India. These Audit Reports are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature for taking further appropriate action.

Test audits were conducted involving expenditure of ₹ 604.76 crore of the State Government under General Sector. The details of year-wise break-up is given in **Appendix 4.1.**

This Chapter contains one Performance Audit and three Compliance Audit Paragraphs as given below:

FINANCE, REVENUE AND EXPENDITURE DEPARTMENT

4.3 Performance Audit on Utilisation of Thirteenth and Fourteenth Finance Commission Grants

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

Performance Audit (PA) on Utilisation of Thirteenth and Fourteenth Finance Commission Grant was conducted to assess adequacy of planning process for obtaining full benefits of the recommendations, utilisation of the funds for the purpose for which they were recommended duly complying with the guidelines and adequacy in monitoring of utilisation of grants under Finance Commissions.

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

Highlights:

- ***Failure to fulfil the prescribed conditionality of Thirteenth Finance Commission by the State Government led to curtailment of funds, adversely affecting the implementation of various schemes.***

  (Paragraph 4.3.7.2)

- ***In the absence of modalities for utilising Rural Tourism Facilitation Centre, the assets created at a cost ₹1.33 crore were either lying unutilised or were not used for the intended purposes of facilitating tourism sector in the State. Further, out of 64 completed Homestays, 28 were not put to intended use.***

  {Paragraphs 4.3.7.3 and 4.3.9.1(B)}

- ***The Land Revenue and Disaster Management Department irregularly diverted Disaster relief fund of ₹0.67 crore towards construction of protective wall, cross drain, etc. and incurred excess expenditure of ₹1.44 crore in contraventions of State Disaster Relief Fund guidelines.***

(Paragraph 4.3.8.2)

- ***The iconic project of Sky Walk at Bhaley Dunga was not taken up by the State Government despite release of ₹150 crore by GoI towards the project.***

{Paragraph 4.3.9.1(A)}

- ***Although the Police residential quarters at Rongli and Rhenock were completed at a cost of ₹2.82 crore, they continued to remain idle (December 2018) even after 33-45 months of their completion in the absence of orders for handing over and allotment.***

{Paragraph 4.3.9.1(C)}

- ***While evaluation was never attempted during 2010-18, monitoring was lax as only 12 meetings out of 20 due were held and without any follow-ups for TFC (2010-15). No meeting was held to discuss the progress of utilisation of grants of FFC.***

(Paragraph 4.3.10)

4.3.1 Introduction

The Thirteenth Finance Commission (TFC) and the Fourteenth Finance Commission (FFC) were constituted on 13 November 2007 and 02 January 2013 respectively by the President of India under Article 280 of the Constitution to give recommendations to strengthen fiscal condition of states by way of tax devolution and Grants-in-aid to the states for the period 2010-15 and 2015-20 respectively.

Both the Finance Commissions made recommendations to the President of India on the following matters:

- Distribution of the net proceeds of taxes to be shared between the Centre and the states and the allocation of the respective shares of such proceeds among the states;
- The principles that should govern the Grants-in-aid to the states by the Centre (*i.e.*, out of the Consolidated Fund of India);
- The measures needed to augment the consolidated fund of a states to supplement the resources of its panchayats and municipalities on the basis of the recommendations made by the State Finance Commission;

The recommendations of Finance Commissions about transfer of funds were predominantly in the form of tax devolution and grants. As per the guidelines of the TFC and FFC, the grants were to be released by the Government of India (GoI) to the states in two instalments every year during the award period. The TFC recommended General and State Specific Grants for Sikkim. General Grants consisted of grants for Local Bodies, Disaster Relief and other schemes. Grants to Local Bodies were classified into two parts General Basic Grant (GBG) and General Performance Grant (GPG). GPG was released on fulfilment of nine conditions[1] prescribed by the TFC. To be eligible for GBG, the State was required to send the Utilisation Certificates (UCs) of the previous instalment drawn to the Ministry of Finance from the second instalment of 2010-11 onwards. The annual share of State of Sikkim for GBG and GPG was fixed at 0.217 *per cent* (PRI- 0.214 *per cent* and ULB-0.003 *per cent*) of the total amount of grant allocable to all the states in respect of these components during 2010-15.

The FFC recommended grant for Disaster Relief and for Local Bodies which was also classified in two parts *viz*. GBG and GPG. In case of Gram Panchayats (GPs), 90 *per cent* of the grant formed the basic grant and 10 *per cent,* the performance grant while in case of municipalities, the division was on 80:20 basis. To get GPGs, GPs were required to fulfil conditions, *viz*. achieving an increase in their own revenue over the preceding year as reflected in the audited accounts and submission of audited accounts that relate to the year not earlier than two years preceding the year in respect of which the GP seeks to claim the performance grant. Similarly, Municipalities, in addition to the above two conditions, were required to measure and publish the Service Level Benchmarks related to basic urban services each year for the award period and to make it publicly available by Gazette notification. GPG was to be released from 2016-17 onwards.

Out of a total recommendation of grant amount of ₹ 471.34 crore by the TFC, GoI released ₹ 383.76 crore (81 *per cent*). The release of less grant was due to non-fulfilment of conditions as imposed by the FC. Further, ₹ 185.82 crore (98 *per cent* of total recommendation for three years 2015-2018) was released as grant against the recommendation of ₹ 191.34 crore by FFC for the period 2015-18. Component- wise details of funds allocated, released and utilised under the TFC and FFC are given in **Appendix 4.2.**

Besides, TFC also recommended State Specific Grant (SSG) of ₹ 400 crore for ten projects out of which GoI released ₹ 319.29 crore and expenditure of ₹ 319.27 crore was incurred as detailed in **Appendix 4.3**. The release of less grant was primarily attributed to delay in completion of projects.

4.3.2 Organisational set up

Finance, Revenue and Expenditure Department (FRED) is the Nodal Department for matters related to FC grant in Sikkim. The Rural Management and Development Department (RMDD) and the Urban Development and Housing Department (UDHD) are responsible for utilisation of FC grants relating to PRIs and ULBs respectively.

As per the guidelines of TFC and FFC, there should be in place a State High Level Monitoring Committee (SHLMC) headed by the Chief Secretary of the State and would include the Finance Secretary and Secretaries of the departments concerned as members. SHLMC was responsible for ensuring adherence to the specific conditions in respect of each category of grant, wherever applicable.

[1] *(i) Preparation of ULBs budget as supplement to the main budget document; (ii) Instituting audit system for all local bodies; (iii) Appointment of independent local body ombudsman; (iv) Electronic transfer of grant to local bodies; (v) Prescription of qualification of persons eligible for appointment of members of State Finance Commission; (vi) Enabling ULBs to levy property tax without hindrances; (vii) Establishing Property Tax Board; (viii) Service level benchmarking; and (ix) Fire hazard mitigation plan for million plus cities; condition (ix) was not applicable to the state of Sikkim.*

4.3.3 Audit objectives

The PA on 'Utilisation of TFC and FFC grant' was taken up with the objectives to assess whether:

- planning process was adequate, effective and according to the guidelines on the issues;
- allocation, release and utilisation of fund, were made as per the guidelines;
- implementation of schemes was done as per guidelines and for the intended purposes; and
- there was a mechanism for adequate and effective monitoring and evaluation of utilisation of grants.

4.3.4 Audit criteria

The criteria adopted for achieving the objective of the PA were:

- Recommendations and guidelines of the TFC and FFC;
- Orders/instructions issued by the GoI and Government of Sikkim;
- The Sikkim Panchayat Act, 1993;
- The Sikkim Municipal Acts, 2007;
- The Sikkim Financial Rules, 1979; and
- Sikkim Public Works Code and Manual, 2009.

4.3.5 Scope of audit

The scope of the PA on 'Utilisation of TFC and FFC Grant' included utilisation of FC grants by the departments concerned of the State Government and the Local Bodies. The PA covered a period of six years from 2012-13 to 2017-18.

Sampled schemes for scrutiny in audit were selected from the schemes implemented by Local Bodies as well as line departments such as Tourism & Civil Aviation Department (TCAD), Land Revenue & Disaster Management Department (LRDMD), Police Department, Forest, Environment & Wildlife Management Department, Roads & Bridges Department and Rural Management & Development Department (RMDD) as detailed below:

(I) For Local Bodies which received grants under the Thirteenth and Fourteenth Finance Commissions, the following selections were made:

Table -4.3.1
Sampling of Local Bodies

Local Body Units	District	Total Numbers of Units	Selected Units	Remarks
Zilla Panchayats	East	1	1	All four units selected. (100 *per cent* selected)
	North	1	1	
	West	1	1	
	South	1	1	

Local Body Units	District	Total Numbers of Units	Selected Units	Remarks
Total of ZPs		**4**	**4**	
Gram Panchayat	East	50	13	Out of 176 units, 43 (25 *per cent* selected) were selected using Simple Random Sampling Without Replacement.
	North	24	4	
	West	55	14	
	South	47	12	
Total of GPs		**176**	**43**	
Urban Local Bodies	Municipal Councils	3	1[2]	Out of 3 units, 1 (33 *per cent* selected) was selected using Probability Proportionate to Size Without Replacement.
	Nagar Panchayats	3	1[3]	
	Municipal Corporation	1	1[4]	Single unit selected (100 *per cent* selected).
Total of ULBs		**7**	**3**	
Grand Total of Local Bodies		**187**	**50**	

(II) For other schemes (excluding the ones under Local Bodies) including State Specific schemes, the following selection was made:

The TFC recommended grants for 10 State Specific Schemes[5] to address the specific issues and local problems of the State and grants for 13 General Schemes[6]. The grant for 13 General schemes also included grant for Disaster Relief recommended by FFC. Out of 23 schemes, eight schemes (four State Specific Schemes and four General Schemes) were selected on the basis of Probability Proportionate to Size without Replacement as shown below:

Table – 4.3.2

Sampling of schemes

Total scheme		Scheme selected		Remarks
No. of schemes	**Grant received (₹ in crore)**	**No. of schemes**	**Grant received (₹ in crore)**	
23[5&6]	679.84	8*	583.14	Eight schemes (34 *per cent*) using Probability Proportionate to Size, where grant released was used as size.

* **State Specific Schemes**-*(i) Sky Walk at Bhaley Dunga,(ii) Development of Village Tourism,(iii) Repair/ Renovation of Suspension Foot Bridges under North District of Sikkim and (iv) Police Residential & Non-Residential Building* **Others schemes**-*(i) Disaster Relief, (ii) Maintenance of roads by Roads & Bridges Department, (iii) Maintenance of roads by RMDD and (iv) Protection of Forest.*

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[2] *Namchi Municipal Council*

[3] *Rangpoo Nagar Panchayat*

[4] *Gangtok Municipal Corporation*

[5] *(i) Sky Walk at Bhaley Dhunga, (ii) Development of Village Tourism, (iii) Repair/ Renovation of Suspension Foot Bridges under North District, (iv)Upgradation of Namchi water Supply and overhauling of Changay source for Gyalshing and Rapdentse Water Supply, (v) Police Training Centre at Yangyang, (vi) Residential & Non-residential building for Police Force, (vii) Additional storage facilities for essential commodities, (viii)Reinforcement of existing security infrastructure new check post, improving road, security equipment etc.,(ix) Establishment of State Capacity Building Institute at Burtuk, and (x) Conservation of Heritage and Culture*

[6] *(i) Disaster Relief, (ii) Capacity Building for disaster response, (iii) Elementary Education, (iv) Improvement in Justice Delivery, (v) Incentives for issuing UIDS, (vi) District Innovation Fund, (vii) Statistical system Improvement, (viii) Employee and Pension data base, (ix) Protection of Forest, (x) Water Sector Management (Irrigation), (xi) Maintenance of roads & bridges by RMDD, (xii) Maintenance of roads & bridges by UD&HD and (xiii) Maintenance of roads & bridges by R&B Department*

4.3.6 Audit methodology

The PA commenced with an entry conference (28 May 2018) with the Secretary, RMDD, the Secretary, Tourism and Civil Aviation Department (TCAD), the Controller of Accounts and the Principal Director from FRED and representatives of nodal departments. Records of schemes implementing departments, four Zilla Panchayats, three selected ULBs and 43 GPs were test checked. Works were also physically verified along with the representatives of departments. On conclusion of audit, an exit conference was held (21 December 2018) during which the audit observations were discussed with the Additional Chief Secretary, FRED, the Secretary, RMDD, the Secretary, TCAD, the Secretary, UDHD, the Inspector General of Police, the Controller of Accounts and Principal Director from FRED and other officials from the respective departments of the State Government and their views have been taken into consideration while finalising this PA.

Audit findings

4.3.7 Planning process

Audit objective: Whether planning process was adequate, effective and according to the guidelines.

4.3.7.1 Non-preparation of Action Plan

The FFC guidelines (Paragraph-4) stipulated that all expenditure incurred by Panchayats and Municipalities on basic services[7] within the functions devolved to them under the State laws may be incurred after preparation of Action Plans in accordance with the relevant rules, regulations, processes and procedure.

Audit noticed that in case of GPs, expenditure was incurred after preparation of Gram Panchayat Development Plans. However, in case of ULBs, need-based plans in consultation with the public through councillor were not prepared prior to utilisation of the FC funds. Further, scrutiny of records of selected ULBs revealed the following deficiencies due to non-preparation of plan:

- Gangtok Municipal Corporation (GMC) received ₹ 1.28 crore during February 2017 and ₹ 2.16 crore during March 2017. In October 2017, an amount of ₹ 3.50 crore (out of total fund available ₹ 3.76 crore) from the grant was invested as fixed deposit for one month and again ₹ 3.00 crore was reinvested up to December 2017, instead of utilising the same for spending on basic services. Non-preparation of estimates and delay in obtaining approval of the General Body attributable to non-utilisation of grants.
- GMC received GBG of ₹ 3.15 crore and ₹ 2.16 crore during 2015-16 and 2016-17 respectively under FFC. However, without ascertaining the actual requirement of funds by preparing need based plans, the fund was allocated equally among 19 Councillors at the rate of ₹ five lakh and ₹ 4.87 lakh during 2015-16 and 2016-17 respectively, which was irregular. The GMC was unable to provide any rationale behind the allocation of

7 *Water Supply, Sewerage Management, Solid Waste Management, Storm Water Drainage and maintenance of community assets.*

equal amounts of funds to the councillors nor did it consider any area-specific requirements before such allocation.

Similarly, in the absence of proper action plans, Zilla Panchayat, Gangtok failed to utilise the TFC fund, leaving a huge unspent balance of ₹ 1.50 crore out of ₹ 28 crore (5.36 *per cent*) as on March 2018, though TFC period was over in 2015.

The UDHD stated (December 2018) that due to non-submission of plans by the councillors, GMC was not able to prepare the Annual Action Plan. Hence, it was decided in the meeting of councillors to allocate the fund equally to the councillors. The RMDD did not furnish any reply till date. The reply was not acceptable as the funds were to be released only after preparation of proper plans as enshrined in the FFC guidelines.

4.3.7.2 Non-fulfilment of conditions prescribed by the Finance Commissions

(A) Conditions prescribed by Thirteenth Finance Commission

As per TFC recommendations, the State was required to initiate preparatory action to be taken as a part of the planning process in order to avail the grant for intended purpose. For availing the performance grant from the year 2011-12, the State of Sikkim was required to fulfil eight out of nine conditions prescribed by the TFC by 31 March every year. These were aimed at putting in place a credible framework for analysing the performance of Local Bodies and for making them responsible for their role. The extent of compliance to these conditions was as detailed below:

Table-4.3.3
Status of compliance of conditions

Sl. No	Conditions prescribed by TFC	Status of Action taken by State Government
(i)	Preparation of ULBs budget as supplement to the main budget document.	Separate budget documents have been prepared by the ULBs in addition to main budget document.
(ii)	Instituting audit system for all Local Bodies.	Audit of PRIs and ULBs have been assigned to C&AG of India under Sikkim Panchayat Act, 1993 and the State Government entrusted (16.6.2011) Technical Guidance and Support arrangement to C&AG for audit of Local Bodies. Directorate, Local Fund Audit was established (June 2012) in the State by enactment of 'The Sikkim Local Fund Audit Act, 2012'.
(iii)	Appointment of Independent Local Body Ombudsman.	The RMDD appointed Ombudsman in January 2014 after a delay of four years.
(iv)	Electronic transfer of grant to Local Bodies.	Electronic transfer has been started since March 2018 but was not done during the TFC award period.
(v)	Prescription of qualification of persons eligible for appointment of members of State Finance Commission as per Article 243I (2) of the Constitution of India.	The Sikkim (Composition of Finance Commission) Rules, 1995 prescribed the qualification of persons eligible for appointment of members of State Finance Commission.
(vi)	Enabling ULBs to levy property tax without hindrances.	Neither any mechanism was put in place to enable ULBs to collect property tax nor was the Property Tax Board established. Hence, Property tax was not collected thereby limiting the resources of the ULBs and leading to diversion of funds towards salaries.
(vii)	Establishing Property Tax Board.	

Sl. No	Conditions prescribed by TFC	Status of Action taken by State Government
(viii)	Service level benchmarking.	In Sikkim, only one service solid waste management was under the ULBs. State Government notified benchmarking of solid waste management service for GMC in September 2013 and for all the seven ULBs during April 2016 for the period from 2016-17 to 2020-21. Further, during June 2017 targeted benchmarking for the year 2016-17 was revised and achievement for 2016-17 was notified.

Source: Compiled by Audit based on original records in ULBs and RMDD

As would be noticed, while five (out of eight) conditions were fully complied with, the remaining three had not been fully complied so far as detailed below:

- According to the conditions vi & vii of TFC recommendation, the State was required to establish property tax to enable the ULBs to collect property tax. Audit noticed that the proposal for levying property tax was submitted to the State Government in February 2015 and again in November 2016. However, the proposal was sent back by the Government for re-examination. Since the Department has not resubmitted the proposal till date, the property tax board has not been established as yet.
- Similarly, according to TFC recommendations (conditions viii), the State was also required to start service level benchmarking for four basic services provided by the ULBs. State Government notified benchmarking of solid waste management service for GMC in September 2013 and for the remaining seven ULBs during April 2016 for the period from 2016-17 to 2020-21. During June 2017, targeted benchmarking for the year 2016-17 was revised and achievement for 2016-17 was notified. However, ULBs except Rangpo Nagar Panchayat were unable to furnish records relating to service level benchmarking.
- Further, although stipulated in the Handbook of Service Delivery Benchmarking, developed by the Ministry of Urban Development, GoI, ULBs had not devised any systems for capturing data from field level staff and no specific person has been designated with the mandate to collate the data received from the field and generate the performance reports. Hence, authenticity of data regarding the achievement could not be vouchsafed in audit.

Failure to fulfil the prescribed conditions resulted in curtailment in the amount of grants as mentioned in Paragraph 4.3.8 thereby, adversely affecting the implementation of various schemes.

The UDHD stated (December 2018) that a steering group headed by the Chief Secretary was constituted in 2011 and working group constituted for implementation of property tax during March 2011. The matter was submitted to the Government and was sent back to the Department for re-examination. The matter would be forwarded for legal scrutiny. As the issue involved the policy decision of the Government, there was delay in levying property tax.

However, the Department not only delayed submission of proposal to Government but also had not taken adequate steps to resubmit the proposal to the Government after November 2016 to ensure implementation of property tax to augment the revenue of ULBs.

(B) Conditions prescribed by Fourteenth Finance Commission

The FFC recommended measures to augment resources of Local Bodies, *viz*., (i) assessment of properties every four or five years and introducing the system of self-assessment of property tax by ULBs; (ii) levy of vacant land tax; (iii) imposition of advertisement tax by Local Bodies; (iv) levy of entertainment tax by ULBs; (v) leasing and renting of productive local assets by ULBs; (vi) rationalisation of service charges to recover operation and maintenance costs; (vii) sharing of royalties; and (viii) compensation for providing civic services to Government properties.

Out of the above eight measures, the State Government initiated action only in respect of two *i.e.* levy of advertisement tax and entertainment tax by ULBs to augment the resources of the ULBs. The Details are shown below:

Table-4.3.4

Status of action taken by the State Government on the measures suggested by the Finance Commission to augment resources of Local bodies

Sl. No	Measures suggested by FFC	Status of action taken by State Government
i	The assessment of properties may be done every four or five years and the urban local bodies should introduce the system of self-assessment of Property tax.	Property tax has not been introduced so far.
ii	Urban local bodies do not have a systemic approach to listing of vacant lands. Therefore, such lands often go untaxed and the vacant land tax is demanded only when owners approach authorities for approval of building plans. State may consider the levy of vacant land tax.	Levy of vacant land tax was not yet introduced in Sikkim.
iii	States to consider steps to empower local bodies to impose advertisement tax and improve own revenues from this source.	Display of advertisement in the municipal jurisdiction were entrusted to Urban local bodies w.e.f. June 2013.
iv	States to review the structure of entertainment tax and to take action to increase its scope to cover more and newer forms of entertainment.	Entertainment tax was entrusted to Urban local bodies w.e.f. June 2016, but structure of entertainment tax was not reviewed to increase its scope.
v	State Governments take action to assign productive local assets to the panchayats, put in place enabling rules for collection and institute systems so that they can obtain the best returns while leasing or renting common resources.	Productive local assets have neither been assigned to the panchayats nor enabling rules for collection and systems to obtain the best returns while leasing or renting common resources were framed/set up.
vi	The urban local bodies rationalise their service charges in a way that they are able to at least recover the operation and maintenance costs from the beneficiaries.	The urban local bodies have levied service charges only in case of garbage collection and disposal. However, the charges have not been rationalised to recover operation and maintenance cost.
vii	Some of the income from royalties to be shared with the local body in whose jurisdiction the mining is done. This would help the local body ameliorate the effects of mining on the local population.	There is no mining activity except sand and stone from the river bed in Sikkim. Royalty on sand and stone was ideally to be shared between State Government and the Local Bodies in whose jurisdiction the quarries of sand and stone lie. However, no effort was made by the State Government to share 'Royalty' between State Government and Local Bodies as of December 2018.
viii	State Governments examine in depth the issue of properly compensating local	State Government did not issue instructions to their respective departments to pay appropriate

Sl. No	Measures suggested by FFC	Status of action taken by State Government
	bodies for the civic services provided by them to Government properties and take necessary action, including enacting suitable legislation, in this regard.	service charges relating to work executed by LBs on behalf of respective departments as of December 2018.

Thus, the State Government had not undertaken sufficient measures to augment the resources of the Local Bodies apart from levying of advertisement tax and entertainment tax by ULBs. As a result, ULBs remained dependent on the transfer of funds from the State and the Central Government which constituted 62 to 75 *per cent* of their total receipts during the period from 2015-16 to 2017-18.

The UDHD stated (December 2018) that instructions had been given to all ULBs for rationalisation of service charges for recovery of operation and maintenance cost. Regarding sharing of royalties with the local bodies in whose jurisdiction the mining (extraction of sand and stone) was done, it was stated that no such jurisdiction falls under ULBs and if any such extension befalls on such change of jurisdiction, the same shall be notified for recovery of royalty. However, no documentary evidence regarding issue of the instruction regarding rationalisation of service charges to recovery of operation and maintenance cost was furnished to Audit.

During exit conference (December 2018), Additional Chief Secretary, FRED, stated that most of the levy/taxes will be introduced by the Government shortly to augment the resources of ULBs.

4.3.7.3 Absence of action plan for utilisation of grants for Rural Tourism Facilitation Centre

The TFC recommended construction of Homestays (HSs), Rural Tourism Facilitation Centre (RTFC), Tourist Wayside Amenities and Training/exposure programmes, *etc.* at a cost of ₹ 80 crores for 'Development of Rural/Village Tourism'.

Audit noticed that although the objective of construction of RTFCs was spelt out in the DPR, the modalities of functioning of RTFCs were not finalised. Joint physical verification of the three RTFCs (out of 10 completed RTFCs) revealed that these were not put to intended use due to failure in clearly delineating the mode of operation of the RTFCs.

Thus, due to lack of proper action plan about utilisation of RTFCs, the assets created at a total cost of ₹ 1.33 crore were not used for the intended purposes of providing linkage to different rural tourism programmes and catering to the clusters of rural homestays in a particular region as discussed in Paragraph 4.3.9.1(B).

The TCAD stated (December 2018) that it has been decided to transfer the RTFCs to the local Tourism Development Societies/Committees for promotion of the Homestays. The reply of the Department was not tenable as the modalities of running of RTFCs were not finalised. In the exit conference, the Secretary stated that modalities of running RTFCs would be furnished to Audit which was awaited.

Recommendation (1)

- *The State Government should initiate steps to strengthen the planning process to ensure that funds recommended by FFC and future FCs are received in full after* *adhering to the prescribed bench marks/FC conditions and utilised properly for the intended purposes.*

4.3.8 Financial Management

Audit Objective: Whether allocation, release and utilisation of funds were made as per guidelines.

GoI allocated funds to State Government based on Finance Commission recommendations in a phased manner. Year-wise allocation, release and utilisation of grants for the period 2010-11 to 2017-18 were as under:-

Table-4.3.5
Details of fund allocated, release and expenditure under TFC and FFC

(₹ in crore)

Year	Total funds recommended			Total funds Released by GoI			Expenditure		
	General schemes	State specific schemes	Total	General schemes	State specific schemes	Total	General schemes	State specific schemes	Total
TFC									
2010-11	55.09	00	55.09	35.25	00	35.25	29.50	00	29.50
2011-12	80.93	100	180.93	87.23	19.65	106.88	84.08	13.30	97.38
2012-13	99.29	100	199.29	65.88	101.07	166.95	62.82	22.74	85.56
2013-14	111.90	100	211.90	83.97	22.54	106.51	93.22	45.71	138.93
2014-15	124.14	100	224.14	83.28	176.03	259.31	99.11	215.00	314.11
2015-16	00	00	00	28.15	0	28.15	14.72	22.52	37.24
Total	**471.34**	**400**	**871.35**	**383.76**	**319.29**	**703.05**	**383.45**	**319.27**	**702.72**
FFC									
Year	**Total fund allocated**			**Total fund Released by GOI**			**Expenditure**		
2015-16			51.82			49.43			49.43
2016-17			66.70			65.78			65.78
2017-18			72.82			70.61			70.61
Total			**191.34**			**185.82**			**185.82**

Source: Data furnished by FRED. Figures include 10 per cent State share under Disaster Relief.

4.3.8.1 Short/Non-receipt of funds due to non-fulfilment of conditions of release

As seen from Table-4.3.5 above, State Government received ₹ 703.05 crore under the TFC as against the recommended amount of ₹ 871.35, with a short fall of ₹ 168.30 crore (19 *per cent*). Similarly, in case of the FFC, out of total allocation of ₹ 191.34 crore for three years, *i.e.* 2015-18, State Government received ₹ 185.82 crore leading to a short receipt of ₹ 5.52 crore (2.88 *per cent*). Short receipt of grant by the State Government was primarily due to non-fulfilment of conditions as decided by the FFC regarding release of fund by the State Government and delay in completion of projects as detailed below:

➢ ***Non release of adequate funds for Water Sector Management***

TFC recommended an incentive grant of ₹ 5,000 crore for Water Sector Management for all the states, out of which, Sikkim's share was ₹ four crore. For availing the incentive grant, the State was required to achieve a recovery rate of 9.6 *per cent* in respect of Irrigation Water Tax in 2011-12 to be increased by three *per cent* every year thereafter.

Audit noticed that the State Government had not initiated any measure to levy water charges to ensure achieving 'recovery rate' during 2011-12 to 2014-15. Not only this, the State Government did not collect the water tax levied under the Sikkim Irrigation Water Tax Act, 2002 as the Chief Minister directed (July 2014) to keep it in abeyance till further orders. The Department neither took up the matter thereafter for review nor levied the water tax. Thus, due to non-levy of water tax and non-achievement of recovery rate thereof, the State was deprived of the incentive grant for Water Sector Management amounting to ₹ four crore. Thus, the State lost an opportunity in collecting revenue in water tax as well as State share of ₹ four crore.

➢ ***Short receipt of grant under elementary education***

TFC recommended grant of ₹ 24,068 crore for elementary education for all states out of which, the share of Sikkim was ₹ five crore. In order to ensure that these grants did not substitute for the current expenditure of the States on elementary education, the Commission stipulated that the expenditure on elementary education should increase by at least eight *per cent* annually over the expenditure of previous year. The grant for the first year (2010-11) was to be released unconditionally.

Audit check revealed that the State Government had achieved growth rates of (-) 15 *per cent* in 2011-12, seven *per cent* in 2012-13, 23 *per cent* in 2013-14 and 19 *per cent* in 2014-15 in the expenditure on elementary education. As such, the State Government was entitled to grant of ₹ three crore for the period 2010-2015 {2010-11 (unconditional), 2013-14 and 2014-15} as detailed in the table below:

Table – 4.3.6
Short release of grants under elementary education

(₹ *in crore*)

Year	Rate of increase in expenditure on elementary education (*per cent*)	TFC grants due to be received	Grants received
2010-11	-	1.00	1.00
2011-12	(-) 15	0.00	0.00
2012-13	7	0.00	1.00
2013-14	23	1.00	0.00
2014-15	19	1.00	0.00
TOTAL		**3.00**	**2.00**

Out of ₹ three crore of grants received under elementary education, ₹ one crore was released unconditionally by GoI during 2010-11 and further ₹ one crore was released during 2012-13, although, growth rate achieved during 2012-13 was less than eight *per cent*. However, during 2013-14 and 2014-15 despite achieving the growth rate of more than eight *per cent*, the State Government did not claim the grant under elementary education. Thus, the State lost ₹ one crore in overall terms under elementary education because it did not claim the entitled grants.

➢ ***Short release of grant for Sky Walk at Bhaley Dhunga and Development of Village Tourism***

The TFC recommended grant of ₹ 280 crore as State specific grants for Sky Walk[8] at Bhaley Dhunga (₹ 200 crore) and Development of Village Tourism (₹ 80 crore). Against this, GoI released only ₹ 150 crore and ₹ 60 crore for Sky Walk and Village Tourism projects respectively. Audit observed that the non-release of balance fund of ₹ 70 crore (₹ 50 crore for Sky Walk and ₹ 20 crore for Village Tourism projects) was owing to

[8] *An elevated bridge like walkway between buildings.*

non-completion of projects within the award period. Audit also noticed that the construction of main component of Sky walk had not yet commenced and in case of Village Tourism, only 15 out of 20 Rural Tourism Facilitation Centres (RTFCs) and 699 out of 737 homestays were completed (December 2018). Detailed audit comments are brought out in Paragraph 4.3.9.1(A) & 4.3.9.1(B).

The TCAD stated (December 2018) that the delay in completion of works was due to delay in obtaining forest clearance as well as delayed execution of works by the contractors who were Co-operative Societies. Thus, pending completion of works, the final instalment of fund against these State Specific grants could not be availed from the GoI.

➢ ***Non fulfilment of conditions resulted in short receipt of Grant for Local Bodies***

Against the total recommendation for release of grants of ₹ 280.54 crore under TFC and FFC, GoI released ₹ 209.04 crore to State Government during 2010-18 towards GBGs and Performance Grant to Local Bodies as detailed below:

Table-4.3.7
Details of fund allocation, released to Local Bodies under TFC

(₹ in crore)

Year	Recommendation					Release					Short release				
	Basic Grant		Performance Grant		Total	Basic Grant		Performance Grant		Total	Basic Grant		Performance Grant		Total short release
	PRI	ULB	PRI	ULB		PRI	ULB	PRI	ULB		PRI	ULB	PRI	ULB	
2010-11	17.16	0.24	-	-	17.40	8.58	0.12	-	-	8.70	8.58	0.12	0	0	8.70 (50)
2011-12	19.92	0.28	6.80	0.16	27.16	30.11	0.12	-	-	30.23	-10.19	0.16	6.80	0.16	-3.07 (-11.30)
2012-13	23.27	0.32	15.98	0.06	39.63	11.63	0.15	1.06	0.02	12.86	11.64	0.17	14.92	0.04	26.77 (67.55)
2013-14	27.61	0.39	18.83	0.22	47.05	27.22	0.15	-	0.03	27.40	0.39	0.24	18.83	0.19	19.65 (41.76)
2014-15	32.75	0.46	22.29	0.46	55.96	13.80	0.17	3.44	-	17.41	3.54	0.29	9.70	0.41	13.94 (52.44)
2015-16						15.41		9.15	0.05	24.61					
TOTAL	**120.71**	**1.69**	**63.90**	**0.90**	**187.20**	**106.75**	**0.71**	**13.65**	**0.10**	**121.21**	**13.96**	**0.98**	**50.25**	**0.80**	**65.99 (35.25)**

Source: Information furnished by RMDD & UDHD

Table-4.3.8
Details of fund allocation, released to Local Bodies under FFC

(₹ in crore)

Year	Allocation					Release					Short release				
	Basic Grant		Performance Grant		Total	Basic Grant		Performance Grant		Total	Basic Grant		Performance Grant		Total short release
	PRI	ULB	PRI	ULB		PRI	ULB	PRI	ULB		PRI	ULB	PRI	ULB	
2015-16	16.03	4.79	0	0	20.82	16.04	2.40	0	0	18.44	-0.01	2.39	0	0	2.38(11.43)
2016-17	22.20	6.63	2.91	1.96	33.70	22.20	5.71	2.91	1.96	32.78	0	0.92	0	0	0.92(2.73)
2017-18	25.65	7.66	3.30	2.21	38.82	25.65	7.66	3.30	0	36.61	0	0	0	2.21	2.21(5.69)
TOTAL	**63.88**	**19.08**	**6.21**	**4.17**	**93.34**	**63.89**	**15.77**	**6.21**	**1.96**	**87.83**	**-0.01**	**3.31**	**0**	**2.21**	**5.51(5.90)**

Source: Information furnished by RMDD & UDHD

The total short release in case of TFC grant was 35 *per cent* during 2010-11 to 2014-15 and aggregated to ₹ 65.99 crore by the end of 2016.

➢ ***Curtailment of Performance Grant***

The performance grant amounting to ₹ 6.80 crore was curtailed during 2011-12 as the State Government did not comply with the conditions[9] prescribed by the Finance Commission before March.

Similarly, in respect of FFC, Ministry of Housing and Urban Affairs, GoI brought out a new scheme from 2017-18 for determining the eligibility of ULBs for Performance Grant on the basis of a scoring system by giving marks for various parameters like hosting of audited accounts on ULB website, covering establishment costs and O&M from own receipts, ratio of Capital expenditure to total expenditure, *etc.*

Scrutiny of records revealed that only one ULB *i.e.* GMC claimed PBG for the year 2017-18 and the same was approved by the Coordination Committee for Municipalities under FFC during May 2018. The receipt of grant was still awaited from GoI. However, the remaining six ULBs could not claim PBG as they had not scored a minimum of 50 marks in the parameter as stipulated by GoI. Hence, out of seven ULBs, only one was eligible for Performance grant which indicated that the ULBs in Sikkim did not ensure achievement of benchmarks set by GoI resulting in the ULBs being deprived of PGs to the tune of ₹ 2.21 crore.

During the exit conference, the Secretary, UDHD stated (December 2018) that all the ULBs have since achieved the qualifying score to avail the grants. However, records in this regard were not provided to Audit.

Short release of funds by GoI was also noticed during 2012-13 to 2014-15, reasons for which were not found on records.

4.3.8.2 State Disaster Relief Fund

Grants under the State Disaster Relief Fund (SDRF) were released by the GoI on the recommendation of FC to meet the expenditure for providing immediate relief to victims of cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst and pest attack. TFC and FFC released ₹ 125.70 crore and ₹ 98.00 crore respectively. The entire amount of ₹ 223.70 crore was transferred by State Government to SDRF. Audit analysis of the SDRF brought out the following points:

(A) Unauthorised utilisation of fund

As per the SDRF guidelines issued by Ministry of Home Affairs, GoI, the SDRF should be used for providing immediate relief to the victims of natural calamities such as cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst and pest attack. Utilisation of SDRF towards disaster preparedness, restoration, reconstruction and mitigation was not permitted. Funding for these activities should be built into the State Plan.

- Audit, however, observed that LRDMD spent ₹ 0.67 crore (₹ 0.29 crore from 13th FC and ₹ 0.37 crore from 14th FC) out of SDRF on 15 works/items between 2012-13 to 2016-17 towards construction of protective wall, cross drain, overhauling of RO

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[9] *(i) Enabling ULBs to levy property tax without hindrances (ii) Establishing Property Tax Board (iii) Service level benchmarking.*

based drinking water Plant at M.G Marg, Gangtok, purchase of vehicle for SDM, Soreng, *etc.* as detailed at **Appendix 4.4**. Out of above mentioned 15 works/items, expenditure incurred on some of the works/items *viz.* purchase of wind cheaters, immediate restoration of Teacher's Training building and Degree College, *etc.*, was permissible out of SDRF, but these works were executed at a time which did not have proximity to any disaster.

On being asked by Audit, the Department accepted the audit observation.

Thus, diversion of funds meant for providing immediate relief to victims of natural calamities was in violation of the conditions under which the Grants were released. Moreover, the expenditure on activities not covered under this Fund, should have been incurred out of State's own budget. The diversion of funds also resulted in reduction in available funds for taking care of immediate relief in the event of any natural disaster.

- Further, District Collector (North) utilised ₹ 47.65 lakh (**Appendix 4.5**) of SDRF meant for ex-gratia relief towards immediate repairs/debris clearances caused due to landslides. Works executed included repair of school playground, construction of log bridges, repair of water supply line, debris clearances, slip clearances, *etc.* during the period from 2015-16 to 2017-18. Since, these activities were to be executed by the Nodal Department, necessary corrections are required to be carried out in the books of Accounts of respective years.

(B) *Non-permissible expenditure beyond prescribed limit under SDRF*

As per Paragraph 15 of the guidelines on Constitution and Administration of SDRF issued by the Ministry of Home Affairs (April 2015), the norms for the amounts to be incurred on each approved item of expenditure was to be fixed by the Ministry of Home Affairs with the concurrence of Ministry of Finance. Any excess expenditure beyond the prescribed limit should be borne on the budget of the State Government and should not to be charged to SDRF.

Scrutiny of records of the Secretary, LRDMD revealed that the Department incurred an expenditure of ₹ 2.05 crore (out of ₹ 2.39 crore) which was beyond the limit of ₹ 61.50 lakh prescribed for the works undertaken under the SDRF guidelines as detailed below:

Table- 4.3.9
Details of approved norms and expenditure incurred

(₹ in lakh)

Items/ Particulars	Limits prescribed	No. of works	Amount as per guidelines	Actual expenditure	Excess
Repair of damaged primary school building	Up to ₹ 2.00 lakh/ unit	09	18.00	28.42	10.42
Repair of drinking water scheme	Up to ₹ 1.50 lakh/ unit	26	39.00	166.84	127.84
Minor irrigation schemes/ Canal	Up to ₹ 1.50 lakh/ scheme	03	4.50	10.15	5.65
TOTAL		**38**	**61.50**	**205.41**	**143.91**

Source: Guidelines on Constitution and Administration of the SDRF and Departmental records

Thus, the Department incurred excess expenditure of ₹ 1.44 crore from SDRF during 2016-17 in 38 cases (out of 74 cases) which should have been borne by the State Government. Excess expenditure of ₹ 1.44 crore meant for providing immediate relief to victims of natural calamities would reduce the availability of adequate funds and in the event of any major disaster.

The LRDMD stated (December 2018) that the estimated cost was based on the PWD Schedule of Rates and the estimated cost, based on the applicable SOR were approved by the State Executive Committee to avoid the execution of sub-standard works. The reply was not acceptable as any amount spent by the State over and above the ceiling should have been incurred by the State Government from its own funds and by not diverting from the SDRF.

Recommendation (2)

- *The State Government should ensure fulfilment of prescribed conditions by the FC in order to get conditional grants and also strengthen financial management to avoid cases of excess expenditure, diversion of funds, etc.*
- *The amount of fund diverted from SDRF may also be recouped from the State fund.*

4.3.9 Implementation of Schemes

Audit Objective: Whether implementation of schemes was as per the guidelines and for the intended purposes.

As mentioned in **Appendix 4.2 and 4.3**, TFC recommended grants for 10 State Specific Schemes, and 13 General Schemes to be implemented by various departments besides schemes to be implemented by the Local Bodies. Similarly, FFC recommended grants for Disaster Management and Local Bodies. Audit scrutinised four (out of 10) State Specific Schemes, four (out of 13) General Schemes and the schemes to be implemented by Local Bodies recommended by the FC. Results of audit are brought out in the following paragraphs:

4.3.9.1 Implementation of State Specific Schemes

The total expenditure on the selected four State Specific Schemes[10] was ₹ 255.05 crore which constituted 80 *per cent* of the total expenditure of ₹ 319.27 crore. Audit observed following:

(A) Irregularity in execution of Skywalk project at Bhaley Dhunga

In the Memorandum submitted (September 2008) to the TFC, the Government of Sikkim proposed construction of 'Skywalk' at the hill-top of Bhaley Dhunga, Yangang, South Sikkim. The objective of the project was to encourage and boost tourism in the State. The State Government requested for a grant of ₹ 200 crore from TFC for construction of Skywalk structure. The TFC recommended the requested amount and the GoI allotted the grant to be utilised during the period 2011-15 at the rate of ₹ 50 crore per year. As of March 2015, GoI released ₹ 150 crore against the approval of ₹ 200 crore. Against the GoI allotment of ₹ 200 crore for the project, the Tourism and Civil Aviation Department

[10] *(i) Skywalk at Bhaley dhunga, (ii) Development of Village Tourism, (iii) Repair/ Renovation of Suspension Foot Bridges under North District of Sikkim and (iv) Residential and Non- residential building for Police Force.*

(TCAD) prepared DPR (September 2011) for ₹ 500 crore which was approved by the Cabinet (March 2012). The cost-break up of funds as approved by the Cabinet and expenditure incurred there against were as detailed below:

Table 4.3.10
Details of Cost break up

(₹ in crore)

Particular	Approvals by the Cabinet		Funding to be arranged	Expenditure incurred (May 2018)
	Cost	Fund allocated		
Skywalk structure at Bhaley Dunga i) Skywalk structure ii) Environment & Ecology	280.00 17.00	110.00	187.00	0.00 0.72
Total	**297.00**	**110**	**187**	**0.72**
Other Associated works connected with Skywalk project *viz.* Tourist Village, Eco Adventure, Heritage cum cultural village etc.	125.25	90.00	32.25	33.97
Eco Ropeway (Cable car) from Dhapper to Skywalk at Bhaley Dunga	77.75	00.00	77.75	108.09
Grand total	**500.00**	**200.00**	**300.00**	**142.78****

*Source: Departmental information. ** Excluding ₹ 1.22 crore spent on Preliminary Survey, consultancy charges and establishment etc.*

Audit observed the following:

- As against the original proposal and sanction of ₹ 200 crore, the Department submitted the proposal of ₹ 500 crore to the cabinet for execution of the project. This proposal included additional items of works (passenger ropeway ₹ 77.75 crore and other associated works ₹ 125.25 crore). This indicated that the original proposal was not comprehensive and well planned/thought out.
- Even after six years (August 2018) of sanction of project, arrangement for balance fund (₹ 300 crore) was not done.
- The core project of the Skywalk had not started as of August 2018. Instead the Department took up the work of Eco Ropeway from Dhapper to Bhaley Dhunga and other associated works connected with Skywalk project incurring expenditure of ₹ 142.06 crore (excluding Consultancy charges and establishment expenditure and Environment & Ecology protection ₹ 1.94 crore) from TFC grant as on March 2018 although this was not covered under the TFC sanction. Moreover, the work of 'Eco Ropeway from Dhapper to Bhaley Dhunga'[11] and other associated works[12] remained incomplete (March 2019).

[11] *Physical progress as of May 2019 is 60 per cent.*
[12] *Physical progress as of May 2019 is 30 per cent*

Image 4.3.1

Image 4.3.2

Incomplete structure work of 'Eco Ropeway from Dhapper to Bhaley Dhunga'

- The remaining amount of ₹ six crore was also diverted for other projects (Asian Development Bank Projects - ₹ three crore and Namchi Ropeway - ₹ three crore).
- The Sikkim Public Works Manual, 2009 (Clause 11) stipulates that for works costing not less than ₹ 10 crore, mobilisation advance shall be granted to the extent of 15 *per cent* of the work value put to tender or ₹ 2 crore whichever is the least at a simple interest at the rate of 10 *per cent* per annum. The Department, however, released (August 2014 & November 2014) interest free Mobilisation Advance (MA) of 25 *per cent* (₹ 64.89 crore) of the total work value (₹ 259.55 crore) to the contractor. Grant of interest free mobilisation advance was approved by the Chief Minister on the basis of supplementary agreement between the contractor and the Department which stipulated that a grant of 25 *per cent* mobilisation advance is to be provided to the contractor. Grant of MA of ₹ 64 .89 crore is not only tantamount to non-compliance to provision of the SPW Manual, but also resulted in undue financial benefit to the contractor to the tune of ₹ 60.89 crore.

Thus, due to improper planning and execution, the main project of Skywalk at Bhaley Dhunga had not commenced and resultantly the intended objective of the project to encourage and boost tourism in the State with an iconic Skywalk in the country remained unachieved.

The TCAD stated (December 2018) that eco-friendly ropeway was taken up to initially help in carriage of material for construction of project and later as passenger ropeway. Instead other associated works were taken up to provide tourist facilities and also to benefit the local public. The Department also stated that the diverted amount of ₹ six crore was being recouped. However, details of recouping the amount are awaited (January 2019).

The reply of the TCAD was not acceptable as the memorandum submitted by the State Government to the TFC stated that initiatives to connect the hilltop of Bhaley Dhunga with an attractive passenger ropeway from Dhapper has already been taken up from State Funds. Accordingly, the TFC provided the fund for only the Skywalk and expenditure for other works should have been met by the State Government from its own budget.

(B) Development of village Tourism

TFC recommended ₹ 80 crore towards development of Village Tourism in Sikkim on the basis of submission of memorandum by the State Government. Village Tourism was focused as a major service industry to boost the overall economy of Sikkim for the future generation and for economic participation of local people as direct owners in the business of tourism. The State Cabinet approved (March 2012) the project for development of Rural/Village Tourism throughout the State of Sikkim in a phased manner from 2011-12 to 2014-15 with the TFC grant ₹ 80 crore. The components of the project consisted of 737 Homestays (HSs), 20 Rural Tourism Facilitation Centres (RTFC) and Training/exposure programmes.

Audit observed that out of ₹ 80 crore recommended by TFC, GoI released only ₹ 60 crore due to non-submission of Completion Certificate of the project within the scheduled date (March 2015) as the project remained incomplete for more than three years as on December 2018.

Audit further observed that 165 HSs (out of 737) and 10 RTFCs (out of 20) remained incomplete as of August 2018 inspite of incurring an expenditure of ₹ 67.16 crore (excess amount of ₹ 7.16 crore was borne by Sikkim Tourism Development Corporation). The details of homestays are as under:

Table 4.3.11
Position of completion of Homestays

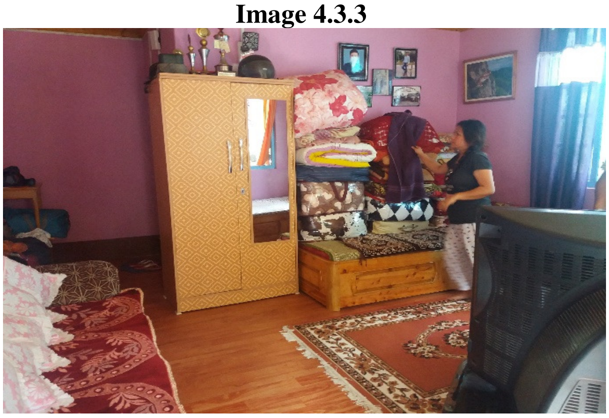
Particulars	East	West	South	North	Total
Home Stays planned	188	227	222	100	737
Incomplete	35	30	40	60	165
Completed	153	197	182	40	572
Test checked	27	10	17	10	64
Not put to intended use	8	6	9	5	28

Source: Departmental information

Test check of 64 completed HSs (out of 572) revealed that only 36 HSs (56 *per cent*) (five in North, four in West, 19 in East and eight in South) were operational while the remaining 28 (44 *per cent)* (five in North, six in West, eight in East and nine in South) were not put to intended use.

Photographs of some HSs physically verified are as below:

Image 4.3.3



HS used as own residence

Image 4.3.4

HS rented to carpenters

Image 4.3.5	Image 4.3.6
	
HS used as storeroom	**HS used as storeroom**

Similarly, 10 RTFCs remained incomplete as of August 2018. RTFCs were created with the objectives of dispensing tourists to different HSs, providing detailed information about rural tourism programme and facilitating booking of HSs within its jurisdiction. Test check of three completed RTFCs (constructed at a cost ₹ 1.33 crore[13]) revealed that none of the RTFCs were utilised for the purpose for which they were created. While one RTFC was lying unutilised at Ryakep, South Sikkim, the second one at Mangan was being utilised as office of the Assistant Engineer, TCAD and the third one at Namthang in South Sikkim was leased out to a society for operating as HS.

Non-utilisation of the RTFCs for their intended purpose was primarily due to failure of the officers of TCAD to clearly delineate the mode of operation and day to day functioning of the RTFCs.

Thus, the intended objective of boosting overall rural economy of Sikkim and encouraging economic participation of local people as direct owners in the business of tourism remained unachieved in 44 *per cent* cases test checked of HSs in audit.

The TCAD stated that the delay in completion of HSs and RTFCs were due to delay in finalisation of the list of beneficiaries and also due to the involvement of cooperative societies for execution of work who did not carry out the construction work awarded to them. The Department further added that 15 RTFCs were completed at a total cost of ₹ 7.50 crore and 699 Homestays were also completed at total cost ₹ 63.04 crore as on December 2018. The reply of the Department was not acceptable as the Department failed to ensure completion of HSs and RTFCs within the schedule time and also did not initiate adequate action to finalise beneficiary list in advance. This is evident from the fact that even as on December 2018, the Department had completed 699 HSs and 15 RTFCs against the total of 737 HSs and 20 RTFCs despite expiry period by more than three years.

(C) Residential and non-residential building of Police

Based on the representation of the State Government, TFC recommended grant of ₹ 15 crore for the police force to make up for the shortfall of accommodations and GoI released ₹ 13.50 crore (90 *per cent*) towards residential and non-residential buildings due

[13] *RTFC Ryakep - ₹44.47 lakh, RTFC Mangan - ₹44.33 lakh and RTFC Namthang - ₹44.41 lakh.*

to non-submission of Completion Certificate of the project within the scheduled date (March 2015).

Accordingly, the Building and Housing Department (BHD) took up (2011 to 2014) construction of 12 non- residential buildings and six residential buildings as detailed in **Appendix 4.6**.

Out of these six works of residential buildings, Audit test checked the works of three, namely: (i) Construction of class III 8-unit quarter at Rongli; (ii) Construction of 8-unit class IV quarter at Rhenock and (iii) Class IV 8-unit quarter at Singtam. It was observed that while units at Singtam were completed and allotted, units at Rhenock and Rongli were though completed, were not allotted. Details of constructed units at Rhenock and Rongli are as under:

➢ ***Construction of class III 8-unit quarter at Rongli***

Sanctioned cost for 'Construction of 8-unit class III quarter at Rongli' was ₹ 1.64 crore which was revised to ₹ 1.45 crore and work order was issued (September 2011) for a total cost of ₹ 1.41 crore with stipulation for completion within 24 months *i.e.* by September 2013.

Audit noticed that the BHD applied for geo-technical assessment report from the Mines, Minerals and Geology Department (MMGD) only in January 2012 after a lapse of four months from the issue of work order (September 2011). The report from the MMGD was received in March 2012 and the contractor started the work from April 2012. Further, the scope of work was changed twice (January 2014–change in room partition and March 2015-GCI sheet roofing to RCC roof). Due to this, the work was completed in March 2016 after a delay of almost 30 months.

Physical verification (September 2018) of quarters at Rongli (photograph below) revealed that although the building was complete in all respect, it was still lying vacant with no documented reasons.

Image 4.3.7

Image 4.3.8

Completed quarter at Rongli

➢ ***Construction of 8-unit class IV quarter at Rhenock***

Sanctioned cost for the 'Construction of 8-unit class IV quarter at Rhenock' was ₹ 1.37 crore and BHD tendered and issued work order (November 2012) for a total cost of ₹ 1.28 crore to be commenced in January 2013 for completion by January 2015.

Audit noticed that the quarters were completed during March 2015 at a total cost of ₹ 1.37 crore but the same had not been handed over to the Police Department till December 2018.

Thus, although the quarters at Rongli and Rhenock were completed at a cost of ₹ 2.82 crore, they continued to remain idle (December 2018) for a period of 33 months and 45 months respectively. The Police Department had also not initiated any action for their allotment leading to avoidable expenditure of ₹ 10.12 lakh[14] on House Rent Allowances (HRA) of 16 police personnel (December 2018).

Hence, the problem of shortage of police residential quarters as stated in the memorandum to TFC, remained unresolved even after construction of 16 quarters at Rhenock and Rongli.

The BHD stated (December 2018) that the Quarters have been handed over to the Police Department. During the exit conference the Inspector General of Police assured that quarters would be allotted within a month. Further, physical verification done on 24 May 2019 by Audit revealed that Department had provided false assurance as the units were still not allotted.

(D) Extra liability to State Government on Repair/Renovation of Suspension Foot Bridges

The TFC recommended a grant of ₹ 35 crore towards Repair/Renovation of Suspension Foot Bridges of North District for replacement of 80 old and dilapidated log bridges by steel bridge and replacement of old cables and suspenders of suspension foot bridges (SFB) for improved accessibility under State Specific Grant for the year 2011-15. Out of ₹ 35 crore recommended by TFC, GoI released ₹ 31.50 crore (between 2011-12 and 2014-15) and the total expenditure incurred was ₹ 33.49 crore. Audit observed the following:

Out of 80 SFBs, 11 SFBs were not completed within the targeted date of completion (March 2015). Resultantly, the GoI did not release the balance ₹ 3.50 crore. Hence, the expenditure amounting to ₹ 1.99 crore (₹ 33.49 crore actual expenditure *minus* ₹ 31.50 crore released by GoI) had to be borne (June 2017) by the State Government from its own resources.

During the exit conference (December 2018), the Secretary, RMDD stated that the estimates for the works were based on the previous schedule of rates at the time of proposing the project to TFC. However, due to time gap, cost revision and change of scope of works were required in some cases. As a result, bridges were not completed in time and funds from GoI were not released. However, all the bridges have since been completed by utilising the State fund.

The reply of the Department was not acceptable as the fact remained that the State Government had to bear additional expenditure from its own sources which was avoidable, had the SFBs been completed within the award period (March 2015).

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[14] *Rehnock-₹1500 (minimum HRA) x 8 units and ₹100 (License fee) x 8 units x 45 months (April 2015 to December 2018) = ₹5.76 lakh*
Rongli- ₹1500 (minimum HRA) x 8 units and ₹150 (License fee) x 8 units x 33 months (April 2016 to December 2018)= ₹4.36 lakh.

4.3.9.2 *Implementation of other Schemes*

TFC and FFC recommended a grant of ₹ 840.73 crore for implementation of 13 schemes, out of which ₹ 569.58 crore was released by GoI and the State Government incurred an expenditure of ₹ 569.50 crore. Out of 13 schemes, four schemes[15] (31 *per cent*) with a total release of ₹ 328.14 crore by GoI were selected for scrutiny. The total expenditure on the selected four schemes was ₹ 328.09 crore which constituted 58 *per cent* of the total expenditure

(A) Protection of Forest

The broad objectives of the grant under TFC for forests were to provide the wherewithal for preservation, to halt and reverse past declines in the quantity and quality of area under forest and to provide fiscal resources by which the State can enable alternative economic activities as a substitute for economic disability imposed by forest cover. The guidelines stipulated that 75 *per cent* of the total release could be utilised for development purposes and the remaining 25 *per cent* towards preservation of forest wealth. The TFC recommended ₹ 40.56 crore and GoI released ₹ 38.03 crore under forest for the period 2010-15.

As per the guidelines, the Forest, Environment and Wild Life Management Department should prepare an Annual Working Plan (AWP) which should be approved by the SHLMC. Audit noticed that although the AWP for the year 2014-15 was prepared in September 2014 and was approved by the State Cabinet in January 2015, the approval of the AWP was not obtained from the SHLMC.

Audit further noticed that during 2011-15, expenditure of ₹ 38.00 crore was incurred out of which ₹ 3.05 crore were on items not related to any development or preservation work of forest wealth nor had any direct link towards providing fiscal resources to overcome economic disability imposed by the forest cover. The details are given in the table below.

Table-4.3.12
Details of irregular expenditure

(₹ in crore)

Sl. No.	Items	Total amount
(i)	Purchase of vehicles	1.47
(ii)	Purchase of computers	0.36
(iii)	Construction of entrance gate and approach road in residential areas and cafeteria	0.34
(iv)	Survey of land diverted for user agencies,	0.09
(v)	Jhora Cleaning at Gangtok	0.23
(vi)	Compensation for crop damaged/ Animal killed by wild animals	0.04
(vii)	Construction of protective walls in private land, etc.	0.52
	TOTAL	**3.05**

15

Name of Schemes	*Released by GoI (₹ in crore)*	*Expenditure (₹ in crore)*
(i) Disaster Relief under LRDMD	*223.70*	*223.70*
(ii) Maintenance of roads by Roads & Bridges Department	*39.74*	*39.72*
(iii) Maintenance of roads by RMDD,	*26.67*	*26.67*
(iv) Protection of Forest Under Forest Environment and Wild life Management Department	*38.03*	*38.00*
TOTAL	***328.14***	***328.09***

Out of ₹ 3.05 crore, ₹ 2.69 crore pertained to the year 2014-15 in which the approval of SHLMC was not taken. On the proposal of the Principal Chief Conservator of the Forest, the cabinet approved the works.

The utilisation of fund of ₹ 3.05 crore for purposes other than the objectives for which the grant were allotted was, therefore, irregular and would adversely affect the achievement of the core objective of the scheme.

The Forests, Environment & Wildlife Management Department stated (December 2018) that the vehicles were provided to range and sub-division level officers to increase mobility as they are primarily responsible for protection and maintenance of forest wealth. Similarly, construction of entrance gate and approach road in residential area were taken up as these were in very bad condition.

The reply was not acceptable as the expenditure on vehicles are permitted only in case of replacement. The Department could not furnish the details for replacement, if any. The expenditure on other items was also in contravention to the guidelines.

(B) Maintenance of Roads & Bridges

Ministry of Road Transport and Highways classified the maintenance activities of the roads into four heads, *viz*., (i) Ordinary Repairs[16] (ii) Periodical Renewals (iii) Special Repairs and (iv) Emergent Repairs. TFC recommended grant of ₹ 68 crore for maintenance of roads and bridges in the State. The TFC categorically stated that grant should be utilised towards only Ordinary Repairs. The grant was in addition to the States' own budget provision for maintenance of roads. Based on the recommendations of the TFC, GoI released ₹ 68.09 crore as grant for maintenance of roads and bridges during 2011-15. The State Government allotted ₹ 39.72 crore to Roads and Bridges Department (RBD), ₹ 26.71 crore to RMDD and ₹ 1.57 crore to UDHD.

Audit scrutiny of expenditure incurred by RBD revealed the following:

➢ ***Irregular utilisation of TFC grant***

Scrutiny of records of RBD revealed that RBD executed 62 works at a cost of ₹ 39.72 crore during 2011-15. Out of this, expenditure of ₹ 24.52 crore was incurred towards Ordinary Repairs. The remaining fund of ₹ 15.20 crore was spent towards providing protective walls, construction of RCC bridges, surface improvement, construction of culvert and widening of roads which were beyond the purview of Ordinary Repairs and thus, was in violation of TFC guidelines and thus, irregular.

➢ ***Extra avoidable expenditure***

As per Indian Road Congress (IRC), construction of roads includes following components:

[16] *Ordinary Repairs involve routine maintenance such as patch repairs, crack sealing, roadside drainage, painting of highway signs, etc.*

Table 4.3.13
Details of Road works

(i) Sub-grade	Sub-grade is the surface of the ground in its final shape after completion of earthwork and consolidation, compaction or stabilisation.
(ii) Sub-base course	Sub-base course is a Water Bound Macadam (WBM) laid over the sub-grade with stone aggregate of 90 mm to 45 mm size (WBM-I).
(iii) Base course	Base course is also a WBM to be laid either with stone aggregates of 63 mm to 45 mm (WBM-II) or with stone aggregates of sizes 53 mm to 22.4 mm size (WBM-III) with screening. These are the standard base courses used in road works.
(iv) Surface course	Surface course may, inter-alia, consist of surface dressing with hot bitumen or premix carpeting with hot bitumen or bituminous macadam using hot mix plant and paver equipment.

Audit scrutiny revealed that while executing the work 'Surface improvement, repair of drainage system and protective work along Ravangla–Yangang road,' the RBD incorporated the item WBM-III also in addition to WBM-I and WBM-II. Since, only one course (out of the two courses of WBM-II and WBM-III) at base level was prescribed in IRC and CPWD specifications, inclusion and execution of WBM-III was irregular and led to an extra avoidable expenditure of ₹ 0.42 crore. The fund of ₹ 0.42 crore could have been fruitfully utilised towards Ordinary Repairs.

The RBD while accepting the observation, stated (December 2018) that the works of permanent nature were carried out with the approval of the Cabinet as they were unavoidable for restoring connectivity along such roads. The reply of the department was not tenable as the expenditure on works of permanent nature was in violation of the conditions of TFC grants and should have been met from state budget. Moreover, it reduced the availability of fund for routine maintenance of roads.

Regarding execution of all the three WBMs, the Department stated that the practice had been discontinued and accordingly either WBM-II or WBM-III was being executed in compliance to the IRC norms and notification in this regard would be shared with Audit which was still awaited.

4.3.9.3 Basic and Performance Grant allotted for local bodies

The RMDD and UDHD are responsible for implementation of FC grant related to GPs and ULBs respectively.

TFC recommended ₹ 187.20 crore for the Local Bodies (PRI: ₹ 184.61 and ULBs: ₹ 2.59 crore) and expenditure amounting to ₹ 121.21 crore (PRI: ₹ 120.40 and ULBs: ₹ 0.81 crore) was incurred. Similarly, FFC recommended ₹ 198.39 crore (PRI: ₹ 173.56 crore and ULBs: ₹ 24.83 crore) for Local Bodies, out of which, ₹ 87.83 crore (PRI: ₹ 70.10 crore and ULBs ₹ 17.73 crore) was incurred as of March 2018.

Forty three GPs (Out of 176 GPs) of all four Districts were selected for scrutiny in the PA and the expenditure incurred by the selected GPs was ₹ 22.17 crore out of total received ₹ 26.78 crore. Three selected ULBs incurred expenditure of ₹ 10.02 crore.

Audit findings were discussed below:

(A) Urban Local Bodies

FFC guideline, stipulated utilisation of grants towards strengthening of the delivery of basic civic services including water supply, sanitation, storm water drainage, maintenance of community assets, maintenance of roads, footpath, street-lighting, burial and cremation grounds and any other basic services within the functions assigned to ULBs under relevant legislations. Under FFC, Rangpo Nagar Panchayat received fund amounting to ₹ 1.18 crore, Namchi Municipal Council received fund amounting to ₹ 1.24 crore and Gangtok Municipal Corporation received ₹ 11.20 crore.

Audit noticed that ULBs utilised fund amounting to ₹ 93.86 lakh (**Appendix 4.7**) towards activities other than basic services in contravention to the guidelines of FFC, as detailed below:

- Namchi Municipal Council (NMC) incurred an expenditure of ₹ 18.01 lakh towards construction of protective wall (₹ 3.71 lakh) below private household based on the request of the individual, construction of ATM room at Namchi Car Parking Plaza (₹ 1.80 lakh), internet facility at District Institute of Education and Training (₹ 0.50 lakh), RCC foot bridge at Dambudara, South Sikkim (₹ 0.38 lakh) and salary to the Municipal staff of NMC (₹ 11.62 lakh). Borrowing of the fund from FFC for the salary of staff was unanimously decided by the councillors of NMC and approved by the Chairman of NMC. All the works were approved by the Chairman of NMC.
- Rangpoo Nagar Panchayat spent an amount of ₹ 3.60 lakh on Construction of Integrated Child Development Scheme Centre at Majhi Gaon.
- GMC incurred an expenditure of ₹ 72.25 lakh towards upgradation and modification of Children Park in Gangtok which did not fall under the function assigned to GMC. Further, the work was awarded without calling any tender and was approved by Mayor, Gangtok Municipal Corporation.

The department could not furnish any replies to Audit.

(B) Panchayati Raj Institution (PRIs)

Irregular Expenditure

In case of PRIs, Audit noticed non-adherence to FC guidelines which stipulated that the expenditure should be incurred on basic services[17] only as follows:

- Zilla Panchayat, Mangan irregularly incurred an expenditure of ₹ 0.28 crore in exposer cum study tours[18] to gain knowledge pertaining to local self-governance and tourism which were not related to basic services.
- Twelve GPUs irregularly expended ₹ 0.78 crore (**Appendix 4.8**) out of ₹ 2.22 crore towards computer training and summer camp, construction of stores, construction of milk collection centres, etc. in violation of the guidelines.

[17] *Solid Waste Management, Storm water drainage, Water supply and sewerage etc.*

[18] *The study tour was performed on September 2017 by Zila Panchayat members and officials of Directorate of PRI.*

The RMDD expressed (December 2018) its inability to furnish the reasons for irregular diversion as the details sought from respective GPs have not been received by them.

Fraudulent Submission of Utilisation Certificates

As per paragraph 6.3 of TFC Recommendation for the second instalment, the State should send a Utilisation Certificate (UC) for the previous instalment to the Ministry of Finance. The UC would provide details of distribution and release of the relevant instalments to the PRIs.

Scrutiny of records of five GPUs[19] (out of 43) revealed that the GPUs submitted UCs to the tune of ₹ 32.37 lakh (out of ₹ 51.41 lakh) to RMDD involving 21 works, without actually incurring the expenditure. This was corroborated from the status of works and bank statements of the respective GPUs. The UCs were issued by the Panchayat Secretary of respective GPUs. Submission of improper UCs by GPUs is submission of misleading and false information to the Department and fraught with the risk of misuse and diversion of funds.

The RMDD while accepting the observation stated (December 2018) that this was resorted to avail second instalment in the ensuing financial years. Responsibility may be fixed in this matter and disciplinary proceedings may be initiated against the responsible officers.

Delay in construction of Gram Prasashan Kendra

The RMDD proposed to construct 17 Gram Prasashan Kendras (GPK) or Panchayat's administrative office through Zilla Panchayat from the TFC grant at a total cost of ₹ 5.10 crore. The construction of GPKs was taken up for delivering services to the doorstep of the grass root people. Scrutiny revealed that out of the 17 GPKs, 12 were completed as of August 2018. All five incomplete GPKs, were test checked in audit and their details were as follows:

Table -4.3.14
Reasons for delay

Sl. No	Name of the work	Sanctioned amount (in ₹ lakh)	Date of Commencement of Works	Scheduled date of completion	Expenditure incurred till March 2018 (₹ in Lakh)	Reasons for delay
1	GPK at Deythang Parengaon, West	30.00	December 2015	May 2017	2.32 (15)	Land dispute and contractor not able to find machines for ground flooring.
2	GPK at Karthok Bojek. West	30.00	September 2015	February 2017	11.43 (80)	Land dispute
3	GPK at Linge-South	30.00	December 2015	January 2016	13.70 (97)	Reason not on records
4	GPK at Ralong Namlung, South	30.00	December 2015	December 2016	19.70 (85)	Disputes between contractor and the land owner.
5	GPK at Nagi Karek, South	30.00	June 2016	June 2017	11.59 (85)	Illness of contractor's brother as stated by the contractor.

Source: Departmental records. Figures in parenthesis indicates physical progress in per cent.

[19] *(i) Hee –Gyathang, (ii) Thinbong, (iii) Malbassey, (iv) Samdong and (v) Dentam.*

Although vague reasons were cited by the contractor for delay in completion of work, the ZPs did not initiate any action to expedite completion of the works or to penalise the contractors for delay in execution. Resultantly, five GPKs could not be completed despite incurring an expenditure of ₹ 58.74 lakh.

The RMDD stated (December 2018) that works were steadily progressing and would be completed by March 2019.

Undue benefit to the contractor

Sikkim Financial Rule 27 (16) stipulates that no relaxation of specifications agreed upon in a contract or relaxation of the terms of an agreement entered into by Government should be made without proper examination of the financial effect involved in such relaxation. The interest of the public exchequer should be protected before agreeing to any relaxation of agreement or contract.

The construction of two GPKs in Tarku and Borong Phamthang GPs in South District under TFC grant was awarded to contractors based on the lowest tendered rate of ₹ 27.85 lakh for South district. The agreement of contracts did not contain any provision for cost escalation.

The work order for construction of GPK at Borong Phantam and GPK at Tarku in South district was issued during February 2016 and December 2015 respectively to lowest bidders (at par) at tendered cost amounting to ₹ 27.85 lakh each. Both the works were completed.

Scrutiny of records (July 2018) revealed that ₹ 3.27 lakh was paid during July 2016 as cost escalation, to the contractors over and above the agreed rate as shown below:

Table - 4.3.15
Cost escalation

(₹ in lakh)

Sl. No.	Tender Amount	Quoted Rate	Escalation cost paid
1	27.85	At par	1.62
2	27.85	-do-	1.65
TOTAL			**3.27**

Source: Departmental records

Payment of the escalation cost despite absence of provision for cost escalation agreement resulted in undue benefit to the contractors.

The RMDD stated (December 2018) that payment was made with the approval of the competent authorities on the basis of supplementary agreement, copy of which would be provided to Audit. However, the same was not yet furnished.

The reply of the Department was not tenable as entering into supplementary agreement to allow cost escalation was unfair to other bidders and violates the principle of transparency and fair competition.

➢ ***Delay in construction of Community Recreational Centre (CRC)***

The RMDD proposed to construct five Community Recreational Centre[20] (CRC) at a sanctioned cost of ₹ 4.68 crore in North district through ZP from the TFC grant. Three (out of five) CRCs were completed at a cost of ₹ 2.79 crore as of March 2018. Audit examination of the two incomplete CRCs (CRC at Tibuk and Namok Swayem) revealed

[20] *(i) Tumlong, (ii) Tibuk, (iii) Namok Swayem, (iv) Kabi and (v) Phensong*

that the construction of these two CRCs was initially sanctioned by the State Government during November 2011 at an estimated cost of ₹ 52.83 lakh per CRC.

During July 2013, the estimate for construction of the two CRCs were revised to ₹ 94.59 lakh (₹ 41.76 lakh escalation) (Namok Swayem) and ₹ 93.88 lakh (₹ 41.05 lakh escalation) (Tibuk) respectively on the plea that the provision of site levelling and protective works which were inevitable were not included in the original estimates.

Scrutiny of records regarding CRC at Tibuk, the Zilla Panchayat however could not commence the work till June 2014 without assigning any reasons. The construction of CRC remained stalled for almost thirty months from the date of approval/sanction of the Cabinet since the work order was issued only on June 2014. However, till December 2018, the work had not been completed.

In case of CRC at Namok Swayem, scrutiny of records revealed that the land for construction was not available at the time of sanction/ approval of the Cabinet. The land was acquired subsequently in 2013 and work order was issued in December 2013 with a completion time of 18 months. Hence, due to non-availability of land, commencement of work was delayed for 25 months and the work was not still completed as of December 2018. ZP issued a show cause notice (October 2016) to the contractor seeking explanation for the delay in execution of work. However, no response from the contractor was received. The ZP did not pursue the matter further.

The RMDD stated (December 2018) that delay was due to the non-availability of the land and at present land had been provided and the works would be completed by March 2019.

Recommendation (3)

- *The programme execution may be strengthened to ensure completion of works within the stipulated time to avoid time and cost overrun.*

4.3.10 Monitoring and Evaluation

TFC Guidelines (Paragraph-9) stipulated that every State shall constitute a State High Level Monitoring Committee (SHLMC) headed by the Chief Secretary (Chairman) and include Finance Secretary and Secretaries of the concerned Departments as members. The SHLMC shall be responsible for monitoring and evaluation of both the financial and the physical targets, as well as ensuring adherence to specifications and conditionality in respect of TFC grant, wherever applicable. The SHLMC was required to hold quarterly meetings.

Accordingly, the State Government constituted the SHLMC during April 2010. It was reconstituted in July 2012. Audit noticed that only 12 out of the required 20 meetings were held (First meeting been held on 08 October 2010 and last meeting been held on 18 February 2015) during the TFC award period (2010-15).

Scrutiny of minutes of the meetings revealed (August 2018) that although status or progress of works were discussed, no follow up action was taken and matters relating to Local Bodies was discussed in only five (out of 12) meetings. As a result, deficiencies in utilisation of TFC grant, non-completion of works in time, non-adherence of criteria fixed by GoI to avail General Performance Grant and non-utilisation of TFC fund in a timely manner continued to persist.

Further, no records/information regarding constitution of SHLMC and minutes of meeting held in respect of FFC grant were made available/produced to Audit. Hence, Audit could not vouchsafe the formation of SHLMC for FFC grant. The FRED stated (December 2018) that the SHLMC for FFC was not constituted as there were no state specific grants and mandate by the Commission.

During exit conference (December 2018) Additional Chief Secretary, FRED opined that the TFC was too old for third party evaluation. However, evaluation by third party would be conducted for FFC.

Recommendation (4)

- *Monitoring mechanisms of the schemes may be strengthened to ensure timely completion of works and utilisation of assets.*

4.3.11 Conclusion

The Performance Audit of Utilisation of Thirteenth and Fourteenth Finance Commission grant by the State Government was conducted during June-September 2018. The PA revealed that the State Government had initiated a number of good practices such as preparation of Gram Panchayat Development Plan for all the Gram Panchayats, appointment of Ombudsman, setting up of service level benchmarks of ULBs, etc. to ensure proper implementation of FC grant.

The State Government had not initiated adequate planning process to ensure full utilisation of Finance Commission Grants within the award period. Due to compliance with only five (out of eight) conditions stipulated by TFC, the State Government could not avail conditional grants. While absence of need based plan led to idling of funds by ULBs and ZPs, Rural Tourism Facilitation Centres constructed at a cost of ₹ 1.33 crore could not be utilised for the intended purpose due to absence of modalities of utilisation.

There was short release of ₹ 168.30 crore and ₹ 2.20 crore under TFC and FFC respectively due to non-fulfilment of conditions of release of fund by the State Government and delay in completion of projects. Funds of ₹ 0.67 *crore meant for providing immediate relief to natural calamity victims were irregularly diverted towards construction of protective wall, cross drain, etc.*

There was delay in completion of works, non-initiation of the core project relating to Skywalk at Bhaley Dunga and diversion of funds of ₹ 150 crore from the project. There were also cases of irregular utilisation of ₹ 19.19 crore by Forest, Environment and Wildlife Management Department, Roads and Bridges Department and Urban Local Bodies. One hundred and sixty-five Homestays and 10 RTFCs remained incomplete as of August 2018 despite incurring expenditure of ₹67.16 crore, while completed 28 Homestays were not being used as Homestays. Similarly, 16 quarters constructed by the Police Department at a cost of ₹ 2.82 crore at Rhenock and Rongli were yet to be allotted as of August 2018 even after 30-36 months of completion.

Monitoring was found inadequate and no evaluation of the schemes implemented under Finance Commission funding was ever attempted.

INFORMATION TECHNOLOGY DEPARTMENT

4.4 Wasteful expenditure

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

The State Government decided (June 2013) to set up an international standard 100 seated Call Centre at Gangtok as a follow up of the Sikkim Business Summit 2013 held at Gangtok. Accordingly, the Government allotted (June 2013) vacant space available with the Urban Development and Housing Department (UDHD) at the roof top of the old children park shopping complex[21] at Gangtok to the Information Technology Department (ITD) for executing the project.

The ITD accordingly approached (July 2013) the Building and Housing Department (BHD) to provide estimate for construction of the required infrastructure. The ITD specifically mentioned the BHD to provide estimate for covered structure with side walls and rooftop only as the complete interiors will be done by the interested company who bags the contract for running the call centre. The BHD submitted (October 2013) estimate of ₹ 66.50 lakh for the work (*building: ₹39.61 lakh; electrification: ₹10 lakh; water supply: ₹1.72 lakh; cost escalation etc: ₹15.17 lakh)* to the ITD. The ITD while transferring the funds for execution of the project informed the BHD that the work would be jointly supervised by the ITD and BHD to ensure adherence to the required design and specification of a standard call centre infrastructure.

Image 4.4.1

Idle and incomplete structure for Call Centre

The BHD awarded the work (November 2013) to a contractor[22] with stipulation to complete it within three months (February 2014). The contractor completed (June 2014) construction of the building at ₹ 54.77 lakh while works relating to side walls, water supply, and electricity were not carried out for want of exact internal plans and design from the ITD. The project remained stalled for almost two years, there being no decision on the matter. Meanwhile, the ITD refrained from taking over the facility from the BHD due to non-completion of all the items of works. The ITD finally informed (April 2016) the BHD about its decision to do away with the call centre project and requested the BHD to refund the balance fund. The BHD refunded (July 2016) the balance amount of ₹ 11.73 lakh to the ITD. The allotment

[21] *4,000 sq. ft.*

[22] *M/s Development Educated Unemployed Youth Co-operative Society Ltd., Development area, Gangtok.*

of the premises to the ITD, in the meantime, was cancelled by the UDHD (October 2016) stating that the Government proposed to utilise the space for other purposes.

The ITD attributed its inability to establish the call centre to (i) non-receipt of favourable response from private agencies for setting up call centre business in Gangtok and (ii) uncertainty about the suitability of the structure constructed by the BHD for establishing the facility.

Audit scrutiny, however, revealed that the ITD's plea that the setting up of call centre at Gangtok was discontinued due to poor response from the corporate sector was not substantiated by facts as three corporate houses had responded (June 2014) favourably to the expression of interest invited (June 2014) by the ITD for the purpose. A representative of one of the agencies had even visited Gangtok (October 2014) to survey the site and discuss the matter. The ITD, however, failed to pursue the matter with the corporate houses to fulfil the objective of setting up the call centre. The ITD's other contention that it was not sure whether the structure completed by the BHD conformed to the required design for operating a call centre was not acceptable as the ITD was equally responsible to supervise the construction work to ensure that the work conformed to the required design and specifications.

Thus, negligence of the ITD to follow up with the private agencies for setting up the call centre in Gangtok and its failure to ensure conformity to the required design and specifications in construction of the infrastructure by the BHD led to wasteful expenditure of ₹ 54.77 lakh, besides defeating the objective of providing a viable source of employment to local youth.

The ITD stated (July 2018) that it could not submit a composite proposal for setting up call centre to the Government for consideration due to handing over of incomplete structure by the BHD. The reply was not acceptable as the ITD failed to supervise the work in time to ensure adherence to the required design and also failed to provide the design/specifications for the unfinished items to the BHD for completing the facility. The project thus remained virtually abandoned as of September 2018, leading to wasteful expenditure of ₹ 54.77 lakh.

POLICE DEPARTMENT

4.5 Unauthorised diversion of funds leading to non-completion of project

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

In terms of the Modernisation of Police Force (MPF) Scheme[23] guidelines (November 2010), necessary land, wherever required for construction of Police infrastructure such as, construction of police residential and non-residential buildings *(police station buildings, police outposts, police lines, police housing for lower & upper subordinates etc.)*, was to be provided for and handed over by the State Government to the construction agency expeditiously. The above norm was again emphasised by the Government of India (GoI) in February 2013 stressing that encumbrance free land for construction of buildings was to be provided by State Government free of cost.

The Police Department undertook (2011-12) the project 'Construction of 2nd and 3rd Indian Reserve Battalion (IRB) Complex' at Mangley, South Sikkim under the MPF Scheme at a sanctioned cost of ₹ 15.23 crore. The project, executed by the Building and Housing Department (BHD) through a local contractor[24], comprised of six components – Construction of Barrack-I, Barrack-II, Others' Mess (ORs' Mess), Gazetted Officers' Mess (GOs' Mess), Administrative Block and Permanent External Water Supply. The project execution work was commenced in March 2014, scheduled to be completed by September 2016. Status of implementation of the project as of March 2018 was as under:

Table - 4.5.1
Status of implementation of the project

Sl No	Components of the Project	Present Status (March 2018)	Date of Commencement	Scheduled Date of Completion
1	Barrack-I	Completed but idle	March 2014	September 2016
2	Barrack-II	Completed but idle		
3	Others' Mess (ORs' Mess)	Completed but idle		
4	Permanent External Water Supply	Completed but idle		
5	Administrative Block	Incomplete (completed upto 28 *per cent)*		
6	Gazetted Officers' Mess (GOs' Mess)	Work yet to commence		

Out of the Scheme funds of ₹13.83 crore released for the project by GoI till March 2018, the Police Department had incurred ₹ 8.90 crore on the above works. While four out of the six components were completed by March 2017, one component (Administrative Block)

[23] *Funding pattern of MPF Scheme for Sikkim – 90 per cent central share, 10 per cent State share.*
[24] *Sh. Lhendup Dorjee Kaleon.*

was incomplete (28 *per cent*) and construction of GOs' Mess had not commenced even as of March 2018. The failure to complete the project in scheduled time was due to diversion of ₹ 4.74 crore[25] out of the GoI release of ₹13.83 crore meant for construction works by the Director General of Police (DGP) on purchase[26] of land[27] for the project during 2012-15. The diversion resulted in shortage of funds for the project and the consequent delay in execution of the works and failure to complete the project in time. In terms of the MPF scheme guidelines, land for the project should have been provided by the State Government timely, free of cost.

It was further observed that even the completed buildings of Barrack-I, Barrack-II & ORs' Mess (₹ 6.26 crore) were lying idle (November 2018) as the Police Department had failed to provide furniture/furnishing in the buildings to make them usable. The 2nd and 3rd IRB personnel for whom the complex was being constructed, in the meantime, were housed temporarily in a makeshift arrangement at Khelgaon[28], Ranka.

Thus, implementation of the project 'Construction of 2nd and 3rd IRB Complex at Mangley' was characterised by;

- commencement of the project by the Police Department without ensuring encumbrance free land, free of cost from the State Government,
- unauthorised diversion of MPF Scheme funds of ₹ 4.74 crore on land acquisition and consequent shortage of funds for completing the project,
- delay of more than two years in completion of the project, and
- idling of completed buildings of ₹ 6.26 crore for more than a year due to failure of the Police Department to provide furniture/furnishing.

In the Exit meeting (21 December 2018) the Inspector General of Police informed that the work remained incomplete due to fund constraint. The Department was not aware that the MPF scheme fund could not be used for land acquisition. The Department was in the process of obtaining fund from the State resources to complete the project. In a subsequent meeting (24 December 2018), while accepting the above facts, the DGP stated that IRB houses have been completed but due to absence of provision for furniture and furnishing in the earlier cost estimates, it was unable to arrange the items and put the houses to use.

Reply of the Department that it was unaware about the GoI guidelines that the MPF scheme funds could not be utilised for land acquisition was not acceptable as the MPF guidelines were issued (November 2010) much before the acquisition of land. Further, failure to make provision for furniture/furnishing in the cost estimates at the inception stage itself indicated casual approach of the Department in ensuring a complete building plan with all required facilities.

[25] *₹1.89 crore on 07/01/2012 ₹1.15 crore on 08/01/2014 and ₹1.70 crore on 21/04/2014.*

[26] *From various private individuals through the Land Revenue and Disaster Management Department.*

[27] *Total cost of 33 ha land: ₹14.11 crore; ₹4.74 crore diverted from MPF scheme ; ₹9.37 crore provided by State.*

[28] *A Government Sporting facility created for promotion of Sports, under the Sports and Youth Affairs Department, Government of Sikkim.*

LAND REVENUE AND DISASTER MANAGEMENT DEPARTMENT

4.6 Ineffective execution of project leading to loss of revenue

Execution of the project 'Restoration, Renovation and Modernisation of Lower Lagyap Hydro Power Project' by the Energy and Power Department (EPD) was lax and ineffective owing to failure to ensure encumbrance free work site, failure to exercise due rigour in execution and consequent inordinate delay in completion of project leading to idle expenditure of ₹ 35.90 crore and loss of revenue of ₹ 81.24 crore[29] to the State.

The project 'Restoration, Renovation and Modernisation of Lower Lagyap Hydel Project (LLHP)' in East District was taken up (November 2012) by Energy and Power Department (EPD) from the funds of ₹ 43.97 crore allocated (September 2012) by Land Revenue and Disaster Management Department (LRDMD) by diverting funds out of ₹1,000 crore sanctioned (September 2011) by Government of India towards reconstruction of infrastructure damaged by the earthquake of 18 September 2011. The aforesaid diversion was mentioned in the Audit Report[30] on Government of Sikkim for the year ended March 2013 (Report No. 1 of 2014). While justifying the diversion, the EPD had replied (October 2013) that complete refurbishment of the old power house would generate substantial revenue to the tune of ₹ 20 to ₹ 30 crore per annum for the State. The EPD's justification was not accepted in audit as the central assistance was meant for restoration of damages caused by earthquake and not for renovating or modernising old infrastructure.

The unauthorised diversion of fund notwithstanding, the EPD undertook the project by publishing (November 2012) Notice Inviting Tender (NIT) and awarding (23 May 2013) the project comprising of the components: civil works (₹ 8.07 crore), electromechanical works (₹ 19.97 crore) and hydro-mechanical works (₹ 15.18 crore) to a contractor at a negotiated lump-sum fixed cost of ₹ 43.22 crore[31] with stipulation to complete the project within 18 months (3 December 2014).

To justify its claim of earning revenue of the order of ₹ 20 to ₹ 30 crore per annum for the State, it was essential that the EPD commenced the project in right earnest by ensuring encumbrance free work site before commencement of work that it exercised due rigour in its execution and completed the project within scheduled time.

Audit however noticed that even as of June 2018, more than three years of the scheduled date of completion, the project was languishing in an incomplete state.

Audit also noticed that two days before the scheduled date of completion of work (3 December 2014), the contractor requested (1 December 2014) the Secretary, EPD for time extension of 10 months (upto 11 October 2015) for completion of the project on the ground that the work could not progress as scheduled due to hindrances by local public for

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[29] *Calculated at potential annual revenue of ₹22.74 crore per annum expected from the LLHP at 50 per cent capacity utilisation for 1304 days reckoned for the period from 4 December 2014 to 30 June 2018.*

[30] *Performance Audit on 'Disaster Management'.*

[31] *Balance ₹0.75 crore of the sanctioned project cost was earmarked for hydrological/geotechnical study, consultancy, advertisement & publicity charges.*

laying of water conductors. The Department granted (3 December 2014) time extension upto 11 October 2015. However, while the work was not completed even by the extended time, neither the contractor sought further time extension beyond 11 October 2015 nor did the Engineer-in-charge grant extension of time[32] pointing to failure in exercise of due rigour in execution of the project.

Audit observed (March 2018) that the contractor had completed (November 2015) installation of the electromechanical components of the project and the power house was ready for trial run by November 2015 itself. However, due to failure to complete the civil/hydro-mechanical component of laying the water conduit pipes, which had actually been damaged by the earthquake for which the central assistance had been provided, the EPD was unable to commission the project even as of June 2018. Thus, not only were the installed machineries not put to test till date and were lying idle, but the expected revenue generation of the order of ₹ 22.74 crore[33] per annum from the project was not forthcoming as of June 2018. The limited period warranty of two years with which most of the machineries came, in the meantime, expired.

The EPD replied (August 2018) that the public of the area raised objections to laying of the head race pipes due to lingering fear of the earthquake of 18 September 2011 which had damaged the pipelines causing flooding and landslides. The hindrance raised by the public of the area was beyond the EPD's anticipation. In a subsequent reply, the EPD stated (December 2018) that the work had since been resumed after settlement of the matter and was expected to be completed by February 2019.

Reply of the EPD that it could not anticipate objection by the public of the area was not acceptable as the public of the area had represented to the Government (Chief Minster/Speaker/Department) in February 2013 itself, barely three months after award of work, to take adequate protective measures for ensuring safety of the villages lying below the area through which the pipeline was to pass. The EPD was thus aware of the concern of the public of the area right from the commencement of the work but had failed to address the issue effectively in time leading to loss of huge revenue to the State.

Thus, execution of the project 'Restoration, Renovation and Modernisation of Lower Lagyap Hydro Power Project' by the EPD was lax and ineffective due to the EPD's failure to (1) commence the project in right earnest after ensuring encumbrance free work site (2) failure to exercise due rigour in execution of work (3) failure to address the concern of the public of the area in opportune time, and, (4) failure to complete and commission the project within schedule time leading to idle expenditure of ₹ 35.90 crore and loss of revenue of ₹ 81.24 crore[34] to the State.

The Department/Government may therefore take immediate steps to ensure early completion of the project to avoid further loss of revenue to the State.

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32 *as envisaged in Sikkim Public Works Manual, 2009 (Clause 22.7 and 22.8)*

33 *Total units generated per annum on full capacity = 12.6 MWx1000x365 daysx24hrs = 11.04 crore KWH. Potential Revenue from full capacity = 11.04 crore units x ₹4.12 per unit = ₹45.47 crore per annum. Potential revenue from 50 % capacity utilisation = ₹22.74 crore per annum.*

34 *Calculated at potential annual revenue of ₹22.74 crore per annum expected from the LLHP at 50 per cent capacity utilisation for 1304 days reckoned for the period from 4 December 2014 to 30 June 2018.*