Report of the
Comptroller and Auditor General of India
on Social, Economic and Revenue Sectors

for the year ended March 2016

GOVERNMENT OF SIKKIM

Report No. 3 of 2016

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PREFACE

1. This Report for the year ended March 2016 has been prepared for submission to the Governor of Sikkim under Article 151 of the Constitution of India.

2. The Report contains significant results of the performance audit and compliance audit of the departments of the Government of Sikkim under the Social, Economic and Revenue Sectors including the departments of Food and Civil Supplies and Consumer Affairs; Health Care, Human Services and Family Welfare; Human Resource Development; Roads and Bridges; Land Revenue and Disaster Management; Urban Development and Housing; Building and Housing; Forest, Environment and Wildlife Management; Tourism and Civil Aviation; Water Security and Public Health Engineering; Energy and Power, Excise (Abkari) and Transport as well as public sector undertakings, viz. Sikkim Industrial Development and Investment Corporation Limited and State Bank of Sikkim.

3. The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2015-16 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports. Instances relating to the period subsequent to 2015-16 have also been included, wherever necessary.

4. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

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

This Report contains 25 audit paragraphs (including 12 general paragraphs) and three performance audits. According to the existing arrangements, copies of the draft compliance audit paragraphs and draft performance audits were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies received have been suitably incorporated. Replies were not received for three paragraphs (2.4, 2.6 and 4.12).

SOCIAL SECTOR

The Chapter on Social Sector includes a Performance Audit on Targeted Public Distribution System and three Compliance Audit Paragraphs.

PERFORMANCE AUDIT

Targeted Public Distribution System

The State Government was responsible for identification of beneficiaries, issue of ration cards and distribution of foodgrains through Targeted Public Distribution System (TPDS) for ensuring food security at affordable prices. The Performance Audit on implementation of the TPDS in the State revealed that the State Government had not reviewed/updated the lists of beneficiaries to prevent the distribution of foodgrains to ineligible individuals/households. There was substantial difference between the number of Below Poverty Line (BPL) beneficiaries as per report of Department of Economics Statistics Monitoring and Evaluation and the BPL beneficiaries identified by the Department. The BPL beneficiaries were issued dual ration cards both under BPL and Above Poverty Line categories and were availing double benefits of rice. There was diversion of Superior Kerosene Oil (SK Oil) to various entities beyond the purview of TPDS and denial to consumers of Public Distribution System (PDS) benefits due to short lifting of sugar. The consumers were overburdened due to higher selling price of PDS items, viz. SK Oil, sugar and rice. Nominated agents responsible for milling of wheat for conversion into atta and its distribution were allowed higher refraction rate of conversion besides the distribution being inconsistent and erratic. Despite allowing higher refraction rate, quality of atta was not satisfactory depriving the beneficiaries of the prescribed quality. Consumers were denied prescribed scale of rice due to diversion of monthly allotment to other schemes implemented by the State. The delayed implementation of the National

Food Security Act in the State resulted in avoidable expenditure on payment of subsidy from State exchequer. The computerisation of Supply Chain Management system of TPDS had not been completed even after four years of commencement due to which online monitoring of foodgrains allocation, storage and movements starting from the base depots of Food Corporation of India till the Fair Price Shops (FPSs) could not be achieved.

The monitoring mechanism remained largely non-functional as system of submission of periodic returns from the FPSs to districts was non-existent and inspections of the FPSs were minimal compared to prescribed schedules. Further, the Vigilance Committees constituted at various levels to monitor proper distribution of PDS commodities remained non-functional as no meetings were held during the entire period covered by Audit.

The quality aspect of foodgrains distributed remained un-assessed as samples were not collected from FPSs and food godowns and foodgrains were not tested for determination of its nutritious value and fitness for human consumption.

(Paragraph 1.3)

COMPLIANCE AUDIT

Non-installation/non-commissioning of essential medical equipment worth ₹ 9.50 crore resulted not only in idling of machines but also deprived the poor people of the intended benefit.

(Paragraph 1.4)

Award of work without prior acquisition of land led to incomplete work with an unfruitful expenditure of ₹ 1.91 crore, besides depriving the State of an Institution for Technical Education.

(Paragraph 1.5)

The departments of Human Resource Development, Roads and Bridges and Land Revenue and Disaster Management irregularly diverted ₹ 3.14 crore from Special Central Assistance under Prime Minister’s Package towards creation of new assets despite clear instructions by Planning Commission that the fund was meant for re-construction/ rehabilitation of infrastructure damaged by the earthquake.

(Paragraph 1.6)

ECONOMIC SECTOR

The Chapter on Economic Sector consists of a Performance Audit on ‘Jawaharlal Nehru National Urban Renewal Mission’ and six Compliance Audit Paragraphs.

PERFORMANCE AUDIT

Jawaharlal Nehru National Urban Renewal Mission

The Performance Audit on Jawaharlal Nehru National Urban Renewal Mission (JNNURM) revealed that the mandatory and optional reforms for Urban Local Bodies (ULBs) were not implemented as per the guidelines of JNNURM and the commitments made in the Memorandum of Agreement. Thus, the objective of bringing about reforms in institutional, financial and structural governance of the ULBs to make them efficient, accountable and transparent could not be achieved as had been envisaged. Non-implementation of the reforms committed by the State Government led to curtailment of funds.

Gap analysis for requirement of infrastructural development was not carried out. Majority of projects were incomplete due to non-availability of land, improper survey of project sites, revision of Detailed Project Reports, delayed forest clearances etc. Cases of irregular expenditure, avoidable payment and diversion of funds also came to light.

Deficiencies in the process of selection of beneficiaries were observed leading to risk of eligible beneficiaries not getting the benefits of JNNURM. Many completed dwelling units remained un-occupied. Cases of incorrect financial reporting to Government of India were also detected.

There were delays in releasing of Central funds from the State to the implementing agencies. It was observed that the State share was not released in full.

Project implementation under the JNNURM was further affected by lack of monitoring of the projects by the State Level Sanctioning Committee whereas District Level Review and Monitoring Committee had not been constituted.

(Paragraph 2.3)

COMPLIANCE AUDIT

Failure on part of the Building and Housing Department to finalise construction site for a Community Centre at Jorethang led to time overrun in commencement which resulted in cost overrun of ₹ 1.51 crore and also infructuous expenditure of ₹ 46.45 lakh due to change of site.

(Paragraph 2.4)

Failure to achieve the objective of the Catalytic Development Programme for generating employment and earnings and to establish sericulture as a sustainable farm based profession resulted in wasteful expenditure of ₹ 2.61 crore.

(Paragraph 2.5)

Lack of effective action by Roads and Bridges Department against the contractor and a lackadaisical approach on the progress of the work led to unfruitful expenditure of ₹ 1.10 crore.

(Paragraph 2.6)

Improper planning of the Roads and Bridges Department not only led to unfruitful expenditure of ₹ 1.02 crore but also failed to achieve intended objective to provide connectivity to the habitation.

(Paragraph 2.7)

The Tourism and Civil Aviation Department irregularly diverted ₹ 3 crore from the provision made under 13th Finance Commission for construction of Sky Walk/Tower at Bhaley Dunga, Yangyang towards Ropeway at Namchi.

(Paragraph 2.8)

Despite payment of ₹ 6.27 crore for consultancy work (which included survey, investigation and design) to M/s Empire High Tech Pvt. Ltd. for Namchi Water Supply Project, the project was awarded to another contractor along with the survey and design of the Project rendering consultancy charge infructuous.

(Paragraph 2.9)

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

The Chapter on Economic Sector (Public Sector Undertakings) consists of a Performance Audit on "Implementation of 1,200 MW Teesta Stage III hydro electric project in Sikkim" and one compliance audit paragraph.

PERFORMANCE AUDIT

Implementation of 1200 MW Teesta Stage III hydro electric project in Sikkim

The State Government set (June 2004) a target of producing 3,000 MW of additional power by the end of 11th Five Year Plan (2007-12). In line with the target, State Government took up the implementation of 1,200 MW Teesta Stage III hydro electric project (Teesta III) in February 2005 through private participation under joint sector with the State Government.

The State Government allotted (February 2005) the project to a consortium of private developers without verifying the experience of the consortium leader. The project was to be implemented by a Special Purpose Vehicle namely, Teesta Urja Limited (TUL) with committed equity contribution of 74 *per cent* (private consortium) and 26 *per cent* (State Government) in TUL's capital. The State Government failed to ensure adherence to the agreement conditions by the private consortium with regard to change in composition of consortium and committed contribution towards project funding. The financial constraints faced by TUL on this account contributed towards delay in completion of project for more than 4 years (November 2016) with reference to the scheduled completion

(September 2012) defeating the primary objective of executing the project through private participation under joint sector with the State Government. The delay of 416 days was attributable to failure of the private developers to subscribe towards the committed equity portion of TUL for the second cost overrun of the project. Ultimately, the State Government had to take over the project through equity infusion in TUL. For the purpose, the State Government acquired 31.24 crore equity shares of TUL (face value: ₹ 10 per share) held by the private consortium at ₹ 8.53 per share, which was calculated based on the valuation report prepared by TUL for internal management analysis. While releasing payments against take over of project, the State Government failed to recover the penalty for delay in commissioning of the project (₹ 2.30 crore) and the additional costs incurred (₹ 131.37 crore) due to inefficiency of the private developers.

The State Government did not constitute multi-disciplinary committee and project level welfare committee for monitoring of the project. As a result, implementation of the project had suffered.

(Paragraph 3.2)

COMPLIANCE AUDIT

Failure of State Bank of Sikkim (SBS) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO) to file their respective income tax returns in due time resulted in an avoidable loss of ₹ 9.62 crore (₹ 7.15 crore as interest and ₹ 2.47 crore as income tax) to SBS (₹ 8.33 crore) and SIDICO (₹ 1.29 crore).

(Paragraph 3.3)

REVENUE SECTOR

The Chapter on Revenue Sector contains the results of audit on Collection of Revenue from State Excise (Abkari) and two other Compliance Audit Paragraphs. This Chapter gives an overview of revenue receipts which shows an increase of ₹ 128.50 crore on account of tax and non-tax receipts. The analysis of arrears of revenue as on 31 March 2016 showed that ₹ 237.66 crore was outstanding, of which ₹ 101.86 crore was outstanding for more than five years.

COMPLIANCE AUDIT

Audit on Collection of Revenue from State Excise (Abkari): The collection of revenue from State Excise had various non-compliance issues and improper regulation of duties which consequently resulted in loss of revenue such as loss of Excise revenue on bottling fees, loss of minimum Excise revenue due to short production of Indian Made Foreign Liquor (IMFL) from the Extra Neutral Alcohol and short production of beer from the wort consumed, loss of Excise Duty due to reduction of ex-factory price of beer, etc.

The system of issuance of licenses/permits were not monitored resulting in an under-utilisation of installed/production capacity by distilleries/breweries, non-realisation of proportionate arrear of the license fees at revised rates and non-compliance of directives of Ministry for removal of the existing liquor shops along National Highway.

There was non-accounting of holograms leading to benefits to the distilleries/breweries and inadequate assurance of authenticity of liquor.

The internal control mechanism in place was also found inadequate and ineffective as there was shortfall in testing of samples of IMFL/beer, lack of proper documentation of inspection of distillery/brewery by the departmental officers, absence of internal audit, etc.

(Paragraph 4.10)

Transport Department's failure to conduct fitness inspection of vehicles and to realise token tax resulted in revenue loss of ₹ 3.34 crore.

(Paragraph 4.11)

The Government suffered a loss of ₹ 7.63 crore due to wrong method adopted for calculating the penalties by Urban Development and Housing Department. Besides, there was short realisation of revenue of ₹ 16.98 crore.

(Paragraph 4.12)

SOCIAL SECTOR

CHAPTER I
SOCIAL SECTOR

1.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2016 deals with the findings on audit of the State Government units under Social Sector.

The names of the State Government departments and the total budget allocation and expenditure of the State Government under Social Sector during the year 2015-16 are given in the table below:

Table 1.1.1

(*₹ in crore*)

Sl. No.	Name of the departments	Total budget allocation	Expenditure
1	Cultural Affairs and Heritage	26.36	14.01
2	Ecclesiastical Affairs	7.18	6.84
3	Food and Civil Supplies and Consumer Affairs	28.65	23.22
4	Health Care, Human Services and Family Welfare	348.83	262.08
5	Human Resource Development	555.60	474.63
6	Labour	8.94	7.20
7	Social Justice, Empowerment and Welfare	215.68	120.44
	Total	**1,191.24**	**908.42**

Besides the above, the Central Government has been transferring funds directly to the implementing agencies under the Social Sector. The major transfers for implementation of flagship programmes of the Central Government are detailed below:

Table 1.1.2

(*₹ in lakh*)

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing agency	Funds transferred during the year
1	Cultural Affairs and Heritage	Scheme of Art and Culture and Centenary Celebrations (Other Missions, Schemes and Autonomous Organisation, Secretariat and Subordinate Offices)	Lhakpa Lepcha	3.00
			Pabitra Kumari Gautam	2.63
			Serrdup Choeling Trust	10.00
			Bhurum Puratan Sanskrit Evam Dharohar Sanrakshan Sangh	3.00
			Himalayan Heritage Research and Development Society	2.63
			Khachoed Pema Choeling Trust	10.00
			The Tingkye Gonjang Nyingma Trust	15.00

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing agency	Funds transferred during the year
2	Health Care, Human Services and Family Welfare	Assistance to Voluntary Organisation for providing Social Defence	Association for Social Health in India	9.31
3	Human Resource Development	Digital India Programme	Sikkim Manipal Institute of Technology	12.46
		Research and Development Support Serc	Sikkim Manipal Institute of Technology	25.50
		Science and Technology Programme for Socio Economic Development	Sikkim Manipal Institute of Technology	8.00
4	Social Justice, Empowerment and Welfare	Grant-in-aid to Voluntary Organisation working for the Welfare of Scheduled Tribes.	Human Development Foundation of Sikkim, GRBA Road Chongey Tar, Gangtok, East Sikkim	26.03
		Assistance to disabled persons for purchase/fitting	DDRC, Gangtok, East Sikkim	15.75
Total				**143.31**

Source: Finance Accounts

1.2 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments of 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 findings are issued to the heads of the departments. The departments are 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 the IRs are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature.

Test audits were conducted involving expenditure of ₹ 730.49 crore (including expenditure of ₹ 622.52 crore of previous years) of the State Government under Social Sector. The details of year-wise break-up is given in **Appendix 1.2.1**.

This Chapter contains one Performance Audit on Targeted Public Distribution System and three Compliance Audit Paragraphs as given below:

FOOD AND CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

1.3 Targeted Public Distribution System

Public Distribution System (PDS) is a major instrument of the Government's economic strategy for ensuring timely availability of foodgrains to the public at affordable prices and also enhancing food security for the poor. This involves procurement, storage and distribution of essential commodities such as rice, wheat, sugar, superior kerosene oil (SK Oil), salt, edible oil, etc. at affordable prices to the public through statutory rationing system.

The Targeted Public Distribution System (TPDS) was introduced in June 1997 with focus on the poor. Under the scheme, the States were required to formulate and implement foolproof arrangements for identification of the poor and delivery of foodgrains in a transparent and accountable manner at the Fair Price Shop (FPS) level.

Performance Audit (PA) on implementation of TPDS in Sikkim was conducted to assess the efficacy of the system followed by the Food and Civil Supplies and Consumer Affairs Department (FCSCAD) for correct and holistic identification of beneficiaries, effectiveness of PDS in ensuring that all identified beneficiaries have access to foodgrains, adequacy in financial management to ensure uninterrupted supply of foodgrains at affordable price and to evaluate the effectiveness and adequacy of the monitoring system existing in the State.

PA disclosed that there were areas of concern which needed attention of the State Government, viz. absence of year-wise revision of beneficiary lists, issue of dual ration cards to beneficiaries, diversion of SK Oil to Government departments and other organisations thereby depriving the benefit of the scheme to intended PDS beneficiaries, absence of quality control facilities and lack of adequate monitoring at FPS level by district authorities. The main highlights of the Audit findings are as follows:

Highlights

The State Government neither reviewed nor updated the list of beneficiaries under Below Poverty Line (BPL) since 2005-06 till December 2015 which remained unchanged even though the BPL population reduced to 1,04,546 individuals in 2006 and further reduced to 50,006 individuals in 2011-12 which resulted in extension of benefit to ineligible beneficiaries.

(Paragraphs 1.3.9.1.1 and 1.3.9.1.2)

Superior Kerosene Oil (334.72 KL) allocated under TPDS was diverted to different Government departments and other organisations who in turn distributed it to its employees. This had not only resulted in diversion of SK Oil of ₹ 0.54 crore but also deprived the intended beneficiaries of the benefit of the scheme.

(Paragraph 1.3.9.2.4(ii))

Short lifting of 4,807 tons of sugar during July 2013 to July 2015 and over charging in retail issue price (April 2011 to June 2013) not only deprived the intended benefit to the targeted section but also resulted in extra financial burden of ₹ 1.32 crore on all the consumers.

(Paragraphs 1.3.9.2.5(i) and (ii))

Inclusion of unwarranted items such as interest on borrowed funds and double inclusion of carriage charges in pricing structure of rice led to extra financial burden of ₹ 2.94 crore on the beneficiaries.

(Paragraph 1.3.9.2.7)

Monitoring mechanism was deficient as returns were not submitted by Fair Price Shops, quality of commodities issued under TPDS was not ascertained, Vigilance Committees constituted for proper monitoring of TPDS were defunct.

(Paragraphs 1.3.9.4.1, 1.3.9.4.3 and 1.3.9.4.4)

1.3.1 Introduction

Food management involves implementation of a well Targeted Public Distribution System (TPDS) for ensuring availability of foodgrains to the public at an affordable price at appropriate time and ensuring food security for the poor. For proper implementation of the TPDS, it is necessary and binding to ensure that the foodgrains of proper quality are obtained and are made available in prescribed scale at subsidised rates only to eligible beneficiaries. The process involved in seamless implementation of TPDS are identification of beneficiaries, issue of ration cards to identified beneficiaries, allocation, lifting and distribution to cover the identified beneficiaries having ration cards. Distribution of quality Public Distribution System (PDS) items in time at an affordable price at prescribed scale is the essence of TPDS and should be backed-up with proper monitoring.

In Sikkim, Food and Civil Supplies and Consumer Affairs Department (FCSCAD) is responsible for implementation of TPDS through the network of 27 departmental food godowns and 1,420 Fair Price Shops (FPSs) located across the State. The Planning Commission of India projected (August 2000) 43,428 households (HHs) living Below Poverty Line (BPL) in the State whereas, the Department catered to 68,352 HHs under BPL category and 4,30,234 individual card holders in the Above Poverty Line (APL) category.

PDS was strengthened by introducing the TPDS in 1997. Under the TPDS, special ration cards were issued to the BPL families and foodgrains were provided to them at highly subsidised rates. The State Government implemented following schemes under TPDS:

- **Below Poverty Line:** For ensuring food security to the populace falling under the BPL category, 35 kgs of rice was provided to BPL beneficiaries (26,914 HHs out of a total of 43,428 identified by the Planning Commission in August 2000) at monthly intervals at subsidised rate of ₹ 4 per kg w.e.f. April 2002. Beneficiaries under the scheme were selected on the basis of income and other criteria issued by the State Government/Central Government such as that any or all the members were not in a regular service of State/Central/Public Sector Undertaking, not in possession of dwelling house/building, cultivable land, taxi or private vehicles, means of modern amenities or retired Government servant getting monthly pension, etc.

- **Above Poverty Line:** Under the scheme, Above Poverty Line (APL) ration card holders (individuals) were provided with 2 kgs of rice per month at the rate of ₹ 9 per kg. In the State, there were 4,30,234 ration card holders under APL category as of December 2015. All the persons residing in the State of Sikkim not eligible for inclusion in BPL category were included under the scheme.

- **Antyodaya Anna Yojana (AAY):** AAY was launched by the Prime Minister of India in December 2000 to reform and improve the existing PDS so as to serve poorest of the poor in the rural and urban areas. Selection of the targeted number of beneficiaries for the scheme was to be made out of BPL beneficiaries, arranging them in the ascending order of the income and thus giving preference to those with lower income. Under this scheme, 35 kgs of rice was provided to the beneficiaries at ₹ 3 per kg per month per HH. The scheme was implemented in the State from October 2001. The poorest of the poor (16,514 HHs), out of the total of 43,428 BPL households, were identified under AAY.

The State Government, however, rechristened (August 2003) the name of AAY into Mukhya Mantri Antyodaya Annadaan Yojana (MMAAY) with the inclusion of 9,914 HHs and remaining 6,600 HHs as Expanded Antyodaya Annadan Yojana (EAAY). These HHs were provided 35 kgs of rice free of cost per month per HH.

- **Mukhya Mantri Khadya Suraksha Abhiyan (MMKSA):** This scheme was introduced by the State Government in September 2004 to provide 35 kgs of rice per month per HH at subsidised rate of ₹ 4 per kg to other marginal and economically backward households (24,923 HHs) not covered under any of the above schemes.

- **Annapurna Scheme:** GoI introduced (April 2000) provision of 10 kgs of rice per month free of cost to helpless aged people above the age of 65 years (2,500 Senior citizens*)* with no one to support them, eligible for old age pension, but not in receipt of National Old Age Pension. The beneficiaries were reduced to 960 since April 2014.

- **Nari Niketan/Welfare Institutions**: GoI introduced (April 2003) this scheme for welfare institutions, orphanages, monastic schools, where inmates/residents were provided with free meals. The Department provided such institutions (2,064 institutions) 5 kgs of rice per inmate per month at the rate of ₹ 4 per kg. GoI allocated 11.39 tons of rice per month to the State under the scheme.

The State Government, however, redesigned (July 2013) all the schemes relating to BPL HHs (BPL, MMAAY, EAAY) and that of MMKSA into two schemes as below.

(a) Antyodaya Anna Yojana: All households previously under MMAAY (9,914 HHs) and EAAY (6,600 HHs) were taken under AAY (16,514 HHs) and were entitled to 35 kgs of rice free of cost per month per HH. Further, households having more than six members were entitled to additional 15 kgs of rice per month.

(b) Mukhya Mantri Khadya Suraksha Abhiyan: All households previously under the BPL (26,914 HHs) scheme and MMKSA (24,923 HHs) schemes were taken under MMKSA (51,837 HHs) and were entitled to 35 kgs of rice per month per household at the rate of ₹ 2 per kg. Further, households having more than six members were entitled to additional 15 kgs of rice per month at the rate of ₹ 2 per kg.

Although, the National Food Security Act (NFSA), 2013 was enacted and enforced from 1 July 2013 by GoI throughout the country for providing food security to all its citizens, it had been implemented in the State of Sikkim from January 2016 only. The NFSA envisages entitlement of foodgrains to two categories of beneficiaries, viz. AAY and Priority Households (PHHs) at highly subsidised prices.

The information about the population and districts of the State together with details of the Scheme including godowns and beneficiaries under different categories prior to implementation of NFSA and after implementation of NFSA are given below:

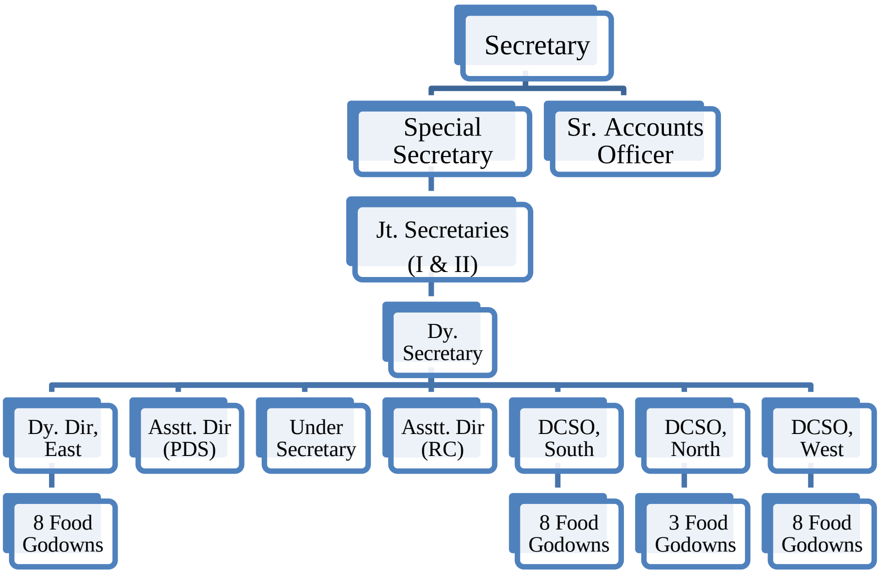
Table 1.3.1
Relevant information pertaining to the State of Sikkim

Particulars	Values
Total population (as per 2011 census)	6,10,577
No. of Food Corporation of India (FCI) godowns	02
No. of districts	04
No. of State food godowns	27
No. of FPSs	1420
Beneficiaries (before NFSA)	
Antyodaya Anna Yojana (AAY)	*16,514 HHs*
Below Poverty Line (BPL)	*26,914 HHs*
Above Poverty Line (APL)	*4,30,234 Individuals*
Mukhya Mantri Khadya Suraksha Abhiyan (MMKSA)	*24,923 HHs*
Beneficiaries (after NFSA)	**w.e.f January 2016**
Antyodaya Anna Yojana (AAY)	*16,509 HHs*
Priority Households (PHH)	*3,24,814 individuals*
Other Priority Households (OPHH)	*1,22,378 individuals*
Non Priority Households (NPHH)	*95,040 individuals*

1.3.2 Organisational set-up

The organisational setup of the Department is depicted in the Chart below:

Chart 1.3.1



1.3.3 Audit Objectives

The Performance Audit (PA) was conducted with the objective to assess:

- Efficacy of the system for correct and holistic identification of beneficiaries;
- Effectiveness of the PDS in the State in ensuring that all identified beneficiaries have access to foodgrains;
- Management of Revolving Fund was proper and efficient; and
- Monitoring system to check quality, quantity and pilferage of PDS items existing in the State was adequate and effective.

1.3.4 Audit Criteria

Audit findings were benchmarked against the criteria in the following documents:

- Guidelines on working and regulation of PDS in Sikkim issued by the State Government;
- Public Distribution System (Control) Order, 2001; Targeted Public Distribution System (Control) Order, 2015 and the National Food Security Act, 2013;
- Guidelines for selection of beneficiaries under different schemes issued by GoI and the State Government;
- Central Issue Price (CIP) rates and issue rates of PDS items;
- Socio-Economic Survey Report 2006 of Department of Economics, Statistics, Monitoring and Evaluation (DESME);
- Instructions and circulars issued by GoI and State Government from time to time; and
- Sikkim Financial Rules 1979.

1.3.5 Scope of audit

PA on implementation of TPDS in Sikkim covering the period from 2011-12 to 2015-16 was conducted during April - July 2016 through test check of records at Secretariat level and Office of the District Civil Supplies Officers {DCSO (East and South)}, departmental food godowns and FCI godowns and the records of 72 FPSs being 27 *per cent* out of 270 FPSs of East and South districts.

1.3.6 Past audit coverage and Public Accounts Committee's recommendations

PA on the PDS in Sikkim featured in the Comptroller and Auditor General's Audit Report for the year ended 31 March 2010 (Report No.2), Government of Sikkim vide Para 1.2 and was discussed in Public Accounts Committee (PAC) in 102nd Report for the year 2015-16. However, no recommendations were made by the PAC.

1.3.7 Audit methodology

PA commenced with an Entry Conference held on 25 May 2016 with the Secretary, FCSCAD wherein audit objectives, scope of audit, audit methodology and audit criteria were explained. Audit process included issue of requisitions for information/data/ records, scrutiny of records and analysis of information/data followed by framing of audit observations.

Sample: The Audit sample identified for detailed examination consisted of two (East and South) out of the four districts of the State (50 *per cent*), 4 godowns (25 *per cent* from selected districts) and 72 FPSs (27 *per cent* from selected godowns). Identification of the sample was done by Multi-Stage Sampling with Simple Random Sampling Without Replacement (SRSWOR) method using IDEA software. Audit also undertook a questionnaire-based survey of beneficiaries to ascertain the efficacy of TPDS, level of consumer satisfaction and reach of benefit to the public under the existing TPDS and NFSA. Results of beneficiary survey were suitably included wherever necessary. The draft report was issued to the Government in September 2016.

The replies on the observations were received in November 2016. The Audit findings were also discussed in an Exit Conference held on 9 November 2016 with the Secretary, FCSCAD and the report was finalised duly taking into consideration the views of the Department.

1.3.8 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the FCSCAD and Food Corporation of India (FCI), Gangtok in providing necessary information and records for audit.

1.3.9 Audit findings

1.3.9.1 Identification of beneficiaries

Identification of eligible BPL families was a prerequisite for effective implementation of TPDS. With a view to identify the eligible poor and vulnerable section of society for issue of essential commodities at subsidised rate, GoI, Ministry of Rural Development (MoRD) issued (September 2002) revised guidelines to the State Governments for identification of BPL households. However, audit scrutiny revealed that there were flaws and deficiencies in identification of target groups as discussed below:

1.3.9.1.1 List of BPL beneficiaries not updated

PDS (Control) Order, 2001 vide Sub-Rule (1) and (2) under Rule 3 and Rule 13 of the Targeted Public Distribution System (Control) Order, 2015 envisaged that the State Government shall formulate suitable guidelines for identification of families living below the poverty line including AAY and PHH families and review the list of beneficiaries every year for deletion of ineligible families and inclusion of eligible families.

The State Government had formulated separate guidelines for identification of families living below the poverty line but updation of beneficiaries under BPL and the State's own scheme of MMKSA was not done by the Department for the last ten years from 2005-06 to 2015-16 (upto December 2015) as stipulated in the PDS (Control) Order, 2001. Consequently, the number of BPL families identified (August 2000) by the Planning Commission of India of 43,428 HHs (BPL: 26,914 HHs; AAY: 16,514 HHs) and State's own scheme of MMKSA (24,923 HHs) remained unchanged during the period from 2005-06 to 2015-16 (till December 2015).

1.3.9.1.2 Extension of benefits to ineligible beneficiaries

As per the State Socio-Economic Census 2006 conducted by the DESME, total BPL beneficiaries in the State were 19.33 *per cent* (1,04,546 individuals) of the population (5,40,851) which decreased to 8.19 *per cent* (50,006[1] individuals) in 2011-12. Further, as per the Planning Commission of India, BPL beneficiaries in the State decreased from 80,000 in 2009-10 to 51,000 in 2011-12. Though, there was considerable decrease in BPL population between 2009-10 to 2011-12, the State Government neither restricted the number of BPL beneficiaries to 51000 nor carried out any exercise for updation/deletion of BPL beneficiaries and continued extending the benefits to 2,30,168 individuals (43,428 HHs) throughout the period from 2005-06 to December 2015 under TPDS. Thus, the Department's inaction to update the beneficiaries list annually resulted in extension of benefits under BPL to 1,79,168 ineligible beneficiaries during the period mentioned above.

The Department in its reply stated (November 2016) that the year-wise updation of BPL list could not be done due to poor participation of public in Gram Sabha. The Department further stated that revised list of beneficiaries under the NFSA was uploaded in the State portal and foodgrains had been distributed from January 2016 as per the revised list. The

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[1] *Total population 6,10,577 x 8.19 per cent = 50,006.*

reply of the Department was not tenable as the Department failed to carry out the updation of BPL list for the last ten years (2005-06 to 2015-16 till December 2015). Moreover, implementation of the NFSA was in the initial stage as updation and cleansing of data by removal of duplicate beneficiaries and correction of ration cards was going on. Thus, the number of beneficiaries identified under NFSA cannot be taken as final.

1.3.9.1.3 Issue of dual ration cards (both APL and BPL cards) to beneficiaries and extending of double benefits

The Sikkim Food Stuff (Distribution) Control Order 1978 (amended Rule 18) stipulated issue of only one ration card to members of a household or establishment at any given point of time.

It was noticed that the provision of the Rule was not adhered to by the Department since 68,351 HHs who were issued BPL ration cards (BPL, AAY and MMKSA) for drawal of rice were also provided APL cards to draw sugar and SK Oil. Audit scrutiny revealed that these BPL beneficiaries were provided rice twice, once on BPL card and simultaneously on APL Card too on monthly basis. This had resulted not only in issue of dual ration cards but also extension of double benefits to draw rice under BPL and APL ration cards simultaneously (35 kgs per household and 2 kgs per card holder).

The Department in its reply stated (November 2016) that issue of dual ration cards to BPL families had been rectified after implementation of the NFSA from January 2016 and now only one ration card was issued per family irrespective of the category (AAY, PHH, OPH and NPHH) under which they fall.

1.3.9.1.4 Deprival of intended benefit of the scheme to the beneficiaries of backward district (North District)

The Supreme Court of India[2] directed the Central Vigilance Committee (CVC) for distribution of five million tons of foodgrains under PDS to extremely poor and most vulnerable sections of 150 poorest and backward districts in the country. The CVC was also directed to identify poorest segments of society and to ensure that additionally allocated foodgrains reach this segment so that no starvation incidents would take place. The Ministry of Consumer Affairs, Food and Public Distribution requested (August 2011, September 2011 and March 2012) the State Government to identify additional BPL/AAY families in the poorest/backward district in the State for distribution of additionally allocated foodgrains.

On the recommendation of the CVC on PDS, North District of Sikkim was identified as one of the backward district with 2,504 HHs found eligible under this scheme, although these families were covered under the MMKSA and recommended for allocation of additional foodgrains (35 kgs of rice per HH per month). GoI accordingly allocated 264 tons of rice for 2011-12 (September to December 2011) to the State for distribution. As per the communiqués furnished by the Department to the Ministry dated June 2012, entire 264 tons of foodgrains allocated was lifted and distributed to AAY/BPL beneficiaries of North District during the period September 2011 to December 2011.

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[2] *W.P(C) 196 of 2001 – PUCL vs Union of India and Ors. vide Order dated 14 May 2011.*

GoI in March 2012 enquired from the State about further requirement to meet the demand under the scheme but the State Government responded only in June 2012 and communicated to the Ministry for additional quota of 88 tons to cover 2,504 identified families under AAY/BPL from January to June 2012. GoI, however, did not provide further allotment under the scheme. Thus, due to lack of timely action and absence of subsequent persuasion by the State Government/Department, 2,504 AAY/BPL families of North District were deprived of the benefits as envisaged by the Supreme Court of India.

The Department stated (November 2016) that the allocation for the subsequent years was not provided by GoI despite the demand submitted by the State. The left out beneficiaries were covered under State's own other schemes. Hence, there was no deprival of the benefit to the beneficiaries of North District. Further, with the implementation of the NFSA, all the beneficiaries are covered and provided foodgrains as per the provision of the Act.

The reply of the Department was not acceptable considering the fact that the beneficiaries were deprived of the benefits envisaged by the Supreme Court of India.

1.3.9.2 Availability of foodgrains to all identified beneficiaries

1.3.9.2.1 Rice

(i) Allocation, lifting and distribution of foodgrains

Under the TPDS, GoI allocates foodgrains to the State Government at Central Issue Price (CIP) fixed separately for APL, BPL and AAY beneficiaries. Based on the allocation made by GoI, the State Government lifted and allocated the foodgrains for APL, BPL and AAY categories. The foodgrains meant for AAY and BPL beneficiaries were further subsidised by the State Government, the subsidy amount and transportation cost (FCI godowns to the departmental food godowns) was borne by the State Government. In the State, distribution of foodgrains were carried out through the network of 27 departmental food godowns and 1,420 FPSs.

Year-wise allocation and lifting of rice under various schemes of TPDS for the last five years were as below:

Table 1.3.2

(Quantity in tons)

Year	Allotment			Lifting			Distribution		
	BPL	APL	AAY	BPL	APL	AAY	BPL	APL	AAY
2011-12	11,304	23,040	6,936	11,304	23,040	6,936	11,304	23,040	6,936
2012-13	11,304	23,040	6,936	11,304	23,040	6,936	11,304	23,040	6,936
2013-14	13,074	23,088	6,936	13,074	23,088	6,936	13,074	23,088	6,936
2014-15	11,304	23,040	6,936	11,304	23,040	6,936	11,304	23,040	6,936
2015-16 (upto December 2015)	9,420	19,200	5,780	9,420	19,200	5,780	9,420	19,200	5,780

From January to March 2016 (under NFSA)

Year	Allotment			Lifting			Distribution		
	Other Priority Household	Priority Household	AAY	Other Priority Household	Priority Households	AAY	Other Priority Households	Priority Households	AAY
2015-16 (January -March 2016)	3,600.00	4,842.51	1,732.50	3,600.00	3,228.34	1,155.00	3,600.00	3,228.34	155.00

Source: Departmental figures

The allocation, lifting and distribution of rice under various schemes of TPDS during the last five years remained constant except 2015-16. Reasons for short lifting of rice during 2015-16 under PHH and AAY were attributed mainly due to transition phase and survey/updation of beneficiaries from TPDS system to existing NFSA.

Distribution of foodgrains: The State Government reflected 100 *per cent* distribution of foodgrains to the beneficiaries. However, Audit scrutiny of four departmental food godowns, two each from East and South districts (sample selection) respectively revealed that against the allotment and lifting of 26,579.10 tons of rice during 2013-16, those four departmental food godowns could distribute 26,496.50 tons of rice leaving a balance of 82.60 tons. Thus, it can be seen that the figures as reflected by the Department was not entirely accurate.

The Government needs to reconcile the foodgrains distributed with those lifted and identify actual distribution to BPL families to ensure that all families have received the foodgrains and rectify any past weakness so that the purpose of the scheme of providing foodgrains to all is not vitiated in distribution and no leakage of foodgrains is possible.

(ii) Insufficient, erratic allotment and diversion of APL rice

Annapurna Scheme (APS) was introduced by GoI from April 2000. Under this scheme, helpless aged people above the age of 65 years with no one to support them and eligible for National Old Age Pension but not in receipt of pension, were provided 10 kgs of rice free of cost per month. The State Government implemented the scheme from July 2001 and covered 2,500 beneficiaries under the scheme.

Audit scrutiny revealed that instead of providing the PDS rice on monthly basis, allotment and distribution under the scheme was done on six monthly/annual basis as verified from the records of allotment and lifting of rice during the period 2014-15 and 2015-16. It was also noticed that the allotment of 2014-15 was provided in March 2015 and the allotment of April to September 2015 was provided in September 2015. No allotment pertaining to the period from October 2015 to March 2016 was made under the scheme. As a result, 1,571.30 quintals of APL rice worth ₹ 13.59 lakh was diverted for distribution under APS. Further, against the monthly requirement of 241.10 quintals, it was noticed that the monthly allotment ranged from 96 to 157 quintals per month which was far less than the actual requirement to cater to 2,500 beneficiaries under the scheme. Thus, the allotment of quota was not only erratic but also inadequate resulting in diversion of APL quota to APS.

In reply, the Department stated (November 2016) that as GoI was not providing monthly quota of APS rice on monthly basis, it was instructed to all godowns In-charge to provide the monthly quota of APS from APL quota as the issue of rice to the senior citizens was felt more important than APL beneficiaries. However, diverted quantity of rice was made good as and when monthly quota of APS rice was allotted by GoI. The reply of the Department for recoupment of diverted quantity was not tenable as the recouped quantity of rice as stated by the Department was not found included in the stock of APL rice subsequently and to that extent APL families were deprived of the benefits.

(iii) Non-maintenance of records and suspected diversion of APL rice into open market

As per the PDS (Control) Order 2001, FPSs were required to maintain proper records, viz. stock registers of PDS items, list of card holders/consumers, foodgrains lifted, sold and balances of foodgrains of each month, etc. This facilitates in ensuring that all identified beneficiaries have access to foodgrains and in turn would maintain transparency in delivery of the PDS items and would also aid in monitoring of the FPSs at desired level.

Survey of selected 72 FPSs by audit revealed that the records as mentioned above were not maintained except by two FPSs. Stock registers of APL rice provided by these two FPSs revealed short distribution of rice to APL beneficiaries as detailed below:

Table 1.3.3

Name of related food godown	No. of APL card holders	Monthly quota as per scale (in qtls)	Lifted by the FPSs (in qtls)	Issued & percentage of issue (in qtls)	Short distributed & percentage (qtls)	Period
Singtam godown[3]	2,100	42	126	27.12 (22)	98.88 (78)	July-September 2014
Singtam godown[4]	500	10	340	6.86 (2)	323.14 (98)	April 2011-December 2014
Total	**2,600**	**52**	**466**	**33.98**		

The above table elucidates that against the lifting of 466 quintals of rice, the FPSs issued 33.98 quintals of rice only, the percentage of issue ranged between 2 *per cent* and 22 *per cent*. The undistributed stock of 432.02 quintals valuing ₹ 3.89 lakh was neither issued to the concerned beneficiaries in subsequent months nor adjusted in monthly quota of following months. As the other 70 FPSs were not maintaining records, it could not be ascertained whether diversion had taken place. Undistributed stock (of atleast 432.02 quintals) was fraught with the risk of diversion to the open market.

The Department stated (November 2016) that all FPSs had been regularly instructed to maintain stock register of PDS items. Stock registers were also checked by the DCSOs and godowns in-charge. As the audit period was from 2011-12, the FPS owners might have disposed of the records after the same were inspected by the departmental officials. As far as partial distribution of APL rice by two FPSs were concerned, factual position would be verified and intimated to Audit. Any discrepancy in the present system, if found, action would be initiated.

The fact however, remained that the Stock registers were not produced to audit by 70 FPSs and as such audit could not verify the distribution to the entitled beneficiaries since discrepancies were observed in the two FPSs where stock registers had been maintained. Further action on the discrepancies noticed in audit shall be awaited.

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[3] *M/s Satish Prasad, Singtam.*
[4] *M/s Sheikh Abjur, Sang.*

(iv) APL beneficiaries were denied the prescribed scale of rice

GoI allocates monthly quota of rice to the State Governments at CIP rate for distribution under TPDS to the beneficiaries of BPL, APL and AAY. The scale of issue of rice under APL, BPL and AAY was revised to 35 kgs per HH per month from 1 April 2002.

Scrutiny of records revealed that the State required 28,412 quintals of rice per month to cater to 4,30,234 individuals under APL categories but GoI allocated 19,200 quintals only. Further, against the allotment of 19,200 quintals, only 10,477 quintals was taken for distribution under APL quota and remaining 8,723 quintals was diverted to MMKSA and APS beneficiaries. Thus, the Department was distributing 10,477 quintals per month to APL beneficiaries at the rate of 2 kgs per individual per month which was far less than the scale fixed by GoI, depriving the beneficiaries of the required scale/quantity.

While accepting the fact, the Department stated (November 2016) that the emphasis was to provide food security to the poor and needy population of the State. As the monthly quota of BPL and AAY was not sufficient to meet the requirement, the Department utilised 8,723 quintals of APL rice each month for distribution to the poor and needy population not covered under BPL and AAY schemes. Moreover, with the implementation of the NFSA in the State from January 2016, concept of APL scheme and monthly allotment of rice was discontinued.

The fact is that diversion of rice had taken place

(v) Issue of rice to APL beneficiaries at higher rate

Retail Issue Price (RIP) of rice issued under TPDS were fixed by the Department by incorporating wholesaler/retailer margin, transportation charges, loading and unloading expenses, etc. in the pricing structure over and above the CIP. There were two varieties of rice, viz. common and grade 'A' being issued by the FCI under PDS for APL beneficiaries at the CIP rates of ₹ 795 and ₹ 830 per quintal respectively.

Scrutiny in audit revealed that the Department revised wholesale and retail sale rate of common and grade 'A' rice at ₹ 8.65 and ₹ 9 per kg respectively vide Notification dated 22 June 2013 as shown below.

Table 1.3.4

(Figures in ₹)

Commodity	CIP rate per kg	Wholesale rate per kg	Retail sale rate per kg
Common rice	7.95	8.30	8.65
Grade 'A' rice	8.30	8.65	9.00

Despite revision in wholesale and retail sale rate of common rice, the Department at godowns level and FPSs level continued to sell the common rice at the higher rate prescribed for grade 'A' rice (common rice @ ₹ 8.65 and ₹ 9.00 per kg respectively) defying the instruction of the Notification issued by the Department. Interviews conducted with the FPS owners and beneficiaries by audit revealed that they were not aware of different rates for common and grade 'A' rice and they were charged the rate of grade 'A' rice irrespective of quality of rice (grade 'A' or common) being issued. It was noticed that during the period 2014-15 and 2015-16 (till December 2015), the FCI issued

17,394 tons of common rice to different departmental food godowns at ₹ 7.95 per kg, which was subsequently sold to the FPSs at the rate applicable for grade 'A' rice (₹ 8.65 per kg.) resulting in over burdening the APL beneficiaries with ₹ 61 lakh[5] defeating the very purpose of providing the PDS foodgrains at an affordable price.

In its reply, the Department stated (November 2016) that quality of rice, i.e. grade 'A' or common depended on availability of stock of rice at FCI depots at the time of lifting by the food godowns though the allotment was made for grade 'A' rice. However, the higher rate charged on issue of common rice, if any, was deposited in the RFA which was exclusively utilised for procurement and distribution of PDS items only. Contention of the Department was not acceptable as the beneficiaries were charged at higher rate defeating the objective of providing food security at affordable price.

1.3.9.2.2 Whole wheat/atta

(i) Allotment and lifting of whole wheat

GoI allotted whole wheat to the State Government for APL consumers at the CIP rate of ₹ 610 per quintal under TPDS which in turn was converted into whole meal atta by engaging private roller mills for distribution to its consumers. Allotment and lifting of whole wheat during the period from 2011-12 to 2014-15 remained constant at 2,940 tons each year. It was increased to 3,112 tons in 2015-16 due to implementation of NFSA from January 2016 under which the allocation of whole wheat was extended to other categories too though earlier restricted to APL beneficiaries only.

(ii) Milling of whole wheat and distribution of whole meal atta

Image 1.3.1

Milling of wheat at Rangeet Flour Mill

GoI permitted (December 2005) the North Eastern States including Sikkim for distribution of whole meal atta after converting it in roller flour mills. The State Government nominated two flour mills[6] for lifting, milling and distribution of atta to various FPSs through departmental food godowns. The nominated roller mills lifted the monthly quota of whole wheat from the FCI depot at Rangpo on the basis of release order issued by the Department at CIP rate of ₹ 610 per quintal. After conversion, whole meal atta was handed over to the departmental food godowns and FPSs at wholesale rate of ₹ 867 per quintal to be distributed to the consumer at the end retail price of ₹ 892 per quintal including milling, packaging, loading and unloading charges, wholesale and retail sale commission, etc. over and above the CIP rate.

The following were observed in milling and distribution of whole meal atta:

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[5] *₹ 61 lakh = 1,73,940 quintals x @ ₹ 35 per quintals = ₹ 60,87,900.*

[6] *M/s Rangeet Associates Pvt. Ltd. and M/s Kailash Roller Flour Mills(P) Ltd.*

A. *Higher refraction ratio/norm in conversion of wheat into atta and undue benefit to mill owners and also irregular distribution*

Image 1.3.2

Milled atta for PDS supply

For the convenience of the public to get whole meal atta, monthly allocation of whole wheat (245 tons) was allocated to the two mills at the monthly quota of 180 tons and 65 tons per month for conversion and distribution to departmental food godowns and FPSs. As per GoI guidelines, the conversion ratio of 95 to 98 *per cent* (i.e. 95 to 98 kgs) from whole wheat into atta was to be extracted from milling of one quintal of whole wheat. Audit scrutiny, however, revealed that the nominated rollers mills lifted 1,48,720 quintals of wheat from FCI godown at Rangpo during the period April 2011 to March 2016 for conversion into whole meal atta. Considering GoI norm for conversion into atta, roller mills were expected to extract the finished product (atta) of 1,41,284 quintal after allowing maximum of 5 *per cent* refraction (i.e. 5 kgs per quintal). However, the mill owners extracted and supplied 1,25,639 quintals of atta only resulting in short extraction and short supply of 15,645 quintals of atta. Adoption of higher refraction rate (12 *per cent* in the form of bran, etc. plus 4 *per cent* refraction totalling 16 *per cent*) beyond the permissible limit prescribed by GoI led to shortage of whole meal atta valuing ₹ 3.34 crore[7] (calculated at the prevailing open market price of ₹ 2,200 per quintal) during the period April 2011 to March 2016, which benefitted the two mill owners and also deprived the consumers with the quantity to that extent.

B. In order to ensure proper distribution and coverage, after conversion, atta should ideally be routed through the departmental food godowns and FPSs to reach the beneficiaries. However, scrutiny of records revealed that the mill owners distributed the atta to 25 departmental food godowns only, FPSs and other retail outlets instead of routing it through the departmental food godowns. Further, analysis on monthly distribution statements of the two mills for the period January to December 2015 revealed that the distribution was erratic and inconsistent, viz. two food godowns (Melli in South and Kaluk in West) were never provided atta during the entire period. Other two food godowns of North district (Dikchu and Chungthang) were provided atta on four and two spells respectively during the entire period.

Physical verification on stock of PDS conducted by the Department revealed that the Department did not verify the atta being received from the mills and its distribution by departmental food godowns to FPSs. The Department had further not demarcated the area of distribution or list of departmental food godowns to be covered separately by each mill in the agreement. The condition that the item should be routed through departmental food godowns also did not find place in agreement. Survey of FPSs (72 FPSs) by audit

[7] *15,645 quintals x ₹ 2,200/quintal = ₹ 3,44,19,000 less cost of bran @ ₹ 63.36/quintal - ₹ 9,91,267 = ₹ 3,34,27,733.*

revealed that only 45 FPSs got their monthly quota of atta during the period covered under audit. This had not only resulted in uneven and erratic distribution of whole meal atta to PDS beneficiaries but also in denying monthly quota of atta to the beneficiaries attached to 27 FPSs (38 *per cent*).

The Department in its reply stated (November 2016) that higher refraction was allowed considering the demand from the beneficiaries as the people of the State preferred finer quality atta with less percentage of bran since there was complaint from the consumers because of higher content of bran which turned the atta reddish in colour. The Department further stated that in selected areas, atta was directly issued to FPSs and Multi Purpose Cooperative Societies by the mill owners to avoid deterioration and loss of nutrient content in case of retention of atta for longer period by food godowns.

The reply of the Department was not acceptable as during FPSs survey by audit, 24(53 *per cent*) of FPSs, out of 45 FPSs who got their monthly quota of atta, were not satisfied with the quality of atta. As intimated by FPSs due to high content of bran in atta, the consumers were reluctant to lift their quota. Moreover, interview with the consumers (63 individuals), 40 *per cent* of consumers (25 individuals) revealed that they were dissatisfied with the quality of atta issued under TPDS. Further, there was no question of deterioration of quality and loss of nutrient content due to retention of longer period at food godowns since the monthly quota of PDS foodgrains was required to be lifted within last day of previous month for the following month which was being followed by all food godowns and FPSs.

1.3.9.2.3 PDS salt

Denial of PDS salt to the beneficiaries due to short lifting of allocation as well as due to non-supply at FPSs/godowns

Government of Sikkim was allocated annually 3 BG rakes[8] of PDS salt by GoI. A State agent had been nominated for lifting, transportation and distribution of salt. The details regarding allocation, lifting and distribution of PDS salt during the last five years were not provided by the Department. However, the information as provided by the State agent was as below:

Table 1.3.5

Year	Allocation (in BG rake)	Opening balance (in bags)	Lifting (in bags/ rakes)	Total (in bags)	Distribution (in bags)	Closing balanc (in bags)
2011-12	3	NA	1 rake	NA	NA	NA
2012-13	3	NA	1 rake	NA	NA	35,371
2013-14	3	35,371	50,667	86,038	67,751	18,287
2014-15	3	18,287	1,00,565	1,18,852	62,625	56,227
2015-16	3	56,227	50,742	1,06,969	49,596	57,373

Source: Information furnished by the State agent

As per the agreement signed, the State agent was entrusted with the lifting and transportation of PDS salt from Gujrat to Siliguri only. Unlike other PDS items like sugar, SK Oil, etc., the agent was not entrusted to transport/provide the PDS salt to the FPSs or

[8] *1 BG rake = 24,000 quintals.*

any agencies inside Sikkim. The intending FPSs or suppliers were required to lift the PDS salt from Siliguri transit godowns at their own arrangement.

The State lifted only one BG rake of PDS salt each year during 2011-12 to 2015-16, except in 2014-15 when two BG rakes were lifted against the allocation of 3 BG rakes of PDS salt each year. The survey of 72 FPSs and 63 beneficiaries in audit revealed that all of them except three FPSs were even unaware of the fact that salt was being provided under TPDS due to which they had not lifted the PDS salt.

Audit scrutiny revealed that due to inadequacy in the agreement by not incorporating delivery of the consignment of PDS salt to different areas of the State and also due to lack of awareness provided by the Department to the consumers and FPSs owners, the demand was also not felt, which led to short lifting of salt every year. Further, in absence of defined arrangement for transportation of salt from Siliguri to Sikkim and its subsequent distribution to consumers, it could not be ascertained that even the lifted salt actually reached to the PDS consumers or not.

Image 1.3.3

Iodised salt for PDS distribution

1.3.9.2.4 Superior Kerosene Oil

(i) Excess charging of Dealers' commission and diversion of SK Oil

Government of Sikkim through its eight authorised dealers and 1420 FPSs had been distributing subsidised SK Oil to beneficiaries. The SK Oil was lifted from two agencies namely Indian Oil Corporation Limited and Bharat Petroleum Corporation Limited whose depots were located at Majhitar, Rangpo. The details of year-wise lifting of SK Oil by the authorised dealers from the two depots are shown in **Appendix 1.3.1**.

It was noticed that while fixing the wholesale and retail sale rates of SK Oil, the dealer's commission in addition to other charges were to be included in the pricing structure. The dealers' commission had been fixed by Ministry of Petroleum and Natural Gases, GoI with two varying rates, higher rates had been provided for (i) Wholesale Dealers (Form XV) and lower rate for (ii) Wholesale Dealers (other than Form XV), the difference ranged between ₹ 43 per KL and ₹ 65.02 per KL as detailed at **Appendix 1.3.2**.

Scrutiny of records revealed that none of the eight wholesale dealers possessed dealership under Form XV. However, the Department erroneously considered the dealer's commission on higher rate, i.e. taking dealer's commission with Form XV and accorded undue benefit of ₹ 17.14 lakh to the dealers and consequently burdened the targeted beneficiaries to that extent as shown below:

Table 1.3.6

Year	Lifting & distribution *(in KL)*	Excess dealer's commission charged	Total *(in ₹)*
2011-12	6,867	₹ 43 per kl	2,95,281
2012-13	4,759	₹ 43 per kl for 9 months	2,04,637
	1,586	₹ 60.51 per kl for 3 months	95,967
2013-14	6,345	₹ 60.51 per kl	3,83,936
2014-15	6,348	₹ 60.51 per kl	3,84,117
2015-16	4,760	₹ 60.51 per kl for 10 months	2,88,028
	952	₹ 65.02 per kl for 2 months	61,899
Total	**31,617**[9]		**17,13,865**

(ii) Diversion of SK Oil

The PDS items distributed through the FPSs were to cater to the targeted beneficiaries having valid ration cards. Scrutiny of records, however, revealed that Department irregularly distributed 3,34,715 litres of SK Oil valuing ₹ 0.54 crore to entities who were not the targeted beneficiaries under TPDS scheme as detailed below:

Table 1.3.7

Sl. No.	Dealer's/sub-dealers name	Entities receiving SK Oil	Quantity received (in litre)	Period
1.	M/s Mulchand & Sons	District Hospital, Mangan	2,300	April 2014 to March 2015
		Police Deptt, Mangan	10,300	April 2014 to March 2015
		Fire Deptt, Mangan	2,340	April 2014 to March 2015
		DC Office, Mangan	4,300	April 2014 to March 2015
		Power Deptt, Mangan	570	April 2014 to March 2015
		Subsidiary Intelligence Bureau, Mangan	260	April 2014 to March 2015
		Hostel & Mess, Mangan	1,500	April 2014 to March 2015
2	M/s Indraj Kurdamull	Police and Government Departments	3,100	February 2015 and March 2015
	M/s SNOD Deorali	Special Permit Office, Gangtok	1,545	February 2015
		Sikkim Armed Police, Pangthang (SAP)	3,08,000	2011-2016
		Special Bureau, Gangtok	500	February 2015
Total			**3,34,715**	

The supply/distribution of the PDS SK Oil to the above entities was beyond the scope of the TPDS scheme and resulted in diversion of PDS items and also deprived the genuine beneficiaries.

In reply, the Department stated (November 2016) that SK Oil was issued to emergency services like Health and Family Welfare Department, Energy and Power Department, Law and Order (Sikkim Armed Police, Sikkim Police, Fire Services) on temporary measure for use in generator and proposal to discontinue such allocation was under consideration. The reply of the Department was not acceptable as the SK Oil under TPDS was meant for genuine card holders and not for the Government departments and other

9 *BPCL : 11,985 KL and IOCL : 19,632 KL.*

agencies. Further, the SK Oil to these entities were distributed during the entire period covered under audit and thus, cannot be termed as a temporary measure.

1.3.9.2.5 PDS sugar

(i) Extra burden to the consumers due to fixation of PDS sugar at higher rate

It was noticed that before deregulation of levy sugar (July 2013), the State Government was to lift the levy sugar and make available to the FPSs at RIP of ₹ 13.50 per kg. The State Government had to initially bear the difference in the cost of levy sugar procured and issue price of sugar along with handling and transportation cost, etc. This difference was subsequently reimbursed by GoI through FCI.

Scrutiny of records revealed that the State Government lifted and distributed 10,553 quintals of levy sugar during April 2011 to June 2013 (until deregulation of levy sugar) through its State authorised agent as detailed below:

Table 1.3.8

Period	Total months	Lifted and distributed @ 39,100 kgs per month	RIP per kg *(in ₹)*	Excess charged *(in ₹)*
April 2011 to October 2011	7	2,73,700	25.40	32,57,030
November 2011 to March 2012	5	1,95,500	27.00	26,39,250
April 2012	1	39,100	25.40	4,65,290
May 2012 to June 2013	14	5,47,000	26.00	68,37,500
Total				**1,31,99,070**

The Department, despite specific instructions from GoI to provide levy sugar to the consumers at ₹ 13.50 per kg, had charged higher rate at ₹ 25.40 to ₹ 27.00 per kg to the consumers which consequently burdened the consumers with ₹ 1.32 crore during the period April 2011 to June 2013.

(ii) Denial of benefit to the PDS consumers due to short lifting of PDS sugar

As per the guidelines dated 17 May 2013 issued by GoI, the States which distribute sugar (conforming to ISS grade) under the PDS at RIP of not more than ₹ 13.50 per kg would be reimbursed the subsidy limited to the quantity based on the existing allocations of the States at ₹ 18.50 per kg (including all administrative, transportation, distribution and other expenses) based on the actual utilisation/distribution of the sugar under PDS. The task of procuring sugar should be undertaken by the States through a transparent system by calling for tenders from the open market. The Ministry vide letter dated 26 February 2015, lifted the restriction of RIP of ₹ 13.50 per kg to the consumer.

Scrutiny of records revealed that against the monthly allocation of 3,910 quintals for the State, the Department lifted only 1,820 quintals of PDS sugar per month (except for three months of May - July 2015 @ 2,517 quintals per month) during the period from July 2013 to July 2015, which was only sufficient to cater to the BPL categories denying other beneficiaries. This resulted in short lifting of 48,069 quintals of sugar depriving the targeted beneficiaries. Moreover, due to short lifting of 48,069 quintals, the Department could not avail the subsidy benefit of ₹ 8.89 crore (at ₹ 1,850 per quintal x 48,069 quintals) from GoI.

In reply, the Department stated (November 2016) that even after subsidy by GoI, it had to bear a substantial cost towards differential cost of sugar. To lessen the burden, the State Government decided to lift only 1,820 quintals per month against the monthly allocation of 3,910 quintals. After June 2015, full quota of sugar of 3,910 quintals per month had been lifted and provided to all beneficiaries.

However, the fact remained that this deprived the targeted BPL families from 48,069 quintals of sugar.

1.3.9.2.6 Transportation of PDS items

(i) Pending Hill Transport Subsidy on whole wheat

The Ministry of Consumer Affairs, Food and Public Distribution, GoI introduced (August 1975) the Hill Transport Subsidy (HTS) scheme meant for predominantly hilly States with little or no railway connectivity and poor road communications.

The scheme provides reimbursement facilities of transportation charges incurred on carriage of PDS foodgrains from FCI depots to the Principal Distribution Centres (PDCs) on actual basis. For reimbursement of HTS, the Department was required to submit its claim to FCI after incurring expenditure on transportation of PDS items from the FCI depots to PDCs along with supporting documents for regularisation and release of reimbursement to the State Government.

Scrutiny of records pertaining to PDS wheat revealed that GoI approved (October 2014) the HTS for the period from 2001-02 to 2009-10 on account of transportation of wheat from FCI depot at Rangpo to flour mills located at Tadong, Gangtok for ₹ 0.54 crore. However, GoI did not release the fund as of July 2016 as the State Government failed to submit the claims along with requisite supporting documents for reimbursement. Further, HTS amounting to ₹ 0.68 crore for the period from 2010-11 to 2015-16 (till December 2015) had not been preferred by the Department (July 2016). This resulted in pending HTS amounting to ₹ 1.22 crore.

In reply, the Department stated (November 2016) that the claim was returned by the FCI stating that similar procedure to be followed in line with HTS claim on rice which was not possible at that juncture since it was a long pending case and the FCI returned the claim after retaining over a long period. HTS claim upto 2011-12 made by the Department was returned and received back only on 23 May 2016. It was further mentioned that there was no financial involvement on the part of Department as the transportation cost was borne by the mill owners.

(ii) Loss due to curtailment of claim of HTS reimbursement by FCI on account of incomplete supporting documents

Audit scrutiny further revealed that the Department preferred reimbursement claim of ₹ 3.22 crore towards transportation cost of rice for the period 2014-15 to 2015-16 to the

FCI, against which, the FCI reimbursed ₹ 2.56 crore only. Reasons for curtailment of claim amounting to ₹ 0.66 crore by FCI were due to incomplete supporting documents for expenditure incurred, inclusion of transportation claim of two new godowns (Tokal Bermiok and Chongrong) not declared as PDCs, payment of transportation charge of higher distance than actual distance in respect of three departmental godowns (Rangpo, Singtam and Jorethang).

(iii) Extra burden to AAY beneficiaries on account of carriage charges

Under AAY scheme, 35 kgs of rice were provided to the beneficiaries at ₹ 3 per kg per month per HH. The State Government further subsidised the cost with free distribution bearing the differential cost from State exchequer as subsidy.

Survey of 72 FPSs by audit revealed that the FPSs were charging ₹ 10 to ₹ 40 per month from each AAY HH towards carriage charges of rice from food godowns to FPS. The FPSs stated that since there was no provision for reimbursement of carriage charges from food godowns to FPSs in respect of free distribution of rice under AAY scheme, they were charging the transportation cost from the beneficiaries to compensate the expenditure incurred on transportation of rice from departmental food godowns to FPSs. In absence of necessary provision for reimbursement of carriage cost by the Department, 16,514 poorest of the poor beneficiaries under AAY had borne carriage cost. Thus, the spirit of free distribution was negated in real terms.

In reply, the Department stated (November 2016) that the instructions to all FPSs were being issued from time to time to submit the bill for reimbursement of transportation cost of rice distributed under AAY scheme and not to charge extra amount from the consumers. The matter pointed out by the Audit would be verified and intimated to audit accordingly.

Further reply of the Department was awaited. The fact, however, remained that extra burden of transportation cost was being borne by the beneficiaries in violation of AAY scheme.

1.3.9.2.7 Defective formulation of price structure and resultant extra financial burden to the beneficiaries

The RIP of various PDS items such as rice, sugar, SK Oil, atta and iodised salt were fixed by the Department in line with the CIP after addition of overhead charges like interest on borrowed fund, handling charges, transportation, wholesaler's and retailer's commission, etc. Analysis on pricing structure of rice adopted by the Department revealed the following:

Though the Department had not borrowed funds for procurement of PDS rice during the last ten years, the Department had unnecessarily included interest on borrowed funds/loan at ₹ 5 per quintal in the RIP of rice distributed under APL, BPL, MMKSA schemes. Thus, unwarranted inclusion of bank interest had resulted in higher RIP that burdened the consumers with ₹ 82 lakh on distribution of 1,63,134 tons of rice under various schemes during 2011-12 to 2015-16 (till December 2015).

Analysis of pricing structure of rice distributed under BPL and MMKSA schemes further revealed that the Department included ₹ 20 per quintal towards transportation charges of rice from departmental food godown to FPSs twice in the name of average transportation charges and carriage charges which resulted in higher cost amounting to ₹ 2.12 crore[10] on issue of 1,06,127.10 tons of rice (BPL: 56,406 tons; MMKSA: 49,721.10 tons) from April 2011 to December 2015 which was borne out of the pockets of BPL and MMKSA beneficiaries.

In reply, the Department stated (November 2016) that ₹ 5 per quintal was included in the pricing structure of rice as the Department had to borrow funds from banks for procurement of foodgrains. Regarding inclusion of ₹ 20 per quintal as transportation cost from food godown to FPS, the Department stated that the cost was borne from the State fund as subsidy. Hence, there was no extra burden to the consumers. The reply of the Department was not tenable as the inclusion of ₹ 5 per quintal was unwarranted as the Department had not borrowed funds from any source during the last ten years for procurement of PDS rice under TPDS and ₹ 20 per quintal included towards carriage charges from food godown to FPS in the end retail price of rice under BPL and MMKSA schemes led to double inclusion of transportation/carriage cost which was borne by the consumers.

1.3.9.2.8 Departmental food godowns

Efficient management and uninterrupted distribution of foodgrains under TPDS depends on availability and well maintained food godowns in the State. Apart from two FCI godowns (Rangpo and Jorethang), 27 departmental food godowns with the storage capacity of 8,100 tons of foodgrains existed in the State. Out of these 27, seven were in rented buildings. Scrutiny of records of available storage facilities in the State revealed the following:

(i) Delay in construction of food godowns under XIII Finance Commission scheme

GoI in April 2011 sanctioned State Specific Grants of ₹ 100 crore under XIII Finance Commission (FC) for various works/projects including up-gradation and construction of food godowns to be completed during the period April 2010 to March 2015. Out of this, ₹ 6.00 crore were allocated under "Additional Storage Facilities for Essential Commodities under Border Area Development Programme". The funds were to be released in four years commencing from 2011-12 @ ₹ 1.50 crore per year, ending in 2014-15. GoI released ₹ 5.40 crore against which, ₹ 5.05 crore had been spent. The State Government had taken up new construction of seven departmental food godowns valuing ₹ 5.69 crore and upgradation of two godowns[11] costing ₹ 30.22 lakh as detailed in **Appendix 1.3.3**.

Scrutiny in audit revealed that even after release of ₹ 5.40 crore, only three godowns[12], out of seven godowns, were completed against stipulated completion date of 31 March

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[10] *₹ 2.12 crore = 10,61,271 quintal x @ ₹ 20 per quintal.*
[11] *Mangan and Rongli.*
[12] *Gangtok, Singtam and Makha.*

2015. One food godown at Namchi could not be taken up due to non-finalisation of site and GoI fund of ₹ 90.33 lakh could not be availed by the State Government.

Site visit to departmental food godowns at Gangtok and Makha revealed that the construction of godowns at Gangtok and Makha taken up during 2015-16 at a cost of ₹ 105.12 lakh and ₹ 67.04 lakh respectively had been completed and were being utilised. However, it was observed that there was no approach road to the godown at Makha. Similarly, approach road to food godown at Gangtok had been extensively damaged within a year of construction due to which FPSs had been facing great difficulty in lifting of its monthly quota of PDS items from the food godown.

Image 1.3.4

Poor road leading to Gangtok food godown

Image 1.3.5

Makha food godown without approach road

Thus, delayed completion of the food godowns and construction of godowns without proper approach roads had adversely affected the purpose of providing food security to the poor people.

(ii) Capacity of FCI and departmental food godowns

The FCI godown located at Jorethang catered to the need of South and West districts. The departmental food godowns at Ranipool, Namthang and Jorethang catered to the needs of PDS foodgrains of FPSs attached to them pertaining to East and South districts. The capacity and monthly lifting of these food godowns are shown below:

Table 1.3.9

Godowns	Capacity (in tons)	Monthly lifting (in tons)	No of FPSs catered
FCI godown, Jorethang	770	1,000	
Food godown, Ranipool	150	156	92
Food godown, Namthang	50	83	38
Food godown, Jorethang	10	16	85

Source: Departmental statement

Thus, it was seen that FCI Jorethang godown and three departmental food godowns, i.e. Ranipool, Namthang and Jorethang bore capacity lower than the actual demands of foodgrains to be stored which adversely affected in its day to day storing of the PDS items. It was also noticed that there was no weighbridge at FCI godown at Jorethang to weigh the un-laden and laden vehicles engaged for transportation of PDS foodgrains.

(iii) Buffer stock of foodgrains not maintained

Buffer stock should be maintained at all times to ensure food security in the event of emergent exigencies and also to provide uninterrupted supply of foodgrains in all seasons. The State Government, however, had not prescribed any norm for maintenance of buffer stock to be maintained by the departmental food godowns.

Audit scrutiny on stock position of 27 departmental food godowns for 2014-15 revealed that the food godowns at Gangtok, Rangpo and Pakyong did not maintain buffer stock. Similarly, the buffer stock was not maintained during second half of the year (October 2014 to March 2015) by Kaluk, Singtam, Dikchu, Makha, and Melli food godowns. Thus, the Departmental food godowns as mentioned above lacked preparedness in the event of emergent situations.

While accepting the Audit observation, the Department stated (November 2016) that considering the vulnerability and location of the food godowns, the Department had allocated certain quota of rice allotted to the State by GoI as additional BPL, APL quota as buffer stock. There was no need of maintaining the buffer stock at Gangtok, Rangpo and Pakyong food godowns as these food godowns were easily accessible and also located near the FCI depot.

1.3.9.2.9 Computerisation of Supply Chain Management System of Targeted Public Distribution System

(i) Delay in completion of Computerisation of Supply Chain Management System of Targeted Public Distribution System

GoI vide letter dated 14 August 2012 conveyed administrative approval to the proposal of “Computerisation of Supply Chain Management (SCM) System of TPDS” in the State for an amount of ₹ 4.71 crore in the sharing pattern of 90:10 (Central share: ₹ 4.24 crore and State share: ₹ 47.10 lakh). An amount of ₹ 3.30 crore was received by the State Government against the Central share of ₹ 4.24 crore whereas ₹ 20 lakh had been released as State share.

The project also named as “End to end computerisation in PDS in the State” consisted of two components. The first component involved supply chain computerisation of the entire PDS operation which would cover monitoring of foodgrains allocation, storage and movements starting from the base depots of FCI till the FPS. The second component related to computerisation of operations at the FPSs.

Image 1.3.6

Idle VSAT system at Jorethang godown

The project consisted of various items (a) customisation of application software (₹ 27 lakh), (b) hardware and software, operating systems (₹ 2 crore), (c) site preparation (₹ 80 lakh), (d) data preparation (₹ 1.44 crore) and (e) training and miscellaneous expenses (₹ 20 lakh). The project commenced in 2012 and was scheduled to be completed by October 2013. The Department received ₹ 3.30 crore from GoI for implementation of the project. Scrutiny of implementation of project revealed the following:

One of the main components of the project was supply and installation of Very Small Aperture Terminal (VSAT) system for connectivity between head office, food godowns and FCI godowns. The Department awarded (March 2013) the work of supply of VSAT and its installation to M/s Hughes Network Systems India Ltd at a cost of ₹ 25.98 lakh. The firm was paid an amount of ₹ 22.86 lakh against which the firm supplied VSATs to 27 departmental godowns. During the field visits of the food godowns by audit, it was seen that the VSATs were found merely dumped/installed at respective departmental food godowns even though the warranty period of one year had already expired in June 2014.

Scrutiny further revealed that none of the 27 VSAT systems supplied were made operational due to absence of satellite linking. The digitisation of beneficiary and other databases had not been completed as of July 2016. Thus, even after receiving ₹ 3.30 crore from GoI and after four years of commencement of work, the project was not completed as of July 2016 due to which online monitoring of foodgrains allocation, storage and movements starting from the base depots of FCI till the FPS could not be achieved.

The Department in its reply stated (November 2016) that beneficiaries details had been uploaded in the website. The reply of the Department was not tenable as there was no online linkage between head office, FCI depots and food godowns.

1.3.9.2.10 National Food Security Act

(i) Delayed implementation of National Food Security Act, 2013 in the State resulted in financial burden to State towards subsidy and also deprival of benefit

With the objective of providing food and nutritional security in human life cycle approach, by ensuring access to adequate quantity of quality food at an affordable price to people to live a life with dignity and for matters connected therewith or incidental thereto, GoI enforced and extended the National Food Security Act, 2013 (NFSA) to whole of India w.e.f. 5 July 2013. Accordingly, all State Governments/Union Territories (UT) were to implement and enforce the NFSA in their respective State/UT with immediate effect. As per the provision of the NFSA, AAY beneficiaries would be entitled to draw 35 kgs of rice per month per household at ₹ 3 per kg. Similarly, PHH beneficiaries were entitled to 5 kgs of rice per month per individual at subsidised rate of ₹ 3 per kg. Further, they would also be entitled to wheat and coarse grains at ₹ 2 per kg and ₹ 1 per kg per month respectively. The State Government could implement and enforce the NFSA from January 2016 only, i.e. after a lapse of nearly 27 months due to various administrative reasons.

Audit scrutiny revealed that GoI approved 16,514 HHs under AAY and 3,24,081 individuals under PHH under the NFSA. The burden on the overhead cost (transportation, handling charges and FPS margin) was to be shared between Central and State Government in the ratio of 75:25 as per provision of the NFSA. The overhead cost worked out to ₹ 260 per quintal (Centre: ₹ 195 per quintal and State: ₹ 65 per quintal).

Thus, total subsidy on issue of rice to 16,514 HHs under AAY and 3,24,081 individuals under PHH from October 2013 to December 2015 worked out to ₹ 11.57 crore[13]. During the same period, the Department had incurred ₹ 22.02 crore on payment of subsidy towards continuance of implementation of old schemes (BPL, AAY and MMKSA) under TPDS. Thus, due to delayed implementation of the NFSA, the State Government could not avail the Central subsidy of ₹ 11.57 crore and on the other hand, State Government had to incur expenditure of ₹ 22.02 crore[14] from its own exchequer towards subsidy on implementation of old scheme of TPDS.

It was noticed that despite delayed implementation of the NFSA, the Department had not finalised the list of beneficiaries, computerisation system and point of sales (POSs) device was in preliminary stage and strengthening of records system at FPSs level had not been implemented (July 2016). Instead of issue of printed ration cards to the beneficiaries, temporary ration cards in plain paper were issued. Thus, delayed implementation of the NFSA deprived the eligible beneficiaries in getting timely benefits provided under the NFSA and also incurred avoidable payment of subsidy of ₹ 33.59 crore.

In reply, the Department stated (November 2016) that the NFSA could not be enforced within the target date given by GoI as the State had to carry out number of works such as preparation of beneficiaries list afresh, linkage of list with AADHAR, printing and issue of new ration cards, creation of computerisation system at headquarters at Gangtok and also in districts and food godown level, installation of POS devices at FPSs level and also awareness to the public. Despite these, the State Government was able to implement the NFSA w.e.f. January 2016. The reply of the Department was not tenable as the Department had taken 27 months for its implementation which remained in transition period as number of works, viz. printing and issue of ration cards in final form, computerisation in all food godowns and installation of POS devices at FPSs level were under implementation. Thus, full-fledged implementation of the NFSA had not started as of October 2016.

(ii) State Food Commission and Grievances Redressal Mechanism

The NFSA envisaged that every State Government shall put in place an internal grievance redressal mechanism which may include call centres, help lines, designation of nodal officers, or such other mechanism as may be prescribed. The NFSA further provides appointment or designating an officer for each district to be the District Grievance Redressal Officer for expeditious and effective redressal of grievances of the aggrieved persons in matters relating to distribution of entitled foodgrains or meal, for enforcement of the entitlements under the NFSA. Further, the State Government shall, by notification, constitute a State Food Commission for the purpose of monitoring and review of the implementation of the NFSA. The State Government may by notification designate any statutory commission or a body to exercise the powers and perform the functions of the State Commission.

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[13] *₹ 11,57,45,497 = 21,983.95 quintals per month x 27 months @ ₹ 195 per quintal.*

[14] *₹ 22.02 crore = BPL: ₹ 4.18 crore, AAY: ₹ 5.60 crore, MMKSA: ₹ 12.24 crore.*

Audit scrutiny revealed that the State Government designated (January 2015) the State Commission for Protection of Child Rights as the State Food Commission and all Deputy Directors posted at district level as the District Grievance Redressal Officers (DGRO) in their respective jurisdiction. All 293, five and two consumer grievances received by the DGROs North, East and West respectively during 2015-16 were reported as settled. The activities of the Commission and DGRO, South could not be ascertained as no records relating to activities regarding monitoring and evaluation of implementation of the NFSA, suggestions/instructions of the Commission to the State for smooth implementation of NFSA, appeal against the order of the DGROs were furnished to audit by the DGROs as well as by the Department.

1.3.9.2.11 Fair Price Shops

Operation and functioning of Fair Price Shops

The success of the TPDS depends on efficient functioning of the FPSs. The PDS (Control) Order, 2001 envisaged that the FPS owners should maintain list of beneficiaries, stock registers of foodgrains received each month, sold and balances, display information about entitlement of essential commodities, scale of issue, RIP, daily sample of foodgrains, timing of opening and closing of shops, authority for redressal of grievances/lodging complaints with respect to quality of essential commodities, etc. under the PDS at the premises of the FPSs.

Audit inspection of sampled 72 FPSs revealed the following:

- Samples of foodgrains issued under PDS were not maintained in any of the FPSs inspected;
- FPSs had not displayed rate and scale of the PDS items in the notice board;
- FPSs had not displayed the timing regarding opening and closing of FPS, monthly lifting of foodgrains, availability of stock and authority for redressal of grievances/lodging complaints with respect to quality of essential commodities under the PDS, etc. at the premises of the FPSs.
- There were cases of delayed renewal of licenses of FPSs against the provision of annual renewal, 26 FPSs were operating for number of years without renewal.

Thus, FPS owners failed to provide the required information to the consumers of the concerned areas. Non-compliance to the provisions of PDS (Control) Order, 2001 by the FPSs coupled with the absence of requisite information in the notice board and absence of regular monitoring by the Department was fraught with risk of discrepancy in price, quality and scale of foodgrains being issued to TPDS beneficiaries.

Image 1.3.7

Notice Board without requisite information

In reply, the Department stated (November 2016) that FPS owners opened the shops every day as per convenience of the public.

1.3.9.3 Revolving Fund Account

In order to avoid delay in procurement and distribution of foodgrains without any financial difficulty to the consumers and to facilitate uninterrupted procurement, the Department operated a Revolving Fund Account (RFA). All transactions pertaining to procurement, distribution and sale proceeds of PDS rice and sugar as well as the subsidy from State Government were operated through the RFA. Records of RFA relating to the initial amount allocated to start operation could not be furnished to audit.

The year-wise receipt and expenditure of the RFA is given below:

Table 1.3.10

(₹ in crore)

Year	Opening balance	Receipt/recoupment during the year	Interest earned	Total	Expenditure during the year	Closing balance
2011-12	1.21	44.96	0.20	46.37	46.12	0.25
2012-13	0.25	44.83	0.01	45.09	43.65	1.44
2013-14	1.44	48.17	0.25	49.86	48.13	1.73
2014-15	1.73	44.01	0.15	45.89	41.85	4.04
2015-16	4.04	44.01	0.36	48.41	45.26	3.16

Source: Information furnished by the Department

The operation of RFA, however, revealed the following:

(i) Operation manual for Revolving Fund Account not prepared

Mechanism for keeping detailed accounts under RFA had not been mandated by the Department as they had not issued any manual. In the absence of any operation manual, component-wise expenditure could not be examined. The matter was reported in the Comptroller and Auditor General's Audit Reports for the year ended 31 March 2005 and 2010. Despite Department's assurance and response (November 2010), the Department had not prepared (July 2016) the operation manual for RFA even after lapse of more than 15 years.

In reply, the Department stated (November 2016) that they were in the process of preparation of operation manual for Revolving Fund and obtaining the approval of the Government.

(ii) Irregular expenditure from Revolving Fund Account

The purpose for operation of RFA was to facilitate easy and uninterrupted procurement and supply of PDS items. Thus, all transactions relating to procurement and distribution of PDS items were required to be operated through RFA.

Audit scrutiny of transactions pertaining to the period covered under audit (2011-16) revealed that the Department incurred expenditure on items like procurement of vehicles, land compensation and payment of salaries to regular and muster roll, etc. amounting to ₹ 1.07 crore from RFA. Since expenditure on these items were not related to procurement and distribution of PDS items, the expenditure on these items should have been borne from Department's own budgetary resources instead of incurring from the RFA.

While accepting the fact, the Department stated (November 2016) that the expenditure mainly pertained to payment of Muster Roll wages and only in few cases payment of other expenditure was made which had been recouped from regular budget. Efforts would be made to regularise the expenditure from normal budget in the coming financial year. The reply of the Department was not acceptable as expenditure on land compensation (₹ 3 lakh) only was adjusted back to RFA and the rest ₹ 1.04 crore was not recovered/ recouped to RFA till July 2016.

(iii) Advance register not maintained

As per provision of the Sikkim Financial Rules, 1979 and the Government instructions issued thereof from time to time, advance upto 75 *per cent* of the gross amount of goods to be supplied or services to be rendered can be granted to suppliers and service providers by the Head of the Department/Office with the concurrence of Finance, Revenue and Expenditure Department subject to adjustment of such advance immediately after receipt of goods and services rendered.

Audit scrutiny revealed that advances from the RFA were drawn for regular and routine nature during the period April 2011 to March 2016 for payment to the private parties and the departmental officers for various purposes (muster roll payment, purchase of sugar, conduct of training and awareness programme, etc.). However, no advance register was maintained to watch the adjustment and its status. Advances were sanctioned from a file maintained separately whereas adjustment of advances were recorded in the Cash Book (where all transaction pertaining to RFA were entered) and dealt with separately without linking from sanctioned file. Hence, adjustment status of any particular advance could not be ascertained.

1.3.9.4 Monitoring System

To ensure proper functioning of the scheme, the PDS (Control) Order, 2001 emphasises the need for adequate monitoring through different mechanisms such as inspection of FPSs, formation of Vigilance Committees and prescription of periodical returns, use of computerised system to monitor the functioning of PDS at FPS level, etc. Audit scrutiny revealed the following:

1.3.9.4.1 Preparation and submission of returns

The PDS (Control) Order 2001 provided for a system of monthly reporting from FPSs to district authorities, from district authorities to State Government and from State Government to GoI. These returns relate to vital data such as number of ration cards attached to FPS, opening stock with FPS, allocation for the month and quantity actually received and distributed, etc.

Examination of records by audit on visit to 72 FPSs revealed that no such reports were furnished by FPSs to the district authorities. In the absence of returns from FPSs, the correctness of information furnished by district authorities to the State Government and from State Government to GoI could not be verified. Such lackadaisical approach by the Department towards ‘return’ which was a manifestation of quantum of service rendered, also reflected the absence of seriousness towards effective evaluation of service delivery.

In reply, the Department stated (November 2016) that functioning of the PDS in Sikkim was slightly different from other States as the entire distribution system upto the level of FPSs remained under Government supervision. Relevant forms prescribed in the PDS (Control) Order, 2001 were being utilised for reporting. The reply of the Department was not acceptable as none of the 72 FPSs test checked in audit had furnished the reports and returns to the district authorities.

1.3.9.4.2 Absence of inspections of FPSs

According to PDS (Control) Order 2001, the State Government should ensure regular inspections of FPSs not less than once in six months by the designated authority and issue orders specifying the inspection schedule, list of check points and the authority responsible for ensuring compliance with the said order.

The State Government had neither fixed the periodicity for inspections of FPSs nor followed other instructions for regular inspection and monitoring of FPSs. Information provided by the Department revealed that not even a single inspection was conducted by the authority for all 1,420 FPSs during 2011-12 to 2015-16. Thus, in the absence of regular and systematic monitoring of the FPSs, assurance in terms of rates, quality and quantity in operation of TPDS could not be ensured by the Department.

The Department stated (November 2016) that the DCSOs of the concerned districts were conducting the surprise checking of FPSs as directed by the Departments. Besides this, enforcement team were also conducting inspection in FPSs. Reply was not tenable as the Department could not produce the inspection schedule, register of inspection conducted, total number of inspection done during the period covered under audit. The Department could produce only 18 inspection reports that too related to FPSs located in and around Gangtok bazaar. This indicated monitoring mechanism was not fully functional during the entire period of audit.

1.3.9.4.3 Vigilance Committee

According to PDS (Control) Order 2001, periodicity of meeting of the Vigilance Committee (VC) for PDS at the State, District, Block and Gram Panchayat Unit (GPU) levels should not be less than one meeting in a quarter during a year at all levels. Hence, four meetings each were to be held each year. Though the VCs were constituted (September 2008) at all levels, no records in respect of quarterly meetings conducted at State, District and Block levels during 2011-2016 were furnished to audit as it was stated to be untraceable. This indicated that the monitoring framework/structure relating to VCs at various levels from State to Block was non-functional. Thus, deficient monitoring mechanism not only resulted in absence of controls at various levels but also left ample scope for mismanagement of foodgrains as reflected in paragraph 1.3.9.2(iii).

The Department stated (November 2016) that the VCs were in place and records of meeting of Committee will be traced out and made available to Audit in due course.

1.3.9.4.4 Quality Control

One of the primary objectives of the TPDS was that the foodgrains distributed to beneficiaries were of good nutritious quality and fit for human consumption. As per PDS

(Control) Order 2001, the representative of the State Government or their nominees and the FCI should conduct joint inspection of the stock of foodgrains intended for issue to ensure that the stock conforms to the prescribed quality and specifications. The PDS (Control) Order 2001 also provided that FCI should issue to the State Government sealed samples of the stock of foodgrains supplied to them for distribution under PDS for quality control.

However, despite repeated requisitions, the Department as well the FCI, did not furnish any document on collection and analysis of samples as well as the quality control reports. The Department also did not provide the norm/target for drawing of samples and testing of PDS foodgrains. No laboratory had been set up in the State for analysis/examination of PDS items.

Further, interview with the beneficiaries and survey of FPSs revealed that they were not having any dissatisfaction on quality of rice issued under TPDS. However, 33 *per cent* of FPSs and 40 *per cent* of beneficiaries (out of 72 FPSs and 63 individuals respectively) interviewed during audit had expressed their dissatisfaction with quality of whole meal atta being distributed under TPDS due to reddish colour and its coarse nature and desired improvement in quality. Further, 16 individuals (25 *per cent*) out of 63 individuals interviewed expressed their dissatisfaction with the quality of sugar distributed under TPDS. Moreover, the Department had not drawn samples of foodgrains being issued from food godowns and FPSs. Thus, the quality aspect of foodgrains distributed under various schemes of TPDS remained un-assessed. The absence of quality control mechanism not only violated the provisions but also denied the beneficiaries of assured quality foodgrains.

In reply, the Department stated (November 2016) that the officer of the Department posted at FCI depots at Rangpo and Jorethang regularly conducted joint inspection of stock of foodgrains for issue under PDS to ensure prescribed quality and also conducted quality check manually. The Deputy Director posted at Siliguri was responsible for verification of quality of foodgrains before despatch to FCI depots in Sikkim for its subsequent distribution to various food godowns in the State under PDS. The reply of the Department was not tenable due to the fact that the Department/FCI could not produce the records relating to joint inspection of stock of goodgrains to ensure prescribed quality and reports of quality check conducted despite repeated requisitions during the course of audit.

1.3.10 Conclusion

The State Government was responsible for identification of beneficiaries, issue of ration cards and distribution of foodgrains through TPDS for ensuring food security at affordable prices. The PA on implementation of the TPDS in the State revealed that the State Government had not reviewed/updated the lists of beneficiaries to prevent the distribution of foodgrains to ineligible individuals/households. There was substantial difference between the number of BPL beneficiaries as per report of Department of Economics Statistics Monitoring and Evaluation and the BPL beneficiaries identified by *the Department. The BPL beneficiaries were issued dual ration cards both under BPL and APL categories and were availing double benefits of rice. There was diversion of Superior Kerosene Oil to various entities beyond the purview of TPDS and denial to consumers of PDS benefits due to short lifting of sugar. The consumers were overburdened due to higher selling price of PDS items, viz. SK Oil, sugar and rice. Nominated agents responsible for milling of wheat for conversion into atta and its distribution were allowed higher refraction rate of conversion besides the distribution being inconsistent and erratic. Despite allowing higher refraction rate, quality of atta was not satisfactory depriving the beneficiaries of the prescribed quality. Consumers were denied prescribed scale of rice due to diversion of monthly allotment to other schemes implemented by the State. The delayed implementation of the NFSA in the State resulted in avoidable expenditure on payment of subsidy from State exchequer. The computerisation of Supply Chain Management system of TPDS had not been completed even after four years of commencement due to which online monitoring of foodgrains allocation, storage and movements starting from the base depots of FCI till the FPSs could not be achieved.*

The monitoring mechanism remained largely non-functional as system of submission of periodic returns from the FPSs to districts were non-existent and inspections of the FPSs were minimal compared to prescribed schedules. Further, the Vigilance Committees constituted at various levels to monitor proper distribution of PDS commodities remained non-functional as no meetings were held during the entire period covered by Audit.

The quality aspect of foodgrains distributed remained un-assessed as samples were not collected from FPSs and food godowns and foodgrains were not tested for determination of its nutritious value and fitness for human consumption.

1.3.11 Recommendations

The following recommendations should be implemented for improvement in the Scheme:

- Beneficiary list should be updated immediately and reviewed on an annual basis and the duplicate ration cards should be eliminated on priority basis. Only eligible persons should be included in the beneficiary list and ineligible cases should be identified and removed;
- Quality control checks needs to be ensured to assess the quality as well as nutritional value of foodgrains distributed;
- Monitoring mechanism should be strengthened by making Vigilance Committee functional, carrying out regular inspections of the FPSs, enforcing the maintenance of proper records by the FPSs.

HEALTH CARE, HUMAN SERVICES AND FAMILY WELFARE DEPARTMENT

1.4 Idle equipment

Non-installation/non-commissioning of essential medical equipment worth ₹ 9.50 crore resulted not only in idling of machines but also deprived the poor people of the intended benefit.

The Project "Strengthening of Radiology Departments at Mangan, Singtam and Namchi" was approved (September 2012) under North Eastern Council (NEC) by the Ministry of Development of North Eastern Region (DoNER) for procurement of three X-Ray Digital Machines one each for Namchi, Mangan and Singtam District Hospitals (DHs) and one CT Scan machine for Namchi DH for providing adequate medical facilities and treatment to the poor people who could not afford treatment outside the State and to the critically injured patients for emergency diagnostic facilities. Administrative approval of ₹ 9.50 crore (90:10::Central:State) was accorded (September 2012) against which, GoI released ₹ 5.18 crore[15]. After the tendering process, the supply order was issued (February 2014) to M/s RS Trading Company, Gangtok, an authorised dealer of M/s Philips Electronics India Ltd. for supply of three X-Ray machines and one CT Scan machine at a cost of ₹ 5.54 crore to be supplied by 16 April 2014. The terms and conditions of the supply order stipulated that equipment were to be supplied and commissioned within 60 days from the date of issue of the supply order and to be handed over to the departmental authorities at the specified location duly conducting demonstration of full functioning of units. It was further seen that while the State Government had not released its proportionate share (released only ₹ 0.36 crore[16] out of required ₹ 0.95 crore[17]), the balance amount of GoI share of 90 *per cent* (₹ 3.37 crore) was also not released by the DoNER.

Audit scrutiny revealed (April 2016) that the firm delivered the equipment in April 2015 to all the three DHs after delay of one year. Physical verification of the equipment (April 2016) revealed that machines were neither installed/commissioned, nor were functioning till the verification (April 2016) as would be evident from the photographs below:

[15] *₹2.80 crore (1st instalment in November 2012) and ₹2.38 crore (2nd instalment in February 2015).*

[16] *₹0.36 crore – (₹5.54 crore paid - ₹5.18 crore received from GoI).*

[17] *10 per cent of ₹9.50 crore.*

Image 1.4.1	Image 1.4.2	Image 1.4.3

Mangan DH	*Singtam DH*	*Namchi DH*

Machines lying idle at District Hospitals (April 2016)

It was further seen that equipment at Singtam, Namchi and Mangan DHs were not installed due to lack of sufficient power supply and adequate place for installation.

Thus, non-installation/commissioning of the medical equipment resulted not only in idling of machines but also deprived the poor people of the Districts of the intended benefit. Further, the Department in violation of the terms and conditions of supply, made payment of ₹ 5.54 crore to the supplier before commissioning of the equipment.

The Department in its reply (June and November 2016) stated that delayed supply was due to shortage of those equipment at Netherlands from where it was imported. Further, the Department attributed the delay in installation to shortage of adequate power supply and paucity of funds as additional fund was not provided by the Government in spite of repeated requests for the purpose.

Reply was not acceptable as the Department was supposed to ensure availability of fund and adequate power supply before issue of supply order. Further, the Department failed to provide any document in support that they had ever approached FRED for the fund.

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

1.5 Unfruitful expenditure

Award of work without prior acquisition of land led to incomplete work with an unfruitful expenditure of ₹ 1.91 crore besides depriving the State of an Institution for Technical Education.

During 2009-10, Government of India (GoI) sanctioned financial assistance to the State Government for setting up of a new Polytechnic College at a cost of ₹ 12.30 crore[18] (100 *per cent* CSS). Accordingly, GoI released ₹ 7 crore[19] for the establishment of a new Polytechnic College at Yangthang, West Sikkim.

[18] *₹ 8 crore (Civil works) and ₹ 4.30 crore (Equipment, machinery, furniture, transport and learning resource materials).*

[19] *₹ 2 crore on 21 January 2010 and ₹ 5 crore on 29 May 2013.*

After receipt of 1st instalment (January 2010), the Department proposed to take up first phase of work to the tune of ₹ 8 crore[20]. While keeping aside the remaining components of civil works, one component, i.e. '*Construction of Academic-cum-Administrative Block*' was awarded (October 2011) to Shri Karma Sonam Sherpa at 24 *per cent* above Schedule of Rates (SOR) 2006 at a tendered value of ₹ 4.55 crore to complete by 23 October 2013. The contractor was paid (October 2011) Mobilisation Advance (MA) to the tune of ₹ 84.64 lakh without obtaining Bank Guarantee. Further, against the payment (December 2011) of ₹ 67.48 lakh for stock material, an amount of ₹ 29.20 lakh remained unadjusted with the State Trading Corporation of Sikkim (STCS).

Scrutiny revealed (March 2016) that after executing the work value of only ₹ 2.63 lakh, the contractor abandoned the work since June 2013, notwithstanding issue of several notices by the Department to the contractor. The contractor stated that due to delayed handing over of land (February 2013) for construction site on the part of the Department by 15 months, estimate of the said work needed to be revised as per prevailing SOR 2012.

It was further seen that before commencement of the work, the Department inexplicably purchased furniture (₹ 17.73 lakh), vehicle (₹ 15.01 lakh) and other inadmissible expenditure (₹ 5.65 lakh) during 2012-14 from the Project fund.

The casual approach of the Department in awarding the work without ensuring the availability of land and payment of MA without ensuring the Bank Guarantee not only led to violation of Sikkim Public Works Manual and Contract Agreement, but also resulted in an unfruitful expenditure of ₹ 1.52 crore. The contractor was also extended with an undue financial benefit of ₹ 84.64 lakh towards MA that could have earned interest of ₹ 42.32 lakh[21] till September 2016.

While accepting (May 2016) the fact that MA was paid to the contractor without obtaining Bank Guarantee, the Department stated that the work was delayed due to some land dispute and just recently the contractor had resumed the work. Physical verification conducted (September 2016) by Audit in presence of departmental Engineers revealed that the contractor again resumed the work from March 2016 with only 10 *per cent* physical progress with an engagement of very few labourers as seen in the image given below:

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[20] *1. Academic-cum-Administrative block (₹ 5.91 crore), 2. Principal Quarter (₹ 0.36 crore), 3. External Water Supply (₹ 0.51 crore), 4. External electrification and sub-station (₹ 0.46 crore), 5. Mini Sewerage Treatment Plant (₹ 0.56 crore), 6. Land escaping, beautification and foot path (₹ 0.20 crore).*

[21] *Interest @ 10 per cent from 09 October 2011 to 09 September 2016 on ₹ 84.64 lakh.*

Image 1.5.1	Image 1.5.2
	

As of September 2016, against the stipulated completion by October 2013, an amount of ₹ 1.91 crore[22] (27 *per cent* of Project cost) had already been incurred without any substantial progress. Considering the very slow progress of work, the objective to create an Institution for Technical Education for providing skills to the students of Sikkim remained unfruitful.

HUMAN RESOURCE DEVELOPMENT DEPARTMENT, ROADS AND BRIDGES DEPARTMENT AND LAND REVENUE AND DISASTER MANAGEMENT DEPARTMENT

1.6 Irregular diversion

The departments irregularly diverted ₹ 3.14 crore from Special Central Assistance under Prime Minister's Package towards creation of new assets despite clear instructions by Planning Commission that the fund was meant for re-construction/rehabilitation of infrastructure damaged by the earthquake.

Sikkim was hit by a 6.8 magnitude earthquake on 18 September 2011. The Prime Minister announced ₹ 1,000 crore Special Package for reconstruction and Rehabilitation and Union Home Ministry advised (21 October 2011) the State Government to prepare specific proposals with Detailed Project Report (DPR) to enable the Central Government to proceed further on this announcement. State Government identified projects amounting to ₹ 1,471 crore and submitted (15 November 2011) to the Prime Minister's Office. However, Planning commission approved (12 October 2012) ₹ 1,000 crore only and accordingly, State Government revised the priority of projects and resubmitted (20 January 2012) DPR to the Government of India.

The Memo dated 12 October 2012 conveying approval of fund by the Planning Commission, clearly stated that the package was meant for reconstruction/rehabilitation of infrastructure damaged by the earthquake and not for construction of new assets.

[22] *₹ 1.52 crore + Contingency (₹ 38.39 lakh).*

Scrutiny revealed (January 2016) that an amount of ₹ 3.14 crore was irregularly diverted by the Human Resource Development Department (₹ 2.54 crore) towards construction of school buildings and by Roads and Bridges Department (RBD) (₹ 0.60 crore) towards road carpeting, which were creation of new assets in defiance of the Prime Minister's Package guidelines as detailed below:

Table 1.6.1

Sl. No.	Name of work	Sanctioned cost (*₹ in lakh*)	Technical reasons	Remarks
1	Construction of 6/R/S/B at Deythang JHS, South Sikkim.	47.20	Due to increase of students every year.	Completed
2	Major restoration of 6/R/S/B at Sang Tshalamthang SS, East Sikkim.	49.35	Upgradation of school from Junior High School to Secondary School.	Completed
3	Construction of 6/R/S/B at Lingee Payong JHS (Phase-II), South Sikkim.	44.96	No expenditure on dismantling was found to have been incurred as normally done in other school re-construction works.	Under progress (as of January 2016)
4	Construction of Multi-purpose Auditorium at Vok SS, South Sikkim.	66.03	-do-	Under progress (as of January 2016)
5	Major restoration of 6/R/S/B at Samalingdum JHS, East Sikkim.	46.38	-do-	Completed
6	Carpeting of Bungling-South Regu, East Sikkim.	60.01	The Department carried out carpeting work on earthen road.	Completed
	Total	**313.93**		

It was clear from the DPR that the works were executed for accommodating increase in enrolment of students, upgradation of schools and not for rehabilitation of infrastructure damaged by the earthquake.

Further, the Bungling-South Regu road was constructed decades ago and not carpeted until the RBD received Prime Minister's Package and executed the work. Thus, the departments diverted ₹ 3.14 crore towards creation of new assets in violation of instructions by Planning Commission that the fund was meant for re-construction/rehabilitation of infrastructure damaged by the earthquake.

It was also noticed that instead of repairing the damages caused due to earthquake, the departments in violation of the Prime Minister's Package guidelines took up new works ignoring the damaged infrastructure.

The HRDD stated (July 2016) that some new construction had been taken up under Prime Minister Package as some old structures were severely damaged and beyond repair. The intention was to continue with the classes. The new construction be considered as reconstruction of the school building structure which ultimately brought relief to the school children. However, this was against the condition placed while conveying approval of the package. Further, the RBD stated (July 2016) that carpeting work was done to plug the cracks caused by the earthquake. This reply was also not tenable as the road (length of 2 km) was not carpeted since 1994-95 and as per the report it was not mentioned as damaged caused by the earthquake.

ECONOMIC SECTOR

CHAPTER II
ECONOMIC SECTOR

2.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2016 deals with the findings on audit of the State Government units under Economic Sector.

The names of the State Government departments and the total budget allocation and expenditure of the State Government under Economic Sector during the year 2015-16 are given in the table below:

Table 2.1.1

(₹ in crore)

Sl. No.	Name of the departments	Total budget allocation	Expenditure
1	Animal Husbandry, Livestock, Fisheries and Veterinary Services	62.44	45.30
2	Buildings and Housing	82.29	40.05
3	Commerce and Industries	56.24	51.11
4	Co-operation	16.14	15.59
5	Energy and Power	321.04	253.69
6	Food Security and Agriculture Development	81.78	49.39
7	Forest, Environment and Wildlife Management	215.16	85.30
8	Horticulture and Cash Crops Development	120.90	112.93
9	Irrigation and Flood Control	116.11	35.26
10	Mines, Minerals and Geology	3.75	3.70
11	Roads and Bridges	294.85	190.01
12	Rural Management and Development	353.14	265.94
13	Tourism and Civil Aviation	156.91	109.67
14	Transport	51.42	48.74
15	Urban Development and Housing	131.00	80.13
16	Water Security and Public Health Engineering	80.43	55.44
	Total	**2,143.6**	**1,442.25**

Besides the above, the Central Government has been transferring funds directly to the implementing agencies under the Economic Sector. The major transfers for implementation of flagship programmes of the Central Government are detailed below:

Table 2.1.2

(₹ in lakh)

Sl. No.	Name of the Department	Name of the Scheme/Programme	Implementing agency	Funds transferred during the year
1	Forest, Environment and Wildlife Management	North East Council	State Forest Development Agency	169.88
		National Medicinal Plants Board		282.56
Total				**452.44**

Source: Finance Accounts

2.2 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments of 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 findings are issued to the heads of the departments. The departments are 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, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature.

Test audits were conducted involving expenditure of ₹ 2,226.18 crore (including expenditure of ₹ 1,976.38 crore of previous years) of the State Government under Economic Sector. The details of year-wise break-up is given in **Appendix 2.2.1**. This Chapter contains one Performance Audit on 'Jawaharlal Nehru National Urban Renewal Mission' and six Compliance Audit Paragraphs as given below:

URBAN DEVELOPMEENT AND HOUSING DEPARTMENT

2.3 Jawaharlal Nehru National Urban Renewal Mission

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched on 3 December 2005 with the objective of reforms driven fast track development of cities across the country with focus on sustainable development of physical infrastructure in cities, including development of technical and management capacity for promoting holistic growth with improved governance. The Mission period was seven years, i.e. upto 2012 but was being implemented upto 2016. The Mission comprises of four components - Urban Infrastructure and Governance (UIG), Basic Services to the Urban Poor (BSUP), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and Integrated Housing and Slum Development Programme (IHSDP).

In Sikkim, Urban Development and Housing Department (UDHD) was the State Level Nodal Agency (SLNA) which implemented the schemes under JNNURM. Other implementing agencies were Water Security and Public Health Engineering Department (WSPHED) and Transport Department (Sikkim Nationalised Transport (SNT) Division). UDHD implemented BSUP, IHSDP and UIG projects except procurement of buses which was being implemented by the Transport Department and WSPHED implemented UIDSSMT projects. Programme Management Unit (PMU) and Project Implementation Unit (PIU) had not been constituted in the State of Sikkim.

Performance Audit on implementation of JNNURM in Sikkim for the period 2011-12 to 2015-16, spanning across three departments was conducted during April-August 2016 through test check of records in UDHD, WSPHED and Transport Department (SNT Division). Audit of these departments disclosed that the scheme as a whole was characterised with improper planning. It lacked survey and investigation to determine *availability of land for the Scheme, requirement of infrastructure, selection of beneficiaries, etc. which resulted in projects remaining incomplete beyond the scheduled date of completion and to incomplete and delayed implementation of reforms. Gap analysis for requirement of infrastructural development was not ensured. Community Participation Fund (CPF) had not been constituted/introduced.*

The Mission was further affected due to lack of monitoring of the projects. There was absence of monitoring at the State level. The District Level Review and Monitoring Committee (DLRMC) had not been constituted. Therefore, cases of incorrect financial reporting were not detected. The following were the main highlights of the Audit.

Highlights

The pace of reforms was slow defeating the objective of JNNURM, i.e. reforms driven fast track development. Due to the slow progress of reforms, GoI deducted ₹ 8.70 crore from the projects under JNNURM.

(Paragraph 2.3.9.1)

There was irregular diversion of fund amounting to ₹ 203.86 lakh for repair and works in other areas and purchase of vehicles beyond the ambit of the scheme.

(Paragraph 2.3.9.5(vii))

Under JNNURM, 13 projects amounting to ₹ 212.87 crore were sanctioned. However, only four projects had been completed. Not even a single project was completed in scheduled time due to various reasons such as non-availability of land, forest clearance, delay in supply of stock material, earthquake, etc.

(Paragraph 2.3.9.6)

The implementation of the project meant for the Mission city in non-Mission city defeated the very objective of the fast track development of Mission city.

(Paragraph 2.3.9.7(ii)(a))

51 Dwelling units were not allotted to the identified beneficiaries as per guidelines and the Department had not verified the socio-economic conditions or livelihood profile of those allottees.

(Paragraph 2.3.9.7(iii)(a))

The State Level Nodal Agency could not produce any records on monitoring. District Level Review and Monitoring Committee was not constituted. There were instances of incorrect reporting to GoI and discrepancy in Returns.

(Paragraph 2.3.9.8)

2.3.1 Introduction

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched in Sikkim in the year 2007 with the objective of reforms-driven, fast track planned development of identified cities with focus on efficiency in urban infrastructure, service delivery mechanisms, community participation and accountability of the State/Urban Local Bodies (ULBs) towards citizens. The State and the ULBs were required to accept implementation of an agenda of reforms which consisted of various mandatory and optional reforms within the Mission period. The main aim of the reforms was to provide an enabling environment for the growth of the cities by enhancing effective urban service delivery and civic infrastructure through improvements in urban management, land management, stake holders' participation in local governance, etc.

Keeping in view the rapid urbanisation, the requirement of infrastructure (markets, proper housing, water supply, sewerage systems and treatment plants) was imminent. It was against this background that Performance Audit (PA) on JNNURM was conducted to assess the efficiency and effectiveness in its implementation.

There were eight notified towns in the State of Sikkim i.e. Gangtok, Singtam and Rangpo in the East, Mangan in the North, Jorethang, Naya bazaar and Namchi in the South and Gyalshing in the West which would come under the urban area and therefore, under the purview of JNNURM. The population living in the slums in the eight notified towns of Sikkim was 10,793.

Gangtok, the capital of Sikkim, had been taken up as Mission city for implementation of JNNURM {(sub-components Urban Infrastructure and Governance (UIG) and Basic Services to the Urban Poor (BSUP) under Category C (State Capitals and other cities/UAs of religious/historic and tourist importance)}. In addition to this Mission city, Mangan, Singtam, Rangpo, Melli and Namchi had been selected for implementation of Integrated Housing and Slum Development Programme (IHSDP) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT).

2.3.2 Funding pattern

The State of Sikkim is included under the category of North Eastern States. As such, funding pattern applicable to the cities where JNNURM is being implemented in Sikkim was as under:

Table 2.3.1

(in per cent)

UIG/UIDSSMT/IHSDP			BSUP	
Grant		ULB or Parastatal share/loan from financial institution	Central share grant	State/ULB/Parastatal share including beneficiary contribution
Centre	State			
90	10	Nil	90	10

2.3.3 Scope of Audit

PA on JNNURM covering the period from 2011-12 to 2015-16, across three departments was conducted during April-August 2016 through test check of records in UDHD, WSPHED and Transport Department (Sikkim Nationalised Transport (SNT) Division).

2.3.4 Audit objectives

The PA was conducted with the objective of assessing whether:

- Reforms were implemented effectively;
- There was a comprehensive and reliable assessment and identification of the requirement and infrastructural development of cities;
- Individual projects were planned properly and executed economically and efficiently and achieved their intended objectives;
- Financial control was exercised adequately;
- Mechanism for monitoring and evaluation was adequate and effective.

2.3.5 Audit criteria

Audit findings were benchmarked against the criteria in the following documents:

- Guidelines, instructions/circulars/orders issued by Ministry of Urban Development (MoUD), Ministry of Housing, Urban and Poverty Alleviation (HUPA) and Ministry of Finance (MoF);
- Memorandum of Agreement (MoA) and Detailed Project Report (DPR) of selected projects;
- City Development Plan (CDP) of selected city;
- Sikkim Public Works Code and Manual;
- Sikkim Financial Rule.

2.3.6 Audit methodology

The PA commenced with an Entry Conference (17 May 2016) with the representatives from UDHD, WSPHED and Transport Department (SNT Division) wherein audit objectives, scope of audit, audit methodology and audit criteria were explained. Audit process included issue of requisitions for information/data/records, scrutiny of records and analysis of information/data followed by framing of audit observations. Besides, joint physical verification by Audit and departmental officials of selected projects and interview of housing beneficiaries was also conducted.

For sample audit scrutiny, eight[1] out of 13 projects were selected, i.e. 62 *per cent* of the sanctioned projects. The details of selection of sample were as follows: two projects out

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[1] *Under:* ***(A) UIG*** *(i) Upgradation and Modernisation of Raw Water Main and WTP for Greater Gangtok Water Supply System (ii) Rehabilitation of sewerage systems in Gangtok.* ***(B) UIDSSMT*** *(i) Augmentation of Mangan Water Supply Scheme, North Sikkim (ii) Setting up of sewerage facility in Jorethang Town and surrounding areas (iii) Setting up of sewerage facility in Melli Town and surrounding areas.* ***(C) BSUP*** *(i) Integrated Housing and Slum development at Old Slaughter House Area-Ph-I (ii) Integrated Housing & Slum Development of Notified Slum area at Rangpo-Gangtok–I and* ***(D) IHSDP*** *Integrated Housing & Slum Development for notified slum area of Singtam.*

of four projects under UIG, three projects out of five projects under UIDSSMT, two projects out of three projects under BSUP and one project under IHSDP were selected using Probability Proportionate to Size Without Replacement method considering the sanctioned cost using random table, except IHSDP project as it was a single project. The draft Report was issued to the Department in September 2016. Audit findings were discussed in an Exit Conference (09 November 2016) with the Secretaries of the concerned departments and the report was finalised duly taking into consideration the views of the departments suitably incorporating the replies received (November 2016) from the departments.

2.3.7 Acknowledgement

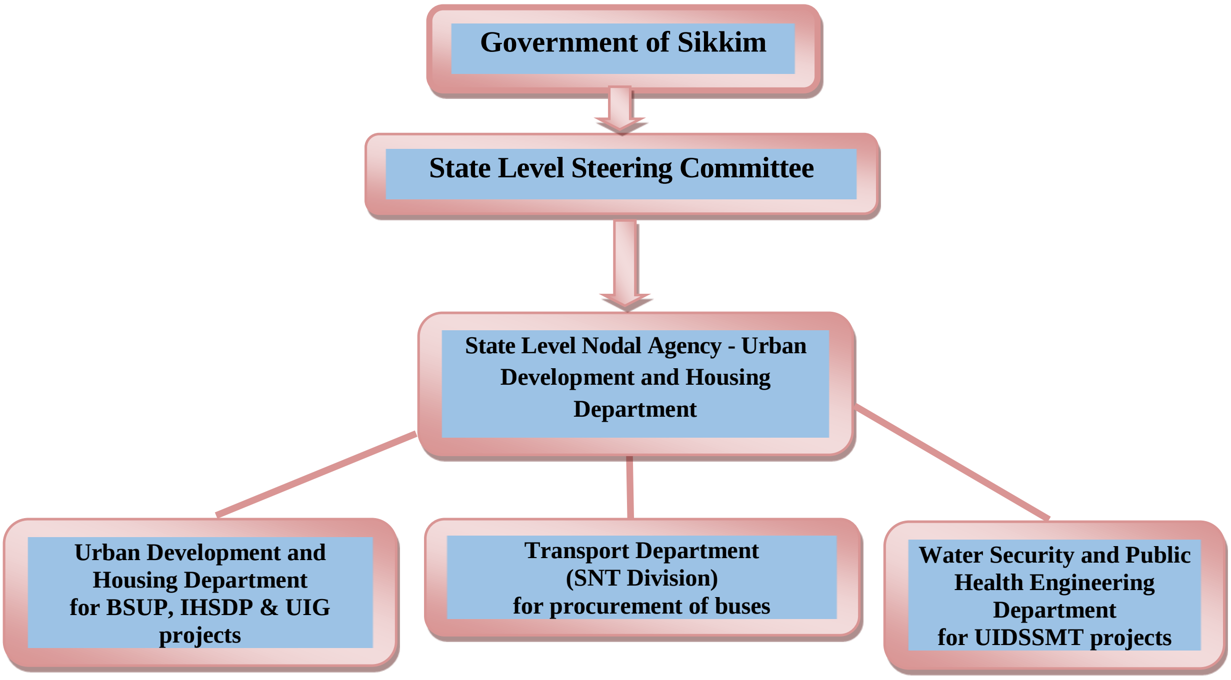
The Indian Audit and Accounts Department acknowledges the co-operation of the UDHD, WSPHED and the Transport Department, Government of Sikkim (GoS) in providing necessary information and records for audit.

2.3.8 Organisational set-up

At the State level, JNNURM was to be coordinated by State Level Steering Committee (SLSC) headed by the Chief Minister. It would also review and prioritise proposals for inclusion in the JNNURM. The SLSC would be supported by a Nodal Agency that would invite project proposals, appraise them, manage and monitor the JNNURM. A Programme Management Unit (PMU) at the State level was to be formed to strengthen the capacity of State Level Nodal Agency (SLNA) to manage and implement the composite array of tasks associated with JNNURM. The objective of PMU was to assist the SLNA in discharging their roles and responsibilities assigned as per the JNNURM guidelines. The Project Implementation Unit (PIU) would supplement and enhance the existing skill in coordination with Nodal Agency to enhance the pace and quality of implementation of the scheme.

In Sikkim, UDHD was the SLNA which implemented the projects under JNNURM. Other implementing agencies were WSPHED and Transport Department (SNT Division). UDHD implemented BSUP, IHSDP and UIG projects except procurement of buses which was being implemented by the Transport Department and WSPHED implemented UIDSSMT projects. PMU and PIU had not been constituted in the State of Sikkim. The organisational chart for implementation of the JNNURM in the State was as under:

Chart 2.3.1



2.3.9 Audit findings

2.3.9.1 Implementation of reforms

With the enactment of the 74th Constitutional Amendment Act 1992, ULBs have emerged as an important third tier of Government. The main objective of the reforms under JNNURM was to provide an enabling environment for the growth of the cities by enhancing effective urban service delivery and civic infrastructure through improvements in urban management, land management, financial management and stakeholder participation in local governance.

The State and ULBs were required to initiate reforms in line with the Constitutional Amendment Act, in accordance with the guidelines of JNNURM and as per the tripartite MoA signed between Government of India (GoI), State Government and ULBs.

The MoA in Sikkim was signed by Joint Secretary, Ministry of Urban Development, GoI with the Secretary, UDHD, GoS as the Chairman of Sikkim Urban Development Agency on 13 June 2007. Though the MoA was supposed to be signed by the ULBs, it was signed by Chairman of Sikkim Urban Development Agency due to the fact that the ULBs were formed in the State of Sikkim only in May 2010.

There were 23 reforms that were to be implemented by the State/ULBs/Parastatals as mandated in the JNNURM guidelines which were to be implemented within the Mission period (2005-2012), extended to 2014, which were categorised into 13 mandatory and 10 optional reforms.

There were two sets of mandatory reforms. Core reforms at ULBs level aimed at process re-engineering through deployment of technology to enable more efficient, reliable, timely services in a transparent manner. The other set of reforms were framework related to State level. Against the 10 optional reforms, two reforms were to be implemented each year within the Mission period.

Out of 23 reforms (13 mandatory and 10 optional reforms), only three reforms (one mandatory and two optional) were achieved. It was also further observed that significant number of 15 reforms (seven mandatory and eight optional) had not been achieved whereas three mandatory reforms were partially achieved. Two reforms were not applicable to Sikkim. The detailed status of reforms as on 31 March 2016 is shown in **Appendix 2.3.1**. Some of the important reforms are highlighted below.

Mandatory reform

- **Reform of Property Tax** so that it could become major source of revenue for ULBs, etc. The UDHD stated that the Property Tax Sub-Committee was working on various modalities of taxation regime. Due to delay in implementation of this reform in Property Tax, ULBs failed to harness one of the major source of revenue.

- **Transferring of all the 18 functions under 12^{th} Schedule to ULBs** under State level reforms was not achieved. Only one function was transferred, two were partially transferred and remaining 15 were not transferred.

- **Enactment of Public Disclosure Law** to ensure preparation of medium-term fiscal plan of ULBs/Parastatals and release of quarterly performance information to all stakeholders. As stated by the ULBs, Public Disclosure Law had not been enacted despite issuance of Notification in 2011. This led to failure in instituting transparency and accountability in functioning of municipalities.

Optional Reforms

- **Revision of Building Bye laws to make rain water harvesting mandatory in all buildings and adoption of water conservation measures**. The Building Construction Regulation, 1991 had been amended incorporating the provision for water harvesting in case of roof top having the plinth area of more than 6,000 sq. ft. However, as per JNNURM guidelines, all the buildings were to provide rain water harvesting.
- **Encouraging Public Private Participation**. No initiative was taken to encourage Public Private Participation during Mission period. The UDHD stated that various projects had been formulated to be taken up in Public Private Participation (PPP) mode. However, only very recently (July 2016), Department informed GoI that they were initiating steps for execution of four projects in PPP mode.

The pace of reforms was very slow thus defeating the objective of JNNURM, i.e. reforms driven fast track development. Due to the slow progress of reforms, the GoI deducted ₹ 8.70 crore for the projects under JNNURM as discussed in succeeding **Para 2.3.9.5(iii)**. Reform achievement (31 January 2014) as posted in the JNNURM website (*http://jnnurm.nic.in/wp-content/uploads/2014/06/2.-Reform-Achievement-Status.pdf*) indicated Sikkim at 30 (i.e. second last) out of 31 States.

2.3.9.2 City Development Plan

A City Development Plan (CDP) was to be prepared by the State/ULBs for every identified Mission city to achieve the objectives of JNNURM. The CDP was meant to be a comprehensive document on planned urban perspective framework for a period of 15-20 years (with five yearly updates) within which the projects were to be identified for every identified Mission city.

CDP for Gangtok was prepared during 2006 incorporating various works like Water Supply and Integrated Fire Fighting Network, Sewerage, Solid Waste Management, Drainage and Landslip Protection, Traffic, Transport, Street Lighting, Tourism and Environment etc. where ₹ 2,217 crore was proposed for executing 15 items of work to be carried out in Urban Areas. However, DPRs for only seven Projects[2] amounting to ₹ 153.02 crore were prepared and approved. Projects under Drainage, Landslip Protection, Traffic, Street Lighting, Tourism and Environment were not taken up.

The UDHD stated (November 2016) that the investment requirement to achieve the goals projected under these sectors were estimated at ₹ 2,217 crore. This was not the allocation and DPRs were prepared as per availability/allocation of funds. But the fact remained that the UDHD had not explored other source of funding like PPP for development of Mission city.

2.3.9.3 Gap analysis

As per guidelines, the departments are to identify key issues that needed to be addressed and the options that are available to bridge the gap between where the city is going and where it wishes to go.

The records in support of gap analysis for requirement of infrastructural development done by the departments could not be produced to audit which indicated that the analysis was not done. The impact and inference of not conducting the gap analysis for infrastructural requirement was felt in the following cases:

- Melli Sewerage Treatment Plant (STP) was completed in 2013 at a total cost of ₹ 3.41 crore but had not been commissioned as the public had their own septic tank for disposal of sewerage. The sewerage line had also not been connected with the STP.
- Due to non-availability of land, the construction of two STPs at Jorethang and Namchi were not initiated.
- Against the requirement of 263 housing units in Old Slaughter House, Arithang, Gangtok, proposal for only 52 housing units were submitted to GoI and same were already constructed.

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[2] *1) Upgradation & Modernisation of Raw Water Main and WTP for Greater Gangtok Water Supply System; 2) Implementation of E-Governance in the Gangtok Municipal Corporation; 3) Rehabilitation of sewerage systems in Gangtok; 4) Procurement of buses under JNNURM (in two phase); 5) Integrated Housing & Slum development at Old Slaughter House Area-Ph-II; 6) Integrated Housing & Slum development at Old Slaughter House Area-Ph-I and 7) Integrated Housing & Slum Development of Notified Slum area at Rangpo-Gangtok-I.*

- In Singtam, there was dire need of housing units as elucidated in succeeding paras whereas the UDHD had executed only infrastructure development (such as roads, drains, fountain, etc.) while leaving the priority items of constructing housing units.

The UDHD stated (November 2016) that the non-Mission towns did not have the gap analysis for all the sectors and the entire town but the DPRs did have all the project suitability and need analysis.

But the fact remained that even if the project suitability and need analysis had been done as stated in the reply, it was not effective which was evident from the deficiencies noticed in the projects mentioned above.

2.3.9.4 Preparation of DPRs

Out of 13 projects taken up under JNNURM four projects were completed and remaining nine projects were ongoing as on 31 March 2016. Three completed and five ongoing projects were taken up for scrutiny under the PA.

Scrutiny of DPRs of eight selected projects revealed the following inconsistencies:

- As per 'Chapter II - Check list for preparation/appraisal of DPR in BSUP' pertaining to the IHSD, Rangpo, the name of the city was shown as Gangtok-Rangpo-I slum areas which was misleading, as Gangtok (Mission town) and Rangpo (non-Mission town) were two separate towns, not even adjacent to each other. The UDHD stated (November 2016) that this issue was also raised by the Ministry on the basis of Central Audit observation and already satisfactorily replied to the Ministry. But the UDHD failed to produce copy of such reply to the Audit and the fact remained that the project for the Mission city was implemented in a non-Mission town. Further, Audit observation is given in **Para 2.3.9.7(ii)(a)**.

- As per the guidelines, the profile of each city was to be prepared. This was not done with due diligence. In case of the IHSD, Rangpo and IHSD, Singtam, the profile of Gangtok town (city social profile, city economic profile, transportation profile, land availability and even the water supply profile) was copied in the DPRs of these two towns (Rangpo and Singtam), garbage disposal profile in respect of Singtam was copied from Rangpo and these proposals were sent to GoI for approval. The GoI approved these two schemes. This indicated that the UDHD applied unplanned approach in preparation of DPR and its preparation was just a mechanical exercise to comply with the conditions of GoI to receive funds. Further, the survey and investigation for water supply, which were the vital components in integrated development of slum areas, were not conducted for the said project. The water in the housing complex constructed under JNNURM project at Rangpo was not suitable for drinking as stated in **Para 2.3.9.7(ii)(c)**.

- As per the guidelines of JNNURM, Project Benefits Assessment (Social Cost-Benefit Assessment) was to be prepared so that the social benefits are maximised. Project Benefits Assessment (Social Cost-Benefit Assessment) was not conducted in any of the selected projects. It was expected that the projects would perhaps benefit the societies, but the type of societal benefits and societal adverse impacts of the project were not assessed by the departments at the time of preparation of DPRs for minimising the adverse impact and maximising the societal benefits. In its reply (November 2016), the WSPHED stated that the assessments have been considered during the preparation of the DPRs since large number of their projects had been checked and vetted by Central Public Health and Environmental Engineering Organisation (CPHEEO), an empanelled organisation of the GoI for the job. However, assessment in respect of the present case was not found on record. While accepting the audit observation (November 2016), the UDHD stated that benefit assessments are done only in respect of big projects such as power project and assured that the same would be included in future, if specific directives are received. But the fact remained that the requirement for preparing the Project Benefit Assessment was included in the JNNURM guidelines and was therefore, mandatory. Hence, no further specific directives was required in this regard as mentioned in the reply.

- The Toolkit regarding preparation of DPR required that the title of the land should be clear and unencumbered and the DPRs were to contain an assessment of utilities which would have to be shifted, the list of clearances and agencies from whom those clearances were to be obtained. Scrutiny revealed that the Sewerage Project at Jorethang remained incomplete (November 2016) for want of land for setting up of the treatment plant and Sewerage Project at Melli was delayed by two years due to delay in finalisation of land. The WSPHED stated (November 2016) that the DPRs were prepared after conducting detailed survey and receipt of assurances from the general public and the elected representatives. But the fact remained that the documents to establish the fact that detailed survey had been conducted and assurances had been received from the general public and the elected representatives could not be furnished to Audit.

The above facts indicated that the preparation and vetting of DPRs was done without due diligence which resulted in implementation of the project in non-Mission city and delayed implementation of the projects due to want of land.

2.3.9.5 Financial outlay

Budget provision, funds received from GoI and State Government and expenditure there on are shown below:

Table 2.3.2

(₹ in crore)

Year	OB	Funds received		Interest and other receipts	Total	Expenditure	CB
		GoI	State				
2011-12	5.82	19.30	0.03	0.48	25.63	16.12	9.51
2012-13	9.51	39.94	1.72	1.22	52.39	40.80	11.59
2013-14	11.59	32.79	0.30	0.86	45.54	31.30	14.24
2014-15	14.24	6.49	6.77	1.29	28.79	11.21	17.58
2015-16	17.58	3.41	12.49	1.18	34.66	11.13	23.53
Total		**101.93**	**21.31**	**5.03**		**110.56**	

(i) Separate accounts not maintained

As per guidelines, the implementing agencies were required to open and maintain separate bank accounts for each project in a commercial bank for receipt and expenditure of all money to be received and spent. ULBs/implementing agencies were supposed to maintain registers for utilisation of funds separately for Central and State shares and loan from financial institutions. The nodal agency was to maintain institution-wise and project-wise accounts under the scheme. The nodal agency was also supposed to manage the grants received from Central and State Government, release the funds to implementing agencies either as grant or soft loan or grant-cum-loan and manage the Revolving Fund.

The UDHD being the nodal agency for implementation of various projects under JNNURM, instead of keeping separate accounts for separate projects, maintained only one bank account as the implementing as well as the nodal agency. Although WSPHED had maintained separate bank accounts for all the projects, frequent transfer of funds among the projects were done due to which the financial status of each project could not be ascertained at a glance. Further, funds for the implementation of water supply and sanitation projects were directly received from State Government by the WSPHED without routing it through the nodal agency. There was no readily available figure relating to the funds released by the GoI and State Government as the nodal agency did not maintain the details of funds released by the GoI to the State Government and State Government to the WSPHED. Separate details of funds released as State share for the particular project was also not maintained. Thus, the UDHD being the nodal agency for the State did not follow the guidelines. It could not be ascertained in audit as to how the nodal agency exercised effective control over the fund management of JNNURM in the absence of maintenance of separate details of funds. Further, due to non-maintenance of separate accounts by the UDHD, the project-wise, State Government share released, project-wise expenditure, project-wise interest accrued could not be made available to Audit.

UDHD stated (November 2016) that the original fund allotted to the State for 7 year Mission period was only ₹ 11.00 crore. Looking at the progress of sanction of projects (only two projects till 2009), the UDHD decided to operate a single account. However, the reply of the UDHD was not tenable as during 2007 to 2009 GoI sanctioned total 11 projects valuing ₹ 189.98 crore (UDHD ₹ 53.49 crore for four projects and WSPHED ₹ 136.49 crore for seven projects). Besides, it was mandatory to open separate bank account according to guidelines.

(ii) Short release of State share

Sikkim falls under North Eastern States and as such, the funding pattern applicable for projects under JNNURM was 90 *per cent* as Central share and 10 *per cent* as State share.

WSPHED till March 2016 received entire central share in respect of all seven projects (except two projects whose last instalment was curtailed by 10 *per cent* due to failure in achievement of reforms). However, there was short release of State share amounting to ₹ 1.40 crore in three projects as shown below:

Table 2.3.3

(₹ in crore)

Name of work	Total sanctioned cost	Central share (90%)	State share (10%)	Central share received	State share received	Difference in Central share	Difference in State share
Setting up of sewerage facility in Jorethang Town and Surrounding Area	4.8	4.32	0.48	4.32	0.27	0	0.21
Setting up of swerage facility in Melli Town and surrounding areas.	3.41	3.07	0.34	3.07	0.14	0	0.20
Up-gradation and Modernisation of Raw Water Main and WTP for Greater Gangtok Water Supply System	72.63	65.36	7.26	58.82	6.27	6.54	0.99
Total							**1.40**

Short release of State share compelled the WSPHED to utilise the interest earned in two projects contrary to the directives from MoUD.

The WSPHED stated (November 2016) that the WSPHED had approached the Government for providing the State share as required.

(iii) Curtailment of 10 per cent Additional Central Assistance

Due to not achieving of reforms committed by the State Government, the GoI (24 October 2013) withheld 10 *per cent* Additional Central Assistance (ACA) from the last installment of two projects namely (i) Rehabilitation of sewerage system in Gangtok and (ii) Upgradation and modernisation of raw water main and WTP for Greater Gangtok water supply system and later decided (14 August 2015) not to release the fund. The State Government, till June 2016 received Central share of ₹ 78.20 crore (80 *per cent*) instead of ₹ 86.90 crore (90 *per cent*) for the above projects. The WSPHED received total fund of ₹ 65.09 crore (Central ₹ 58.82 and State ₹ 6.27 crore) for the project 'Up-gradation and modernisation of raw water main and WTP for Greater Gangtok water supply system' and incurred an expenditure of ₹ 70.28 crore. The balance amount of ₹ 5.19 crore was incurred from other JNNURM projects. Besides, for the project 'Rehabilitation of sewerage system', the WSPHED received ₹ 18.84 crore and incurred ₹ 18.80 crore leaving a balance of ₹ 0.04 crore. The work had been physically completed but financial closure could not be achieved due to curtailment of Central share. Curtailment of Central share resulted in potential extra financial burden to the State Exchequer as the State Government had to bear the deducted amount of ₹ 8.70 crore to complete the above projects.

(iv) Annual Accounts not prepared

As per Notification dated 26 September 2007, the State Level Nodal Agency was to maintain audited accounts of the funds released under JNNURM. The funds under

JNNURM were released to Nodal Agency (UDHD), WSPHED and SNT. However, as seen from the records, the Nodal Agency had not prepared accounts annually. Instead, it prepared the accounts in bulk for the years 2010-11 to 2015-16 during June 2016 only that too only on the projects implemented by UDHD. This resulted in lack of providing complete financial picture of the entire JNNURM projects.

While accepting the fact, the UDHD stated (November 2016) that the issue raised by Audit would be noted for future compliance.

(v) Delay in transferring funds to the implementing agencies

As per MoF sanctions/release orders, the State Government was to transfer the Central funds along with its matching share to the implementing agencies immediately. However, Audit scrutiny of selected projects revealed that there were delays in transfer of funds ranging from two days to 209 days (funds were not routed through SLNA but directly released to implementing agencies) as detailed in **Appendix 2.3.2**. Further, the State share was also delayed by 58 to 1,487 days (WSPHED) in contravention of the orders of the GoI.

The State share contribution could not be identified and segregated in cases of the projects implemented by UDHD as the funds for all the projects were maintained in one account.

The UDHD stated that the delay in transferring of funds was due to absence of budget provision, delay in tendering process, delay in issue of work order, etc. But the fact remained that there was delay in release of funds.

(vi) Accrued interest not deposited

As per the direction from the MoUD (May 2012), the State Government was required to credit interest receipt into Government Interest Receipt Head in order to bring back the same to Consolidated Fund of India.

An amount of ₹ 4.81 crore (UDHD: ₹ 3.27 crore and WSPHED: ₹ 1.54 crore) was earned as interest as on 31 March 2016 but was not deposited in Government account as per the direction of the MoUD.

While accepting the fact, the UDHD and WSPHED stated (November 2016) that the accrued interest was utilised as State share payment as there was shortfall in the release of State share from the State Government.

(vii) Irregular diversion of project fund

Audit scrutiny revealed that the UDHD and WSPHED diverted JNNURM funds amounting to ₹ 2.04 crore for repair and miscellaneous works in others areas, procurement of vehicles, etc. which was beyond the ambit of the projects. The expenditure incurred was not related to JNNURM as detailed in **Appendix 2.3.3**.

This resulted in irregular diversion of fund amounting to ₹ 2.04 crore which in turn effected the implementation of the projects, as this amount could have been profitably utilised for providing potable drinking water facilities for Integrated Housing and Slum

Development of notified slum area at Rangpo-Gangtok-I under BSUP and Integrated Housing and Slum Development at Old Slaughter House area under BSUP Phase-I.

The UDHD stated (November 2016) that the expenditure had been incurred from the contingency provision of the sanctioned project without affecting the objective of the Schemes and with prior approval and sanction of the competent authority. Since the expenditure incurred had been duly regularised by the approval so obtained, there had been no diversion of the fund. The UDHD, however, assured that the revision would be done to the extent of diversion in the respective sanctioned estimates. The reply was not acceptable as the contingency was meant for meeting unforeseen expenditure of the particular project and not for other un-related projects.

2.3.9.6 Delay in completion of the projects

Under JNNURM, 13 projects (four projects under UIG, five projects under UIDSSMT, three projects under BSUP and one project under IHSD) amounting to ₹ 212.87 crore were sanctioned in Sikkim. All the projects were scheduled to be completed within March 2016. Till August 2016, only four projects (1[3] - UIG, 1[4]-UIDSSMT and 2[5] - BSUP) had been completed. However, out of the four projects, sewerage facility in Melli town and surrounding areas had not been commissioned and Rehabilitation of sewerage systems in Gangtok was not financially closed due to curtailment of funds by GoI.

Not a single project was completed within the scheduled time due to various reasons such as non-availability of land and forest clearance, occurrence of earthquake, etc. The details of the five test checked projects which are either ongoing or have not been commissioned are given below:

(i) Setting up of sewerage facility in Jorethang Town and surrounding areas

The sewerage facility and construction of STP at Jorethang Town and surrounding areas at a cost of ₹ 4.80 crore was sanctioned by the State Level Sanctioning Committee (SLSC) during November 2007. Accordingly, the civil portion of work valuing ₹ 1.21 crore was tendered and awarded (March 2009) to lowest bidder at the estimated cost with scheduled date of completion within 24 months (March 2011) from the date of issue of work order.

Scrutiny of records (May 2016) revealed that after executing the work valuing ₹ 3.20 crore (civil works ₹ 1.18 crore and material ₹ 2.14 crore) the work was stopped from August 2013 due to non-suitability of the proposed land for setting up of the STP as the selected land remained fully flooded during monsoon although 95 *per cent* of the sewer line had been laid. Meanwhile, the WSPHED proposed to shift the STP to a new location for which the Circle/Division Office submitted additional estimate to the tune of ₹ 2.41 crore. The new location for the STP had not been finalised till November 2016.

[3] *Rehabilitation of sewerage systems in Gangtok.*
[4] *Setting up of sewerage facility in Melli Town and surrounding areas.*
[5] *Integrated housing and slum development at slaughter house area, Phase-I and II.*

Thus, after incurring an expenditure of ₹ 3.20 crore, the work was physically stopped since August 2013 due to non-finalisation of STP site.

The WSPHED stated (November 2016) that efforts were being made to finalise the new location for setting up of STP. However, the fact remained that improper survey in selection of site led to not providing of intended benefits to the public despite incurring of ₹ 3.20 crore.

(ii) Setting up of sewerage facility in Melli Town and surrounding areas

The sewerage facility and construction of STP at Melli and surrounding areas was sanctioned at a cost of ₹ 3.41 crore and civil portion of work valuing ₹ 1.27 crore was tendered (January 2009) and awarded (March 2009) to a contractor at the estimated cost with scheduled date of completion within 24 months from the date of issue of work order.

Although the work was stated to have been completed during November 2013, it was delayed by two years owing to delay in finalisation of site for STP. It was noticed that even after a lapse of three years, the sewerage connection from household to manhole chambers had not been connected due to reluctance of the beneficiaries as they had constructed their own septic tank. Joint physical verification (15 July 2016) revealed that one main manhole chamber was completely buried in a garden while carrying out beautification work at Melli Town. Besides five other manhole chambers were found damaged. The beneficiaries had constructed their own septic tank for disposal of sewerage and were reluctant to connect their sewerage lines with the line of STP. This indicated that the gap analysis of the town for requirement of infrastructure was not done.

While accepting the fact, the WSPHED stated (November 2016) that a public awareness campaign was held (24 September 2016) at Melli Town for connection of sewerage system from individual households to the main sewerage network.

(iii) Augmentation of Mangan Water Supply Scheme

The Cabinet accorded (July 2008) administrative approval and financial sanction of ₹ 15.81 crore for the work 'Augmentation of Mangan Water Supply Scheme, North Sikkim' under UIDSSMT. The work was taken up (October 2008) by the WSPHED to tide over the shortage of drinking water supply to the increased population especially during lean period. It was noticed that the project which was supposed to be completed by October 2009 remained incomplete as of August 2016 although entire sanctioned cost (₹ 15.81 crore) had been expended. Audit could not ascertain and analyse as to where the earmarked funds were spent or diverted and the reasons for non-completion of the project since the records of the project were stated to have been seized by the Vigilance Department, GoS.

Thus, the project remained incomplete despite incurring ₹ 15.81 crore and more importantly, benefits envisaged in the project to make drinking water available to increased population remained unfulfilled.

The WSPHED stated (November 2016) that the work could not be completed due to natural calamity (earthquake of September 2011, monsoon 2012 and 2013 and flash flood at main source). The reply was not convincing as even after a lapse of seven years from the scheduled date of completion, the work remained incomplete even after spending ₹ 15.81 crore but no further steps were taken by the WSPHED to complete the work.

(iv) Rehabilitation of sewerage system in Gangtok

The work 'Rehabilitation of sewerage system in Gangtok' at the cost of ₹ 23.92 crore was sanctioned (July 2008) by the Cabinet. The work was split into three parts and the status of the works as of August 2016 was as follows:

a) Rehabilitation of sewer main lines along Tibet road, MG Marg and New Market

Sanctioned at a cost of ₹ 3.09 crore. The work commenced in April 2008 and was scheduled to be completed by June 2008 but was actually completed in February 2009.

b) Rehabilitation of trunk lines all along NH 31A from Hospital Dara to STP Complex at Adampool

The work was sanctioned at a cost of ₹ 15.56 crore. Records pertaining to this work were seized by the State Vigilance Department for investigation. However, as per Monthly Progress Report the work was stated to have been completed and was being used.

The WSPHED stated (November 2016) that the work was completed in all respects but financial closure could not be done due to non-receipt of vigilance clearance.

c) Extension of Sewer Trunk Network below NH 31A (5th and 6th Mile) Phase I

The work was sanctioned at a cost of ₹ 5.22 crore and awarded (March 2008) to the contractor at the estimated cost with the scheduled date of completion by March 2009. The physical progress of the work was completed as of March 2016 after a delay of seven years due to land dispute with land owner, vigilance cases, traffic interruption, etc. and was being used. But financial closure could not be completed as contractor was not paid the bill. This was a result of non-release of its share by GoI as mandatory reforms under JNNURM were not achieved.

The WSPHED stated (November 2016) that the financial closure could not be done due to fund constraint.

(v) Upgradation and Modernisation of Raw Water Main and WTP for Greater Gangtok Water Supply System

The work 'Upgradation and Modernisation of Raw Water Main and WTP for Greater Gangtok Water Supply System' sanctioned at a cost of ₹ 72.63 crore was awarded (November 2010) to KNB Consortium to complete within 18 months from the date of work order. The WSPHED after curtailment of 10 *per cent* of Central share, received fund of ₹ 65.09 crore (₹ 58.82 crore Central share and ₹ 6.27 crore State share) till March 2016. It was noticed that the work remained incomplete (physical progress 92 *per cent*) and financial progress of work was recorded (March 2016) as 98 *per cent* after incurring an expenditure of ₹ 70.28 crore as against the fund received of ₹ 65.09 crore. WSPHED utilised extra amount of ₹ 5.19 crore from other JNNURM projects, the exact project from which the amount of ₹ 5.19 crore was utilised could not be ascertained in audit due to frequent transfer of funds among seven JNNURM projects implemented by WSPHED.

The reasons for slow progress were delay in obtaining forest clearance and disruption caused by earthquake of September 2011.

The WSPHED assured (November 2016) to complete the work by December 2016.

2.3.9.7 Effectiveness in implementation of the schemes

(i) Integrated Housing and Slum Development for notified slum area of Singtam

The work 'Infrastructure Development works for notified slum area at Singtam,' *inter-alia* consisted of the following components and was sanctioned (December 2009) at a cost of ₹ 19.91 crore:

a) The work was tendered (May 2010) and awarded (August 2010) at the estimated cost to a contractor to complete within 24 months, i.e. August 2012. Although the scheduled date for completion of the project had already elapsed, it was seen that in the midst of the execution, a team consisting of area MLA, Secretary along with the Engineers of the UDHD inspected (September 2013) the site and decided to revise the DPR with some additional components. Accordingly, the estimate was revised to ₹ 26.56 crore which was approved (January 2014) by the Cabinet. However, no approval for the revised DPR was obtained from GoI. As of March 2016, against the sanctioned cost of ₹ 26.56 crore, ₹ 24.49 crore (92 *per cent*) was incurred with a physical progress of 97 *per cent*.

The UDHD stated (November 2016) that the increase in cost of ₹ 6.65 crore was provided by the State Government and as such it was not felt necessary to seek approval of GoI.

b) As per decision taken in the 26th meeting held on 20 December 2007, the Central Sanctioning and Monitoring Committee (CSMC) had adopted that a reasonable percentage i.e. 50 to 60 *per cent* under BSUP and IHSDP should be for housing and remaining percentage for infrastructure to ensure that more number of houses would be constructed to accommodate the poor under JNNURM. However, the construction of new houses was not considered on the ground of non-availability of land. In the DPR, it was explained that the house construction would be undertaken through '10 *per cent* lump sum infrastructure development of NER' scheme but no action was initiated for construction of houses.

Thus, the objective of slum development programme remained defeated due to not prioritising the construction of houses for the poor slum dwellers. The deteriorating condition of houses in the slums noticed during physical verification are given below:

Image 2.3.1

Image 2.3.2

Image 2.3.3

Houses in the slum

The UDHD stated (November 2016) that due to non-availability of land, no new construction of houses was proposed in the sanctioned estimate. However, the fact remained that even after incurring such a huge expenditure on the project, basic required need of housing to the slum dwellers could not be provided.

c) Results of physical verification

Joint physical verification of executed component of works (original and revised) conducted on 28 June 2016 revealed the following deficiencies:

- ***Irregular expenditure on land development work***

The UDHD executed land development work below ATTC at Shanti Nagar, Singtam outside the notified slum area beyond the ambit of the guidelines. The work executed was levelling of land. Thus, the execution of work outside the slum area resulted in an irregular expenditure of ₹ 23.52 lakh.

Image 2.3.4

Land Development work at Shanti Nagar

The UDHD stated that the playground was developed at Shanti Nagar which was readily accessible through the recently constructed walkway. The reply was not tenable as the work was undertaken outside the slum area far away from the notified area.

- ***Installation of pathway lightning***

It was noticed during physical verification that not a single street light on the inner slum area was provided as incorporated in the DPR. The UDHD instead installed 150 solar lights at a cost of ₹ 61.05 lakh (@ ₹ 40,700 per solar light) on the footpath along river side. Of these, some street lights were out of order on account of the fact that the lights did not receive adequate sunlight as they were installed in shades and some lights did not function due to lack of maintenance. Hence, installation of solar lights on the pathway measuring around 2 kms beyond the area of slum residents was injudicious and unproductive. The UDHD stated (November 2016) that during the execution of the Project, the Energy and Power Department installed street lights in the inner slum areas from their own funds. Due to this, Department installed eco-friendly solar lights along the footpath by the river. Reply was not acceptable as during joint inspection it was seen that not even a single street light on the inner slum area was provided.

- ***Construction of Informal Market Shed not done***

As per DPR, 15 units of 'Informal Market Shed' at a cost of ₹ 53.70 lakh was to be constructed for slum dwellers for sustainability of their livelihood. However, the same was omitted in the revised project depriving the much needed component under the slum development programme. Instead of important component which was meant for the sustainability of livelihood of the slum dwellers, the UDHD executed beautification works.

The UDHD stated (November 2016) that as against the provision for construction of 15 livelihood centres, National Building Construction Corporation was constructing a new multilayer livelihood centre at the designated location. Hence, the slum dwellers were not deprived of the facilities. However, no such documentary evidence could be produced to Audit.

d) Constitution of Bustee Works Management Committee

For formulation and implementation of 'Operation and Maintenance Plan for Slum Level Infrastructure Work', the assets created in slums were required to be properly used and maintained. For this purpose, each Nagar Panchayat (NP) was supposed to formulate and implement a full resourced 'Operation and Maintenance Plan' for each slum where infrastructure works had been undertaken. Under this Plan, Bustee Works Management Committee (BWMC) was to be constituted. The BWMC would consist of minimum five members (including two female members) all of whom would be resident of that particular slum. The BWMC would be authorised by the NP to raise fund for operation and maintenance.

However, it was seen that there was no documentary evidence that the UDHD had constituted such Committee. Further, during the interaction (28 June 2016) with the beneficiaries as well as NP, no such BWMC was ever found constituted. In its absence, the operation and maintenance of assets remained uncertain.

The UDHD stated (November 2016) that it was in the process of constitution of BMWC in consultation with respective ULB.

(i) Integrated Housing and Slum Development of notified slum area at Rangpo Gangtok-I under BSUP

With a view to provide basic services to the urban poor slum dwellers under JNNURM, the work 'Integrated Housing and Slum Development of notified slum area at Rangpo-Gangtok-I under BSUP, East Sikkim' was sanctioned at a cost of ₹ 25.17 crore and awarded (January 2010) to a contractor with the scheduled date of completion within 24 months. Till March 2016, an amount of ₹ 15.57 crore had been spent with a physical progress of 74 *per cent*. Execution of the project revealed the following:

a) Implementation of project under BSUP in non-Mission city

In Sikkim, Gangtok was selected as a Mission city. However, UDHD proposed to take up the BSUP project meant for Gangtok in Rangpo (a non-Mission city). Scrutiny of records revealed that the name of the city was shown as Gangtok-Rangpo-I which was misleading as Gangtok (Mission town) and Rangpo (non-Mission town) are two separate towns. They were not even adjacent to each other, located 40 kms apart. This project was approved by the CSMC on 28 January 2009 at a total cost of ₹ 25.17 crore with a stipulation that first instalment of ACA would be released on receipt of approval from SLSC. While the approval of SLSC was not on record, the project had been implemented at Rangpo. Hence, implementation of the project in non-Mission city not only resulted in deprival of housing to the slum dwellers of Gangtok (Mission city), having five slum areas with population of 3,660 but also defeated the very objective of the Mission of fast track development of Mission city.

The UDHD stated (November 2016) that the Sikkim State Authority for Planning and Development Bill 2007 was passed in the Assembly. Following the principle of the Bill, Greater Gangtok Planning Area (GGPA) was conceptualised and Rangpo, Singtam, Pakyong and Gangtok were to form a part of GGPA. The reply, however, was not acceptable due to the fact that Rangpo had been selected under UIDSSMT (project for non-Mission city) after passage of the Bill in 2007 and sewerage projects were being implemented under the said programme.

b) Allotment of dwelling unit

In Rangpo, 58, out of 202 dwelling units planned, had been completed while remaining dwelling units were under progress. Out of 58 completed dwelling units, 40 units were allotted but only 16 units had been occupied. The reasons for 24 units remaining un-occupied were not on record. Hence, even after completion of 58 dwelling units, only 16 families had so far derived the actual benefits of the project, the remaining 42 entitled families were deprived of the actual benefits of the project (November 2016).

The UDHD stated (November 2016) that all the 58 units were occupied. However, no documentary evidence for occupation of housing units could be produced to Audit.

c) Outcome of joint physical verification report

Joint physical verification with the departmental officers conducted on 29 June 2016 of the Project revealed that 16 units were occupied by the slum dwellers and the remaining units were lying vacant. Further examination revealed that there was no connection for potable water in the units. Arrangement had been made for potable water by collecting it from bore-well, which was not treated and suitable for human consumption (**Image 2.3.5**). The window panes in five units (occupied) got detached which indicates poor quality of work (**Image 2.3.6**). Moreover, seepage was noticed in the building (**Image 2.3.7**).

Image 2.3.5

Overhead drinking water tank at roof top

Image 2.3.6

Detached window

Image 2.3.7

Seepage at backside of building

Thus, allotted beneficiaries were also compelled to live in an unhygienic environment.

The UDHD stated (November 2016) that drinking water to the beneficiaries had been arranged through temporary WSPHED connection and instruction to ULB had been given to regularise the same and the contractor was directed to repair the broken window panes.

(iii) Integrated Housing and Slum Development at Old Slaughter House area under BSUP Phase-I

The work 'Integrated Housing and Slum Development at Old Slaughter House area under BSUP Phase I, East Sikkim' was sanctioned at a cost of ₹ 3.88 crore and was awarded (January 2009) at a tendered cost to a contractor with the scheduled date of completion within 24 months from the date of work order. The housing units consisted of five blocks comprising of three blocks with 10 units each and two blocks with 11 units each totalling 52 units. Till March 2016, an amount of ₹ 3.76 crore (97 *per cent*) was incurred with a physical progress of 93 *per cent*. Execution of the project revealed the following:

a) Outcome of joint physical verification report and beneficiary survey

Joint physical verification (30 June 2016) of Integrated Housing and Slum Development at Old Slaughter House area under BSUP Phase-I Project revealed the following:

- Out of 52 units, only 34 units were found occupied.
- There was no provision of potable water supply. Water was arranged by beneficiaries themselves from different sources.
- No community waste-bin was found erected or placed nearby. Wastes were disposed on payment of ₹ 100 per month to the Gangtok Municipal Corporation.
- BWMC was not formed for ensuring the operation and maintenance of the infrastructure.

The UDHD should have made provisions of potable water for the beneficiaries and should have facilitated the formation of BMWC for operation and maintenance of infrastructure. Absence of BWMC resulted in risk of deterioration of the infrastructure.

The UDHD stated that allotment of remaining 18 houses was under process. Fund for external water supply was transferred to WSPHED and the work had been completed. Further, the provision for community dust-bin was not kept in the estimates and constitution of BWMC was under process.

b) Dwelling units not allotted to the rightful beneficiaries

As per guidelines, the survey of slums and potential beneficiaries for coverage under BSUP and IHSDP projects is a must for the meaningful formulation of DPRs. The States/UTs should go in for issue of bio-metric identity cards to beneficiaries. Each DPR should be accompanied by a list of beneficiaries based on the socio-economic survey. Efforts should be made to develop slums inhabited predominantly by SCs, STs and other weaker sections living in sub-human conditions. States/ULBs should ensure that houses under BSUP and IHSDP are provided to the needy and the properly targeted sections. The list of the beneficiaries should be notified and placed in the website of the ULB/JNNURM.

However, the UDHD did not undertake any biometric identification of the beneficiaries, instead simply the list of slum residents in that particular slum area was included in the DPR. As seen from the records of allotment of the 52 dwelling units under the project at

Slaughter House area, only one, out of 263 beneficiaries of that particular slum initially incorporated in the DPR, was allotted the dwelling unit (November 2015).

Out of the 52 dwelling units completed and allotted, 18 numbers of allottees were tenants of a building which was acquired by the Government (March 2011) for proposed construction of car parking near M G Marg and rest of the allottees were from different rural places of Sikkim. Further, three of the allottees were allotted housing units purely on letter of recommendation. The UDHD never verified the socio-economic condition or livelihood profile of the allottees. Thus, genuine slum dwellers of the area were deprived of allotment of houses and the object of eradicating the urban slum was not achieved.

The UDHD stated (November 2016) that out of 202 selected beneficiaries, only 152 beneficiaries underwent biometric identification. However, no documentary evidence of 152 beneficiaries who had undergone biometric identification could be produced to Audit and only one of the 263 beneficiary was allotted a dwelling unit.

2.3.9.8 Monitoring and evaluation

(i) State Level Nodal Agency

As per Notification dated 26 September 2007, the function of the State SLNA was to manage funds received from the Central and the State Government as per the financing pattern given in the guidelines, maintain audited accounts of the funds released and monitor the implementation of reforms and infrastructure projects, etc.

However, scrutiny of records revealed that the funds received from Central and the State Governments were released directly to the implementing agencies and were not routed through the SLNA. Hence, disbursement of funds was not done as per the guidelines.

The SLNA could not produce any documentary evidence showing either the monitoring mechanism devised by SLNA or the actual monitoring done by the SLNA which implied that the SLNA had not monitored the implementation of reforms and infrastructure projects that led to irregularities and delay in implementation.

The UDHD stated (November 2016) that SLNA was headed by Secretary, UDHD and Joint Secretary/nodal officer was the member secretary. All the Utilisation Certificates (UCs) and the progress report were submitted to the nodal officer and after being vetted by the SLNA were sent to Ministry. They further stated that absence of documentary evidence cannot negate the monitoring duties performed by SLNA. But the fact remained that there was no documentary evidence showing monitoring done by SLNA and there were inordinate delays in implementing the projects.

(ii) State Level Sanctioning Committee

As per Notification dated 26 September 2007 issued by the Home Department, GoS, the SLSC was expected to:

- Examine and approve project reports submitted by the implementing agencies taking into account the appraisal reports. The committee would assign higher priority projects relating to water supply including sanitation, sewerage, solid waste management, road network and drainage.

- Periodically monitor the progress of sanctioned projects/schemes including fund mobilisation from financial institutions.
- Review the implementation of schemes keeping in view its broad objectives and ensure that the programmes taken up were in accordance with the guidelines laid down.
- The SLSC should meet as often as required but should meet at least thrice in a year without fail and review the progress of ongoing projects and sanction new projects, etc.

Scrutiny of records relating to WSPHED revealed that three out of five sewerage projects, remained incomplete till May 2016. Moreover, sewerage projects in Namchi and Jorethang remained half-done as STP sites had not been finalised. The SLAC sanctioned the projects without ensuring availability of the land for the STP. The water supply project at Mangan was under the investigation by the State Vigilance Department. The allotment of the dwelling units under the scheme BSUP-I at slaughter house area were not in accordance with the prescribed guidelines. No documentary evidence was shown to audit regarding monitoring through meetings of SLC.

The UDHD stated (November 2016) that the various issues regarding JNNURM projects were put up to the Chairman, SLSC/Hon'ble Chief Minister at various points of time.

The number of meetings held by the SLSC and minutes were not produced to Audit. Hence, the effectiveness of the involvement of the SLSC in ensuring that the schemes were taken up as per the guidelines could not be examined in Audit.

(iii) District Level Review and Monitoring Committee not constituted

As per guideline, District Level Review and Monitoring Committee (DLRMC) were to be constituted with a view to fulfilling the objective of ensuring satisfactory implementation of project and reforms under JNNURM. The DLRMC should meet quarterly and conduct review of implementation of projects and reforms, guide the departments on the implementation of projects relating to infrastructure and services as well as implementation of reforms, etc. But the DLRMC had not been constituted to guide the departments for proper implementation of the projects and reforms.

The UDHD stated (November 2016) that owing to size of the State, it was decided not to form DLRMC.

But the fact, however, remained that the formation of DLRMC was mandated in the guidelines of JNNURM.

(iv) Incorrect reporting to GoI

Scrutiny of allotment records of dwelling units in respect of Integrated Housing and Slum Development of Notified Slum area at Rangpo-Gangtok-I under JNNURM revealed that till June 2016, only 40 (16 in May 2015 and 24 in May 2016) dwelling units were actually allotted (16 beneficiaries had already occupied and 24 units had not been occupied) the reason for which was not on record. But the progress report sent to the Ministry for the month of March 2016, incorrectly showed that 58 units were allotted. Reasons for incorrect reporting was not on record.

The UDHD stated (November 2016) that allotment in respect of all the 58 units were already made and the same was reported to the Ministry. But the fact remained that the allotment had not even been done upto June 2016 whereas it was reported to the Ministry in March 2016 itself that the allotments had already been made.

(v) Community Participation Fund not established

A Community Participation Fund (CPF) was to be established to engage the community in the process of JNNURM with the objective to encourage innovation at local level. A Community Development Network (CDN) aims at participation of the poor through network of Community Development Security (CDS), Self Help Groups (SHG) and other community level organisations for poverty reduction and livelihood development. The network had to play a key role towards building up of vision of JNNURM through participatory techniques towards achieving slum free and poverty free city agenda. However, it was seen that no such fund was established.

The UDHD stated (November 2016) that the concept of SHGs in urban area was not very encouraging. However, the concept of CDN had been actively carried out in Rajiv Awas Yojana (RAY) and Housing for All-2022 (HFA) scheme. The reply was not convincing as CPF and CDN were not established till November 2016 and no records relating to CDN carried out in RAY and HAF-2022 schemes were produced to Audit.

(vi) Discrepancy in returns submitted to GoI and State Government

Out of 13 projects sanctioned by GoI under various components like UIG, UIDSSMT, BSUP and IHSDP of JNNURM, seven projects under the component of UIG (2) and UIDSSMT (5) were to be implemented by WSPHED. The project-wise Quarterly Progress Report (QPR) alongwith UCs in respect of seven works were submitted to Nodal Agency (UDHD) till quarter ending December 2014 for onward transmission to the GoI and thereafter no reports were submitted. Reasons for non-submission of reports were not on record. Further, in the returns submitted by WSPHED, it was noticed that there was discrepancy between figures shown in QPR and UCs with that of departmental cash book/pass book regarding the State Government share's received and expenditure incurred.

In five out of seven cases, the UCs showed more receipt of State share, ranging from ₹ 0.06 crore to ₹ 1.84 crore than those recorded in the Cash Book and in one case, receipt of State share was shown as ₹ 0.20 crore less than the figure of the Cash Book. Similarly, in five cases expenditure shown in the UCs was more than those recorded in the Cash Book, the excess ranged from ₹ 0.06 crore to ₹ 0.25 crore and in one case, the UCs showed less expenditure by ₹ 4.06 crore as compared to the figure of Cash Book.

Similarly, while submitting the Progress Report of March 2016 by WSPHED to the State Government, expenditure was shown more in five projects and less in one project than the expenditure shown in their respective Cash Books.

The above fact indicated that the WSPHED was lackadaisical in their approach in submitting the returns which contained primary data for desk monitoring of the schemes. Reconciliation of returns, UCs and Cash Books was not done to avoid misrepresentation of facts and figures. Possibility of misutilisation/misappropriation of the funds cannot be ruled out in audit.

(vii) Appointment of Independent Review and Monitoring Agency

GoI appointed (November 2009) National Consultancy for Planning and Engineering (NCPE) based in Hyderabad as Independent Review and Monitoring Agency (IRMA) for Sikkim. The IRMA was required to visit the project sites periodically, draw up the report, discuss the same with the project management team and forward the report to the SLNA and Mission Directorate. The reporting was to be done on the basis of standard check lists covering various activities in all stages of the project development cycle and specific for each sector.

An agreement was entered (April 2010) between the GoS and NCPE, Hyderabad. The NCPE submitted (July 2011) Pre-construction Stage Report to SLNA based on review of various documents such as project design documents, site preparation and clearances to begin construction, project management mechanisms, etc. in respect of three projects, viz. Rehabilitation of Sewerage System in Gangtok, Augmentation of Mangan Water Supply Scheme and Upgradation and modernisation of Raw Water Mains and WTP for greater Gangtok Water supply system. However, reports of IRMA in respect of above projects were not available in the records produced to Audit. In the absence of these reports, Audit could not ascertain the actual findings of IRMA and action taken note/report initiated by the WSPHED in respect of the findings of IRMA.

Further, NCPE conducted construction stage visit during March 2012 for two projects (i) Augmentation of Mangan Water Supply Scheme and (ii) Upgradation and modernisation of Raw Water Mains and WTP for Greater Gangtok water supply system. ATR of only one project, i.e. Upgradation and Modernisation of Raw Water Mains and Water Treatment Plant for Greater Gangtok Water Supply System was prepared by the WSPHED. Action Taken Report of construction stage was to be submitted within 15 days from the date of receipt of IRMA report but the same was submitted only on 28 May 2013 *i.e.* a delay of 14 months.

UDHD had submitted (November 2016) TPIMA Inspection and Monitoring Report (upto 5th visit) for the period April 2012 to November 2013 in respect of four projects (three projects under BSUP and one project under IHSDP). However, UDHD could not produce to Audit Action Taken Report against the Inspection and monitoring Reports.

2.3.10 Conclusion

It was observed that the mandatory and optional reforms for ULBs were not implemented as per the guidelines of JNNURM and the commitments made in the MoA. Thus, the objective of bringing about reforms in institutional, financial and structural governance of the ULBs to make them efficient, accountable and transparent could not *be achieved as had been envisaged. Non-implementation of the reforms committed by the State Government led to curtailment of funds.*

Gap analysis for requirement of infrastructural development was not carried out. Majority of projects were incomplete due to non-availability of land, improper survey of project sites, revision of DPRs, delayed forest clearances etc. Cases of irregular expenditure, avoidable payment and diversion of funds also came to light.

Deficiencies in the process of selection of beneficiaries were observed leading to risk of eligible beneficiaries not getting the benefits of JNNURM. Many completed dwelling units remained un-occupied. Cases of incorrect financial reporting to GoI were also detected.

There were delays in releasing of Central funds from the State to the implementing agencies. It was observed that the State share was not released in full.

Project implementation under the Mission was further affected by lack of monitoring of the projects by the SLSC whereas DLRMC had not been constituted.

2.3.11 Recommendations

On the basis of the Audit findings and conclusion the recommendations are:

- The required reforms should be implemented in order to empower the ULBs;
- Financial management needs to be strengthened to avoid the risks of misappropriation of fund;
- Gap analysis for requirement of infrastructural development to be ensured and arrangement of sites be finalised prior to execution of works;
- Projects should be completed in time with basic facilities so that the benefits envisaged reaches the target population without deviating from the guidelines and dwelling units allotted to genuine beneficiaries so that towns would be slum free;
- Monitoring needs to be strengthened to identify hurdles in implementation of reforms and mitigate it for meeting the intended objective of the scheme.

BUILDING AND HOUSING DEPARTMENT

2.4 Cost overrun and infructuous expenditure

Failure on part of the Department to finalise construction site for a Community Centre at Jorethang led to time overrun in commencement which resulted in cost overrun of ₹ 1.51 crore and also infructuous expenditure of ₹ 46.45 lakh due to change of site.

The Building and Housing Department (BHD), South/West Circle proposed (February 2009) for construction of Community Centre at Jorethang, South Sikkim at an estimated cost of ₹ 4.23 crore based on Schedule of Rates (SOR) of 2006. The proposal was submitted considering the growing importance of Jorethang as a planned town, a business centre, growing population comprising of different communities with various cultures. Hence, need to organise numerous functions concerning social, political, official, cultural, etc. was felt. The proposal was approved (February 2009) by the Cabinet. The project was initially identified and conceived at the Sikkim Nationalised Transport (SNT) Complex but was not officially informed to the Transport Department till April 2010.

The BHD invited (June 2009) tender and after detailed negotiations with the contractor and obtaining the sanction of the Government (February 2010) for incurring additional cost, awarded (June 2010) the work to the lowest tenderer at ₹ 3.54 crore which was 15 *per cent* above the estimated cost of civil work of ₹ 3.07 crore without finalisation of clear site for execution of the work. As per work order the work was to be completed within 19 months, i.e. by December 2011. A mobilisation advance of ₹ 23.45 lakh was also released (March 2011) to the contractor.

It was seen from the notes of the Chief Engineer (03 August 2010) and Secretary (17 August 2010) of BHD that before the construction work could be taken up, BHD was asked to stop the work as the Urban Development and Housing Department (UDHD), Government of Sikkim came up with a fresh proposal for Development of Green Amusement Park engulfing the proposed area of the Community Centre and its surroundings which necessitated relocation of the approved and sanctioned Community Centre. After searching and identifying suitable plot at various places, a site was finalised at Karfectar in February 2012 and works relating to protective work and site levelling, etc. at a cost of ₹ 46.45 lakh (October 2012) was also executed at the site. Thereafter, the work was abandoned (reasons for this was not available in the records produced for audit) and again a new site near PWD Complex at Jorethang was identified (January 2013) and to have a clear site, proposal for dismantling of existing six units Class III RCC quarters and one unit of independent *ekra* structure Class III quarter was made. Delay in selection of site consequently delayed the execution of works which led to time overrun and resultantly in cost overrun. Accordingly, estimate was revised (June 2015) to ₹ 5.98 crore based on SOR 2012 (inclusive of dismantling cost of existing quarters of ₹ 14 lakh) from its original estimate of ₹ 4.23 crore. In the revised estimate it was seen that 10 components of the work which cost ₹ 3.16 crore in the original estimate were revised to ₹ 4.48 crore due to time overrun, resulting in increase of ₹ 1.32 crore with a total impact of ₹ 1.51 crore (₹ 1.32 crore *plus* 15 *per cent* above the estimated cost). Though the scheduled time for its completion had already elapsed, no time extension was given to the contractor. The work had commenced (September 2013) at new site with 15 *per cent* physical progress as of September 2016.

Thus, due to change of site, the works executed at Karfectar site worth ₹ 46.45 lakh proved infructuous. Further, delay in execution of work and time overrun required revision of estimate which had resulted in a cost overrun of ₹ 1.51 crore, creating an extra burden on the State Exchequer apart from denial of benefits of using Community Centre to the public of Jorethang. Furthermore, due to finalisation of site near PWD Complex, the existing seven units of Class III quarters had been proposed for dismantling at a cost of ₹ 14 lakh.

The above facts were brought to the notice of the Department/Government (May 2016); their reply had not been received (November 2016).

FOREST, ENVIRONMENT AND WILDLIFE MANAGEMENT DEPARTMENT

2.5 Wasteful expenditure

Failure to achieve the objective of the Catalytic Development Programme for generating employment and earnings and to establish sericulture as a sustainable farm based profession resulted in wasteful expenditure of ₹ 2.61 crore.

Catalytic Development Programme (CDP), a Centrally Sponsored Scheme [80:10:10::Central Silk Board : State Government : Stake Holder (beneficiaries)] related to extension and development of *Mulberry*, *Eri* and *Muga* sericulture sponsored by the Central Silk Board, Government of India was initiated in Sikkim during 2009-10 through the Sericulture Directorate, Forest, Environment and Wildlife Management Department. The main objective of the scheme was to explore sericulture's hidden natural potentiality of Sikkim, to establish sericulture as one of the sustainable professions, to generate employment and earnings to growing population of the State and to create employment opportunity for the local people.

As per the scheme, the beneficiaries were required to plant *mulberry* and *kutmero* trees for rearing silkworms and construct silkworm rearing houses with financial assistance. On completion of construction, they were to be provided with tools and implements and training by the Department. Thereafter, beneficiaries were to be provided with Disease Free Laying (DFL), which will ultimately produce cocoons. Hence, the production of cocoon is based on the DFLs provided to the farmers. The expected production of cocoons per 100 DLFs under *Mulberry*, *Eri* and *Muga* Sectors was 40 kg, 4 kg and 3,000 (in number) respectively.

During 2008-09 to 2014-15, the Government of India released ₹ 4.75 crore for implementation of the scheme in the State, out of which, the Department spent ₹ 2.61 crore on various components such as construction of rearing houses, training, procurement of saplings, tools and implements, etc.

Scrutiny of records (October 2015) revealed that despite the scheme being under implementation for long period (2009-15), expected results were not achieved at all. There was a shortfall in production of cocoon as well as earnings to the farmers in all sectors. Against the total expected production of 12,824 kg on the basis of DFLs issued under *Mulberry* and *Eri* Sectors during 2009-15, the actual production was only 2,464.65

kg. Similarly, against expected production of 29,040 under *Muga* sector, the actual production was only 968. This resulted in shortfall in revenue to farmers by ₹ 0.38 crore under all sectors. The details of expected and actual production are given below:

Table 2.5.1

Name	DFLs provided	Qty. produced	Expected production	Shortfall in production	Rates fetched (₹ /kg.)	Revenue earned	Expected Revenue to farmers	Shortfall in revenue
Mulberry	29,955	1,844	11,982 (*@40 kg/100 DFLs*)	10,138	100-300	2,83,436	35,94,600 (*@₹300/kg*)	33,11,164
Eri	21,050	620.65	842 (*@ 4kg/100 DFLs*)	289.12	50-280	78,524	5,05,200 (*@₹600/kg*)	4,26,676
Muga	968	4,233	29,040 (*@ 3,000/100 DFLs*)	24,807	1	4,233	29,040 (*@ ₹ 1/pc*)	24,807
Total								**37,62,647**

No record showing conduct of feasibility study before implementing the programme could be found.

Thus, due to not giving importance to the process of execution, management, monitoring, evaluation and assessment by the Department the programme did not lead to its desired result/outcome and failed to achieve the objective of the CDP even after spending ₹ 2.61 crore on the project (i.e. only on construction of silkworm rearing houses, tools and implements without taking into account the administrative cost and manpower of the Department involved on the Project).

In reply (July 2016), the Department stated that sericulture being new concept, the farmers were in learning stage for the first two to three years of the programme which led to shortfall in production of leaf and cocoon production and accordingly shortfall in revenue. Further, it was stated that the farmers who had adopted sericulture have been provided with all technical guidance and proper training for the project and with the passage of time the national benchmark of cocoon production would be reached within two to three years.

The reply was not acceptable because the project was implemented since 2008-09 and had already completed more than seven years of implementation and substantial amount of funds had already been spent without yielding desired results and it was noticed (as shown in **Appendix 2.5.1**) that in the later years after completion of two/three years of implementation, the production had not increased as claimed but had actually reduced. Besides, the reason for failure of the programme was attributed by the Department in their Annual Report for 2015 mainly to poor leaf quality, outdated technology adopted by the farmers, neglected time schedules and absence of monitoring and supervision by the field functionaries. But no effective action to overcome the problems was found on records.

ROADS AND BRIDGES DEPARTMENT

2.6 Unfruitful expenditure

Lack of effective action against the contractor and a lackadaisical approach on the progress of the work led to unfruitful expenditure of ₹ 1.10 crore.

Construction of Link Road from *Legship-Gyalshing Road km 13th to Bhanu Salik km 1st to 2nd* in West Sikkim was sanctioned under Central Roads Fund (January 2008) at a cost of ₹ 1.93 crore. The work was tendered (May 2008) and the work order was issued to the lowest bidder (August 2008) with a completion time of 24 months. The work was not completed on 2 September 2010 as stipulated. As seen from records, the contractor requested for extension of time on three occasions (September 2011, March 2013 and September 2013). However, reasons for the extension could not be known, as applications for extension could not be traced out. The contractor failed to execute the work despite several reminders. As of January 2016, the work had not progressed any further.

Scrutiny of records (January 2016) revealed that the Department reminded the contractor on many occasions with the intimation of taking action as per the agreement in case of further delay. The contractor did not respond to the notice and abandoned the work since the first extension (September 2011). Last notice was issued in June 2013. Till January 2016, an amount of ₹ 1.10 crore was released to the contractor with a physical progress of 75 *per cent*. Subsequently, after a lapse of more than one year from the last notice (June 2013), the Department finally instructed the division office to rescind the contract, debar the contractor for participating in any future tender for five years among other action against the contractor. But the work was neither taken up departmentally nor awarded to any other contractor till date of audit (January 2016). The contractor was also not debarred from participating in any future tender.

The Department did not take effective action on the contractor for long and also no concrete step was taken to complete the work. As a result, after incurring an expenditure of ₹ 1.10 crore, the work remained incomplete and deprived the poor villagers of the intended benefit. The expenditure to the tune of ₹ 1.10 crore apart from being unfruitful was coupled with risk of cost escalation due to time overrun.

The matter was reported to the Department (May 2016 and August 2016), reply was awaited (September 2016).

2.7 Unfruitful expenditure

Improper planning of the Department not only led to unfruitful expenditure of ₹ 1.02 crore but also failed to achieve intended objective to provide connectivity to the habitation.

The work 'Construction of bypass road from *Namchi-Phong to Blind School (length: 3.48 km)* was sanctioned (February 2009) under Tribal Sub Plan at an estimated cost of ₹ 2.14 crore. The work with tendered value at ₹ 1.92 crore was awarded to the contractor (Shri Suren Moktan) at 5 *per cent* above the SOR 2006. The Department issued (March 2009) work order to the contractor to complete within 18 months, i.e. by September 2010. Para 5.1 of Sikkim Public Works Manual (SPWM) stipulated that on receipt of technical sanction to the estimate, action is immediately initiated for taking possession of land acquired by the Government for the purpose and preparation of draft Notice Inviting Tenders is floated. However, Contract was awarded before acquiring the land in contravention of SPWM.

Scrutiny of records revealed (February 2016) that after executing the work upto 2.48 km (out of 3.48 km), the land owner objected to parting with his land through which the road alignment passes. The Department pursued the matter with the District Collector, South District (May 2011) for imposition of compulsory acquisition but the matter was not finalised. Thereafter, the Department attempted alternative options by diverting alignment of road for the remaining one km length, which also remained unsuccessful due to non-availability of suitable land for change in the alignment. Finally, the Circle and Division office of the South District of Department submitted (March 2015) the proposal to the Head Office, Gangtok for closure of the project in midway as all the feasibility to complete the work had been exhausted. However, till April 2016, no concrete action had been initiated by the Head Office for either closure or completion of the work scheduled to have been completed by September 2010 leading to an unfruitful expenditure of ₹ 1.02 crore. As of June 2016, the connectivity could not be established as evident from the blue-print of the road alignment.

The Department stated (June 2016) that the work was stopped since 2011 due to land dispute. However, fact remained that the Department should have acquired the land before tendering the works and to overcome the RoW problem following the dispute, the Department could have acquired the land by invoking Compulsory Acquisition Act for Public purposes. Hence, non-adherence to the provisions of SPWM and non-pursuance for Compulsory Acquisition Act by the Department led to unfruitful expenditure of ₹ 1.02 crore. Besides, the intended objective to provide connectivity to the habitation could not be achieved.

TOURISM AND CIVIL AVIATION DEPARTMENT

2.8 Diversion of fund

The Department irregularly diverted ₹ 3 crore from the provision made under 13th Finance Commission for construction of Sky Walk/Tower at Bhaley Dunga, Yangyang towards Ropeway at Namchi.

With a view to promote tourism potential and to maintain sustainable State's economy through tourism development, the Tourism and Civil Aviation Department (TCAD) proposed to construct 'Sky Walk" at Bhaley Dunga, South Sikkim from the 13th Finance Commission grant. The TCAD highlighted that this will be first of its kind in the country and was expected to be a major tourist attraction as it would be exciting to walk over transparent glass overlooking the skies below, at a height of almost 5,000 ft. The project would thus, have a major impact on infrastructure development and enhance commercial activities in the State. Accordingly, the 13th Finance Commission recommended a grant of ₹ 200 crore, out of which, the Department received ₹ 150 crore with a condition that the practice of diversion of plan assistance to meet non-plan needs of special category states was to be discontinued.

Scrutiny (June 2016) revealed that TCAD paid committed liabilities for '*Construction of Passenger Ropeway at Namchi in South Sikkim*' amounting to ₹ 3 crore by diverting the fund from State Specific Grant under 13th Finance Commission earmarked for '*Construction of Sky walk/Tower at Bhaley Dunga, South Sikkim*'. This resulted in an irregular diversion to the tune of ₹ 3 crore.

The TCAD stated (June 2016) that the diversion of fund was just an internal arrangement to address the immediate dire need and the same would be replenished in near future. The reply was not acceptable as no fund was provided for construction of Ropeway at Namchi during 2015-16 whereas in 2016-17 not only fund was not provided in the budget, even budgetary head for the Project 'Construction of Ropeway at Namchi' was not incorporated. Hence, it indicated that replenishment was not given a priority.

The TCAD further stated (August 2016) that they were trying to get funds in the second Supplementary Grant of 2016-17.

But the fact, however, remained that an amount of ₹ three crore was diverted from the provision made under 13th Finance Commission.

WATER SECURITY AND PUBLIC HEALTH ENGINEERING DEPARTMENT

2.9 Infructuous expenditure

Despite payment of ₹ 6.27 crore for consultancy work (which included survey, investigation and design) to M/s Empire High Tech Pvt. Ltd. for Namchi Water Supply Project, the project was awarded to another contractor along with the survey and design of the Project rendering consultancy charge infructuous.

To overcome drinking water crisis, the Water Security and Public Health Engineering Department proposed a Comprehensive Drinking Water Supply System for Namchi and its surrounding areas.

The Department floated a national tender (January 2009) which included designing of the entire stretch from source to tail end based on topographical survey of Bermilli khola[6]. Accordingly, work was awarded (December 2009) to M/S Empire High Tech Pvt. Ltd. for design of water supply system from upper Bermelli khola to Namchi town and its surrounding areas. It was awarded at 6 *per cent* of the actual project cost plus applicable service tax and State tax. The firm had submitted the DPR costing ₹ 94.67 crore and till March 2016, ₹ 6.27 crore was released to the consultant firm.

Audit scrutiny revealed (December 2015) that on the basis of proposal submitted by the State Government, the GoI sanctioned and approved (December 2012) the above project with estimated cost of ₹ 38.22 crore under Non-Lapsable Central Pool of Resources (NLCPR). Accordingly, the NIT was floated which specifically mentioned the inclusion of '*survey, design, construction and commissioning'* of the Project. The lowest bid was of ₹ 43.59 crore. The Department negotiated with the contractor saying that the bid exceeded the cost of the project by 45.30 *per cent* and the contractor responded with the reduction of offer price to ₹ 41.40 crore with further rebate of 5.01 *per cent* and one-year maintenance contract of the Project. During negotiation, the contractor stated that price offered by him *inter-alia* included that of detailed survey, investigation, drawing and design for each component of work which required employing an expert firm or a consultant by the contractor. After the rebate, the work was awarded (January 2014) to the contractor on Turnkey basis at a total amount of ₹ 41.40 crore. The scope of work thus included '*survey, drawing and design'* of the scheme in addition to '*Construction and commissioning of Drinking Water Supply Scheme along with necessary water structure from Bermelli Source I & II and adjoining three sources through gravity flow for Namchi Municipal Council*'. The contractor had submitted DPR along with various designs and drawings to the Department for vetting which also corroborated the fact that the scope of work included *'survey, investigation, drawing and design'.*

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6 *Bermilli rivulet flowing from the top reaches of the mountains.*

Thus, the element of the cost towards survey and design in the payment of ₹ 6.27 crore initially made to M/s Empire High Tech Pvt. Ltd. had been rendered infructuous as the project was awarded to the contractor with the component including *'survey, investigation, drawing and design'* of the Project.

The Department in its reply stated (August 2016) that the consultant was hired for preparation of a complete DPR for submission to funding agency and funding agency in turn put forth the condition of mode of contract to be on Turnkey basis. Further, while finalising the contract, the contractor neither mentioned of the cost of survey and design while forwarding his financial bid for consultancy charges nor had claimed for consultancy charges in the payment schedule. Hence, the Department need not pay nor had paid consultancy charges to the contractor. The arguments put forth by the Department was not tenable as NIT specifically mentioned that it included the '*survey, design, construction and commissioning'* of the Project. While negotiating the tender cost of the project, the contractor also explicitly stated that the project cost included the '*survey, design, construction and commissioning'*. The initial expenditure of ₹ 6.27 crore was rendered futile as the Contractor had to conduct survey and proper design/drawing for various items afresh which was again got approved from the Ministry.

ECONOMIC SECTOR
(Public Sector Undertakings)

CHAPTER III
ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS)

3.1 Overview of State Public Sector Undertakings

Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government companies and Statutory corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of the people. In Sikkim, the SPSUs occupy an insignificant place in the State economy. As on 31 March 2016, there were 16 SPSUs (including 13 Government companies and 3 Statutory corporations). Of these, none of the companies were listed on the stock exchange. The details of the SPSUs in Sikkim as on 31 March 2016 are given below.

Table 3.1.1: Total number of SPSUs as on 31 March 2016

Type of SPSUs	Working SPSUs	Non-working SPSUs[1]	Total
Government companies	10	3	13
Statutory corporations	2	1	3
Total	**12**	**4**	**16**

The working SPSUs registered a turnover of ₹ 178.81 crore as per their latest finalised accounts as of September 2016. This turnover was equal to 1.07 *per cent* of State Gross Domestic Product[2] (GDP) of ₹ 16,637 crore for 2015-16. During 2014-15, however, the turnover (₹ 149.28 crore) of working SPSUs was lower at 0.98 *per cent* of State GDP (₹ 15,209 crore). During 2015-16, the working SPSUs had incurred an aggregate loss of ₹ 80.21 crore as per their latest finalised accounts as of September 2016 as compared to the aggregate loss of ₹ 23.66 crore incurred by SPSUs during 2014-15. The increase in the aggregate loss of working SPSUs was mainly on account of heavy losses incurred by one power sector SPSU[3]. The working SPSUs had employed 777 employees as at the end of March 2016.

Accountability framework

3.1.2 The Companies Act 1956 as well as the Companies Act, 2013 have not been extended to the State of Sikkim. Out of 13 Government companies in Sikkim, 11 are registered under the ‘Registration of Companies Act, Sikkim 1961’. The accounts of these 11 State Government companies are audited by Statutory auditors (chartered accountants) who are directly appointed by the Board of Directors (BoDs) of the respective companies.

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1 *Non-working SPSUs are those which have ceased to carry on their operations.*

2 *Source: Department of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim.*

3 *Serial No.A-8 of Appendix 3.1.2. The audit of this company was entrusted to Comptroller and Auditor General of India during the current year (December 2015).*

In addition to the statutory audit conducted by the statutory auditors, supplementary audit of these companies had also been taken up by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the State under section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (CAG's (DPC) Act, 1971).

3.1.3 During the year, one State Government company[4] acquired 51 *per cent* of equity share capital of Teesta Urja Limited (TUL). TUL, a company registered under the Companies Act 1956, is the holding company of Teestavalley Power Transmission Limited (TPTL). Hence, both TUL and TPTL became State Government companies. The accounts of these two State Government companies are audited by statutory auditors (chartered accountants) who are appointed by the CAG. In addition to the statutory audit conducted by the statutory auditors, supplementary audit of these companies had also been taken up by the CAG under section 143(6)(a) of the Companies Act 2013[5].

3.1.4 There are three Statutory corporations in the State, namely, State Bank of Sikkim, State Trading Corporation of Sikkim and Sikkim Mining Corporation established under the proclamation of the erstwhile Chogyal (King) of Sikkim. The accounts of these corporations are audited by the chartered accountants directly appointed by the BoDs of the respective corporations. Supplementary audit of these corporations was taken up by the CAG under section 19(3)[6] of the CAG's (DPC) Act 1971.

Stake of Government of Sikkim

3.1.5 The State Government has huge financial stake in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans** - In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support** - State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
- **Guarantees** - State Government also guarantees the repayment of loans with interest availed by the SPSUs from financial institutions.

Investment in SPSUs

3.1.6 As on 31 March 2016, the investment (capital and long-term loans) in 16 SPSUs was ₹ 14,100.66 crore as per details given below.

[4] *Serial No.A-8 of Appendix 3.1.2.*
[5] *The audit of the accounts of the Government companies from the financial year 2014-15 onwards is governed by the Companies Act 2013.*
[6] *Entrustment of audit of the accounts of corporations by the Governor of a State which has a State Legislature.*

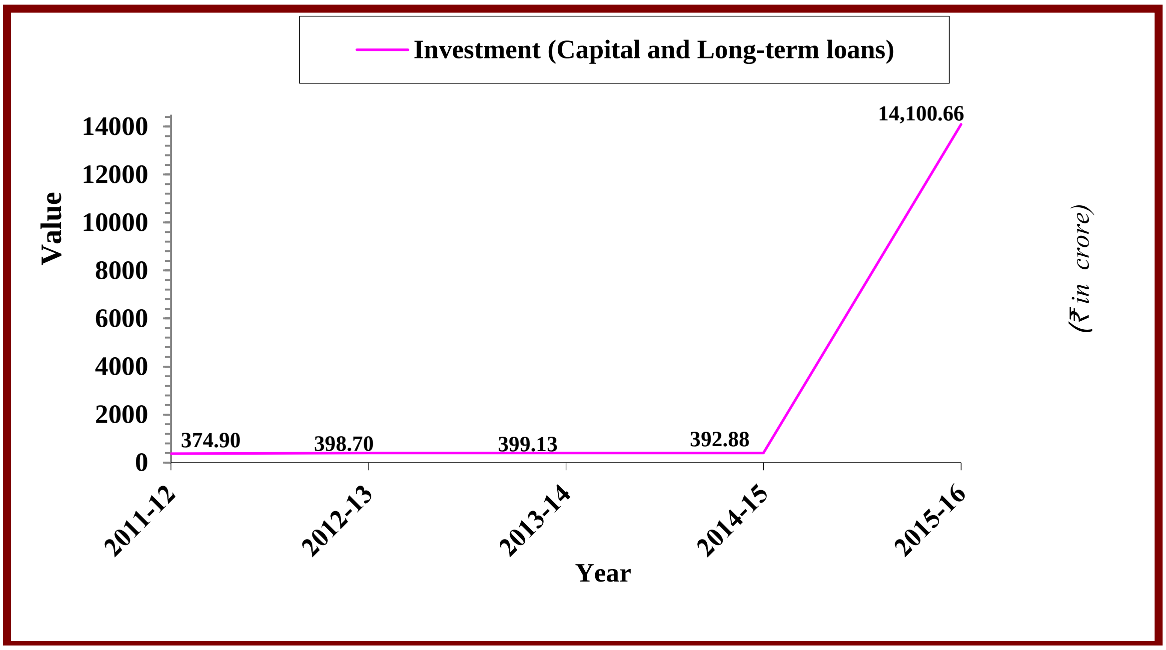
Table 3.1.2: Total investment in SPSUs

(₹ in crore)

Type of SPSUs	Government companies			Statutory corporations			Grand total
	Capital	Long term loans	Total	Capital	Long term loans	Total	
Working SPSUs	2,934.32	11,077.63	14,011.95	2.14	30.94	33.08	14,045.03
Non-working SPSUs	43.13	0	43.13	12.50	0	12.50	55.63
Total	**2,977.45**	**11,077.63**	**14,055.08**	**14.64**	**30.94**	**45.58**	**14,100.66**

Out of the total investment of ₹ 14,100.66 crore in SPSUs as on 31 March 2016, 99.61 *per cent* was in working SPSUs and the remaining 0.39 *per cent* was in non-working SPSUs. This total investment consisted of 21.22 *per cent* in capital and 78.78 *per cent* in long-term loans. The investment had increased significantly by 3,661.18 *per cent* from ₹ 374.90 crore in 2011-12 to ₹ 14,100.66 crore in 2015-16 as shown in **Chart-3.1.1**. The increase (₹ 13,725.76 crore) in the total investment was mainly due to inclusion of investments aggregating ₹ 13,714.13 crore (capital: ₹ 2,869.66 crore; long term loans: ₹ 10,844.47 crore) as on 31 March 2016 in respect of three[7] power sector companies added under the audit purview of CAG during the current year 2015-16.

Chart 3.1.1: Total investment in SPSUs



3.1.7 The sector wise summary of investments in the SPSUs as on 31 March 2016 is given below:

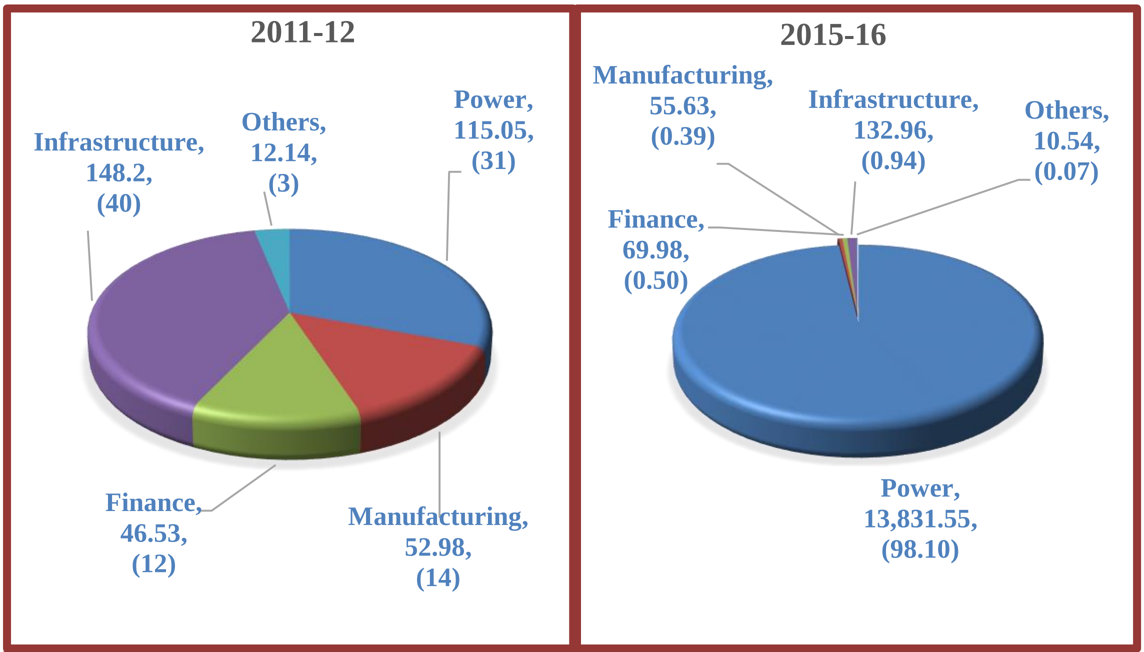
[7] *Sikkim Power Investment Corporation Limited (SPICL); Teesta Urja Limited (TUL), a subsidiary of SPICL; and Teestavalley Power Transmission Limited (TPTL), a subsidiary of TUL.*

Table 3.1.3: Sector-wise investment in SPSUs

Name of sector	Government/*Other*[8] *companies*		Statutory corporations		Total	Investment
	Working	Non-working	Working	Non-working		*(₹ in crore)*
Power	4	0	0	0	4	13,831.55
Manufacturing	0	3	0	1	4	55.63
Finance	1	0	1	0	2	69.98
Infrastructure	1	0	0	0	1	132.96
Service	1	0	1	0	2	8.07
Agriculture & allied	3	0	0	0	3	2.47
Total	**10**	**3**	**2**	**1**	**16**	**14,100.66**

The investment in five significant sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated in **Chart-3.1.2**.

Chart 3.1.2: Sector wise investment in PSUs



Amount in ₹ in crore
(Figures in bracket shows the percentage of total investment)

It can be noticed from **Chart-3.1.2**, the thrust of SPSU investment was mainly in power[9], which constituted more than 98 *per cent* of the total investment (₹ 14,100.66 crore) in SPSUs during 2015-16. During the period of five years from 2011-12 to 2015-16, investment in SPSUs increased in all sectors with a significant increase in power sector from ₹ 115.05 crore in 2011-12 to ₹ 13,831.55 crore. As mentioned under paragraph 3.1.6 supra, the significant increase in the power sector investments was mainly on account of investments relating to three power sector companies (SPICL, TUL and TPTL), which were added under the audit purview of CAG during the current year 2015-16.

[8] *'Other companies' as referred to under Section 139(5) and 139(7) of the Companies Act, 2013.*
[9] *Serial No.A-6, 7, 8 and 9 of Appendix 3.1.2.*

Special support and returns during the year

3.1.8 The State Government provides financial support to SPSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written-off and interest waived along with the position of guarantee in respect of SPSUs are given in **Table 3.1.4** for three years ended 2015-16.

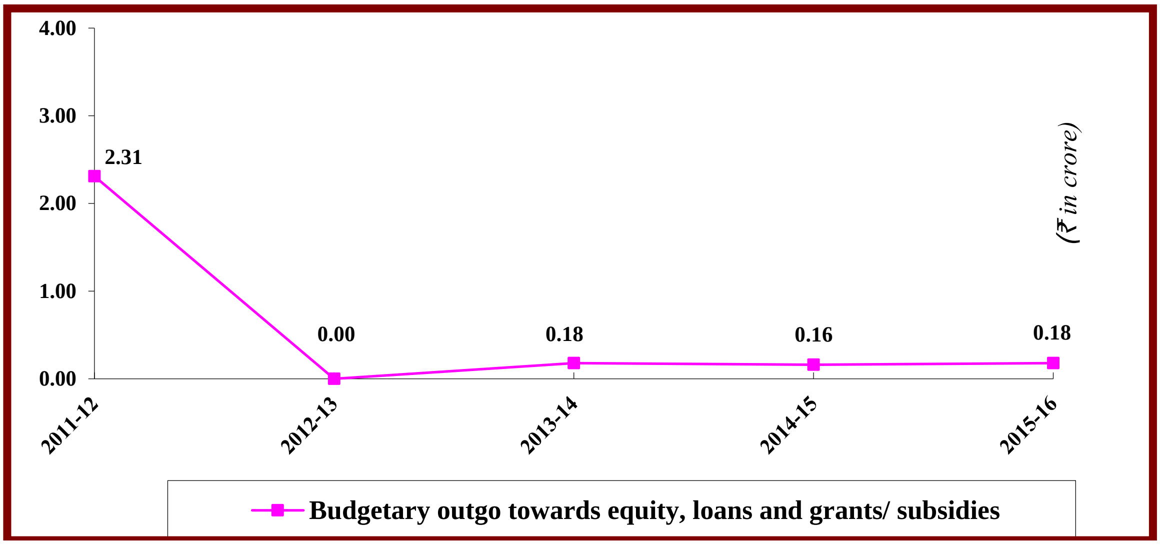
Table 3.1.4: Details regarding budgetary support to SPSUs

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity capital outgo from budget	-	-	-	-	-	-
2.	Loans given from budget	-	-	-	-	-	-
3.	Grants/subsidy from budget	1	0.18	1	0.16	1	0.18
4.	**Total outgo (1+2+3)**	**1**	**0.18**	**1**	**0.16**	**1**	**0.18**
5.	Waiver of loans and interest	-	-	1	0.06	1	0.05
6.	Guarantees issued	2	131.76	1	96.57	2	86.50
7.	Guarantee commitment	2	120.96	2	109.50	3	91.02

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in **Chart 3.1.3**.

Chart 3.1.3: Budgetary outgo towards equity, loans and grants/subsidies



It can be seen from **Chart 3.1.3** that during the period of five years from 2011-12 to 2015-16, the budgetary outgo was the highest in 2011-12 (₹ 2.31 crore) while during 2012-13, there was no budgetary outgo to any of the SPSUs. During the remaining three years from 2013-14 to 2015-16, the total budgetary outgo of ₹ 0.18 crore (2013-14), ₹ 0.16 crore (2014-15) and ₹ 0.18 crore (2015-16) was provided by way of grants to only one SPSU, namely, Sikkim Poultry Development Corporation Limited. As can be noticed from **Table 3.1.4**, the guarantee commitment has decreased from ₹ 120.96 crore (2013-14) to ₹ 91.02 crore (2015-16) mainly due to the repayment of loans by Sikkim Industrial Development and Investment Corporation Limited during previous three years. As on 31 March 2016, guarantee commitment of ₹ 91.02 crore was outstanding against three

SPSUs, namely, Sikkim Industrial Development and Investment Corporation Limited, Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited and State Trading Corporation of Sikkim.

Reconciliation with Finance Accounts

3.1.9 The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the SPSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2016 is given in **Table 3.1.5.**

Table 3.1.5: Equity, loans, guarantees outstanding as per Finance Accounts vis a vis records of SPSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	87.87	88.73	0.86
Loans	37.03	2.03	35.00
Guarantees	109.50	91.02	18.48

Audit observed that the differences in equity investment[10] occurred in respect of nine[11] SPSUs. The un-reconciled differences in respect of equity of SPSUs decreased by ₹ 8.08 crore during the year from ₹ 8.94 crore (2014-15) to ₹ 0.86 crore (2015-16). While the same in respect of loans to SPSUs remained unchanged at ₹ 35.00 crore during 2014-15 and 2015-16. Further, there were unreconciled difference ₹ 18.48 crore in the guarantee outstanding 2015-16, as against 'nil' difference in guarantee figures during 2014-15. The Accountant General had pursued the issue regularly with the Principal Secretary (Finance), Government of Sikkim and the heads of the SPSUs concerned for early reconciliation of long pending differences. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

3.1.10 The Companies Act, 1956 and the Companies Act, 2013 have not been extended to the State of Sikkim. The Government companies in Sikkim are registered under the Registration of Companies Act, 1961 while the Statutory corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. During the year, a Government company (Sikkim Power Investment Corporation Limited) acquired TUL and its subsidiary TPTL. TUL and TPTL are companies registered under the Companies Act, 1956. The **Table 3.1.6** provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2016.

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[10] *SPSU-wise figures of loans/guarantee not available in the finance accounts of the State.*
[11] *Serial No. A-1, A-4, A-5, A-8 to A-10 and C-13 to C-15 of Appendix 3.1.2.*

Table 3.1.6: Position relating to finalisation of accounts of working SPSUs

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Number of working SPSUs	8	8	8	9	12
2.	Number of accounts finalised during the year	7	10	5	3	12
3.	Number of accounts in arrears	20	18	21	27	31
4.	Number of working PSUs with arrears in accounts	8	7	8	9	10
5.	Extent of arrears (numbers in years)	1 to 4	1 to 4	1 to 5	1 to 6	1 to 7

From the **Table 3.1.6**, it can be noticed that during previous two years (i.e. 2013-14 and 2014-15), the working SPSUs have finalised only eight accounts. As a result, the number of accounts in arrears had increased from 18 accounts (2012-13) to 31 accounts (2015-16). Further, out of total arrears of 31 accounts of SPSUs as on 31 March 2016, 14 accounts (45 *per cent*) pertained to 2 SPSUs[12]. The delay in finalisation of accounts of these 2 SPSUs was mainly due to delay in compilation/adoption of accounts by the BODs of respective SPSUs. The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within the stipulated period. The departments/ministries concerned were informed regularly (on quarterly basis) of the arrears in finalisation of accounts by these SPSUs. No improvement was, however, noticed in the position of arrears of accounts of the SPSUs.

3.1.11 The State Government had invested ₹ 0.18 crore in one SPSU (Sikkim Poultry Development Corporation Limited) by way of grant during the year (2015-16) for which the accounts had not been finalised as detailed in **Appendix 3.1.1**.

Placement of separate audit reports

3.1.12 The position depicted in **Table 3.1.7** shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2016) on the accounts of Statutory corporations in the legislature.

Table 3.1.7: Status of placement of SARs in legislature

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in legislature	Year for which SARs not placed in legislature	
			Year of SAR	Date of issue to the Government
1.	State Bank of Sikkim	2010-11	2011-12 to 2012-13	26 February 2016
2.	State Trading Corporation of Sikkim	2010-11	2011-12 to 2013-14	23 June 2016

The delay in placement of SARs was due to delay in printing of the SARs by the State Government press.

Impact of non-finalisation of accounts

3.1.13 As pointed out above (**paragraphs 3.1.10 and 3.1.11**), the delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of SPSUs to the State GDP for the year 2015-16 could not be

[12] *Sl. No.A-1 and A-2 of Appendix 3.1.2.*

ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- **The Government may ensure preparation of accounts by SPSUs to clear arrear in accounts and set targets for individual SPSU which could be monitored.**

Performance of SPSUs as per their latest finalised accounts

3.1.14 The financial position and working results of working Government companies and Statutory corporations are detailed in **Appendix 3.1.2**. A ratio of SPSU turnover to State GDP shows the extent of SPSU activities in the State economy. **Table 3.1.8** provides the details of working SPSU turnover and State GDP for a period of five years ending 2015-16.

Table 3.1.8: Details of working PSUs turnover vis-a vis State GDP

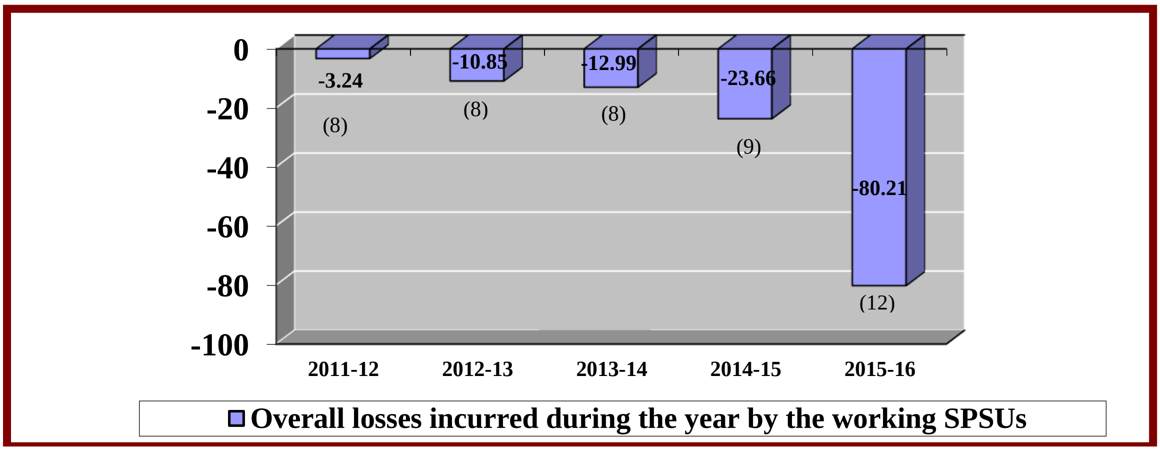
(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover	86.43	143.91	147.55	149.28	178.81[13]
State GDP[14]	11,165	12,338	13,862	15,209	16,637
Percentage of turnover to State GDP	0.75	1.17	1.06	0.98	1.07

It may be noticed that during 2011-12 to 2015-16, the State GDP had grown by 49.01 *per cent* while the increase in turnover of SPSUs during the corresponding period was to the extent of 106.88 *per cent*. Thus, there was appreciable growth in SPSUs turnover during the period of five years from 2011-12 to 2015-16 as compared to the growth in the State GDP during the corresponding period. As a result, the *percentage* of SPSUs turnover to State GDP has increased from 0.75 (2011-12) to 1.07 (2015-16) in five years' period.

3.1.15 Overall losses incurred by working SPSUs during 2011-12 to 2015-16 are given in **Chart 3.1.4**.

Chart 3.1.4: Overall losses of working SPSUs



(Figures in brackets show the number of working SPSUs in respective years)

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[13] *Turnover as per the latest finalised accounts as of 30 September 2016.*

[14] *Source: Department of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim. For the year 2011-12 to 2013-14, actual GDP figures have been adopted. For the year 2014-15, provisional estimate figures of GDP has been taken and for 2015-16, the quick estimate figure has been adopted.*

As per the latest finalised accounts of 12 working SPSUs as on 30 September 2016, 3 SPSUs[15] earned profit of ₹ 8.47 crore and 9 SPSUs incurred loss of ₹ 88.68 crore. The major contributor to profit was State Bank of Sikkim (₹ 4.82 crore). The heavy losses were incurred by Sikkim Power Investment Corporation Limited (₹ 69.60 crore) and Sikkim Power Development Corporation Limited (₹ 10.46 crore). As can be noticed from **Chart 3.1.4**, the overall losses incurred by working SPSUs showed an increasing trend from 2011-12. During the five years from 2011-12 to 2015-16, the overall losses had increased from ₹ 3.24 crore (2011-12) to ₹ 80.21 crore (2015-16). The significant increase in the overall losses during 2015-16 compared to the previous year was attributable to the loss incurred by one power sector company (i.e. Sikkim Power Investment Corporation Limited), the audit of which was entrusted (December 2015) to CAG during the current year only.

3.1.16 Some other key parameters of SPSUs are given in **Table 3.1.9**.

Table 3.1.9: Key parameters of State PSUs

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on capital employed (*per cent*)	5.24	4.30	4.36	3.91	10.34
Debt	260.93	279.07	273.89	273.25	8936.15
Turnover[16]	86.43	143.91	147.55	149.28	178.81
Debt/ turnover ratio	3.02:1	1.94:1	1.86:1	1.83:1	49.98:1
Interest payments	64.90	87.49	90.15	88.16	1235.63
Accumulated losses	83.57	90.29	97.92	117.72	328.72

From the table, it can be noticed that the figures of the debts during 2015-16 had increased significantly due to addition of three power sector companies[17] during the year. Other financial figures of SPSUs depicted in the table for 2015-16 have also correspondingly increased due to inclusion of the figures of these three companies. There was, however, no impact on the turnover figures of SPSUs for 2015-16 as the said three companies were yet to commence commercial operations.

3.1.17 The State Government had not formulated (October 2016) any dividend policy regarding payment of minimum dividend by SPSUs. As per their latest finalised accounts as on 30 September 2016, three[18] SPSUs earned aggregate profit of ₹ 8.47 crore, however, no SPSU declared dividend during the year.

Winding up of non-working SPSUs

3.1.18 There were four[19] non-working SPSUs (three companies and one Statutory corporation) as on 31 March 2016. The audit of accounts of three out of these four SPSUs had been entrusted to CAG for five years upto 2016-17. The audit of the fourth[20] SPSU

[15] *Serial No.A-5,10 and B-11 of Appendix 3.1.2.*
[16] *Turnover of working SPSUs as per their latest finalised accounts as on 30 September of respective year.*
[17] *Serial No.A-6, A-7, and A-8 of Appendix 3.1.2. Audit of one company (Serial No.A-6) was entrusted to CAG during the year while other two companies (A-7, A-8) became subsidiaries (August 2015) of this Government company (Serial No.A-6) during the current year.*
[18] *Serial No. A-5, A-10 and B-11 of Appendix 3.1.2.*
[19] *Serial No. C-13 to C-15 and D-16 of Appendix 3.1.2.*
[20] *C-15 of Appendix 3.1.2.*

was, however, entrusted to CAG for five years upto 2017-18. All these SPSUs mentioned above are closed down (April 2011) under the order of the State Government. The Government companies in Sikkim are registered under the Registration of Companies Act, 1961 while Statutory corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. There was, however, no prescribed procedure for liquidation of Government companies/Statutory corporations under their respective governing Act/Statute. The numbers of non-working SPSUs at the end of each year during past five years are given in **Table 3.1.10**.

Table 3.1.10: Non-working SPSUs with entrustment

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
No. of non-working companies	6	6	6	5	3
No. of non-working corporations	1	1	1	1	1
Total	**7**	**7**	**7**	**6**	**4**

3.1.19 The stages of closure in respect of non-working SPSUs are given in **Table 3.1.11**.

Table 3.1.11: Closure of non-working SPSUs

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working SPSUs	3	1	4
2.	Of (1) above, the No. under	-	-	-
(a)	liquidation by Court (liquidator appointed)[21]	-	-	-
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	3	1	4

The assets of the three companies have been disposed of and the proceeds remitted (December 2012) to the Commerce and Industries Department of the State Government. In respect of the closed down Statutory corporation, the Department of Mines, Minerals and Geology, Government of Sikkim has approved (October 2016) liquidation of Sikkim Mining Corporation and waiver of its liabilities of ₹ 6.85 crore.

Accounts comments

3.1.20 Four working companies forwarded their seven audited accounts to Accountant General during the year 2015-16 (October 2015 to September 2016). Of these, six year accounts of four companies were selected for supplementary audit. All six accounts of four companies received qualified certificates. The details of aggregate money value of comments of statutory auditors and CAG are given in **Table 3.1.12.**

Table 3.1.12: Impact of audit comments on working companies

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	Nil	Nil	Nil	Nil	1	0.01
2.	Increase in loss	3	1.45	1	0.01	2	6.57
3.	Non-disclosure of material facts	1	1.34	1	0.02	1	1.22
4.	Errors of classification	1	0.84	Nil	Nil	0	0

[21] *No prescribed procedure existed under the respective governing Acts/Statutes for liquidation of SPSUs.*

During 2015-16, two Statutory corporations had submitted their five years audited accounts to the Accountant General for supplementary audit. The audit of all the five accounts was completed and Separate Audit Reports also issued (February/June 2016). All five accounts of two Statutory corporations received qualified certificates.

Response of the Government to audit

Performance audits and paragraphs

3.1.21 For the present chapter of the report of the CAG for the year ended 31 March 2016, Government of Sikkim, one performance audit report and one compliance audit paragraph involving two departments were issued to the Secretaries of the respective departments with request to furnish replies within six weeks. The replies in respect of the compliance audit paragraph was, however, awaited from the State Government (October 2016).

Follow up action on audit reports

Replies outstanding

3.1.22 The report of the CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. According to instructions issued by the Finance, Revenue and Expenditure Department (FRED), Government of Sikkim, all the administrative departments concerned were required to furnish explanatory notes on the paragraphs/performance audits included in the audit reports of the CAG within a period of three months of their presentation to the legislature, in the prescribed format without waiting for any questionnaires from the Public Accounts Committee.

Table No.3.1.13: Explanatory notes not received (as on 30 September 2016)

Year of the audit report (Commercial/PSU)	Date of placement of audit report in the State Legislature	Total PAs and paragraphs in the audit report		Number of PAs/ paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2011-12	27 April 2013	1	4	1	4
2012-13	28 June 2014	0	2	0	1
2013-14	17 March 2015	1	4	1	3
2014-15	28 March 2016	0	2	0	2
Total	**-**	**2**	**12**	**2**	**10**

From the **Table-3.1.13**, it can be seen that explanatory notes to 10 paragraphs and 2 performance audits pertaining to 7 companies/corporations[22] and 1 Department (Energy and Power Department) were not received (October 2016).

[22] *Serial No.A-1, 4, 5 and 6, B-8 and 9 and D-15 of Appendix 3.1.2.*

Discussion of audit reports by Public Accounts Committee

3.1.23 The status as on 30 September 2016 of PAs and paragraphs relating to SPSUs that appeared in State Audit Reports and discussed by the Public Accounts Committee (PAC) was as detailed in **Table-3.1.14**.

Table 3.1.14: Performance audits/paragraphs relating to SPSUs appeared in audit reports vis-à-vis discussed as on 30 September 2016

Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		PAs/paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2009-10	0	4	Nil	Nil
2010-11	1	3	1	3
2011-12	1	4	Nil	Nil
2012-13	0	2	Nil	Nil
2013-14	1	4	Nil	Nil
2014-15	0	2	Nil	Nil
Total	**3**	**19**	**1**	**3**

During the period 2009-10 to 2014-15 total 3 PAs and 19 paragraphs relating to SPSUs had appeared in the State Audit Reports. Three PAs had been selected for discussion by PAC, out of which, only one PA had been discussed. Moreover, sixteen paragraphs are pending for discussion by the PAC (October 2016).

Compliance to Reports of Public Accounts Committee

3.1.24 Action Taken Notes to all seven recommendations pertaining to three Reports of the PAC presented to the State Legislature as of March 2016 had been received (October 2016) as indicated in **Table-3.1.15**.

Table 3.1.15: Compliance to Reports of Public Accounts Committee

Year of the PAC Report	Total Number of PAC Reports	Total No. of recommendation in PAC Report	No. of recommendations where ATNs not received
2008-09 (AR 2005-06)	1	2	Nil
2009-10 (AR 2006-07)	1	3	Nil
2010-11 (AR 2007-08)	1	2	Nil
2013-14 (AR 2008-09)	1	Nil	NA
2015-16 (AR 2009-10)	1	Nil	NA
Total	**5**	**7**	**Nil**

It is recommended that the Government may ensure:

(a) furnishing of replies to explanatory notes to Draft Paragraphs/Performance Audits included in Audit Reports as per the prescribed time schedule;

(b) recovery of loss/outstanding advances/overpayments within the prescribed period and

(c) revamping of the system of responding to audit observations.

Coverage of this report

3.1.25 This Chapter on SPSUs contains one Performance Audit on "Implementation of 1,200 MW Teesta Stage III hydro electric project in Sikkim" and one compliance audit paragraph.

Disinvestment, Restructuring and Privatisation of SPSUs and any reforms in power sector

3.1.26 As part of the power sector reforms, separate companies were to be formed to look after the activities of generation, transmission and distribution of electricity in the State. The activities relating to generation, transmission and distribution of electricity in the State at present are, however, being managed and controlled by the Energy and Power Department, Government of Sikkim.

ENERGY AND POWER DEPARTMENT

3.2 Implementation of 1,200 MW Teesta Stage III hydro electric project in Sikkim

The State Government set (June 2004) a target of producing 3,000 MW of additional power by the end of 11th Five Year Plan (2007-12). In line with the target, State Government took up the implementation of 1,200 MW Teesta Stage III hydro electric project (Teesta III) in February 2005 through private participation under joint sector with the State Government. The present audit conducted during May 2016 to August 2016 covered the aspects relating to planning and implementation of Teesta III. The following are the highlights of the report:

Highlights

Failure of the State Government to have pre-bidding conditions to verify the financial capability and experience of the consortium leader and also to ensure adherence to the agreement conditions by the private consortium had forced the State Government to take over (August 2015) the project through equity infusion in the capital of Teesta Urja Limited (TUL) besides causing time overrun of more than four years in completion of the project.

(Paragraph-3.2.10.3)

Private developers failed to subscribe to their committed portion of TUL's equity capital for the second cost overrun of the project. As a result, TUL faced financial constraints leading to time and cost overrun in implementation of the project. It was noticed that the cost overrun to the extent of ₹ 892.01 crore on account of interest during construction (₹ 758.13 crore) and hard cost (₹ 133.88 crore) was incurred due to financial constraints of TUL.

(Paragraph-3.2.10.5)

The State Government did not constitute multi-disciplinary committee and project level welfare committee for monitoring of the project related activities. As a result, implementation of the project had suffered.

(Paragraph-3.2.10.7 to 3.2.10.10)

3.2.1 Introduction

The State of Sikkim is a power surplus State. The State Government set (June 2004) a target of producing 3,000 MW of additional power by the end of 11th Five Year Plan (2007-12). In line with the target, Energy and Power Department, Government of Sikkim (EPD), took up the implementation of 1,200 MW Teesta Stage III hydro electric project (Teesta III) in February 2005 through private participation under joint sector with State Government.

Demand and supply of electricity in Sikkim

The overall power scenario of the State of Sikkim for the last three years ending 2015-16 is detailed below:

Table 3.2.1

(in million units)

Particulars	2013-14	2014-15	2015-16
Own generation from Hydro Electric Projects (HEP)	17.37	23.83	40.47
Free power received from National Hydro Power Corporation (NHPC[23]) - Teesta V project	314.32	336.66	350.37
Free power received from Independent Power Producers (IPP)	37.68	50.67	64.44
Power purchased from Central generating stations	511.12	496.22	478.16
Total availability (A)	**880.49**	**907.38**	**933.44**
Actual consumption within the State	237.35	248.75	264.71
Transmission and Distribution (T&D) losses	164.85	140.27	121.69
Consumed within the State (B)	**402.20**	**389.02**	**386.40**
T&D losses (in *per cent*)	40.99	36.05	31.49
Surplus power traded (A) – (B)	**478.29**	**518.36**	**547.04**

In Sikkim, there were four mega hydel projects. Out of the four projects, only one project (510 MW Teesta V) was operational (since 2008) and remaining three projects were under construction. Of the three ongoing projects, one project (520 MW Teesta IV) was entrusted to National Hydro Power Corporation, a Central PSU. Two ongoing Hydro Electric Projects, viz. Teesta III and 500 MW Teesta VI, were being implemented by State Government through private developers namely, TUL and Lanco Teesta Hydro Power Limited (LTHPL) respectively.

3.2.2 Background and status of development

The Teesta III project was envisaged by the State Government in the 1980s. However, not much progress could be made on this project.

The State Cabinet decided (May 2004) to speed up the efforts to tap the hydro power potential of the State and instructed the EPD to get into agreements with capable parties

[23] *A Central PSU engaged in development of hydro electric projects and generation of energy through hydro electric generation units.*

for generating 3,000 MW hydro electric power. Accordingly, a target of producing 3,000 MW of additional power by the end of 11th Five Year Plan (2007-12) was fixed (June 2004) by State Government as mentioned under **Paragraph 3.2.1** *supra*. To expedite development of hydro electric projects in Sikkim, the State Government constituted (June 2004) a High Power Committee[24] (HPC). Four[25] proposals were received and after evaluation of the proposals, the HPC recommended (15 October 2004) the proposal of the consortium[26] led by Cosmos Electric Power Supply Limited (CEPSL) for allotment of Teesta III. The recommendation of the HPC was, however, not acceded to by the State Cabinet (18 October 2004). The HPC again recommended (3 November 2004) to award the project to the consortium of CEPSL which was again deferred (23 November 2004) by the State Cabinet for reasons not on record.

Meanwhile, the HPC prepared a draft of the State hydro power policy, which was approved (October 2004) by the State Cabinet. The State Government invited proposals from the interested developers in accordance with the State hydro power policy and in response, five[27] offers were received. Out of the five offers received, only one[28] offer received from the consortium[29] led by Athena Projects Private Limited, India (Athena India) fulfilled all the conditions of the State hydro power policy. Based on the claims made by the Athena India consortium regarding the technical experience of four consortium members[30] in the field and also regarding financial and project management capabilities of the consortium members, the HPC recommended (February 2005) the allotment of the project to Athena India consortium on 'Build, Own, Operate, and Transfer' (BOOT) basis under joint sector with State Government, which was approved (22nd February 2005) by the State Cabinet.

Athena India formed (11th March 2005) a Special Purpose Vehicle (SPV)[31] by the name of Teesta Urja Limited (TUL) for the implementation of the project. The Energy and Power Department (EPD) on behalf of the State Government entered (July 2005) into a Deed of Agreement (DoA) with TUL. As per the terms of DoA, TUL was to achieve the financial closure within 12 months from the date of signing (July 2005) of DoA. The

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[24] *The HPC was headed by the Chief Secretary of the State with various Secretaries of State Government as members.*

[25] *Cosmos Electric Power Supply Limited, National Hydro Power Corporation, Reliance & Sutlej Jal Nigam Vidyut Limited.*

[26] *Colenco Power Engineering Limited, Leighton Holdings, M/s. MCORP Global-Modi Group.*

[27] *NHPC, National Thermal Power Corporation Limited (NTPC), Satluj Jal Vidyut Nigam Limited (SJVNL), CEPSL and Athena India.*

[28] *Three Central PSUs (NHPC, NTPC and SJVNL) offered to execute the project on BOO basis while CEPSL offered to transfer the project to the State Government after 45 years in case the royalty is enhanced from 12 per cent to 15 per cent after 15 years, which were not in line with State hydro power policy.*

[29] *Andhra Pradesh Generating Company (APGENCO), Larsen & Toubro Limited (L&T), Power Trading Corporation of India Limited (PTC) and Infrastructure Leasing & Financial Services group (IL&FS).*

[30] *Andhra Pradesh Power Generation Corporation Limited, Larsen & Toubro, Power Trading Corporation of India Limited, Infrastructure Leasing & Financial Services.*

[31] *Special Purpose Vehicle is a legal entity created for limited works which isolates risk and creates options for companies to raise capital and structure debt in a more efficient way. Moreover, SPV is a subsidiary company with an asset/liability structure and legal status that makes its obligations secure even if parent company goes bankrupt.*

commercial operation of the project was to be achieved within a period of 60 months from the date of financial closure. Considering the actual date of achieving (September 2007) the financial closure of the project, the project was scheduled for commissioning by September 2012. As against this, however, the project works were still ongoing (November 2016).

3.2.3 Scope of Audit

The present audit conducted during May 2016 to August 2016 covered the aspects relating to planning and implementation of Teesta III. For the purpose of this audit, the records relating to various organisations involved in the process of planning and implementation of the project as detailed under **Paragraph 3.2.4** *infra* were examined.

3.2.4 Organisations involved

During the current audit, the records of seven departments/organisations were reviewed. Brief details of these departments/organisations alongwith their roles in the implementation of the project are as follows:

Table 3.2.2

Sl. No.	Department/ Organisation	Role in the implementation of the project
1	Energy and Power Department (EPD), Government of Sikkim	Allotment and monitoring
2	Forest, Environment and Wildlife Management Department (FEWMD), Government of Sikkim	Implementation of environment management plan (EMP)
3	State Pollution Control Board (SPCB), Government of Sikkim	Monitoring of muck disposal and pollution
4	Directorate of Fisheries (DoF), Government of Sikkim	Implementation of fish management plan
5	Sikkim Power Investment Corporation Limited (SPICL)	The State Government provided its share of project funding in the form of equity contribution in TUL through SPICL.
6	Teesta Urja Limited (TUL), Government of Sikkim (from August 2015)	A Special Purpose Vehicle (SPV) formed by Athena India for the implementation of the project.
7	Teestavalley Power Transmission Limited (TPTL), Government of Sikkim (from August 2015)	Transmission line implementing agency for Teesta III

Besides, information/clarifications received from Rural Electrification Corporation (REC)[32], lead lender of Teesta III, were also appropriately utilised during the conduct of the present Performance Audit.

3.2.5 Audit Objectives

The objectives of the performance audit were to assess:

- the adequacy, correctness and effectiveness of pre-implementation arrangements prior to award and development of Teesta III;

[32] *A Central public sector undertaking involved in financing of public infrastructure projects.*

- the efficiency of the private developer with reference to the agreed terms and conditions of the contract and the benefits of private participation actually derived in execution of the project;
- the adequacy and effectiveness of Government participation in the monitoring and supervision of the project; and
- the environmental and social impact of the project and the adequacy of measures put in place to mitigate negative impacts.

3.2.6 Audit Criteria

The audit criteria adopted for assessing the achievement against the above mentioned audit objectives were derived from the following sources:

- Mega power policy of 1995 and 2008 of Government of India
- Hydro power policy, 2004 of Government of Sikkim
- Report on carrying capacity of Teesta river basin in Sikkim
- Detailed project report
- Deed of Agreement (DoA) between State Government and private developer
- Techno-economic clearance
- Forest and environment clearances
- Environment Impact Assessment (EIA) and Environment Management Plan (EMP).

3.2.7 Audit Methodology

The performance audit (PA) commenced with the entry conference (9 May 2016) attended by the representatives of Energy and Power Department (EPD), Forest, Environment and Wildlife Management Department (FEWMD), State Pollution Control Board (SPCB) and Teesta Urja Limited (TUL) where audit objectives, scope, criteria and methodology were explained. The methodology adopted for conduct of audit consisted of analysis of data and records at EPD, Sikkim Power Investment Corporation Limited (SPICL), TUL, Teestavalley Power Transmission Limited (TPTL), FEWMD, SPCB, Directorate of Fisheries (DoF). Physical verification of project jointly with the State Government officials was also conducted.

The draft PA report was issued (September 2016) to the State Government. All the organisations except SPICL furnished their replies before the exit conference which was held on 21 November 2016. All the replies and views expressed by the stakeholders have been appropriately taken into consideration while finalising the Report.

3.2.8 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the Energy and Power Department, Forest, Environment and Wildlife Management Department and Directorate of Fisheries of the State Government, Sikkim Power Investment Corporation Limited, Teesta Urja Limited and Centre for Inter-disciplinary Studies of Mountain and Hill Environment, University of Delhi in providing necessary information and records for audit.

3.2.9 Teesta III HEP

3.2.9.1 Main features of Teesta III HEP

The Teesta III is a 'run of the river with pondage[33]' type of project with salient features and cost as detailed below:

Table 3.2.3

Features	Teesta III HEP
Location of dam	Chungthang
Type and height of dam	Concrete face rockfilled dam of 60 m height
Gross storage at full reservoir level	5.08 million cumecs
Length of head race tunnel in KM	13.82
Location of powerhouse	Singhik
Number and type of turbines	6 Pelton turbines[34] of 200 MW capacity each
Capacity in MW	1200
Scheduled commercial operation date	30 September 2012
Revised scheduled commercial operation date	31 March 2017
Estimated cost (₹ in crore)	5,700.00
Revised estimated cost (₹ in crore)	13,865.00
Actual costs incurred till October 2016 (₹ in crore)	12,220.49

3.2.9.2 Conditions of Deed of Agreement

As mentioned under **Paragraph 3.2.2** *supra,* the implementation of Teesta III was awarded to the consortium[35] led by Athena Projects Private Limited, India (Athena India) based on the claims made by Athena India consortium regarding the strength of four experienced consortium members[36]. The project was awarded to the private developers on 'Build, Own, Operate, and Transfer' (BOOT) basis under joint sector with State Government.

The DoA signed between the State Government/EPD and TUL[37] stipulated that the TUL would operate the project for a period of 35 years from the date of commencement of commercial operations. After the 35th year, the project would be transferred back to the

[33] *Run-of-the-river power plants may have no water storage at all or a limited amount of storage, in which case the storage reservoir is referred to as pondage.*

[34] *Pelton turbines are used when water energy is available at high head and low flow rate. When a high speed water jet is injected through a nozzle hits buckets of pelton wheel; it induces an impulsive force which makes the turbine rotate. The rotating shaft runs a generator and produces electricity.*

[35] *Andhra Pradesh Generating Company (APGENCO), Larsen & Toubro Limited (L&T), Power Trading Corporation of India Limited (PTC) and Infrastructure Leasing & Financial Services group (IL&FS).*

[36] *Andhra Pradesh Power Generation Corporation Limited, Larsen & Toubro, Power Trading Corporation of India Limited, Infrastructure Leasing & Financial Services.*

[37] *The SPV formed (March 2005) by Athena India for implementation of Teesta-III.*

State Government. During the period of 35 years, State Government would receive royalty in the shape of free power at 12 *per cent* of the net generation from the project for the first 15 years of operation and 15 *per cent* of free power during 16^{th} to 35^{th} year of operations. Other important conditions of the DoA included the following:

- As defined under the DoA, Athena India consortium means consortium led by Athena India and included other consortium members {such as Andhra Pradesh Generating Company (APGENCO), Larsen & Toubro Limited (L&T), Power Trading Corporation of India Limited (PTC) and Infrastructure Leasing & Financial Services group (IL&FS)} and other investors including financial institutions and private equity investors;
- TUL shall not change the constitution of the Athena India consortium without prior permission of the State Government. In case of TUL's failure in submitting the shareholding agreement with the members of Athena India consortium at the time of financial closure, State Government reserves the right to terminate the DoA;
- Athena India consortium and the State Government were to contribute towards project funding (including escalations in the project cost) in the form of equity contribution in TUL's capital in the ratio of 74 *per cent* (Athena India consortium) and 26 *per cent* (State Government) respectively.
- TUL shall achieve the financial closure within 12 months from the date of signing (18 July 2005) of DoA. The commercial operation of the project shall be achieved within a period of 60 months from the date of financial closure.
- In case the TUL fails to commission the project within the aforesaid time period for reasons exclusively attributable to TUL, it (TUL) shall be liable to pay a penalty of ₹ 10,000 per MW per month to the State Government for the delayed period.
- The State Government shall constitute a multi-disciplinary committee (MDC) comprising representatives of TUL and various departments of the State Government to monitor the issues arising during the implementation of the project. The MDC shall meet at such intervals, preferably quarterly at such place as may be decided by it.

3.2.10 Audit Findings

3.2.10.1 Allotment of Teesta III

The basic intent of executing the infrastructure development projects through private participation is to encourage the private sector to dedicate its capacity to raise capital and the ability to complete projects on time and to budget for the welfare of the community, without having to compromise the profit motive. At the same time, the public sector would retain its responsibility to provide goods and services to the public at large at affordable rates.

Further, successful execution of hydro electric projects under private participation requires that the projects are awarded only to private developers who are suitably experienced in the type of work/construction technology involved. The private developer also needs to be financially and managerially sound and capable of providing all the key equipment/personnel required for the project in a timely manner for implementation of the project within the scheduled period. To ensure execution of the project at most competitive and realistic price in a transparent manner, it was also desirable that the private developers are selected after following the competitive bidding process.

Contrary to above, however, it was observed that the State Government had neither fixed any pre-qualification criteria nor had adopted the competitive bidding process for selection of project developer.

As mentioned under **Paragraph 3.2.2** *supra,* the State Government had invited proposals from the interested developers in accordance with the State hydro power policy and had allotted (February 2005) the project to private developers (Athena India consortium) under joint sector with State Government. The project was allotted to Athena India consortium based on their claims that the consortium members[38] had the requisite experience and capabilities to implement the project within the scheduled period. As per the terms of the DoA entered between the State Government and TUL for execution of the project, no change in the constitution of the consortium was permitted without prior permission of the State Government.

3.2.10.2 Representation of the State Government on the Board of Directors of TUL

As per the DoA signed (July 2005) between the State Government and TUL, the State Government was to contribute towards its share of 26 *per cent* in the equity capital of TUL. Accordingly, TUL was to execute an equity subscription agreement with the State Government allocating 26 *per cent* of its equity to the State Government latest by January 2006 (viz. within a period of six months from signing of the DoA).

It was observed that the equity subscription agreement was actually executed (March 2008) by the TUL after a delay of more than 2 years. In the meantime, the financial closure for the project was also achieved by TUL in September 2007. It was, however, observed in audit that the State Government had contributed towards its share (26 *per cent*[39]) in TUL's equity capital only during April-December 2012. Moreover, there was no representative of the State Government on the Board of Directors (Board) of TUL till December 2012.

Absence of the State Government's representatives on the Board of TUL had adversely impacted the monitoring of the project related activities taken up by the TUL till December 2012 as discussed under **Paragraph 3.2.10.8 and 3.2.10.9** *infra*.

3.2.10.3 Violation of the terms of Deed of Agreement by the private partners

Audit observed violation of the terms of the Deed of Agreement (DoA) by the private partners as given below:

- The consortium leader, Athena India which was incorporated only in August 2004, had no previous experience in implementation of hydel projects, but its

[38] *Consisting of Athena India, APGENCO, L&T, PTC and IL&FS.*
[39] *29.64 crore equity shares of TUL at ₹ 10 per share.*

partners had this technical expertise. However, three[40] out of these four consortium members (excepting Power Trading Corporation of India Limited) having technical experience in the field had exited from the consortium without the prior permission of the State Government.

It is a noticeable fact that in absence of technical expertise for design and engineering, TUL had to employ (July 2006) consultants i.e. M/s Energy Infratech Private Limited[41] (EIPL) for the project.

- As the said three consortium members (namely, Andhra Pradesh Power Generation Corporation Limited, Larsen & Toubro, Infrastructure Leasing & Financial Services) did not subscribe to the equity capital of TUL, Athena India was holding 100 *per cent* equity stake in TUL. In August 2007[42], a new entity namely, Athena Projects Private Limited, Singapore[43] (Athena Singapore) acquired around 70 *per cent* of equity stake in TUL and by virtue of holding highest equity stake in TUL, replaced the position of 'Athena India' as the leader of the 'consortium', which was a violation of the DoA as TUL could not change the constitution of the Athena India consortium without prior permission of the State Government.
- Athena India consortium also failed in meeting their committed financial obligations towards funding of the project for second cost overrun in violation of the agreed terms of DoA. The financial incapability of Athena India consortium came to light on their refusal to fund the second cost overrun of the project necessitating the State Government/SPICL to take over the project by acquiring 51 *per cent* of the equity shares of TUL as discussed under **Paragraph 3.2.10.6** *infra*.

EPD stated (November 2016) that apart from Athena India consortium, none of the other bidders agreed to all of the conditions of the Hydro policy of the Government of Sikkim. In the exit conference, it was stated that the APGENCO exited the consortium based on the decision taken by the Government of Andhra Pradesh.

The reply was, however, silent about the inexperience of the consortium leader, Athena India in development of hydro projects and exit of three experienced members from consortium on whose strength the contract was awarded.

Thus, failure of the State Government to have pre-bidding conditions to verify the financial capability and experience of the consortium leader and also to ensure adherence to the agreement conditions by the private consortium had affected the implementation of the project adversely, which forced the State Government to take over (August 2015) the project through equity infusion in TUL's capital. The DoA terms were also violated as far

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40 *Andhra Pradesh Power Generation Corporation Limited, Larsen & Toubro, Infrastructure Leasing & Financial Services.*

41 *EIPL (erstwhile Erudite Engineers Pvt. Ltd.) was a subsidiary of Athena Singapore.*

42 *This fact came into notice from the Common Loan Agreement (CLA) entered between Lenders and TUL as discussed under Paragraph 3.2.10.8.*

43 *Now known as 'Asian Genco Private Limited, Singapore'.*

as the change in the shareholding of Athena India consortium in TUL was done without taking the State Government permission.

As a result, the project could not be completed even after more than four years of its scheduled completion (September 2012) defeating the primary objective of executing the project through private participation under joint sector with State Government.

3.2.10.4 Time and Cost Overrun

The Teesta III project was scheduled to be commissioned by September 2012 at estimated project cost of ₹ 5,700 crore. Due to various controllable and uncontrollable[44] reasons, the project was still pending to be commissioned (October 2016) resulting in project cost overrun as detailed below:

Table 3.2.4

(₹ in crore)

Cost component	Original cost	Revised cost after 1st overrun	Revised cost after 2nd overrun	Revised cost after 3rd overrun[45]
Hard Cost[46] (except financing costs)	4,941	5,841	7,150	7,849
Soft Cost[47] (all financing costs)	759	2,740	4,232	6,116
Total	**5,700**	**8,581**	**11,382**	**13,965**

As of November 2016, the total cost overrun was ₹ 8,265 crore (145 *per cent*) with time overrun of over four years. While first and second cost overruns had already been approved, the third cost overrun was pending for approval by the lenders.

The reasons for the cost overruns were analysed in audit. It was observed that the cost overruns of the project occurred due to time overrun on account of uncontrollable reasons like earthquake, flash flood, collapse of bridge etc. as well as increase in the project costs due to unforeseeable geological surprises. Besides, there were delays on account of failure of private developers to subscribe to their committed portion of TUL's equity leading to financial constraints of TUL in execution of project and corresponding escalation in project cost, which was controllable as discussed under **Paragraph 3.2.9.5**.

3.2.10.5 Avoidable costs due to financial constraints of TUL

As discussed under **Paragraph 3.2.9.2** *supra*, the private developers were required to subscribe 74 *per cent* of the equity shares of TUL towards project funding (including cost escalations).

It was observed that the private developers[48] failed to subscribe to their committed portion of TUL's equity capital for the second cost overrun of the project. As a result,

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[44] *Uncontrollable reasons mainly include force majeure events like earthquake, floods and other natural calamities which are beyond the control of the implementing agency.*

[45] *This revision in project cost was pending for approval by State Government and lenders (November 2016).*

[46] *Hard cost means the actual expenditure on construction works.*

[47] *Soft cost means interest on borrowings and finance cost.*

[48] *At the time of take over (August 2015) of TUL by State Government/ SPICL, the consortium of private developers comprised of Athena India, Athena Singapore, PTC India Ltd. and others.*

TUL faced financial constraints in implementing the project leading to further time and cost overrun. To facilitate the progress of the project works, the State Government/SPICL offered (June 2014) to contribute to the equity of TUL to meet the fund requirement. As the proposal involved dilution of equity stake of Athena Singapore in favour of State Government/SPICL, Athena Singapore did not agree (August 2014) to the proposal. It was noticed that the cost overrun to the extent of ₹ 892.01 crore incurred by TUL till January 2015[49] on account of interest during construction (₹ 758.13 crore) and hard cost (₹ 133.88 crore), were incurred on account of financial constraints of TUL as discussed in the following text:

(i) Interest during construction (IDC) on long term borrowings of TUL

The Teesta III project was scheduled to be commissioned by September 2012. Even after a lapse of more than four years of scheduled commissioning, the project was still pending for completion (November 2016). Scrutiny of records revealed that a significant period of 416 days of the total time overrun had been lost due to controllable factors such as suspension of work due to funds constraints, dispute amongst the equity stakeholders on infusion of additional project funding, slow progress of project works due to delay in release of payments to contractors, etc. as detailed below:

Table 3.2.5

From	To	No of days	Reason
1 April 2012	21 September 2012	174	Financial constraints with TUL resulting in delay in payment of civil contractors leading to suspension of work.
14 August 2013	9 September 2013	27	
1 July 2014	31January 2015	215	Dispute amongst the equity stakeholders of TUL (State Government and Athena Singapore) on infusion of additional project funding against second cost overrun by the State Government through dilution of the equity stake of Athena Singapore; and Disputes between TUL and contractors due to non-payment of their bills.

Considering the above, a total of ₹ 758.13 crore was incurred as interest during construction (IDC) on account of delays caused due to controllable factors as detailed below:

Table 3.2.6

(₹ in crore)

Financial year	Interest amount paid	Per day interest cost	No. of days delay	IDC paid on delays
2012-13	704.19	1.93	174	335.70
2013-14	803.41	2.20	27	59.43
2014-15	616.25	1.69	215	363.00
Total	**2,123.85**	**5.82**	**416**	**758.13**

[49] *Cost overrun has been restricted upto 31 January 2015 (the likely date of equity infusion by State Government).*

Thus, a total of 416 days were lost due to controllable factors leading to incurring ₹ 758.13 crore as IDC.

TUL stated (November 2016) that during the year 2012-13 electromechanical works (supply and installation) could not progress at site due to *force majeure* events (bridge collapse in December 2011) and even if adequate project funding were available with the company, it could not have achieved envisaged progress.

The reply is not tenable in view of the fact that while pointing out the avoidable expenditure towards IDC, audit has restricted the period of loss in respect of civil works till the date (22 September 2012) of occurrence of *force majeure* event (flash flood). Further, the delay in completing the electromechanical works on account of *force majeure* events (collapse of Rangchang Khola bridge in December 2011) was excluded by audit while arriving at the period of delay (416 days) and corresponding avoidable costs. The observation points out avoidable payment of IDC during suspension of civil work due to delay in payment of contractor's bills by TUL on account of inadequate project funding. The contention of audit has also been substantiated by the lender's engineers report and the owner's engineers report.

(ii) Increase in hard cost

An analysis of the records of TUL revealed that the cost over-run of the project upto 31 January 2015 also included the component of hard cost amounting to ₹ 133.88 crore, which was avoidable.

Details of such costs have been summarised in **Table 3.2.7** below:

Table 3.2.7

Particulars of cost	**Amount** *(in ₹ crore)*
Interest payment due to delay in payment of Arbitration[50] amount	36.23
Interest on delayed payment of bills to Civil Consortium of Contractors due to fund constraints of TUL	32.87
Payment of Idle charges for machinery, manpower and overheads to NEC for the period 1 July 2012 to 30 November 2012 due to fund constraints of TUL	5.69
Payment of Idle charges for machinery, manpower and overheads to contractors SEW and AIPL for the period from 26 April 2012 to 15 December 2012 due to fund constraints of TUL	41.74
Demobilisation and remobilisation for the period 31 January 2012 to 15 December 2012 – contractor AIPL	1.49
Interest on delayed payment of bills - to Electromechanical (E&M) contractor – Andritz Hydro	12.17
Interest on delayed payment of settlement amount – to E&M Contractor	3.69
Total avoidable costs incurred	**133.88**

It was observed that the above costs had to be incurred as TUL delayed discharging its financial obligations mainly on account of failure of private developers to provide their committed project funding for the second cost overrun. This in turn led to occurrence of

[50] *Based on the claims filed by the civil contractors, Arbitration tribunal ordered (July 2012) TUL to pay ₹ 209.92 crore to the civil contractors on account of price escalation in labour and material costs. TUL had to bear interest liability of ₹ 36.23 crore due to delay in payment of the award amount.*

avoidable costs in the form of interest against delayed payment of arbitration award and bills of the contractors, idling charges for machineries, etc.

Thus, due to fund constraints and dispute amongst the equity stakeholders of TUL (State Government and Athena Singapore) on infusion of additional project funding by the State Government through dilution of the equity stake of Athena Singapore as discussed above, the project had to bear an avoidable cost of ₹ 892.01 crore besides the loss of potential revenue to the State against sale of State's share of free power from the project for the delay period.

TUL stated (November 2016) that the above events occurred due to *force majeure* events. All these uncontrollable events coupled with fund scarcity led to delay in payment to the contractors and financial crunch with the contracting agencies.

The reply is not tenable as the contract agreement entered into between TUL and contractors stipulate that any loss incurred by the contractors due to *force majeure* events was not admissible for reimbursement and same needs to be borne by the affected party only. Citing this condition, TUL had not accepted certain claims of contractors. In the instances pointed out by Audit, the contractors had claimed interests and idling charges due to delay in settlement of bills by TUL. This claim was accepted by TUL after verification of the claims by owner's engineer. Thus, admitting of these claims of the contractors contradict the reply regarding occurring of these incidence due to *force majeure* events. Further, TUL delayed payment of arbitration award and settlement agreement. This also led to further payment of avoidable interest.

3.2.10.6 State Government take over of TUL

Due to not infusing further equity funds into TUL by the equity stakeholders, the construction of the project suffered and eventually got stalled (July 2014). At the initiative of Union Power Ministry, a meeting of all stakeholders of the project was then held (November 2014) at Union Power Ministry. Considering the best interests of the project, it was decided in the meeting, to dilute the majority shareholding of Athena Singapore[51] and other equity stakeholders[52] and execute the project as a State Government undertaking. At the time of raising its equity stake to 51 *per cent* in TUL, the State Government, without going for independent valuation of the shares of TUL, had acquired the shareholdings of Athena Singapore and other equity shareholders based on the price as assessed in the valuation report prepared by TUL through M/s Ernst & Young Merchant Banking Services Private Limited (EY) for internal management analysis purpose. While releasing payments against purchase of above mentioned shares, the State Government/SPICL also failed to deduct the proportionate amount towards penalty for delay in commissioning of the project (₹ 2.30 crore) and the additional costs (₹ 131.37 crore) pertaining to the shares diluted by the equity stakeholders[53] of TUL in favour of State Government/SPICL, as discussed in the following text:

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51 *Now known as Asian Genco Private Limited, a company registered and based in Singapore.*

52 *PTC, Athena India and APPL Power.*

53 *Athena Singapore, PTC, Athena India and APPL Power.*

(i) Penalty for delay in commissioning

As per the agreement entered (18 July 2005) between State Government and TUL, TUL was to commission Teesta III project latest by September 2012. In case of delay in commissioning the project within the scheduled time, TUL was liable to pay a penalty of ₹ 0.10 lakh per MW per month of delay to State Government. The time frame would be extended by State Government only if the delay was attributable to *force majeure* events.

Due to an earthquake (18 September 2011) and collapse of Rangchang Khola bridge (December 2011), the TUL was granted extension of commercial operation date (COD) from September 2012 to December 2013.

TUL, however, was not able to complete the project by December 2013 and the lender's engineer recommended (February 2014) extension of completion date till 30 June 2015. Though TUL sought waiver of levy of penalty for the above time overrun, State Government did not respond (November 2016).

In this connection, it was observed that SPICL/State Government failed to levy penalty of ₹ 15.60[54] crore as per the terms of the DoA entered between State Government and TUL for the period from 1 January 2014 till 31 January 2015[55]. Out of the above penalty leviable on all shareholders of TUL, a proportionate penalty of ₹ 2.30 crore pertained to the shares acquired by the State Government as detailed in the **Appendix 3.2.1**. Failure of the State Government to recover/adjust the proportionate amount of penalty at the time of acquisition of equity stake in TUL, had benefited the private developer to the extent of ₹ 2.30 crore.

(ii) Additional costs not recovered

During examination of records, it was observed that a total of 416 days had been lost due to controllable factors such as suspension of work due to funds constraints, lack of equity infusion by promoters etc. leading to incurring of additional costs of ₹ 892.01 crore towards IDC (₹ 758.13 crore) and hard costs (₹ 133.88 crore) as discussed under **Paragraph 3.2.10.5** *supra*.

Based on the deliberations arrived at in the meeting (November 2014) of all project stakeholders convened by the Union Power Ministry, the State Government decided (December 2014) to take over 51 *per cent* stake in TUL through Sikkim Power Investment Corporation Limited[56] (SPICL), by way of dilution of the existing equity holdings of Athena Singapore and other equity shareholders.

It was observed that contrary to the principles of prudence, the State Government had not gone for an independent valuation and instead relied on the valuation report prepared by TUL through EY for the purpose of internal management analysis. Accordingly, the State Government acquired (August 2015) 31.24 crore equity shares of TUL (face value:

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54 *₹0.10 lakh per month X 1,200 MW X 13 months=₹15.60 crore.*

55 *The period of penalty has been restricted upto the expected date (January 2015) of take over of TUL/ project by the State Government/SPICL, though the actual take over completed in August 2015.*

56 *A fully owned State Government company registered under Sikkim Registration of Companies Act, 1961.*

₹ 10 per share) for ₹ 266.56 crore at the rate of ₹ 8.53 per share[57]. It was further observed that while releasing the payments towards purchase of the said equity stake in TUL, the State Government/SPICL failed to adjust/recover the proportionate liability of ₹ 131.37 crore on account of IDC (₹ 111.66 crore) and hard costs (₹ 19.71 crore) from the private developers of TUL (Athena Singapore and other equity shareholders) as detailed in **Appendix 3.2.2** and **Appendix 3.2.3** respectively.

EPD stated (November 2016) that the State Government/SPICL was always a part of TUL Board with 26 *per cent* equity holding. As such a need for independent valuation was not felt necessary. In the exit conference it was stated that SPICL being a small company did not have the financial resources to take up an independent valuation.

The reply was, however, silent on not adjusting/recovering the proportionate liability from the private developers for delay in execution of project due to controllable reasons.

Monitoring mechanism

Role of Energy and power department

EPD, on behalf of the State Government, had been assigned the responsibility of ensuring the timely completion and achievement of socio-economic objectives of the project. The audit findings with respect to the role of EPD in monitoring the project are detailed in the subsequent paragraphs:

3.2.10.7 Multi-disciplinary monitoring committee

Clause 3.15 of the DoA for Teesta III stipulated that the State Government should constitute a multi-disciplinary committee (MDC) comprising representatives of TUL and various departments of the State Government to monitor the issues arising during the implementation of the project. It also stipulated that the MDC should draw up the methodology to regulate the payments to be made by TUL to the various departments of the State Government in connection with the implementation of Teesta III. The MDC should preferably meet quarterly so as to have effective monitoring and timely decision making on important issues.

During the examination of the records of EPD, however, it was observed that no such MDC had been constituted by the State Government (November 2016). In response to an audit query (June 2015) as to constitution of the MDC as envisaged in DoA, the EPD furnished (23 July 2015) copies of constitution (18 July 2012) and reconstitution (30 November 2013) of a High Powered Committee (HPC). As per the notifications, the HPC comprised of one Chairman (Chief Secretary, Government of Sikkim), three members (from Forest, Planning & Development and Finance Departments) and Member Secretary (PCE cum Secretary, EPD). The HPC was formed with a view to expedite the implementation of various HEP projects under construction in Sikkim and to resolve the various issues arising during the course of implementation of the projects.

The reply of EPD was not tenable on the following grounds:

[57] *Rounded off to two decimal points.*

- the MDC referred in the DoA stipulated that representatives of TUL should be part of the MDC. The HPC did not have any representatives of TUL;
- the HPC was constituted only in July 2012 whereas the physical work on the project commenced from January 2008 and 73 *per cent* of the physical works had been completed before the formation of the HPC;
- the HPC which was constituted was for all the HEP projects under construction in Sikkim and was not specific for the Teesta III project and
- the frequency of meetings of the HPC was not stipulated whereas the MDC, as envisaged in the DoA, was required to meet once every quarter preferably.

In the absence of a MDC as envisaged under the DoA, the implementation of project was not effectively monitored and execution of the project works had suffered.

EPD stated (November 2016) that as of now one departmental multi-disciplinary committee does exist district wise and the project proponents had been advised to nominate their representative in the committee during inspection.

The reply was not relevant as the project was on the verge of completion. Further, failure of the State Government to effectively monitor the project related activities had resulted in unauthorised change in the shareholding pattern of TUL in favour of Athena Singapore as discussed under **Paragraph 3.2.10.3** *supra.*

Monitoring of long term borrowings for the project

To implement Teesta III, the TUL had availed long term borrowings from a consortium of Lenders led by Rural Electrification Corporation (REC). The other members of the Lenders' consortium mainly included nationalised banks and Life Insurance Corporation of India.

The audit findings relating to the long term borrowings availed by TUL for the project and role of the State Government in monitoring the said borrowings have been discussed in the subsequent paragraphs:

3.2.10.8 Common Loan Agreement

TUL had entered (August 2007) into a Common Loan Agreement (CLA) with Rural Electrification Corporation (REC) (lead lender, lenders agent and security agent) and other lenders in order to borrow a loan aggregating ₹ 4,560 crore for implementation of Teesta III project. As per clause 1.1 of CLA, "Athena" shall jointly mean (i) Athena Projects Private Limited (Athena India) and (ii) Athena Projects Pte Limited (Athena Singapore). It was, however, observed that as per the DoA entered between the State Government and TUL, Athena India consortium means consortium led by Athena India and included other consortium members[58] but did not include Athena Singapore (currently known as Asian Genco Pvt. Ltd.) as member of the consortium.

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[58] *Andhra Pradesh Generating Company (APGENCO), Larsen & Toubro Limited (L&T), Power Trading Corporation of India Limited (PTC) and Infrastructure Leasing & Financial Services group (IL&FS) as discussed under Paragraph 3.2.9.2 supra.*

It was noticed that the lenders consortium led by REC while entering into the CLA with TUL, had considered Athena Singapore as part of the Athena India consortium, which was in contravention to the DoA. This had facilitated the back door entry of Athena Singapore into the project without verification of the credentials of this Singapore based firm by the project allotting authority (i.e. State Government).

As discussed under **Paragraph 3.2.10.2** *supra,* there was no representative of the State Government on the Board of Directors (Board) of TUL till December 2012, which had adversely affected the monitoring of the project related activities taken up by the TUL. The State Government also failed to constitute the multi-disciplinary committee (MDC) for monitoring the implementation of the project in contravention of the terms of the DoA as discussed under **Paragraph 3.2.10.7** *supra*.

In absence of State Government's representation on the Board of TUL coupled with its failure to constitute the MDC, the State Government failed to take cognizance of the entry of Athena Singapore in Athena India consortium in violation of DoA for the purpose of executing the CLA between TUL and the Lenders.

REC stated (September 2016) that the entry of Athena Singapore was covered under the definition of Athena as Athena Singapore comprises of private equity investors. TUL also reiterated (November 2016) the same.

The fact, however, remained that the DoA entered between the State Government and TUL should have been the basis for executing CLA. Due to its failure to effectively monitor the project related activities, the State Government remained unaware of the unauthorised change in the shareholding pattern of TUL in favour of Athena Singapore as discussed under **Paragraph 3.2.10.3** *supra*.

3.2.10.9 Lack of effective monitoring led to appointment of ineligible engineer by the Lenders

REC being the lead lender in Teesta III had appointed (July 2007) M/s. Lahmeyer International (India) Private Limited as the lenders independent engineer for the project. The scope of work included techno-economic appraisal, construction monitoring and operational review. As per clause 5.1(v) of the CLA, the lenders engineer appointed should be eminent engineers of global reputation, who would review and monitor the progress of the project at least till the COD.

REC had engaged M/s. Lahmeyer International (India) Private Limited (Lahmeyer), a subsidiary of the German company M/s. Lahmeyer International, as lenders' independent engineer for the project. During scrutiny of records, it was observed that the parent company, M/s. Lahmeyer International was declared (November 2006) ineligible by World Bank for award of bank-financed contracts for a period of seven years because of corrupt activities in the Lesotho Highlands Water Project.

Since there was no representative of the State Government on TUL's Board and no MDC was constituted to monitor implementation of project by TUL, the State Government failed to take note of the above facts for taking corrective action.

3.2.10.10 Project level welfare committee

The clause 4.15.1, 4.15.2 and 4.16 of DoA stipulated that TUL as well as its contractors should ensure that all the unskilled/skilled manpower other than executives required for implementation of the project should be recruited only through the employment cell at Gangtok, Sikkim. Further, employment should be given to one member of each of the displaced or adversely affected families as a result of the acquisition of land for the project. In order to ensure the compliance of the above three clauses, the DoA, in clause 3.18, envisaged constitution of a project level welfare committee, by the State Government, comprising of local politicians, Gram Pradhans, villagers, local administration and TUL representatives. It was, however, observed that the committee as envisaged in the DoA was not formed by the State Government (November 2016).

As per available records, the following table details the position of employment of local people by TUL and its Contractors as of April 2016:

Table 3.2.8

Sl. No.	Particulars	Total employees	Local employees	% of local employees
1	Teesta Urja Limited	100	30	30
2	Andritz	254	0	0
3	Navayuva Engineering Company Limited	446	59	13.23
4	Southern Engineering Works Constructions Limited	330	38	11.52
5	ABIR Constructions Private Limited	821	213	25.94
6	PES Engineers	420	0	0
7	GMW Private Limited	46	0	0
Total		**2,426**	**340**	**14.01**

In the absence of project level welfare committee, audit was not in a position to ascertain whether employment for members of project affected families was generated to acceptable level during the project implementation.

EPD accepted (November 2016) the audit observation and assured that it would direct TUL for early constitution of such a committee.

Environmental issues

3.2.10.11 Environment impact assessment and environment management plan

Environment impact assessment (EIA) can be defined as a study to identify and assess the likely effects of a proposed project on the environment. The EIA is a decision making tool as it compares various available alternatives for a project and seeks to identify the one which represents best combination of economic and environmental costs and benefits. It systematically examines both beneficial and adverse consequences of the project and ensures that these effects are appropriately taken into account during project design and adverse effects are mitigated, if possible.

On the basis of EIA, Environment Management Plan (EMP) is prepared for implementation of necessary measures to mitigate the adverse impacts of the project on the environment.

3.2.10.12 Environment Clearance for Teesta III

The Ministry of Environment & Forest, (MoEF) Government of India (GoI) issued (May 1999) environmental clearance (EC) to Teesta V executed (2008) by NHPC with a stipulation that no other project in Sikkim would be considered for EC till carrying capacity study of Teesta river basin in Sikkim was complete. The study funded by NHPC was entrusted (September 2001) to the Centre for Inter-Disciplinary Studies of Mountain & Hill Environment (CISMHE), University of Delhi. The final report (October 2007) of CISHME categorised Sikkim into four different zones[59] in terms of flora and fauna availability. The Teesta III at Chungthang, North Sikkim which falls within zone III was stated to be very rich in bio-diversity. A number of schedule I species[60] under Indian Wildlife Protection Act (WPA) 1972 were found in this zone. The density of bird abundance including protected ones under WPA was said to be the highest in zone III. The report also emphasized that zone-III was very sensitive and if any development project was executed, it would have an irreversible ecological damage with respect to biological environments. The report recommended creation of additional protected areas as most of the forests in these zones were not within any protected area except some areas in Chungthang, which fall under the buffer zone of Khangchendzonga biosphere reserve.

It was, however, noticed that the Environment Impact Assessment (EIA) and Environment Management Plan (EMP) prepared (2007) by TUL, through WAPCOS, for the project contradicted the findings and suggestions made in the above report of CISMHE. As per EIA and EMP of the project, no wildlife was generally reported in the project area and hence no adverse impact on terrestrial fauna was anticipated as a result of execution of the project in the area. The Forest, Environment and Wildlife Management Department (FEWMD), Government of Sikkim also concurred to the EIA & EMP prepared by TUL subject to regular monitoring and surveillance by the State wildlife division. Based on the EIA, EMP and report of FEWMD, Government of Sikkim, the EC for the Teesta III was issued (August 2006) by MoEF, GoI much before the completion of carrying capacity study of Teesta river basin in Sikkim (October 2007).

On 4 June 2008, one serow (*Caprinornis Sumantraensis*) classified under schedule I species as per the Wildlife Protection Act, 1972 was found dead at the project site of Teesta III where a contractor (SEW Construction Ltd) was executing the work. The death of the animal was reported by the wildlife division of the FEWMD, Government of Sikkim. The nature and cause of death of the animal, however, could not be ascertained by the police authorities and veterinary department. However, the contractor of Teesta III was penalised by the department as the animal was found dead at the project site.

[59] *Zone I (upto 900 m), Zone II (900-1,800m), Zone III (1,800-2,800m) and Zone IV (2,800-3,800m).*
[60] *Red panda (endangered), serow, leopard cats and marbled cat (reported to occur only in Chungthang area i.e. project site).*

From the carrying capacity study report and the above incident, it could be construed that wild animal of endangered species were found near or within the vicinity of the project area. Hence, the recommendation of the FEWMD, Government of Sikkim for issue of EC for implementation of Teesta III was not based on any scientific study and development of the project could have adverse impact on the ecological environment of the State.

FEWMD stated (November 2016) that a death of the serow was a first incidence reported from the area and after following the legal procedures the contractor was penalised. In the exit conference it was stated that scientific studies had been conducted before issue of recommendation to MoEF, GoI.

The reply is not acceptable as it details only about the accidental death of the serow. The incident of death of serow was, however, cited by Audit to indicate the presence of animals in the project area. Further, no documentary evidence was made available to Audit in support of the reply indicating that a scientific study had been conducted by FEWMD before issue of recommendation.

3.2.10.13 Implementation of Environment Management Plan

The EIA and EMP for the project were prepared by Water and Power Consultancy Services (I) Ltd (WAPCOS). As part of the mitigation works envisaged in EIA, TUL had deposited a sum of ₹ 21.39 crore with FEWMD, Government of Sikkim for implementation of various conservation measures as detailed below:

Table 3.2.9

(₹ in crore)

Sl. No.	Particulars	Deposited by TUL
1	Wildlife conservation measures	1.15
2	Catchment area treatment works	10.03
3	Bio-diversity conservation measures	0.50
4	Compensatory afforestation	2.15
5	Forest protection plan	0.51
6	Crop compensation	1.33
7	Net present value of trees	5.66
8	Penal compensatory afforestation	0.06
	Total	**21.39**

Scrutiny of records of FEWMD/DoF revealed deficiencies in implementation of EMP as discussed in succeeding paragraphs.

3.2.10.14 Non-provision of fish ladder[61] for Teesta III

The EIA for Teesta III had assessed that the project dam on the river would act as a barrier to the free movement of migratory fish species especially *schizothorax* (snow trout) and could lead to adverse impact on the survival and free movement of migratory fish species. Hence, the EIA recommended for provision of a fish ladder, which was also incorporated in the EMP for the project. Further, specific condition IX of the environmental clearance (EC) also stipulated that the implementation of fish management plan including provision of fish ladder should be carried out in consultation with

[61] *A fish ladder is a structure on or around artificial and natural barriers (such as dams, locks and waterfalls) to facilitate natural migration of migratory fishes.*

Directorate of Fisheries, Government of Sikkim and submitted to MOEF within three months from the date of issue (August 2006) of EC. In a public hearing held on 8 June 2006, TUL had also assured that all the conditions laid down in the EC would be strictly followed.

For construction of the project, TUL sought (May 2007) approval from DoF. DoF conveyed (November 2007) its approval subject to TUL consulting the Director of Central Inland Fisheries Research Institute, Kolkata for design and construction of fish ladder. In turn, however, TUL requested (August 2009) DoF to initially approach the institute concerned and provide an introduction of TUL so as to facilitate taking further action in the matter by TUL. It was observed that in February 2011, DoF had concluded that the construction of fish ladder in such high dam would not be possible from technical and operational point of view. No correspondence or documentary evidence was, however, seen on records of DoF regarding obtaining of any technical advice from the institute on the issue before arriving at the above conclusion.

DoF stated (November 2016) that the construction of fish ladder was not found to be suitable option due to the height of the dam and presence of steep mountain on both side of the dam. Under the EMP, a trout farm with a hatchery capacity of 5 lakh green ova was established at Rabum, North Sikkim and currently the seed of brown Trout reared at the hatchery is released at various locations upstream of the dam to stabilise the population.

The reply is not tenable in view of the fact that the EC issued by MoEF had clearly stipulated that fish ladder should be provided. DoF/TUL, however, had not made available any document on the technical advice obtained on the issue in support of their decision regarding the non-feasibility of fish ladder in the project.

The absence of fish ladder could hamper the migratory pattern of endangered snow trout and may lead to extinction of snow trout.

3.2.10.15 Fish Management Plan

The EMP envisaged sustenance of endemic fisheries by implementing supplementary stocking programs[62] for the project area in addition to reservoir area. Accordingly, it was proposed to stock river Teesta for a length of 10 KM each on the upstream and the downstream of the dam site. This was proposed to be achieved through a fish hatchery for *Schizothorax richardsonii* (Snow trout). The carrying capacity report (October 2007) of Teesta river basin pointed out that the river stretch flowing through the project was dominated with fishes like *Schizothorax richardsonii* (Snow trout) and *Schizothoraicthys progastus* (Dinnawa Snow trout). However, the exotic trout *Salmo truttafario* (Brown trout) was restricted to upstream of proposed dam site while *Acrossocheilus hexagonolepis* (Catli) was found up to the proposed power house site.

The DoF had observed (November 2007) that the project is bound to have more impact on the existing trout population. The DoF had, therefore, recommended (November 2007) the construction of a new trout farm instead of construction of *Schizothorax* breeding

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62 *Fish stocking is the practice of raising fish in a hatchery and releasing them into a river, lake, or the ocean to supplement existing populations, or to create a population where none exists.*

farm as envisaged in the EMP. Also, the State Cabinet approved (October 2011) the construction of trout rearing farm at Rabum as a sustainable livelihood option for human population. It was noticed that the trout rearing farm constructed (July 2013) under the project mainly facilitated breeding of other species of trout[63] in limited numbers and not the endangered species i.e. snow trout.

DoF stated (November 2016) that the breeding protocol of *Schizothorax sp* (Snow Trout) has not been standardised in India till date and it was not possible to river ranch the seed of this fish. However, the conservation measures are undertaken through regular patrolling both above and below the dam site.

The fact, however, remained that the measures taken by TUL/DoF do not provide for breeding and growth in the population of the snow trout, which may lead to extinction of the endangered species (snow trout).

3.2.11 Conclusion

The State Government allotted (February 2005) the project to a consortium of private developers without verifying the experience of the consortium leader. The project was to be implemented by a Special Purpose Vehicle namely, Teesta Urja Limited (TUL) with committed equity contribution of 74 per cent (private consortium) and 26 per cent (State Government) in TUL's capital. The State Government failed to ensure adherence to the agreement conditions by the private consortium with regard to change in composition of consortium and committed contribution towards project funding. The financial constraints faced by TUL on this account contributed towards delay in completion of project for more than 4 years (November 2016) with reference to the scheduled completion (September 2012) defeating the primary objective of executing the project through private participation under joint sector with the State Government. The delay of 416 days was attributable to failure of private developers to subscribe towards the committed equity portion of TUL for the second cost overrun of the project. Ultimately, the State Government had to take over the project through equity infusion in TUL. For the purpose, the State Government acquired 31.24 crore equity shares of TUL (face value: ₹ 10 per share) held by the private consortium at ₹ 8.53 per share, which was calculated based on the valuation report prepared by TUL for internal management analysis. While releasing payments against take over of project, the State Government failed to recover the penalty for delay in commissioning of the project (₹ 2.30 crore) and the additional costs incurred (₹ 131.37 crore) due to inefficiency of the private developers.

The State Government did not constitute multi-disciplinary committee and project level welfare committee for monitoring of the project. As a result, implementation of the project had suffered.

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63 *Oncorhynchus mykiss (Rainbow trout) and Salmo truttafario (Brown trout).*

3.2.12 Recommendations

The State Government may:

- ensure strict compliance by the private project developers to the conditions of agreement.
- adopt appropriate measures for putting in place an effective mechanism for monitoring and control of the project implementation by private project developers.
- verify correctness of the scientific study carried out by project implementation agency before recommending projects for environmental clearance.

STATE BANK OF SIKKIM AND SIKKIM INDUSTRIAL DEVELOPMENT & INVESTMENT CORPORATION LIMITED

3.3 Avoidable expenditure

3.3.1 Avoidable payment of interest and income tax aggregating ₹ 9.62 crore

The State Bank of Sikkim (SBS) and Sikkim Industrial Development & Investment Corporation Limited (SIDICO) are two State owned financial institutions. Audit observed that both, SBS as well as SIDICO, failed to comply with the provisions of Income Tax Act 1961 as detailed below:

• Section 139(1) of the Income Tax Act 1961 stipulates that all corporate assessees should file their income tax returns (IT returns) on or before the prescribed due date viz. 30 September of the assessment year concerned. Section 234A of the Income Tax Act, 1961 stipulates that in the event of any delay in filing return of income for any assessment year after the prescribed due date, an assessee would be liable to pay interest at the rate of one *per cent* on the amount of tax payable for every month of delay.

In spite of clear instructions received (August 2008) from the Government of Sikkim to comply with the provisions of the Act, SBS and SIDICO did not file their IT returns for the financial years from 2008-09 to 2014-15 on time leading to avoidable payment of interest amounting to ₹ 2.99 crore by SBS (₹ 2.61 crore) and SIDICO (₹ 0.38 crore) as detailed in **Appendix 3.3.1**.

• As per section 208 of the Income Tax Act 1961, every assessee was required to pay advance tax if the tax payable during a financial year was ten thousand rupees or more. If the assessee failed to pay such tax or the advance tax paid was less than ninety *per cent* of the assessed tax, then assessee would be liable to pay simple interest at the rate of one *per cent* per month for the period from the 1st day of April of the assessment year to the date of determination of total income on the amount of shortfall (section 234B). Further, as per section 234C, assessee was required to pay 15, 45, 75 and 100 *per cent* of the tax due on or before 15th day of June, September, December and March respectively of the financial year concerned. Failure to deposit the advance tax as per the prescribed schedule would attract interest at the rate of one *per cent* per month on the amount of shortfall.

On account of violation of the above sections during the financial years from 2008-09 to 2014-15, an avoidable interest aggregating ₹ 4.16 crore was paid by SBS (₹ 3.40 crore) and SIDICO (₹ 0.76 crore) under section 234B and C as detailed in **Appendix 3.3.1**.

- Section 72 of the Income Tax Act, 1961 provides for carry forward and set off of business losses with business profits for adjustment against future business profits for a period of eight years. Section 80, however, prevents carry forward and set off of business losses against future income if the assessee had not filed the IT return for the financial year of the loss concerned within the stipulated due date.

During the financial year 2010-11, SBS and SIDICO incurred a loss of ₹ 7.16 crore and ₹ 0.47 crore respectively. In 2011-12, SBS and SIDICO declared a profit of ₹ 8.75 crore and ₹ 2.98 crore respectively and paid income tax amounting to ₹ 2.84 crore and ₹ 0.97 crore.

SBS and SIDICO, however, failed to file the loss return for the financial year 2010-11 within the stipulated due date and consequently was not able to carry forward and set off the business loss for 2010-11 against the taxable income for the financial year 2011-12 leading to avoidable payment of ₹ 2.47 crore as income tax by SBS (₹ 2.32 crore) and SIDICO (₹ 0.15 crore) as detailed in **Appendix 3.3.1**.

Thus, failure of SBS and SIDICO to file their respective income tax returns in due time resulted in an avoidable loss of ₹ 9.62 crore (₹ 7.15 crore as interest and ₹ 2.47 crore as income tax) to SBS (₹ 8.33 crore) and SIDICO (₹ 1.29 crore).

SBS stated (July 2016) that the payment of interest on delayed income tax was due to the circumstances which were beyond the control of the bank as they were confused regarding applicability of Income Tax Act 1961 in the State of Sikkim.

SIDICO stated (July 2016) that it was solely dependent on the income tax auditors as the corporation was new to the income tax laws. Hence, it acted based on the advice of the income tax auditors. The reply of SBS and SIDICO was not tenable as the State Government had instructed (August 2008) all the financial institutes concerned to submit their tax returns in compliance to Income Tax Act, 1961.

REVENUE SECTOR

CHAPTER IV
REVENUE SECTOR

4.1 Trend of revenue receipts

4.1.1 The tax and non-tax revenue raised by Government of Sikkim, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-aid received from the Government of India (GoI) during the year and the corresponding figures for the preceding four years are mentioned in **Table 4.1.1**:

Table 4.1.1

Trend of revenue receipts

(₹ in crore)

Sl.		2011-12	2012-13	2013-14	2014-15	2015-16
I	**Revenue raised by the State Government**					
	• Tax revenue	293.92	435.48	524.92	527.54	566.82
	• Non-tax revenue	1,044.57	806.96	794.49	698.08	412.99
	Total	1,338.49	1,242.44	1,319.41	1,225.62	979.81
II	**Receipts from the GoI**					
	• State's share of net proceeds of divisible Union taxes	611.65	698.48	762.62	809.33	1,870.28
	• Grants-in-aid	1,722.50	1,852.40	2,244.41	2,427.00	934.20
	Total	2,334.15	2,550.88	3,007.03	3,236.33	2,804.48
III	**Total receipts of State Government (I + II)**	3,672.64	3793.32	4,326.44	4,461.95	3,784.29
IV	**Percentage of I to III**	**36**	**33**	**31**	**27**	**26**

The above table indicates that during the year 2015-16, the revenue raised by the State Government (₹ 979.81 crore) was 26 *per cent* of the total revenue receipts. The balance 74 *per cent* of the receipts during 2015-16 was from GoI. Non-tax revenue and total receipts of the State on 2015-16 shown in the table above include net receipts under State Lotteries.

4.1.2 The details of the tax revenue raised during the period from 2011-12 to 2015-16 are given in **Table 4.1.2**:

Table 4.1.2

Details of Tax Revenue realised

(₹ in crore)

Sl. No.	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		% of increase (+) or decrease (-) in 2015-16 over 2014-15	
		BE*	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Sales Tax/Value Added Tax (VAT)	160.11	124.19	187.14	227.08	225.00	286.33	259.45	282.10	300	325.72	15.63	15.46
2	Taxes on Income and expenditure other than Corporation Tax	2.01	4.86	5.62	6.73	7.01	8.68	8.01	7.93	8.51	7.92	6.24	-0.13
3	State Excise	67.44	96.26	95.00	111.12	109.00	120.64	120.93	131.36	135.00	142.08	11.63	8.16
4	Stamps and Registration Fees	3.26	8.27	7.47	5.35	7.91	6.46	7.70	6.77	7.64	8.51	-0.78	25.70
5	Taxes on Vehicles	10.00	16.56	15.00	16.38	16.80	18.52	18.82	19.42	21.07	22.36	11.96	15.14
6	Other Taxes and Duties on Commodities and Services	22.47	39.17	37.63	63.16	53.40	80.90	75.60	73.81	81.26	58.38	7.49	-20.91
7	Land Revenue	3.82	4.61	5.48	5.66	6.56	3.39	6.89	6.15	6.89	1.85	0.00	-69.92
	Total	**269.11**	**293.92**	**353.34**	**435.48**	**425.68**	**524.92**	**497.40**	**527.54**	**560.37**	**566.82**	**12.66**	**7.45**

** BE: Budget Estimates*

The respective departments reported the following reasons for variations:

Increase:

Sales Tax/VAT: Increase was due to increase in Petroleum, Oils & Lubricants (POL) and liquor sales and increase in TDS.

State Excise: Increase was due to revision of Excise Duty.

Stamp and Registration: Increase was due to increase in receipts on sale of Judicial Stamps and fees for registering documents.

Taxes on Vehicles: Increase was due to increase in number of vehicles.

Decrease:

Other Taxes and Duties on Commodities and Services: Decrease was due to decrease in receipts of cesses under other Acts.

Land Revenue: Decrease was mainly due to less receipts of taxes and other receipts besides delay in implementation of "The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013".

In respect of 'Taxes on income and expenditure other than Corporation Tax', no reason was furnished by the concerned Department.

4.1.3 The details of the non-tax revenue raised during the period 2011-12 to 2015-16 are given in **Table 4.1.3**:

Table 4.1.3

Details of Non-Tax Revenue realised

(₹ in crore)

Sl. No.	Head of revenue		2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15	
			BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Power		150.00	79.70	100.05	82.90	110.10	98.93	121.10	113.56	125.10	147.68	3	30
2	Interest receipts		13.91	29.39	21.15	46.00	28.85	67.02	31.05	66.44	31.21	72.52	1	9
3	Police		39.29	12.89	44.88	49.23	50.29	41.14	55.32	17.60	55.35	61.68	0	250
4	Road Transport		23.75	30.89	29.05	29.01	36.04	34.10	43.00	27.63	39.35	41.55	(-)8	50
5	Forestry and Wild Life		11.00	12.53	13.48	12.28	15.35	14.27	15.35	11.45	12.06	12.79	(-)21	12
6	Other Administrative Services		2.84	6.68	3.03	9.64	4.29	11.06	10.25	13.59	10.40	7.30	1	(-)46
7	Public Works		3.80	5.38	4.56	4.70	4.46	4.68	5.68	3.66	6.83	4.25	20	16
8	Plantations		2.80	2.59	3.20	3.98	3.50	3.62	5.00	2.31	5.18	3.86	4	67
9	Water Supply and Sanitation		3.49	2.90	3.40	2.74	3.87	3.17	3.91	3.25	3.99	3.80	2	17
10	Tourism		5.00	1.84	5.00	2.13	5.60	2.65	2.80	2.64	3.14	3.96	12	50
11	Medical and Public Health		0.56	1.27	1.27	1.50	1.27	2.19	2.50	1.97	2.50	2.15	0	9
12	Other Rural Development Programmes		2.32	1.25	2.32	1.46	1.50	2.13	1.50	1.65	1.50	0.94	0	(-)43
13	Stationery and Printing		1.51	1.92	1.51	2.08	1.81	2.05	1.90	1.75	2.03	1.83	7	5
14	Crop Husbandry		0.42	0.46	0.07	0.71	0.53	1.45	0.91	0.56	0.91	0.70	0	25
15	Education, Sports, Art and Culture		1.40	1.35	1.40	1.37	1.69	1.38	1.34	1.22	1.17	1.16	(-)13	(-)5
16	State Lotteries (SL)	*Gross*	1,010.78	844.15	780.99	546.39	776.03	474.37	787.23	418.64	--*	--*	--*	--*
		Net	70.00	43.62	50.00	41.43	40.00	41.47	36.00	44.33	37.40	20.02	4	(-)55
17	Others		8.67	9.38	10.14	10.84	9.35	30.28	10.08	10.16	12.24	26.80	21	164
	Total (with gross figures of SL)		1,281.54	1,044.57	1,025.50	806.96	1,054.53	794.49	1,098.92	698.08	350.36	412.99	--**	--**
	Total (with net figures of SL)		**340.76**	**244.04**	**294.51**	**302.00**	**318.50**	**361.59**	**347.69**	**323.77**	**350.36**	**412.99**	**0.77**	**27.56**

*Source: Finance Accounts and Estimates of Receipts. * Gross figures of State Lotteries have not been furnished by the Department for the year 2015-16. ** Since gross figures of State Lotteries have not been reflected for the year 2015-16, percentage increase/decrease has not been calculated.*

The respective departments reported the following reasons for variations:

Increase:

Power: Increase was due to massive mobilisation of revenue and collection of dues.

Police: Increase was due to receipt of reimbursement of expenditure on Indian Reserve Battalion and auctions of number of old vehicles, realisation from parking charges, Identity Card fees, etc.

Road Transport: Increase was due to increase in number of buses.

Forestry and Wildlife: Increase was due to receipt of revenue from Territorial Circle where Budget Estimate was nil.

Public Works: Increase over previous year is attributed to the sale of tender form, realisation of five *per cent* storage charges from contractors and renewal of contractors' licence during the year.

Water Supply and Sanitation: Increase was mainly due to increase in receipt from urban water supply schemes.

Crop Husbandry: Increase was due to timely implementation of programmes under Centrally Sponsored Schemes.

Decrease:

Other Administrative Services: Decrease was mainly due to decrease in reimbursement of election expenditure from the Election Commission of India.

Other Rural Development Programme: Decrease was due to the fact that no fresh work was sanctioned during the year 2015-16. Hence, receipts from sale of tender forms and storage charges were less than anticipated.

Education, Sports, Art and Culture: Decrease was due to less receipt under the Head Sports and Youth Services.

State Lotteries: Decrease was due to the fact that offline lottery (paper) was not conducted in the year 2015-16.

In respect of other heads of revenue, no reason was furnished by the departments concerned despite being requested (April 2016 and August 2016).

4.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2016 in respect of some Heads of Revenue as reported by the departments amounted to ₹ 237.66 crore of which ₹ 101.86 crore was outstanding for more than five years (as detailed in the **Table 4.2**) and adequate efforts were not being made to recover them.

Table 4.2
Arrears of Revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than five years	Replies of Department
1	Food Storage & Warehousing	0.14	-	House rent of Food Corporation of India Jorethang is yet to be received.
2	Public Works	2.00	1.19	The realisation of the old outstanding dues are being taken up earnestly.
3	Power	233.08	100.36	System of depositing electrical consumption charges was manual (done offline) through bank receipts and therefore many consumers failed to deposit their bills.
4	Water Supply and Sanitation	2.29	0.16	Some of the old lines are damaged partially and un-repairable. Such cases with disturbed water supply are remaining without up-to-date payment.
5	Animal Husbandry	0.15	0.15	Non-receipt of revenue from Uttara Food & Feed Pvt. Ltd.
	Total	**237.66**	**101.86**	

Source: Information received from departments

4.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Commercial Taxes Division {Finance, Revenue and Expenditure Department (FRED)} in respect of VAT is given below:

Table 4.3

Arrears in assessments (number of cases)

Head of revenue	Opening balance	New cases due for assessment during 2015-16	Total assessments due	Cases disposed of during 2015-16	Balance at the end of the year	Percentage of disposal *(col. 5 to 4)*
1	2	3	4	5	6	7
VAT	3,654	133	3,787	13	3,774	0.34

As can be seen from the preceding table, the performance regarding disposal of cases of Commercial Taxes Division was very poor. The Department may take steps to increase the disposal of cases of assessment.

4.4 Response of the departments/Government towards Audit

The Accountant General (AG), Sikkim conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the Rules and procedures. Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot are issued to the heads of the offices inspected with copies to the next higher authorities for prompt corrective actions. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

It was seen that 284 paragraphs involving ₹ 578.42 crore relating to 95 IRs remained outstanding at the end of June 2016. The details along with the corresponding figures for the preceding two years are mentioned in the following table:

Table 4.4.1
Details of pending Inspection Reports

	June 2014	June 2015	June 2016
Number of outstanding IRs	97	95	95
Number of outstanding audit observations	292	267	284
Amount involved (*₹ in crore*)	598.29	561.78	578.42

4.4.1 The department-wise details of the IRs, the audit observations outstanding as on 30 June 2016 and the amounts involved are mentioned in the following table:

Table 4.4.2
Department-wise details of IRs

Sl. No.	Name of Department	Nature of Receipts	No. of outstanding IRs	No. of outstanding Audit observations	Money value involved (*₹ in crore)*
1	Finance, Revenue and Expenditure (Commercial Taxes Division)	VAT/Taxes on Sales, Trade, etc.	13	48	57.00
2	Finance, Revenue and Expenditure (Income Tax Division)	Income Tax	14	60	32.95
3	Excise (Abkari)	State Excise	10	23	25.18
4	Land Revenue and Disaster Management	Land Revenue	20	22	0.81
5	Transport	Taxes on Vehicles	7	34	9.07
6	Mines, Minerals and Geology	Non-ferrous Mining and Metallurgical Industries	3	3	3.30
7	Forest, Environment and Wildlife Management	Forestry and Wildlife	4	9	0.14
8	Finance, Revenue and Expenditure (Directorate of Sikkim State Lotteries)	Lotteries	2	5	24.10
9	Urban Development and Housing	Urban Development	11	32	10.27
10	Energy and Power	Power	11	48	415.60
Total			**95**	**284**	**578.42**

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs for 10 IRs (issued during 2015-16) up to June 2016. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that heads of offices and heads of the departments did not initiate adequate action to rectify the defects, omissions and irregularities pointed out by the AG through IRs.

The Government may consider to have an effective system for prompt and appropriate response to audit observations.

4.4.2 Departmental Audit Committee Meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During 2015-16, no departmental Audit Committee meeting was held.

The overall progress of settlement of paragraphs needs to be improved in view of the huge pendency of the IRs and paragraphs.

4.4.3 Non-production of records to audit for scrutiny

The programme of local audit of tax revenue/non-tax revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

Non-production of records for audit scrutiny was observed in relating seven cases as mentioned in the following table:

Table 4.4.3

Non-production of records

Name of the Office/Department	Year of audit	Number of cases for which records were not produced	Tax amount
Transport (Motor Vehicle Division)	2015-16	03	Not known
Forest, Environment & Wildlife Management		04	

4.4.4 Response of the departments to the draft audit paragraphs

The draft Audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the AG to the Principal Secretaries/Secretaries of the concerned Department, drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non- receipt of replies from the departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Two draft paragraphs proposed for inclusion in the Audit Report of the Comptroller and Auditor General of India for the year ended March 2016 were forwarded (May and July 2016) to the heads of the respective departments through demi-official letters. The reply in respect of one draft paragraph has been received.

4.4.5 Follow up on Audit Reports - summarised position

The Rules of Procedures of the Committee on Public Accounts of the Sikkim Legislative Assembly (internal working) laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report for consideration of the Committee. Inspite of these provisions, the explanatory notes on the audit paragraphs of the Reports were being delayed inordinately.

Reports of the Comptroller and Auditor General of India of the Government of Sikkim for the years ended 31 March 2011, 2012, 2013, 2014 and 2015 containing 25 paragraphs {including Performance Audits (PAs)} under Revenue Sector were placed before the State Legislative Assembly between June 2012 and March 2016. Action taken explanatory notes in respect of 11 paragraphs from four departments (FRED; Excise; Transport and Labour) had not been received for Audit Reports for the years ending 31 March 2012, 2014 and 2015.

During 2015-16, the PAC discussed Audit Report for the year 2009-10.

4.5 Analysis of the mechanism for dealing with issues raised by Audit

To analyse the system of addressing the issues highlighted in the IRs/Audit Reports by the departments/Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years in respect of FRED (Commercial Taxes Division) is evaluated and included in this Report.

The succeeding paragraphs 4.7.1 to 4.7.2 discuss the performance of the FRED (Commercial Taxes Division) in dealing with the cases detected in course of local audit conducted during the last ten years and also the cases included in the Audit Reports for last ten years.

4.5.1 Position of IRs

The summarised position of IRs issued during the last ten years, paragraphs included in these Reports and their status as on 30 June 2016 are given in the following table:

Table 4.5.1
Position of Inspection Reports

(₹ *in crore*)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2006-07	10	51	27.49	1	6	1.81	0	3	0.24	11	54	29.06
2007-08	11	54	29.06	1	13	87.11	2	8	3.42	10	59	112.75
2008-09	10	59	112.75	1	8	6.29	0	5	3.65	11	62	115.39
2009-10	11	62	115.39	1	15	6.83	0	12	2.70	12	65	119.52
2010-11	12	65	119.52	1	32	9.10	2	18	5.25	11	79	123.37
2011-12	11	79	123.37	1	16	8.07	0	5	1.87	12	90	129.57
2012-13	12	90	129.57	1	12	9.77	0	2	0.12	13	100	139.22
2013-14	13	100	139.22	1	13	10.27	0	31	43.06	14	82	106.43
2014-15	14	82	106.43	1	7	15.90	1	10	60.02	14	79	62.31
2015-16	14	79	62.31	1	5	0.05	2	36	5.36	13	48	57.00

The Government did not arrange any Audit Committee meeting between the Department and AG's office to settle the old paragraphs during 2015-16.

4.5.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years accepted by the Department and the amounts recovered there against are mentioned in the following table:

Table 4.5.2

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs (₹ in crore)	Number of paragraphs accepted	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year (₹ in crore)	Cumulative position of recovery of accepted cases (₹ in crore)
2005-06	2	5.41	2	5.41	0.48	0.48
2006-07	2	0.49	2	0.00	-	0.48
2007-08	0	NA	-	-	-	0.48
2008-09	3	5.97	3	4.95	1.47	1.95
2009-10	1	6.83	0	0.00	-	1.95
2010-11	5	76.85	0	0.00	-	1.95
2011-12	1	0.65	1	0.65	-	1.95
2012-13	3	30.03	2	28.94	0.33	2.28
2013-14	0	NA			-	2.28
2014-15	2	2.59	1	0.00	-	2.28

It is evident from the preceding table that the progress of recovery even in accepted cases was very slow during the entire period of last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. No mechanism for pursuance of the accepted cases had been put in place by the Department/Government. In the absence of a suitable mechanism, the Department could not monitor the recovery of accepted cases.

The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

4.6 Action taken on the recommendations accepted by the departments/ Government

The draft reports on PAs conducted by the AG are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These PAs are also discussed in the exit conference and the Department's/Government's views are included while finalising the PAs for the Audit Reports.

The following PAs on the Commercial Taxes Division (FRED) had featured in the last 10 years' Audit Report. The details of recommendations and their status are given in the following table:

Table 4.6

Year of AR	Name of the PA	Details of the recommendation	Status
2008-09	PA on transition from Sales tax to VAT (*No. of recommendations: 8*)	Implement computerisation of VAT system completely and effectively in all areas.	Computerisation of VAT implemented under MMPCT[1].
		Establish effective mechanism to review database at periodic interval and to prepare database of dubious/risky dealers.	Such mechanism has been established under the eSEVA[2].

[1] *Mission Mode Project for Computerisation & Commercial Taxes Administration.*

[2] *Commercial Taxes Division's tax administration system for online payment, e-return filing, way bill endorsement, etc.*

Year of AR	Name of the PA	Details of the recommendation	Status
		Establish effective mechanism to ensure submission of regular and timely returns by the dealers.	Returns have to be submitted on time, else the TIN of the dealer gets blocked by the system. Hence, effective mechanism established.
		Establish effective mechanism for scrutiny of every returns submitted by the dealers, assessment of dealers and VAT audit of selected dealers.	Scrutiny of returns is mandatory and is being done before acceptance.
		Fix responsibility at various levels in the Department for strict compliance of codal provisions to avoid tax evasion by any dealer.	All the penal provisions are implemented before and after assessment.
		Ensure fixing the quantum of minimum penalty for each kind of offences and to continue VAT Fraud Task Force.	Minimum penalty is provided in the VAT Act/Rules.
		Strengthen internal control mechanism including Internal Audit.	Internal Audit section established with the Joint Commissioner/Audit as Head of the Section.
		Review and rectify various loopholes/deficiencies of VAT Act and Rules.	VAT Act/Rules have been amended to rectify various loopholes.
2010-11	PA on Utilisation of Declaration Forms in Inter State Trade and Commerce (*No. of recommendations: 8*)	Maintain data bank of dealer involved in Inter State Trade and Commerce.	Such provision exists in the eSEVA.
		Print Declaration form assessing its requirements taking into account pace of issue of declaration forms.	All the declaration forms are issued online.
		Maintain proper records of declaration forms printed, issued and closing stock.	Such records are maintained in the system since the forms are issued online.
		Ensure issue of declaration forms to the dealers only after receipt of details of utilisation of declaration forms issued earlier.	Issue of declaration forms are done after verification and acceptance of the request.
		Issue declaration forms chronologically and not randomly to have a track of declaration forms.	Declaration forms are being issued online and records are available in the system.
		Install a system of verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax.	Such system has been established.
		Install a system for picking up a sample of declaration forms and taking them up for further verification with the concerned States and also a system of uploading the details of utilisation of declaration forms in the TINXSYS website.	
		Ensure submission of CST returns by every dealer and assess all dealers involved in Inter State trade and commerce.	CST returns are to be filed online. Assessments of the dealers are on the basis of the assignment by the Commissioner.

NB: Status as in the table is based on departmental replies.

4.7 Audit Planning

The unit offices under various departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* includes critical issues in Government revenues and tax administration, i.e. budget speech, White Paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during five years, etc.

During the year 2015-16, there were 19 auditable units, of which 11 units were planned and audited which is 58 *per cent* of the total auditable units.

4.8 Results of audit

Test check of the records of 11 units under Revenue departments {Mines, Minerals and Geology; Finance, Revenue and Expenditure (Commercial Taxes Division); Transport (Motor Vehicles Division), Land Revenue and Disaster Management; Forest, Environment and Wildlife Management and Energy and Power} conducted during the year 2015-16 revealed irregularities involving revenue aggregating ₹ 83.66 crore in 56 cases. During the course of the year, the departments concerned accepted 43 cases which were pointed out in audit during 2015-16.

4.9 Coverage of this Report

This Chapter contains two paragraphs involving financial effect of ₹ 27.95 crore and findings of audit based on 'Collection of Revenue from State Excise' involving financial implication of ₹ 597.85 crore. The departments have accepted audit observations involving ₹ 582.53 crore out of which ₹ 0.13 crore has been recovered. These are discussed in succeeding paragraphs.

EXCISE (ABKARI) DEPARTMENT

4.10 Audit on Collection of Revenue from State Excise

4.10.1 Introduction

The Sikkim Excise Act, 1992 and various Rules framed and notifications issued there under provide for levy of Excise Duty, import fee, export fee, bottling fee, license fee, etc. The Secretary to the Government of Sikkim, assisted by the Commissioner of Excise, enforces various Acts/Rules and also regulates the activities of distilleries/breweries and production, storage, distribution, import, export, sale of Indian Made Foreign Liquor (IMFL) and beer in the State besides collection of revenue.

As per Gazette Notification dated 18 July 1994, issued by Chief Secretary, the Excise (Abkari) Department was mandated Allocation of Business which *inter-alia* contained:

(i) Matters relating to production and/or sale of all alcoholic drinks in Sikkim.

(ii) Detection and prevention of illicit distillation and sale.

(iii) Detection and trial of cases departmentally for adulteration of unauthorised quality products.
(iv) Fixation of duty and selling rates of all alcoholic drinks, *ganja* and opium.
(v) Realisation of revenue in the form of Excise Duty, etc.
(vi) Licensing and control of distilleries, breweries and bonded ware-houses.
(vii) Issue of import and export permits, etc.

The Department has the vision "To strive towards control and monitoring of all excisable articles and to maximise revenue collection for the State of Sikkim".
In the State, there are five[3] distilleries, three[4] breweries, one[5] Extra Neutral Alcohol (ENA) manufacturing industry, one[6] bonded warehouse and six[7] pharmaceutical industries under the ambit of State Excise (Abkari) Department as on 31 March 2016.

4.10.2 Audit framework

Audit on "Collection of Revenue from State Excise" commenced with an entry conference held on 12 April 2016 wherein audit objectives, scope of audit, audit methodology and audit criteria were explained to the Department. The audit covering the period from 2011-12 to 2015-16 was conducted during April-June 2016 through test check of records in Head Office of State Excise (Abkari) Department and in Excise offices at five distilleries, three breweries, one Extra Neutral Alcohol (ENA) manufacturing industry, six pharmaceutical industries and one bonded warehouse thereby covering 100 *per cent* of units.

The Audit was conducted with the objective of assessing whether:

- the trend of realisation of revenue vis-à-vis cost of collection was justified;
- provisions/systems for regulating the levy and collection of Excise Duty, fees, fines, etc. and for issue of licences and permits under various Acts and Rules were being complied with and implemented effectively by the State Excise Department; and
- the Internal Control Mechanism was adequate and effective in preventing leakage of revenue for ensuring compliance with all Rules and Regulations.

The audit findings were discussed in an exit conference (6 September 2016) with the Secretary of the Department and the report was finalised duly considering the views of the Department. The audit findings were benchmarked against the criteria stipulated in:

- The Sikkim Excise Act, 1992;
- The Sikkim Foreign Liquor (Import, Export & Transport) Rules, 1993;

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[3] *Sikkim Distilleries Ltd (SDL), Rangpo; Mount Distilleries Ltd. (MDL), Majhitar; Mayal & Frezer (M&F) Bagheykhola; Khanchanjanga Distilleries Ltd. (KDL), Manpur and Himalaya Distilleries Ltd. (HDL), Majhitar.*

[4] *Yuksom Breweries Ltd.(YBL), Melli; Denzong Albrew Ltd.(DAL), Mulukey and Sikkim Breweries Ltd (SBL), Bagheykhola.*

[5] *Esveegee Breweries, Manpur.*

[6] *Overall Traders (OT), Gangtok.*

[7] *Cipla, Zydus Health Care, Zydus Wellness, Golden Cross, STP Pharmaceuticals and Swiss Garnier.*

- The Sikkim Excise (Brewery) Rules, 2000;
- The Sikkim Excise (Distillery for Manufacture of Spirit and Foreign Liquor) Rules, 2000;
- The Sikkim Excise (Indian Made Foreign Liquor Manufactured in Sikkim) Licensing of Warehouse Rules, 2005;
- The Sikkim Excise (Indian Made Foreign Liquor imported from other States) Licensing of Warehouse Rules, 2005;
- Notifications and orders issued by the Government from time to time;
- Directives from GoI and Government of Sikkim.

4.10.3 Audit findings

Audit findings relating to the 'Collection of Revenue from State Excise' are discussed in the succeeding paragraphs:

4.10.3.1 Budget estimates vis-à-vis actual realisation of revenue

Budget estimates and actual receipts from State Excise (Abkari) during the years 2011-12 to 2015-16 along with the total tax receipts during the same period are shown in the following table:

Table 4.10.1

(₹ in crore)

Year	BE	Actual realisation of State Excise revenue	Variation: Increase (+)/Decrease (-) in realisation of revenue	Percentage of variation over BE	Percentage of variation over previous year receipts	Total tax receipts of the State	Percentage of actual receipts *vis-à-vis* total tax receipts
2011-12	67.44	96.26	(+) 28.82	(+) 42.73	(+) 36.27[8]	293.92	32.75
2012-13	95.00	111.12	(+) 16.12	(+) 16.97	(+) 15.44	435.48	25.52
2013-14	109.00	120.64	(+) 11.64	(+) 10.68	(+) 8.57	524.92	22.98
2014-15	120.93	131.36	(+) 10.43	(+) 8.62	(+) 8.89	527.54	24.90
2015-16	135.00	142.08	(+) 7.08	(+) 5.24	(+) 8.16	566.82	25.07

Source: Finance Accounts

It can be seen from the above table that the Excise receipts showed an increasing trend and there was consistent decrease in variation between the actual revenue receipts and the BE from 42.73 *per cent* in 2011-12 to 5.24 *per cent* in 2015-16. Hence, it appeared that the budget estimates during the later years were more realistic.

The Excise receipts ranged between 23 to 33 *per cent* of the State's own tax receipts during last five years. While the total tax receipts of the State have increased by 92.85 *per cent* during the last five years, increase in the receipts from State Excise (Abkari) was recorded at 47.60 *per cent* only. This was as a result of considerable increase in tax receipts under 'Taxes on Sales, Trade, etc.' where the increase was around 127 *per cent* and 'Other taxes' increased by around 88 *per cent*.

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[8] *Receipt during 2010-11 was ₹ 70.64 crore.*

While accepting the facts, the Department stated (24 May 2016 and 6 October 2016) that the targets for realisation were fixed by the Finance, Revenue and Expenditure Department (FRED) and added that there have been increase in realisation of revenue.

4.10.3.2 Comparison between revenue realised and cost of collection

The expenditure incurred on collection of Excise revenue and the percentage of such expenditure to collection during the years 2011-12 to 2015-16, along with the corresponding all India averages of cost of collection are shown in the following table and bar graphs:

Table 4.10.2

(₹ in crore)

Year	Revenue collected	Expenditure of the Department	Percentage of expenditure on collection	All India average cost of collection
2011-12	96.26	5.32	5.53	3.05
2012-13	111.12	6.03	5.43	2.98
2013-14	120.64	6.41	5.31	1.81
2014-15	131.36	6.83	5.20	2.09
2015-16	141.22	7.17	5.08	Not available

Source: Finance and Appropriation Accounts

Comparison between revenue realised and cost of collection

Chart 4.10.1

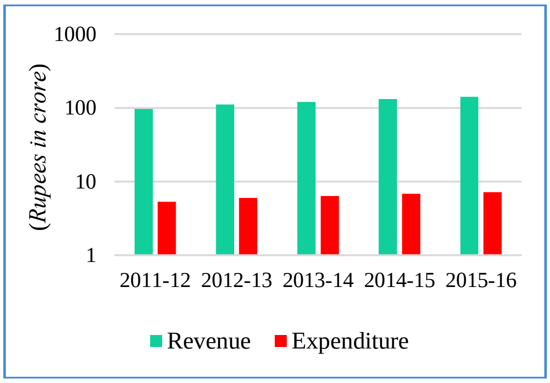
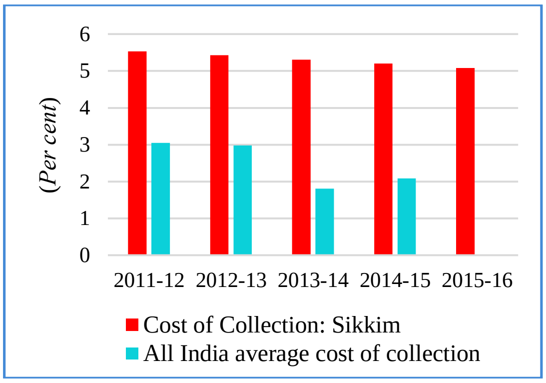


Chart 4.10.2



From the above table, it can be seen that though the percentage of cost of collection to actual collection had decreased from 5.53 in 2011-12 to 5.08 in 2015-16, but it was still quite high as all India average of cost of collection decreased from 3.05 in 2011-12 to 2.09 in 2014-15.

The Department stated (May 2016 and October 2016) that due to hike in salaries and other establishment costs, the Department could not reduce the cost of collection. The Department should reduce its establishment cost further to bring it at par with all India average.

4.10.3.3 Loss of revenue on bottling fees of beer ₹6.27 crore

As per Rule 53A of Sikkim Excise (Brewery) Rules, 2000, bottling fee on beer bottled in Sikkim on behalf of companies located outside Sikkim is to be charged and the Department issued notification (9 March 2011) prescribing a bottling fee of ₹ 15 per case for such beer bottled in Sikkim. Further, under Rule *ibid*, "The Licensee shall pay bottling fee as may be notified by the State Government on the volume of production manufactured in the brand name owned by the collaborator" vide notification dated 25 September 2013. However, though the Department intended to charge bottling fee on beer bottled in Sikkim on behalf of companies located outside Sikkim, it wrongly mentioned the same as "beer bottled from outside Sikkim" instead of mentioning "beer bottled in Sikkim for company/firm located outside Sikkim" in the notification. However, in pursuance of earlier audit observation, the phrase "beer bottled from outside Sikkim" was replaced by "beer bottled in Sikkim for company/firm located outside Sikkim" in the notification of August 2014.

It was noticed that the Department could not realise the prescribed fee despite issue of notification of March 2011 due to error in its language. Due to this mistake, the Officers-in-charge at M/s Denzong Albrew Ltd., Mulukey and M/s Sikkim Breweries Ltd., Bagheykhola were unable to realise bottling fee on the basis of notification of March 2011.

The Department started realisation of bottling fee from concerned breweries only on local sale and not on exported beer of such brands from 5 September 2014 onwards after amendment (August 2014). In this connection, it was also pertinent to mention that as per Rules *ibid* in cases of manufacture of beer, bottling fee as prescribed by the Department was to be charged to the licensee on the volume of production, irrespective of whether it was sold within the State or exported outside the State. The notification envisaged charging of bottling fee of ₹ 15 per case which was revised to ₹ 18 per case from 11 February 2016.

Thus, bottling fee (on outside brand beer) was not realised which were sold locally till amendment of notification (i.e. August 2014) and bottling fee was also not realised on beer exported outside the State either before or after amendment of the notification. During the period 1 April 2011 to 4 September 2014, a local sale of 3,17,984 cases of outside State brands of beer was made; similarly an export of 38,55,230 cases of outside State brands of beer was made during 2011-12 to 2015-16, on which bottling fee of ₹ 6.27 crore was not realised as detailed in the following table:

Table 4.10.3

Details of non-realisation of bottling fee on dispatch[9] of outside brands of beer

Name of the brewery	Year	Outside brands locally sold *(In cases)*	Outside brands exported *(In cases)*	Total cases of outside brands on which bottling fee was to be realised	Amount of bottling fee not realised *(In ₹)*
Denzong Albrew Ltd., Mulukey	2011-12	32,152	5,42,350	5,74,502	86,17,530
	2012-13	66,513	8,23,800	8,90,313	1,33,54,695
	2013-14	1,37,514	12,03,600	13,41,114	2,01,16,710
	2014-15(01/04/14 - 04/09/14)	62,925	4,70,400	5,33,325	79,99,875
	2014-15(05/09/14 - 31/03/15)	73,275	3,72,600	3,72,600	55,89,000
	2015-16(01/04/15 - 10/02/16)	1,78,175	4,03,800	4,03,800	60,57,000
	2015-16(11/02/15 - 31/03/16)		24,000	24,000	4,32,000
	Total	**5,50,554**	**38,40,550**	**41,39,654**	**6,21,66,810**
Sikkim Breweries Ltd., Bagheykhola	2011-12	0	11,180	11,180	1,67,700
	2012-13	13,700	2,100	15,800	2,37,000
	2013-14	5,180	1,400	6,580	98,700
	2014-16	0	0	0	0
	Total	**18,880**	**14,680**	**33,560**	**5,03,400**
	Grand total	**5,69,434**	**38,55,230**	**41,73,214**	**6,26,70,210**

Source: Departmental figures and audit analysis

[9] *The loss was calculated on the dispatch, as all duties or levies are charged only when dispatched from the warehouse.*

Thus, due to non-realisation of bottling fee on beer, the Department sustained a revenue loss of ₹ 6.27 crore.

The Department stated (May 2016) that the intention of the Department was not to charge bottling fee on outside brands of beer exported to other States and now they were in the process of making necessary amendments. In a further reply, the Department stated (October 2016) that it had amended Rules vide notifications dated 2 September 2016 imposing the bottling fee only on volume of local sale instead of total production. However, the fact remained that the Department could not realise bottling fee on outside brands of liquor on local sale prior to amendment of 5 September 2014. Further, it did not charge any bottling fee on export to other States though the Rule did not give any exemption in this regard.

4.10.3.4 Loss of revenue on bottling fees on export of IMFL ₹2.75 crore

Under the provisions of Rules 33 and 34 of Sikkim Excise (Distillery for manufacture of Spirit and Foreign Liquor) Rules, 2000, the Department, in order to introduce bottling fee, issued notification (9 March 2011) prescribing a fee of ₹ 101.25 per case for IMFL bottled in Sikkim on behalf of manufacturers from outside the State, which was subsequently revised to ₹ 101 per case from 14 August 2014 and ₹ 116 per case from 11 February 2016 onwards. In this connection, it is also pertinent to mention that as per Rules *ibid* in cases of manufacture of foreign liquor, bottling fee as prescribed by the Department was to be charged to the licensee on the volume of production. Thus, bottling fee was to be charged on total production irrespective of whether it was sold within the State or exported outside the State.

Scrutiny revealed that the distilleries which were involved in production of outside brands of IMFL were charged bottling fee but only on local sale of such brands. Bottling fee was not charged on outside brands of IMFL exported to other States as detailed in the following table:

Table 4.10.4

Details of non-realisation of bottling fee on production of outside brands of IMFL

Year	No of cases of outside brand of liquor exported to other States			Total cases of outside brand of liquor exported to other States	Amount of bottling fee not realised *(In ₹)*
	Himalaya Distilleries Ltd., Majhitar	Mayal & Frezer, Bagheykhola	Mount Distilleries Ltd., Majhitar		
2011-12	25,840	15,396	850	42,086	42,61,208
2012-13	27,503	38,788	0	66,291	67,11,964
2013-14	15,960	47,103	0	63,063	63,85,129
2014-15 (up to 13th August)	4,859	5,255	0	10,114	10,24,043
2014-15 (14th August to 31st March)	21,348	14,915	0	36,263	36,62,563
2015-16 (up to 10th February)	39,650	7,646	0	47,296	47,76,896
2015-16 (11th February to 31st March)	4,225	1,930	0	6,155	7,13,980
Total	**1,39,385**	**1,31,033**	**850**	**2,71,268**	**2,75,35,783**

Source: Departmental figures and audit analysis

From the above table, it can be seen that three distilleries involved in production of outside brands of IMFL had exported 2,71,268 cases of IMFL to the other States in which bottling fee of ₹ 2.75 crore was not realised by the Department during the period under report.

The Department stated (May 2016) that the intention of the Department was not to charge bottling fee on outside brands of liquor exported to other States and now they were in the process of making necessary amendments. In a further reply, the Department stated (October 2016) that it had amended Rules vide notifications dated 2 September 2016 imposing the bottling fee only on volume of local sale instead of production. Reply was not acceptable as amendment notification dated 2 September 2016 was against Sikkim Excise (Brewery) Rules, 2000 and the fact remained that the Department could not realise bottling fee on outside brands of liquor exported to other States till date.

4.10.3.5 Short production of IMFL

The Sikkim Excise Act and Rules made there under do not provide any norm for production of IMFL from ENA. The Rule 28 of the Sikkim Excise (Distillery for Manufacture of Spirit and Foreign Liquor) Rules, 2000 provides for a maximum permissible wastage/loss of six *per cent* of ENA in the process of blending, reduction, filtration, bottling and storage within the bonded area of the distillery.

In the absence of any norm, Audit adopted the norms prevailing in the distilleries/bottling plants for the purpose of calculation of requirement of volume of ENA. As per the prevailing norms[10], 4 Bulk Litre (BL) and 3.86 BL of ENA are required for production of one case of 750 ml/375 ml and 180 ml IMFL respectively which means an average of 3.93 BL of ENA per case of IMFL.

From the records of distilleries and data collected from Excise offices at various distilleries, details of ENA utilised after allowing maximum permissible wastage/loss, IMFL produced, shortfall in production and potential revenue loss was calculated and are given in the following table:

Table 4.10.5
Details of ENA used and IMFL produced by the distilleries during 2011-12 to 2015-16

Name of the distillery	Year	ENA used *(In BL)*	Net ENA used after allowing 6% wastage *(In BL)*	No of cases of IMFL required to be produced	No of cases of IMFL actually produced	Short production of IMFL *(In cases)*	Loss of minimum Excise Duty *(In ₹)*[11]
Sikkim Distilleries Ltd.	2011-12, 2014-15 & 2015-16	60,97,390	57,31,547	14,58,409	13,00,536	1,57,873	7,04,42,385
Mount Distilleries Ltd.	2011-12 to 2015-16	1,64,54,797.77	1,54,67,510	39,42,035	23,54,114	15,87,921	71,51,13,570
Himalaya Distilleries Ltd.	2012-13 & 2014-15	3,94,031.88	3,70,390	94,247	84,117	10,130	45,07,850
Mayel & Fraser	2011-12, 2014-15 & 2015-16	461,911	4,34,196	1,10,925	92,730	18,195	82,44,250
Kanchanjangha Distilleries Ltd.	2012-13 to 2015-16	19,19,580.65	18,04,406	4,60,211	4,21,232	38,979	1,77,07,880
Total		**2,53,27,711.30**	**2,38,08,049**	**60,65,827**	**42,52,729**	**18,13,098**	**81,60,15,935**

Source: Departmental figures and audit analysis

In these five distilleries, after allowing maximum permissible wastage/loss, 2,38,08,049 BL of ENA was utilised for production of IMFL from which against the required 60,65,827

[10] *Normally ENA is received with an average purity of 96 per cent and IMFL is produced with a strength of 42.8 per cent volume/volume (v/v). Taking into account one case IMFL of 750 ml (one case is having 12 bottles, means a quantity of 9 BL), 4 BL of ENA is required (9 BL X 42.8/96).*

[11] *Minimum rate of Excise Duty was ₹ 445 during 2011-12 to 2014-15 and ₹ 470 during 2015-16.*

cases of IMFL production, only 42,52,729 cases of IMFL were produced leading to a short production of 18,13,098 cases of IMFL. In this connection, it is also pertinent to mention that distilleries had been submitting monthly statement of utilisation of ENA and actual production of IMFL during a month to the Excise Authorities. Despite this fact, the Department had never made any exercise to calculate the reasonability of quantum of production of IMFL from the ENA consumed. This short production had resulted in a loss of potential minimum Excise revenue of ₹ 81.60 crore as detailed in **Appendix 4.10.1**.

The Department stated (May 2016) that the factual position would be verified and final outcome would be intimated later on and added (October 2016) that it was in process of examining the Rules of other states for production of IMFL from ENA.

4.10.3.6 Short production of beer

The Sikkim Excise Act and Rules made there under do not provide any norm for production of beer from wort (*liquor obtained by the exhaustion of malt or grain by the solution of sugar in the process of brewing*) brewed. The Rule 45 of the Sikkim Excise (Brewery) Rules, 2000 provides a maximum permissible wastage/loss of 10 *per cent* in the process of reduction, filtration, bottling and storage within the bonded area of the brewery. As one case of beer has 12 bottles of 650 ml. each, 7.8 BL (12 bottles X 650 ml. = 7800 ml., i.e. 7.8 BL) of wort[12] is required for production of one case of beer.

Scrutiny of records for the period from 2011-12 to 2015-16 of breweries and data collected from Excise office at various breweries revealed that even after allowing the permissible wastage/loss of wort used, there was shortfall in production of beer during 2012-14 in case of Sikkim Breweries Ltd., Bagheykhola. The loss of revenue as the result of shortfall in production is given in the following table:

Table 4.10.6

Details of wort used and beer produced by the brewery during 2012-13 and 2013-14

Name of the distillery	Year	Wort used *(In BL)*	Net Wort used after allowing 10% wastage *(In BL)*	No. of cases of beer required to be produced (Col. 4/7.8)	No. of cases of beer actually produced	Short production of beer *(In cases)*	Minimum rate of Excise Duty *(In ₹ per case)*	Loss of Excise Duty *(In ₹)*
1	2	3	4	5	6	7	8	9
Sikkim Breweries Ltd., Bagheykhola	2012-13	6,01,400	5,41,260	69,392	63,713	5,679	118.15	6,70,973.85
	2013-14	3,68,600	3,31,740	42,531	38,511	4,020	118.15	474963
	Total	**9,70,000**	**8,73,000**	**1,11,923**	**1,02,224**	**9,699**	**118.15**	**11,45,936.9**

Source: Departmental figures and audit analysis

From the above details, it could be seen that after allowing maximum permissible wastage/loss, 8,73,000 BL of wort was utilised for production of beer from which against the required 1,11,923 cases of beer production, only 1,02,224 cases of beer were produced leading to a short production of 9,699 cases of beer. In this connection, it may be mentioned that breweries had been submitting monthly statement of wort brewed, utilised and actual production of beer during a month to the Excise Authorities. Despite this, the Department

[12] *Wort (liquor obtained by the exhaustion of malt or grain by the solution of sugar in the process of brewing) is a kind of raw beer and after putting essence in that wort, various brands of beer are made.*

never made any exercise to calculate the reasonability of quantum of production of beer from the wort consumed/utilised. This short production resulted in a loss of potential minimum Excise revenue of ₹ 11.46 lakh during 2012-14.

The Department stated (May 2016) that the factual position would be verified and final outcome would be intimated later on. In a further reply, the Department stated (October 2016) that it would not be in a position to levy Excise Duty on raw materials/wort in view of Supreme Court judgement (Mohan Meakin Ltd. Vs Excise & Taxation Commissioner, H.P. and others - Civil Appeal No. 2457 of 1980, decided on 27 November 1996) according to which Excise Duty was to be levied only on final product. Reply was not relevant as the observation was loss of potential Excise revenue due to short production and not due to non-levying of Excise Duty on wort.

4.10.3.7 Non-existence of brand approval/renewal system

Some States like the State of Tamil Nadu under Rule 13 of the Tamil Nadu Wine (Manufacturing) Rules, 2006, had provisions of imposing/realising brand approval/renewal fee of ₹ 2 lakh per annum for each and every brand of IMFL/beer manufactured by any distillery/brewery. However, the State of Sikkim had neither any such provision under its Excise Act and Rules nor had it notified/amended the Act *ibid* for such brand approval/renewal fee in line with the provisions of other States. The State had practice of only getting the approval of labels of IMFL/beer and a label fee of ₹ 2,000 was charged per label per annum.

Scrutiny of records revealed that eight distilleries/breweries which were under operation during the period under report were manufacturing 160 brands of various kinds of IMFL/beer. If they had taken brand approval/renewal fee @ ₹ 2 lakh per annum per brand, an additional revenue of ₹ 16 crore could have been realised from the distilleries/breweries for the State exchequer during the period under report as detailed in the following table:

Table 4.10.7

(₹ in lakh)

Name of the distillery/brewery	No of brands being manufactured	Yearly amount of brand approval/ renewal fee @ ₹ 2 lakh per annum	Total revenue to be realised as brand approval/renewal fee during 2011-12 to 2015-16
Sikkim Distilleries Ltd., Rangpo	62	124.00	620.00
Yuksom Breweries Ltd., Melli	5	10.00	50.00
Sikkim Breweries Ltd., Bagheykhola	10	20.00	100.00
Mount Distilleries Ltd., Majhitar	28	56.00	280.00
Mayel & Fraser (P) Ltd., Bagheykhola	24	48.00	240.00
Kanchanjanga Distilleries Ltd., Manpur (Started from March 2013)	16	32.00	160.00
Himalaya Distilleries Ltd., Majhitar	9	18.00	90.00
Denzong Albrew Ltd., Mulukey	6	12.00	60.00
Total	**160**	**320.00**	**1,600.00**

Source: Departmental figures and audit analysis

The Department stated (May 2016) that this was a positive observation and beneficial for raising revenue if it could be made applicable in Sikkim. However, the Department also stated that each State has its own policies and any other State need not be driven by their norms. In a further reply, Department stated (October 2016) that as per the Excise policy of the State, the system of brand approval/renewal was not feasible in a small State like Sikkim. The Department's reply was not pertinent to the extent that it did not explain any possible relation between brand approval/renewal system and size of a State and there were no apparent reasons with the Department for not enforcing the said system.

4.10.3.8 Loss of Excise Duty of ₹45.47 lakh due to reduction of Ex-Factory Price of beer made by M/s Yuksom Breweries Ltd.

Prior to 9 March 2011, rate of Excise Duty on all types of products of distilleries and breweries was to be calculated on case basis taking into account the London Proof Litre (LPL)[13] involved in that product. However, on and after notification dated 9 March 2011, the Department decided to impose Excise Duty on percentage basis based on the ex-factory price of a particular product. However, ex-factory price of all products of any distillery/brewery was to be approved by the Department for calculation of Excise Duty on those products. Further, after imposition of Excise Duty on percentage basis based on the ex-factory price of a particular product, the Department made a policy/system of not entertaining any request by any distillery/brewery for reduction of ex-factory price of any product because it would affect/decrease the amount of Excise Duty on that particular product.

However, it was seen that M/s Yuksom Breweries Ltd, Melli, involved in production of beer, applied (July 2013) for approval for reduction in ex-factory price of their two products, viz. ‘Hit Super Strong beer and Dansberg Blue Premium Lager beer’ from earlier ex-factory price of ₹ 267.25 per case (Excise Duty ₹ 120.26 per case) to ₹ 260.25 per case (Excise Duty ₹ 117.11 per case) which was approved by the Department and was intimated to the Brewery vide letter dated 2 August 2013. This led to reduction in Excise Duty by ₹ 3.15 per case.

Scrutiny of records revealed that on this reduced rate of Excise Duty, during the period September 2013 to April 2014, 14,43,417 cases of said brands of beer were locally sold/dispatched from the brewery on which the Department sustained a loss of Excise Duty of ₹ 45,46,764[14].

The Department stated (May 2016) that though its intention was not to reduce ex-factory price, the case was considered based on their market strategy and it was ensured that due to this reduction, revenue realisation from the unit was not reduced. The Department further stated (October 2016) that reduction was granted on the ground that breweries’ sale had decreased by 5.7 *per cent* as compared to the sale of 2012-13 and 2013-14. The Department's reply is not acceptable as the revenue realisation from the unit had increased

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[13] *Strength of alcohol is measured in terms of 'Degree Proof'. Strength of such alcohol 13 parts of which weigh exactly equal to 12 parts of water at 51 Degree F. is assigned 100 Degree proof. Apparent volume of a given sample of alcohol when converted into volume of alcohol having strength 100 Degree is called LPL.*

[14] *₹45,46,764 = ₹3.15 per case X 14,43,417 cases.*

very negligibly (3.56 *per cent*) during the year 2013-14 and in the case of other units, the Department had not considered such requests.

4.10.3.9 Excise Duty of ₹ 2.10 crore against non-receipt of Excise Verification Certificates for export of liquor/beer not recovered

Rule 17(3) of Sikkim Foreign Liquor (Import, Export and Transport) Rules, 1993 provides that the exporter shall, on the consignment of the foreign liquor reaching its destination, obtain a certificate in Form VI annexed to Part IV of the pass from the Excise Officer at the importing place and deliver it immediately to the Officer-in-charge of the distillery/brewery/ bonded warehouse or shop from which the IMFL was exported but in no case shall he fail to produce such certificate before the latter officer within three months from the date of issue of the export pass in Form IV.

Rule17 (Sub-rules 4, 5 and 6), further provides that when the exporter fails to produce the Excise Verification Certificate (EVC) from the Excise Officer of the importing place as required under Rule 17(3) within the stipulated time of three months, the Excise Officer-in-charge of the exporting distillery levy on such consignment the full duty and fees at the rates in force in the State at the time the export pass was issued and the amount of duty and fees shall be recovered from the exporter irrespective of the fact that a similar amount may have been collected in the importing place.

Further, applying the provisions of Rules *ibid*, the Department had also been imposing late fee at the rate of 12 *per cent* per annum on the total Excise Duty on the consignment of the EVCs which were received after the stipulated period of three months.

Scrutiny of records at various distilleries/breweries, involved in export of beer, IMFL and ENA revealed that in 49 consignments of export of beer/IMFL/ENA made during the period April 2011 to March 2016, EVCs had not been received till May 2016. However, despite non-receipt of EVCs, the Excise Authorities had not done any exercise to calculate the amount of Excise Duty and late fee payable by the exporting unit and did not raise any demand. Moreover, the exporting units had not paid any amount of Excise Duty on account of failing to produce the EVCs within three months as detailed in the following table:

Table 4.10.8

Details of non-receipt of EVCs against export of liquor/beer

(Amount in ₹)

Name of distillery/ brewery	No of consignments involved	Name of brand	Destination to which exported	Quantity (In cases)	Amount of Excise Duty not demanded	Amount of late fee not charged[15]
Yuksom Breweries Ltd., Melli	1	beer	Bhutan	700	1,44,900	0
Denzong Albrew, Mulukey	22	beer	Meghalaya and Arunachal Pradesh	19,800	28,57,836	1,51,120
Kanchenjanga Distilleries Ltd, Manpur	2	IMFL	Arunachal Pradesh	2,000	13,21,930	2,607
Himalaya Distilleries, Majhitar	23	IMFL	Arunachal Pradesh, Manipur, Assam, Bihar, Haryana, Tripura and Mizoram	19,250	1,26,23,081	5,55,469
Esveegee Breweries, Manpur	1	ENA	Assam	20,000 BL	23,07,600	9,64,261
Total	**49**				**1,92,55,347**	**16,73,457**

Source: Departmental figures and audit analysis

[15] *Formula for calculation of penal interest: (amount of Excise Duty X number of days X 12 per cent)/365 days.*

Thus, not raising of demand on 49 consignments for which EVCs were not received led to non-realisation of Excise Duty of ₹ 1.93 crore and late fee of ₹ 0.17 crore.

The Department stated (May 2016) that they would verify the cases, where EVCs had not come and would take action as per provisions and added (October 2016) that it was in the process of issuing demand notices.

4.10.3.10 Short realisation of Excise Duty ₹23.51 lakh

The Department revised (11 August 2014) its rates of Excise Duty to be charged on various excisable products and published the revised rates in the Gazette on 14 August 2014. The revised rates were made effective from the date of publication of the notification in the Gazette. Immediate communication of Government notifications on raising of duty have great importance to avoid any loss of Government revenue. Hence, Government notifications on revision of duty should invariably be communicated to revenue realising points immediately.

However, it was seen that there was delay ranging from 2 to 10 days in sending the aforesaid notification to the Officers-in-charge of various distilleries/breweries. It was only after receipt of the said notification that the revised rates were made effective. Consequently there was short realisation of Excise Duty of ₹ 23.51 lakh from five[16] distilleries/breweries.

While accepting the audit observation, the Department stated (May 2016 and October 2016) that they would ensure that notification(s) reached in time to all Excise revenue realising units.

4.10.3.11 Observations relating to implementation of holograms

As per notifications issued (29 March 2010) by the Department, all bottles containing IMFL and beer should have the prescribed hologram. For regulation of hologram, the Department indents printed holograms from security printers and issues these to the distilleries/breweries/bonded warehouses. The printing cost of holograms is borne by the distilleries/breweries/bonded warehouse. However, the Department realises ₹ 0.10 per hologram issued to the distilleries/breweries/bonded warehouse as administrative charges.

Audit scrutiny pertaining to the holograms during 2011-12 to 2015-16 revealed the following:

- Two[17] distilleries and one[18] brewery had accounted for less holograms against the holograms actually issued to them by the Department. Against the 24,91,00,000 holograms issued, these distilleries/brewery had accounted for 23,27,00,253 holograms only. This led to short accounting of 1,63,99,747 holograms by the above distilleries/brewery. The short realisation of Excise Duty of ₹ 52.76 crore could not be ruled out as there was possibility of holograms being used for unaccounted production and sale of IMFL/beer.

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[16] *SDL, Rangpo; DAL, Mulukey; MDL, Majhitar; KDL, Manpur and YBL, Melli.*

[17] *SDL, MDL.*

[18] *YBL, Melli.*

- One[19] distillery, two[20] breweries and one[21] bonded warehouse had received/accounted for excess number of holograms. Against 3,63,00,000 holograms actually issued, these distillery/breweries/bonded warehouse showed receipt of 3,78,20,000 holograms. This resulted into excess receipt/accounting of 15,20,000 holograms which led to a possibility of issue of 15,20,000 holograms to these distillery/breweries/bonded warehouse without payment of administrative charge of ₹ 1.52 lakh.

- Two[22] distilleries, one[23] brewery and one[24] bonded warehouse utilised holograms more than what they were supposed to utilise in respect of actual production of IMFL, beer and imported liquors[25]. The actual utilisation of holograms per bottle as taken from the actual production/import of various kinds of liquors was supposed to be 7,34,58,405; however, these units had shown utilisation of 7,66,79,344 holograms, resulting in excess utilisation of 32,20,939 holograms. This led to a possibility of utilisation of excess holograms in unaccounted production/import of liquors by the said distilleries/ brewery/bonded warehouse resulting in possible evasion of Excise revenue of ₹ 9.17 crore by them. Details are given in **Appendix 4.10.2**.

- Three[26] distilleries and two[27] breweries utilised holograms less than what they were supposed to utilise. As per the records of actual production of various kinds of liquors they should have used 25,31,33,584 holograms. However, as per the actual production of IMFL/beer, 19,76,77,930 holograms were used, resulting in less utilisation of 5,54,55,654 holograms. This led to a possibility of dispatch/sale of 5,54,55,654 bottles of various kinds of liquors without affixing holograms raising questions on their authenticity.

- The Sikkim Excise Act and Rules did not have any provision for wastage/loss of holograms. Despite this, some of the distilleries/breweries had shown wastage/loss of holograms but the Department never took any action against these distilleries/breweries for such spoil/loss of holograms. Further, these spoilt/lost holograms were neither incorporated in the records of the Department nor was any action taken by the Department to take possession of spoilt holograms to rule out any misuse.

- In this connection, it is also pertinent to mention that all distilleries/breweries had been submitting monthly statements of receipt and utilisation of holograms but the Department had never reconciled the account of holograms.

While accepting audit observations, the Department stated (May 2016) that they would ensure maintenance of proper records relating to holograms and would make Rules for

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[19] *M & F, Bagheykhola.*
[20] *DA, Mulukey and SBL, Bagheykhola.*
[21] *OT, Gangtok.*
[22] *MDL, Majhitar and KDL, Manpur.*
[23] *SBL, Bagheykhola.*
[24] *OT, Gangtok.*
[25] *Imported liquor means IMFL imported from other States by the bonded warehouse for sale in Sikkim.*
[26] *SDL, Rangpo; HDL, Majhitar and M & F, Bagheykhola.*
[27] *YBL, Melli and DAL, Mulukey.*

provision of their wastage and would ensure that all wasted holograms were taken back by the Department. The Department further stated (October 2016) that it had constituted a Committee to monitor the wastage and proper accounting of holograms.

4.10.3.12 Under-utilisation/excess utilisation of production capacity

Five distilleries/bottling plants of IMFL, three breweries and one ENA producing unit were in operation during the period of audit. It was seen that at the time of applying licenses, distilleries/breweries mentioned the details of the project reports which *inter-alia* contained information on the installed plants production capacity and their market strategies. Accordingly, the Department issued licenses to these units.

The production capacity vis-à-vis actual production and possible loss of minimum Excise revenue due to short production of IMFL/beer/ENA during the period under report were as given in the following table:

Table 4.10.9

Details of installed/ production capacity and actual production of each distillery/brewery during 2011-12 to 2015-16

Year	Name of distillery/ brewery	Total production capacity *(In cases)*	Actual production *(In cases)*	Utilisation capacity in percentage	Quantity short produced *(In cases)*	Average minimum rate of Excise Duty applicable during the year *(In ₹ per case)*	Amount of minimum Excise Duty as possible loss of revenue due to short production of IMFL/beer/ ENA *(In ₹)*
2011-12 to 2015-16	Sikkim Distilleries Ltd, Rangpo	25,55,555	21,69,081	85	3,86,474	450	17,39,13,300
	Mount Distilleries Ltd, Majhitar	20,00,000	23,54,114	118	-	-	-
	Himalaya Distilleries, Majhitar	30,00,000	2,21,124	7	27,78,876	450	1,25,04,94,200
	Mayal & Frezer, Bagheykhola	15,00,000	2,11,730	14	12,88,270	450	57,97,21,500
	Kanchanjangha Distilleries Ltd, Manpur	9,25,000	4,21,232	46	5,03,768	450	22,66,95,600
	Yuksom Breweries Ltd, Melli	1,92,30,770	1,23,33,527	64	68,97,243	112	77,13,87,657
	Denzong Albrew, Mulukey	96,15,000	45,00,666	47	44,09,770	112	49,31,88,677
	Sikkim Breweries Ltd, Bagheykhola	64,10,255	1,98,278	3	62,11,977	112	69,47,47,508
	Esveegee Breweries, Manpur	9,00,00,000 BL	1,67,95,886 BL	19	7,32,04,114 BL	1 per BL	7,32,04,114
						Total	**4,26,33,52,556**

Source: Departmental figures and audit analysis

Against nine distilleries/breweries, four[28] distilleries/breweries had utilisation below 20 *per cent* of their installed/production capacity. This led to under-utilisation of their installed/production capacity ranging from 96.91 *per cent* to 81.34 *per cent*. Though the records on installed/production capacity and actual production were available with the Department, it had not analysed the under-utilisation/decline in actual production for

[28] *i. Himalaya Distilleries, Majhitar (7.37 per cent), ii. Mayal & Frezer, Bagheykhola (14.12 per cent), iii. Sikkim Breweries Ltd, Bagheykhola (3.09 per cent) & iv. Esveegee Breweries, Manpur (18.66 per cent)*

possible remedial action. In respect of one unit producing IMFL (Mount Distilleries Ltd, Majhitar), the actual production was more than its production capacity; however, neither the permission for carrying out additional production for this unit was taken nor was any such condition imposed at the time of issue of license. Further, any penalty clause for under-production and over-production was not included in the conditions of the licenses.

While accepting audit observation, the Department stated (May 2016) that they would press upon the distilleries/breweries for making market strategy in such a way that they ensure maximum production. The Department further stated (October 2016) that it was under the process of examination of the matter and if necessary, it would make amendment in the existing Rules. However, the fact remained that the distilleries/breweries could not utilise their maximum production/installed capacity on which the State Exchequer could have earned a minimum Excise revenue of ₹ 426.34 crore.

4.10.3.13 Short realisation of annual license fee of ₹5.23 lakh

The Department revised (12 November 2014) its rates of license fees to be charged from various hotels, bars, retail shops, etc. The revised rates were made effective from 17 November 2014 (date of publication in the Gazette).

As per the prevailing system in the Department, the Excise trade licenses are renewed in advance on financial year basis. However, it was seen that while renewing licenses during March/April 2015, though license fees for the year 2015-16 were realised at enhanced rates but arrear proportionate to license fees at revised rates for the period 17 November 2014 to 31 March 2015 were not realised from any of the licensees. This resulted in short realisation of annual license fee of ₹ 4.89 lakh.

Further, it was also seen that the Department revised (11 February 2016) the rate of the annual license fees of some categories of hotel-cum-bar shops. The revised rates were enforced with immediate effect. However, it was seen that while renewing licenses during March 2016 for the year 2016-17, though license fees for the year 2016-17 were realised at enhanced rates but the proportionate arrear of the license fees at revised rates for the period 11 February 2016 to 31 March 2016 were not realised from seven licensees. This resulted in short realisation of annual license fee of ₹ 0.34 lakh.

While accepting audit observation, the Department stated (May 2016 and October 2016) that specific effective date would be ensured while issuing notification in the said regard.

4.10.3.14 Non-compliance of directives of GoI to close existing liquor shops and issue of license along National Highway

The Country had been witnessing many road accidents in the past and many of these accidents were attributed to drunken driving; moreover, the hilly terrain of many States of the country makes drunken driving more risky and prone to accidents. Our country accounts for the highest number of fatalities in road accidents in the world. The gravity of the concern can be estimated from the fact that the accidents caused 2.80 lakh deaths in 9.8 lakh road accidents in the years 2011 and 2012. Out of the total road accidents, 48,634 road accidents were caused due to drunken driving resulting in 18,388 deaths and injuries to 44,551 persons.

In view of the above scenario, the Union Ministry of Road Transport and Highways vide letter dated 1 December 2011 and subsequent reminder dated 11 March 2013 issued advisory to Chief Secretaries of the States to ensure removal of existing wine shops along National Highways (NH) and also not to issue fresh licenses to sell liquor along NH. In response to the above letters, the Department requested (22 August 2013) the Ministry for relaxing the State from this. The Ministry without considering the request of the Department, again wrote (21 May 2014) to the State for immediate compliance of the directives of the Ministry.

Scrutiny of records revealed that the Department had not taken any action on removal of the existing liquor shops. On the contrary, the Department, in addition to the 70 existing liquor shops along NH, issued seven fresh licenses in 2012-13 and two licenses in 2013-14 in defiance of the directives issued by the Ministry.

The Department stated (May 2016) that they had already sent reply to the Ministry for relaxation of such policy in the State of Sikkim. The reply was not acceptable as departmental request dated 22 August 2013 was not acceded to and the Ministry, vide letter dated 21 May 2014, had reiterated its directions to the Department to initiate urgent action and issue necessary instructions to remove liquor shops along NH and ensure that no license was issued to liquor vendors along NH in future. In a further reply, the Department stated (October 2016) that the matter was under process and the same would be forwarded to the Government.

4.10.3.15 Genuineness of EVCs not ensured

Rule 10 of Sikkim Foreign Liquor (Import, Export and Transport) Rules, 1993 provides that any person holding a license for the possession and sale of intoxicants desiring to export the intoxicants from his licensed premises shall apply to the Excise Officer of the region where his licensed premises are situated for the grant of an export pass and the applications shall be accompanied by an import pass granted by the Excise Authority of the State to which the intoxicants have to be exported. Rule 13 *ibid* provides that (a) Part I of the pass shall be kept on the record of the Office of the Excise Officer issuing the pass, (b) Part II of the export pass shall be sent ***by post*** to the Excise Authority of the State to which the intoxicants have to be exported, (c) Part III shall be handed over to the exporter and (d) Part IV shall be sent to the Officer-in-Charge of the distilleries or breweries or bonded warehouse or to the officer within whose jurisdiction the licensed premises of the exporter is situated.

A test check of records of the Excise Offices at various distilleries and breweries revealed that even printing of export pass was not done as per the above scheme. The Part III of the export pass that was supposed to be handed over to the exporter was being sent to the Officer-in-charge of the distilleries or breweries or bonded warehouse or to the officer within whose jurisdiction the licensed premises of the exporter was situated and Part IV (instead of Part III) of the export pass were handed over to the exporter. Similarly, Part I of the export pass was being handed over to the exporter instead of keeping it for record.

Further, Part II of the export pass was not being sent by post to the Excise Authority of the State to which the intoxicants had to be exported but was being handed over to the exporting distillery/brewery for handing over to the Excise Authority of the State to which the intoxicants were being exported.

Audit observed that sending of Part II of the export pass by post to the Excise Authority of the State to which the intoxicants had to be exported would have ensured genuineness of the receipt of EVCs from the respective Excise Authorities, but handing over of the same to the exporter for getting it certified defeated the very objective of its sending by post.

While accepting audit observation, the Department stated (May 2016) that they would ensure that export permits/passes were forwarded through fax and by post and further stated (October 2016) that they had already initiated the procedure. However, fact remained that the Department could not ensure genuineness of the receipt of EVCs from the respective Excise Authorities during the period covered under Audit.

4.10.3.16 Inspection of distilleries/breweries not conducted

Rule 58(2) of the Sikkim Excise (Distillery for Manufacture of Spirit and Foreign Liquor) Rules, 2000 and Rule 41(2) of the Sikkim Excise (Brewery) Rules, 2000 provide that the Controlling Officer specially empowered in this behalf, by the Commissioner, shall inspect the distillery/brewery and shall submit the notes of his inspection to the Commissioner. He shall also be responsible for the correct maintenance of accounts and collection of duty by the Officer-in-charge of said distillery/brewery.

However, it was observed in the nine test checked distilleries/breweries that no departmental authority had ever visited/inspected any distillery/brewery during the period under report and did not maintain any register of inspection. In reply, the Department stated (May 2016) that though no register of inspection was maintained, Excise Officers had regularly been visiting the manufacturing units from time to time and reports were made only when irregularities were detected or suggestions for improvement was given. However, Department failed to produce such reports to Audit.

While accepting audit observation, the Department stated (May 2016) that henceforth, they would maintain the inspection register and added (October 2016) that they had provided inspection register to Officer-in-charge of all the manufacturing units.

4.10.3.17 Testing of samples of IMFL/beer at Central Laboratory

For the purpose of testing of samples of each and every batch of IMFL/beer produced by the distilleries/breweries with the objective to determine whether the said batch of IMFL/beer had right strength, composition and was it suitable for human consumption, the Department established one Central Laboratory at Chanatar, Rango. As per directives and system prevailing, all distilleries/breweries were required to send at least one sample bottle of each batch of IMFL/beer produced by them to the Central Laboratory, Chanatar for its testing. Details of batches produced, samples sent and tested at the Lab during the period 2011-12 to 2015-16 are given in the following table:

Table 4.10.10

Details of batches of various brands of IMFL/beer produced and tested in the Lab

Year	Name of distillery/ brewery	Total batches of various brand produced *(in Nos.)*	Samples sent/ received at the laboratory *(in Nos.)*	Batches for which samples were not sent to laboratory for testing *(in Nos.)*	Batches analysed in the laboratory *(in Nos.)*	Batches not analysed in the laboratory *(in Nos.)*
2011-12 to 2015-16	Sikkim Distilleries Ltd, Rangpo	1,273	1,273	0	1,219	54
	Mount Distilleries Ltd, Majhitar	1,453	1,453	0	1,369	84
	Himalaya Distilleries, Majhitar	279	268	11	253	15
	Mayal & Frezer, Baghey khola	249	247	2	239	8
	Yuksom Breweries Ltd, Melli	150	19	131	19	0
	Kanchanjangha Distilleries Ltd, Manpur	340	303	37	281	22
	Denzong Albrew, Mulukey	607	569	38	569	0
	Total	**4,351**	**4,132**	**219**	**3,949**	**183**

Source: Departmental figures

Against 4,351 batches of various brands produced, only 4,132 samples were sent to the laboratory for testing and only 3,949 samples were tested. Reasons for not sending 219 samples by the distilleries/breweries were not stated. Reason for not testing of 183 samples by the laboratory was stated to be shortage of testing chemicals in the laboratory. However, the fact remained that suitability of 402 batches of various kinds of liquor/beer for human consumption was not tested which was fraught with the risk of health hazard.

The Department stated (May 2016) that the test happened to be one among the standard tests prescribed by the Bureau of Indian Standard. The laboratory was set up primarily to check the percentage of alcohol when the Excise Duty was to be charged on volume of alcohol and on the date of audit, the Excise Duty was being calculated on ex-factory price. The Department's reply was not acceptable as testing of samples of each batch was done with objective to see whether the said batch of IMFL/beer had right strength, composition and was suitable for human consumption. In a further reply, the Department stated (October 2016) that it would ensure that samples of all liquor/beer were sent to Excise laboratory for testing.

4.10.3.18 Failure to collect samples of liquors imported by bonded warehouse

Rule 9(4) of Sikkim Excise (Indian Made Foreign Liquor Imported from the other States) Licensing of Warehouses (Amendment) Rules, 2010 provides that the licensee shall import the liquor as per the provisions made under Chapter II of the Sikkim Foreign (Import, Export and Transport) Rules, 1993. The licensee shall also provide sample of liquor (two bottles of 750 ml each) proposed to be imported with proper labels affixed and its seals intact as sample from every imported consignment. The objective of taking samples was to see whether said imported IMFL/beer had the right strength, composition and was suitable for human consumption.

Scrutiny of Import Permit Registers and other related records for the period 2011-12 to 2015-16 revealed that the Department had not collected samples of various brands of imported liquors from the licensee from all of his imported consignment. It was seen that Overall Traders, Gangtok having bonded warehouse, imported 1615 brands of various kinds of liquors, under 873 consignments, during the period under report against which 3230 bottles of samples were not collected by the Department from the licensee for their testing in the Central Laboratory. Thus, suitability of various kinds of liquor imported by the licensee for human consumption remained untested and were fraught with health hazard.

While accepting audit observation, the Department stated (May 2016) that the Department would direct the importer to handover two numbers of sample bottles against each and every consignment to the Commissioner of Excise for testing. The Department further replied (October 2016) that it was considering random sampling for testing liquor bottles. Department's reply was not acceptable as Rules provided that the licensee would have to provide sample of liquor (two bottles of 750 ml each) proposed to be imported with proper labels affixed and its seals intact as sample from each and every imported consignment.

4.10.3.19 Functioning of Flying Squad

Functioning of Flying Squad in the Department is an important tool to prevent/check illicit trafficking and illegal sale and storage of any intoxicant/excisable item. The Flying Squad is also supposed to visit any distillery, brewery, bonded warehouse, hotel, bar shop, retail shop of liquors, etc. it deems fit for the purpose of such prevention and inspection. It was seen that the Department had not constituted any Flying Squad.

The Department stated (May 2016 and October 2016) that though they did not have Flying Squad, Field Division headed by a Deputy Commissioner (Field) and subordinate staff were there to prevent/check illicit trafficking and illegal sale and storage of any intoxicant/excisable item. During the period under report, the Wing detected 357 illicit cases and realised an amount of ₹ 5.15 lakh from these cases as fine and confiscation.

4.10.3.20 Absence of Internal Audit Wing

Internal Audit is an important tool for appraisal of deficiencies in the activities of the Department, like proper and timely assessment and realisation of dues, implementation of Acts/Rules and issue of guidelines for proper accounting, etc., for better collection of revenue and plugging various loopholes within the organisation.

The Department did not have their own Internal Audit Wing. The Internal Audit Wing under the control of FRED, Government of Sikkim is responsible for Internal Audit of all the departments under the control of State Government. However, it was observed that the Internal Audit Wing of the FRED had not conducted any audit of the Department during the period under report.

4.10.3.21 Computerisation of the functioning of the Department

In order to systematise the collection of State Excise revenue and for the purpose of transparency in working of the Department, computerisation could have proved to be an effective solution.

However, no such system existed in the Department and functions like licensing, regulation of alcohol, tax collection, budget, staff details, etc. were not maintained in the form of data base. The Department had not taken any steps for computerisation of the said systems. Consequently, the Department did not have the previous year's records/data in complete shape for effective control and future plans.

Though the Department stated (May 2016) that they had already initiated the process of computerisation and online monitoring system, they failed to produce any documentary evidence in support of their claim. In a further reply, Department stated (October 2016) that they had provided computers to all the Excise Offices in the manufacturing units and the zonal office, Jorethatng and taken up the matter with the IT Department regarding the online monitoring system and financial implication and Detailed Project Report was in process.

4.10.4 Conclusion

The collection of revenue from State Excise had various non-compliance issues and improper regulation of duties which consequently resulted in loss of revenue such as loss of Excise revenue on bottling fees, loss of minimum Excise revenue due to short production of IMFL from the ENA and short production of beer from the wort consumed, loss of Excise Duty due to reduction of ex-factory price of beer, etc.

The system of issuance of licenses/permit were not monitored resulting in an under-utilisation of installed/production capacity by distilleries/breweries, non-realisation of proportionate arrear of the license fees at revised rates and non-compliance of directives of Ministry for removal of the existing liquor shops along NH.

There was non-accounting of holograms leading to benefits to the distilleries/breweries and inadequate assurance of authenticity of liquor.

The internal control mechanism in place was also found inadequate and ineffective as there was shortfall in testing of samples of IMFL/beer, lack of proper documentation of inspection of distillery/brewery by the departmental officers, absence of internal audit, etc.

4.10.5 Recommendations

The recommendations are:

- The Department needs to improve regulation of duties by proper compliance to applicable Acts/Rules to prevent losses from bottling fees, production of IMFL/beer from ENA/wort. The Department also needs to enforce proper accounting of holograms by the distilleries/breweries.
- The Department may check and analyse running of distilleries/breweries with respect to its production capacity and actual production with introduction of penalty provision. The Department may also ensure realisation of proportionate arrear of license fees in case of revision of license fees during the financial year.

- The Department needs to ensure receipts of EVCs in time and to ensure sending of EVCs by post to the Excise Authorities of importing States instead of handing over to the distilleries/breweries to ensure genuineness of their verifications.
- The departmental authorities may ensure receipt of samples of each and every batch of IMFL/beer and their testing in the Laboratory.

TRANSPORT DEPARTMENT
(MOTOR VEHICLES DIVISION)

4.11 Revenue not realised

Department's failure to conduct fitness inspection of vehicles and to realise token tax resulted in revenue loss of ₹ 3.34 crore.

(i) Fitness inspection not done

In terms of Sikkim Motor Vehicles Rules, 1991 (Rule 176), the registered owner of a heavy or medium vehicle which ordinarily plies for hire or reward, including maxi cab and motor cab, for the conveyance of passengers and carriage of goods in the State of Sikkim, shall cause such vehicles to be produced before the Regional Transport Officer of the respective region at an interval set out below for periodical fitness inspection:

Table 4.11.1

New vehicles	**For two years**
After two years till vehicle is four years old	Every one year
After four years till the vehicles is eight years old	Every six months
After eight years	Every three months

The fee chargeable for conducting test and grant or renewal of fitness certificate was ₹ 300 for light, ₹ 400 for medium and ₹ 500 for heavy vehicles.

In addition, if the vehicle owner fails to produce the vehicle for fitness inspection within due date, a penalty of ₹ 100 shall be paid by the owner as per notification dated 19 July 2010.

Scrutiny of records of the Secretary, Transport Department (Motor Vehicle Division) revealed (July-August 2015) that the number of fitness inspections conducted during 2011-15 was considerably low compared to those due to be conducted as per time interval mentioned in the table above considering the number of registered vehicles (contract/stage carriage, goods carriage and luxury tourist vehicles only) as on 31 March 2009 (13,018)[29] and subsequent addition till March 2015 as given in the following table:

[29] *Due to introduction of High Security Registration Plate (HSRP) in the State w.e.f. February 2009, all registered vehicles in the State were registered and issued HSRP form February 2009. Records of vehicles registered prior to February 2009 and the same issued with new HSRP were not linked in the*

Table 4.11.2

Year	No. of inspections due[30]	Inspection actually conducted	Shortfall
2011-12	14,916	5,968	8,948
2012-13	19,191	6,909	12,282
2013-14	29,741	8,220	21,521
2014-15	33,028	9,235	23,793
Total	**96,876**	**30,332**	**66,544**

The shortfall of 66,544 numbers of inspections indicated that vehicles were not produced for fitness inspection by the vehicle owners during 2011-15 as required under Sikkim Motor Vehicles Rules, 1991. This resulted not only in fitness fees and penalty amounting to ₹ 2.66 crore (fitness charge: ₹ 2.00 crore and penalty: ₹ 0.66 crore), taking the minimum fitness charge of ₹ 300[31] plus penalty of ₹ 100 per certificate, not being realised but also in Department's failure to ensure the safety/fitness of the vehicles engaged in carriage of passengers and goods in the State.

(ii) Token tax not realised

In terms of Section 4 (2) read with Section 14 of the Sikkim Motor Vehicles Taxation Act, 1982, amended vide notification dated 25 February 2004, token tax for all categories of vehicles shall be paid within a grace period of 15 days from the date on which payment of taxes falls due. In case of failure to pay the tax within grace period, penalty at the rate of 50 *per cent* on the total tax amount shall be imposed and after expiry of 30 days the penalty payable shall be 100 *per cent* on the total tax amount. The prevailing rates of token tax for various categories of vehicles were as notified on 7 September 2011.

Scrutiny of records in respect of 7,120 out of 68,162 vehicles (all categories) registered with four Regional Transport Offices (East, North, South and West) revealed (July-August 2015) that in 559 cases, the vehicle owners defaulted in payment of token taxes over a period ranging from 12 months to 60 months as of March 2015. The total amount of tax due along with penalty on account of late fee worked out to ₹ 0.68 crore.

The matter was reported to the Government/Department in May 2016. In reply, the Department stated (May and July 2016) that ₹ 41.52 lakh was realised on account of token tax and fitness fees and No Objection Certificates were issued to 317 vehicles.

Scrutiny of details of token tax realisation of ₹ 41.52 lakh revealed that the Department could realise ₹ 12.92 lakh only out of outstanding token tax amounting to ₹ 0.68 crore pointed out in Audit and remaining amount of ₹ 28.60 lakh (₹ 41.52 lakh – ₹ 12.92 lakh)

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software for registration of vehicles. Hence, registered vehicles available as on March 2009 have been taken into account treating that these were registered in 2008-09.

30 *The number of vehicles transferred to other States or which became inoperative, could not be deducted from this data as it was not maintained by the Department.*

31 *Due to non-availability, data for vehicle category-wise fitness inspection conducted each year by the Regional Transport Offices located in four districts, minimum fitness charge @ ₹ 300 per light motor vehicles for all vehicles has been taken into consideration for working out the total amount of revenue not realised.*

indicated by the Department as realised, pertained to realisation of token tax and penalty on P series (Private) and G series (Government) vehicles on 221 cases and not included in 559 cases mentioned above. The reply also failed to explain reason for not conducting of fitness inspection as prescribed in the Rule as well as non-realisation of balance amount of ₹ 3.21 crore.

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

4.12 Short realisation of Government revenue

The Government suffered a loss of ₹ 7.63 crore due to incorrect method adopted for calculating the penalties. Besides, there was short realisation of revenue of ₹ 16.98 crore.

Sub rule (6) of Rule 3 of the Sikkim Entertainment Tax (Amendment) Rules 1998 stipulates, that "the entertainment tax in case of cable television network leviable under sub rule (5) shall be paid on monthly basis and deposited under the revenue head No.0045/Urban Development and Housing Department within 30 (thirty) days of the following month failing which a penalty of ₹ 1 per connection per day shall be levied".

Records of Urban Development and Housing Department revealed (April 2016) that Nayuma Entertainment (P) Ltd. (Nayuma), a multi system operator, had been providing cable television and related services in and around Gangtok since long but discontinued its business in the name of Nayuma from August 2014. However, the operator continued its services in the name of Sikkim Digital Network Pvt. Ltd. (SDN) under the same proprietorship with undertaking to pay outstanding dues to the Government of Sikkim. The erstwhile Nayuma was irregular in payment of tax and the Department was also not insisting on full payment including penalty from 2010 onwards. It was in December 2013 that the Department issued demand notice to the Nayuma for payment of outstanding dues of tax including penalty for the period 01 April 2010 to 31 December 2013 amounting to ₹ 1.75 crore (₹ 1.12 crore tax and ₹ 0.63 crore penalty). As against this demand, Nayuma paid ₹ 0.84 crore between February 2012 and July 2014. Later on, the SDN, as per Agreement to pay the outstanding tax of Nayuma, paid ₹ 0.28 crore during September 2014 to March 2016. Delay in payment of outstanding tax ranged from two to four years. However, Nayuma paid the current dues from January 2014 to July 2014.

Audit scrutiny revealed that the Department instead of calculating the penalty of ₹ 1 per connection per day for entire period of delayed deposits of the tax, calculated the penalty for a particular month only. Same method was adopted for all the delayed payments of the tax from April 2010 to December 2013.

As of May 2016, against the total outstanding tax including penalty of ₹ 25.71 crore as calculated by Audit, the Department raised a demand for ₹ 1.75 crore only with short demand of ₹ 23.96 crore. Against the actual amount due, Nayuma paid only ₹ 1.12 crore (₹ 49.83 lakh + ₹ 34.00 lakh + ₹ 28.19 lakh), resulting in short realisation/payment of ₹ 24.59 crore. The Department had not initiated any action to recover the outstanding dues even though there was enabling provisions in the Sikkim Entertainment Tax Act 1980 to recover the related dues as an arrear of land revenue.

Due to incorrect[32] method adopted for calculating the penalties by the Department, the Government suffered a loss of ₹ 7.61 crore (actually payable ₹ 8.73 crore *minus* ₹ 1.12 crore paid for the period till July 2011) with ₹ 16.98 crore tax and penalty for the August 2011 to December 2013 remained outstanding as of March 2016 as detailed in **Appendix 4.12.1**.

Further, three Cable Operators under North/East Division failed to pay monthly tax in Government account in time as per the prevailing Rules. The delay in payment and deposit of taxes ranged between 11 and 660 days (detailed in **Appendix 4.12.2**). The same method was adopted for calculation of the penalty for delayed payments in these cases also. Resultantly the Department suffered a loss of ₹ 2.19 lakh from these operators. The Department suffered a total loss of ₹ 7.63 crore (₹ 7.61 crore + ₹ 2.19 lakh). In addition, there was non-realisation/non-payment of Government revenue to the tune of ₹ 16.98 crore as of March 2016.

The matter was reported to the Government/Department (March 2016); their reply has not been received (September 2016).

[32] *Calculated @ ₹ one per day per connection for only one month instead of ₹ one per day per connection for entire delayed period of payment.*

FOLLOW UP OF AUDIT OBSERVATIONS

CHAPTER V
FOLLOW UP OF AUDIT OBSERVATIONS

5.1 Follow up action on earlier Audit Reports

Audit observations on financial irregularities and deficiencies in maintenance of initial accounts noticed during local audit and not settled on the spot are communicated to the audited departments and to the higher authorities through Inspection Reports (IRs).

Serious irregularities noticed in audit are included in the Report of the Comptroller and Auditor General of India (Audit Reports) and presented to the State Legislature. According to the instructions issued by the Finance, Revenue and Expenditure Department (FRED), Government of Sikkim, all the concerned administrative departments were required to furnish explanatory notes on the paragraphs/Performance Audits included in the Audit Reports within one month from the date of issue of the Audit Reports.

It was, however, noticed that as of September 2016, in more than 82 *per cent* cases, the concerned administrative departments had not submitted the explanatory notes on the paragraphs/Performance Audits included in the Audit Report pertaining to the year 2011-12. In respect of Audit Report for the year 2012-13, 2013-14 and 2014-15 explanatory notes had not been submitted by concerned departments in 43, 92 and 94 *per cent* cases respectively.

5.2 Response of the departments to the recommendations of the Public Accounts Committee

The FRED issued instructions to all departments to submit Action Taken Notes (ATNs) on various suggestions, observations and recommendations made by Public Accounts Committee (PAC) for their consideration within 15 days of presentation of the PAC Reports to the Legislature. The PAC Reports/recommendations are the principal medium by which the Legislature enforces financial accountability of the Executives to the Legislature and it is appropriate that they elicit timely response from the departments in the form of ATNs.

As of September 2016, ATNs had been received in respect of all 598 recommendations of the PAC, made for the Audit Reports for the years between 1990-91 and 2008-09. However, ATNs were not received for three recommendations in respect of Audit Report 2009-10.

5.3 Follow up audit on PAC recommendations on land degradation in and around Gangtok

The PAC in its 82nd Report made three recommendations to Urban Development and Housing Department (UDHD), Government of Sikkim in connection with the

Performance Audit Report on 'Land degradation in and around Gangtok' featured in the Audit Report for the year 2006-07. A Review on compliance to the PAC recommendations is presented below.

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

5.3.1 Introduction

Performance Audit of 'Land degradation in and around Gangtok' covering the period from 2002-03 to 2006-07 was included in the Comptroller and Auditor Generals (CAG's) Audit Report (Civil) for the year ended 31 March 2007, Government of Sikkim. Based on findings, Audit made six recommendations for implementation. The Report was laid in the State Legislature on March 2008 and the PAC submitted its Report on 30 March 2010 which *inter-alia* contained recommendations on three audit paragraphs (Paragraph Nos. 3.3.9.4, 3.3.9.9 and 3.3.10.1) pertaining to 'Land degradation in and around Gangtok'. Action Taken Report (ATR) was submitted to the PAC by Urban Development and Housing Department. The Report of the PAC was presented in the House on 29 March 2011. The Performance Audit of 'Land degradation in and around Gangtok' covered three Departments (i) UDHD (ii) Forest, Environment and Wild Life Management Department and (iii) Health Care, Human Services and Family Welfare Department. However, Audit recommendations and PAC recommendations were directed towards UDHD only. Hence, follow up audit was undertaken in UDHD only.

The relevant highlights of audit findings were as follows:

- Despite being aware of the factors responsible for land degradation, the State Government did not formulate comprehensive policy encompassing various aspects of prevention and control of land degradation in the State.
- The State Government did not conduct any study to assess the extent of land degradation in urban areas especially in and around Gangtok caused due to unrestrained construction in violation of seismic zonation norms, Sikkim Building (Construction) Regulations and inadequate waste disposal, etc.
- The UDHD failed to enforce the Sikkim Building (Construction) Regulations, 1991 leading to failure in restriction of buildings heights within the permissible limit, non-adherence of Bureau of Indian Standards (BIS) norms relating to disaster resistant features and non-provision of gully between two buildings for facilitating air circulation and reducing the impact of earthquake.
- Management of solid wastes was characterised by inherent defects of partial collection, non-identification of landfill sites and setting up of waste disposal facilities with lesser capacity than the requirement besides delayed commissioning of treatment plant.

5.3.2 Audit objective

The 'Follow up' of Audit was conducted with the objective of assessing whether the UDHD had implemented the Audit and PAC recommendations and adequately addressed the deficiencies pointed out in audit and undertook remedial measures thereon.

5.3.3 Audit criteria

Audit recommendations accepted by the State Government were benchmarked as criteria in the pursuit of 'Follow up' of Audit.

5.3.4 Scope and methodology of Audit

Follow up of Audit Report on Performance Audit on 'Land degradation in and around Gangtok' with focus on recommendations made by Audit and PAC was undertaken in the Office of the UDHD from June to August 2016. Audit made six recommendations whereas PAC made recommendation on three audit paragraphs. ATR was submitted to the PAC.

Audit process included issue of requisition for records, scrutiny of records, analysis of data/information, discussion on subject, issue of observation and finalisation of draft.

5.3.5 Audit findings

5.3.5.1 Audit recommendation

(A) Policy on land degradation

Previous Audit recommendation: The State Government should frame specific policy on land degradation and initiate steps to appoint a focal agency within the Government to monitor and oversee the activities for prevention of land degradation.

Reply to PAC: The Department stated that Forest, Environment and Wildlife Management Department had policies for counteracting land degradation. The UDHD had building byelaws that did not allow construction on areas having scars or sign of landslides. The Mines and Geology Department was the primary agency responsible for assessing the stability of the land for the purpose of construction. The Department issued construction orders after the stability of land was assessed.

***Follow up Audit*:** Till the date of audit (August 2016), the State Government had neither framed specific policy on land degradation nor initiated any steps to appoint a focal agency within the Government to monitor and oversee the activities for prevention of land degradation. The UDHD replied (August 2016) that new building regulation in accordance to the Model Building Bylaws 2016 was under draft stage wherein various issues on land degradation had been addressed.

(B) Master Plan for Gangtok

***Previous Audit recommendation*:** Master Plan for Gangtok town with a perspective of 25 years should be prepared with techno-legal framework for its effective implementation.

***Follow up Audit*:** In October 2009, Surbana International Consultants Pvt. Ltd. led by Building and Construction Authority of Singapore prepared and submitted a master plan for Gangtok. However, details of its implementation were not produced to Audit.

(C) Unauthorised construction

***Previous Audit recommendation*:** Building byelaws may be amended to restrict floor limit in line with seismic zonation norms and ensure its strict enforcement. All unauthorised constructions beyond the norms should be demolished immediately.

***Gist of Paragraph considered by PAC*:** The Act of 1985 (Sec 8) read with Rule 26 of Regulations 1991 authorised the Secretary, UDHD to demolish any construction which contravened the provisions of the Act or the Regulation made there under at the cost of the person concerned, on issue of 15 days' notice. In fact, the Department did not demolish even one such structure in the five years period covered by Audit. Twelve cases (33 *per cent*) against 36 unauthorised constructions were regularised in accordance with notification dated 15 October 2001. The Department issued (28 June 2007) notification *inter-alia* stating that such vertical unauthorised construction would not be regularised any further and unauthorised construction on Government allotted land would henceforth be liable for demolition.

***PAC recommendation*:** The PAC took a serious view on the matter of land degradation in urban areas including in and around Gangtok caused due to unrestrained construction in violation of seismic zonation norms, Sikkim Building Constructions Regulations and owing to inadequate waste disposal management. The Department should henceforth be more stringent on unauthorised constructions in all urban areas including Gangtok along with its vicinity.

Action Taken Report: The Department in its ATR to PAC stated that 32 unauthorised constructions at various locations at Gangtok (9), Rangpo (22) and Singtam (1) had been demolished.

***Follow up Audit*:** The Department stated that 32 (Gangtok: 9, Rangpo: 22 and Singtam: 1) unauthorised constructions were demolished. The records regarding details of demolition were not produced to Audit. Further, since data was not compiled from individual construction files into a master information, the Department was not in a position to state the total construction vis-à-vis the number of unauthorised construction in the State. Thus, Audit could not ascertain actual number of cases of unauthorised construction existing in the State and its action/response from the Department.

(D) Waste disposal

***Previous Audit recommendation*:**

- Waste hierarchy of 3 R's (Reduce, Reuse and Recycle) should be adopted and waste disposal mechanism be strengthened.

- Result oriented robust awareness drive should be put in place.

Reply to PAC**:** The Department stated that it had initiated steps by conducting awareness programmes in co-ordination with Non-Government Organisations and Community Development Societies. Steps were being taken to clear the jhoras at regular intervals. Sign boards were being installed restricting dumping of garbage in the jhoras indicating imposing of fines, imprisonment, etc. to anyone found dumping garbage in the jhoras.

Follow up Audit**:** The UDHD till May 2010 [i.e. prior to handing over of function to Gangtok Municipal Corporation (GMC)] had not initiated any action as committed in its reply to PAC. However, after transfer of sanitation/solid waste management function to GMC, various awareness programme on waste management were conducted as detailed below:

- The 'Engage 14' was conducted during January 2014 to inspire school students to change their habits and attitude towards solid waste management and inspire them to engage in the three R's for better urban sanitation

- 'An Inter School Solid Waste Management Race' was conducted on World Environment Day (5 June 2015) with the objective of providing an opportunity for school students to know about the various aspects of solid waste management, and

- 'Swachh Bharat Mission' was conducted on 28 August 2016 in collaboration with Indian Army.

The GMC also erected sign boards at various places restricting dumping of garbage in the jhoras and also conducted cleaning drive of the jhoras from time to time. Further, India Today Group declared (October 2015) Gangtok as the cleanest hill station in the country for which Hon'ble Prime Minister presented the 'Safaigiri Award' to Gangtok.

However, the State Government had not adopted the waste hierarchy of 3 R's. The GMC in its reply (August 2016) stated that the distribution of household dustbin along with segregation awareness programme ward-wise was in progress and scientific landfill at Martam was also on the verge of completion. Once these process get completed, the system for minimising of waste 3R's would be adopted. But it was noticed in Audit that the landfill at Martam had not been completed against the scheduled date for completion of September 2015. With regard to distribution of dustbins (two dustbins for each household one for degradable and another for non-degradable waste), it was noticed in Audit that against the target coverage of 15 municipal wards, only three wards had been covered as of date of Audit (August 2016) that too partially.

(E) Fine for degrader

Previous Audit recommendation**:** The State should prescribe rules envisaging "degraders must pay".

Reply to PAC**:** The Department stated that the recommendation of CAG had been noted and rules envisaging "Degraders must pay" would be incorporated in the existing rules.

***Follow up Audit*:** Though the Department could not produce any Act/Rule on imposition of penalties on the degraders, it was noticed that the GMC had imposed fines (ranging from ₹ 100 to ₹ 6,000) on 20 degraders from February 2013 to February 2016. However, the basis for imposition of the fines could not be produced to Audit.

5.3.5.2 PAC recommendation

(A) Non erection of guard wall (Paragraph 3.3.9.9)

***Gist of Paragraph considered by PAC*:** In a hilly terrain, the hill side of road was to be supported by a guard wall to safeguard against land slide and consequent damage to the road. It was noticed that in and around Gangtok, the hill side of National Highway was not protected by guard walls and eventually led to landslides/slips at many places.

***PAC recommendation*:** After necessary verbal clarifications given by the Chief Engineer, Border Roads Organisation (BRO) and the Principal Chief Engineer-cum-Secretary, Roads and Bridges Department (RBD) on evidence to the PAC, the PAC observed that the UDHD may explore the possibility of constituting a Committee involving the BRO and the RBD with a view to identify the areas to be covered for protective works along the Indira By-Pass and National Highway from Ranipool to Burtuk which would ensure availability of necessary additional funds required for such identified works.

***Action Taken Report*:** The Department in its ATR stated that a letter had been issued to the Secretary, RBD (Designated Authority) in compliance with the observation of the PAC.

***Follow-up Audit*:** Information pertaining to constitution of Committee was not furnished to Audit despite repeated reminders, in absence of which, it may not be incorrect to construe that the Committee to identify the areas to be covered for protective works along Indira By-Pass and National Highway from Ranipool to Burtuk was not constituted at all.

(B) Assessment of waste and risk associated therewith (Paragraph 3.3.10.1)

***Gist of Paragraph considered by PAC*:** Although the State Government had recognised waste as a threat to environment in the 'Land Use and Environment Policy' and also adopted Central Acts for implementation in the State, none of the departments responsible for waste management had initiated any action for assessment of total waste currently being generated in the State. Assessment for future generation of waste had also not been made to facilitate creation of new capacity for management of waste, so that its deleterious effects could be minimised on the environment and health of the public.

Concerned departments and also the Land Use and Environment Board (LUEB) had not initiated (October 2007) any steps to analyse the risks arising out of indiscriminate waste disposal in contamination of soil and water and thereby to the environment and possible health risks. The LUEB while accepting the audit contention stated that they were unable to initiate the requisite steps due to constraint of manpower and financial crunch.

PAC recommendation: Inadequate management and handling of waste was one of the factors causing not only pollution but also land degradation. The PAC reiterated that the waste management must include proper collection, transport, recovery and disposal, including supervision of such operation and after-care of disposal sites. Municipal solid waste, hazardous wastes and biomedical wastes were the most common waste generated in and around Gangtok. Therefore, the Department should speed up its efforts in co-ordination with LUEB so that the desired mechanism on adequate waste management could be worked out and minimise its deleterious effects on environment and health of the general public.

Action Taken Report: The Sanitation Wing of the UDHD in collaboration with the newly constituted GMC was primarily responsible for the safe collection, transport, treatment and disposal of solid waste in accordance with Municipal Solid Waste Rule, 2000. An integrated approach to solid waste management was under way through a proposed project funded by the Asian Development Bank (ADB). The UDHD had already undertaken discussion with the Hon'ble Mayor and Municipal Councillors to mobilise public awareness on the need for safe disposal of solid waste. Bio-medical waste were disposed off through incineration by the hospitals and medical clinics.

Follow-up Audit: Neither the UDHD nor LUEB had conducted any analysis of risks arising out of indiscriminate waste disposal in contamination of soil and water and thereby to the environment and possible health risks. Integrated approach to solid waste management through funding by ADB included distribution of dustbins, provision of mechanical vehicles for waste collection, composting of bio-degradable waste and construction of landfill at Martam. However, the landfill at Martam commenced in September 2013 and was scheduled to be completed by September 2015 but had not been completed. With regard to distribution of dustbins (two dustbins for each household; one for degradable and another for non-degradable waste), it was noticed in Audit that against the target coverage of 15 municipal wards, only three wards had been covered as of date of Audit (August 2016), that too partially. Moreover, the composting of bio-degradable waste had not been initiated. Only procurement of vehicles, steel bins, household bins, excavator, etc. had been achieved.

5.3.6 Conclusion

The recommendations made in paragraph 3.3.14 of CAG's Audit Report for the year ended 31 March 2007, Government of Sikkim and the recommendations offered by the PAC were partially implemented/complied with.

5.4 Monitoring

The following Committees had been formed at the Government level to monitor the follow up action on Audit related matters:

Departmental Audit and Accounts Committee: Departmental Audit and Accounts Committee (DAAC) had been formed (November 2010) by all departments of the Government under the Chairmanship of the departmental Secretary/Head of Department to monitor the follow up action on Audit related matters. The DAAC's function was to monitor the response and corrective action on findings reported in the IRs issued by the

Accountant General (Audit). It was to hold meetings once in three months and send quarterly action taken report on the issues to the State Audit and Accounts Committee. The information in this regard was not furnished though called for.

State Audit and Accounts Committee: State Audit and Accounts Committee (SAAC) had been formed (June 2010) at the State level under the Chairmanship of the Chief Secretary to monitor the response and corrective action on the findings reported by Audit, to review and oversee the working of DAAC and also to hold meetings once in three months. The information in this regard was not furnished though called for.

After formation of DAAC and SAAC by the State Government, Human Resource Development Department and Animal Husbandry, Livestock and Fisheries Development Department approached the Office of the Accountant General, Audit (AG) to settle outstanding paragraphs and IRs during 2011-12 and 2015-16 respectively. However, during 2013-14 and 2014-15, not a single Department approached to settle outstanding paragraphs and IRs.

5.5 Outstanding Inspection Reports

The AG conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up by issue of IRs incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the Heads of the Offices inspected with copies to the higher authorities for taking prompt corrective action. The Heads of the Offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of the issue of the IRs. Serious irregularities are reported to the Heads of the departments and the Government.

The position of outstanding IRs pertaining to Civil (Expenditure audit including that of Works, Forest and Autonomous Bodies), Revenue (Audit of Revenue departments) and Commercial (Audit of State Public Sector Undertakings) audit as of March 2016 is shown below:

Table 5.1

Year	Civil (*including works, Forest and Autonomous Bodies*)		Revenue		Commercial	
	No. of IRs	Paragraphs	No. of IRs	Paragraphs	No. of IRs	Paragraphs
Upto 2011-12	614	1,049	72	158	26	51
2012-13	57	182	6	16	6	21
2013-14	114	369	2	9	11	32
2014-15	132	525	13	51	10	64
2015-16	164	829	10	56	10	85
Total	**1,081**	**2,954**	**103**	**290**	**63**	**253**

This large pendency of IRs was indicative of inadequate action by the Heads of offices and departments towards the remedial measures that should have been taken on the irregularities pointed out by Audit through the IRs.

5.6 Departmental Audit Committee Meetings

The position of Audit Committee Meetings for the year 2015-16 are detailed below:

Table 5.2

Sector	No. of meetings	Discussed		Settled	
		IR	Paragraph	IR	Paragraph
Civil (*including Works, Forest and Autonomous Bodies*)	7	86	329	58	252
Revenue	-	-	-	-	-
Commercial	-	-	-	-	-
Total	**7**	**86**	**329**	**58**	**252**

During 2015-16, seven Audit Committee Meetings were held, wherein 86 IRs and 329 paragraphs were discussed out of which 58 IRs and 252 paragraphs were settled.

Gangtok **(Vanlal Chhuanga)**
The **Accountant General (Audit), Sikkim**

Countersigned

New Delhi **(Shashi Kant Sharma)**
The **Comptroller and Auditor General of India**

APPENDICES

Appendix 1.2.1

Audit conducted during 2015-16 under Social Sector

(*Reference: Paragraph 1.2*)

(*₹ in lakh*)

Name of the Unit	Expenditure of the unit (*i.e. expenditure of the unit for the financial year for which audit conducted*)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Gram Vikash Adhikary, Yuksom, West Sikkim	228.80	317.02	563.77	111.22	-
State Project Director, Sarva Shikha Abhiyan	-	-	-	2,930.00	-
CDPO East, Social Justice, Empowerment and Welfare Department	152.99	15.97	15.75	112.75	-
Principal Secretary, Labour Department	-	-	-	277.58	-
Chief Administrator, State Institute of Capacity Building	-	-	-	910.64	-
Project Director, North Eastern Region Capital City Development Investment Programme (NERCCDIP)	-	-	-	2,223.25	-
Commissioner-cum-Secretary, Social Welfare Division, Social Justice, Empowerment and Welfare Department	-	-	-	1,581.96	-
Principal Secretary, Women and Child Welfare Division, Social Justice, Empowerment and Welfare Department	-	-	-	4,499.62	-
Chairmen Juvenile Welfare Board	-	-	-	54.76	-
Gram Vikash Adhikary Daramdin, West Sikkim	-	-	-	145.76	-
Gram Vikash Adhikary, Chongrong, West Sikkim	-	-	-	55.60	-
Gram Vikash Adhikary, Yuksom, West Sikkim	-	-	-	52.20	-
Member Secretary, Illness Assistance Fund Association	21.93	4.73	26.74	30.98	-
Sikkim Government College, Gyalshing	-	-	-	126.48	-
Vocational Training Improvement Project	-	-	-	72.00	-
Commissioner cum Secretary, Welfare Division, Social Justice Empowerment and Welfare Department	-	-	-	1,300.41	-
Child Development Project Officer, Mangan	171.40	184.84	176.31	157.61	-
Child Development Project Officer, Namchi	137.31	165.65	174.85	183.69	-
Child Development Project Officer, Gyalshing	214.63	233.89	241.74	234.68	-
Secretary, Ecclesiastical Department	-	-	0	1,194.47	-
Sikkim State Commission for Women	-	-	43.24	41.28	-
Block Development Officer, Khamdong, East Sikkim	129.48	56.99	54.95	58.66	-
Director Namgyal Institute of Tibetology, Deorali	-	-	171.35	319.92	-
Project Director State AIDS Control Society	-	-	1,086.42	1,142.04	-
Block Development Officer, Kabi Tingda	-	-	-	355.88	-
Block Development Officer, Duga, East Sikkim	-	-	-	428.79	-
Block Development Officer, Sumbuk, South Sikkim	-	-	-	529.61	-
Block Development Officer, Rhenock, East Sikkim	-	-	-	509.69	-
Block Development Officer, Dentam East Sikkim	762.65	993.25	1,116.34	1,293.41	-
Bloc Development Officer, Pakyong East Sikkim	-	-	-	405.53	-
Block Development Officer, Gyalsing, West Sikkim	-	-	-	698.48	-
Block Development Officer, Chungthang, North Sikkim	554.97	493.69	1,005.39	644.11	-
Block Development Officer, Soreng, West Sikkim	421.60	1,641.10	1,303.11	1,064.38	-
Chief Executive Officer, Sikkim Building and Other Construction Workers Welfare Board	-	-	-	41.48	-
Secretary, Health Care, Human Service and Family Welfare Department	-	-	-	-	5,514.14
Principal Secretary, Human Resource Development Department	-	-	3,864.21	4,218.37	-
Superintendent, STNM Hospital	-	-	-	-	4,134.25
Assistant Controller, Legal Metrology and Consumer Protection Cell Jorethang	-	-	33.30	38.06	-
Chief Medical Officer, District Hospital, Namchi	-	-	2,120.11	2,407.44	-
Additional Controller Legal Metrology and Consumer Protection Cell, Gangtok	-	-	132.21	150.48	-
Secretary, Cultural Affairs and Heritage Department	-	-	-	1,205.50	1,148.93
State Legal Service Authority				184.81	-
Urban Development and Housing Department	-	-	-	11,225.81	-
Total	**2,795.76**	**4,107.13**	**12,129.79**	**43,219.39**	**10,797.32**

Appendix 1.3.1

Year-wise lifting of SK Oil

(*Reference: Paragraph 1.3.9.2.4(i)*)

(in ₹ per KL)

Sl. No	Effective date	Dealers commission (Form XV)	Dealers commission (Other than Form XV)	Difference
1	28 February 2007	243.00	200.00	43.00
2	23 May 2008	255 .00	212.00	43.00
3	6 July 2009	263.00	220.00	43.00
4	7 September 2010	275.00	232.00	43.00
5	28 December 2012	438.24	377.73	60.51
6	21 October 2014	536.09	475.58	60.51
7	5 February 2016	714.18	649.16	65.02

Appendix 1.3.2

Varying rates of dealers' commission

(*Refer Para 1.3.9.2.4(i)*)

(*Figures in KL*)

Sl. No.	IOCL	Location	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	M/s Kerosales (against SNOD)	Deorali	474	951	990	987	900	4,302
2	M/s Denzoil	Ranipool	1,002	462	414	435	396	2,709
3	M/s Mulchand & Sons	Mangan	348	324	324	324	288	1,608
4	M/s Zongkero	Gangtok	1,026	972	984	978	900	4,860
5	M/s Ethenpa Entrprises	Namchi	741	648	648	648	564	3,249
6	M/s Kerosona	Gyalshing	672	576	576	576	504	2,904
	BPCL							
1	M/s Ratiram Bansilal	Gangtok	1,332	1,212	1,203	1,200	1,098	6,045
2	M/s Indraj Kurdamull	Rangpo	1,272	1,200	1,206	1,200	1,062	5,940
Total			**6,867**	**6,345**	**6,345**	**6,348**	**5,712**	**31,617**

Appendix 1.3.3

Construction/Upgradation of godowns

(*Refer Para 1.3.9.2.8(i)*)

Sl. No.	Food godowns	Sanctioned cost (₹ in lakh)	Capacity (in tons)
1	Gangtok	105.12	1,000
2	Rhenock	90.34	500
3	Singtam	86.34	500
4	Lachung	69.37	200
5	Makha	67.04	500
6	Dikchu	60.27	75
7	Namchi	90.33	500
Total		**568.81**	

Appendix 2.2.1

Audit conducted during 2015-16 under Economic Sector

(*Reference: Paragraph 2.2)*

(*₹ in lakh*)

Name of the Unit	Expenditure of the unit (*i.e. expenditure of the unit for the financial year for which audit conducted*)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Sr. Regional Transport Officer, Motor vehicle Division, Jorethang	63.06	67.45	72.73	-	-
Special Secretary, Motor Vehicle Division, Gangtok	-	-	448.00	681.02	-
DFO, Territorial, Forest Environment & Wildlife Management Department	-	-	555.09	-	-
The Secretary, Mines Mineral & Geology Department	-	-	-	378.29	-
North Eastern State Roads Investment Programme (NESRIP)	-	-	-	818.37	-
District Project Manager, North East Rural Livelihood Project, Jorethang, South Sikkim	-	-	-	761.81	-
District Project Manager, North East Rural Livelihood Project, Gyalshing, West Sikkim	-	-	-	745.49	-
Director, State Institute of Rural Development, South Sikkim	-	-	-	534.05	-
Commissioner-cum-Secretary, Co-operation Department	-	-	-	1,459.13	-
Sikkim State Cooperative Supply and Marketing Federation Ltd. (SIMFED)	-	-	17,494.49	10,194.16	-
Additional District Collector (Development), Gyalshing	-	-	-	148.51	-
Additional Collector, (Development) RMDD, Mangan	-	-	-	166.94	-
Project Director, South Asia Tourism Infrastructure Development Project	-	-	-	94.25	-
Dy. Director, Tourist Information Centre, Pelling, Tourism and Civil Aviation Department	-	22.30	31.33	41.44	-
Secretary, Tourism and Civil Aviation Department	-	-	-	6,834.61	-
Sikkim Biodiversity Conservation and Forest Management Project	-	-	-	2,125.00	-
Secretary Food Security & Agriculture Department	-	-	-	5,452.86	-
JD. Food Security & Agriculture Department, Gyalshing	-	-	251.00	182.00	-
JD. Food Security & Agriculture Department, Gangtok	-	-	79.66	153.47	-
Director, Sikkim Renewable Energy Development, Gangtok	-	-	-	396.18	-
JD. Food Security & Agriculture Department, Mangan	-	-	149.92	153.45	-
Addl. Director Directorate of fisheries Animal Husbandry, Fisheries & Livestock Development Department	-	-	229.33	105.75	-
Additional District Collector (Dev) RMDD, Gangtok	-	-	-	328.56	-
Chief Executive Officer, Sikkim Organic Mission	-	-	-	1,240.25	-
Director, Directorate of Handloom & Handicraft, Gangtok	-	-	891.44	879.70	-
Secretary, Rural Development Department, Gangtok	-	-	-	45,550.38	10,702.71
Chief Conservator of Forest, Forest Environment & Wild Life Department	-	-	-	19,802.05	-
Principal Chief Conservator of Forest cu Secretary (Territorial), Forest Environment & Wild Life management Department, Gangtok	-	-	9,911.90	19,802.05	-
Director, State Medicinal Plant Board, Forest Environment & Wild Life management Department, Gangtok	-	-	184.20	177.80	-
Principal Chief Conservator of Forest cu Secretary (Utilisation Circle), Forest Environment and Wild Life management Department, Gangtok	-	-	95.06	110.84	-
Principal Chief Conservator of Forest cu Secretary (Wild Life Circle), Forest Environment and Wild Life management Department, Gangtok	-	-	-	134.43	-

DFO (Territorial), East Division	-	-	-	585.32	-
Superintending Engineer, South West, Rural Management and Development Department	-	-	6,345.00	8,889.00	-
DFO, Wild Life, Gangtok	118.09	108.69	108.69	225.18	-
Secretary, Sikkim Nationalised Transport (SNT), Gangtok	-	-	-	5,464.24	3,924.05
Divisional Engineer, Water Security and Public Health Engineering Department, Namchi	-	-	-	1,592.00	-
Member Secretary, State Pollution Control Board	193.65	112.82	117.48	135.17	-
Small Farmer Agri Business Consortium, Gangtok	-	-	-	2,842.00	-
Member Secretary, Sikkim State Biodiversity Board, Forest Environment and Wildlife Management Department, Gangtok	-	-	-	19.05	-
DFO, Environment & Soil Conservation, South Division, Forest Environment & Wildlife Management Department,	-	-	103.27	87.51	-
DFO (Territorial), South, Forest Environment and Wildlife Management Department.	-	-	410.83	413.85	-
DFO (Territorial), North Division, Forest Environment and Wildlife Management Department.	-	-	234.77	277.83	-
DFO, Environment & Soil Conservation, West Division, Forest Environment & Wildlife Management Department	-	-	51.41	58.10	-
DFO (Territorial), West Division, Forest Environment and Wildlife Management Department.	-	-	286.94	387.27	-
Secretary, Animal Husbandry, fisheries and Veterinary Service Department, Tadong, Gangtok	-	-	-	1,358.25	-
Principal Chief Engineer, Water Security and Public Health Engineering Department	-	-	-	4,346.19	-
Principal Director-cum-Secretary, Horticulture and Cash Crop Development Department, Tadong, Gangtok	-	-	-	4,637.08	-
Assistant Engineer, North, Building and Housing Department, Mangan.	-	-	-	365.53	-
Divisional Engineer, South Division, Building and Housing Department, Namchi.	-	-	-	814.68	-
Divisional, Engineer, West Division, Building and Housing Department, Gyalshing	-	-	-	128.19	-
Divisional, Engineer, East Division, Water Resource and River Development Department, Gangtok	-	-	-	112.07	-
Joint Director, Horticulture & Cash Crop Department, North District, Mangan	88.61	91.67	138.08	167.64	-
Divisional, Engineer North Division, Water Resource and River Development Department, Gangtok	-	-	-	-	99.50
PCE-cum-Secretary, Building and Housing Department	-	-	-	-	2,373.18
PCE-cum-Secretary, Roads and Bridges Department	-	-	-	-	1,638.08
Superintending Engineer, Roads & Bridges Department, South District	-	-	-	-	363.04
Divisional Engineer, Roads & Bridges Department, North	-	-	-	-	59.91
Krishi Vigyan Kendra, Namthang	-	-	76.00	56.40	-
Krishi Vigyan Kendra, Geyzing	-	-	81.08	83.50	-
Krishi Vigyan Kendra, Mangan	-	-	76.44	80.70	-
PCE-cum-Secretary, Water Resource and River Development Department	-	-	-	-	2,226.42
Chief Medical Officer, District Hospital Singtam	-	-	-	2,515.60	-
Jt. Director, Animal Husbandry, Fisheries and Livestock Development Department	-	-	-	299.75	-
PCE-cum-Secretary, Energy and Power Department	-	-	2,461.97	3,679.12	-
Energy and Power Department, South District	-	-	1,157.58	-	-
Principal Secretary, Commerce & Industries Department	-	-	-	-	3,593.4
Total	**463.41**	**402.93**	**42,04,369.79**	**1,54,727.87**	**24,980.29**

Appendix 2.3.1

Detail status of reforms

(*Paragraph 2.3.9.1*)

Mandatory Reforms

Reform	Status as of 31 March 2016	Departmental reply and further observations
ULB level reforms		
1 Shifting to Accrual based Double Entry accounting.	Partially achieved.	The Department stated that the account had been prepared in double entry accrual accounting system. However, it was seen that some accounts were prepared on accrual and some on cash basis accounting system.
2. E-governance set up.	Ongoing. The objective of this reform of deploying e-governance in ULBs and parastatals was to improve the system of governance, using IT applications to make the ULBs more efficient and effective in delivering services to the citizens. Implementation of this reform was expected to benefit the ULBs as well as the citizens by simplifying systems and processes.	The processing of bids had been completed for selection of System Integrator and the same was at the stage of issue of Letter of Intent. However, due to delay in implementation of the reform, the objective to make the ULBs IT enabled in delivering services to the citizens more efficiently and effectively was defeated.
3. Reform of Property Tax so that it becomes major source of revenue for ULBs.	Not achieved.	The Department stated that the Property Tax Sub-Committee was working on various modalities of taxation regime. Due to delay in implementation of this reform in Property Tax, ULBs failed to harness one of the major source of revenue.
4. 100 *per cent* cost recovery (Water Supply and Solid Waste)	The water supply in urban area in the State had not been transferred to the ULBs and it was under the control of Government Department.	As per the information furnished by Department, cost of recovery was only 50 *per cent.* This could not be verified in Audit as revenue expenditure on solid waste management was clubbed together with other heads.
5. Internal earmarking of funds for services to urban poor.	Achieved	-
6. Provision of basic services to urban poor including security of tenure at affordable price, improved housing, water supply, sanitation, health and social security, education.	Partially Achieved.	Department in its reply stated (November 2016) that the ULBs have been directed through a notification to earmark 25 *per cent* of their annual budget minus the establishment expenses and deposit the amount in a separate BSUP fund. Based on the above facts Department incorporated the status of the reform achieved fully. However, the reply of the Department was not tenable as the ULB stated that the grants for basic services to urban poor have been transferred by UDHD to be implemented by ULB. Only sewerage management was carried out by the ULBs.
State level reforms		
7. Transfer of 18 functions under 12th Schedule to ULBs.	Not achieved.	The WSPHED had submitted (June 2010) a detailed action plan and schedule for handing over of the assets and responsibilities to the ULBs. However, ULBs did not have the required capacity to operate and maintain the same. The taking over of the functioning is still pending.
i) Urban planning including town planning.	Partially transferred. Only bazar contracts, car parking and civil works upto ₹ 50 lakh were transferred to ULBs.	As per MOA (13 June 2007), target date for transfer of functions under 12th schedule to ULBs was 2010-11. Due to the non-transfer of all 18 functions, ULBs were not able to perform and exercise their role as vibrant democratic units of local self-Government.
ii) Regulation of land-use and construction of buildings.	Not yet transferred.	
iii) Planning for economic and social development.	Not yet transferred.	
iv) Roads and bridges.	Not yet transferred.	

Reform	Status as of 31 March 2016	Departmental reply and further observations
v) Water supply for domestic, industrial and commercial purposes.	Not yet transferred.	
vi) Public health, sanitation conservancy and solid waste management.	Partially transferred. Only collection and disposal of municipal solid waste and collection of sanitation charges have been transferred to ULBs.	
vii) Fire services.	Not yet transferred.	
viii) Urban forestry, protection of the environment and promotion of ecological aspects.	Not yet transferred.	
ix) Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.	Not yet transferred.	
x) Slum improvement and upgradation.	Not yet transferred.	
xi) Urban poverty alleviation.	Function of implementation of poverty alleviation schemes has been transferred to ULBs.	
xii) Provision of urban amenities and facilities such as parks, gardens, playgrounds.	Not yet transferred.	
xiii) Promotion of cultural, educational and aesthetic aspects.	Not yet transferred.	
xiv) Burials and burial grounds, cremations, cremation grounds and electric crematoriums.	Not yet transferred.	
xv) Cattle pounds; prevention of cruelty to animals.	Not yet transferred.	
xvi) Vital statistics including registration of births and deaths.	Not yet transferred.	
xvii) Public amenities including street lighting, parking lots, bus stops and public conveniences.	Not yet transferred.	
xviii) Regulation of slaughter houses and tanneries.	Not yet transferred.	
8. Repeal of Urban Land Ceiling and Regulation Act.	Not applicable.	No Urban Land Ceiling and Regulation Act exist in the State.

Reform	Status as of 31 March 2016	Departmental reply and further observations
9. Amendments to Rent Control legislation to bring out amendments in existing provisions for balancing the interests of landlords and tenants.	Not applicable	According to the note under timeline for reforms in Reforms Agenda, the Gangtok Rent Control and Eviction Act 1956 is applicable for rent control. This being an old law, it falls in the ambit of Article 371F of the Constitution and hence non-amendable by the State. Moreover, the provisions of the Act provide sufficient basis for protecting the right of landlords and tenants with very few disputes which were settled amicably. Hence, the timelines as stipulated in the State Level Reforms was taken only as indicative strictures.
10. Transfer (City planning, water supply and sanitation).	Partially achieved.	As stated by the Department, State Government was considering the formation of Water Supply and Sewerage Board. Only sanitation had been transferred to ULBs. Due to non-transfer of city planning to ULBs (remained under UDHD), there was no participation of elected representatives and actual stakeholders in city planning.
11. Public Disclosure Law.	Not achieved.	As stated by the ULB, Public Disclosure Law had not been enacted despite issuance of Notification in 2011. Not enacting the Public Disclosure Law led to failure in instituting transparency and accountability in functioning of municipalities.
12. Rationalisation of Stamp duty to bring it down to no more than 5 *per cent.*	Before signing of the MoA, rate of registration of the land was 5 *per cent* (4 *per cent* on the consideration value of land and 1 *per cent* stamp duty on the consideration value of land).	Department in its reply stated that the stamp duty applicable in the State is already 4 per cent. Based on the above facts Department incorporated the reforms fully achieved. However, reply of the Department was not tenable as according to the Notification No: 210/234-I/LR&DMD(S) dated 25.02.2011, rate of registration of the land remained the same for the people of Sikkimese origin but for others it became 10 *per cent* (9 *per cent* on the consideration value of land and 1 *per cent* stamp duty). Thus, instead of rationalisation, there were disparities.
13. Community Participation Law.	Section 26 of the Sikkim Municipality Act 2007 provides for the Area Sabha but its composition, function etc. had not been prescribed as required under the Act.	Department in its reply stated (November 2016) that under the Sikkim Municipalities Act 2007, the section 26 of the said Act provides the provision for conducting area sabha. Area Sabha are being conducted by ULBs. Based on the above facts Department incorporated the status of the reform achieved fully. However, reply was not tenable as the Sikkim Municipality Act 2007 provides for the Area Sabha but it was not effective as its composition, function etc. not been laid down as required under the Act. According to the MoA dated 13 June 2007, target date for enactment of Community Participation Law was 2008-09. Thus, there was a lax approach in achieving this reform.

Optional Reforms

Reform	Status as of 31 March 2016	Departmental reply and further observations
1. Introduction of Property Title Certification System in ULBs.	Not achieved.	
2. Revision of building byelaws to streamline the approval process for construction of buildings, development of sites etc.	The Building Construction Regulation, 1991 has been amended.	As per departmental reply byelaws had been amended. However, streamline the approval process for construction of buildings, development of sites etc. had not been incorporated. Hence this reforms was not achieved .

Reform	Status as of 31 March 2016	Departmental reply and further observations
3. Revision of Building Bye laws- to make rain water harvesting mandatory.	The Building Construction Regulation, 1991 has been amended incorporating the provision for water harvesting in case of roof top having the plinth area more than 6,000 sq.ft.	Department in its reply stated (November 2016) that the Amendment in the byelaws has been done. As per the guidelines building plan is required to incorporate rain water harvesting. But it is not possible to have the Gangtok having ample source of uninterrupted water supply it is not possible to have to have the rain water harvesting done having small area. Based on the above fact Department incorporated the status of the reform achieved fully. However, the reply of the Department was not tenable as The Building Construction Regulation, 1991 has been amended incorporating the provision for water harvesting in case of roof top having the plinth area more than 6,000 sq.ft. However, JNNURM guideline stipulated that the all the houses should have rain water harvesting.
4. Earmarking 25 *per cent* development land in all housing projects for EWS/LIG.	Achieved. Notification issued.	Although the notification was issued. But, housing projects for EWS/LIG had not to come up in the State.
5. Simplification of Legal and Procedural frame work for conversion of agricultural land for non-agricultural purposes.	Not achieved.	Department stated (November 2016) that there was no Statutory Master Plan for the urban centers of Sikkim due to special land laws because of which such restrictions were not imposed.
6. Introduction of computerized process of Registration of land and Property.	Achieved	
7. Byelaws on reuse of Recycled Water.	Notification issued.	Department in its reply stated (November 2016) that Notification in this regard has been issued. In the light of the above fact Department incorporated the status of the said reform as fully achieved. However, test check of 13 house plan approved by UDHD for the year 2015-16 revealed that no such provision was kept.
8. Administrative Reforms.	Ongoing.	The Department stated that the Administrative Reforms Commission had already submitted its report to the Government. However, documentary evidence in support of the formation of Administrative Reforms Commission and its report was not produced.
9. Structural Reforms.	Ongoing.	The Department stated that the Administrative Reforms Commission had already submitted its recommendation on Structural Reforms to the Government. However, documentary evidence in support of submission of report on Structural Reforms was not produced to audit.
10. Encouraging Public Private Participation.	No initiative was taken to encourage Public Private Participation in any reforms.	Department in its reply stated (November 2016) that the project construction of Multilevel Car Park at Old West Point School Complex and Construction of City Centre at STNM Hospital Complex is being taken up under PPP. In the light of the above fact Department incorporated the status of the said reform as fully achieved. However, the document in support of reply does not suffice that the above construction works are being taken up under PPP mode.

Appendix 2.3.2

Delays in transfer of funds

(*Reference: Paragraph 2.3.9.5 (v)*)

(₹ in lakh)

Name of the Project	ACA released by GoI to State Govt.	Date of release	Central share released by State Govt. to implementing Deptt.	Date of release	No of days delayed	Amount of state share released to implementing Department.	Date of release of State share	No of days delayed
Upgradation and Modernisation of Raw Water Main and WTP for Greater Gangtok Water Supply System	950.32	03.10.2011	950.32	03.01.2012	92	128.85	20.08.14	1,018
	1,633.87	22.06.2012	1,633.87	19.09.2012	89	261.23	31.03.16	1,378
	1,633.87	17.02.2014	1,633.87	14.03.2014	27			
Integrated Housing and Slum Dev of Old Slaughter House Area under BSUP - I	12.00	23.12.2013	12.00	10.02.2014	49			
	70.00	03.01.2013	70.00	31.07.2013	209			
Integrated Housing and Slum Dev of Old Slaughter House Area under BSUP - II	112.00	07.01.2012	112.00	28.03.2012	81			
	112.00	26.07.2013	112.00	10.02.2014	199			
IHSDP Singtam	896.00	26.03.2013	896.00	31.07.2013	127			
	37.00	25.08.2014	37.00	Not available				
IHSDP for Notified Slum Area under BSUP, Rangpo	545.00	07.01.2012	545.00	28.03.2012	81			
	545.00	26.07.2013	545.00	10.02.2014	199			
	20.00	15.02.2014	20.00	17.02.2014	2			
Rehabilitation of sewerage system in Gangtok	322.92	03.10.2011	322.92	03.01.2012	92	3.00	31.03.11	58
						30.00	14.08.14	1,044
	538.20	22.06.2012	538.20	19.09.2012	89	36.20	14.05.15	1,062
Augmentation of Mangan Water Supply Scheme, North Sikkim	711.37	03.02.2012	711.37	31.03.2012	57	38.08	15.10.12	254
Setting up of sewerage facility in Namchi Town and surrounding areas	493.65	03.02.2012	493.65	31.03.2012	57	34.09	02.03.16	1487
Setting up of Sewerage Facility & construction of STP at Rangpo	222.30	03.02.2012	222.30	31.03.2012	57	20.00	15.10.12	254
						9.40	**17.03.16**	**1,502**
Setting up of sewerage facility in Jorethang Town and surrounding areas	216.00	03.02.2012	216.00	31.03.2012	57	13.03	02.03.16	1,487
Setting up of sewerage facility in Melli Town and surrounding areas	153.45	03.02.2012	153.45	31.03.2012	57	14.10	15.10.12	254
Implementation of E-Governance in the Gangtok Municipal Corporation	155.00	05.08.2013	155.00	10.03.2015	582			
Procurement of buses under JNNURM (in two phase)	25.50	25.09.2012	25.50	20.02.2013	148			
	22.50	02.09.2013	22.50	28.11.2013	87			
	425.00	27.06.2014	425.00	17.12.2014	173			
	340.80	19.01.2016	340.80	21.04.2016	93			
Total	**10,193.75**		**10,193.75**					

Appendix 2.3.3

Irregular diversion of project fund

(*Reference: Paragraph 2.3.9.5 (vii)*)

Sl. No.	Work	Amount (*₹ in lakh*)	Debited from JNNURM Scheme
1	Realignment of existing raw water main at Pakyong	30.75	Setting up of Sewerage facility at Rangpo.
2	Improvement of Intake Head at Chalamthang	9.32	
3	Maintenance of various work under Gyalshing Sub-Division	7.67	Setting up of Sewerage facility at Melli.
4	Payment of committed liability of work 'Construction of Reservoir Tank at Naya Bazar WSS at West Sikkim' completed during December 2008.	14.34	
5	Improvement and stabilisation of GI pipeline at Sombaria-Daramdin, West Sikkim	5.79	
6	Maintenance of Water Supply System	15.97	Setting up of Sewerage facility at Gangtok.
7	Repair of damaged pipes at Singtam	3.20	Infrastructural Slum Development programme at Singtam.
8	Purchase of Calender	1.51	Setting up of Sewerage facility at Rangpo.
9	Cleaning of sludge laying bed filter at Gangtok.	4.49	Setting up of Sewerage facility at Gangtok
10	Renovation of SE Office	3.44	Upgradation and modernisation of RWT and STP at Greater Gangtok WSS.
11	Purchase of 3 vehicles for Minister, Advisor and Secretary	25.74	Setting up of Sewerage facility at Namchi.
12	Purchase of vehicle	7.89	Upgradation and modernization of RWT and WTP of Greater Gangtok SSS.
13	Purchase of vehicle	5.47	
14	Purchase of vehicle	5.47	Augmentation of Mangan WS Scheme.
15	MR salary, Restoration of Jhora, purchase of vehicle, throwing of spoils, etc.	62.81	BSUP I & II, IHSDP Singtam, BSUP Rangpo
	Total	**203.86**	

Appendix 2.5.1

Statement showing year-wise production

(*Reference: Paragraph 2.5*)

Year	No. of beneficiaries	Dfl provided	Expected quantity should have been produced	Quantity produced	Shortfall in production	Percentage of production
Mulberry			*@40kg/100 dfls*			
2009-10	83	2,740	1,096	221	875	20.16
2010-11	73	2,510	1,004	238.3	765.7	23.74
2011-12	161	4,970	1,988	422.4	1,565.6	21.25
2012-13	129	3,750	1,500	426.9	1,073.1	28.46
2013-14	135	5,970	2,388	141.3	2,246.7	5.92
2014-15	168	10,015	4,006	394.1	3,611.9	9.84
Total	**749**	**29,955**	**11,982**	**1844**	**10,138**	**15.39**
Eri			*@4kg/100 dfls*			
2009-10	78	3,005	120.2	185.35	-65.15	154.20
2010-11	117	4,460	178.4	181.02	-2.62	101.47
2011-12	63	4,850	194	126.58	67.42	65.25
2012-13	41	1,350	54	13	41	24.07
2013-14	59	3,145	125.8	69.1	56.7	54.93
2014-15	89	4,240	169.6	45.6	124	26.89
Total	**447**	**21,050**	**842**	**620.65**	**289.12**	**73.71**
Muga			*@3,000/100 dfls*			
2011-12	13	668	20,040	4,179	15,861	20.85
2012-13	5	300	9,000	54	8,946	0.60
Total	**18**	**968**	**29,040**	**4,233**	**24,807**	**14.58**

Appendix 3.1.1

Statement showing investments made by State Government in SPSUs whose accounts are in arrears

(Reference: Paragraph 3.1.11)

(Figures in columns 4 & 6 to 8 are ₹ in crore)

Sl. No.	Name of the State Public Sector Undertaking	Year up to which accounts finalised	Paid up capital	Period of accounts pending finalisation	Investment made by State Government during the year (2015-16) of which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A	**Working Government Companies**						
1	Sikkim Poultry Development Corporation (SPDCL)	2008-09	0.00[1]	2009-10 to 2015-16	Nil	Nil	0.18
	Grand Total (A + B)		**0.00**				**0.18**

[1] *As on 31.03.2009.*

Appendix 3.1.2

Summarised financial position and working results of Government Companies and Statutory Corporations as per their latest finalised financial statements/accounts as on 30 September 2016

(Reference: Paragraph 3.1.14)

(Figures in columns 5 to12 are ₹ in crore)

Sl No	Sector/Name of the company	Period of accounts	Year in which accounts finalised	Paid up capital	Loan outstanding at the end of the year	Accumulated Profit (+)/ loss(-)	Turnover	Net profit (+)/ loss (-)	Net impact of Accounts comments	Capital employed[2]	Return on capital employed	Percentage of return on capital employed	Manpower
1	2	3	4	5	6	7	8	9	10	11	12	13	14
A. Working Government Companies													
Agriculture and Allied													
1	Sikkim Poultry Development Corporation Limited (SPDCL)	2008-09	2009-10	0	0	-0.73	0	-0.08	0	0.58	-0.08	-	4
2	Sikkim Hatcheries Limited (SHL)	2008-09	2009-10	0.46	0	-1.67	0.98	-0.14	0	0.33	-0.14	-	5
3	Sikkim Livestock Processing and Development Corporation (SLPDC)	2012-13	2014-15	0.69	0.01	-1.02	0.05	-0.01	0	0.05	-0.01	-	3
Sector wise total		-	-	**1.15**	**0.01**	**-3.42**	**1.03**	**-0.23**	**0**	**0.96**	**-0.23**	-	**12**
Finance													
4	Schedule Caste, Schedule Tribe and Other Backward Classes Development Corporation Limited (SABCCO)	2012-13	2015-16	15.81	31.14	-15.26	2.02	-3.91	0	31.69	-2.88	-	23
Sector wise total				**15.81**	**31.14**	**-15.26**	**2.02**	**-3.91**	**0**	**31.69**	**-2.88**	-	**23**
Infrastructure													
5	Sikkim Industrial Development and Investment Corporation Limited (SIDICO)	2014-15	2016-17	17.14	136.53	10.43	14.39	3.63	1.23	166.47	15.27	9.17	37
Sector wise total				**17.14**	**136.53**	**10.43**	**14.39**	**3.63**	**1.23**	**166.47**	**15.27**	**9.17**	**37**
Power		-	-										
6	Teesta Urja Limited (TUL)	2014-15[3]	2015-16	2,121.56	7156.57	-90.87	0	-3.67	0	9,187.26	962.14	10.47	100
7	Teestavalley Power Transmission Limited (TPTL)	2015-16	2016-17	258.14	647.80	-4.01	0	-0.38	0	901.93	75.29	8.35	52
8	Sikkim Power Investment Corporation Limited (SPICL)	2014-15	2016-17	0.01	811.36	-94.79	0	-69.60	6.54	716.58	11.59	1.62	2
9	Sikkim Power Development Corporation Limited (SPDC)	2015-16	2016-17	20.30	97.13	-74.55	10.95	-10.46	0.03	101.52	-3.77	-	71
Sector wise total		-	-	**2,400.01**	**8,712.86**	**-264.22**	**10.95**	**-84.11**	**6.57**	**10,907.29**	**1,045.25**	**9.58**	**225**
Service													
10	Sikkim Tourism Development	2012-13	2013-14	6.46	0.13	-1.90	2.22	0.02	0	4.69	0.04	0.85	66

[2] *Capital employed represents shareholders' funds plus long term borrowings.*

[3] *Finalised prior to GoS acquiring (6 August 2015) 51 per cent of the equity shareholding.*

Sl No	Sector/Name of the company	Period of accounts	Year in which accounts finalised	Paid up capital	Loan outstanding at the end of the year	Accumulated Profit (+)/ loss(-)	Turnover	Net profit (+)/ loss (-)	Net impact of Accounts comments	Capital employed[2]	Return on capital employed	Percentage of return on capital employed	Manpower
	Corporation (STDC)												
Sector wise total		-	-	**6.46**	**0.13**	**-1.90**	**2.22**	**0.02**	**0**	**4.69**	**0.04**	**0.85**	**66**
Total A (All sector wise working Government companies)		-	-	**2,440.57**	**8,880.67**	**-274.37**	**30.61**	**-84.60**	**7.80**	**11,111.10**	**1,057.47**	**9.52**	**363**
B Statutory Corporations													
Finance													
11	State Bank of Sikkim (SBS)	2012-13	2015-16	0.58	54.94	-9.85	130.87	4.82	6.79	50.44	98.40	195.08	325
Sector wise total		-	-	**0.58**	**54.94**	**-9.85**	**130.87**	**4.82**	**6.79**	**50.44**	**98.40**	**195.08**	**325**
Service													
12	State Trading Corporation of Sikkim (STCS)	2013-14	2016-17	1.61	0	8.22	17.33	-0.43	19.73	9.83	-0.43	-	89
Sector wise total				**1.61**	**0**	**8.22**	**17.33**	**-0.43**	**19.73**	**9.83**	**-0.43**	-	**89**
Total B (All sector wise working Statutory corporations)		-	-	**2.19**	**54.94**	**-1.63**	**148.20**	**4.39**	**26.52**	**60.27**	**97.97**	**162.55**	**414**
Grand Total (A+B)		-	-	**2,442.76**	**8,935.61**	**-276.00**	**178.81**	**-80.21**	**34.32**	**11,171.37**	**1,155.42**	**10.34**	**777**
C. Non-working Government Companies													
Manufacturing													
13	Sikkim Jewels Limited (SJL)[4]	2012-13	2013-14	15.25	0	-15.89	0	-1.09	0	0.06	-	-	Nil
14	Sikkim Times Corporation (SITCO)	2012-13	2013-14	23.49	0	-21.42	0	-2.23	0	2.80	-	-	Nil
15	Sikkim Precision Industries Limited (SPIL)[5]	2012-13	2013-14	4.39	0	-3.53	0	-0.64	0	0.86	-	-	Nil
Sector wise total		-	-	**43.13**	**0**	**-40.84**	**0**	**-3.96**	**0**	**3.72**	-	-	Nil
Total C (All sector wise non-working Government companies)		-	-	**43.13**	**0**	**-40.84**	**0**	**-3.96**	**0**	**3.72**	-	-	Nil
D. Non-working Statutory Corporation													
16	Sikkim Mining Corporation (SMC)[6]	2010-11	2012-13	12.50	0.54	-11.88	0	0	0	1.16	0	-	Nil
Sector Wise Total		-	-	**12.50**	**0.54**	**-11.88**	**0**	**0**	**0**	**1.16**	**0**	-	Nil
Total D		-	-	**12.50**	**0.54**	**-11.88**	**0**	**0**	**0**	**1.16**	**0**	-	Nil
Grand Total (A+B+C+D)		-	-	**2,498.39**	**8.936.15**	**-328.72**	**178.81**	**-84.17**	**34.32**	**11,176.25**	**1,155.42**	**10.34**	**777**

4 *Companies of Sl. No.C-13 and C-14 had been closed down by GoS w.e.f. 30.04.2011. The Assets of these companies had been disposed of and the sale proceeds remitted to Commerce & Industries, GoS on 31.12.2012. The audit of accounts and transactions pertaining to these two companies had been entrusted to this office upto 2016-17.*

5 *Company at serial no. C-15 had been closed down by GoS w.e.f.30.04.2011. The Assets of the company had been disposed of and the sale proceeds remitted to Commerce & Industries, GoS on 31.12.2012. The audit of accounts and transactions pertaining to the company had been entrusted to this office upto 2017-18.*

6 *Department of Mines, Minerals and Geology, GoS has approved liquidation of SMC and waiver of its liabilities of ₹ 6.85 crore vide notification dated 06.10.2016. The audit of accounts and transactions pertaining to SMC had been entrusted to this office upto 2016-17.*

Appendix 3.2.1

Statement showing proportionate share of penalty on delay in completion of project in respect of shares diluted/sold by equity shareholders

(Reference: Paragraph 3.2.10.6(i))

Name of shareholder	Before take over by SPICL		As per share purchase agreement dated 6 August 2015			Proportion of delay penalty leviable on each shareholder (₹ in crore)	Proportion of delay penalty in respect of shares diluted/sold by each shareholder (₹ in crore)
	No. of shares held	Percentage of shareholding (%)	No. of shares sold to SPICL	Percentage of shares sold (%)	Amount actually paid (₹ in crore)		
(1)	*(2)*	*(3)*	*(4)*	*(5) = ((4) / (2)) * 100*	*(6)*	*(7)=₹15.60 crore * (3)*	*(8) = (7) * (5)*
Athena Singapore	1,03,66,76,529	48.86	23,60,08,691	22.77	201.35	7.62	1.74
PTC	22,40,15,000	10.56	4,39,62,777	19.62	37.51	1.65	0.32
Athena India	8,84,98,700	4.17	11,23,658	1.27	0.96	0.65	0.01
APPL Power	7,69,56,000	3.63	3,13,46,703	40.73	26.74	0.57	0.23
Total	**1,42,61,46,229**	**67.22**	**31,24,41,829**	**-**	**266.56**	**10.49**	**2.30**

Appendix 3.2.2

Statement showing proportionate share of avoidable 'Interest during Construction' (IDC) in respect of shares diluted/sold by the equity shareholders

(Reference: Paragraph 3.2.10.6(ii))

Name of shareholder	Before take over by SPICL		As per share purchase agreement dated 6 August 2015			Proportion of IDC recoverable from each shareholder *(₹ in crore)*	Proportion of IDC recoverable in respect of shares diluted/sold by each shareholder *(₹ in crore)*
	No. of shares held	Percentage of shareholding *(%)*	No. of shares sold to SPICL	Percentage of shares sold *(%)*	Amount actually paid *(₹ in crore)*		
(1)	*(2)*	*(3)*	*(4)*	*(5) = ((4)/(2)) * 100*	*(6)*	*(7)=₹ 758.13 crore * (3)*	*(8) = (7) * (5)*
Athena Singapore	1,03,66,76,529	48.86	23,60,08,691	22.77	201.35	370.42	84.34
PTC	22,40,15,000	10.56	4,39,62,777	19.62	37.51	80.06	15.71
Athena India	8,84,98,700	4.17	11,23,658	1.27	0.96	31.61	0.40
APPL Power	7,69,56,000	3.63	3,13,46,703	40.73	26.74	27.52	11.21
Total	**1,42,61,46,229**	**67.22**	**31,24,41,829**	**-**	**266.56**	**509.61**	**111.66**

Appendix 3.2.3

Statement showing proportionate share of avoidable hard cost in respect of the shares diluted/sold by equity shareholders

(Reference: Paragraph 3.2.10.6(ii))

Name of shareholder	Before take over by SPICL		As per share purchase agreement dated 6 August 2015			Proportion of avoidable cost recoverable from each shareholder (*₹in crore*)	Proportion of avoidable cost recoverable in respect of shares diluted/sold by each shareholder (*₹in crore*)
	No. of shares held	Percentage of shareholding *(%)*	No. of shares sold to SPICL	Percentage of shares sold *(%)*	Amount actually paid (*₹ in crore*)		
(1)	*(2)*	*(3)*	*(4)*	*(5) = ((4) / (2)) * 100*	*(6)*	*(7)=₹133.88 crore * (3)*	*(8) = (7) * (5)*
Athena Singapore	1,03,66,76,529	48.86	23,60,08,691	22.77	201.35	65.41	14.89
PTC	22,40,15,000	10.56	4,39,62,777	19.62	37.51	14.14	2.77
Athena India	8,84,98,700	4.17	11,23,658	1.27	0.96	5.58	0.07
APPL Power	7,69,56,000	3.63	3,13,46,703	40.73	26.74	4.86	1.98
Total	**1,42,61,46,229**	**67.22**	**31,24,41,829**	**-**	**266.56**	**89.99**	**19.71**

Appendix 3.3.1

Statement showing avoidable payment of interest and income tax by SBS and SIDICO

(Reference: Paragraph 3.3.1)

Financial year	Due date of filing return	Actual date of filing of return		Interest levied U/S 234 A		Interest U/S 234B		Interest levied U/S 234 C	
		SBS	SIDICO	SBS	SIDICO	SBS	SIDICO	SBS	SIDICO
2008-09	30.09.2009	NA*	31.03.2014	0	27,97,200	0	37,29,600	0	0
2009-10	15.10.2010	09.12.2014	NA*	89,26,151	0	99,76,286	0	8,83,864	0
2010-11	30.09.2011	09.12.2014	NA*	0	**0**	0	0	0	0
2011-12	01.10.2012	28.03.2014	30.10.2013	51,10,002	9,44,944	68,13,336	26,16,768	14,33,639	2,90,409
2012-13	30.09.2013	31.03.2015	NA*	45,51,835	0	64,26,120	0	13,52,163	0
2013-14	30.09.2014	21.03.2016	10.10.2014	75,22,002	51,883	50,14,668	3,11,816	21,10,336	6,44,447
2014-15	30.09.2015	Not filed	NA*	Not filed	0	Not filed	0	Not filed	0
			Total	**2,61,09,990**	**37,94,027**	**2,82,30,410**	**66,58,184**	**57,80,002**	**9,34,856**

**NA – Details not available*

Computation of Income Tax for the financial year 2011-12			
Particulars	**SBS**	**SIDICO**	**Remarks**
	Amount	**Amount**	
Income	8,74,98,630	2,98,35,808	**As per IT Department calculation**
Less: Loss carried forward	0	0	
Aggregate income	8,74,98,630	2,98,35,808	
Tax	2,62,49,589	89,50,743	
Surcharge on Tax	13,12,479	4,47,537	
Education Cess	8,26,862	2,81,948	
	2,83,88,930	**96,80,228**	
Total Tax paid for financial year 2011-12-------(A)			**3,80,69,158**
Income	8,74,98,630	2,98,35,808	**IT calculated considering availability of loss of 2010-11 for set off**
Less: Loss carried forward	7,15,58,584	46,78,838	
Aggregate income	1,59,40,046	2,51,56,970	
Tax	47,82,014	75,47,091	
Surcharge on Tax	2,39,101	3,77,355	
Education Cess	1,50,633	2,37,733	
Total Tax Payable	**51,71,748**	**81,62,179**	
Total Tax payable for Financial year 2011-12 had IT return for 2010-11 been filed within due date ----------------(B)			**1,33,33,927**
Avoidable payment of Income Tax = (A) – (B)	**2,32,17,182**	**15,18,049**	**2,47,35,231**

Appendix 4.10.1

Details of ENA used and IMFL produced by various distilleries during 2011-12 to 2015-16

(*Reference: Paragraph 4.10.3.5*)

Name of the distillery	Year	ENA used *(In BL)*	Net ENA used after allowing 6% wastage *(In BL)*	No of cases of IMFL required to be produced	No of cases of IMFL actually produced	Short production of IMFL *(In cases)*	Minimum rate of Excise Duty *(In ₹ per case)*	Loss of Excise Duty *(In ₹)*
Sikkim Distilleries Ltd., Rangpo	2011-12	21,86,773	20,55,567	5,23,045	4,49,703	73,342	445	3,26,37,190
	2012-13	17,77,223	16,70,590	4,25,087	4,52,098	-	445	-
	2013-14	16,93,116	15,91,529	4,04,969	4,16,447	-	445	-
	2014-15	20,73,330	19,48,930	4,95,911	4,18,936	76,975	445	3,42,53,875
	2015-16	18,37,287	17,27,050	4,39,453	4,31,897	7,556	470	35,51,320
	Total	**95,67,729**	**89,93,666**	**22,88,465**	**21,69,081**	**1,57,873**	-	**7,04,42,385**
Mount Distilleries Ltd., Majhitar	2011-12	27,51,021.45	25,85,960	6,58,005	4,08,232	2,49,773	445	11,11,48,985
	2012-13	31,57,293.27	29,67,856	7,55,180	4,33,503	3,21,677	445	14,31,46,265
	2013-14	34,14,620.79	32,09,744	8,23,011	4,73,719	3,49,292	445	15,54,34,940
	2014-15	35,07,351.47	32,96,910	8,38,908	5,11,278	3,27,630	445	14,57,95,350
	2015-16	36,24,510.79	34,07,040	8,66,931	5,27,382	3,39,549	470	15,95,88,030
	Total	**1,64,54,797.77**	**1,54,67,510**	**39,42,035**	**23,54,114**	**15,87,921**	-	**71,51,13,570**
Himalaya Distilleries Ltd., Majhitar	2011-12	1,97,066.61	1,85,243	47,136	53,693	-	445	-
	2012-13	2,61,060.87	2,45,397	62,442	58,063	4,379	445	19,48,655
	2013-14	78,708.76	73,986	18,826	22,339	-	445	-
	2014-15	1,32,971.01	1,24,993	31,805	26,054	5,751	445	25,59,195
	2015-16	2,36,824.81	2,22,615	56,645	60,975	-	470	-
	Total	**9,06,632.06**	**8,52,234**	**2,16,854**	**2,21,124**	**10,130**	-	**45,07,850**
Mayel & Fraser, Bahgeykhola	2011-12	2,21,261	2,07,985	52,922	46,480	6,442	445	28,66,690
	2012-13	2,29,348	2,15,587	54,857	56,745	-	445	-
	2013-14	2,54,765	2,39,479	60,936	62,255	-	445	-
	2014-15	1,66,351	1,56,370	40,095	34,241	5,854	445	26,05,030
	2015-16	74,299	69,841	17,908	12,009	5,899	470	27,72,530
	Total	**9,46,024**	**8,89,262**	**2,26,718**	**2,11,730**	**18,195**	-	**82,44,250**
Kanchanjangha Distilleries Ltd., Manpur	2011-12	0	-	-	-	-	445	-
	2012-13	41,195	38,723	9,853	4,239	5,614	445	24,98,230
	2013-14	6,28,214	5,90,521	1,50,260	1,39,176	11,084	445	49,32,380
	2014-15	5,83,849.65	5,48,819	1,40,723	1,32,931	7,792	445	34,67,440
	2015-16	6,66,322	6,26,343	1,59,375	1,44,886	14,489	470	68,09,830
	Total	**19,19,580.65**	**18,04,406**	**4,60,211**	**4,21,232**	**38,979**	-	**1,77,07,880**
Grand Total		**2,88,88,131.42**	**2,71,54,844**	**69,17,429**	**51,56,157**	**18,13,098**	-	**81,60,15,935**

Appendix 4.10.2

Details of actual receipt/accountal and utilisation of holograms by various distilleries/breweries/bonded warehouse during 2011-12 to 2015-16

(Reference: Paragraph: 4.10.3.11)

Name of distillery/ brewery	Opening balance of holograms *(in Nos.)*	Quantity of hologram received during the years *(in Nos.)*	Total availability of holograms *(in Nos.)*	Quantity of hologram utilised during the years *(in Nos.)*	Closing balance of holograms *(in Nos.)*	No of bottles of various kinds of IMFL/ beer produced	Quantity of hologram supposed to be utilised during the years *(in Nos.)*	Holograms excess utilised *(in Nos.)*	Number of cases of IMFL/beer to be made from excess utilised holograms *(12 bottle per case)*	Minimum average rate of Excise Duty *(₹ per case)*	Minimum loss of Excise Duty *(Amount in ₹)*
Mount Distilleries Ltd, Majhitar	26,545	5,02,25,253	5,02,51,798	4,89,22,642	13,29,156	4,70,39,457	4,70,39,457	18,83,185	1,56,932	450	7,06,19,400
Kanchanjangha Distilleries Ltd, Manpur	0	81,00,000	81,00,000	73,91,941	7,08,059	73,29,972	73,29,972	61,969	5,164	450	23,23,800
Sikkim Breweries Ltd, Bagheykhola	1,49,196	24,00,000	25,49,196	25,11,771	37,425	14,79,336	14,79,336	10,32,435	86,036	111.84	96,22,266
Overall Traders, Gangtok	0	1,88,00,000	1,88,00,000	1,78,52,990	9,47,010	1,76,09,640	1,76,09,640	2,43,350	20,279	450	91,25,550
Total		**7,95,25,253**	**7,97,00,994**	**7,66,79,344**	**30,21,650**	**7,34,58,405**	**7,34,58,405**	**32,20,939**			**9,16,91,016**

Appendix 4.12.1

Entertainment Tax (ET) payable and actually paid by Nayuma Entertainment (P) Ltd., cable TV operator

(Reference: Paragraph 4.12)

Period	No. of Subscriber	Rate of connection	Rate of ET 25%	Total Tax payable	Tax paid on	Penalty applicable from	Number of days late	Penalty @ Re 1/ connection/ day	Total Tax (including penalty)	Actual Tax paid	Difference to be paid
1	2	3	4	5 (2x4)	6	7	8 (6-7)	9 (2x8)	10 (5+9)	11	12 (10-11)
Apr-10	4,610	216	54	2,48,940	16-02-2012	01-06-2010	625	28,81,250	31,30,190	2,83,338	28,46,852
May-10	4,610	216	54	2,48,940	01-11-2012	01-07-2010	854	39,36,940	41,85,880	10,00,000	31,85,880
Jun-10	4,610	216	54	2,48,940	27-04-2013	01-08-2010	1,000	46,10,000	48,58,940	5,00,000	43,58,940
Jul-10	4,610	216	54	2,48,940	15-07-2013	01-09-2010	1,048	48,31,280	50,80,220	5,00,000	45,80,220
Aug-10	4,610	216	54	2,48,940	06-09-2013	01-10-2010	1,071	49,37,310	51,86,250	5,00,000	46,86,250
Sep-10	4,610	216	54	2,48,940	23-10-2013	01-11-2010	1,087	50,11,070	52,60,010	4,00,000	48,60,010
Oct-10	4,610	216	54	2,48,940	22-11-2013	01-12-2010	1,087	50,11,070	52,60,010	3,00,000	49,60,010
Nov-10	4,610	216	54	2,48,940	16-12-2013	01-01-2011	1,080	49,78,800	52,27,740	15,00,000	37,27,740
Dec-10	4,610	216	54	2,48,940	25-01-2014	01-02-2011	1,089	50,20,290	52,69,230	7,00,000	45,69,230
Jan-11	4,610	216	54	2,48,940	20-02-2014	01-03-2011	1,087	50,11,070	52,60,010	10,00,000	42,60,010
Feb-11	4,610	216	54	2,48,940	24-06-2014	01-04-2011	1,180	54,39,800	56,88,740	10,00,000	46,88,740
Mar-11	4,610	216	54	2,48,940	30-07-2014	01-05-2011	1,186	54,67,460	57,16,400	7,00,000	50,16,400
Apr-11	4,610	216	54	2,48,940	23-09-2014	01-06-2011	1,210	55,78,100	58,27,040	10,00,000	48,27,040
May-11	4,610	216	54	2,48,940	22-10-2014	01-07-2011	1,209	55,73,490	58,22,430	10,00,000	48,22,430
Jun-11	4,610	216	54	2,48,940	31-12-2015	01-08-2011	1,613	74,35,930	76,84,870	5,30,000	71,54,870
Jul-11	4,610	216	54	2,48,940	05-03-2016	01-09-2011	1,647	75,92,670	78,41,610	2,88,962	75,52,648
Aug-11	4,610	216	54	2,48,940	31-03-2016	01-10-2011	1,643	75,74,230	78,23,170	0	78,23,170
Sep-11	4,610	216	54	2,48,940	31-03-2016	01-11-2011	1,612	74,31,320	76,80,260	0	76,80,260
Oct-11	4,610	216	54	2,48,940	31-03-2016	01-12-2011	1,582	72,93,020	75,41,960	0	75,41,960
Nov-11	4,610	216	54	2,48,940	31-03-2016	01-01-2012	1,551	71,50,110	73,99,050	0	73,99,050
Dec-11	4,610	216	54	2,48,940	31-03-2016	01-02-2012	1,520	70,07,200	72,56,140	0	72,56,140
Jan-12	4,610	216	54	2,48,940	31-03-2016	01-03-2012	1,491	68,73,510	71,22,450	0	71,22,450
Feb-12	4,610	216	54	2,48,940	31-03-2016	01-04-2012	1,460	67,30,600	69,79,540	0	69,79,540
Mar-12	4,610	216	54	2,48,940	31-03-2016	01-05-2012	1,430	65,92,300	68,41,240	0	68,41,240
Apr-12	4,610	216	54	2,48,940	31-03-2016	01-06-2012	1,399	64,49,390	66,98,330	0	66,98,330
May-12	4,610	216	54	2,48,940	31-03-2016	01-07-2012	1,369	63,11,090	65,60,030	0	65,60,030
Jun-12	4,610	216	54	2,48,940	31-03-2016	01-08-2012	1,338	61,68,180	64,17,120	0	64,17,120
Jul-12	4,610	216	54	2,48,940	31-03-2016	01-09-2012	1,307	60,25,270	62,74,210	0	62,74,210
Aug-12	4,610	216	54	2,48,940	31-03-2016	01-10-2012	1,277	58,86,970	61,35,910	0	61,35,910
Sep-12	4,610	216	54	2,48,940	31-03-2016	01-11-2012	1,246	57,44,060	59,93,000	0	59,93,000
Oct-12	4,610	216	54	2,48,940	31-03-2016	01-12-2012	1,216	56,05,760	58,54,700	0	58,54,700
Nov-12	4,610	216	54	2,48,940	31-03-2016	01-01-2013	1,185	54,62,850	57,11,790	0	57,11,790
Dec-12	4,610	216	54	2,48,940	31-03-2016	01-02-2013	1,154	53,19,940	55,68,880	0	55,68,880
Jan-13	4,610	216	54	2,48,940	31-03-2016	01-03-2013	1,126	51,90,860	54,39,800	0	54,39,800
Feb-13	4,610	216	54	2,48,940	31-03-2016	01-04-2013	1,095	50,47,950	52,96,890	0	52,96,890
Mar-13	4,610	216	54	2,48,940	31-03-2016	01-05-2013	1,065	49,09,650	51,58,590	0	51,58,590
Apr-13	4,610	216	54	2,48,940	31-03-2016	01-06-2013	1,034	47,66,740	50,15,680	0	50,15,680
May-13	4,610	216	54	2,48,940	31-03-2016	01-07-2013	1,004	46,28,440	48,77,380	0	48,77,380
Jun-13	4,610	216	54	2,48,940	31-03-2016	01-08-2013	973	44,85,530	47,34,470	0	47,34,470
Jul-13	4,610	216	54	2,48,940	31-03-2016	01-09-2013	942	43,42,620	45,91,560	0	45,91,560
Aug-13	4,610	216	54	2,48,940	31-03-2016	01-10-2013	912	42,04,320	44,53,260	0	44,53,260
Sep-13	4,610	216	54	2,48,940	31-03-2016	01-11-2013	881	40,61,410	43,10,350	0	43,10,350
Oct-13	4,610	216	54	2,48,940	31-03-2016	01-12-2013	851	39,23,110	41,72,050	0	41,72,050
Nov-13	4,610	216	54	2,48,940	31-03-2016	01-01-2014	820	37,80,200	40,29,140	0	40,29,140
Dec-13	4,610	216	54	2,48,940	31-03-2016	01-02-2014	789	36,37,290	38,86,230	0	38,86,230
Total								**24,59,20,450**	**25,71,22,750**	**1,12,02,300**	**24,59,20,450**

Appendix 4.12.2

Entertainment Tax (ET) payable and actually paid by three cable TV operators

(*Reference: Paragraph 4.12*)

Period	No. of Subscriber	Rate of connection	Rate of ET 25%	Total Tax payable	Tax paid on	Late fees applicable from	Number of days late	Late fee @ ₹ 1/ connection/ day	Total Tax (including late fees payable)	Actual Tax paid	Difference to be paid
1	2	3	4	5 (2x4)	6	7	8 (6-7)	9 (2x8)	10 (5+9)	11	12 (10-11)
PALDEN TAMANG, SINGTAM											
Dec-13	130	160	40	5,200	20-07-2014	01-02-2014	169	21,970	27,170	24,000	3,170
Jan-14	130	160	40	5,200	20-07-2014	01-03-2014	141	18,330	23,530		23,530
Feb-14	130	160	40	5,200	20-07-2014	01-04-2014	110	14,300	19,500		19,500
Mar-14	130	160	40	5,200	20-07-2014	01-05-2014	80	10,400	15,600		15,600
Apr-14	130	160	40	5,200	20-07-2014	01-06-2014	49	6,370	11,570		11,570
										Total	**73,370**
PENDEN LEPCHA, CHUNGTHANG											
Apr-13	40	40	10	400	12-09-2013	01-06-2013	103	4,120	4,520	1,080	3,440
May-13	40	40	10	400	12-09-2013	01-07-2013	73	2,920	3,320		3,320
Jun-13	40	40	10	400	12-09-2013	01-08-2013	42	1,680	2,080		2,080
Jul-13	40	40	10	400	12-09-2013	01-09-2013	11	440	840		840
Sep-14	40	40	10	400	22-08-2015	01-11-2014	294	11,760	12,160	3,810	8,350
Oct-14	40	40	10	400	22-08-2015	01-12-2014	264	10,560	10,960		10,960
Nov-14	40	40	10	400	22-08-2015	01-01-2015	233	9,320	9,720		9,720
Dec-14	40	40	10	400	22-08-2015	01-02-2015	202	8,080	8,480		8,480
Jan-15	40	40	10	400	22-08-2015	01-03-2015	174	6,960	7,360		7,360
Feb-15	40	40	10	400	22-08-2015	01-04-2015	143	5,720	6,120		6,120
Mar-15	40	40	10	400	22-08-2015	01-05-2015	113	4,520	4,920		4,920
Apr-15	40	40	10	400	22-08-2015	01-06-2015	82	3,280	3,680		3,680
May-15	40	40	10	400	22-08-2015	01-07-2015	52	2,080	2,480		2,480
Jun-15	40	40	10	400	22-08-2015	01-08-2015	21	840	1,240		1,240
										Total	**63,310**
KUMAR TAMANG, RANGPO											
Sep-12	21	120	30	630	23-08-2014	01-11-2012	660	13,860	14,490	1,890	12,600
Oct-12	21	120	30	630	23-08-2014	01-12-2012	630	13,230	13,860		13,860
Nov-12	21	120	30	630	23-08-2014	01-01-2013	599	12,579	13,209		13,209
May-13	21	120	30	630	23-08-2014	01-07-2013	418	8,778	9,408	1,890	7,518
Jun-13	21	120	30	630	23-08-2014	01-08-2013	387	8,127	8,757		8,757
Jul-13	21	120	30	630	23-08-2014	01-09-2013	356	7,476	8,106		8,106
Aug-13	21	120	30	630	12-11-2013	01-10-2013	42	882	1,512	1,260	252
Feb-14	21	120	30	630	23-08-2014	01-04-2014	144	3,024	3,654	1,260	2,394
Mar-14	21	120	30	630	23-08-2014	01-05-2014	114	2,394	3,024		3,024
Apr-14	21	120	30	630	23-08-2014	01-06-2014	83	1,743	2,373	1,260	1,113
May-14	21	120	30	630	23-08-2014	01-07-2014	53	1,113	1,743		1,743
										Total	**72,576**
										Grand Total	**2,18,936**