CHAPTER – VIII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

8.1 Introduction

As on 31 March 2000, there were five Government companies (including two subsidiaries) and two Departmentally managed Government Commercial Undertakings as against the same number of companies including two subsidiaries and Departmentally managed Government Commercial undertakings as on 31 March 1999 under the control of the State Government. The accounts of the Government companies (as defined in section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by Government of India on the advice of the Comptroller and Auditor General of India (CAG) as per provision of Section 619(2) of the Companies Act 1956. The accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956.

The accounts of Departmentally managed Government Commercial undertakings are audited solely by CAG under section 13 of CAG's (Duties, Powers and Conditions of Service) Act 1971.

8.2 Investment in Government Companies

8.2.1 As on 31 March 2000, the total investment in five Government companies (including two subsidiaries) was Rs.13.64 crore (equity : Rs.8.68 crore; long term loans : Rs.4.96 crore) against a total investment of Rs.19.23 crore (equity : Rs.8.28 crore; long term loan : Rs.10.73 crore and share application money: Rs. 0.22 crore) as on 31 March 1999.
The classification of the Government companies was as under :

Status of companies	Number of Companies	Investment (Rupees in crore)		Reference to Sl.No. of Appendix – XXXIV	Number of companies referred to BIFR
		Paid-up capital	Long-term loans		
(a) Working companies	3 (3)	8.25 (8.08)	3.37 (9.14)	1,2 & 5	-
(b) Non working companies under closure	2 (2)	0.43 (0.42)	1.59 (1.59)	3 & 4	Nil
Total :	**5 (5)**	**8.68 (8.50)**	**4.96 (10.73)**		

(Figures in bracket are for the previous year)

As two companies were non-working and under process of closure under Section 560 of the Companies Act, 1956, for 5 to 6 years and substantial investment of Rs.2.02 crore was involved in these companies, effective steps need to be taken for their expeditious liquidation or revival.

The summarised financial results of Government companies are detailed in **Appendix - XXXV.** The debt equity ratio decreased from 1.26:1 in 1998-99 to 0.57:1 in 1999-2000 **(Appendix XXXIV)**. Due to significant decrease of long term loan of Arunachal Pradesh Industrial Development Corporation Ltd. from Rs.9.10 crore in 1998-99 to Rs. 2.24 crore in 1999-2000.

As on 31 March 2000, of total investment in Government companies, 63.64 **per cent** comprised equity capital and 36.36 **per cent** comprised loans compared to 44.20 **per cent** and 55.80 **per cent** respectively as on 31 March 1999.

8.2.2 Budgetary outgo, subsidies, guarantees and waiver of dues

The budgetary outgo from State Government to the Government companies for the three years upto 1999-2000 in the form of equity capital is given below :

Particulars		1997-98		1998-99		1999-2000	
		(Rupees in crore)					
		No. of companies	**Amount**	**No. of companies**	**Amount**	**No. of companies**	**Amount**
1.	Share Capital	1	0.20	1	0.22	1	0.18
2.	Subsidy	-	-	-	-	-	-
3.	Scheme/Projects/ Programmes	-	-	-	-	-	-
4.	Loans	-	-	-	-	-	-
Total outgo		**1**	**0.20**	**1**	**0.22**	**1**	**0.18**

During the year 1999-2000, the Government had guaranteed the loans aggregating Rs.3.99 crore obtained by two Government companies*. At the end of the year guarantees amounting to Rs.1.52 crore against two Government companies were outstanding.

8.2.3 Finalisation of accounts by PSUs

The accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under

* *There is no condition for payment of guarantee fee to Government on loan raised by the companies against Government guarantees.*

Section 166,210,230,619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year.

However, as would be seen from **Appendix-XXXV**, none of the five Government companies had finalised their accounts for the year 1999-2000 within the stipulated period. The accounts of all these five Government companies (including two subsidiaries) were in arrears for periods ranging from 4 to 18 years as on 30 September 2000 as detailed below :

Sl. No.	Year from which accounts are in arrears	Number of years for which accounts are in arrears	No. of Government companies	Reference to serial No. of Appendix - XXXV
1.	1996-97 to 1999-2000	04	01	1
2.	1995-96 to1999-2000	05	01	5
3.	1993-94 to 1999-2000	07	01	2
4.	1990-91 to 1999-2000	10	01	3
5.	1982-83 to 1999-2000	18	01	4

Of the above five Government companies, whose accounts were in arrears, two Government companies were non-working (Sl. Nos. 3 and 4 of **Appendix -XXXV**).

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were apprised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government and as a result, the investments made in these PSUs could not be assessed in audit.

8.2.4 Working results of Government companies

According to latest finalised accounts of three Government companies, two companies (Sl.No.1 and 2 of Appendix-XXXV) had incurred loss aggregating Rs.0.14 crore and the remaining one company (Sl.No. 5 of Appendix-XXXV) earned a profit of Rs. 7.49 crore. One company (Sl.No.1 of Appendix-XXXV) had incurred accumulated loss of Rs.3.01 crore which exceeded paid up capital of Rs.1.33 crore.

The summarised financial results of Government companies as per latest financial accounts are given in **Appendix-XXXV**.

8.2.5 Return on Capital Employed

As per latest finalised accounts (upto September 2000), the capital employed* worked out to Rs.22.12 crore in 3 companies and total return+ thereon amounted to Rs.8.64 crore which is 39.04 **per cent** as compared to total return of Rs.8.47 crore (40.62 **per cent**) on capital employed of Rs.20.85 crore in the previous year accounts finalised upto September 1999. The details of capital employed and total return on capital employed in case of Government companies are given in **Appendix-XXXV**.

8.2.6 Result of audit by Comptroller and Auditor General of India

During the period from October 1999 to September 2000, the audit of accounts of one company viz., Arunachal Pradesh Industrial Development and Financial Corporation Limited for 1994-99 was selected for review. The net impact of the important audit observation as a result of review was that the net profit (Rs.0.55 crore) was overstated by Rs.0.20 crore.

Another major error/omission noticed in the course of review of annual accounts of the above company for 1994-95 was that against a provision of Rs.44.98 lakh for doubtful and loss assets required to be made as per guidelines of Industrial Development Bank of India, only Rs.24.55 lakh has been provided in the accounts. This has resulted in overstatement of ‘net profit’ as well as ‘loans and advances’ each by Rs. 20.43 lakh (Rs. 44.98 lakh – Rs. 24.55 lakh).

8.2.7 Position of discussion of Commercial Chapter of Audit Report by the Committee on Public Undertakings

The reviews/paragraphs of Commercial Chapter of Audit Reports pending discussion as on 31 March 2000 by the Committee on Public Undertakings (COPU) are shown below:

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* *Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in respect of Arunachal Pradesh Industrial Development and Financial Corporation Limited where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance).*

\+ *For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account*

Period of Audit Reports	Total number reviews/paragraphs appeared in the Audit Report		Total number of reviews/paragraphs pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1987-88	2	2	2	2
1988-89	-	3	-	1
1989-90	-	1	-	1
1990-91	1	1	1	1
1991-92	-	4	-	1
1992-93	1	1	1	-
1993-94	1	3	-	-
1994-95	-	5	-	5
1995-96	-	2	-	2
1996-97	-	5	-	5
1997-98	-	4	-	2
1998-99	1	4	1	4

No recommendation has yet been made by COPU.

8.3 Departmentally managed Government Commercial and Quasi-Commercial undertakings

8.3.1 Though the State Transport Services and the State Trading scheme of Transport and Supply Directorate are commercial in nature and are functioning as such, these have not so far been declared as commercial organisations by the Government (September 2000).

8.3.2 The proforma accounts of the State Transport Services have been prepared upto the year 1996-97 and as per latest accounts, the accumulated losses since inception of transport services from 1975 to 1996-97 amounted to Rs. 47.01 crore against Capital of Rs.51.81 crore constituting an erosion of 90.74 **per cent** of investment.

The financial position, working results and operational performance of the State Transport Services as per latest finalised accounts are given in Paragraphs 8.3.2 and 8.4.4 of the Report of the Comptroller and Auditor General of India for the year 1997-98.

8.3.3 The proforma accounts of State Trading scheme have been prepared upto the year 1996-97 and as per the latest accounts, the accumulated losses since inception of the scheme from 1955-56 to 1996-97 amounted to Rs.16.33 crore against Capital of Rs. 3.88 crore.
The working results of State Trading scheme for the three years upto 31.03.1997 are summarised below:

		1994-95	1995-96	1996-97
		(Rupees in lakh)		
A.	**Income**			
(a)	Sales	392.77	401.87	402.87
(b)	Increase(+)/decrease(-) of stock	(-) 53.64	(-) 11.52	(+) 38.96
	Total 'A'	**339.13**	**390.35**	**441.83**
B.	**Trading Expenses:**			
(a)	Purchases	286.56	375.58	304.96
(b)	Packing materials	14.14	37.98	49.89
(c)	Establishment and contingent charges	144.91	154.18	154.47
(d)	Air dropping and godown losses	18.84	15.38	13.75
	Total - B	**464.45**	**583.12**	**523.07**
C.	**Trading Profit (+)/**			
	Loss (-) (A – B)	**(-) 125.32**	**(-)192.77**	**(-) 81.24**
	Non-trading expenses - interest on Capital and audit fee (Provisions)	28.53	34.73	27.87
	Net Profit (+)/Loss (-)	**(-) 153.85**	**(-)227.50**	**(-) 109.11**

With effect from September 1975, the selling price of each commodity was fixed by adding 30 **per cent** to the cost of procurement to cover the overhead charges. During the three years upto 1996-97, the actual overhead charges, however, worked out to a higher percentage as shown below:

		1994-95	1995-96	1996-97
		(Rupees in lakh)		
1.	Overhead charges (items (b) and (c) of trading expenses)	159.05	192.16	204.36
2.	Cost of Procurement (opening stock plus purchases less closing stock)	340.20	387.10	266.00
3.	Percentage of overhead cost to cost of procurement	46.75	49.64	76.83

The reasons for higher percentage of overhead cost to cost of procurement was attributed to high incidence of establishment and contingent charges which alone constituted 42.59 per cent, 39.83 per cent and 58.07 per cent to cost of procurement during the three years respectively.

8.3.4 Power (Electricity) Department

The Department has not prepared proforma accounts pending constitution of State Electricity Board. The matter was taken with the Chief Secretary in May 2000. Reply of the Government was awaited (November 2000).

The operational performance of the Department for the last three years upto 1999-2000 are given in Appendix-XXXVI.

(i) The transmission and distribution losses were excessive ranging from 44.90 to 55.76 per cent as against the norms of 15.5 per cent fixed by the Central Electricity Authority (CEA).

(ii) The information with regard to load factor, number of sub-stations and number of pump sets/wells energised could not be made available by the Department.

SECTION – A - REVIEW

INDUSTRIES DEPARTMENT

8.4 Review on the working of Arunachal Pradesh Industrial Development and Financial Corporation Limited

Highlights

The Company was established in August 1978 with a view to promote and develop industries but confined its activities to only 7 out of 14 districts. Due to continuous losses, the capital had been totally eroded. Due to poor recovery of overdues on account of deficiencies in appraisal, ineffective recovery drives, etc., the overdues had mounted to Rs.5.88 crore. Besides this, the investments made in a joint venture Company and in subsidiaries yielded negative results and had also incurred losses on its own managed Units.

The accumulated loss at the end of 1998-99 stood at Rs.8.55 crore which had completely eroded the paid-up capital of Rs.1.63 crore.

(Paragraphs 8.4.6)

Short recovery from lending operation led to blockage of Company's fund of Rs.1.90 crore and actual loan disbursement during five years was Rs.2.19 crore against the target of Rs.3.37 crore.

(Paragraphs 8.4.7.1 and 8.4.7.2)

Due to poor recovery performance, the overdues amounted to Rs.5.88 crore at the end of 1999-2000 and Non Performing Assets increased to Rs.2.77 crore at the end of 1998-99. Due to this Company had to create a provision of Rs.1.52 crore for bad debts.

(Paragraphs 8.4.7.4 & 8.4.7.5)

Due to deficiencies in pre-sanction approval and post-sanction monitoring of loan, overdues amounting to Rs.5.06 crore had piled up against 15 units.

(Paragraphs 8.4.7.6 & 8.4.7.7)

Loss of interest of Rs.1.45 crore had been incurred in performing nodal agency services on behalf of Government.

(Paragraph 8.4.8.1)

Company's investments of Rs.0.88 crore in one subsidiary had been eroded while another subsidiary with an investment of Rs.1.61 crore was awaiting winding up.

(Paragraphs 8.4.9.1. and 8.4.9.2)

8.4.1 Introduction

The Arunachal Pradesh Industrial Development and Financial Corporation Limited was incorporated as a wholly owned Government Company in August 1978 for promoting and developing industries in the State of Arunachal Pradesh.

8.4.2 Objectives

The main objectives of the Company are :-

(i) to promote, encourage, aid, assist, undertake, finance & establish small and medium industries;

(ii) to develop industrial areas and to establish and manage industrial estates;

(iii) to establish, run, expand, modernise and manage industrial undertakings, projects or enterprises.

The present activities of the Company are confined to extending financial assistance to industrial Units by way of term loans and management of two production/trading Units and two subsidiaries.

The company was established to play the twin roles of Industrial Development Corporation and State Financial Corporation. Since inception, the company had set up two subsidiary companies, one Joint Venture Company and six departmental units. These units had become economically unviable since inception. Except the Joint Venture Company and one departmental unit, the other units had either been closed down or become inoperative. The company had not taken up any other industrial development activities so far. Thus the primary objective of industrial development of the State remained unfulfilled even after 22 years of its existence.

8.4.3 Organisational set-up

The management of the Company is vested in a Board of Directors which as on 31 March 2000 consisted of eight Directors (including Managing Director) of which seven Directors (including the Managing Director) were nominated by the State Government and one Director nominated by the Industrial Development Bank of India.

The Managing Director is the Chief Executive of the Company, who is assisted by one General Manager, three Senior Managers, four Managers and five Deputy Managers.

During the five years ending March 2000, 6 (six) officers held the post of Managing Directors as part time Managing Directors. The Company was thus deprived of getting full attention and continuity in policy matters at highest executive level.

8.4.4 Scope of Audit

The working of the Company was last reviewed in Paragraph 7.4 of the Report of the Comptroller and Auditor General of India for the year 1990-91. Recommendations of COPU thereon were awaited (May 2000). The present review on the working of the Company covering the period of five years ending 31 March 2000 was conducted and the findings are discussed in succeeding paragraphs.

8.4.5 Capital and borrowings

The authorised capital of the Company was Rs. 6.00 crore against which the paid up capital as on 31 March 2000 was Rs.1.63 crore wholly contributed by the State Government.

As on 31 March 2000, the borrowings of the Company stood at Rs.9.35 crore comprising Rs.7.14 crore from State Government and Rs.2.21 crore from Financial Institutions (IDBI : Rs.0.24 crore; SIDBI : Rs.1.32 crore and NSFDC : Rs.0.65 crore).

Financial position and working results

The accounts of the Company have been finalised upto 1994-95. Based on provisional compiled accounts (not approved by the Board) the Financial Position and working results of the Company for four years upto 1998-99 are tabulated in **Appendix-XXXVII.**

The accumulated loss at the end of 1998-99 stood at Rs.8.55 crore and had completely eroded the Paid up Capital of Rs.1.63 crore

It would be revealed from the **Appendix-XXXVII** that the Company incurred losses in three years varying from Rs.0.89 crore to Rs.3.28 crore and the accumulated loss amounting to Rs.8.55 crore as on 31 March 1999 had completely eroded its paid-up capital of Rs.1.63 crore.
As analysed in audit, the main reasons for the loss were:

(i) Adverse working results of departmental units;

(ii) Interest burden on Government loans;

(iii) Provisions for Non-performing assets; and
(iv) High salaries and wages.

8.4.7 Term Loan operations

8.4.7.1 Financing of term loans

The Company's main activity is to extend financial assistance to industrial units by way of term loan. The sources of funds were share capital and loans from State Government, refinance loan available from Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI) and National Scheduled Caste & Scheduled Tribe Financial Development Corporation Ltd (NSFDC).

The total refinance loans obtained from IDBI, SIDBI and NSFDC and term loans disbursed by the Company upto 31 March 2000 were as under :-

	Upto 1994-95	**1995-96 to 1999-2000**	**Total**
	(Rupees in lakh)		
Refinance loan received	562.94	219.89	782.83
Term loans disbursed	619.23	219.22	838.45
Term loans disbursed out of own fund	56.29	Nil	55.62

As on 31 March 2000, the total disbursal by the company of term loans (net of recoveries made) amounted to Rs.4.14 crore comprising company's own investment of Rs.1.90 crore and refinance loan of Rs.2.24 crore. The increase in investment of own fund was due to repayment of refinance loans to Financial institutions without corresponding recovery from lending operations due to poor recovery and consequent failure to recycle the loan funds obtained from IDBI, SIDBI and NSFDC.

8.4.7.2 Trends in receipt and disposal of loan applications

The position of loan applications received and their disposal during the five years upto 1999-2000 are tabulated below :-

(Amount : Rupees in lakh)

		1995-96		1996-97		1997-98		1998-99		1999-2000	
		No.	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
1.	**Applications**										
	(a) Pending at the beginning of the year.	4 7	29	5	44	33	223.97	45	418.32	65	667.89
	(b) Received during the year		61	57	325	61	430.91	44	332.15	75	337.25
	(i) Total	11	90	62	369	94	654.88	89	750.47	140	905.14
	(ii) Sanctioned	6	41	21	63	24	72.25	7	22.58	17	39.70
	(iii) Rejected/Withdrawn	NA	5	8	82	25	164.31	17	160.00	40	533.08
	(iv) Pending at the close of the year (i – ii - iii)	5	44	33	224	45	418.32	65	567.89	83	332.36
2.	**Loans disbursed**										
	(i) Target	NA	97.41	NA	70.00	NA	65.00	NA	29.34	NA	75.00
	(ii) Actual	6	34.51	14	56.40	24	66.39	12	30.30	14	31.62

4 loans amounting to Rs.13.35 lakh were outstanding disbursement as on 31 March 2000.

The actual loan disbursement was Rs.2.19 crore against the target of Rs.3.37 crore

The Company disbursed a total loan of Rs.2.19 crore during 1995-96 to 1999-2000 against targeted loan disbursements of Rs.3.37 crore. Reasons for the shortfall in disbursements were not analysed by the Management.

The Company failed to recycle funds due to poor recovery of its dues from loanees

The review disclosed that due to poor recovery of overdues from its loanees as discussed in succeeding paragraphs, the Company failed to recycle the funds and was thus unable to extend loan to other beneficiaries.

8.4.7.3 District-wise and Sector-wise analysis of outstanding loans

Out of 14 districts of the State, the loan operations were confined to 7 districts only as no application for loans were received from other districts. The district-wise and sector-wise loan (principal) assistance outstanding as on 31 March 2000 are given below :

	Name of District	Wood based industry	Food Pro-ducts	Hotels	Small Road Transport	Other Misc. industries	Total
		(Rupees in lakh)					
1.	Papumpare	5.60	27.95	94.29	33.35	113.18	274.37 (66.34)
2.	West Siang	16.00	-	-	42.62	0.07	58.69 (14.19)
3.	Lower Subansiri	-	-	-	21.99	-	21.99 (5.32)
4.	Upper Subansiri	5.00	2.84	-	8.62	3.62	20.08 (4.85)
5.	East Siang	-	-	-	6.07	11.52	17.59 (4.25)
6.	West Kameng	-	-	-	3.14	10.60	13.74 (3.32)
7.	Tirap	-	-	7.11	-	-	7.11 (1.73)
	Total :	**26.60**	**30.79**	**101.40**	**115.79**	**138.99**	**413.57**

(Bracket indicates percentage to total loan assistance)

In the capital district, Papumpare 46 Units with outstanding assistance of Rs.2.74 crore accounted for 66.34 **per cent** of total outstanding followed by West Siang with 14.19 **per cent**. Each of the remaining 5 districts had less than 6 **per cent** outstanding. Thus, Company's loan operations were concentrated mainly in the capital district.

Other Miscellaneous industries accounted for maximum loan assistance of Rs.1.39 crore (33.62 **per cent**) followed by Small Road Transport (28 **per cent**) and Hotels (24.51 **per cent**).

8.4.7.4 Recovery performance

As per terms of agreements and repayment schedule, the loanees are required to make payment of instalments of principal and interest on due dates. The company also issues demand notices for such repayment. The loanees are requested to make payment to company's Head Office at Itanagar as the company does not have any branch offices. In cases of continuous default, the company is required to take effective steps for recovery of overdues.

The position of overdue and recovery of loan for the five years upto 1999-2000 is tabulated below :

		1995-96	**1996-97**	**1997-98**	**1998-99**	**1999-2000**
		(Rupees in lakh)				
i)	Overdue at the beginning of the year Principal Interest	 159.72 130.09	 158.80 147.87	 186.61 200.85	 237.76 268.25	 285.16 289.54
	Total	**289.81**	**306.67**	**387.46**	**506.01**	**574.70**
ii)	Amount falling due during the year : Principal Interest	 96.12 77.23	 72.05 73.77	 65.51 80.92	 64.19 73.75	 47.93 75.54
	Total	**173.35**	**145.82**	**146.43**	**137.94**	**123.47**
iii)	Total overdue (i) + (ii): Principal Interest	 255.84 207.32	 230.85 221.64	 252.12 281.77	 301.95 342.00	 333.09 365.08
	Total	**463.16**	**452.49**	**533.89**	**643.95**	**698.17**
iv)	Amount recovered during the year Principal Interest	 96.00 44.39	 44.24 20.79	 14.36 13.52	 16.79 51.30	 37.93 40.18
	Total	**140.39**	**65.03**	**27.88**	**68.09**	**78.11**
iv)	Waiver/Write off Principal Interest	 1.04 15.06	 - -	 - -	 - 1.16	 - 32.45
	Total	**16.10**	**-**	**-**	**1.16**	**32.45**
v)	Overdue at the end of the year Principal Interest	 158.80 147.87	 186.61 200.85	 237.76 268.25	 285.16 289.54	 295.16 292.45
	Total	**306.67**	**387.46**	**506.01**	**574.70**	**587.61**
	Percentage of recovery					

	to total overdue :	30	14	5	11	11

Recovery of overdues was very low varying from 5 to 30 per cent and overdues at the close of March 2000 stood at Rs.5.88 crore

It would be seen from the above that the overdues increased from Rs.2.90 crore in March 1995 to Rs.5.88 crore in March 2000 (increase by 103 **per cent**) due to poor recovery of overdue which ranged from 5 to 30 **per cent** during the five years.

The Company neither obtained financial statements from the assisted Units nor carried out inspections/investigations to identify the defaulters. Analysis of poor recovery performance had not been made by the management.

The overdues included 60 loan accounts amounting to Rs.49.45 lakh pertaining to Small Road Transport Operators. Scrutiny revealed that the company did not initiate any action to take over the possession of the assets under Section 29 of State Financial Corporation (SFC) Act, 1951 to recover the dues. Between November 1993 and April 1995 money suits had been filed against only 4 (four) loanees for recovery of Rs. 7.81 lakh which were subjudice (June 2000). No action has been taken against the remaining 56 defaulters for recovery of Rs. 41.46 lakh, reasons for which were neither on record nor stated.

Results of audit analysis of other major defaulters are discussed in paragraph 8.4.7.7.

8.4.7.5 Growth of non-performing assets

An asset becomes non-performing when it ceases to generate income for an institution. An amount which remains outstanding for 30 days beyond the due date is treated as 'past due'. A term loan is required to be treated as non-performing asset (NPA) if the interest has remained 'past due' for more then two quarters and instalment of principal are overdue for more than one year.

The details of total loans outstanding and NPA included therein are shown below:

NPA increased from Rs. 1.55 crore in 1995-96 to Rs. 2.77 crore in 1998-99 and provision for bad debts created to the extent of Rs. 1.52 crore

		1995-96	**1996-97**	**1997-98**	**1998-99**
			(Rupees in lakh)		
(i)	Total Loan outstanding	338.32	345.45	397.60	419.88
(ii)	NPA	155.40	179.72	233.42	277.39
(iii)	Percentage of NPA	45.93	52.02	58.70	66.06

It would thus be seen that percentage of NPA to total outstanding loan increased from 45.93 in 1995-96 to 66.06 in 1998-99 mainly due to poor recovery performance arising out of defective appraisal and monitoring as discussed in the succeeding paragraphs. The company had to make provision for bad and doubtful debts to the tune of Rs.1.52 crore against above NPA during 1996-97 to 1998-99.

8.4.7.6 Appraisal and monitoring

An analysis during test check in audit of 15 industrial loan accounts with total overdue of Rs.5.06 crore (out of 36 industrial Units with total overdues of Rs.5.38 crore) disclosed that the following main factors were responsible for poor recovery of loans:-

No. of cases	Main reason for non-recovery	Overdues as on 31 March,2000		
		Principal	Interest	Total
		(Rupees in lakh)		
5	Inadequate project appraisal resulting in limited scope for marketing of products/services	132.20	136.56	268.76
4	Inadequate post-sanction monitoring resulting in Units remaining un-implemented	30.08	21.74	51.82
6	Economically unviable Units closed/ abandoned after implementation	80.82	105.04	185.86
15	**Total**	**243.10**	**263.34**	**506.44**

Unit-wise details are given in **Appendix-XXXVIII**.

It would, thus, be seen that overdues amounting to Rs.268.76 lakh against the Units with limited marketing scope of their products/services, Rs.51.82 lakh against un-implemented Units and Rs.1.86 crore against closed/abandoned Units awaited recovery.

It was further observed in audit that the Company has not adopted any procedure of scrutiny/survey of loan proposals for ascertaining the economic viability of the projects. The project reports submitted by the loanees were accepted with minor modifications without examining the reasonableness of production/sales targets and other parameters. Due to poor pre-sanction appraisal, loans sanctioned to the Units had turned out to be economically unviable.

Further, the Company has not framed any guideline indicating the nature of action to be taken at various stages of default. In the absence of guidelines, adhoc decisions are taken on case to case basis resulting in avoidable delay in taking timely action.

8.4.7.7 Analysis of major overdue cases

Audit analysis of six cases of major defaulters for a total overdue amount of Rs.3.76 crore (representing 64 **per cent** of total overdue) disclosed the following irregularities :-

8.4.7.7.1 Inadequate post sanction monitoring
(i) M/s Arunachal Drugs & Pharmaceuticals (P) Ltd.

The unit was sanctioned (July 1992) a loan assistance of Rs.43.00 lakh to set up a pharmaceutical manufacturing unit at Naharlagun with installed capacity to produce 20 million capsules, 9 million tablets and 0.15 million litres of oral liquid. The loan was sanctioned without carrying out any independent survey/inquiry to assess the reasonableness of these projections particularly in view that the Company had already sanctioned (March 1991) another project (M/s Aries Laboratories) with almost similar capacity at Itanagar. The loan was disbursed during December 1992 to January 1994 and was repayable in 10 half yearly instalments between June 1994 to December 1998.

As per pre-sanction appraisal note, the schedule date of commercial production was October 1992. However, the loan was disbursed from December 1992 only. The project was commissioned in November 1994.

Due to low production (4 **per cent** of capacity) and poor demand of the products in the market, the unit incurred losses (Rs.13.53 lakh in first year) and the management of the unit had declared it sick. In October 1997 and August 1999, the Company proposed to take over the Unit under Section 29 of SFC Act, 1951, which were suspended twice at the instance of the Chief Minister.

Thus due to inadequate post sanction monitoring Rs.1.26 crore including interest of Rs.83.36 lakh remained overdue for recovery from the loanee as at 31 March 2000.

(ii) M/s Hotel Patkai

M/s Hotel Patkai, a proprietory firm was sanctioned and disbursed a term loan of Rs.6.50 lakh during January 1990 to February 1991. The loan was repayable in 13 instalments during February 1992 to February 1998.

As per inspection report dated 9 March 1992, the unit was not completed and commissioned but the company did not take any action to recover the loan. After a delay of more than six years, the company filed a money suit in March 1998 when the entire loan had become overdue for recovery.

As the matter is still subjudice, the overdues amounting to Rs.16.47 lakh including interest remained unrecovered (May 2000).

(iii) M/s Topee Hollow Block Industry

M/s Topee Hollow Block Industry, a partnership firm (promoted by a Minister and an individual) was disbursed (April 1992 to May 1993) loan assistance of Rs.6.91 lakh to set-up a hollow block manufacturing unit at Itanagar. The loan carried 19 **per cent** interest per annum and was repayable within September 1998. Out of Rs. 6.91 lakh sanctioned loan, the Company disbursed loan amounting to Rs. 5.82 lakh in September 1992 (Rs. 2.00 lakh) and in May 1993 (Rs. 3.82 lakh) without verifying the utilisation of loan for setting up the plant.

Inspection carried out after disbursement of loan revealed that the industry was not setup at all indicating lack of post sanction monitoring of the assisted unit.

In August 1994, the company filed a money suit for recovery of dues amounting to Rs.8.55 lakh including interest which was pending in the court of law (May 2000).

8.4.7.7.2 Inadequate project appraisal

(i) M/s Aries Laboratories (P) Ltd.

The company sanctioned and disbursed (April 1992 to July 1993) a total loan assistance of Rs.42.74 lakh to M/s Aries Laboratories (P) Ltd. to establish a pharmaceutical unit at Itanagar. The loan carried 19 **per cent** interest per annum and was repayable along with interest in 10 half-yearly instalments within October 1998.

It was seen from pre-sanction appraisal note that the company accepted the data furnished by the loanee in his project report prepared through private consultants. Independent project appraisal was not carried out with regard to installed capacity, marketing prospect and suitability of the promoters and joint appraisal with banks to justify extension of working capital to the Unit. The Unit established to produce 20 million tablets and 0.18 million litres of oral liquid annually started production in January 1995 and sustained net loss of Rs.18.97 lakh upto March 1996 due to lack of demand of its products in the market and for lack of working capital finances by the banks. From April 1996 the production activities of the Unit was stopped.

Due to continuous default in repayment of dues, the assets of the Unit was taken over by the Company in November 1997. As per Board meeting dated 4 April 2000, the asset had been valued by Registered Value at Rs.52.54 lakh. The Company, however, failed to dispose off the assets (May 2000), to recover the dues amounting to Rs.93.77 lakh including interest of Rs.51.03 lakh.

(ii) M/s Yamcha Food Products

The Unit was established in 1995 to produce 300 M.T. biscuits annually. Though the State Bank of India observed that market potential and profitability of the Unit was not viable, yet the Company, without carrying out any survey, sanctioned loan of Rs.27.95 lakh between September 1994 and May 1995.

The repayment of loan and interest (17 **per cent** per annum) was to be started from March 1996. The Unit, defaulted in payment of instalments of principal and interest from the beginning on the ground that the unit could not achieve targetted production due to lack of market demand and consequent operational loss. The company, however, failed to take any steps for recovery of overdues till 14 August 1999 when a fire accident took place in the factory causing extensive damage of the plant and machinery.The Unit had remained closed since then and the total overdues which amounted to Rs.58.13 lakh (Principal: Rs.25.16 lakh; Interest: Rs.32.97 lakh) upto March 2000 remained unrecovered (May 2000).

(iii) M/s Hotel Arun (Subansiri)

In 1981, the Company floated a joint-venture Company (Donyi-Polo Ashok Limited) to set-up a 3-star hotel at Itanagar jointly with ITDC. However, in August 1987, the Company sanctioned a term loan of Rs.36.10 lakh to a partnership firm (promoted by the wife of a Minister and an individual) to set-up another 3-Star hotel in the same station having limited tourist potential, which lacked justification.

While sanctioning the project, the Company reduced the project cost by excluding certain items. Although the promoter did not adhere to the sanctioned project, the entire loan was disbursed. The promoters, however, failed to complete the project and sought additional loan of Rs.62.52 lakh against which the Company sanctioned and disbursed Rs.45.65 lakh during March-October 1991 inspite of the fact that Company’s own joint-venture hotel had suffered operational losses due to low occupancy.

The first loan account was closed after adjustment of Rs.13.65 lakh from the second sanctioned loan. The second loan was to be repaid by October 1998 starting from April 1992. The party, however, did not pay any instalment as the hotel incurred losses due to low occupancy.

The Company served notices (July 1998)to take over the unit under Section 29 of SFC Act, 1951, but at the instance (July 1998) of the Chief Minister the same were not put into effect and overdues amounting to Rs.72.23 lakh (Principal: Rs.45.65 lakh; Interest: Rs.26.58 lakh) as on March 2000 remained unrecovered.

Overdues amounting to Rs.3.76 crore has been locked up with six parties

Thus 64 **per cent** of total overdues amounting Rs.3.76 crore was locked up with only six parties, where the Company was influenced to refrain from initiating adequate recovery drives, which had impoverished the financial health of the Company.

8.4.7.8 Recovery drives

As on 31 March 2000, the Company had 97 loanees of which 96 loanees defaulted in repayment of dues. Out of these, 21 loan accounts with total overdue amount of Rs.4.10 crore (69.81 **per cent**) were more than 5 years old. The age-wise analysis of the overdues as on 31 March 2000 were as follows:

Period of default	**Number of Loanees**	**Overdues (Rs. in lakh)**	**Percentage to total overdues**
Less than one year	38	16.80	2.86
One year to two years	20	18.73	3.19
Two years to three years	8	13.22	2.25
Three years to five years	9	128.62	21.89
Above 5 (five) years	21	410.24	69.81
	96	**587.61**	**100.00**

As per provisions of SFC Act, 1951, the Company is empowered to take over the management or possession or both or to sell the industrial Unit (Section 29), apply to the District judge for certain reliefs such as sale of the mortgaged property and enforcing the liability of surety (Section 31) and to make an application to the State Government for recovery of dues in the same manner as an arrear of land revenue under Revenue Recovery Act (Section 32).

The Company had served notices under Section 29 of SFC Act, 1951, to 6 Units with total overdues of Rs.3.62 crore in September 1996. Out of this, one Unit with total dues of Rs.48.97 lakh was settled (July 1999) under one time settlement Scheme (OTS) and one Unit with total dues of Rs.90.47 lakh was taken over in 1997. The assets of the unit could not be disposed of and actions against remaining 4 unit had not been taken.

Between September 1989 and February 1999, the Company had initiated legal action against 19 defaulters with total overdues of Rs.1.06 crore (Principal: Rs.50.43 lakh; interest: Rs.55.94 lakh). Out of these , one case with total dues of Rs.2.50 lakh was settled (July 1999) out of court. Dues amounting Rs.21.33 lakh was written off in 1991-92 in respect of two loanees. The remaining 16 cases involving Rs.88.54 lakh were sub-judice (May 2000). Details of such cases are given in **Appendix – XXXIX.**

The Company could not realise any overdues through legal actions. Reasons for not taking actions under Section 29 of SFC Act, 1951, for early recovery of overdues were not on record nor stated.

8.4.7.9 Waiver of dues under one time settlement

The Company did not have any laid down guidelines for one time settlement (OTS) of outstanding dues. Such proposals were being considered on a case to case basis.

During 1995-96 to 1999-2000, the Board approved OTS of nine loan accounts with total outstanding dues of Rs.1.66 crore against payment of Rs.1.16 crore and waived dues amounting Rs.50.39 lakh being normal interest (Rs.24.91 lakh), additional interest (Rs.21.05 lakh) and penal interest (Rs.4.43 lakh). Details of these cases are given in **Appendix –XL.**

In this connection, the following interesting cases were observed in audit:

(a) Rs.10.14 lakh was waived under OTS in respect of M/s Wood Products (India) International, at the request of the borrower without determining the possibility of recovery from the borrower/guarantors who were of high status and were financially solvent.

(b) In respect of M/s Mitin Plastic Industries, Rs.29.30 lakh was waived under OTS although as per pre-sanction appraisal, the loanee (proprietor), had 12/13 shops besides having landed property and was financially well off. Further, by waiver of dues the Company had incurred cash loss of Rs.4.89 lakh being the difference of interest paid to financial institution and interest waived besides forgoing interest recoverable on its own investment which worked out to Rs.4.06 lakh.

8.4.7.10 Undue favour

M/s Hotel Arun made a payment of Rs.30.00 lakh on 15 October 1998 against total overdues of Rs.49.87 lakh (Normal interest : Rs.29.45 lakh; additional/penal interest and interest tax : Rs.20.42 lakh). As per normal procedure of appropriation followed by the Company, Rs.9.58 lakh was required to be adjusted against normal interest after adjustment of Rs. 20.42 lakh against outstanding dues of interest tax (Rs. 0.11 lakh), penal interest (Rs.3.45 lakh) and additional interest (Rs. 16.86 lakh). The Company, instead adjusted Rs.29.45 lakh against normal interest first and the balance amount of Rs.0.55 lakh against penal interest and interest tax.

Thus, there was excess adjustment of Rs.19.87 lakh against normal interest, which would otherwise have attracted additional interest at 16.50 **per cent** per annum. Thus the loanee had been given undue benefit of Rs.4.79 lakh being additional interest on Rs.19.87 lakh for the period from 15 October 1998 to March 2000.

8.4.8 Other activities

8.4.8.1 Nodal agency services

Loss of interest of Rs.1.45 crore had been incurred in performing services of nodal agency of Government

In December 1993, the State Government while declaring the Company as nodal agency for drawing and disbursing transport subsidy to eligible industrial Units directed the company to disburse Rs.3.20 crore to six industrial Units without providing funds for the purpose. The Company disbursed (December 1993) the amount by obtaining loan of Rs.2.90 crore from banks and Rs.30.00 lakh out of its own fund and treated the amount as loan to the State Government carrying interest of 16 **per cent** per annum. The State Government repaid the principal in three instalments in December 1994 (Rs.47.67 lakh), December 1996 (Rs.244.02 lakh) and April 1999 (Rs.28.31 lakh). The Company had claimed interest from time to time amounting Rs.1.45 crore upto October 1998 (Interest for subsequent period not claimed). The State Government, however, did not accord sanction for payment of interest, which the Company would have otherwise earned by investing in term loan activities. Thus, in discharging the services as nodal agency declared by the State Government, the Company had incurred interest loss amounting Rs.1.45 crore upto October 1998.

8.4.8.2 Investment in Joint Sector Company

The Company setup (August 1987) a 3-Star hotel (Donyi Polo Hotel Corporation Limited) at Itanagar jointly with Indian Tourism Development Corporation Limited and invested Rs.48.80 lakh in 49 **per cent** of its equity shares.

The project report of the hotel envisaged an annual return of 11.90 **per cent** on equity against which it incurred losses every year due to low occupancy ratio and the accumulated loss as on 31 March 1999 stood at Rs.48.55 lakh.

8.4.9 Projects through subsidiaries

8.4.9.1 Arunachal Pradesh Horticultural Processing Company (APHPC)

In May 1982, the Company floated the subsidiary (APHPC), with authorised Capital of Rs.30 lakh for the purpose of setting up of a fruit processing plant with 3 MT per day capacity at Basar on the basis of a project report prepared (September 1979) by the Central Food Technological Research Institute (CFTRI) Bangalore. Initially the project was schedule to be completed in September 1984 at a cost of Rs.43.24 lakh. Due to changes in proposed location of the plant and increase in capacity to 5 MT per day with consequent delay in execution, the project cost had been revised (January 1984) to Rs.67.64 lakh with location at Nigmoi. However, the economic viability of the project was not worked out in light of increase in project cost.

The project was ultimately completed and commissioned in August 1987.

Scrutiny of the records revealed that against installed capacity of 5 MT per day (pineapple slices, Jam, concentrate, squash, orange and guava products) the plant never achieved more than 8 **per cent** capacity utilisation. The unit suffered operating losses every year since its inception mainly due to abnormally low level of production and high operation costs. The production was finally stopped from March 1995 and all the employees were retrenched in July 1997 under a Golden Handshake Scheme.

The company had invested a total amount of Rs.1.49 crore (share capital: Rs.0.19 crore; term loan: Rs.0.14 crore and advances: Rs.1.16 crore) against which the subsidiary incurred cumulative loss of Rs.0.88 crore upto March 1998 as per provisional accounts which is likely to increase further.

The plant and machinery of the unit were lying unutilised since March 1995. The company did not take effective steps either for the revival or winding up of the subsidiary till date of audit (May 2000).

8.4.9.2 Parasuram Cements Limited (PCL)

Mention was made in Paragraph 8.4.7.(i) of the Report of the Comptroller and Auditor General of India for the year 1984-85 that Parasuram Cement Limited (PCL) was floated by the company in June 1984 as its subsidiary with authorised share capital of Rs.45.00 lakh to takeover and run a mini-cement plant at Tezu with installed capacity of 30 MT per day. The cement plant originally sponsored by North Eastern Council (NEC) Shillong was taken over by PCL in March 1985 without finalising terms and conditions of such takeover. It was also mentioned in paragraph 8.4.7.2.1 ibid that the taken over plant was uneconomical in view of (i) under-utilisation of installed capacity, (ii) power shortages and mechanical break-down of the plant, and (iii) non-availability of working capital.

Although the subsidiary company was incorporated in June 1984 and it was running the cement plant from March 1985, it has not yet (May 2000) finalised its accounts for any of the years. Hence, the extent of losses incurred by the unit was not ascertainable. However, as per records of the holding company the unit was incurring heavy operational losses every year since its takeover and production had to be suspended from May 1995.

In July 1997, the Board of the Subsidiary Company had decided to sell the assets, initiate voluntary winding up proceedings, and to retrench the employees. While all the employees were retrenched from January 1998, the assets have not been sold, and initiation of actions for winding up of the PCL were awaited (May 2000). Reason for the delay was not on record.

The total investment of the company in the subsidiary as at 31 March 2000 amounted to Rs.1.61 crore comprising share capital contribution (Rs.0.24 crore), loans (Rs.0.83 crore) and other advances against unclassified expenditure (Rs.0.54 crore).

Thus takeover of the uneconomical cement plant had resulted in blockage of Rs. 1.61 crore of company’s funds in an unremunerative investment.

8.4.10 Own Trading and Production Units

8.4.10.1 TV assembly Unit

The Unit was established (November 1982) to assemble and sell 2400 Black and White TV sets per annum. However, the Unit failed to achieve more than 20 **per cent** of projected production due to power shortage, reduction of sale to saturated market conditions and had incurred a total loss of Rs.35.15 lakh upto 1995-96. In view of continuous losses being sustained, the Company closed down the Unit from 1995-96. Further, after a delay of over 3 years, the Company sold the finished goods and spare parts valued at Rs. 11.99 lakh at a tender value of Rs.1.47 lakh in December 1998 incurring further loss of Rs.10.52 lakh. Thus the total loss of the closed down Unit worked out to Rs.45.67 lakh.

8.4.10.2 General

The company has no effective system that keeps track of records/information. Management information system is necessary so that the company can keep track of its loanees and obtain feedback on them.

The above matter was reported to the Company/Government (June 2000); their replies had not been received (December 2000).

8.4.11 Conclusion

The company had incurred heavy losses which as of March 1999 have aggregated to Rs. 8.55 Crore. The poor performance of the Company was mainly attributable to :

- Inadequacy of its pre and post disbursement appraisal system in identification of viable and non-viable projects and proper implementation thereof resulting in sanction of loan to *ab initio* to non-viable and unimplemented units;
- Failure of its recovery system and willful defaulters and lack of initiation of strict, effective and timely recovery actions arising out of interference by political executives; and
- Losses incurred by its own and subsidiary units.

For its survival, the Company should strengthen its appraisal system; make concerted, continuous and effective monitoring of the assisted units; initiate timely and strict recovery action against defaulters; and, desist from interference in its functioning.

SECTION-B - PARGRAPHS

TRANSPORT DEPARTMENT

Arunachal Pradesh State Transport

8.5 Miscellaneous Topics of Interest

8.5.1 Loss of interest

Delay in delivery of chassis by the manufacturer had resulted in loss of revenue of Rs. 0.05 crore and interest of Rs. 0.03 crore on the blocked fund

Mention was made in paragraph 8.4.4(a) of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 wherein it was, inter alia, pointed out that the chassis manufacturers delivered 51 chassis after 6 to 12 months of advance payments but no claim for loss of interest on blocked funds was lodged in the absence of explicit clause, and that the management stated (August 1998) that the matter was being taken up with the chassis manufacturer. This action was, however, awaited (March 2000).

It was further observed in audit (December 1999) that the Department placed order (March 1998) on M/s Tata Engineering and Locomotive Company Limited (Telco) along with advance of Rs.1.32 crore for supply of 15 chassis on receipt of assurance from Telco that all the chassis would be delivered by the end of March 1998. In the instant case as well, no explicit clause was incorporated for realisation of compensation for delay in delivery of chassis. All the 15 chassis were, however, delivered by Telco (19.5.1998) after a delay of 49 days which resulted in loss of revenue of Rs. 4.78 lakh worked out at average revenue of Rs. 650 per bus per day for 15 buses (49 days @ Rs.650 x 15 buses) besides loss of interest of Rs.3.19 lakh worked out at 18 **per cent** per annum on blocked fund of Rs.1.32 crore for 49 days. No claim for compensation of losses, inspite of having been pointed out in audit, had been preferred with Telco, reasons for which have not been stated.

The matter was reported to the Department/Government (January 2000); their replies had not been received (December 2000).

8.5.2 Loss of revenue

Improper planning, lack of monitoring the progress of works resulted in loss of revenue of Rs.0.10 crore

The Department entered into agreements (March 1998) with two Calcutta firms for fabrication of 15 bus bodies and as per terms of agreements (clause 7 iv) the completed buses were to be delivered within 60 days from the date of delivery of chassis, on failure of which penalty @ Rs. 1000 per bus per day was to be levied. Clause 8 of the agreement stipulated three stages of inspection by the Department after 15 days, 40 days and 58 days respectively from the date of delivery of chassis to the firms. The completed buses were, however, delivered after a delay of 104 days beyond scheduled date of delivery (03.11.1998) due to delay in inspection by the Department and transportation deadlock created by flood after final (3^{rd}) stage of inspection carried out on 29.08.1998. No penalty could be imposed on the firms as the reasons for delay in delivery of buses were not attributable to them.

It was observed (December 1999) in audit that the Department neither monitored the progress of works nor were programmes for stages of inspection finalised before hand. The chassis were delivered to the fabricators on 19.05.1998 but inspection of first, second and third stages were carried out on 06.07.1998, 17.08.1998 and 20.08.1998 as against scheduled dates of 02.06.1998, 28.06.1998 and 15.07.1998 respectively leading to overall delay of 64 days. The delay in carrying out the inspections was attributed by the Department to postal delay in receipt of letter from fabricators for inspection (32 days) and delay in receipt of approval for inspection (32 days). This contention of the Department is not tenable in view of the fact that the fabricator was not liable to inform about the date of inspection and as per clause 8 of the agreement the Department was required to depute the inspection team in three stages. This would indicate that due to lack of monitoring of progress of works and absence of planning for carrying out inspections in time by the management, the bus body fabrication works were delayed.

Due to lapses on the part of management there was delay of 104 days in fabrication of 15 bus bodies resulting in loss of potential revenue of Rs. 10.14 lakh worked out on an average earning of Rs. 650 per bus per day.

The matter was reported to the Department and to the Government in January 2000; their replies had not been received (December 2000).

8.5.3 Injudicious expenditure

Two overaged break down vehicles repaired at a cost of Rs. 4.51 lakh earned revenue of Rs. 1.10 lakh leading to loss of Rs. 3.41 lakh

The Department fixed (June 1991) the norm of 7 years of life or a run of 1.35 lakh kilometres for condemnation of vehicles. Two buses (No. ARX 112 and ARX 133), purchased in February 1988 and June 1989 respectively, remained off road from 1995 and 1997 respectively due to major break down. The buses had attained 11 years and 10 years of life and had performed 3.37 lakh kms and 3.57 lakh kms respectively before their shut down but no survey was conducted to declare them condemned, reasons for which were not on record.

It was observed in audit (May 1999) that the Department, without ascertaining the economic viability, repaired both the vehicles at a total cost of Rs.4.51 lakh in October 1997 and July 1998 respectively and earned revenue (after deducting cost of fuel) aggregating Rs.1.10 lakh only when they were finally withdrawn from operation in December 1997 and October 1998 respectively for condemnation due to subsequent breakdown. The station Superintendent, Along stated (May 1999) that due to non-replacement of overaged vehicles by the concerned authority, the station was compelled to repair the vehicles though it was felt uneconomical. The fact thus remains that the repair of the overaged breakdown vehicles was injudicious.

Thus due to injudicious expenditure of Rs.4.51 lakh incurred on repair of the overaged breakdown buses without assessing their economic viability, the Department had incurred loss of Rs.3.41 lakh (cost of repair Rs.4.51 lakh less revenue earned Rs.1.10 lakh).

The matter was reported to the Department/Government (June 1999); their replies had not been received (December 2000).

POWER (ELECTRICITY) DEPARTMENT

8.5.4 Locking up of fund

Injudicious purchase of stores and lack of any action for their disposal resulted in locking up of fund of Rs. 16.37 lakh

According to Rules, materials should be purchased only for works in progress and no reserve stock should be kept without the specific sanction and beyond the monetary limit to be prescribed by the competent authority. Test check (February 1999) of records of Along Electrical Division, Along revealed that the Division without having any sanctioned reserve stock limit and without assessment of actual requirement, purchased 11 items of electrical goods worth Rs. 16.57 lakh between September 1989 and December 1995 against stock. Out of these materials, the division could utilise 5 items of materials valued at Rs. 0.20 lakh (i.e., 1.20 **per cent**) between July 1993 and January 1998, leaving materials worth Rs. 16.37 lakh lying unutilised in store as of February 1999. Reasons for such unnecessary purchase and non-transfer of the materials to the needy Divisions, if any, were not intimated (May 2000).

Thus, injudicious purchase of stores and lack of any action for their disposal led to accumulation of idle stores worth Rs. 16.37 lakh resulting in locking up of fund to that extent for a period ranging from 4 to 10 years besides entailing risk of loss and damage due to prolonged storage.

The matter was reported to the Department/Government (May 1999); their replies had not been received (December 2000).

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