CHAPTER – VII

Government Commercial and Trading Activities

7. General

This chapter deals with the results of audit of accounts of the Government companies and departmentally managed commercial undertakings. Paragraph 7.1 gives an overview of the Government companies and departmentally managed commercial undertakings. Paragraph 7.2 contains a performance review on 'Zoram Industrial Development Corporation Limited' and Paragraphs 7.3 to 7.7 deal with other topics of interest.

7.1 Overview of Government companies and departmentally managed commercial undertakings

7.1.1 Introduction

As on 31 March 2008, there were five Government companies (all working) and two departmentally managed commercial undertakings viz., State Trading Scheme[1] under the Food, Civil Supplies and Consumer Affairs Department and Mizoram State Transport[1] under the Transport Department as against the same number of Government companies and departmentally managed commercial undertakings as on 31 March 2007 under the control of the State Government. The results of audit of the Power and Electricity Department have been incorporated in this Chapter (Paragraph 7.1.13). The accounts of Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the CAG as per the provisions of Section 619 of the Companies Act, 1956. The accounts of departmentally managed Government commercial undertakings are audited by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

7.1.2 Working Government Companies

The total investment in working Government companies at the end of March 2007 and March 2008 was as follows:

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[1] These undertakings prepare Proforma Accounts.

Table 7.1.1

(Rupees in crore)

Year	Number of companies	Equity capital	Share application money	Long term loans[2]	Total
2006-07	5	46.29	9.47	33.47	89.23
2007-08	5	49.90	8.52	34.53	92.95[3]

As on 31 March 2008, the total investment in Government companies comprised of 62.85 per cent of equity capital and 37.15 per cent of loans as compared to 62.49 per cent and 37.51 per cent respectively as on 31 March 2007.

The increase in total investment was due to increase in equity mainly in PSUs in Food Processing, Handloom and Handicrafts and Electronics Development sectors and increase in loan in respect of Industrial Development & Financing Sector.

The summarized position of Government investment in the working Government companies in the form of equity and loans is detailed in ***Appendix-7.1***.

7.1.3 Sector-wise investment

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2008 and 31 March 2007 are indicated in the following chart:

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7.1.4 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity as provided to the working Government companies by the State Government are given in ***Appendices–7.1*** and ***7.3***

The budgetary outgo in the form of equity capital and grant/subsidy from the State Government to the working Government companies for the three years up to 31 March 2008 was as follows:

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2 Long term loans are excluding interest accrued and due on such loans.

3 State Government investment was Rs. 54.63 crore (others Rs. 38.32 crore). Figure as per Finance Accounts 2007-08 was Rs. 1.97 crore. The difference was under reconciliation.

Table 7.1.2

(Rupees in crore)

	2005-06		2006-07		2007-08	
	Companies		Companies		Companies	
	No.	Amount	No.	Amount	No.	Amount
Equity capital	4	6.16	3	2.10	4	2.80
Loans	--	--	--	--	--	--
Grants	4	1.12	5	2.22	2	1.50
Total:	5♦	7.28	5♦	4.32	4♦	4.30

As on 31 March 2008, guarantees amounting to Rs.32.43 crore and Rs.36.21 lakh were outstanding against Zoram Industrial Development Corporation Limited and Mizoram Food and Allied Industries Corporation Limited respectively. No guarantee commission was payable to the State Government by the Government companies. There was no case of conversion of Government loans into equity, moratorium in repayment of loan and waiver of interest.

7.1.5 Finalisation of accounts by working PSUs

Accounts of Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The accounts duly audited are also to be laid before the State Legislature within nine months from the end of the financial year.

Out of five working Government companies, none of them finalized its accounts for the year 2007-08. During the period from October 2007 to September 2008, only one company finalized its accounts for the previous year.

The accounts of five working Government companies were in arrears for periods ranging from one to nine years as on 30 September 2008, as detailed below:

♦ These are the actual number of companies, which have received budgetary support in the form of equity, loans and grants from the State Government during the respective years.

Table 7.1.3

Sl. No.	No. of working Government companies	Period for which accounts are in arrear	Number of years for which accounts are in arrear	Reference to Sl. No. of Appendix – 7.2
1	1	1999-00 to 2007-08	9	2
2	2	2001-02 to 2007-08	7	4 & 5
3	1	2002-03 to 2007-08	6	3
4	1	2007-08	1	1

The State Government had invested* Rs. 26.78 crore (equity: Rs. 13.55 crore; loans: Rs. 2.00 crore and grants: Rs. 11.23 crore) in four working PSUs during the years for which accounts have not been finalised as detailed in ***Appendix-7.4***. In the absence of timely finalisation of accounts and their audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of provisions of the Companies Act, 1956.

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 of the Government were being apprised quarterly by the audit regarding arrears in finalization of accounts, no remedial measures have been taken by the Government to get the accounts finalised and as a result the net worth of these companies could not be assessed in audit.

7.1.6 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies) as per their latest finalised accounts are given in ***Appendix -7.2*** According to the latest finalised accounts all the working Government companies had incurred accumulated loss of Rs.33.30 crore.

7.1.7 Return on capital employed

The details of capital employed and total return on capital employed in case of working Government companies are given in ***Appendix –7.2.*** As per the latest finalised accounts of five working companies, the capital employed[7] worked

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***** Information as provided by the companies.

[7] Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in the case of Zoram Industrial Development Corporation Limited where it represents a mean of the aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance).

out to Rs.59.74 crore and total return[8] thereon amounted to Rs.(-) 3.20 crore as compared to total return of Rs.(-) 4.86 crore in the previous year.

7.1.8 Results of audit of accounts of PSUs

During the period from October 2007 to September 2008, the accounts of only one Government company viz., Zoram Industrial Development Corporation Limited for 2006-07 were finalised and selected for audit. The major errors and omissions noticed during the audit were as under:

- The Company had not brought out the grants (Rs.7.27 crore) received from the Governments and expenditure (Rs.4.10 crore) there against on the implementation of IIDCs and income (Rs.90,000) there from, in the books of accounts of the Company. Separate set of accounts have been maintained for these grants.
- Investment included an amount of Rs. 68 lakh in insurance policies, taken in the name of officials working in the Company.
- A sum of Rs. 3.00 crore was received from Government of Mizoram as a grant for repayment of principal of Ginger Loan to National Minorities Development Finance Corporation Ltd. (NMDFC), New Delhi. This amount was paid to NMDFC on the same day. However, the transaction remained out of the books of accounts.

7.1.9 Internal Audit/Internal Control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the companies audited by them in accordance with the directions issued to them by the Comptroller & Auditor General of India under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which need improvement. The Statutory Auditors in their reports on the annual accounts of the companies pointed out that in four companies[9] the internal audit system was not commensurate with the size and nature of business of these companies.

[8] For calculating total return on capital employed, interest on borrowed fund is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

[9] Zoram Industrial Development Corporation Limited, Mizoram Handloom And Handicrafts Development Corporation Limited, Mizoram Food and Allied Industries Corporation Limited and Zoram Electronics Development Corporation Limited.

7.1.10 Departmentally managed Government commercial and quasi-commercial undertakings

As on 31 March 2008, there were two departmentally managed commercial undertakings *viz.*, State Trading Scheme under Food, Civil Supplies and Consumer Affairs Department and Mizoram State Transport under Transport Department.

The Proforma Accounts of the State Trading Scheme for 2004-05 to 2007-08 and of Mizoram State Transport for 2002-03 to 2007-08 were in arrears (September 2008). Though the administrative department of the Government was being apprised quarterly by the audit regarding arrears in finalization of accounts, no remedial measures have been taken by the Government to get the accounts finalized and as a result the net worth of these Undertakings could not be assessed in audit.

7.1.11 State Trading Scheme

During the year 2007-08, no Proforma Accounts relating to the arrear years was finalised by the Department. Based on the latest finalised accounts, the financial position and working results on the operation of the Scheme for the three years from 2001-02 to 2003-04 are tabulated in ***Appendix – 7.5***.

7.1.12 Mizoram State Transport

The operational performance of Mizoram State Transport (MST) for three years ended 31 March 2008 is given in ***Appendix–7.6***. It may be seen from the ***Appendix-7.6*** that during the three years ending 31 March 2008, Mizoram State Transport incurred operating losses of Rs.6.07 crore, Rs.6.03 crore and Rs.7.02 crore respectively. The net loss incurred during these years was Rs.7.99 crore, Rs.7.98 crore and Rs.8.85 crore respectively. The reasons for incurring heavy losses were attributed by the Management to poor utilisation of buses (48 to 53 *per cent*) and low load factor (occupancy) of 43 to 52 *per cent*, inclusion of un-apportioned salaries/wages and expenses of other functional units of the Transport Directorate as expenses of the Transport Department and high incidence of salaries and allowances and other operating expenses. The losses per kilometer operated during the three years up to 2007-08 were Rs.46.26, Rs.45.68 and Rs.61.75 respectively.

7.1.13 Power and Electricity Department

The operational performance of the Department for the last three years up to 2007-08 is given in ***Appendix –7.7.***

The total expenditure on power sold during three years from 2005-06 to 2007-08 was Rs.129.77 crore, Rs.108.50 crore and Rs.114.05 crore as against the revenue of Rs.80.37, Rs.44.60 crore and Rs.81.22 crore respectively. Thus, losses of Rs.49.40 crore, Rs.63.90 crore and Rs.32.83 crore respectively were incurred during these three years.

The percentage of transmission and distribution (T&D) losses varied from 18.46 to 26.63 *per cent* as against the norm of 15.5 *per cent* fixed by the Central Electricity Authority. During the year 2007-08, the excess T&D losses over the norms were 40.80 million units.

7.1.14 Response to inspection reports, draft paras and reviews

Observations made during audit and not settled on the spot are communicated to the heads of the companies and concerned departments of the State Government through Inspection Reports. The heads of companies/offices are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2008 pertaining to five Government companies, two departmentally managed commercial undertakings and the Power and Electricity Department disclosed that 159 paragraphs relating to 50 inspection reports remained outstanding at the end of September 2008. Of these, 19 inspection reports containing 49 paragraphs had not been replied to for more than three years. Department-wise break-up of inspection Reports and paragraphs outstanding as on 30 September 2008 is given in ***Appendix – 7.8.***

Similarly, draft paragraphs and reviews on the working of the Government companies and departmentally managed commercial undertakings are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Six paragraphs were forwarded to Power & Electricity Department in June 2008 for which reply has not been received so far (October 2008).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule and (c) the system of response to audit observations is revamped.

7.1.15 Position of discussion of Commercial Chapter of Audit Reports by the Committee on Public Undertakings (COPU)/Public Accounts Committee (PAC)

The following table gives details regarding the number of reviews and paragraphs of the Commercial Chapter of the Audit Reports discussed by COPU/PAC (as at the end of 31 March 2008):

Table 7.1.4

Period of Audit Reports	**Total number of Reviews/paragraphs appearing in Commercial Chapter**		**Number of Reviews/Paragraphs discussed**	
	Reviews	**Paragraphs**	**Reviews**	**Paragraphs**
1993-1994	-	4	-	3
1995-1996	1	4	1	2
1996-1997	-	4	-	2
1997-1998	1	3	1	2
1998-1999	-	3	-	2
1999-2000	1	7	-	3
2000-2001	-	2	-	2
2001-2002	-	4	-	-
2002-2003	1	5	-	1
2003-2004	-	5	-	-
2004-2005	1	2	-	-
2005-2006	-	4	-	-
2006-2007	2	1	-	-
Total	**7**	**48**	**2**	**17**

Section 'A' Performance Review

Industries Department

7.2 Zoram Industrial Development Corporation Limited

Highlights

The contribution of the Company in the state of Mizoram was on the decline due to non-disbursement of term loan and non-allotment/utilisation of plots developed in two 'Integrated Infrastructural Development Centres' (IIDC) at Pukpui and Zote.

(Paragraph 7.2.1, 7.2.13 and 7.2.31)

There was diversion of funds of Rs.7.54 crore received from Financial Institutions (FIs) and Rs.89 lakh received for IIDC from Government of India (GOI) and Government of Mizoram (GOM) for administrative expenses.

(Paragraph 7.2.11 and 7.2.29)

The Company failed to claim defaulted ginger loan of Rs. 2.78 crore, affected by natural calamity from National Minority Development & Finance Corporation.

(Paragraph 7.2.12)

Irregular sanction and disbursement of loan of Rs.3.53 crore under BAFFACOS, without creation of charges against the security, led to remote chance of recovery of loans.

(Paragraph 7.2.15 to 7.2.18)

Non-performing assets of the Company increased from Rs.20.40 crore in 2003-04 to Rs.22.78 crore in 2007-08.

(Paragraph 7.2.22)

The Company incurred loss of income of Rs.5.47 crore by waiving of interest without the approval of Board of Directors and the State Government under the proposed special One Time Settlement scheme.

(Paragraph 7.2.26)

The expenditure of Rs.7.43 crore remained unproductive as plots in IIDCs were not allotted to industrial units. Thus, the objective of the scheme for development of industries in the backward area of the State was not achieved.

(Paragraph 7.2.31)

Introduction

7.2.1 Zoram Industrial Development Corporation Limited (Company) was incorporated in February 1978 to develop industrial areas and promote entrepreneurship by providing aid, assistance and finance to industrial undertakings, projects or enterprises in the state of Mizoram.

The activities of the Company at present are:

- setting up of Integrated Infrastructural Development Centre (IIDC);
- providing assistance to bamboo processing units under Bamboo Flowering and Famine Combat Scheme (BAFFACOS); and
- extending housing loan to Government employees and multistoried car parking complex at Aizawl under finance from HUDCO.

The Management of the Company is vested in a Board of Directors (BOD) consisting of 11 Directors, including a Chairman and a Managing Director as on 31 March 2008. The Managing Director is the Chief Executive of the Company who is assisted by one General Manager, two Managers and three Deputy Managers in the Head office at Aizawl. The Company has a branch office at Lunglei for recovery of loan.

A comprehensive review on the activities of the Company was last conducted during 1997-98 and included in the Audit Report of Mizoram for the year ended 31 March 1998. It was discussed in the Committee on Public Undertakings (COPU) on 28 May 2001. The major recommendations of the COPU on the Action Taken Report of the Management were as under:

- the Management should henceforth follow the guidelines in respect of presentation, appraisal, effective monitoring and post disbursement inspection study;
- the management should take necessary steps to classify the overdue loans as per the guidelines of RBI;
- the Corporation should come up with realistic plan for achieving maximum recovery of overdues from the loanees and recycle the fund for the benefit of the people and industrial promotion of the State;
- the management should make provision for bad and doubtful debts in their accounts; and
- stern action should be taken against the defaulters and the management should also curtail avoidable expense on establishment.

Scope of Audit

7.2.2 The present review conducted during May-July 2008 covers the working of the Company for the period from 2003-04 to 2007-08 with regard to sanction, disbursement and recovery of loan under various schemes and setting up of IIDC at Pukpui and Zote.

Audit objectives

7.2.3 The performance review was conducted with a view to ascertain whether:

- Loans were sanctioned and disbursed after exercising due diligence;
- All possible steps were taken to recover the loans in time;
- The objectives as envisaged in Integrated Infrastructural Development Centre Scheme were achieved; and
- The funds were arranged economically and utilised efficiently.

Audit Criteria

7.2.4 The audit criteria adopted for assessing the audit objectives were:

- State Industrial Policy 1989 and 2000;
- the instruction/guidelines of Financial Institutions (FIs) such as Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), National Minorities Development & Finance Corporation (NMDFC) and Housing and Urban Development Corporation (HUDCO);
- the laid down policy and procedures of the Company in respect of sanction, disbursement and recovery of loan/assistance;
- the provision of State Financial Corporation (SFC) and other relevant Acts;
- One Time Settlement (OTS) scheme, 1999;
- the decisions of Board of Directors (BOD), executive instructions and circulars issued from time to time; and
- guidelines issued by Government of India (GOI), Government of Mizoram (GOM) and Draft Project Reports (DPR) for implementation of IIDCs Pukpui and Zote.

Audit Methodology

7.2.5 Audit followed the following mix of audit methodologies by reviewing the records relating to :

- mobilisation and deployment of resources;
- agenda and minutes of the Board meetings related to investment activity;
- loan applications appraised by the Company;
- sanction of loans under various schemes;
- waiving of interest under OTS scheme;
- recovery action against the defaulting assisted units;
- expenditure incurred, leasing out of plots to the entrepreneurs and collection of maintenance charges for IIDC; and
- interaction with the management at various levels.

Audit Findings

Audit findings emerging from the performance audit were reported (September 2008) to the State Government and discussed (November 2008) with the Management. The views expressed by the Management during the said meetings have been taken into consideration while finalizing the performance audit. The audit findings are discussed in the succeeding paragraphs.

Financial Management

Capital Structure

7.2.6 As against the authorized capital of Rs.20 crore, the paid up capital of the Company stood at Rs.15.78 crore as on 31 March 2008 subscribed by GOM (Rs.11.50 crore) and Industrial Development Bank of India (Rs.4.28 crore). There is pending allotment of shares valuing Rs.4.55 crore to GOM. It was noticed that the share capital including the pending allotment of shares exceeded its present limit of authorized capital.

Financial performance

7.2.7 The summarised financial position and working results of the Company for five years period ending 31 March 2008 are given at ***Appendix 7.9.*** From the appendix, it was observed that

- the Company incurred losses in all the years under review and accumulated loss increased from Rs.8.85 crore in 2003-04 to Rs. 16.84 crore and eroded the entire paid up capital as on March 2008.

- the capital employed and the net worth of the Company became negative as on 31 March 2008.

Audit scrutiny revealed that:

- the Company had not evolved any system to forecast annual budgeted profitability for operation of its annual activities.

- the Company had neither introduced any system of financial planning nor prepared business plan and resource forecasting for debt utilisation of borrowed funds from FIs.

- the Company had not made provision of Rs.22.78 crore (31 March, 2008) for Non-Performing Assets (NPA) as per RBI guidelines. Had the provision been made, the accumulated loss of Rs. 16.84 crore would have increased to Rs.39.62 crore.

The Government stated (October 2008) that due to clearing of SIDBI loan in June 2008, the performance of the Company would become positive from the year 2008-09 onwards.

Sources and Utilisation

Grant-in-aid

7.2.8 During 2004-08, the Company had received the capital grant-in-aid of Rs.7.35 crore from Ministry of Small Scale Industries (MSSI), GOI and Rs.0.93 crore from GOM for implementation of IIDC at Pukpui and Zote. The Company had also received the revenue grant-in-aid of Rs. three crore from Government of Mizoram which was meant to wipe out the balance Ginger loan borrowed from NMDFC, New Delhi.

It was noticed in audit that:

- the Company had not maintained separate ‘grant-in-aid’ register and assets register for receipt and utilization of grant as per General Financial Rules (GFR) (Rule No.19);

- The revenue grant of Rupees three crore was not accounted for, as receipt of income from other sources (March 2008);

- the receipt of the grants from GOI and GOM and consequent utilisation in respect of capital work-in-progress, creation of assets for implementation of IIDC were not taken into accounts of the Company.

The Government stated (October 2008) that the Company maintained a separate set of accounts for implementation of IIDC as it had no right of ownership. The reply is contrary to the guidelines of the IIDC scheme stating that the implementing agency (Company) had right of the ownership of the IIDC Centres.

Investment in Financial Institutions (FIs)

7.2.9 The Company had not devised any investment policy so far (March 2008) regarding parking of surplus funds of Grant-in-aid and funds received from FIs for lending, till disbursement. The Company had invested an amount of Rs. 2.06 crore in the FIs and Rs. 2.12 lakh in Kisan Vikas Patra (KVP) as of March 2008.

It was observed in audit that:

- the Company had invested its own fund of Rs. 1.88 crore between March and September 2007 with Life Insurance Corporation of India (LIC) (Rs.1.18 crore Market plus scheme) and Bajaj Alliance Life Insurance Corporation Ltd (BALICL) Rs. 70 lakh Unit gain plus) maturing after 5 years and 10 years respectively. This investment was made in the personal names of various functionaries of the Company which was in violation of the guidelines of RBI and Articles of Association (AOA) of the Company. The approval of the BOD was also not obtained in respect of the above investments.

- the Company did not make any efforts to analyse the market interest rates from various FIs with a view to secure the best returns on investment by the Company.

Thus, the investment of Rs. 1.88 crore made in LIC and BALICL in the names of officials of the Company not only failed to protect the Company's interest, but was also in violation of the prescription and guidelines of the RBI and the AOA of the Company.

The Government, while accepting the audit observation, stated (October 2008) that the Company had obtained the signed affidavit from the officials for which the investments were made. The reply does not explain why the Company had obtained the affidavit which is legally not acceptable without consent of the respective insurance company for assigning the interest to the Company.

Investment in Group Gratuity Scheme

7.2.10 The Company had purchased a policy of Group Gratuity Scheme from LIC, Silchar branch valuing Rs. 48.90 lakh in the month of March 2007 covering 60 employees for which administrative approval of the BOD and the State Government was not obtained.

Utilisation of borrowed fund

7.2.11 As of March 2008 the State Government had provided total guarantee of Rs.24.67 crore[♣] to SIDBI and NMDFC on behalf of the Company for repayment of the term loan and also assisted the Company by providing grant and loan for repayment of Rs.3 crore to NMDFC (March 2007) and Rs.8.72 crore to SIDBI (June 2008).

Audit scrutiny revealed that :

- the Company had made loan payment of Rs.2.88 crore[f] to the FIs as against the recovery of Rs.10.42 crore[♥] from loanees by diverting balance amount of Rs.7.54 crore to meet the administrative and management expenses.
- the State Government was forced to bail out the Company from the debt by sanctioning grant of Rs.3 crore (March 2007) and Rs.8.72 crore interest free loan for repayment of loan of NMDFC and SIDBI respectively to avoid invoking guarantees provided to FIs due to irregular repayment.

Thus, due to diversion of borrowed amount and irregular repayment to the FIs, the Company was faced with a serious setback in its lending operation to secure further funds from the FIs which resulted in shortage of funds for disbursement while depleting the State exchequer to the extent of the amount settled.

The Government, while admitting the fact, stated (October 2008) that the Company is taking steps to clear the dues of FIs.

Failure to claim defaulted Ginger Loan from NMDFC

7.2.12 The Company was nominated (April 2001) as State Channelising Agency (SCA) for implementing the programme of NMDFC for disbursing term and money margin loan to the beneficiaries of notified minorities. Under the programme, the Company had disbursed the "Ginger Cultivation" loan of Rs.2.81 crore at Rs.5000 each to 5620 ginger cultivators against the sanction of Rs.3 crore in the year 2000-01 and the balance amount of Rs.0.19 crore was utilised for other purposes. As per the scheme, the loanees were to repay the loan within 12 months from the date of disbursement along with six per cent interest *per annum*.

As of March 2008, the Company had recovered the dues of Rs. 3.56 lakh (principal Rs. 3.20 lakh, interest Rs. 0.36 lakh) from the loanees. It was noticed that the farmers (loanees) could not repay the loan due to massive blight and root-borer pests which had affected their crops. In the meantime, the NMDFC had come forward for a one time settlement for clearing ginger loan by waiving the compound interest of Rs. 51.82 lakh and demanded Rs. 3.22[♣] crore due to default of loan since 2001-02. In response to the offer (March 2007), the

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[♣] SIDBI-Rs.10.45 crore and NMDFC-Rs.14.22 crore.

[f] SIDBI- Rs.2.68 crore and NMDFC- Rs.0.20 crore.

[♥] SIDBI- Rs.7.09 crore and NMDFC- Rs.3.33 crore.

[♣] principal of Rs.3 crore and interest Rs. 0.22 crore

Government of Mizoram came forward for repayment of ginger loan of Rs.3 crore to NMDFC on 28 February 2007 by providing grant to the Company to avoid invoking of State Government guarantee.

In this context, it was noticed that the NMDFC had floated a scheme of writing off loans/dues of the beneficiaries in the event of death, disability and calamity notified in the month of November 2006. As per the scheme, the amount written off would be credited to concerned SCA's loan/dues account and communicated to the SCA for adjustment in its accounts.

Instead of seeking for write off of the loan on account of natural calamities as provided for in the said scheme, the Company instead resorted to repayment of the entire amount of Rs.3 crore by availing grant from GOM. Further, the Company had excluded outstanding ginger loan amounting to Rs.2.81 crore in the books of accounts by way of writing off of bad and doubtful debts without the approval of BOD.

Had the Company taken steps for claiming of defaulted ginger loan of Rs.2.78 crore[f] from NMDFC, the repayment made by the GOM would have been averted.

The Government stated (October 2008) that GOM committed repayment of ginger loan on behalf of the loanees much before 2006 and needed to go ahead as per the procedure inspite of new scheme notified by NMDFC in November 2006. The reply does not mention as to why the Company so far (March 2008) had not initiated any action to write off the amount of individual loanees in the books of accounts by the BOD and claim defaulted amount from the NMDFC.

Term Loan Assistance

Industrial Promotion

7.2.13 The main objective of the Company is to provide assistance for setting up of new industrial units as well as for expansion, modernization and diversification of the existing units. The FIs, SIDBI and NMDFC had declined the term loan assistance to the Company since 1994 and 2003-04 respectively mainly due to its poor track records of repayment of loans. Hence, no term loan was disbursed by the Company during the period covered in audit. However, the State Government sanctioned the share capital of Rs.3.95 crore to the Company in the year 2004-05 and 2005-06 for providing assistance to Bamboo Processing Units under Bamboo Flowering and Famine Combat Scheme (BAFFACOS). Further, the Company extended housing loan to the Government employees to the extent of Rs.10 crore and also sanctioned multi-storied car parking cum shopping complex loan to three promoter to the extent of Rs.2.77 crore in the year 2006-07 and 2007-08 under finance from HUDCO.

[f] total disbursement of Rs.2.81 crore minus total recovery of Rs.0.03 crore.

Disbursement of loan under BAFFACOS:

7.2.14 The Company had disbursed the total assistance of Rs.3.53 crore to the loanees against the total receipt of Rs. 3.95 crore under BAFFACOS during 2005-06 and 2006-07. The undisbursed balance of Rs.42 lakh was held by the Company for other purposes. The sanction and disbursement of the loan and creation of security of the above loanees are discussed in the succeeding paragraphs.

Mizoram Venus Bamboo Products Limited, Aizawl

7.2.15 The Company had disbursed a term loan of Rs.2.45 crore at a rate of 10 *per cent* interest to the M/s. Mizoram Venus Bamboo Products Limited (MVBPL), Aizawl, in two installments (August 2005/December 2005) with repayment period of five years. Further, the term loan was sanctioned to the loanee M/s. MVBPL for discharging the liability of the loanee with Central Bank of India, Kolkata as directed by the Government of Mizoram by providing the fund under BAFFACOS as share capital contribution. In addition, the Company also sanctioned working capital loan of Rs.0.35 crore in two installments (December 2005/June 2006) with repayment period of three years.

It was found in audit that:

- sanction and disbursement of term loan of Rs. 2.45 crore for settlement of time barred outstanding dues of another FI (Central Bank of India, Kolkata), was not permissible as per AOA of the Company.

- the Company did not appraise the project evaluation such as credit worthiness, margin money, repayment capacity and marketing of the products before disbursement of the loan.

- the Company had not entered into any agreement for creating charges such as mortgage of land and hypothecation of plant and machinery and stock against the security for disbursement of Rs.2.80 crore for term and working capital loan. No security had been obtained against the loan (March 2008).

- the loanee had not repaid any installment so far (March 2008).

Thus, due to sanction and disbursement of loan of Rs.2.80 crore in violation of the procedure of lending without creation of charges, the recovery of loan by repossession of the assets was not enforceable under the SFC Act.

The Government while accepting the fact stated (October 2008) that the loans were disbursed at the instance of GOM entirely out of the funds provided by them. The reply does not explain as to why the Company did not follow the procedure for sanction and disbursement of loan.

M/s R.P. Bamboo Industry, Aizawl

7.2.16 The Company had sanctioned a term loan of Rs.26 lakh to M/s. R. P. Bamboo Industry in November 2006 for purchase of power operated 120 Bamboo Stick Making Machine slicers for the Agarbati stick manufacturing unit. The Company had disbursed the first installment of Rs.15.60 lakh to the loanee in November 2006. On scrutiny of the sanction and disbursement of loan, it was found that:

- the loanee had utilized the loan amount for purchase of two Fine Silver Machine, one Stick Making Machine and 337 Nos. of Hand Slicing and Stick Machine instead of purchase of power operated stick and slice machine;

- the collateral security of the land and building was not in the name of the loanee. The Company had not made the agreement for creation of charges against the security in favour of the Company; and

- the loanee had repaid an amount of Rs.0.42 lakh since May 2007 leaving outstanding of Rs.8.50 lakh (March 2008).

Thus, sanction and disbursement of loan without adequate security and utilisation of the same for other purposes led to non- recovery.

M/s L. Z. Bamboo Industry, Aizawl

7.2.17 The Company sanctioned (August 2006) a term loan amounting Rs.44.50 lakh to L. Z. Bamboo Industry, Aizawl for setting up of bamboo stick manufacturing unit and disbursed the same in two installments (August 2006/March 2007).

Scrutiny of the records of sanction and disbursement revealed that:

- despite the defective project report as per the opinion of Project Manager, the Company had sanctioned loan without considering the viability of the project for repayment;

- the loanee had purchased only 28 numbers of Bamboo Agarbatti square stick making machine at a total cost of Rupees seven lakh instead of one flat bed and 50 stick making machines (estimated value Rs. 24.50 lakh);

- the Company had released the second installment of Rs.20 lakh without ascertaining the utilisation of the first installment for intended purpose;

- the Company had not properly assessed the valuation of securities as the loanee had a negligible collateral security of land;

- the entire amount of the project was funded by the Company without the loanee's contribution; and
- the loanee had not repaid a single installment since September 2006.

Thus, disbursement of loan without getting adequate security and release of second installment without inspection led to remote chance of recovery.

The Government stated (October 2008) that the Company has initiated action to recover the loan.

Loan under Hire Purchase Scheme

7.2.18 The Company had sanctioned and disbursed a loan of Rs.25000 to 50 members aggregating to the total value of Rs.12.50 lakh in November 2005 for purchase of Agarbatti stick making machine with interest of seven *per cent per annum* for repayment within three years.

On review of the sanction and disbursement of the loans, it was revealed that:

- the method/selection and identification of loanees were not made available;
- agreements with the loanees for hypothecation of plant and machinery were not entered into;
- pre and post inspections were not conducted to ensure that loanees utilised the loan for purchase of machinery;
- marketability of products of loanees was not assessed before sanctioning the loan;
- an amount of only Rs.9,392 against the outstanding loan of Rs.12.50 lakh was repaid (March 2008).

Thus, sanction of only loan without obtaining security, non-hypothecation of plant and machinery, irregular repayment and non-assessing marketability of the products led to non-recovery of loan.

The Government stated (October 2008) that the Company had already started repossession of the plant and machinery from the defaulted loanees. The details of loanees and repossession of assets from them were not made available to audit.

Housing loan to Government employees

7.2.19 The Company had sanctioned and disbursed the housing loan of Rs.10 crore for construction of houses to 474 officials working in State / Central Government / Public Sector Undertaking in Mizoram, financed by HUDCO under State Government Guarantee in the year 2005-06 and 2006-07. The important terms and conditions for granting housing loan, *inter alia*, included that the applicant must be in permanent service of Government / PSU and the loan shall be secured by Land Settlement Certificate as Collateral Security.

On scrutiny of the sanction and disbursement, it was found that most of the loanees did not follow the terms and conditions of HUDCO as detailed below:

- the loanees submitted the same standard estimates instead of submitting their own individual estimate according to the plan of their house;
- on test check of 30 cases it was noticed in 11 cases[2] that name of loanees were not matching with the names given in Land Settlement Certificates;
- non-encumbrance certificate in the names of the loanee was not obtained up to the date of loan sanction;
- the Company had not conducted the post inspection after disbursement of housing loan to find out whether the loan was utilized for construction; and
- completion certificate of the houses was not available on record.

Thus, for construction of houses by the loanees as per the terms and conditions of HUDCO could not be vouched safe in audit.

Disbursement of loan for Multi-Storied Car Parking Complex:

7.2.20 HUDCO sanctioned (September 2005) Rs. 2.77 crore for construction of five multi-storied car parking complex at Aizawl. However, the Company disbursed (June 2006 to October 2007) the entire amount to three promoters depriving other two promoters loan of Rupees one crore.

On scrutiny of the records of sanction and disbursement, audit further found that:

- the Company had not reappraised the Debt Equity Ratio, Margin of Safety and means of financing as per DPR for assessing the repaying capacity.

[2] Dr. James Thazuava, Lalmalsawmi, K. Larinliani, Lalrinawmi, P.C. Vanlalchungi, Paulranthanga, Laldinpuia Colney, Albert Zonunsanga, Lalramngaies, Lalrodawla and Lalrindiki.

- the Company had not collected the two months' installments from the loanees as fixed deposit with commercial bank or PDS scheme of HUDCO by opening escrew account as stipulated in the HUDCO sanctioned letter.

- the Company had not obtained the comprehensive insurance policies from the loanees for construction of the multi-storied car parking complex for protecting the loan amount against the natural calamities and other perils.

The Government stated (October 2008) that the Company had adequate security to cover the loan.

Follow up procedure

7.2.21 Timely and effective recovery of dues is the most critical component for any financing Company for sustaining its capacity to finance and reduce risk of debts. The Company has to initiate action against defaulting loanees under the provisions of SFC Act, 1951 as follows:

- issue notice to defaulting loanee under section 30, to discharge forthwith liabilities to the Company;

- issue of notice under section 29, to take over the management or possession of assets or both of the industrial concern; and

- sell the property pledged, mortgaged, hypothecated or assigned as security.

Besides above, the Company also settles cases of heavy overdues, after considering their merits, under scheme of one time settlement (OTS) by recovering dues of principal and some of the interest, liquidated damages, charges etc.

Non-performing assets

7.2.22 Reserve Bank of India, issued (March 1994) guidelines to classify the loan assets into four categories depending upon their chances of realisation as standard assets, sub-standard assets, doubtful assets and loss assets. However, the Company classified the assets only as standard assets and doubtful assets (non-performing assets).

The particulars of outstanding loan, grouping of assets into standard assets and doubtful assets etc., are given below for the five years ending 2007-08:

Table 7.2.1

(Rs in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
1. Loan (Principal) outstanding at the end of the year	25.12	23.58	25.13	35.21	32.07
2. (a) Standard Assets	4.72	2.80	3.73	13.21	9.29
(b) Doubtful Assets (NPA)	20.40	20.78	21.40	22.00	22.78
3. Percentage of NPA to Total Outstanding	81.21	88.13	85.16	62.48	71.03

Source: Data furnished by the Company.

It was noticed in audit that the percentage of NPA was reduced in the year 2006-07 and 2007-08 due to sanction of Rs.12.70 crore from HUDCO and not due to improvement of recovery of the loan.

Recovery performance

7.2.23 As on March 2008, the total amount of Rs.59.92 crore (principal: Rs. 22.78 crore; interest Rs. 37.14 crore) was overdue for recovery. The position of recovery of overdues (principal and interest) on term loan operations of the Company for the last five years up to 31 March 2008 is given in ***Appendix 7.10***.

It is evident from the Appendix 7.10 that the recovery ranged between 8.40 *per cent* and 4.96 *per cent* in respect of principal and 3.57 *per cent* and 1.00 *per cent* in respect of interest. Overall recovery ranged between 5.72 *per cent* and 2.52 *per cent* during the period 2003-04 to 2007-08.

It was observed in audit that:

- the Company had not fixed annual target for recovery of the loan.
- the Company did not analyse the reason for decline nor did it take any effective steps to improve the recovery. No records were made available regarding the number of units visited by the recovery staffs and number of recovery campaigns held. Even periodical (monthly/quarterly) demand notices to the loanees were not sent regularly.
- the matter was not supervised or monitored effectively at the Senior Management level nor did it get adequate oversight at Board level.
- the Company had not filed any case for recovery of loan from defaulted borrowers under SFC Act and other Recovery Act during the period under review.

One Time Settlement

7.2.24 The Company introduced (1999) scheme of one time settlement (OTS). The scheme remained in force up to 30 March 1999 and thereafter the loan accounts were settled under OTS on case-to-case basis. Under 'One Time Settlement' scheme the Company had recovered the loan amount of Rs.4.43 crore (principle: Rs. 2.73 crore; interest: Rs. 1.70 crore) by waiving outstanding interest of Rs.1.70 crore from 173 loanees during the period covered by audit. It was found in audit that no timeframe was fixed by the Company for implementation of OTS scheme. As a result, it affected the repayment of loan by the borrowers in time and the Company incurred a loss of Rs.2.07 crore by waiving of interest due to improper follow up of action in normal circumstances.

7.2.25 As of March 2008, 98 part payment cases valuing Rs.3.23[♦] crore were pending for a period of more than one and half years since the date of approval and the amount was not adjusted against the interest outstanding by withdrawing the benefits under package as per the Rule No. 3 and 9 of OTS scheme. Further, the Company had not taken action under section 29 for possession of assets. A case pending for OTS recovery is discussed below:

The Company had approved the OTS scheme (January 2003) for repayment of term loan in respect of Hotel Ahimsa for Rs. 30.08 lakh in three installments against the total outstanding of Rs. 55.06 lakh. The loanee had made the payment of first instilment in the month of January 2003 and the balance two installments payable in the month of July 2003 and January 2004 for Rs. 10.38 lakh each were not paid so far (March 2008).

The Company had not initiated any action to repossess the assets under section 29 of SFC Act to recover its dues.

Settlement of Term Loan under Proposed Special OTS

7.2.26 The Company proposed (December 2007) a new special OTS scheme for the approval of the BOD for the benefit of defaulters of term loan. As per the proposed scheme the borrowers had to repay the principal within a year with the benefit of waiving the entire outstanding interest. The BOD authorised (December 2007) the Managing Director to formulate the modalities in consultation with SIDBI.

It was noticed in audit that the Company implemented the proposed package in the month of January 2008 onwards without obtaining the approval of the BOD and GOM and also did not formulate the guidelines. Up to June 2008, the Company had liquidated loan of 51 loanees and collected the principal of Rs.50.71 lakh by waiving of interest amount of Rs.87.17 lakh. The Company

[♦] Principal amount of Rs. 2.67 crore and interest amount of Rs.0.56 crore also collected the part payment of principal amount of Rs.53.83 lakh from 177 loanees by waiving of interest of Rs.4.60 crore.

Thus, waiving interest without the approval of the BOD and GOM was irregular and unauthorized resulting in undue favour of Rs. 5.47 crore to the loanees.

Shortfall in realisation of loan amount by disposal of assets

7.2.27 During the five years ended 31 March 2008, the Company disposed of the assets of 11 units of defaulted loanees at the value of Rs.18.15 lakh. On scrutiny of two units it was found that:

- the Company had realized land of Rs.2.30 lakh (May 2006) against the outstanding loan of Rs.30.15 lakh♠ (at the end of repayment period, April 1999) in the loan account of Makkhama & Sons Cold Storage, Aizawl leaving a shortfall of Rs.27.85 lakh as collateral security coverage was inadequate. It was found from the Recovery Report (22 January 1998) that the borrower had not set up the cold storage plant and no repayment was made since the date of sanctioning of loan (April 1991).

- the Company disposed of the land at Rs.12 lakh (September 2004) belonging to K. Lalreia against the outstanding loan of Rs.98.18 lakh (principal amount of Rs.35 lakh and interest of Rs.63.18 lakh) as of August 2001 (at the end of the repayment period), as it had not obtained adequate collateral security and there was no proper follow up though the loan was outstanding since 1998.

Thus, collateral security was not adequate for recoupment of loan amounting to Rs.1.14 crore (principal : Rs. 27.91 lakh; interest : Rs. 86.18 lakh).

Set up of Integrated Infrastructural Development Centre (IIDC)

7.2.28 The scheme of Integrated Infrastructural Development Centre (IIDC) was prepared (March 1994) by Ministry of Small Scale Industries (MSSI), GOI for small scale rural industries in rural/backward areas. The Company was nominated as implementing agency in July 2001 by the GOM. The objectives of the scheme, *inter alia*, were to provide:

- infrastructural facilities for creation of small scale and tiny units in the backward district/rural area not covered under the scheme of Growth Centre;

- linkages between agriculture and industry; and

♠ Principal amount of Rs.15.00 lakh and interest amount of Rs.15.15 lakh

- common service facilities and technological back up services in the selected centre.

Under the scheme, the Company promoted two IIDC in the backward districts viz, Pukpui (Lunglei District) and Zote respectively (Champhai District) at a total outlay of Rs.9.37 crore with the participation of GOI (80 *per cent*) and GOM (20 *per cent*). The work of IIDCs was completed in August 2005 and May 2008 in respect of IIDC Pukpui and Zote respectively at a total cost of Rs.7.43[ϒ] crore (March 2008). The implementation of the above schemes is discussed in the succeeding paragraphs.

Implementation of the Scheme

Fund Management

7.2.29 The Company received a total grant of Rs.8.28[♣] crore (March 2008) from GOI and GOM out of total sanction of Rs.9.37[♦] crore and the balance of Rs.1.09[∝] crore was yet to be received. As of March 2008, the Company had incurred the total expenditure of Rs.7.43 crore out of total grant plus interest of Rs.8.40[⊗] crore.

Audit scrutiny revealed that

- Rs.89 lakh was utilised towards administration and management expenses in violation of the guidelines issued by GOI.

- the Company had not obtained the stamped receipts where the payment exceeded Rs.5,000 in violation of the provisions of the statutory regulations.

- the Company had retained huge amounts in the saving bank account for more than 15 days without depositing the same in fixed deposit account to earn more interest.

The Government, while admitting the fact, stated (October 2008) that obtaining of stamped receipt was not practiced due to mainly cash purchases from local people and locking of funds in fixed deposit hamper the project work to complete in time. The reply is not in consonance with the statutory regulation and optimal management of funds.

[ϒ] Pukpui Rs.4.10 crore and Zote Rs.3.33 crore
[♣] Pukpui Rs.4.78 crore and Zote Rs.3.50 crore
[♦] Pukpui Rs.4.81 crore and Zote Rs.4.56 crore
[∝] Pukpui Rs.0.03 crore and Zote Rs.1.06 crore
[⊗] GOI Rs.7.35 crore (Pukpui-Rs.3.85 crore, Zote-Rs.3.50 crore) plus GOM Rs.0.93 crore (Pukpui) plus interest received on investment Rs.0.12 crore = Rs.8.40 crore.

Execution of Works

7.2.30 As per the DPR, the Company had to create the infrastructural facilities such as site development & civil works, internal roads, drainage & sewerage system, water supply and tele-communication system for housing industrial units. The work was executed by the Project Manager departmentally who was authorized to incur the expenditure with strict compliance to the codal formalities and accounting practices.

Audit scrutiny revealed that:

- Even after completion of the project of IIDC at Pukpui (May 2005), the Company had not initiated any action to transfer the land in the name of the Company and also had not initiated to extend the lease period from 25 years to 33- 66 years for IIDC Zote as suggested by the MSSI, GOI.

- The Company had not floated tenders for execution of the civil works. As a result, the completion of the work with regard to economy could not be assessed by audit.

- The Company had incurred expenditure of Rs 3.07 crore against the estimates of Rs. 6.51 crore in some of the items in IIDCs Pukpui and Zote. In the absence of completion certificate for execution of work with reference to the DPR, the expenditure incurred below estimates could not be vouchsafed in respect of omission/reduction/deviation of works.

- The Company had incurred expenditure of Rs.94.46 lakh[♠] in IIDCs Pukpui and Zote for construction of guest house and chowkider quarters (Rs. 32.49 lakh), industrial shed (Rs.11.92 lakh), plantation of trees (Rs.1.09 lakh), black topping of road (Rs.47.53 lakh) and purchase of two motor cycles (Rs.1.09 lakh) which were not included in the estimate of the approved DPRs. The Company also incurred excess expenditure of Rs.13.56[ƒ] lakh over the sanctioned amount for construction of administrative block in IIDCs Pukpui.

- The Company had incurred an expenditure of Rs.49.05 lakh at Pukpui and Rs.52.26 lakh at Zote for payment of labour charges for site development and other works. In the absence of daily payment register, muster roll and measurement books, the payment could not be vouched with the actual work completed.

- The Company had incurred an expenditure of Rs.31.71 lakh at Pukpui and Rs.26.56 lakh at Zote by hiring JCB for site development and other civil works without floating tenders. The payments were made by hand vouchers

[♠] Pukpuii for Rs.56.40 and Zote for Rs.38.06 lakh
[ƒ] Expenditure incurred Rs.83.84 lakh minus estimated amount Rs.70.28 lakh.

without proper bill of JCB owners. The Company had not maintained the measurement book for measuring the work.

- An amount of Rs.13.78 lakh was incurred for purchase of groceries such as rice, chana, dal etc for providing food to labourers at IIDC Pukpui. It appeared doubtful as one bill was obtained (August 2008) from the supplier of construction material M/s. C. T. Enterprises for purchase of groceries in bulk (75 quintals average) without having adequate storage place at the work site.

- An amount of Rs.1.42[ϒ] lakh was paid for plantation of trees in IIDCs without having the details of source of purchase/receipt of plants/trees.

Thus, due to non-observance of the codal formalities as prescribed by the funding agencies *viz*. GOI and GOM, expenditure of Rs.7.43 crore as mentioned above lacked adequate documentation.

The Government, while admitting the fact, stated (October 2008) that the Company had completed various works incurring less expenditure due to efficient management. Further, the tendering system was not followed in selection of contractors due to lack of adequate number of eligible contractors.

The reply does not justify as to why the Company could not follow the codal procedures with adequate documentation for execution of works.

Utilization of IIDCs

7.2.31 The Company had developed 243 plots (Pukpui 118 and Zote 125) out of 272 plots in IIDCs by incurring total expenditure of Rs.7.43 crore. As of March 2008, the Company had not issued any allotment letter or any agreement made with the entrepreneurs to lease out the plots in any of the IIDC. As per the DPR, the Company was responsible for the project management and execution. Further, the Company has to provide financial assistance, technical assistance, information on subsidies and concession offered by the Government and conduct suitable training program to ensure the success of the proposed units.

Audit scrutiny revealed that:

- the Company had leased out (July 2005) the IIDC Pukpui to Mizoram Khadi & Village Industries Board (MKVIB), Aizawl, immediately after completion of the project without getting approval of the funding agencies viz GOI and GOM;

[ϒ] Pukpuii for Rs.1.12 lakh and Zote for Rs.0.30 lakh

- the creation of infrastructure in IIDC Pukpui and Zote was not on the basis of any minimum number of entrepreneurs requesting for allotment to set up their units in the centre; and
- the Company had not devised so far (March 2008) any scheme or marketing strategy to lease out the plots by extending financial assistance with provisions for industrial subsidies to the entrepreneurs as envisaged in the Industrial Policy of the State to establish the industrial units in the IIDC centre.

Thus, due to transfer of IIDC Pukpui to MKVIB and non allotment of IIDC Zote, the expenditure incurred for Rs.7.43 crore turned out to be unproductive and failed to achieve the objective of the scheme so far.

The Government, while admitting the fact, stated (October 2008) that the IIDC Pukpui was let out to MKVIB as no single unit came forward to set up industries at the time of completion and since large number of small and tiny units were financed by MKVIB, they could make best use of the centre. The fact remains that the Company had no details of allotment of plots of housing enterprises at IIDC Pukpui by the MKVIB in support of the above argument. Further, the Company had not collected lease rent of Rs.90,000 per annum from MKVIB since July 2005.

Corporate Governance

Corporate Plan

7.2.32 Corporate Plan indicates the long-term policy of a Company and translates its corporate objectives into remarkable action plan both short term and long term for financing activities aimed at industrial development of the State. The COPU also recommended that the Corporation should come up with realistic plans for achieving maximum recovery of overdues from the loanees and recycle the fund for the benefit of people and Industrial promotion to the State.

Audit scrutiny revealed that the Company had so far (March 2008) not formulated any corporate plan/long term policy for attaining the objective of industrial promotion in the State in terms of sanction, disbursement and recovery of overdues.

Board meetings

7.2.33 The business of the Company was managed by the Board of Directors. It is very essential to conduct the Board Meeting regularly for taking decision on important matters in respect of policy decision, loan sanctioning and implementation of the industrial projects with the assistance of Government of India, State Government and financial institutions. According to Section 285 of the Companies Act, 1956, meeting of the Board of Directors shall be held at least once in every three month. The BOD meeting was held only once in a year during the period from 2004-05 to 2007-08.

Formation of Audit Committee

7.2.34 The Audit Committee is useful for reviewing the internal control system and also the accounting policies, cost reduction methods, general policies, procedural aspects with regard to collateral security and half yearly and annual financial statements before submission to the Board. The Company had not constituted the Audit Committee so far (October 2008).

Risk Management and Internal Control

7.2.35 The activity of financing various industrial projects by providing term loan is becoming more and more competitive day-by-day. Operating in liberal and global environment, the Company is exposed to various kinds of risks. Therefore, effective risk management is essential for achieving financial soundness and profitability. The Company is primarily exposed to credit risks, i.e. risk of defaults in repayments by the loanees, risk of fluctuation in interest rates, organizational deficiencies, delays, fraud, system failure etc. Although risk cannot be eliminated, it should be managed/mitigated through internal controls. Audit observed that the Company had not prepared any manual prescribing procedures and guidelines in this regard.

The following further deficiencies of internal control/risk management system were noticed:

- The Company did not fix exposure for its term lending activities;

- The Company had not drawn up any policy for collateral security to be obtained from the entrepreneurs or the extent of collateral security against the loan. The collateral security was taken arbitrarily on case-to-case basis and in some of the cases no collateral security was obtained at all;

- The Company did not carry out periodical inspection of the assisted units with a view to assess their financial health, especially those of the defaulting units; and

- The Company did not ensure receipt of audited annual accounts and periodical returns on physical and financial performance of the assisted units as required under the terms and conditions for grant of loan.

Internal Audit

7.2.36 Internal audit is an appraisal of the activities of an entity with reference to its objectives. The Company had so far (March 2008) not established Internal Audit Wing even after 30 years of its existence. The Company had appointed a firm of Chartered Accountant to carry out the work of internal audit and preparation of financial statement every year. The same firm was appointed for more than ten years without rotation. Besides, the audit fee was increased from Rs.25,000 to Rs.40,000 from the year 2007-08 without assessing the performance.

Audit scrutiny revealed that the firm had not undertaken the internal audit of transaction and only prepared the financial statements every year. There was failure of internal control in respect of the loan recovery and remittances with the bank. The amount of cash embezzlement increased from Rs.68,500 in 2003-04 to Rs.16.13 lakh in 2007-08.

The Statutory Auditors in their reports on the annual accounts of the Company for the year 2003-04 to 2006-07 had repeatedly pointed out that the internal audit was confined to financial transaction only and that the scope of the internal audit should achieve wider and relevant indicators of internal controls.

Conclusion

7.2.37 The Company had not drawn any corporate plan for financing activities and term lending schemes for attracting the entrepreneurs in consonance with the industrial policy of the state. The Company did not have any investment policy for investing its surplus funds. Investments were made in the name of various officials working in the Company without protecting the Company's interest. The Company had diverted the borrowed funds and grant of IIDC towards meeting administration and management expenses. Due to irregular repayment to FIs, further lending was stopped which affected the lending operation of the Company. The defective pre-sanction appraisal of the projects and ineffective follow up and monitoring of the assisted units by the Company resulted in non recovery of dues. The Company had not initiated any legal action for recovery of loan from defaulter borrowers under SFC Act, 1951 during the period covered by audit. The Company had to forego a substantial amount under OTS by considering all the units without any criteria and time span. Special OTS scheme was implemented without the approval of the BOD and GOM and was not in the financial interest of the Company as interest of Rs. 5.47 crore remained unrecovered. Failure to lease out of plots, developed in IIDCs resulted in unproductive expenditure undermining the objective of the scheme to develop the industrially backward area of the state. With no effective internal control systems in place, the Company was ill equipped in risk management and was highly susceptible to faulty financial management.

Recommendations

The Company should:

- ensure that funds are utilized for the intended purpose and are not diverted for other purposes;
- evolve effective appraisal system so as to eliminate possible risk of default in repayment by the borrowers;
- obtain adequate collateral security;
- institute strict monitoring system and recovery mechanism to ensure recovery of loans in time;
- take effective steps to lease out the plots promoted in IIDC to the beneficiaries; and
- strengthen the internal audit and controls.

Section- 'B' Paragraphs

POWER & ELECTRICITY DEPARTMENT

7.3 Procurement of material in excess of immediate requirement

Procurement of material valued at Rs.3.96 crore in excess of immediate requirement resulted in blockage of funds.

According to the General Financial Rules (GFR) and CPWD Manual, material should be purchased only for work-in-progress taking due cognizance of the fact that the purchases are not made in advance of requirement.

The Chief Engineer (CE) (Power), Aizawl purchased (November 2004) material of Rs.3.28 crore for Power Division, Saiha (PDS) and of Rs.87.49 lakh for Serchhip Power Division (SPD) for electrification of 31 and six villages respectively under Additional Central Assistance (ACA) of Pradhan Mantri Grameen Yojana (PMGY) as per work programme of 2004-05. Out of this, material valued at Rs.19.47 lakh only could be utilized for electrification of four villages and balance material valued at Rs.3.96 crore was not utilized due to stoppage of further release of funds under the scheme (August 2008).

It was found in audit that Rs.4.82 crore was released by the Department against estimated cost of Rs.12.01 crore for electrification of these 37 villages. Out of Rs.4.82 crore, Rs.4.15 crore were spent on purchase of material, leaving a small amount of Rs.0.67 crore for other items of work. Availability of further funds was not ensured before purchase of material as it is evident from the fact that CE (Power), Aizawl issued directions (September 2005) to the divisions to keep the unutilized material in their safe custody by maintaining a separate store accounts till the funds for village electrification were received from GOI under another programme i.e. Rajiv Gandhi Grameen Vidutikaran Yojana (RGGVY).

Thus, purchase of material in excess of immediate requirement and without ensuring availability of funds for the full estimated work of electrification of all the thirty seven villages resulted in blockage of funds of Rs.3.96 crore with avoidable loss of interest of Rs. 89.10[ϒ] lakh for 30 months since October 2005.

ϒ Minimum rate of 9 % (charged by rural electrification for providing assistance to the department) for the period from October 2005 to March 2008 (Rs.396 lakh x 9% x 30/12) = 89.10

The matter was reported to the Government and the Department (March 2008); their replies were awaited (October 2008).

7.4 Undue favour to a contractor

Irregular payment of Rs. 49.45 lakh, due to excavation of excess quantity of earthwork above that stipulated in the work order, resulted in undue favour to the contractor.

The work of survey, erection, testing and commissioning of 132 KV single circuit transmission line from Saitual to Darlawn was awarded (May 2000) to Transpower Private Limited at a total cost of Rs.1.82 crore with scheduled date of completion as March 2001. The work included excavation of earthwork of 7,010 cubic meter (cum) at a cost of Rs.7.70 lakh. As of March 2008, an amount of Rs.Rs.57.15 lakh was paid to the contractor for excavating the total quantity of 36,407.398 cum of earthwork.

It was noticed in audit that neither revised work order for increased quantity of 29,397.60 cum was issued nor any extension of time for excavation work was granted by the Executive Engineer (EE), Construction Division (CD), Aizawl.

Thus, payment of Rs.49.45 lakh on execution of excess quantity of earthwork, beyond the scope of work order without the approval of the competent authority, was irregular and constituted undue favour to the contractor.

The EE, CD, Aizawl stated (April 2008) that the agreement with contractor with regards to volume of earthwork was tentative and the payment was based on the actual volume of work done. The reply is not acceptable as the agreement was specifically made for 7,010 cum.

The matter was reported to the Government and the Department (March 2008); their replies were awaited (October 2008).

7.5 Irregular expenditure on electrification of two villages

Unfruitful expenditure of Rs.21.30 lakh was incurred on completion of electrification work without connecting any load to consumers.

As per the completion reports submitted by the Sub-divisional Officer (SDO), Lawngtlai to the Executive Engineer (EE), Power Division Saiha (PDS) completed the electrification of two villages Mautlang (February 2006) and Khawmawi (March 2006) at a total cost of Rs.21.30 lakh under Pradhan Mantry Grameen Yojana (PMGY).

According to the guidelines issued by the Ministry of Power (MOP), Government of India (February 2004), it was mandatory from the year 2004-05 onwards to obtain the certificate from Gram Panchayat regarding the completion of electrification. The SDO is required to submit monthly reports on connected loads and number of consumer details (village wise) to the E. E, Power Division with a copy endorsed to the Chief Engineer P&E Aizawl.

It was noticed in audit that these two villages (Mautlang and Khawmawi) did not figure in the list of electrified villages and no connection was given to any consumer. It was also noticed that the EE, PDS did not obtain the certificate of Gram Panchayat / Village Council or equivalent on the completion of work as required. Further, no inspection was conducted by the Electrical Inspector of O/o the CE (Power) for certifying the completion of the work as per the safety norms with reference to the provisions of Electricity Act and Rules. Thus, the electrification in these two villages remained unconfirmed.

The EE, PDS stated (July 2008) that in the initial work programme (2004-05), the village Mautlang was included and subsequently due to damage of tapping point at Vathuampui, the Betbonya village was included instead of Mautlang. The reply did not elaborate on the electrification of Khawmawi village. The reply was not acceptable due to lack of supporting document.

Thus, the expenditure of Rs.21.30 lakh incurred for electrification of two villages (Mautlang and Khawmawi) lacked supporting documents.

The matter was reported to the Government and the Department (March 2008); their replies were awaited (October 2008).

7.6 Inadmissible payment of escalation cost

Inadmissible payment of Rs.10.17 lakh was made to the contractor on escalation in contravention of the agreement.

The Superintending Engineer, NRSE Circle (Aizawl Power Circle) of the Department awarded (November 1999) the work of construction of Indoor Sub station at Power House Complex, Aizawl at a total cost of Rs.1.34 crore with a completion schedule of November 2002. The work was completed in July 2004.

It was noticed in audit that the work was completed at a cost of Rs.1.24 crore and Rs.10.17 lakh was admitted as escalation cost though the agreement did not provide for the same.

Thus, payment of escalation cost in the absence of a relevant clause resulted in undue favour of Rs.10.17 lakh to the contractor.

The matter was reported to the Government and the Department (March 2008); their replies were awaited (October 2008).

INDUSTRIES DEPARTMENT

Mizoram Handloom and Handicrafts Development Corporation Limited

7.7 Avoidable Expenditure

Due to belated remittance of statutory EPF contributions, the Company incurred an avoidable expenditure of Rs.12.71 lakh towards payment of interest and damages.

The employees of the Mizoram Handloom and Handicrafts Development Corporation Limited (Company) Aizawl are covered by the Employees Provident Funds and Miscellaneous Provisions Act, 1952. Under Employees Provident Fund (EPF) Scheme the employer is required to deposit employees EPF contributions together with employer's share to respective Funds under the Employees Provident Fund Organization (EPFO), Shillong within 15 days of the close of the month. In case the employer commits default in payment of any statutory contribution to the Funds, he is liable to pay simple interest @ 12 *per cent per annum* on any amount due from the date on which the amount has become due under Section 7Q of the Act, besides payment of penalty for such damages, as may be fixed by the EPFO under Section 14B of the Act.

It was noticed in audit that the Company made belated remittance of EPF contributions of Rs.35.89 lakh during December 2000 to January 2004. As a result the Assistant Provident Fund Commissioner of EPFO, Shillong levied an interest of Rs.1.47 lakh and imposed damages of Rs.11.24 lakh. The Company had deposited the entire amount of Rs.12.71 lakh in installments during May 2005 to August 2006. Had the Company deposited the EPF contributions on time, the extra expenditure of Rs.12.71 lakh on account of penal interest and damages could have been avoided.

The matter was reported (October 2008) to the Company and the Government; their replies were awaited (October 2008).

Aizawl **(L. TOCHHAWNG)**
The **Accountant General (Audit)**
Mizoram

Countersigned

New Delhi **(VINOD RAI)**
The **Comptroller and Auditor General of India**