CHAPTER-VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Overview of Government companies

7.1.1 Introduction

As on 31 March 2006, there were six Government companies (five working companies and one non working company[1]) and nine departmentally managed Government commercial and Quasi-commercial undertakings with no change in position from that as on 31 March 2005 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 the Statutory Auditors who are 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 conducted by the CAG as per provisions of Section 619 (4) of the Companies Act, 1956. The accounts of departmentally managed Government commercial and quasi-commercial undertakings are audited solely by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Working Public Sector Undertakings (PSUs)

7.1.2 Investment in working PSUs

As on 31 March 2006, the total investment in five working PSUs (all Government companies) was Rs.61.49[2] crore (equity:Rs.20.90 crore, share application money:Rs.2.05 crore and long term loans[3]: Rs.38.54 crore) as against five working PSUs with a total investment of Rs.58.34 crore (equity Rs.20.75 crore, share application money Rs.1.70 crore and long term loans: Rs.35.89 crore) as on 31 March 2005. The analysis of investment in working PSUs is given in the following paragraphs:

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[1] Non-working companies are those that are in the process of liquidation/closure/ merger, etc.

[2] State Government investment was Rs.28.36 crore (others: Rs. 33.13 crore). Figure as per finance account 2005-06 is Rs.58.54 crore, the difference is under reconciliation

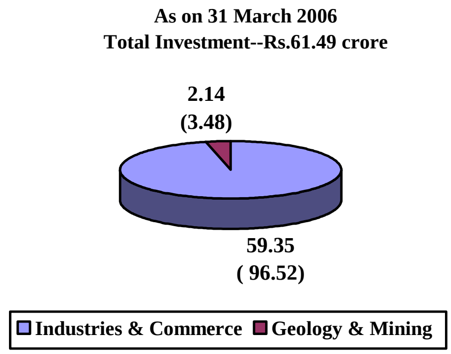
[3] Long-term loans mentioned in paras 7.1.2 and 7.1.3 are excluding interest accrued and due on such loans.

7.1.3 Sector-wise investment in working Government companies

The investment (equity and long term loans) in PSUs in various sectors and percentage thereof at the end of 31 March 2005 and 31 March 2006 are indicated in the pie charts as below:

Sector-wise investment in working Government companies

(Figures in bracket indicate percentage of investment)



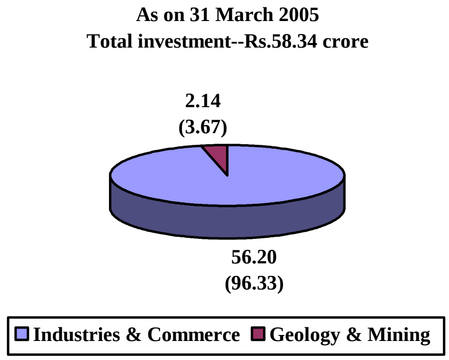


Table 7.1 shows the total investment in working Government companies at the end of March 2005 and 2006.

Table 7.1

(Rupees in crore)

Year	Number of working Government companies	Investment in working Government companies			
		Equity	Share application money	Loan	Total
2004-05	5	20.75	1.70	35.89	58.34
2005-06	5	20.90	2.05	38.54	61.49

Investment in the current year has increased over the previous year due to increase in equity and loans mainly in the Industries and Commerce sectors.

As on 31 March 2006, the total investment in working Government companies comprised 37.32 *per cent* of equity capital and 62.68 *per cent* of loans as compared to 38.48 *per cent* and 61.52 *per cent* respectively as on 31 March 2005.

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in ***Appendix*-XL.**

7.1.4 Budgetary outgo, grants/subsidies, guarantees and 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 by the State Government in respect of the working Government companies are given in ***Appendix*-XL.**

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to working Government companies for the three years upto 2005-06 are shown in **Table 7.2**.

Table 7.2

(Rupees in crore)

	2003-2004		**2004-2005**		**2005-06**	
	Number of companies	**Amount**	**Number of companies**	**Amount**	**Number of companies**	**Amount**
Equity capital outgo from budget	---	---	2	0.60	2	0.50
Loans given from budget	---	---	---	---	1	4.34
Grants/Subsidy towards						
(i)Projects/Programmes/ Schemes	---	---	---	---	3	3.34
(ii) Other subsidy	---	---	---	---	1	2.00
(iii) Total subsidy	4	5.76	4	6.22	3	5.34
Total outgo	**4**	**5.76**	**4**	**6.82**	**3**	**10.18**

No guarantees for loans were given by the State Government during the year 2005-06.

7.1.5 Finalisation of accounts by working Government companies

The accounts of the 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. They are also to be laid before the Legislature within nine months from the end of the financial year.

However, as can be seen from ***Appendix*-XLI**, none of the five working Government companies had finalised their accounts for the year 2005-06 within the stipulated period. During the period from October 2005 to September 2006, two Government Company finalised two accounts for previous years.

The accounts of all the companies were in arrears for periods ranging from eight to 25 years as on 30 September 2006, as detailed in **Table 7.3**.

Table 7.3

Sl. No.	Name of Government companies	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial number of *Appendix-…*
1.	Nagaland Industrial Development Corporation Ltd., Dimapur	1998-99 to 2005-06	8	A1
2.	Nagaland Industrial Raw Materials & Supply Corporation Ltd., Dimapur	1981-82 to 2005-06	25	A3
3.	Nagaland Handloom & Handicrafts Development CorporationLtd., Dimapur	1984-85 to 2005-06	22	A2
4.	Nagaland Hotel Ltd	1988-89 to 2005-06	18	A4
5	Nagaland State Mineral Development Corporation Ltd., Kohima	1994-95 to 2005-06	12	A5

It is the responsibility of the administrative departments 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 apprised quarterly by Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government, 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 as per their latest finalised accounts are given in ***Appendix*-XLI.**

According to the latest finalised accounts of five Government companies, three companies had incurred an aggregate loss of Rs.1.63 crore during the year.

7.1.7 Loss incurring companies

Despite poor performance, the State Government continued to provide financial support to three[4] loss making companies in the form of grants and subsidy. According to available information, the total financial support so provided by the State Government by way of grants and subsidy during 2005-06 to these companies amounted to Rs.5.34 crore (***Appendix*-XLII).**

[4] Nagaland Industrial Development Corporation Ltd., Nagaland Industrial Raw Materials and Supply Corporation Ltd. and Nagaland Handloom and Handicrafts Corporation Ltd.

Return on capital employed

7.1.8 As per the latest finalised accounts, the capital employed[♣♣] worked out to Rs.19.88 crore in four companies and total return[$] thereon amounted to Rs.0.95 crore[5]. The details of capital employed and total return on capital employed in case of working Government companies are given in ***Appendix*-XLI.**

Non working Public Sector Undertakings (PSUs)

7.1.9 Investment in non-working PSU

As on 31 March 1996[∞] the paid-up capital in one non-working PSU (Government company) was Rs.4.96 crore. The company was closed on 30 September 2001 and its accounts since 1978-79 are in arrears.

Results of audit by the Comptroller and Auditor General of India

7.1.10 Persistent irregularities and system deficiencies in financial matters of PSUs

The following persistent irregularities and system deficiencies in financial matters of the companies had been repeatedly pointed out during the course of the audit of their accounts but no corrective action had been taken by these companies so far:

- The accounts are not finalised in time.
- Most of the companies did not hold the Meetings of its Board of Directors' regularly as required under Section 285 of the Companies Act, 1956. Major decisions are often taken without the approval of the Board of Directors.
- The returns required to be submitted under the Companies Ac, 1956 are not submitted in time.

♣♣ Capital Employed represents net fixed assets (including capital work in progress) plus working capital except in finance Companies where it represents a mean of aggregate of opening and closing balances of paid up capital, free reserves, bonds deposit and borrowings (including re-finance).

$ 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.

5 Two companies viz., NHHDC Ltd. and NIRMSC Ltd. did not furnish the information

∞ The company (Nagaland Sugar Mills company Ltd., Dimapur) did not furnish any information from 1996-97 onwards.

7.1.11 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 system and to identify areas which need improvement in the companies audited by them in accordance with the directions issued by the CAG to them under section 619(3) (a) of the Companies Act, 1956.

The Statutory Auditors observed deficiencies in respect of internal audit system in case of five companies during the period upto 1993-94[#]. The major recommendations/comments made by the Statutory Auditors were of the following nature:

No internal control and internal audit system exist in PSUs.

Maintenance of cost records are not satisfactory wherever necessary.

7.1.12 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and departments concerned of the State Government through inspection reports. The Heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued upto September 2006 pertaining to six PSUs disclosed that 318 paragraphs relating to 34 inspection reports remained outstanding at the end of October 2006. Of these, six inspection reports containing 81 paragraphs had not been replied to for more than five years. Department wise break up of inspection reports and paras outstanding as on 30 October 2006, is given **Table 7.4**.

Table 7.4

Sl. No.	Name of the Department	Number of PSUs	Number of outstanding Inspection Reports	Number of outstanding paragraphs	Year from which paragraphs outstanding
1	Industries and Commerce	5	27	250	1988-89
2	Geology and Mining	1	7	68	1987-88
	Total	**6**	**34**	**318**	

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 and Action Taken Notes for recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) the system of responding to audit observations is revamped.

[#] Accounts were not submitted from 1994-95 onwards.

7.1.13 Position of discussion of Commercial chapters of Audit Report by the Committee on Public Undertakings (COPU)

The following table indicates the details regarding number of reviews/paragraphs of commercial chapters of audit reports discussed by COPU at the end of 31 March 2006.

Table 7.5

Period of Audit Report	Number of Reviews and Paragraphs			
	Appeared in Audit Report		Discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1994-1995	---	1[•]	---	1
1995-1996	1	2[#]	---	2
1996-1997	1[#]	Nil	1	---
1997-1998	1[#]	1[#]	1	1
1998-1999	1[##]	1[##]	1	1
1999-2000	---	1[ƒ]	---	1
2000-2001	---	1[ƒƒ]	---	1
2001-2002	1	3[ϕ]	---	3
2002-2003	1	1	---	---
2003-2004	1	1	---	---
2004-2005	---	2	---	---
Total	**7**	**14**	**3**	**10**

7.1.14 Departmentally managed Government commercial/quasi-commercial undertakings

7.1.14.1 Proforma accounts of departmentally managed commercial/quasi - commercial undertakings

As on 31 March 2006, there were nine departmentally managed Government commercial and quasi-commercial undertakings.

A mention was made in paragraph 6.1.19 of the Report of the Comptroller and Auditor General of India for the year 2004-05 about delay in preparation of proforma accounts of these undertakings. Despite this, accounts were in arrears for periods ranging from 3 to 35 years as on 30 September 2006 as detailed in **Table 7.6**.

• Discussed in September 2000 but recommendation of COPU is awaited.
\# Discussed in June 2001 but recommendation of COPU is awaited.
\## Discussed in February 2002 but recommendation of COPU is awaited.
ƒ Introductory para only
ƒƒ Introductory para only
ϕ Draft paragraphs except reviews discussed in October 2004 but recommendation of COPU is awaited.

Table 7.6

Sl. No.	Name of the Department/Undertaking	Extent of arrears
1.	Organisation of the Director of Food and Civil Supplies Department	1971-72 to 2005-06
2.	Nagaland State Transport Department	1989-90 to 2005-06
3.	Nagaland Power Department	2003-04 to 2005-06
4.	Farms under Agriculture Department	
	(i) Potato Seed Farm, Kuthur	1999-2000 to 2005-06
	(ii) Medium size Seed farm, Merapani	2001-02 to 2005-06
	(iii) Seed Farm, Tizit	2000-01 to 2005-06
5.	Changki Valley Fruit Preservation Factory	1987-88 to 2005-06
6.	Timber Treatment and Seasoning Plant, Dimapur	1998-99 to 2005-06
7.	Government Cottage Industries Emporia, Kohima	1979-80 to 2005-06
8.	Farms under Veterinary and Animal Husbandry Department	
	(i)Cattle Breeding Farm, Medziphema	1998-99 to 2005-06
	(ii) Cattle Breeding farm, Tuensang	1998-99 to 2005-06
	(iii) Cattle Breeding Farm, Aliba	1998-99 to 2005-06
	(iv) State Cattle Breeding Farm, Lerie	1993-94 to 2005-06
	(v) Chick Rearing Centre (with Hatchery Unit), Mokokchung	1998-99 to 2005-06
	(vi) Chick Rearing Centre (with Hatchery Unit), Dimapur	1998-99 to 2005-06
	(vii) Chick Rearing Centre, Tuensang	1985-86 to 2005-06
	(viii) Chick Rearing Centre, Medziphema	1985-86 to 2005-06
	(ix) Pig Breeding Centre, Medziphema	1997-98 to 2005-06
	(x) Pig Breeding Centre, Tizit	1997-98 to 2005-06
	(xi) Pig Breeding Centre, Tuensang	1985-86 to 2005-06
	(xii) Pig Breeding Centre, Mokokchung	1985-86 to 2005-06
	(xiii) Pig Breeding Centre, Tuli (Mokokchung)	1980-81 to 2005-06
	(xiv) Regional Rabbit Breeding Farm, Jharnapani	1998-99 to 2005-06
	(xv) Pig Breeding Centre, Merangkong	1998-99 to 2005-06
	(xvi) Chick Rearing Centre, Kohima	1998-99 to 2005-06
	(xvii) Pig Breeding Centre, Sathuja	1998-99 to 2005-06
	(xviii) Cattle Breeding farm, Baghty	1998-99 to 2005-06
	(xix) Sheep Farm, Poilwa	1998-99 to 2005-06
	(xx) Buffalo Farm, Jalukie	1998-99 to 2005-06
	(xxi) Regional Broiler Centre, Kohima	1998-99 to 2005-06
9.	Farm under Horticulture Department	
	Fruit Canning Factory, Longnak	1993-94 to 2005-06

The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remains outside the scrutiny of the Audit/State Legislature. Consequently corrective measures, if any, required could not be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

PERFORMANCE AUDIT

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

INDUSTRIES AND COMMERCE DEPARTMENT

7.2 Working of Nagaland Industrial Development Corporation Ltd. including Loan Recovery Performance.

Highlights

The Company's accumulated losses amounted to Rs.10.76 crore, which in turn wiped out about 81 per cent of its paid up capital of Rs.13.30 crore as on 31 March 2006.

(Paragraph 7.2.10)

Targets for recovery of dues were low and ranged between 21.53 per cent and 24.50 per cent of recoverable amount during 2002-06. Target for recovery of interest was at an all time low and ranged between 8.34 per cent (2004-05) and 12.99 per cent (2001-02). These reduced targets were also not achieved.

(Paragraph 7.2.13)

Percentage of non-performing and loss assets ranged between 64.84 per cent in 2001-02 to 85.12 per cent in 2004-05.

(Paragraph 7.2.14)

Defective appraisal resulted in assistance to units which were not viable and could not repay even their first instalment resulting in non-recovery of dues of Rs.47.35 lakh.

(Para 7.2.15)

Lack of monitoring after sanctioning of term loan, led to doubtful/non-recovery of Rs.2.26 crore.

(Paragraph 7.2.17)

Deficiencies in recovery action resulted in non-recovery of Rs.1.09 crore.

(Paragraph 7.2.18)

The Company sacrificed Rs.1.67 crore while settling dues of 16 defaulting units under One Time Settlement Scheme.

(Paragraph 7.2.19)

No action was taken by the Management under Negotiable Instrument Act to recover Rs.19.67 lakh from the Loanees due to dishonourment of their cheques.

(Paragraph 7.2.22)

7.2.1 Introduction

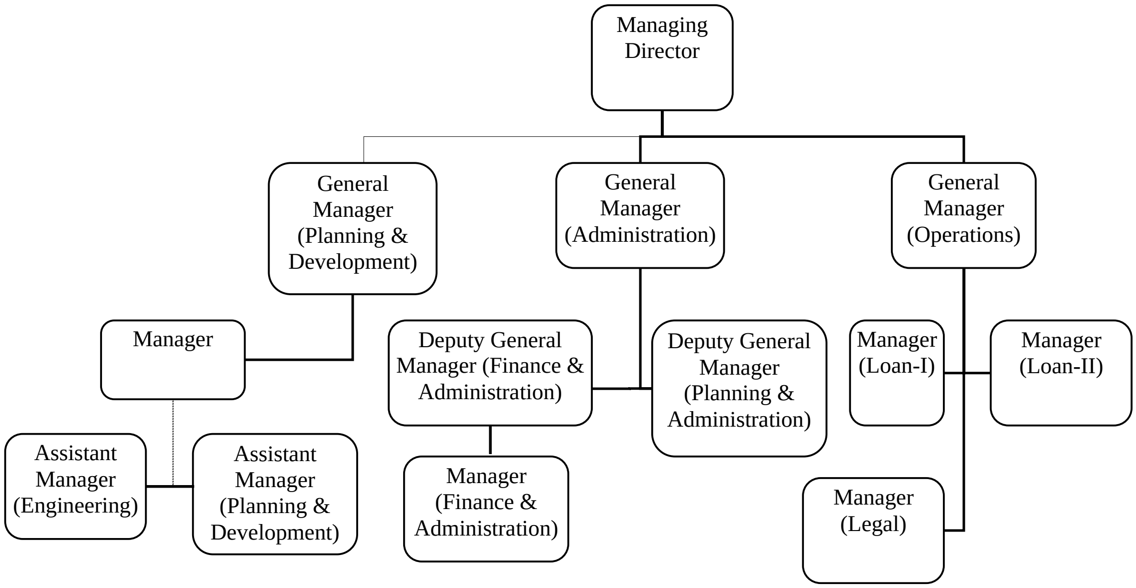
Nagaland Industrial Development Corporation Limited (Company) was incorporated on 26 March 1970 as a Government Company under the Companies Act,1956 with the main objective to promote, assist and finance industrial concerns and also to establish and administer public utilities including hotels, warehouses and markets with a view to develop industries in the State.

The Company is under the administrative control of the Industries and Commerce Department of the Government of Nagaland. The Management of the Company is vested in a Board consisting of nine Directors. As on 31 March 2006 there were nine members in the Board. Out of these, seven Directors including the Chairman and Managing Director (C&MD) are nominated by the State Government and one special Director each is nominated by the Small Industrial Development Bank of India (SIDBI) and Industrial Development Bank of India (IDBI). Officers of the State Government are sent on deputation/assignment to the Organisation also. The C&MD is responsible for day to day activities of the Company and is assisted by three General Managers and two Deputy General Managers.

The performance of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India for the year 1998-99. The review was discussed by the Committee on Public Undertakings (COPU) and its recommendations made in their twelfth report (2003-04) were presented to the tenth Legislative Assembly on 26 June 2004.

The Department did not submit Action Taken Note (ATN) on the recommendations of COPU as of October 2006. During performance review, it was noticed that the Company failed to comply with some of the recommendations of the COPU as listed in ***Appendix-XLIII.***

7.2.2 Organisational setup



7.2.3 Scope of audit

The present performance audit was conducted during June-July 2006 and covers the various activities including recovery performance of the Company during the period 2001-02 to 2005-06.

7.2.4 Audit objectives

Audit was conducted with a view to ascertain whether:

- the Company had put in place a system to address the risk associated with sanctioning and disbursement of loans;
- the system of recovery and action in case of default was robust to ensure timely recovery of principal and interest thereon;
- management of the Company was efficient to safeguard its interest against possible risk of default in recovery;
- the Company could ensure adequate return from its investment made in the subsidiary companies and manage the Industrial Estate efficiently;

7.2.5 Audit Criteria

The audit criteria used for evaluation of the audit objectives were:

- guidelines/procedures laid down by the Company for scrutiny and appraisal of loan cases before sanction and disbursement;
- targets fixed by the Company for sanction and disbursement of loans;
- targets and procedures for recovery of dues; and
- projections for investment in subsidiary companies and Industrial Estates.

7.2.6 Audit Methodology

The following mix of audit methodologies was adopted for achieving the objectives of performance review:

- test check of documents relating to sanction, disbursement and recovery of loans *viz* loan files, loan registers, *etc*;
- examining the proposals for investment in subsidiary companies and Industrial Estates;
- review of Agenda and Board minutes and correspondence files;
- examining of overdue statement of loanees;
- issue of audit enquiries and interaction with the Management.

7.2.7 Audit Findings

Audit findings arising from the performance review were reported to the Company/Government in October 2006 and also discussed in the exit conference with the management of the Company held on 12 October 2006 which was attended by the C&MD and other officers of the Company. The views expressed in the meeting have been taken into consideration while finalising the Performance review.

Audit findings are discussed in the succeeding paragraphs.

Funding

7.2.8 Share Capital

The initial authorised capital of the Company was Rupees four crore which was increased from time to time and was Rs.25 crore as on 31 March 2006.

As on 31 March 2006, the paid up capital of the Company was Rs.13.30 crore out of which the GON and IDBI have subscribed Rs.6.52 crore and Rs.4.73 crore respectively and share application money of Rs.2.05 crore received from the GON towards share capital, share certificates for which are still to be issued by the Company.

7.2.9 Borrowings

As on 31 March 2006, the borrowings of the Company stood at Rs.26.39 crore received from the IDBI/SIDBI/National Schedule Tribes Finance Development Company (NSTFDC)/National Minorities Development Finance Company (NMDFC).

7.2.10 Financial position and working results

The accounts of the Company have been finalised and audited upto 1996-97. Provisional accounts have, however, been finalised by the Company upto 2005-06. Based on these provisional accounts, the financial position and working results for the five years upto 2005-06 of the Company are tabulated in ***Appendix*-.XLIV & XLV**. It would be evident from the details in the Appendix that the Company had been incurring losses and its accumulated losses as on 31 March 2006 amounted to Rs.10.76 crore which had wiped out about 81 *per cent* of its paid up capital of Rs.13.30 crore on that date. Accumulated losses mainly cover written off loans and administrative expenses. The Company failed to recover loans and interest amounting to Rs.25.80 crore during 2005-06. It was noticed that the Company has been following the practice of accounting its income and expenditure on cash basis since 1996-97. Had the accrual basis of accounting as provided in Section 211 of the Companies Act, 1956 been followed, the loss of the Company would have been much more due to provision of interest on loans and other expenditure on accrual basis.

The main reasons for the losses during 2001-02 to 2005-06 as analysed in audit were high expenditure on salaries and wages (18 *per cent* to 170 *per cent*), decrease in interest income and accumulation of bad debts, besides low recovery of principal and interest on loans disbursed.

7.2.11 Procedure for financial assistance

The Company out of their own funds and funds received from the Development Financial Institutions (DFIs) provides financial assistance for setting up of new industrial units as well as expansion and modernisation of existing units. Besides, the Company extends loan to transport sector such as auto-rickshaws, taxis, passenger vehicles, trucks, etc. Applications are examined by the Loan Screening Committee with regard to the techno-economic viability of the project, offer for submission of proper security by the applicant before sanction of loan. Disbursement of loan is made after entering into an agreement. Since the Transfer of Property Act is not applicable in the State of Nagaland, loans were being sanctioned and disbursed on the personal guarantee of two in-service Government employees. It was observed by Audit that even these guarantees were also not being enforced in a large number of cases as discussed later in the review.

7.2.12 Sanction and disbursement of loans

A comparative statement of disbursement of loans during the last five years ended 31 March 2006 is given in ***Appendix-XLVI***. It would be seen there from that the Company had sanctioned and disbursed loans of Rs.34.91 crore and Rs.27.31 crore respectively during the five years upto 31 March 2006. The number of applications received for loan decreased from 626 in 2001-02 to 540 in 2005-06. Due to poor recovery of overdue principal and interest from its loanees, the Company failed to recycle the funds by extending loans to other beneficiaries to the tune of Rs.22.56 crore[1]. Deficiencies in the recovery system and non-enforcement of personal guarantees resulted in poor recovery of loans.

7.2.13 Recovery Performance

As on 31 March 2006, the total amount of Rs.25.80 crore[2] stood overdue for recovery. The position regarding amount due for recovery, actual amount recovered and over-dues/shortfall in recovery during the five years ending March 2006 are given below:

(Rupees in crore)

Sl No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1	Overdue at the beginning of the year: Principal	4.09	5.00	7.58	7.14	8.28
	Interest	8.17	8.94	10.74	12.33	14.07
	Total	**12.26**	**13.94**	**18.32**	**19.48**	**22.35**
2.	Amount falling due during the year: Principal	5.90	6.35	3.41	4.29	4.98
	Interest	1.84	2.76	2.63	2.65	3.31
	Total	**7.74**	**9.11**	**6.04**	**6.94**	**8.29**
3.	Total over-dues: Principal	9.99	11.36	10.99	11.43	13.26
	Interest	10.01	11.70	13.37	14.98	17.38
	Total	**20.00**	**23.06**	**24.36**	**26.41**	**30.65**

[1] Un-disbursed commitment: Rs.7.60 crore and application pending sanction: Rs.14.96 crore=Rs.22.56 crore.

[2] Principal amount of Rs.9.60 crore and Interest amount of Rs.16.20 crore.

4.	Amount recovered:					
	Principal	4.98	3.79	3.85	3.15	3.66
	Interest	1.07	0.96	1.04	0.91	1.18
	Total	**6.05**	**4.75**	**4.89**	**4.06**	**4.84**
5.	Overdue at the close of the year:					
	Principal	5.00	7.57	7.14	8.28	9.60
	Interest	8.94	10.74	12.33	14.07	16.20
	Total	**13.94**	**18.31**	**19.47**	**22.35**	**25.80**
6.	Target fixed for recovery:					
	Principal	3.60	4.00	4.00	4.50	5.00
	Interest	1.30	1.50	1.25	1.25	1.60
	Total	**4.90**	**5.50**	**5.25**	**5.75**	**6.60**
7.	Percentage of target fixed to total amount recoverable:	24.50	23.85	21.56	21.77	21.53
8.	Percentage of target to Demand:					
	Principal	36.05	35.21	36.40	39.37	37.71
	Interest	12.99	12.82	9.35	8.34	9.20
9	Percentage of recovery to total dues	30.25	20.60	20.07	15.37	15.80

It would be seen from the table that the percentage of recovery to total over-dues had fallen from 30.25 *per cent* in 2001-02 to 15.80 *per cent* in 2005-06. The recovery of dues fell short of the current overdue in all the years. It was noticed by Audit that targets were fixed without correlating them with the recoverable amounts. The percentage of target fixed to total amount recoverable ranged between 21.53 *per cent* and 24.50 *per cent* during 2001-06. It was also noticed by Audit that separate targets for recovery of old and current over-dues were not fixed by the Company and hence, the recovery of principal and interest, as, against the total amount due during the years remained very low. In respect of recovery of interest, the percentage of target to the amount due during the years varied from 8.34 (2004-05) to 12.99 *per cent* (2001-02). It was observed that the very low targets fixed for recovery of interest also could not be achieved in any of these years. It was further observed by Audit that the Company does not have specified procedure for taking action against the loan defaulters as even the personal guarantees were not enforced and legal action not taken in time as indicated in preceeding paras.

The Company stated (October 2006) that the main reason for slow recovery was that the provisions of the Transfer of Property Act and State Financial Corporation Act, 1951 are not applicable in the State.

The age-wise analysis of over-dues of principal and interest as on 31 March 2006 is as follows:

(Rupees in crore)

Sl. No	Category of loan	Principal	Interest	Total
(i)	Less than one year	1.46	0.32	1.78
(ii)	One year and more but less than two years	0.74	0.70	1.44
(iii)	Two years and more but less than three years	1.70	1.26	2.96
(iv)	Three years and more but less than five years	2.01	3.69	5.70
(v)	Over five years	3.68	10.26	13.94
	Total	**9.59**	**16.23**	**25.80**
	Percentage of debts more than 3 years old to total debts.	59.33	85.95	76.09

Audit analysis revealed that the percentage of debts (principal and interest) over three years to total debts was 59.33 and 85.95 respectively and had come under the law of limitation. In many cases, letters of revival were obtained but no legal action was initiated. Cases which were over three years old and against whom letters of revival were not obtained in time became time-barred and hence irrecoverable. The Company failed to maintain proper records and as such it could not exercise any control on the outstanding amounts becoming overdue.

During the exit conference, it was stated (October 2006) by the Management that the possibility of fixing separate targets one for old loans and another for new loans is being contemplated for implementation from the next financial year.

7.2.14 Categorisation of outstanding dues

As per guidelines issued by IDBI/SIDBI in May 1999 and modified from time to time, the loan portfolios were classified into following categories for the purpose of income generation/recognition and provisioning:

Standard	Where the payments are regular i.e loan as well as interest remained unpaid up to six months.
Sub-standard assets	Where the loan as well as interest remain overdue for more than six months but less than two years.
Doubtful assets	Where loan as well as interest remain overdue for more than two years.
Loss assets	Where loans for which the loss has been identified but not written off wholly or partly.

The position of outstanding loans and classification thereof for the last five years is given below:

(Rupees in crore)

Sl. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Loans including interest outstanding at the close of the year	21.16	25.92	37.19	48.40	55.60
2.	a) Standard assets	7.44	7.98	7.71	7.20	12.01
	b) Sub-standard assets.	2.48	4.19	6.08	2.60	6.38
	c) Doubtful assets	2.30	3.07	1.57	5.87	21.05
	d) Loss assets	8.95	10.69	21.84	32.71	16.16
3.	Total non- performing assets (b +c)	4.78	7.26	7.65	8.47	27.43
4.	Percentage of NPA to total outstanding	22.60	28.01	20.57	17.50	49.33
5.	Percentage of loss assets to total outstanding	42.30	41.24	58.72	67.58	29.06
6.	Percentage of non-performing and loss assets (unproductive assets) to total outstanding.	64.84	69.21	79.27	85.12	78.40

The above table reveals that the total non-performing assets increased from Rs.4.78 crore to Rs.27.43 crore during the period 2001-06. The percentage of loss assets increased from 41.24 *per cent* in 2002-03 to 67.58 *per cent* in 2004-05 and decreased to 29.06 *per cent* in 2005-06. The doubtful assets, however, increased from Rs.5.87 crore in 2004-05 to Rs.21.05 crore in 2005-06, which indicates that some part of the loss assets were transferred to doubtful assets in 2005-06 as the total loans outstanding increased only by Rs.7.20 crore during the same period. Thus it is clear that the Company was not classifying outstanding loans as per the guidelines of SIDBI/IDBI.

It would be further evident from the above that the percentage of unproductive assets of the Company ranged from 64.84 *per cent* in 2001-02 to 85.12 *per cent* in 2004-2005 and decreased to 78.40 *per cent* in 2005-06 due to increase in standard assets as a result of loan disbursed during the year. It was observed during Audit that such a high percentage of unproductive assets was mainly due to irregularities in appraisal, proper monitoring of implementation, delay in notifying the defaults, delay in enforcing the guarantees and securities, one time settlement of cases and undue favour to loanees, etc.

Some of the irregularities noticed in audit in this regard are discussed in the subsequent paragraphs.

7.2.15 Defective appraisal

- The Company disbursed (October 2003) a term loan of Rs.25 lakh under the loan scheme of NSTFDC to Viva Beverages, Dimapur (Unit) for setting up a packaged drinking water plant. The loan was repayable together with interest accrued thereon in 40 quarterly installments starting from 15 April 2004 with last instalment payable on 15 January 2014. It was noticed (July 2006) in audit that this unit was an ancillary unit of Nagaland Beverage, Dimapur which was a defaulting unit and its account was settled (9 September

2000) under one time settlement (OTS) scheme. The promoter of the unit was also one of the Directors of Nagaland Beverage. It was, however, stated in the proposal placed (March 2004) before the BOD for sanction of loan to Viva Beverages that there would be no problem in repayment of loan since Nagaland Beverage, the principal company of the unit was well organised and manned by experienced personals. Viva Beverages also did not pay a single installment and the Company served a legal notice (December 2005) to the loanee as well as to the guarantors. Scrutiny by Audit of the loan proposal submitted by the loanee revealed that verification of the documents was not done properly by the Company before disbursement of loan as the guarantors did not mention the guaranteed amount and the name in whose favour they stood as guarantor and second pre-disbursement report was also in the name of Nagaland Beverage instead of Viva Beverage. Though legal notice was served for non payment by the loanee but no action was taken to recover the dues through the court of law. Thus defective appraisal of the loan proposal before disbursement of loan resulted in non-recovery of Rs.10.11 lakh (Principal: Rs.5 lakh *plus* interest: Rs.5.11 lakh).

The Company stated (October 2006) that the matter is being taken up with the appropriate authority for recovery of dues.

- The Company disbursed (May 2002) a term loan of Rs.3.75 lakh to Keppen Cable in two installments for setting up a cable network at Tseminyu Town. Audit scrutiny of the case revealed that the loan was sanctioned on the request of the then Director of Industries and Commerce of the State Government in favour of his brother and the Director stood guarantor of the loanee. The loanee did not repay a single instalment despite several notices. On 19 October 2005 the then Director Industries (elder brother of the loanee) approached the Company to seize the machine/material of the unit. But the Company did not take any effective steps against the loanee/guarantor to recover the dues (October 2006). This resulted in non-recovery of Rs.4.50 lakh (Principal: Rs.2.81 lakh and interest: Rs.1.69 lakh).

The Company stated (October 2006) that the matter was brought to the notice of the guarantor and the entrepreneur had undertaken to start the repayment of the loan.

- The Company provides financial assistance for setting up of new projects and for expansion/modernisation of the existing projects. As per procedure prescribed by the Company, in cases where the entrepreneurs did not have fixed assets as security against loan, the Company before disbursement of loan is obtaining a certificate called as 'In Service Certificate-cum-Authorisation Certificate' from a responsible Government servants as guarantor. The Guarantors were equally responsible in repayment of loan as per the deed of guarantee executed and registered in the court before disbursement. In cases as detailed in ***Appendix-XLVII(A)*** neither a single instalment was paid by the loanee against the loan amount of Rs.32.74 lakh nor in service certificate of guarantors were properly checked while disbursing the loans. Thus, non-verification of documents of the loanees as well as guarantors before disbursement of loans and also not taking any action against the guarantors for non-payment resulted in non-recovery of Rs.32.74 lakh (Principal: Rs.16.72 lakh and Interest: Rs.16.02 lakh) as on 31 March 2006.

7.2.16 Inadequate Performance of Inspection wing

Regular and periodical inspection of the assisted units by the Company facilitate recovery of loan dues. The Company has not fixed any norms for inspection of the assisted units. It was noticed (July 2006) in audit that periodical inspection of assisted units was not carried out regularly to assess and monitor their performance. Hence, the Company was unable to identify assisted units likely to become liabilities.

The table below depicts the position of post sanction inspections, which have become due and those actually conducted of the assisted units during the five years up to 31 March 2006.

Sl. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Total number of assisted units	2698	3241	3458	3893	4515
2.	Total number of units inspected	780	907	934	690	1000
3.	Total number of units not inspected.	1918	2334	2524	3203	3515
4.	Percentage of units not inspected to total number of units.	71.09	72.01	72.99	82.28	77.85

It could be seen that the number of units not inspected ranged between 71.09 to 82.28 *per cent*. Thus inadequate inspection of assisted units resulted in Company not being able to know the condition of the assisted units and actual utilization of loan to enable it to take remedial actions. This in turn resulted in low recovery of dues.

7.2.17 Deficiencies in loan operations

Lack of monitoring

Some cases of deficiencies noticed in monitoring of the recovery of loans are discussed below:

- The Company sanctioned a term loan of Rs.12 lakh to Sato Hotel for setting up a hotel at Kohima. The loan was disbursed between January 1989 and February 1991. Audit scrutiny revealed that on the request of the promoter made in 1997 for concessional package for waiver of interest, the company settled the account for Rs.18 lakh against the overdue amount of Rs.28.65 lakh. The Company received Rs.10 lakh as down payment and on failure to pay the balance amount the BOD withdrew (28 July 1999) the concessional package. The Company served legal notice to the party in June 2005. Thereafter no effective action was taken by the Company either to recover the overdue amount or to initiate recovery proceedings against the promoter. Thus lack of proper monitoring of the recovery of outstanding dues resulted in dues of Rs.54.96 lakh (principal Rs.12 lakh plus interest Rs.42.96 lakh) becoming doubtful of recovery.

The Company Stated (October 2006) that the matter is being submitted to the BODs for review.

- Mercury Plastic Industry (P) Ltd. (unit) was sanctioned (February 1988) a term loan of Rs.24.50 lakh and seed capital assistance of Rs.1.50 lakh which was later converted into term loan during the year 1988-89. The unit defaulted in repayments after making payment of Rs.6.02 lakh. The unit also deposited (March 1998) Rs.15 lakh under one time settlement offered by the Company and agreed to repay the balance amount of Rs.16.54 lakh within 6 months (effective from 1 April 1998). The Company withdrew (May 2000) the OTS on failure of the unit to pay the balance amount within the stipulated time. As the unit became sick and defaulted in repayment of loan, the Company took up the matter with the State Level Inter-Institutional Committee (SLIIC) connected with the sick industrial units of the state. SLIIC requested (August 2003) the Company to review and reconsider the concessional package. No action was, however, taken by the Management on the request of SLIIC till date (October 2006). Thus, due to delay in taking decision by the Management, recovery of loans amounting to Rs.1.05 crore (principal Rs.26 lakh plus interest Rs.79.25 lakh) has become doubtful.

In reply the Company stated (October 2006) that it is exploring possibility of filing recovery suit.

- The Company disbursed (December 1987) a term loan of Rs.12.50 lakh to Nagaland Bone Mills Co.(P) Ltd. (NBM) for setting up a bone crushing cum organic fertilizer plant at Dimapur against the personnel guarantee of two in-service Government employees. It was noticed in audit that the NBM became sick and discontinued production since 1988. NBM was a habitual defaulter in payment and last instalment was due on 15 December 1993. But evenafter a lapse of 13 years, no action has been taken (November 2006) by the Company for recovery of the amount either from the NBM or guarantors. This has resulted in non-recovery of Rs.66.23 lakh (principal: Rs.9.60 lakh and interest: Rs.56.63 lakh).

In reply the Company stated (October 2006) that it is contemplating to file recovery suit against the NBM.

7.2.18 Deficiencies in monitoring project implementation

352 cases were test checked in audit with a view to review the system of appraisal, sanction, disbursement of loans and post inspection, follow up

action on the part of Management for timely recovery of dues. Audit scrutiny revealed as under:

- The composite loan scheme of the Company to assist the entrepreneurs to set up small and village industries was not successful as most of the units failed to set up the industries and repay the loans. Though the concerned defaulting units were requested for OTS of the outstanding dues of Rs.22.61 lakh (***Appendix-XLVII(B)***, but no entrepreneur responded to settle their case. The Company stated (October 2006) that they are contemplating to pursue recovery of the principal loan without involving legal battle.

- The Company had not initiated follow up action against the defaulters in 21 cases involving dues of Rs.86.33 lakh (***Appendix-XLVII(C)*** test checked in audit to facilitate recovery of dues after serving legal notices to them.

Thus, due to not taking of timely follow up action by the Management for recovery of dues, total amount of Rs.86.33 lakh (principal: Rs.41.15 lakh and Interest: Rs.45.18 lakh) remained un-recovered as on 31 October 2006.

In reply it was stated (October 2006) that the Company is contemplating to file recovery suits in these cases.

7.2.19 One time settlement cases (OTS)

In order to recover the outstanding dues, the Company settles cases after considering proposals for OTS. It provided for waiver of normal and penal interest/additional interest subject to the approval of the BOD. During the period under review the Company settled cases of 16 defaulting units under OTS by sacrificing Rs.1.67 crore as detailed in ***Appendix-XLVIII***. It was further noticed by Audit that no uniform norms had been fixed by the Company for OTS of similar nature.

In reply the Company stated (October 2006) that the IDBI and SIDBI have extended OTS package to the Company and the Company has passed on the same benefits to the deserving units with a view to uplift the units, which were on the verge of closure.

7.2.20 Investment in subsidiary company- Nagaland Hotels Limited (NHL)

Nagaland Hotels Limited (NHL) was incorporated in 1981-82 with an authorised capital of Rs.25 lakh as a wholly owned subsidiary of the Company (NIDC). With the financial and technical assistance of NIDC, the subsidiary company set up two three star hotels viz., Hotel Saramati at Dimapur (1987-88) and Hotel Japfu at Kohima (1988-89) at a combined project cost of Rs.4.87 crore. As the hotels were running into losses and to tide over its financial difficulties, NIDC was providing loans to the subsidiary (NHL) from time to time. As on 31 March 2000, the subsidiary company owed Rs.11.66 crore (principal: Rs.3.19 crore and interest: Rs.8.47 crore) to NIDC. On the request of NHL, the BOD of NIDC decided (3 March 2001) to convert the principal amount of Rs.3.19 crore into equity share capital of NHL and to write off the recovery of interest of Rs.8.47 crore as a re-structuring measure on the consideration that the two hotels perform an important infrastructure facilities to the State though the earnings were far from satisfactory.

In-spite of conversion of loan into equity and write-off of the interest, the subsidiary company was running into losses and the company was not receiving any progress report/Accounts from the subsidiary in-order to monitor its performance. As a result, the investment in the subsidiary company together with the benefits given in the form of write-off of interest resulted in huge loss of Rs.8.47 crore to NIDC.

As on 31 March 2006, the subsidiary company had an overdue balance of term loan of Rs.7.62 lakh (Principal: Rs.4.69 lakh and interest: Rs.2.93 lakh) payable to NIDC. The recovery of loan from the subsidiary company was poor and no effective steps were taken to recover the overdue balance.

7.2.21 Management and Maintenance of Industrial Estate

The old and new Industrial Estates in Dimapur were handed over to NIDC by the Directorate of Industries during 1971-72 for management and maintenance without specifying any terms and condition for the same. The total area of the two estates was 40 acres with 25 ready built standard factory sheds, which were rented out to the industrial units at concessional rates. The Board of Directors noted (10 March 2004) that since the ownership of the Estate was with the State Government (Industries and Commerce Department) the Company was unable to invest for creation of infrastructure. In the management and maintenance of the Industrial Estate, it was observed as under:

- Viva Beverages, an ancillary of Nagaland Beverages resorted to unauthorised construction in the open space of the Industrial Estate. Despite unauthorised construction, the Board of Directors allotted (7 October 2003) 69544 Sq. ft. of open space to Viva Beverages at lease rent of Rs.8345 per month. The Management requested (7 October 2003) the proprietor of Viva Beverages for completing all the formalities. The proprietors, however, evaded signing the lease agreement and avoided payment of lease rent of the open space till date (October 2006). The Management has not initiated any legal action against Viva Beverages for recovery o the lease rent of Rs.2.43 lakh accumulated as of March 2006. In reply the Company stated (October 2006) that the matter is being submitted to the BOD for further instructions.

- The year-wise realisation of rent of the industrial sheds in the Industrial Estate against the outstanding dues for the last five year ending 31 March 2006 is given below:

(Rupees in lakh)

	20001-02	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Opening balance	20.28	22.72	25.91	30.33	34.45
Dues during the year	4.65	4.65	5.53	6.12	6.12
Total	24.93	27.37	31.44	36.45	40.57
Realised during the year	2.21	1.46	1.11	2.00	1.20
Closing balance	22.72	25.91	30.33	34.45	39.37
Percentage of collection over outstanding dues.	8.86	5.33	3.53	5.49	2.96

It is evident from the above details that the percentage of realisation against the realisable amount was very poor and declined from 8.86 (2001-02) to 2.96 (2005-06). Analysis revealed that the outstanding dues rose by 63 per cent (2005-06) as compared to 2001-02. It was also noticed (October 2006) in audit that in the absence of any terms and conditions for management and maintenance of the Industrial Estate, the Company was keeping the rent realized from the occupants and had spent Rs.2.97 lakh on the maintenance of the estate during 2001-02 to 2005-06.

7.2.22 Dishonoured cheques

Test check of cheque collection register (April 2004 to March 2006) revealed that 218 cheques amounting to Rs.19.67 lakh received from loanees towards repayment of loan dues were dishonoured by the concerned bank. No action, however, had been taken by the Management against the concerned loanees under the Negotiable Instrument Act.

In reply the Company (October 2006) stated that action as per the Negotiable Instrument Act was not initiated due to technical reasons. The Management, however, did not specify the technical reasons due to which action was not taken under the Negotiable Instrument Act.

7.2.23 Inadequate legal action

It was noticed (July 2006) in audit that the Company filed 27 cases in various Courts during 2002-06 for recovery of overdues of Rs.2.33 crore. Out of which 13 cases involving Rs.1.93 crore were pending with the Courts and 14 cases were decreed (Rs.39.62 lakh). Out of this, the Company could recover only Rs.8.22 lakh (fully recovered in 4 cases and partial recovery in 2 cases) leaving an outstanding balance of Rs.31.40 lakh. The percentage of recovery in decreed cases of the total amount (decreed during 2002-06) was 20.75 *per cent*.

In reply the Company stated (October 2006) that due to technical reasons execution suits are not yet filed and the Company is contemplating to file execution suit soon. The Management, however, did not specify the technical reasons due to which execution suits could not be filed in time.

7.2.24 Internal Control/Internal Audit

Internal control is an integral part of the process designed and effected by the management of an organisation to achieve its specified objects ethically, economically and efficiently. It helps in creating reliable financial and management information system besides effective decision making. Internal control in the Government financial institutions assumes more significance in view of the fact that these institutions have to appraise all applications critically to reduce the risk of default by the borrowers to the minimum.

Following deficiencies were noticed in the internal control system being followed by the Company:

- Internal control system in the Company was not adequate so as to ensure that its objectives are being achieved in an efficient, effective and adequate manner.
- Administrative, accounting and internal audit manuals have not been prepared by the Company.
- Absence of efficient monitoring of the outstanding loans resulted in delay in taking follow up action in respect of cases of default.
- Internal audit wing was headed by a Deputy General Manager (Finance & Accounts). Its duties were restricted to checking of the actual receipts of cash with the computer generated sheet of the settled cases of loanee and also checking balances in the case of write-off.
- The Company had not constituted an Audit Committee under Section 292 (A) of the Companies Act, 1956.

Failure of the Company to have an effective internal control/internal audit mechanism in its organisation has resulted in lack of accountability.

7.2.25 Conclusion

The Company was established with a view to promote, assist and finance industrial concern and also to establish and administer public utilities including hotels, warehouses and markets with a view to develop industries in the State. The performance of the Company was, however, characterised by inadequate project appraisal resulting in disbursement of loan for unviable projects, lack of mechanism for inspection of assisted units prior to and post disbursement of loan, non-monitoring of the performance of assisted units, non-existence of procedure to take timely action against the units which were defaulting in repayment of loans, non-enforcement of securities/guarantees/ decrees against the loanees/guarantors, inadequate and tardy legal action resulting in mounting of arrears of dues year after year which not only affected the ability of the organisation to recycle its funds but also put a question mark on its survival.

7.2.26 Recommendations

- Project appraisal system needs to be revamped and based on parameters such as return on investment and payback period.
- Pre-disbursement and post disbursement inspection should be carried out at regular intervals to know about the functioning of the assisted units.
- Periodical reporting of assisted units/beneficiaries should be introduced and anlaysed by the Company officials and there should be an established procedure for taking immediate action against the defaulting loanees.
- The guarantees needs to be enforced immediately and should be taken in a manner that the guarantee remains valid during the repayment period of the loan.
- The Company should approach the State Government for taking steps to bring suitable legislation on the lines of Transfer of property Act to enable the Company to take effective legal action and initiate measures to extend the provisions of the State Financial Corporation Act, 1951 to the State of Nagaland.
- The Company should professionalise its working and prepare manuals to streamline its functioning and strengthen its internal control system.

Kohima **(RAM MOHAN JOHRI)**
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Countersigned

New Delhi **(VIJAYENDRA N. KAUL)**
The **Comptroller and Auditor General of India**