

**Chapter-5**  
**Audit of Transactions**  
**(PSU Sector)**

**CHAPTER – 5**  
**AUDIT OF TRANSACTIONS**

**FINANCE DEPARTMENT**  
**The Jammu and Kashmir Bank Limited**

**5.1 Doubtful recovery/ loss due to non-recovery**

**Disbursement of loan to borrowers without verification of genuineness of collateral security/ already in default with another Bank and One Time Settlement in respect of a firm ignoring the valuation resulted in doubtful recovery of ₹143.94 lakh and loss of ₹52 lakh.**

(A) The Zonal office of the Bank through its business unit at *Khoja Bagh*, Baramulla sanctioned (December 2006) cash credit facility of ₹50 lakh in favour of a borrower<sup>1</sup> to meet the working capital requirements for running a retail outlet of petro chemical products (Petrol Pump). The facility was secured by way of primary security by hypothecation of stocks and book debts and collateral security which included a residential house and land measuring three *kanal* and 14 *marlas* appurtenant thereto and third party guarantee. The terms and conditions *inter-alia* provided for verification of title of the mortgaged properties by the Branch concerned before disbursement of the facility. A mortgage deed along with other security documents were registered (January 2007) with the Sub-Registrar in favour of the Bank. The facility was renewed in February 2010 and raised to ₹75 lakh for a period of one year against additional security in the form of land measuring 31 *kanals* five *marlas* for which the deed was executed in February 2010.

Audit scrutiny showed (November 2013) that after availing the facility the borrower defaulted in repayment and the Bank declared (July 2011) the account as NPA with an outstanding NPA balance of ₹73.94 lakh. Owing to death of the borrower, the Bank initiated (October 2011) recovery proceedings against the guarantors and the legal heirs of the borrower under SRFAESI<sup>2</sup> Act 2002. During the process of recovery it was found that the land mortgaged with the bank measuring 31 *kanals* and five *marlas* was not in the name of borrower and the revenue records, based on which the property was mortgaged with the bank, were fictitious. The Bank filed an FIR in January 2013 against the guarantor for submission of forged and fictitious revenue papers, for obtaining the loan. The outcome was awaited (November 2013).

Accepting the filling of fake documents by the borrower while securing the facility indicated that the bank had not observed due diligence in verifying the genuineness of the documents submitted by the borrower at the time of disbursement of the facility which had resulted in the Bank getting entangled in long drawn legal battle and consequent doubtful recovery of the outstanding amount of ₹73.94 lakh.

The matter was referred to the Government/ Chairman J&K Bank, Srinagar in April 2014. In response the Assistant Vice President, Supervision and Control Divisions, J&K Bank stated (May 2014) that normal precaution had been taken by getting the

<sup>1</sup> M/s Shaheed Nazir Filling Station

<sup>2</sup> Securitisation and Reconstruction of Financial Assets & Enforcement of Security Interest Act, 2002.

title of the property of the borrower verified on the basis of revenue extracts and at the time of extending/enhancing the credit facility there was no real/ circumstantial evidence to point to the doubtful nature of the verification. It was further stated that the authenticity of verification by the Revenue department was at a later stage found to be doubtful. The reply was not appropriate as the land records were required to be got accurately verified before extending the loan.

**(B)** The Jammu and Kashmir Bank Zonal Office, Sopore after sanctioning (May 2008) Term Loan (TL) of ₹70 lakh in favour of M/s Hi-tech Sopore for construction of two stories shopping complex at Down Town Sopore released the TL in favour of the company in September 2008. The TL included takeover of the TL of ₹25 lakh from Baramulla Central Cooperative Bank (BCCB) Sopore. The entire Loan facility was secured against Primary Security of Rental Receivables and Mortgage of Shopping Complex under construction with land underneath and Collateral Security of Personal guarantee of one person of sound means to meet the Bank's liability.

The Loan was to be recovered within a period of seven years after one month from the date of first disbursement in 84 equal monthly installments of ₹1.10 lakh per month.

Audit noticed (November 2013) that out of sanctioned amount of ₹70 lakh the Bank released an amount of ₹10 lakh in September 2008 and ₹60 lakh between October 2008 and February 2009 for construction of shopping Mall at Sopore without ensuring fulfillment of pre disbursement conditions. Audit observed that the borrower failed to repay even the first installment which was due to be paid w.e.f April 2009 and the Bank re-structured the repayment schedule at an amount of ₹85000 per month. Records showed that borrower did not pay any heed to the re-structured schedule and continued to remain in default and finally the accounts of the borrower was declared NPA in September 2011 after 30 months against RBI guidelines (issued in July 2008) of 90 days with an outstanding balance of ₹72.47 lakh plus un-applied interest of ₹34.65 lakh @ 16.5 per cent per annum.

The audit noticed that no post disbursement inspection had been conducted by the bank and the borrower failed to deposit the monthly rentals receivable from HDFC Bank and other occupants as he utilized the monthly rentals for updating the infrastructure of the building. It was seen that the bank had not only failed to monitor the working of the borrower properly but also had failed to marshal the collateral security in the form of personal guarantee as no suit was instituted against the guarantor.

Thus release of loan to a party already in default with another Bank without ensuring fulfillment of the pre-disbursement terms of the sanction and failure of the Bank to verify the physical progress of the work and to monitor the end-utilization of the released funds by way of conducting post disbursement inspections resulted in doubtful recovery of ₹70 lakh plus interest @ 16.5 per cent p.a. till date of recovery. The loan facility was extended without ensuring the mechanism to enforce recovery, in case of default.

The matter was referred to the Government/Bank in March 2014. Assistant Vice President, Supervision & Controls Division of J&K Bank stated (May 2014) that the borrower who was not a defaulter at the time of sanction/ take over of term loan initially failed to complete the project on time and service the installments owing to disturbed conditions in the valley in 2008-09/2009-10. The fact, however, remains that the Bank could not ensure the repayment even after the restructuring the payment schedule of the borrower and that the accounts were declared as NPA after 30 months against RBI guidelines.

(C) The Jammu and Kashmir Bank Ltd. (Branch at Gangyal, Jammu) sanctioned (December 2006) Cash Credit (CC) Limit (₹3.75 crore), Indian Letter of Credit (ILC)/ Foreign Letter of Credit (FLC) (₹9.87crore) and Bank Guarantee (BG) (₹3 crore) in favour of a firm<sup>3</sup>. The credit facilities were secured primarily by way of hypothecation of stock of raw materials, future receivables, and collaterally secured by way of equitable mortgage of land with factory building and other civil constructions and hypothecation of plant and machinery and other fixed assets created at factory site, besides, personal guarantees of all the directors of M/s B. S. Industries Pvt. Ltd. The credit facilities were renewed from time to time and latest in March 2009 by fixing CC Limit at ₹3.75 crore, ILC/ FLC at ₹3.50 crore and BG Limit at ₹1.50 crore.

Audit was informed (November 2013) by the Bank that the RBI had instructed the Bank to classify the account of the firm as NPA w. e. f.31.12.2009 in the Annual Inspection of the RBI for the year 2009-10. (A copy of the extract of the report of the RBI to classify the account as NPA w.e.f. December 2009 though called for was not furnished by the Bank stating that the secrecy was required to be maintained in respect of the report of the RBI). Contrary to the instructions the account of firm was declared as NPA in May 2011 retrospectively w. e. f. March 2011 with NPA balance account of ₹2.69 crore as on 31.12.2009 which was reduced to ₹1.62 crore as on March 2011 on the grounds that the unit stopped its production in May 2009 reportedly due to financial constraints caused mainly by withdrawal (March 2008) of incentives (refund of central excise duty) by the Government. The firm paid ₹0.37 crore after account was declared NPA with remaining outstanding dues of ₹1.32 crore<sup>4</sup>. The Bank suspended (Nov 2009) the working capital limit sanctioned in favour of company and got valued (October 2011) the land and buildings of the factory premises from the approved valuer<sup>5</sup> which worked out to ₹5.78 crore having distress sale value of ₹4.34 crore which stood 2.67 times of the NPA balance. Besides, the depreciated value of Plant & Machinery was to the tune of ₹1.64 crore as per Financial Statement of the firm for the year 2009-10. However, on the plea of the borrower that the land and building so valued could not fetch the assessed value, the Bank accepted (January 2012) the OTS proposal of the borrower at ₹0.80 crore as full and final settlement disregarding the valuation report of the approved valuer of the Bank.

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<sup>3</sup> M/s Nexgen Technologies Ltd., Kainthpur Thandi Khui Jakh, District Samba dealing with manufacturing of active pharmaceuticals ingredients (Ampicilin Trihydrate and Amoxicillin Trihydrate

<sup>4</sup> Including interest of ₹6.96 lakh debited after the date of NPA

<sup>5</sup> M/s Anuj and Associates

Thus, the management of the bank did not safeguard the interest of the bank by accepting an amount of ₹0.80 crore from the borrower as full and final settlement against outstanding amount of ₹1.32 crore while ignoring the valuation of assets which resulted in a loss amounting to ₹0.52 crore.

The matter was reported to the Government /Bank in March 2014. In response the Assistant Vice President of the Supervision & Controls Division of J&K Bank stated (May 2014) that since an amount of ₹139 lakh was arranged and deposited by the partners of the firm in piecemeal till December 2010 the account of the firm was not classified NPA immediately. It was further stated that RBI did not restrict banks from negotiated settlement of the NPAs under Board approved general policy guidelines. The reply should be seen in light of the fact that the valuation of assets by the approved valuer had been ignored by the management of the bank.

### Home Department

#### Jammu and Kashmir Police Housing Corporation Limited

#### 5.2 Avoidable payment of interest

**Failure to remit the advance tax on taxable income in accordance with provisions of the Income Tax Act, 1961 by the Company resulted in avoidable payment of interest aggregating ₹70.27 lakh.**

Section 234 B and 234 C of the Income Tax Act, 1961 provides for payment of interest by the Assesses, liable to pay advance tax, at variable rates in the event of failure of such assesses to pay advance tax in time.

Test check of records (February 2013) of the Head Office of the Jammu and Kashmir Police Housing Corporation Limited (Company) revealed that the Company had not deposited the advance tax as stipulated in these sections of the Income Tax Act. As a result, the Company became liable to pay interest to the tune of ₹70.27 lakh for the previous years from 2008-09 to 2012-13 (2008-09: ₹23.87 lakh; 2009-10: ₹13.41 lakh; 2010-11: ₹14.62 lakh; 2011-12: ₹10.13 lakh and 2012-13: ₹8.24 lakh) under sections 234-B and 234-C of the Income Tax Act.

Had the Company paid the advance tax in accordance with sections 234-B and 234-C of the Income Tax Act, 1961 the interest paid to the tune of ₹70.27 lakh could have been avoided.

On being pointed out, the Managing Director of the Company stated (May 2013) that since the advance taxes were paid on average calculation basis and also due to delays caused by accountal of TDS on interests, the payment of interest under Section 234-C became necessity. The reply is not tenable as advance Income tax was to be paid on the current income of the Company after accounting for the TDS. Further it is the responsibility of the management of the Company to pay advance tax as per the provisions of the Income Tax Act, 1961.

The matter was referred to the Government in April 2014; reply thereof was awaited (August 2014).

## Home Department

### 5.3 Short deduction of labour cess

**Failure of the Police Housing Corporation to comply with the provisions of the Act/ Rules resulted in short deduction of cess amounting to ₹1.42 crore.**

Section 3 of the Building and other Construction Workers' Welfare Cess Act, 1996 provide that there shall be levied and collected a cess for the purpose of the Building and Other Construction Workers (Regulation of Employment and Conditions of Services) Act, 1996 at such rate not exceeding two *per cent* but not less than one *per cent* of the cost of construction incurred by an employer. The cess levied is to be paid by an employer to Cess Collector appointed by the State Government within 30 days of completion of the construction project or within 30 days of the date on which assessment of cess payable is finalized whichever is earlier and where the duration of construction work exceeds one year, cess is to be paid within 30 days of completion of one year from the date of commencement of work and every year thereafter at the notified rates on the cost of construction incurred during the relevant period.

Test-check (February 2013) of records of the Managing Director, Jammu and Kashmir Police Housing Corporation Limited, (Company) revealed that the Company had incurred an expenditure of ₹153 crore on the construction of various projects during the period from 2009-10 to 2011-12. Against ₹1.53 crore due on account of cess the Company had deducted ₹11 lakh only during the period 2009-12 from the bills while making payment to contractors resulting in short deduction of ₹1.42 crore.

Thus, failure of the Company to Comply with the provisions of the Act and rules has resulted in short deduction of cess to the extent of ₹1.42 crore.

The matter was referred to the Government/ Company in March 2014. The Director, Finance endorsed (May 2014) the reply of FA/ CAO of the Company wherein it was stated that the process of deduction of cess had been started from July 2011 and that in Jammu Division deductions were started from January 2012. The reply was not tenable as there was non-compliance with the provisions of the Cess Act and also the reply was silent on the short deduction/action taken for recovery of ₹1.42 crore.

## Home Department

### Jammu and Kashmir Police Housing Corporation Ltd.

### 5.4 Non-enforcement of terms of contract

**Non-enforcement of contract agreement resulted in non-imposition of liquidation damages of ₹48.60 lakh, non-renewal of performance guarantee and irregular release of security deposit of ₹31.72 lakh.**

The 'Modernization of State Police Forces Scheme' is aimed at gradually reducing the dependence of the State Governments on the Army and the Central Armed Police Forces to control internal security and law and order situations by equipping the State Police Forces adequately with upgraded infrastructure, equipment, training etc. The focus of the scheme included providing funds for police housing (residential).



Under the Scheme, the Ministry of Home Affairs (MHA) sanctioned (2002-03) construction of Group Housing at Gurgaon to house the personnel of the State Police Department and accordingly released ₹98 lakh and ₹3.16 crore during 2003-04 and 2004-05 respectively in favour of the Jammu & Kashmir Police Housing Corporation Ltd. (Company). The Company allotted (June 2006) the work<sup>6</sup> at a cost of ₹4.01 crore to a Contractor<sup>7</sup> for completion within 12 months from the date of commencement. The liquidated damages for delay at the rate of 0.5 *per cent* of gross contract value per week or part thereof subject to maximum 10 *per cent* of the contract value was to be imposed upon the contractor. The terms of contract further provided for deduction of five *per cent* retention money from interim/ running account bills. The 50 *per cent* of retention money was to be released with the final bill and rest 50 *per cent* after completion of defect liability period (i.e. 365 days after issue of completion certificate by the competent authority). The contract also provided for obtaining of performance guarantee to the extent of five *per cent* of the contract price to be refunded after expiry of defect liability period.

Audit noticed (February 2013) that the contractor after starting (June 2006) the work executed it with slow pace and by June 2007 had completed works to the extent of (₹1.81 crore) 45 *per cent*. However, instead of imposing liquidation damages or finding alternate ways of execution of work through other agency at the risk and cost of the contractor, the Company allotted (2008-2009) additional works (boundary wall, lightening parking slots, etc.) to the same contractor at the cost of ₹85 lakh without inviting tenders.

After executing further works to the tune of ₹1.75 crore during August 2007 to January 2010, the contractor abandoned (January 2010) the work. The Company terminated (August 2011) the contract and got the balance work completed (June 2012) through a piece worker at a further cost of ₹53.18 lakh. The Company thus incurred ₹4.09 crore on the work (contractor: ₹3.56 crore and piece worker: ₹53.18 lakh) without invoking the clauses of agreement against the original contractor.

Audit observed that:

- All the payments due to the contractor up to date of abandonment of the work had been paid to him. However, liquidated damages to the extent of ₹48.60 lakh (10 *per cent* of ₹4.86 crore) were not imposed on the contractor and the execution of balance works at the risk and cost of the contractor was not ensured.
- As per Clauses of the Agreement/ NIT, the contractor had furnished a performance guarantee of ₹20.10 lakh (valid up to May 2007)), which had not been got renewed thereafter to safeguard the interest of the Company.
- During execution of work, the Company deducted security deposits of ₹34.69 lakh from running account bills, out of which ₹31.72 lakh was released in favour of the contractor in contravention of the terms and conditions of the NIT/ Agreement.

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<sup>6</sup> Construction of RCC framed Residential flats: (LSQs/USQs) comprising Basement, GF, 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> floor.

<sup>7</sup> M/s Skyline Builders, Vikaspuri, New Delhi

The delay in termination of contract in view of slow progress of work by the contractor, non-imposition of liquidation damages, non-renewal of performance guarantee and release of security deposits in contravention of the terms of contract resulted in compromising the interests of the Company.

On being pointed out the Management of the Company stated (May 2013) that steps for recovery of liquidation damages were not taken in view of apprehension that the contractor would go to court and obtain stay against the recovery and that appropriate steps were afoot to file a suit against the contractor. The reply was not appropriate as the Company had not taken adequate steps even after three years of termination of contract to protect the interests of the Company.

The matter was referred to Government/ Department in April 2014. Further progress of the case is still awaited (August 2014).

### Social Welfare Department

#### The Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited.

#### 5.5 Loan disbursement and Recovery Management

**No survey for identification of beneficiaries had been carried out. The Company had not finalized its accounts since 1997-98. Due to under-utilisation (ranging between 17 and 57 per cent) of funds received from Apex Corporations, unspent balances had increased over the years resulting in creation of liability of ₹33.48 lakh on account of non-utilisation charges and liquidated damages. Non recovery of amounts due from the beneficiaries resulted in accumulation of overdue of ₹42.45 crore payable to Apex Corporations.**

The Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited (the Company) was incorporated on 01 April 1986 under the Companies Act, 1956 with the main objective of bringing socio economic upliftment of the members of Scheduled Castes (SCs), Scheduled Tribes (STs), National Minorities, Physically Handicapped and *Safai Karamcharies* and their dependents and Other Backward Classes (OBCs) by providing financial, managerial, marketing assistance/ guidance in establishment of income-generating units. To achieve this objective, the Company provides loan under an arrangement with the Banks under Bank Tie up Scheme. The Company also acts as a State Channelising Agency (SCA) for flow of funds from the six Apex level Corporations<sup>8</sup> (ALCs) for disbursement among beneficiaries. The payment of assistance is subject to conditions, which inter-alia provide that the annual income of the beneficiary should not exceed ₹81 thousand in the case of Rural areas and ₹1.03 lakh in the case of Urban areas.

<sup>8</sup> National Scheduled Castes Finance and Development Corporation (NSFDC), National Scheduled Tribe Finance and Development Corporation (NSTFDC), National Backward Classes Finance and Development Corporation (NBCFDC), National Minorities Development Finance Corporation (NMDFC), National *Safai Karamchari* Finance Development Corporation (NSKFDC) and National Handicapped Finance and Development Corporation (NHFDC)



The Company pays subsidy of 50 *per cent* of the cost of the unit to the SC/ST beneficiary and 33.33 *per cent* to the backward class beneficiary, subject to a maximum of ₹ten thousand and ₹three thousand per case respectively, under Bank tie up scheme. The remaining amount being the bank loan portion is to be repaid by the beneficiaries in easy installments. During the period 2009-14, the Company extended financial assistance in the shape of subsidy aggregating ₹2.10 crore to 2,744 beneficiaries under the bank Tie up Scheme. During the same period loan assistance of ₹23.72 crore was disbursed in collaboration with Apex Level Corporations (ALCs) to 1,722 beneficiaries.

Audit reviewed the loan disbursement and recovery management in the Company and observations are elaborated below:

#### **5.5.1 Planning**

The Apex Level Corporations (ALCs) release funds, for disbursement to the target beneficiaries, on the basis of Annual Plans submitted by the Company. These Annual Plans are prepared by the Company on the basis of inputs received from the district offices of the Company.

Audit, however, observed that the Company had neither carried out any micro level survey for identification of targeted groups of beneficiaries at Block/ District level nor conducted any feasibility study for the identification of viable professions and trades. This indicated that the inputs provided by the district offices for preparation of the Annual Plans were not based on the ground realities and were deficient to that extent.

On being pointed out by Audit, the Manager Project stated (May 2014) that the Company could not carry out any such survey due to limited set up at the District and Divisional level and due to non-availability of funds. The fact remains that absence of a realistic data in the preparation of Annual Plans has the risk of non-extension of benefits to the deserving target groups of beneficiaries.

#### **5.5.2 Arrears in finalization of accounts**

The accounts of the Company were in arrears since the year 1997-98. Audit observed that the Company had not put in place a system of drawing trial balances at the district and divisional level. This resulted into delay in preparation of provisional accounts. In absence of provisional accounts audit relied on the financial information furnished by the Company. The non-preparation of accounts was fraught with high financial risks and all transactions not being captured timely or not at all being captured at the district/divisional level. This also made timely inter-unit/ cash/ bank reconciliation impossible.

On being pointed out, the Financial Advisor/ CAO stated (May 2014) that the management had directed both the Divisional Managers to provide trial balances of their divisions for respective districts duly reconciled with bank statements which would facilitate early compilation of the Balance Sheets.

### 5.5.3 Source and utilization of funds

The Company receives funds by way of budgetary support, subsidy component from State/ Central Government, receipt of loans from ALCs, recovery of interest/ principal from the beneficiaries, etc. and utilizes it by way of administrative expenditure, release of subsidy and disbursement of loan to the beneficiaries besides repayment of interest/ principal to the ALCs.

It was seen that as against receipt of ₹49.22 crore, only ₹25.82 crore (52 per cent) was disbursed during 2009-14. As a result the Cash/ bank balances available with the Company had increased from ₹12.54 crore at the beginning of 2009-10 to ₹38.95 crore lakh at the end of the year 2013-14.

### 5.5.4 Under-utilisation of Subsidy

The Company provides assistance in the form of subsidy to the beneficiaries under Bank Tie-up Scheme in three categories viz., Scheduled Castes (SCs), Scheduled Tribes (ST) and Backward Castes (BCs).

Against a total availability of ₹3.68 crore under the component during 2009-14, ₹2.10 crore (57 per cent) were disbursed by the Company. Under-utilisation of subsidy funds ranged between 20 and 57 per cent (SCs) and 17 and 40 per cent (STs) during the period. The position was even more dismal in the case of coverage of BCs where the Company utilized ₹16.35 lakh only, against the available amount of ₹1.64 crore with annual utilisation below three per cent during the period. The Company had not refunded the un-utilised subsidy for SCs, STs and BCs to the Government and instead invested it into FDRs.

The Financial Advisor/ CAO stated (May 2014) that since a meager amount (₹3000) was being provided as subsidy under the BC component, the beneficiaries did not come forward to avail the benefits of the scheme. The fact remains that the Company had continued to receive subsidy from the GoI/ State Government despite non-utilization of available balances.

### 5.5.5 Under-utilisation of loans sanctioned by Apex Level Corporations

The ALCs sanction loan carrying varied interest rates ranging between one per cent and seven per cent in favour of the Company for onward disbursement to the eligible beneficiaries belonging to SC, ST, OBC and Minority communities, living below the poverty line. The Company charges interest rates from the beneficiaries after adding two to three per cent, as the case may be.

Audit scrutiny showed as below:

- Funds ranging between 28 per cent and 98 per cent had remained un-utilised at the end of each year during the period 2009-14.
- On being pointed out, the Financial Advisor/ CAO attributed (May 2014) low utilization of funds to non-completion of legal formalities and backing out by the beneficiaries. The fact, however, remains that the Company should have taken adequate measures to ensure that requisite facilities for completion of formalities by the beneficiaries to avoid backing out.

- As per the lending policy of the ALCs, if the Company is not able to utilize the funds within a period of 90 days of its disbursement, the same are to be refunded by the Company forthwith in one lump sum along with the non-utilisation charges equivalent to three *per cent* over and above the prescribed interest rate.

The funds amounting to ₹15.60 crore remained un-utilized by the Company and were refunded to ALCs after more than six months, including ₹1.36 crore that was refunded after more than three years. Records showed that a demand of ₹33.48 lakh was raised by two Apex Corporations<sup>9</sup> as of September 2013 on account of non-utilisation charges.

- Analysis of position of amounts over due for repayment to ALCs by the Company showed that the overdue amounts had increased from ₹8.31 crore to ₹12.83 crore during 2009-14 as the actual repayments ranged between 9 and 64 *per cent* of the amounts due only. Of the total overdue amount (₹12.83 crore) payable to the ALCs at the end of March 2014, major portion (42 *per cent*) pertained to NMFDC, 19 *per cent* to NSTFDC and 17 *per cent* to NSKFDC. It was further noticed that default in repayment of Principal/ interest resulted in a liability of ₹1.05 crore on account of liquidated damages.

In reply, the Financial Adviser/ CAO stated (April 2014) that though the ALC was making notional entries of non-utilisation charges and liquidated damages in their accounts, no amounts had been adjusted towards those charges. The reply was not convincing as reflection of amounts by the Apex Corporations in their accounts indicated accumulation of liability, which the Company shall have to pay in due course of time.

#### **5.5.6 Recovery Performance**

Recovery of amounts disbursed in collaboration with Apex Level Corporations (ALCs) is to be ensured from the beneficiaries so as to repay the amounts to Apex Corporations.

Audit scrutiny showed that the recovery performance of the Company was not satisfactory as the annual recovery of amounts due ranged between 11 and 17 *per cent* only during the period 2009-14. This had resulted in increase of overdue recoverable amount from ₹17.75 crore to ₹42.45 crore during the period. Of the total overdue amount recoverable at the end of March 2014, major component of overdue of ₹21.60 crore (51 *per cent*) pertained to NMDFC and ₹8.44 crore (20 *per cent*) to NSTFDC.

Audit observed that due to under recovery in two sectors viz., small business segment and handicrafts sector financed under NMDFC, the Company had not been able to repay the amounts to the ALCs with the result ALCs were not releasing any funds under NMDFC to the Company from 2002-03. This led to levy of compound interest of ₹58.95 lakh by the Apex Corporations as of September 2013 on the accumulated overdue amounts. The Director (Finance) of the Administrative Department stated

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<sup>9</sup> NSKFDC: ₹24.33 lakh and NSFDC: ₹9.15 lakh

(August 2014) that efforts were on to persuade the NMDFC to waive off simple and penal interest.

One of the reasons for non-recovery of the due amounts as noticed in audit was lack of post disbursement monitoring as discussed in subsequent paragraph:

#### **5.5.7 Absence of Internal Control mechanism and post disbursal monitoring**

**5.5.7.1** Operational guidelines/ codes/ procedures manuals for implementation of schemes were not in place in the Company. There was no system of cross-checking of the posting of disbursements and recoveries from individuals by the Head office in the ledgers maintained in the District offices. As a result, receipt of funds from the ALCs, timely disbursement to beneficiaries to avoid refund of sanctioned loans, recovery from beneficiaries and remittances of money received by District offices to Head office were not watched properly.

**5.5.7.2** The Company had not segregated loans into standard, sub-standard and doubtful categories as a tool of asset management and had not made adequate provisioning in the accounts for doubtful recoveries. After being pointed out the Financial Advisor/ CAO/ Government stated (August 2014) that loans to the beneficiaries would be duly segregated.

**5.5.7.3** The Company had not maintained data bifurcating the principal and interest overdue/ recovered, etc. Review of defaulter cases was not carried out regularly and as such the Company had not maintained any data of the non-performing Assets (NPAs). Post dated cheques obtained from the beneficiaries were not presented to the banks in time.

**5.5.7.4** Post disbursement monitoring of beneficiaries had not been undertaken by the Corporation to assess post implementation impact of the financial assistance/loan schemes implemented by it. Evidence of insurance of the assets purchased by the loanees was obtained only during the first year and not subsequently.

The Manager Projects/Government stated (August 2014) that the Management had issued instructions to all the District Managers to conduct inspection/ monitoring of the units on regular basis and submit monthly monitoring reports to the Head Office.

The above points were referred to the Government in July 2014 and the reply was received in August 2014.

### **JAMMU AND KASHMIR STATE WOMEN'S DEVELOPMENT CORPORATION LIMITED**

#### **5.6 Loan disbursement and recovery**

**The Company had not finalized its accounts from 2007-08 to 2013-14 (seven years). Loan disbursement targets during the period from 2009-10 to 2013-14 had not been achieved as there was shortfall (ranging between 8 and 51 per cent) in disposal of loan applications and further delays after sanction of loan. The recoverable amount had increased from ₹48.83 lakh to ₹96.75 lakh during last five years. Post disbursement monitoring of the financed units was weak.**

The Jammu and Kashmir State Women's Development Corporation Ltd. (Company) was incorporated in the year 1991 under the Companies Act 1956 with the objectives

of identification and promotion of Women Enterprises to make them self reliant by helping them establish income generating units. The Company acts as implementing agency for developmental schemes sponsored by the GOI Apex Corporations such as the National Minority Development Finance Company (NMDFC), National Backward Class Finance Development Company (NBCFDC) and National Handicapped Finance Development Company (NHFDC) and the Scheme Empowering Skilled Young Women (ESW) funded by the State Government.

The funding under various schemes<sup>10</sup> sponsored by the Apex Corporations is aimed at providing long term loan and Micro credit ranging between ₹0.50 lakh to ₹three lakh at a concessional rate of interest (3-7 *per cent*) repayable within three to five years. The financing is shared by the Apex Corporations (85 to 95 *per cent*) and the State Government (zero to 10 *per cent*) with beneficiary contribution of zero to 10 *per cent* depending upon the Apex Corporation and the scheme involved. The Company disbursed ₹56.45 crore (97.68 *per cent*) against total receipt of ₹57.79 crore to 7,128 women beneficiaries during 2009-10 to 2013-14.

As part of our audit during 2013-14, Loan disbursement and recovery by the Company was reviewed by test-check of records at the Head office and two divisional offices of the Company at Jammu and Srinagar covering the period 2009-10 to 2013-14. The audit findings are discussed below:

#### **5.6.1 Non-finalisation of Accounts**

The audited accounts, for the relevant financial year, along with the report of the statutory auditors and comments of Comptroller and Auditor General of India (C&AG) thereon, are to be laid in the AGM by the Board of Directors of the PSUs concerned.

It was, observed in audit that as of July 2014, the Company had finalised its accounts up to the year 2006-07<sup>11</sup> and finalization of accounts from 2007-08 to 2013-14 (seven years) were in arrears. Of the finalized accounts, accounts upto 2004-05 had been placed in Annual General Meeting (AGM). Non-finalisation of accounts is fraught with the risk of financial irregularities remaining undetected. The Management attributed (September 2013) delay in finalization of accounts to shortage of accounts staff, non-completion of trail balances since inception and non-reconciliation of Cash Book balances.

#### **5.6.2 Delay in processing of loan applications**

Speedy disposal of loan requests would enable the intended beneficiaries to avail of the scheme benefits.

Audit observed that the Company had not been able to speedily dispose off loan applications during the period from 2009-10 to 2013-14. The shortfall in disposal of

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<sup>10</sup> NMDFC: Term Loan Scheme, Micro-Financing Scheme, Education Loan Schemes, NBCFDC: Skill Development, Term Loan, Micro-Financing Scheme; NHFDC: Term Loan Scheme, Education Loan Scheme.

<sup>11</sup> Accounts for 2005-06 and 2006-07 finalised in July 2014.



cases in the case of NMDFC ranged between 37 and 45 *per cent* during 2009-10 to 2011-12, however, it reduced to 5 *per cent* during 2013-14. The shortfall ranged between 8 and 46 *per cent* (NBCFDC), 11 and 48 *per cent* (ESW) and between 37 and 51 *per cent* (NHDFC) during 2009-10 to 2013-14.

On being pointed out the Management stated (May 2014) that the loan cases got delayed due to delay in completion of requisite formalities and also due to lack of Government guarantee, which some times get delayed in the Finance Department. The fact, however, remains that the continued annual shortfall in disposal of loan cases is an indicator that adequate efforts were not being made by the management.

### **5.6.3 Delay in disbursement of loan assistance**

Conditions stipulated in the sanction orders for disbursement of loan assistance *inter-alia* specify that a particular sanction remains valid for 45 days from the date of issue and in case of non-completion of formalities by the beneficiary within the stipulated time, the sanction expires automatically.

Test-check by audit showed that payment in 101 cases had been made after a period ranging between two and 18 months beyond the stipulated 45 days resulting in delay in disbursement of assistance. Besides, operation of the sanction after expiry of validity period of 45 days had rendered the payment irregular.

### **5.6.4 Shortfall in disbursements**

Targets for disbursement of loans under various schemes are fixed by the Company on the basis of allocation of funds by the Apex Corporation, to cover maximum intended beneficiaries. It was, however, observed in audit that due to delay in processing and disbursement of loans after sanction as highlighted above, the Company had not been able to achieve loan disbursement targets during the period from 2009-10 to 2013-14. Shortfall in disbursement of loans under NMDFC ranged between seven and 18 *per cent*, whereas the shortfall under NHDFC ranged between 20 and 73 *per cent* during the period 2009-14. The shortfall under NBCFDC ranged between 14 and 43 *per cent* during 2009-13.

The Management attributed (May 2014) failure in achieving the targets to shortage of staff and absence of district level set up. The fact, however, remains that the Government had deputed eight District Managers from Social Welfare Department to assist the Company, and still the management had not been able to achieve the targets of loan disbursement.

### **5.6.5 Recovery performance**

#### **5.6.5.1 Increase in overdue recovery**

The loans advanced to the beneficiaries by the Corporation are to be recovered along with interest thereon within the stipulated period.

Test check of records revealed that the recovery position of the loans advanced was not satisfactory and ₹96.75 lakh had become overdue for recovery as of 31<sup>st</sup> March 2014. Audit analysis showed that there was shortfall ranging between 10 and 17 *per cent* (NMDFC), 10 and 18 *per cent* (NBCFDC) and 34 and 36 *per cent* (NHDFC) in



recoveries during 2009-10 to 2013-14 resulting in increase in recoverable amount from ₹48.83 lakh in 2009-10 to ₹96.75 lakh in 2013-14. This was despite the fact that the recovery position had improved during 2011-14. Besides, the Company had no system of accounting recovery of Principal and Interest separately which is essential especially in the case of financial institution.

The Management stated (May 2014) that recovery drive suffered due to adverse law and order situation during 2008-11 and steps had subsequently been taken to recover the overdue amounts. The fact, however, remains that the recoverable amount had doubled (from ₹48.83 lakh to ₹96.75 lakh ) during last five years.

#### **5.6.5.2 Recovery of Non Performing Accounts**

Test-check of the records of the Company revealed that loan amount of ₹49.67 lakh covering schemes under the NMDFC (₹38.92 lakh) and NBCFDC (₹10.75 lakh) was outstanding against 1,148 beneficiaries had turned NPAs as on 31 March 2014. Audit analysis showed that the recovery of NPAs in respect of both the schemes remained very poor as the shortfall ranged between 42 and 88 *per cent* (NMDFC) and between 71 and 93 *per cent* (NBCFDC). It was also observed that NPAs were pending for recovery for the periods ranging between five and 14 years in both the schemes as of December 2012<sup>12</sup>.

The management stated (May 2014) that NPA of the Company pertained to old chronic defaulters when there was no system of guarantor from Government employee. The reply of the management is not convincing as it was the prime responsibility of the management to initiate legal action against the chronic defaulters so that outstanding amount is recovered in full.

#### **5.6.6 Post-disbursal monitoring**

A review of the records in the divisional offices showed that the Company had not prescribed any fixed schedule for post disbursement monitoring of the financed units. It was noticed that:

- (i) The Company had not evolved any system to conduct post disbursement inspection of loanee units in absence of which status of loanee's business was not found on record.
- (ii) Whereas District Managers are mainly responsible for timely recovery in accordance with recovery schedule, no action was initiated at District Level to pursue recovery or to impound the hypothecated assets in all default cases.
- (iii) No separate scheme wise records for recovery/ receipt and disposal of loan application cases were maintained at District Level. In absence of which separate recovery of each scheme along with its receipts/ disposal could not be verified in audit.

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<sup>12</sup> Individual details beyond December 2012 awaited.

(iv) The assets created by the loanee out of the loaned amount are required to be insured and the same is mandatory for the period of repayment of loan. However, records to suggest that the beneficiaries had insured the assets created with the loan assistance, though called for, were not furnished to audit.

(v) The ledgers had been prepared in an incomplete form with the result it was not possible for the Development Officer to intimate exact amounts due from those beneficiaries which came forward to clear their outstandings.

The audit findings were reported to the Government (June 2014). The Government replied (July 2014) that effecting recoveries to the tune of 95 *per cent* was itself a proof of post disbursal monitoring system adopted by the Company as every beneficiary was visited by the recovery agents to recover the money due and inspecting the unit time and again. The fact, however, remains that the recoverable amount had increased from ₹48.83 lakh in 2009-10 to ₹96.75 lakh in 2013-14.

Srinagar/Jammu  
The 12 DEC 2014



(Khalid Bin Jamal)  
Accountant General (Audit)  
Jammu and Kashmir

Countersigned



New Delhi  
The 17 DEC 2014

(Shashi Kant Sharma)  
Comptroller and Auditor General of India