Chapter II

2. Reviews relating to Statutory Corporations

Punjab Financial Corporation

2.1 Delay in taking over defaulting units

Highlights

Punjab Financial Corporation's (Corporation) performance in taking over defaulting units, recovery of dues and its disposal was deficient. The Corporation failed to monitor the financial health of loanee units and maintain records of insurance of assets mortgaged/hypothecated to it.

(Paragraph 2.1.8)

There were instances of delay/not taking over defaulting units (for more than a year) with recoverable amounts of Rs.259.89 crore.

(Paragraphs 2.1.9 and 2.1.11)

The Corporation did not sell assets of 187 units (recoverable amount: Rs. 165.59 crore) for periods up to over five years from their take over. The assessed value of the machinery in respect of 92 taken over units decreased from Rs.14.72 crore at the time of their take over to Rs.10.46 crore when reassessed, due to wear and tear resulting in loss of Rs.4.26 crore.

(Paragraph 2.1.14)

Assessed value in respect of assets of 131 unsold units was Rs. 34.36 crore against the recoverable amount of Rs.134.44 crore. Insufficient security was due to overvaluation of assets at the time of disbursement of loan and delay in acquisition and disposal of the primary and collateral securities.

(Paragraph 2.1.18)

Action to issue recovery certificate in respect of 57 cases involving Rs.49.08 crore was not initiated by the Corporation although period ranging between 10 - 94 months had lapsed.

(Paragraph 2.1.17)

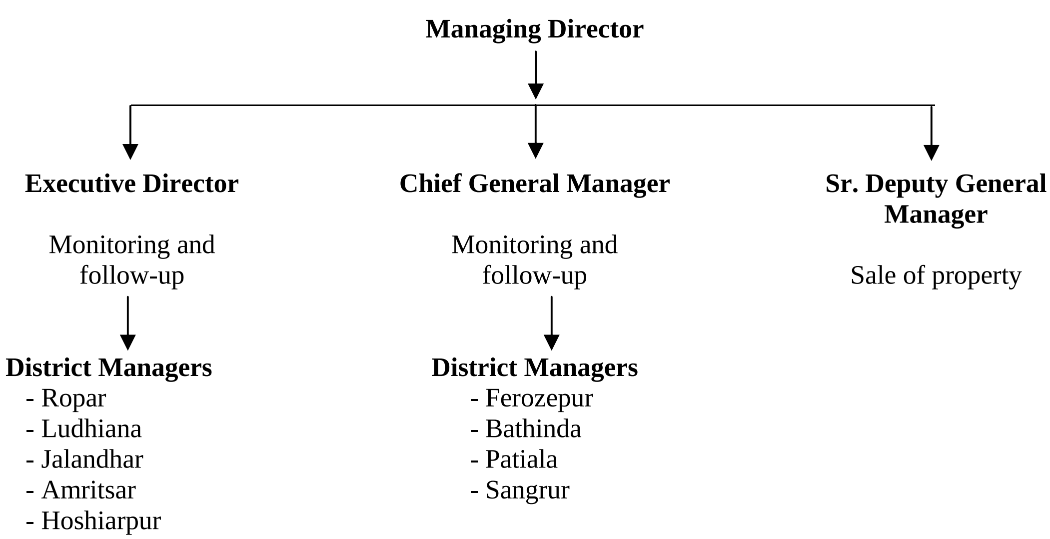
Targets for recovery of dues were low as these ranged between 32.3 and 37.3 *per cent* of recoverable amount during 2000-05.

(Paragraph 2.1.6)

Introduction

2.1.1 Punjab Financial Corporation's (Corporation) objectives were to promote small and medium industries in the State by providing and guaranteeing loans raised by industrial units and underwriting of the issues of shares, bonds or debentures by industrial units. As of March 2005, total default amount was Rs.200.46 crore (including interest) against 1,825 loanee units.

Section 29 of the State Financial Corporations (SFCs) Act empowers the Corporation to take over the assets of the defaulting units and realise its dues by sale of assets pledged or hypothecated to it. The organisation chart of the Corporation relating to take over and sale of defaulting units is as follows:



Scope of Audit

2.1.2 Sanction and disbursement of loans vis-à-vis their recovery, was reviewed in the Report of the Comptroller and Auditor General of India for the year 1996-97 (Commercial), Government of Punjab. The review was discussed in Committee on Public Undertakings (COPU) meetings held (September 1999-October 2001) wherein Corporation was directed (October 2001) to take corrective measures at its own level. Details of action taken by the Corporation in this regard was not made available to audit (September 2005).

The present review covers the performance of the Corporation in taking over of defaulting units under Section 29 of the SFCs Act for recovery of its dues during 2000-05. Audit was carried through analysis of 1,358 units where loans were disbursed at head office and five[@] (56 *per cent*) out of nine district offices of the Corporation during April 1994 to March 2005. These five district offices were selected for review on the basis of incidence of defaulting units (83 *per cent*).

The audit findings were reported to the Government/Corporation in April 2005 and discussed at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) on 13 July 2005 which was attended by the Additional Secretary, Industries, Government of Punjab, Deputy General Manager (Audit) and Assistant General Manager (Audit), Punjab Financial Corporation. Their views have been considered while finalising the review.

Audit objectives

2.1.3 The audit objectives of the review were to ascertain whether:

- the internal control system in respect of monitoring of default and take over of units was operational and reviewed from time to time;
- system of take over of defaulting units evolved by the Corporation was adequate and effective;
- provisions of Section 29 of the SFCs Act, 1951 were implemented efficiently and effectively;
- speedy disposal of the taken over units was planned and achieved; and
- timely action to recover the balance outstanding amount was taken by issuing recovery certificate after sale of the assets of the taken over unit.

Audit criteria

2.1.4 Performance of the Corporation with regard to take over of the defaulting units, their quick disposal, recovery of dues and follow up for balance recovery was assessed with reference to SFCs Act, 1951, Operational manual, decisions of the Board of Directors and options available with the Corporation.

[@] Amritsar, Jalandhar, Ludhiana, Ferozepur and Ropar

Audit methodology

2.1.5 Audit followed the following methodologies:

- Analysis of the Corporation's procedures in fixing the recovery targets and take over of the units.
- Compilation of data from the loan recovery ledgers and data regarding take over of the units in default from registers of taken over cases/sale of properties and loan recovery ledgers.
- Analysis of procedure for issue of recovery certificate in respect of the balance outstanding amount against the unit after sale of its assets and compilation of data from the register of issue of recovery certificates and loan recovery ledgers.

Audit findings

Recovery performance

2.1.6 Following table indicates the year wise position of amounts outstanding with the loanee units, amounts due for recovery, targets fixed for recovery thereagainst and amounts in default at the close of each of the five years up to 2004-05:

(Rs. in crore)

Sl. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05 (Provisional)
1	Total principal amount outstanding at the close of the year (units)	431.15 (6,000)	427.86 (6,067)	416.87 (5,766)	352.43 (5,467)	366.49 (5,324)
2.	Amount recoverable for the year excluding interest	242.54	197.98	186.51	174.12	151.12
3.	Interest recoverable	108.11	116.01	122.96	126.00	126.37
4.	Total amount recoverable (2+3)	350.65	313.99	309.47	300.12	277.49
5.	Targets fixed for recovery for the year	115.00	117.00	100.00	100.00	90.00
6.	Amount recovered during the year	111.04	100.29	88.65	97.72	77.03
7.	Amount in default at the close of the year (4-6) (units)	239.61 (2,763)	213.70 (2,363)	220.82 (2,269)	202.40 (1,785)	200.46 (1,825)
8.	Percentage of targets fixed to amount recoverable excluding interest (5/2) x 100	47.4	59.1	53.6	57.4	59.6
9.	Percentage of targets fixed to total amount recoverable (5/4) x 100	32.8	37.3	32.3	33.3	32.4

Above table reveals that percentage of targets fixed for recovery to amounts recoverable (excluding interest) for each of the last five years up to 2004-05 ranged between 47.4 and 59.6. Audit observed that the targets were fixed without correlating them with the recoverable amounts which would further decrease the percentage of targets fixed to total amount recoverable as ranging between 32.3 and 37.3 during 2000-05.

Procedure for invoking Section 29 of SFCs Act

2.1.7 Following steps are involved in the taking over and disposal of assets of the defaulting units:

- In the monthly review meetings with the District Managers, default cases are identified and taken to the Default Review Committee renamed (July 2003) as Monitoring Review Committee (MRC), where the promoters of the units are also called. In case MRC decides to initiate legal action, a registered notice is issued under Section 29 of the SFCs Act asking the unit to clear the default within a period of 30 days.

- If no payment of over due loan amount/response is received from the unit/promoters within the stipulated period, a team of technical and financial officers is nominated to take over the unit. At the time of take over, list of fixed assets (found/missing) is prepared and First Information Report (FIR) is lodged with the police for the missing assets. Realisable value of the taken over assets is got assessed from the valuer.

- Speedy disposal of taken over assets is planned by advertising in the leading newspapers calling offers for the sale of assets. If full outstanding amount is not realised by selling the assets, remaining unrealised amount is to be recovered from the promoter(s)/guarantor(s) or any other security available with the Corporation.

System deficiencies

2.1.8. Audit observed the following deficiencies in the system of take over of the defaulting units and their sale for recovery of dues:

The Corporation did not evolve any system of regular feed back about financial health of loanee units.

- The Corporation did not evolve any system of regular feed back about the financial health of the loanee units indicating distinctively- units earning profit and not in default, units facing short-term problems but not in default, projects under implementation and in default, units facing long term problems and rehabilitation package under consideration/ implementation, long term viability suspect and recall of loan under consideration and recalled cases for taking appropriate action by the management.

- There was no system in the Corporation for periodical submission of financial results/annual accounts by the loanee units to keep a watch on the financial health of the unit. In the absence of such a system the Corporation was not in a position to assess as to when a defaulting unit was fit to be taken over.

- The Corporation did not fix criteria to decide the take over of the assets of defaulting units or restoration of units already taken over. On being pointed in audit, however, a procedure to take over the units in default was approved (May 2005) by the Board of Directors of the Corporation according to which the defaulters were to be given three opportunities by calling them in three meetings of the MRC before initiating the take over of the assets of the defaulting units.

- The Corporation did not maintain any consolidated record indicating insurance of assets mortgaged/hypothecated to it and notices issued under Section 29 of the SFCs Act.

- Record of FIRs registered with the police authorities in respect of Ludhiana district office were not in the prescribed proforma. At the other four* district offices no consolidated record for monitoring the FIRs lodged with the police, was maintained. Neither copies of the FIRs were obtained nor cases were pursued with the police by district offices of the Corporation.

Defaulting units not taken over

2.1.9 Audit observed in test check of record that during 2000-05, out of 177 defaulting units, the Corporation did not take over 161 units with recoverable amount of Rs.85.40 crore defaulting for more than one year. Age-wise break up of these units is given below:

Corporation did not take over 161 units with recoverable amount of Rs. 85.40 crore defaulting for more than one year.

Period of default	No. of units not taken over	Amount recoverable (Rs. in crore)
Over one year to three years	63	27.98
Three to five years	38	31.00
Over five years	60	26.42
Total	**161**	**85.40**

It would be seen from the above table that the Corporation did not take over 60 units with recoverable amount of Rs. 26.42 crore defaulting for more than five years. The delay in acquisition of these defaulting units was causing accumulation and non recovery of dues.

The management stated (June 2005) that take over of the units was the last resort with the Corporation. The reply was not acceptable because the Corporation was not adopting a uniform policy as the taken over period of defaulting units varied widely as discussed in para 2.1.11.

* Jalandhar, Amritsar, Ferozepur and Mohali

2.1.10 Audit analysis of test check of cases of defaulting units not taken over by the Corporation is given below:

(Rs. in lakh)

Sl. No.	**Name of unit**	**Month of disbursement**	**Amount of loan**	**Month of default**	**Amount due (March 2005)**		
					Principal	**Interest**	**Total**
1.	Kissan Dudh Udyog Limited	June 1993-May 1994	90.00	December 1994	90.65	980.20	**1,070.85**
2.	Amritsar Motors	May 2001-January 2002	95.45	September 2002	95.45	60.22	**155.67**
3.	LWS Knitwears	May 1997	50.00	August 1997	42.09	110.92	**153.01**
4.	Kusum Knitwears	May 1997-September 1997	7.85	November 1998	7.19	9.30	**16.49**

Audit findings in respect of the above cases are discussed below:

- The Corporation delayed the action for take over enabling the unit (Kissan Dudh Udyog Limited) to approach the Board for Industrial and Financial Reconstruction in May 1998 putting the option of recovery in jeopardy.

The management stated that the unit was jointly financed with Punjab State Industrial Development Corporation Limited (PSIDC) and was not taken over due to absence of a representative from the PSIDC. The reply was not acceptable as there was no bar on the Corporation to take over the unit without a representative from PSIDC.

- In the three* cases, the units were not taken over violating their own internal controls regarding receipt/correct valuation of collateral security and periodical inspection of loanee units.

- In case of LWS Knitwears, as against the required collateral security of Rs.75 lakh, a plot of land purchased by the borrower for Rs.1.25 lakh in May 1994, was accepted at a value of Rs.73 lakh in May 1997 without any verification from the market. This collateral security was taken over in January 2002 and its value was assessed at rupees five lakh only (March 2002). The Corporation did not fix any responsibility for the lapse.

The Corporation stated (June 2005) that it was holding collateral security and had also issued recovery certificate under Section 32 G of the SFCs Act, 1951. The reply was, however, not acceptable as the collateral security had a meagre value as compared to the outstanding amount and no recovery had been received against the recovery certificate issued in May 2004.

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* Amritsar Motors, LWS Knitwears and Kusum Knitwears.

- In case of Kusum Knitwears, delayed decision (May 2004) to take over the unit facilitated the loanee to use the building for residential purpose preventing its take over.

Delay in taking over of the defaulting units

2.1.11 Audit noticed that out of 327 taken over units, 24 units with a recoverable amount of Rs.18.72 crore, were taken over within three months from the date of default and in remaining 303 cases, units were taken over after delays ranging up to/over five years as stated below:

(Rs. in crore)

Delay in taking over of the defaulting unit	No. of units taken over	Amount recoverable
Over three months to one year	73	79.61
Over one year to three years	140	121.14
Over three years to five years	68	39.95
Over five years	22	13.40
Total	**303**	**254.10**

230 units with a recoverable amount of Rs. 174.49 crore were taken over with a delay of over one year.

The table above shows that out of 327 defaulting units taken over, 230 units with a recoverable amount of Rs. 174.49 crore were taken over after delays of over one year.

The Corporation had not maintained any consolidated record to show the total amount recoverable from the units in possession and the balance amount recoverable from the promoters/guarantors after the sale of the taken over units. In the absence of these records, analysis in audit could not be made.

Sale of units acquired

2.1.12 The year-wise position of units in possession, sold and lying unsold during 2000-05, was as under:

(Rs. in crore)

Sl. No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05 (Provisional)
		Number of units				
1.	Units in possession at the beginning of the year (assessed value)	325 (91.12)	313 (84.98)	307 (77.00)	328 (89.06)	350 (87.65)
2.	Units taken over during the year (assessed value)	123 (35.24)	106 (24.06)	49 (15.61)	83 (16.75)	22 (4.72)
3.	Total units in possession (assessed value)	448 (126.36)	419 (109.04)	356 (92.61)	411 (105.81)	372 (92.37)
4.	Units sold during the year (sale price)	135 (25.65)	112 (27.34)	28 (1.44)	61 (9.34)	29 (1.70)
5.	Units in possession at the close of the year (assessed value)	313 (84.98)	307 (77.00)	328 (89.06)	350 (87.65)	343 (85.40)
6.	Percentage of units sold to units in possession (sale price)	30.1 (20.30)	26.7 (25.07)	7.9 (1.55)	14.8 (8.83)	7.8 (1.84)

The above table reveals that percentage of units sold during these years to total units

Number of units lying unsold increased from 325 to 343 during 2000-05.

in possession was between 7.8 and 30.1 indicating that the pace of disposal of units in possession was very slow. Resultantly, the number of units in possession increased from 325 to 343 during 2000-05. The management did not analyse the reasons for increase in number of units lying unsold. Although, Operational Manual provided for quarterly review of acquired properties, yet no such report was prepared.

2.1.13 Take over/disposal of the defaulting units was done by two separate sections of the Corporation. Monitoring and Follow Up (MFU) section took over the defaulting units and Sale of Property (SOP) section processed the cases for disposal. MFU section, after finalising the assessed value transferred the cases to SOP section for starting the sale process.

Audit analysis of records for 2000-05 in respect of 356 taken over units revealed delays in transfer of the cases from MFU section to SOP section as under:

Period of delay	Number of cases
Up to six months	201
Six months to one year	97
More than one year	58
Total	**356**

Audit further observed that in 30 cases, the Corporation had already spent Rs.25.13 lakh on the watch and ward of the assets of these units prior to transfer of these cases to SOP section. There were 15 cases in MFU section which were awaiting transfer to SOP section although a period ranging between six and 51 months had already elapsed after their take over and Rs.7.32 lakh had been spent on their watch and ward (February 2005). This resulted in delay in sale of units and increased losses due to wear and tear of assets with the passage of time.

2.1.14 Out of 327 units taken over as discussed in paragraph 2.1.11, 140 units were sold and position of 187 cases remaining unsold was as below:

(Rs. in crore)

Period from the date of units taken over	Number of units	Amount recoverable
Up to one year	22	11.84
One year to three years	58	27.38
Three years to five years	57	62.41
Over five years	50	63.96
Total	**187**	**165.59**

Assessed value of machinery decreased from Rs. 14.72 crore at the time of take over to Rs. 10.46 crore at the time of re-assessment.

Audit observed that out of 187 units remaining unsold, assessed value of machinery in respect of 92 units had decreased from Rs.14.72 crore at the time of take over to Rs.10.46 crore when the value was last reassessed, thereby resulting in loss of Rs.4.26 crore to the Corporation.

2.1.15 Audit analysis of test check of cases of units taken over but not sold by the

Corporation is given below:

(Rs. in lakh)

Sl. No.	Name of unit	Month of disbursement	Amount of loan	Month of default	Amount due (March 2005)		
					Principal	Interest	Total
1.	Surjit Metals Private Limited	September 1996-June 1997	87.00	March 1998	90.85	449.41	540.26
2.	Divpreet Organics Limited	March 1995-January 1997	90.00	September 1996	93.97	362.29	456.26
3.	Manika Processors	October 1994-January 1995	42.75	May 1996	45.55	204.13	249.68
4.	Choice Forgings	March-October 1996	40.00	May 1998	41.30	136.26	177.56
5.	Bright Star Insulated Wires	May 1995-August 1995	23.16	November 1996	25.76	124.95	150.71
6.	S P Rice Products	October 1996-December 1997	62.50	August 1999	44.10	100.18	144.28

Audit findings in respect of the above cases are discussed below:

- In three* cases, collateral securities were valued at Rs.27.80 lakh at the time of take over against the accepted value of Rs.95.33 lakh at the time of disbursement of loans. Evidently, the securities were overvalued to satisfy the conditions of sanction of loans.

Surjit Metals Private Limited

- The unit was taken over in August 1998. The unit was advertised for sale 10 times (February 1999 - August 2003) but no offer was received due to fixing of assessed value of the taken over assets on the higher side. Against the recommended value of Rs. 31.52 lakh by the District Manager of the Corporation, the reserve price was quoted at Rs.46.54 lakh.

Divpreet Organics Limited@

- Take over date fixed (March 1998) was postponed on the request of the loanee after preparation of list of assets to be taken over. The unit was taken over in July 1999 when it was found that 21 machinery items valued at Rs.41.28 lakh were missing as compared to the list of the assets prepared by the take over team in March 1998.

The management stated (June 2005) that the list of March 1998 included certain machinery items not financed by the Corporation. The reply was not tenable because as per Schedule 'B' of the mortgage deed, any machinery brought in the unit would stand mortgaged to the Corporation.

* S P Rice Products, Choice Forgings and Surjit Metals Private Limited.
@ Its original name was Divpreet Fishing Accessories Limited which was changed (March 1997) to Divpreet Organics Limited.

- The FIR for the missing machinery other than quoted as not financed by the Corporation, was lodged only in May 2005 after being pointed out by Audit.

- The unit was advertised 10 times for sale (November 1999-May 2004), wrongly mentioning the name of the unit/product as "Divpreet Fishing Accessories Limited"/ "fishing accessories" instead of "Divpreet Organics Limited"/"industrial hard oil", respectively. So, the unit could not be sold.

Manika Processors

- The Corporation granted loan without clear demarcation of the land on which the unit was to be set up.

- Guarantee of the promoters stated to having assets worth Rs. 2.21 crore, was accepted without any document showing ownership thereof.

- The Corporation took over the unit in December 2002. The delay in take over facilitated the loanee to take away all the machinery alongwith dismantled material of first floor of the unit. The unit could not be put to sale for lack of clear demarcation.

Choice Forgings

- Take over of the unit was attempted in October 2000 when it was found that building of the unit was being used for residence by the relatives of the borrowers who resisted the taker over. The unit was taken over in August 2001 except the residential portion of the building.

- The value of land at Rs.5.42 lakh (included in prime security) accepted (March 1996) at the time of disbursement was reassessed at Rs.3.60 lakh (September 2001) which was not approved by the Assessment Committee and as such the unit could not be put to sale.

The management stated (June 2005) that the assessment was approved in May 2005. Audit observed that value of machinery and building was approved as assessed in September 2001 without considering the depreciation which could have adverse effect on the sale prospects of the assets.

Bright Star Insulated Wires

- The Screening Committee while approving the case had decided for a collateral security equal to the entire amount of loan since the experience of the Corporation was not satisfactory with similar units financed by it. The condition was, however, relaxed and security valued at Rs.14 lakh (residential house: rupees four lakh and agricultural land: Rs.10 lakh) was accepted against a loan of Rs.23.16 lakh.

- The unit was taken over in July 1997 but action for sale was initiated only in May 1999, i.e., after a delay of 22 months. Until then, the case was kept pending to decide about the take over of the collateral security.
- Attempts to take over the residential house were made in November 2000 and January 2001 but could not be succeeded due to resistance from the relatives of the loanee. The agricultural land was taken over (November 2001) although the Corporation had no policy regarding deemed possession of the agricultural land.
- The unit was advertised six times but it attracted no buyer. The assessed value of taken over assets decreased from Rs.11 lakh (August 1997) to Rs.7.22 lakh (August 2003) when it was got reassessed.

S. P. Rice Products

- The Corporation did not take action on installation of machinery financed by it in another unit of the borrower financed by a bank.
- The Corporation had to take over (September 2000) both the units (including unit financed by bank) as there was no segregation of the machinery but could not put them to sale due to non-demarcation of assets between the two units (June 2005).

Unit acquired and sold

No investigation was made for abnormal decrease in value of assets from Rs. 1.89 crore to Rs. 41.33 lakh during July 1999- March 2001.

2.1.16 The Corporation disbursed (February 1998 - July1999) a term loan of Rs.1.45 crore to Amarjit Pulp and Board Mills, Pathankot after accepting collateral security in the form of agricultural land (valuing Rs. 38.40 lakh). Due to continuous default in payments the Corporation took over the unit in March 2001. The value of machinery and building which was accepted at Rs.1.38 crore and Rs. 50.98 lakh, respectively, at the time of disbursement of loan (June 1999), was assessed at Rs.28.41 lakh and Rs.12.92 lakh, respectively, at the time of take over. Assessment Committee (AC) declined to accept (January 2002) the assessed value being on much lower side and appointed another valuer for fresh assessment. The new valuer assessed the value at further lower side and the AC approved (August 2002) the earlier assessed value. The abnormal decrease in the assessed value of the machinery and building was not investigated by the Corporation.

Audit observed that the unit never started production and comparison of the value of seven items of machinery as proposed to be purchased (July 1995) but installed in June 1999 for Rs. 74.55 lakh was assessed by the valuers at the time of take over (March 2001) for Rs.10.15 lakh only which spoke of the facts that the machinery installed was either overvalued or old one. These facts had also been supported by a complaint received (August 1999) by the Corporation regarding installation of second hand machinery by the unit, which was termed as false and filed (September 1999).

The machinery was, however, sold (December 2003) for Rs.21.51 lakh but the land and building were yet to be sold (June 2005). Although, the recoverable amount had increased (March 2005) to Rs.3.94 crore (principal Rs.1.25 crore and interest Rs.2.69 crore), the collateral security (agricultural land) was not taken over on the plea that the Corporation had no policy regarding deemed possession of agricultural land (June 2005).

The Corporation while accepting (June 2005) the facts stated that it had introduced a scheme for restoration of acquired units and the promoters were being contacted to settle their accounts. The reply was not tenable as the Corporation had already sold out the machinery after take over of the unit.

Issue of recovery certificate

2.1.17 Section 32-G of the SFCs Act empowers the Corporation to recover its outstanding dues, through the District Collector concerned, as arrears of land revenue. Accordingly, after sale of the assets of the taken over units under Section 29 of the SFCs Act, the Corporation issues recovery certificates to the respective District Collectors for recovery of the balance dues, after adjusting the sale consideration, as arrears of land revenues. State Government had notified (August 1994) the Managing Director of the Corporation as Specified Authority to issue summons to the promoters / guarantors of the sold out units to defend their cases. Thereafter, recovery certificate is issued by the Specified Authority.

Audit scrutiny of records in respect of the loans disbursed from April 1994 onwards revealed that either recovery certificates were not issued or it took abnormal time in their issue. Details of the recovery certificates is given below:

The Corporation did not issue recovery certificate in 57 cases involving Rs.49.08 crore.

(Rs. in crore)

Particulars	Number of cases	Amount of recovery certificates issued	Amount of recovery certificates not issued	Time taken in issue of recovery certificates (in months)
Recovery certificates issued	74	30.93	-	2 to 69
Recovery certificates under process	7	-	7.52	15 to 54
Action to issue recovery certificates not initiated	57	-	49.08	10 to 94
Total	**138**	**30.93**	**56.60**	

It would be seen from the above table that action to issue recovery certificates in respect of 57 cases involving Rs.49.08 crore, was not initiated by the Corporation even after a lapse of 10 to 94 months. Further, a test check of 36 cases out of the 74 cases where recovery certificates were issued between December 1999 and December 2004 revealed that no recoveries had been effected (February 2005).

Audit observed that there was no system to watch the progress of the recovery of the Corporation's dues in respect of which recovery certificates had been issued.

Security available against the outstanding amount of 'taken over' units

Assessed value of unsold units was only 26 *per cent* of the recoverable amount.

2.1.18 Audit observed that the assets taken over in respect of 131 units had an assessed value of only Rs.34.36 crore against the outstanding amount of Rs. 134.44 crore representing 26 *per cent* security only.

Audit further observed that one of the reasons for insufficient security was overvaluation of assets especially land at the time of project appraisal/disbursement of loan as is evident from five cases test checked where the assessed value of taken over assets was substantially lower (Rs. 77.73 lakh) than the value assessed (Rs.3.63 crore) at the time of project appraisal/ disbursement of loan. Other reasons for insufficient security were reduction in the value of assets due to delay in acquisition/disposal of the primary and collateral securities.

Internal control

2.1.19 Internal control mechanism in the Corporation to monitor the cases of units in default was weak. The Corporation did not maintain any record regarding inspection of the mortgaged properties and the books of the loanee units. Records indicating insurance of assets mortgaged and notices issued under Section 29 of the SFCs Act, was also not maintained. There was no internal control on transfer of taken over cases from MFU section to SOP section to start the process of sale of unit efficiently. Further, though Operational Manual of the Corporation provided for a quarterly review of taken over properties but this was never complied with.

Statutory Auditors (Chartered Accountants) in their reports on the annual accounts of the Corporation for the years 1999-2004, had repeatedly pointed out that the internal control procedures followed for appraisal, disbursement, recoveries, follow up, legal matters with respect to loan accounts, reconciliations of various accounts and day to day working of the Corporation were inadequate and not commensurate with the size of the Corporation. The Corporation did not take any remedial action to improve these deficiencies.

The above findings were reported to the Government in April 2005; reply had not been received (September 2005).

Conclusion

The performance of the Corporation with regard to taking over of defaulting units, recovery of outstanding dues and disposal of such units was deficient. The Corporation did not devise any robust system to oversee the functioning of the units assisted in order to safeguard its financial stakes.

There was no system for periodical submission of financial results/annual accounts by the loanee units to keep a watch on the financial health of the unit. There was also no system to watch the progress of recovery of the Corporation's dues in respect of which recovery certificates had been issued.

Absence of any fixed criterion to decide the take over of assets of units in default coupled with lack of proper monitoring and follow up, delay in disposal of assets of the unit(s) taken over, not only resulted in blocking of funds of the Corporation entailing avoidable expenditure on watch and ward of the assets taken over but also deterioration in their value due to lapse of time.

Recommendations

- **The Corporation needs to evolve a system of regular feedback about the financial health of the loanee units.**
- **The Corporation should introduce a system of periodical submission of financial results/annual accounts of loanee units.**
- **The Corporation should maintain records indicating insurance of assets mortgaged/hypothecated and notices issued under Section 29 of the SFCs Act 1951.**
- **The Corporation needs to evolve a system to watch the timely transfer of cases from Monitoring and follow up section to Sale of property section after takeover, for its expeditious disposal.**
- **Recovery of the Corporation's dues in respect of which recovery certificates have been issued needs to be monitored regularly.**