CHAPTER-VI

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

Overview of Government companies and Statutory corporations

6.1 Introduction

6.1.1 As on 31 March 2005, there were 12 Government companies (nine working companies and three non-working* companies) and three working Statutory corporations under the control of the State Government, with no change in position from that of 31 March 2004. The Companies Act, 1956 is not extended to the State of Sikkim. The companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim, 1961'. The accounts of the Government companies are audited by the Auditors who are directly appointed by the Board of Directors of the respective companies. The Audit of these companies had been taken up by the Comptroller and Auditor General of India (CAG) on the request of the State Government under Section 20(1)/20(2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

There are three Statutory corporations in the State *viz*. Sikkim Mining Corporation (SMC), State Bank of Sikkim (SBS) and State Trading Corporation of Sikkim (STCS) established in February 1960, June 1968 and March 1972 respectively under the proclamations of the erstwhile Chogyal of Sikkim.

The accounts of these corporations are audited by the Chartered Accountants who are directly appointed by the Board of Directors of the respective corporations. Audit of these corporations was taken up by CAG under Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 at the request of the State Government as detailed below:

Table-6.1

Name of the Statutory corporation	Authority for Audit by CAG	Audit arrangement
1. Sikkim Mining Corporation (SMC)	Section 19 (3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	Audit by the Chartered Accountants and supplementary Audit by CAG
2. State Bank of Sikkim (SBS)		
3. State Trading Corporation of Sikkim (STCS)		

There are two departmentally managed undertakings *viz.* Sikkim Tea Board and Government Fruit Preservation Factory under the Industries Department.

Non-working companies are those which are under the process of liquidation/closure/merger etc.

The accounts of these departmentally managed undertakings are audited by Chartered Accountants who are directly appointed by the Industries Department. Audit by the CAG is taken up under Section 13 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

6.2 Working Public Sector Undertakings (PSUs)

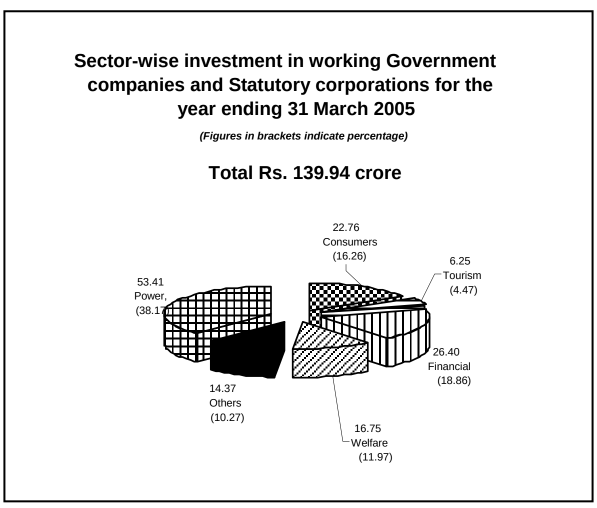
Investment in working PSUs

6.2.1 As on 31 March 2005, the total investment in 12 PSUs (nine Government companies and three Statutory corporations) was Rs. 139.94[†] crore (equity: Rs. 73.76 crore and long-term loans[•]: Rs. 66.18 crore) as against a total investment of Rs. 137.69 crore (equity: Rs. 72.03 crore and long term loans: Rs. 65.66 crore) in 12 PSUs (nine Government companies and three Statutory corporations) as on 31 March 2004. Increase (Rs. 2.25 crore) in total investment was due to increase in equity and loans mainly in consumer industries, welfare, tourism, and miscellaneous sectors. The analysis of investment in working PSUs is given in the following paragraphs:

Sectorwise investment in working Government companies and Statutory corporations

6.2.2 The investment (equity including share application money and long term loans) in various sectors and percentage thereof for the years ended 31 March 2005 and 31 March 2004 are indicated in the pie charts.

Chart-6.1



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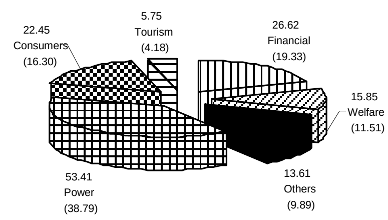
† *State Government investment was Rs. 60.73 crore (others: Rs. 79.21 crore). Figure as per Finance Accounts 2004-05 is Rs. 58.70 crore. The difference is under reconciliation.*

• *Long term loans mentioned in para 6.2.1, 6.2.2, 6.2.3 and 6.2.4 are excluding interest accrued and dues on such loans.*

Sector-wise investment in working Government companies and Statutory corporations for the year ending 31 March 2004

(Figures in brackets indicate percentage)

Total Rs.137.69 crore



Consumers Tourism Financial Welfare Power Others

Working Government companies

6.2.3 The total investment in working Government companies at the end of March 2004 and March 2005 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Loans	Total
2003-04	9	59.09	65.12	124.21
2004-05	9	60.06	65.64	125.70

There was increase in investment during the year mainly, due to increase in equity and loans in the consumer industries, welfare and tourism sectors.
The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in ***Appendix-XVIII.***

As on 31 March 2005, the total investment in working Government companies comprised 47.78 *per cent* of equity and 52.22 *per cent* of loans as compared to 47.57 *per cent* and 52.43 *per cent* respectively as on 31 March 2004.

Working Statutory corporations

6.2.4 The total investment in the three working Statutory corporations at the end of March 2004 and March 2005 was as follows:

Table-6.2

(Rupees in crore)

Name of corporation	2003-2004		2004-05	
	Capital	**Loan**	**Capital**	**Loan**
State Bank of Sikkim	0.58	-	0.58	-
Sikkim Mining Corporation	11.25	0.54	12.01	0.54
State Trading Corporation of Sikkim	1.11	-	1.11	-
Total	**12.94**	**0.54**	**13.70**	**0.54**

The summarised statement of Government investment in the working Statutory corporations in the form of equity and loans is detailed in ***Appendix-XVIII.***

As on 31 March 2005, the total investment in the working Statutory corporations comprised 96.21 *per cent* of equity and 3.79 *per cent* of loans compared to 96 *per cent* and 4 *per cent* respectively as on 31 March 2004.

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

6.3.1 The details regarding 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 and working Statutory corporations are given in ***Appendix-XVIII*** and ***XX.***

The budgetary outgo in the form of equity capital, loans and grants/subsidy from the State Government to the working Government companies and working Statutory corporations for the three years ending 2004-05 is given below:

Table-6.3

(Rupees in crore)

	2002-03				2003-04				2004-05			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital	7	3.35	1	0.50	5	4.90	1	0.94	3	0.91	1	0.26
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-	-	-
Subsidy	-	-	-	-	-	-	-	-	-	-	-	-
Total	**7***	**3.35**	**1***	**0.50**	**5***	**4.90**	**1***	**0.94**	**3***	**0.91**	**1***	**0.26**

During the year 2004-05, the Government had not extended any guarantee to any PSU. At the end of the year, guarantees amounting to Rs. 78.07 crore against three Government companies (Rs. 78.00 crore) and one Statutory corporation (Rupees seven lakh) were outstanding. There was no case of loans written off, interest waived, moratorium on loan repayment and conversion of loans into equity capital in any company or corporation during the year.

6.4 Finalisation of accounts by working PSUs

6.4.1 Accountability of Public Sector Undertakings to Legislature is to be achieved through the submission of audited annual accounts/reports within the time schedule to the Legislature. It can be seen from ***Appendix-XIX*** that out of nine working Government companies, none of the companies had finalised its accounts for the year 2004-05 and out of three Statutory corporations, only one corporation♣ had finalised its accounts for the year 2004-05 within the stipulated period.

During the period from October 2004 to September 2005, four working Government companies had finalised accounts for the previous years. Similarly,

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

♣ *State Bank of Sikkim.*

during this period only one working Statutory corporation finalised its accounts for the year 2004-05 and two corporations finalised their accounts for the previous years.

The accounts of nine working Government companies and two working Statutory corporations were in arrears for the periods ranging from one to four years as on 30 September 2005 as detailed below:

Table-6.4

Sl. No	Name of company/corporation	Period upto which accounts finalised	Period for which accounts in arrears	No. of years for which accounts in arrears
	A. Name of the company			
1	Sikkim Time Corporation Limited	2003-04	2004-05	1
2	Scheduled Caste, Scheduled Tribes, Other Backward Class Development Corporation Limited	2003-04	2004-05	1
3	Sikkim Tourism Development Corporation	2003-04	2004-05	1
4	Sikkim Jewels Limited	2002-03	2003-04 2004-05	2
5	Sikkim Industrial Development and Investment Corporation Limited	2003-04	2004-05	1
6	Sikkim Power Development Corporation	2001-02	2002-03 2003-04 2004-05	3
7	Sikkim Poultry Development Corporation Limited	2001-02	2002-03 2003-04 2004-05	3
8	Sikkim Hatcheries Limited	2001-02	2002-03 2003-04 2004-05	3
9	Sikkim Precision Industries Limited	2002-03	2003-04 2004-05	2
B. Name of the Statutory corporation				
1	State Bank of Sikkim	2004-05	NIL	NIL
2	Sikkim Mining Corporation	2003-04	2004-05	1
3	State Trading Corporation of Sikkim	2000-01	2001-02 2002-03 2003-04 2004-05	4

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within stipulated period. Though the concerned administrative departments and officials of the Government were informed every quarter by the audit of the arrears in finalisation of accounts, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in audit.

6.5 Financial position and working results of working PSUs

6.5.1 The summarised financial results of working PSUs (Government companies and Statutory corporations), as per the latest finalised accounts are given in ***Appendix-XIX***. Besides, statements showing the financial position and working results of individual working Statutory corporations for the latest three years for which accounts had been finalised are given in ***Appendix-XXI*** and ***XXII*** respectively.

According to the latest finalised accounts of eight working Government companies and three working Statutory corporations, five companies and one corporation had incurred an aggregate loss of Rs. 4.30 crore and Rs. 1.40 crore respectively; three companies and two corporations had earned an aggregate profit of Rs. 0.53 crore and Rs. 2.32 crore respectively. One company, Sikkim Power Development Corporation (SPDC) was at the implementation stage.

Working Government companies

Profit earning working companies and dividend

6.5.2 As per the latest finalised accounts, three companies *viz.* Sikkim Jewels Limited (SJL), Sikkim Precision Industries Limited (SPIL) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO) which finalised their accounts for 2002-03 (SJL & SPIL) and 2003-04 (SIDICO) respectively earned profit of Rs. 0.53 crore. None of the companies declared dividend during the year for which accounts were finalised.

Loss incurring working companies

6.5.3 One company*, out of five loss incurring working Government companies, had accumulated losses aggregating Rs. 49.05 lakh, which exceeded its paid up capital of Rs. 45.83 lakh.

Working Statutory corporations

Profit earning Statutory corporation and dividend

6.5.4 Two corporations (viz. State Bank of Sikkim and State Trading Corporation of Sikkim) which finalised their accounts for previous years by September 2005, earned a profit of Rs. 2.32 crore but had not declared any dividend.

Loss incurring Statutory Corporation

6.5.5 One corporation *viz*. Sikkim Mining Corporation which finalised its accounts for 2003-04, incurred loss of Rs.1.40 crore and had accumulated losses aggregating Rs. 8.31 crore which represent 71 *per cent* of paid up capital of Rs. 11.75 crore.

Operational performance of working Statutory corporations

6.5.6 The operational performance of the working Statutory corporations for the last three years is given in ***Appendix-XXIII***. It would be observed that in case of Sikkim Mining Corporation, percentage of capacity utilisation which was 22 in 2002-03 came down to 19 in 2004-05.

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* *Sikkim Hatcheries Limited.*

Return on Capital Employed

6.5.7 As per the latest finalised accounts, the capital employed[‡] worked out to Rs.101.21 crore in nine working companies and the total return[§] thereon amounted to Rs.0.53 crore from these working companies which is 0.53 *per cent* as compared to total return of Rs. 2.58 crore (2.50 *per cent*) in these companies in previous year. Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts worked out to Rs. 283.64 crore and Rs. 2.32 crore (0.82 *per cent*), respectively, against the total return of Rs. 31.52 lakh (0.13 *per cent*) in the previous year. The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in ***Appendix-XIX.***

6.6 Non-working Public Sector Undertakings (PSUs)

Investment in non-working PSUs

6.6.1 As on 31 March 2005, the total investment in three non-working PSUs (Government companies) was Rs. 1.27 crore (equity: Rs. 1.27 crore) and there was no change in the position since 31 March 2002.
The status of non-working PSUs is as under:

Table-6.5

(Rupees in crore)

Sl. No.	Status of Non-working Government Companies	Number of companies	Investment Companies	
			Equity	Long terms loan
1	Under closure	2	0.58	-
2	Other*	1	0.69	-
	TOTAL	**3**	**1.27**	-

**The operational function has been leased out.*

Of the above non-working PSUs, two Government companies were under closure for five years and a substantial investment of Rs.58 lakh was involved in these companies.

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

6.6.2 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to three non-working PSUs are given in ***Appendix -XVIII*** and ***XX.***
The State Government had not given any budgetary support during 2004-05 to these non-working PSUs.

‡ *Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).*

§ *For calculating total return on capital employed, interest on borrowed fund is added to net profit/ subtracted from the loss as disclosed in the Annual Accounts.*

Total establishment expenditure of non-working PSUs

6.6.3 The year-wise details of total establishment expenditure of two non-working Government companies and the source of financing them during the last three years up to 2004-05 could not be analysed due to non-finalisation of accounts by the respective PSUs. One non-working company *viz.* Sikkim Livestock Processing and Development Corporation Limited is under lease. An amount of Rs. 2.44 lakh was spent towards establishment expenditure during 2002-03 from the grant received from the State Government.

Finalisation of accounts by non-working PSUs

6.6.4 The accounts of three non-working companies were in arrears for the periods ranging from two to 10 years as on 30 September 2005 as could be noticed from ***Appendix-XIX***

Financial position and working results of non-working PSUs

6.6.5 The summarised financial results of non-working Government companies as per latest finalised accounts are given in ***Appendix-XIX.***
The details of paid-up capital, net-worth, cash loss/cash profit and accumulated loss/accumulated profit of non-working PSUs as per the latest finalised accounts are given below:

Table-6.6

(Rupees in crore)

Name of the Company *(Year of Accounts)*	Paid-up capital	Net-worth**	Cash loss (-) / ††Cash profit (+)	Accumulated loss(-)/ accumulated profit (+)
1. Sikkim Flour Mills Limited (1994-95)	0.60	0.47	-	(+) 0.13
2. Sikkim Livestock Processing and Development Corporation Limited (2002-03)	0.69	0.04	(+) 0.01	(-) 0.65
3. Chandmari Workshop and Automobiles Limited (1994-95)	0.002	(-) 0.02	(-) 0.14	(-) 0.02

6.7 Status of placement of Separate Audit Reports of Statutory corporations in the Legislature

6.7.1 The following table indicates the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by Government:

** *Net worth represents paid up capital plus free reserves less accumulated loss.*
†† *Cash loss/profit represents loss/profit for the year plus depreciation for the year.*

Table-6.7

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1	Sikkim Mining Corporation (SMC)	1999-2000	2000-01 2001-02 2002-03	November 2005	To be placed in the next session of the Legislature
2	State Bank of Sikkim (SBS)	2001-02	2002-03		
3	State Trading Corporation of Sikkim (STCS)	1999-2000	2000-01		

6.8 Disinvestment, privatisation and restructuring* of Public Sector Undertakings

6.8.1 During the year 2004-05, there has been no privatisation (partial or complete) of any activity of these companies or corporations, and the Government has also not gone for disinvestments of shares in any company/corporation.

6.9 Results of Audit by Comptroller and Auditor General of India

6.9.1 During the period from October 2004 to September 2005, the audit of accounts of four working companies and one working Statutory corporation were selected for review. The net impact of the important audit observations as a result of review of the PSUs was decrease in profit of Rs. 2.94 lakh in one working company and increase in loss of Rs. 138.07 lakh in three working companies.

Some of the major errors and omissions noticed in the course of audit of annual accounts of some of the above companies and corporations are mentioned below**:**

Sikkim Tourism Development Corporation (2003-04)

- Sundry Debtors amounting to Rs. 5.08 lakh were lying outstanding since 2000-01 but no provision was made towards doubtful debts to that extent which resulted in overstatement of “Sundry Debtors” with a corresponding understatement of loss.

Sikkim Time Corporation Limited (2003-04)

- As per directives of Income and Sales Tax Departments, Government of Sikkim, provision for income tax on turnover was to be made. Non-provision of this liability has resulted in understatement of loss by Rs.7.12 lakh with a corresponding understatement of liabilities.

State Trading Corporation of Sikkim (2000-01)

- “Loans and advances” includes long outstanding dues of Rs.3.07 lakh pertaining to the period from 1984-85 to 1994-95. The management, however, did not make any provision for such long outstanding dues which resulted in

* *Restructuring includes merger and closure of PSUs*

overstatement of "Loans and advances" to the tune of Rs. 3.07 lakh with a corresponding overstatement of profit.

State Bank of Sikkim (2002-03)

- A cash shortage of Rs.10,000 had occurred in the year 1995 at Melli Branch, which was later recovered by the police authority and kept under their custody till the end of the year 2002-03. Though the above amount was not actually in the cash chest on 31 March 2003, the cash balance as on 31 March 2003 was shown inclusive of that amount. As such, the "Cash and Bank Balance with RBI" was overstated by Rs. 10,000 with a corresponding understatement of "Other Assets".

Scheduled Caste, Scheduled Tribe, Other Backward Class Development Corporation Ltd. (2003-04)

- The Corporation had consistently kept provision for Non-performing Assets (NPA) as per their accounting policies till 2002-03. The management, though quantified the amount of provision for NPA to the extent of Rs.1.18 crore during 2003-04, but did not provide for the same in the accounts which resulted in overstatement of "Loans and Advances" with a corresponding understatement of loss to the extent of Rs.1.18 crore.

6.10 Response to inspection reports, draft paragraphs and reviews

6.10.1 Audit observations noticed during audit and not settled on the spot are communicated to Heads of PSUs and concerned departments of State Government through Inspection Reports. The Heads of the PSUs are required to furnish replies to the Inspection Reports within a period of four weeks. Inspection Reports up to March 2005 pertaining to 14 PSUs (including two departmental undertakings) disclosed that the 132 paragraphs relating to 38 inspection reports remained outstanding at the end of September 2005. Department-wise break up of inspection reports and Audit observations outstanding as of September 2005 is given in ***Appendix-XXIV.***

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of two draft paragraphs and one draft review forwarded to the various departments between April 2005 to June 2005 as per details in ***Appendix XXV***, replies to review and two draft paragraphs were awaited (September 2005).

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed to send replies to Inspection Reports/ draft paragraphs / reviews as per the prescribed time schedule, (b) action is taken to recover loss/ outstanding advances / overpayments in a time bound schedule, and (c) the system of responding to the audit observation is revamped.

6.11 Position of discussion of Commercial Chapter of Audit Reports by the Public Accounts Committee (PAC)

6.11.1 One paragraph of the Commercial Chapter of the Audit Report (2003-04), Government of Sikkim is pending discussion by Public Accounts Committee as at the end of March 2005.

SIKKIM INDUSTRIAL DEVELOPMENT AND INVESTMENT CORPORATION LIMITED

6.12 Internal Control System and Internal Audit in State Financial Undertakings

Highlights:

Delayed preparation of budgets and wide variations in projected and actual resources led to the budgeting exercise not being used as an effective tool of internal control.

(Paragraph 6.12.6)

There was no internal audit wing and no internal audit was conducted even through the firm of Chartered Accountants.

(Paragraph 6.12.20)

Loans amounting to Rs. 34.37 crore were sanctioned without carrying out risk analysis of the schemes, credit worthiness of applicants, critical scrutiny of projections and track records of loanees were also not verified.

(Paragraph 6.12. 9)

Recovery percentage ranged between 10.52 and 21.03 *per cent* of demand.

(Paragraph 6.12.14)

There was inordinate delay ranging between three and 12 years between the dates of defaults and filing of cases against defaulters.

(Paragraph 6.12.15)

Percentage of non performing assets ranged between 66.60 and 82.72 *per cent* of total assets during last five years.

(Paragraph 6.12.16)

6.12.1 Introduction

Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and adequate manner. A good system of internal control should comprise, *inter alia*, proper allocation of functional responsibilities within the organisation, proper accounting data, efficiency in operations and safeguarding of assets, quality of personnel commensurating with their responsibilities and duties and review the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

Internal control in the Government financial institutions assumes more significance in view of the fact that institutions have to appraise properly that all the loan applications were examined critically so that the risk of default by the borrowers is reduced to the minimum.

Sikkim Industrial Development and Investment Corporation Limited (SIDICO) was established in March 1977 under the Sikkim Registration of Companies Act, 1961 with the main objective of achieving rapid industrial and economic development of the State by providing financial assistance to cottage, tiny, small and medium industries.

The company is managed by the Board of Directors, consisting of a Chairman and six Directors as on 31 March 2005.

6.12.2 Scope of audit

The performance audit conducted during April to May 2005, examines the mechanism of internal control systems prevalent in the company during 1999-2000 to 2003-04.

6.12.3 Audit objectives

Performance audit of Internal Control in respect of lending activities of the company was conducted with a view to assessing whether:

- The institution executed different term lending activities in a prudent manner;
- The Internal Control System of the institution was adequate and effective in the matters relating to appraisal and sanction, disbursement and monitoring, demand and recovery and management of Non-performing Assets (NPA) and other related activities.

6.12.4 Audit criteria

The following criteria was adopted to evaluate:

- Appraisals – scrutinizing procedures prior to sanction of loans;
- Appraisals scrutiny procedures prior to sanction of loans;
- Documentation prior to disbursement;
- Timely demand, collection and accounting of installments;
- Recovery measures in respect of default cases.

6.12.5 Audit methodology

Following audit methodologies were adopted:

- To check the company's budgetary exercises, Company's annual Business Plan and Resource Forecasting (BPRF) and minutes of meetings were examined.

- For verifying appraisal of loans, the prescribed checklist, records regarding Company's inspection to the concerned unit prior to sanction of loans and appointment of nominee Directors, project reports and audited accounts of the units were examined.

- For examining the Company's handling of demand and recovery of loans, the individual loan files and suit filed cases were checked.

- Company's annual accounts were checked to determine the Company's effective control over management of non-performing assets, management of assets taken over and investments.

Audit findings

The mechanism of internal control system prevalent in the company was reviewed and irregularities noticed are discussed in the succeeding paragraphs.

6.12.6 Budgetary control

Budget is a quantitative financial expression of a programme of measure planned for a given period. The annual budget is drawn up with a view to plan future operations and to make *ex-post-facto* checks on the results obtained. Timely preparation of budget and analysis of the variations noticed in the actual execution serves the purpose of internal control.

The Company prepared Business Plan and Resource Forecasting (BPRF) annually based on which the funds were borrowed from financial institutions *viz.* Industrial Development Bank of India and Small Industrial Development Bank of India depending on the requirement. Audit analysis revealed that:

- The Company did not prepare BPRF well in advance before the commencement of the financial year as can be seen from the following table.

Table – 6.8

Year	Preparation of BPRF	
	Board Meeting	Date
1999-2000	77th	19 March 1999
2000-01	80th	11 May 2000
2001-02	82nd	8 March 2001
2002-03	86th	6 July 2002
2003-04	88th	11 July 2003

- The budget of 1999-2000 was approved by Board of Directors with the instruction to reflect projection as well as actual figures of resources of the company for the previous year and the achievement for the year to be submitted on quarterly basis, which was not adhered to by the Management.

- Though there were wide variations from 13 *per cent* to 336 *per cent* between budgeted and actual figures of resources of the company during the last five years except in 1999-2000, as given in **Table 6.9** below, the Company did not analyse the reasons for such variations in any of the years and initiate corrective action.

Table- 6.9

(Rupees in lakh)

Year	Budget	Actuals	Variations
1999-2000	421.61	419.42	(-) 2.19 (0.52)
2000-2001	375.67	512.36	(+) 136.69 (36)
2001-2002	421.06	562.01	(+) 140.95 (34)
2002-2003	495.51	2,161.07	(+)1,665.56 (336)
2003-2004	2,941.01	2,558.74	(-) 382.27 (13)

(Figures in brackets indicate percentage)

Audit analysis revealed that the wide variation between the budgeted and actual figures of resources was due to:

- more receipts from recovery of loans including interest, borrowings from SIDBI and State Government, encashment of Term Deposit Receipts, interest in fixed deposits and other cash inflow in 2000-01 and 2001-02;
- infusion of funds to the tune of Rs.13.80 crore for implementation of certain schemes i.e. Chief Minister's Self Employment Schemes (CMSES), Software Technology Park of India and Export Infrastructure Scheme of Government of India, and receipt from Yoksom Breweries Limited towards disinvestment of the Company's share, during 2002-03;
- less receipt of funds from Government and borrowings from SIDBI etc., during 2003-04.

The Management in its reply (May 2005) stated that such extra funds were not anticipated at the beginning of the year. The reply is not tenable since the budget estimate could have been augmented to more realistic levels during the course of the year through supplementary budgetary provisions and its approval in the subsequent meetings of the Board of Directors of the Company, which was obviously not done. Thus, the exercise of making realistic budget to facilitate expenditure control was just not carried out.

6.12.7 Functional Manuals

Functional Manuals provide guidance to the personnel in charge of appraisal, disbursement and recovery of loans and also to proceed for legal action as per terms and conditions. Audit analysis revealed that the Company did not prepare any functional manual. This indicated that the Company was yet to formulate internal control measures for the above activities even after three decades of its existence.

The Management, while accepting the fact stated (May 2005) that the Company was following the guidelines of SIDBI in respect of loan sanction. The Management further stated (July 2005) that the functional manual would be prepared for their reference.

6.12.8 Operational Controls

The lending function involves following three major activities:

- Appraisal and sanction.
- Disbursement (obtaining security and documentation) and monitoring.
- Demand and recovery.

Internal control in respect of these functions are discussed in the succeeding paragraphs.

Term Loans

6.12.9 Appraisal and sanction

Appraisal is the critical examination of technical, financial and commercial feasibility of a project to judge the managerial competence of the promoters to implement and run the project successfully. Appraisal of projects is necessary to determine whether it would be worthwhile to make investment in those projects. The quality of appraisal depends on the degree of accuracy of estimates on which the project is based. Preparation of appraisal report becomes easier if the project report is prepared after considering all the relevant information/data with due importance to the different factors concerned with the project.

The broad scheme-wise classification of financial assistance sanctioned by the Company during the last five years is given below:

Table – 6.10

(Rupees in lakh)

Description	Number of loanees	Amount
Hotel/Restaurant	221	407.55
Composite/SSI	286	211.56
Personal computer	1,322	690.11
Motor Vehicle	63	131.00
CMSES	3,198	1,997.00
Total	**5,090**	**3,437.22**

The Company sanctioned Rs. 34.37 crore to 5,090 loanees as financial assistance during the period 2000-01 to 2004-05. The Company prescribed a checklist for sanction of loans for the projects; but the checklist was not complete in all respects. Audit test checked 153 cases out of 1892 cases. Audit analysis of 153 (excepting CMSES) cases revealed the following deficiencies:

- The Management did not carry out risk analysis of the schemes/projects considered for sanction of loans.
- Credit worthiness of applicants was not ascertained from Banks/financial institutions, etc.

- Projections in the applications were accepted without critical scrutiny.
- Critical information pertaining to loanees' track records, servicing of previous loans, working capital tie-up, etc. were absent in appraisal format.
- Loans were sanctioned without verifying the audited accounts.

The Management stated (May 2005) that while project reports were not insisted for the loans upto Rs.2 lakh, cases involving large amounts were sanctioned after consultation with Small Industries Service Institute/Small Industries Development Bank of India and prior visit to the units to ensure correctness of the information furnished and the minimum contributions from the promoters. Care was being taken to ensure that the loans were secured through mortgage of adequate properties *i.e.* land, building etc. The Management further stated (July 2005) that the Company did insist for the audited statement of accounts for the existing cases and in respect of new cases. The application provided particulars pertaining to promoters' bio-data, cash flow statement, profitability statement etc. and obtained NOC from all commercial Banks prior to sanction. The reply is not tenable as notwithstanding the care stated to have been taken before sanction of loans, many cases were noticed which led to default and litigation; possession of property valuing much less than the amount of loan sanctioned and occurrence of loss in the disposal of such properties after taking over from the defaulters. The total Non Performing Assets at the end of 2004-05 were Rs. 11.57 crore (56 *per cent*) against the total assets of Rs. 20.80 crore which further substantiated the audit findings.

Disbursement and monitoring of term loans

Scrutiny of the system of disbursement and monitoring revealed the following deficiencies:

6.12.10 Post-disbursement monitoring

Out of six industrial loans of above Rs. 2 lakh sanctioned since 1999-2000 to 2004-05 only one unit cleared the entire repayment, of the remaining five units from whom an amount of Rs. 8.40 lakh was due, none of the units repaid the amount due as per details shown in ***Appendix – XXVI.***

It could be seen from the ***Appendix*** that the firm Digital Imagine System was sanctioned a sum of Rs. 8.90 lakh and was disbursed (June 2001) an amount of Rs. 8.82 lakh at the interest of 16 *per cent* per annum. The repayment schedule stipulated payment of Rs. 0.65 lakh in June 2002 and subsequently at the rate of Rs. 0.75 lakh, with effect from December 2002, on half yearly basis. The firm, however, had not repaid any instalment and the dues mounted to Rs. 4.40 lakh as on March 2005. The Management sent (April 2004 and March 2005) demand notices twice but no further action was taken (September 2005).

Similarly, Nirvana Hotel was sanctioned and disbursed (May – June 2003) Rs. 8 lakh at the interest rate of 17 *per cent* per annum. The repayment schedule stipulated payment of Rs. 0.80 lakh on half yearly basis with effect from May 2004. No repayment was, however, made by the firm and the dues mounted to Rs. 1.60 lakh as on March 2005. The Management had not taken any action to recover the dues.

Thus, the Company did not have effective internal control system relating to the post disbursement monitoring of loans.
In reply, the Management stated (July 2005) that the matter was being followed.

6.12.11 Appointment of nominee directors

Though one of the conditions of the sanction of loans envisaged nomination of one Director from the Company in the management of the units availing of loans, most of the units assisted by the Company were promoted by their own family members. The units were not convening any Board meeting even in the case of nominees appointed by the Company.

6.12.13 Audited accounts of assisted units

The Company did not have the system of obtaining the audited accounts from the assisted units and carrying out inspection of the units from time to time to assess their performance and also problems, if any.
In reply, the Management stated (May 2005) that the Company convened meetings with the entrepreneurs frequently to help and find reasons for default, to make indepth analysis of reasons for sickness and for working out solution to the problems and offer revival package, if necessary. The same, however, could not be verified by audit as the Management failed to produce any records in support of their reply.

6.12.14 Demand and recovery

The prompt recovery of loans and advances as per the agreed schedule of repayment was very much essential as the Company had to plough back the funds for development of industrial activity. The position of demand and recovery during last five years upto 2004-05 was as follows:

Table 6.11

(Rupees in lakh)

Year	Demand			Recovery			Percentage of recovery		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2000-01	1,326.97	1,215.52	2,542.49	175.29	92.26	267.55	13.21	7.59	10.52
2001-02	1,304.71	1,105.78	2,410.49	204.57	104.38	308.95	15.68	9.44	12.82
2002-03	1,264.43	1,020.89	2,285.32	264.10	87.53	351.63	20.89	8.57	15.39
2003-04	1,424.34	1,070.10	2,494.44	335.76	98.62	434.38	23.57	9.22	17.41
2004-05	1,421.07	1,122.42	2,543.49	429.79	105.07	534.86	30.24	9.36	21.03

Audit observed that the recovery of principal ranged between 13.21 *and* 30.24 *per cent* and that of interest ranged between 7.59 and 9.44 *per cent* during the period 2000-01 to 2004-05. Though the average recovery showed marginal improvement from 10.52 *per cent* in 2000-01 to 21.03 *per cent* in 2004-05, the recovery percentage was far below the requirements. Audit analysis revealed that poor recovery was primarily due to sanction of loans to promoters of industries without ensuring the feasibility of success of the projects. This trend led to large number of suits being filed and pending settlement. The suits filed involved Rs. 9.77 crore at the end of 2004-05 and the percentage of such cases ranged between 38.42 and 60.96 *per cent* of amount demanded from loanees. The position of demand under suit filed cases is shown in ***Appendix –XXVII.***

In reply, the Management attributed (May 2005) the reasons of poor recovery due to lack of recovery discipline. Several larger projects (above Rs.10 lakh) ran into difficulties and were lying closed because of delay in implementation of the project, non-availability of working capital, power, transportation shortages etc.

Therefore, legal suits were filed and recovery proposed under the Sikkim Public Demand Recovery Act,1988 (SPDRA) and through Lok Adalat. Constraints faced in the processing of cases under SPDR Act and Lok Adalat were as under:

- While a case under SPDRA should be filed within a period of three months many cases were barred by limitation of time.
- A full time Certificate Officer was not appointed by the Government to dispose of the cases within the stipulated time.
- In most of the cases settled under Lok Adalat the amounts were not paid as committed by the loanees.

The reasons given by the Management are indicative of the fact that the feasibility of the projects were not properly evaluated which led to poor recovery of dues. Further, all the 20 cases filed under SPDR Act were time barred i.e. more than three years old.

6.12.15 Legal cases

Test check of suit cases revealed that the Company did not initiate effective action to file the cases against defaulters in 57 cases. There were inordinate delays ranging between three and 12 years between the date of default and the date of filing the cases in those cases. Further, of the total of 110 cases filed and decrees obtained between April 2001 and November 2004, the Company filed (March 2005) execution petitions in 68 cases only. The Company was yet to file execution petition in the remaining cases.

Audit analysis revealed that the Company did not devise any internal control mechanism to deal expeditiously with the recovery of loans after obtaining the decrees.

Management stated (May 2005) that the Company could not file any case under SPDR Act,1988 during July 1992 to end of 1993 as the office of the Certificate Officer was lying vacant. During March 2005, the Company, however, filed execution petition with the Certificate Officer in respect of 11 loan cases for recovery of Rs.4.15 crore, the results of which are awaited.

The Management, however, failed to initiate cases between 1994 and February 2005, and taken action only in respect of 11 cases as against 110 defaulters.

6.12.16 Management of Non-Performing Assets

According to the Reserve Bank of India (RBI) guidelines, assets were to be categorised as Standard, Sub-standard, Doubtful and Loss. Loans falling due for a period not exceeding one year are termed as Standard assets, overdue for a period of one year but not exceeding two years are termed as Sub-standard Assets, outstanding for more than two years but not exceeding five years as Doubtful Assets and for more than five years as Loss Assets. Accordingly, the majority of the assets were treated as Non-performing Assets (NPA) as detailed below:

Table – 6.12

(Rupees in lakh)

Year	Assets		Non- performing assets			Total NPAs
	Total	Standard	Sub-Std.	Doubtful	Loss	
2000-01	1,887.80	326.21 (17.28)	115.85 (6.14)	440.80 (23.35)	1,004.94 (53.23)	1,561.59 (82.72)
2001-02	1,967.07	472.23 (24.01)	85.74 (4.36)	407.28 (20.70)	1,001.82 (50.93)	1,494.84 (75.99)
2002-03	1,994.64	596.21 (29.89)	76.91 (3.85)	484.60 (24.30)	836.92 (41.96)	1,398.43 (70.11)
2003-04	1,996.37	555.20 (27.81)	68.12 (3.41)	278.17 (13.94)	1,094.88 (54.84)	1,441.17 (72.19)
2004-05	2,079.95	694.73 (33.40)	69.27 (3.33)	289.35 (13.91)	1,026.60 (49.36)	1,385.22 (66.60)

(Figures in brackets indicate the percentage to total assets)

It could be observed from the above table that the percentage of standard assets to total assets ranged between 17.28 and 33.40 *per cent* only. The percentage of total NPAs (under three sub-head: Sub-standard, doubtful and loss assets) though registered a declining trend from 82.72 *per cent* in 2000-01 to 66.60 *per cent* in 2004-05, the position was, however, alarming. The analysis of loss assets revealed that more than 50 *per cent* of total assets was booked as loss assets in all the relevant years except in 2002-2003 where it was marginally less at 41.49 *per cent*. In reply, the Management stated (May 2005) that large number of assets classified as loss assets were recovered under One Time Settlement.

The reply is not acceptable as the Company considered only Rs. 3.52 crore for settlement under One Time Settlement against the total NPA of Rs. 13.85 crore at the end of 2004-05. Thus, the major amount of NPA constituting 75 *per cent* still remained unsettled.

6.12.17 One Time Settlement

To strengthen the liquidity position the Management decided (December 1995) to settle the outstanding dues of defaulters in respect of loans sanctioned prior to 31 March 1995 by adjusting the repayments towards interest and principal on 50:50 basis. The Managing Director was empowered to waive interest on interest and penal interest and extend concessions of interest for One Time Settlement (OTS) on the loans sanctioned prior to 31 March 1995 for ensuring that the entire principal with some interest was recovered. Accordingly, waiver of interest on interest and penal interest of Rs. 1.09 crore (62 *per cent*) against the outstanding of Rs. 1.76 crore was allowed for OTS. The details of OTS and waiver of interest for the period 2000-01 to 2004-05 were as under:

Table – 6.13

(Rupees in lakh)

Year	Outstanding			Settlement in OTS			Waiver	
	Principal	Interest	Total	Principal	Interest	Total	Total interest dues	Amount waived
2000-01	31.72	35.24	66.96	31.72	6.90	38.62 (58)	35.24	28.34 (80)
2001-02	45.09	37.45	82.54	45.09	15.44	60.53 (73)	37.45	22.01 (59)
2002-03	27.67	39.17	66.84	27.67	27.04	54.71 (82)	39.17	12.13 (31)
2003-04	20.76	23.27	44.03	20.76	5.05	25.81 (59)	23.27	18.22 (78)
2004-05	44.77	72.67	117.44	44.77	14.23	59.00 (50)	72.67	58.44 (80)
Total	**170.01**	**207.80**	**377.81**	**170.01**	**68.66**	**238.67**	**207.80**	**139.14**

(Figure in brackets indicates the percentage of recovery of dues and waiver to total dues respectively).

The percentage of waiver of interest ranged between 31 and 80 *per cent* during the relevant years. The wide variation indicated that no uniformity was maintained towards waiver under the OTS scheme.

Audit analysis revealed that the Company did not prescribe any formula, cut off date and period of default for consideration under OTS scheme. The offer of OTS was kept open (April 2005) for such settlement.

Decision of the Board to empower the Managing Director to settle the dues at his discretion led to conferring of benefits of OTS facility to 12 defaulters (Out of 71 cases) involving Rs. 8.68 lakh who were not defaulters as on December 1995 and their defaults commenced after December 1995. As such they were not eligible for OTS. The two cases where the loanees were sanctioned Rs. 2 lakh each in the year 2000, whose dues amounted to Rs. 2.98 lakh each on the date of settlement, were settled at Rs. 2.30 lakh each (May 2003).

Audit analysis revealed that waiver of interest to individual defaulters was not based on sound rationale as the waiver of interest ranged between 13 to100 *per cent* of the defaulted interest.

The Management stated (May 2005) that the Company put special efforts for OTS in respect of old and sticky accounts in order to encourage better recycling of funds on a case to case basis.

6.12.18 Asset Management Control

Section 29 of the State Financial Corporation Act, 1951 (SFC Act) empowers the SFCs to acquire possession of the loanee units' assets and dispose of the same to recover the dues in case of failure of the units to repay the dues. Accordingly, the assets of six units were taken over against the sanctioned loan of Rs. 2.38 crore as on 31 March 2004. The details of the assets taken over from four units and their utilisation were as under:

Name of the party	Brief /audit findings
Agarwal wire industries private limited	Against the sanctioned loan of Rs.23.58 lakh (April 1986) the Company took over the factory building and plant and machinery of the unit at the price of Rs.9.97 lakh fixed by the Certificate Officer. The asset was lying unutilised since November 1996 due to non availability of takers. The present value of the property being less than Rs. 10 lakh, the sanction of loan of Rs. 23.58 lakh in 1986 lacked justification.
Kanchanjunga steel	The unit was sanctioned (May 1991) a loan of Rs.9.24 lakh. The land, building and plant and machinery of the unit were taken over by the Company at the valuation of Rs.10.70 lakh and sold out (March 2004) for Rs. 6.08 lakh incurring a loss of Rs. 3 lakh on the loan amount itself besides loss of interest.
Sukhim Anifed private limited.	A loan of Rs.62.75 lakh was sanctioned (April 1989) to the above unit. The liability of the unit stood at Rs.1 crore (August 1996). A memorandum of understanding was executed (August 1996) between Sukhim Anifed (P) Ltd (SAPL) and Sikkim Alloys & Carbides (P) Ltd. (SACL) and the assets of the units were transferred to the later for manufacturing carbide. As per terms of the MOU, *inter alia*, the liability of Rs. 1 crore to the Company was to be transferred to SACL. As a token of acceptance of the terms of the MOU, SACL deposited (July- August 1996) Rs.20 lakh with the Company and the balance was payable in 12 quarterly instalments. After taking over the assets and starting the unit SACL did not start production and abandoned the unit. Thereafter, the Company took over the land and building of the unit and leased out to Universal Enterprises for 30 years at an annual lease rent of Rs.2.50 lakh on 3 January 2004. At this poor rate of return of 2.5 *per cent* per annum the realisation would be Rs. 75 lakh only at the end of 30 years on the property of Rs. 1 crore. Thus, the non disposal of the asset on outright sale basis resulted in poor realisation of annual lease rent not commensurating with the value of property.
Mansari minerals private limited	A loan for Rs.55.78 lakh was sanctioned (June 1992) to the unit which became defaulter. The Company took over (May 2001) the land, building and machinery at a cost of Rs.25.86 lakh and the plant and machineries were disposed of (March 1998) for Rs.24 lakh. The land was still under the possession of the Company without any utilisation. In the process, the company lost Rs. 31.78 lakh towards the loan besides interest.

6.12.19 Equity participation

Annual reports of the Company revealed equity participation in six units including ten ancillary units of Sikkim Jewels Ltd. The position of such equity participation during the last five years ending 2003-04 was as under:

Table- 6.14

(Rupees in lakh)

Sl	Unit	As on 31.03.2000, 31.3.2001, 31.03.2002		As on 31.03.2003, 31.03.2004		Remarks
		No. of shares	Invested Amount	No. of shares	Invested amount	
1.	Yuksom Breweries Ltd.	3,00,000	30.00	--	--	During the year 2002-2003 the company disinvested.
2.	Sikkim Vanaspati Ltd.	9,32,763	93.28	9,32,763	93.28	
3.	Scan Industries (P) Ltd	1,000	1.00	1,000	1.00	
4.	West Bengal Consultancy Organisation	75	0.75	75	0.75	
5.	Sikkim Jewels Ltd.	78,129	116.15	78,129	116.15	
6.	Sikkim Jewels Ancilliary Units	48,750	48.75	48,750	48.75	
	Total	**13,60,717**	**289.93**	**10,60,717**	**259.93**	

Audit analysis revealed that the investment of Rs.2.60 crore did not prove to be prudent and rewarding except for Rs. 30 lakh in Yoksum Breweries Ltd. (YBL) for which the Company earned dividend of Rs.6 lakh each during 1999-2000, 2000-01 and 2001-02. The share capital investment in the Companies at serial no. 2 and 3 (Rs. 94.28 lakh) was completely lost as the units were defunct long back and the loans sanctioned were also not recovered. Obviously, the investments made in these units not only proved imprudent and non rewarding but also resulted in irrecoverable loss. The Company made a provision of Rs.1.78 crore for diminution in value of investment as against the total investment of Rs.2.60 crore.
While accepting the fact, the Management stated (May 2005) that the Company had not participated in the equity of any projects during the last five years in view of the low/no return on investment made in equity of the assisted units.

6.12.20 Internal Audit

Internal Audit is an appraisal activity established within an entity as a service to the entity. Its functions include, amongst others, examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems.

Following further irregularities were noticed:

- The Company did neither have Internal Audit wing within the Company nor was getting the work done through Chartered Accountants after the financial year 1997-1998.
- During November 2004, the Internal Audit Wing of Government of Sikkim audited the transactions of the Company but the report was not issued to the Company till May 2005.

The Management stated (May 2005 and July 2005) that in view of huge administrative cost and low volume of business, the internal audit was discontinued since 1998-99. The Company would consider appointment of internal auditor or set up separate internal audit cell once the volume of business increased.

6.12.21 Conclusion

The Budgets had not been used as a tool of internal control as they were neither finalised in time nor variations analysed during the period 2000-01 to 2004-05. There was no Functional Manual for the guidance in respect of lending functions. The system of appraisal of loan applications and sanction, disbursement and monitoring, demand and recovery of term loans was defective resulting in accumulation of dues, irrecoverable loss etc. There were instances of inordinate delays in initiating legal action against chronic defaulters and also filing of execution petitions on decreed cases. Imprudent investments on equity participation resulted in irrecoverable loss besides no return from the other working units. There was no Internal audit system in existence.

6.12.22 Recommendations:

The Company should initiate action to:

- Analyse variations between projected and actual resources of the Company to make the Budgetary exercise more realistic and meaningful.
- Prepare functional manual at the earliest.
- Introduce internal audit system expeditiously.
- Introduce the meticulous appraisal of the loanee concerns/individuals by studying their background of financial status, their ability to manage working capital, credit risk of the scheme/project, audited accounts etc. before sanction of loans.
- Take prompt and effective action for recovery of dues and
- File cases for execution immediately after decrees have been obtained in respect of defaulters.

The above matters were reported to the Management (June 2005) and Government (June 2005); the reply from the Government had not been received.

6.13 Wasteful expenditure

SIKKIM MINING CORPORATION

6.13.1 Wasteful expenditure towards installation of floating column

Imprudent decision of the Management in installing the plant with the objective to produce high grade copper concentrate and lead with improved recoveries resulted in wasteful expenditure of Rs. 15 lakh with a further liability of Rs. 5 lakh.

Encouraged by the results of demonstration at Sikkim Mining Corporation (SMC) by Scientist of Regional Research Laboratory (RRL), Bhubaneswar in November 2000, the Managing Director of the Corporation decided to install a Commercial Floating Column in the copper cleaning circuit with the help of RRL during 2000-01. It was anticipated that the Corporation would be benefited by producing high grade copper concentrate and lead with improved recoveries, besides saving power consumption to a great extent. The decision to install column floatation plant was taken as a measure of turning around the declining performance of the Corporation as its capacity utilisation at 60 *per cent* was very low which was due to inadequate power supply and high operational (staff) costs. Based on the project proposals submitted by RRL (June 2001) the Corporation issued work order (December 2001) to RRL on turnkey basis, to be completed in six months. Against the total project cost of Rs. 20 lakh, advance payment of Rs. 15 lakh was made in October i.e. two months prior to the issue of work order and the balance of Rs. 5 lakh was payable after successful demonstration and final report.

Scrutiny of records revealed (June 2004) that though the work was to be completed within six months (June 2002), the same was completed only in June 2003, after a delay of one year. There was no recorded reason for such delay. Further, demonstration of the plant was not done and final report thereof was not submitted by the RRL as required. In the meantime, a Consultant was appointed (April 2003) for conducting techno feasibility study-cum- project proposal for turnaround of the Corporation. Based on the recommendations of the Consultant, the Management, in the presence of RRL representative decided (September 2003) to dispose of the column floatation plant in view of non- viability of the mining operation as a whole. The RRL, however, insisted on releasing balance amounting Rs. five lakh before disposing of the plant. No further action was taken to sort out the issue of disposal of the plant.

Thus, due to imprudent decision of the Management taken in haste without considering the potentiality of the mines, the column flotation plant installed with the objective of producing high grade copper concentrate and lead with improved recoveries did not serve the purpose. The expenditure of Rs. 15 lakh with a further liability of Rs. 5 lakh proved to be infructuous.

In reply (June 2005) and during further discussion (August 2005) the Management stated that the decision to install column floatation plant was taken at the wrong time based on the assurance given by RRL, Bhuwaneswar that plant would be economically viable and would provide much needed remedy in the form of improvement of capacity utilisation to 80 *per cent* . The floatation column could not be operated on the existing power supply received by the Corporation. The Corporation also did not have the required trained manpower for operating the plant. The Consultant, engaged (April 2003) for assessment of economic viability felt that the prospect of the mining operation of all the mines of Corporation was very bleak and recommended (July 2003) for diversification to non-mining fields. The Government, however, did not favour diversification and decided (June 2004) for winding up of the Corporation.

The fact, however, remained that the very purpose of installing column floatation plant remained defeated and the entire expenditure proved unproductive.

The matter was reported (April 2005) to Management and Government; the reply of the Government is awaited (September 2005).

6.14 Regularity issues

SIKKIM HOUSING AND DEVELOPMENT BOARD

6.14.1 Irregularities in the sanction of loans

Non observance of the prescribed procedures for sanction of loans and lack of initiative in recovering the dues resulted in accumulation of outstanding dues of Rs. 60.79 lakh.

The Audit of Sikkim Housing and Development Board (SHDB) (established in 1979) was entrusted (November 2003) to Comptroller and Auditor General of India under Section 19 (3) of CAG's (DPC) Act, 1971 for the period 2000-01 to 2004-05. The first audit of the Board conducted in March 2005 revealed following irregular sanction of loans to the officials of the Board.

➢ The Board sanctioned (July 1991) a loan of Rs.13.50 lakh to Shri K.K. Rasaily, the ex- Secretary/Chief Executive of the Board under scheme no. 10395 which was open to the public. The amount was released between July 1991 and December 1994. The required formalities *viz.* sanction of loans against security of a piece of dry land without mentioning the value of land and original deed, belated drawal of agreement (in February 1996), without submission of registered deed of mortgage etc. were not followed. The loanee repaid Rs. 2.72 lakh between July 1995 and January 2001. Though the loanee failed to make repayment as per recovery schedule, the Board did not stop release of further instalment as stipulated in the agreement. The Board also did not impose its rights to recover the entire balance after the borrower defaulted repayment for more than three instalments as per agreement. Further, as per mortgage deed the Board had the right to have the scheduled land and so much of the house as might have been constructed over it, sold for realisation of the advances and interest due thereon. This clause was also not imposed by the Board in this case. In the meantime, the Board sanctioned a second loan of Rs. 4.50 lakh (August 2000) against the same mortgage. No instalment of this loan was paid till date (March 2005). Sanction of second loan before recovery of previous loan and against the mortgage of the same property was irregular. Till the date of Audit (March 2005), only Rs. 2.72 lakh was repaid by the borrower and the total dues (including principal, defaulted principal, interest and penal interest) aggregated to Rs. 40.25 lakh. No concrete steps were taken by the Management for recovery of dues.

In reply (June 2005) and during further discussion (August 2005) the Board stated that the loanee had authorised the transfer of all his retirement benefits to the Board and assured to pay the shortfall from other sources. No recovery has, however, been made so far (September 2005).

➢ The then Chairman of SHDB, Shri Uday Lama sanctioned himself two Housing Loans (March 1995 and June 1996) of Rs. 2 lakh each on the strength of only one mortgage deed. This scheme was open to the public. The loan application was not supported by proper documentation like original *parcha* and sale deeds of the land. Though the borrower had failed to repay the loan the Board took no action to invoke the deed of mortgage and sell the land. Further, the borrower did not furnish the required information alongwith the application like information about spouse, financial details, details of earlier loans applied, photograph and supporting documents. The supporting documents which were not furnished were documents evidencing lawful ownership of land being mortgaged, its *khaitan* and plot number, document evidencing the legal boundary of the said land, construction progress certificate from DC/SDM, dwelling house certificate from DC/SDM, etc. The loan was not repaid by the Chairman and the accumulated dues (including principal, defaulted principal, interest and penal interest) stood at Rs. 10.39 lakh as on March 2005. The Management served legal notice (October 2001), only once. No further action was initiated to recover the dues.

In reply (June 2005) and during further discussion (August 2005) the Board admitted the irregular sanction and stated that the case had been referred to the Certificate Officer through a petition under Sikkim Public Demand Recovery Act, 1988.

➢ Ex- Senior Financial Officer, Shri Rohit Pradhan was sanctioned Rs. 3.50 lakh (May 1991) and Rs. 3 lakh (April 2001) as loans to staff without obtaining proper documentation *i.e*. mortgage deed, agreements *etc*. After repaying Rs. 3.04 lakh till December 2002, the loanee stopped repaying the loans. The incumbent deputed for study tour in Australia in December 2001 did not resume duty and his services were terminated (October 2003). The outstanding loan (including principal, defaulted principal, interest and penal interest) of Rs. 10.15 lakh (March 2005) could not be recovered.

In reply (June 2005), the Board stated that since the loanee is out of country for a long period, action would be taken to recover loan from him in consultation with the Standing Counsel of the Board.

Thus, the non observance of the prescribed procedures for sanction of loans and lack of initiative in recovering the dues resulted in accumulation of outstanding dues of Rs. 60.79 lakh as of March 2005.

The matter was reported (May 2005) to Management and Government; the reply of the Government is awaited (September 2005).