



REPORT
OF THE
COMPTROLLER
AND
AUDITOR GENERAL OF INDIA
FOR THE YEAR ENDED 31 MARCH 1989
No. 6
(COMMERCIAL)

GOVERNMENT OF UTTAR PRADESH



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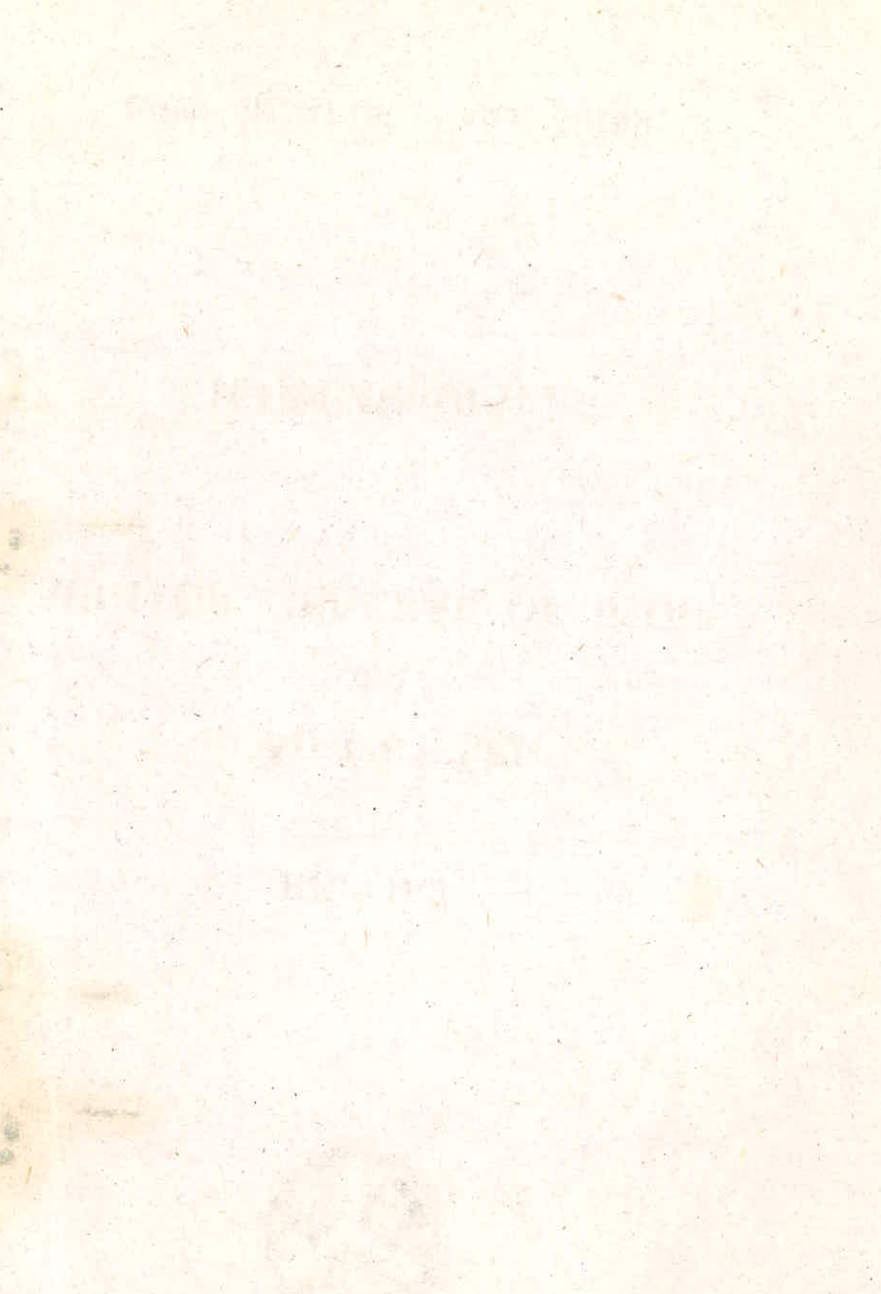


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PREFACE

Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories:

- Government companies,
- Statutory corporations and
- Departmentally-managed commercial undertakings.

2. This report deals with the results of audit of Government Companies and Statutory Corporations including Uttar Pradesh State Electricity Board and has been prepared for submission to the Government of Uttar Pradesh for presentation to the Legislature under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971, as amended in March 1984. The results of audit relating to Departmentally-managed commercial undertakings are contained in the Report of Comptroller

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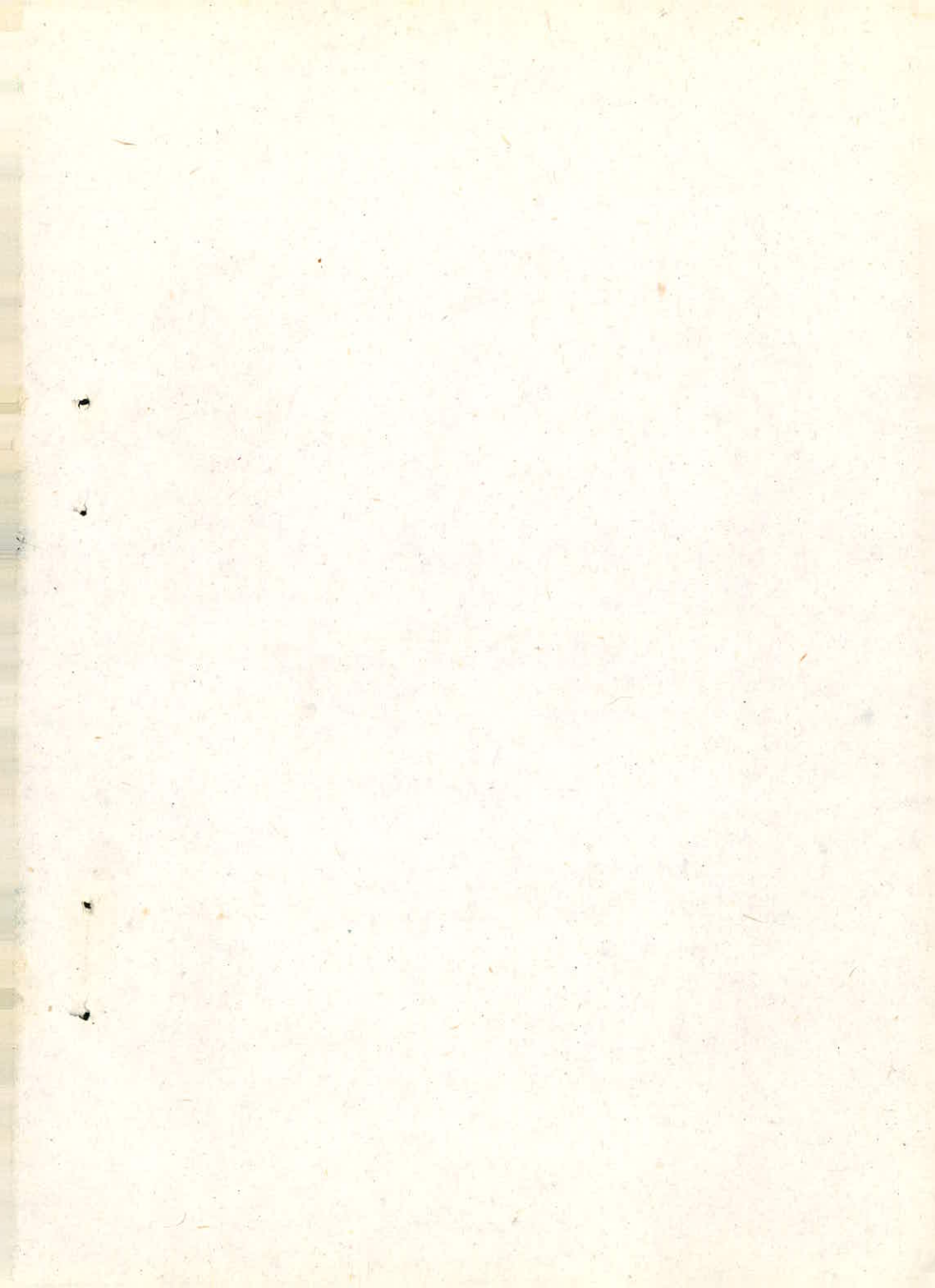
and Auditor General of India (Civil)-
Government of Uttar Pradesh.

3. There are, however, certain companies which in spite of Government investment, are not subject to audit by the Comptroller and Auditor General of India as Government or Government owned/controlled companies/corporations hold less than 51 per cent of the shares. A list of such undertakings in which Government investment was more than Rs. 10 lakhs as on 31st March 1987 is given in Annexure-I.

4. In respect of Uttar Pradesh State Road Transport Corporation and the Uttar Pradesh State Electricity Board which are Statutory Corporations, the Comptroller and Auditor General of India is the sole auditor. In respect of Uttar Pradesh Financial Corporation and Uttar Pradesh State Warehousing Corporation, he has the right to conduct the audit of their accounts independent of the audit conducted by the Chartered Accountants appointed under the respective Acts. The audit reports on the accounts of all these corporations are being forwarded separately to the Government of Uttar Pradesh.

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5. The cases mentioned in this Report are those which came to notice in the course of audit during the year 1988-89 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 1988-89 have also been included, wherever considered necessary.



OVERVIEW

1. There were 98 Government Companies (including 42 subsidiaries), six companies under the purview of Section 619 B of the Companies Act, 1956, and four Statutory corporations in the State as on 31st March 1989. Eight Government Companies were in the process of liquidation.

(Paragraph Nos.1.2.1,
1.2.5, 1.3.1)

The aggregate paid-up capital of 90 Government companies as on 31st March 1989 was Rs.1160.72 crores of which the State Government's investment was Rs.992.76 crores, Central Government's investment was Rs.15.74 crores and others' investment was Rs.152.22 crores. The State Government's loan outstanding as on 31st March 1989 was Rs.331.76 crores in 61 companies. Investment of State Government in Uttar Pradesh State Electricity Board (UPSEB) by way of loan capital was Rs.4089.15 crores as on 31st March 1989 while the Central and State Government's participation in capital of three other

(iv)

Statutory corporations as on that date was Rs. 233.83 crores. The State Government had guaranteed repayment of loans raised by three corporations including UPSEB and 24 companies and interest thereon. The amounts guaranteed and outstanding thereagainst as on 31st March 1989 were Rs.2,098.34 crores and Rs.1,045.20 crores respectively.

(Paragraph Nos.1.2.

2a, 1.2.2b,
1.2.2c, 1.4.1,
1.5.1, 1.6.1,
1.6.2 and 1.7.1.)

Accounts of 71 companies and two Statutory corporations were in arrears ranging from 1 to 14 years. In the absence of finalisation of accounts for a number of years the productivity of Rs.1,011.97 crores invested by the State Government in these companies could neither be conclusively vouchsafed nor could their performance and state of affairs be evaluated. Of the 19 companies which finalised their accounts up to March 1989, six companies earned profits aggregating Rs.4.62 crores,

(vi)

12 companies sustained losses aggregating Rs.66.57 crores. According to latest available accounts, losses of Rs.492.72 crores accumulated by 16 companies far exceeded their paid-up capital of Rs.287.38 crores.

(Paragraph Nos.
1.2.3, 1.2.4a,
1.2.4b,1.2.4d)

The investment by Government/Government companies/corporations in four out of the six companies falling under Section 619B of Companies Act 1956 aggregated to Rs.34.05 crores. One company had accumulated losses exceeding its paid-up capital, while one company had not finalised its accounts since inception.

(Paragraph No.1.
2.5)

The supplementary Audit under Section 619(4) of the Companies Act, 1956 of the accounts of eight companies, revealed an increase in profit by Rs. 1.33 crores in four companies

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and decrease in losses by Rs.0.13 crore in four companies. The accumulated losses in respect of UPSEB as on 31st March 1989 was Rs.594.31 crores while that of Uttar Pradesh State Road Transport Corporation (UPSRTC) was Rs.141.72 crores as on that date.

(Paragraph Nos.
1.2.6(iii),
1.4.2.,1.5.2.)

2. A review of the activities of certain companies and of the Uttar Pradesh State Electricity Board revealed the following:

2.1. Recovery Performance in Industrial Financing Institutions

The Uttar Pradesh Financial Corporation (UPFC), Pradeshia Industrial and Investment Corporation of Uttar Pradesh Limited (PICUP) and Uttar Pradesh State Industrial Development Corporation Limited (UPSIDC) are premier institutions providing industrial financing in the State. Together they had directly financed small, medium and large industrial sectors by way of term loans, bridging loans, margin money loans, etc. aggregating Rs.1030.20 crores (UPFC

(viii)

Rs.707.02 crores, PICUP Rs.310.84 crores and UPSIDC Rs.12.34 crores) up to March 1989. Recovery efficiency was, however, poor and ranged between 0.02 and 55 per cent during 1985-86 to 1988-89 and the amount of overdues for recovery was Rs.150.08 crores (including interest of Rs.90.42 crores) at the end of March 1989.

(Paragrapgh Nos.2A.
3.6.6, 2A.4.5.4,
2A.4.5.5, 2A5.5,
2A5.6 and 2A5.7)

The recovery performance was poor due to inadequate pre-sanction appraisal, irregular disbursement, non-insistence of statutory requirements, lack of effective follow-up and monitoring of assisted units and delay in enforcement of penal provisions, resulting in write off/waiver of Rs.15.80 crores (UPFC Rs.13.56 crores and PICUP Rs.2.24 crores). Dues under U.P. Public Money (Recovery of Dues) Act 1972 could successfully be recovered only to the extent of Rs.4.98 crores (UPFC Rs.3.14 crores, PICUP Rs.1.84 crores) against recovery certificate for Rs.110.67 crores (UPFC Rs.98.84 crores; PICUP Rs.11.83 crores) issued during 1985-86 to 1988-89.

(Paragraphs 2A3.6.6
2A3.11.3, 2A.4.5.5
and 2A.4.9)

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The central investment subsidy of Rs.5.98 crores (UPFC Rs.4.61 crores; PICUP Rs.1.37 crores) recoverable from 468 units (UPFC 452 units; PICUP 16 units) due to closure, industrial sickness or non-implementation of the project within five years of grant of the subsidy was lying unrecovered.

(Paragraphs 2A.3.
15 and 2A.4.11.2)

In respect of sales tax loans disbursed by PICUP, the recovery ranged between 14 and 37 per cent during 1985-86 to 1988-89. Out of the total overdues of sales tax loans of Rs.4.28 crores at the end of March 1989 against 57 units, Rs. 3.64 crores were due from 12 units where the recovery had been stayed by Court and Rs.0.43 crore were due against 26 units which were lying closed.

(Paragraph 2A.4.
11.1.)

The UPFC did not compile the position of overdues under other loan schemes namely composite loans scheme, handloom weavers scheme and transport loan scheme. The recovery performance was also very poor. The Corporation

(x)

had to write off/waive dues of Rs.13.66 crores against composite loan scheme and further decided to write off another Rs.4.32 crores against handloom weavers scheme.

(Paragraphs 2A.3.
12, 2A.3.13 &
2A.3.14)

Out of 12 Joint/assisted sector units of UPSIDC, against whom Rs.5.05 crores were outstanding, Rs.4.43 crores were due from four Government companies. Further, seven of these units had not repaid a single instalment of principal.

(Paragraph 2A.5.7).

2.2. Harijan Evam Nirbal Varg Avas Nigam Limited.

The Company was established in June 1976 with the main object of construction of houses for scheduled castes and weaker sections of the society. Although the Company initially did construct such houses under various housing schemes, it gradually switched over to remitting funds to the district authorities for ultimate disbursement to other construction agencies/beneficiaries and started taking up other construction works on deposit basis. The

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value of work done in respect of housing schemes for scheduled castes and weaker sections of the society ranged from 0.01 per cent to 26 per cent of total value of construction work done during the five years up to 1988-89.

(Paragraph 2B.1,
2B.2 and 2B.7)

The Company failed to frame appropriate schemes for development of house sites for the scheduled castes and weaker sections for fully utilising the financial assistance released by Government for this purpose. Of 119.55 lakhs provided by Government as grants up to 1979 Rs.26.93 lakhs were utilised by the Company while Rs.74.29 lakhs were remitted to the district authorities for development of house sites who could utilise only Rs.14.13 lakhs up to 31st March 1989. Balance grant of Rs.18.33 lakhs remained unutilised with the Company for over 10 years. Similarly, out of grants of Rs. 374 lakhs provided by the Government up to 1983-84 for construction of 60,000 houses, the Company could utilise only Rs.11.65 lakhs for construction of 562 houses. Due to its failure to complete the work, Rs.353.93 lakhs had to be remitted to the district authorities for disbursement as subsidy

(xii)

to the beneficiaries.

(Paragraphs 2B.8.1.1
and 2B.8.1.2)

Under another Housing Scheme 1984-85, the Company was required to construct 10,000 houses by March 1985 with the help of institutional finance. Although the State Government provided grants of Rs.332.70 lakhs, the Company could construct only 7918 houses at a cost of Rs. 523.29 lakhs against ceiling limit of Rs.470.84 lakhs. The Company could obtain institutional finance of Rs.150 lakhs only as against Rs.400 lakhs provided in the scheme due to inaction on the part of the Company to seek loans from more banks.

(Paragraph 2B.8.1.3)

Under the scheme introduced in 1977 for construction of 57 hostels for scheduled caste boys, one in each district in the State, at an estimated cost of Rs.190.95 lakhs through 60 per cent grant (Rs.114.57 lakhs), and 40 per cent institutional finance (Rs.76.38 lakhs), the Company could construct only 44 hostels up to March 1989 at a cost of Rs.286.13 lakhs, of which institutional finance component was only Rs.33.20 lakhs.

(Paragraph 2B.8.2.1)

(xiii)

Construction of hostels for scheduled caste girls in the State with Central assistance was entrusted to the Company by Government from 1976-77. While revising the ceiling cost in December 1983 for works commencing from 1983-84, the Government of India had instructed the State Government to keep the cost within the revised ceiling limit so as to create the maximum possible number of hostels. Instead, the Company incurred an excess expenditure of Rs. 39.21 lakhs over the ceiling limit in construction of nine hostels completed during June 1986 to March 1989.

(Paragraph 2B.8.2.2.)

In the construction of 5491 shops out of the 9667 shops constructed for entrepreneurs belonging to the scheduled castes as against the target of 13064 shops, the Company incurred an excess expenditure of Rs. 57.07 lakhs over the ceiling cost. Of the completed shops, 85 shops constructed at a cost of Rs. 5.78 lakhs could not be handed over to beneficiaries due to substandard construction and 158 shops constructed at a cost of Rs. 15.80 lakhs remained unallotted due to their construction at sites being unsuitable for commercial enterprises.

(Paragraph 2B.8.3)

(xiv)

Construction of buildings without assessing the feasibility of rates and without execution of agreements at an extra cost of Rs.16.60 lakhs; execution of piling work for foundation of Primary Health Centre without the prior approval of the client involving an expenditure of Rs.10.35 lakhs and; excess consumption of stores valuing Rs.22.23 lakhs were the other major points noticed in Audit.

(Paragraph 2B.8.4
and 2B.9.1)

2.3. Uttar Pradesh Tyres and Tubes Limited

The Company - a joint venture of U.P. State Industrial Development Corporation and Scooters India Limited (SIL) (a Government of India enterprise) was incorporated in January 1976 for manufacture of tyres and tubes, under a project costing Rs.180 lakhs and to be completed by September 1976. Commercial production could commence only in April 1982 after incurring a capital expenditure of Rs.236.44 lakhs. The delay in implementation of the project was mainly due to poor inflow of funds.

(Paragraphs 2C.1
and 2C.6)

(xv)

Against an installed capacity of five lakhs sets of tyres and tubes as per Project Report, the capacity utilisation ranged between 1.8 and 16.5 per cent during 1983-84 to 1988-89. The Company meant to be a captive unit of SIL for exclusive sale of its products, which were designed to cater to SIL's specific requirements, could not run on full capacity and incurred losses since its inception. The accumulated losses of Rs. 524.36 lakhs at the end of March 1989 had completely wiped off the paid-up capital of Rs.156.68 lakhs. The losses were mainly due to under-utilisation of installed capacity, shortage of working capital, and the Company's failure to diversify into products with more ready marketable value in view of SIL's inability to pick up the assured quantity of tyres and tubes.

(Paragraphs 2C.8.1
and 2C.14.2)

Company stopped production in September 1983 for want of working capital. A rehabilitation plan for revival of the unit at a cost of Rs.245 lakhs was prepared under which the Company, besides a guaranteed offtake of at least 70 per cent of its production

(xvi)

of tyres and tubes by the SIL , was also to diversify its product line. Although the Company received Rs.308.20 lakhs under the plan up to 1988-89, neither the diversification could take place nor could SIL lift the guaranteed offtake of the production as envisaged in the rehabilitation plan.

(Paaragraph 2C.7)

Machines valuing Rs.11.44 lakhs were lying unutilised in the Company, in some cases either since their procurement or for the last four to five years.

(Paragraph 2C.9.2)

Due to delay in deposit of provident fund dues from 1981-82 to 1988-89 and sales tax during 1980-81 to 1983-84, the Company had become liable for payment of interest of Rs.4.58 lakhs and Rs. 11.66 lakhs respectively.

(Paragraphs 2C.15.1
and 2C.15.2)

2.4. Tanda Thermal Power Project

In March 1979, the Planning Commission approved the setting up of a thermal power station at Tanda (district Faizabad) with an installed capacity of 440 MW - 4 units of 110 MW each at a cost of Rs.159.25 crores. The cost estimate was revised to Rs.332.82 crores in July 1984 and to Rs.380.41 crores in February 1988. The reasons for upward revision in the cost estimate to Rs.380.41 crores were price escalation (Rs.176.04 crores), increase in the quantities and scope of work (Rs.36.77 crores) and addition of new items not provided for in the original estimate (Rs.8.35 crores). The actual expenditure incurred up to June 1990 was Rs.387.03 crores. All the four units of the power station were scheduled for commissioning by 1984-85 but only one unit was commissioned on commercial load in January 1990 and the remaining three units have not yet been commissioned (June 1990).

(Paragraph 3A.1)

One of the main considerations for selection of the project site at Tanda was availability of water required for the power station from Irrigation Department at an estimated capital cost

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of Rs.0.15 crore. This assumption proved wrong and the Board could plan for only 37.5 cusecs of water, as against 45 cusecs essentially required, up to July 1989 at an exorbitant cost of Rs.7.58 crores. The actual availability of water up to July 1989 was 7.5 cusecs only which was barely sufficient for running one unit.

(Paragraph 3A.4)

The abnormal slippages in scheduled commissioning of the units were due to delay in execution of major civil, mechanical and electrical works on account of delays in release of drawings and working fronts, non-release of drawings in sequence, frequent revisions in drawings, paucity of funds, labour unrest, frequent interruption of power supply and delay in availability of materials. Thus, for the reasons mainly attributable to the Board, it had to allow extra contractual claims towards price escalation and overrun charges of Rs.4.25 crores of which Rs.3.69 crores had been paid up to June 1989.

(Paragraph 3A.5.1.2)

The Board awarded the work of construction of two radial collector

(xix)

wells to two contractors at Rs.0.31 crore each. Despite consultants' clear advice that the condition for extra payment for extra sand extraction should not be accepted the contracts provided for an open ended liability for extra payment on account of extra sand extraction. By making such a provision in both the contracts, the Board had to incur an avoidable extra expenditure of Rs. 0.20 crore.

(Paragraph 3A.5.4.4)

In addition, instances of extra expenditure of Rs. 0.55 crore in execution of works relating to roads and drains (Rs.0.14 crore), foundation work (Rs. 0.16 crore), steel structural work (Rs.0.09 crore) and erection of boilers (Rs.0.16 crore) were also noticed.

(Paragraph 3A.5.4.1,
3A.5.4.2., 3A.5.4.3
3A.5.4.6.)

2.5. Lucknow Electric Supply Undertaking

Of the two power houses taken over from the licensee in 1964, located at Aishbagh and Talkatora and having installed capacity of 18.5 MW and 10MW respectively, the former was permanently closed down from September 1983. The plant and machinery valuing Rs.124.25 lakhs has, however, not been disposed of so far.

(Paragraph 3B.5.1)

(xx)

The capacity utilisation of the Talkatora power house ranged between 6.2 and 33.3 per cent only during the period 1984-85 to 1988-89.

Against the cost of 81 paise, 125 paise and 148 paise per unit, the average revenue per unit was 72 paise in 1986-87, 88 paise in 1987-88 and 82 paise in 1988-89. This resulted in a loss of Rs. 152.54 lakhs during 1986-87 to 1988-89 in generation of electricity by the Undertaking.

(Paragraph 3B.5.2
and 3B.5.2.1)

In July 1981, the Board awarded a contract for dismantling and shifting of a power station of 10 MW capacity from Agra and its erection, testing and commissioning at Talkatora, Lucknow to a firm on turnkey basis. The plant was to be commissioned by March 1985 at an estimated cost of Rs. 250 lakhs. The plant had not been commissioned so far although an expenditure of Rs. 352.87 lakhs had been incurred up to March 1990, mainly because the civil works, which had to be done departmentally, were not completed.

(Paragraph 3B.6)

The revenue arrears steadily increased from Rs. 923.09 lakhs as on 31st March 1987 to Rs. 1403.45 lakhs as on 31st March 1989. Non-disconnection of supplies of defaulting consumers deprived the Board of a revenue of Rs. 27.94 lakhs.

(Paragraph 3B.7.5
and 3B.7.6)

Sub-transmission and distribution losses ranged between 15.3 and 15.9 per cent during the three years from 1986-87 to 1988-89 as against 11 per cent recommended by the Central Electricity Authority. This resulted in loss of revenue of Rs. 485.07 lakhs during the period.

(Paragraph 3B.7.9)

Non-realisation of surcharge for delay in payment of bills (Rs.85.22 lakhs), non-recovery of additional security from 26 consumers (Rs.31.66 lakhs) and expenditure on locating cable faults through private parties (Rs.15.90 lakhs) were other major irregularities noticed in Audit.

Paragraphs 3B.7.11,
3B.10.3 and
3B.11.5)

3. Besides the reviews as mentioned above, a test check of the records of

the Government companies and Statutory Corporations in general disclosed a number of points of interest as under:

(i) In Uttar Pradesh State Cement Corporation Limited-

- An order for a wagon tippler was placed without first examining its technical feasibility. On re-consideration by a committee, it was decided that the second tippler was not at all required nor was its installation feasible. Advance payment of Rs.20.84 lakhs made by the Company to the supplier in March 1983 have remained unrecovered due to contractual problem.

(Paragraph 4.1.1.1)

(ii) On misappropriation of Company's funds amounting to Rs.10.83 lakhs, a sales assistant in Uttar Pradesh State Agro Industrial Corporation Limited was placed under suspension in May 1985. Inquiry against the assistant has not yet been completed nor the money recovered.

(Paragraph 4.1.2)

(xxiii)

(iii) A test check of the records of Uttar Pradesh State Electricity Board disclosed:

- An offer of a firm was accepted by the Board for financing the procurement of steel from the main producers. As per the terms, the Board opened an irrevocable letter of credit (L/C) valid for six months for Rs. 5 crores in favour of the firm which was to be utilised by the firm for repayment of the due amount one year after the payment had been made by the firm to the main producers. The Board was to pay to the firm the applicable bank rate interest (16.5 per cent) on the money paid by the firm to the supplier plus 1 per cent finance charges. The steel was to be supplied within the validity of the L/C. Without the firm having advanced Rs. 5 crores to the Board or having made any payment to the suppliers for and on behalf of the Board or the steel having been received, 12 sight drafts for the total

amount of Rs.5 crores as submitted by the firm were signed by an officer of the Board. The firm promptly discounted the drafts from its bank and opened a L/C for Rs.4.60 crores with Steel Authority of India Limited (SAIL) for that amount. After six months when the L/C was released by the Board's Bank, steel worth Rs.3.26 crores only had been received by the Board. The firm, however, retained with itself Rs. 37.95 lakhs and Rs. 4.60 lakhs being interest and finance charges respectively on the amount of Rs. 4.60 crores for which the firm had opened the L/C with SAIL. Against this, Rs.10.80 lakhs only was payable as interest charges for the supplies made up to the release of the L/C.

The Board failed to avail rebate offered by SAIL on supply of steel resulting in the Board's losing a benefit of Rs. 10.43 lakhs being the amount of rebate, interest and finance charges paid to the firm.

(Paragraph 4.2.1.1)

(xxv)

- Under assessment/short assessment /non-assessment of revenues involving Rs.159.24 lakhs.

(Paragraph 4.2.1.2)

- Non-recovery of additional security deposits amounting to Rs.35.65 lakhs.

(Paragraph 4.2.1.3)

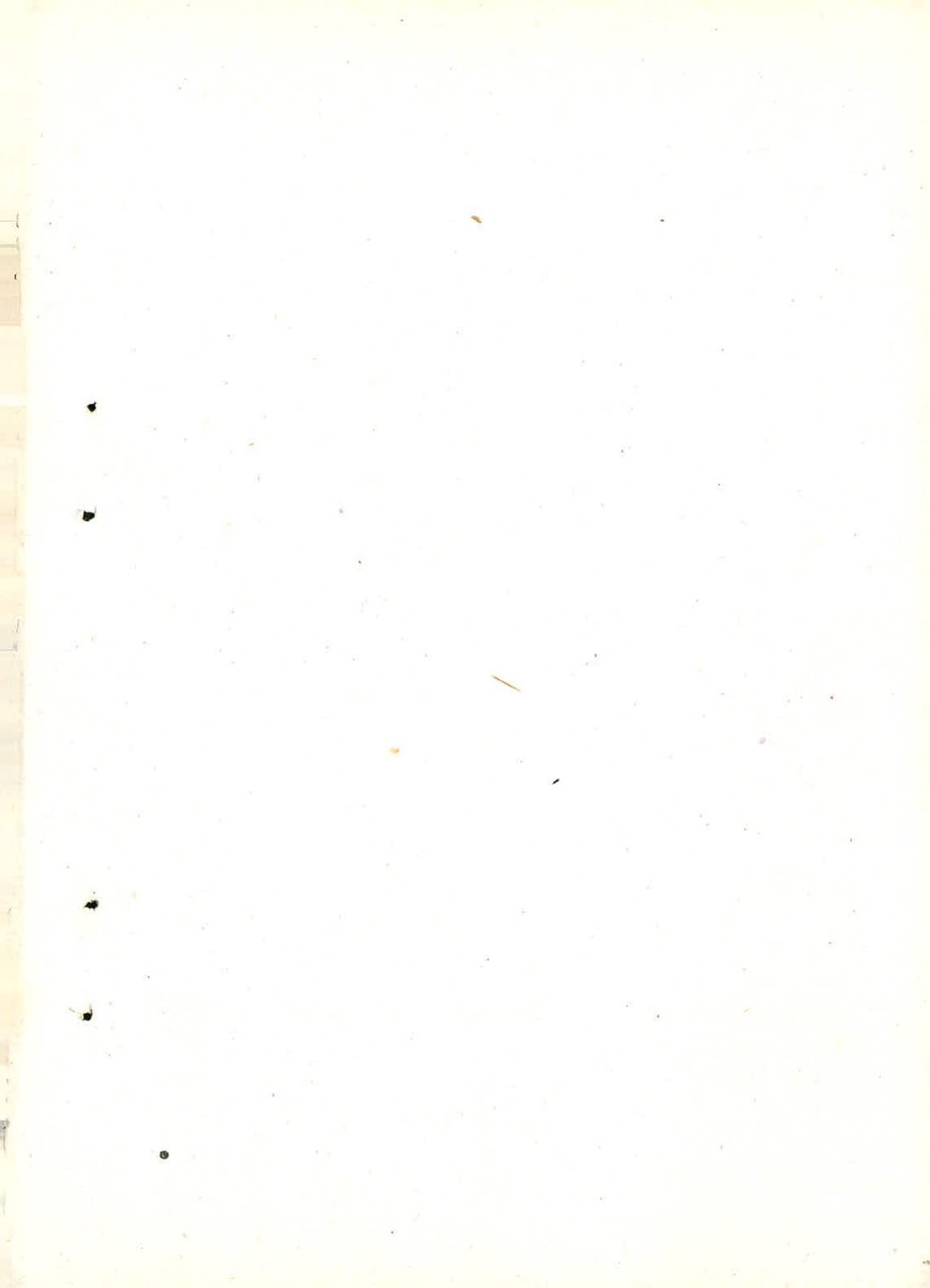
- Unplanned execution of work resulting in blocking of Board's funds amounting to Rs.30.26 lakhs.

(Paragraph 4.2.1.4)

CHAPTER I

GENERAL VIEW OF GOVERNMENT COMPANIES AND

STATUTORY CORPORATIONS



CHAPTER - I

1. GENERAL VIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

1.1. Introduction

This chapter contains particulars about the investment, state of accounts, etc. in respect of Government companies and Statutory corporations.

Paragraph 1.2 gives a general view of Government companies, paragraph 1.3 deals with general aspects relating to Statutory corporations and paragraphs 1.4 to 1.7 give more details about each Statutory corporation including its financial and operational performance.

1.2. Government companies - general view

1.2.1. There were 98 Government companies (including 42 subsidiaries) as on 31st March 1989, as against 99 Government companies (including 43 subsidiaries) as on 31st March 1988.

According to information received by Audit during the year 1988-89 one company viz., Uptron Colour Picture

(2)

Tubes Limited (subsidiary of Uttar Pradesh Electronics Corporation Limited) became a 619 B Company due to change in the shareholding pattern, and eight Government companies (including six subsidiaries) were in the process of liquidation. The particulars of those in the process of liquidation during the year are given below:

Name of the Company	Date of incorporation	Date of going into liquidation
(1) The Indian Bobbin Company Limited	22nd February 1924	10th September 1973
(2) The Turpentine Subsidiary Industries Limited (Subsidiary of Indian Turpentine and Rosin company Limited)	11th July 1939	1st April 1978
(3) Uttar Pradesh Potteries (Private) Limited (Subsidiary of Uttar Pradesh Small Industries Corporation Limited)	28th June 1972	27th April 1985
(4) Uttar Pradesh Builders (Private) Limited (Subsidiary	28th June 1972	12th April 1988

of Uttar Pradesh
Small Industries
Corporation Limited)

- (5) Uttar Pradesh Roof- 24th 8th
ings (Private) Lim- November December
ited (Subsidiary of 1973 1987
Uttar Pradesh Small
Industries Corpora-
tion Limited)
- (6) Krishna Fasteners 14th 22nd
Limited (Subsidia- December July
ry of Uttar Pradesh 1973 1988
Small Industries
Corporation Limited)
- (7) Faizabad Roofings 16th 8th
Limited (Subsidiary February September
of Uttar Pradesh 1974 1987
Small Industries
Corporation Limited)
- (8) The Gandak Samadesh 15th 7th
Kshetra Vikas Nigam March June
Limited 1975 1977

1.2.2. Annexure - 2 gives the particulars of paid-up capital, outstanding loans, outstanding guarantees, amount outstanding thereagainst, working results, etc. in respect of all the Government companies. The position is summerised on the next page:

(a) Against the aggregate paid-up capital of Rs. 929.31 crores in 93 companies (including 39 subsidiaries but excluding 6 companies under liquidation) as on 31st March 1988, the aggregate paid-up capital as on 31st March 1989 stood at Rs.1160.72 crores in 90 companies (including 36 subsidiaries but excluding 8 companies under liquidation) as given below:

Particulars	Number of co- mpanies	Investment by			Total
		State Gover- nment	Central Gover- nment	Others	
		(Rupees in crores)			
1	2	3	4	5	6
(1) Companies wholly owned by State Government	35	845.54	--	--	845.54
(2) Companies jointly owned with Central Government/ others	19	144.51	15.74	1.83	162.08

(4)

	1	2	3	4	5	6
(3) Subsidiary companies	36	2.71**	--		150.39**	153.10**
Total	90	992.76**	15.74	152.22**	1160.72*	

(5)

(b) The balance of long term loans outstanding in respect of 61 companies (including 23 subsidiaries) as on 31st March 1989 was Rs.936.93 crores (State Government: Rs.331.76 crores; Central Government: Rs.0.36 crore; Others: Rs.533.58 crores and deferred payment credits: Rs.71.23 crores) as against Rs.702.98 crores (State Government: Rs.334.57 crores; Others: Rs.354.38 crores and deferred payment credits: Rs.14.03 crores) in respect of 62 companies (including 26 subsidiaries) as on 31st March 1988.

* The figures as per Finance Accounts is Rs.764.81 crores, the difference was under reconciliation (December 1990).

** Excludes figures in respect of Uttar Pradesh Hill Phones Limited, as the data were not available.

A graph showing the investment of State Government, holding companies and others, and the Central Government and the loans outstanding in these companies as on 31st March 1989 vis-a-vis the comparative position for the years 1986-87 and 1987-88 is given in Figure-1 on next page.

(c) The State Government had guaranteed repayment of loans raised by 24 companies and payment of interest thereon. The amounts guaranteed and outstanding there against as on 31st March 1989 were Rs.203.71 crores# and Rs.144.81 crores# respectively.

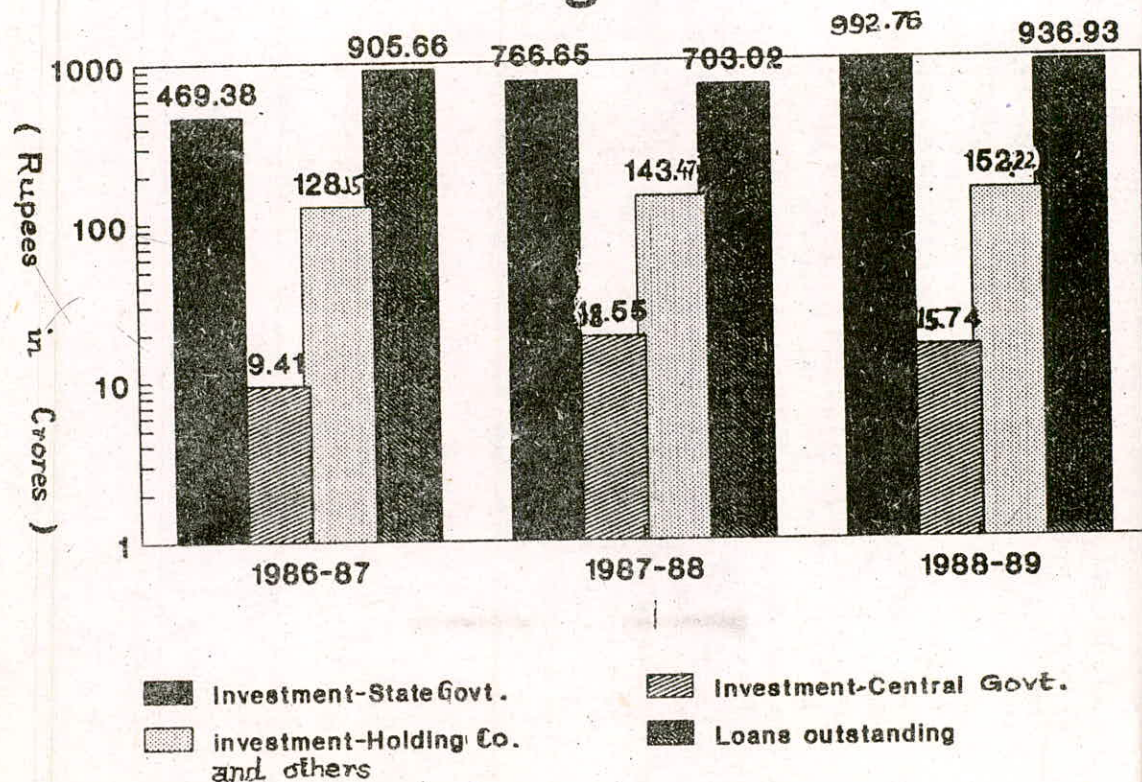
No guarantee commission is required to be paid by the companies to Government in consideration of the guarantee.

1.2.3. A synoptic statement showing the financial results of all the 90 companies (excluding eight companies under liquidation) based on the latest available accounts is given in Annexure.3.

Out of total 90 companies for which accounts up to 1988-89 were due, 19 companies had finalised their accounts for the year/period

The figures as per Finance Accounts are Rs.300.60 Crores and Rs.184.73 crores respectively in respect of 27 companies, the difference was under reconciliation (December 1990).

Figure 1



ending 31st March 1989 (including seven companies which finalised their accounts for the period from July 1988 to March 1989, one company for the period from August 1988 to March 1989 and one company for the period January 1988 to March 1989 (serial numbers 3, 7, 13, 14, 21, 30, 31, 34, 39, 44, 46, 50, 61, 62, 69, 85, 87, 89, 90 respectively of Annexure-3). In addition, 34 companies had finalised their accounts for some earlier years since the previous Report (serial numbers 1, 2, 5, 6, 10, 11, 12, 17, 22, 23, 25, 29, 32, 33, 36, 37, 40, 47, 54, 56, 57, 58, 59, 65, 67, 68, 71, 73, 76, 77, 79, 80, 83 and 86 of Annexure-3).

It will be observed from Annexure-2 and 3 that the accounts of 71 companies (including 24 subsidiaries) were in arrears. The position is summarised as given on the next page:

Extent of arrears	Numb- er of years invo- lved	Number of companies involved			Investment- - Government Holding Com		Share Loans	Share Loans	Reference to serial number of Annex- ure-3
		Comp- anies	Subs- idia- ries	Share cap- ital	Loans	panies	cap- ital	Loans	

(Rupees in crores)

1	2	3	4	5	6	7	8	9
1975-76 to 1988-89	14	-	1	-	--	0.17	--	15*
1976-77 to 1988-89	13	--	1	--	--	0.51	--	63*
1977-78 to 1988-89	12	1	1	0.93	--	0.31	--	4,16*
1978-79 to 1988-89	11	1	--	1.23	0.05	--	--	9

(6)

1	2	3	4	5	6	7	8	9
1979-80 to 1988-89	10	1	2	5.23	0.60	0.73	--	29,64*,74*
1980-81 to 1988-89	9	1	3	13.03	10.16	0.30	--	19,26*,49* 70*
1981-82 to 1988-89	8	4	2	5.00	8.66	0.33	--	41*,43,51, 55,60*,68
1982-83 to 1988-89	7	2	1	1.92	0.09	0.58	0.40	58*,52, 65
1983-84 to 1988-89	6	6	2	19.91	11.68	0.28	--	6,10,23* 32,35,42*, 54,72
1984-85 to 1988-89	5	1	-	0.77	--	--	--	20
1985-86 to 1988-89	4	5	1	55.54	1.34	0.04	0.10	27,47,48, 67,73, 82*
1986-87 to 1988-89	3	9	1	30.79	9.17	4.97	--	2,11,17, 36,53,56, 57,59,75* 77

(10)

1	2	3	4	5	6	7	8	9
1987-88 to	2	9	6	563.38	229.64	32.47	6.49	5,8,12, 22*,25, 28,37*, 38*,40, 66,71*, 78,79,80, 88*@
1988-89								
1988-89	1	7	3	17.78	25.97	24.76	2.81	1,18,24, 33,45, 76*,81, 83,84*, 86.

(11)

Note: * Subsidiary companies
 @ Data in respect of U.P.Hill Phones Limited
 are not available.

In the absence of finalisation of accounts for a number of years (ranging from 1 to 14 years) in respect of a large number of Government companies, the productivity of the investment of Rs.1011.97 crores (capital: Rs.714.61 crores and loans: Rs.297.36 crores) by the State Government in these companies could not be conclusively vouchsafed nor their performance and state of affairs could be evaluated.

The position of arrears in finalisation of accounts was last brought to the notice of Government in May 1990 at the level of the Chief Secretary.

1.2.4. In regard to working results of the companies the following further observations are made:

(a) Out of 19 companies which finalised their accounts for 1988-89, 6 companies (including two subsidiaries) earned profit during the year. The profits during the year 1988-89 as compared to the previous year are given on next page:

Serial number	Name of the Company	Paid-up capital		Profit		Percentage of Profit to paid-up capital		Reference to serial number of Annexure-3
		1987-88	1988-89	1987-88	1988-89	1987-88	1988-89	
(Rupees in crores)								
1	2	3	4	5	6	7	8	9
1.	Uttar Pradesh State Industrial Development Corporation Limited	21.42	21.42	1.21	2.58	5.6	12.04	3
2.	The Pradeshiya Industrial and Investment Corporation of Uttar Pradesh Limited	68.70	83.88	1.20	0.36	1.7	0.4	13
3.	Chhata Sugar	2.68	4.51	0.77*	0.44@	28.7	9.8	39

* The figure for the year ending July 1988

@ Figures for the period August 1988 to March 1989

1	2	3	4	5	6	7	8	9
	Company Limited (subsidiary of Uttar Pradesh State Sugar Corporation Limited)							
4.	Uttar Pradesh (Rohilkhand-Tarai) Ganna Beej Evam Vikas Nigam Limited.	0.24	0.25	0.07\$	0.05	29.2	20.0	44
5.	Harijan Evam Nirbal Varg Avas Nigam Limited	0.15	0.15	1.54	1.19	1026.6	793.3	62
6.	Uptron Leasing Limited (Subsidiary of Uptron India Limited)	--	1.00@@	--	0.001@@	--	0.01	90

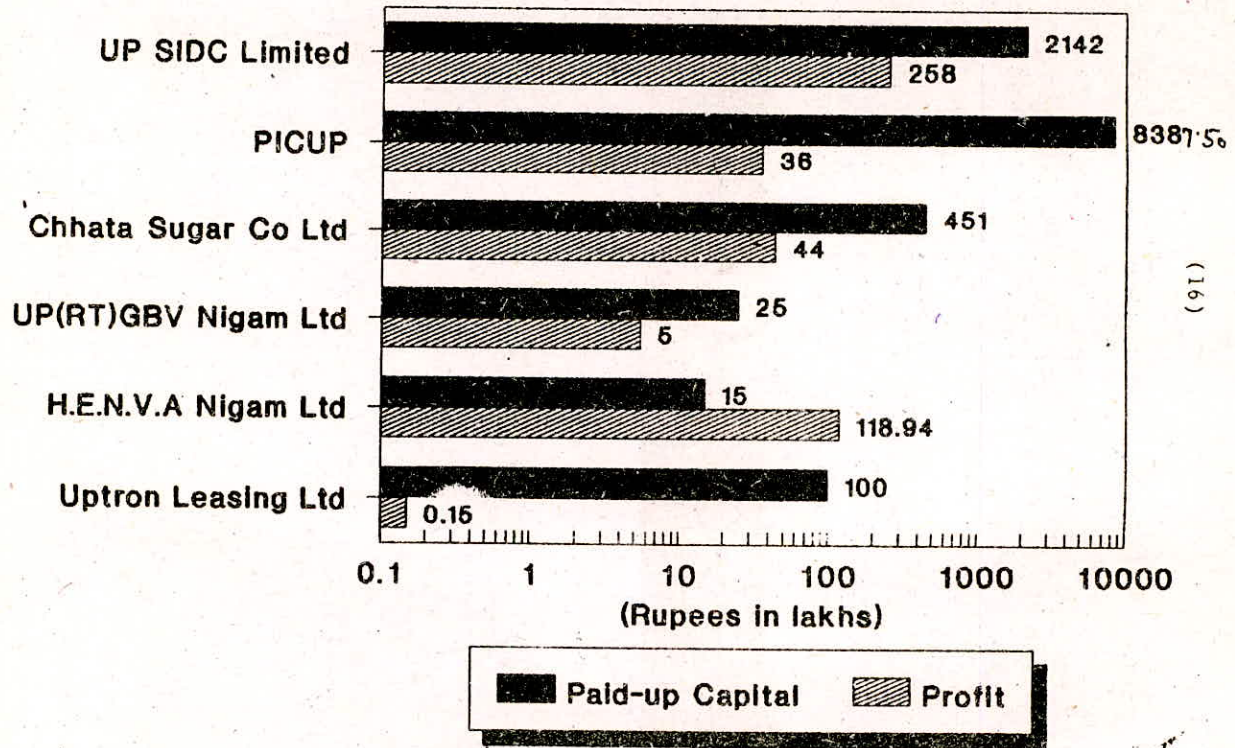
\$ Figures for the year ending June 1988

Figures for the period July 1988 to March 1989

@@ First accounts of the company for the period January 1988 to March 1989.

A graph showing the paid-up capital at the close of 1988-89 vis-a-vis profit earned during the year / period by the six companies is given in Figure-2.

Figure 2



(b) Of the remaining 13 companies, 1 company viz., Kumtron Limited (Subsidiary of Uttar Pradesh Hill Electronics Corporation Limited) was under construction stage while 12 companies (including nine subsidiaries) incurred losses during the year 1988-89. The particulars giving comparative position of the previous year, are given on the next page.

Serial Num- ber	Name of the Company	Paid-up Capital 1987-88	1988-89	Profit(+)/ Loss(-) 1987-88	Refe- 1988-89	Refe- rence to ser- ial Numb- er of Anne- xure- 3	(18)
(Rupees in crores)							
1	2	3	4	5	6	7	
1.	Uttar Pradesh State Textile Corporation Limited	97.77	104.72	(-)5.84	(-)6.83	7	
2.	Uttar Pradesh State Cement Corporation Limited	63.53	63.73	(-)25.80	(-)41.67	14	
3.	Teletronix Limited (Subsidiary of Kumaon Mandal Vikas Nigam Limited)	1.33 ^{\$}	1.53 ^{&}	(-)0.001 ^{\$}	(-)0.18 ^{&}	21	
4.	Uttar Pradesh State Spinning Mills Company (NO.I) Limited (Subsidiary of Uttar Pradesh State Textile Corporation Limited)	36.68	39.75	(-)9.71	(-)9.43	30	

1	2	3	4	5	6	7
5.	Uttar Pradesh State Spinning Mills Company (No.II) Limited (Subsidiary of Uttar Pradesh State Textile Corporation Limited)	23.57	23.57	(-)7.24	(-)5.07	31
6.	Uttar Pradesh Instruments Limited (Subsidiary of Uttar Pradesh State Industrial Development Corporation Limited)	2.02	2.02	(-)1.01	(-)1.31	34
7.	Uttar Pradesh (Poorva)Ganna Beej Evam Vikas Nigam Limited	1.74 ^{\$}	0.18 ^{&}	(-)0.002 ^{\$}	(-)0.003 ^{&}	46
8.	Uttar Pradesh Tyres and Tubes Limited (Subsidiary of Uttar Pradesh State Industrial Development Corporation Limited)	1.12	1.57	(-)0.23	(-)0.61	50
9.	Bhadohi Woollens Limited (Subsidiary of Uttar Pradesh State Textile Corporation Limited)	2.92	3.17	(-)0.29	(-)1.29	61

1	2	3	4	5	6	7
10. Uptron Powertronics Limited (Subsidiary of Uttar Pradesh Electronics Corporation Limited)	0.22 ^{\$}	0.22 ^{&}	(+)0.04 ^{\$}	(-)0.02 ^{&}	69	
11. Kumaon Television Limited (Subsidiary of Kumaon Mandal Vikas Nigam Limited)	0.07	0.29	#	(-)0.12	85	
12. Shreetron India Limited (Subsidiary of Uttar Pradesh Electronics Corporation Limited)	1.14	1.14	(-)0.42	(-)0.04	89	

\$ Yearending June 1988

& Period from July to March 1989.

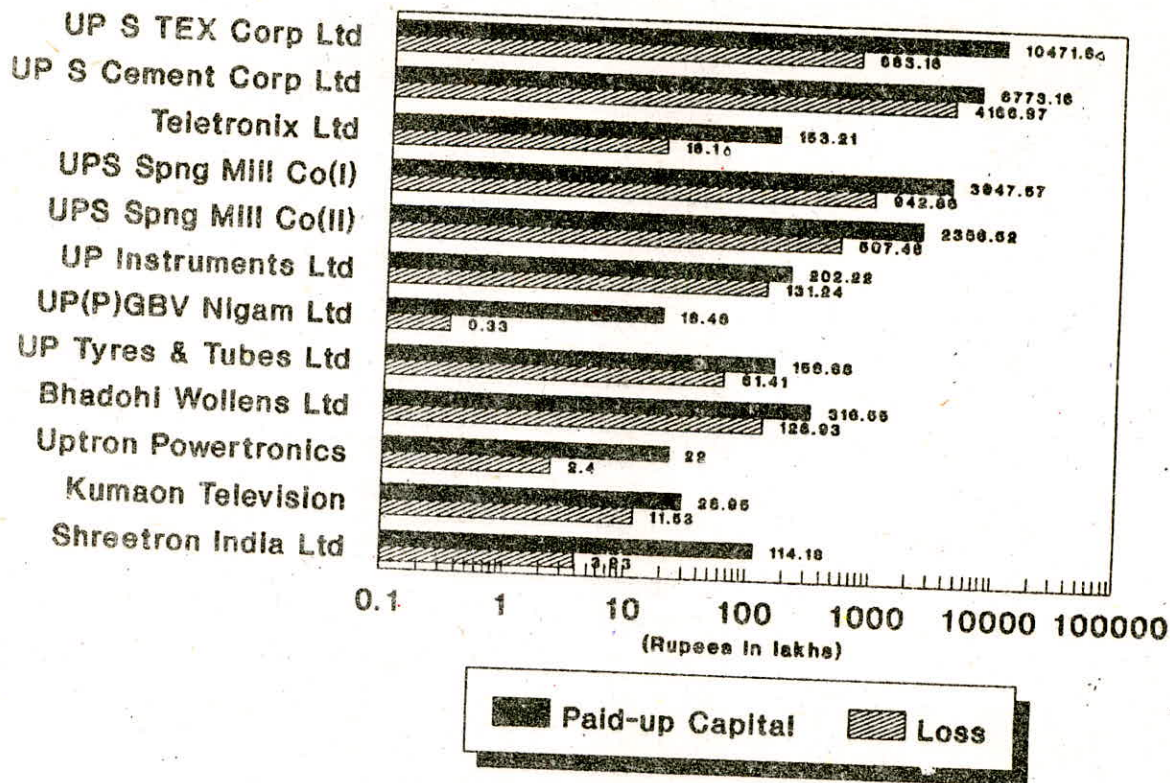
Under construction

A graph showing the paid-up capitals at the end of March 1989 vis-a-vis loss incurred during the year by the 12 companies is given in Figure-3.

(c) During the year 1988-89 three companies declared dividend as per particulars given below:

Serial number	Name of the Company	Year of accounts	Distributable surplus plus	Amount retained in business	Dividend declared	Percentage of dividend paid up	Reference to serial number of Annual report
1	2	3	4	5	6	7	8
1.	The Indian Turpentine and Rosin Company Limited	1987-88	1.49	1.47	0.02	9.1	1
2.	Uttar Pradesh Rajkiya Nirman Nigam Limited	1986-87	9.89	9.57	0.32	32.0	
3.	Uttar Pradesh (Rohilkhand-Tarai)Ganna Beej to Evam Vikas Nigam Limited	July 1988 to March 1989	0.22	0.21	0.01	4.0	

Figure 3



The dividend of Rs.0.35 crores declared by three Government companies worked out to 0.04 per cent of the total investment of Rs.992.76 crores by the State Government in 90 Government companies (including 36 subsidiaries).

(d) As shown in Annexure-2 the accumulated loss in respect of the following 16 companies (including 10 subsidiaries) as reflected in the accounts received up to the period noted against each had exceeded their paid-up capital as at the end of that year:

Serial number	Name of the company	Year up to which accounts received	Paid-up capital at the end of the year	Accumulated loss up to the year	Percentage of accumulated loss to paid-up capital	Serial number of Annexure.2
1	2	3	4	5	6	7
			(Rupees in crores)			
1.	Uttar Pradesh State Agro Industrial Corporation Limited	1982-83	7.34	11.70	159.4	6
2.	Uttar Pradesh State Sugar Corporation Limited	1986-87	106.14	156.96	147.9	8
3.	Kichha Sugar Company Limited (Subsidiary of Uttar Pradesh State Sugar Corporation Limited)	1986-87	7.04	13.28	188.6	12
4.	Uttar Pradesh State Cement Corporation Limited	1988-89	67.73	124.28	183.5	14

1	2	3	4	5	6	7
5.	Auto Tractors Limited	1987-88	7.50	35.52	473.6	18
6.	Transcables Limited (Subsidiary of Kumaon Mandal Vikas Nigam Limited)	1986-87	0.63	0.88	139.7	22
7.	Uttar Pradesh State Spinning Mills Company (No.I) Limited (Sub- sidiary of Uttar Pradesh State Textile Corporation Limited)	1988-89	39.75	68.98	173.5	30
8.	Uttar Pradesh State Spinning Mills Com- pany (No.II) Limited (Subsidiary of Uttar Pradesh State Textile Corporation Limited)	1988-89	23.57	30.99	131.5	31
9.	Uttar Pradesh Instru- ments Limited (Subsidiary of Uttar Pradesh State Industrial Development Corporation Limited)	1988-89	2.02	6.98	345.5	34

1	2	3	4	5	6	7
10. Uttar Pradesh Pashudhan Udyog Nigam Limited		1982-83	0.65	1.03	158.5	35
11. Nandganj-Sihori Sugar Company Limited (Subsidiary of Uttar Pradesh State Sugar Corporation Limited)		1986-87	17.20	28.28	164.4	37
12. Uttar Pradesh Tyres and Tubes Limited (Subsidiary of Uttar Pradesh State Industrial Development Corporation Limited)		1988-89	1.57	5.24	334.8	50
13. Bhadohi Woollens Limited (Subsidiary of Uttar Pradesh State Textile Corporation Limited)		1988-89	3.17	4.02	126.8	61

1	2	3	4	5	6	7
14.	Handloom Intensive Development Project (Bijnore) Limited (Subsidiary of Uttar Pradesh State Handloom Corporation Limited)	1978-79	0.02	0.03	150.0	64
15.	Uttar Pradesh State Horticultural produce Marketing and Processing Corporation Limited	1984-85	1.91	2.55	133.5	67
16.	Shreetron India Limited (Subsidiary of Uttar Pradesh Electronics Corporation Limited)	July 1988 to March 1989	1.14	2.00	175.4	89

1.2.5. In addition, there were six companies covered under Section 619 B of the Companies Act, 1956, as detailed below out of which only four companies had finalised their accounts (serial numbers 1, 2, 3 and 4) for the year 1988-89:

Name of the Company	Date of incorporation	Year of account ending	Paid-up capital contributed by					Profit(+) /Loss(-)
			State Government.	Government companies	Corporations	Others	Total	
1	2	3	4	5 (Rupees in crores)			6	7
Almora Magnesites Limited	27th August 1971	31st March 1989	--	1.22	--	0.78	2.00	(+)0.09
Command Area Poultry Development Corporation Limited	5th October 1979	31st March 1989	--	--	0.21	0.03	0.24	(+)0.10
Uttar Pradesh Seeds and Tarai Development Corporation Limited	6th June 1969	31st March 1989	0.69	0.52	0.32#	0.50	2.03	(+)0.10

Represents shares held by Govind Ballabh Pant University of Agriculture and Technology.

1	2	3	4	5	6	7	8	9	
Uptron Colour Picture Tubes Limited	8th November 1985	31st March 1989	--	17.97	12.57	11.92@	42.46	(-)0.54	
Steel and Fasteners Limited	4th October 1962	31st December 1979	--	0.37	0.18	0.35	0.90	(+)0.45	(28)
Electronics and Computers (India) Limited	Not available	Accounts not finalised since inception							

@ Includes shares for Rs.2.24 crores held by Commercial banks.

The accumulated loss in respect of Command Area Poultry Development Corporation Limited amounting to Rs. (-)0.36 crore had exceeded its paid-up capital of Rs.0.24 crore.

The accounts of Steel and Fasteners Limited for the period January 1980 to March 1989 and that of Electronics and Computers (India) Limited for the years 1975 to March 1989 were in arrears.

1.2.6. Some of the important points made by Statutory Auditors and as a result of Audit by the Comptroller and Auditor General of India in respect of the accounts of the Government companies audited during the year are mentioned below:

(i) The Statutory Auditors had reported in their reports to the share-holders of the respective companies that in view of the various reasons/comments/qualifications made by them, the accounts of the following three companies did not give a true and fair view. Some of the major qualifications made by the Auditors in respect of these companies were:

(a) Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited for the year ended 31st March 1986.

Interest earned on unutilised share

capital money during the current year aggregating Rs.0.13 crore had been taken as the income of the Company. Such interest was not treated as income in the previous years and was shown as a liability against 'Interest on unutilised balance of grants' payable to Government. The amounts received as grants and share capital money are kept merged and interest earned on unutilised share capital money is not accounted for separately. Such interest, therefore, had been credited to the Profit and Loss Account on an estimated basis. The Auditors did not agree with the method of estimation adopted by the Company.

- Non-provision for the present liability for future payment of gratuity to the employees.

- Non-provision for payment of bonus to employees of the units.

- Non-identification and non-provision of loans doubtful of recovery.

**(b) Uttar Pradesh Small Industries Corporation
Limited for the year ended 31st March
1986**

- Reserve for bad and doubtful debts had been shown at Rs.0.28 crore while in the Balance-sheet, no part of the book debts nor loans and advances had been shown as bad and doubtful.

- Improper reconciliation of bank accounts.
- Absence of information and evidence in respect of balances of Government loans.
- Non-agreement of value of freehold land (Rs.0.01 crore) shown in the Balance-sheet with ledger account (Rs.0.10 crore).
- Non-agreement of value of leasehold land (Rs.0.12 crore) shown in the Balance-Sheet with the ledger account (Rs.0.02 crore).

(c) Uttar Pradesh State Food and Essential Commodities Corporation Limited for the year ended 31st March 1983.

- Frequent changes had been made in the accounts after being audited by them for which no explanation and supporting papers had been produced for verification of such changes.
- Books of accounts had not been maintained during the course of business as there had been several cuttings, over-writings, changes of balances and even cancellations of written pages in cash book and in other records.
- Inter-office balances and their merger in Head Office account could not be verified as reconciliation statement had not been produced.

Similar view had been expressed by the Auditors on the accounts of the Company for the year ended 31st March 1982 also.

(ii) The Companies Act, 1956, empowers the Comptroller and Auditor General of India to issue directives to the Auditors of Government companies in regard to the performance of their functions. In pursuance of the directives so issued, reports of the company Auditors on the accounts of 13 companies (serial numbers 6, 7, 8, 17, 24, 25, 28, 30, 37, 38, 40, 50 and 65 of Annexure 2 & 3) were received during April 1988 to March 1989. Important points noticed in these reports are summarised below:

Serial number	Nature of defect	Number of companies where defects were noticed	Reference to serial number of Annexures 2 & 3
1	2	3	4
1.	Absence of Accounts Manual	8	6, 7, 8, 17, 25, 28, 38 & 50
2.	Absence of adequate budgetary system	6	6, 8, 17, 24, 37 & 40
3.	Internal audit system not commensurate with nature and size of business	4	6, 25, 40 & 50
4.	Non-determination of slow moving/non-moving/	6	7, 17, 30, 38, 40 & 50

1	2	3	4
	surplus/unserviceable items of stores		
5.	Non-maintenance/defec- tive maintenance of property/land/assets register	4	6,17,40 & 50
6.	Absence of system of ascertaining idle time for labour/machinery	5	8,17,25,30 and 40
7.	Non-fixation of maximum/ minimum levels of stores and spares	9	8,17,24,25, 37,38,40,50 and 65
8.	Non-fixation of norms for man-power	5	8,24,25,50 and 65
9.	Non-preparation of sep- arate manufacturing account, absence of uniformity in pricing stores issued and absence of uniformity in valuation of inven- tory.	1	8
10.	Absence of system for obtaining confirmation from debtors	8	6,7,8,17,25, 37,38 & 40
11.	Non-maintenance of proforma accounts in respect of service units/township	2	7 & 8

1	2	3	4
12.	Absence of standard costing system	7	7,8,25,30,37 38 & 50
13.	Non-disposal of surplus/obsolete/unserviceable stores	1	30
14.	Non-observance of maximum/minimum limits of stores	1	7
15.	Unsatisfactory system of physical verification of stores	3	17,25 & 65
16.	Absence of project reports/norms fixed by the management in respect of consumption of raw material	3	8,25 & 50
17.	Non-reconciliation/delay in reconciliation of control accounts with general ledger/subsidiary ledgers	5	6,24,25,40 and 50
18.	Non-preparation of statements for consumption of materials and estimates of projects, non-compliance of prescribed procedure for purchase, write off, discount, etc. and non-vigorous follow-up debts and advances	1	40

1	2	3	4
19.	Substantial accumulation of inventory of stores /spares/finished goods	2	17 & 25
20.	Inadequacy of internal control in preparation of wages/salary sheets, purchase/sale of goods	3	6, 8 & 65
21.	Non-maintenance of records of valuation of stock/works in progress	2	50 & 65
22.	Non-production of internal audit reports to statutory auditors	2	6 & 40
23.	Inadequacy for provision for doubtful debts, absence of system for allowing credits and improper maintenance of books of accounts	1	6
24.	Unsatisfactory follow-up procedure of points raised in internal audit reports	2	24 & 65
25.	Non-maintenance of records for rejection in production	2	24 & 25
26.	Non-installation of Plant and machinery costing more than Rs.1 lakh	1	24

(iii) Under Section 619 (4) of the Companies Act 1956, the Comptroller and Auditor General of India has the right to comment upon or supplement the report of the Statutory Auditors. Under this provision, a review of the annual accounts of Government companies is being conducted in selected cases. 46 accounts relating to 33 companies were selected for such review during the period from January 1989 to December 1989. The effect of the important comments as a result of such audit was as follows:

Details	Number of accounts	Monetary effect (Rupees in crores)
Increase in profit	4	1.33
Decrease in loss	4	0.13
Non-disclosure of material facts	27	-

Some of the major errors and omissions noticed in the course of review of annual accounts of some of these companies, not pointed out by Statutory Auditors, are mentioned below:

(A) Uttar Pradesh Rajkiya Nirman Nigam Limited (accounts for the year ended 31st March 1987)

(1) Capital reserve (Rs.0.83 crore)

shown under 'Reserves and Surplus' represented accumulated balance of Investment Allowance Reserve which was transferred to this head during 1981-82 to 1986-87. Investment Allowance Reserve created out of Profit and Loss Account should not have been transferred to Capital reserve but should have been shown separately as 'Investment Allowance Reserve'.

(2) As per books of accounts the amount of advances was Rs.23.60 crores whereas 'Advances' under "Current Liabilities" were shown as Rs.35.53 crores. The difference represented the net of various unreconciled and unadjusted assets and liabilities.

(3) Other debts (Rs.5.50 crores) under 'Current Assets' included Rs.1.65 crores in respect of Auto Tractors Limited, Pratapgarh against which payment of Rs.1.61 crores had already been received from the client, but included in current liabilities. This should have been set off against the amount outstanding in respect of the client under 'Current liabilities-Advances'.

(4) Remittance in transit (Rs.0.53 crore) shown in 'Cash and Bank Balances' included Rs. 0.21 crore being book balance of headquarters account in respect of which item-wise details were not available.

(5) Profit for the year (Rs.7.45 crores) was overstated by Rs. 0.28 crore on account of under provision of liability for salary and wages and electricity charges (Rs.0.01 crore), excess credit to 'Value of work done Account' (Rs.0.25 crore) and under-statement of material consumed (Rs.0.02 crore).

(B) Uttar Pradesh Alp Sankhyak Vittiya Evam Vikas Nigam Limited (accounts for the year ended 31st March 1987).

The Company availed loan of Rs. 0.10 crore (March 1986) from Government at the rate of interest of 13 per cent per annum with a rebate of 3.5 per cent on timely payment of annual interest and repayment of principal. The Company did not pay interest for 1986-87 but the interest liability (Rs.0.01 crore) was not provided in the accounts resulting in understatement of loss for the year and current liability of Rs. 0.01 crore..

(C) Uttar Pradesh Export Corporation Limited (accounts for the year ended 31st March 1987).

(1) Revenue expenditure incurred by the Company against various grants received from the Government hadnot been routed through the Profit and Loss Account. Simi-

(F) Uttar Pradesh State Industrial Development Corporation Limited (accounts for the year ended 31st March 1988).

(1) Interest on Uttar Pradesh Government loans, bank loans, debentures and other loans, contrary to the provisions of Section 209 of the Companies Act, 1956 was accounted for on cash basis, which resulted in understatement of expenditure and overstatement of profit to the extent of Rs.0.97 crore.

(2) It was stated, by way of a note forming part of the accounts, that due to non-receipt of accounts from collaborator no provision had been made in the accounts towards losses and expenses to be shared equally in respect of the abandoned project viz., Synthetic Detergent Project. However, the collaborator had incurred an expenditure of Rs. 0.04 crore on the abandoned project and after adjusting Rs.0.01 crore, the Company's share of expenses worked out to Rs.0.02 crore. The non-provision of expenditure (Rs.0.02 crore) resulted in overstatement of profit to that extent.

(G) Uttar Pradesh State Tourism Development Corporation Limited (accounts for the year ended 31st March 1979)

Capital work-in-progress (Rs.0.36 crore) included Rs.0.05 crore paid to Haryana

Tourism Development Corporation for establishing a Tourist Bunglow at Narora. The Tourist Bunglow was handed over to the company in November 1977 and the expenditure incurred on the same was Rs.0.06 crore as intimated by the Haryana Tourism Development Corporation. As the Tourist Bunglow had already been handed over to the Company and was in use, the amount of Rs. 0.06 crore should have been capitalised, depreciation provided for and shown under Fixed Assets. The balance amount of Rs.0.07 crore should have been shown under Sundry Creditors. Sundry creditors had, therefore, been understated by Rs.0.07 crores. Non-provision of depreciation from December 1977 to March 1979 amounted to Rs.0.04 crore.

(H) The Indian Turpentine and Rosin Company Limited (accounts for the year ended 31st March 1988).

Excess provision for Rs.0.06 crore made in earlier years had been written back and credited to Profit and Loss Account under ' Manufacturing and Other expenses'. Similarly, expenses for Rs.0.04 crore relating to earlier years had been charged to this head, resulting in understatement of loss for the year by Rs.0.02 crore.

(I) Varanasi Mandal Vikas Nigam Limited (accounts for the year ended 31st March 1986).

Community tubewells constructed for the welfare of scheduled caste and other

weaker sections of society at a cost of Rs.0.15 crore out of the funds provided by District Rural Development Agencies were kept out of accounts.

(J) Kichha Sugar Company Limited (accounts for the year ended September 1987).

(1) Stores, spare parts and loose tools (Rs.1.00 crore) shown under 'Current Assets, Loans and Advances' included Rs.0.21 crore, being the written down value of certain plant and machinery dismantled and removed in 1982-83 and 1983-84 due to change in process. The plant and machinery, not being useful to the Company, should have been declared as 'scrap' and value ascertained and included instead of the written down value.

(2) Power and fuel debited to Profit and Loss Account was understated by Rs. 0.03 crore due to non-provision of electricity bill pertaining to the period February 1986 to August 1987, resulting in overstatement of profit of the Company by Rs.0.03 crore.

(K) Uttar Pradesh Pashchimi kshetriya vikas Nigam Limited (accounts for the year ended 31st June 1982).

Interest amounting to Rs.0.06 crore earned on fixed deposits (including Rs.0.009 crore on saving bank account) made from funds contributed by Government towards share capital was credited to Profit and

Loss Account as income which should have been credited to Government Account as per directions issued by Government in April 1980. This resulted in under-statement of net loss for the year (Rs.0.02 crore) by Rs. 0.06 crore. The Company earned Rs.0.12 crore from July 1980 to June 1982 by way of such interest. Thus the accumulated losses (Rs.0.10 crore) were understated by Rs.0.12 crore.

(L) Auto Tractors Limited (accounts for the year ended 31st March 1988)

The rates for depreciation specified in Schedule XIV of the Companies Act, 1956 were adopted retrospectively from the date of acquisition of respective assets and Rs.0.94 crore was withdrawn from depreciation. As the rates specified in Schedule XIV of the Companies Act, 1956 are effective from 2nd April 1987, the withdrawal of depreciation of earlier years on the basis of rates specified in the said Schedule was not correct.

In violation of the provisions of Section 209 of the Companies Act, 1956, accounting of gratuity was changed from accrual to cash basis and a sum of Rs.0.37 crore was withdrawn from the provision of gratuity.

Write back of depreciation and gratuity provided in earlier years resulted in understatement of accumulated loss (Rs.35.52 crores) by Rs.1.31 crores.

(M) Uttar Pradesh Scheduled Castes Finance and Development Corporation Limited (accounts for the year ended 31st March 1985).

(1) Remittance to units and vice-versa amounting to Rs. 0.71 crore were included in 'Stock-in-trade' under 'Current Assets' instead of showing under 'Cash and Bank Balances'.

(2) Sundry debtors amounting to Rs.5.65 crores was shown under 'Cash in Hand' instead of being shown separately.

(3) The Company is entitled to receive grant from Central Government for meeting expenditure on staff engaged on commissioning feasibility studies and surveys subject to the ceiling of one per cent and on monitoring and evaluation, technical, recovery wings subject to a ceiling of three per cent of Central Government's cumulative assistance as share capital. The Company instead of charging the salary and allowance of Head Office staff directly engaged in implementation, monitoring and evaluation, recovery etc. of the schemes under special component plans, charged the entire establishment expenditure of Head Office staff to the grant, resulting in overstatement of profits for the year (amount not ascertainable),.

(4) Statutory Auditors in their reports on the accounts for 1982-83, 1983-84, and 1984-85 stated that the Balance Sheet

and Profit and Loss Account of the respective years did not give a true and fair view on account of various remarks given in their reports. However, the Company did not take any corrective action in preparation of its accounts.

(N) Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (accounts for the year ended 31st March 1987) _

(1) Current liabilities and provisions (Rs.71.83 crores) and capital work in progress was understated by Rs. 1.40 crores due to non-provision of liabilities towards (a) extra compensation (Rs.0.01 crore) and (b) escalation claims (Rs.1.39 crores) payable to contractors.

(2) Contrary to the provisions of the Companies Act 1956, salary and wages (Rs. 0.85 crore) had been accounted for on cash basis which resulted in understatement of salary and wages and also incidental expenditure during construction period to the extent of Rs. 0.04 crore.

(O) Uttar Pradesh Hill Electronics Corporation Limited (accounts for the year ended 30th June 1988).

The State Government decided in March 1988 that the entire paid-up capital of the Company should be treated as contribution from Government. The Company, had not taken initiative to transfer the 3,91,487

equity shares of Rs. 10 each* held by Uttar Pradesh Electronics Corporation Limited in the name of the State Government. In view of the above decision of Government, the amount of Rs. 0.99 crore received from Uttar Pradesh Electronics Corporation Limited included in 'Share Money' received pending allotment (Rs.2.92 crores) should have been shown under 'Current Liabilities'.

1.3. Statutory Corporations- General aspects

1.3.1. There are four Statutory corporations in the State as on 31st March 1989, viz.

- Uttar Pradesh State Electricity Board
- Uttar Pradesh State Road Transport Corporation;
- Uttar Pradesh Financial Corporation; and
- Uttar Pradesh State Warehousing Corporation.

1.3.2. The Uttar Pradesh State Electricity Board was constituted on 1st April 1959 under Section 5(1) of the Electricity (Supply) Act, 1948 and the Uttar Pradesh State Road Transport Corporation was constituted on 1st June 1972 under Section 33 of the Road Transport Corporations Act 1950.

Under the respective Acts, the audit of these organisations vests solely

with the Comptroller and Auditor General of India. Separate Audit Reports, mainly incorporating the comments on the annual accounts of each year, are issued separately to the organisations and Government.

The Separate Audit Reports on the accounts of Uttar Pradesh State Electricity Board for the years 1986-87 and 1987-88 were issued to Government on 8th May 1989 and 12th July 1990 respectively, but the same were yet to be presented before the Legislature. The accounts of the Board for the year 1988-89 were in arrears (July 1990).

The Uttar Pradesh State Road Transport Corporation submitted to Audit its revised accounts for the year 1982-83 to 1984-85 on 17th November 1987 and its accounts for the years 1985-86 to 1987-88 on 27th April 1988. The accounts together with Separate Audit reports thereon for the years 1980-81 to 1981-82, 1982-83 to 1984-85 and 1985-86 to 1987-88 issued to Government on 13th January 1989, 26th September 1989 and 6th March 1990, respectively were yet to be presented to the State Legislature (June 1990). The accounts for the year 1988-89 received from the Corporation in October 1989 were in the process of audit (June 1990).

1.3.3. The Uttar Pradesh Financial Corporation was constituted on 1st November 1954 under Section 3 (i) of the State Financial Corporation Act, 1951 and the Uttar Pradesh State Warehousing Corporation was constituted on 19th March 1958 under Section 28(i) of the Warehousing Corporations Act, 1962.

Under respective Acts, the accounts of these corporations are audited by Chartered Accountants appointed by the State Government in consultation with the Comptroller and Auditor General of India and he latter may also undertake audit of the accounts of these Corporations separately. Separate Audit Reports in respect of these Corporations are also issued by the Comptroller and Auditor General of India.

Separate Audit Reports on the accounts of the Uttar Pradesh Financial Corporation for the years 1984-85 to 1985-86 and 1986-87 were issued to the Corporation and Government on 2nd November 1988 and 14th March 1989 respectively and the same were yet to be presented before the Legislature (June 1990). The accounts for the years 1987-88 and 1988-89 were received on 19th July 1989 and 12th December 1989 respectively and the Separate Audit Reports on these accounts were under finalisation (June 1990).

The Audit Reports on the accounts of Uttar Pradesh State Warehousing Corporation for the years 1981-82, 1982-83, 1983-84, 1984-85 and 1985-86 were issued to the

Corporation and Government on 24th February 1984, 22nd November 1985, 5th August 1986, 23rd September 1988 and 29th May 1990, respectively. These Audit Reports are yet to be presented before the State Legislature (June 1990). The accounts of the Corporation for the year 1986-87 and onwards were in arrears (June 1990).

1.3.4. The working results of these four Statutory Corporations for the latest years for which accounts have been prepared are summarised in Annexure-4.

Some salient points on the accounts and physical performance of these corporations are given in paragraphs 1.4. to 1.7.

1.4. Uttar Pradesh State Electricity Board

1.4.1. The capital requirements of the Board are provided in the form of loans from Government, public banks and other financial institutions. As per unadopted provisional accounts of the Board for the year 1988-89 received in June 1990, the aggregate long-term loans (including loans from Government) obtained by the Board were Rs.5533.88 crores at the end of 1988-89 and represented an increase of Rs. 439.34 crores on the long term loans of Rs. 5094.54 crores at the end of the previous year. Particulars of loans obtained from Government and other sources and outstanding as on 31st March 1988 and of 1989 are as follows:

Source	Amounts outstanding		Per- cen- tage inc- rea- se
	as on 31st March 1988	1989 (Provis- ional)	
(Rupees in crores)			
State Government	3898.75*	4089.15**	4.88
Other sources	1195.79	1444.73	20.82
Total	5094.54	5533.88	8.62

Government had guaranteed the repayment of loans raised by the Board and payment of interest thereon to the extent of Rs. 1625.95 crores. The amount of principal guaranteed outstanding as on 31st March 1989 was Rs. 702.11 crores.

1.4.2. The financial position of the Board at the end of the three years up to 31st March 1989 is given on next page:

* The figures as per Finance Accounts is Rs. 3915.94 crores, the difference is under reconciliation.

** The figures as per Finance Accounts is Rs. 4105.82 crores, the difference is under reconciliation.

Particulars	1986-87	1987-88	1988-89 (Provisional)
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(Rupees in crores)

A. Liabilities

Long-term Loans from:

(a) Government	3703.96	3898.75	4089.15
(b) Other sources	1049.31	1195.79	1444.73
Reserves and surplus	319.00	354.75	322.34
Current liabilities and provisions	2119.41	748.79	1464.17

Total (A)	7191.68	6198.08	7320.39
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B. Assets	3134.02	3643.51	4950.97
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Less depreciation	737.68	845.72	955.94
Less consumers contribution	204.35	230.15	248.79
Net fixed assets	2191.99	2567.64	3746.24
Capital work-in progress	1958.93	2010.10	1413.37
Current assets including investments	2207.25	827.62	1526.30
Miscellaneous expenditure not written off	38.73	38.77	40.17
Accumulated loss	794.78	753.95	594.31
TOTAL (B)	7191.68	6198.08	7320.39
C. Capital employed	2279.83	2646.47	3808.37
D. Capital invested	4753.31	5094.58	5533.92

Note: 1. Capital employed represents net fixed assets plus working capital.

2. Capital invested represents long-term loans plus free reserves.

1.4.3. The working results of the Board for the three years upto 1988-89 are summarised below:

Particulars	1986-87	1987-88	1988-89
		(Rupees in crores)	
		(provisional)	
1.(a) Revenue Receipts	891.10	977.52	1123.54
(b) Subsidy receivable from Government	283.90	424.70	473.00
Total	1175.00	1402.22	1596.54
2. Revenue expenditure	787.70	820.67	1090.19
3. Gross surplus (1-2)	387.30	581.55	506.35
4. Appropriation			
(a) Depreciation	85.78	95.20	110.03
(b) Interest on -			
- Government loans	265.80	279.81	302.29
- Other loans and bonds	131.71	156.72	207.38
(c) Write off of intangible assets	0.71	1.01	0.81
Total	484.00	532.74	620.51

5. Net surplus(+)/ (-)	96.70	(+)48.81	(-)114.16
Deficit(-)			
(3-4)			
6. Total return on capital employed and capital invested	300.81	485.34	395.51
7. Percentage of return on:			
(a) capital	13.2	18.3	10.4
employed			
(b) capital	6.3	9.5	7.2
invested			

For subsidising the losses on the rural electrification operations undertaken by the Board, the State Government gave an undertaking to the Government of India in March 1979 to reimburse loss to the Board from 1979-80 onwards. The Board without maintaining any separate accounts for rural electrification operations accounted for Rs.1546.19 crores on adhoc basis as subsidy receivable from the Government. The accumulated loss of Rs.753.95 crores at the end of 1987-88 is after adjusting Rs.1546.19 crores to the revenue of the Board.

1.4.4. Some of the major observations made in the Audit Report on the annual accounts of the Board for 1987-88 were;

(1) Based on the preliminary audit observations issued during the audit of accounts for the year 1987-88, the Board revised the accounts and carried out the adjustments to the extent given below:

	Debit (Rupees in crores)	Credit
(i) Revenue heads of accounts	25.82	-
(ii) Capital heads of accounts:		
(a) Net fixed assets	35.35	-
(b) Capital liabilities	--	0.19
(iii) Reserves and surplus	--	2.87
(iv) Current assets	--	17.25
(v) Current liabilities	--	3.60

(2) In spite of repeated audit comments, the following major irregularities persisted in the separate Audit Report on the accounts of the Board for the year 1987-88:

(i) The expenditure on the repair of damaged transformers amounting to Rs.4.57 crores have been capitalised instead of charging the same to revenue expenditure.

(ii) Assets and liabilities included minus balances amounting to Rs.4.31 crores and Rs. 0.43 crore respectively.

(iii) Fixed assets registers were not maintained and register of works was not posted up to date in most of the units.

(3) In addition to the above the following important observations were made in the separate Audit Report on the accounts of the Board for the year 1987-88:

(i) No provision for payment of outstanding bills of Rs.11.92 crores for purchase of power from NTPC was made in the accounts.

(ii) On account of difference between the book value and physical value (relating to previous years) of fuel stock in OBRA unit, the fuel stock during the year 1987-88 was reduced by Rs.32.53 crores through Reserves instead of making adjustments through issues.

(iii) Elements of administrative and general expenditure and interest payable on borrowings, aggregating Rs.13.78 crores were capitalised which was not permissible under the Rules.

(iv) Against bad and doubtful recoveries of Rs.16.76 crores from consumers, provision existed to the extent of Rs.5.95 crores only, resulting in short provision of Rs.10.81 crores.

(v) Liability of Rs.7.81 crores for capital supplies against materials despatched through Railway receipts but delivery not taken (Rs.4.61 crores), price variation

bills in respect of past supplies (Rs.1.40 crores) and works executed by Irrigation Department (Rs.1.80 crores) was not provided for in the accounts.

(vi) In respect of three bank accounts for central payments operated by Fund Management Unit of the Board, bank balances represented balance as per bank statements due to non-maintenance of cash book.

(vii) In contravention of the prescribed basic accounting policy, the fixed assets and depreciation thereon have not been recorded in the books and disclosed in the accounts at historical cost. The withdrawal of old assets and depreciation thereon have been made at current cost and at uniform fixed rates respectively and not on the basis of historical cost of individual assets.

1.4.5. The following table indicates the operational performance of the Board for the three years upto 1988-89:

	1986-87	1987-88	1988-89
		(MW)	(Provisional)
1. Installed capacity			
(a) Thermal	3118.50	3438.50	3534.00
(b) Hydel	1422.35	1422.35	1422.35
Total	4540.85	4860.85	4956.35
		(In MkwH)	
2. Power generated			
(i) Thermal	9516	11884	13948
(ii) Hydel	5213	4707	4737

Total	14729	16591	18685
3. <u>Less</u> Auxiliary consumption	1098	1320	1559
4. Net power generated	13631	15271	17126
5. Power purchased	3591	4516	4743
6. Total power available for sale(4+5)	17222	19787	21869
7. Power sold	13655	14480	16084
8. Transmission and distribution loss	3567	5307	5785

(Number)

9. Unit generated per KW of installed capacity	3244	3413	3770
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(Per cent)

10. Load factor	40.7	43.2	48.2
11. Percentage of generation to installed capacity	37.03	38.96	43.04
12. Percentage of transmission and distribution loss	20.71	26.82	26.45

(Number)

13. Village/town electrified at the end	71564	75749	78526
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	of the year.			
14.	Pump sets/ wells energised at the end of the year	542495	564412	587713
15.	Connected load	7409	7948	8452
			(MW)	
16.	Number of consumers	29.28	31.56	34.57
			(In lakhs)	
17.	Number of employees	113684	117416	118662
			(Number)	
18.	Break-up of sale of energy according to categories of consumers			(Mkwh)
	(a)Agriculture	4938	5869	6022
	(b)Industrial	4776	4776	5280
	(c)Commercial	760	813	2097
	(d)Domestic	1933	1813	1249
	(e)Others	1248	1209	1436
19.	(a) Revenue per Kwh (exclud- ing sub- sidy)	64.27	66.33	NA
	(b) Expendi- ture per Kwh	64.02	63.32	NA
	(c) Profit(+) /Loss(-) per Kwh	(+)0.25	(+)3.01	NA

1.5. Uttar Pradesh State Road Transport Corporation

1.5.1. As on 31st March 1989 the capital of the Corporation was Rs. 201.26 crores (Rs.152.70 crores contributed by the State Government and Rs. 48.56 crores by the Central Government) as against Rs.160.26 crores as on 31st March 1988 (Rs.123.70 crores contributed by the State Government and Rs.36.56 crores by the Central Government). Interest is payable on capital contribution at 6.25 per cent. As at the end of March 1989 interest amounting to Rs.19.16 crores on capital and loans was payable to Central Government (Rs.2.51 crores) and State Government (Rs.16.65 crores).

In addition, the Corporation owed loans amounting to Rs.3.36 crores to State Government as on 31st March 1989. The State Government had also given guarantee for repayment of loan raised by the Corporation from other sources and payment of interest thereon. As on 31st March 1989 the amount of such guarantee and loans outstanding thereagainst were Rs. 98 crores and Rs.27.60 crores, respectively.

1.5.2. The financial position of the Corporation at the end of three years up to 31st March 1989 is given on the next page:

(61)

1986-87 1987-88 1988-89
 (Provi-
 sional)
 (Rupees in crores)

(A) Liabilities

Capital	144.71	160.26	201.26
Reserves and surplus	2.19	2.36	2.25
Borrowings	68.66	80.97	86.58
Trade dues and other current liabilities	116.86	119.12	121.07
Total - A	332.42	362.71	411.16

(B) Assets

Gross block	220.72	259.95	316.09
<u>Less</u> depreciation	120.19	137.08	172.16
Net fixed assets	100.53	122.87	143.93
Capital work-in-progress	1.18	2.32	7.03
Investments	0.80	0.80	0.80
Current assets			
loans and advances	104.75	111.85	117.68
Accumulated loss	125.16	124.87	141.72
Total - B	332.42	362.71	411.16

(C) Capital invested* 161.82 177.68 220.53

(D) Capital employed** 88.42 115.60 140.54

*Capital invested represents paid-up capital plus long-term loans plus free reserves.

** Capital employed represents net fixed assets plus working capital.

(62)

1.5.3. The working results of the Corporation for the three years up to 1988-89 are summarised below:

Particulars	1986-87	1987-88	1988-89 (Provis- ional)
Total revenue	181.69	223.47	249.33
Total expenditure:			
(a) Other than interest	177.95	209.20	250.32
(b) Interest	11.97	14.23	16.58
Total	189.92	223.43	266.90
Net profit(+) /Loss(-)	(-)8.23	(+)0.04	(-)17.57
Total return on:			
- Capital invested	(+)3.74	(+)14.27	(-)0.99
- Capital invested	(+)3.74	(+)14.27	(-)0.99
Percentage of return on:			
- Capital employed	(+)4.2	(+)12.3	(-)0.7
- Capital invested	(+)2.3	(+)8.0	(-)0.4

(63)

1.5.4. Table below indicates the operational performance of the Corporation during the three years up to 1988-89:

	1986-87	1987-88	1988-89 (Provi- sional)
Average number of vehicles* held (effective fleet)	6452	6968	7545
Average number of vehicles* on road	5436	6098	6676
Percentage of utilisation	84	88	88
Kilometers covered (in lakhs):			
- Gross	4857	5616	6226
- Effective	4760	5496	6061
- Dead	97	120	165

* Vehicles include buses, taxis and trucks

(64)

	1986-87	1987-88	1988-89
Percentage of dead kilometers to gross kilometers	2.00	2.14	2.65
Average kilometers covered per bus per day	222	238	248
Average revenue per kilometer- (paise)	382	407	411
Average expenditure per kilometer (Paise)	399	407	440
Profit(+)/ Loss(-) per kilometer (Paise)	(-)17	--	(-) 29
Total route kilometers (in lakhs)	3.17	3.84	4.62
Number of operating depots	92	94	106
Average number of break-downs per lakh kilometers	0.050	0.030	0.030

(65)

	1986-87	1987-88	1988-89
Average number of accidents per lakh kilometers	0.17	0.15	0.15
Passenger kilometers scheduled (in lakhs)	246824	296028	326322
Passengers kilometers operated (In lakhs)	182650	189458	208846
Occupancy ratio (per cent)	74	64	64

1.6. Uttar Pradesh Financial Corporation

1.6.1. The paid-up capital of the Corporation as on 31st March 1989 was Rs.48.03 crores (State Government: Rs.29.09 crores, Industrial Development Bank of India: Rs.18.64 crores and others Rs. 0.30 crore) as against Rs.16.47 crores as on 31st March 1988 (State Government: Rs. 11.32 crores, Industrial Development Bank of India: Rs.4.85 crores and others: Rs.0.30 crore)

1.6.2. Government has guaranteed repayment of share capital of Rs.9.65 crores (excluding special share capital of Rs.0.67 crore)

under Section 6(1) of the State Financial Corporations Act, 1951 and payment of minimum dividend thereon at the rate of 3.5 per cent. During the year 1988-89 the Corporation's total income was Rs.54.13 crores and revenue expenditure was Rs.51.12 crores. Thus, there was a profit of Rs.3.01 crores before tax and Rs.1.51 crores after provision of tax.

After making provisions of Rs.1.48 crores for various reserves, the surplus available for payment of dividend was Rs.0.03 crore.

Government has also guaranteed repayment of market loans (through bonds and debentures) of Rs. 170.68 crores raised by the Corporation, the entire amount of principal thereagainst was outstanding on 31st March 1989.

1.6.3. The financial position of the Corporation at the end of the three years upto 1988-89 is given below:

	1986-87	1987-88	1988-89 (Provisional)
	(Rupees in crores)		
(A) Liabilities			
Paid-up capital	10.00	16.47	50.46\$

\$ Includes Rs.2.43 crores on account of share application money

(67)

	1986-87	1987-88	1988-89 (Provi- sional)
	(Rupees in crores)		
Reserves and surplus	11.30	12.12	13.63
Borrowings:			
(i) Bonds and debentures	109.67	137.76	170.68
(ii) Others	248.13	312.18	354.94
(iii) Other liabilities	6.61	10.23	11.22
Total -A	385.71	488.76	600.93

(B) Assets

Cash and bank balance	10.70	15.68	29.53
Investments	0.35	0.35	0.35
Loans and advances ‡	355.19	448.02	551.30
Net fixed assets	1.19	2.04	2.42
Dividend deficit	--	--	--
Other assets	18.28	22.67	17.33
Total -B	385.71	488.76	600.93

§ Includes loan in lieu of share capital Rs.49.50 crores in 1986-87, Rs.50.03 crores in 1987-88 and Rs.39.05 crores in 1988-89.

‡ Excluding bridging loans against capital subsidy to the extent of Rs.0.51 crore in 1986-87, Rs.13.05 crores in 1987-88 and Rs.6.16 crores in 1988-89

(68)

(C) Capital employed*	335.79	428.81	534.12
(D) Capital invested**	379.10	478.53	589.71

1.6.4. The Corporation switched over to cash system of accounting from mercantile system from 1st April 1981.

The following table gives details of the working results of the Corporation for the three years upto 1988-89:

Particulars	1986-87	1987-88	1988-89 (Provisional)
(Rupees in lakhs)			
1. Income			
(a) Interest on loans and advances	3087.09	4265.75	5268.38
(b) Other income	105.75	112.60	144.21
Total	3192.84	4378.35	5412.59

* Capital employed represents the mean of the aggregate of opening and closing balance of paid-up capital, bonds and debentures, reserves, borrowings (including refinance) and deposits.

** Capital invested represents paid-up capital plus long-term loans plus free reserves at the close of the year.

(69)

1986-87 1987-88 1988-89
(Provi-
sional)

(Rupees in lakhs)

2. Expenditure			
(a) Interest on long term loans	2437.86	3597.43	4334.60
(b) Other expenses	474.86	610.84	777.50
Total	2912.72	4208.27	5112.10
3. Profit before tax	278.52	170.08	300.49
4. Provision for tax	62.95	62.55	149.79
5. Profit after tax	215.57	107.53	150.70
6. Other appropriations	192.71	68.04	148.20
7. Amount available for dividend	22.86	39.49	2.50
8. Dividend payable	33.77	48.48	- -

Total return on:

(a) capital employed	2716.38	3767.51	4635.09
(b) capital invested	2716.38	3767.51	4635.09
Percentage of return:	(per cent)		
(a) on capital employed	8.1	8.8	8.7
(b) on capital invested	7.2	7.9	7.9

1.6.5. The following table indicates the position regarding receipts and disposal of applications for loans during the three years up to 1988-89:

Particulars	1986-87		1987-88		1988-89	
	Number	Amount	Number	Amount	Number	Amount
	(Rupees in crores)					
1	2	3	4	5	6	7
Applications pending at the beginning of the year	602	60.69	292	38.33	284	27.76
Applications received	2975	268.21	2341	229.11	2646	244.33
Total (1+2)	3577	328.90	2633	267.44	2930	272.09
Applications sanctioned	2440	192.86	1815	177.44	2215	182.15
Applications cancelled /with-drawn/rejected /reduced	845	79.10	534	58.40	455	55.47
Applications pending at the close of the year	292	38.33	284	27.76	260	27.37
Loan disbursed	1842	98.47	1668	120.78	2053	142.78

1	2	3	4	5	6	7	
Amount outstanding at the close of the year	--	355.19	--	448.03	--	551.30	
Amount over due for recovery at the close of the year							(171)
(a) Principal	--	31.14	--	42.05	--	44.45	
(b) Interest	--	37.16	--	57.75	--	70.48	
Total	--	68.30	--	99.80	--	114.93	
Amount involved in recovery certificate cases	--	40.22	--	43.42	--	58.67	
Total	--	108.52	--	143.22	--	173.60	
Percentage of default to total loans outstanding	--	30.06	--	32.00	--	31.5	
Employment generated by the assisted units		Not available		Not available		Notavailable	

As may be seen from the table above, out of outstanding loans of Rs.551.30 crores from 24071 loanees as on 31st March 1989, an amount of Rs. 173.60 crores (including interest of Rs. 70.48 crores) was overdue for recovery. The percentage of overdue amount to the total outstanding has varied from 30.6 in 1986-87 to 32.0 in 1987-88 and 31.5 in 1988-89.

Age-wise analysis of the overdue loans has not been done by the Corporation.

1.6.6. The date of investment in sick and closed units were not available.

1.6.7. The Corporation has made cumulative provision of Rs. 2.53 crores towards doubtful debts up to 31st March 1989. Besides, the Corporation has written off Rs. 3 crores as bad debts during 1986-87 (Rs.0.70 crore), 1987-88 (Rs.1.08 crores) and 1988-89 (Rs.1.22 crores).

1.7. Uttar Pradesh State Warehousing Corporation

1.7.1. The paid-up capital of the Corporation as on 31st March 1989 was Rs.6.21 crores (State Government: Rs.3.48 crores and Central Warehousing Corporation: Rs.2.73 crores) as against Rs.5.96 crores as on 31st March 1988 (State Government Rs.3.48 crores and Central Warehousing Corporation Rs.2.48 crores).

1.7.2 The financial position of the Corporation at the end of the three years upto 31st March 1987 is given below:

	1984-85	1985-86	1986-87 (Provisional)
	(Rupees in lakhs)		
(A) Liabilities			
Paid-up capital	472.50	496.50	596.50
Reserve and Surplus	855.34	994.96	1056.28
Borrowings	891.65	832.25	726.10
Trade dues and other current liabilities	512.99	456.98	333.65
Total	2732.48	2780.69	2712.53
(B) Assets			
Gross block	2150.89	2179.82	2202.48
Less depreciation	404.96	489.43	571.83
Net fixed assets	1745.93	1690.39	1603.65
Capital work-in progress	9.48	11.64	0.80
Current assets, loans and advances	961.97	1066.07	1071.13
Miscellaneous expenditure	15.10	12.59	9.95
Total	2732.48	2780.69	2712.53
(C) Capital employed	2194.91	2299.48	2368.93
(D) Capital invested	2219.49	2323.71	2378.88

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1.7.3. The working results of the Corporation for the three years, upto 1986-87 are summarised below:

	1984-85	1985-86	1986-87 (Provisional)
	(Rupees in lakhs)		
Income:			
(a) Warehousing charges	574.02	756.44	830.23
(b) Other income	15.42	24.08	28.19
Total	589.44	780.52	858.42
Expenses:			
(a) Establishment charges	296.46	279.64	381.58
(b) Interest	101.74	93.72	80.28
(c) Other expenses	178.49	249.71	257.78
Total	549.69	623.07	719.64
Net profit for the year	39.75	157.45	138.78
Add(+)/Reduce(-) prior period adjustment	(-)20.65	(-)7.88	-
Profit before tax	19.10	149.57	138.78
Provision for tax	--	--	--
Other appropriations	--	--	--
Amount available for dividend	19.10	149.57	138.78
Transfer from general reserve	3.46	--	-

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Proposed dividend	22.43	25.69	29.83
Total return on:			
(a) capital			
employed	120.84	243.29	219.06
(b) capital			
invested	120.84	243.29	219.06

Rate of return on:

(a) capital			
employed	5.50	10.58	9.25
(b) capital			
invested	5.44	10.47	9.21

1.7.4. The physical performance of the corporation for the three years up to 1988-89 is summarised below:

Particulars	1986-87	1987-88	1988-89
Number of stations covered	145	156	164
Storage capacity created up to the end of the year			
		(Tonnes in lakhs)	
(a) Owned	9.16	9.22	10.41
(b) Hired	3.57	3.54	3.32
Total	12.73	12.76	13.73
Average capacity utilised	12.42	12.54	9.21
Percentage of utilisation	98.30	(per cent)	
		98.28	67.08
		(Rupees per tonne)	
Average revenue	47.54	62.24	93.21
Average expenses	44.33	49.69	78.14
Average net earning	3.21	12.55	15.07

CHAPTER - II

2. REVIEWS IN RESPECT OF GOVERNMENT COMPANIES

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This Chapter contains three reviews, as below:

SECTION 2A - Recovery Performance
in Industrial Financing
Institutions.

SECTION 2B - Harijan Evam Nirbal Varg
Avas Nigam Limited

SECTION 2C - Uttar Pradesh Tyres and
Tubes Limited

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(75-A)

SECTION 2A

INDUSTRIES DEPARTMENT

RECOVERY PERFORMANCE IN INDUSTRIAL FINANCING INSTITUTIONS

HIGHLIGHTS

The Uttar Pradesh Financial Corporation (UPFC), Pradeshia Industrial and Investment Cororation of Uttar Pradesh Limited (PICUP) and Uttar Pradesh State Industrial Development Corporation Limited (UPSIDC) are the main institutions providing industrial financing in the State. While UPFC is a Statutory Corporation, the other two are Government Companies. Together they financially assist the small, medium and large scale industrial sectors in the shape of term loans, bridge loans, margin money loans, etc. Two of them also act as agents for distribution of Central/State subsidies and sales tax loans.

The assistance extended up to 31st March 1989 by these three institutions aggregated to Rs. 1030.20 crores (UPFC Rs.707.02 crores, PICUP Rs.310.84 crores and UPSIDC Rs.12.34 crores). It is important that timely and efficient recovery

of dues both principal and interest is made from the assisted units so as to ensure a corpus for refinancing fresh new ventures.

It was, however, noticed that the recovery performance was very poor and ranged between 0.02 and 55 per cent during the five years up to 31st March 1989. As on 31st March 1989 out of the loans of Rs.1030.20 crores disbursed, the amount overdue for recovery was Rs.150.08 crores (including interest Rs.89.96 crores).

Cases were noticed giving evidence of laxity in pre-sanction appraisal, post sanction follow-up and inaction delayed action on the part of these institutions in resorting to legal remedies like penal measures, seizure, disposal etc., resulting in the dues becoming fully or partially irrecoverable.

Some of the important points noticed during audit in respect of each of the three financial institutions are mentioned below:

UPFC

Up to 31st March 1989, the Corporation disbursed loans of Rs.707.02 crores

to 28017 entrepreneurs of which Rs.621.78 crores were outstanding from 24071 entrepreneurs while the overdues stood at Rs.114.94 crores as on that date. The percentage of recovery to the overdues during the five years up to 1988-89 ranged between 36 and 49 and the bad and doubtful debts stood at Rs. 8.48 crores.

The recovery performance was poor due to inadequate pre-sanction appraisal, irregular disbursement, non-insistence of statutory requirements, lack of effective follow-up and monitoring of assisted units, industrial sickness and delay in enforcement of penal provisions. The Corporation was not successful in recovery of its dues under U.P. Public Money's (Recovery of Dues) Act, 1972 as the maximum recovery was only 6.8 per cent of the amount for which recovery certificates were issued in the three years up to 1988-89. The Corporation had to write off/waive Rs.13.56 crores due from assisted units.

The Corporation had not compiled the details of total units taken over and awaiting sale/disposal under Section 29 of the SFCs Act. During 1984-85 and 1987-89, Corporation sold 328 units and could realise only Rs. 6.91 crores against Rs. 19.90 crores due from them.

A study of a few individual cases of sanction, disbursement and recovery revealed the following:

The Corporation had to write off/waive off Rs. 0.48 crore, the dues against three units to whom the loans were sanctioned without verification and bio-data of promoters, cost of plant and machinery, etc.

In a case of drug unit, against which Rs. 0.85 crore was outstanding up to December 1988, the sanction and disbursement of term loan was made without verification of drug licence, title of land, promoters contribution and by reducing security margin.

Rs.0.23 crore was due from a unit which would not come up due to rejection of the project by Water and Pollution Control Board. Rs.0.10 crore was disbursed to the unit much after rejection of the application by that Board.

Rs.0.38 crore was due from a gas unit which had been disbursed loans by reducing the required security margin and without insistence on statutory documentation.

Rs.0.52 crore was due against a unit to whom loan was disbursed without verification of charge created on plant and machinery hypothecated to the Corporation.

Rs.1.62 crores were lying unrecovered from one promoter, to whom nine loans were irregularly sanctioned for setting up eight units in one complex for manufacture of DMS boots treating each process in its manufacture as a separate unit. Moreso, by treating each process separately the Corporation could sanction separate loans keeping the amounts within its powers as otherwise the total loan sanctioned was beyond its purview. Disbursement was made without verification of promoter's contribution.

The Corporation did not compile the position of overdues in respect of other loan schemes namely composite loan scheme, handloom weavers scheme and transport loan scheme. The recovery performance under the composite loan scheme was very poor, as a result the Corporation had to write off / waive dues of Rs.13.66 crores in 1987-88 and 1988-89. The Corporation had decided to write off dues aggregating Rs.4.32 crores in respect of handloom weavers scheme.

The Central Investment Subsidy of Rs. 4.61 crores recoverable from 452 units due to their closure or becoming sick or non-implementation within five years of commencing production was lying unrecovered.

Up to 31st March 1989, the Company disbursed term loans aggregating Rs. 310.84 crores, out of which Rs.218.78 crores were outstanding and of which Rs.33.43 crores were overdue as on 31st March 1989. The percentage of recovery to overdues during five years up to 1988-89 ranged between 41 and 54 per cent. Of the total overdues of Rs.33.43 crores, Rs. 24.73 crores were due from 40 units who were chronic defaulters.

The Company had to write off/waive Rs. 2.24 crores due from assisted units during 1984-85 to 1988-89.

Out of 50 closed / sick units, 32 units against whom Rs. 11.75 crores towards principal were outstanding at the end of March 1989, did not pay any instalment.

The Company could recover only Rs.1.84 crores against recovery certificate for Rs. 11.83 crores issued under U.P. Public Money's (Recovery of Dues) Act, 1972 during 1985-86 to 1988-89.

A study of a few individual cases revealed the following:

Two cement projects could not be implemented due to cancellation of lease of land by district authorities

and rejection of the project by Water and Pollution Control Board. The dues of Rs.1.21 crores against them were lying unrecovered.

Rs. 1.21 crores were due against two units to whom the loans were disbursed without verification of promotor's contribution.

Rs.0.12 crore disbursed a unit without obtaining personal guarantee of promoters remained unrecovered as one of the promoters disassociated himself from the project and the other died. The closed unit was bought by the Company itself in the auction conducted by the district authorities in October 1984. The dues comprising principal, interest and commitment charges of Rs.17.08 lakhs had to be written off and claims for Rs.7.20 lakhs abandoned.

In respect of sales tax loan disbursed by the Company, the recovery during 1985-86 to 1988-89 ranged between 14 and 37 per cent. Out of the total/overdue of sales tax loan of Rs.4.28 crores at the end of March 1989 against 57 units, Rs.3.64 crores were due from 12 units where the recovery had been stayed by court and Rs. 0.43 crore were due against 26 units which were lying closed. The claim of the Company of Rs. 0.28 crore towards actual expenditure incurred up to March 1988 on the implementation

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of the sales tax loan scheme, had been rejected by the State Government in March 1988 without assigning any reason.

The Company disbursed central investment subsidy (CIS) of Rs.0.15 crore to four units which were not covered under the scheme. 16 units to whom CIS of Rs. 1.37 crores was disbursed, closed within five years from the date of start of their production, but recovery of CIS amount could not be effected.

UPSIDC

The Company disbursed bridging loan of Rs. 8.60 crores to 29 units up to March 1985. Thereafter, no bridging loans were sanctioned and disbursed although the scheme was in operation for which reasons were not on record.

During five years up to 1988-89, the recovery of principal and interest overdues of bridging loan ranged from 0.02 to 17.9 per cent except in 1988-89 when it was 54.6 per cent on account of heavy recovery from a State Government Company. Out of total overdues of Rs.1.71 crores (principal Rs. 1.13 crores and interest 0.58 crore) in respect of 11

units as at the end of March 1989, Rs.0.99 crore were due against three State Government companies.

The Company did not have a system to monitor and follow up the recovery of outstanding bridging loans and interest thereon. A test check of four cases disclosed that the chances of recovery of dues of Rs. 0.42 crore were remote as the units had already been taken over/sold by UPFC under Section 29 of SFCs Act, 1951.

Recovery of principal and interest in respect of loans extended to joint/assisted sector projects never exceeded more than six per cent in any of the five years up to 1988-89. Out of 12 joint/assisted sector units against whom Rs. 5.05 crores were outstanding, Rs.4.43 crores were due from four Government companies. Further, seven of these unit had not repaid a single instalment of principal.

2A.1. Introduction

Industrial financing in the State is mainly provided by one Statutory Corporation i.e., Uttar Pradesh Financial Corporation (UPFC) and two Government companies viz. Pradeshia Industrial and Investment Corporation of Uttar Pradesh (PICUP) and Uttar Pradesh State Industrial

Development Corporation (UPSIDC). UPFC and PICUP extend direct assistance in shape of term loans to small, medium and large scale industries in the State for the acquisition of block assets such as land, factory building and plant and machinery to set up new units and/or renovation, expansion, modernisation etc. of existing units. UPSIDC extends assistance by way of bridging loan/short-term loan to promote the establishment of projects towards an accelerated industrial development of the State. Since it is equally essential that the funds so provided as assistance are also recovered in time for ploughback to the corpus for refinancing of fresh ventures, the financial institutions have to maintain a high level of efficiency in recovery of both principal and interest.

2A.2. Scope of Audit

The recovery performance of the three undertakings was reviewed in Audit during January 1989 to December 1989. The scope of Audit was primarily directed to evaluate the efficiency level achieved by these undertakings in monitoring the functioning of the assisted units which is a pre-requisite for recovery of dues and efficiency of the various control mechanisms introduced by them to achieve this purpose.

The points noticed are discussed in the succeeding paragraphs,

2A.3. UTTAR PRADESH FINANCIAL CORPORATION

2A.3.1. Introduction

The Corporation was established on 1st November 1954 under Section 3 (1) of the State Financial Corporations Act, (SFCs Act) 1951. The last review of the Corporation was conducted in the Report of the Comptroller and Auditor General of India for the year 1979-80 (Commercial).

2A.3.2. Functions

The Corporation is primarily intended to provide loan assistance to small and medium scale industrial concerns in the State for acquisition of block assets such as land, factory building and machinery to set up new units and /or renovation, expansion, modernisation etc. of the existing units.

The Corporation is engaged in following main activities.

(a)(i) Sanction and disbursement of term loans up to Rs. 60 lakhs to private and public limited companies, regis-

tered cooperative societies and up to Rs. 30 lakhs to sole proprietorship and partnership firms,

(ii) Jointly finance projects up to Rs. 300 lakhs with PICUP and other scheduled banks,

(iii) Granting of bridging loans for the projects.

(b) Providing loans under composite loan and handloom weavers loan schemes.

(c) Providing loans under small road transport operators scheme.

(d) Providing assistance to those units whose cost was not more than Rs.5.00 lakhs (excluding working capital) and whose working capital requirement was not more than Rs.2.50 lakhs at full maximum capacity. under the single window scheme.

(e) Acting as agent of the State/ Central Government for the implementation of various schemes sponsored by them.

2A.3.3. Organisational set-up

The Management of the Corporation is vested in a Board of Directors consisting of 12 directors including one part-time Chairman and one Managing Director.

Four directors (including Chairman) are nominated by the State Government, one by the Reserve Bank of India (RBI) and two directors by IDBI and four are selected by shareholders to represent scheduled banks, cooperatiave banks, insurance companies and other shareholders. The Managing Director is also appointed by the State Government in consultation with IDBI.

The Managing Director looks after the day-to-day management and is assisted by General Managers, Secretary and Chief Managers. In the discharge of its functions the Board is guided by such directions on questions of policy as may be issued to it by the State Government in consultation with IDBI under Section 39(1) of the SFCs Act 1951.

To speed up the work of sanction and disbursement of loans as well as for taking up follow-up action for repayment/recovery of loans, the Corporation has established 19 regional offices in the State each headed by a Regional Manager and two branch offices at Almora and Srinagar (Garhwal) headed by Branch Managers.

2A.3.4. Capital structure

As on 31st March 1989, the paid-up capital of the Corporation was Rs.4803

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lakhs contributed by State Government (Rs.2909.19 lakhs), IDBI (Rs.1864.18 lakhs), other financial institutions (Rs.27.10 lakhs) and by private shareholders (Rs.2.53 lakhs).

2A.3.5. Sources and uses of funds

The table given on the next page indicates the sources and uses of funds for the five years up to 1988-89:

Sources	1984-85	1985-86	1986-87	1987-88	1988-89
	1	2	3	5	6
	(Rupees in lakhs)				
Increase in paid-up capital including quasi-equity loan	800.00	1200.00	1550.00	700.00	2058.00
IDBI refinance	3422.26	5134.35	7129.25	7200.10	8685.62
Other borrowings	3383.37	4691.65	4564.63	7232.77	6942.85
Repayment of loans including interest	3020.87	4097.51	5109.79	7001.65	9126.76
Other receipts	97.74	576.59	1077.18	1295.89	2006.80
Opening cash balance and bank deposits	1025.49	1589.47	924.03	1070.28	1568.32
TOTAL	11749.73	17289.57	20354.88	24500.69	30388.35

(06)

Uses	1984-85	1985-86	1986-87	1987-88	1988-89
	(Rupees in lakhs)				
Disbursement of loans	5428.33	7802.84	9847.09	12078.34	14277.87
Disbursement under capital subsidy and special schemes of Government	1017.97	1586.13	1667.10	1748.31	978.22
Repayment of IDBI	1418.56	1810.96	2390.32	3037.87	3597.25
Repayment of other borrowings	525.49	2722.62	2241.18	1708.74	3334.82
Investment and others	115.04	151.60	202.91	201.85	124.56
Revenue payments	1654.87	2291.39	2935.99	4157.25	5122.11
Closing cash balance and bank deposits	1589.47	924.03	1070.29	1568.33	2953.52
Total	11749.73	17289.57	20354.88	24500.69	30388.35

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2A.3.6. Loan operations

The principal business of the Corporation is to grant loans to industrial concerns.

2A.3.6.1. Sanction of loans

Loan applications on prescribed form are required to be submitted alongwith detailed project reports, quotations for plant and machinery from registered suppliers/manufacturers and details of registration with Industries Department. The applications for loans up to Rs.10 lakhs and above Rs.10 lakhs are submitted to regional offices and head office respectively.

The loans up to Rs.5 lakhs are sanctioned by regional committees constituted at regional office level. Loans above Rs. 5 lakhs and up to Rs.7.50 lakhs are sanctioned by divisional committees consisting Deputy General Manager and Regional Managers of the division concerned. The loans above Rs. 7.50 lakhs and up to Rs.20 lakhs, above Rs.20 lakhs and up to Rs.30 lakhs and above Rs.30 lakhs and up to Rs.60 lakhs are sanctioned by an internal committee and executive committee of the Board and by the Board, respectively.

The table given on the next page indicates the details of loan applications received, sanctioned, withdrawn/cancelled and pending at the end of last five years up to 1988-89:

Serial Numb- er	Particulars	1984-85		1985-86		1986-87		1987-88		1988-89	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1	2	3	4	5	6	7	8	9	10	11	12
1.	Applications pending at the beginning of the year	469	2612.54	533	4253.96	602	6069.23	292	3833.03	284	2776.38
2.	Applications received during the year	5025	17326.76	4082	27532.82	2975	26821.42	2341	22911.10	2646	24432.53
3.	Total	5494	19939.30	4615	31786.78	3577	32890.65	2633	26744.13	2930	27208.91
4.	Applications sanctioned during the year	3897	9480.55	2776	15622.32	2440	19286.52	1815	17743.58	2215	18214.64
5.	Applications withdrawn/lapsed/closed etc.	1064	5506.50	1237	9280.29	845	7909.75	534	5840.41	455	5547.34
6.	Applications pending at the close of the year (3-4-5)	533	4253.96	6-2	6069.23	292	3833.03	284	2776.38	260	2737.12

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	1	2	3	4	5	6	7	8	9	10	11	12
7 . Sanctions subsequently cancelled or reduced	1239	2231.69	1070	2479.22	678	3990.69	632	3589.50	1243	4517.23		
8 . Effective Sanctions (4-7)	2658	7248.86	1706	13143.10	1762	15295.83	1183	14154.08	972	13697.41		

* The difference under coloumn of amount is because of sanctioning of lesser amounts thann applied for.

The declining trend in the inflow of applications was continuous from 1985-86 to 1987-88. The reasons for which were not analysed by the Corporation.

2A.3.6.2. Disbursement of loans

The Corporation disburses sanctioned loans through its regional offices after completion of all legal formalities and mainly after verification of:

- Pre-disbursement conditions such as raising of capital and subsequent investment for the creation of the assets as per scheme approved by the Corporation, obtaining of import licence, power sanction, no objection certificate (NOC) from Pollution Control Board and other statutory requirements.
- Progress of investment at site before each disbursement.
- Submission of wanting papers before last disbursement.

Further the entrepreneurs are also required to furnish a certificate from Chartered Accountants prior to disbursement of first and last instalment of loan about the capital raised, investment, etc. The expenditure incurred by the party for the creation of fixed assets at the site is verified by the Technical Officer of the Corporation before the first and after 90 per cent disbursement having been made on the basis of affidavit duly certified by Notary submitted by the borrower. Two inspections are also made after the 40 per cent and 75 per cent disbursement of the sanctioned loan. Further, if required, the Regional Manager can get the unit inspected any time.

2A.3.6.3. Sanction and disbursement of bridging loan

At times, completion of legal formalities for term loan gets delayed due to reasons beyond control of the entrepreneurs. In order to facilitate implementation of the financed project and to bridge the gap between the sanction and disbursement of loan, the Corporation provides bridging loan up to 75 per cent of the amount of term loan sanctioned after taking collateral security.

2A.3.6.4. Refinance from IDBI

The Corporation avails itself of the refinance facility from the IDBI (Under section 7(4) of the SFCs Act 1951) which allows full refinance against loans up to Rs. 5 lakhs and up to 80 per cent against loans exceeding Rs. 5 lakhs. However, full refinance is allowed in respect of loans disbursed in backward areas/districts. The commitment charges are payable at one per cent per annum on the refinance sanctioned by IDBI but not availed of by the Corporation. The position of the refinance sanctioned and availed of and commitment charges paid during the five years up to 1988-89 was as under:

Continued.....

Year	Loan disbur- sed	Refina- nce sanct- ioned dur- ing the year	Refina- nance availed during the year	Refina- nce not availed	Commit- ment charges paid	Refina- nce repaid
(Rupees in lakhs)						

1984-85	5428.33	4476.82	3482.26	1054.56	12.19	1418.56
1985-86	7802.84	9345.16	5134.35	4210.81	9.05	1810.96
1986-87	9847.09	11973.19	7129.25	4843.94	9.18	2390.32
1987-88	12078.34	16187.51	7200.10	8987.41	5.82	3037.87
1988-89	14277.87	16018.84	8685.62	7333.22	N.A.	3597.25

(97)

No effective steps had been taken by the Corporation to review the refinance not availed with a view to reduce the payment of commitment charges.

2A.3.6.5. Recovery of loans

Normally the Corporation provides loans for a period varying between 3 and 10 years with a moratorium of one to two years from the date of first disbursement of loan. Under the provisions of the loan agreement all dues in connection with the loans advanced by the Corporation can be realised as arrears of land revenue. The Corporation had not laid any procedure for systematic follow-up for recovery of dues up to June 1988. However, for the first time in July 1988, the Board of Directors approved general guidelines for taking follow-up action for recovery of dues.

2A.3.6.6. Recovery performance

Up to 31st March 1989, the Corporation disbursed loans of Rs.70702 lakhs to 28017 loanees, of which Rs.62178.39 lakhs (principal Rs.55130.13 lakhs and interest Rs. 7048.26 lakhs) was outstanding against 24071 loanees at the end of the year.

The table below indicates the position of overdues (both principal and interest) at the close of five years up to 1988-89:

		1984-85	1985-86	1986-87	1987-88	1988-89
		(Rupees in lakhs.)				
1		2	3	4	5	6
Opening balance	P	1634.74	2207.24	2647.93	3114.92	4205.17
	I	1717.90	2465.93	3059.69	3716.40	5775.22
Amount due during the year	P	1860.20	2690.72	3955.16	5412.53	6741.82
	I	2569.66	3445.13	4702.78	6810.85	8127.48
Total	P	3494.94	4897.96	6603.09	8527.45	10946.99
	I	4287.56	5911.06	7762.47	10527.25	13902.70
Amount rescheduled/deferred	P	47.32	610.89	1469.34	1607.41	2622.66
	I	41.14	393.00	955.11	465.25	1606.57
Net amount due for recovery	P	3447.62	4287.07	5133.75	6920.04	8324.33
	I	4246.42	5518.06	6807.36	10062.00	12296.13
Amount recovered during the year	P	1240.38	1639.14	2018.83	2714.87	3878.89
	I	1780.49	2458.37	3090.96	4286.78	5247.87
Percentage of recovery	P	36.00	38.2	48.8	39.2	46.6
	I	41.9	44.6	45.4	42.6	42.7
Closing balance at the end of the year	P	2207.24	2647.93	3114.92	4205.17	4445.44
	I	2465.93	3059.69	3716.40	5775.22	7048.26

P= Principal

I = Interest

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The following points were noticed:

(i) The overdues did not include the dues written off/waived which amounted to Rs.1355.61 lakhs during 1984-85 to 1988-89. Moreover, the overdues also did not include dues involved in recovery certificates/suit. filed cases which amounted to Rs.5866.51 lakhs as on 31st March 1989.

(ii) The Corporation did not have any record to show whether the units, whose repayments were rescheduled/deferred were paying the instalments of principal and interest in time. A test check of the records of Faizabad region disclosed that the recovery position from the units whose loans were rescheduled /deferred was very poor as detailed below:

Year	Num- ber of uni- ts	Amount resche- duled/ defer- red (Rupees in lakhs)	Numb- er of units in d- efault	Perc- entage of un- its in defa- ult	Outstand ing as on 31 st Mar ch 1989 (Rupees in lakhs)
1985-86	4	22.30	2	50	12.57
1986-87	8	36.25	7	88	33.98
1987-88	5	43.39	4	80	41.42
1988-89	9	109.21	5	56	125.79

(iii) The reasons for such poor recovery of overdues were not analysed by the Corporation.

(iv) The Corporation had not analysed and identified chronic defaulters of dues.

(v) In their performance evaluation study for the year 1988 the IDBI observed that though the recovery percentage of current overdues was improving, the recovery percentage of old overdues was decreasing and had come down from 59 per cent in 1985-86 to 29 per cent in 1987-88 as shown in the table below:

(Rupees in lakhs)							
		1985-86		1986-87		1987-88	
	Amou- nt	Perc- entage	Amou- nt	Perc- entage	Amou- nt	Perc- entage	
1. Curr- ent over- dues	6136	57	8658	60	12223	64	
2. Old over- dues	4673	43	5708	40	6831	36	
Total	10809	100	14366	100	19054	100	
3. Curr- ent rece- ipt	1680	41	3172	62	4998	71	
4. Rece- ipt out of old over- dues	2417	59	1938	38	2003	29	
TOTAL	4097	100	5110	100	7001	100	

Note: Overdues figures do not include recovery certificate and suit filed cases.

2A.3.6.7. Age-wise analysis of overdues

The following table gives age-wise position of overdues as at the end of each of the three years ending with 31st March 1989:

	1986-87	1987-88	1988-89
	(Rupees in lakhs)		
Up to one year	4121	4678	4852
	(38)	(46)	(42)
Between one and two years	2939	2389	2518
	(27)	(24)	(22)
More than two years	3794	2914	4124
	(35)	(30)	(36)
Total	10854	9981	11494
	(100)	(100)	(100)

(Figures in brackets indicate percentage to the total amount of overdues).

(i) Out of the total overdues in each year, the overdues for more than one year was above 50 per cent of total overdues.

(ii) Though the position of recovery of old overdues improved slightly during the year 1987-88, the position deteriorated further during 1988-89.

2A.3.7. Causes of low recovery performance

As analysed by Audit, the causes of low recovery performance are discussed

in succeeding paragraphs.

2A.3.7.1. Inadequate pre-sanction appraisal

Any entrepreneur seeking financial assistance is required to submit an application indicating the information as to capital cost, margin money for working capital, his bio-data and record of past experience. Thereupon the Corporation makes technical and financial appraisal which inter alia involves verification of bio-data of promoters; credit worthiness from the banks, estimated cost of plant and machinery and title deeds of land, etc.

During audit it was noticed that due to lack of proper pre-sanction appraisal the loan disbursed to units remained unrecovered from the units as per cases detailed below:

(a) Three units of Mainpuri were disbursed term loans of Rs.16.28 lakhs during December 1973 to August 1977. When the units were inspected by the Corporation after one year of the last disbursement in 1978, it was found that the units could not be started as the buildings of the factories were still incomplete and plant and machinery were lying in haphazard and dismantled condition. The recovery certificates issued by the Corporation in 1981 were returned by District Magistrate, Mainpuri in 1982 with the remarks that all the three recovery certificates related to one person and his relatives

who were partners and the properties available at site was a small tin shed and land only. Further to get the loan sanctioned from the Corporation, the promoters had brought some machines which had been returned to the original owner. The District Magistrate suspected that an investigation should be made to ascertain how the loans were sanctioned and disbursed to these units. The district authority, however, auctioned the units in May 1985 for Rs. 0.99 lakh and sent Rs. 0.82 lakh to the Corporation after deducting the recovery charges. The Corporation did not make any investigation regarding this irregular sanction and disbursement, and waived/wrote off the dues of Rs. 47.82 lakhs (principal Rs. 16.28 lakhs, interest Rs. 31.54 lakhs) in March 1987.

(b) A unit of Varanasi was disbursed a loan of Rs. 1.92 lakhs during February 1970 to June 1970 for establishing a chemical factory without first verifying ownership of land. Neither the unit was implemented nor repayment of principal or interest was made. Efforts made in April 1975 to sell the unit under Section 29 of SECs Act could not materialise for want of bidders. The recovery certificate issued in March 1979 was returned by the revenue authorities without any action as land belonged to another person. An inspection in July 1985 disclosed that the plant and machinery had been removed from site. Thereafter, no action was taken for recovery of dues which amounted

to Rs.8.40 lakhs (principal Rs.1.92 lakhs, interest Rs. 6.35 lakhs and expenses Rs.0.13 lakh). The Corporation, however, in March 1987 wrote/wived off the interest dues of Rs.5.33 lakhs.

(c) In March 1987 the Corporation sanctioned a term loan of Rs.60 lakhs to a unit of Etawah for setting up a project for manufacture of basic drugs. The amount of loan (Rs.60 lakhs) alongwith seed capital assistance of Rs.4 lakhs and central investment subsidy of Rs.7.42 lakhs was disbursed during March 1987 to January 1988. The project could not be implemented on account of diversion of funds of Rs. 23.21 lakhs during April 1987 and February 1988 by promoters to their other concerns. Legal documents of term loan and other financial assistance had also not been executed by promoters. The Corporation, therefore, recalled the entire outstanding amount of Rs.85.16 lakhs including interest of Rs.13.74 lakhs up to December 1988. The Corporation lodged a FIR in April 1989 against the Director/Promoter of the unit for cheating the Corporation, who was arrested in July 1989 and the matter was under investigation with Criminal Investigation Department (CID) of Government (March 1990). No recovery had been made up to March 1990.

Irregularities at each stage of sanction and disbursement were noticed in Audit:

(i) Pre-sanction appraisal had not been done properly as the loan application received and processed did not have the bio-data of directors of the unit and the cost of plant and machinery was taken on the basis of cost given by consultants and not on the basis of quotations from suppliers. Further the loan amount was calculated on the basis of debt equity ratio norm instead of minimum promoters margin of 20 per cent on capital cost.

(ii) The appraisal note was directly put up to the Managing Director of the Corporation without the recommendation of the Deputy General Manager/General Manager. The fact that one of the director of the Corporation was the Managing Director of the Unit who had resigned from the post of the MD at the time of submission of loan application was not disclosed.

(iii) The loan sanction order did not make it obligatory on the part of the unit to obtain necessary drug licence for manufacture of drugs within a stipulated period for release of further loans nor was it obtained by the unit.

(iv) In the appraisal note, margin for security was reduced from 20 per cent to 8 per cent of the capital expenditure without any justification thereof.

(v) The loan amount was to be refinanced by the IDBI which could not be done due to incomplete documentation.

(vi) Loan was disbursed on the security of land which had no clear and marketable title in the name of the unit and also on the basis of a higher valuation made in appraisal note.

(vii) Disbursement was made on the basis of certificate from Chartered Accountant and affidavit of promoters without investment of the promoters' contribution amounting to Rs.120 lakhs.

(viii) The amount of term loan included Rs.1.15 lakhs towards technical know how fees which was disbursed without obtaining a copy of the agreement with consultants/collaborators and other details viz. drawing and building plan, etc.

(ix) The central investment subsidy was also disbursed without verification of capital investment on fixed assets.

In reply, the Management stated in March 1990 that the matter was under investigation with CID and the erring officers/officials would be dealt with separately.

(d) A test check of the loans sanctioned and disbursed by the Regional Manager,

Bulandshahr, disclosed that 18 units to whom term loans aggregating Rs. 75.85 lakhs were disbursed during April 1985 to December 1987 for setting up projects in the district were lying closed even without having started production.

A test check in Audit (September and December 1989) of 10 cases (records of eight cases were not made available to Audit) involving loan disbursement of Rs.27.96 lakhs during April 1985 to July 1987, against whom Rs.22.14 lakhs were outstanding as on 30th June 1989, disclosed the following:

(i) Pre-sanction appraisal was not done properly as credit reports of loans were not obtained in three cases, land ownership was not verified in one case and location of the unit was not suitable in one case.

(ii) While valuing the fixed assets created by the unit, the Inspecting Officers of the Corporation overvalued the assets created leading to excess as well as irregular release of instalment of loan in nine cases whereas in one case instalment of Rs.0.26 lakh was released without creation of security by the promoter.

(iii) Loan instalments were released to seven units on the basis of the advance payments made to suppliers of plant and machinery in contravention of the Corporation orders and without verification of such advances

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having been made. Whereas in one case the firm did not supply any plant and machinery, in another case the draft was got cancelled and encashed by the unit itself. In two cases bills of the suppliers claiming advance payments were found to be forged .

(iv) In two cases, loans of Rs.9.51 lakhs were released by the Regional Manager after according approval to the change in project without obtaining approval of Regional Committee of the Corporation.

(v) In one case loan of Rs.8.21 lakhs was released without investment by promoters of their contribution of Rs.1.04 lakhs.

The Corporation initiated recovery action by issue of recall notices (four units), issue of notice under Section 29 of SFCs Act (one unit), taking over possession of the unit under Section 29 of SFCs Act (three units) and recovery certificates issued (10 units) and recovery certificates issued (10 units). No recovery could be effected so far (March 1990).

2A.3.7.2. Irregular disbursement of loan and non-insistence of statutory requirements

Loans to units were disbursed by the Corporation without first ensuring compliance by the units to the various prescribed

conditions as discussed in para. Irregular disbursement of loan to the units besides resulting in the non-implementation of the project also put the recovery of the Corporation's dues into considerable jeopardy. Some of these cases noticed during Audit are discussed below:

(a) A partnership firm of Lucknow was sanctioned in August 1971 a term loan of Rs. 3.96 lakhs for purchase of land, construction of factory building and purchase of plant and machinery. Rs.3.18 lakhs was disbursed to the firm during March 1972 to December 1973 after expiry of the validity period of sanction which was up to February 1972 and without obtaining security by way of deposit of lease deed of land and prior verification of credit worthiness of the firm through banks. Even the security by way of investment of promoters contribution was only Rs.0.98 lakh as against Rs.1.35 lakhs envisaged in the sanction advice. The unit continuously failed to repay due instalments of principal and interest up to September 1976 when the Corporation issued recovery certificate for Rs. 4.34 lakhs to the district authorities. On sale of the firm's assets in September 1977, Rs. 1.07 lakhs only could be realised. In November 1977 the Corporation lodged a claim for Rs.2.50 lakhs being the maximum amount recoverable under credit Guarantee Scheme (CGS) which was rejected by the Credit Guarantee Organisation in September 1979 for violation of organisations'

instructions in disbursement of loan. After appropriation of sale proceeds, overdues against the firm in March 1988 stood at Rs.16 lakhs on account of principal (Rs.3.18 lakhs) and interest (Rs.12.82 lakhs) which were subsequently written off by the Corporation.

(b) The Corporation sanctioned in November 1970 a term loan of Rs.1.20 lakhs to a unit of Bulandshahr for construction of building and purchase of plant and machinery for the manufacture of steel pipes and poles. The loan was disbursed to the unit during March 1972 to June 1972 without verification of investment made by promoters and also against inadequate security at site. Further, statutory documents such as Income Tax clearance certificate, insurance cover note policy and power sanction letter from Uttar Pradesh State Electricity Board (UPSEB) had not been obtained before disbursement of loan. When the unit was inspected in May 1973 by the Corporation, it was found that the plant and machinery had been removed from the site. No FIR was lodged by the Corporation. Against recovery certificate issued by the Corporation in September 1973 the district authority sold the unit in April 1978 at a sale consideration of Rs.0.35 lakh and informed the Corporation that no further recovery was possible as no moveable / immoveable properties were available in the name of the firm as well as in the name of promoters. The Credit Guarantee Organisation also did not accept the claim lodged by the Corporation

due to non-submission of required documents by the Corporation.

(c) A unit of Unnao was sanctioned in June 1982 a term loan of Rs.11.80 lakhs for setting up a project for manufacture of mill board. The disbursement was, however, to be made only after the promoter had obtained no objection certificate (NOC) from Water and Pollution Control Board. It was, however, seen that a sum of Rs. 5.30 lakhs was disbursed during March to July 1984, although the promoters had not obtained NOC. The Water and Pollution Control Board rejected the application of the unit in November 1984 and as such the unit could not come up. The Corporation still paid the following amounts to the promoters even after the project had been rejected by Water and Pollution Control Board.

Amount (Rupees in lakhs)	Period of payment	Category of loan
6.50	January to March 1985	Out of loan sanctioned in June 1982
2.45	February 1985 to July 1986	Additional loan sanctioned and disbursed
1.35	March 1985 to June 1985	Central investment subsidy

10.30

The unit could neither start production nor had paid any instalment of dues to the Corporation. An inspection of the unit by an officer of the Corporation in September 1986 disclosed that the plant and machinery had been removed from the factory premises and the diesel generating set had been sold. A FIR was lodged with police in November 1986 without results. A recovery certificate for Rs.20.25 lakhs (including interest and CIS dues and expenses) was issued on February 1987: but no recovery could be made. An attempt to sell the unit in February 1988 under Section 29 of SFCs Act was stayed by the High Court in view of the writ petition filed by the unit. The High Court directed that unit shall pay off the entire dues of the Corporation in four equal instalments on 30th April , 31st July, 31st October 1989 and 31st January 1990. In case of default in payment of any instalment on the above dates, the Corporation shall be at liberty to proceed to recover their dues in accordance with law.

Neither the unit paid any instalment nor the Corporation had taken any action so far (March 1990).

Thus due to irregular disbursement of loan and also due to not taking appropriate and timely action to recover the dues which accumulated to Rs.22.57 lakhs (December

1988), the chances of recovery were remote as plant and machinery of the unit had already been removed. The matter regarding release of loan after rejection of the project by Water and Pollution Control Board was also not investigated to fix responsibility.

(d) The Regional Manager, Allahabad disbursed a term loan of Rs. 25.77 lakhs and central investment subsidy of Rs.5.59 lakhs during February 1985 to December 1985 to a unit of Fatehpur for manufacture of industrial oxygen gas after reducing the security margin to 15 per cent as against 25 per cent stipulated in the loan agreement. The income tax/sales tax clearance certificate, power sanction, small scale industry registration certificate, etc. were not obtained before or after disbursement of the loan.

During inspection of the unit in September and December 1986 it was found that the unit was not implemented and that even power connection had not been obtained. Notice under Section 29 issued by the Corporation in February 1987 was stayed by it in the same month and another loan of Rs.5.19 lakhs was disbursed by the Corporation for purchase of DG set in March 1987.

As the unit failed to repay the instalments of principal and interest, physical possession of the unit was taken over in January 1988 when it was found that the factory building was without doors and windows

and all major plant and machinery had been removed. Against sale notice issued in July 1988 the highest offer received was for Rs.10 lakhs which was not accepted as the offered amount was far below the dues outstanding against the unit. The recovery certificate issued in June 1988 for Rs.38.48 lakhs was pending with revenue authorities.

Thus due to irregular disbursement of loan, the chances of recovery of dues amounting to Rs. 38.43 lakhs were remote.

(e) Pending completion of legal formalities against the term loan of Rs.30 lakhs sanctioned to a unit of Ghaziabad in February 1982 for setting up a project for manufacture of bed sheets, the Corporation sanctioned in February 1983 a bridging loan of Rs. 27 lakhs. As per terms of loan, disbursement was to be made only after the promoter had submitted a letter of consent from banks for creation of exclusive first charge of the Corporation on fixed assets of the unit in addition to floating charge over all assets.

It was, however, noticed that loan of Rs. 27 lakhs was disbursed in March 1984 without obtaining such a letter of consent from the banks. As the unit neither completed the legal formalities for conversion of bridging loan

nor repaid the loan amount of loan, a recovery certificate was issued in October 1986 which was withdrawn in November 1986 as the unit agreed to pay the dues, but dues were not paid by the unit. Against another recovery certificate issued in December 1987, the unit obtained stay from the court. After filing an application for vacating the stay, order a recovery certificate was again issued in March 1989 for recovery of Rs.52.43 lakhs. The revenue authorities, however, intimated in May 1989 that recovery was not possible because all the plant and machinery were hypothecated to a scheduled bank.

No further action for recovery of dues was taken thereafter. Thus due to irregular disbursement of loan, the chances of recovery of dues amounting to Rs.52.43 lakhs were remote.

(f) The Corporation can sanction term loans to a promoter up to Rs. 30 lakhs has to approach Pradeshia Industrial and Investment Corporation of Uttar Pradesh (PICUP). It was however, noticed that the Corporation during May to July 1977 sanctioned term loans aggregating Rs. 104.71 lakhs to a promoter for setting up eight units in leather complex, Unnao for processing, tanning, finishing and making of DMS boots, treating each process as a separate unit. Out of above sanctioned amount, Rs.95.25 lakhs was disbursed during December 1977 to March 1981 without investment of promoters contribution of Rs.18.57 lakhs.

None of the projects had been implemented and no repayment of principal and interest was made. 27 cheques of the promoters were also dishonoured by banks with the result that the dues had increased to Rs. 105.11 lakhs. The Corporation in May 1985 further sanctioned three term loans of Rs.52.60 lakhs to three other new projects also dealing with leather goods of the same promoter. Of this Rs.37.56 lakhs were disbursed during July 1985 to April 1986. The possession of all units was taken over in November 1988 by the Corporation under Section 29 of SFCs Act, as outstanding dues had accumulated to Rs. 162.38 lakhs as on 31st December 1987 due to continuous defaults in repayment of principal and interest. The promoter filed a suit in the High Court which ordered in December 1988 the release of all the units after receipt of first instalment of Rs. 5 lakhs to be paid within 10 days. The promoter was to pay the second instalment of Rs. 5 lakhs by March 1989 and at Rs. 20 lakhs quarterly till liquidation of dues. Accordingly the possession of units was handed over to the promoter in January 1989 on payment of first instalment of Rs. 5 lakhs in December 1988. The balance amount was not paid by the promoter. In this connection the following points were noticed.

(i) Margin money loan of Rs.12.43 lakhs and central investment subsidy of Rs.2.68 lakhs disbursed by the Corporation were also overdue for recovery.

(ii) Performance warranty of plant and machinery for which subsequent instalment of loans were released, was not obtained.

(iii) There was abnormal delay in taking action for recovery leading to accumulation of dues to Rs.162.38 lakhs as on 31st December 1987. While no recovery certificate was issued, takeover of the units was done in November 1988.

(iv) Although the Regional Manager of the Corporation had suggested in April 1985 not to disburse further loans on the ground that the promoter was wilful defaulter and existing units were at closure stage, the Corporation sanctioned and disbursed Rs.37.65 lakhs in May 1985.

The chances of recovery of overdues were remote, as all the units were lying closed and legal action for recovery of overdues of Rs. 3 crores had been initiated by Central Bank of India.

2A.3.7.3. Lack of effective follow-up/monitoring

It is virtually important to closely monitor the progress made by units assisted by the financial institutions particularly in view of the growing sickness of industrial units on account of various reasons to take timely appropriate remedial action. Some of

the major reasons for the sickness were the bottlenecks faced by the projects during implementation stage as well as the lack of a well integrated plan and non-synchronisation of various factors necessary for implementation of the projects in the envisaged time schedule. However, the Corporation had no system to monitor the progress of the financed units prior to 1986-87 when a separate follow-up department was created at the head office of the Corporation with the following basic objectives:

(i) To monitor the progress of implementation of the projects financed by the Corporation with a view to ensure that the projects are implemented within the envisaged time schedule so that time and cost overruns leading to initial sickness are avoided.

(ii) To identify and anticipate problems that may arise during implementation of the projects and to take timely and corrective action and also to arrive at alternate solution.

(iii) To assist in sorting out the problems faced by the entrepreneurs during implementation period with any of Government departments.

(iv) To provide a feed back to the appraisal department of the Corporation and to obtain information for further guidance.

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(v) To ensure that disbursement of term loan and Central investment subsidy is made according to the need of the projects.

Scrutiny of records of follow-up cell at head office and 8 out of 19 regional offices revealed the following:

(i) The Corporation did not prescribe minimum number of post-disbursement inspection of assisted units each year.

(ii) Information about the number of units which had become sick/closed and the reasons thereof had not been collected.

(iii) There was no system of calling for progress reports from assisted units.

(iv) The visits of the Corporation's officers were generally confined only to the verification of security and recovery of dues.

(v) There was no proper feed back to the appraisal department about the problems/progress of the unit to enable it to take care of the emerging aspects while appraising similar projects in future.

(vi) A separate cell with adequate staff to monitor the progress of the assisted units had not been created at each regional office in spite of the recommendation made by the IDBI in its Performance Evaluation Study Report for the year 1987-88.

During audit it was noticed that due to lack of proper follow-up and effective monitoring of the assisted units, the loan disbursed to the units remained unrecovered in the cases given below:

(a) In January 1974 a unit of Bulandshahar district was sanctioned a term loan of Rs. 1.80 lakhs for construction of building and purchase of plant and machinery. Rs. 1.39 lakhs was disbursed to unit in 1975 without verification of investment made by the promoters as envisaged in the agreement. When the unit was inspected, after one year of disbursement (1976) it was noticed by the Corporation that the unit could neither get the power connection nor could start its production due to financial constraints. The premises of the factory was closed and the machines were in dismantled condition. The Corporation, however, did not initiate any recovery action for two years till January 1979 when a recovery certificate for Rs. 2.80 lakhs (Principal Rs. 1.39 lakhs, interest Rs. 1.41 lakhs) was issued to the District Magistrate, Bulandshahr who auctioned the unit in March 1982 for total sale consideration of Rs. 0.30 lakh which was accepted by the Corporation under protest. The Corporation, however, in March 1986 had written off/waived off the dues against the unit.

(b) The Corporation disbursed loan of Rs. 9.57 lakhs to a unit of Fatehpur during January 1977 for setting up a project for manufacture of crockery. As the unit did not

pay any dues, a recovery certificate was issued in Marcy 1982 which was returned by the district authorities in February 1983 with the remarks that the borrowers were not traceable and they had no moveable/immoveable properties as a result the recovery was not possible. Again a notice was issued in April 1985 under Section 29 of SFCs Act which was also returned by post office with the remarks that the firm was dissolved and the borrowers were not traceable. In view of above the Corporation made several advertisements during March 1985 to February 1986 for sale of the unit but no buyer turned up. An inspection of unit made in January 1985 disclosed that the unit was lying closed since 1981 and the borrowers had already shifted the machinery elsewhere. Thus the chances of recovery of dues of Rs.23.43 lakhs were remote as the unit was lying closed for the last eight years. In this connection the following further observations are made:

(i) Proper inspection and follow-up action was not taken as a result the borrowers manipulated the shifting of machinery. Even the date of closure of the unit was not on record.

(ii) The margin money loan of Rs.1.14 lakhs was disbursed to the unit with a gestation period of nine years against the norms of one to two years of the Corporation for which no reasons were on record.

(iii) No action had been taken by the Corporation for recovery after February 1986.

(c) A firm of Varanasi was disbursed Rs.7.20 lakhs during July 1980 to January 1982 for setting up a composing and printing unit. Although the firm failed to repay the instalments of principal and interest, neither effective action for recovery of dues was taken nor was any inspection of the unit conducted. The recovery certificate issued in February 1984 was withdrawn in September 1985 on the assurance of the promoter to pay an instalment of Rs.0.15 lakh in October 1985 which was not done. When asked to reinstate the recovery certificate in March 1986, the Collector, Varanasi fixed 27th June 1987 as the date for auction of the unit but the recovery certificate was again withdrawn in May 1987 as the party again promised to pay the dues which was also not fulfilled. No action for recovery of the dues was thereafter taken up to March 1989 when the outstanding dues amounted to Rs. 19.87 lakhs (including interest of R.12.57 lakhs and expenses of Rs.0.10 lakh).

2A.3.8. Bad and doubtful debts

The Corporation did not have a system to analyse the debts to ascertain how far these were bad or doubtful of recovery. Only amounts due in respect of loanees in whose cases FIRs were lodged for surreptitious removal of plant and machinery financed by the Corporation were shown as doubtful in the accounts. The table below indicates the position of bad and doubtful debts, provisions made, bad debts recovered and also bad debts written off during the five years upto 1988-89:

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Year	Bad and doubtful debts at the end of the year	Bad debts written off during the year	Provisions made at the end of the year	Percentage of provision to doubtful debts
(Rupees in lakhs)				
1984-85	210.19	Nil	78.50	37.3
1985-86	285.65	163.00	163.00	57.1
1986-87	392.63	69.63	233.00	59.3
1987-88	597.12	107.80	233.00	39.0
1988-89	847.80	122.44	253.00	29.8

In this connection the following observations are made:

(i) Age-wise analysis of bad and doubtful debts had not been done in any year.

(ii) The amount of provision stood at Rs. 253 lakhs which represented only 29.8 per cent of bad and doubtful debts of Rs. 847.80 lakhs leaving the provision short by Rs. 594.80 lakhs as at the end of March 1989.

2A.3.9. Closed and sick units

The Corporation had not been reviewing its term loan portfolio to indentify sick/potentially sick units. As a result the assessment of number and extent of sick/closed units and investment made in them as well could not be ascertained.