Audit of Fraud
Fraud Detection Techniques and
Forensic Audit

Acceptance of forged and inflated collateral security
From the PD's Desk

As a part of the institute’s pursuit towards excellence in training in the area of “Audit of Fraud, fraud Detection techniques, and Forensic Audit”, we bring out a series of cases of frauds reported in the audit reports of the Comptroller and Auditor General of India, as case studies. Simultaneously, we also endeavor to consolidate the approach and methodology followed by fraudsters in committing them as well as the manner in which they were prevented/detected.

This case study has been prepared based on the material reported under para 4.19 of the report of the Comptroller and Auditor General of India for the year ended 31 March 2006 (Commercial) Government of Haryana.

I take this opportunity to extend my sincere thanks to Shri Jagbans Singh, Accountant General (Audit), Haryana, Chandigarh, who made us available all the relevant documents whenever requested for. I am also thankful to him for arranging for validation of the facts reported and conclusions drawn in the case study.

I commend the efforts of Smt.R.R.Shahare, Asstt.Audit Officer /Core Faculty in preparing the case study on the lines directed from time to time.

I hope that the readers would benefit from this. Their suggestions, if any, would help us in future such attempts.

Principal Director
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ACCEPTANCE OF FORGED AND INFLATED COLLATERAL SECURITY

1. Background

As per manual for “Appraisal of the Loan cases”, the quantum of collateral security ranges between 20 to 100 percent from units set up in un-approved industrial area. The value of collateral security would be assessed by valuer first and then checked by the officer of the Corporation.

A loan of Rs. 20 lakhs was sanctioned to M/s Rajesh and Company, Bhiwani (unit) with the stipulation that the company should produce a security of not less than 100 percent of the sanctioned amount. The unit offered collateral security of land measuring 47 Kanal 11 Marla in village Durjanpur Mazra Barsi district Bhiwani, which was accepted at a value of Rs 45 lakh i.e after verification by the Branch Manager. The Corporation’s Law Officer also checked the title of the security. The Corporation disbursed Rs.17.67 lakh in March 1999.

2. Fraud Environment

2.1 The concerned unit had submitted forged documents/jamabandi and other revenue records at the time of sanction of loan.

2.2 As per the revenue records, the land measuring 47 kanal 11 marla shown in the name of Shri Krishnan, Shri Karan Singh, Shri Rajinder Singh, Shri Jagbir, Shri Mahabir and others whereas the Jamabandi submitted at the time of disbursement of loan showed the above mentioned property in the name of Shri Nihal Singh.

2.3 There was no policy of the Corporation to verify the documents submitted by the party in the year 1998, when the title was accepted. Verification of facts mentioned in search report from the revenue /municipal records by Law Officer was started in the year 2003.

2.4 The borrower submitted forged documents to the Corporation and the Advocate who conducted the search of the documents in the revenue office failed to point out the discrepancy.
3. **Opportunity to prevent frauds**
Controls, which could have prevented/limited the fraud but were by-passed.

3.1 The Corporation was supposed to ensure the availability of working capital of the unit before disbursement of loan.

3.2 Realizable value of the land in the form of collateral security need to be assessed and ensured that it was not less than 100% of the term loan needed.

3.3 Title clearance/Ownership of the land mortgaged should have been done by the legal officers of the Corporation, before disbursement of the loan.

3.4 The behaviour of the party regarding repayment whether regular or irregular should have been observed before disbursement of loan.

4. **Act of Fraud**
The borrower, while applying for loan from Haryana Financial Corporation, mortgaged a land as collateral security, which was not owned by them. The realizable value of the land was very low compared to what it was shown. In view of this the Corporation could not raise the lent amount even when the land was auctioned to recoup the loan. The Corporation received only offer of Rs.2.5 lakh but the property could not be sold as the mortgager was not the owner of the property.

5. **Opportunity to detect and proving the fraud**

**Red flag indicator**

5.1 Audit Party of the Office of the Accountant General, Audit, Haryana, Chandigarh conducted the audit of the records of Haryana Financial Corporation for the year 2005-06 and found that Rajesh and Company was sanctioned loan of Rs.20 lakh and as collateral security mortgaged land measuring 47 Kanal 11 Marla in village Durjanpur Mazra Barsi district Bhiwani. *The unit did not make a single instalment of repayment and when the mortgaged property was auctioned to recoup the loan it was found that neither the unit was the owner of the mortgaged property nor the realizable value of the mortgaged property was equal to the term loan sanctioned.*
**Follow Up on Red flag -**

5.2 Acting on this red flag indicator, the Negotiation Committee of the Corporation constituted to consider the sale of sick units decided to fix responsibility for accepting land without clear title as security and the gap between the value of security accepted and its present assessed value.

5.3 Mortgaging the property which is not owned by the applicant clearly imply the ill intention of the Unit to cheat the Corporation.

5.4 Having obtained clear evidence of fraud during the audit of Haryana Financial Corporation, the Negotiation Committee in spite of 29 efforts to dispose of the collateral securities did not find a single bidder and hence decided to re auction the property from headquarters office.

6. **Lessons learnt: Preventive controls/Detective controls**

6.1 Assessing officer rendered all the preventive controls in the system ineffective by not assessing the value of property correctly. He should assess the property with due adherence to the norms attached therein.

6.2 Had the title of the mortgaged property been verified, correct property could have been mortgaged as collateral securities and recoupment on non-recovery of loan could have been possible.

7. **Enclosures for reference**

7.1 Copy of Manual for appraisal of the loan cases
7.2 Copy of procedure for accepting collateral security(Chapter IX)
7.3 Copy of the sanction of loan dated 29-4-1998
7.4 Copy of the reply to the para from the Corporation
7.5 Detail of disbursement of loan
7.6 Format for putting up for auction before the committee.
7.7 Taking possession of collateral security
7.8 Particulars of property sold
7.9 Minutes of NCM held on 27-6-2005
7.10 Instructions regarding acceptance of collateral security
7.11 Statement showing outstanding balance against the unit
7.12 Reply of the Draft Para from the Corporation.
Acceptance of collateral security at inflated value without ensuring its clear title resulted in non-recovery of Rs. 77.54 lakh.

Company (unit) with the stipulation that the unit would furnish collateral security of not less than 100 per cent of the sanctioned amount. The unit offered collateral security of land measuring 47 Kanal 11 Marla in village Durjanpur Mazra Barsi, district Bhiwani which was accepted (July 1998) at a value of Rs. 45 lakh after verification by the Branch Manager. Title of the security was also checked by the Corporation's Law Officer. The Corporation disbursed Rs. 17.67 lakh in March 1999. The unit did not repay any instalment of loan due from March 2000. Due to persistent default, the Corporation took over (January 2001) the possession of the unit under Section 29 of the State Financial Corporations Act, 1951 and sold (April 2004) it for Rs. 0.65 lakh. The Corporation also took (April 2003) deemed possession of the collateral security. Audit scrutiny revealed that for the sale of the collateral security, the highest bid received (27 June 2005) was Rs. 2.50 lakh against the accepted value of Rs. 45 lakh. This could not be sold even for this price as it was found that the mortgager was not the owner of the land. Besides, correctness of the valuation of collateral security was not ensured by thererespective officers despite specific instructions issued (May 1996) by the Corporation.

The amount outstanding against the unit as of September 2006 was Rs. 77.54 lakh (principal: Rs. 17.67 lakh, interest: Rs. 58.29 lakh and miscellaneous* expenses: Rs. 1.58 lakh).

The Negotiation Committee of the Corporation, constituted to consider the sale of sick units, decided (27 June 2005) to fix responsibility for accepting land without clear title as security and for the gap between the value of security accepted and its present assessed value. No action had, however, been taken so far (September 2006).

Thus, acceptance of collateral security at inflated value without ensuring its clear title had resulted in non-recovery of Rs. 77.54 lakh. The management stated (June/September, 2006) that it had decided to lodge FIR against promoter/guarantor of the unit alongwith all the connected persons. Final action taken in this regard shall, however, be awaited in audit. The matter was referred to the Government in May 2006; the reply had not been received (September 2006).
On receipt of imprest money/service charges from the concern/company a set of proforma sent to the party for getting the search in the Revenue Records in respect of the site(s) of which the unit is to be installed or to be given as collateral security for 12 years. Generally when a party applies for loan even at that time the party is advised to get the search conducted so that after sanctioning of the loan there may not be wastage in time for getting this work done. The sanction letter also contains the information regarding the judicial/non-judicial stamp papers to be submitted by the party for getting the documents executed. In case of small scale unit the party is advised to submit non judicial stamp paper worth Rs. 17.50 in the name of the firm/company or proprietary the concern for the mortgage deed and for Rs. 15/- in the name of the partners/directors/sole prop. for the bond of guarantee. These papers are to be purchased from Haryana, not elsewhere.

**COLLATERAL SECURITY**

The Corporation has now started to take collateral security in all the cases to be set up in unapproved industrial area (except in ERS; Mahila Udyam Nidhi Scheme & G. set cases). The details of collateral security to be taken in the form of tangible assets (Immovable) are given hereunder:

a) 30% of the quantum of loan. In case of Technical entrepreneur it is 20%.

b) 100% in the cases of single window scheme i.e. for working capital assistance.

c) Where the land and building are on lease, collateral security equivalent to the quantum of loan is asked for.
Manual of Disbursement

Deviation from the terms of sanction letter in respect of collateral security such as value of the property change of property should be got approved from competent authority.

Circulars issued from time to time should be followed in this regard.
CHAPTER IX

PROCEDURE FOR ACCEPTING COLLATERAL SECURITY

In many cases, loans are required to offer collateral security of a given amount against the sanctioned loan. In such cases, loanee may be asked to submit complete details in respect of the property to be offered as collateral security.

Before accepting properties the following may be ensured:

i) Title of the property being offered is clear.

ii) Consent of the owner for offering the collateral security is available.

iii) Assessment of the property is got done through an approved assessor on the panel of the corporation.

The collateral security may be in the form of land, building commercial establishments, shops etc. The title documents of the properties.

The properties should be obtained from the loanee. The equitable/registered mortgage documents then be drafted/vetted and got properly executed.

The title deeds and other documents should be placed under safe custody.

Harappa Financial Corporation
Haryana Financial Corporation

Dear Sirs,

RE: YOUR LOAN APPLICATION

With reference to your loan application for Rs. 45.00 lacs, we are agreeable in principle to grant a loan/addl. loan of an amount not exceeding Rs. 20.00 lacs. only (Rupees Twenty lacs only) to you on the following terms and conditions:

1. When payment will be made - Subject to the compliance of the terms & conditions contained in this letter and execution of requisite formalities and documents to the satisfaction of the Corporation, the amount of the loan will be paid to you by cheque [1].

2. Security - The loan will be secured by first/second/registered mortgage of all the existing as well as future fixed assets, viz., land, building, plant & machinery and fixtures etc. of the factory, situated in, DURJANPUR, BIHANI standing in your name.

The Corporation will also have a charge on machinery spares and stores, present and future, as well as receivables, claims, goodwill, contracts, engagements, securities, investment, right and assets belonging to you. But your industrial concern will be free to raise funds from banks or others against raw materials, stocks in trade, finished and unfinished products, spares stocks and receivable claim, bills for collection and book debts. Provided, however, that for raising funds against any other tangible assets movable or immovable a previous consent, in writing of the Corporation, shall be obtained.

3. Margin - 20% on building, machinery & contingencies

The margin is to be determined by the Managing Director of the Corporation (whole decision shall be final) of the fixed assets mortgaged to the Corporation shall not be less than 3/4 times of the amount of loan outstanding against your industrial concern.

4. Repayment - The amount of loan shall be repaid within 3 years to be counted from the date of execution of mortgage deed in 27 equal monthly installments. The first installment(s) of Rs. 2,000/ each and the last installment(s) of Rs. 8,000/ each to be paid within 3 months from the date of disbursement of loan.

As per annexure attached.

The loan will carry interest @ 8% per annum. However, the interest rate can be adjusted by the Board at any time in accordance with the prevailing rates in the market. In the event of default, the Corporation may charge a penalty or any other penalty related to interest on the amount in default for the period of default.

6. Title - You shall produce a clear and marketable title to the property proposed to be mortgaged to the Corporation to the satisfaction of the Corporation.

7. Insurance - The properties and other assets charged to the Corporation shall be insured in the joint name of your industrial concern as the mortgagor and the Corporation as the mortgagee, subject to the usual bank clause for the full value against fire and, if so required also against riot and civil commotion and other risks such as theft, flood, hurricane, typhoon & earthquake etc.

8. Change in the Constitution - During the currency of the loan you shall not change your present constitution in any way without the prior consent of the Corporation in writing, which the Corporation shall have the right to refuse or
impose such conditions as it may consider essential.

During the currency of loan, you shall not change, amend or alter your Memorandum and Articles of Association without the previous approval of the Corporation, in which the Corporation shall have the right to refuse. You shall forthwith and from time to time, as may be required by the Corporation make such alterations and additions to your Article of Associations as may be considered necessary in the interest of the security created in favour of the Corporation.

9. APPOINTMENT OF DIRECTOR : During the currency of loan, the Corporation shall have the right to appoint one director on your Board of Directors, such director being non-rotating and not liable to hold any qualification shares. You shall amend your Articles of Association accordingly. It is necessary. The director so appointed by the Corporation shall be entitled to change to you his travelling and halting Bills according to the rules of the Corporation and his sitting fee according to the provisions of Articles of Associations for attending any meeting of your Board of Directors.

10. a) WITHDRAWAL OF THE CAPITAL DEPOSITS : During the currency of the loan from the Corporation, your proprietor or partners shall be entitled to withdraw, for his/her personal and family expenses, such sum as the Managing Director of the Corporation may consider reasonable and except the aforesaid withdrawal, your profits shall be retained in your business along with deposits now existing or that may be made with you in the name of your proprietor or partners or his/her relatives and or friends (Applicable in case of sole-proprietorship/partnership cases only).

b) DIVIDEND : During the currency of the loan you shall not declare dividend at more than 12% p.a. without permission of the Corporation, provided, however, that no dividend shall be declared without the consent in writing of the Corporation. The Corporation may consider reasonable and except the aforesaid withdrawal, your profits shall be retained in your business along with deposits now existing or that may be made with you in the name of your proprietor or partners or his/her relatives and or friends (Applicable in case of sole-proprietorship/partnership cases only).

11. UTILISATION OF THE LOAN : The amount of the loan will be utilised for the specific purposes enumerate below and to the extend noted against each. No part of the loan will be utilised to liquidate your previous debt or liability

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<th>Description</th>
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<td>(i) Land</td>
<td>3.20</td>
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<td>(ii) Building</td>
<td>16.52</td>
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<td>(iii) Machinery</td>
<td></td>
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<td>(iv) Contingencies</td>
<td></td>
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<tr>
<td>(v) Preliminary &amp; Pre-Operative exp.</td>
<td>0.52</td>
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<tr>
<td>(vi) Others</td>
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However, you shall be entitled to reimburse yourself, out of the loan amount, to the extent of amount spent by you in anticipation of loan from the Corporation on creation of fixed assets.

The amount of the loan shall be kept in a separate account in the name of your industrial concern with a scheduled bank, the payment wherefrom will be verified by an officer of the Corporation authorised by the Managing Director per draft given in Appendix 'A'.

The loan sanctioned is required to be utilised for the specific purpose and diversion of funds from one head to another head is not allowed. This is further made clear that the loan sanctioned will be released strictly as per the above agreed capital and LTL in order to maintain the required debt equity ratio.

12. TRANSFER OF ASSETS TO OTHER CONCERNS : During the period the loan from the Corporation is outstanding no part of the assets your industrial concern, whether charged to the Corporation or not, shall be transferred to an allied or other concern (whether now in existence or to be created hereafter) without the consent in writing of the Corporation and subject to the conditions on which the Corporation may impose.

13. INSPECTION : During the currency of the loan, the Corporation shall have the right through its officers to inspect, at your cost the mortgaged property and the factory and the books of your industrial concern and to take copies of the entries therein whenever considered necessary. You shall submit such periodical statements & returns to the time to time.

14. FURTHER ENCUMBRANCES : During the period the loan from the Corporation is outstanding, you shall not
15. EXPENSES: All expenses incurred by the Corporation in inspecting the security/property of the loan, including your industrial co-omb and in investigating the title of the property and assessment of its value and in the execution of the mortgage deed and all other expenses incidental to the completion of the transaction shall be borne by you. The Corporation shall be entitled to recover the cost of any such expenses which is non-refundable.

16. UPFRONT FEE: You industrial concern shall pay upfront fee of 1% on the sanctioned amount of loan at the time of execution of disbursement documents.


18. REVOCATION OF SANCTION/RECALL OF LOAN: The Corporation reserves the right to revoke the sanction of any loan, and to recall/discard the amounts disbursed to the concern/company along with any other dues and charges at any time without any further disbursement or further repayment of any sum in respect of any sanction and to withhold further disbursement and/or repayment of any sum in respect of any further disbursement and/or repayment of any sum in case of any breach of any term of the agreement or the requirement of any other terms and conditions of the agreement.

19. Please note that it will be one of the conditions of the loan that during the currency of the loan you shall immediately bring to the notice of the Corporation any change or amendment which may take place from the date of sanction of loan i.e., 1st January, 2023, and onward in your constitution, Memorandum and Articles of Association, Board of Directors or in your General Rules & Regulations, if any, and shall seek approval of the Corporation. In writing, before change of amendment comes into force in your constitution Memorandum & Articles of Association of your General Rules & Regulations and your failure to comply will entitle the Corporation to recall the entire loan forthwith.

20. ANY ADDITIONAL CONDITION/STIPULATION: The Corporation reserve the right to impose any additional conditions or stipulations, as may be deemed fit, at any time whether before or after the disbursement of the loan and the same shall continue as long as any amount is outstanding due to the Corporation.

21. In the event of default in payment of any installment of principal or interest, the Corporation shall be entitled to recall the loan and recover the dues as arrears of land revenue by sending the requisite certificate to the Collector of the District who will be entitled to auction the properties mortgaged by you as security for the aforesaid loan.

22. Please note that this communication should not be construed as giving or implying any obligation on the part of the Corporation with respect to the terms or conditions set out herein, which is acceptable to the concern/company and that it also deposits/imposes/imposes in respect in respect of the concerned company. The period of one month may be extended by the Corporation of absolute discretion.

23. Please also note that if not withstanding acceptance of the terms & conditions of this letter effective steps are taken by the concern/company to avail itself of the sanctioned loan, the sanction will lapse at the end of 12 months from the date of this letter unless an application by the concern/company is made in writing.

A period of 12 months would be normally given for completion of project from the date of sanction of loan. However, in exceptional cases the period could be increased or decreased depending upon requirement of the project. In case project is not completed within given time, a grace period up to 6 months could be considered for completion of the project. However, if the project is not completed in the stipulated period, the Corporation would be entitled to recall the entire loan.

Any further extension of the period for completion of the project would be after detailed investigation of the continued viability of the project.

24. You shall not undertake any new scheme other than the one (s) submitted to you by the Corporation in connection with the loan sanctioned to you and approved by the Corporation, without the prior approval of the Corporation.
Rate of Interest:

The loan will carry interest @ 16.50% p.a. (exclusive interest tax) with quarterly rests at the discretion of the Corporation. Further, a rebate of 1% p.a. shall be granted for interest at the end of fourth quarter provided the company pays interest regularly in repayment as per agreement for four quarters consecutively. However, the interest rate can be revised if the loan is adjusted by the Corporation. The concern will pay to the Corporation the interest tax or any other liability related to interest on loan.

Provided further that in the event of default of payment of interest/principal/other dues then penal rate of 3% p.a. over and above the normal rate of interest shall be charged on over amount up to one year and in case if default persists beyond one year penalty on entire default shall be imposed @ 4% p.a. and above normal rate of interest.

ADDITIONAL STIPULATIONS

1. The concern will raise its capital and LTLs (interest free) to the extent of Rs. 18.00 lacs and Rs. 4.40 lacs respectively which will not be allowed to fall below these limits during the currency of Corporation's loan without the prior approval of the Corporation. Further, the concern will raise 100% of its capital and LTLs (Interest free) and invest the same towards creation of fixed assets before disbursement of any part of loan. The disbursement of loan may, however, be linked with the raising of capital and LTLs (interest free) at the discretion of the Corporation.

2. Sh. Rajesh Kumar and Sh. Nihal Singh, the partners of the concern and Sh. Radhey Shyam S/o Sh. Ganpat and Sh. Pardeep S/o Sh. Pat Ram or any other two persons having sound financial means and Sh. Kohar Singh, sole-prop. M/s Pardeep Udyog, Bhiwani, will guarantee the repayment of the loan together with intt. and other charges in the personal capacities, the guarantee being joint and several.

3. Before disbursement of the any part of the loan, the concern shall furnish the following to the satisfaction of the Corporation:
   a) Collateral security in the shape of agricultural land measuring 47 Kanal 11 Marla situated in Hansi-Shah Road, Vill. Durjanpur, Mazra Barsi, Teh. Bawani Khurd, Distt. Bhiwani, the realisable value of which shall be assessed by an officer to be deputed from H.Q. and the same should not be less than 100% of the term loan amount.
   b) Building lay out plan approval from the concerned authority if the land falls within the controlled area.
   c) The concern will satisfy the Corporation regarding availability of working capital to the concern.

4. Before disbursement of loan against machines, the concern shall furnish performance guarantee for at least one year from the main machinery suppliers.
The Senior Audit Officer,
office of the Accountant General (Audit),
Haryana, Sector - 33,
Chandigarh.

Dear Sir,

Re: ADVANCE PARA TITLED 'NON RECOVERY OF LOAN DUE TO IRREGULAR DISBURSEMENT AND ACCEPTANCE OF FRAUDULENT MORTGAGE OF COLLATERAL SECURITY AT INFLATED VALUE IN RESPECT OF MESSRS. RAJESH AND COMPANY, BHIWANI'.

With reference to your letter No. CA-II/AP/2006-2007/Spl.1 dated 19.4.2006 on the subject noted above, the required information in seriatim is enclosed herewith for further action at your end.

Yours faithfully,

Senior Manager (F&A)

Encls: As above.
Subject: Advance para titled 'Non recovery of loan due to irregular disbursement and acceptance of fraudulent mortgage of collateral security at inflated value in respect of M/s. Rajesh & Co., Bhiwani.

Reference is invited to information called vide No. CA/III/AB/2003-04/411-12 dt. 24.11.2003, by A.G. Audit, Haryana Chandigarh.

In continuation to the reply already given to audit and further information asked for vide letter referred to above, the following information is given in seriatum:

Observation

I) Who was the assessor of the valuation of collateral security at the time of acceptance (with name).

The collateral security was assessed by M/s. Jain Architects & Associates, Bhiwani vide report dated 14.03.98 at Rs. 57.06 lacs.

Subsequently, the collateral security was reassessed by the then B.M. Sirsa Sh. Ashok Gupta at Rs. 45.00 lacs on 14.03.98, and later the collateral security was reassessed by Sh. N.K. Aggarwal, the then B.M. Risar at Rs. 45.00 lacs on 20.07.98.

II) Who accepted the value of the security assessed by the Assessor i.e. name & designation.

The then B.M. Sh. D.R. Sharma accepted the value of collateral security.

III) Whether the title was verified by the Law Officer while accepting the security - Name of the Law Officer.

The party submitted Search Report dated 23.03.1998 of the Advocate namely Sh. Vijender & Chauhan pertaining to land measuring 47 Kanal 21 Marlas along with the documents like copy of Furd Jamabandi, Akshasajra etc. These documents along with Search report were
IV) Details of action taken against the officials/officers/persons as recommended by NCM in its meeting held on 27.06.2005.

- After the observations were made by the NCM in its meeting held on 27.06.2005, the B.M.Bhiwani was advised to get the red entry done in favour of the Corporation. It was informed by the B.M. that the land mortgaged to the Corporation is not owned by mortgagor and thus it was decided to fix responsibility. The Corporation has called for deed of addl. security dated 05.03.1998, photocopy of map of land dated 28.01.98, copy of Intact Registry and Search Report dated 23.05.98 of Sh. Vijender S Chauhan, along with Jamabandi and the matter has been referred to Legal Division of the Corporation for further examination and to fix responsibility.

v) Point wise reply to IR para.

a) A copy of mortgage deed of collateral security.

b) Who assessed the value of collateral security at the time of acceptance. What were the basis thereof?

As desired by IR para of audit, a copy of the following documents is enclosed herewith:

Copy of mortgage deed of collateral security.

The value of collateral security at the time of acceptance was assessed by the then B.M. Siraz and subsequently by the then B.M. Hisar, as replied to at point I above. The basis of their assessment was concerned Patwari's report and local inquiry of the market rate.
Further outcome of FIR lodged with the police in respect of missing machinery? What was the accepted as well as assessed value of missing machinery.

d) Action taken against the erring officials.

e) A copy of loan agreement/mortgage deed.

f) A copy of Search report.

g) A copy of loan a/c/ intt. memorandum.

FIR in this case has been registered along with list of missing machinery with Police Station, Bawani Khera, Distt. Bhiwani and the matter is under investigation with Economic Offences Cell Bhiwani. However, no assessment of the missing machinery as far as its value is concerned was made.

Reply given in Point No.IV above.

A copy of loan agreement/mortgage deed is enclosed herewith.

A copy of Search report enclosed herewith.

A copy of Principal Loan Ledger and Memorandum Loan Ledger enclosed herewith.

Asstt. General Manager (Disb)
| Date | Particulars | Principal & Int. Earned | Interest | Total | Principal & Int. Earned | Interest | Total | Principal & Int. Earned | Interest | Total | Principal & Int. Earned | Interest | Total | Principal & Int. Earned | Interest | Total | Principal & Int. Earned | Interest | Total | Principal & Int. Earned | Interest | Total |
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(b) Location of the unit: -- do --


3. Amount of loan: (Rs. in lacs)
   a. Amt. Sanctioned: 20.00
   b. Date of sanction: 2.4.1998
   c. Amt. Disbursement: 17.665
   d. Date of Mortgaged Deed: 5.3.1999
   e. Amt. recovered so far
      f. Amt. Outstanding
         as on 1.6.2005
         Prin. 17.67
         Misc. 1.37
         Intt. 41.14
         TOTAL 60.18

4. Product: Copper wire

5. Date of possession: 18.04.2003 (Deemed)

6(A) Detail of Court case, if any: NO

6(B) Status of stay against sale: NO

7. If the property is on lease:
   I. Tenure of lease: NO
   II. Lease Rentals
   III. Whether the ownership right mortgaged with HFC: NO

8. Whether the concern has applied for benefit under CTS/RBI/One Go 5 year extension in currency scheme: NO
The account position of the captioned concern is as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount Sanctioned</td>
<td>20.00</td>
</tr>
<tr>
<td>Amount Disbursed</td>
<td>17.665</td>
</tr>
<tr>
<td>Amount Outstanding</td>
<td>-36.06</td>
</tr>
<tr>
<td>Amount in Default</td>
<td>36.06</td>
</tr>
<tr>
<td>Currency</td>
<td>1-3-2007</td>
</tr>
<tr>
<td>Date of Taking over possession</td>
<td>16-1-2001</td>
</tr>
</tbody>
</table>

More than 7 attempts are made to sell the unit but no taker is received so far as such was away issue notice of 29 for taking possession of collateral security as recommended by 1/6/2007.

Accepted value Rs 45,000.

Requested please.

[Signature]

[Signature]
### Particulars of property already sold

#### PRIMARY SECURITY : Under Physical Possession

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Security</th>
<th>Area &amp; Location</th>
<th>Value accepted (On Disb)</th>
<th>Value assessed at the time of sale</th>
<th>No. of attempts made</th>
<th>Bid amt. of sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Land</td>
<td>1 Kendri</td>
<td>1.35</td>
<td>26.65000/-</td>
<td>23</td>
<td>27/1/2009</td>
</tr>
<tr>
<td>2.</td>
<td>Building</td>
<td></td>
<td>5.79</td>
<td>1.10</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Machinery</td>
<td></td>
<td>18.25</td>
<td>0.25</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Stocks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td>26.33</td>
<td></td>
<td>2.15</td>
</tr>
</tbody>
</table>

#### Particulars of property yet to be sold

Agri land of Kumblo-11 Harbor which is under sale at H.O.

Branch Manager
From: Minutes of NCM held on 27.6.2005.

Re: M/s Rajesh & Co., Bhiwani - Sale of C.S.

The captioned case was considered by the NCM on 27.6.2005 for sale of C.S. land measuring 47 kanal 11 marlas, Village: Barsi, Distt. Bhiwani. During auction, only one bidder Sh. Satpal gave the highest offer of Rs.2.50 lacs which was rejected by the Committee and decided to re-auction the property from Head Office.

Further, the Committee directed the Branch Manager to get the red entry in favour of the Corporation immediately. The Branch Manager informed the Committee that the land mortgaged to the Corporation is not owned by the mortgager. The Committee decided to fix the responsibility for wrongly mortgaging the land and for the gap between the value of security accepted and its present assessed value.

We may advise EM to comply with the directions of the NCM and fix the responsibility of the erring officials clearly mentioning their names and send his report within a week's time.

Submitted please.

Manager (R)
5.7.2005
3. Preferably the collateral securities as stipulated in the stipulations may be obtained as collateral security. In case there is substitution of the collateral security offered in the first instance, the substitute property should be a better one with respect to location and valuation. As far as possible urban properties should be considered for collateral securities and title clearance may be properly done by the Legal Assistants/Legal Officers in order to ensure that the title is marketable.

The above instructions may be kept in view by all the appraising officers and officials dealing with the cases and the officers accepting the claims.

Dated: 14.6.96.

( U.S. GERAID )
EXECUTIVE DIRECTOR

Endst.: No. HFC/Dist/96/ 664
of date

A copy of the above is forwarded to:

1. S.M. to M.D. for M.D’s kind information.
2. P.S. to E.D. for E.D’s kind information.
3. All General Managers.
4. All Addl. General Managers.
5. All Dy. General Managers.
6. All Branch Managers.
7. All Asstt. General Managers.
8. All Sr. Managers.
9. All Managers.
10. IAG, New Delhi.
11. IAG, Chandigarh

EXECUTIVE DIRECTOR
MINUTES OF THE NEGOTIATION COMMITTEE MEETING HELD ON 27.06.2005 AT 11.00 A.M. TO CONSIDER THE SALE OF SICK UNITS (HEAD OFFICE LEVEL CASES).

Present:-
1. S/Sh.
2. Sudhir Varma, Executive Director
3. S C Khandelwal, General Manager
4. P L Shalla, DGM (Fin)
5. S L Soni, DGM (Recy & Law)

In attendance:
1. K C Sabharwal, SM (R)
2. J P S Talwar, Manager (R)
3. S N Yadav, Manager (R)
4. A K Tewari, BM, Bhiwani

This is the first inter-se bidding after the Board approved the modification in the procedure for conducting direct auctions after making two attempts.

1) M/s Bunty Hatcheries, Bhiwani

This is 29th attempt to dispose of the collateral securities i.e. Residential house at Bharat Nagar Near Panjwa, Bhiwani measuring 7 Marla, Land at Bhiwani Lohi line par, City Railway Station, Bhiwani measuring 1K-8.5M or Land at Bhiwani Lohar-Meham Road, Vidya Nagar, Bhiwani measuring 1K-13.5M. No bidder was present in the auction. The Committee decided to reauction the property again from Head Office.

2) Sh. Om Parkash S/o Sh. Rich Pal, Bhiwani

This is 18th attempt to dispose of the collateral security i.e. agriculture land situated at Vill: Bhirana Kala Distt. Bhiwani measuring 66 Kanal 3 Marlas. No bidder was present during auction. The Committee decided to reauction the property from H.O.

3) Sh. Surinder Pal S/o Sh. Om Pal, Bhiwani

This is 18th attempt to dispose of the collateral security i.e. agriculture land situated at Vill: Tigrana-I Distt. Bhiwani measuring 46 Kanal 6 Marlas. No bidder was present during auction. The Committee cancelled the auction and decided to reauction the property from H.O.

The Committee observed that vehicle is not traceable. The Committee directed the Branch Manager to contact D.T.O. about details of the truck and take over the possession after tracing the vehicle. The Committee also directed the Branch Manager to get the red entry in favour of Corporation effected at person level.
HARYANA FINANCIAL CORPORATION
223, VJAY NAGAR,
BHILWARI -- 127021

Telephones: 241133, 345467
Telegram: HAFINCOP
No.: HEC/BO/RWN/2006/27/I
Dated: 28.09.2006

The Dy. General Manager(R),
Haryana Financial Corporation,
Chandigarh.

Dear Sir,

REG:M/s Rajesh & Company, Bhilwari

As per telephonic discussion held with you the latest position of the captioned case is as under:

Principal 1766500/-
Hsic. 157782/-
Int. with further 5829440/-
@20.1% from 01.09.06

TOTAL 7753782/-

The next date in the court case Krishan V/s Nihal Singh etc. is fixed for 17.11.2006 in the captioned case.

Yours faithfully,

Branch Manager
Dear Sir,

Re: DRAFT PARA FOR INCLUSION IN THE REPORT OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA (COMMERCIAL) FOR THE YEAR 2005-06 GOVERNMENT OF HARYANA.

Please refer to your DO letter No. Report(Annual)/1-2/DP-19/2006-2007/73-76 dated 09.05.2006 addressed to Shri P.K. Chowdhry, IAS, Financial Commissioner and Principal Secretary to Government of Haryana, Industries Department and a copy endorsed to us on the subject noted above.

Enclosed please find herewith Corporation’s comments in annotated form on the draft para titled ‘ACCEPTANCE OF FORGED AND INFLATED COLLATERAL SECURITY’ in case of Messrs. Rajesh and Company, Bhiwani for further action at your end.

Yours faithfully,

Senior Manager (F&A)

Encls: As above.
HARYANA FINANCIAL CORPORATION,
CHANDIGARH.

DRAFT PARA FOR INCLUSION IN THE REPORT OF THE COMPTROLLER AND
AUDITOR GENERAL OF INDIA (COMMERCIAL) FOR THE YEAR 2005-2006
GOVERNMENT OF HARYANA.

AUDIT OBSERVATIONS

EPTANCE OF FORGED AND INFLATED
LATERAL SECURITY.

The amount of collateral security at inflated
value without ensuring its marketability in the
_recovery of Rs.70.07 lakh in jeopardy.

As per Circular No.1298 dated
14.05.1996, the collateral security was
required to be assessed/evaluated by the
Officers of the Corporation with regard to
valuation in addition to assessor on the
panel of the Corporation.

The amount of the loan sanctioned in
this case was Rs.20 lakh and the concern
was to offer 100% collateral security.

In the instant case the assessment of
collateral security was carried out by
Messrs. Jain Architect & Associates, Bhiwani
on 14.05.1996 at Rs.57.05 lakh and by the
Branch Manager, Shri Ashok Gupta, at
Rs.6.55 lakh on 19.06.1996. In report
submitted by the Branch Manager, Shri,
he stated that the Tehsildar, Bawani Khera
had assessed the market value of the land at Rs.9
lakh to Rs.14.5 lakh per acre. He further
stated that on the basis of market rate
reported by Tehsildar, the assessment may be
taken at Rs.8 lakh per acre. Therefore,
the value was assessed at Rs.47.55 lakh.
Subsequently, Branch Manager, Hisar, Shri
H.K. Aggarwal conducted the assessment
of this land. In the report, he also stated
that the Tehsildar, Bawani Khera had assessed
the value of the land from Rs.9 lakh to Rs.10
lakh per acre. He further stated that he had
conducted detailed enquiry from the
villagers, Halka Patwari and Sarpanch
and they had informed that due to shortage
of cultivative land, farmers are selling their
land in yards and not in acres and therefore
to be on the safer side Rs.1.50 lakh per
acre may be taken for assessment and total
value of the land may be taken at Rs.45 lakh.

During auction held on 05.12.2005, the
Corporation received highest bid of Rs.11.25
lakh for the collateral security which was
selected by the Auction Committee and it was
 decided to recontract the property from Head
Negotiation Committee of the Corporation, constituted to consider the sale of units, decided (27 June 2006) to fix the next date for accepting the collateral security and for the gap between the value of the security accepted and its present assessed value. However, no action had been taken so far.

Thus acceptance of collateral security inflated value without ensuring marketable title had put the recovery of Rs. 72.07 lakh in jeopardy.

In order to fix responsibility for accepting the collateral security and gap between accepted and the assessed value, the matter was examined by the Corporation. It has been found that the concern had submitted forged documents for the land measuring 4.7 Kanal 11 Marla bearing Kila No. 296/19, 21, 222/2, 296/22, 323/2/4, 223/12/2 (i.e. collateral security) has been shown in the name of Shri Nath, Shri Karan Singh, Shri Rajinder Singh, Shri Jagbir, Shri Mahabir and others whereas the Jamabandi submitted at the time of disbursement of loan shows the above mentioned property in the name of Shri Nihal Singh.

Regarding responsibility of HFC officials, there was no policy of the Corporation to verify the documents submitted by the party in the year 1998, when the title was accepted. Verification of facts mentioned in search report from the revenue/municipal record by Law Officer was started in the year 2003 (Circular No. 2038).

It has been found that the borrower had committed fraud with the Corporation by submitting forged documents. Furthermore, the advocate who conducted the search of the documents in the revenue office did not point out the discrepancy.

It has been decided (06.06.2006) to lodge FIR against promoter/guarantor of the concern along with all the connected persons, including the persons who conducted the search, for their connivance in criminal offence. Action in this regard has already been initiated.

As far as fraudulent mortgage of collateral security is concerned, the promoter/guarantor have been found to have committed fraud with the Corporation and it has now been decided to lodge FIR against them and the connected persons including the person who conducted search. Action in this regard has already been initiated.
4 M/s Monika Plastic Inds., Bhiwani.

This is 16th attempt to dispose of the collateral security i.e. agriculture land situated at Vill: Dhirana Kalan, Distt. Bhiwani measuring 25 Kanal 10 Marlas. No bidder was present during auction. The Committee decided to reauction the property from H.O. and desired that red entry in favour of the Corporation be effected by Branch Manager at personal level.

5 M/s Rajesh & Company, Bhiwani.

This is 15th attempt to dispose of the collateral security i.e. agriculture land situated at Vill: Barsi, Distt. Bhiwani measuring 47 Kanal 11 Marlas which was accepted at Rs. 45.00 lacs in now assessed at Rs 10.70 lacs on 8.6.2005. During auction, only bidder Sh. Sat Pal gave his offer of Rs. 1.50 lacs which was enhanced to Rs. 2.50 lacs for expediting action against the defaulters.

6 M/s Topan & Co., Bhiwani.

This is 12th attempt to dispose of the collateral security i.e. agriculture land situated at Vill: Barsi, Distt. Bhiwani measuring 23 Kanal 11 Marlas during auction, no bidder was present. The Committee decided to reauction the property from H.O. and desired in this case and other cases financed in a cluster, D.O. may be addressed to S.P. for expediting action against the defaulters.

7 M/s Surya Dev Inds., Bhiwani.

This is 10th attempt to dispose of the collateral security i.e. House at M.C. Unit No.329, Chandigarh Road, Tosham measuring 122 sq. yds. During auction, no bidder was present. The Committee decided to reauction the property from H.O. and desired that in compliance of directions of CFO, FIR against the guarantors may also be lodged.

8 M/s Punjab Cotton Factory, Bhiwani.

This is 3rd attempt to dispose of the following collateral securities:

<table>
<thead>
<tr>
<th>Location Of Property</th>
<th>Area of Land (sq.yds)</th>
<th>Accepted Value (Rs.)</th>
<th>Assessed Value (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land &amp; Building at Jagdamba</td>
<td>64.54</td>
<td>10.50</td>
<td>7.44</td>
</tr>
<tr>
<td>Road, Mansa (Pb.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land &amp; Building at Jagdamba</td>
<td>124.52</td>
<td>17.00</td>
<td>8.72</td>
</tr>
<tr>
<td>Road, Mansa (Pb.)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
During auction at site on 14.6.2005, highest offer of Rs. 3.10 lacs is received from Sh. Bukan Chand for property as at (a) above and Rs. 3.80 lacs from Sh. Raj Narain for property as at (b) above. The Committee decided that as recommended by Branch Manager, the bids may be retained and properties be res auctioned from H.O.

(S L Soni)
DGM (R)

(P L Bhatta)
DGM (F)

(S C Khandelwal)
General Manager (R)

(Sudhir Varma)
Executive Director

(Anil Malik)
IAS
Managing Director