

Chapter-3
Introduction

CHAPTER – 3

INTRODUCTION

3.1 About the State Public Sector Undertakings (PSUs)

3.1.1 The total number of the Government companies and Statutory corporations of the State are 23 and three respectively. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. The working State PSUs registered a turnover of ₹ 8071.43 crore (*Appendix 3.1*) as per their latest finalised accounts as of September 2013. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. All State PSUs had employed 24078 employees¹ as on 31 March 2013. The State PSUs do not include two² prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

3.1.2 As on 31 March 2013, there were 26 PSUs as *per* details given in *Table 3.1*.

Table 3.1

Type of PSUs	Working PSUs	Non-working PSUs ³	Total
Government Companies	20	3 ⁴	23
Statutory Corporations	3	Nil	3
Total	23	3	26

One company, i.e., Jammu and Kashmir Bank Limited is listed (July 1998) on the stock exchange. Of the total paid up equity of the Bank, 53.18 *per cent* is held by the State Government and remaining 46.82 *per cent* is held by the Foreign Institutional Investors, Resident Individuals and Others⁵.

3.1.3 No company was created/ merged or wound up during the year 2012-13.

3.2 Audit Mandate

3.2.1 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by the Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by the Government(s), Government companies and corporations controlled by the

¹ Three non-working Companies did not furnish the details.

² Consumer Affairs & Public Distribution Department and Government Press

³ Non-working PSUs are those which have ceased to carry on their operations.

⁴ Himalayan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited and Tawi Scooters Limited.

⁵ Indian Mutual Funds, Insurance Companies, Non-Resident Indians and Corporate Bodies.

Government(s) is treated as if it was a Government company (deemed Government company) as *per* Section 619-B of the Companies Act, 1956.

3.2.2 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as *per* the provisions of Section 619(3) (b) of the Companies Act, 1956.

3.2.3 Audit of Statutory corporations is governed by their respective legislations. Out of three Statutory corporations, the CAG is the sole auditor for Jammu & Kashmir State Road Transport Corporation and Jammu & Kashmir State Forest Corporation⁶. In respect of Jammu & Kashmir State Financial Corporation, the audit is conducted by the Chartered Accountants appointed by the Shareholders in their Annual General Meeting from the approved panel of Reserve Bank of India and supplementary audit by the CAG as per the provisions of the State Financial Corporation Act, 1951.

3.3 Investment in State Public Sector Undertakings (PSUs)

3.3.1 As on 31 March 2013, the investment (capital and long-term loans) in 26 State PSUs and Statutory corporations was ₹ 5119.04 crore as per details given in **Table 3.2**.

Table 3.2

(₹ in crore)

Nature of investment	Government Companies		Statutory corporations	Grand Total
	Working companies	Non-working companies		
Capital	397.47	2.57	270.62	670.66
Long Term Loans	3869.07	0.83	578.48	4448.38
Total:	4266.54	3.40	849.10	5119.04

A summarised position of Government investment in State PSUs is detailed in **Appendix 3.2**.

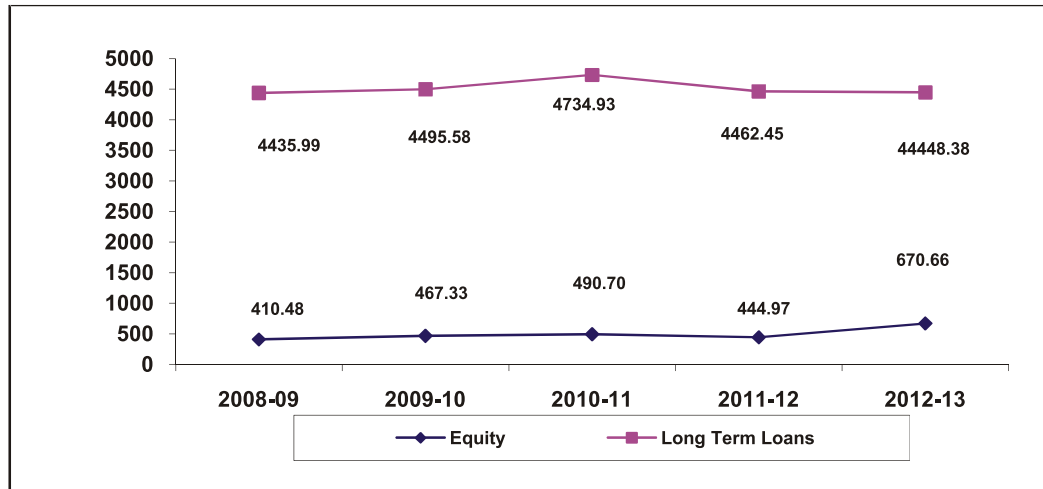
3.3.2 As on 31 March 2013, of the total investment in State PSUs, 99.93 *per cent* was in working PSUs and the remaining 0.07 *per cent* in non-working PSUs. The total investment consisted of 13.10 *per cent* towards capital and 86.90 *per cent* in long-term

⁶ Jammu and Kashmir State Forest Corporation was incorporated in 1978-79 and its audit was entrusted to the CAG with effect from 1996-97. The Corporation, however, had never submitted its accounts to the CAG for audit for any of the years.

loans. The investment has increased by 5.62 *per cent* from ₹ 4846.47 crore in 2008-09 to ₹ 5119.04 crore in 2012-13 as shown in the *Chart 1.1*.

Chart 1.1

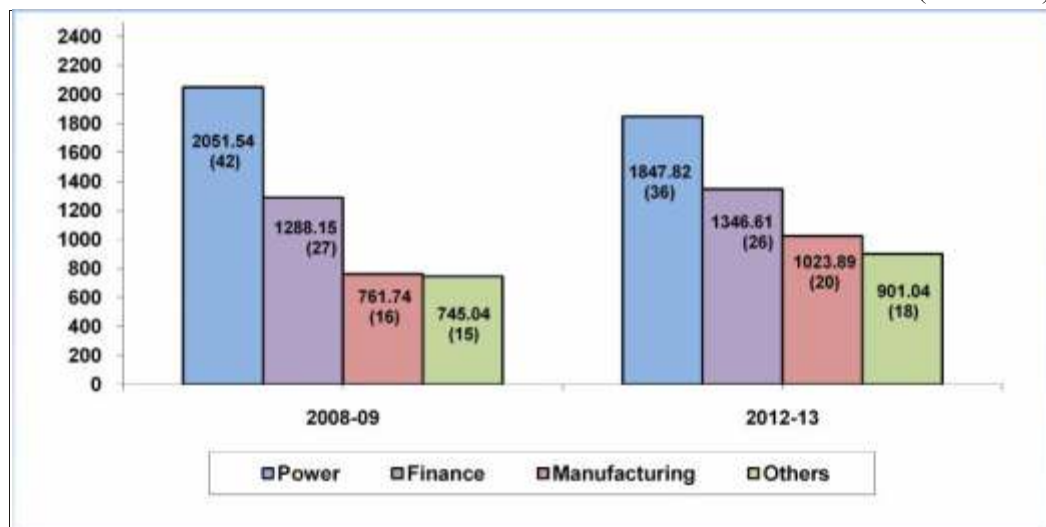
(Rs. in crore)



3.3.3 The investment in various important sectors and percentage thereof at the end of 31 March 2009 and 31 March 2013 are indicated below in the bar *Chart 1.2*.

Chart-1.2

(₹ in crore)



(Figures in brackets show the sector percentage to total investment during 2008-09: ₹ 4846.47 crore and 2012-13: ₹ 5119.04 crore)

During 2012-13, the major investment was in the power sector (36.10 *per cent*). The percentage of investment in power sector has decreased from 42 *per cent* in 2008-09 to 36 *per cent* in 2012-13 of the total investment; whereas the share of manufacturing sector has increased by 4.28 *per cent* during the period.

3.4 Budgetary outgo, grants/ subsidies, guarantees and loans

3.4.1 The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in *Appendix 3.3*. The summarized details for the last three years ended 31 March 2013 are given in *Table 3.3*.

Table-3.3

(₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	3	7.00	3	06.09	3	7.00
2.	Loans given from budget	10	488.54	10	70.26	10	76.08
3.	Grants/Subsidy received from State Government.	6	317.49	8	96.95	7	30.23
4.	Total outgo (1+2+3)	14 ⁷	813.03	15	173.30	13	113.31
5.	Interest/Penal interest and loan repayment written off	1	27.78	1	50.66	1	11.42
6.	Guarantees issued ⁸	2	2.70	2	10.09	3	2193.97
7.	Guarantees Commitment ⁹	9	2411.39	9	1805.66	9	1789.80
8.	Guarantee fee		Nil		Nil	1	43.58

The guarantees issued during the year 2012-13 was ₹ 2193.97 crore and guarantee commitment at the end of 31 March 2013 was ₹ 1789.80 crore. More than 96 per cent of guarantee commitment were on the loans raised by Jammu & Kashmir Power Development Corporation Limited from various Financial Institutions. The State

⁷ Actual number of PSUs which received budgetary support.

⁸ Fresh guarantees issued by the State Government during the year.

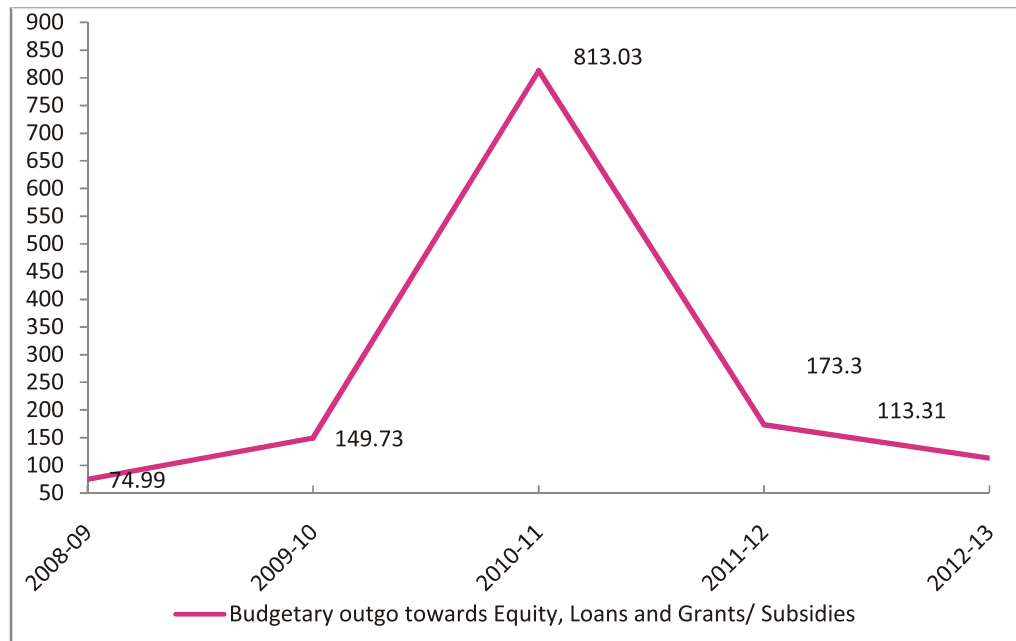
⁹ Sum of guarantees outstanding loan and principal at the end of each year

Government has charged guarantee commission or fee of ₹ 43.58 crore from one PSU¹⁰ during 2012-13.

3.4.2 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in **Chart 1.3**.

Chart 1.3

(₹ in crore)



The budgetary outgo of the State Government towards equity contribution, loans, grants and subsidy was all time high in 2010-11 at ₹ 813.03 crore during the preceding six years. The upward trend of budgetary outgo can be seen from 2008-09 with marginal increase during 2009-10 and stood at ₹ 813.03 crore in 2010-11 which decreased to ₹ 173.30 crore during 2011-12 and further decreased to ₹ 113.31 crore during 2012-13.

3.5 Reconciliation with Finance Accounts of the Government

3.5.1 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2013 is indicated in **Table 3.4**.

¹⁰ J&K State Power Development Corporation Limited: ₹ 43.58 crore

Table-3.4

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	460.94	456.78	4.16
Loans	736.77	1571.27	(-) 834.50
Guarantees	324.05	1789.80	(-) 1465.75

3.5.2 Audit observed that the differences occurred due to misclassification pending reconciliation. The reasons thereof, though called for, were not intimated (December 2013). The concerned administrative departments, PSUs and Finance Department were requested every quarter to take necessary action to reconcile the differences.

3.6 Performance of Public Sector Undertakings (PSUs)

3.6.1 Out of 23 working PSUs¹¹ for which accounts for latest years were received upto 30 September 2013, eight PSUs earned profit of ₹ 1388.55 crore, 12 PSUs incurred loss of ₹ 154.37 crore, two¹² PSUs had not prepared Profit and Loss account and one PSU¹³ had not submitted its accounts since 1996-97 when its audit was entrusted to the CAG. The major contributors to profit were Jammu & Kashmir Bank Ltd (₹ 1055.10 crore) and Jammu & Kashmir State Power Development Corporation (₹ 325.66 crore). The heavy losses were incurred by Jammu & Kashmir State Road Transport Corporation (₹ 66.97 crore), Jammu & Kashmir Industries Limited (₹ 46.83 crore), Jammu & Kashmir Horticulture Produce Marketing and Processing Corporation Limited (₹ 10.62 crore) and Jammu & Kashmir Minerals Limited (₹ 10.36 crore). Further, Summarised Financial Results including net profit/loss, turnover, return on capital employed, etc. of Government companies and Statutory corporations for the year for which accounts were finalized as per details given in *Appendix 3.1*.

3.6.2 The year wise details of expenditure not recoverable, controllable/ avoidable expenditure, infructuous investment and blockage of funds from the CAG's Audit Reports for the last three years is given in *Table 3.5* are based on test check of records of PSUs.

¹¹ For the year 2012-13 (two PSUs), 2010-11 (one PSU), 2009-10 (four PSUs), 2006-07 (one PSU), 2005-06 (two PSUs), 2004-05 (two PSUs), 1999-2000 (one PSU), 1997-98 (two PSUs), 1996-97 (three PSUs), 1995-96 (one PSU) and 1994-95 (one PSU).

¹² J&K State Overseas Employment Corporation limited and Chenab Valley Power Projects Private limited

¹³ Jammu & Kashmir State Forest Corporation

Table 3.5

(₹ in crore)

Particulars	2010-11	2011-12	2012-13
Expenditure not recoverable, controllable/avoidable expenditure, infructuous investment and blockage of funds	644.31	172.90 ¹⁴	247.20

3.6.3 The State Government did not formulate any dividend policy under which all PSUs were required to pay a minimum return on the paid up share capital contributed by the State Government. As per the latest finalised accounts, eight PSUs earned an aggregate profit of ₹ 1388.55 crore and only one PSU¹⁵ declared a dividend of ₹ 242.39 crore.

3.7 Arrears in finalization of accounts

3.7.1 The accounts of the companies for every financial year are required to be finalized within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalized, audited and presented to the Legislature as per the provisions of their respective Acts. The details of progress made by the working PSUs in finalization of accounts by September of the respective years are given in *Table 3.6*.

Table 3.6

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of Working PSUs	20	20	21	22	23
2.	Number of accounts finalised during the year	15	10	34	36	38
3.	Number of accounts in arrears	224	234	223	208	195
4.	Average arrears per PSU (3/1)	11.20	11.70	10.62	9.45	8.48
5.	Number of Working PSUs with arrears in accounts	19	19	19	19	20
6.	Extent of arrears (years)	4 to 19	4 to 20	2 to 20	3 to 21	2 to 18

¹⁴ It includes expenditure of ₹ 10.18 crore which was not recoverable.

¹⁵ Jammu and Kashmir Bank Limited.

3.7.2 Four¹⁶ working PSUs failed to forward even one account during the year to this office causing accumulation of the arrears ranging between seven and sixteen years.

3.7.3 In addition to above, there were also the arrears in finalisation of accounts by non-working PSUs. Out of three non-working PSUs (all companies), two PSUs¹⁷ had gone into liquidation process. The remaining one non-working PSU¹⁸ had arrear of accounts for 23 years.

3.7.4 The State Government had invested ₹ 1377.58 crore (equity: ₹ 44.64 crore, loans: ₹ 778.59 crore, grants: ₹ 542.01 crore and subsidy: ₹ 12.34 crore) in 17 PSUs during the years for which accounts have not been finalised as detailed in **Appendix 3.4**. In the absence of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested had been achieved or not. Thus, Government's investment in such PSUs remains outside the scrutiny of the State Legislature.

3.7.5 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalized and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalization of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary in July 2013 to expedite the backlog of arrears in accounts in a time bound manner.

3.8 Winding up of non-working Public Sector Undertakings (PSUs)

3.8.1 There were three non-working PSUs (all companies) as on 31 March 2013. The stages of closure in respect of non-working PSUs are given in **Table 3.7**.

Table 3.7

S.No.	Particulars	Companies
1	Total No. of non-working PSUs	3
2	Of (1) above, the No. under	
(a)	Liquidation by Court (liquidator appointed)	2 ¹⁹
(b)	Voluntary winding up (liquidator appointed)	--
(c)	Closure, i.e. closing orders issued but liquidation process not yet started.	1 ²⁰

¹⁶ J&K State Handloom Development Corporation Limited., J&K Industries, J&K State Forest Corporation Limited and J&K SC/ST/OBC Development Corporation Limited.

¹⁷ Himalyan Wool Combers and J&K State Handloom Handicrafts Raw Material Supplies Organisation Limited.

¹⁸ Tawi Scooters Limited.

¹⁹ Himalayan Wool Combers Limited and Jammu & Kashmir State Handloom Handicrafts Raw Material Supplies Organization Limited.

During the year 2012-13, no company was finally wound up. The companies which had taken the route of winding up by court order were under liquidation for more than nine years.

3.9 Accounts Comments

3.9.1 Thirty two (32) accounts of the 15 working companies were finalized between October 2012 and September 2013 and were selected for supplementary audit. The details of aggregate money value of comments of the Statutory Auditors and the CAG are given in **Table 3.8**.

Table-3.8

(₹ in crore)

S.No.	Particulars	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	6	18.17	5	5.78	1	4.50
2.	Increase in loss	12	43.76	7	2.23	8	27.60
3.	Non-disclosure of material facts	4	15.66	4	27.85	2	45.17
4.	Errors of classification	9	217.20	10	110.48	10	82.28

The audit reports of the Statutory Auditors appointed by the CAG and the supplementary audit of the CAG indicated that the quality of maintenance of accounts needed to be improved substantially.

3.9.2 Some of the important comments in respect of annual accounts of the Government companies during the period October 2012 to September 2013 are stated below:

JKB Financial Services Limited (2012-13)

Interest Receivable of ₹ 62.47 lakh on Fixed Deposits of ₹ 8 crore with Jammu & Kashmir Bank Limited had been included in the 'Trade Receivables' though Interest income is not a general business activity.

Jammu & Kashmir Police Housing Corporation Limited (2004-05)

Excess service tax of ₹ 14.45 lakh as per the assessment orders for the years 2000-01, 2001-02, 2002-03 and 2003-04 and less payment of ₹ 0.91 lakh for the year 2004-05 had not been accounted for in the accounts for the respective years.

Jammu & Kashmir State Industrial Development Corporation Limited (2006-07)

- The Company had issued, subscribed and paid up Capital of ₹ 14.47 crore as on March 2007. Besides, ₹ 3.17 crore had been received from State Government as contribution towards share capital during previous years which had been kept in share capital suspense on the basis of qualification in the notes on accounts that State Government had not increased authorised share capital from ₹ 20 crore to ₹ 50 crore. The Company had neither allotted shares nor issued Share Certificates as required in terms of provisions of Section 113 of Companies Act, 1956.
- The Company had not provided interest accrued and due ₹ 1.92 crore required to be charged in terms of Uniform Accounting Standards issued by SIDBI²¹.
- The Company had received ₹ 3.15 crore from promoters as part of unrealized premium and treated it as Income, which is payable to State Government and should have been treated as liability.

Jammu and Kashmir State Cable Car Corporation Limited (2009-10)

The Company received ₹ 29.89 crore (₹ 3.06 crore during the year) from the State Government as plan assistance for implementation of approved schemes/creation of assets from time to time. Treatment of Plan Assistance and Assets created had not been done in terms of Accounting Standard-12.

Jammu and Kashmir Tourism Development Corporation (2009-10)

- The Company had adopted rates prescribed by Income Tax Act, 1961 for charging depreciation for the year on the block of assets on written down value method (WDV) instead of rates prescribed under schedule XIV of companies Act, 1956.
- The Company had not provided for an amount of ₹ 92.81 lakh on account of Dearness Allowance payable to its employees.

3.9.3 Similarly, accounts of two Statutory corporations viz Jammu & Kashmir State Financial Corporation and Jammu & Kashmir State Road Transport Corporation had been finalised for two years (2009-10 and 2010-11) and four years (2006-07 to 2009-10) respectively during 2012-13. The Jammu and Kashmir State Forest Corporation had never submitted its accounts since 1996-97 when its audit was entrusted to the CAG. The details of aggregate money value of comments of the Statutory auditors and the CAG for the last three years ended 31 March 2013 are given in **Table 3.9**.

²¹ Small Industries Development Bank of India

Table-3.9

₹ in crore)

S.No.	Particulars	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	-	-	-	-	-	-
2	Increase in loss	1	25.87	-	-	5	184.86
3	Non-disclosure of material facts	1	0.84	-	-	-	-
4	Errors of classification	1	1.00	2	1.60	1	3.75

Some of the important comments in respect of annual accounts of the Statutory corporation finalized are stated below:

Jammu and Kashmir State Financial Corporation (2009-10)

- Provision for interest payable to the extent of ₹ 38.62 crore on the loans amounting to ₹ 56.10 crore (secured loan: ₹ 28.46 crore and unsecured loans: ₹ 27.66 crore) availed from SIDBI had not been made in the books of accounts.
- LIC²² in January 2009 while releasing Plan loan to State Government deducted ₹ 0.64 crore due to default made by the Corporation in discharging its debts. The State Government had raised demand of ₹ 0.64 crore on the Corporation for repayment alongwith interest at a rate of 13 *per cent* per annum. The Corporation had not made provision for interest payable to the State Government to the tune of ₹ 0.10 lakh.

Jammu and Kashmir State Financial Corporation (2010-11)

The Corporation had availed loan of ₹ 3.75 crore from Bank against Fixed Deposit Receipt out of which ₹ 1.67 crore had been repaid to the Bank during 2010-11. The amount of ₹ 2.08 crore payable to Bank had been included in the Current Liabilities. The amount payable had not distinctively been shown under the Other Loan under Secured Loans specifying the nature of security.

Jammu & Kashmir State Road Transport Corporation (2009-10)

- The Company had not provided for interest of ₹ 21.30 crore payable on outstanding balances of Contributory Provident Fund and General Provident Fund during last twenty years (1991-92 to 2008-09: ₹ 18.88 crore and 2009-10: ₹ 2.42 crore).

²² Life Insurance Corporation of India

- The Company had not provided for interest of ₹ 17.94 crore charged at 15 percent on the cash assistance received from the State Government. The Corporation had, however, made a provision for interest at 10 per cent during the year.
- The Company had not provided for liability of ₹ 1.56 crore on account of token tax outstanding for the years (2001-02 to 2008-09: ₹ 1.45 crore and 2009-10: ₹ 0.11 crore), ₹ 0.71 crore on account of compensation awarded by Motor Accident Claim Tribunal (MACT) during the year 2009-10, ₹ 0.84 crore on account of rent outstanding for the years (upto 2008-09: ₹ 0.77 crore and 2009-10: ₹ 0.07 crore) and ₹ 0.09 crore on account of electricity charges for the year 2009-10.

3.9.4 During the year, the Statutory auditors had given qualified certificates in respect of 31 accounts²³. The compliance of PSUs with the Accounting Standards remained poor as there were 25 instances of non-compliance of accounting policies relating inventories, revenue recognition, not making provisions for employee benefits, etc.

3.10 Internal Control/ Internal Audit

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement . The Statutory Auditors had stated that internal audit system in respect of eleven companies was either not in place or internal audit reports were not furnished as per details given in **Table 3.10**.

Table 3.10

Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to Companies figuring at serial number of the Appendix-3.1
Absence of internal audit system commensurate with the nature and size of business of the Company.	11	A-4, 5, 6, 7, 8, 9, 15, 16, 18, 19 and B-3.

²³ In case of Jammu and Kashmir State Road Transport Corporation, CAG is the sole auditor (four accounts had been finalised from October 2012 to September 2013)

Public Sector Undertakings need to improve their internal audit systems commensurately with the nature and size of business, devise suitable system for making provision of retiral dues, inventory management, introduction of information technology etc. for better results.

3.11 Status of placement of Separate Audit Reports

The audit of Jammu and Kashmir State Financial Corporation is conducted under Section 37(6) of the State Financial Corporation Act 1951, Jammu and Kashmir State Road Transport Corporation under Section 33 (2) of the Road Transport Corporation Act 1950 whereas audit of Jammu and Kashmir State Forest Corporation is entrusted to the CAG on the request of the State Government. During the year 2012-13, Separate Audit Reports (SARs) issued by the CAG on the accounts of Jammu & Kashmir State Road Transport Corporation and Jammu & Kashmir State Financial Corporation for the year 2009-10 and 2010-11 respectively were placed in the Legislature. Further, Jammu & Kashmir State Forest Corporation had never submitted its accounts to the CAG since 1996-97 when the audit was entrusted to the CAG.

3.12 Response of the Departments to Audit Report material

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2013, three audit paragraphs in respect of Jammu & Kashmir State Industrial Development Corporation Limited, Jammu & Kashmir State Financial Corporation and Jammu & Kashmir State Power Development Corporation Limited, were issued to the Secretaries of the respective Departments with the request to furnish replies within six weeks. However, no reply was received from the State Government (November 2013).

3.13 Follow up on Audit Reports

As per the instructions of the State Finance Department, the Departments of the Government are required to prepare and send to the Jammu and Kashmir Legislative Assembly Secretariat, *suo-motu* Action Taken Notes (ATNs) on the Audit paragraphs within three months of an Audit Report being laid on the table of the Legislature. A review of the position in this regard showed that as of October 2013, out of 52 Audit paragraphs included in the Audit Reports for the years 2000-01 to 2011-12, the ATNs in respect of 24 Audit paragraphs due between June 2002 to September 2013 had not been finalized.

3.14 Disinvestment, Privatisation and Restructuring of PSUs

The State Government had no plans of disinvestment. However, the State Government has initiated the process of privatization with regard to development of hydel projects through Independent Power Producers and the process was yet to be completed (November 2013).