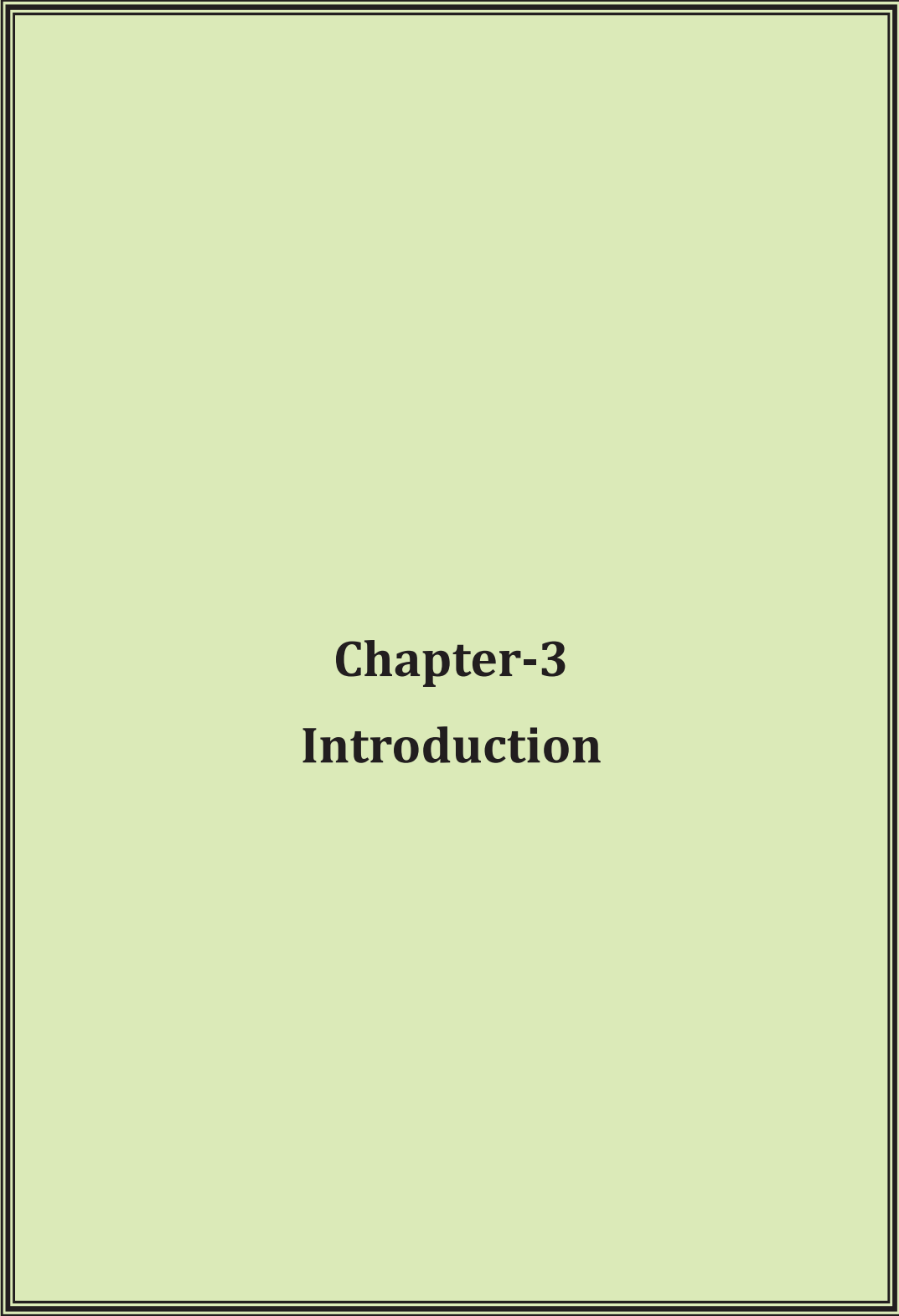


PART 'B'
PUBLIC SECTOR UNDERTAKINGS
(SOCIAL, GENERAL AND ECONOMIC SECTORS)



Chapter-3
Introduction

CHAPTER – 3

INTRODUCTION

3.1 About the State Public Sector Undertakings (PSUs)

3.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The investment in the PSUs as on 31 March 2014 stood at ₹4750.79 crore. The working State PSUs registered a turnover of ₹8272.38 crore (*Appendix 3.1*) as per their latest finalised accounts as of September 2014. Major activities of PSUs were concentrated in power and finance sectors. The PSUs employed 23599 employees¹ as on 31 March 2014. The State PSUs do not include two² prominent Departmental Undertakings (DUs), which carry out commercial operations but are part of Government departments.

3.1.2 As on 31 March 2014, there were 23 Government companies and three statutory corporations, of which The Jammu and Kashmir Bank Limited is listed (July 1998) on the stock exchange.

3.1.3 No company was created/ merged or wound up during the year 2013-14.

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 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 Corporation³. In respect of Jammu & Kashmir State Financial Corporation, the audit

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

² Consumer Affairs & Public Distribution Department and Government Press

³ 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.

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 2014, the investment (capital and long-term loans) in 26 State PSUs and Statutory corporations was ₹4750.79 crore as per details given in **Table-3.1**.

Table-3.1

(₹ in crore)

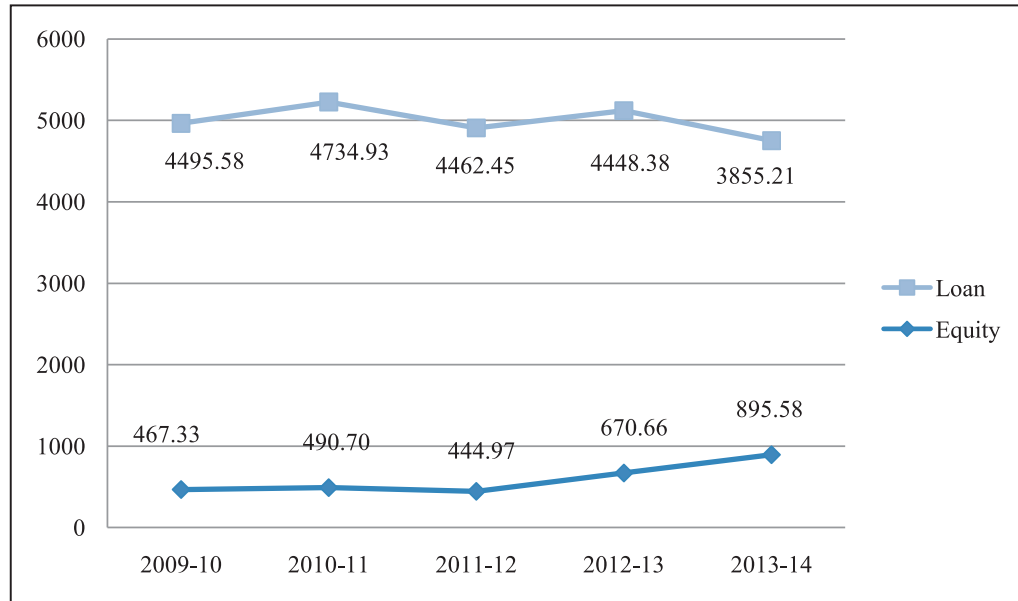
PSU	Type	Number	Capital	Loan	Total
Working PSUs	Government Companies	20	521.19	3339.84	3861.03
	Statutory Corporations	03	371.82	514.54	886.36
	Total	23	893.01	3854.38	4747.39
Non Working PSUs	Government Companies	03	2.57	0.83	3.40
	Statutory Corporations	-	-	-	-
	Total	03	2.57	0.83	3.40
	Grand Total	26	895.58	3855.21	4750.79

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

3.3.2 As on 31 March 2014, of the total investment in State PSUs, 99.92 *per cent* was in working PSUs and the remaining 0.08 *per cent* in non-working PSUs. The total investment consisted of 18.85 *per cent* towards capital and 81.15 *per cent* in long-term loans. The investment has decreased by 4.27 *per cent* from ₹4962.91 crore in 2009-10 to ₹4750.79 crore in 2013-14 as shown in the **Chart-1.1**.

Chart 1.1

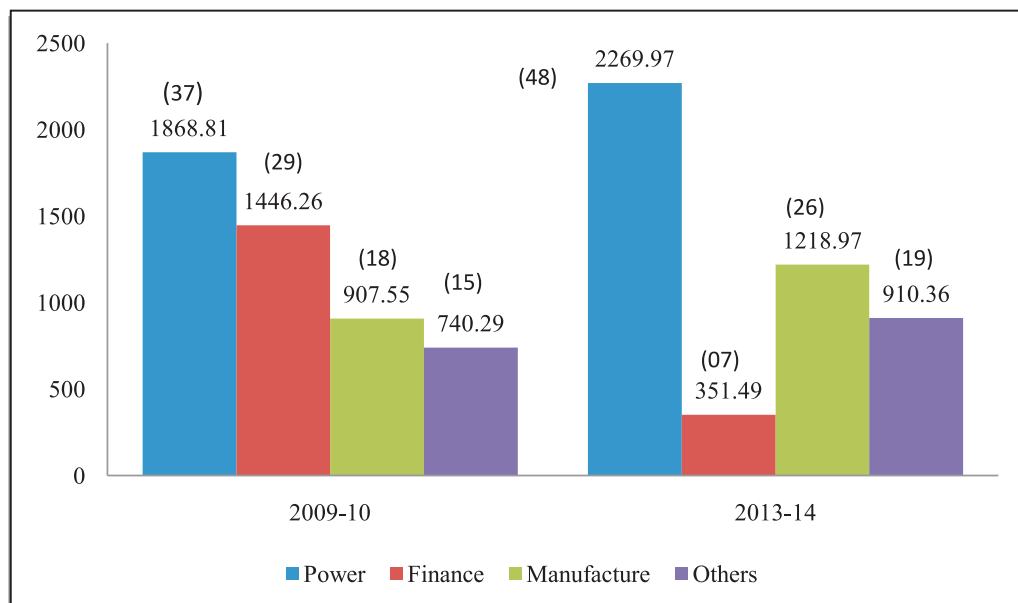
(₹ in crore)



3.3.3 The investment in various important sectors and percentage thereof at the end of 31 March 2010 and 31 March 2014 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 2009-10: ₹4962.91 crore and 2013-14: ₹4750.79 crore)

During 2013-14, the major investment was in the power sector (48 per cent). The percentage of investment in power sector increased from 37.66 per cent in 2009-10 to 48 per cent in 2013-14 of the total investment; whereas the share of finance sector decreased by 75.70 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 2014 are given in **Table-3.2**.

Table-3.2

(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	3	06.09	3	7.00	5	25.03
2.	Loans given from budget	10	70.26	10	76.08	7	69.84
3.	Grants/Subsidy received from State Government.	8	96.95	7	30.23	8	156.70
4.	Total outgo (1+2+3)	15	173.30	13	113.31	13	251.57
5.	Interest/Penal interest and loan repayment written off	1	50.66	1	11.42	Nil	Nil
6.	Guarantees issued ⁴	2	10.09	3	2193.97	3	36.37
7.	Guarantees Commitment ⁵	9	1805.66	9	1789.80	04	2164.64
8.	Guarantee fee		NIL	1	43.58	Nil	Nil

The guarantees issued during the year 2013-14 were ₹36.37 crore and guarantee at the end of 31 March 2014 was ₹2164.64 crore. More than 95.37 per cent of guarantee was on the loans raised by Jammu & Kashmir Power Development Corporation Limited from various financial institutions.

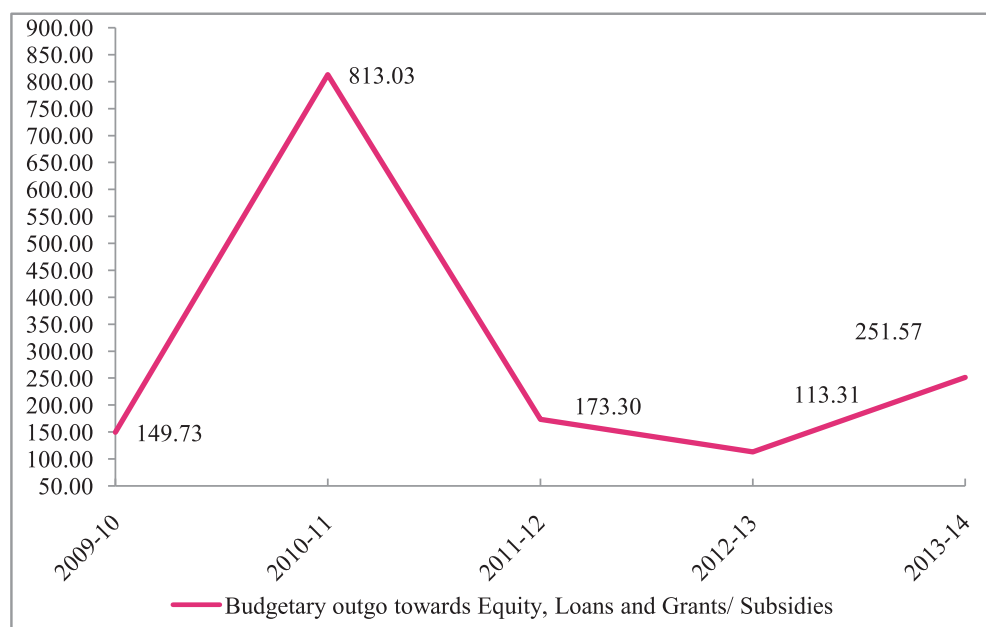
3.4.2 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in **Chart-1.3**.

⁴ Fresh guarantees issued by the State Government during the year.

⁵ Sum of guarantees outstanding loan and principal at the end of each year

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 five years. The upward trend of budgetary outgo can be seen from 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. During current year the budgetary outgo of State Government towards equity, loans and grants/ subsidies against increased to ₹251.57 crore.

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 2014 is indicated in **Table-3.3**.

Table-3.3

₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	485.94	531.31	(-) 45.37
Loans	800.26	1697.70	(-) 897.44
Guarantees	2114.81	2167.87	(-) 53.06

3.5.2 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 PSUs⁶ for which accounts for latest years were received upto 31 August 2014, eight PSUs earned profit of ₹1498.94 crore, twelve PSUs incurred loss of ₹150.71 crore, two⁷ PSUs had not prepared Profit and Loss account and one PSU⁸ had not submitted its accounts since 1996-97. The major contributors to profit were Jammu & Kashmir Bank Ltd. (₹1182.47 crore) and Jammu & Kashmir State Power Development Corporation (₹300.86 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). The Summarized Financial Results including net profit/ loss, turnover, return on capital employed, etc. of Government companies and statutory corporations for the latest year for which accounts were finalized are 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 by the PSUs for the last three years is given in **Table-3.4** which are controllable with better management.

Table-3.4

Particulars	₹ in crore)		
	2011-12	2012-13	2013-14
Expenditure not recoverable, controllable/ avoidable expenditure, in-fructuous investment and blockage of funds	172.90 ⁹	247.20	109.39

3.6.3 The State Government did not formulate any dividend policy under which PSUs could be required to pay a minimum return on the paid up share capital contributed by the State Government. As per the latest finalized accounts, eight PSUs earned an aggregate profit of ₹1498.94 crore and one PSU¹⁰ 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

⁶ For the year 2013-14 (one PSUs), 2010-11 (two PSU), 2007-08 (one PSU), 1999-2000 (one PSU), 1998-99 (two PSUs), 1997-98 (One PSU).

⁷ J&K State Overseas Employment Corporation limited and Chenab Valley Power Projects Private limited

⁸ Jammu & Kashmir State Forest Corporation

⁹ It includes expenditure of ₹10.18 crore which was not recoverable.

¹⁰ Jammu and Kashmir Bank Limited.

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-3.5**.

Table-3.5

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Number of Working PSUs	20	21	22	23	23
2.	Number of accounts finalised during the year	10	34	36	38	14
3.	Number of accounts in arrears	234	223	208	195	187
4.	Average arrears <i>per</i> PSU (3/1)	11.70	10.62	9.45	8.48	8.13
5.	Number of Working PSUs with arrears in accounts	19	19	19	20	20
6.	Extent of arrears (years)	4 to 20	2 to 20	3 to 21	2 to 18	1-19

3.7.2 Twelve¹¹ working PSUs failed to forward even one account during the year causing accumulation of the arrears ranging between four and nineteen years.

3.7.3 In addition to above, there were also the arrears in finalization of accounts by non-working PSUs. Out of three non-working PSUs (all companies), two PSUs¹² had gone into liquidation process. The remaining one non-working PSU¹³ had arrear of accounts for 24 years.

3.7.4 The State Government had invested ₹790.63 crore (equity: ₹64.57 crore, loans: ₹354.03 crore, grants: ₹359.44 crore and subsidy: ₹12.59 crore) in 16 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 were informed (July 2014), 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 of the State in August 2014 to expedite the backlog of arrears in accounts in a time bound manner.

¹¹ J&K State Horticulture Produce marketing Corporation limited, J&K State Small Scale Industries Corporation Limited, J&K State Industries Corporation Limited, J&K State Handloom Development Corporation Limited, J&K Cements Limited, J&K Minerals Limited, J&K State Tourism Development Corporation limited, J&K State Forest Corporation Limited, J&K State Road Transport Corporation Limited, J&K Police Housing Corporation, J&K SC/ST/OBC Development Corporation, J&K Overseas Development Corporation.

¹² Himalayan Wool Combers and J&K State Handloom Handicrafts Raw Material Supplies Organisation Limited.

¹³ Tawi Scooters Limited.

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-3.6**.

Table-3.6

Sl. 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 ¹⁴
(b)	Voluntary winding up (liquidator appointed)	-
(c)	Closure, i.e. closing orders issued but liquidation process not yet started.	1 ¹⁵

During the year 2013-14, 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 Fourteen (14) accounts of the 11 working companies were finalized between October 2013 and September 2014 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-3.7**.

Table-3.7

(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	5	5.78	1	4.50	01	0.09
2.	Increase in loss	7	2.23	8	27.60	01	0.15
3.	Non-disclosure of material facts	4	27.85	2	45.17	04	59.35
4.	Errors of classification	10	110.48	10	82.28	03	3.52

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 2013 to September 2014 are stated below:

Jammu & Kashmir State Industrial Development Corporation Limited (2007-08)

- The Company had not provided interest accrued and due ₹1.61 crore on term loan from State Government resulting into understatement of unsecured loan funds by ₹1.61 crore and understatement of loss to the same extent.

¹⁴ Himalayan Wool Combers Limited and Jammu & Kashmir State Handloom Handicrafts Raw Material Supplies Organization Limited.

¹⁵ Tawi Scooters Limited.

- The Company had received ₹4.17 crore from promoters as part of unrealized premium and treated it as Income, which was payable to State Government and should have been treated as liability.

Jammu and Kashmir State Cable Car Corporation Limited (2010-11)

- The Company has not made provision of ₹23.78 lakh regarding income tax payable for the financial year 2010-11 resulting into understatement of current liabilities as well as accumulated losses of the Company to the same extent.

Jammu and Kashmir State Power Development Corporation Limited (2010-11)

- The Company has neither collected nor made provision of ₹1.95 crore being one *per cent* cess payable by the contractors on the value of work done (₹194.75 crore) during the year as per Building and Other Construction Workers Welfare Cess Act, 1996 leading to understatement of current Liabilities' and Provisions as well as other Receivables' by ₹1.95 crore.
- The Company neither paid nor made provision of ₹27.27 crore for water usage charges as per the Jammu and Kashmir Water Resources (Regulations and Maintenance) Act, 2010. This resulted in understatement of current liabilities and provisions by ₹27.27 crore and overstatement of profits to the same extent.

3.9.3 Similarly, accounts of two statutory corporations viz Jammu & Kashmir State Financial Corporation and Jammu & Kashmir State Road Transport Corporation had been finalized (two) Accounts for years 2011-12 and 2012-13 and Nil Accounts during 2013-14. The Jammu and Kashmir State Forest Corporation had never submitted its accounts since 1996-97. The details of aggregate money value of comments for the last three years ended 31 March 2013 is given in **Table-3.8**.

Table-3.8

(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13		2013-14	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	-	-	-	-
2.	Increase in loss	-	-	5	184.86	-	-
3.	Non-disclosure of material facts	-	-	-	-	-	-
4.	Errors of classification	2	1.60	1	3.75	-	-

3.9.4 During the year, the statutory auditors had given qualified certificates in respect of nine accounts¹⁶. The compliance of PSUs with the Accounting Standards remained poor. There were 24 instances of non-compliance of accounting policies relating to inventories, revenue recognition, not making provisions for employee benefits, etc.

¹⁶ In case of Jammu and Kashmir State Road Transport Corporation, CAG is the sole auditor.

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 five companies was either not in place or internal audit reports were not furnished as per details given in **Table-3.9**.

Table 3.9

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.	05	A- 4,5, 8, 9,19

Public Sector Undertakings need to improve their internal audit systems commensurate with the nature and size of business, devise suitable system for making provision of retrial 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 2013-14, no Separate Audit Reports (SARs) issued by the CAG on the accounts of Jammu & Kashmir State Road Transport Corporation due to non-submission of any Account by the Corporation and in respect of Jammu & Kashmir State Financial Corporation Accounts for the year 2011-12 were laid in the legislature during March 2014 (July 2014). 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 2014, one performance audit and six draft paragraphs were issued to the Secretaries of the respective Departments with the request to furnish replies within six weeks. However, reply in respect of three draft paragraphs involving a money value of ₹2.02 crore was awaited from the State Government (September 2014). One performance audit involving money value of ₹23.62 crore and six audit paragraphs involving ₹8.71 crore have been included in Part B (PSU Chapter) of this Report.

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-moto* 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 March 2014, out of 55 Audit paragraphs included in the Audit Reports for the years 2000-01 to 2012-13, the recommendation in respect of 42 paragraphs have been made by Committee on Public Undertakings (COPU), however, ATNs on the recommendations of COPU is pending from the State Government in respect of 23 Audit paragraphs.

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 six projects were privatized up to 2013-14 by J&K State Power Development Corporation Ltd out of 23 projects. However, final process was yet to be completed (August 2014).