Chapter-4

Performance Audit

(PSU Sector)

CHAPTER – 4

PERFORMANCE AUDIT
INDUSTRIES AND COMMERCE DEPARTMENT

Jammu & Kashmir Small Scale Industries Development Corporation Limited

4.1 Working of the Jammu & Kashmir Small Scale Industries Development Corporation Limited

The Jammu & Kashmir Small Scale Industries Development Corporation Limited (SICOP) was incorporated in November 1975 under the Companies Act 1956. The Company is engaged in aiding, assisting and promoting Small Scale Industrial (SSI) units in the State.

Highlights

- The accounts of the Corporation were in arrears since 1995-96. The huge balances of ₹556.10 crore appearing under Inter-unit Adjustment Account remained un-reconciled/ un-adjusted ending March, 2014.

  (Paragraphs: 4.1.6.1 &4.1.12.3)

- Fifty *per cent* developed area in IID, Govindsar, Kathua and 93 *per cent* developed area in Silk Park Zakura remained unutilized as of March, 2014 resulting in unfruitful expenditure of ₹12.23 crore. Besides delay in completion of projects leading to withholding of ₹61.89 lakh by the GoI, diversion of ₹57.06 lakh from project funds, excess expenditure of ₹4.01 crore over the estimates and allotment of plots of the size of 100 kanals against the approved size of 2-4 kanals were noticed.

  (Paragraph: 4.1.7)

- Rent of ₹77.53 lakh was recoverable from lessees as on 31 March 2014. Rent had not been revised after the year 2007 though required to be done after every five years resulting in loss of ₹27.26 lakh to the Company during the years 2012-13 and 2013-14.

  (Paragraph: 4.1.8)

- 265 Deposit works at a cost of ₹ 57.64 crore were allotted to various contractors on selective basis without tendering and without issuing any formal allotment letters. Payment amounting to ₹3.78 crore was authorized on hand receipts in violation of provisions of J&K Public Works Account Code.The marketing assistance was provided to about 40 *per cent* units registered with the Company.

  (Paragraphs: 4.1.9 & 4.1.10)

- The Board of Directors (BOD) of the Company met only on four occasions during 2009-14 against a minimum requirement of 20 meetings under Companies Act, 1956.

  (Paragraph: 4.1.12.4)

4.1.1 Introduction

The Jammu & Kashmir Small Scale Industries Development Corporation Limited (SICOP) was incorporated in November 1975 under the Companies Act 1956 as a wholly owned Government Company *inter alia* to assist and promote the interests of Small Scale Industrial (SSI) units in the State by formulating plans and executing projects of industrial estates, development of infrastructural facilities, undertaking marketing including trade promotion by export trade, raw material management and establishing common quality control facilities.

4.1.2 Organisational Set up

The Management of the Company is vested in a Board of Directors (BOD) comprising 13 Directors including the Chairman and the Managing Director. The day to day activities are managed by the Managing Director. He is assisted by four General Managers, a Financial Advisor & Chief Accounts Officer, five Divisional Managers, three Project Officers and an Administrative Officer. The Company had two Divisional Offices, two Project Engineer offices, two Integrated Infrastructure Development (IID) Centres, five Estate Offices, two testing centres and 21 Raw Material Depots (RMDs).

4.1.3 Audit objectives

The Performance Audit was conducted with a view to ascertain whether:

- Financial Management was efficient;
- Development of infrastructure facilities in IID Centres and up-gradation of Industrial Estates was carried out in an efficient and economic manner;
- Asset Management was efficient;
- Construction activities undertaken on behalf of various Government departments were executed in a transparent, efficient and effective manner;
- Marketing Activities and Raw Material distribution was in sync with the Company objectives;
- An efficient Internal Control mechanism was in place.

4.1.4 Scope of Audit and methodology

The performance of the Company was last reviewed for a period of five years from 2003-04 to 2007-08. The Report was taken up for discussion partly by the Committee on Public Undertakings (COPU) thrice[1] during 2011-14. Three out of four paragraphs taken up for discussions were settled by the Committee as communicated vide its 44th Report of March 2012. The discussion on other paras, however, remained inconclusive (July 2014).

1 06 January 2012, 30 January 2012 and 08 July 2014

The present performance audit covered a period of five years from 2009-10 to 2013-14 and was conducted between January 2014 and May 2014. The activities of the Company were mainly reviewed at Head Office of the Company. Besides, Divisional Offices at Srinagar and Jammu, Project Engineers at Srinagar and Jammu, three Raw Material Depots at Gangyal, Digiana Jammu and Zainakote Srinagar were selected to cover main activities of the Company.

An entry conference was held with the Managing Director of the Company on 22 January, 2014 wherein audit objectives, criteria and methodology were explained and discussed in detail. An exit conference was held on 6 August, 2014 wherein audit findings were discussed and the views and replies of the Government/Management (July2014) of the Company were considered and incorporated in the Report.

4.1.5 Audit Criteria

The audit criteria adopted to achieve the Audit Objectives was as follows:

- Memorandum and Article of Association of the Company;
- Guidelines issued by State Government and GOI regarding implementation of Projects/ Schemes;
- Prescribed procedures and norms for execution of works; and
- Decisions of Board of Directors of the Company;

Audit Findings

4.1.6 Financial Management

4.1.6.1 Non-finalization of accounts

The Company had finalized its accounts up to the year 1994-95 and annual accounts from 1995-96 to 2013-14 (19 years) were in arrears. Failure of the Company in timely finalisation of annual accounts resulted in violation of the provisions under section 166, 210 and 619 of the Companies Act, 1956.

Non-finalisation of accounts beyond 1988-89 was highlighted in the Report of Comptroller and Auditor General of India for the year ended 31st March 2008. Though accounts upto 1994-95 had been finalised as of March 2014, yet the Management failed to take result-oriented steps towards speedy finalisation of arrear accounts. Non-finalisation of the accounts is fraught with the risk of financial irregularities like frauds, misappropriation and embezzlement etc., remaining undetected. The Managing Director of the Company attributed (July, 2014) delay to undue long time taken by the Statutory Auditors in respect of certification of accounts up to 1998-99. The reply is not convincing as the matter regarding delay by Statutory Auditors had not been referred to the appointing authority.

4.1.6.2 Financial position and working results

Based on the provisional accounts, the summarized financial position and working results of the Company for the five years from 2009-10 to 2012-13 are summarised in ***Appendix-4.1*** **and** ***4.2*** respectively.

4.1.6.3 Non-expansion of activities

The Company had not pursued the following objectives:

- Aid, council, assist and promote the interests of Small Scale Industrial (SSI) units in the State and to provide them with capital, credit means, resources and technical and managerial assistance for the execution of their business;
- Establish/ maintain export house to promote export trades and participate in export trade.

Further, it was seen that the BOD had authorised (April 1994) the Company to undertake civil construction works. However, amendments to the Articles and Memorandum of Association, authorising the Company to undertake the Construction Works were pending for last twenty years (July 2014).

4.1.7 Development of infrastructural facilities

The implementation of infrastructure projects involves providing common facilities to the MSME before plots are allotted to them to establish their units. The Company, as implementing agency (IA), had undertaken development of infrastructural facilities like land, sheds, water/ power supply, road connectivity, and common facility centres etc. under various Integrated Infrastructure Development (IID) Projects and up-gradation of Industrial Estates during 2009-10 to 2013-14 funded jointly by the State and Central Governments. During this period, the Company completed three projects at a cost of ₹28.31 crore with assistance of ₹25.55[2] crore received from the State Government and GOI.

4.1.7.1 Development of IID Centre, Govindsar, Kathua

Under Integrated Infrastructure Development Scheme, launched by the GOI in 1994 for promoting small scale/tiny industry, an area of 580 *kanals* (Phase-I) situated at Govindsar, Kathua was earmarked for development of Integrated Infrastructure Development (IID) Centre. The land was allotted (November, 2007) by the District Industries Centre (DIC) Kathua to the Company (SICOP) as Implementing Agency (IA) for development of 160 plots (Ist phase) of different dimensions (ranging from one-four *kanals* each) on 450 *kanals* at an approved estimated cost of ₹8.64 crore. The Project was to be completed within 18 months from the date of launch of the project.

The Project was sanctioned by GOI in November 2005 and against the sanctioned amount of ₹8.64 crore, ₹8.34 crore was released by the GoI (₹3.70 crore) and the

[2] GOI: ₹13.43 crore; State Government: ₹12.12 crore

State Government (₹4.64 crore) for which separate account was maintained. Scrutiny of records related to the implementation of the Project revealed the following:

- Despite receipt of funds in March/May 2006[3], the work was launched in May 2008, thus leading to a delayed start of 24 months. The project was further delayed by 17 months as, against the target completion of 18 months (November 2009), the project was completed in 35 months (March 2011). For inordinate delay in execution of the Project, GOI withheld an amount of ₹29.88 lakh and the cost of Project was restricted to ₹8.34 crore. Besides, delay in completion defeated the objective of the scheme of extending timely benefits to prospective entrepreneurs.

  The management attributed (July, 2014) the delay in launching the project to transfer of land by Revenue Authority and subsequent land dispute by the locals for non-receipt of compensation of land. The reply is not convincing because 41 months delay to get the land transferred from revenue authorities and settle land compensation disputes was unjustifiable.

- The Company incurred administrative expenditure viz., salary, office expenditure, POL/ maintenance of vehicles etc., to the tune of ₹57.06 lakh out of Project funds, which was not admissible as per terms of the sanctions governing such release and was thus, irregular.

  The management stated (July, 2014) that funds for these items of expenditure were met from Company's own sources. The reply is not tenable as money was withdrawn from the Bank account maintained separately for the Project.

- Though overall expenditure was restricted to the extent of funds received, yet in contravention of the terms of sanctions, the Company had incurred excess expenditure amounting to ₹1.93 crore over and above the sanctioned cost on various items[4] rendering the expenditure as irregular. The management stated (July 2014) that excess expenditure incurred on some items was due to cost escalation of key raw material and also as per requirement at site during execution. The reply is not convincing as the expenditure was to be restricted to the sanctioned cost of each item of work as per the terms of the sanctions.

- The Company was required to develop 160 plots (1-4 *kanal* plot) on 450 *kanal* of ready to use land as per DPR. However, as against 450 *kanal*, the Company developed 405 *kanal* incurring ₹8.27 crore as the remaining 45 *kanal* had not been physically transferred to the Company due to non-payment of compensation to the land owners by the Government. The plots on 358.70 *kanals* (89 *per cent*) were un-evenly allotted to 72 entrepreneurs leaving 46.30 *kanals* un-allotted as of July, 2014.

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3 State Government (₹50 lakh) in March 2006 and GOI (₹2 crore) in May 2006

4 Common Facility Centre, Construction of roads, Water Supply Scheme, Protection works/ construction of retaining wall, Contingencies layout, survey/ Consultancy

Audit noticed that in deviation of the guidelines of the DPR, the Company allotted 20 *kanal* plot each to two entrepreneurs[5], 80 *kanal* plot to a single entrepreneur[6] and more than four *kanals* plots to other eight entrepreneurs[7] thereby defeating the objective of the Project meant for small and micro sector. Out of 72 entrepreneurs to whom 358.70 *kanals* developed land was allotted, only 23 allottees (32 *per cent*) had established their units on 203 *kanal* land whereas remaining 49 entrepreneurs (68 *per cent*) having 155.70 *kanal* land had not established their units till end of March, 2014. Out of these 49 entrepreneurs, 25 had not established their units despite lapse of a period ranging between six and 19 months after expiry of 18 months of allotment.

Thus, non-utilisation of 202 *kanals*[8] (50 *per cent*) of developed area of the IID Centre apart from rendering the investment of ₹4.13 crore unfruitful , defeated the objective of promoting small scale/ tiny industry.

The Management replied (July 2014) that the un-allotted developed land had been earmarked for allotment by single window clearance committee in near future. However, the fact remains that despite completion of the project in March 2011, 46.30 kanals remained unallotted and 202 *kanals* land remained unutilised as of July 2014.

- Similarly, as per DPR of Phase-II of the IID Centre total of 47 plots of size measuring 2 to 4 *kanals* were to be developed for MSME unit holders. It was seen in audit that contrary to DPR, one plot comprising 100 *kanals* (out of 176 *kanals* plotable land) was allotted to a single entrepreneur[9] thereby defeating the very objective of the Scheme to promote MSME units.
- As per terms and conditions of the sanctions governing release of funds by GOI, the Company as IA was also required to ensure reservations for SC, ST, OBC and women entrepreneurs in the allotment of plots. Audit, however, noticed that neither any reservation was made nor any plot was allotted to them depriving them of the right of allotment of plots in the IID centre.

The management stated (July, 2014) that power of allotment of plots vested with the single window clearance committee and Directorate of Industries & Commerce Department of the State Government. The fact, however, remains that the Company despite being the implementing Agency for the project and the Managing Director being one of the members of the clearance committee had failed to ensure that the guidelines are adhered to so as to protect the interests of the SSI units.

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5 M/s Vinay Corporation Private Ltd. and M/S Fena Detergent Private Ltd.
6 M/s Jackson Ltd.
7 M/s Best Crop Science, M/s Sleep Makers, M/s Darrick Industries, M/s Venkys India Ltd. M/s Jammu Rubber Industries, M/s Agro Life Science, M/s Chambal Alumns Private Ltd and M/s Pristine Papers
8 405 *kanals* developed land *minus* 203 *kanals* utilized land
9 M/s Nicer Paper Mills

4.1.7.2 Development of Handicrafts and Silk Park at Zakura Srinagar

Under Textile Centres Infrastructure Development Scheme (TCIDS) of the GOI, a project 'Development of Handicrafts and Silk Park at Zakura' was approved by the GOI in December 2004 at an estimated cost of ₹7.92 crore with the central assistance of ₹6.27 crore and State share of ₹1.65 crore. The work was assigned to the Corporation as Implementing Agency (IA) for completion within 18 months from the date of launch. An area of 109 *kanals* of land situated at Zakura Srinagar was earmarked for the establishment of Silk and Handicraft units, of which 15 *kanals* were to be earmarked for roads, drains, common facility centre and remaining 94 *kanals* for accommodating 40 units of Silk and 40 units of Handicrafts sector.

Audit noticed that against share of ₹6.27 crore, the GOI released (May 2006 to March 2012) ₹5.95 crore only, and the State released (2004-12) ₹2.65 crore against the proposed share of ₹ 1.65 crore upto March 2014. Scrutiny of records related to the implementation of the Project showed the following:

- The project started in January 2005 was completed in March 2012, after 86 months against the stipulated completion time of 18 months with the result the GOI withheld an amount of ₹32.01 lakh due to delay in execution of the Project. The Management attributed delay in commencement of the work to late realisation of funds and occupation of the premises by the security forces. The fact remains that the State Government had started releasing funds from March 2005 whereas the security forces had occupied the premises for a brief period of six months only.

- The Company had incurred excess expenditure to the tune of ₹2.08 crore over and above the sanctioned cost on various items[10] of work in violation of terms of the sanctions rendering the expenditure as irregular. Though no provision for the construction of Irrigation *Khuls* was kept in the abstract of costs approved by GOI, yet work to the tune of ₹19.94 lakh had been executed without technical sanction and administrative approval of the competent authority.

  The Management stated (July 2014) that excess expenditure incurred on some items was due to cost escalation of key raw material and as per requirement at site during execution. The reply is not convincing as the expenditure was incurred on various items which were outside the scope of abstract of the cost approved by the GoI and thus irregular.

- The Company allotted 81 plots[11] of 0.75 *kanal* each for establishing Silk and Handicraft units. Out of these, only 06 had established their units (11 *per cent*) (ending April 2014). As per lease deed executed, the allottees were bound to commence construction of unit within 180 days and commence production within

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10 Construction of Common Facility Centre (building), Construction of Roads, Construction of Irrigation *Khuls*, Creche Building (Main building), Construction of RCC Drains, Survey & layout, Security Shed (Main building) , Generator Shed (Main Shed), Testing equipment

11 40 in October 2010, 36 in July-September 2011 and one each in March 2010, July 2010, April 2013, May 2013 and September 2013

18 months from the date of execution of the lease deed failing which the allotment was to be cancelled. The Company had not taken effective steps for cancellation of lease deeds. Thus due to non-utilisation of 75 developed plots (93 *per cent)* the investment of ₹8.10 crore remained largely unfruitful and the objective of the scheme was not achieved.

The management of the Company stated (July 2014) that notices had been issued through print media. Reply is not tenable as issuing notices in print media was not enough for cancellation as no follow up action had been taken by the Company after publication of notice. Further the management had not commented on non-establishment of units by the entrepreneurs.

- The company purchased (between April 2012 and April, 2013) various machinery items worth ₹1.53 crore for Common Facility Centre, Boiler House, Effluent Treatment Plant, Testing equipment and Generator for installation at Handicrafts and Silk Park Zakura, which had not been made functional as of April 2014 resulting in idle investment for over two years. The management stated (July 2014) that once the units start production, the machines would be put to optimum use.
- Audit also noticed that the Company advanced ₹37.15 lakh between December 2007 and May 2012 to Executive Engineer, RWS Division, Ganderbal for providing water supply and ₹70 lakh between October 2008 and February 2010 to Executive Engineer, Electric Division, Khanyar for providing Power supply and installation of transformer at Silk Park at Zakura. The advances were outstanding against these Departments as of April, 2014 without any adjustments. Besides, the status of work for which advances had been made was also not available on record.

  The Management replied (July 2014) that adjustment was pending for want of detailed work done estimates from the concerned departments and the matter had been taken up in various meetings. The reply is not convincing and indicated lack of vigorous follow up as the amounts were outstanding since December 2007.

- In order to have effective monitoring of the Project, the Project Monitoring Committee (PMC) in its 4th meeting (27 January 2008) had decided that meetings should be held on quarterly basis henceforth. Audit noticed that the PMC did not meet thereafter and neither prepared nor submitted monthly progress reports, as required under terms of the sanctions. Utilisation certificate for an amount of ₹2.06 crore received from GOI on 31 March 2012 had not been furnished (March 2014) violating the terms of the sanction to that extent.

  The Management stated (July 2014) that no meeting of PMC was held after January, 2008 but the Chairman of the committee was apprised about the progress of the Project. The action of the Company was not adequate and lack of monitoring led to extraordinary delay in execution of the Project. As regards UCs, it was stated that the same had been submitted to the GOI. However, no documentary evidence was made available to audit nor was the same found on record.

4.1.7.3 Upgradation of Industrial Estate, Gangyal Jammu

Sanction for up-gradation of Industrial Estate Gangyal, at an estimated cost of ₹9.84 crore, was accorded (May/ June 2012) by the State Government and by the GOI. The estimated project cost was to be shared by the GOI and the State Government at ₹4.91 crore and ₹4.93 crore respectively and the Project was to be completed within 24 months from the date of issue of administrative approval. As of March 2014, ₹8.62 crore (GOI: ₹3.79 crore; State share: ₹4.83 crore) had been released for the project.

It was seen that;

- Tenders were invited (March 2012) for execution of Phase-I road network at a cost of ₹61.50 lakh excluding the cost of bitumen (₹53.53 lakh) to be provided departmentally and the work was allotted (June 2012) to a contractor[12] for ₹66.33 lakh. Subsequently, work for other roads in Phase-II and III were allotted to the same contractor on repeat order basis for ₹70 lakh (July 2012) and ₹98.67 lakh (December 2012) respectively, without inviting fresh tenders resulting in undue benefit to the contractor.
- Against sanction of ₹3.30 crore, an amount of ₹4.54 crore had been incurred on up-gradation of roads resulting in excess expenditure of ₹1.24 crore in violation of the terms of the sanctions. The excess expenditure was met after diversion of ₹one crore from plan funds meant for up gradation of roads of Village and small scale industries (V&SSI) sector (outside MSME sector) and ₹24 lakh out of interest earned on parking of project funds by the Company. The management stated (July 2014) that additional amount of ₹1.24 crore was incurred on periphery roads for which State Government had released ₹one crore. The fact remains that the funds released by State Government were for V&SSI roads and not for MSME sector.
- Similarly, work for construction of RCC drains was allotted (May 2012) to a contractor for ₹1.59 crore (against NIT cost of ₹1.37 crore), including cost of key construction material viz; cement to be provided departmentally. However, without preparing detailed estimates, the cost of work was revised (February, 2013) to ₹2.52 crore and the additional work amounting to ₹93 lakh was repeated with same contractor, without inviting tenders and without issuing formal allotment letter, on the same rates, in contravention of codal formalities, resulting in extension of undue benefit to the contractor to that extent.

The Management stated (July 2014) that the works were allotted without tendering to the same contractors to ensure timely completion of works and avoid cost escalation. The action of the Company was in contravention to Financial Rules and thus, irregular.

12 M/s Jai Jagdambay Road Builders

4.1.8 Asset management

4.1.8.1 Non-recovery of outstanding ground rent

After creating infrastructural facilities in various Industrial Estates (IEs) maintained by the Company, plots are leased out to the entrepreneurs by Apex body of the State Government. The allottees, as per the terms of lease deed, deposit rent with the Company in the first fortnight of every financial year and in case of default they are liable to pay interest @ 16 *per cent* per annum on the defaulted.

As on March 2014, an amount of ₹77.53 lakh was outstanding against 321 unit holders of six Industrial Estates (IEs)[13] on account of ground rent. Of this, ₹54.39 lakh continued to remain outstanding for more than three years from 148 unit holders. The percentage of recovery against rent due ranged between 46 and 52 during 2009-14.

As per agreement, the Company, in the event of default in payment of rent, had a right to re-enter the leased premises by giving 30 days' notice if the default continued for a further period of one year. No such action had been taken by the Company against 213 defaulting unit holders despite ₹64.90 lakh being outstanding against them for more than one year. Moreover, interest receivable on the arrear rent had also not been worked out nor recovered by the Company.

The Management stated (July, 2014) that most of the rentals outstanding belonged to sick, closed and migrant units and every possible effort was being made to recover rentals from them. The Company had, however, not furnished detailed list of sick and closed units. Moreover, ₹77.53 lakh continued to be outstanding against the defaulting entrepreneurs.

4.1.8.2 Non-revision of ground rent

As per the terms and conditions of lease deed agreement, the ground rent of plots leased out was to be enhanced by 20 *per cent* after every five years and lessee had to pay enhanced ground rent to the Company. The rates of ground rent of leased out plots of land were revised in April, 2007 on the basis of State Government Order. Audit observed that rent for 2272 *kanals* land (998 plots) of six IEs[14] allotted upto April 2007 was due for enhancement @ 20 *per cent* in April 2012 but the rent had not been enhanced as of March 2014 resulting in loss of ₹27.26 lakh to the Company during the years 2012-13 and 2013-14.

The management replied (July, 2014) that the power to enhance ground rent lies with the Committee constituted by the State Government. The reply is not convincing as the Company had not taken up the matter with the Government for revision of rates as was done earlier in April 2007.

13 Gangyal, Kathua, Udhampur, Birpur, Zainakote and Zakura
14 Gangyal, Birpur, Kathua, Udhampur, Zainakote and Zakura

4.1.9 Deposit works

The Company undertakes execution of construction works termed as 'Deposit Works' on cost-plus basis on behalf of Directorate of Industries & Commerce Department and various other State Government Departments, though not envisaged as an objective and not mandated by the Articles and Memorandum of Association of the Company. Records of Project Engineer Gangyal and Project Engineer Srinagar (test-checked in audit) showed that the units had not maintained data showing year-wise, department-wise and work-wise details of funds received and expenditure incurred on these works. However, data relating to department-wise/ work-wise details of execution was computed by audit in respect of Project Engineer Gangyal Jammu and Project Engineer, Kashmir from the basic records (Vouchers and Bills, Cash Book Ledger Account of various departments) and analysis thereof showed the following:

4.1.9.1 Blocking of Government money

The funds available in respect of 273 works (test-checked in audit), value of work done there against and the funds remaining unutilized during the period from 2009-10 to 2013-14 is shown in **Table-4.1**.

Table-4.1

(₹ in lakh)

Year	Opening Balance of funds	Funds received during the year	Total funds available	No. of works executed	Value of work done	Closing balance of unutilised funds	Percentage of value of work done to total funds available
2009-10	92.36	1274.63	1366.99	12*+67	857.27	509.72	62.71
2010-11	509.72	1814.10	2323.82	80	1534.40	789.42	66.03
2011-12	789.42	2188.80	2978.22	62	1458.64	1519.58	48.98
2012-13	1519.58	846.33	2365.91	35	1319.81	1046.10	55.78
2013-14	1046.10	396.80	1442.90	9	593.49	849.41	41.13
Total		**6520.66**		**265**	**5763.61**		

**12 works are continuing from previous years and 67 executed during the year*
Note: No. of works executed 265 = Total works 273 minus works 8 works not yet taken up at Jammu

During the years 2009-14, funds ranging between ₹5.10 crore (37.29 *per cent*) and ₹15.20 crore (51.02 *per cent*) remained unutilized. Moreover value of work done to total funds available declined from 66.03 *per cent* in 2010-11 to 41.13 *per cent* in 2013-14. Of the balances (₹92.36 lakh) existing on Ist April 2009, ₹35.38 lakh remained unutilised as of March 2014.

It was seen that out of 273 works test checked in audit, 182 works were completed and 78 were in-progress. Eight works, for which ₹60.73 lakh had been received, were not taken up as of March 2014 with delay ranging between six and 60 months. Apart from this, five works[15], for which ₹1.77 crore had been received, were abandoned after incurring an expenditure of ₹1.01 crore rendering the expenditure as unfruitful, besides leaving ₹76 lakh unutilised. In addition to this, an amount of ₹1.79 crore received by the Company prior to April, 2009 had also remained unutilized as of March, 2014. Thus, an amount of ₹3.51 crore remained un-utilized as of March 2014 for a period ranging between six months to five years.

[15] Jammu : three works and Srinagar: two works

The management stated (July 2014) that funds remained un-utilized due to litigation, disputes and due to incompletion of civil works, however, steps would be taken to utilise the balances within the financial year. The reply is not tenable as ₹1.36 crore remained unutilized on account of abandoned works and the works not taken up despite receipt of funds and none of these works was under dispute or litigation.

Time and Cost over-run

Out of 260 works completed/ Work in progress during 2009-14, 135 works were delayed and had suffered time over-run ranging between one and 86 months. Of these, 16 works had witnessed cost overrun by ₹124.79 lakh due to time overrun.

4.1.9.2 Non-recovery of Labour Cess

Building and Other Construction Workers Welfare (Regulation of Employment and Conditions of Service) Cess Act, 1996 provides to levy a Cess at the rate not less than one *per cent* of the cost of construction to be operative from January 2006. In case of failure to pay amount of cess within the specified period (30 days of project completion) provision of charging interest @ two *per cent* for every month of delay and penalty not exceeding the amount of cess was also provided in the Cess Act 1996.

Records of Project Engineer, Gangyal, Jammu and Project Engineer Kashmir revealed that the Company had failed to deduct cess @ one *per cent* under the Act amounting to ₹111.83 lakh in respect of the construction works executed during the period from April 2007 to August 2011. Accordingly the Company was liable to pay an amount of ₹327.40 lakh to the Assessing Authority upto March, 2014 including penalty of ₹111.83 lakh and interest of ₹103.74 lakh for delay.

As per section 13 of the Cess Act 1996, if an offence under this Act was committed, every person responsible for the conduct of the business of the Company would be deemed to be guilty of the offence and prosecuted and punished accordingly. The Company had not initiated any action to recover the cess amounting to ₹111.83 lakh from the contractors as of March 2014.

The management replied (July 2014) that it was not possible for the Company at this stage to recover cess from the contractors for the work executed during the preceding years. The reply is not convincing as SRO regarding levy of cess issued by the State Government was applicable to all the concerned agencies w.e.f. July, 2006.

4.1.9.3 Execution of Deposit Works without tender

(i) Audit scrutiny of records of Project Engineers, Jammu /Kashmir showed that 265 works executed at a cost of ₹57.64 crore (value of work done) were allotted to various contractors on selective basis without inviting tenders and without issuing formal allotment letters containing terms and conditions to safeguard the interests of the Company. Of these, 16 works (Cost: ₹6.95crore) had been allotted to a single contractor[16] and 42 works (Cost: ₹7.17 crore) had been allotted to the same contractor jointly with other contractors. Similarly, 39 works (3 independently and 36 jointly

[16] Sh. Ghulam Nabi Malik

with other contractor) amounting to ₹5.55 crore had been allotted to another contractor[17] without tendering. The Management stated (July, 2014) that works were allotted to contractors at the PWD schedule of rates and contractors of nearby vicinity of the site are selected and works allotted to them to facilitate their execution. The reply confirms that codal provisions of tendering and issuing of allotment letters were violated by the Company while executing the construction works.

(ii) Audit noticed that under 'Prime Minister's Package for Return and Rehabilitation of Kashmiri Migrants' the Company, without ensuring vetting of designs, obtaining Administrative Approval (AA) and Technical Sanction (TS) and without fulfilling codal formalities viz., inviting tenders, issuing allotment letters to the contractors, executing agreements and obtaining security deposits, allotted (March/ October 2010) works for construction of pre-fabricated huts at four locations[18] to two contractors. Audit noticed that despite delay of four years, only 477 huts had been completed as of March 2014 at a cost of ₹36.37 crore against a total sanctioned cost of ₹33.13 crore leading to excess expenditure of ₹3.24 crore. Thus, allotment of works in contravention to financial rules resulted in irregular expenditure of ₹36.37 crore.

4.1.9.4 Payments on Hand Receipts

Para 206-212 of J&K Public Works Account Code broadly lays down the procedure for making payments to the contractors for execution of works on prescribed forms. The Jammu and Kashmir Finance Department has clearly ordered (August, 2011) that prescribed forms supported with other documents are to be used and hand receipts shall not be used for making such payments. The use of hand receipt forms is restricted to petty payments only.

Audit noticed that in contravention of these Rules and Government instructions, Project Engineer Gangyal Jammu and Project Engineer Kashmir had authorised payments amounting to ₹3.78 crore (Kashmir: ₹249.33 lakh and Jammu: ₹128.24 lakh) on hand receipts in respect of works executed departmentally or through various contractors during 2009-10 to 2013-14. Authorisation of payments on Hand Receipts was irregular for which the management of the Company had not fixed any responsibility.

The Management admitted (July, 2014) that in certain cases of emergencies and due to non-availability of prescribed formats the payments had been authorised on hand receipts and noted instructions of the audit for future compliance.

4.1.10 Marketing Activities

4.1.10.1 Performance under marketing activities

The Company procures supply orders from the Government Departments for supply of various items manufactured by SSI units and passes on these orders for execution

17 Sh. Farooq Ahmad Ganai
18 Baramulla, Pulwama, Natnusa Handwara and Vessu, Qazigund

to the registered units. The Company levies service charges @ five *per cent* on the goods supplied by the SSI units to the intending departments.

The number of units registered by the Company vis-a-vis total number of functional units registered with Industries and Commerce (I&C) Department, extent of marketing facilities provided to the units registered by the Company and service charges earned during the period from 2009-10 to 2013-14 is shown in **Table-4.2**.

Table-4.2

Year	Total number of units registered with I&C Department	No. of units registered by the Company	Percentage of units registered by the Co. vis-a-vis units registered with I&C Department	Units provided Marketing facility registered with the Company	Percentage of units provided marketing facility to units registered with I&C Department	Percentage of units provided marketing facility vis--vis total units registered by the Company
2009-10	35,505	632	1.78	260	0.73	41
2010-11	36,241	688	1.90	262	0.72	38
2011-12	37,136	748	2.01	282	0.76	38
2012-13	37,988	814	2.14	328	0.86	40
2013-14	38,435	902	2.35	335	0.87	37

It may be seen from the table that marketing assistance provided to the SSI units registered with the Company was not satisfactory as the overall coverage ranged between 37 and 41 *per cent* during 2009-14, thereby leaving 59 to 63 *per cent* outside their coverage. Moreover, there was an overall decline of four *per cent,* from 41 *per cent* in 2009-10 to 37 *per cent* during 2013-14, in providing marketing assistance to SSI units registered by the Company.

The Management stated (July, 2014) that SICOP had registered only such units which manufacture/ supply listed items and supply orders are distributed amongst the registered units considering some parameters whereunder supply is ensured in time. The reply is not convincing as the objective of the Company is to provide marketing assistance to all registered SSI units. Besides, the registration of each SSI unit is done by the Company only after fulfilling all the parameters indicating that each unit was capable to handle the supply order, if placed.

4.1.10.2 Outstanding against Government departments

After completion of supply by SSI units, Government departments release payments in favour of the Company, being marketing facility providing agency. The Company releases payment to SSI units after collecting its service charges.

Records of General Manager (Marketing) Srinagar and Jammu (test checked in audit) showed that as on March 2014, an amount of ₹20 crore[19] was outstanding against 17 Government departments (7 in Jammu & 10 in Kashmir) on account of supplies made by 87 SSI units (Kashmir: 78 units and Jammu: 9 units). Audit noticed that the Company had failed to recover the long outstanding amount from the concerned Government departments during 2009-14 resulting in blockade of money of SSI units with the indenting departments. Analysis made in audit revealed that an amount of ₹2.96 crore continued to be outstanding for a period of more than five years.

[19] ₹94 lakh in GM, Marketing Jammu and ₹19.06 crore in GM, Marketing Kashmir

The management replied (July 2014) that some funds had been released by the Government though not cleared by the Treasuries. But the fact remains that payments had not been released to SSI units thereby defeating the very objective of protecting the interests of the SSI units.

4.1.11 Raw Material Management

4.1.11.1 Non-achievement of sale targets by Raw Material Depots

Procurement and sale of Raw Material to SSI units is another important activity being carried out by the Company. The procurement is mainly done from agencies like Steel Authority of India (SAIL), Indian Oil Corporation (IOC), Coal India Ltd, Reliance Industries Ltd., ACC cements, Ambuja Cements, JP Cements. Apart from this steel and scrap items are purchased from local registered SSI units also. All these items are sold to SSI units through a network of 21 depots established in all the districts so as to ensure availability of materials to SSI units.

Targets of sale of Raw Material at each district are fixed by the Company annually. Audit analysis of the data relating to sale targets and achievements of Raw Material Depots (RMDs) at each district of Jammu and Kashmir divisions for the years 2009-14 (***Appendix-4.3***) showed huge shortfall in achievement of sale targets ranging between 8 and 91 *per cent* in 2009-10, 14 and 94 *per cent* in 2010-11, four and 91 in 2011-12, 14 and 90 *per cent* in 2012-13 and 18 and 83 *per cent* in 2013-14 indicating that the sale performance of these RMDs had been dismal. Audit observed that the management had neither analysed the reasons of shortfall nor had taken any action to achieve the targets. Further analysis showed that the Company had not conducted any survey in each district to assess the actual requirement of various items of raw material by each SSI unit. The Management replied (July, 2014) that few districts being hilly totally depend on Government orders but asserted that efforts would be made to increase the sale at each District.

4.1.12 Internal Control

4.1.12.1 Non-existence of Management Information System (MIS)

The Company did not have proper MIS in place to monitor the adherence to performance parameters and targets, both physical and financial. There was no standard format for recording information on various operational activities undertaken at the unit level and their monitoring at the Head Office level.

During the period from 2009-10 to 2013-14, State Government released ₹29.50 lakh for connectivity and computerisation of the units including Corporate Office which was stated to have been utilised in full. The Management admitted that MIS is in infancy and stated that all offices had been computerised. But the fact remains that data as per requirement had not been generated despite computerisation.

4.1.12.2 Inefficient store management

It was seen that vital stock records like Material-at-site registers/ stock statements for the material lifted from the Raw Material Depots (RMDs) and the priced store ledger in respect of each construction work had not been maintained. In absence of these vital records, correctness of the value of key construction material could not be vouchsafed in audit. Besides, possibility of non-accountal or pilferage of key construction material could not be ruled out.

The Management replied (July 2014) that material is issued against indent and acknowledgement and stock register is maintained at work site. The reply is not tenable as no such stock register was produced to audit despite repeated requests. Moreover, the Company had dispensed with the codal procedure relating to maintenance of inventory records at each place of receipt and issue of material on prescribed format essentially required to have a better inventory control.

4.1.12.3 Non-reconciliation/ non-adjustment of balances under Inter-unit Adjustment Account

Books maintained at eight offices of SICOP including Head Office showed a huge debit balance of ₹242.99 crore and credit balance of ₹313.11 crore under Inter Unit Adjustment Account as on 31st March, 2013. Audit observed that these balances had been pending since 1995-96 and remained un-reconciled and un-adjusted as of April, 2014. Non- adjustment of accounts for a long time is fraught with the risk of fraud/ embezzlement remaining undetected. The management stated (July, 2014) that adjustment of debit credit balances were pending for want of non-finalisation of accounts since 1995-96, however adjustment of these transactions would be done in due course of time.

4.1.12.4 Non-holding of required number of meetings of Board of Directors

Audit noticed (December 2013) that during the last five year period (2009-10 to 2013-14), the Board of Directors (BOD) of the Company met only on four occasions against a minimum requirement of 20 meetings under Companies Act, 1956. This was against the principles of healthy corporate governance and was liable to affect adversely the decision making process of the Company.

The Managing Director admitted (July, 2014) the shortfall in holding required number of board meetings and attributed the reasons to non-availability of Minister of Industries & Commerce, being Chairman of BOD. However, it was assured that efforts would be made to hold BOD meetings at regular intervals.

4.1.13 Conclusion

The accounts of the Company continued to be in arrears since 1995-96. 50 *per cent* developed space in IID Govindsar, Kathua and 93 *per cent* developed area in Silk Park, Zakura remained unutilized leading to unfruitful investment. Deposit works were executed on behalf of various Departments of the State Government without being mandated by the Articles of Association and while executing deposit works codal formalities had not been adhered to. Marketing assistance was provided to less than 40 *per cent* units registered with the Company. The Company had not conducted any survey to assess the requirement of Raw Material required by SSI units registered by the Company. The Company had not adequate system in operation to generate data as per requirement despite computerisation. Stock records like Material-at-site registers and the priced store ledger had not been maintained. Reconciliation of inter-unit adjustment accounts had been pending since 1995-96. Board of Directors (BOD) of the Company had met on four occasions only against a minimum requirement of 20 meetings during last five years.

4.1.14 Recommendations

The Company may consider to:

i. Speed up the process of finalisation of annual accounts in arrear and reconciliation of inter-unit adjustment accounts, so as to have an updated financial position and working results of the Company.

ii. have a relook on undertaking construction activities as various State Departments/ Corporations are already mandated for the same.

iii. Marketing activities may be expanded to all the registered SSI units with the Company on equitable basis.

iv. Conduct a survey to assess the raw material requirement of SSI units in each district and ensure adequate supply of same to each SSI units.