CHAPTER-VII

COMMERCIAL ACTIVITIES

Section-I

Overview of Government Companies and Statutory Corporations

Introduction

7.1 As on 31 March 2008, there were 20 Government companies (17 working and three[1] non-working[2] companies) and three Statutory corporations (all working) under the control of the State Government. The position had remained unchanged since 31 March 2007.

The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors 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 by the CAG as per the provisions of Section 619 of the Companies Act, 1956. The audit arrangements of the three Statutory corporations are as shown below:

Table 7.1

Sl. No	Name of the corporation	Authority for audit by the CAG	Audit arrangements
1.	Jammu and Kashmir State Forest Corporation	Section 19 (3) of the CAG's (DPC) Act, 1971	Sole audit by the CAG
2.	Jammu and Kashmir State Road Transport Corporation	Section 33 (2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
3.	Jammu and Kashmir State Financial Corporation	Section 37 (6) of the State Financial Corporations Act, 1951	Audit by Chartered Accountants and Supplementary audit by the CAG

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

7.1.1 The total investment in the working PSUs at the end of March 2007 and March 2008 was as follows:

Table 7.2

(Amount: Rupees in crore)

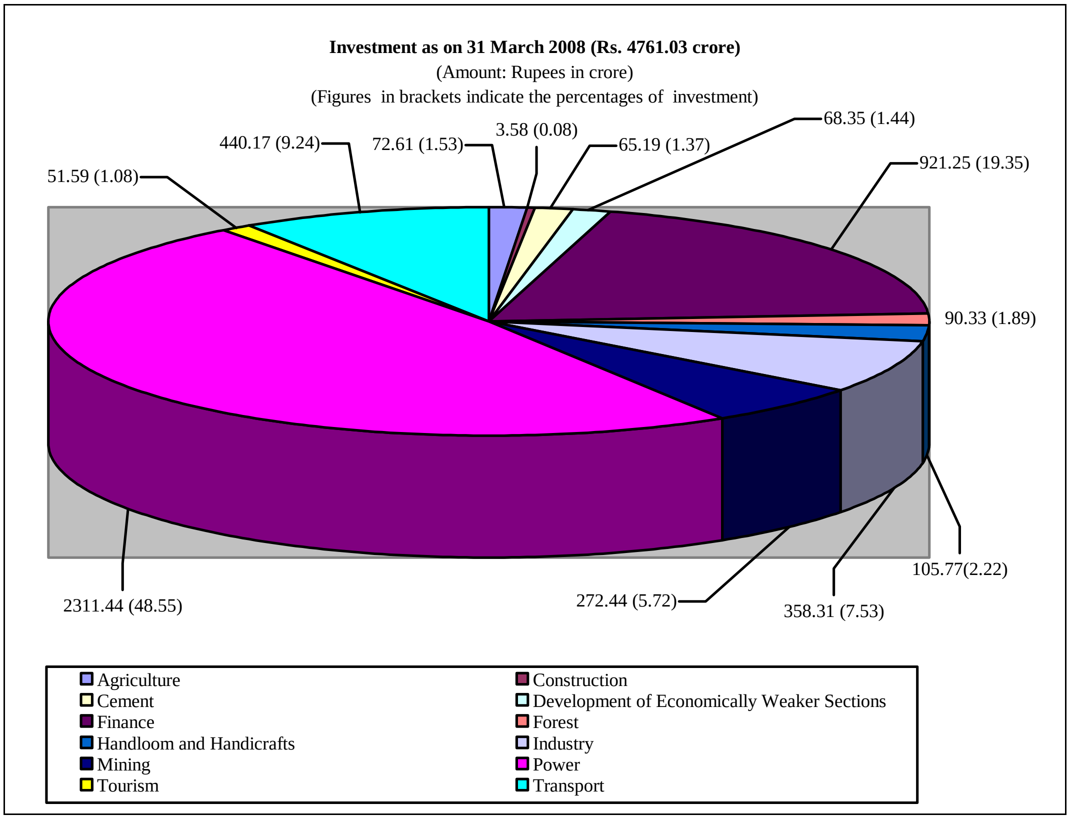
Year	Number of PSUs	Investment by way of		
		Equity	Loan	Total
2006-07	20	398.58	4022.30	4420.88
2007-08	20	400.28	4360.75	4761.03

Sector-wise Investment in Government companies and Statutory corporations

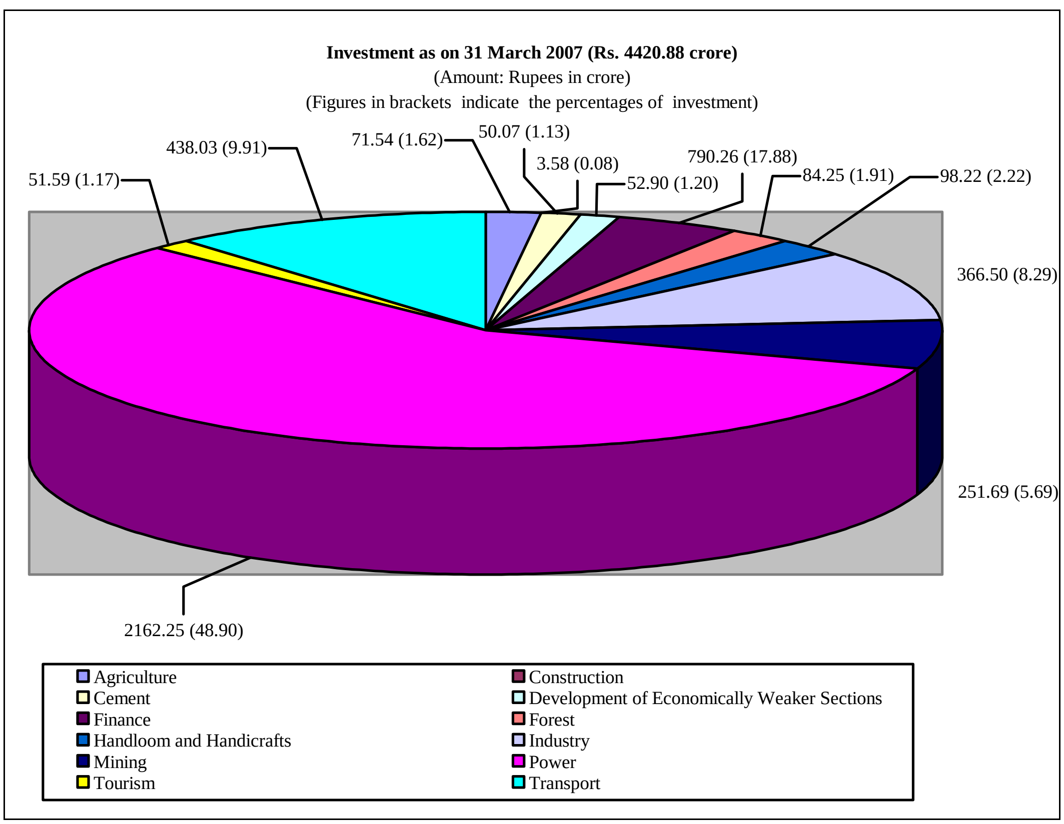
7.1.2 The investment (equity and long-term loans) in various sectors and percentage thereof at the end of March 2007 and March 2008 are indicated in the pie charts below:

[1] Himalayan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) and Tawi Scooters Limited.

[2] Non-working company is one which is under the process of liquidation/merger, etc.



Investment as on 31 March 2008 (Rs. 4761.03 crore)
(Amount: Rupees in crore)
(Figures in brackets indicate the percentages of investment)
440.17 (9.24)
72.61 (1.53)
3.58 (0.08)
65.19 (1.37)
68.35 (1.44)
921.25 (19.35)
51.59 (1.08)
90.33 (1.89)
105.77(2.22)
2311.44 (48.55)
272.44 (5.72)
358.31 (7.53)
Agriculture
Construction
Cement
Development of Economically Weaker Sections
Finance
Forest
Handloom and Handicrafts
Industry
Mining
Power
Tourism
Transport



Investment as on 31 March 2007 (Rs. 4420.88 crore)
(Amount: Rupees in crore)
(Figures in brackets indicate the percentages of investment)
438.03 (9.91)
71.54 (1.62)
50.07 (1.13)
3.58 (0.08)
790.26 (17.88)
51.59 (1.17)
52.90 (1.20)
84.25 (1.91)
98.22 (2.22)
366.50 (8.29)
251.69 (5.69)
2162.25 (48.90)
Agriculture
Construction
Cement
Development of Economically Weaker Sections
Finance
Forest
Handloom and Handicrafts
Industry
Mining
Power
Tourism
Transport

Working Government companies

7.1.3 Total investment in the working Government companies as on 31 March 2007 and March 2008 was as follows.

Table 7.3

(Rupees in crore)

Year	Number of Government companies	Investment		
		Equity	Loan	Total
2006-07	17	219.12	3557.88	3777.00
2007-08	17	220.82	3888.72	4109.54

As on 31 March 2008, the total investment in working Government companies comprised 5.37 *per cent* equity capital and 94.63 *per cent* loan as compared to 5.80 *per cent* and 94.20 *per cent* respectively as on 31 March 2007.

The summarised statement of Government investments in working Government companies in the form of equity and loan is detailed in the *Appendix*-7.1.

Working Statutory corporations

7.1.4 The total investment in the three working Statutory corporations at the end of March 2007 and March 2008 was as follows:

Table 7.4

(Rupees in crore)

Sl.No.	Name of the corporation	2006-07		2007-08	
		Capital	Loan	Capital	Loan
1.	Jammu and Kashmir State Road Transport Corporation	105.83	332.20	105.83	334.34
2.	Jammu and Kashmir State Financial Corporation	64.60	56.99	64.60	56.39
3.	Jammu and Kashmir State Forest Corporation	9.03	75.22	9.03	81.30
	Total	**179.46**	**464.41**	**179.46**	**472.03**

As on 31 March 2008, the total investment in Statutory corporations comprised 27.55 *per cent* of equity capital and 72.45 *per cent* of loans as compared to 27.87 *per cent* and 72.13 *per cent* respectively as on 31 March 2007.

The summarised statement of the Government investments in working Statutory corporations in the form of equity and loan is detailed in *Appendix*-7.1.

Budgetary outgo, grants/subsidies and guarantees issued

7.1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government companies and Statutory corporations are given in *Appendices*-7.1 and 7.3.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to the working companies/Statutory corporations for the last three years up to 2007-08 are given in the following table:

Table 7.5

(Rupees in crore)

	2005-06				2006-07				2007-08			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity Capital from Budget	**4**	**7.55**		**-**	**4**	**2.50**	**-**	**-**	**2**	**1.20**	**-**	**-**
Loans given from budget	**5**	**13.08**	**1**	**21.84**	**8**	**18.79**	**1**	**17.28**	**8**	**25.81**	**1**	**16.94**
Grants towards Projects, Programmes/ Schemes	**7**	**217.68**	**-**	**-**	**8**	**186.70**	**-**	**-**	**4**	**10.92**	**-**	**-**
Subsidy	**2**	**0.45**	**-**	**-**	**2**	**0.85**	**-**	**-**	**2**	**1.26**	**-**	**-**
Total outgo[3]	**12**	**238.76**	**1**	**21.84**	**12**	**208.84**	**1**	**17.28**	**9**	**39.19**	**1**	**16.94**

During the year 2007-08, the Government guaranteed loans aggregating Rs. 240.66 crore raised by Jammu and Kashmir State Power Development Corporation Limited (Rs. 206.56 crore), Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited (Rs. 30.30 crore), Jammu and Kashmir State Scheduled Castes, Scheduled Tribes and Other Backward Classes Corporation Limited (Rs. 2 crore) and Jammu and Kashmir State Handloom Development Corporation Limited (Rs. 1.80 crore). At the end of the year, guarantees aggregating Rs. 2,429.77 crore against five working Government companies (Rs. 2,373.27 crore) and one working Statutory corporation (Rs. 56.50 crore) were outstanding.

Finalisation of accounts by working PSUs

7.1.6 The accounts of the Government companies for each financial year are required to be finalised 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 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. These are required to be laid before the Legislature within nine months from the end of the relevant financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. However, as could be noticed from *Appendix*-7.2, out of 17 working Government companies and three Statutory corporations, only one working Government company (Jammu and Kashmir Bank Limited) had finalised its accounts for the year 2007-08 within the stipulated period. During the period from October 2007 to September 2008, seven other working Government companies finalised seven accounts for previous years.

[3] Actual number of companies/corporations, which received equity/loan/grant/subsidy from the State Government during the year.

The accounts of 16 working Government companies and three Statutory corporations[4] were in arrears for periods ranging from 3 to 19 years as on 30 September 2008 as shown in the following table:

Table 7.6

Sl. No.	**Number of working**		**Years for which accounts are in arrears**	**Number of accounts for which accounts are in arrears**	**Reference to serial number of *Appendix* 7.2**	
	Government companies	**Statutory corporations**				
1.	1		1989-90 to 2007-08	19	A-4	
2.	1		1990-91 to 2007-08	18	A-9	
3.	2		1992-93 to 2007-08	16	A-1, A-14	
4.	2		1993-94 to 2007-08	15	A-2, A-8	
5.	2		1995-96 to 2007-08	13	A-12, A-15	
6.	2	1	1996-97 to 2007-08	12	A-11, A-13	B-20
7.	2		1997-98 to 2007-08	11	A-6, A-7	
8.	2		2000-01 to 2007-08	8	A-5, A-10	
9.	2		2001-02 to 2007-08	7	A-3, A-16	
10.		2	2005-06 to 2007-08	3		B-18, B-19
Total:	**16**	**3**				

The State Government had invested Rs. 735.96 crore (Equity: Rs. 49.59 crore, loans: Rs. 214.75 crore and grants/subsidy: Rs. 471.62 crore) in 15 working PSUs during the years for which accounts have not been finalized as detailed in *Appendix*-7.4. In the absence of finalization of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalization of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were apprised quarterly by the Accountant General regarding arrears in the finalisation of accounts, adequate measures had not been taken by the Government and, as a result, the net worth of these PSUs could not be assessed in Audit.

Financial position and working results of working PSUs

7.1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations), as per their latest finalised accounts, are given in

[4] Audit of Jammu and Kashmir Forest Corporation (Incorporated in 1978-79) was entrusted to the CAG from 1996-97. No accounts were submitted by the Corporation for audit.

Appendix-7.2. Besides, statements showing the financial position and working results of individual working Statutory corporations for the latest three years for which their accounts were finalised are given in *Appendices*-7.5 and 7.6, respectively.

According to the latest finalised accounts of 17 working Government companies and three Statutory corporations, 10 companies[5] and one Statutory corporation (Jammu and Kashmir State Road Transport Corporation) had incurred aggregate losses of Rs. 109.54 crore and Rs. 54.67 crore respectively. Six companies[6] and one statutory corporation (Jammu and Kashmir State Financial Corporation) had earned aggregate profit of Rs. 362.21 crore and Rs. 4.64 crore respectively. One company (Jammu and Kashmir State Cable Car Corporation Limited) had not prepared the profit and loss account while one Statutory corporation (Jammu and Kashmir State Forest Corporation) had not submitted its accounts since 1996-97, when its audit was entrusted to CAG.

Working Government companies

Profit earning Government companies and dividend

7.1.8 Out of 17 working companies, only one company (Jammu and Kashmir Bank Limited) had finalised its accounts for 2007-08 by September 2008 and earned profit of Rs. 360 crore for the year and had declared dividend of Rs. 29.64 crore. The dividend, as a percentage of the share capital of Rs. 48.48 crore of the Company, worked out to 61.14 *per cent*.

The total return by way of above dividend of Rs. 29.64 crore worked out to 16.31 *per cent* in 2007-08 on total equity investment of Rs. 181.68 crore by the State Government in all 17 Government companies as against 30.89 *per cent* in the previous year.

Similarly, out of 15 other[7] working Government companies, which finalised their accounts for previous years by September 2008, five companies earned an aggregate profit of Rs. 2.21 crore and only three companies earned profit for two or more successive years.

Loss incurring working Government Companies

7.1.9 Of the 10 loss-incurring working Government companies, eight[8] had accumulated losses aggregating Rs. 463.84 crore, which exceeded their aggregate paid-up capital of Rs. 63.14 crore. Despite their poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, further grant of loans, subsidy, grants, etc. According to the available information, the total financial support so provided by the State Government during 2007-08 to

[5] S. No. 2, 3, 5, 6,7, 8,11,12,14 and 16 of *Appendix-7.2*.
[6] S. No. 1,4,9,10,13 and 17 of *Appendix-7.2*.
[7] Excluding one company (viz. Jammu and Kashmir State Cable Car Corporation Limited), which has not prepared the Profit and Loss Account since inception.
[8] S. No 2, 3, 5, 6,7, 8, 12 and 16 of *Appendix*-7.2.

six[9] of these eight companies amounted to Rs. 35.17 crore.

Working Statutory corporations

Profit earning working Statutory corporations

7.1.10 None of the three[10] working Statutory corporations had finalised the accounts for 2007-08 by September 2008. Out of two Statutory corporations, which finalised their accounts for previous years by September 2008, one corporation (Jammu and Kashmir State Financial Corporation) earned profit of Rs. 4.64 crore. Though the Corporation had earned the profit, it had accumulated loss of Rs. 192.50 crore which exceeded its paid up capital of Rs. 64.60 crore.

Loss incurring working Statutory corporation

7.1.11 The only loss-incurring corporation (viz. Jammu and Kashmir State Road Transportation Corporation), which had finalised its accounts for previous year by September 2007, had incurred a loss of Rs. 54.67 crore. The corporation had accumulated loss of Rs. 598.92 crore, which exceeded its paid up capital of Rs.109.51 crore. Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to the corporation in the form of further grant of loans. According to the available information, the total financial support so provided by the State Government by way of loans during 2007-08 to Jammu and Kashmir State Road Transport Corporation was Rs. 16.94 crore.

Operational performance of working Statutory corporations

7.1.12 The operational performance of working Statutory corporations is given in *Appendix*-7.7.

Return on Capital Employed

7.1.13 As per the latest finalised accounts (up to September 2008), the capital employed[11] worked out to Rs. 21,387.38 crore in 17 working companies and return[12] thereon amounted to Rs. 1,899.52 crore which is 8.88 *per cent*, as compared to return of Rs. 1,372.48 crore (7.21 *per cent*) in the previous year (accounts finalised up to September 2007). Similarly, the capital employed and return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2008), worked out to Rs. 42.14 crore and (-) Rs. 2.94 crore respectively. The details of capital employed and return thereon in case of working Government companies and Statutory corporations are given in *Appendix-7.2.*

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9 Serial No. 2, 5, 6, 7, 8 and 12 of *Appendix*-7.2.

10 Including one corporation (Jammu and Kashmir State Forest Corporation) which was incorporated in 1978-79 and its audit was entrusted to the CAG with effect from 1996-97. However, no accounts of the corporation were received for the years from 1996-97 and onwards.

11 Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in finance companies and corporations where it represents the mean of the aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

12 For calculating total return on capital employed, interest on borrowed funds has been added to the net profit/subtracted from the loss as disclosed in the profit and loss account.

Non-working Public Sector Undertakings

Investment in non-working PSUs

7.1.14 As on 31 March 2008, the total investment in three non-working PSUs (all Government companies) was Rs. 3.40 crore (equity: Rs. 2.57 crore; long-term loans: Rs. 0.83 crore). The position remained unchanged since 31 March 2007. One company (Tawi Scooters Limited) was under the process of liquidation with the Jammu and Kashmir State Industrial Development Corporation Limited since 1990. The process had not been completed as of September 2008. Expeditious action for liquidation of the company is necessary to avoid further non-productive expenditure. The other two companies viz. Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) were in the process of being wound up (September 2008). The summarised financial results of these companies, as per their latest finalised accounts are given in *Appendix-7.2*.

Status of placement of Separate Audit Reports of Statutory corporations in the Legislature

7.1.15 The following table indicates the status of placement of various Separate Audit Reports (SARs) in the State Legislature on the accounts of Statutory corporations as issued by the CAG.

Table 7.7

Sl. No	Name of the Statutory Corporation	Year up to which SARs placed in the Legislature	Year for which SARs not placed in the Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in the Legislature
1.	Jammu and Kashmir State Road Transport Corporation	2003-04	2004-05	30 August 2006	Information awaited
2.	Jammu and Kashmir State Financial Corporation	2003-04	2004-05	4 June 2007	Information awaited

Results of audit by the Comptroller and Auditor General of India

7.1.16 During the period from October 2007 to September 2008, the accounts of seven Government companies and the aforementioned two Statutory corporations were selected for audit. The net impact of the important audit observations as a result of the audit was as follows:

Table 7.8

Details	Number of Accounts		(Rupees in lakh)	
	Company	Corporations	Companies	Corporations
Increase in Loss	1	-	1,111.00	-

7.1.17 Some of the major errors and omissions noticed in the course of audit of annual accounts of some of the above companies and corporations are mentioned below:

Errors and omissions noticed during Audit of Government companies

Jammu and Kashmir State Power Development Corporation Limited (2000-01)

7.1.18 The Company received plan grants of Rs. 476.95 crore from State Government during July 2000. The amount included Rs. 98.70 crore as short term loan for Baghliar Hydel Project, which was repayable in lump immediately on receipt of Bond–II or additional bridge loan from the J&K Bank and carried interest at 15 *per cent* per annum. Instead of depicting the loan amount in the accounts under 'Unsecured Loan' in terms of Companies Act, 1956, it was shown under 'Reserves and Surplus', resulting in overstatement of 'Reserves and Surplus' and understatement of Unsecured Loans to the extent of Rs. 98.70 crore. Besides, no provision for payment of interest of Rs. 11.11 crore (accrued on the amount for 9 months from July 2000 to March 2001) had been made in the accounts, which resulted in understatement of loss to that extent.

7.1.19 The State Government released Rs. 19.24 crore to the Company between April 2000 and March 2001 to meet the expenditure on account of payment of salaries to the staff. In terms of Accounting Standards (AS-12), the amount should have been shown in the accounts separately under "Other Income" or depicted in reduction of the expenditure under "Salaries & Wages". Instead, the amount was wrongly classified under "Reserves & Surplus".

J&K Scheduled Caste, Scheduled Tribe and Other Backward Classes Development Corporation Limited (1995-96)

7.1.20 The paid up-capital of Rs. 7.91 crore of the Company included Rs. 1.65 crore, which represented increase in the share capital during 1995-96. The enhanced share capital of the Company was subject to allotment of further shares in accordance with the provisions of Section-81 of the Companies Act, 1956. The shares had, however, not been allotted and the fact was not disclosed in the Accounts. The amount also included Rs. 4.35 crore for which no shares were allotted between April 1993 and March 1996. This fact was also not disclosed by way of notes to the Accounts.

7.1.21 In terms of Accounting Standards (AS-12), Grants of Rs. 2.16 crore received by the Company during 1995-96 should have been treated as 'Capital Reserve', which was not done. This resulted in overstatement of Loan Funds and understatement of Capital Reserve to the extent of Rs. 2.16 crore.

7.1.22 Interests accrued and due on secured loans should have been included under appropriate sub-head under 'Secured Loans". Besides, the nature of security should have been specified in each case in terms of the Companies Act, 1956, which was not done.

Persistent irregularities and system deficiencies in financial matters of PSUs

7.1.23 The following irregularities and system deficiencies in financial matters of Jammu and Kashmir State Road Transport Corporation were repeatedly pointed out during the course of audit of accounts. The Corporation, however, had not taken any corrective action.

- Non-maintenance of books of accounts in accordance with the principles of commercial accounting system by maintaining control ledgers and financial ledgers in Head Office and at the units.
- Non-operation of inter-unit adjustment accounts for adjustment of advances, transfer of stores, etc.
- Non-segregation of debts as good, bad and doubtful.
- Abnormal delays in recoveries, adjustment of balances under advances, deposits, etc.
- Non-conducting of physical verification of fixed assets, stores, stock and fuel and non-preparation of inventory of vehicles owned by the Corporation.

Response to inspection reports, draft paragraphs and reviews

7.1.24 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2008 pertaining to 19 PSUs disclosed that 1960 paragraphs relating to 499 Inspection Reports remained outstanding at the end of September 2008. All these paragraphs were pending settlement since 1998-99. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2008 is given in *Appendix*-7.8.

Similarly, Draft Paragraphs and Reviews on the working of PSUs are forwarded to the heads of the administrative departments concerned demi-officially seeking confirmation of facts and figures and their comments thereon, within a period of six weeks. It was, however, observed that out of four draft paragraphs and two performance reviews forwarded to various departments between June-July 2008, replies to all the draft paragraphs as detailed in *Appendix-7.9* and the performance reviews were awaited (September 2008).

It is recommended that the Government may ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews and action taken notes (ATNs) to the recommendations of the COPU, as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayments is taken within the prescribed time and (c) the system of responding to audit objections is revamped.

619-B Companies

7.1.25 There was no company in the State falling under the purview of section 619-B of the Companies Act, 1956.

Section-II

Part-A Performance Review

Industries and Commerce Department

7.2 Performance Review on the working of Jammu and Kashmir Small Scale Industries Development Corporation Limited

Highlights

The Company failed to develop Industrial Estates (IEs) at Govindsar and Zakura due to lack of sustained efforts and co-ordination with the State Revenue Department.

(Paragraphs: 7.2.9 and 7.2.10)

By engaging private parties for procurement/distribution of raw material, the intended purpose of setting up Raw Material Bank got defeated, as the weavers/artisans continued to be dependent on the intermediaries.

(Paragraph: 7.2.15)

The percentage of units provided marketing assistance by the Company declined from 67 in 2002-03 to 43 in 2007-08. As a result, the earning of the Company by way of service charges also declined from Rs. 3.28 crore in 2004-05 to Rs. 2.62 crore in 2007-08.

(Paragraph: 7.2.16)

The Company spent Rs. 4.58 crore (69 *per cent*) out of Rs. 6.65 crore received, between 2003-04 and 2007-08. Underutilization of funds hampered implementation of various projects like providing infrastructural facilities to the SSI units at the Industrial Estates (IEs) viz. Govindsar and Udhampur, modernisation of testing centres, etc.

(Paragraph: 7.2.20)

Company's failure in taking action in the matters concerning pollution was likely to have an adverse impact on the environment, besides creating health hazard for the population living around SSI units. The Company has also failed to construct Effluent Disposal System for disposal of hazardous wastes generated by the SSI units in the Integrated Infrastructural development Centre, Udhampur.

(Paragraph: 7.2.26)

Introduction

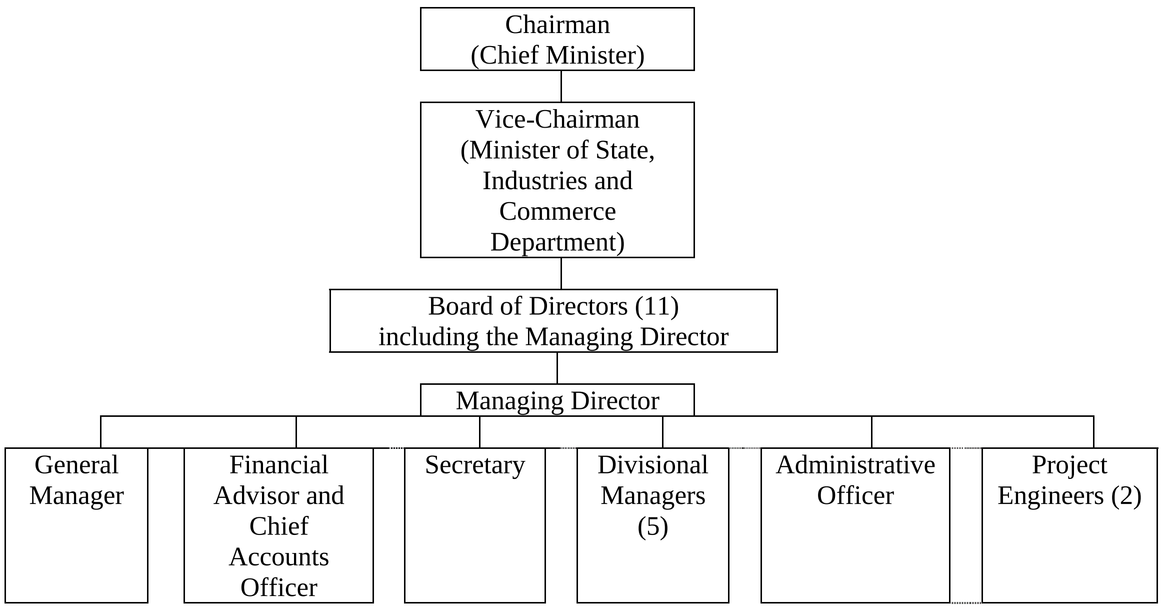
7.2.1 The Jammu and Kashmir Small Scale Industries Development Corporation Limited (SICOP) was incorporated in November 1975 under the Companies Act, 1956 as a wholly owned Government Company with a view to aid, assist and promote Small Scale Industrial (SSI) units in the State. The main objectives of the Company are to:

- develop infrastructural facilities like land, sheds, water/power, etc.,
- procure and sell raw material to the SSI units,

- extend marketing support to the SSI units, and
- provide testing facilities to the small scale industry.

The Management of the Company is vested in a Board of Directors (BOD) comprising 13 Directors including the Chairman, Vice-Chairman and the Managing Director. The Organisational structure of the Corporation is given below:

Chart-7.2.1



The working of the Company was last reviewed and commented upon in the Report of the Comptroller and Auditor General of India for the year 1998 and was discussed by COPU during 2002-03, 2003-04 and 2007-08. The recommendations of the COPU are awaited (March 2008).

Scope of Audit

7.2.2 The present performance review was conducted covering the working of the Company for a period of five years up to 2007-08. Audit scrutinised the records at the Head Office, the two divisional offices at Srinagar and Jammu and 21 units (out of 29). The units were selected for audit on random basis.

Audit objectives

7.2.3 The performance audit was undertaken to assess whether the:

- industrial units were developed and requisite facilities provided effectively, efficiently and economically;
- industrial estates developed by the Company were optimally utilised;
- procurement and distribution of raw material was done efficiently and economically;
- marketing support provided to SSI units was effective; and

- internal control mechanism was effective and healthy Corporate Governance was in place.

Audit criteria

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

- Government guidelines and the laid down policy of the Company on procurement and sale of raw material against the allocation/allotment;
- Norms and procedures set by the Government/Company regarding marketing assistance to the SSI units;
- Rate of service charges prescribed by the Government from time to time;
- Detailed Project Reports of various Programme/Schemes and the guidelines prescribed for implementation of each such Scheme/Programme;
- System of movement of raw material based on the cost benefit analysis of transportation; and
- Guidelines issued by the Company and Government orders, etc.

Audit Methodology

7.2.5 Audit methodology included scrutiny of the following:

- Agenda and minutes of meetings of the Board and directive/circulars issued by the Management,
- Memorandum of Understanding signed with the suppliers of raw material;
- Physical verification reports, annual reports, monthly progress reports and financial statements; and
- Records relating to the performance of industrial estates developed and utilization of infrastructural facilities created by the Company in past.

Audit Findings

7.2.6 Audit findings as a result of performance Review on the working of the Company were reported (June 2008) to the Management/Government and were discussed in the meeting of Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 16 September 2008. The replies of the Management and views expressed by the members present in the meeting have been taken into consideration while finalising the review. Audit findings are discussed in the succeeding paragraphs.

Activities and performance

7.2.7 Development of infrastructural facilities like land, sheds, water/power supply, road connectivity, etc. for the SSI units is the core activity of the Company. The Company has attempted to play a pivotal role in bringing about development in the small scale sector in the State. The deficiencies noticed during audit in the performance of the Company are discussed below:

Development of infrastructural facilities

7.2.8 The Company had not set targets for providing infrastructural facilities to the SSI units. As of September 2008, the Company had developed (since inception) 3,283 kanals[13] of land spread over six[14] Industrial Estates (IEs) at an expenditure of Rs. 12.43 crore. According to the Management (September 2008), 1,040 units had been established on the land, against a similar number planned for allotment by the Company. During the review period, the Company undertook development of two more IEs at Govindsar, Kathua (979 kanals) and at Zakura, Srinagar (109 kanals), which had not been developed so far as discussed in the succeeding paragraphs.

Industrial Estate, Govindsar

Despite receipt of Rs three crore from State and Central Governments, the Company failed to establish Industrial Estate at Govindsar.

7.2.9 GOI had approved (August 2005) establishment of an Integrated Infrastructural Development Centre (IID) at the IE, Govindsar on 580 kanals of land at an estimated cost of Rs. 6.64 crore. The cost of the IID was to be shared between the State and the Central Governments[15]. The Centre, slated for completion within 18 months, envisaged establishment of 160 SSI units.

Audit observed that though the Company received (March-May 2006 and March 2008) Rupees three crore from the State Government (Rupees one crore) and GOI (Rupees two crore), the Centre was not established (September 2008) due to non-availability of the land needed for the purpose.

The Management stated (January 2008) that due to delay in the acquisition proceedings by the Revenue Authorities, the land in question was belatedly transferred (November 2007) to the Company. It was, however, observed that the Company had never taken up the matter with the Revenue Authorities for early transfer of land. This indicated lack of sustained efforts and co-ordination on the part of the Company with the State Revenue Department for early transfer of land.

Even after the transfer of land there was no significant development towards establishment of the Centre and the Company spent only Rs. 67.41 lakh as of September 2008 on survey/appraisal (Rs. 8.44 lakh), advances to the State Power Development Department for electrification (Rs. 50 lakh) and Rs. 8.97 lakh for purchase of vehicle (not provided in Project Report). The unspent amount of Rs. 2.45 crore (including interest earned) was kept idle in fixed deposits, thereby delaying the objective of establishment of IID.

Audit further noticed delay in developing another piece of land measuring 399 kanals at the same premises. The piece of land earmarked (August 2005) for the Centre was to be developed out of State funds, for which the Company had not taken any action (September 2008) for which there are no reasons on record.

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[13] One Kanal equivalent to 5,400 square feet.

[14] Birpur, Gangyal, Kathua, Udhampur, Zakura and Zainakote.

[15] Eighty *per cent* of the cost of the Scheme (subject to a maximum to Rs. 4 crore) was to be borne by the GOI.

Handicraft/Silk Technical Park, Zakura

The Company failed to establish Common Facilities Centre and effluent treatment/water softening plant at the industrial estate Zakura.

7.2.10 Government of India sanctioned (April 2005) establishment of Handicrafts Textile Park with a Silk Park at the IE, Zakura to cater exclusively to the needs of silk and handicraft units. The project, having two aspects, viz. site development and providing equipment for Common Facilities Centre (CFC) and effluent treatment/water softening plant, envisaged development of 109 kanals of land within 18 months from the date of sanction for establishment of 76 units. The cost of the project (Rs. 7.92 crore) was to be shared between Central Government (Rs 6.27 crore) and the State Government (Rs. 1.65 crore) and the work on the project was to be taken up on reimbursement basis.

The Company received Rs. 3.39 crore from the State Government Rs. 1.75 crore[16]) and the Central Government (Rs. 1.64 crore[17]) during the period 2004-2008. The execution of the Project started in November 2005. As of March 2008, the work on the Project was completed to the extent of leveling of plots, construction of roads/drains and brick walling at a cost of Rs. 1.91 crore. The remaining components of the Project had not been completed so far (September 2008).

The Management stated (September 2008) that equipment required for establishment of CFC and effluent treatment/water softening plant would be procured only when line of activity of units to be housed in the Park was determined. However, the Company was well aware that the Park was exclusively to be reserved for silk and handicraft units.

Incomplete execution of Integrated Infrastructural Development (IID)Centre

Despite construction of accommodation at a cost of Rs. 40 lakh, the Company took no concrete steps for its allotment.

7.2.11 The Company completed execution of IID Centre, Udhampur in May 2002 at the cost of Rs. 6.58 crore. The Project Report of the Centre, *inter alia*, envisaged construction of Technology Back-up Service Centre (TBSC) and Common Facilities Centre (CFC) for use by the SSI units. Audit observed that despite earmarking Rs. 20 lakh for establishment of the TBSC, no amount had been spent on its construction, thereby depriving the SSI units of the intended facilities of the technology back up of the Centre. The Management stated (February 2008) that the TBSC would be made available to the SSI units as and when all of them became functional. However, out of 173 SSI units, whom the area had been allotted, 40 SSI units had already started operation.

It was also observed in Audit that despite construction of accommodation (measuring 7,392 square feet) in March 2000 at a cost of Rs. 40 lakh for the CFC to house Bank, Post Office, dispensary and canteen, the accommodation had not been allotted to any of the institutions (September 2008) resulting in locking up of investment of Rs. 40 lakh. The Management stated (September 2008) that proposal for allotment of space to J&K Bank (1,400 square feet) and for Post Office/dispensary/meeting hall (3,000 square feet) was under process. Information about utility of the remaining area of 2,992 square feet was not

[16] 2004-05: Rs. 50 lakh; 2005-06: Rs. one crore; 2006-07: Rs. 25 lakh.
[17] Rs. 28.50 lakh: January 2007; Rs. 70.15 lakh: October 2007 and Rs. 65.50 lakh: March 2008.

furnished (September 2008). The fact thus remains that no concrete steps were taken for allotment despite lapse of almost eight years.

Violation of Lease Deed

7.2.12 The Company executes Lease Deeds with the entrepreneurs before allotment of land to them. Audit observed violation of various clauses of Lease Deeds by entrepreneurs, as discussed below:

Non-recovery of outstanding rent

The Company's outstanding aggregated Rs. 68.24 lakh on account of ground rent against 381 SSI units.

7.2.13 In terms of Lease Deed, entrepreneurs are required to deposit rent in respect of leased out land, in the first fortnight of every financial year. In case of default, the entrepreneurs are liable to pay interest at 16 *per cent* per annum on the defaulted sum from the date of default till its final clearance. In case of continuance of the default for a further period of one year, the Company is within its rights to re-enter the leased premises by giving 30 days' notice.

As on March 2008, Rs. 68.24 lakh were outstanding on account of ground rent against 381 out of 1,040 SSI units. The age-wise analysis of the outstanding rent is tabulated below:

Table-7.2.1

Period	Amount (Rupees in lakh)	Number of units
Up to one year	8.72	128
Between one and 3 years	12.49	106
More than 3 years	47.03	147
Total:	**68.24**	**381**

It was observed in audit that the Company had not taken any action against the defaulting units by re-entering the leased premises, despite Rs. 47.03 lakh being outstanding against them for more than three years in 147 cases.

The Management stated (September 2008) that the Company was facing difficulties in recovering the outstanding amounts in respect of closed/migrated units. It was also stated that the Company could not re-enter the leased premises, as all these units were mortgaged to financial institutions, which had the right of exercising the first charge in terms of mortgage deeds. However, information regarding amounts involved in such cases and action contemplated to recover the outstanding amounts was not intimated (September 2008), though called for in audit.

Non-renewal of Lease Deeds

7.2.14 Lease Deeds executed by the Company with the unit-holders have a tenure of 25 years and thereafter the Deed is to be renewed, after payment of renewal fee at Rs. 2,000 per kanal. Audit observed that the Company had initiated no action to renew the Deeds in respect of 56 unit-holders, in whose case tenure period of the Lease Deed had expired.

Setting up of Raw Material Bank

The intended purpose of setting up Raw Material Bank got defeated by engaging private parties for procurement/ distribution of raw material.

7.2.15 GOI had sanctioned (January 2004) setting up of a Raw Material Bank for the Carpet/Handicraft Sector and appointed the Company as the implementing agency. The scheme envisaged maintenance of inventory of good and graded quality of raw material for use by the weavers/artisans, engaged in the manufacture of carpets/handicraft products. The material, to be purchased by the Company from reputed manufacturers of silk yarn at Bangalore, identified in consultation with Central Silk Board, was to be sold to consumers after levying service charges of three *per cent* on the landed price.

The Company, in the first instance, procured (February 2005) 2,100 Kgs. of raw material (value: Rs. 19.47 lakh) and sold (April 2005 to September 2005) the same to the weavers/artisans after levying service charges at requisite percentage. Subsequently, the Company signed (February 2005, March 2005 and April 2006) Memoranda of Understanding (MOU) with three private parties[18], whereunder source of supply, quality/quantity of the raw material to be procured for distribution to the beneficiaries and selling price were to be settled by the parties. The Company was to act only as an agency by placing orders with the suppliers identified by the parties and was responsible for recording purchase/sale entries in its books, besides levying service charges at requisite percentage. The parties procured 1.73 lakh Kgs between 2004 and 2008 and sold it to the beneficiaries at a cost of Rs. 7.64 crore.

It was observed in audit that even though there was no financial loss to the Company in the deal, as service charges amounting to Rs. 22 lakh (three *per cent* of the sales made) were levied and received by the Company, the intended purpose of the Scheme was defeated by engaging private parties for procurement/ distribution of raw material, since the Scheme aimed at elimination of middlemen and getting the weavers/artisans out of their clutch to ensure better returns for them. Thus by doing so, the Company has absolved itself of the responsibilities entrusted to it. The actual users were, as such, left with no option but to purchase raw material offered to them by the private parties, which was fraught with the possibility of compromising on the quality and rates. Evidently, the beneficiaries continued to be dependent on intermediaries and their possible exploitation could not be ruled out.

The Management stated (July 2007) that the arrangement was made for timely disposal of the material. The reply does not explain the issue of absolving itself of its responsibility by engaging private parties.

Marketing Activity

7.2.16 The Company assists SSI units to market their products and levies service charges up to five *per cent* on the goods supplied to the indenting agencies. The number of units registered in the State and those registered/assisted by the

[18] M/S Shalimar Carpet Industries, Bari-Brahmana, Jammu, M/S Silk Enterprises, Hawal (Srinagar) and M/S lotus Textiles (Srinagar).

Company during the period from 2002-03 and 2007-08 are indicated in the following table:

Table-7.2.2

Year	Total functional units registered in the State	Units registered with Company	Percentage of units registered *vis-à-vis* total units in the State	Units provided marketing support (Percentage *vis-à-vis* total units registered in the State)	Percentage of units provided marketing support *vis-à-vis* total units registered with the Company	Turnover	Service charges
						(Rs. in crore)	
2002-03	17238	430	2.49	287 (1.66)	67	41.45	1.76
2003-04	18209	484	2.66	302 (1.66)	62	57.64	2.55
2004-05	19355	551	2.85	352 (1.82)	64	85.46	3.28
2005-06	20761	569	2.74	302 (1.45)	53	88.61	3.10
2006-07	21963	602	2.74	324 (1.48)	54	76.82	2.86
2007-08	NA[19]	637	NA	276 (NA)	43	70.50	2.62

The Company's role in marketing the products of the SSI units was very insignificant in the State.

As would be seen from the table above, the Company's role in marketing the products of the SSI units was very insignificant and its coverage varied between 1.45 *per cent* and 1.82 *per cent* of the total SSI units registered in the State during the above period. Though providing marketing support to the SSI units was one of the main objectives of the Company, it was noticed that there was significant decline in the percentage of units provided marketing assistance by the Company from 67 in 2002-03 to 43 in 2007-08. This consequently impacted the turnover of the Company and the earning by way of service charges. Audit observed that the main line of activity of the SSI units in the State varied from brick kilns, service stations, food processing, agro-based items, etc. for which the Company had no marketing avenues available.

The Management stated (September 2008) that it contemplated holding of seminars, etc. to educate the entrepreneurs in this regard, so as to improve its performance in this activity. Further developments in the matter were awaited.

Failure of the Company to verify infrastructural facilities, expertise and capabilities of the SSI units, before participating in the tendering process, resulted in non-execution of the orders.

Execution of supply orders

7.2.17 The Company participates in the tendering process on behalf of SSI units and receives orders from indenting agencies for supply of various items. The Company passes on the supply orders to the SSI units for execution and levies service charges up to four *per cent* of the supplies made. The following deficiencies were noticed:

- The Company participated (November 2005) in the tendering process on behalf of an SSI unit[20], without verifying its ability to execute the order. Audit scrutiny showed that the Company received (September 2006) orders from Security Forces for supply of steel pickets worth Rs. 13.57 lakh and passed on (December 2006) the same to the SSI unit for execution, after obtaining consent

[19] Information with respect to total functional units registered in the State during 2007-08 was not available (September 2008).

[20] M/S Shiva Metal and Sharper Industries, Jammu.

from it. According to the conditions of the order, the supply to be made on DGSD rate contract was to commence after approval of samples by the Indenting agency. Since the samples furnished by the SSI unit were not found to be in conformity with the specifications, the indenting agency cancelled (March 2007) the order at the risk and cost of the Company. Thus failure of the Company to verify infrastructural facilities, expertise and capabilities of the SSI unit, before participating in the tendering process, resulted in non-execution of the order, thereby, denting its credibility in the market, apart from possible future liability.

- Director, Health Services (DHS) placed (March 2005) orders with five[21] SSI units, who had participated in the tendering process, for supply of medicines (at rates approved by the Central Purchase Committee of the DHS) within four to six weeks. The orders were routed through the Company and the Director advanced (April 2005) Rs. 1.26 crore to it against the pro-forma bills. Of the five SSI units, to whom the supply orders were passed, only two units[22] supplied (May 2005 to October 2005) medicines worth Rs. 32.93 lakh and no further supply was made despite repeated reminders by the DHS. Due to non-supply of the medicines, the DHS cancelled the supply order and the Company refunded (between October 2005 and March 2006) the balance amount of Rs. 91 lakh to the DHS (retaining Rs. 2.07 lakh with it). According to the Management (May 2008), the units failed to supply the medicines due to increase in the prices of the raw material because of implementation of VAT and Excise Duty from 2005-06. This indicated that the Company had accepted the advance from the DHS, without giving due consideration to various factors including increase in the cost of raw material on different counts. This had resulted in non-execution of the supply orders, thereby putting its credibility at stake in the supply field.

- Audit scrutiny revealed that District Office, Anantnag had not maintained records indicating number of *Pro-forma* Bills issued and advance payments received in each case. It was further observed that the Company, without specific reasons, wrote back from its accounts advances aggregating Rs. 60.46 lakh received from seven[23] Government agencies between 2002-03 and 2005-06. This indicated defective internal control systems existing in the Company, which could result in interpolations, manipulations, etc. leading to losses/embezzlements. The Management stated (September 2008) that the matter was under enquiry by the higher authorities/Vigilance. Further developments are awaited.

Non-recovery of outstanding Marketing Assistance

7.2.18 With a view to helping SSI units to adhere to the delivery schedule for execution of supply orders received from various agencies, the Company introduced (1979) 'Marketing Assistance Scheme' for providing infrastructural, financial and marketing facilities to them. Though the Company dispensed with the Scheme in 1995, it failed to recover outstanding amounts paid to 30 SSI units as assistance. As a result, the Company's money amounting to Rs. 63.35 lakh

[21] M/S Ethicare Laboratories, JK Pharmaceuticals, Pharose Remedies, Pharama Drugs and Biotic Pharama.
[22] M/S Ethicare Laboratories and M/S JK Pharmaceuticals.
[23] Block Development Officers, Achabal, Dachni Pora, Devsar, D.H Pora, K. Pora, Qazigund and Qoimoh.

(June 2007) was locked up with these units, resulting in locking up of funds. The Management stated (September 2008) that cases against three SSI units (involving Rs. 56.44 lakh) were sub-judice, while no action could be taken against 27 cases (involving Rs. 6.91 lakh) due to destruction of records in fire.

Testing activity

Despite establishment of testing centres more than two decades ago, these were not fully equipped to test all the products manufactured by the SSI units.

7.2.19 The Company established (1981-1983) testing centres at Gangyal and Zainakote to provide SSI units with the techniques and knowledge to inculcate Quality Management in them, besides facilitating these units to test the quality of their products. Though the Company had established these centres more than two decades ago, these were not fully equipped to test all the products[24] manufactured by the SSI units. The Management stated (December 2007) that such items were purchased by the buyers directly from the SSI units. This was not tenable as the testing centres had been established in order to ensure quality of the products. Moreover, the Company could contribute to ensure quality standards of the items produced by SSI units, besides earning revenue by conducting tests of these items. The Company had not initiated any measures to cater to the requirement of SSI units located at stations other than Gangyal and Zainakote.

The Management stated (September 2008) that steps to augment the existing system would be taken to enforce quality measures in more effective manner.

Audit also observed that the Company had received (March 2002) Rs. 20 lakh from the State Government for modernisation of the Testing Centre, Zainakote. Out of this, only Rs. 12.34 lakh were spent during 2003-04 and the remaining Rs. 7.66 lakh had been invested in the fixed deposits. This indicated non-serious approach of the Company in updating its testing centres.

The Management stated (September 2008) that the Company planned to construct a new structure for the Centre, which would be equipped with modern testing facilities. Further developments were awaited (October 2008).

Financial Management

Underutilisation of funds

Underutilization of funds had hampered implementation of various projects/schemes undertaken by the Company.

7.2.20 The Company received plan assistance of R. 6.65 crore from the State Government (Rs. 4.40 crore) and Central Government (Rs. 2.25 crore) during the five years period between 2003-08 for maintenance and development of industrial estates, construction of raw material depots, modernisation of testing centres, etc. Against this, the Company spent Rs. 4.58 crore[25] (69 *per cent*) during this period. It was observed that underutilization of funds was due to belated release of funds (aggregating Rs. 1.53 crore) by the State Government to the Company during the month of March each year between 2003-04 and-2007-08, evidently to avoid lapsing of the budget grant.

[24] Like Bricks, bitumen, cattle feed, cardboards, cement tiles, electric home appliances, food and food grains related items, paints and varnishes, jute matting, printing and stationery items, wall to wall carpets, etc.

[25] State funds: Rs. 2.52 crore; Centrally Sponsored Schemes (released through State Government): Rs. 2.06 crore.

Audit scrutiny revealed that underutilization of funds hampered implementation of various projects like providing infrastructural facilities to the SSI units at the Industrial Estates (IEs) viz. Govindsar and Udhampur, modernisation of testing centres, etc. as discussed in paragraphs infra. Audit further observed that there were no proper records to indicate actual date of submission of the utilization certificates.

The Management stated (March/September 2008) that it was keen to implement the schemes and that instructions had been issued to all the concerned to make efforts for prompt utilisation of funds.

Capital structure and borrowings

7.2.21 The paid-up capital of the Company as on 31 March 2007 was Rs. 3.12 crore against an authorised share capital of Rs. 5 crore. The Company had failed to pursue the matter with the State Government for subscribing the balance amount of the share capital.

The Company obtained (1976-77 to 1995-96) loans amounting to Rs. 2.74 crore from the State Government for development of industrial estates. The Company, however, did not repay any amount towards liquidation of the loan, despite making a provision of Rs. 4.24 crore in its accounts for the year 2006-07. As on 31 March 2008, Rs. 7.29 crore (principal: Rs. 2.74 crore; interest: Rs. 4.55 crore) were payable by the Company to the State Government.

The Management stated (September 2008) that it contemplated taking up the matter with the Government for treating the loan as Grant-in-aid with retrospective effect. The latest development in this regard was awaited (October 2008).

Non-recovery of outstanding amounts

Sundry debtors

As on March 2007, Rs. 9.88 crore were pending recovery from various Government Agencies/private parties, leading to locking up of funds.

7.2.22 Audit observed that the Company had been supplying material to various Government Agencies/private parties on credit. Information as to existence of credit policy in the Company, though called for, was not furnished to audit. An amount of Rs. 9.88 crore was pending recovery as on March 2007[26], leading to locking up of funds. The Management, while contesting Audit contention about locking up of funds, stated (March 2008) that there was rotation of funds by way of recoveries of outstanding amounts and fresh sales. The reply is, however, not acceptable, as an amount of Rs. 48.35 lakh was recoverable on this account from 32 Government Departments/Agencies (Rs. 39.23 lakh) and 19 private parties (Rs. 9.12 lakh) for more than a decade. This indicated failure of the Company to take effective steps towards recovery of outstanding amounts. The chances of recovery of amounts remaining outstanding for a long time are bleak and the possibility of these debts turning bad cannot be ruled out.

[26] Position of outstanding as on March 2008 was under compilation by the Company.

It was further noticed in audit that the Company had failed to maintain age-wise position of the outstanding amounts. The Management stated (September 2008) that compilation of the requisite information was of voluminous nature and the concerned officials had been directed to prepare the requisite data.

Outstanding advances against employees

Rupees 1.04 crore was outstanding as on March 2007 against various officers/officials.

7.2.23 State Financial Rules (1990) stipulate early adjustment of advances made to the officers/officials. Audit observed that an amount of Rs. 1.04 crore was outstanding as on March 2007 (information for 2007-08 was awaited) against various officers/officials out of the imprest advanced to them for meeting expenditure on purchase of material. Of this, Rs. 25.72 lakh was outstanding since 2003-04 against two deputationists, who had since been repatriated and Rs. 1.56 lakh against a retired official. The Management stated (September 2008) that in case of the deputationists, the department concerned had been asked to recover the outstanding amount. Action taken to recover outstanding amount from the retired person was awaited (September 2008).

Finalistion of accounts

Finalization of accounts was in arrears since 1989-90.

7.2.24 The Company had finalised its accounts up to 1988-89 and finalisation of accounts thereafter was in arrears (March 2008). Audit observed that despite directions (February 2004) of the BOD envisaging finalisation of accounts up to 1991-92 by 2004-05 and the remaining accounts within the next three years, no concerted efforts had been made by the Company to clear the backlog of accounts. Due to non-finalistion of the accounts, financial position and the working results of the Company could not be ascertained in Audit. Non-finalistion of accounts vitiates accountability and is also fraught with the risk of financial irregularities remaining undetected.

Manpower Management

7.2.25 The State Government had constituted (February 2003) a Core Group which, *inter-alia*, was to study functioning of the State Public Sector Enterprises (PSUs) and locate surplus staff in the PSUs. On the recommendation of the Core Group, the Company proposed (July 2004) downsizing its existing strength from 374 to 316 by resorting to Golden Handshake/Voluntary Retirement Scheme. The proposal had, however, not been approved by the Government so far (September 2008).

The Management stated (March 2008) that with the increase in turnover there was need for more work force. However, documents in support of rightsizing exercise conducted by the Company, called for in the ARCPSE, were awaited (September 2008).

Management of Hazardous Wastes

7.2.26 According to the Inventory of Hazardous Waste Generating Units prepared (September 2006) by the State Pollution Control Board (SPCB), 36 units generating 3,431.63 MTs of hazardous waste were identified in three[27] industrial estates of the Company. Audit observed that the Company had taken no measures on the recommendations/conclusions drawn from the workshop (April 2007) on Hazardous Wastes Management organized by the SPCB. The recommendations, *inter alia*, included identification of sites by the Company for disposal of hazardous wastes. These sites were to be inspected by the SPCB for according approval for finalisation of disposal system of hazardous wastes in a scientific manner. Audit observed that the Company had taken no action in this regard. Inaction on the part of the Company in controlling pollution was likely to have an adverse impact on the environment, besides being a source of health hazard. The matter assumes importance in view of the directions issued by the Honourable Supreme Court regarding identification of dumping sites for all the industrial estates, setting up of Hazardous Waste Treatment and Disposal Facilities/common effluent treatment Plant in each industrial unit.

The Management assured (September 2008) Audit that all measures concerning pollution would be taken.

Internal controls

Internal control systems were found deficient in the following areas:

Budgetary Control

7.2.27 Budgeting is an integral part of the financial control leading to better use of capital/resources through planning and efficient allocation. It helps in efficient operations through better co-ordination of activities. It also helps in setting goals and objectives and can be used as performance criteria, thereby enforcing the element of accountability in the Organisation. Proper and timely budgeting, thus helps in the overall success of the Organisation. Audit, however, observed that the budget estimates for the period 2002-03 and 2003-04 had not been approved by the BOD, while those for 2005-06 were approved after the commencement of the financial year.

Inter-unit adjustment account

7.2.28 Advances made to the officers/staff transferred from one unit to another and transfer of stores and stocks from one unit to another are adjusted under "Inter Unit Adjustment Account" to ensure their adjustments/recovery by the close of the year. It was seen in audit that there was a debit balance of Rs. 2.12 crore as on March 2007, indicating that effective steps had not been taken by the Company to adjust the amounts. Non-adjustment of accounts for a long time is fraught with the risk of fraud/embezzlement remaining undetected. The Management stated (September 2008) that requisite steps have been taken to prevent accumulation of unreconciled amounts.

[27] Gangyal (23 units; 2,289 14 MTs), Kathua (10 units; 1,141.39 MTs) and Udhampur (3 units: 1.10 MTs).

Inventory Control

7.2.29 The Company had failed to fix the optimum level of inventory. Audit observed that inventory of the Company showed an increasing trend, as closing stock increased by 121 *per cent* from Rs. 2.54 crore (2002-03) to Rs. 5.61 crore (2006-07). Scrutiny in audit of records of the Raw Material Depot, Digiana further revealed that non-salable inventory worth Rs. 19.41 lakh lying in the store for more than five years, had not been disposed off (September 2008). The Management stated (September 2008) that efforts were being made to dispose off the same.

Meetings of the Board of Directors

7.2.30 During the five year period 2003-04 to 2007-08, the BOD had met only on six occasions against a minimum requirement of 20 meetings as per provisions of the 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 Management stated (September 2008) that every effort shall be done to comply with the provisions of the Company's Act relating to convening of the BOD meetings.

Internal Audit

7.2.31 Internal Audit ensures proper functioning of an entity as well as effectiveness in the internal controls and timely detection of errors, frauds, etc. Despite the Company having Internal Audit Wings (one each at Srinagar and Jammu), headed by the Deputy Financial Advisor and Chief Accounts Officer, it had not prepared internal audit manual laying down functions, scope and periodicity of audit. The Management was required to place before the BOD, the internal audit reports in a summarized manner. The Management stated (September 2008) that placement of all internal audit reports before the BOD was a time-consuming job and that it was not practicable for the BOD to scrutinize each report. The argument was not plausible as non-laying of reports before the BOD was in violation of the BOD directives.

Conclusion

7.2.32 The Company largely failed in achieving the objective of providing marketing support to SSI units. The Company's role in marketing the products of SSI units was very insignificant. There was slow progress in the establishment of estates at Govindsar and Zakura indicating the casual approach adopted by the Company in pursuing its objectives. There was evidence of existence of intermediaries in procurement and distribution of raw material. Cases of violation of lease deeds were also noticed in audit. There was no serious approach on the part of the company in updating its testing centres. Non-approval of budget estimates by the BOD indicated lack of effective planning and control mechanism. There was no evidence of any serious effort being made by the Company to bring about reduction in the mounting arrears in finalisation of accounts. The Company also did not take effective Pollution control measures in certain industrial estates.

Recommendations

- **Effective steps need to be taken by the Company to make itself more relevant and viable by diversifying its activities and thereby, bringing more SSI units under its coverage.**
- **There is a need to identify and strengthen profit centres and provide modern facilities to all industrial estates.**
- **Testing centres should be fully modernized and established at all the District Headquarters.**
- **Concerted endeavours are required to strengthen internal controls and to clear the heavy backlog in accounts.**
- **Pollution control measures may be implemented wherever necessary.**

Audit of Transactions

Jammu and Kashmir Bank Limited

7.3 Non recovery of debts

Failure of the Jammu and Kashmir Bank to re-evaluate the mortgaged property of a firm, resulted in non-recovery of Rs 4.16 crore with consequent loss to the Bank.

The Jammu and Kashmir Bank Limited sanctioned (August 2001) Cash Credit (CC) facility of Rupees seven crore in favour of a Mumbai-based private firm[10] engaged in transport activity, by taking over liability of Rs. 5.42 crore towards its existing bankers[11]. The CC limit was sanctioned against the primary security of book debts and vehicles. Besides, collateral security by way of mortgage of immovable property (land, building, godown-cum-office etc.), evaluated by the firm during May/June 1999 and April 2000 at Rs. 6.27 crore. As per the terms and conditions of the sanction, the Bank was required to obtain valuation report of the mortgaged property done by the firm afresh before sanction of CC facility. However, the Bank waived off the condition on the ground that the earlier valuation was done by a Government approved valuer and that the conduct of the account was satisfactory. The firm serviced the interest up to January 2003 and thereafter the account turned stagnant and was classified (April 2004) as Non-Performing Asset (NPA), with an outstanding amount of Rs. 8.31 crore including the interest and legal charges. The Bank then got (November/December 2004) the mortgaged property revaluated through its own approved valuer, who assessed it at Rs. 2.24 crore against the value of Rs. 6.27 crore declared by the firm earlier.

The firm requested (2005) for One Time Settlement of the account which was approved (March 2006) by the Board of Directors (BOD) of the Bank on deposit of Rs. 7.50 crore towards full and final settlement of the account, against the outstanding amount of Rs. 10.16 crore (November 2005). Under this arrangement, the Bank had nothing to forego on account of the principal amount of Rupees seven crore. However, the firm expressed (October 2006) its inability to deposit the settled amount and requested for more concessions. According to the Management, the option available with the Bank was to recover the amount through compromise, as it involved less time and minimum expenses compared to legal recourse. Thus, based on the recommendations of the concerned Branch Manager and DGM (T), Zonal Office, Mumbai, the Management approved (March 2007) settlement of the case at Rupees six crore towards full and final settlement, thereby forgoing even part of the principal, amounting to Rupees one crore.

The Management stated (December 2007) that besides the collateral securities, the Bank had primary security by way of hypothecation of book debts and other assets and there was no reason to question the valuation done by the consortium of Banks. However, in view of the fact that as against the value of primary security evaluated at Rs. 9.41 crore in March 2001, the firm's losses accumulated to Rs. 9.92 crore as on March 2006. The Bank was, therefore, left with no option but to settle the case, as it had failed to adhere to the laid down condition in the sanction stipulating furnishing of fresh valuation report of the mortgaged property, which was waived off by the bank. Thus, failure of the Bank to adhere to the conditions stipulated in the sanction, resulted in loss of Rs. 4.16 crore[12].

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[10] M/S Precious Carrying Corporation Limited, Mumbai.
[11] New Bank of India.
[12] Rupees one crore (principal) and Rs. 3.16 crore on account of interest/other charges.

The matter was reported to the Government in June 2008; their reply had not been received (September 2008).

J&K Cements Limited

7.4 Non-recovery of extra expenditure/damages

The Company failed to recover Rs. 13.12 lakh from a private firm due to its failure to enforce terms of the agreement entered into with the firm.

The Company placed (May 2006) orders with a private firm[13], selected on competitive basis, for supply of 20 lakh Poly-Propylene bags at Rs. 5.30 per bag. On the supplier's request, the order was revised (May 2006) to 30 lakh bags to enable the firm to procure, in one go, the entire quantity of raw material required for manufacturing the bags to avoid possible future price escalation. As per the agreement, the firm was required to deliver a minimum quantity of 2.50 lakh bags immediately, and the remaining 27.50 lakh bags by January 2007. For belated delivery, the firm was liable for payment of liquidated damages at two *per cent* of the total contract value per week, subject to the maximum of ten *per cent* of the contract value. The firm was also to reimburse damages that the company would suffer in case of default in the delivery schedule.

It was observed in audit that the firm, after supplying only 5.44 lakh bags till July 2006, stopped further supplies and asked for increase in the rates on the plea that there was hike in the cost of raw material. The company did not accede to the request of the firm and purchased 24.25 lakh bags (14.25 lakh bags at Rs. 6.39 per bag and 10 lakh bags at Rs. 5.30 per bag) from three different suppliers, resulting in extra expenditure of Rs. 15.53 lakh[14]. Audit found that except for retaining the security deposit of the firm amounting to Rs. 2.41 lakh, the company did not enforce penal terms of the agreement for recovering the amount of Rs. 15.53 lakh from the firm, as the purchase of bags at higher rate was made at the risk and cost of the firm. Thus, due to non-enforcement of terms of the agreement, the company failed to recover Rs. 13.12 lakh (excluding security deposit of Rs. 2.41 lakh retained by the company) on account of extra expenditure in the purchase of bags.

The Management stated (June 2007) that action to recover the amount from the supplier would be initiated. However, further progress in the matter was awaited (September 2008).

The matter was reported to the Government in June 2008; reply had not been received (September 2008).

J&K Horticultural Produce Marketing and Processing Corporation Limited

7.5 Diversion of funds

Diversion of General/Contributory Provident Fund collections by the Company resulted in accumulation of outstanding liability to Rupees five crore.

In accordance with the J&K Employees Provident Fund Act, 1961, every employer shall remit General Provident Fund/Contributory Fund (GPF/CPF) collections made from the employees to the Provident Fund (PF) Commissioner within 15 days of the close of every month. In case of default, the PF Commissioner may recover damages up to 25 *per cent* of the arrear amount in terms of the Section-16 of the Act, *ibid.*

[13] M/s Bhawani Enterprises.

[14] 14.25 lakh bags multiplied by Rs. 1.09 (difference between Rs. 6.39 and Rs. 5.30).

It was noticed in audit that the Company, despite receipt of notices from the Provident Fund Commissioner and issuance (December 2005 and February 2006) of arrest warrant against the Managing Director, had defaulted in remittance of CPF of Rs. 2.03 crore collected (April 2004 to March 2008) from its employees and the matching share (Rs. 2.03 crore) payable by the Company thereon.

Audit observed that the Company had received budgetary support of Rs. 3.41 crore from the State Government during April 2004 to March 2008. The conditions governing the release of funds stipulated, clearance of current GP/CP Fund including the matching share payable by the Company, as the first charge on the amount so released. It was, however, observed that out of Rs. 3.41 crore, the Company paid only Rs. 1.47 crore (Rs. 76 lakh: 2005-06; Rs. 71 lakh: 2006-07) towards clearance of the CP Fund liability and unauthorisedly diverted the remaining amount of Rs. 1.94 crore towards payment of salary/wages to its staff. Consequently, the amount of default increased from Rs. 2.41 crore as on March 2004 to Rupees five crore as on March 2008.

The Management stated (July 2008) that due to the acute financial hardship, the liability had accumulated. It was further stated that the Government had been requested for placement of adequate funds for the said purpose. The reply of the Company, also endorsed (August 2008) by the Government, is not acceptable, as the Company should have taken prior approval of the Government for diversion of funds. Non-remittance of amount to the PF Commissioner contravened the provisions of CP Fund Act, ibid and attracted imposition of penalty up to Rs. 1.25 crore, besides violating the aforementioned conditions attached with the sanctions.

Jammu/Srinagar **(D. J. Bhadra)**
The **Accountant General (Audit)**
Jammu and Kashmir

Countersigned

New Delhi **(Vinod Rai)**
The **Comptroller and Auditor General of India**