Chapter-VII

Commercial Activities

Section-I

7.1 General view of Government Companies and Statutory Corporations

7.1.1 Introduction

As on 31 March 2000, there were 19 Government companies (including one subsidiary) and four Statutory corporations under the control of the State Government. The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors appointed by Government of India on the advice of Comptroller and Auditor General of India (CAG) as per provision of Section 619 (2) of Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 (4) of the Act, ibid. Audit of two Statutory corporations viz. Jammu and Kashmir State Forest Corporation and Jammu and Kashmir State Electricity Board set up under respective Acts of the State Legislature had been entrusted to CAG during 1999-2000 and process of taking up audit of these corporations is underway. Audit of remaining two Statutory corporations is conducted under the provisions of the respective Acts as detailed below:

S.No	Name of the Corporation	Authority for audit by the CAG	Audit arrangement
1.	Jammu and Kashmir State Road Transport Corporation (SRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
2.	Jammu and Kashmir State Financial Corporation (SFC)	Section 37(6) of the State Financial Corporations Act, 1951	Chartered Accountants and supplementary Audit by CAG

7.2 Investment in Public Sector Undertakings (PSUs)

As on 31 March 2000, total investment in 23 PSUs[Ψ] (19 Government companies including one subsidiary and four Statutory corporations) was Rs 1444.26 crore (equity: Rs. 399.55 crore; long term loans: Rs 1044.71 crore) against total investment of Rs 1559.39 crore (equity: Rs 386.05 crore; long

Ψ Public Sector Undertakings

term loans: Rs 1173.34 crore) in these PSUs as on 31 March 1999. An analysis of the investment in these PSUs is given in the following paragraphs:

7.2.1 Government companies

Total investment in 19 Government companies (including one subsidiary) as on 31 March 2000 was Rs 746.11 crore (equity: Rs 224.72 crore; long-term loans: Rs 521.39 crore) as against Rs 848.71 crore (equity: Rs 217.09 crore; long-term loans: Rs 631.62 crore) as on 31 March 1999. Details are indicated in the *Appendix-19*.

Classification of these companies was as under:

Status of companies	Number of companies	Investment (Rupees in crore)	
		Paid-up capital	Long-term loans
(a) Working companies	18	223.92 (216.29)	520.56 (630.81)
(b) Non-working company under liquidation/merger	1[&]	0.80 (0.80)	0.83 (0.81)
Total	**19**	**224.72 (217.09)**	**521.39 (631.62)**

(Figures in brackets represent figures for the previous year)

The non-working company viz. Tawi Scooters Limited was under the process of liquidation/amalgamation since 1990. As substantial investment of Rs 1.63 crore was involved in this company as of March 2000, effective steps need to be taken for its expeditious liquidation.

The summarised financial results of all the Government companies are detailed in *Appendix-20*. The debt-equity ratio decreased from 2.91 in 1998-99 to 2.32 during 1999-2000 due to overall decrease of Rs 110.23 crore in the outstanding long-term loans and increase in share capital contribution by Rs 7.63 crore of which Rs 5 crore pertained to Jammu and Kashmir State Power Development Corporation Limited. The overall decrease of Rs 110.23 crore in the outstanding long-term loan was as a result of the net effect of decrease in the outstandings against the Jammu and Kashmir Bank Limited by Rs 188.78 crore and increase in it against other companies by Rs 78.55 crore.

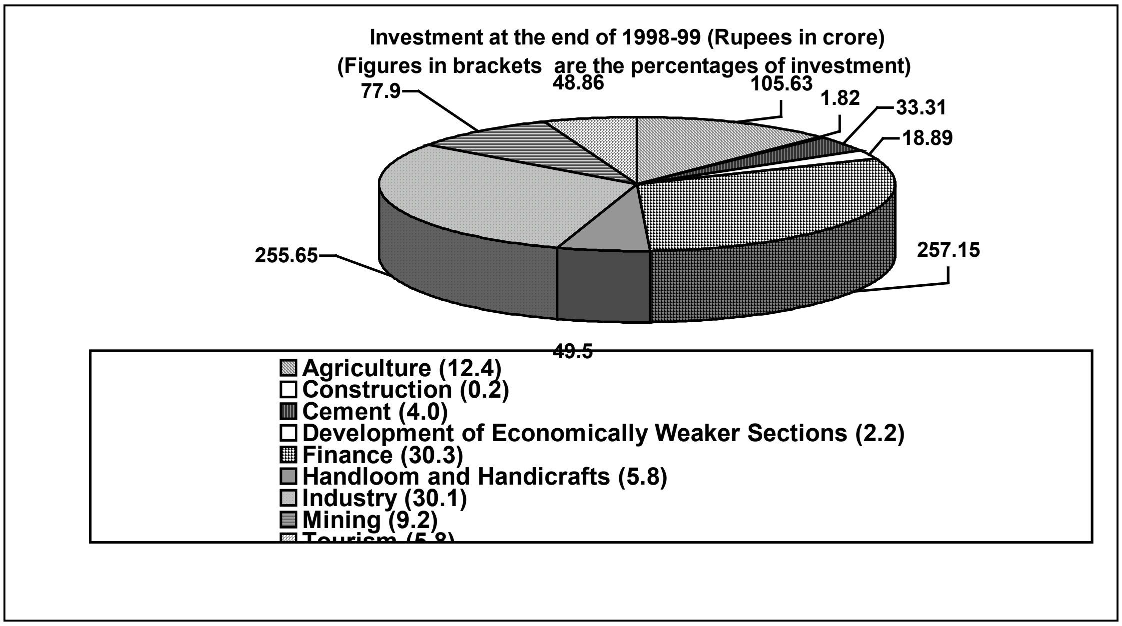
Sector-wise investment in Government companies

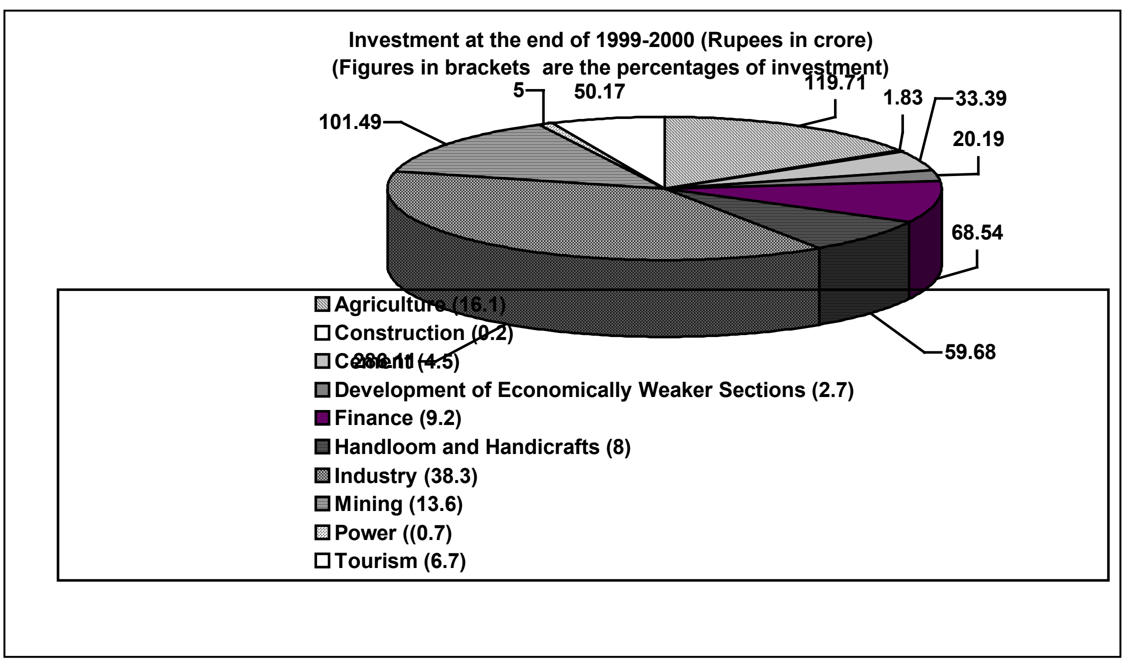
As on 31 March 2000, in the total investment of Government companies, 30 *per cent* comprised equity capital and 70 *per cent* comprised long-term loans,

[&] Tawi Scooters Limited

compared to 26 *per cent* equity capital and 74 *per cent* long-term loans in the previous year.

The sector-wise investment (equity and long-term loans) in Government companies at the end of 1998-99 and 1999-2000 is given below in two pie diagrams.





7.2.2 Statutory corporations

The total investment in four Statutory corporations at the end of 1998-99 and 1999-2000 was as follows:

(Rupees in crore)

Name of Corporation	1998-99		1999-2000	
	Capital	Loan	Capital	Loan
Jammu and Kashmir State Road Transport Corporation (SRTC)	96.13	163.75	102.00	190.88
Jammu and Kashmir State Financial Corporation Limited (SFC)	63.80	50.61	63.80	58.73
Jammu and Kashmir State Forest Corporation Limited (SFC)	9.03	23.58	9.03	23.82
Jammu and Kashmir State Electricity Board (SEB)	-	303.78	-	249.89
Total	**168.96**	**541.72**	**174.83**	**523.32**

The summarised financial results of these[ϕ] Statutory corporations are given in *Appendix-20*. The financial position as also working results for the four years up to 1998-99 as per provisional and finalised accounts in respect of Jammu and Kashmir State Road Transport Corporation is given in Paragraphs 7.12.5.1 and 7.12.5.2 and that of Jammu and Kashmir State Financial Corporation Limited for the three years up to 1997-98 is given in the *Appendices* 22 and 23.

Due to decrease in the long-term loans, the debt equity ratio of these corporations decreased from 3.21 in 1998-99 to 2.99 in 1999-2000.

As on 31 March 2000 the total investment in Statutory corporations comprised 25 *per cent* as equity capital and 75 *per cent* as long-term loans compared to 24 *per cent* and 76 *per cent* respectively as on 31 March 1999.

7.3 Disinvestment, privatisation and restructuring of Public Sector Undertakings

The State Government constituted (December 1996) Godbole Committee on Economic Reforms. The Committee, in its report submitted in August 1998,

ϕ Excludes information in respect of Jammu and Kashmir State Forest Corporation Limited and of Jammu and Kashmir State Electricity Board recommended privatisation/closure of (i) 9* PSUs (ii) merger of 4ℵ PSUs and restructuring of 3♣ PSUs. Government constituted (March 1999) a Committee for considering the recommendations made by Godbole Committee. The Committee recommended closure of 7 non-viable units of Jammu and Kashmir Industries Limited, on which final action of the Government was awaited. Meanwhile, decision to close one loss-making company (Himalayan Wool Combers Limited including its subsidiary) was taken by the State Government in September 2000 and modalities for the adjustment of the staff and transfer of assets etc. were being worked out (December 2000). A formal policy, if any, framed by the State Government regarding disinvestment, privatisation and restructuring of the loss making PSUs was not intimated (December 2000).

One company viz. Tawi Scooters Ltd. was under the process of liquidation/amalgamation with the Jammu and Kashmir State Industrial Development Corporation Limited (SIDCO) which had not been completed as of September 2000.

7.4 Budgetary outgo, subsidies, guarantees given and waiver of dues

The details of budgetary outgo, subsidies, guarantees given, waiver of dues and conversion of loans into equity by State Government in respect of Government companies and Statutory corporations are given in *Appendices 19* and 21.

The budgetary outgo from the State Government to companies and two Statutory corporations for the three years up to 1999-2000 in the form of equity capital, loans, grants and subsidy is given below:

* J&K Minerals Ltd., J&K Himalayan Wool Combers Ltd., J&K Projects Construction Corporation Ltd., Tawi Scooters Ltd., J&K State Forest Corporation Ltd, J&K Cements Ltd., J&K Cable Car Corporation, some units of J&K Industries Ltd. and One unit of J&K Handloom Development Corporation

ℵ (i) J&K Small Scale Industries Development Corporation Ltd. and J&K Industrial Development Corporation Ltd., (ii) J&K Agro Industries and J&K Horticulture Produce and Marketing Corporation, (iii) J&K Handicraft (S&E) Corporation and J&K Handloom Development Corporation and (iv) J&K Industries and J&K Himalayan Wool Combers Ltd.

♣ J&K SC/ST & OBC Corporation, J&K Women Development Corporation and some units of J&K Industries

(Rupees in crore)

	1997-98				1998-99				1999-2000			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity Capital	8	26.80	2	10	8	2.91	1	5.25	6	2.14[#]	1	5.00[&]
Loans	6	35.19	-	-	6	29.03	1	20.04	7	27.75	2	28.50
Grants	5	8.64	-	-	6	92.85	-	-	5	5.38	2	13.05
Subsidy	3	4.01	-	-	2	2.05	-	-	2	2.95	-	-
Total	**14**	**74.64**	**2**	**10**	**15**	**126.84**	**1**	**25.29**	**14**	**38.22**	**2**	**46.55**

During the year 1999-2000 the Government had guaranteed loans aggregating Rs 2 crore obtained by three[Ψ] Government companies. At the end of the year guarantees amounting to Rs 231.08 crore against eight companies (Rs 131.74 crore) and two Statutory corporations (Rs 99.34 crore) were outstanding.

7.5 Finalisation of accounts by PSUs

7.5.1 The accounts of the companies for every financial year ought to be finalised within six months from the end of relevant financial year, under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 (1) of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. These are also to be laid before the Legislature within nine months after the end of 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-20*, out of 19 companies and two[®] Statutory corporations only one company (Jammu and Kashmir Bank Limited) had finalised its accounts for the year 1999-2000 within the stipulated period. Out of remaining 18 companies and two Statutory corporations, 10 companies had finalised 14 accounts for previous years during the period from October 1999 to September 2000. Similarly, during this period one Statutory corporation had finalised two accounts for 1996-97 and 1997-98. The position of arrears in respect of 18 companies and two Statutory corporations as on 30 September 2000 is as detailed below:

[#] Excludes Rs 5 crore invested by the Government in Jammu and Kashmir State Power Development Corporation Limited in the previous year but adjusted in the current year

[&] Excludes Rs 88.01 lakh invested by the Government in Jammu and Kashmir State Road Transport Corporation Limited in the previous year but adjusted in the current year

[Ψ] Jammu and Kashmir State Handloom (Sales and Export) Corporation Limited: Rs 1.40 crore; Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited: Rs 40 lakh; Jammu and Kashmir State Women's Development Corporation Limited: Rs 20 lakh

[®] Information in respect of Jammu and Kashmir State Forest Corporation Limited and Jammu and Kashmir State Electricity Board was awaited

S.No.	**Year from which accounts are in arrears**	**Number of years for which accounts are in arrears**	**No. of Companies/Corporations**		**Reference to Serial No. of *Appendix*-20**	
			Government Companies	Statutory Corporations	Government Companies	Statutory Corporations
1.	1984-85	16	3	-	1, 4, 12	-
2.	1986-87	14	1	-	11	-
3.	1987-88	13	1	-	16	-
4.	1989-90	11	1	-	9	-
5.	1990-91	10	3	-	7, 13, 17	-
6.	1991-92	9	1	-	2	-
7.	1992-93	8	4	-	5, 8, 10, 14	-
8.	1994-95	6	1		3	
9.	1995-96	5	2		15, 18	
10.	1997-98	3	-	1	-	1
11.	1998-99	2	1	1	6	2
	Total	**-**	**18**	**2**		

Of the above 18 Government companies whose accounts were in arrears, one[ϒ] company was a non-working company.

The Administrative Department has to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were apprised quarterly by Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government and as a result, the investments made in these PSUs remained outside the purview of the audit and their accountability could not be assessed in audit.

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

The following table indicates the status of placement of Separate Audit Reports (SARs) on the accounts of Statutory corporations, issued by the Comptroller and Auditor General of India, in the Legislature.

ϒ Tawi Scooters Limited

S.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 Legislature
1.	Jammu and Kashmir State Road Transport Corporation (SRTC)	1995-96	1996-97	30 September 1999	NA
2.	Jammu and Kashmir State Financial Corporation Limited (SFC)	1996-97	1997-98	Not issued	Under finalisation

7.6 Working results of Public Sector Undertakings

According to latest finalised accounts of 19 Government companies, while only three companies earned a profit of Rs 120.24 crore, 13 suffered a loss of Rs 25.44 crore and remaining three companies had not finalised their accounts as of September 2000. The two Statutory corporations incurred a loss of Rs 46.40 crore. Of the 13 loss-making companies, five companies had accumulated losses aggregating Rs 94.83 crore as per their latest finalised accounts which had far exceeded their aggregate paid-up capital of Rs 28.75 crore.

In spite of poor performance and complete erosion of their paid-up capital, the State Government continued to provide financial support to these companies in the form of equity and loans. According to available information, the financial support so provided by the State Government by way of equity and loans during 1999-2000 to three out of these five companies amounted to Rs 18.35 crore.

7.6.1 Government Companies

Only one company viz. Jammu and Kashmir Bank Limited which had finalised its accounts for 1999-2000, had earned a profit of Rs 120.17 crore during the year and declared dividend of Rs 17.28 crore. The dividend as percentage of share capital of the company worked out to 36 *per cent* and as a percentage of total investment of Rs 192.56 crore made by the State Government in all the companies, it worked out to 8.97 *per cent*. Two other companies (Jammu and Kashmir Projects Construction Corporation Limited and Jammu and Kashmir Small Scale Industries Development Corporation Limited) which had finalised their accounts for the earlier years earned an aggregate profit of Rs 6.37 lakh but did not declare any dividend. Of these two companies, only one company (Jammu and Kashmir Projects Construction Corporation Limited) had earned profit for three consecutive years.

7.6.2 Statutory corporations

None of the Statutory corporations had finalised its accounts for the year 1999-2000. As per their latest accounts, both had incurred losses which accumulated to Rs 399.05 crore and exceeded their paid-up capital of Rs 149.55 crore.

In spite of poor performance and erosion of paid-up capital, the State Government continued to provide financial support to these corporations in the form of equity and loans. The financial support so provided by the State Government during 1999-2000 to these corporations amounted to Rs 33.50 crore (Jammu and Kashmir State Road Transport Corporation: Rs 33.44 crore; Jammu and Kashmir State Financial Corporation :Rs 6 lakh). The operational performance of Jammu and Kashmir State Road Transport Corporation is given in Paragraph 7.12.6 and that of Jammu and Kashmir State Financial Corporation is given in *Appendix*-24.

7.7 Return on Capital Employed

During 1999-2000 the capital employed[ψ] in respect of Government companies for the latest years for which accounts were finalised worked out to Rs 5719.30 crore in all the 19 companies and total return[ϕ] thereon amounted to Rs 705.10 crore which was 12.33 *per cent* as compared to 12.25 *per cent* in 1998-99. The main contributor was the Jammu and Kashmir Bank Limited which had earned Rs 718.39 crore as return on capital employed. In case of Statutory corporations, total capital employed amounted to Rs 242.19 crore for the latest years for which accounts were finalised and total return thereon amounted to minus Rs 19.80 crore, against minus Rs 31.54 crore in 1998-99. The details of capital employed and total return thereon in case of all the companies and the corporations on the basis of their latest available accounts are given in *Appendix*-20.

7.8 Results of audit by Comptroller and Auditor General of India

During the period from October 1999 to April 2000, audit of accounts of 10 companies and one Statutory corporation (Jammu and Kashmir State Road Transport Corporation) was selected for review. The net impact of the important audit observations as a result of the review was as follows:

ψ Capital employed represents net fixed assets (including capital works-in-progress) plus working capital (current assets less by current liabilities) except in financial companies and corporations, where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance)

ϕ For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss accounts

(Rupees in lakh)

	Details	Number of accounts			
		Companies	Corporations	Companies	Corporations
(i)	Non-disclosure of material facts	2	-	77.55	-
(ii)	Errors in classification	3	1	380.61	250.00

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

A. Errors and omissions noticed in Government Companies

1. Jammu and Kashmir State Industrial Development Corporation Limited (1991-92)

An amount of Rs 2.20 crore received as loan was classified as share capital resulting in understatement of loans and overstatement of share capital to that extent.

2. Jammu and Kashmir State Cable Car Corporation Limited (1989-90)

(i) Provision for an amount of Rs 95 lakh payable by the Company to Power Development Department was not made in the accounts which resulted in understatement of liabilities to that extent.

(ii) Fixed assets of the Company were overstated to the extent of Rs 3.98 lakh which represented cost of vehicles, the title of which was yet to be transferred in the name of the Company.

3. Jammu and Kashmir State Handloom Development Corporation(1990-91)

Finished goods included damaged fabrics valued at Rs 2.91 lakh for which no provision had been made in the accounts.

4. Jammu and Kashmir State Handloom Development Corporation (1991-92)

(i) Marketing Development Assistance of Rs 1.31 crore included Rs 60.83 lakh receivable by the Company on account of insurance claims which should have been shown distinctly in the accounts. This resulted in overstatement of Marketing Development Assistance and understatement of "Insurance claims Recoverable" to that extent.

(ii) The Company had written off Rs 14.06 lakh on account of loss suffered by it due to fire without approval of the competent authority. This had also not been disclosed in the accounts.

(iii) Total expenditure of Rs 6.82 crore included Rs 6.05 lakh pertaining to previous years which should have been shown distinctly as required under accounting procedure.

5. Jammu and Kashmir Minerals Limited (1984-85)

Advances made to employees included Rs 2.66 lakh which were outstanding against employees who had either expired or had retired from services. As recovery of the amount was doubtful, neither disclosure to this effect was made in the accounts nor was any provision made for the same.

B. Errors and omissions noticed in case of Jammu and Kashmir State Financial Corporation (1996-97)

Subscribed and paid-up capital of Rs 61.30 crore included Rs 2.50 crore received from the State Government in March 1997 towards share capital contribution. As the shares were yet to be allotted, the amount should have been shown as “Share Application Money-pending allotment of shares”. This resulted in overstatement of paid-up capital with corresponding understatement of share application money.

C. Persistent irregularities and system deficiencies in financial matters

The following irregularities and system deficiencies in the financial matters of Jammu and Kashmir State Road Transport Corporation had been repeatedly pointed out during the course of audit of the accounts but no corrective action had been taken by the PSUs so far.

(a) The Corporation had not maintained, since inception, the fixed assets register recording particulars of the fixed assets, date(s) of acquisition and its cost, rate of depreciation, written down value and other details. In absence of such a register, the correctness of depreciation charged in the accounts could not be verified in audit.

(b) An amount of Rs 2.67 crore was subject to reconciliation on account of inter-unit adjustment. No concrete steps had been taken to reconcile the balances and to minimise the balances under the head.

(c) An amount of Rs 18 lakh on account of advance on capital account pertaining to the period prior to 1989-90 was being carried forward from year to year without adjustment. No details/adjustment/inventory sheet of the capital account was furnished to audit.

D. Closure/merger of Government companies

The working results of various Public Sector Undertakings (PSUs) have not improved despite continued budgetary support from the State Government.

Based on latest finalised accounts, 5 PSUs continued to incur losses leading to their negative net worth while turnover of 2 more PSUs was continuously less than Rs 5 crore during each of the last 5 years for which accounts stand finalised. In view of continuous poor performance and low turnover of these PSUs, as listed in *Appendix*-25, there is a need to re-assess their role and consider them for closure.

7.9 Appraisal on the working of Jammu and Kashmir State Electricity Board

The Jammu and Kashmir State Electricity Board was incorporated in 1971 for rationalisation of production and supply of electricity and for taking measures conducive for development of electricity in the State. The Board, however, entrusted (February 1973) works relating to the transmission and distribution of power including execution of rural electrification programme to Power Development Department. As such, its activities were confined to the extent of raising loans from financial institutions for making available to the Power Development Department. The State Government, which acts as guarantor, releases funds to the Board for repayment of loans raised by it from the financial institutions. The total debt liability of the Board towards various financial institutions as on 31 March 2000 was Rs 249.89 crore.

7.10 Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings

Status of reviews/paragraphs of Commercial Chapter pending discussion as on 31 March 2000 was as under:

Period of Audit Report	**Total number of reviews and paragraphs appeared in Commercial Chapter**		**No. of reviews and paragraphs pending discussion**	
	Reviews	Paragraphs	Reviews	Paragraphs
1990-91	1	4	1	2
1991-92	3	2	2	2*
1992-93	2	1	1	-
1993-94	1	2	1*	-
1994-95	3	1	1*	-
1995-96	1	4	-	-
1996-97	2	1	2*	1*
1997-98	1	1	1	1*
1998-99$	2	4	2*	4*
Total:	**16**	**20**	**11**	**10**

* Partly discussed

$ Audit Report for 1998-99 was presented in the State Legislature on 10 April 2000

Section-A-Reviews

7.11 Jammu and Kashmir Cements Limited

Highlights

The Jammu and Kashmir Cements Limited was incorporated as a wholly owned Government Company in December 1974 under the Companies Act, 1956 to promote and assist in the manufacture of cement in the State.

- **The accounts of the Company were in arrears from 1994-95 onwards. The accumulated loss of Rs 9.30 crore as of March 1999 had eroded the paid-up capital of Rs 15 crore by 62 *per cent*. The Company had sustained losses despite locational advantage in the transport intensive industry, availability of high grade limestone and clay locally and assured market in Government departments/ organisations which were required to make purchase of cement from the Company.**

(Paragraph: 7.11.5)

- **The budgeted targets of production were fixed 25 to 58 *per cent* lower than the installed capacity. The Company failed to achieve the budgeted targets with percentage shortfall ranging between 25 and 38 in respect of clinker and 14 and 61 in respect of cement during 1994-95 to 1999-2000.**

(Paragraph: 7.11.6)

- **The percentage of working hours lost in respect of kilns due to voltage fluctuations, mechanical break-down, etc. ranged between 3 and 43 during 1994-95 to 1999-2000. The Company paid idle wages amounting to Rs 5.32 crore during this period.**

(Paragraph: 7.11.7)

- **The Company consumed 29794 MTs of coal and 511405 litres of LDO/HSD valued at Rs 9.56 crore in excess of norms during 1994-95 to 1999-2000.**

(Paragraph: 7.11.8)

- **The sundry debtors increased from Rs 14.18 lakh at the end of 1994-95 to Rs 2.96 crore at the end of March 2000 indicating an abnormal increase of 1987 *per cent.***

(Paragraph: 7.11.9)

- **The Company had not fixed maximum, minimum and ordering levels in respect of inventory items of stores and spares. The Company was maintaining high level of inventory which ranged between 19 and 49 months' average consumption during the period from 1994-95 to 1998-99.**

(Paragraph: 7.11.11)

- **Malfunctioning of pollution control equipment within one year of its commissioning resulted in loss of production of clinker amounting to Rs 2.48 crore during 1999-2000 besides, causing environmental pollution.**

(Paragraph: 7.11.12)

7.11.1 Introduction

Jammu and Kashmir Cements Limited was incorporated in December 1974 as a wholly owned Government Company under the Companies Act, 1956. The main objectives of the Company are to manufacture, procure, buy, sell and deal in cement, limestone and other materials used in the business of manufacturing cement and to promote and assist in the manufacture of cement in the State. To meet these objectives, the Company is operating a major cement manufacturing plant, set up in October 1981 at Khrew (Kashmir), with installed capacity of two lakh MTs per annum.

7.11.2 Organisational set up

The management of the company is vested in a Board of Directors who are nominated by the State Government. As on 31 March 2000, the Board consisted of ten Directors including the Chairman and the Managing Director. The Managing Director is the Chief Executive of the Company.

During the last five years ending March 2000, the Board of Directors held only 9 meetings against the minimum of 20 meetings required under Section 285 of the Companies Act, 1956.

7.11.3 Scope of Audit

A review on the working of the Company covering the period 1995-96 to 1999-2000 was undertaken in audit during January to May 2000 and findings thereof are discussed in the succeeding paragraphs.

7.11.4 Funding

7.11.4.1 Capital structure and Borrowings

The authorised capital of the Company at the end of March 2000 was Rs 15 crore which was wholly subscribed by the State Government. The Company had obtained loans aggregating Rs 19.62 crore from various financial institutions from time to time to meet its capital and revenue expenditure. Loans aggregating Rs 5.90 crore (excluding interest and penal interest accrued and due amounting to Rs 11.07[ϕ] crore) was outstanding at the end of 31 March 2000. In addition, the Company had also raised loans aggregating Rs 5.54 crore during the period 1983-84 to 1996-97 from the State Government for which terms and conditions had not been settled so far (March 2000). Reasons for non-settlement of terms and conditions with the State Government were not intimated to Audit. As on 31 March 2000, the Company had a debt liability of Rs 7.42 crore (including interest of Rs 1.88 crore). In addition, Rs 1.04 crore was also payable to the State Government on account of royalty for extraction of lime-stone.

7.11.5 Financial position and working results

As on September 2000, the Company had finalised its accounts up to 1994-95 and finalisation of accounts thereafter was in arrears. The financial position and working results of the Company at the end of each year during 1994-95 to 1998-99, on the basis of final/provisional accounts, are indicated in *Appendices* 26 and 27.

Accumulated loss of Rs 9.30 crore eroded the paid-up capital by 62 *per cent*

The Company had sustained losses during 1994-95 and 1996-97 and registered marginal profit during 1995-96, 1997-98 and 1998-99. The accumulated loss of Rs 9.30 crore at the end of March 1999 had eroded its paid-up capital of Rs 15 crore by 62 *per cent*. The Company had incurred losses despite locational advantage in the transport intensive industry, availability of high grade limestone and clay locally and assured market in the Government departments/organisations which are required to make purchases of cement only from the Company. The poor performance of the Company was due to underutilisation of installed capacity, idle labour and locking up of funds in inventory and increase in sundry debtors/inordinate delay in realisation of debts as discussed in the succeeding paragraphs.

7.11.6 Production performance

The installed production capacity of the cement plant is 1.90 lakh MTs of clinker and 2 lakh MTs of cement. The Company had, however, fixed targets

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ϕ Industrial Development Bank of India: Rs 14.19 crore (principal: Rs 5.40 crore; interest Rs 8.79 crore), Life Insurance Corporation of India: Rs 1.03 crore (principal: Rs 20.50 lakh; interest: Rs 82.61 lakh), Industrial Finance Corporation of India: Rs 1 crore (principal: Rs 16.50 lakh; interest: Rs 83.72 lakh) and Industrial Credit and Investment Corporation of India: Rs 74 lakh (principal: Rs 12.40 lakh; interest: Rs 61.78 lakh)

Underutilisation of installed capacity

(budgeted) for production of clinker/cement 25 to 58 *per cent* lower than its installed capacity. The budgeted/actual production and percentage shortfall in production for the six years up to end of 31 March 2000 was as under:

Year		**Production** (In lakh MTs)		**Percentage shortfall in achievement**
		Budgeted	**Actual**	
1994-95				
	Clinker	0.80	0.52	35
	Cement	1.00	0.79	21
1995-96				
	Clinker	0.80	0.60	25
	Cement	1.00	0.70	30
1996-97				
	Clinker	0.90	0.65	28
	Cement	1.05	0.41	61
1997-98				
	Clinker	1.30	0.81	38
	Cement	1.50	0.76	49
1998-99				
	Clinker	0.90	0.91	-
	Cement	1.30	1.12	14
1999-2000				
	Clinker	0.90	0.92	-
	Cement	1.15	0.96	17

Shortfall in achieving the budgeted production targets

The actual production was even lower than the budgeted production with shortfall ranging between 25 and 38 *per cent* in respect of clinker and 14 and 61 *per cent* in respect of cement during 1994-95 to 1999-2000. Non-achievement of the budgeted targets indicated defective production management and planning. The shortfall in production during 1994-95 to 1999-2000 vis-à-vis budgeted targets was attributed by the Management to irregular power supply, low voltage, poor condition of plant and machinery and poor off-take of cement by Government departments. The lowest ever production of cement during 1996-97 was attributed to two long spells of employees' strike during the peak production season.

7.11.7 Kilns

The table below indicates total/net working hours available, hours operated/lost and percentage of hours lost to net available working hours in respect of two kilns for the six years ending 1999-2000:

	Particulars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
(a)	Total working hours available	17520	17568	17520	17520	17520	17568
(b)	Less on account of power failure, holidays, hartals, maintenance, etc.	4313	6374	5865	4965	3574	3133
(c)	Net available working hours	13207	11194	11655	12555	13946	14435
(d)	Working hours utilised	7532	7572	8657	10088	11737	13999
(e)	Idle hours	5675	3622	2998	2467	2209	436
(f)	Percentage of idle hours to net available working hours	43	32	26	20	16	3
	Analysis of idle hours						
(a)	Voltage fluctuations	3379	2600	1669	86	56	63
(b)	Mechanical break-down	758	134	377	1279	398	175
(c)	Other reasons	1538	888	952	1102	1755	198
	Total	**5675**	**3622**	**2998**	**2467**	**2209**	**436**

Idle wages of Rs 5.32 crore paid on working hours lost

The percentage of idle hours had come down from 43 in 1994-95 to 3 in 1999-2000 which was mainly due to reduction in voltage fluctuations. Based on the manufacturing wages of Rs 20.35 crore paid during the period 1994-95 to 1999-2000, idle wages paid during these years amounted to Rs 5.32[#] crore.

Records of down time analysis in respect of other sections of the plant viz., Raw mill, Coal and Cement mills had not been maintained by the Company.

7.11.8 Excess consumption of material

Coal and LDO/HSD valued at Rs 9.56 crore consumed in excess of budgeted norms

Test-check of the records revealed that coal and LDO[ℜ] used at various stages for production of clinker was consumed far in excess of the budgeted norms fixed by the Company. The excess consumption of material during 1994-95 to 1999-2000 worked out to 29794 MTs of coal (value: Rs 9.11 crore) and 5.11 lakh litres of LDO/HSD[Ψ] (value: Rs 45.14 lakh) as per details given below:

Idle wages for 1999-2000 have been calculated on the basis of manufacturing wages for 1998-99

ℜ Light diesel oil

Ψ High Speed diesel

Year	Clinker produced	Consumption per MT of clinker			
	(in MTs)	Coal (in MTs)		LDO/HSD (in Litres)	
		Budgeted	Actual	Budgeted	Actual
1994-95	51700	0.213	0.339	3.36	5.20
1995-96	60154	0.248	0.354	3.91	5.47
1996-97	65000	0.237	0.348	4.17	5.65
1997-98	81285	0.156	0.246	3.63	5.86
1998-99	90845	0.250	0.264	5.80$^{\phi}$	4.37
1999-2000	91780	0.266	0.278	4.37	4.86

Total excess consumption		Rate (in rupee per MT/Litre)		Total extra cost
Coal (in MTs)	LDO/HSD (in litres)	Coal	LDO/HSD	(Rupees in crore)
6514	95128	2488	7.04	1.69
6376	93840	2613	7.54	1.74
7215	96200	2971	8.56	2.23
7316	181265	3756	9.46	2.92
1272	-	3777	-	0.48
1101	44972	4050	12.91	0.50
29794	**511405**			**9.56**

Records did not reveal the basis for fixation of the norms for consumption of coal and LDO/HSD and whether these compared favourably with the industry norms. The norms fixed and the actual consumption did not follow any rationale as these varied from year to year. While the budgeted norm for consumption of coal per MT of clinker varied from 0.156 MTs to 0.266 MTs during 1994-95 to 1999-2000, the actual consumption varied from 0.246 MTs to 0.354 MTs during the same period. In respect of LDO while the budgeted norm of consumption varied from 3.36 litres per MT of clinker to 4.17 litres per MT of clinker during 1994-95 to 1997-98, the actual consumption varied from 5.20 litres/MT to 5.86 litres/MT during the same period. The Company attributed (May 2000) high consumption of these inputs to power/machinery break-down and maintenance/repairs, as excess quantity of fuel was required to restart the process of manufacturing to bring the kilns back to the required working temperature after stoppage of plant. Consumption of LDO was also stated to be subject to percentage of moisture present in the clay and ambient temperature. Reply of the Company was, however, not tenable as these factors are taken care of while fixing the norms. Besides, the incidence of power failure/voltage fluctuations and mechanical break-down had declined considerably over the years from 4180 and 758 working hours in 1994-95 to 772 and 175 working hours in 1999-2000 respectively against which average consumption of LDO per MT of clinker increased from 5.20 litres in 1994-95 to 5.86 litres in 1997-98 and in respect of coal from 0.339 MTs in 1994-95 to 0.354 MTs in 1995-96 which, however, declined to 0.278 MTs in 1999-2000. Reasons for excess consumption had not been investigated by the Management (September 2000).

Norms for consumption of inputs not fixed

ϕ From 1998-99 LDO was substituted by HSD

7.11.9 Sundry Debtors

Book debts increased from Rs 14.18 lakh to Rs 2.96 crore during 1994-2000

The book debts increased from Rs 14.18 lakh at the end of 1994-95 to Rs 2.96 crore at the end of March 2000 indicating an increase of 1987 *per cent*. The increase in debts and delay in recovery of the same resulted in the incidence of interest burden on the Company. Age-wise details of the debtors are as follow:

(Rs in lakh)

(a)	Less than 6 months old	274.27
(b)	Six months to less than one year	17.23
(c)	One to less than 2 years	Nil
(d)	Two to less than three years	0.95
(e)	Three to less than four years	3.00
(f)	Four years and above	0.13
	Total	**295.58**

7.11.10 Sales performance

Cement sold to private stockists at rates lower than the cost of production

The Company is selling its cement either through private stockists or directly to the bulk consumers of Government departments and other organisations. During audit it was observed that from 1995-96 to 1999-2000, against the average cost of production of Rs 3230 per MT, the Company sold 2.11 lakh MTs of cement (valued at Rs 70.72 crore) to the Government departments/semi-Government agencies at an average sale rate of Rs 3364 per MT, while 1.79 lakh MTs (valued at Rs 54.32 crore) were sold to the stockists at an average sale rate of Rs 3044 per MT. The ex-factory sale rate for sales to stockists/dealers was around Rs 146 per bag for 33 grade cement and Rs 148 per bag for 43 grade cement, excluding taxes, against the cost of production of Rs 152 per bag. Sale of cement to private stockists was, thus, made at rates lower than the cost of production for ensuring competitiveness of rates in the open market. The pricing policy was, thus, determined not by cost of production but by other factors.

7.11.11 Inventory management-excess holding of inventory

The table below indicates the inventory position of stores and spares at the end of each year for the five years up to 1998-99.

Year	Opening balance	Receipts	Issues	Closing balance	Inventory held in terms of months' consumption
	(Rupees in crore)				
1994-95	4.97	0.94	1.16	4.75	49
1995-96	4.75	2.38	2.26	4.87	26
1996-97	4.87	1.82	1.40	5.29	45
1997-98	5.29	1.79	1.88	5.20	33
1998-99	5.20	3.99	3.55	5.64	19

The Company had not fixed maximum, minimum and ordering levels for inventory. The Company was holding high levels of inventory and it ranged

High inventory of stores and spares

between 19 and 49 months' average consumption during the period from 1994-95 to 1998-99. Audit scrutiny revealed that most of the items had not been issued during the last five years and a review of these stocks had not been made for weeding out dead stock items so as to reduce locking up of working capital to minimum and bring down avoidable overheads. The Company had also a substantial inventory of cement in kilns valued at Rs 1.25 crore as on 31 March 1999. This was attributed to poor demand during the last 2-3 years. Measures proposed/taken to bring down the stocks to normal level were not intimated.

7.11.12 Installation of pollution control equipment

Malfunctioning of pollution control equipment led to loss in production of 9338 MTs of clinker valued at Rs 2.48 crore

The Company appointed (August 1989) M/S Holtec Engineers, as consultants for proposing measures to check pollution at the factory site and to bring the emissions to the minimum level. The consultants submitted their Project Report in September 1989 and recommended installation of Electrostatic Precipitators with Gas Conditioning towers on the kilns and the Reverse Pulse Jet System on the raw mill. The capital cost of the project estimated at Rs 2.27 crore was revised (March 1994) to Rs 4.79 crore due to modifications and provision of additional equipment like water treatment plant, dampers, expansion joints and conveyers, etc. The project was commissioned in May 1998 at a total cost of Rs 4.01 crore. However, the equipment did not function smoothly due to tripping of power and could, therefore, run for only 7164 hours out of available 17568 working hours during 1999-2000. This resulted in loss of production of clinker by 10.27 *per cent* (9338 MTs valued at Rs 2.48 crore) over production achieved during 1998-99, besides, environmental pollution. The malfunctioning of the device, within one year of its commissioning, had also not been investigated. The delay of about eight years in completion of the project was attributed by the Company to non-availability of funds and disturbances in the valley. However, delay due to non-availability of funds was not tenable, as the Company had sufficient available funds during 1994-95 to 1998-99 which were kept in FDRs.

7.11.13 Purchases

(a) With a view to adopt modern technological advancement in operation of the kilns and to avoid frequent break-downs in the Analog Control System which resulted in stoppage of kilns, the Company decided (January 1995) to replace the existing second generation Analog Drives by fifth generation microprocessor-based Digital Drives. The Company, without calling tenders for assessing the reasonability/competitiveness of rates, placed orders (January 1995) with a firm for supply of four Digital Drives at a cost of Rs 16.38 lakh and payment was released to the firm (M/S Siemens Limited) in January/April 1995. Reasons for releasing the payment in anticipation of its installation were not intimated. The Digital Drives received by the Company in June 1995 were to be installed by service engineers of the firm. The firm did not, however, depute the engineer. The technicians of the Company who

Rupees 16.38 lakh locked up for more than four years with resultant interest loss of Rs 8.49 lakh

tried to install the Drives, failed to do so. The Digital Drives were installed by the firm and commissioned subsequently in September 1999 after delay of four years. Thus, release of payment to the firm before the installation of the equipment resulted in locking up of investment of Rs 16.38 lakh for more than four years with resultant loss of interest amounting to Rs 8.49 lakh thereon. Besides, the modernisation of the plant also got delayed.

(b) In order to replace portion of kiln shell (measuring 1.63 metres by 3 metres) the Company purchased (November 1997) a fabricated shell at a cost of Rs 4.99 lakh. The material had not been utilised as of June 2000 and was lying in the factory premises, reasons for which were not intimated.

7.11.14 Transportation of coal

Increase in transit shortage by 7 *per cent* led to extra transit shortage of Rs 2.54 crore

The Company procures coal mainly from Bihar through various agencies like Coal India Limited, Central Coal Fields, etc. and its transportation by rail/trucks to the factory site is arranged by the handling agent engaged by the Company. The contractor arranges loading of the wagons at various pit heads for its carriage by rail up to Jammu. The Company had, since its inception in December 1974, engaged only one coal handling agent and his contract was extended on three occasions[#] on repeat order basis. The terms and conditions of the contract remained same except for enhancement of handling charges. Further, basis for increasing transit shortage from 1.5 *per cent* to 8.5 *per cent* were not intimated. Based on total consumption of coal of 1.05 lakh MTs during 1994-95 to 1998-99, the extra differential transit shortage at 7 *per cent* worked out to 8065 MTs (value: Rs 2.54 crore). Reasons for not inviting fresh tenders for ensuring cost competitiveness of the handling/carriage charges were not intimated to Audit.

Penalty of Rs 15.84 lakh paid for over-loading of wagons by contractor not recovered from him

As per instructions issued (April 1984) by the Railways, loading of the wagons over and above their permissible limits was subject to penalty at varying rates. Test-check of the records of the Company revealed that the Company had paid Rs 15.84 lakh as penalty for overloading of wagons during 1994-95 to 1999-2000. Reasons for not recovering the amount from the contractor were not intimated (June 2000).

7.11.15 Conclusion

The Company sustained losses despite locational advantage and assured market in Government Departments/Organisations. The losses were incurred due to underutilisation of its installed capacity and excess consumption of material. In addition, the pricing policy of the Company was not determined by cost of production but by other factors.

The above points were reported to Government/Company in July 2000; reply had not been received (December 2000).

[#] September 1985, March 1988 and September 1993

7.11.16 Recommendations

There is a need to make optimal use of available capacity, exploring ways and means to reduce the cost of production and fixing of norms for various inputs used in the cement production.

7.12 Operational Performance of Jammu and Kashmir State Road Transport Corporation

Highlights

The Jammu and Kashmir State Road Transport Corporation was established in 1976 under Section 3 of Road Transport Corporations Act, 1950 for providing an adequate, efficient, economical and co-ordinated system of road transport services in the State.

- **The Corporation had been sustaining losses since inception and the accumulated losses of the Corporation which stood at Rs 310 crore at the end of March 1999 had completely wiped out capital contribution of Rs 97.01 crore.**

(Paragraph: 7.12.5.1)

- **While the revenue of the Corporation increased by 45 *per cent* from Rs 23.82 crore in 1995-96 to Rs 34.55 crore in 1998-99, its expenditure increased by 41 *per cent* from Rs 55.12 crore to Rs 77.59 crore during this period. The total revenue earned was not sufficient even to meet the expenses on salary and allowances in any of the year from 1995-96 to 1998-99.**

(Paragraph: 7.12.5.2)

- **The vehicle productivity of Corporation ranged between 100.19 and 130.28 Kms/day during 1995-96 to 1999-2000 and was lower than the productivity in adjoining States viz. Haryana, Himachal, Punjab, etc.**

(Paragraph: 7.12.6(a)(i))

- **Percentage utilisation of the fleet of the Corporation varied between 53.04 and 58.02 during 1995-96 and 1999-2000 against norm of 85 *per cent* fixed by the Corporation. Low utilisation of its fleet resulted in loss of Rs 74.71 crore to the Corporation.**

(Paragraph: 7.12.6(a)(ii))

- **Out of 1235 vehicles held by the Corporation as on 31 March 2000, 589 vehicles had outlived their life (over 10 years old). The percentage of buses in-service for four years and less was only 35 *per cent* against the norm of 60 *per cent.***

(Paragraph: 7.12.6(b))

- **Belated delivery of chassis after fabrication by the body-builders, delay in allotment of fabricated buses to depots for operation and detention of vehicles in workshops for repairs, etc. led to loss of 1.16 lakh vehicle days with consequential loss of potential revenue of Rs 13.88 crore.**

(Paragraph: 7.12.6(c) and (d))

- **Due to high operational expenses, the Corporation suffered loss of Rs 13.83 to Rs 16.86 for every kilometre run by its fleet during the period 1995-99 and the aggregated loss amounted to Rs 156.50 crore during this period.**

(Paragraph: 7.12.7)

- **Inability of the Corporation to generate business from private parties/agencies resulted in running of 31 lakh kilometres without load leading to loss of Rs 62.96 lakh on consumption of 6.42 lakh litres of HSD during 1995-96 to 1999-2000.**

(Paragraph: 7.12.8)

7.12.1 Introduction

The Jammu and Kashmir State Road Transport Corporation was established (September 1976) under Section 3 of the Road Transport Corporations Act, 1950, for providing an adequate, efficient, economical and co-ordinated system of road transport services in the State. To achieve these objectives, the Corporation operates passenger and goods transport services and also provides transport facilities to the tourists visiting the State.

7.12.2 Organisational set up

Against 20 meetings, only 10 meetings of the Board of Directors held

The Management of the Corporation is vested in a Board of Directors consisting of 12 Directors as of September 2000 including a Chairman and a Managing Director. The day to day functions of the Corporation are carried out by the Managing Director who is assisted by Financial Advisor and Chief Accounts Officer. While passenger operations are looked after by two General Managers (one each at Jammu and Srinagar), the operation of goods transport services is looked after by a General Manager stationed at Srinagar. Against 20 meetings of the Board of Directors to be held during 1995-96 to 1999-2000, only 10 meetings were held.

7.12.3 Scope of Audit

The review on performance of the Corporation regarding material management and inventory control was included in paragraph 7.12 of the Report of the Comptroller and Auditor General of India for the year ended 31

March 1999-Government of Jammu and Kashmir. The present review, based on audit conducted between January and May 2000, covers the operational performance of the Corporation for five years up to 1999-2000. Important points noticed as a result of test-check are discussed in the succeeding paragraphs.

7.12.4 Capital structure and borrowings

The paid-up capital of the Corporation which was to be contributed by the State and Central Governments in the ratio of 67: 33 was Rs 102.01[⇒] crore as on 31 March 2000. The contribution of the Central Government was short by Rs 19.73 crore during 1981-82 to 1996-97 which was due to its decision not to contribute further in the share capital of the loss-making corporations. The Corporation had also raised loans to meet its capital and revenue expenditure from the State/Central Governments, IDBI[*] and Jammu and Kashmir Bank. The total debt obligation of the Corporation as on 31 March 1999 including interest was Rs 251.41 crore[*] (Principal: Rs 149.23 crore; interest: Rs 102.18 crore).

7.12.5 Financial Position and working results

7.12.5.1 Financial Position

The Corporation had finalised its accounts up to 1997-98 only. The summarised financial position of the Corporation for the four years ending 31 March 1999, on the basis of finalised and provisional accounts was as under:

(Rupees in crore)

S.No		1995-96	1996-97	1997-98	1998-99
	Liabilities				
1.	Paid-up Capital	79.76	85.76	91.76	97.01
2.	Borrowings	92.52	107.51	133.13	149.23
3.	Trade dues and other liabilities	61.62	76.58	91.36	110.49
	Total	**233.90**	**269.85**	**316.25**	**356.73**
	Assets				
1.	Gross block	33.03	33.99	39.30	36.79
2.	Less depreciation	2.44	4.89	4.94	5.07
3.	Net fixed assets	30.59	29.10	34.36	31.72
4.	Current assets, loans and advances	9.98	12.01	14.93	15.01
5.	Accumulated losses	193.33	228.74	266.96	310.00
	Total	**233.90**	**269.85**	**316.25**	**356.73**
	Capital employed[ϕ]	**(-) 21.05**	**(-) 35.47**	**(-) 42.07**	**(-) 63.76**
	Net worth[&]	**(-) 113.57**	**(-) 142.98**	**(-) 175.20**	**(-) 212.99**

⇒ State Government: Rs 87 crore; Central Government: Rs 15.01 crore

* Industrial Development Bank of India

* State Government: Rs 237.92 crore; Central Government: Rs 10 lakh; Jammu and Kashmir Bank: Rs 7.91 crore; IDBI:Rs 5.28 crore; others: Rs 20 lakh

ϕ Capital employed represents net fixed assets plus working capital

& Net worth represents paid-up capital less accumulated losses

The Corporation sustained losses continuously since inception and accumulated loss of Rs 310 crore completely eroded its paid-up capital

The Corporation has been sustaining losses continuously since inception and accumulated loss at the end of March 1999 amounting to Rs 310 crore, had completely eroded the paid-up capital of Rs 97.01 crore on that date. The Corporation had a negative net worth of Rs 212.99 crore as on March 1999.

7.12.5.2 Working results

The working results of the Corporation for the period 1995-96 to 1998-99 were as tabulated below:

S.No.		1995-96	1996-97	1997-98	1998-99
		(Rupees in crore)			
(A) Revenue					
1.	Passenger services	13.02	15.24	17.75	20.10
2.	Load services	8.35	8.91	11.16	11.80
3.	Other receipts[@]	2.45	1.72	1.72	2.65
	Total	**23.82**	**25.87**	**30.63**	**34.55**
(B) Expenditure					
1.	Salaries and allowances	27.67	29.95	32.64	38.44
2.	Oil, lubricant material and supplies[*]	9.28	10.87	12.76	12.82
3.	Depreciation	2.44	4.89	4.94	5.07
4.	Other expenses[ψ]	3.54	2.69	3.32	3.57
5.	Interest	12.19	12.88	15.19	17.69
	Total	**55.12**	**61.28**	**68.85**	**77.59**
	Loss	**31.30**	**35.41**	**38.22**	**43.04**

Increase in earnings of the Corporation during 1995-99 offset by increase in expenditure on salaries, fuel and lubricants and payment of interest

Revenue earned by the Corporation not sufficient even to meet salary and allowances of the staff

The losses of the Corporation have been increasing year after year. Though the revenue of the Corporation increased by Rs 10.73 crore in 1998-99 over 1995-96, due to increase in the passenger fare and effective kilometre coverage (from 243.56 lakh in 1995-96 to 271.39 lakh in 1998-99), the same was offset by increase in expenditure on salaries (Rs 10.77 crore), interest payments (Rs 5.50 crore) and fuel and lubricants (Rs 3.54 crore) during the corresponding period. The total revenue earned was not sufficient even to meet the expenses on salary and allowances of the staff in any of the year from 1995-96 to 1998-99. The continuous losses suffered by the Corporation were attributed (December 1999) by the Management to law and order problem in the State, mounting establishment costs, one-way traffic on National Highway, operation of vehicles on uneconomical routes on social consideration and clandestine operations of private transport operators on nationalised routes. Test-check, however, revealed that the Corporation had suffered losses mainly due to low vehicle utilisation, operation of old vehicles, delay in servicing, maintenance/ renovation and fabrication works, etc. and running of empty vehicles, as discussed in the succeeding paragraphs.

@ Includes receipts on account of commission on hired transport, auction proceeds, mail services, etc.

* Includes expenditure on repairs from open market

ψ Including expenditure relating to previous year

7.12.6 Operational performance

(a) Performance

The operational performance of the Corporation during five years ending 1999-2000 was as under:

Particulars	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**
Average number of vehicles held	1220	1308	1184	1280	1233
Average number of vehicles on road per day	666	714	687	730	654
Fleet utilisation (*per cent*)	54.59	54.59	58.02	57.03	53.04
Kms covered (in lakh)					
(i) Gross	249.04	269.58	272.60	274.11	313.95
(ii) Net	243.56	263.58	267.37	271.39	310.99
(iii) Dead	5.48	6.00	5.23	2.72	2.96
Percentage of dead Kms to Gross kms	2.20	2.23	1.92	0.99	0.94
Total Operating Revenue (Rs in crore)	21.37	24.15	28.91	31.90	38.54
Vehicle Productivity (kms/veh/day)	100.19	101.14	106.63	101.85	130.28
Revenue earned per vehicle per day (in rupees)	879.10	926.68	1152.92	1197.23	1614.52
Average effective km. covered per bus per year (in lakh)	0.37	0.37	0.39	0.37	0.48
Average operating expenses/km (in rupees)	23	23	26	29	NA*
Average operating revenue/km (in rupees)	9	9	11	12	12
Loss/km (-) (in rupees)	14	14	15	17	NA
Occupancy ratio percentage (load factor)	80	90	97	98	NA

An analysis of the above table has revealed the following points:

Compared to transport corporations of adjoining states, vehicle productivity and the revenue earning per vehicle/ day lowest

(i) The Corporation had fixed (February 1983) average norm of 137 kms/day run for each vehicle, against which the vehicle productivity of the Corporation ranged between 100.19 and 130.28 kms/day during the period from 1995-96 to 1999-2000. Further, comparison of vehicle productivity and revenue earned per vehicle/day of the Corporation with the transport corporations of the adjoining States for 1999-2000 revealed that the Corporation had the lowest vehicle productivity and revenue earning per vehicle/day which indicated poor fleet utilisation. The details of vehicle productivity and revenue earned/vehicle/day of the Corporation as also of Road Transport Corporations operating in adjoining States was as under:

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* Not available due to non-finalisation of 1999-2000 accounts

Particulars	J&K SRTC[1]	Haryana SRTC	Punjab Roadways	PEPSU	Himachal SRTC
Vehicle productivity (kms/vehicle/day)	130	293	225	253	228
Revenue earned/ vehicle/day (in rupees)	1615	2558	2500	3504	2804

The Corporation had not maintained any data regarding number of seats available/km offered, in absence of which the occupancy ratio[$] could not be assessed/analysed in audit.

Percentage of 'fleet on road' varied between 53 and 58 and was much lower than the all India average of 90

(ii) The Corporation had fixed norm of keeping 85 *per cent* of its total fleet strength on road against all India average of 90 *per cent*. However, actual percentage of 'fleet on road' varied between 53.04 and 58.02 during 1995-96 to 1999-2000 which was the lowest compared to performance of transport corporations of the neighbouring States[*] during 1999-2000. The Management attributed low utilisation of its vehicles to workshop detention and holidays observed by Government departments whose load contracts were undertaken by the Corporation. The reply is, however, not tenable as these factors are taken care of while fixing norms. Measures taken by the Corporation for reducing the detention period of its vehicular fleet were not intimated. Shortfall in utilisation of its fleet below the norm resulted in loss of Rs 74.71 crore during the period 1995-96 to 1999-2000 as detailed below:

Particulars	1995-96	1996-97	1997-98	1998-99	1999-2000
Detention of average number of vehicles/day	371	398	319	358	344
Average revenue earned per vehicle/day (in rupees)	879	927	1153	1197	1615
Loss of revenue (in crore rupees)	11.90	13.47	13.42	15.64	20.28

Test-check of the records further revealed that following factors also contributed to the detention of vehicles in excess of the norm fixed by the Corporation.

(b) Vehicular strength and age profile

The Corporation had a total fleet strength of 1235 vehicles (buses: 644; load carriers: 591) and 5559 employees as on 31 March 2000 indicating vehicle to staff ratio of 1:4.5. According to norms fixed by the Corporation, the vehicles are due for condemnation after 10 years or 5 lakh kilometre run, whichever is earlier. ASRTU[ℑ] had also recommended (July 1971) that 60 *per cent* of total fleet of a transport corporation should be less than four years old and normal life of a vehicle should be considered eight years or five lakh kilometres run,

1 State Road Transport Corporation

$ Occupancy ratio is the percentage of passenger revenue per km to estimated passenger revenue per km for full seat capacity

* Himachal Pradesh: 97; Punjab:78; Haryana: 96

ℑ Association of State Road Transport Undertakings

Out of 1235 vehicles, 589 were over 10 years old

whichever was earlier. Audit scrutiny, however, revealed that out of 1235 vehicles held by the Corporation as on 31 March 2000, 589 vehicles were over 10 years old. Besides, the percentage of vehicles in-service for four years and less as on 31 March 2000 was only 35 *per cent* against 60 *per cent* recommended by ASRTU. Records indicating number of vehicles that had run more than five lakh kilometres had not been maintained by the Corporation. Running of vehicles that had outlived their life was bound to impede the operational efficiency of the Corporation besides, entailing avoidable expenditure on repairs/maintenance and higher consumption of fuel.

(c) Fabrication activities

Delay in fabrication of bodies resulted in loss of potential revenue of Rs 13.66 crore

The Corporation purchased 240 chassis during 1996-97 (160 chassis) and 1999-2000 (80 chassis). The chassis were allotted between June 1996 and August 1999 to various private body builders for fabrication of bus bodies. Though the fabrication work was to be completed within 45 to 60 days of the delivery of the chassis to the body builders, the chassis were received by the Corporation from the fabricators after delays ranging from 30 to 1134 days resulting in loss of 114140 vehicle days[Ψ] with consequential loss of potential revenue of Rs 13.66 crore. While reasons for belated delivery of 80 chassis (1999-2000 batch) by the fabricators was attributed (April 2000) by the Corporation to late release of plan funds by the State Government, reasons for delay in respect of 160 chassis purchased during 1996-97 and penalty, if any, imposed on the defaulting fabricators were not intimated.

Potential revenue loss of Rs 11.61 lakh due to delay in allotment of vehicles

Test-check further revealed that out of 80 buses received from the fabricators, 40 buses were allotted to tourist/passenger service depots for operation during 1999-2000 after delays ranging between 7 and 33 days resulting in further loss of 719 vehicle days with consequential potential revenue loss of Rs 11.61 lakh. Reasons for belated delivery of the vehicles to the depots were not furnished nor was any responsibility for the same fixed (September 2000).

(d) Repair of vehicles

Expenditure of Rs 45.53 lakh incurred during 1995-99 on repairs of vehicles from outside agencies

The Corporation has eight workshops located at Srinagar/ Jammu for maintenance and repairs of vehicles. It was seen that the workshops were not equipped adequately to facilitate economical and timely out-shedding of vehicles after conducting repairs. Test-check of Central workshop Jammu revealed that four out of five sections in the workshop were non-functional either due to non-availability of technicians or installation of defective machines. This resulted in increase in the detention period of vehicles in the workshops and also incurring of expenditure of Rs 45.53 lakh during 1995-99 on their repairs from outside agencies. The Corporation had not formulated any schedule for periodical maintenance and repairs including overhauling of vehicles.

Ψ 1996-97: 2656 days; 1997-98: 29988 days; 1998-99: 76801 days; 1999-2000: 4695 days

Detention of vehicles at manufacturers' workshops led to loss of revenue of Rs 10.02 lakh

The newly acquired vehicles had been sent to manufacturers' workshops for servicing and rectification of minor defects during the first year of warranty. The Management had not, however, fixed any time schedule for re-delivery of the vehicles to the Corporation by the manufacturers after rectification of the defects. This resulted in detention of vehicles at manufacturers' workshops for periods varying between 3 and 56 days during 1995-96 and 1996-97 with an aggregate loss of 1109[≠] days and consequential loss of revenue of Rs 10.02 lakh.

Test-check of records also revealed that against 525 vehicles auctioned by the Corporation during 1995-96 to 1999-2000, only 380 vehicles were replaced during this period indicating shortfall in redemption of fleet.

(e) Idle investment

Locking up of Rs 15.10 lakh with resultant interest loss of Rs 16.67 lakh

A review of the records revealed that machinery purchased by the Corporation during 1987-88 to 1997-98 at a cost of Rs 15.10 lakh for use at its various workshops had not been put to any use as of March 2000. The equipment lying idle included seven wireless sets (cost: Rs 2.28 lakh), a washing machine (cost: Rs 6.37 lakh) and a Hydraulic Dynamometer (cost: Rs 6.45 lakh). This resulted not only in locking up of capital of Rs 15.10 lakh but also in loss of interest of Rs 16.67 lakh as of March 2000.

7.12.7 Operational losses

Details of operational revenue/expenditure of the Corporation for the period from 1995-96 to 1998-99 were as under:

Year	Total effective kms (in lakh)	Operating revenue	Operating cost	Loss	Total loss (Rupees in crore)
		(Per kilometre/vehicle) (in rupees)			
1995-96	244	8.76	22.59	13.83	33.75
1996-97	264	9.15	23.21	14.06	37.12
1997-98	267	10.83	25.79	14.96	39.94
1998-99	271	11.77	28.63	16.86	45.69

Operating expenses per kilometre exceeded operating revenue leading to aggregate loss of Rs 157 crore during 1995-99

Against operating revenue of Rs 8.76 to Rs 11.77 per kilometre run, the operating expenses per kilometre were between Rs 22.59 and Rs 28.63 during 1995-96 to 1998-99. Thus, for every kilometre run by its vehicular fleet, the Corporation suffered loss of Rs 13.83 to Rs 16.86 during 1995-96 to 1998-99. The aggregate loss incurred by the Corporation during the period on this account aggregated Rs 156.50 crore. The Corporation had the highest operating cost during 1998-99 compared to transport corporations of the adjoining States as indicated below:

≠ 1995-96: 536; 1996-97: 573

	Jammu and Kashmir	Himachal Pradesh	PEPSU	Haryana	Punjab
	(In rupees)				
Operating cost/km	29	16	16	11	17
Operating earning/km	12	12	14	8	12

Operating cost highest as compared to transport corporations of adjoining states

As would be seen from above, the gap between operating expenses and operating revenue of the Corporation was the highest at Rs 17 per kilometre. An effective cost control system and reduction in expenditure could have narrowed this gap to reduce the losses.

7.12.8 Uneconomical running of vehicles

Running of vehicles without load/ passengers led to loss of Rs 1.70 crore during 1995-2000

The Corporation was exclusively dependent on Government departments for the operation of its goods transport services and had made no serious effort to attract business from private parties/agencies. This resulted in running of its load carriers without any load as the carriers were unable to generate return-loads leading to their uneconomical operation. Test-check of records of Load Wing, Srinagar revealed that the load carriers were forced to run 31 lakh kms without load during 1995-96 to 1999-2000, which involved loss of Rs 62.96 lakh on account of 6.42 lakh litres of HSD consumption alone. Reasons for failure of the Corporation to improve the economic viability of its goods transport services by undertaking a study to overcome this situation were awaited (June 2000).

Similarly, buses of the passenger fleet were also forced to run without passengers for 40 lakh kilometres during 1995-96 to 1999-2000 resulting in loss on account of consumption of HSD worth Rs 1.07 crore. This indicated inadequate management of fleet leading to loss of revenue.

7.12.9 Sundry debtors

Sundry debtors increased to Rs 9.17 crore leading to locking up of funds with consequential loss of interest of Rs 1.65 crore

A review of the records revealed that outstandings on account of freight charges from indenting departments/other agencies had increased from Rs 3.96 crore at the end of 1995-96 to Rs 9.17 crore at the end of 1998-99 for which age-wise analysis had not been made. Confirmation of balances outstanding against debtors had also not been obtained. This resulted in locking up of Rs 9.17 crore as of March 1999 with consequential loss of interest of Rs 1.65 crore, worked out at 18 *per cent* (simple interest) at which the Corporation is borrowing funds.

7.12.10 Infrastructural Development Fund (IDF)

The Corporation without obtaining approval of the Board of Directors/Administrative Department, established (November 1998) Infrastructural Development Fund for creation of facilities at various places on the National Highways from Lakhanpur to Srinagar and from Srinagar to Leh for benefit of passengers travelling in the Corporation buses. The fund financed by charging additional amount of Rs 5 per seat from passengers was to be kept in a separate account and was not to be operated without approval of the Managing Director. Test-check revealed that out of a total accumulation of Rs 19.57 lakh to the fund, an amount of Rs 16.20 lakh was withdrawn from it during 1999-2000 for purchase of HSD. Against Rs 16.20 lakh, Rs 10 lakh were subsequently recouped leaving a balance of Rs 13.37 lakh in the fund ending March 2000 which were not utilised for creating the envisaged facilities. Reasons for creating the fund without approval of the Government/BOD and utilisation of Rs 6.20 lakh for the purpose other than the one envisaged in the scheme, though called for, were awaited (June 2000).

7.12.11 Conclusion

The Corporation had largely failed to provide an adequate, economical and co-ordinated system of road transport services in the State due to lower vehicle productivity and had also failed to contain average operating expenses which exceeded the average operating revenue by over hundred *per cent*. Operation of old vehicles and inability of the Corporation to generate business from private entrepreneurs for its load services were some of the factors which also contributed to its lower generation of revenue.

The above points were reported to Government/Corporation in July 2000; reply had not been received (December 2000).

7.12.12 Recommendations

There is a need for evolving an integrated approach for ensuring optimum vehicle productivity and utilisation of the fleet, improvement in operational efficiency through effective utilisation of manpower, workshop and other related facilities.

Section-B-Audit Paragraphs

Food and Supplies Department

7.13 Excess payment due to wrong fixation of pay

Irregular fixation of pay resulted in excess payment of pay (excluding allowances) aggregating Rs 80.45 lakh

Jammu and Kashmir Civil Services (Higher Standard Pay Scale Scheme) Rules, 1996 effective from 1 January 1995, were introduced by the State Government for extending benefit to such of those non-gazetted State Government employees who were stagnating in a pay of a post for nine years or more. The rules provided for *in situ*[Ψ] promotion to higher standard pay scales I, II and III, corresponding to existing pay scales to those employees who had not been promoted in their service career for nine years and more but less than 18 years, 18 years or more but less than 27 years and 27 years or more. In pursuance of these rules, IInd higher standard pay scale was sanctioned (August 1997) by Director, Food and Supplies, Kashmir in favour of eight storekeepers, having service of more than 18 years but less than 27 years.

Test-check of records of the Directorate during December 1998 and other supplementary information obtained thereafter revealed that Director Food and Supplies Department, Kashmir sanctioned (October 1997/January/March 1998) IInd higher standard pay scale in favour of 160 storekeepers from 1 January 1995 who did not possess the requisite length of service of more than 18 years. The higher pay scale was sanctioned on the ground that these storekeepers being matriculates were senior to the eight storekeepers promoted in August 1997, necessitating protection of their pay vis-à-vis their juniors. Audit scrutiny revealed that these 160 storekeepers, brought at par with 8 storekeepers having service of 21 years, included 102 employees who had service of less than nine years of whom 10 and 64 employees had less than one year and five years of service respectively. The remaining 58 employees had rendered service of more than nine but less than 18 years on 1 January 1995. The *in situ* promotion to IInd higher standard pay scale to these employees was, therefore, irregular as they did not possess the minimum required service of more than 18 years.

In reply to an audit query, Director Food and Supplies Srinagar stated (February/May 2000) that pay scales of 160 senior storekeepers were brought at par with their juniors in terms of note under rule 5-A *ibid* which provided for allowing the senior the pay scale equivalent to that of his junior. The reply was not, however, tenable as the intention of the scheme is to extend benefit to

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[Ψ] Elevation from existing pay scale without change in designation, responsibility or inter-se seniority employees who are stagnating in a post and could not be extended to those who did not fulfill the basic criteria. The determination of seniority of storekeeper on the basis of qualification also appeared, *prima-facie,* incorrect as the inter-se seniority in a cadre is, as a rule, determined on the basis of continuous service rendered. Irregular sanction of higher standard pay scale and consequent wrong fixation of pay resulted in excess payment of salary aggregating Rs 80.45 lakh (excluding allowances) to these 160 employees during the period 1 January 1995 to September 1999.

On being pointed out (November/December 1999) by Audit, the Commissioner-cum-Secretary to Government Food and Supplies Department and Principal Secretary to Government Finance Department called for (January/June 2000) a detailed report from the Director Food and Supplies and also asked him to start recovery of the irregular payment from the concerned employees. Further report on the recovery was awaited (December 2000).

The matter was reported to the Department/Government in July 2000; their reply had not been received (December 2000).

Industries and Commerce Department

(Jammu and Kashmir Minerals Limited)

7.14 Infructuous expenditure

Failure by Jammu and Kashmir Minerals Limited to depute a qualified technical person for inspecting the 'mining-type cables' and accepting sub-standard material resulted in an infructuous expenditure of Rs 4.87 lakh

With a view to providing 'mining-type cables' for pump sets used for dewatering at Metka mine of Kalakote mines, an order for supply of 1000 metre each of 10 and 25 square mm copper conductor PVC cables was placed (February 1995) with a private firm after inviting tenders. The supply order envisaged inspection of material by the Company before its despatch by the firm. The material was got inspected by the Company at the firm's work site in April 1995 deputing an electrical supervisor who was not holding valid under-ground mine work qualification. The material was supplied by the firm in May 1995 claiming it as approved by Director General of Mines Safety (DGMS) guaranteeing its satisfactory performance for a period of 12 months. This was extended to 18 months in October 1995. A payment of Rs 4.87 lakh was released to the firm in May 1995. Out of 2000 metres cable received by the Company, 1650 metres were installed at the mine in June/August 1995. It was observed (February 2000) in audit that the 25 mm square cable, when put to use on 7 August 1995, burst without any load on 10 August 1995. An enquiry by another electrical supervisor (August 1995) of the Company revealed that the cable supplied had very weak insulation and did not bear the stamp of DGMS as required under Indian Electricity Rules, 1996. The 10 square mm cable installed on 28 June 1995 also burst without any load on 1 December 1995. After taking up the matter with the firm, notices were issued to the supplier in June 1996 and October 1996 asking for replacing the cables or refunding the amount paid to it. The supplier, however, refused to replace the whole supply contending that the material was inspected/tested by the Company's representative. The standing counsel of the Company also held that its case was not sound as the material was inspected and accepted by its representative. The whole quantity of the material was lying unutilised with the Company as of March 2000. No departmental enquiry for accepting the sub-standard material and deputing unqualified official for inspection/ acceptance of the material had been held so far (March 2000).

Thus, failure of the company to depute a qualified technical official for inspection and acceptance of sub-standard material, resulted in an infructuous expenditure of Rs 4.87 lakh.

The matter was reported to the Company/Government in July 2000; reply had not been received (December 2000).

Public Works Department
(Jammu and Kashmir Projects Construction Corporation Limited)

7.15 Extra expenditure on construction of a bridge

Avoidable extra expenditure of Rs 12.34 lakh due to deficiencies in the designs and other shortcomings on construction of bridge over Lohai Nallah

Construction of a 51 metre span, steel girder bridge over Lohai *Nallah* at km 18th of the Mahanpur-Basohli road was taken up by the Company on behalf of the Public Works Department, on turnkey basis during 1991, at an estimated cost of Rs 84.67 lakh. For this Rs 83.36 lakh were provided to the Company by Public Works Department. Based on the design prepared (August 1991) by M/S Design Consultants, Jammu and approved by the Design Directorate, the bridge completed at a cost of Rs 81.43 lakh was opened for traffic in July 1995. It was, however, closed to traffic in November 1995 as the gusset[*] plate on up-stream side of the bridge had given way, causing sagging of the bridge. The defects noticed were removed by the Company during January-June 1996 and the bridge was re-opened for traffic in July 1996 after incurring an expenditure of Rs 12.34 lakh. On this being pointed out in audit (October 1997 and November 1998), the Company attributed (February 1999) sagging

[*] A bracket strengthening an angle of a structure

of the bridge to deficiencies in the designs prepared by the firm. The Company further stated that the said firm had been black listed and debarred from further assignments. Scrutiny of the records of the Company in audit, however, revealed that:

(i) The error in the construction work was at joints L0 and U1 where the end raker had stopped short of the joint centre leaving a substantial length of the gusset plate liable to buckling. Moreover, the gusset plate used in the structure should have been thicker than the 10mm provided.

(ii) The Company procured 24.86 tonnes of steel plates during April and May 1993, without calling for tenders, for gusset and splices from a local and Jallandhar based firms which was not conforming to ISI specifications.

(iii) The fabrication and launching of the steel truss was allotted to a local firm having no experience in bridge construction works, at negotiated rates.

(iv) Despite the statement of the Company that the defaulting firm had been black listed, it was seen that a fresh job was allotted to it by the Company in April 1999.

(v) No enquiry for fixing responsibility had been conducted by the Company.

The matter was reported to the Administrative Department/ Company in June 2000; reply had not been received (December 2000).