

Chapter-VII

Commercial Activities

Section-I

7.1 General view of Government Companies and Statutory Corporations

Introduction

7.1.1 As on 31 March 2001, there were 20 Government companies (19 working and one non-working company*) and four working Statutory corporations as against 19 Government companies (18 working and one non-working companies) and four Statutory corporations as on 31 March 2000 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 who are appointed by the Comptroller and Auditor General of India (CAG) as per provision of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 (4) of the Companies Act, 1956. Audit of State Electricity Board set up under an Act of the State Legislature had been entrusted to CAG during 1999-2000 and settlement of modalities for taking up of its audit was underway. The audit arrangements of the remaining three Statutory corporations are as shown below:

(Table No. 7.1)

S.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 (DPC) Act, 1971	Sole audit by CAG
2.	State Road Transport Corporation	Section 33 (2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
3.	State Financial Corporation	Section 37 (6) of the State Financial Corporation Act, 1951	Chartered Accountants and supplementary Audit by CAG

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

7.1.2 As on 31 March 2001, the total investment in 23 working PSUs (19 Government companies and four Statutory corporations) was Rs 1948.48 crore (equity: Rs 403.40 crore; long-term loans: Rs 1545.08 crore), as against Rs 1442.62 crore (equity: Rs 398.75 crore; long-term loans: Rs 1043.87 crore)

* Non-working company is that which is under the process of liquidation/merger, etc.

as on 31 March 2000 in 22 working PSUs (18 Government companies and four Statutory corporations). The analysis of investment in these working PSUs is given in the following paragraphs:

Working Government companies

7.1.3 Total investment in 19 companies as on 31 March 2001 was Rs 1154.42 crore (equity Rs 225.19 crore; long-term loans: Rs 929.23 crore), as against Rs 744.47 crore (equity: Rs 223.91 crore; long term loans: Rs 520.56 crore) as on 31 March 2000 in 18 companies.

7.1.4 The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in *Appendix-14*.

Sector-wise investment in working Government companies

7.1.5 As on 31 March 2001, the total investment of working Government companies comprised 20 *per cent* of equity capital and 80 *per cent* loans as compared to 30 *per cent* equity capital and 70 *per cent* loans as on 31 March 2000.

7.1.6 The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2001 and 31 March 2000 are indicated below in the pie charts:

Chart 7.1

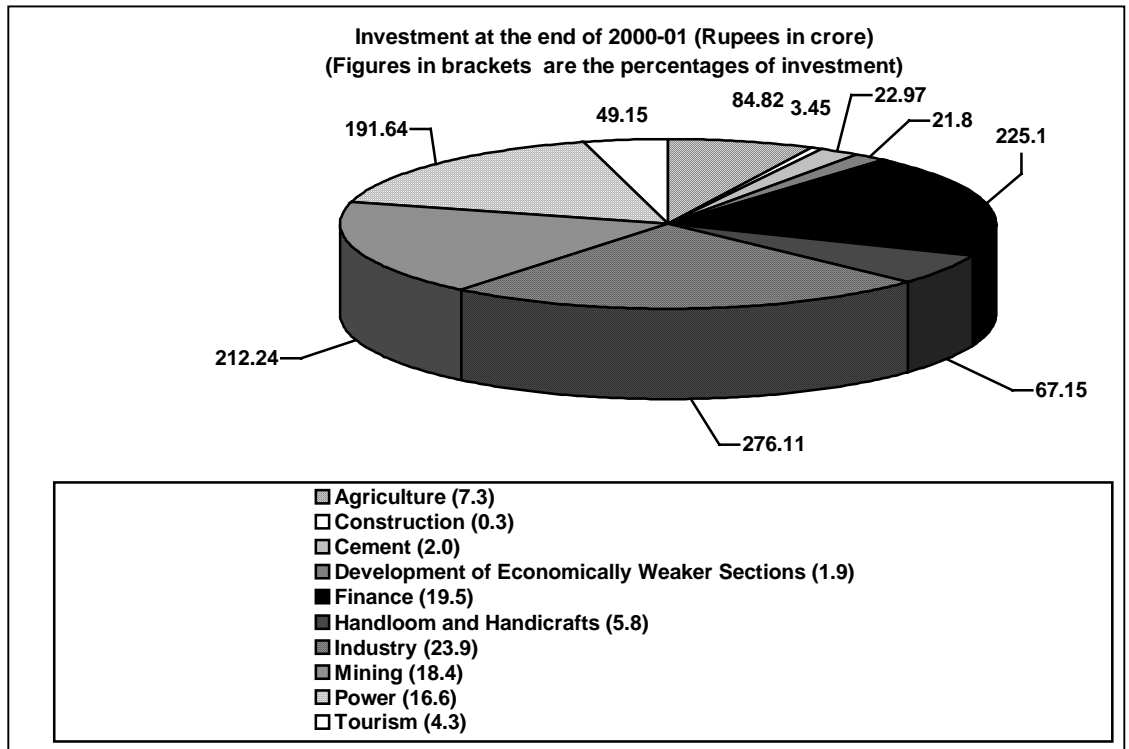
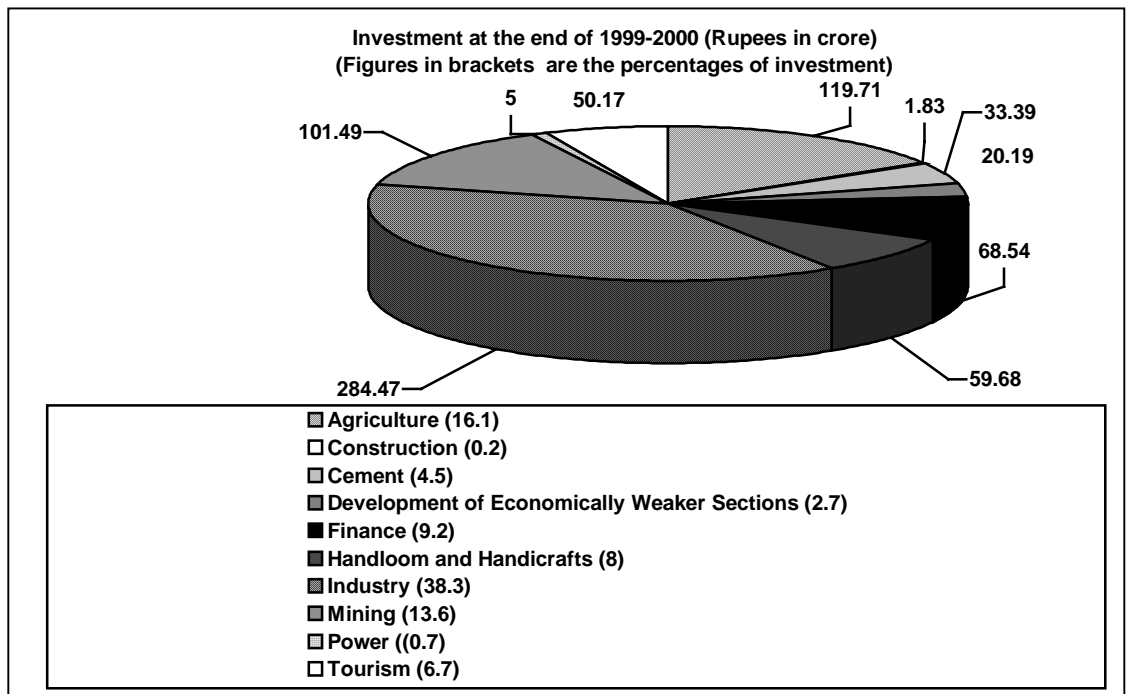


Chart 7.2



7.1.7 The debt equity ratio of these companies increased from 2.32 in 1999-2000 to 4.13 in 2000-01 due to net increase in their long-term borrowings. The increase was mainly in Power (Rs 186.64 crore), Finance (Rs 156.46 crore) and Mining (Rs 110.75 crore) Sectors.

Working Statutory corporations

7.1.8 The total investment in four Statutory corporations at the end of March 2000 and March 2001 was as follows:

(Table No. 7.2)

(Rs in crore)

Name of corporation	1999-2000		2000-01	
	Capital	Loan	Capital	Loan
Jammu and Kashmir State Electricity Board	Nil	249.89	Nil	257.59
Jammu and Kashmir State Road Transport Corporation	102.00	190.88	105.38	209.56
Jammu and Kashmir State Financial Corporation	63.80	58.73	63.80	69.11
Jammu and Kashmir State Forest Corporation	9.03	23.82	9.03	79.59
Total	174.83	523.32	178.21	615.85

7.1.9 As on 31 March 2001, the total investment of Statutory corporations comprised 22 per cent equity capital and 78 per cent loans as compared to 25 per cent equity capital and 75 per cent loans as on 31 March 2000.

7.1.10 Due to increase of Rs 92.53 crore in the long-term loans, debt-equity ratio increased from 2.99 in 1999-2000 to 3.46 in 2000-01. The summarised statement of the Government investment in these Statutory corporations in the form of equity and loans is detailed in *Appendix-14*.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversions of loans into equity

7.1.11 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to working Government companies/Statutory corporations are given in *Appendices-14* and 16.

7.1.12 The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to working Government Companies/Statutory corporations for the three years up to 2000-2001 are given below:

(Table No. 7.3)

(Rupees in crore)

	1998-99				1999-2000				2000-01			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity Capital from budget	8	2.91	1	5.25	6	2.14	1	5.00	5	1.18	1	3.37
Loans given from budget	6	29.03	1	20.04	7	27.75	2	28.50	5	83.74	1	25.60
Grants/subsidies towards projects, programmes/schemes	6	92.85	-	-	5	5.38	2	13.05	7	135.73 ^s	1 [#]	8.50
Subsidy	2	2.05	-	-	2	2.95	-	-	2	4.70	-	-
Total outgo	15	126.84	1	25.29	14	38.22	2	46.55	14	225.35	1	37.47

7.1.13 During the year 2000-01, Government had guaranteed loans aggregating Rs 11.60 crore obtained by two working Government companies (Rs 2.10 crore) and two working Statutory corporations (Rs 9.50 crore). At the end of the year, guarantees amounting to Rs 723.55 crore against nine working Government companies (Rs 638.83 crore) and two working Statutory corporations (Rs 84.72 crore) were outstanding. There were 2 cases of default (Jammu and Kashmir State Industrial Development Corporation Limited and Jammu and Kashmir Scheduled Castes/Scheduled Tribes and Other Backward Classes Corporation Limited) in repayment of guaranteed loans during the year. The Government had forgone Rs 68.20 crore by way of loans written off or interest waived on loans in three companies.

Finalisation of accounts by working PSUs

7.1.14 The accounts of the companies for every financial year are required 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 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the 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-15*, out of 19 companies and 3 Statutory corporations, only one company had finalised its accounts for the

^s Jammu and Kashmir State Agro Industries Development Corporation Limited:Rs 40 lakh, Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited:Rs 1.47 crore, Jammu and Kashmir Industries Limited:Rs 16.50 crore, Jammu and Kashmir Minerals Limited:Rs 5.69 crore, Jammu and Kashmir Projects Construction Corporation Limited:Rs 1.01 crore, Jammu and Kashmir State Womens' Development Corporation Limited:Rs 1.72 crore and Jammu and Kashmir State Power Development Corporation Limited:Rs 108.94 crore

[#] Jammu and Kashmir State Road Transport Corporation Limited

year 2000-01 within stipulated period. During the period from October 2000 to September 2001, 12 Government companies finalised 16 accounts for previous years. Similarly, during this period 2 Statutory corporations finalised 2 accounts for previous years.

7.1.15 The accounts of 18 working Government companies and 3 Statutory corporations were in arrears for periods ranging from one year to 17 years as on 30 September 2001 as detailed below:

(Table No. 7.4)

S.No.	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Number of companies/corporations		Reference to Serial No. of Appendix-15	
			Government Companies	Statutory Corporations	Government Companies	Statutory Corporations
1.	1984-85	17	1	-	4	-
2.	1985-86	16	1	-	11	-
3.	1986-87	15	1	-	1	-
4.	1988-89	13	1	-	10	-
5.	1989-90	12	1	-	16	-
6.	1990-91	11	1	-	8	-
7.	1991-92	10	2	-	13, 17	-
8.	1992-93	9	2	-	2, 9	-
9.	1993-94	8	3	-	5, 7, 14	-
10.	1994-95	7	1	-	3	-
11.	1995-96	6	2	-	15,18	-
12.	1997-98	4	1	-	12	-
13.	1998-99	3	-	1	-	1
14.	1999-2000	2	-	1	-	2, 3
15.	2000-01	1	1	-	6	-
	Total	-	18	3		

7.1.16 The Administrative Departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were apprised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result the investments made by the State Government in these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

7.1.17 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in Appendix-15. Besides, statements showing financial position and working results of individual Statutory corporations for the latest three years for which accounts are finalised are given in Appendices-17 and 18 respectively.

7.1.18 According to the latest finalised accounts of 19 working Government companies and three Statutory corporations, 12 companies* and two# Statutory corporations had incurred aggregate losses of Rs 33.93 crore and Rs 40.93 crore respectively, as per their latest finalised accounts. Only three companies@, as per their latest available accounts, had earned profit of Rs 167.68 crore. Accounts were not received from two companiesψ and one Statutory corporation and two companies** had not commenced their commercial activities.

Working Government Companies

Profit earning companies and dividend

7.1.19 Only one company (Jammu and Kashmir Bank Limited) which finalised its accounts for 2000-01 by September 2001, earned profit of Rs 167.56 crore and declared dividend of Rs 21.38 crore. The dividend, as percentage of the share capital of Rs 48.11 crore of the company worked out to 44 *per cent*. As a percentage of total equity capital of Rs 192.94 crore invested by the State Government in all the Government companies during 2000-01, it worked out to 11 *per cent* as against 8.97 *per cent* in the previous year. One more company (Jammu and Kashmir Tourism Development Corporation) which finalised its accounts for previous year by September 2001 earned profit of Rs 10.98 lakh.

Loss incurring working Government companies

7.1.20 Of the 12 loss-incurring working Government companies, eight had accumulated losses aggregating Rs 118.04 crore which exceeded their aggregate paid-up capital of Rs 43 crore by Rs 75.04 crore as per their latest available accounts.

7.1.21 Despite poor performance and complete erosion of their paid-up capital, the State Government continued to provide financial support to these loss incurring companies in the form of contribution towards loan, equity, etc. According to available information, the total financial support so provided by the State Government during 2000-01 by way of loans and equity to four of these eight companies amounted to Rs 6.49 crore.

* S.No. 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 13 and 15 of *Appendix-15*

Jammu and Kashmir State Road Transport Corporation Limited and Jammu and Kashmir State Financial Corporation Limited

@ S.No. 4, 16 and 19 of *Appendix-15*

ψ S.No. 12 and 18 of *Appendix-15* and Jammu and Kashmir State Forest Corporation

** S.No 14 and 17 of *Appendix-15*

Working Statutory corporations

7.1.22 As per their latest finalised accounts, the two working Statutory corporations had accumulated losses aggregating Rs 441.48 crore which exceeded their paid-up capital of Rs 155.56 crore by Rs 285.92 crore as per their latest available accounts. Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to these corporations in the form of equity, loan, etc. According to available information, the total financial support so provided by the State Government during 2000-01 to one of these corporations amounted to Rs 28.98 crore.

Operational performance of working Statutory corporations

7.1.23 The operational performance of the working Statutory corporations is given in *Appendix-19*.

Return on capital employed

7.1.24 As per the latest finalised accounts (upto September 2001), the capital employed worked out to Rs 7699.39 crore in 19 working companies and total return thereon amounted to Rs 866.89 crore (11.26 *per cent*) as compared to total return of Rs 705.11 crore (12.33 *per cent*) in the previous year (accounts finalised up to September 2000). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2001) worked out to Rs 167.19 crore and minus Rs 11.34 crore, respectively against the total return of minus Rs 19.80 crore in previous year (accounts finalised upto September 2000). The details of capital employed and total return on capital employed in case of working Government companies and Statutory corporations are given in *Appendix-15*.

Non-working PSUs

Investment in non-working PSUs

7.1.25 As on 31 March 2001, the total investment in the non-working Government company (Tawi Scooters Limited) was Rs 80.40 lakh by way of equity. The company was under the process of liquidation/amalgamation with the Jammu and Kashmir State Industrial Development Corporation Limited since 1990. The process had not been completed as of September 2001. The details of budgetary support provided to the company by the State Government during 2000-01 and expenditure on its establishment were awaited (September 2001). Finalisation of its accounts were in arrears since 1990-91. The summarised financial results of the company, as per latest finalised accounts are given in *Appendix-14*.

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

7.1.26 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 by the Government:

(Table No. 7.5)

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)	1994-95	1995-96 1996-97 1997-98	31-3-1998 30-11-1998 16-11-2000	NA
2.	Jammu and Kashmir State Financial Corporation Limited (SFC)	1997-98	1998-99	8-2-2001	As per latest information the Reports are being placed in the State Legislature shortly.

Results of audit by Comptroller and Auditor General of India

7.1.27 During the period from October 2000 to September 2001, nine Government Companies and two Statutory corporations (Jammu and Kashmir State Road Transport Corporation and Jammu and Kashmir State Financial Corporation Limited) were selected for review. The net impact of the important audit observations as a result of the review was as follows:

(Table No. 7.6)

	Details	Number of accounts		(Rupees in lakh)	
		Companies	Corporations	Companies	Corporations
(i)	Increase in loss	-	1	-	300.07
(ii)	Errors in classification	1	1	10.00	270.00

7.1.28 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:

Jammu and Kashmir State Tourism Development Corporation Limited (1987-88)

7.1.29 Rupees 10 lakh received by the company as subsidy was shown in the accounts under “unsecured loans” instead of under ‘reserves and surplus’. This resulted in understatement of ‘reserves and surplus’ and overstatement of “unsecured loans”.

Jammu and Kashmir State Financial Corporation Limited (1998-99)

7.1.30 Short-term loan of Rs 2.70 crore taken by the corporation against FDRs during 1998-99 was shown in the accounts under Current Liabilities and not under Borrowings, resulting in overstatement of Current Liabilities.

Jammu and Kashmir State Road Transport Corporation (1997-98)

7.1.31 The corporation had understated its losses by Rs 3.07 crore due to non-provision of funds in its accounts for audit fee (Rs 70 lakh), interest payable on GPF/CPF (Rs 1.33 crore), compensation/interest (Rs 54 lakh) for awards passed by Motor Accident Claims Tribunal and revenue expenditure of Rs 50 lakh.

Persistent irregularities and system deficiencies in financial matters of PSUs

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

- (a) The corporation had not maintained proper accounts and other records according to the format prescribed (August 1967) by the CAG under Section 33 (ii) of the Road Transport Act, 1950.
- (b) Non-maintenance of control/financial ledgers.
- (c) Inter-unit adjustment accounts were not operated for adjustment of advances, transfer of stores, etc.
- (d) The book debts were not segregated as, good, bad and doubtful.
- (e) Internal audit had not been done.
- (f) There were abnormal delays in recoveries, adjustment of balances under advances, deposits, etc.

Audit assessment of the working results of State Electricity Board

7.1.33 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) 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 2001 was Rs 257.59 crore.

Recommendations for closure of PSUs

7.1.34 Even after completion of 23 to 32 years of their existence, the turnover of five Government working companies has been less than Rs 5 crore in each of the preceding five years of latest finalised accounts. Out of above, three Government working companies and two working Statutory corporations had been incurring losses for five consecutive years (as per latest finalised account) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of the above five working Government companies and two Statutory corporations or consider their closure.

Response to Inspection Reports, draft paragraphs and reviews

7.1.35 Audit observations noticed during audit and not settled on the spot are communicated to the head 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 upto March 2001 pertaining to 22 PSUs disclosed that 2407 paragraphs relating to 750 Inspection Reports remained outstanding at the end of September 2001. Of these, 570 Inspection Reports containing 1886 paragraphs had not been replied for more than 5 years. Department-wise break-up of Inspection Reports and Audit observations outstanding as on 30 September 2001 is given in *Appendix-20*.

7.1.36 Similarly, draft paragraph and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department 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 one draft review forwarded to the various departments during July 2000 to June 2001 (detailed

in *Appendix-21*), reply was received from only Agriculture Production and Rural Development Department so far (September 2001).

7.1.37 It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews as per the prescribed time schedule (b) action to recover loss/outstanding advances/overpayment in a time bound schedule and (c) revamping the system of responding to the audit observations.

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

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

(Table No. 7.7)

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*	1*
1999-2000 ^{\$}	2	3	2	3
Total:	18	23	13	10

* Partly discussed

\$ Audit Report for 1999-2000 was presented in the State Legislature on 26 September 2001.

Section –A-Reviews

7.2 Jammu and Kashmir State Agro-Industries Development Corporation Limited

The Jammu and Kashmir State Agro-Industries Development Corporation Limited was incorporated with the main objective of promoting agro-industrial development in the State and providing agricultural inputs to the farming community at reasonable rates. The Company had largely failed to achieve the envisaged objective as its activities were restricted to sale of agricultural machinery, cattle feed, agro-products, steel items, etc. to the Government departments and functioned as a sales/commission agent in trading of fertilisers. Its manufacturing units also did not achieve their targetted performance.

Highlights

- **The Company had finalised its accounts only up to 1983-84. As per provisional accounts, its accumulated loss was Rs 13.19 crore representing 373 per cent of its paid-up capital at the end of March 2000.**
- **The Company suffered loss of more than Rs 6 crore on the activities of procurement/sale of agricultural machinery, manufacturing, marketing and fabrication of doors, shutters, storage bins, etc. in its workshops.**
- **The Company had not fixed norms of raw material handling losses which ranged between 6 and 14 per cent during 1996-97 to 1999-2000.**
- **Rupees 1.13 crore were outstanding as on December 2000 against various private dealers and Government departments/agencies on account of credit sale of fertilisers, cattle feed, machinery items, etc.**
- **Inadmissible and irregular payments amounting to Rs 11.25 lakh were made by the Company on carriage of fertilisers.**

Introduction

7.2.1 The Jammu and Kashmir State Agro-Industries Development Corporation Limited (Company) was incorporated on 30 January 1970 with the main objective of promoting agro-industrial development of the State and providing agricultural inputs to the farming community at reasonable rates. In furtherance of these objectives, the Company is presently engaged in (i) purchase and sale of fertilisers (ii) procurement and sale of agricultural machinery and implements (iii) production and sale of cattle feed (iv) processing and canning of fruits/vegetables and honey and (vi) fabrication/sale of steel items.

Organisational structure

7.2.2 The Management of the Company is vested in a Board of Directors (BOD), which as on 31 March 2000 consisted of 12 Directors including Chairman and Vice-Chairman. The Managing Director is the Chief Executive of the Company and is assisted by three General Managers, Financial Controller, eight Divisional Managers and a Works Manager. The Board required to hold at least 36 meetings (once in every three months) during 1992-93 to 2000-01, met only on five occasions during this period due to delay in its reconstitution.

Scope of Audit

7.2.3 The review conducted during November 2000 to March 2001 covers the performance of the Company for the last four years ending 1999-2000. Important points noticed in audit are set out in the succeeding paragraphs:

Capital structure and borrowings

7.2.4 The authorised and paid-up capital of the Company as on 31 March 2000 were Rs 5 crore and Rs 3.54 crore respectively. The paid-up capital was held by the State Government (Rs 2.60 crore) and Central Government (Rs 94 lakh). For meeting its working capital requirements, the Company had obtained loans from the State Government. The Company had also cash credit arrangement with Jammu and Kashmir Bank Limited for an aggregate limit of Rs 12 lakh. As on 31 March 2000, the liability of the Company was Rs 11.98 crore (excluding interest) towards State Government (Rs 11.93 crore) and Jammu and Kashmir Bank Limited (Rs 4.84 lakh).

Financial position and working results

Financial position

7.2.5 The Company had finalised its accounts upto 1983-84 and finalisation of accounts beyond 1983-84 was in arrears (August 2001). The financial position and working results of the Company based on its provisional accounts for the four years up to 1999-2000[@], are given in *Appendix-22*.

7.2.6 It would be seen from the *Appendix-22* that the Company had been incurring losses continuously. The accumulated loss (Rs 13.19 crore) upto March 2000 represented 373 *per cent* of its paid-up capital (Rs 3.54 crore). The main reason for the recurring losses was maintenance of 212 surplus employees of the erstwhile Tractor Hiring Scheme (wound up in 1981-82). The Company had taken up the matter from time to time with the Government for retrenchment/adjustment of the surplus staff. However, no action had been taken by the Government so far (September 2001). Other contributory factors

[@] Latest year for which provisional accounts had been drawn

responsible for the losses, as observed in audit, are discussed in the subsequent paragraphs.

Appraisal of activities

7.2.7 The main activities of the Company during four years ending 31 March 2000 were:

Procurement and sale of agricultural machinery

7.2.8 The Company is engaged in purchase and sale of agricultural machinery and implements (pump sets, motors, tractors, tool kits, sprayers, sprinklers, etc.) through its procurement and sales divisions located at Srinagar and Jammu. The Company procures these items from principal manufacturers with whom it has dealership arrangements and sells them to Government departments on commission basis. The position of sale targets/achievements and losses suffered in this activity during the four years ending 1999-2000 was as follows:

(Table No. 7.8)

(Rs in lakh)

Year	Targets	Achievements	Percentage shortfall	Commission earned	Salaries paid	Loss (-)/profit (+)
1996-97	647.25	452.66	30	21.74	31.56	(-) 9.82
1997-98	523.00	438.08	16	36.70	35.89	(+) 0.81
1998-99	583.00	425.98	27	31.11	45.00	(-) 13.89
1999-2000	543.00	383.65	29	20.81	50.24	(-) 29.43
Total	2296.25	1700.37	26	110.36	162.69	(-) 52.33

7.2.9 It would be seen from above, the company incurred losses aggregating Rs 52.33 lakh during 1996-97 to 1999-2000 on this activity. The shortfall in achievement of the sale targets, which ranged between 16 and 30 *per cent* during the above period, was attributed by the Company to lack of demand from Government departments. Other reason for losses was the progressively increasing expenditure on salaries which was not commensurate with the commission earned. The Company had, however, made no efforts to improve the working of the unit by tapping business from open market to generate income and to reduce its recurring losses.

Cattle feed plant Bari-Brahamana

7.2.10 Cattle feed plant Bari-Brahamana, Jammu was set up in 1989-90 with an annual installed capacity of producing 13750 tonnes of cattle feed. However, lower targets of production were fixed at 10000 MTs, 9500 MTs, 7500 MTs and 7000 MTs for each year during 1996-97 to 1999-2000, reasons for which were not intimated. The unit, however, failed to achieve even the lower targets and percentage shortfall ranged between 34 and 56 during this period. Shortfall in production was attributed (January/February 2001) by the

Company to poor demand from the departments of Animal and Sheep Husbandry and to tough competition in the market. The average cost of production/sale price per tonne of cattle feed for the period 1996-97 to 1999-2000 was as follows:

(Table No. 7.9)

		(Rs in lakh)			
S.No.	Particulars	1996-97	1997-98	1998-99	1999-2000
1.	Sales/Revenue	160.04	178.90	150.03	235.05
2.	Accretion (+) /decretion (-) of stocks	(+) 4.97	(-) 1.73	(+) 16.92	(-) 11.57
	Total	165.01	177.17	166.95	223.48
3.	Direct cost	148.80	137.62	125.25	196.92
4.	Administrative expenses	37.18	51.88	50.19	58.37
	Total	185.98	189.50	175.44	255.29
5.	Percentage of administrative expenses to direct cost	25	38	40	19
6.	Average cost of sales	4107	4398	4731	5339
7.	Average sale price	3644	4111	4502	4673
8.	Average loss per tonne	463	287	229	666
9.	Total sales (in tonnes)	4528	4309	3708	4782
10.	Profit (+)/Loss (-)	(-) 20.97	(-)12.33	(-) 8.49	(-) 31.84

7.2.11 The average cost of production/tonne of cattle feed exceeded the average sale price during 1996-97 to 1999-2000. As a result, the unit suffered aggregate loss of Rs 73.63 lakh during this period. The administrative expenses as a percentage of direct cost ranged between 19 and 40 during 1996-97 to 1999-2000. Measures taken to generate demand from private sector and improve production/sales were not intimated.

7.2.12 Norms for raw material handling loss in the plant had not been fixed. The losses charged off in the books on this account ranged between 6 and 14 per cent (amount: Rs 21.45 lakh) during 1996-97 to 1999-2000 against 1 to 2 per cent during 1991-92 to 1995-96.

Canning and Processing unit, Khonmoh

7.2.13 The Company has a Canning and Processing Unit at Khonmoh (Srinagar) with an annual installed capacity of manufacturing/producing 250 tonnes of canned fruit/vegetables and 36 tonnes of honey. The production targets fixed during 1996-97 to 1999-2000 were much lower than the installed capacity (27 to 48 per cent in respect of canning unit and 22 to 56 per cent in respect of honey unit) for which reasons were not on record. The position of production targets fixed/achievements, shortfall and working results of the unit for the period 1996-97 to 1999-2000 were as follows:

(Table No. 7.10)

Year	Target fixed		Actual production		Percentage shortfall in achievement of targets		Income [§]	Expenditure [@]	Loss
	(In tonnes)								
	Canning unit	Honey unit	Canning unit	Honey unit	Canning unit	Honey unit	(Rs in lakh)		
1996-97	67	8	21	4	69	50	14.22	33.95	19.73
1997-98	120	15	36	7	70	53	52.92	59.63	6.71
1998-99	120	15	1	4	99	73	39.45	53.81	14.36
1999-2000	120	20	6	15	95	25	55.10	76.82	21.72

7.2.14 The unit failed to achieve even the reduced targets of production and percentage shortfall ranged between 69 and 99 for canning unit and 25 and 73 for honey unit. Low production together with heavy administrative expenses contributed to losses aggregating Rs 62.52 lakh during 1996-97 to 1999-2000 in the operation of these units. The Company attributed (December 2000) low production to inadequate power supply. However, action taken to improve availability of power for viable running of the unit was not intimated.

Marketing operations

7.2.15 The Company has a marketing division with units at Srinagar, Jammu and Delhi. The division, besides selling its own canned items and cattle feed also sells rice, agro-products including fresh and dry fruits through its sale centres mostly to Government departments. A review of the performance of the division revealed that against the expenditure of Rs 11.63 crore on its operation, the division could manage sales of Rs 9.42 crore only during 1996-97 to 1999-2000 resulting in net deficit of Rs 2.21 crore. The main reasons for poor working of the divisions as analysed in audit were heavy incidence of administrative expenses and lack of demand for the products from Government departments. Necessary remedial measures taken for improving the performance of the division were not intimated.

Performance of workshop

7.2.16 Consequent upon winding up of Tractor Hiring Operations, two workshops (Srinagar/Jammu) set up for maintenance of tractors were geared up for fabrication of various steel items like doors, shutters and storage bins, etc. for sale to Government departments. The sale targets/achievements and working results of the workshops for the four years ended 31 March 2000 was as follows:

[§] Including closing stock
[@] Including opening stock

(Table No. 7.11)

(Rs. in lakh)

Year	Target	Achievement (percentage shortfall)	Gross income	Gross expenditure			Loss
				Purchases	Administrative expenses	Total	
1996-97	30.00	28.39 (5)	27.05	15.60	55.12	70.72	43.67
1997-98	30.00	27.58 (8)	31.20	20.91	57.74	78.65	47.45
1998-99	54.20	25.07 (54)	24.98	14.49	61.37	75.86	50.88
1999-2000	55.60	16.45 (70)	16.01	8.04	65.41	73.45	57.44
Total			99.24	59.04	239.64	298.68	199.44

7.2.17 The workshops suffered aggregate loss of Rs 1.99 crore during 1996-2000. The reason for the losses was high administrative expenditure. There was also shortfall in the achievement of sale targets. The company attributed shortfall to lack of demand from the Government departments. Measures taken to improve the working of the workshops by diversification of its activities, attracting business from private sector and reducing its administrative expenses, were awaited.

Sales on credit

7.2.18 According to the policy of the Company, sale of fertilisers, cattle feed, machinery items, fabricated material, etc. was to be made strictly against cash payment. Contrary to this, the Company sold its products on credit to various private dealers/Government departments. As a result, Rs 65.83 crore were outstanding against 109 Government departments/agencies and Rs 47.26 lakh against 118 private parties since 1995-96.

7.2.19 Analysis of the year-wise break-up of the outstandings revealed that Rs 2.07 lakh were outstanding for more than 5 years, Rs 19.47 lakh for more than 4 years, Rs 24.06 lakh for more than 3 years, Rs 56.90 lakh for more than 2 years and Rs 10.59 lakh for more than one year. The Company had not taken effective measures to recover these outstandings. It was also seen that the Company had neither carried out reconciliation with the debtors nor had obtained confirmation of the outstandings, in absence of which their correctness could not be vouchsafed.

Non-viable operation of transport fleet

7.2.20 Working results of the truck fleet (comprising 4 vehicles) revealed that against the total income of Rs 29.94 lakh, the expenditure on its operation including establishment was Rs 65.45 lakh during 1996-97 to 1999-2000, resulting in net deficit of Rs 35.51 lakh. Remedial measures taken to improve the performance of the fleet were not intimated (August 2001). The Company

had also not initiated action to auction two condemned vehicles lying off road since 1996.

Material management

7.2.21 Physical verification of stocks of raw material of the Cattle Feed Plant, Bari-Brahamana, Jammu conducted in April 1997 and May 2000 revealed shortages and excesses valued at Rs 8.02 lakh and Rs 6.18 lakh respectively, which had not been investigated.

7.2.22 Spare parts of tractors of erstwhile Tractor Hiring Operations (cost: Rs 5.48 lakh) were lying unutilised in the workshops of the Company since the activity was wound up in 1981-82. No action had been taken to dispose of these items (August 2001).

Irregular/inadmissible payment and transit loss

7.2.23 Subsequent to the carriage of fertilisers to various stations in the valley during February 2000 to August 2000, the Company finalised carriage rates in June 2000, which were inclusive of loading/unloading charges. The Company, however, paid unloading charges amounting to Rs 5.19 lakh, irregularly during the above period. Further, according to the agreed terms and conditions, carriage of fertilisers beyond specified stations was to be regulated as per the rate fixed by the SRTC[#]. The SRTC had fixed the rate of Rs 6.50 per km (inclusive of cost of POL) and Rs 25 as trip money for one side journey. It was seen in audit that for 3791 trips involving 22828 kms beyond the specified stations, the Company paid Rs 8.49 lakh (at Rs 37.50 per km) as transportation charges during February 2000 to August 2000 against admissible payment of Rs 2.43^ψ lakh, resulting in excess payment of Rs 6.06 lakh.

7.2.24 It was also seen that the Company had not entered into any agreement with transporters to safeguard its interest in the event of transit loss, thefts, etc. The Company despatched (June 1997) a truckload of fertiliser (value: Rs 0.77 lakh) from Jammu to Baramulla through a private transporter. The material was not delivered to the consignee and was misappropriated by the truck driver who even managed to receive freight charges of Rs 8105 from the Company by producing fake documents. Action to recover the cost of the misappropriated fertiliser from the transporter had not been taken. Also, no FIR was lodged by the Company with the Police.

7.2.25 The above matters were reported to the Government/company (June 2001); their reply had not been received (September 2001).

[#] State Road Transport Corporation Limited

^ψ 22828 kms at Rs 6.50 per km plus 3791 trips at Rs 25 per trip

Section-B-Transaction Audit Findings

Finance Department`

Jammu and Kashmir State Financial Corporation

7.3 Avoidable payment of interest Tax

Failure of the Corporation to adhere to the provisions of the Interest Tax Act, 1974 resulted in avoidable payment of interest tax of Rs 9.12 lakh.

7.3.1 Under the Interest Tax Act, 1974 if an assessee who is liable to pay interest tax, fails to file return of chargeable interest for any assessment year within the due date(s) or pays interest-tax in advance which is less than 90 *per cent* of the assessed interest-tax or fails to pay requisite percentage(s) of interest tax in advance by the specified dates, he shall be liable to pay simple interest for the default at the specified rates.

7.3.2 A test-check (December 2000) of the records revealed that the Corporation failed in filing returns of chargeable interest and pay requisite percentage of advance tax on due dates for the assessment years 1993-94 to 1995-96. Consequently, the Income Tax Department while making assessments for the years 1993-94 to 1995-96 levied interest of Rs 9.12* lakh, which was paid by the Corporation during 1995-96 to 1998-99. Failure of the Corporation to adhere to the provision of the Interest Tax Act, resulted in avoidable payment of interest of Rs 9.12 lakh.

7.3.3 The above matters were reported to the Government/company (June 2001); their reply had not been received (September 2001).

Power Development Department

Jammu and Kashmir Power Development Corporation

7.4 Irregular reimbursement of Service Tax

Irregular reimbursement of service tax of Rs 8.38 lakh was made by the company to two contractors due to incorrect interpretation of the provisions of the agreement.

7.4.1 Under the provisions of the Jammu and Kashmir Sales Tax Act, 1962 deduction of service tax^v from the gross value of contract payments was obligatory for all Drawing and Disbursing Officers (DDOs) of the

* Section 12: Rs 0.11 lakh; Section 12 A: Rs 8.39 lakh and section 12 B: Rs 0.62 lakh

^v 2 *per cent* with effect from 23 July 1997 and at the rate of 4 *per cent* (plus 5 *per cent* surcharge) with effect from 5 April 1999)

State/Central Governments, autonomous bodies, corporations, etc. The tax so deducted was to be deposited by the DDOs in the treasuries within 15 days.

7.4.2 Test-check (April 2001) of the records of the Executive Engineer, Civil Construction Division of the company, revealed that service tax of Rs 8.38 lakh deducted at source from the bills of two contractors for the period January 1998 to February 2001 was deposited between February 1998 and March 2001 with the Sales Tax Department. The amount was subsequently reimbursed to the contractors between August 1999 and March 2001 by the Company on the plea that the agreements with the contractors stipulated its refund. The provisions of the agreement, however, did not provide reimbursement of service tax on completed works. Thus, incorrect interpretation of the provisions of the agreement relating to refund of service tax by the Company resulted in irregular reimbursement of Rs 8.38 lakh to two contractors. Measures taken to recover the amount from the contractors concerned were not intimated (June 2001).

7.4.3 The above matters were reported to the Government/company (June 2001); their reply had not been received (September 2001)

Public Works Department

Jammu and Kashmir Projects Construction Corporation Limited

7.5 Avoidable payment of interest

Failure to adhere to the provisions of Income Tax Act, 1961 resulted in avoidable payment of interest .

7.5.1 Under the Income Tax Act, 1961 if an assessee fails to file the return of income for any assessment year within the due date(s) or pays advance tax which is less than 90 *per cent* of the assessed tax or fails to pay requisite percentage(s) of advance tax on returned income by the specified dates, he shall be liable to pay simple interest for the default at the specified rates.

7.5.2 A test-check (September 2000) of the records of Jammu and Kashmir Projects Construction Corporation Limited revealed that the Company failed to file income tax returns for the accounting years 1997-98 and 1998-99 on due dates. Also, the Company did not deposit 90 *per cent* of the assessed tax and the requisite percentage(s) of tax on returned income for the assessment years 1998-99 and 1999-2000 on due dates. Consequently, as per the provisions of the Act, the Income Tax Department levied interest of Rs 17.61[€] lakh against which payment of Rs 16.17 lakh was made by the Company

[€] 1997-98: Rs 11.62 lakh; 1998-99: Rs 5.99 lakh

during 1999-2001. Failure of the Company to adhere to the provision of the Act, ibid resulted in avoidable payment/liability of interest of Rs 17.61 lakh.

7.5.3 The matter was reported to Government/Company (June 2001); their reply had not been received (September 2001).