

Chapter-VII

Commercial Activities

Section-I

7.1 Overview of Government companies and Statutory corporations

Introduction

7.1.1 As on 31 March 2002, there were 20 Government companies (19 working and one non-working company*) and four working Statutory corporations (the position being same as on 31 March 2001) 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 provisions 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. Request of the Governor of Jammu and Kashmir to the CAG for taking up audit of the State Electricity Board under Section 19 (3) of the Comptroller and Auditor General's (DPC) Act, 1971 had not been received (September 2002). 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.	Jammu and Kashmir State Road Transport Corporation	Section 33 (2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
3.	Jammu and Kashmir State Financial Corporation	Section 37 (6) of the State Financial Corporations Act, 1951	Chartered Accountants and supplementary audit by CAG

7.1.2 Working Public Sector Undertakings (PSUs)

7.1.2.1 Investment in working PSUs

The total investment in 23 working PSUs (19 Government companies and four Statutory corporations) at the end of March 2001 and March 2002, respectively, was as follows:

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

(Rupees in crore)

Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loan	Total
2000-01	23	403.40	-	1545.08	1948.48
2001-02	23	407.75	-	2321.87	2729.62

The analysis of investment in working PSUs is given in the following paragraphs.

Sector-wise investment in working Government companies and Statutory corporations

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2002 and 31 March 2001 are indicated below in the pie charts:

Chart 7.1

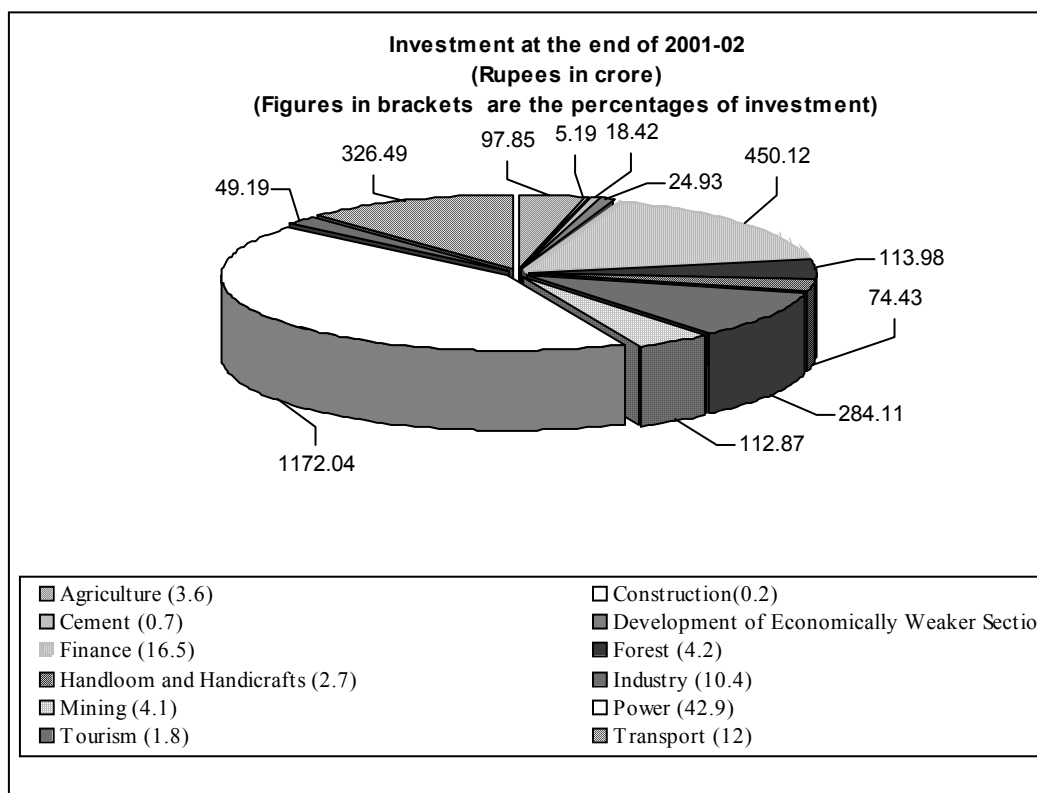
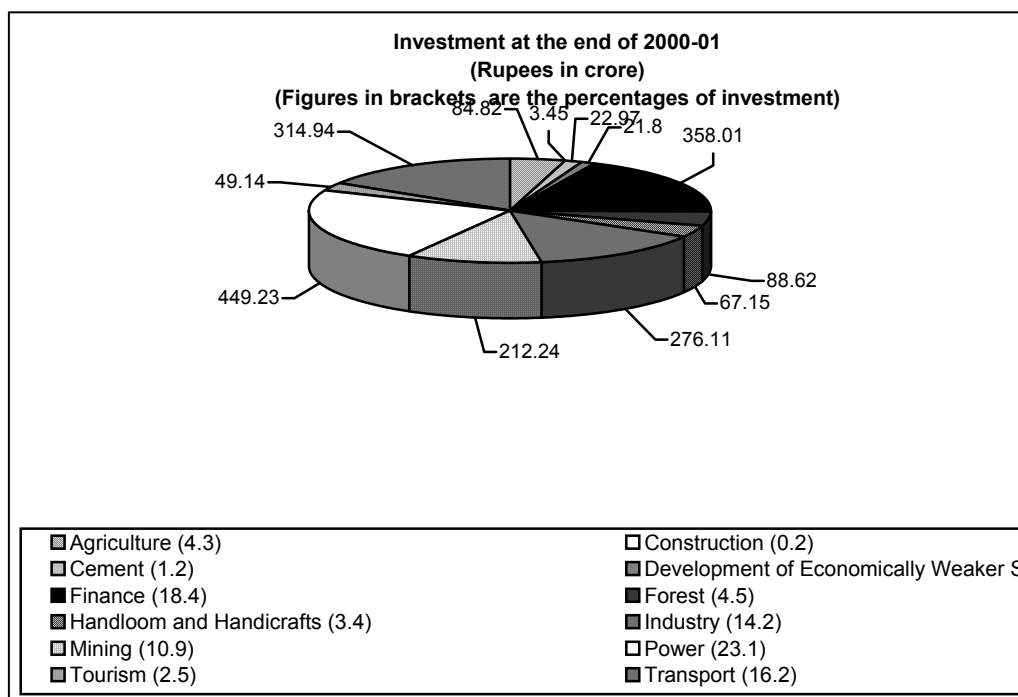


Chart 7.2



Working Government companies

Working Government companies

7.1.2.1.1 Total investment in 19 working companies at the end of March 2001 and March 2002 respectively, was as follows.

(Rupees in crore)

Year	Number of working Government companies	Investment in working Government Companies			
		Equity	Share application money	Loan	Total
2000-01	19	225.19	-	929.23	1154.42
2001-02	19	229.09	-	1598.73	1827.82

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

As on 31 March 2002, the total investment in working Government companies comprised 13 per cent equity capital and 87 per cent loans as compared to 20 per cent equity capital and 80 per cent loans as on 31 March 2001.

The debt-equity ratio of the working companies increased from 4 in 2000-01* to 7 in 2001-02 mainly due to net increase of the long-term borrowings in Power (Rs 736.50 crore), Industry (Rs 17.28 crore) and Agriculture (Rs 13.02 crore) sectors.

7.1.2.1.2 Working Statutory corporations

The total investment in four working Statutory corporations at the end of March 2001 and March 2002 was as follows:

Table No. 7.2

(Rupees in crore)

Sl.No.	Name of corporations	2000-01		2001-02	
		Capital	Loan	Capital	Loan
1	Jammu and Kashmir State Electricity Board	Nil	257.59	Nil	243.90
2.	Jammu and Kashmir State Road Transport Corporation	105.38	209.56	105.83	220.66
3.	Jammu and Kashmir State Financial Corporation	63.80	69.11	63.80	153.64
4.	Jammu and Kashmir State Forest Corporation	9.03	79.59	9.03	104.95
	Total	178.21	615.85	178.66	723.15

As on 31 March 2002, the total investment in Statutory corporations comprised 20 per cent equity capital and 80 per cent loans as compared to 22 per cent equity capital and 78 per cent loans as on 31 March 2001.

Due to increase of Rs 107.29 crore (net) in the long-term loans and increase of Rs 45 lakh in equity, debt-equity ratio increased from 3.5 in 2000-01 to 4 in 2001-02. The summarised statement of the Government investment in these Statutory corporations in the form of equity and loan is detailed in *Appendix-14*.

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

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*.

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 2001-02 are given below:

* Excludes information in respect of Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited.

Table No.7.3

(Rupees in crore)

	1999-2000				2000-01				2001-02			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital from budget	6	2.14	1	5.00	5	1.18	1	3.37	5	1.37	1	0.45
Loans given from budget	7	27.75	2	28.50	5	83.74	1	25.60	2	3.72	1	19.20
Grants towards projects, programmes/ schemes	5	5.38	2	13.05	7	135.73	1	8.50	7	24.75 [#]	-	-
Subsidy	2	2.95	-	-	2	4.70	-	-	5	7.00 [*]	-	-
Total outgo	14	38.22	2	46.55	14	225.35	1	37.47	12	36.84	1	19.65

During the year 2001-02, Government guaranteed loans aggregating Rs 36.49 crore obtained by two working Government companies (Rs 4.04 crore) and two working Statutory corporations (Rs 32.45 crore). At the end of the year, guarantees amounting to Rs 1160.26 crore against eight working Government companies (Rs 827.39 crore) and three working Statutory corporations (Rs 332.87 crore) were outstanding. Life Insurance Corporation of India waived interest of Rs 29.29 lakh against Jammu and Kashmir Cements Limited. Details of subsidy, guarantees received/outstanding and waiver of dues are indicated in the *Appendix-16*.

7.1.2.4 Finalisation of accounts by working PSUs

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.

[#] Jammu and Kashmir Industries Limited: Rs 14.90 crore; Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited: Rs 0.99 crore; Jammu and Kashmir Minerals Limited: Rs 5.19 crore; Jammu and Kashmir Small Scale Industries Development Corporation Limited: Rs 0.60 crore; Jammu and Kashmir State Handloom Development Corporation Limited: Rs 0.69 crore; Jammu and Kashmir State Handicrafts (Sales and Export) Corporation Limited: Rs 2.18 crore (Central Government: Rs 1.41 crore; State Government: Rs 0.77 crore) and Jammu and Kashmir State Tourism Development Corporation Limited: Rs 20 lakh.

^{*} Jammu and Kashmir State Agro Industries Development Corporation Limited: Rs 1.09 crore (State Government: Rs 1 crore; Central Government: Rs 9 lakh); Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited: Rs 38 lakh; Jammu and Kashmir Small Scale Industries Development Corporation Limited: Rs 5 lakh; Jammu and Kashmir Scheduled Castes/Scheduled Tribes and Other Backward Classes Development Corporation Limited: 0.50 crore (Central Government: Rs 40 lakh; State Government: Rs 10 lakh); Jammu and Kashmir State Tourism Development Corporation Limited: Rs 4.97 crore.

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 year 2001-02 within stipulated period. During the period from October 2001 to August 2002, 10 Government companies finalised 11 accounts for previous years. Similarly, during this period 2 Statutory corporations finalised 4 accounts for the previous years.

The accounts of 18 working Government companies and 3 Statutory corporations were in arrears for periods ranging from one year to 16 years as on 30 September 2002, as detailed below.

Table No. 7.4

Sl.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 <i>Appendix-15</i>	
			Government Companies	Statutory Corporations	Government Companies	Statutory Corporations
1.	1985-86	16	2	-	4, 11	-
2.	1987-88	14	1	-	1	-
3.	1989-90	12	2	-	10, 16	-
4.	1992-93	9	5	-	2, 8, 9, 13,17	-
5.	1993-94	8	1	-	14	-
6.	1994-95	7	3	-	3, 5, 7	-
7.	1995-96	6	1	-	15	-
8.	1996-97	5	1	1	18	3
9.	1997-98	4	1	-	12	-
10	2000-01	1	1	1	6	1
11	2001-02	-	-	1	-	2
	Total	-	18	3		

It is the responsibility of the administrative departments 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 AG regarding arrears in finalisation of accounts, no significant clearance of arrears was achieved in the current year, as a result thereof net worth of these PSUs could not be assessed in audit.

7.1.2.5 Financial position and working results of working PSUs

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 were finalised are given in *Appendices-17* and 18 respectively.

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 34.62 crore and Rs 43.27 crore respectively. Only three companies@ had earned profit of Rs 260.01 crore. Financial position and working results in respect of four companiesψ and one Statutory corporation (Jammu and Kashmir State Forest Corporation Limited) could not be assessed in audit due to non-receipt of their accounts.

7.1.2.5.1 Working Government companies

Profit earning companies and dividend

Only one company (Jammu and Kashmir Bank Limited) which finalised its accounts for 2001-02, earned profit of Rs 259.80 crore and declared dividend of Rs 24.25 crore. The dividend, as percentage of the share capital of Rs 48.16 crore of the company worked out to 50 *per cent*. As a percentage of total equity capital of Rs 194.93 crore invested by the State Government in Government companies, it worked out to 12.44 *per cent* during 2001-02 as against 11 *per cent* in the previous year. One more company (Jammu and Kashmir Small Scale Industries Development Corporation Limited) which finalised its accounts for the year 1984-85 earned profit of Rs 9.55 lakh.

7.1.2.5.2 Loss incurring working Government companies

Of the 12 loss-incurring working Government companies, seven had accumulated losses aggregating Rs 127.31 crore which exceeded their aggregate paid-up capital of Rs 43.50 crore by Rs 83.81 crore as per their latest available accounts.

Despite 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 loan, equity, etc. According to available information, financial support so provided by the State Government during 2001-02 to two of these seven companies amounted to Rs 4.02 crore.

7.1.2.5.3 Working Statutory corporations

As per their latest finalised accounts, the two working Statutory corporations had accumulated losses aggregating Rs 529.47 crore which exceeded their paid-up capital of Rs 165.80 crore by Rs 363.67 crore. 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, financial support so provided by the State Government during 2001-02 to one of these corporations amounted to Rs 19.65 crore.

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

S.No. 1 and 2 of *Appendix-15*

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

ψ S.No. 12, 14, 17 and 18 of *Appendix-15*

7.1.2.5.4 Operational performance of working Statutory corporations

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

7.1.2.6 Return on capital employed

As per the latest finalised accounts, the capital employed worked out to Rs 9369.90 crore in 19 working companies and returns thereon amounted to Rs 1155.59 crore (12.33 *per cent*), as compared to returns of Rs 866.89 crore (11.26 *per cent*) in the previous year (accounts finalised up to September 2001). Similarly, the capital employed and returns thereon in case of working Statutory corporations as per the latest finalised accounts worked out to Rs 141.40 crore and minus Rs 14.15 crore, respectively against the returns of minus Rs 11.34 crore in previous year (accounts finalised up to September 2001). The details of capital employed and returns thereon in case of working Government companies and Statutory corporations are given in *Appendix-15*.

7.1.2.6.1 Non-working PSUs

Investment in non-working PSUs

As on 31 March 2002, the total investment in the non-working Government company (Tawi Scooters Limited) was Rs 1.64 crore by way of equity (Rs 0.81 crore) and long-term loans (Rs 0.83 crore). Finalisation of the accounts of the Company was in arrears since 1990-91. The Company was under the process of liquidation with the Jammu and Kashmir State Industrial Development Corporation Limited since 1990. The process had not been completed as of June 2002. The State Government during the three years from 1999-2000 to 2001-02 incurred an expenditure of Rs 10.09 lakh on its establishment. Expeditious action for liquidation of the Company was necessary to avoid further non-productive expenditure. The summarised financial results of the Company, as per latest finalised accounts are given in *Appendix-15*.

7.1.3 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 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	1998-99	1999-2000	10-4-2002	The SAR was under the process of printing
2.	Jammu and Kashmir State Financial Corporation Limited	1999-2000	2000-01	June 2002	Not available

7.1.4 Results of audit by Comptroller and Auditor General of India

During the period from October 2001 to September 2002, 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
Increase in loss	2	2	32.41	372.79

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:

7.1.4.1 Errors and omissions noticed in case of Government companies

1. Jammu and Kashmir State Agro-Industries Development Corporation Limited (1986-87)

The State Government paid short-term loan of Rs 15 lakh to the Company in July 1983. The loan carrying interest of 6 *per cent* per annum was repayable in single instalment within six months from the date of drawal and in case of default, penal interest at 8.5 *per cent* per annum was also payable. Similarly, a medium-term loan of Rs 2.80 lakh, carrying interest at 12.5 *per cent* per annum and repayable in five years from the date of drawal was also released to the Company in October 1984. In case of default, penal interest at 15 *per cent* was also payable. Though the Company defaulted in repayment of these loans, no provision for interest/penal interest aggregating Rs 5.41 lakh was made in the accounts. This resulted in understatement of loss to the extent of Rs 5.41 lakh.

2. Jammu and Kashmir State Industrial Development Corporation Limited (1993-94)

The State Government paid loan of Rs 1.50 crore to the Company during 1993-94. The loan, repayable in 15 equal instalments, carried interest of 15 *per cent* per annum and additional interest of 3 *per cent* in the event of default. The Company treated the loan as share capital and did not provide in its accounts interest/penal interest of Rs 27 lakh payable by it. This resulted in overstatement of share capital and understatement of secured loans by Rs 1.50 crore each and understatement of loss by Rs 27 lakh.

3. Jammu and Kashmir State Road Transport Corporation (1999-2000)

The Corporation did not remit GPF/CPF, SLI and LIC recovered from time to time from pay dues of its employees, to the concerned quarters since 1991-92, as a result of which the Corporation incurred interest liability of Rs 2.18 crore. The Corporation did not make provision for this in its accounts and also for audit fee (Rs 0.70 crore), interest on Motor Accident Claims Tribunal awards (Rs 16 lakh), rent (Rs 35 lakh) and electricity charges (Rs 24.67 lakh), thereby understating its loss by Rs 3.64 crore.

4. Jammu and Kashmir State Financial Corporation (2000-01)

Penalty of Rs 9.12 lakh imposed by the Income Tax Department and paid by the Corporation for belated payment of interest tax was debited to the current assets instead to the profit and loss account, thereby overstating current assets and understating loss.

7.1.4.2 Persistent irregularities and system deficiencies in financial matters of PSUs

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 was taken by the Corporation.

- (a) Non-maintenance of proper accounts and other records according to the format prescribed (August 1967) by the CAG under Section 33 (ii) of the Road Transport Corporations Act, 1950.
- (b) Non-maintenance of control/financial ledgers.
- (c) Non-operation of inter-unit adjustment accounts for adjustment of advances, transfer of stores, etc.
- (d) 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.

7.1.5 Recommendations for closure of PSUs

Even after completion of 24 to 33 years of their existence, the turnover of five* Government working companies had been less than Rs 5 crore in each of the preceding five years of their latest finalised accounts. Of these, three** Government companies and two working Statutory corporations had been incurring losses for five consecutive years leading to negative net worth. In view of poor turnover and continuous losses, Government may either improve performance of these PSUs or consider their closure.

7.1.6 Response to Inspection Reports, draft paragraphs and reviews

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 up to March 2002 pertaining to 20 PSUs disclosed that 2597 paragraphs relating to 777 Inspection Reports remained outstanding at the end of September 2002. Of these, 772 Inspection Reports containing 2573 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 2002 is given in *Appendix-20*.

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. However, out of four draft paragraphs and one draft review forwarded to the departments concerned during March 2002 to July 2002 (detailed in *Appendix-21*), no reply was received (October 2002).

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

* Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited, Jammu and Kashmir Handicrafts (Sales and Export) Corporation Limited, Himalayan Wool Combers Limited, Jammu and Kashmir State Industrial Development Corporation Limited and Jammu and Kashmir State Tourism Development Corporation Limited

** Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited, Himalayan Wool Combers Limited, Jammu and Kashmir Handicrafts (Sales and Export) Corporation Limited, Jammu and Kashmir State Financial Corporation Limited and Jammu and Kashmir State Road Transport Corporation

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

The status of reviews/paragraphs of Commercial Chapter pending discussion as on 31 March 2002 is shown below

Table No. 7.7

Period of Audit Report	Number of Reviews and Paragraphs appeared in Commercial Chapter of Audit Report		Number of Reviews and Paragraphs pending for 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*	2
Total	18	23	13	9

* Partly discussed

Section–A-Review

Forest Department

7.2 Jammu and Kashmir State Forest Corporation

The Jammu and Kashmir State Forest Corporation was established under Jammu and Kashmir State Forest Corporation, Act 1978 with the main objectives of management, maintenance and development of forests in the State and to render technical advice to the State Government on the matters relating to forestry.

Highlights

- The Corporation had finalised its accounts only up to 1985-86. As per its provisional accounts for the period 1996-97 to 2000-01, the Corporation had sustained losses continuously and its accumulated losses at the end of March 2001 stood at Rs 291.98 crore. The losses were mainly due to higher cost of production, maintenance of huge inventory, material losses, etc.

(Paragraph: 7.2.5 and Appendix-22)

- Despite having enough marked trees available with the Corporation, fresh marked trees were taken over for extraction from the Forest Department resulting in creation of additional liability on account of royalty, besides accumulation of inventory.

(Paragraph: 7.2.7)

- No agreement specifying conditions/procedures for allotment/working of coupes, royalty rates, etc had been drawn up with the Forest Department.

(Paragraph: 7.2.8)

- The Corporation had not revised the minimum reserve price of the timber since June 1997 and auction of timber was conducted with reference to the price level of June 1997.

(Paragraph: 7.2.9)

- During 1996-2000, the Corporation lost 27.23 lakh cfts of timber, valuing Rs 52.40 crore due to floods, fire, pilferage, thefts, etc.

(Paragraph: 7.2.15)

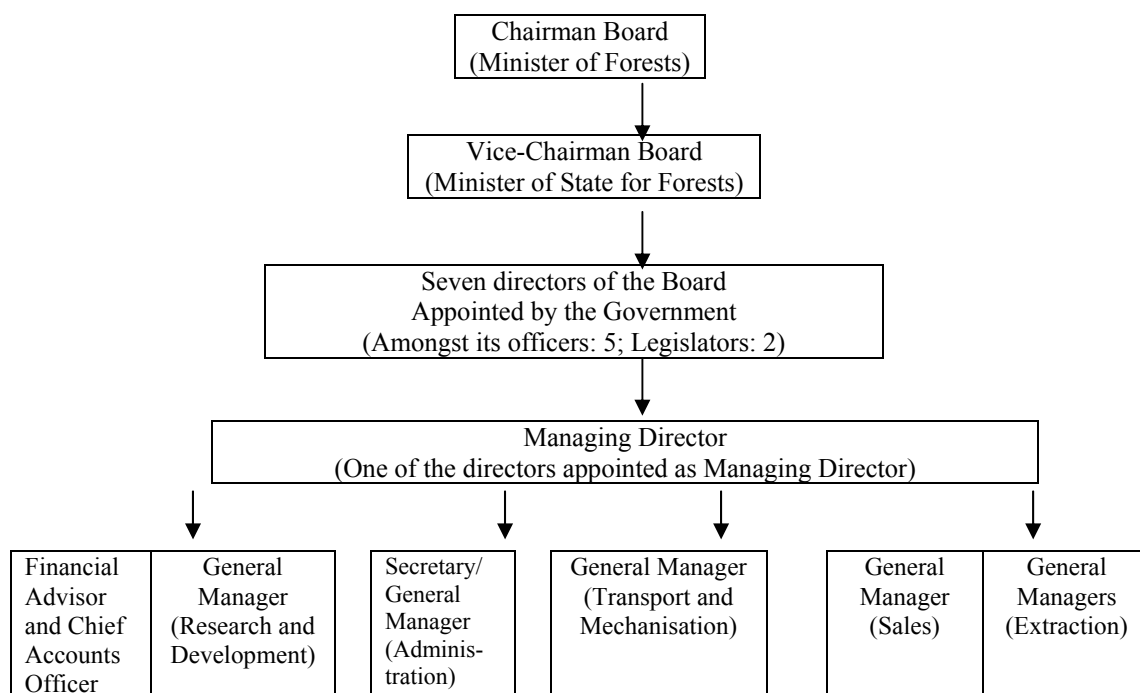
Introduction

7.2.1 The Jammu and Kashmir State Forest Corporation was established as a Statutory Corporation on 7 July 1979 by taking over erstwhile Government Lumbering Undertaking (GLU) under the Jammu and Kashmir State Forest Corporation Act, 1978.

The main objectives of the Corporation are to (i) exploit forest resources, (ii) undertake research programmes relating to forest and forest products, (iii) manage, maintain and develop such forests transferred to it by the Government, and (iv) render technical advice to the Government on matters relating to forestry. The Corporation restricted its activities mainly to extraction and sale of timber and other objectives were largely ignored.

Organisational set up

7.2.2 The management of the Corporation is vested in a Board. The organisational structure of the Corporation is given in the following chart:



The term of the office of the director was to be three years. However, the incumbents of the post of the Managing Director were changed prematurely, holding the post for periods ranging between 13 and 34 months only during 1995-2002, thereby affecting adversely implementation of plans, their follow-up and smooth functioning of the Corporation.

Scope of Audit

7.2.3 Audit of the Corporation was entrusted (March 2000) to the Comptroller and Auditor General of India from 1996-97 under Section 19 (3) of the Comptroller and Auditor General's (DPC) Act, 1971. The review, covering the period 1996-97 to 2000-01, was conducted from November 2001

to April 2002 by test-check of records of 5 circles* and 16[¶] divisions out of 9 circles and 35 divisions.

Capital structure and borrowings

7.2.4 The Corporation was incorporated with a capital of Rs 9.03 crore constituting one-third of the net balance (Rs 27.09 crore) of assets and liabilities of the GLU. The remaining portion (Rs 18.06 crore) was treated as interest bearing loan, rate of interest for which was not specified.

The Corporation raised loans aggregating Rs 35 crore from the Jammu and Kashmir Bank Limited during 1991-94 for payment of royalty to the Forest Department. The Corporation had a total debt liability of Rs 40.13 crore (excluding interest) towards Jammu and Kashmir Bank Limited (Rs 22.07 crore) and State Government (Rs 18.06 crore) as of March 2001.

Financial position and working results

7.2.5 The Corporation had finalised its accounts only up to 1985-86 and accounts thereafter were in arrears. The Corporation had not prepared its accounting manual as a result of which no uniform accounting procedure was in vogue in the Corporation. While double entry system of accounting was followed in the units of Jammu Division, single entry system was followed in Kashmir Division. The established *proforma* for recording transactions in the balance sheet and profit and loss account was not adopted. The detail of assets taken over by the Corporation from the erstwhile GLU and further additions made from time to time were not maintained.

The financial position and working results of the Corporation, based on provisional accounts, for the five years ended 31 March 2001 are indicated in the *Appendices* 22 and 23. As would be seen from the *Appendices*, the Corporation sustained losses continuously during the period 1996-2001 and its accumulated losses stood at Rs 291.98 crore at the end of March 2001, resulting in negative net worth which also increased from Rs 148.82 crore (1996-97) to Rs 281.72 crore (2000-01). The main reasons for the losses, as analysed in audit were higher cost of production, maintenance of huge inventory, material losses, as discussed in the succeeding paragraphs.

Activities

7.2.6 The present activities of the Corporation are restricted only to extraction and sale of timber.

* Sales Circles, Jammu /Kashmir, South Circle, Kashmir, North Circle, Kashmir, West Circle Jammu

¶ Pir Panchal Divisions (West Srinagar and East Pulwama), Sales Divisions Srinagar (South and North) Finances Division, Jammu, Sales Divisions Jammu (East and West), Planning Division, Jammu, Vigilance Division, Jammu, Civil Division, Jammu, Workshop Division Jammu, Transport Divisions, Jammu/Ramban, Extension Divisions, Udhampur/Ramban/Doda

Extraction of timber

7.2.7 Forest Department hands over marked trees to the Corporation for extraction, for which royalty is charged from the Corporation. With a view to maintaining ecological balance, the Supreme Court imposed (1990) complete ban on felling and exploitation of green trees. Subsequently, during 1997 the Court restricted felling of trees to the extent of 80 lakh cft. of dead, diseased, dry standing and fallen trees, annually. The position of marked trees handed over by the Forest Department, timber extracted/converted during 1996-2001 was as under:

Table No 7.8

					(In lakh cfts.)
Year	Opening balance	Marked trees handed over	Extraction (standing volume)	Outturn	Closing balance
1	2	3	4	5	6 (2+3-4)
1996-97	137.63	18.37	34.85	23.82	121.15
1997-98	121.15	213.41	131.11	58.90	203.45
1998-99	203.45	42.27	84.54	47.82	161.18
1999-2000	161.18	86.16	92.20	58.28	155.14
2000-01	155.14	NA	62.41	43.69	NA

As would be seen from above, the Corporation had enough marked trees available with it during 1997-2001. Taking over of fresh marked trees resulted in creation of additional liability on account of royalty, besides accumulation of inventory. Following further points were noticed:

(a) As per policy of the Corporation, extraction work to the extent of 67 per cent was to be carried through contractors on tender basis and the remaining 33 per cent on *amani*[#] basis/departmentally. It was noticed in case of four test-checked divisions^{**}, that 47 to 100 per cent of works, involving payment of extraction charges of Rs 4.93 crore (in respect of two^β divisions where full details were available), were executed on *amani* basis/departmentally during 1996-2001, in contravention of the policy of the Corporation. Had such works been executed on tender basis, chances of getting these done at lower rates could not be ruled out.

(b) During 1997-2000, the Corporation extracted 67.85[@] lakh cfts. of timber in excess of the ceiling fixed by the Supreme Court. Three^{*} divisions felled a large number of green trees during 1999 and 2001 for which penalty

[#] By engaging labour through wage mates.

^{**} Extraction division, Ramban; Extraction division, Zangili, PP West, Pulwama; PP West, Srinagar

^β Extraction division, Ramban; Extraction division, Zangili,

[@] 1997-98:51.11 lakh cfts; 1998-99:4.54 lakh cfts; 1999-2000: 12.20 lakh cfts.

^{*} Extraction Division, Baderwah, Pir Panchal Division, West Srinagar and Pir Panchal Division, East Pulwama.

of Rs 2.90 lakh was imposed (September 2000) by the Forest Department in two cases.

(c) The Corporation extracted 0.68 lakh quintal of firewood from Their dam area for which an expenditure of Rs 0.60 crore was incurred on extraction and transportation to sale depots. Against this, the Corporation realised only Rs 17.86 lakh, thereby incurring loss of Rs 41.95 lakh due to high cost of extraction/transportation.

Royalty

7.2.8 Royalty is the price paid by the Corporation for marked trees handed over to it by the Forest Department. Fixation of royalty has been a contentious issue between the Forest Department and the Corporation. In absence of any agreement with the Forest Department, extraction of timber was undertaken by the Corporation without any conditions/procedures for allotment/working of coupes, fixation of royalty rates, etc. Accordingly, royalty was claimed by the Forest Department on the basis of volume handed over by it. The Corporation, however, stressed for making payments against the stock that was actually brought from the forests and sold by it. Consequently, royalty outstanding as claimed by the Forest Department was Rs 383.79 crore against Rs 355.92 crore shown in its accounts by the Corporation as on 31 March 2001. A Committee constituted (June 1996) by the Government to settle the dispute had not submitted its report so far (June 2002), despite recommendations (March 2002) of the Committee on Public Accounts to vigorously pursue the issue.

Sale of timber Non-revision of reserve price

7.2.9 Most of the timber extracted by the Corporation is sold through auction. There was no basis for fixation of Minimum Reserve Price (MRP). No analysis to assess market trends was conducted though fixation of MRP was the key to maximizing revenue of the Corporation. Minimum reserve price, fixed by the Pricing Committee[€] in April 1996 was adopted up to June 1996 and thereafter increase of one *per cent* per month was effected up to June 1998 (total increase of 24 *per cent* over the price level of June 1996). The rates were, however, reduced from July 1998 and were fixed at the level prevailing as on June 1997 (rate as on June 1996 plus 12 *per cent* increase). The rates had not been revised since then and the Corporation continued to conduct auction at the price level of June 1997.

Cost of production

7.2.10 The extracted timber after sawn is converted into logs form, and carried to the transit depots and therefrom to the sale depots for sale. The position of sale of timber and its cost of production during 1996-2001 was as under:

[€] The Pricing Committee comprised Additional Chief Secretary Finance Department; Commissioner/ Secretary Forest Department; Principal Chief Conservator of Forests and Managing Director, Jammu and Kashmir State Forest Corporation.

Table No 7.9

(Rupees in crore)

Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01
Cost of production:					
Direct cost:					
Royalty	20.93	57.22	42.77	47.79	24.56
Extraction/transportation charges	12.36	28.00	22.33	23.44	22.57
Administrative cost (75 per cent)	14.58	18.02	20.93	23.46	24.40
Depreciation (80 per cent)	0.15	0.16	0.16	0.16	0.16
Total	48.02	103.40	86.19	94.85	71.69
Indirect cost:					
Depreciation (20 per cent)	0.04	0.04	0.04	0.04	0.04
Other expenses (including 25 per cent administrative cost)	12.53	14.11	15.36	15.99	12.54
Total	12.57	14.15	15.40	16.03	12.58
Total direct and indirect cost	60.59	117.55	101.59	110.88	84.27
Accretion/decretion of stocks	(-) 41.24	(-) 58.12	(-) 10.53	(-) 14.40	(+) 46.67
Cost of production	19.35	59.43	91.06	96.48	130.94
Sales**	34.62	50.27	73.72	73.68	87.66

Though sale of timber increased steadily during 1997-2001, the cost of production of timber during the period was 18.22 to 49.37 per cent higher than its sale value. Measures taken to reduce the cost of production were not intimated.

Following further points were noticed:

(a) The Forest Department acquired some land with standing trees thereon from a private party and asked the Corporation to supply timber (*deodar*) to the party in lieu of cost of land/trees. The Corporation supplied 0.18 lakh cft. of timber during 1995-98 at Rs 38 per cft. against its average sale rate of Rs 325 to Rs 351 per cft. thereby incurring loss of Rs 0.52 crore[#].

(b) The Corporation auctioned 11.29 lakh cft. of timber at its four^ψ marketing divisions during 1997-2001 at rates below the reserve price fixed by it resulting in loss of Rs 0.99 crore.

(c) The auction procedure provides that the successful bidder shall deposit 10 per cent of the bid amount on spot, in addition to the registration charges of Rs.5000. Test-check of the records of the West Marketing Division, Jammu revealed that during 1997-98, three successful bidders neither deposited the registration charges nor the bid amount of Rs.11.07 lakh. The bidders did not

** The sale figures (which also include miscellaneous receipts) differ with those supplied by the Corporation to the Forest Department

Calculated at Rs 287 (Rs 325-Rs 38) per cft.

ψ East Marketing Division, West Marketing Division, North Marketing Division and South Marketing Division.

turn up to lift the stocks and the stocks were re-auctioned subsequently at reduced rates incurring loss of Rs.1.42 lakh.

Transit shortages

7.2.11 After extraction, the timber is stocked at transit depots and therefrom it is transported to the sales depots for sale. As per directions (December 1996) of the Managing Director, volume of timber despatched by the transit depots was to be taken as correct by the sale depots and variation, if any, between the volume supplied by the transit depots and that received by the sale depots was not to be entertained. Test-check of records of two * sale divisions of Jammu revealed that against 101.10 lakh cfts. of timber despatched during 1996-2001 by the transit depots, the divisions had accounted for only 96.42 lakh cfts of timber. The short accounting of 4.68 lakh cft. of timber** (value: Rs.8.41 crore) had neither been made good nor had responsibility for the same been fixed.

Inventory control

7.2.12 The position of inventory holdings at the close of the each year during 1996-2001 and in terms of years' sale for the five year period ending 2000-01 was as under:

Table No 7.10

(In lakh cfts.)

Year	Closing balance at the end of March	Sales	Closing balance in terms of years' sale
1996-97	263.55	19.24	13.7
1997-98	284.64	24.42	11.6
1998-99	303.74	47.75	6.4
1999-2000	311.21	56.07	5.6
2000-01	274.61	45.87	6

The closing inventory of 274.61 lakh cfts. (value: Rs 322.59 crore) at the end of 2000-01 included 5.39 lakh cfts. of non-saleable and rotten timber valuing Rs 14.34 crore.

Physical verification

7.2.13 The Corporation had not conducted physical verification of timber converted into logs and in sawn form lying in the forests. Physical verification of two sale divisions of Jammu divisions# conducted during 1996-2001 revealed shortage of 3.24 lakh cft. valuing Rs 5.82 crore. Action taken to investigate the shortages and to fix responsibility was not intimated (June 2002).

* East Marketing Division and West Marketing Division

** Deodar: 2.29 lakh cfts; Kail: 0.70 lakh cfts; Fir: 1.23 lakh cfts; Chir: 0.46 lakh cfts.

East Marketing Division and West Marketing Division

Surplus manpower

7.2.14 The Corporation had an effective staff strength of about 5200 employees. With the restriction in the annual extraction of timber imposed by the Supreme Court in 1997, its work load was reduced by one-third, rendering manpower surplus. The Corporation decided (September 2000) to repatriate all deputationists to Forest Department; details of reduction in the strength of the staff so effected was awaited (October 2002).

With a view to utilising its surplus manpower and also to generate revenue, the Corporation decided (February 1995) to diversify its activities. Pursuant to this decision, three projects namely, Kharandara Afforestation Project, Exploitation of Eucalyptus Project and Charcoal Manufacturing Project were approved (November 1995) for implementation during November 1995. While the Kharandara Afforestation Project failed to take off for want of funds, Eucalyptus Exploitation and Charcoal Manufacturing Projects suffered for want of sufficient supply of raw material from the Forest Department. As a result, these projects were abandoned during 1996-97 to 2001-02[¶]. Economics of these activities could not be ascertained in audit as separate accounts of the projects had not been maintained.

Material losses

7.2.15 The Corporation regularly suffered losses on account of floods, fire, pilferage, thefts, etc. During 1996-2000, the Corporation suffered a loss of 27.23 lakh cfts of timber (value: Rs 52.40 crore) on various accounts, as detailed below:

Table No 7.11

Year	Flood	Mahan ^s	Fire	Pilferages/ thefts	Other reasons ^{ss}	(In lakh cfts.)
						Total
1996-97	3.65	0.22	1.04	0.01	2.54	7.46
1997-98	1.25	0.10	3.00	0.60	2.78	7.73
1998-99	1.81	0.09	0.99	0.12	3.62	6.63
1999-2000	0.62	0.33	0.49	0.01	3.96	5.41
Total:	7.33	0.74	5.52	0.74	12.90	27.23

There was nothing on record to indicate that the cases of losses/shortages had ever been investigated and follow-up action/corrective measures taken to check recurrence of such eventualities in future. The Corporation had not taken insurance cover against these losses (except losses on account of fire, in which case insurance companies had refused to insure stocks beyond 1994-95) to safeguard its interests.

[¶] Kharandara Afforestation Project: July 1996; Charcoal Manufacturing Project: March 2001 and Eucalyptus Exploitation Project: March 2002

^s Down stream transportation

^{ss} This include rotten timber not lifted from the site and Sharahmandi variation of 7.26 lakh cfts. Sharahmandi is the variation in measurement recorded at the forest loading points and the standard measurements by which sale is conducted in the sale depots

7.2.16 Test-check revealed that timber measuring 0.22 lakh cft. (cost: Rs 6.84 crore) extracted during 1989-94 was destroyed in compartment-8 Keshwan (Doda) in the fire during October 1997. The contractor engaged (May 1993) by the Corporation for transportation of the said timber to sale depots, failed to do so in time. Action, if any, taken by the Corporation against the contractor was not on record/intimated. The stocks had also not been insured, as such no claim could be lodged with the insurers.

Outstanding advances

7.2.17 The Corporation advances funds to its officers as imprest to meet expenses on account of carriage charges, etc. adjustment account whereof is to be submitted immediately after utilisation. It was, however, seen that an aggregate amount of Rs 35.08 lakh was outstanding against 66 officials as on 31 March 2002. Age-wise break-up of the outstanding advances was as under:

Table No 7.12

(Rupees in lakh)

Less than one year	1.21
Between one and two years	16.05
three to four years	13.38
five to six years	1.03
Seven years and above	3.41
Total	35.08

On this being pointed out in audit (December 2001), the Divisional Manager stated (February 2002) that necessary steps for recovery of the outstanding advances would be initiated.

Non-settlement of insurance claims

7.2.18 Details of insurance claims preferred to insurance companies, number of cases assessed, number of cases rejected/pending with insurance companies in respect of Jammu region (as on December 2001) were as follows:

Table No 7.13

(Rupees in crore)

Name of insurer	Preferred		Assessed		Paid		Rejected		Pending	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
National Insurance Company	18	15.00	18	12.93	14	10.65	2	0.34	2	1.94
New India Assurance Company	6	11.54	6	9.50	5	9.34	1	0.16	-	Nil
United India Insurance Company	3	0.62	3	0.61	2	0.19	1	0.42	-	Nil
Oriental Insurance Company	4	3.03	4	2.42	1	0.40	-	Nil	3	2.02

Five claims, pending finalisation, pertained to the period from November 1990 and October 1994 which indicated that the cases had not been pursued vigorously. Reasons for rejection of claims aggregating Rs 0.92 crore had not been ascertained from the insurers. Further, insurance policy of Nutan transit depot was not renewed in time, as a result thereof, claim for loss (January 1992) of Rs 7.80 lakh could not be preferred by the Corporation. No responsibility for the lapse had been fixed by the Corporation (August 2002).

7.2.19 Saw mill located at Shalteng lying closed since April 1990 was restarted in January 2002. However, electric supply during the period of its closure was not got disconnected by the Corporation. This resulted in incurring of liability of Rs 31.11 lakh at the minimum electricity charges payable to the Power Development Department during the period from April 1990 to December 2001 for which no responsibility had been fixed (August 2002).

Conclusion

7.2.20 The Corporation suffered losses year after year mainly due to higher cost of production and non-existent policy for fixation of minimum reserve price. Surplus staff, maintenance of huge inventory and material losses were other contributory factors for mounting losses.

7.2.21 The above matters were reported to the Government/Corporation (July 2002); their reply had not been received (October 2002).

Section-B-Audit Paragraphs

Finance Department

Jammu and Kashmir Bank Limited

7.3 Idle investment

Purchase of land at an inappropriate site resulted in idle investment of Rs 33.95 lakh.

7.3.1 The Jammu and Kashmir Bank Limited acquired 54 *kanals* of land at Gole Gujral, Jammu (April 1981) and Sopore (October 1983) on 99 years lease basis at a cost of Rs 15.59[‡] lakh for construction of office complex and residential accommodation for its staff. A further expenditure of Rs 18.36 lakh* was incurred by the Bank between December 1992 and March 2000 on fencing and construction of boundary walls at the two sites.

7.3.2 Test-check (November 2000) of records of the Bank revealed that the management had not undertaken the construction work on the acquired land, rendering the above investment (ranging between Rs 10.34 lakh and Rs 33.95 lakh) idle for two to 21 years[#]. On this being pointed out (November 2000) in audit, the Chief Manager, Branches stated that construction at these sites could not be carried out, as proposal for acquiring better alternative sites was under consideration. Obviously, the management had made selection of the land at an inappropriate site, without assessing its feasibility, resulting in idle investment of Rs 33.95 lakh, besides non-achievement of intended objectives.

7.3.3 The matter was reported to Government/management in March 2002; their replies had not been received (October 2002).

[‡] Gole Gujral, Jammu (35 kanals: Rs 10.34 lakh); Sopore (19 kanals: Rs 5.25 lakh).

* December 1992: Rs 4.36 lakh; June 1993: Rs 20 thousand; April 1995: Rs 22 thousand; September 1996: Rs 2.44 lakh; March 2000: Rs 11.14 lakh.

[#] April 1981 to September 1983: Rs 10.34 lakh; October 1983 to November 1992: Rs 15.59 lakh; December 1992 to May 1993: Rs 19.95 lakh; June 1993 to March 1995: Rs 20.15 lakh; April to August 1996: Rs 20.37 lakh; September 1996 to February 2000: Rs 22.81 lakh and March 2000 to March 2002: Rs 33.95 lakh.

Food and Supplies Department

7.4 Non-accounting of foodgrains

Foodgrains valued at Rs 28.37 lakh despatched to various sub-stores/sale depots in Kishtwar, Paddar, Gandoh, Batote, Mahore and Dharmari had not been accounted for by the respective storekeepers in their accounts.

7.4.1 The Department supplies foodgrains, etc. from its main stores/mills to its sub-stores/sale depots for sale through sale outlets. As per the departmental manual, the despatches from the main stores and receipt thereof at the sub-stores/sale depots are to be reconciled monthly. Further, while despatching the consignment, three copies of the *challans* are to be prepared, two copies of which are issued to drivers of the vehicles, who deliver one copy to the recipient depot for record and obtains acknowledgement of stocks on the other.

7.4.2 Test-check (August 2000/April 2002) of records of the Assistant Directors, Food and Supplies, Udampur/Doda revealed that 4102 quintals of foodgrains^ψ valued at Rs 28.37 lakh despatched during 1996-2001 by Assistant Director, Trade and Stores, Jammu and from main stores of Khilani and Gulabgarh to various sub-stores/sale depots located in Kishtwar, Paddar, Gandoh, Batote, Mahore and Dharmari tehsils through carriage contractors were not accounted for by the respective storekeepers in their stock registers. Non-accounting of the stocks remained undetected as periodic reconciliation of the receipt/despatch of the foodgrains was not conducted by the respective Tehsil Supply Officers.

7.4.3 Though the matter was brought to the notice of the Department in September 2000/April 2002, the foodgrains had neither been taken on stock nor made good from the persons responsible (May 2002).

7.4.4 The matter was reported to Government/Department in April 2002/June 2002; their reply had not been received (October 2002).

^ψ Wheat: 2916 quintals; cost: Rs 18.66 lakh, Rice: 1186 quintals; cost: Rs 9.71 lakh.

7.5 Embezzlement of Government money

Non-observance of requisite checks by the officers of the Department facilitated embezzlement of Rs 7.90 lakh.

7.5.1 Financial rules provide that the departmental officers shall communicate detail of all receipts to the Controlling Officer after getting them verified from the treasury records. The Controlling Officer, after consolidation of all receipts shall reconcile them with the figures maintained by the Accountant General.

7.5.2 Test-check (September 2000) of the records of Tehsil Supply Officer (TSO), Mahore revealed that remittances aggregating Rs 1.28 lakh made by three ration dealers in the Dharmari sub-treasury during March 2000 did not exist in the treasury records and had been embezzled. The verification certificate on the monthly remittance statements of Dharmari sub-treasury, was also not signed by the Assistant Treasury Officer. It was also seen that monthly receipt figures had not been reconciled by the Food and Supplies Department with those maintained by the Accountant General. Non-observance of these checks by the departmental officers facilitated embezzlement of Government money.

7.5.3 As a sequel to the audit observation, the Director Accounts and Treasuries/Director Food and Supplies Department, Jammu instituted (September/November 2000) an enquiry into the matter. The preliminary report (November 2001) of the Enquiry Officer (nominated by the Director Accounts and Treasuries) revealed further non-accountal of remittances aggregating Rs 6.62 lakh made in the sub-treasury by the ration dealers/storekeeper of Mahore between March 1998 and February 2000. The Enquiry Officer suspecting more embezzlements recommended (November 2001) a thorough probe into the matter. However, no action had been initiated on the recommendations of the Enquiry Officer as of February 2002. Action taken by the Food and Supplies Department/Director Accounts and Treasuries to effect recovery of the embezzled amount was also awaited (February 2002).

7.5.4 The matter was reported to Government/Department in April 2002, their reply had not been received (October 2002).

Transport and Information Department
(Jammu and Kashmir State Road Transport Corporation)

7.6 Embezzlement of GPF deductions

Failure of the Corporation to adhere to the financial rules facilitated embezzlement of Rs 8.70 lakh.

7.6.1 Financial rules provide that when Government money is remitted into treasuries/banks, Drawing and Disbursing Officers (DDO) making such remittances should compare the treasury officer's receipt on the *challan* with the entries made in the cash book to ensure that the amounts have actually been credited into the treasury/bank.

7.6.2 Records of the Divisional Accounts Officer (DDO[‡]), Mechanical Unit Jammu revealed (December 2000) that the DDO did not verify the remittance entries in the cash book with the treasury *challans*. This resulted in non-detection of fictitious remittance entries made by the cashier in the cash book, facilitating embezzlement of Rs 8.70 lakh deducted on account of GPF from the employees of the Corporation during May 1995 to March 2000. Though the Corporation recovered (May 2001) Rs 1.89 lakh from the cashier, Rs 6.81 lakh were still recoverable from the cashier (February 2002). An amount of Rs 4.93 lakh* payable to the subscribers as interest on the deducted amount was also recoverable from the cashier. The Enquiry Officer appointed (January 2002) by the Corporation to investigate the matter had not finalised his report (August 2002).

7.6.3 The matter was reported to Government/Corporation in April 2002; their reply had not been received (October 2002).

[‡] Drawing and disbursing officer

* Calculated at 12 per cent during 1995-96 to 1999-2000, 11 per cent during 2000-01 and 9.50 per cent during 2001-02.