Chapter-VII
Commercial Activities
Section-I

Overview of Government companies and Statutory corporations

Introduction

7.1.1 As on 31 March 2003, 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 2002) 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. Audit of Jammu and Kashmir State Electricity Board (SEB), established by an Act of the State Legislature in 1971, had not been entrusted (October 2003) to CAG. The Board is now being considered for abolition by the Government. 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

Working Public Sector Undertakings (PSUs)

7.1.2 Investment in working PSUs

The total investment in 23 working PSUs (19 Government companies and four Statutory corporations) at the end of March 2002 and March 2003 was as follows:

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

Table No. 7.2

(Rupees in crore)

Year	Number of PSUs	Investment by way of		
		Equity	Loan	Total
2001-02	23	407.75	2321.87	2729.62
2002-03	23	421.08	2466.82	2887.90

Sector-wise investment in Government companies and Statutory corporations

7.1.3 The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2003 and 31 March 2002 are indicated below in the pie charts:

Chart-7.1

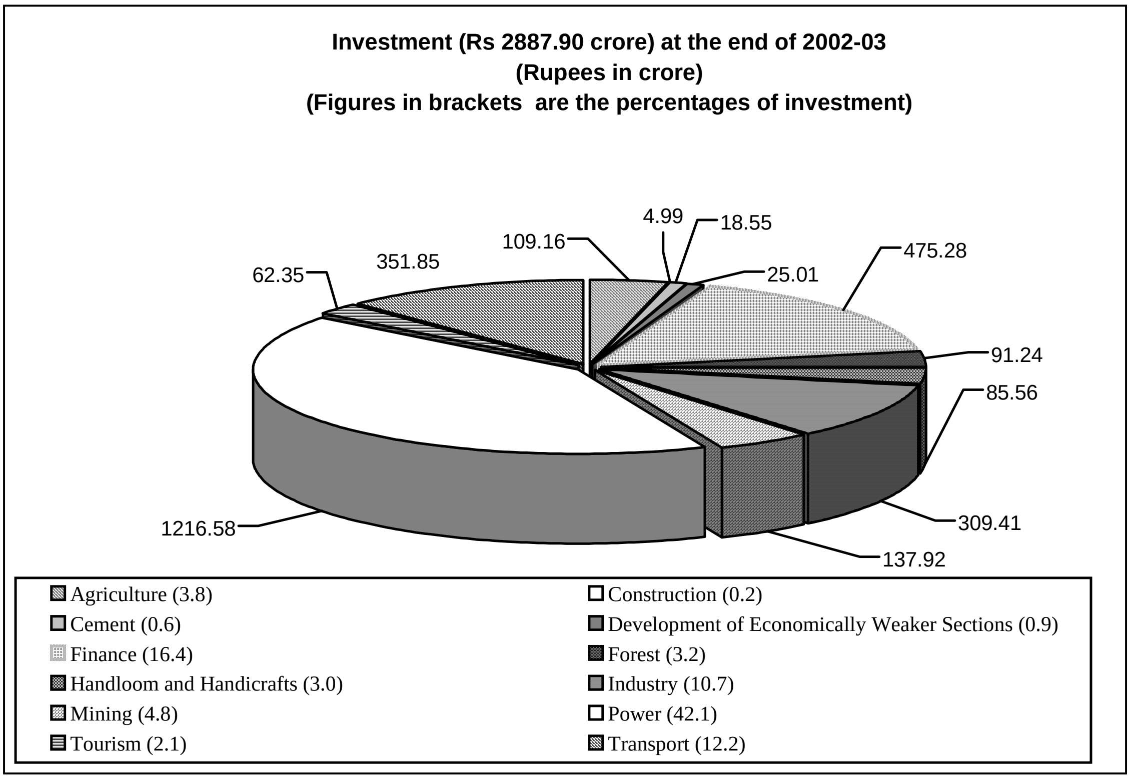
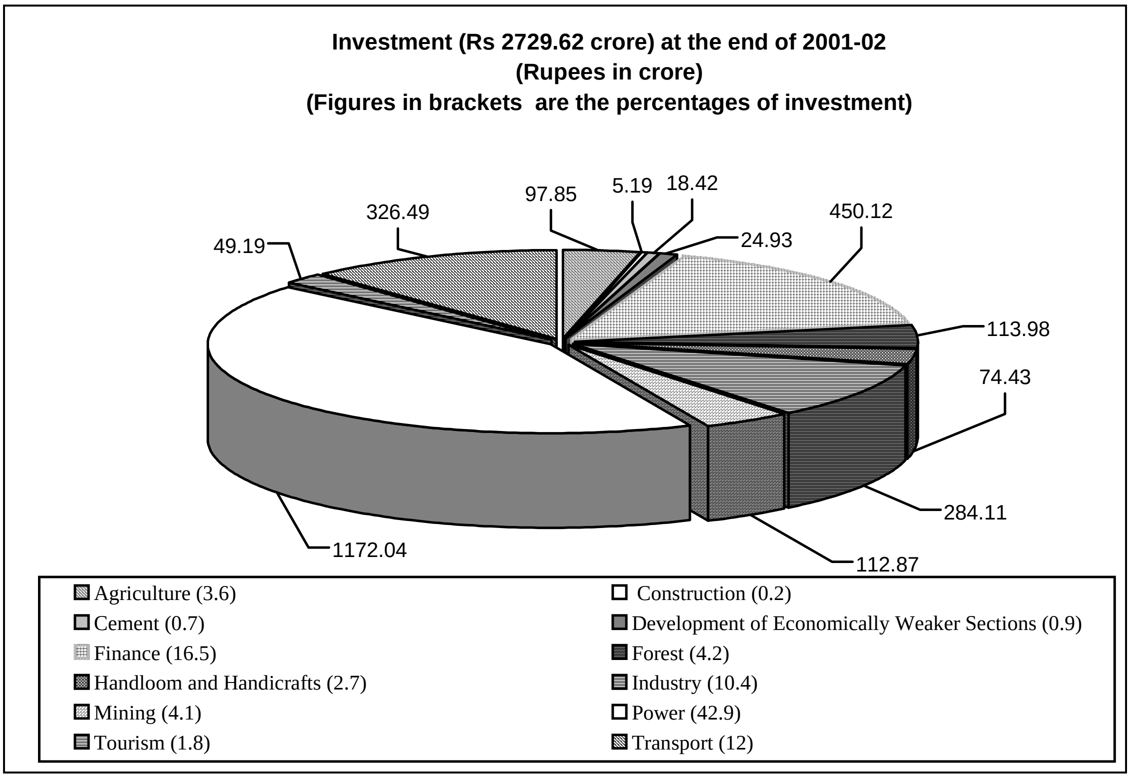


Chart-7.2



Working Government companies

7.1.4 Total investment in 19 working companies as on 31 March 2002 and March 2003 was as follows.

Table No. 7.3

(Rupees in crore)

Year	Number of Government companies	Investment		
		Equity	Loan	Total
2001-02	19	229.09	1598.73	1827.82
2002-03	19	242.42	1752.57	1994.99

The summarised statement of Government investment in these companies in the form of equity and loan is detailed in the *Appendix*-12.

As on 31 March 2003, the total investment in these companies comprised 12 *per cent* equity capital and 88 *per cent* loan compared to 13 *per cent* equity capital and 87 *per cent* loan as on 31 March 2002.

The debt-equity ratio of these companies increased from 6.98 in 2001-02 to 7.23 in 2002-03 mainly due to net increase (Rs 153.85 crore)* in the long-term borrowings in Agriculture (Rs 11.32 crore), Industry (Rs 25.30 crore), Handloom and Handicrafts (Rs 11.01 crore), Mining (Rs 25.05 crore), Power (Rs 49.80 crore) and Finance (Rs 31.37 crore) sectors.

Working Statutory corporations

7.1.5 Total investment in four working Statutory corporations at the end of March 2002 and March 2003 was as follows:

Table No. 7.4

(Rupees in crore)

S.No.	Name of corporations	2001-02		2002-03	
		Capital	Loan	Capital	Loan
1	Jammu and Kashmir State Electricity Board	Nil	243.90	Nil	238.64
2.	Jammu and Kashmir State Road Transport Corporation	105.83	220.66	105.83	246.02
3.	Jammu and Kashmir State Financial Corporation	63.80	153.64	63.80	147.39
4.	Jammu and Kashmir State Forest Corporation	9.03	104.95	9.03	82.20
	Total	**178.66**	**723.15**	**178.66**	**714.25**

As on 31 March 2003, the total investment in Statutory corporations comprised 20 *per cent* equity capital and 80 *per cent* loan (the position being same as on 31 March 2002).

* There was also marginal increase of Rs 70 lakh in Cement and Tourism Sectors and decrease of Rs 71 lakh in Construction and Development of Economically Weaker Sections of Society sectors.

The debt-equity ratio decreased from 4.05 in 2001-02 to 4 in 2002-03 due to decrease in long-term borrowings by Rs 8.90 crore during the current year. The summarised statement of the Government investment in these Statutory corporations in the form of equity and loan is detailed in *Appendix*-12.

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

7.1.6 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the Central and the State Governments to working Government companies/Statutory corporations are given in *Appendices*-12 and 14.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the Central and the State Governments to the working Government companies/Statutory corporations for the three years up to 2002-03 are given below:

Table No.7.5

(Rupees in crore)

	2000-01				2001-02				2002-03			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital from budget	5	1.18	1	3.37	5	1.37	1	0.45	5	13.29	-	-
Loans given from budget	5	83.74	1	25.60	2	3.72	1	19.20	5	9.94	1	20.45
Grants towards projects, programmes/ schemes	7	135.73	1	8.50	7	24.75	-	-	5	16.99♣	-	-
Subsidy	2	4.70	-	-	5	7.00	-	-	4	1.29♦	-	-
Total outgo	**14**	**225.35**	**1**	**37.47**	**12**	**36.84**	**1**	**19.65**	**11**	**41.51**	**1**	**20.45**

During the year 2002-03, Government guaranteed loans aggregating Rs 29.39 crore obtained by two working Government companies (Rs 4.37 crore) and one working Statutory corporation (Rs 25.02 crore). At the end of the year, guarantees of Rs 1127.71 crore against nine working Government companies (Rs 808.02 crore) and three working Statutory corporations (Rs 319.69 crore)

♣ Jammu and Kashmir Small Scale Industries Development Corporation Limited :Rs 76 lakh, Jammu and Kashmir State Industrial Development Corporation Limited: Rs 13.49 crore (Central Government: Rs 8.25 crore; State Government: Rs 5.24 crore) Jammu and Kashmir State Handloom Development Corporation Limited: Rs 1.51 crore (Central Government: Rs 74 lakh; State Government Rs 77 lakh), Jammu and Kashmir State Handicrafts (Sales and Export) Development Corporation Limited :Rs 92 lakh (Centre Government), Jammu and Kashmir Tourism Development Corporation Limited :Rs 31 lakh (Centre Government).

♦ Jammu and Kashmir Horticultural Produce Marketing and Processing Corporation Limited: Rs 25 lakh, Jammu and Kashmir Small Scale Industries Development Corporation Limited: Rs 20 lakh, Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited: Rs 34 lakh and Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited: Rs 50 lakh.

were outstanding. No dues were waived off by Central/State Governments during 2002-03. Details of subsidy given, guarantees received/outstanding are indicated in the *Appendix*-14.

Finalisation of accounts by working PSUs

7.1.7 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. These 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*-13, out of 19 companies and three Statutory corporations, only one company had finalised its accounts for the year 2002-03 within stipulated period. During the period from October 2002 to September 2003, 11 Government companies finalised 12 accounts for previous years. Similarly, during this period, two Statutory corporations finalised two accounts for the previous years.

The accounts of 18 working Government companies and three Statutory corporations were in arrears for period ranging from one to 18 years as on 30 September 2003 as detailed below.

Table No. 7.6

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*-13	
			Companies	Statutory corporations	Companies	Statutory corporations
1.	1985-86	18	1	-	4	-
2.	1986-87	17	1	-	11	
3.	1987-88	16	1	-	1	-
4.	1989-90	14	1	-	16	-
5.	1990-91	13	1	-	10	
6.	1992-93	11	2	-	2,9	-
7.	1993-94	10	3	-	8,13,17	-
8.	1994-95	9	1	-	14	-
9.	1995-96	8	3	-	5,15,7	-
10	1996-97	7	2	1	3,18	3
11	1998-99	5	1	-	12	-
12.	2000-01	3	1	-	6	-
13.	2001-02	2	-	1	-	1
14.	2002-03	1	-	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 Accountant General regarding the arrears in finalisation of accounts, no significant clearance of arrears was achieved in the current year. As a result net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

7.1.8 The summarised financial results of working PSUs (Government companies and Statutory corporations), as per their latest finalised accounts are given in *Appendix*-13. Besides, statements showing financial position and working results of individual working Statutory corporations for the latest three years for which accounts were finalised are given in *Appendices*-15 and 16, respectively.

According to the latest finalised accounts of 19 working Government companies and three Statutory corporations, 10 companies[*] and two[#] Statutory corporations had incurred aggregate losses of Rs 38.16 crore and Rs 51.92 crore, respectively and five companies[@] had earned profit of Rs 339.40 crore. Financial position and working results in respect of four[♥] companies and two Statutory corporations (Jammu and Kashmir State Forest Corporation and Jammu and Kashmir State Electricity Board) could not be assessed in audit due to non-receipt of their accounts.

Working Government companies

Profit earning companies and dividend

7.1.9 Only one company (Jammu and Kashmir Bank Limited) which finalised its accounts for 2002-03, earned profit of Rs 337.75 crore and declared dividend of Rs 29.10 crore. The dividend, as percentage of the share capital of Rs 48.20 crore of the Company worked out to 60.37 *per cent*. As a percentage of total equity capital of Rs 208.22 crore invested by the State Government in 19 working Government companies during 2002-03, it worked out to 13.98 *per cent* as against 12.44 *per cent* in the previous year. Two more companies (Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited and Jammu and Kashmir State Handloom Development Corporation Limited) which finalised their accounts for the years 1992-93 and 1994-95, respectively during 2003-04 earned aggregate profit of Rs 1.44 crore. However, these two companies did not declare any dividend.

---

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

[#] S.No. 1 and 2 of *Appendix*-13.

[@] S.No. 4, 7, 13, 16 and 19 of *Appendix*-13.

[♥] S.No. 12, 14, 17 and 18 of *Appendix*-13.

Loss incurring working Government companies

7.1.10 Of the 10 loss-incurring working Government companies, six had accumulated losses aggregating Rs 163.64 crore which exceeded their aggregate paid-up capital of Rs 39.19 crore by Rs 124.45 crore as per their latest available accounts.

Despite their poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of loan, equity, etc. According to available information, financial support so provided by the State Government during 2002-03 to four of these six companies amounted to Rs 9.92 crore.

Working Statutory corporations

7.1.11 As per their latest finalised accounts, the two working Statutory corporations had accumulated losses aggregating Rs 581.39 crore which exceeded their aggregate paid-up capital of Rs 169.18 crore by Rs 412.21 crore. Despite their 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 2002-03 to one of these corporations amounted to Rs 20.45 crore.

Operational performance of working Statutory corporations

7.1.12 The operational performance of working Statutory corporations is given in *Appendix*-17.

Return on capital employed

7.1.13 As per the latest finalised accounts, the capital employed worked out to Rs 10674.19 crore in 19 working companies and return thereon amounted to Rs 1217.96 crore (11.41 *per cent),* as compared to return of Rs 1155.59 crore (12.33 *per cent*) in the previous year (accounts finalised up to September 2002). Similarly, the capital employed and return thereon in case of working Statutory corporations as per the latest finalised accounts worked out to Rs 135.15 crore and minus Rs 20.83 crore, respectively against the return of minus Rs 14.15 crore in previous year (accounts finalised up to September 2002). The details of capital employed and return thereon in case of working Government companies and Statutory corporations are given in *Appendix*-13.

Non-working PSUs

Investment in non-working PSUs

7.1.14 As on 31 March 2003, the total investment in the non-working Government company (Tawi Scooters Limited) was Rs 1.64 crore by way of equity (Rs 81 lakh) and long-term loans (Rs 83 lakh). 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 August 2003. The State Government during the three years from 2000-01 to 2002-03 incurred an expenditure of Rs 7.92 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*-13.

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

7.1.15 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. 7.7

S.No.	Name of the Statutory Corporation	Year up to which SARs placed in the Legislature
1.	Jammu and Kashmir State Road Transport Corporation	2000-01
2.	Jammu and Kashmir State Financial Corporation	2001-02

Results of audit by Comptroller and Auditor General of India

7.1.16 During October 2002 to September 2003, eleven Government companies and above mentioned two Statutory corporations were selected for review. The net impact of the important audit observations as a result of the review was as follows:

Table No. 7.8

Details	Number of accounts		(Rupees in lakh)	
	Companies	Corporations	Companies	Corporations
Increase in loss	3	2	33.59	375.63

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:

Errors and omissions noticed in case of Government companies and corporations

7.1.17 Jammu and Kashmir State Road Transport Corporation (2000-01)

- The Corporation did not provide in its accounts, interest liability of Rs 3.12 crore payable on contributory/general provident funds balances (including state life insurance) for 1991-92 to 2000-01. This resulted in understatement of loss to that extent.

- The Corporation had not made any provision in its accounts, for Rs 39 lakh payable by it to the Srinagar municipality on account of the rent of city services yard resulting in understatement of loss.

- Liability and loss was understated to the extent of Rs 13 lakh by not making provision in the accounts for certain items of revenue expenditure.

- Against Rs 1.21 crore payable by the Corporation as audit fee for the period September 1976 to March 2001, provision for Rs 81 lakh only was made in its accounts. This resulted in understatement of expenditure/loss by Rs 40 lakh.

Jammu and Kashmir State Financial Corporation (2001-02)

7.1.18 Rupees 37.49 lakh written off by the Corporation under "Rehabilitation-cum-Settlement Scheme-1998" were charged to profit and loss account instead of "Reserve for bad and doubtful debts". This resulted in overstatement of loss to that extent.

Jammu and Kashmir Handloom Development Corporation Limited (1994-95)

7.1.19 The Company charged off inventory of Rs 18.20 lakh lost by way of theft/burglary for which claim had been lodged with an insurance company. The amount was charged off and simultaneously shown as income in Profit and Loss account without receiving any amount from the insurance company. This resulted in overstatement of profit to that extent.

Persistent irregularities and system deficiencies in financial matters of PSUs

7.1.20 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 the Corporation did not take any corrective action.

(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) Non-segregation of book debts as, good, bad and doubtful.

(e) Abnormal delay in recoveries, adjustment of balances under advances, deposits, etc.

(f) Non-maintenance of assets register.

Recommendations for closure of PSUs

7.1.21 Even after completion of 26 to 35 years of their existence, the turnover of five* working companies had been less than Rs 5 crore in each of the preceding five years of their latest finalised accounts. Of these, three** companies had been incurring losses for five consecutive years leading to negative net worth. Besides, 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.

Disinvestment of Public Sector Undertakings

7.1.22 Board of Directors of only one Government company viz. Jammu and Kashmir Tourism Development Corporation Limited in its various meetings (held on September 1997, September 1998 and June 1999) desired to consider privatisation, joint venture or sale of its loss-making units. However, the Company had taken no action in this direction as of March 2003.

Response to Inspection Reports, draft paragraphs and reviews

7.1.23 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Inspection Reports issued up to March 2003 pertaining to 20 PSUs disclosed that 2683 paragraphs relating to 802 Inspection Reports remained outstanding at the end of September 2003. Of these, 777

---

* 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 and Jammu and Kashmir State Road Transport Corporation.

Inspection Reports containing 2597 paragraphs had not been replied to for more than five years. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2003 is given in *Appendix*-18.

Similarly, draft paragraphs 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 three draft paragraphs and one draft review forwarded to the departments concerned during March-July 2003 (detailed in *Appendix-19)*, no reply was received (October 2003).

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.

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

7.1.24 The status of reviews/paragraphs of Commercial Chapter pending discussion as on 31 March 2003 is shown below:

Table No. 7.9

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*	-
1996-97	2	1	2*	1*
1997-98	1	1	1*	1*
1998-99	2	4	2*	1
1999-2000	2	3	2*	2
2000-01	1	3	1	3
2001-02	1	4	1	4
Total:	**19**	**26**	**15**	**16**

* Partly discussed.

Section-A-Review

Tourism Department

7.2 Jammu and Kashmir Tourism Development Corporation Limited

The Jammu and Kashmir Tourism Development Corporation Limited (Company) was incorporated in February 1970 as a wholly owned Government company with the objectives of promoting and operating schemes for development of tourist traffic to the State.

Highlights

- **The Company had finalised its accounts up to 1988-89 only. As per provisional accounts the accumulated loss of the Company stood at Rs 7.85 crore (March 2003) representing 242 *per cent* of its paid-up capital.**

(Paragraph: 7.2.7)

- **The number of units incurring losses increased from 29 (1998-99) to 39 (2002-03) and the total operational losses suffered by these units aggregated Rs 7.45 crore during 1998-2003. Of the loss-making units, 18 units suffered losses continuously for the last five years.**

(Paragraph: 7.2.8)

- **The shortfall in achievement of targets of room occupancy ranged between 7 and 28 *per cent* during 1998-2003. The room occupancy by the tourists declined steadily from 52 to 34 *per cent* during this period.**

(Paragraph: 7.2.9)

- **Against the norm of maintaining food costs at 40 *per cent* of the total sales, these were on higher side in respect of 38 units during various periods between 1997-2002. The extra expenditure on this account aggregated Rs 43.03 lakh.**

(Paragraph: 7.2.13)

- **The Company suffered loss of Rs 1.03 crore during 1997-2002 on running departmental canteens, not connected with development of tourism in the State.**

(Paragraph: 7.2.15)

- **Despite measures of freezing appointments and reversion of deputationists to their parent offices approved (July 1999) by the Board, the Company engaged 139 daily rated/fixed wage workers between 1999-2002 on whom expenditure on wages aggregated Rs 1.05 crore up to March 2003. Action to revert deputationists to their parent offices was also not taken.**

(Paragraph: 7.2.18)

- **The balances under sundry debtors at the end of 2002-03 aggregated Rs 50.75 lakh, of which Rs 6.21 lakh were outstanding against employees who were no longer in service of the Company.**

(Paragraph: 7.2.20)

- **Injudicious decision of the Company to shift its regional office from its existing site to new location resulted in wasteful expenditure of Rs 28.85 lakh.**

(Paragraph: 7.2.17)

Introduction

7.2.1 The Jammu and Kashmir Tourism Development Corporation Limited (Company) was incorporated in February 1970 as a wholly owned Government company.

The main objectives of the Company are to:

- carry on business as tourist and travel agents by providing facilities of all kinds, to the tourists,
- establish, construct, lease out or acquire on its own hotels, clubs, restaurants and tourist bungalows, and
- promote and operate schemes for development of tourist traffic to the State.

For achieving these objectives, the Company operates hotels, tourist bungalows, hutments, and cafeteria.

Organisational set up

7.2.2 The management of the Company is vested in a Board of Directors comprising eight directors (five officials and three non-officials[@]) including the

[@] Non-official members comprise President of Travel Agents Society of Kashmir and President, Chamber of Commerce, Srinagar/ Jammu.

Managing Director appointed by the State Government. The Minister, Tourism Department is *ex-officio* Chairman of the Board and the Managing Director is the Chief Executive of the Company. The overall administrative control of the Company lies with the Tourism Department.

The Board had met on six occasions only during 1998-2003 against twenty meetings required to be held.

Scope of Audit

7.2.3 The performance of the Company covering the five-year period 1992-1997 had featured in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1997 (Para 7.7) which was discussed by Committee on Public Undertakings (COPU) in July 1999 and December 2002.

The present review conducted during October 2002 to March 2003 covers the activities of the Company during the five years 1998-99 to 2002-03, based on test-check of 14[*] out of 69 units (excluding 18 non-functional units as on March 2003). Important audit findings noticed as a result of test-check are set out in the succeeding paragraphs:

Funding

Capital structure

7.2.4 The Company had an authorised capital of Rs five crore, against which its paid-up capital as on 31 March 2003 was Rs 3.24 crore, fully contributed by the State Government. Additional funds of Rs 20.27 crore[$] were released by the Government to the Company during 1975-76 to 2002-03 which was booked as 'share capital suspense' pending enhancement of authorised share capital.

Borrowings

7.2.5 The Company obtained loans aggregating Rs 4.26 crore from the State Government between September 1983 and March 1994 for renovation and up-gradation of its establishments, for which terms and conditions had not been fixed (March 2003). The loan was outstanding as of March 2003.

The Company also raised (January 2000) loan of rupees one crore from the Jammu and Kashmir Bank Limited for which no repayment schedule had been fixed. As per decision of the Board, the amount was to be utilised for repairs/upgradation of Hotel Heemal. Audit scrutiny revealed that only Rs 2.46 lakh was spent on repairs/upgradation of the hotel and the balance

[*] MD's Office, Regional Office, Jammu, Tourist Reception Centres, Jammu/Srinagar/Katra; Wazwan Restaurant, Transport unit Jammu/Srinagar, Tourist Bungalow Katra, *Yatri Niwas* Katra; Jajjar Kotli Complex, Baghi-i-Bahu, Nun-Kun Restaurant and Floating Restaurant.

[$] Up to 1996-97: Rs 11.57 crore; 1997-98 to 2002-03: Rs 8.70 crore.

amount was diverted to other construction/maintenance works (Rs 77.46 lakh), release of deposits to contractors (Rs 16.27 lakh) and for payment of interest (Rs 3.70 lakh). As of March 2003, the Company had liability of Rs 62.40 lakh on this account towards the bank.

Locking up of central funds

7.2.6 The Company received Rs 62.95 lakh between March 1998 and November 2001 from the Central Government for implementation of four schemes* for augmentation/upgradation of tourist infrastructure in the State. As of March 2003, none of the works had been taken up for execution, resulting in locking up of funds and non-achievement of intended facilities for the tourists.

Financial position and working results

7.2.7 Financial position and working results of the Company for the five years up to 2002-03, based on provisional accounts, are given in *Appendices*-20 and 21. The Company had finalised its accounts up to 1988-89 only, despite recommendations made by the COPU that the Company should take advantage of computer technology to ensure early finalisation of accounts.

The summarised position of the working results of the Company for the five years up to 2002-03 is tabulated below:

Table No. 7.10

(Rupees in crore)

S.No	Particulars	1998-99	1999-00	2000-01	2001-02	2002-03
1.	Total income	10.98	12.53	13.77	12.23	13.17
2.	Total expenditure	10.88	11.63	12.65	11.98	13.00
3.	Net profit	0.10	0.90	1.12	0.25	0.17
4.	Previous adjustments (net)	-#	(+) 0.01	(-) 0.52	(-) 0.62	(-) 0.95
5.	Profit after previous adjustments	0.10	0.91	0.60	(-) 0.37	(-) 0.78

It would be seen from the above that the Company earned profit during 1998-99 to 2000-01. It, however, suffered loss of Rs 37.04 lakh and Rs 78.73 lakh during 2001-02 and 2002-03 respectively, due to fall in income from room occupancy by tourists and catering services. The accumulated loss of the Company stood at Rs 7.85 crore at the end of March 2003 which represented 242 *per cent* of its paid-up capital.

Operational performance

7.2.8 As on 31 March 2003, the Company was running two hotels, five hutments, three tourist-retiring centres, four tourist establishments, 26 tourist

* Construction of *Yatri Niwas* at Patnitop, Upgradation/installation of central heating system at tourist lodge Patnitop, renovation of accommodation at Verinag and computerization of tour and travel division.

\# Negligible.

bungalows and 29 cafeteria. The operational performance of its working establishments during 1998-99 to 2002-03 was as under:

Table No. 7.11

(Rupees in crore)

Year	No. of working units*	Profit making units		Loss-making units	
		No.	Amount	No.	Amount
1998-99	52	23	4.04	29	1.10
1999-00	56	24	5.57	32	1.17
2000-01	57	25	6.13	32	1.15
2001-02	57	22	5.01	35	1.19
2002-03	51	12	3.06	39	2.84

The number of units incurring losses increased from 29 during 1998-99 to 39 during 2002-03. Total operational losses suffered by these units during 1998-2003 aggregated Rs 7.45 crore. Of the loss-making units, 18 suffered losses continuously for the last five years. Reasons for losses as seen in audit were low room occupancy, high operational expenses and surplus manpower.

Accommodation

7.2.9 The Company had 34 units which provide lodging facilities. The room capacity and achievements of the lodging facilities of the Company against targets fixed during 1998-99 to 2002-03 were as under:

Table No. 7.12

(In lakh room days)

Year	Capacity	Occupancy		Rooms occupied by Government departments, etc. (*per cent*)	Accommodation availed of by the tourists (*per cent*)
		Target	Actual (percentage shortfall vis-a-vis targets)		
1998-99	2.88	1.90	1.59 (16)	0.76 (48)	0.83 (52)
1999-00	3.03	1.53	1.43 (7)	0.88 (62)	0.55 (38)
2000-01	3.13	1.78	1.51 (15)	0.96 (64)	0.55 (36)
2001-02	3.14	1.82	1.31 (28)	0.87 (66)	0.44 (34)
2002-03	3.14	1.82	1.32 (27)	0.87 (66)	0.45 (34)

On the basis of achievements in the past, the Company had fixed targets which were lower than its room capacity. The Company, however, failed to achieve the reduced targets with shortfall ranging between 7 and 28 *per cent* during 1998-2003. There was steady decrease in the room occupancy by the tourists, the percentage of which declined from 52 in 1998-99 to 34 in 2002-03. Decrease in the room occupancy was attributed (March 2003) by the management to disturbed conditions in the State and growth of hotels in the private sector. The reasons put forth were not tenable as there had been growth in the pilgrim tourist from 45 lakh during 1997 to 53 lakh in 2000 though it decreased marginally (52 lakh) during 2001.

* Excluding sick units.

The decrease in the room occupancy was, obviously, due to failure of the Company to attract tourists to its establishments and its inability to face competition from the private sector. The Company had not ensured compliance of requirements of tourist industry, viz. on-line reservation system, display of information regarding availability of medical facilities, certificate of public health authority about hygienic condition of its establishments, test report of food inspectors about quality of food served and adequacy of fire fighting arrangements. Moreover, no effective marketing strategy had been framed to compete with the private sector.

Fixation of tariff

7.2.10 The hut/room tariff is fixed by the Company on fixed input costs and profits. There existed no system to regulate tariff structure of the Company on the basis of facilities provided by it and the tariff prevalent in comparable private sector establishments in the area.

Tourist transport services

7.2.11 In order to provide transport services to tourists, the Company operates two transport units at Srinagar and Jammu. There existed no centralised database to monitor performance of these units. In absence of the data, profitabilities of the functioning of the units could not be assessed in audit. However, test-check of eight vehicles (for the period records were made available) revealed that their utilisation ranged between 24 and 77 *per cent* only during 1998-99 to 2001-02.

In order to augment the transport services, the Company decided (June 1999) to purchase luxury vehicles. It was, however, seen that a vehicle (gypsy king) purchased at a cost of Rs 3.67 lakh was used for non-commercial purposes.

Catering

7.2.12 The Company had 41 units (March 2003) which rendered catering services. The working results of the loss-making catering units during 1998-99 to 2002-03 were as under:

Table No. 7.13

(Rupees in crore)

Year	No. of units providing catering	No. of units suffering losses	Income	Expenses	Operational loss
1998-99	32	25	1.00	1.88	0.88
1999-00	38	29	1.29	2.29	1.00
2000-01	39	29	1.02	2.10	1.08
2001-02	39	30	1.05	2.03	0.98
2002-03	41	37	1.79	3.13	1.34

The number of loss-making units increased from 25 in 1998-99 to 37 in 2002-03 and the total losses suffered by these units aggregated Rs 5.28 crore during this period. Reasons for incurring losses by these units had not been analysed. The management, however, stated (March 2003) that the Company contemplated to lease out loss-making units for joint ventures.

7.2.13 The Company had fixed norms of maintaining food costs at 40 *per cent* of the total sales. It was noticed in audit that the food costs were on higher side (varying between 41 and 100 *per cent* of the sales) in respect of 38 units during various periods between 1997-2002 as detailed in *Appendix*-22. The extra expenditure on this account aggregated Rs 43.03 lakh. On this being pointed out (February 2003) in audit, the Financial Advisor and the Chief Accounts Officer of the Company stated (March 2003) that the cost of excess consumption was debited to the personal accounts of the defaulters. Audit scrutiny, however, revealed that no recovery on this account had ever been effected from the persons concerned.

Construction of floating restaurant

7.2.14 The Company decided (July 1999) to renovate the existing floating restaurant (a loss-incurring unit) at Charchinari in two phases at an estimated cost of Rs 26.26 lakh under a centrally sponsored scheme. The Company, however, constructed (August 2001) a new floating restaurant at a cost of Rs. 47.07 lakh without seeking approval from the Central Government. It was seen in audit that the new restaurant also suffered losses (Rs 5.40 lakh: 2001-02; Rs 6.64 lakh: 2002-03). Thus, decision of the management to invest in a non-viable unit was injudicious.

Loss on running departmental canteens

7.2.15 The Company operates departmental canteens at Civil Secretariat, High Court at Srinagar/Jammu and at Hotel Zum Zum, Srinagar. All these canteens suffered losses aggregating Rs 1.03 crore during 1997-2002, though none of these establishments was related to development of tourism in the State. Reasons for continued operation of these units without ensuring their economic viability were not intimated.

Loss due to non-charging of Service Tax

7.2.16 Under the Jammu and Kashmir General Sales Tax Act, 1962, service tax at 2 *per cent* (increased to 4 *per cent* from 5 April 1999) was leviable (with effect from 23 July 1997) by the Company on services provided by them to the guests at its lodging facilities. It was, however, noticed that the Company failed to recover service tax (Rs 77.64 lakh) on room rent from customers between August 1997 and January 1999 in Jammu division (room rent: Rs 3.14 crore) and between

August 1999 and March 2002 in Kashmir division (room rent: Rs 21.31 crore[Ψ]). Due to failure of the Company to recover service tax from customers, the State ex-chequer was deprived of revenue of Rs 77.64 lakh

Wasteful expenditure due to injudicious decision

7.2.17 The management decided (August 1999) to shift its regional office from its hotel complex at Tourist Reception Centre (TRC), Jammu to the commercial complex of the Jammu Development Authority (JDA) at Rail Head, Jammu. The vacated accommodation at the TRC, after its renovation and conversion into guest rooms, was to be utilised for commercial purposes with expected annual income of Rs 13.10 lakh by way of rent.

Accordingly, the Company entered into an agreement with the JDA for acquiring on rent the space measuring 2134.68 sft at Rs 11 per sq. ft/month for an initial period of three years. The regional office was shifted to the new location in August 1999 after incurring Rs 18.09 lakh on additions/alterations to the newly acquired accommodation. The vacated accommodation at the TRC was, however, neither renovated nor rented out. In October 2002, the Company shifted its office back to TRC complex after payment of rent, etc. of Rs 9.74 lakh to JDA. Further amount of Rs 1.02 lakh (February 2003) was payable by the Company to the JDA on account of rent, etc. as the Company continued to be in possession of the rented accommodation even beyond October 2002.

On this being pointed out (August 2001/February 2003) in audit, the General Manager (Operations) stated (August 2001/February 2003) that the renovation/remodelling of the vacated accommodation could not be undertaken due to paucity of funds and slump in the tourist inflow leading to poor occupancy in the hotel complex. The reasons put forth were not tenable, as the room occupancy of the hotel complex was 44 *per cent* during 1998-99 and 42 *per cent* during 1999-2000, indicating that primarily there was no demand for additional accommodation. It was also stated by the General Manager that the Company contemplated to sublet the accommodation. However, the Company could not sub-let the hired accommodation in terms of the agreement entered into with the JDA.

Thus, the injudicious decision of the management to shift its regional office from its existing site to new location resulted in wasteful expenditure of Rs 28.85 lakh.

Surplus manpower

7.2.18 The Company had not fixed bed-staff ratio nor had it fixed staffing norms in its establishments providing catering and bar services. In absence of this, audit could not verify deployment of excess staff.

[Ψ] Rupees 6.94 crore between August 1997 and March 1999 and Rs 14.37 crore between April 1999 and March 2002.

One of the measures approved (July 1999) by the Board to improve overall position of the Company was effective utilisation of its existing manpower, freezing of further appointments/engagements and reversion of deputationists to their parent offices. Contrary to this, further engagement of 139 daily rated/fixed wageworkers was made between 1999-2002 on whom expenditure on wages aggregated Rs 1.05 crore during 1999-2003. Action to revert deputationists to their parent offices was also not taken by the Company.

Irregular appointment

7.2.19 The Company appointed (June 1999) a person* to the post of Manager Projects with the approval of the Chairman. The appointment was ratified (June 1999) by the Board on the plea that the Company had shortage of professionals.

It was, however, seen in audit that no post of Manager Projects existed in the Company. Besides, the candidate was selected against a non-existent post, without seeking offers from the general public and specifying qualifications and experience needed for the job. In absence of this, it could not be verified whether the candidate possessed the requisite qualification and experience for the job. The candidate had not rendered any technical advice or handled/appraised any project since her appointment (salary paid up to January 2003: Rs 4.33 lakh).

Sundry debtors

7.2.20 The balances under sundry debtors at the end of 2002-03 aggregated Rs 50.75 lakh. The particulars of the debtors indicating their age-wise break-up and amounts recoverable from them were as follows:

Table No. 7.14

(Rupees in lakh)

Age-wise break up	Recoverable from			Total
	Government departments/firms	Staff	Private parties	
Up to one year	-	6.00	-	6.00
One to five years	-	9.15	-	9.15
Above five years	19.83	7.45	8.32	35.60
Total	**19.83**	**22.60**	**8.32**	**50.75**

The outstanding (Rs 22.60 lakh) against staff members was due to non-adjustment of advances paid to them from time to time and included Rs 6.21 lakh outstanding against employees who were no longer in service of the Company. In case of private parties, the amount was outstanding between periods ranging from one to 24 years.

In absence of any policy for timely recovery of its dues, the Company was placed in a difficult situation for meeting its working capital requirements.

* Miss Shazia Khan

Management information system

7.2.21 The Management information system to monitor and analyse the data received from various units for effective management had not been established by the Company. The Company had, however, established Monitoring and Internal Control Section at its regional office at Jammu which was utilised for scrutinising bills, consumption accounts, etc. instead of analysing data received from units.

Accounting manual

7.2.22 The Company had not prepared (March 2003) accounting manual laying down detailed procedure for maintenance of accounts.

Internal audit

7.2.23 The Company has an Internal Audit Wing which reports its findings to the Managing Director. No annual plan to conduct audit of various units had been prepared by the wing. The number of units audited during last five years ranged between 2 and 12 only against existing 57 units. Out of 829 paragraphs pointed out by the internal audit wing, 218 paragraphs were outstanding against 43 units as on March 2003.

Though expenditure of Rs 22.07 lakh was incurred by the Company on payment of salary to the staff posted in the Internal Audit Wing during 1998-2003, the wing failed to reconcile grants/loans received by the Company from Central/State Governments and banks and their utilisation for asset creation. It also failed to monitor recoveries pointed out during physical verification of stores/stock.

The mandate, objectives and the methodology of the Internal Audit Wing should clearly be specified and the Wing should try to cover all the units in a cycle of 3-4 years for effective internal control.

Physical verification

7.2.24 Annual physical verification of stores/stocks had not been conducted regularly. Physical verification of six units conducted during 1999 after a decade, revealed a shortage of Rs 2.08 lakh (excluding value of store items not evaluated). No action to recover the shortages from the defaulters had been taken (February 2003).

7.2.25 The above matters were reported to the Government/Company in March 2003/June 2003; reply had not been received (October 2003).

Conclusion

The Company suffered losses due to low occupancy, high operational expenses and surplus manpower. The Company had not adopted any effective marketing strategy to compete with the hotel industry in the private sector.

There is an imperative need for the Company to adopt effective marketing strategy to compete with the private sector. It should also reduce surplus staff and reconsider running of departmental canteens which are not connected with the development of tourism.

Section-B-Audit Paragraphs

Industries and Commerce Department

(Jammu and Kashmir Minerals Limited)

7.3 Loss due to investment in a dubious firm

Investment of Rs 58.60 lakh by the Company in a joint venture with a private firm without verifying its credentials and execution of faulty agreement with it resulted in loss to the Company.

The Board of Directors (BOD) of Jammu and Kashmir Minerals Limited (Company) decided (August 1995) to take up extraction of gypsum of Parlankha Gypsum Mine (Project) as a joint venture with Kashmir Gypsum Limited, a Kolkata based private firm (firm). Accordingly, the Company executed an agreement (November 1995) with the firm and released (November 1995) Rs 58.60 lakh as 10 *per cent* of the equity participation of the project.

The Company after releasing payment to the firm, did not monitor the activities of the firm and did not take follow up action. It was only after about five years in April 2000, that the Company deputed its Secretary to Kolkata where the firm was stated to be registered with the Registrar of Companies (ROC) to obtain financial returns, etc. The Secretary, *inter alia*, found that (a) the office of the firm did not exist at its registered address, (b) the firm had not filed any returns with the ROC after November 1995, and (c) the firm made bogus allotment of shares. In follow up action, the Company lodged an FIR against the firm in July 2000, results whereof are awaited (February 2003).

Audit scrutiny of the records of the Company revealed (June 2002) that BOD without verifying credentials of the firm executed an agreement despite knowing the fact that the firm did not own any tangible assets either at the project site or elsewhere in the State. Moreover, the Company had not taken action to safeguard its financial interests while executing the agreement with the firm by ensuring Company's representative on the Board of the firm and submission of progress reports and periodical financial returns viz. balance sheet, profit and loss account, etc.

Thus, the decision of the Board to invest Rs 58.60 lakh in a firm without verifying its credentials and without ensuring representation of the Company on the Board of the assisted firm and lack of proper monitoring and follow up had resulted in loss of Rs 58.60 lakh.

The above matter was reported to Government/company (March 2003); their replies had not been received (October 2003).

Power Development Department

(Jammu and Kashmir State Power Development Corporation Limited)

7.4 Avoidable payment of interest

Avoidable payment of interest of Rs 40.64 lakh was made due to delay in allotment of funds by the Corporate Office.

The Jammu and Kashmir State Power Development Corporation Limited (Company) allotted (January 2000) civil and hydro-mechanical works of Baglihar Hydro Electric Power Project to a private firm. As per terms of the agreement, the Company was liable to pay interest at nine *per cent* per annum to the firm in case payments were not released to the firm within 28 days of receipt of invoices. The period of delay was to be reckoned from the twenty-ninth day of receipt of invoice till the payment was made.

Audit scrutiny (November 2002) revealed that two[β] divisions of the Company paid interest of Rs 40.64 lakh to the firm due to delays ranging between one and 82 days in releasing payments aggregating Rs 205.78 crore during March 2000 to May 2001. On this being pointed out in audit, the Executive Engineer of the divisions attributed (November/December 2002) this to belated allotment of funds by the Corporate Office. Audit scrutiny further revealed that the Company had funds available in its different bank accounts to cover the expenditure on due dates.

Timely allocation of funds by the Corporate Office to the divisions, which were bound by contractual obligations for making payments in time, could have saved the Company from payment of interest.

The matter was reported to Government/company (June 2003); their reply had not been received so far (October 2003).

[β] Power House Division, Chanderkote and Dam Division, Chanderkote.

Transport Department

(Jammu and Kashmir State Road Transport Corporation Limited)

7.5 Leakage of revenue

Failure of the Corporation to follow proper procedure for issuing mechanical inspection certificates, facilitated leakage of revenue of Rs 23.83 lakh.

Vehicles involved in accidents are referred by the Police to the Jammu and Kashmir State Road Transport Corporation (Corporation) for their mechanical inspection, so that legal action is initiated against the defaulters in the courts. The Corporation issues mechanical inspection certificates in respect of these vehicles after recovery of fee at rates[#] prescribed by the Corporation.

Audit scrutiny revealed (February 2002) that the Corporation issued mechanical inspection certificates on plain paper instead of on printed/machine numbered certificate books, thereby leaving ample scope for issuance of forged certificates, leading to loss of revenue to the Corporation. Records indicating particulars of vehicles inspected, their registration numbers, etc. were also not maintained by the Corporation. Based on the information obtained from the Police Department, 6036 accidental cases of private vehicles of Jammu division were referred by the Police during April 1999 to December 2001 to courts for legal action, on which mechanical inspection fee of Rs 26.72 lakh[**] was recoverable. Against this, the Corporation had received Rs 2.89 lakh only as mechanical inspection fee during the period. On this being pointed out in audit (June 2002), the Divisional Manager of the Corporation stated (July 2002) that the police officials instead of getting inspection certificates from the authorised officers of the Corporation, managed to obtain the certificates from unauthorised persons, who may or may not be the Corporation staff. It was also stated that the matter had been reported (August 2002) to the Police for investigation.

Thus, failure of the Corporation to follow proper procedure for issuing mechanical inspection certificates, facilitated loss of revenue of Rs 23.83 lakh.

The matter was reported to Government/corporation (April 2003); their replies were awaited (October 2003).

[#] Rupees 500 for heavy vehicles; Rs 200 for 2/3 wheelers (light vehicles).
[**] At Rs 500 for 4882 heavy vehicles and at Rs 200 for 1154 light vehicles.