

Chapter-1

Introduction

CHAPTER-1 INTRODUCTION

1.1 About the State Public Sector Undertakings (PSUs)

1.1.1 The Economic Sector (Public Sector Undertakings) comprises of 10 departments, namely Power Development, Industries and Commerce, Planning and Development, Tourism, Transport, Irrigation and Flood Control, Animal Husbandry and Fisheries, Agriculture, Forest and Rural Development. The total number of the Companies and Statutory Corporations of the State are 22 and three respectively. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Jammu and Kashmir, the State PSUs occupy a moderate place in the State economy. The working State PSUs registered a turnover of ₹ 5552.37 crore for 2011-12 (*Appendix 1.1*) as per their latest finalised accounts as of September 2012. This turnover was equal to 8.90 *per cent* of State Gross Domestic Product (GDP) of ₹ 62,365 crore in 2011-12. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. The State PSUs earned a profit of ₹ 705.53 crore (*Appendix 1.1*) in the aggregate as *per* their latest finalised annual accounts as of September 2012. They had employed 25,148 employees¹ as of 31 March 2012. The State PSUs do not include two² prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

1.1.2 As on 31 March 2012, there were 25 PSUs as *per* details given in **Table 1.1** below:

Table-1.1

Type of PSUs	Working PSUs	Non-working PSUs ³	Total
Government Companies	19	3	22
Statutory Corporations	3	Nil	3
Total	22	3	25

One company, i.e., Jammu and Kashmir Bank Limited was listed on the stock exchange.

1.1.3 During the year 2011-12, one PSU viz. Chenab Valley Power Projects Private Limited (Deemed Government Company) was established, whereas three PSUs⁴ were under liquidation.

¹ Three non-working Companies did not furnish the details.

² Consumer Affairs & Public Distribution Department and Government Press

³ Non-working PSUs are those which have ceased to carry on their operations.

⁴ Himalayan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organization Limited, and Tawi Scooters Limited.

1.2 Audit Mandate

1.2.1 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by the Government(s). A Government Company includes a subsidiary of a Government Company. Further, a Company in which 51 *per cent* of the paid up capital is held in any combination by the Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government Company (Deemed Government Company) as *per* Section 619-B of the Companies Act, 1956.

1.2.2 The accounts of the State Government Companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the CAG as *per* the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as *per* the provisions of Section 619(3)(b) of the Companies Act, 1956.

1.2.3 Audit of Statutory Corporations is governed by their respective legislations. Out of three Statutory Corporations, the CAG is the sole auditor for Jammu and Kashmir State Road Transport Corporation and Jammu and Kashmir State Forest Corporation⁵. In respect of Jammu and Kashmir State Financial Corporation, the audit is conducted by the Chartered Accountants and supplementary audit by the CAG.

1.3 Investment in State Public Sector Undertakings (PSUs)

1.3.1 As on 31 March 2012, the investment (capital and long-term loans) in 25 State PSUs was ₹ 4907.42 crore as *per* details given in **Table 1.2** below:

Table-1.2

(₹ in crore)

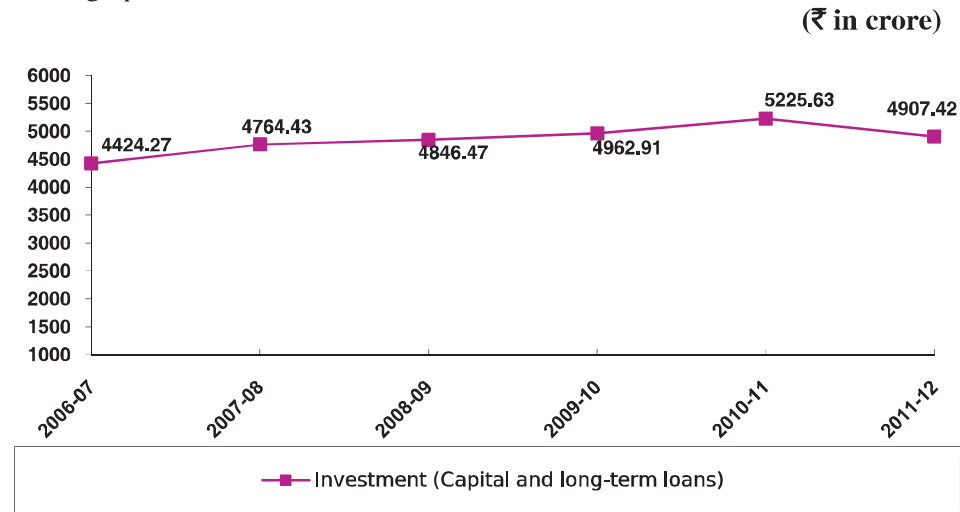
Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	263.00	3997.83	4260.83	179.40	463.79	643.19	4904.02
Non-working PSUs	2.57	0.83	3.40	Nil	Nil	Nil	3.40
Total	265.57	3998.66	4264.23	179.40	463.79	643.19	4907.42

A summarised position of government investment in State PSUs is detailed in **Appendix 1.2**.

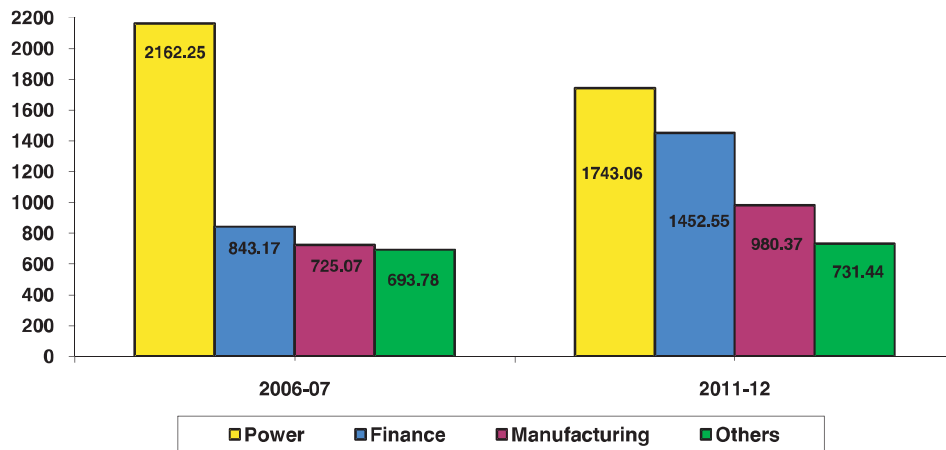
1.3.2 As on 31 March 2012, of the total investment in State PSUs, 99.93 *per cent* was in working PSUs and the remaining 0.07 *per cent* in non-working PSUs. The total investment consisted of 9.07 *per cent* towards capital and

⁵ Jammu and Kashmir State Forest Corporation was incorporated in 1978-79 and its audit was entrusted to the CAG w.e.f. 1996-97. The Corporation, however, had never submitted its accounts to the CAG for audit for any of the years.

90.93 per cent in long-term loans. The investment has increased by 9.84 per cent from ₹ 4424.27 crore in 2006-07 to ₹ 4907.42 crore in 2011-12 as shown in the graph below:



1.3.3 The investment in various important sectors and percentage thereof at the end of 31 March 2007 and 31 March 2012 are indicated below in the bar chart. Though the highest investment during 2011-12 was in power sector (35.52 per cent), the thrust of PSU investment was mainly in finance sector during the six years which has seen its percentage share rising from 19.06 per cent in 2006-07 to 29.60 per cent in 2011-12.



1.4 Budgetary outgo, grants/subsidies, guarantees and loans

1.4.1 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 1.3**. The summarized details for the last three years ended 31 March 2012 are given in **Table 1.3** below:

Table-1.3

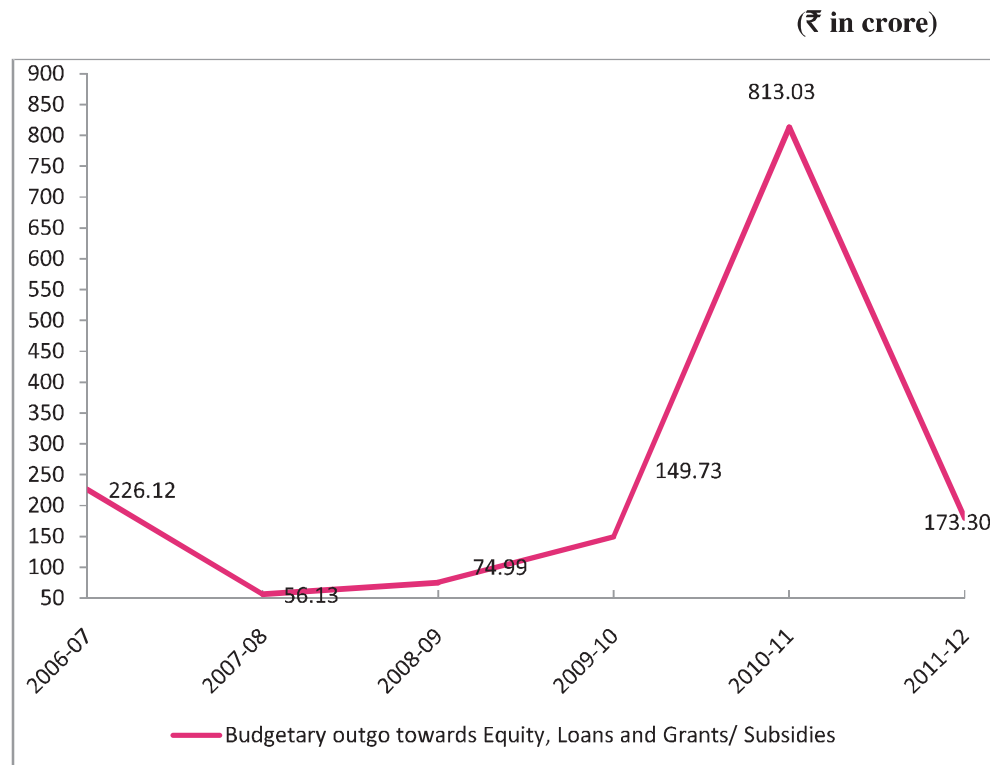
(₹ in crore)

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	4	17.09	3	7.00	3	06.09
2.	Loans given from budget	9	56.57	10	488.54	10	70.26
3.	Grants/Subsidy received from State Government.	4	76.07	6	317.49	8	96.95
4.	Total outgo (1+2+3)	11	149.73	14 ⁶	813.03	15	173.30
5.	Interest/Penal interest written off	1	4.04	1	3.69	1	38.62
6.	Loan repayment written off					1	12.04
7.	Total Waiver(5+6)	1	4.04	1	27.78*	1	50.66
8.	Guarantees issued	2	485.54	2	2.70	2	10.09
9.	Guarantee Commitment	8	2598.77	9	2411.39	9	1805.66

**Includes waiver of loan repayment of ₹24.09 crore.*

1.4.2 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past six years are given in a graph below:

⁶ Actual number of PSUs which received budgetary support.



The budgetary outgo of the State Government towards equity contribution, loans, grants and subsidy was all time high in 2010-11 at ₹ 813.03 crore during the preceding six years. The downward trend of budgetary outgo can be seen during 2006-07 with marginal increase during 2008-09/2009-10 and stood at ₹ 813.03 crore in 2010-11 which decreased to ₹ 173.30 crore during 2011-12.

1.4.3 The guarantees received during the year 2011-12 was ₹ 10.09 crore and outstanding at the end of 31 March 2012 was ₹ 1805.66 crore. More than 95 per cent of these guarantees outstanding were on the loans raised by Jammu and Kashmir Power Development Corporation Limited from various Financial Institutions. The State Government has charged guarantee commission or fee of ₹ 0.45 crore from two PSUs⁷ during 2011-12.

1.5 Reconciliation with Finance Accounts of the Government

1.5.1 The figures of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2012 is indicated in **Table 1.4** below:

⁷ J&K Cements Ltd: ₹ 0.38 crore and J&K Womens Development Corporation Ltd: ₹ 0.07 crore.

Table-1.4

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	447.58	356.14	91.44
Loans	709.31	1407.10	(-) 697.79
Guarantees	1791.35	1791.35	-

1.5.2 Audit observed that the differences occurred were due to misclassification pending reconciliation. The reasons thereof, though called for, were not intimated (December 2012). The Government and the PSUs should take concrete steps to reconcile the differences in a time bound manner.

1.6 Performance of Public Sector Undertakings (PSUs)

1.6.1 The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in **Appendices 1.1, 1.5 and 1.6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. The details of working PSU turnover and State GDP for the period 2006-07 to 2011-12 are given in **Table 1.5** below:

Table-1.5

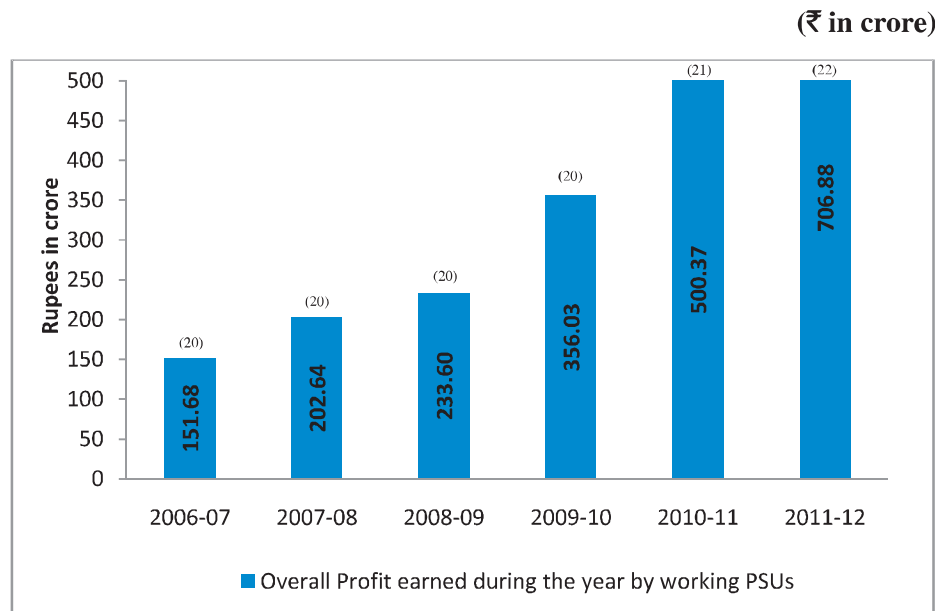
(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover ⁸	2679.33	3595.92	3206.88	3700.38	4409.87	5552.37
State GDP	29030	31793	34805	38298	47709	62365
Percentage of Turnover to State GDP	9.23	11.31	9.21	9.66	9.24	8.90

The percentage of turnover to State Gross Domestic Product was 9.23 *per cent* during 2006-07 which was increased to 11.31 *per cent* in 2007-08 but decreased to 8.90 *per cent* during 2011-12. This was due to the huge increase in State Gross Domestic Product in 2011-12.

1.6.2 The details of profit earned by State working PSUs during 2006-07 to 2011-12 are given in the bar chart below:

⁸ Turnover as per the latest finalized accounts as of 30 September 2012



(Figures in brackets show the number of working PSUs in respective years)

During the year 2011-12 out of 22 working PSUs, five PSUs earned profit of ₹ 843.35 crore and 16 PSUs incurred loss of ₹ 136.47 crore. One PSU (Jammu & Kashmir State Forest Corporation Limited) had not submitted its accounts since 1996-97 when its audit was entrusted to the CAG. The major contributors to profit were Jammu and Kashmir Bank Ltd (₹ 803.25 crore) and Jammu and Kashmir State Power Development Corporation (₹ 37.17 crore). The heavy losses were incurred by Jammu and Kashmir State Road Transport Corporation (₹ 52.52 crore), Jammu and Kashmir Industries Limited (₹ 46.83 crore) and Jammu and Kashmir State Industrial Development Corporation (₹ 10.71 crore).

1.6.3 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Report of the CAG shows that the State PSUs incurred losses to the tune of ₹ 302.90 crore, which were controllable with better management. The year-wise details from Audit Reports are indicated in **Table 1.6** below:

Table-1.6

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	Total
Net Profit	233.60	356.03	500.37	706.88	1796.88
Controllable losses as per CAG's Audit Report	27.05	80.65	185.02	10.18	302.90

Audit Report for the year ended 31 March 2012 (PSUs)

1.6.4 The above losses pointed out by Audit Reports of the CAG are based on test check of records of PSUs. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

1.6.5 Some other key parameters such as return on capital employed, debt, turnover, etc. pertaining to State PSUs are given in **Table 1.7** below:

Table-1.7

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Return on Capital Employed (<i>Per cent</i>)	7.17	8.85	10.91	10.83	9.61	11.99
Debt	4023.13	4361.59	4435.99	4495.58	4734.93	4462.45
Turnover ⁹	2679.33	3595.92	3206.88	3700.38	4409.87	5552.37
Debt/ Turnover Ratio	1.50:1	1.21:1	1.38:1	1.21:1	1.07:1	0.80:1
Interest Payments	1977.53	1697.43	2063.75	2000.65	2250.07	3081.46
Accumulated losses (-)	(-) 1230.70	(-) 1285.72	(-) 1338.05	(-) 1384.70	(-) 1529.98	(-)1651.07

(Above figures pertain to all PSUs except for turnover which is for working PSUs only)

The debt/turnover ratio improved in 2011-12 as compared to 2010-11. This was due to higher increase in turnover during 2011-12 with reference to the increase in debts.

1.6.6 The State Government did not formulate any dividend policy under which all PSUs were required to pay a minimum return on the paid up share capital contributed by the State Government. As per the latest finalised accounts, five PSUs earned an aggregate profit of ₹ 843.35 crore and only one PSU declared a dividend of ₹ 162.40 crore.

1.7 Arrears in finalization of accounts

1.7.1 Under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, the accounts of the companies for every financial year are required to be finalized within six months from the end of the relevant financial year. Similarly, in case of Statutory Corporations, their accounts are finalized, audited and presented to the Legislature as per the provisions of their respective Acts. The details of progress made by the working PSUs in finalization of accounts by September 2012 are given in **Table 1.8** below:

⁹ Turnover of working PSUs as *per* the latest accounts (Position up to 30th September 2012).

Table-1.8

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Number of Working PSUs	20	20	20	20	21	22
2.	Number of accounts finalised during the year	12	12	15	10	34	36
3.	Number of accounts in arrears	211	219	224	234	223	208
4.	Average arrears <i>per</i> PSU (3/1)	10.55	10.95	11.20	11.70	10.62	9.45
5.	Number of Working PSUs with arrears in accounts	19	19	19	19	19	19
6.	Extent of arrears (years)	2 to 19	3 to 19	4 to 19	4 to 20	2 to 20	3 to 21

1.7.2 Five¹⁰ working PSUs failed to finalise even one account in each year causing accumulation of the arrears. The main reasons for non-finalisation of the accounts by the PSUs noticed during audit were non-constitution of the Boards, not holding of regular Board meetings, delay in finalisation of accounts by the Statutory Auditors and lack of trained staff.

1.7.3 In addition to above, there were also the arrears in finalisation of accounts by non-working PSUs. Out of three non-working PSUs (all companies), two PSUs¹¹ had gone into liquidation process. The remaining one non-working PSU¹² had arrear of accounts for 22 years.

1.7.4 The State Government had invested ₹ 1450.46 crore (equity: ₹ 55.22 crore, loans: ₹ 821.64 crore, grants: ₹ 565.64 crore and others: ₹ 7.96 crore) in 16 PSUs during the years for which accounts have not been finalised as detailed in **Appendix 1.4**. In the absence of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested had been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalization of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.7.5 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalized and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalization of accounts, no

¹⁰ J&K Minerals Ltd., J&K State Handicrafts(S&E) Corporation Ltd., J&K Small Scale Industries Development Corporation Ltd., J&K Horticulture Produce Processing & Marketing Corporation Ltd. and J&K State Power Development Corporation Limited.

¹¹ Himalyan Wool Combers and J&K State Handloom Handicrafts Raw Material Supplies Organisation Limited.

¹² Tawi Scooters Limited.

remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Finance Secretary in August 2012 to expedite the backlog of arrears in accounts in a time bound manner.

1.7.6 In view of above state of arrear of accounts, it is recommended that the Government may:

- set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.
- consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

1.8 Winding up of non-working Public Sector Undertakings (PSUs)

1.8.1 The numbers of non-working companies at the end of each year during past six years are given in **Table 1.9** below:

Table-1.9

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
No. of non-working Companies	3	3	3	3	3	3

There were three non-working PSUs (all companies) as on 31 March 2012, of which two PSUs were under liquidation process.

1.8.2 The stages of closure in respect of non-working PSUs are given in **Table 1.10** below:

Table-1.10

S.No.	Particulars	Companies	Statutory Corporations	Total
1	Total No. of non-working PSUs	3	Nil	3
2	Of (1) above, the No. under			
(a)	Liquidation by Court (liquidator appointed)	2 ¹³	--	2
(b)	Voluntary winding up (liquidator appointed)	--	--	--
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	1 ¹⁴	--	1

1.8.3 During the year 2011-12, no company was finally wound up. The companies which had taken the route of winding up by court order were under liquidation for more than eight years. The process of voluntary winding up under the Companies Act, 1956 is much faster and needs to be pursued vigorously. The Government may consider for setting up a cell to expedite the procedure of closing down of non-working companies.

¹³ Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organization Limited.

¹⁴ Tawi Scooters Limited.

1.9 Accounts Comments and Internal Audit

1.9.1 Accounts of the fourteen working companies were finalized between October 2011 and September 2012. Of these, 26 accounts of thirteen companies were selected for supplementary audit. The details of aggregate money value of comments of the Statutory Auditors and the CAG are given in **Table 1.11** below:

Table-1.11

(₹ in crore)

S.No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	--	--	6	18.17	5	5.78
2.	Increase in loss	1	0.86	12	43.76	7	2.23
3.	Non-disclosure of material facts	4	8.32	4	15.66	4	27.85
4.	Errors of classification	3	28.11	9	217.20	10	110.48

The audit reports of the Statutory Auditors appointed by the CAG and the supplementary audit of the CAG indicated that the quality of maintenance of accounts needed to be improved substantially.

1.9.2 During the year, the statutory auditors had given unqualified certificates for four accounts, qualified certificates for 29 accounts, and disclaimers (meaning the auditors are unable to form an opinion on accounts) for three accounts. The compliance of companies with the Accounting Standards remained poor as there were 39 instances of non-compliance.

1.9.3 Some of the important comments in respect of annual accounts of the companies during the period October 2011 to September 2012 are stated below:

***Jammu & Kashmir Agro Industries Development Corporation Limited
(1995-96)***

- Unsecured Loans had been overstated by ₹ 1.58 crore due to inclusion of Share Capital Suspense.
- Unsecured Loans had been overstated by ₹ 0.65 crore due to inclusion of Government Grant which should be shown under Reserve and Surplus.

***Jammu & Kashmir State Industrial Development Corporation Limited
(2003-04)***

- The fact regarding pending formal approval of increase in Share Capital which restricted the Company to increase the Share Capital by ₹ 3.17 crore which was shown as advance Share Capital, had not been disclosed.

Jammu & Kashmir Schedule Caste, Schedule Tribes & Other Backward Classes Development Corporation Limited (1996-97)

- Non provisioning of Bad Debts of ₹ 1.75 crore in respect of Margin Money Advance & Direct Financing under dairy sector resulted in overstatement of Assets (Loans & Advances) and understatement of Loss to the extent of ₹ 0.52 crore.

Jammu & Kashmir Handloom Development Corporation Limited (1998-99)

- The Company did not provide interest to the extent of ₹ 0.24 crore on Loan taken from State Government.

Jammu & Kashmir Cements Limited (2001-02)

- The Company did not provide depreciation to the extent of ₹ 0.47 crore on Pollution Control Equipments installed during 1998-99 resulted in overstatement of Fixed Assets to the same extent.

J&K State Cable Car Corporation Ltd (2007-08)

- Instead of charging of depreciation on Site Development @ 30 per cent the Company charged the same @ 5 per cent. This has resulted in overstatement of Accumulative Net Block by ₹ 146.05 lakh and understatement of Accumulated Depreciation as well as Accumulated Loss to the same extent. Moreover, the Depreciation was understated and Profit was overstated by ₹ 57.36 lakh during the year.
- Non-booking of the liabilities has resulted in overstatement of Profit for the year and understatement of Current Liabilities & Provisions to the tune of ₹ 15.50 lakh
- The Statutory Auditors Report does not disclose the fact that the annual accounts of the Company for the year 2006-07 are yet to be adopted in the Annual General Meeting (AGM) of the Company.

1.9.4 One Statutory Corporation (Jammu and Kashmir State Financial Corporation) forwarded two accounts during 2011-12. Jammu and Kashmir State Forest Corporation had never submitted its accounts to the CAG since 1996-97 when its audit was entrusted to the CAG. The details of aggregate money value of comments of the Statutory Auditors and the CAG for the last three years ended 31 March 2012 are given in **Table 1.12** below:

Table-1.12

(₹ in crore)

S.No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	-	-	-	-	-	-
2	Increase in loss	1	5.80	1	25.87	-	-
3	Non-disclosure of material facts	-	-	1	0.84	-	-
4	Errors of classification	-	-	1	1.00	2	1.60

An important comment in respect of accounts of a Statutory Corporation, i.e., Jammu and Kashmir State Financial Corporation for the year 2008-09 is given below:

“The Capital includes ₹ 0.80 crore contributed by the State Government towards share capital for which no shares have been allotted. The amount should have been reflected as Capital pending allotment.”

1.10 Internal Control/Internal Audit

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement . The Statutory Auditors had stated that internal audit system in respect of twelve companies was either not in place or internal audit reports were not furnished as per details given in **Table 1.13** below:

Table-1.13

Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to Companies figuring at serial number of the Appendix-1.1
Absence of internal audit system commensurate with the nature and size of business of the Company.	9	A-1,6,7,10,11,13,14,17 and 18

1.11 Status of placement of Separate Audit Reports

The audit of Jammu and Kashmir State Financial Corporation is conducted under Section 37(6) of the State Financial Corporation Act 1951, whereas audit of Jammu and Kashmir State Forest Corporation is entrusted to the CAG on the request of the State Government. The status of placement of Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory Corporations in the Legislature by the Government is given in **Table 1.14** below:

Table-1.14

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Jammu and Kashmir State Financial Corporation	2007-08	2008-09	20.04.2012	-
2.	Jammu and Kashmir State Forest Corporation	The Corporation had never submitted its accounts to the CAG since 1996-97 when the audit was entrusted to the CAG.			

1.12 Disinvestment, Privatisation and Restructuring of PSUs

The State Government had no plans of disinvestment. However, the State Government has initiated the process of privatization with regard to development of hydel projects through Independent Power Producers and the process is yet to be completed.