Chapter-VII

Commercial Activities

Section-I

Overview of Government companies and Statutory corporations

Introduction

7.1 As on 31 March 2006, there were 20 Government companies (17 working and three[♣] non-working companies[α]) and three Statutory corporations (all working) under the control of the State Government. The position has remained unchanged since 31 March 2005.

The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 (4) of the Companies Act, 1956. The audit arrangements of the three Statutory corporations are as shown below:

Table 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 the CAG
2.	Jammu and Kashmir State Road Transport Corporation	Section 33 (2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
3.	Jammu and Kashmir State Financial Corporation	Section 37 (6) of the State Financial Corporations Act, 1951	audit by Chartered Accountants and Supplementary audit by the CAG

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

7.1.1 The total investment in the working PSUs at the end of March 2005 and March 2006 was as follows:

Table 7.2 (Amount: Rupees in crore)

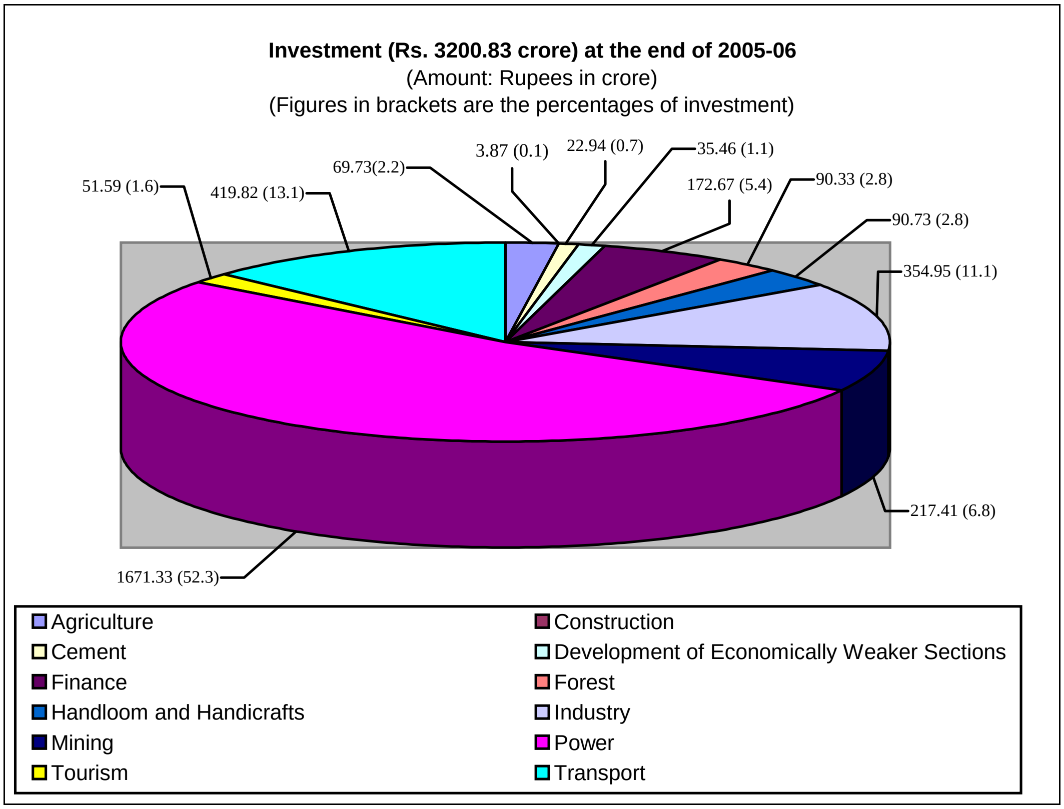
Year	Number of PSUs	Investment by way of		
		Equity	Loan	Total
2004-05	20	387.87	2602.71	2990.58
2005-06	20	395.40	2805.43	3200.83

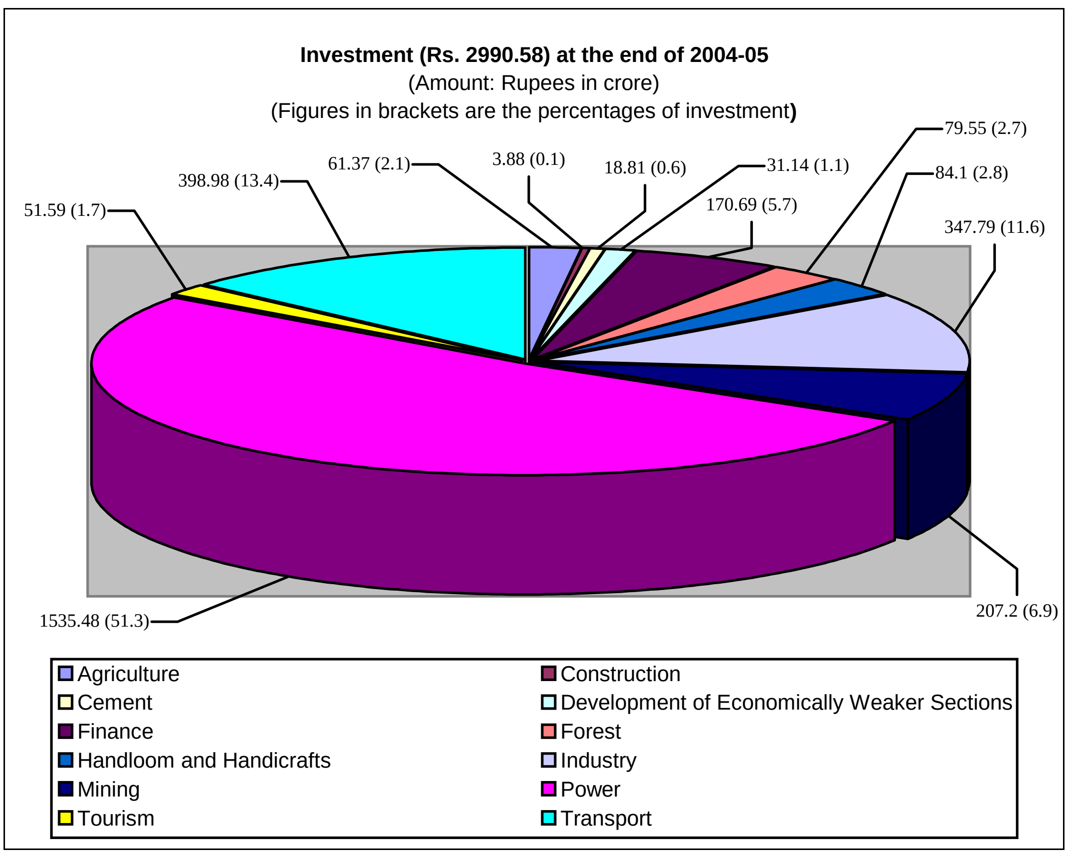
♣ Himalayan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) and Tawi Scooters Limited.

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

Sector-wise Investment in Government companies and Statutory corporations

7.1.2 The investment (equity and long-term loans) in various sectors and percentage thereof at the end of March 2005 and March 2006 are indicated in the pie charts below:


Investment (Rs. 3200.83 crore) at the end of 2005-06
(Amount: Rupees in crore)
(Figures in brackets are the percentages of investment)
3.87 (0.1)
22.94 (0.7)
35.46 (1.1)
69.73(2.2)
172.67 (5.4)
90.33 (2.8)
51.59 (1.6)
419.82 (13.1)
90.73 (2.8)
354.95 (11.1)
217.41 (6.8)
1671.33 (52.3)
Agriculture
Construction
Cement
Development of Economically Weaker Sections
Finance
Forest
Handloom and Handicrafts
Industry
Mining
Power
Tourism
Transport


Investment (Rs. 2990.58) at the end of 2004-05
(Amount: Rupees in crore)
(Figures in brackets are the percentages of investment)
79.55 (2.7)
61.37 (2.1)
3.88 (0.1)
18.81 (0.6)
31.14 (1.1)
84.1 (2.8)
398.98 (13.4)
170.69 (5.7)
51.59 (1.7)
347.79 (11.6)
207.2 (6.9)
1535.48 (51.3)
Agriculture
Construction
Cement
Development of Economically Weaker Sections
Finance
Forest
Handloom and Handicrafts
Industry
Mining
Power
Tourism
Transport

Working Government companies

7.1.3 Total investment in the working companies as on 31 March 2005 and March 2006 was as follows.

Table 7.3 (Amount: Rupees in crore)

Year	Number of Government companies	Investment		
		Equity	Loan	Total
2004-05	17	208.41	2181.44	2389.85
2005-06	17	215.94	2350.54	2566.48

The summarised statement of government investment in these companies in the form of equity and loan is detailed in the *Appendix-7.1*.

As on 31 March 2006, the total investment in these companies comprised 8 *per cent* equity capital and 92 *per cent* loan against 9 *per cent* equity capital and 91 *per cent* loan as on 31 March 2005.

Working Statutory corporations

7.1.4 Total investment in the three working Statutory corporations at the end of March 2005 and March 2006 was as follows:

Table 7.4 (Amount: Rupees in crore)

S.No.	Name of the corporation	2004-05		2005-06	
		Capital	Loan	Capital	Loan
1.	Jammu and Kashmir State Road Transport Corporation	105.83	293.15	105.83	313.99
2.	Jammu and Kashmir State Financial Corporation	64.60	57.60	64.60	59.60
3.	Jammu and Kashmir State Forest Corporation	9.03	70.52	9.03	81.30
	Total	**179.46**	**421.27**	**179.46**	**454.89**

As on 31 March 2006, the total investment in Statutory corporations comprised 28 *per cent* equity capital and 72 *per cent* loan as compared to 30 *per cent* of equity capital and 70 *per cent* of loan as on 31 March 2005.

Budgetary outgo, Grants/Subsidies, Guarantees issued, waiver of dues and conversion of Loans into Equity

7.1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the Central/State Governments in respect of the working Companies/Statutory corporations are given in *Appendices-7.1* and *7.3*.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the Central/State Government to the Working companies/Statutory corporations for the last three years up to 2005-06 are given below:

Table 7.5 (Amount: Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity Capital from Budget	**4**	**2.80**	**-**	**-**	**5**	**3.23**	**1**	**0.80**	**4**	**7.55**		
Loans given from budget	**6**	**10.04**	**1**	**25.43**	**6**	**8.51**	**2**	**68.42**	**5**	**13.08**	**1**	**21.84**
Grants towards Projects, Programmes/ Schemes	**8**	**25.84**	**-**	**-**	**3**	**1.89**	**-**	**-**	**7**	**312.76**	**-**	**-**
Subsidy	**3**	**1.45**	**-**	**-**	**4**	**11.60**	**-**	**-**	**3**	**6.80**	**-**	**-**
Total outgo	**12**	**40.13**	**1**	**25.43**	**10**	**25.23**	**2**	**69.22**	**12**	**340.19**	**1**	**21.84**

During the year 2005-06, the Government guaranteed loans aggregating Rs. 2,362.69 crore raised by Jammu and Kashmir State Power Development Corporation Limited. At the end of the year, guarantees aggregating Rs. 1,561.06 crore against 7 working Government companies and Rs. 62.50 crore against two working Statutory corporations were outstanding. Central/State Government did not waive off any dues during the current year. Details of subsidy given, guarantees received and those outstanding as on 31 March 2006 are indicated in the *Appendix-7.3*

Finalisation of accounts by Working PSUs

7.1.6 The accounts of the Public Sector Undertakings (PSUs) for each financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also required to be laid before the Legislature within nine months from the end of the relevant financial year. As can be noticed from the *Appendices-7.2* and *7.4*, out of 20 working PSUs, accounts of 11 PSUs were in arrears for 10 years or more, and in case of five PSUs, the accounts were in arrears for periods between six and 10 years. Moreover, four[∞] working Companies had finalised only four accounts (one account each) during the five year period ended 2005-06, while one Statutory corporation (Jammu and Kashmir State Forest Corporation) had not finalised any account since 1996-97[ƒ].

Financial position/working results of Working PSUs

7.1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations), as per their latest finalised accounts are given in *Appendix-7.2*. Besides, statements showing the financial position and working results of individual working Statutory corporations for the latest three

∞ Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited, Jammu and Kashmir Police Housing Corporation, Jammu and Kashmir Women's Development Corporation Limited and Jammu and Kashmir Cements Limited.

ƒ Though the Company was incorporated in 1978-79, its audit was entrusted to the CAG from 1996-97.

years for which accounts were finalised are given in *Appendices-7.5* and *7.6*, respectively.

According to the latest finalised accounts of 17 working Government companies and three Statutory corporations, ten companies[*] and two[#] Statutory corporations had incurred aggregate losses of Rs. 70.49 crore and Rs. 57.17 crore, respectively. Only five companies[@] had earned profit of Rs. 197.91 crore. Financial position and working results in respect of two[♥] companies and one Statutory corporation (Jammu and Kashmir State Forest Corporation) could not be assessed in audit due to non-receipt of their accounts.

Working Government companies

Profit earning companies and dividend

7.1.8 Only one company (Jammu and Kashmir Bank Limited), which finalised its accounts for 2005-06, earned profit of Rs. 196.84 crore and declared dividend of Rs. 38.78 crore. The dividend, as a percentage of the share capital of Rs. 48.48 crore of the Company worked out to about 80 *per cent*. As a percentage of total equity capital of Rs. 177.98 crore invested by the State Government in 17 Companies during 2005-06, it worked out to 21.79 *per cent* as against 22.48 *per cent* in the previous year. Two more companies (Jammu and Kashmir Projects Construction Corporation Limited and Jammu and Kashmir Small Scale Industries Development Corporation) which finalised their accounts for the year 1988-89, and 1987-88 respectively during 2005-06 earned profit of Rs. 30.69 lakh. These companies, however, did not declare any dividend.

Loss incurring Working Government companies

Government companies

7.1.9 Of the ten loss-incurring working Government companies, eight[∝] had accumulated losses aggregating Rs. 352.01 crore, which exceeded their aggregate paid-up capital of Rs. 66.67 crore by more than four times 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 and grants. According to the available information, financial support so provided by the State Government during 2005-06 to eight[♠] of these nine Companies amounted to Rs. 229.25 crore.

[*] S. No. 1, 2, 3, 5, 6,7, 8,10,14 and 16 of *Appendix-7.2*.
[#] S. No. 18 and 19 of *Appendix-7.2*.
[@] S. No. 4, 9, 11, 13 and 17 of *Appendix-7.2*.
[♥] S. No. 12 and 15 of *Appendix-7.2*.
[∝] S. No 1, 2, 3,5, 6,7, 8 and 16 of Appendix-7.2.
[♠] S. No 1, 2, 3, 5, 6,7, 8 and 16 of Appendix-7.2.

Working Statutory corporations

7.1.10 As per their latest finalised accounts, the two[**] working Statutory corporations had accumulated losses aggregating Rs. 796.05 crore, which exceeded their aggregate paid-up capital of Rs. 173.31 crore by more than four times. Despite poor performance and complete erosion of paid up capital, the State Government provided financial support of Rs. 21.84 crore to Jammu and Kashmir State Road Transport Corporation Limited, in the form of loan.

Operational performance of Working Statutory corporations

7.1.11 The operational performance of Working Statutory corporations is given in *Appendix-7.7*.

Return on Capital Employed

7.1.12 As per the latest finalised accounts, the capital employed worked out to Rs. 8,394.20 crore in 17 working companies and return thereon amounted to Rs. 1,196.52 crore (14.25 *per cent*), as compared to return of Rs. 1,039.35 crore (6.41 *per cent*) in the previous year. Similarly, capital employed and return thereon in case of all the three working Statutory corporations as per their latest finalised accounts worked out to Rs. 36.52 crore and minus Rs. 19.86 crore respectively against the return of minus Rs. 26.94 crore in the previous year. The details of capital employed and return thereon in case of Working Government companies and Statutory corporations are given in *Appendix-7.2*.

Non-working Public Sector Undertakings

Investment in non-working PSUs

7.1.13 As on 31 March 2006, the total investment in three Non-working Government companies was Rs. 3.40 crore (equity: Rs. 2.57 crore; long-term loans: Rs.0.83 crore). One company (Tawi Scooters Limited) 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 September 2006. Expeditious action for liquidation of the company is necessary to avoid further non-productive expenditure. The other two companies viz. Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) were closed and were in the process of being wound up (September 2006). The summarised financial results of these companies, as per their latest finalised accounts are given in *Appendix-7.2*.

Placement of Separate Audit Reports of Statutory corporations in the Legislature

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

[**] Information in respect of State Forest Corporation was not available

Table 7.7

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
1.	Jammu and Kashmir State Road Transport Corporation	2003-04	2004-05	30 August 2006	-
2.	Jammu and Kashmir State Financial Corporation	2003-04	2004-05	-	Under finalisation

Results of Audit by the Comptroller and Auditor General of India

7.1.15 During October 2005 to September 2006, the accounts of seven Government companies and the 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 7.8

Details	Number of Accounts		(Rupees in lakh)	
	Companies	Corporations	Companies	Corporations
Increase in Loss	1	2	30.72	1,896.12

Errors and Omissions noticed during Audit of Government companies/ Corporations

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

Jammu and Kashmir State Road Transport Corporation (2004-05)

- The Corporation did not depict in its accounts, distinctly the grant-in-aid of Rs. one crore received (March 2005) by it from the State Government for acquisition of fleet. The amount was booked as share capital, thereby overstating it to the extent of Rs. one crore.

- The Corporation did not make provision for leave salary and other pensionary benefits payable to its employees during the year 2004-05. The amount payable on this account had to be worked out through actuarial valuation in terms of Accounting Standard 15. This resulted in understatement of expenditure and loss during the year.

- Interest of Rs. 9.94 crore payable on balances of contributory/general provident fund, State Life Insurance, etc. lying with the Corporation from 1991-92 to 2004-05 had not been accounted for in the accounts of the Corporation, resulting in understatement of loss.

Moreover, the year-wise break-up of Rs. 19.17 crore on account of balances of Contributory/General Provident Fund, State Life Insurance, etc. as on March 2005 was not made available to audit. The correctness of the balances could not, as such, be verified in audit.

- The Corporation did not make provision for penalty/damages of Rs. 2.59 crore imposed by the Provident Fund Commissioner on the

Corporation for non-remittance of provident fund collections of its employees for the period from April 1999 to January 2005, to the Commissioner. This resulted in understatement of loss to that extent.

- The amounts under inter-unit adjustment accounts increased from Rs. 4.97 crore at the end of 2003-04 to Rs. 5.45 crore at the end of 2004-05. This indicates that the reconciliation of accounts was not given the required attention, by the management. Moreover, no steps to clear the balance of Rs. 8.16 lakh lying under suspense had been taken.
- No provision for token tax amounting to Rs. 0.80 crore (principal: Rs. 48.22 lakh; interest: Rs. 32.00 lakh), for the period 2001-02 to 2004-05 payable by the Corporation to the Motor Vehicle Department, had been made in the accounts, resulting in understatement of loss.
- The Corporation did not make provision for Rs. 90.71 lakh payable to the Srinagar Municipal Corporation (Rs. 54.56 lakh) on account of rent for use of city services yard and to the Power Development Department (Rs. 36.15 lakh) on account of electricity charges. This resulted in understatement of loss to that extent.
- No provision had been made for Rs. 33.30 lakh (excluding interest) payable as compensation by the Corporation on account of awards passed by the Motor Accidental claims Tribunal in accident cases lodged against it up to the year 2004-05. This resulted in understatement of loss.

Jammu and Kashmir State Financial Corporation (2003-04)

- The Corporation made no provision for guarantee fee of Rs. 20.11 lakh payable by it to the State Government. This resulted in understatement of loss to that extent.
- The Corporation made excess provision of Rs. 4.19 crore for non-performing assets. The excess amount had not been adjusted under current liability (under provisions), but was depicted in the accounts as income. This resulted in overstatement of income and understatement of loss to the extent of Rs. 4.19 crore.

Jammu and Kashmir Power Development Corporation (1998-99)

- The Company charged depreciation of Rs. 57.08 crore on its fixed assets. Whether the depreciation was charged on written down value method or otherwise was not disclosed in the accounts. Moreover, whether the depreciation was charged as per rates contained in the Income Tax Act, 1961 had also not been disclosed in the accounts.

Jammu and Kashmir Cable Car Corporation Limited (1994-95)

- Advances of Rs. 23.52 crore released by the State Government included Rs. 0.74 crore as “share capital-pending allotment” for Gandola Project. The amount was, however, not disbursed to the Company and was retained by the Jammu and Kashmir Tourism Development Corporation

Limited. This resulted in overstatement of both advances towards share capital pending-allotment and loans and advances.

Persistent irregularities and system deficiencies in financial matters of PSUs

7.1.17 The following irregularities and system deficiencies in financial matters of Jammu and Kashmir State Road Transport Corporation were repeatedly pointed out during the course of audit of accounts. The Corporation, however, had not taken any corrective action.

- Non-maintenance of books of accounts in accordance with the principles of commercial accounting system by maintaining control ledgers and financial ledgers in Head Office and at the units.
- Non-operation of inter-unit adjustment accounts for adjustment of advances, transfer of stores, etc.
- Non-segregation of debts as good, bad and doubtful.
- Abnormal delays in recoveries, adjustment of balances under advances, deposits, etc.
- Non-conducting of physical verification of fixed assets, stores, stocks and fuel and non-preparation of inventory of vehicles owned by the Corporation.

Disinvestment of PSUs

7.1.18 In its various Board meetings, the Jammu and Kashmir State Tourism Development Corporation had decided (September 1997, September 1998 and June 1999) for privatisation/sale of its loss making units. In pursuance of the decision, the Company leased out (between December 2003 and June 2006) five of its units and earned revenue of Rs. 2.31 crore on account of rent. No further action was taken by the Company to lease out its remaining loss making units.

Response to inspection reports, draft paragraphs and reviews

7.1.19 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 2006 pertaining to 17 PSUs disclosed that 1,298 paragraphs relating to 371 Inspection Reports remained outstanding at the end of March 2006. Besides, 259 paragraphs relating to 72 Inspection Reports pertaining to two Statutory Corporations had also not been settled at the end of 31 March 2006. All these paragraphs were pending settlement since 1998-99. Department-wise break-up of Inspection Reports and audit observations outstanding as on 31st March 2006 is given in *Appendix-7.8.*

Similarly, Draft Paragraphs and Reviews on the working of PSUs are forwarded to the heads of the administrative departments concerned demi-officially seeking confirmation of facts and figures and their comments thereon, within a period of six weeks. It was, however, observed that replies to two draft paragraphs and two Reviews forwarded to the departments concerned during March 2005 and August 2006 (detailed in *Appendix-7.9)* were awaited (September 2006).

It is recommended that the Government may ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews and action taken notes to the recommendations of the COPU, as per the prescribed time schedule; (b) action to recover loss/outstanding advances/over payments is taken within the prescribed period and (c) the system of responding to audit objections is strengthened.

619-B Companies

7.1.20 There was no company under Section 619-B of the Companies Act, 1956.

Section-II

Part-A: Performance Reviews relating to Government Company

Industries and Commerce Department

7.2 Infrastructural development by State Industrial Development Corporation Limited

Highlights

- **The performance of the Company with regard to infrastructure development was deficient due to lack of planning and foresight. The Company's failure to select a suitable site for Growth Centre Lassipora and Food Park Sopore resulted in unproductive and idle investment of Rs. 16.97 crore.**

(Paragraphs: 7.2.10 and 7.2.14)

- **The Company failed to take appropriate steps such as holding of awareness campaign, etc. to attract entrepreneurs for establishing their units in the growth centres developed by the Company.**

(Paragraph: 7.2.10)

- **Drilling of tubewell and construction of the overhead tanks at Growth Centre Samba, prior to the transfer of land to the Company resulted in expenditure of Rs. 55.72 lakh remaining idle, as the tube well and the overhead tank could not be put to any use.**

(Paragraph: 7.2.11)

- **Due to unrealistic demand survey conducted by the Company, expenditure of Rs. 3.61 crore incurred on establishment of Inland Container Depot at Bari-Brahmana was rendered unproductive.**

(Paragraph: 7.2.22)

Introduction

7.2.1 The Jammu and Kashmir State Industrial Development Corporation Limited (Company) was incorporated on 17 March 1969 under the Companies Act, 1956 with a view to bringing about infrastructural development of industries in the State. The main objective of the Company is to plan, formulate and execute projects for setting up of industries for the industrial development of the State and to assist or finance any industrial undertaking.

The management of the Company is vested in a Board of Directors comprising 11 Directors including the Chairman and the Managing Director. The Managing Director, who is the Chief Executive manages the day-to-day affairs of the Company.

Scope of Audit

7.2.2 The performance of the Company[φ] with regard to infrastructural development in the State during five years ended 31 March 2006 was reviewed during December 2005 to May 2006, through examination of records of the

[φ] Comprising two Regional Offices, two Construction Divisions, seven Estate Offices (controlling Industrial Estates), besides Head Office.

Company's Head Office, two Regional Offices, two Construction Divisions and seven Industrial Estates (out of 14 Industrial Estates), selected using simple random sampling method.

Audit Objectives

7.2.3 This performance audit was undertaken with a view to assessing whether:

- the objectives with regard to creation of infrastructure were achieved as envisaged
- the schemes were taken up after detailed surveys and careful planning and were carried out economically, efficiently and effectively
- implementation of the projects/schemes was completed in time and within the estimated cost
- infrastructure for development of industrial units was created according to the plans and development of infrastructure attracted investors
- an effective monitoring system was in place

Audit Criteria

7.2.4 The performance of the Company was assessed against the following audit criteria:

- Targets of Infrastructure development, land utilisation, establishment of units and revenue generation as per DPRs.
- Guidelines of the Government of India in respect of Centrally Sponsored Schemes
- Terms and conditions in the lease deeds with the entrepreneurs.

Audit Methodology

7.2.5 The following mix of methodologies was used:

- examination of records maintained at the Company's Head Office and its Sub-offices,
- scrutiny of correspondence exchanged with different Ministries responsible for sponsoring the schemes,
- examination of minutes of the meetings of the Board of Directors, land records, cashbooks and other relevant records
- interaction with the management.

Audit Findings

7.2.6 Audit findings were reported to the Government/Management in August 2006 and discussed in a meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) on 17 October 2006 where Government was represented by the Chief Accounts Officer and Financial Advisor, Industries and Commerce Department and the Company was represented by the Managing Director. The review was finalised after considering the views of the Government/Management.

The audit findings are discussed in the succeeding paragraphs.

Acquisition of Land

7.2.7 The Company is engaged in development of Industrial complexes and creation of necessary infrastructure for the development of Industries. For this purpose, the Company acquires land through acquisition process initiated by the Government (Revenue Department). The Company was in possession (October 2006) of 20,680 *kanals*[≠] of land spread over 14[♥] Industrial Estates (IEs), of which 16,265 *kanals* of land was under plots and 4,415 *kanals* under common facilities. Out of 16,265 *kanals* of land, only 10,306 kanals had been allotted (September 2006) to entrepreneurs for establishment of their industrial units.

It was noticed during audit that out of 3,212 *kanals* of available land, the Company had allotted only 1,929 *kanals* during the five year period ended 2005-06. Reasons for short-allotment, as noticed in audit, were non-evaluation of the suitability of project sites, incomplete infrastructural development and inadequate facilities required for establishment of units. Specific reasons for short-allotment of land were not intimated by the management (October 2006).

The Company had not maintained records of the value of land in each complex.

Allotment of more land than available

7.2.8 An entrepreneur requested the Company for allotment of 80 *kanals* of land in the Industrial Growth Centre, Samba for establishment of a bottling plant. The Company issued (May 2005) an allotment order (80 *kanals* of land) in favour of the entrepreneur and received lease rent and premium from him for the entire area. Audit noticed that since the Company was in possession of only 46 *kanals* of land in the Growth Centre, it could hand over only that much of land to the entrepreneur. The entrepreneur could not establish (March 2006) the plant, owing to the insufficient land made available to him. Had the Company allotted the land to other units with smaller requirements, it could have been put to purposeful use.

Establishment of Growth Centres

7.2.9 With a view to promoting industrialisation in backward areas, Government of India, Department of Industrial Development approved (June 1988) setting up of Growth Centres in backward areas. The Growth Centres were to be established within reasonable proximity of the District Headquarters, at places having good potential for attracting industries and were to be endowed with infrastructural facilities like power, water, telecommunication, banking, etc. It was noticed during audit that due to improper planning, selection of improper site and delay in completion, the expenditure on Growth Centres remained largely unfruitful as discussed in the succeeding paragraphs:

≠ *Kanal* is a measure of land area equal to 5,400 square feet.

♥ Industrial Complex-Bari-Brahmna, Doabgah (Sopore), Kathua, Khunmoh, Lethpora, Rangreth (Budgam), Shalteng, Export Promotion Park-Ompora and Kartholi, Industrial Growth Centres-Lassipora, and Samba, Software Technology Park- Rangreth, IID, Leh and Food park- Khunmoh.

Growth Centre, Lassipora

7.2.10 Government of India (GOI), Ministry of Industries approved (December 1997) setting up of Growth Centres at Lassipora and Ompora. The Company, however, proposed (February 1998) to establish the Growth Centre only at Lassipora on a plot of land measuring 6,193 *kanals*, and submitted the Project Report to GOI in June 1999. The Project, estimated to cost Rs. 54.20 crore[♣] was approved by GOI in June 2000. It was to be completed within five years i.e. by June 2005. The cost of the project was to be met out of the contributions from GOI (Rs. 10 crore) and the State Government (Rs. 44.20 crore).

It was noticed during audit (May 2006) that the Company had acquired only 5,200 *kanals* of land as against the proposed spread of 6,193 *kanals*. It was further noticed that the Company delayed the development of the land and by March 2006 only 1550 *kanals* (30 *per cent*) of the acquired land was developed at an expenditure of Rs. 11.65 crore. It was also noticed during audit that as the Growth Centre had been established in an area away from the District Headquarters, it could not attract entrepreneurs. Consequently, while the Company had allotted land to 38 entrepreneurs of the State, only eight units were established as of August 2006.

The management stated (September 2006) that the Growth Centre had not been able to attract investment from outside the State due to reluctance of industrialists to make investments in the Valley. Only local entrepreneurs had started establishing their units in the Growth Centre. The reply is not tenable as these considerations being known to the Company, should have been factored in while planning the growth centres. There was, however, nothing on record to indicate whether the Company had organised workshops/seminars to promote awareness to attract entrepreneurs from outside the State to establish units.

Thus, improper planning of the Company had resulted in selecting an unsuitable site for development of the Growth Centre, which was also not in line with the GOI guidelines, rendering the investment of Rs. 11.65 crore largely unproductive.

Growth Centre, Samba

7.2.11 In January 1992, the GOI approved setting up of Growth Centre at Samba (Jammu) at an estimated cost of Rs.29.79 crore, to be financed by GOI (Rs. 10 crore), the State Government (Rs. 5 Crore), Financial Institutions (Rs. 5 crore) and Market borrowings (Rs. 9.79 crore). The State Government accorded (July 1995) sanction to set up the Growth Centre over 6,700 *kanals* of land, in three phases for completion in five years, and transferred 3,071 *kanals* of land (in first two[♠] phases). The balance 3,629 *kanals* of land (third phase) had not been transferred to the Company as of October 2006. The Company received Rs. 20.60 crore (State Government: Rs. 5.60 crore; Central Government: Rs. 15 crore) during the period 1995-96 to 2005-06.

♣ Including land and site development Rs. 3.81 crore.

♠ Phase first: 1814 *kanals;* Phase second: 1257 *kanals*.

Audit scrutiny revealed that the Company developed only 1,814 *kanals* of the land (first phase). An amount of Rs. 16.41 crore had been spent on the project as of March 2006. According to the management (April 2006), the cost of the Projects had been revised to Rs. 58.55 crore. The reasons for slow implementation of the Project were attributed (May 2006) by the management to delay in acquisition of land, encroachment of the acquired land by the locals and belated♣ release of funds by the State Government. Audit noticed that out of 153 entrepreneurs, who were allotted land to establish their units on the land developed in the first phase, only 42 entrpreneurs had established their units as of October 2006, rendering the investment of Rs. 16.41 crore (excluding cost of land) largely unproductive. Reasons for non-establishment of the remaining 111 units were not on record. The management stated (October 2006) that the second phase of the Growth Centre would be completed in the current month.

Thus, lack of planning resulted in delay in acquisition of land and consequential delay in completion of the Growth Centre, besides cost overrun of Rs. 28.76 crore.

Audit further noticed that the Company had constructed (1999-2000 to 2003-04) two overhead tanks and sunk a tubewell at a cost of Rs. 55.72 lakh. The constructions were carried out on land, the possession of which was yet to be transferred to the Company. On this being pointed out in audit, the management stated (April 2006) that as the construction of overhead tanks and drilling of tubewell was a time-consuming job, the works were taken up without waiting for transfer of land. The reply is not tenable, as the works were taken up to obtain Central assistance, which was available in proportion to the physical achievement of works. Audit scrutiny further revealed that the overhead tanks and the tubewell had not been put to any use as of October 2006, resulting in idle expenditure of Rs. 55.72 lakh. The management stated (October 2006) that the infrastructure would soon be connected with the water distribution network.

Establishment of Software Technology Park (STP), Bari-Brahmna

7.2.12 On the basis of a proposal mooted by the Company**,** the Ministry of Communication and Information Technology, GOI approved (March 2003) setting up of a Software Technology Park (STP) at Bari-Brahmna, with the assistance of Software Technology Parks of India (STPI) to meet the needs of software exporters. There was nothing on record to indicate whether the Company had carried out any survey to assess the demand of software exporters, before mooting the proposal. The cost of the project, estimated at Rs. 5.89 crore, was to be met by the State Government in the form of land and building (Rs. 45 lakh) and GOI (Rs. 5.44 crore*). Administrative approval to set up the project was accorded by the State Government in September 2003 and an MOU between the Company and STPI was signed in February 2004. The Company leased out

♣ No funds were received by the Company from the State Government during 1996-97 to 2001-02

* Rupees 4.94 crore as Central share under Assistance to the States for developing export infrastructure, and Grant-in-aid from Ministry of Communication and Information Technology (Rs. 50 lakh)

(August 2004) 24 *kanals* of open land and 7,371 sqft of built up space to STPI incurring an expenditure of Rs. 4.48 crore on various works including civil infrastructure upgradation, water supply, drainage system, fencing, electric connection, central heating, air conditioners, etc. The Project was handed over to STPI in April 2005.

According to the MOU, the park was to be executed, implemented, and operated by STPI. The Company was, however, to lease out the remaining open and built up area to entrepreneurs so as to earn premium/rent.

It was noticed during audit that the Company could not lease out any premises to the software units as of March 2006. The management stated (March 2006) that in view of poor response, no allotment could be made. Besides, the Company had no knowledge about any software unit availing the facility offered by STPI.

The management stated (October 2006) that after installation of the Earth Station of the unit, the facility would soon be developed fully, and the Company expected a good number of customers.

Thus, implementation of the Project, without carrying out detailed survey to assess the demand of software exporters and without ensuring its viability resulted in unfruitful expenditure of Rs. 4.48 crore, besides non-utilisation of State assets worth Rs. 45 lakh. It was also noticed that the Company had made no efforts to give wide publicity of the available facilities at the STP to create awareness among entrepreneurs to establish their units.

Establishment of Food Parks

Food Park Khunmoh (Kashmir)

7.2.13 The Ministry of Food Processing, GOI approved (January 2001) setting up of a Food Park at Industrial Complex Khunmoh (Kashmir) at an estimated cost of Rs.7.25 crore. The project cost was to be met out of contributions from GOI (Rs. 4 crore) and the State Government (Rs. 3.25 crore in the shape of land and available infrastructure).

The Food Park was developed on an area of 102 *kanals* (excluding 58 *kanals* of land for common facility) at an expenditure of Rs. 5.43 crore. The Company developed 44 plots, of which 36 plots were allotted to entrepreneurs. It was noticed during audit that out of the 36 entrepreneurs, only nine had established their units (October 2006). According to the terms of the Lease deed the entrepreneurs were required to establish their projects within six months of the date of execution of the deed. In the event of failure of the entrepreneurs to set up their establishments within the stipulated period, the allotment was liable for cancellation**.** The Company had taken no action to cancel the allotment of the remaining 27 entrepreneurs for non-establishment of their units within six months of the execution of the lease deed.

The management stated (October 2006) that the entrepreneurs could not establish their units as they faced problems on account of term finance/working capital assistance from Banks. It further stated that the Company had initiated action to take back the unutilised plots and that notices for the same had been issued.

Thus, it is evident that on the one hand, excess area was developed in comparison with the demand, rendering the proportionate development cost un-remunerative. On the other hand, a substantial part of the allotted land could not be put to intended use on account of inability of the entrepreneurs to arrange required finance for the purpose. The envisaged benefits as per the DPR could not be achieved.

Food Park Sopore

7.2.14 The Ministry of Food Processing Industries, GOI approved (September 2002) the proposal of the Company to set up a food park at Sopore, Kashmir. The project scheduled to be completed in three years was estimated to cost Rs. 9.48 crore and was to be financed by GOI (Rs. 4 crore) and the State Government (Rs. 5.48 crore). The Company incurred an expenditure of Rs. 5.32 crore on the project and developed 160 *kanals* of land. No survey was, however, conducted by the Company to ensure availability of water in the area. Audit noticed that the Company did not receive any application for allotment of the premises, due to non-availability of water in the area. Work of digging a tubewell in the vicinity of the site was abandoned midway due to release of gas during its drilling. The Company thereafter proposed (December 2004) to supply water to the area from the nearby river and appointed a Consultant for designing a Water Treatment Plant. However, no such Plant had been established at the site as of October 2006. The management stated (May 2006) that applications from prospective unit-holders for allotment of land had been received.

The management further stated (October 2006) that slow pace of allotment of the land was due to directions of the Chief Minister, who had desired that Mega Food Processing Projects should be invited to the Park. The reply is not tenable, as food processing units could not be established due to non-availability of water in the area. It was also stated that the Hydrologist had assured that pure water would shortly be available in the area.

Thus, due to selection of a site without ensuring availability of water, the Food Park could not be put to use, as food processing being water intensive requires adequate and dependable water supply. Had the Company conducted soil investigation prior to selection of the site, the investment of Rs. 5.32 crore would have yielded the anticipated results.

Violation of the terms and conditions of lease

7.2.15 According to the terms of the lease deed executed by the Company with the entrepreneurs, the entrepreneurs were required to establish their projects within six months of the date of execution of the deed. In the event of failure the allotment was liable for cancellation. It was noticed during audit that in four[π] Industrial Estates (IEs), 48 unit holders, who were allotted premises between September 2002 and August 2005, had not established their units as of March

[π] Industrial Complex, Rangreth and Industrial Growth Centres Bari-Brahmna, Lassipora and Samba

2006. In four♣ IEs, against the proposed establishment of 219 units during 2001-02 to 2005-06, only 90 units had been established (March 2006).

The management stated (October 2006) that the Company had started the process of cancellation of allotments and that notices were being issued for completing the legal formalities involved in the eviction process.

7.2.16 According to the lease deed entered into with the entrepreneurs, 90 *per cent* of the employees required for running the units were to be employed from amongst the eligible locals. The promoters were free to employ technical or other staff from outside the State, if not available locally. Audit scrutiny revealed that in case of 56 units (out of 135 units test-checked), despite availability of skilled locals there was shortfall ranging between 18 and 86 *per cent* in their employment during 2005-06. Besides, the units under the jurisdiction of the Industrial Estate, Samba had made only 1,623 appointments (March 2006) against 2,231 targeted in the Project Reports of the entrepreneurs, which resulted in shortfall of 27 *per cent*.

The Company had taken no action against the promoters who had violated the provisions of the lease deed. The management stated (May 2006) that an employment cell would be created in future to ensure employment of locals as per the guidelines.

7.2.17 Audit scrutiny of records of six IEs also revealed that four IEs had not maintained any records to indicate the requirement of employees as per the project report and five IEs had no records to indicate the number of persons employed (locals and non-locals) during 2001-02 to 2004-05.

7.2.18 The allottees were required to execute lease deeds with the Company within 60 days of the date of issue of allotment order. Failure to execute the lease deed within the prescribed period could entail cancellation of the allotment. Audit noticed that 63 unit holders executed lease deeds with the Company, after delays ranging between 1 and 54 months. The Company, however, had not taken any action against the defaulter for no reasons on record.

7.2.19 According to the terms of the lease deed entered into with the Unit holders, the Company can allow them to arrange their own facilities (like water, electricity, etc.) in the complex on payment of cess charges. Audit noticed that eight unit holders were permitted to dig bore wells against payment of cess charges. The Company failed, however, to recover the cess charges of Rs. 2.77 lakh from the unit holders, resulting in loss to the Company. Further, though the Company had knowledge of unit holders having sunk their own bore wells without its permission, no action was taken by the Company against the defaulters.

The management stated (October 2006) that the Company had raised bill against one unit holder, and that action would be initiated to recover the charges from other parties also.

♣ Industrial Complex, Bari-Brahmna, Industrial Growth Centres Lassipora/Samba and Food Park, Doabgah

Establishment of Export Promotion Industrial Park

7.2.20 Export Promotion Industrial Park (EPIP), a Centrally sponsored scheme, was formulated with a view to involve State Governments in boosting exports. According to the Scheme, GOI would provide grant equivalent to two *per cent* of the export, to meet the expenses for maintenance of the park for a period of 5 years from the financial year in which the exports commenced. The monitoring of the park was to be done by the State Level Committee (SLC), which was to meet once in every quarter and review the progress of implementation of the scheme.

It was noticed during audit that the Company established (2001-02) the EPIP at Bari-Brahmna at a cost of Rs. 14.41 crore. As against 26 Units due for establishment up to 2005-06, only eight units were set up. The management stated (October 2006) that infrastructural facilities created would be put to use gradually by the entrepreneurs. The investment of Rs. 14.41 crore was thus, rendered largely unproductive. Reasons for short-establishment of units were, however, not intimated by the Management.

Audit further noticed that the Company did not maintain records to indicate the value of exports made by the units established in the park. Failure to maintain the details of exports has resulted in non-availing of the admissible grant by the Company from GOI. The management stated (October 2006) that relevant details had been called for from the entrepreneurs.

Audit scrutiny further revealed that the SLC had conducted only four meetings against 12 required to be held during three years ended 2005-06, indicating lax monitoring mechanism.

Cases of Unfruitful and Infructuous Expenditure

The following cases of idle and infructuous expenditure also came to the notice during the performance audit:

7.2.21 The Company awarded (November 2001) the work of construction of road connecting Phase-I to Phase-II of the Industrial Growth Centre, Samba to a contractor at a cost of Rs. 46.98 lakh. The contractor, after executing a part of work, stopped further execution, as Army authorities had objected to the construction work, on security grounds. The Company had paid Rs. 19.80 lakh to the contractor during March 2002 and December 2003, against the work executed by him. The remaining work had not been resumed as of May 2006. The management stated (October 2006) that the work could not be completed as the new alignment proposed by the Army authorities was not technically feasible.

Thus, taking up of the work in an unplanned manner without ensuring title to the land and prior clearance from the Army authorities resulted in wasteful expenditure of Rs.19.80 lakh.

7.2.22 With a view to making use of available infrastructure (land, sheds, etc. worth Rs. 3.26 crore) at Bari-Brahmna (Jammu), the Company approached (November 2000) the Central Warehousing Corporation (CWC) for setting up of an Inland Container Depot (ICD) for use by the Corporation on monthly rent[♦] basis. CWC, while accepting the Company's proposal, suggested up-gradation of the existing infrastructure to suit its requirements. The up-gradation, involving construction of boundary wall, widening of inner roads and development of back premises, was estimated to cost Rs. 49.30 lakh.

Audit scrutiny revealed that the Company, with a view to availing of financial assistance available from the Central Government under the Critical Infrastructure Balance Scheme, decided (September 2001) to connect Export Promotion Industrial Park (EPIP), Bari-Brahmna and the ICD to National Highway through roads measuring 11.45 kilometers. The project, approved by GOI in December 2001, was estimated to cost Rs. 7.07 crore[♣] and was supposed to cater to imports/exports equal to 5,684 container loads per annum. The Company spent Rs. 3.61 crore (excluding cost of State assets) as of March 2006 on construction of road network, sewerage and drainage, electrification, etc. The possession of the complex was handed over to CWC in August 2004.

Audit noticed that the scheme was not successful, as traders did not come forward to avail the ICD facilities, indicating that the demand survey conducted by the Company was unrealistic. Consequently, CWC suffered losses and closed its operations from December 2005. Further, the Company had made no efforts to publicise the availability of the facility at the complex. As a result, the infrastructure created at the complex remained idle, rendering the investment of Rs. 3.61 crore as unfruitful. Moreover Rs. 3.26 crore, representing the cost of the Company's assets still remains locked up, without any alternative plan for its retrieval.

It was also noticed during audit (October 2006) that against an amount of Rs. 19.39 lakh outstanding (May 2006) against CWC on account of rent and electricity/water charges, bills amounting to Rs. 14.80 lakh only had been raised (October 2006). The Company had received payments to the extent of Rs. 12.61 lakh, leaving Rs. 6.78 lakh still outstanding (October 2006) against CWC.

Internal Control

7.2.23 Internal control system is a management tool to give a reasonable assurance that the objectives are achieved efficiently and in an orderly manner. The Company is the nodal agency for the promotion and development of medium and large-scale Industries in the State. The Company allots land to the entrepreneurs for establishment of industrial units. The entrepreneurs were to set up the units on the land allotted by the Company. Audit noticed that the Company did not maintain the required records to indicate the magnitude of investment made by the entrepreneurs. On this being pointed out, the management stated that relevant details would be called for from the unit holders.

♦ Rupees two per square feet for built-up area and twenty-five paisa for the open area.

♣ Central share: Rs. 3.81 crore; State share: Rs. 3.26 crore (in the shape of cost of assets).

7.2.24 In accordance with the delegation of powers, the Company can execute the works departmentally in emergent circumstances. However, the execution of works is to be planned in a way that these are completed in time.

Audit scrutiny revealed that out of 91 works test-checked in 7 IEs, while completion of 26 works was delayed by 7 to 1470 days, time required for completion of 18 works was not indicated. Audit, therefore could not verify as to whether the works were of emergent nature or not. This indicated inadequate internal control and lack of proper monitoring in the execution of works.

Conclusions

The Company failed to achieve its objectives, as acquisition of land for development of infrastructure was done without any demand survey and ensuring suitability of site. Most of the land acquired was yet to be put to purposeful use.

The implementation of schemes was characterised by delay in acquisition of land, delayed/non-completion of project works, cost overruns, improper planning, non-evacuation of encroachments and inappropriate site selection.

The Company did not give wide publicity about the infrastructural facilities available with it to attract entrepreneurs for establishing their units.

The Internal Control System in the Company was inadequate.

Recommendations

The Company needs to:

- undertake a demand survey before taking up development of sites.
- take effective steps to speed up the process of acquisition of land and ensure purposeful use of the land.
- ensure availability of adequate and suitable infrastructure as per the requirements of the coming up industrial units.
- give wide publicity of the facilities available to attract entrepreneurs and hold awareness campaign.
- take timely action against the entrepreneurs who do not follow guidelines and norms laid down with regard to establishment of units, employment of local youth, etc.

The audit findings were reported to the Government (August 2006); reply has not been received (September 2006)

Public Works Department

Jammu and Kashmir Projects Construction Corporation Limited

7.3 Construction activities of the Jammu and Kashmir Projects Construction Corporation Limited

Highlights

- **The performance of the Company with regard to construction activities was found to be sub-optimal. The Company failed to successfully execute the works secured on tender basis. As a result, the clients rescinded four works resulting in loss of Rs. 20.38 lakh and doubtful recovery of Rs. 2.75 crore.**

  (Paragraph: 7.3.9)
- **The Company executed four works prior to approval to the cost offers and without drawing formal agreements with the clients which rendered the recovery of Rs. 1.82 crore as doubtful, besides locking up of Rs. 2.78 crore.**

  (Paragraph: 7.3.13)
- **Execution of sub-standard work by the Company resulted in the client withholding payment of Rs. 84 lakh.**

  (Paragraph: 7.3.18)
- **The Company incurred expenditure in excess of the deposits received from the project authorities in violation of the prescribed procedures which contributed to its mounting receivables.**

  (Paragraph: 7.3.21)
- **Due to incorrect cost offers, the Company suffered loss of Rs. 2.11 crore in 11 works test-checked in audit.**

  (Paragraph: 7.3.27)

Introduction

7.3.1 The Jammu and Kashmir Projects Construction Corporation Limited (JKPCC) was incorporated on 22 May 1965 under the Jammu and Kashmir Companies Act, 1977 as a wholly owned State Government Company. The provisions of the Companies Act, 1956 were extended to the State with effect from 15 August 1968. The objectives of the Company include execution of civil construction works for the State/Central Governments and Public Sector Undertakings, economically, speedily and efficiently, so as to keep pace with the construction programme envisaged in various plans of the State Government. Its establishment was also aimed at curbing monopoly of private contractors in construction works and providing healthy competition between private and public sectors.

Organisational set up

7.3.2 The Management of the Company is vested in a Board of Directors. As on January 2006, the Company had six Directors on its Board (including the Managing Director) with the Minister of State Public Works Department as its

Chairman. The Managing Director is the Chief Executive and is assisted by three General Managers and a Financial Controller in the day-to-day functioning of the Company.

The working of the Company was last reviewed in audit and commented upon in the Report of the Comptroller and Auditor General of India for the year 1995-96 and was discussed by the Committee on Public Undertakings (COPU) during July and September 1997. The recommendations of the COPU, contained in its thirty-third Report, were placed before the State Legislature on 26 March 1998.

Scope of Audit

7.3.3 The performance of the Company with regard to its construction activities for the period 2001-06 was reviewed during October 2005 and February 2006. The review sample included three (17 *per cent*) competitive bid works out of a total of 18 works, and 37 (23 *per cent*) completed deposit works out of 162 such works, selected on random sampling basis.

Audit Objectives

7.3.4 The performance audit of the Company with regard to its construction activities was carried out to assess whether:

- The Company could achieve a competitive edge through efficient planning, co-ordination and contract management and whether this efficiency was successfully translated into securing more works through competitive bidding.
- The Company took up execution of works after obtaining approval of its cost offers and signing a formal agreement with the clients. The planning for execution of the awarded works, their supervision was consistent with the targets.
- The Company was sensitive to the risks associated with variations in quantities, time and cost overrun and quality of the works executed by it and took action to address such risks.
- The costing system adopted by the Company was commensurate with the nature and size of the Company. The expenditure on deposit works was restricted to the amount of deposits received.

Audit Criteria

7.3.5 The performance of the Company was assessed against the following audit criteria:

- Instructions and directions issued by the Government;
- decisions and orders of the Board of Directors;
- annual works programme and budget and targets fixed;
- terms and conditions of the agreements with the clients;
- prescribed works procedures and norms.

Audit Methodology

7.3.6 The following mix of audit methodologies was used:

- examination of primary and secondary records relating to the execution of works;
- scrutiny of minutes of the Board meetings, Government circulars, correspondence exchanged between the Company and the clients, budget, inventory and manpower etc;
- analysis of data/information collected;
- meetings with the management.

Audit Findings

7.3.7 The audit findings were reported to the Government/Board in July 2006 and discussed in the meeting of the Audit Review Committee for the Public Sector Undertakings (ARCPSE) held on 16 October 2006, where the Government was represented by the Financial Advisor and Chief Accounts Officer of Public Works Department and the Company by its Financial Controller. The review was finalised after considering the views of the Government/Management.

Audit findings are discussed in the succeeding paragraphs:

Operational performance

7.3.8 The Company is engaged in the construction of bridges, buildings, roads, etc. entrusted to it by the State/Central Governments and Public Sector Undertakings. The works executed by the Company are divided into two categories:

- Contract/tender works secured through competitive bidding
- Deposit works awarded mainly by the State Government Departments on cost plus basis.

Execution of Works through competitive bidding

7.3.9 The Company had not maintained any database to indicate the number of works in which it had participated through tenders. As a result, Audit could not ascertain its success rate in the bidding process. It was noticed during audit that the Company had failed to take action on the recommendations (July/September 1997) of COPU which required identification of a Core Group of Experts to ensure participation of the Company in the national/international contracts in order enhance its turnover/profitability. The Managing Director admitted (September 2006) that the Company needed to increase the volume of work to achieve break-even, and that the Company was unable to undertake mega projects due to lack of resources, sufficient machinery, manpower and finances. Action proposed to be taken by the Company to overcome these bottlenecks were, however, not intimated (October 2006).

During 2001-02 and 2003-06, the Company had secured 18 works worth Rs. 45.60 crore through tendering. It, however, failed to procure any work during 2002-03. It was noticed during audit that due to the Company's failure to executive four works, the clients had rescinded the contracts resulting in loss of Rs. 20.38 lakh, besides doubtful recovery of Rs. 2.75 crore as discussed in the succeeding paragraphs:

7.3.10 Northern Railways awarded (February/April 2003) three works to the Company viz. (i) construction of bridge on the railway track at Bhogpur (ii) blanketing/earthwork from Suchi Pind to Cholang and (iii) blanketing/earthwork from Cholang to Mukerian, at an aggregate cost of Rs. 12.71 crore, with scheduled dates of completion between October 2003 and February 2004. The Company started (February 2003/May 2003) only two works (construction of bridge and blanketing/earthwork from Suchi Pind to Cholang). On the request of the Company, the Railways extended the completion period (between August 2004 and June 2005) of all the above works. Due to non-mobilisation of adequate resources even in the extended period, the Railways rescinded the contracts (August 2004), encashed the three bank guarantees worth Rs. 1.28 crore (December 2004) furnished by the Company as security deposit and awarded the balance works to another agency at the risk and cost of the Company. Meanwhile, the Company filed (September 2004) a writ petition in the High Court of Punjab/Haryana at Chandigarh against the rescission order. The writ petition, though admitted in May 2005, was pending (September 2006). By the time of rescission of the contract, the Company had executed works worth Rs. 3.30 crore against which Rs. 1.83 crore only had been received. The balance Rs. 2.75 crore, including the amount of the bank guarantees, is doubtful of recovery.

The management stated (September 2006) that there was delay on the part of Railways in providing encumbrance-free site for taking up the construction works leading to idling of machinery and manpower. It was also stated that the works had suffered due to erratic release of funds by Railways. The reply is not tenable in view of the fact that Railways had extended the scheduled dates of completion of all the above works to cover up any delay on its part. Besides, the Company was to receive the payments as per the agreed schedule.

7.3.11 The Railways awarded (March 2003) the work of widening of Tilak Bridge (including its allied works) at New Delhi to the Company at a cost of Rs.3.39 crore, for completion by September 2004. The Company started the work in August 2003 after receipt of drawings but could conduct only pile tests between September 2003 and June 2004. The results of the pile tests, however, did not conform to the parameters set by Railway. The Railways, in view of the tardy progress of the work, terminated the contract (July 2004) and issued (September 2004) a fresh tender notice for execution of the work. The Company filed (November 2004) a writ petition in Delhi High Court against the termination order and issuance of fresh tenders by the Railways. The Court dismissed the petition in November 2004. Though the Company was advised by its counsel to go for arbitration for the pending claims, it had not taken any action in the matter so far (September 2006), thereby suffering loss of Rs. 19.93 lakh incurred on pile testing and mobilisation. The management stated that there was no further progress in the case (September 2006).

Execution of Deposit Works

7.3.12 During 2001-06, the Company executed 578 deposit works valuing Rs. 706.75 crore. Of these, only 162 works (value: Rs. 173.68 crore) were completed by March 2006. Following irregularities in the execution of deposit works were noticed during audit:

Execution of works without approval of the cost offers and signing of formal agreements

7.3.13 Prior to the execution of any deposit work, the Company is required to prepare a cost offer for acceptance by the Project Authority. Besides, according to the Board instructions, no work should be executed unless the project authority approves the cost offer. It was noticed during audit that in violation of these instructions, cost offers in 64 cases were made by the Company when works were already under execution for periods ranging from 1 to 74 months. In four other cases, the cost offers were not at all submitted for approval of the project authorities, though the works were under execution for one to 30 months. It was further noticed during audit that no formal agreements were drawn up by the Company with the project authorities so as to safeguard its financial interests.

Audit scrutiny of four deposit works, revealed that taking up of works without the approval of cost offers and signing of formal agreements with the project authorities resulted in doubtful recovery of Rs. 1.82 crore and locking up of Rs. 2.78 crore as discussed in the succeeding paragraphs:

7.3.14 The Company started (January 2003) the construction of shopping-cum-office complex building at Exhibition Ground, Srinagar on behalf of the Public Works Department (PWD). Approval to the cost offer of Rs.5.07 crore, submitted by the Company in December 2002, was awaited (December 2005) from the Department. The Company, after executing work worth Rs. 85.62 lakh and receiving payment of Rs. 65 lakh was directed to stop further execution of the work (July 2003) during an inspection of the site. While the work remained suspended (December 2005), claim for the balance amount of Rs. 20.62 lakh, though preferred (September 2003) by the Company was not received so far (September 2006), resulting in locking up of funds.

7.3.15 The Company took up the construction of Chief Minister’s residence and Museum building at Gupkar Road, Srinagar during July 2001-December 2001. The construction sites were located within a distance of 200 meters from the centre of the road along the periphery of Dal Lake and required approval of the Jammu and Kashmir Lakes and Waterways Development Authority (LAWDA) under the Provisions of the J&K Control of Building Operations Act, 1988.

The works had been taken up without obtaining approval of the cost offers and drawing up formal agreements with the Project authorities (PWD/Directorate of Archaeology, Archives and Museums). Besides, no clearance was obtained from LAWDA. After works amounting to Rs. 2.45 crore (Chief Minister’s residence: Rs. 2.05 crore; Museum building: Rs. 39.91 lakh) had been executed, LAWDA objected to the construction works and directed (August 2002/26 October 2002) the Company to stop further execution of the works as these had affected the planned development of Srinagar City. LAWDA subsequently, demolished the Museum building in January 2003. Against the total value of work done of Rs. 39.91 lakh, the Company received Rs. 1.20 crore from the Project authority.

In the case of Chief Minister's residence, the Company received Rs. 1.48 crore during 2001-02/2002-03 from PWD against the value of work done of Rs. 2.05 crore. The balance amount of Rs. 57 lakh had not been paid by the department as of September 2006.

It was noticed in audit that the Company had continued the construction works even after objection raised by LAWDA and expenditure of Rs. 21.99 lakh had been incurred between 26 October 2002 and January 2003 on both[♣] the works, reasons for which were not intimated (September 2006).

Thus, failure on the part of the Project authorities (PWD which is also the Administrative Department of the Company, and the Directorate of Archaeology, Archives and Museums) and also the Company to obtain clearance from LAWDA before taking up execution of the work and ignoring the notice issued by the Authority resulted in wasteful expenditure of Rs. 2.45 crore. The management stated (September 2006) that there was no negligence on its part, as it had carried out the construction work for a period of one year without LAWDA objecting to it and that it being a commercial concern could not refuse execution of works. The reply of the Company is not tenable as it should have ensured compliance with the extant regulations including obtaining permission of the competent authorities.

7.3.16 The Company started (December 2000) construction of a Club building including its allied works at Royal Springs Golf Course Chashmeshahi, Srinagar. The work was started in anticipation of the approval of the cost offer and without executing formal agreement with the Project authority (Tourism Department). The Project authority asked the Company to submit cost offer on the basis of Bill of Quantities. Though the works were completed in July 2002, the Company did not submit the cost offer, as requested by the Project authority. Against the value of work done of Rs. 5.66 crore, the Company had received only Rs. 3.09 crore only up to March 2003. The Project authority did not release any more funds as of September 2006, resulting in locking up of funds of the Company. The management stated (September 2006) that the matter for release of the balance amount was being pursued with the Project authority.

Audit scrutiny revealed that the Company had incurred expenditure of Rs. 19.83 lakh during 2001-02 and 2003-04 on renovation of a hut (at Chashmeshahi) belonging to the Tourism Department and allotted it to its Managing Director (MD) as rent free accommodation. The renovation work was carried out without obtaining prior approval from the Project authority. Recovery of the amount from the Project authority, as such, was uncertain. After using the hut from September 2001 to May 2003, the Company vacated it on the request of the Tourism Department.

♣ Chief Minister's residence: Rs.8.25 lakh; Museum building: Rs.13.74 lakh.

Further, out of Rs. 19.83 lakh spent on the renovation of the hut, an amount of Rs. 7.50 lakh was spent on purchase of wall-to-wall carpets, television set, refrigerator, furniture/fixtures, house hold goods etc. against which items worth Rs. 3.21 lakh only were accounted for on the eve of vacation of the hut by the MD. This resulted in shortage of items worth Rs. 4.29 lakh, responsibility for which had not been fixed. The management stated (September 2006) that some items were retained by the Tourism Department and that the Company was pursuing the matter with the department for payment. Detail of the items and cost thereof was, however, not intimated to Audit (September 2006).

7.3.17 The Company started (March 1997/July 2000) construction of Wangat and Nowpora bridges and completed the same in December 2001/August 2002. The Project authority released[♦] Rs.4.11 crore only against the work done valuing Rs. 5.36 crore. The management stated (September 2006) that it had submitted the revised cost offers, subsequent to the execution of the works. Thus, taking up of works without getting the cost offer approved and without entering into formal agreement resulted in doubtful recovery of Rs. 1.25 crore. The management admitted (September 2006) the audit finding with regard to non-obtaining of approval of the cost offers from the project authorities.

Execution of sub-standard work

7.3.18 The Roads and Buildings Department (R&B Department) allotted (April 2001) the work of laying of Baramulla flagstones[ψ] over the footpath from Dalgate to Nehru Park, to the Company (estimated cost: Rs. 1.32 crore) and released (2000-01) Rs. 30 lakh as advance. The Company, in anticipation of approval of cost offer, started execution of the work in April 2001. The Company made cost offer of Rs. 1.80 crore in September 2001 and completed the work, assessed at Rs. 1.14 crore in March 2002. Meanwhile, the department pointed out defects (such as, uneven surfaces of flagstones causing inconvenience to pedestrians) in the construction work and asked (April 2002) the Company for rectification. Despite repeated requests by the R&B Department, the Company failed to rectify the defects. As a result, the balance amount of Rs. 84 lakh was not released to the Company as of September 2006. Execution of sub-standard work thus resulted in the client withholding payment of Rs. 84 lakh, besides eroding the credibility of the Company in the construction field. The management stated (September 2006) that minor defects noticed had been rectified and that the work was completed satisfactorily. The reply is silent about the reasons for non-receipt of balance amount of Rs. 84 lakh so far (September 2006).

It was further noticed during audit that the Company assessed the value of work executed by it at Rs. 1.70 crore in March 2002 and then at Rs. 1.37 crore in March 2003. However, the value of the work was finally reassessed at Rs. 1.14 crore in March 2004. Reasons for reduction in the value of work done were not on record. Had the Company obtained approval for the items of work to

♦ During 1996-97, 1997-98 and 2000-03

ψ A flat slab of stone used as paving material be done and the cost thereof from the client in advance, such revisions could have been prevented.

The management stated (September 2006) that cost offers were discussed with the R&B Department and some items of work were left untouched resulting in reduction of cost. The reply is not tenable, as prior approval of the cost and quantity should have been obtained as per the Board's instructions.

Extra expenditure on construction of a road

7.3.19 The work of construction of a road from Grattal to Kathar in Akhnoor Tehsil was allotted (October 2000) to the Company by PWD at an estimated cost of Rs. 2.44 crore in anticipation of approval of the contract by the Contract Committee of the department. The work also involved earth excavation measuring 98,441 cum. The Company engaged (November 2000) a local contractor for earth excavation at Rs. 80.75 per cum. Without seeking approval of PWD, the Company on its own changed (March 2001) the alignment of the road resulting in increase in the road length. The management stated (September 2006) that the change in the road alignment was necessitated due to land dispute. As a result of change, the contractor excavated 1, 32,273 cum of earth against the estimated quantity of 98,441 cum. The Company paid Rs. 1.07 crore to the contractor between November 2001 and October 2002, resulting in extra expenditure of Rs. 27.32 lakh[♠]. The Company submitted revised cost offer of Rs. 2.71 crore to PWD in June 2005, approval to which was awaited (September 2006).

Thus, execution of work by the Company, without obtaining prior approval of the client to change the road alignment, resulted in extra expenditure of Rs. 27.32 lakh.

Deficient cost offers

7.3.20 Audit scrutiny revealed that the Company did not comply with the statutory requirement of levying service tax and adding it to the cost offers in respect of works executed by it between July 1997 and March 2002. According to the assessment made by the Sales Tax Department, the Company was liable to pay Service Tax of Rs. 6.77 crore and interest of Rs. 9.87 crore for the accounting years 1997-98 to 2000-01. As the Company did not pay the Service Tax, the Deputy Commissioner Sales Tax issued (November 2004) orders for attachment of its bank accounts. The Company deposited (December 2004) Rs. 20 lakh enabling it to file appeal against the attachment orders. The Company also filed a Writ Petition in the State High Court challenging the assessment orders of the Sales Tax Department. The Court, however, directed (June 2005) the Company to approach the Committee, constituted (March 2005) by the State Government for resolving matters with regard to payment of Sales Tax. The Committee directed (July 2005) the Company to pay the principal amount in instalments, in response to which, the Company deposited further amount of Rs. 20 lakh between August

♠ 33,832.05 cum (1,32,273 cum minus 98, 440.95 cum) multiplied by Rs. 80.75 equals Rs. 27.32 lakh.

and December 2005. Efforts of the Company in recovering the amount from the clients proved futile (September 2006). The Managing Director stated (September 2006) that in future, the Company would pay Service Tax to the Sales Tax Department.

Expenditure in excess of deposits received

7.3.21 According to the State Government order of 1988, expenditure on works is to be restricted to the amount deposited by the clients. It was, however, noticed during audit that in 42 Deposit Works, the Company spent Rs. 12.97 crore in excess of the funds received from the clients. Audit scrutiny revealed that the Company had not formulated any action plan for effecting recovery of its debts and had only approached (June 2004) the State Planning and Development Department for release of payments, which had yielded no results (September 2006).

The management stated (September 2006) that being a commercial organisation it was in its interest to complete the works within the given timeframe to avoid cost overrun. It was further stated that the Management was aggressively chasing the outstandings with the clients and the Company was expecting to achieve tangible results in due course of time. The reply is not tenable in view of the clear directions by the Board that the expenditure should be restricted to the deposit received.

Non-recovery of excess material issued to the contractors

7.3.22 The Company allotted (April 1999 and November 2001) the work of fabrication, erection and launching of steel plate girders for footbridges at Lal Mandi (Srinagar) and Vigibal (Sopore) to two contractors and issued 147.31 MT of steel during October 2001 to June 2002. Audit scrutiny revealed that the Company did not regulate issue of steel to the contractors according to the actual requirement to avoid issue of excess material. Besides, the material was issued to the contractors without obtaining any security.

The Lal Mandi Bridge contractor stopped (July 2004) the work after utilising 87.25 MT of steel (out of 114.55 MT issued to him) and did not resume the remaining work despite issue of notices by the Company. The Sopore Bridge contractor completed (May 2002) the work utilising 23.67 MT of steel (out of 32.76 MT issued to him) and receiving payment of Rs. 3.30 lakh in August 2002. Audit noticed that the Company failed to recover 36.39[♦] MT of unused steel from the contractors, nor was the cost thereof (Rs. 12.73 lakh) recovered (September 2006) from the contractors before making the final payment.

The management stated (November 2005) that due consideration would be paid in future to incorporation of a bank/performance guarantee clause in the agreement and that action would also be taken to recover the cost of balance material from the contractors.

♦ 27.30 MTs: from Lal Mandi Bridge contractor; 9.09 MTs: from Sopore Bridge contractor

Audit scrutiny further revealed that in case of Lal Mandi Bridge, the contractor had executed sub-standard work, for which the Company spent extra amount of Rs. 5.58 lakh for rectification. The Company had not recovered the amount from the contractor.

Locking up of funds

7.3.23 The Company issued (May 2002) a supply order on a private firm for supply of 160 RCC Hume Pipes (cost: Rs. 8.89 lakh) required for use in the construction of a road. The Company, advanced the full amount (Rs. 8.89 lakh) to the firm during May 2002/June 2002, against which it supplied (2003-04) only 42 pipes, valued at Rs. 2.29 lakh. Thereafter, despite lapse of about four years, the remaining 118 pipes had not been supplied by the firm, nor was the cost (Rs. 6.60 lakh) thereof recovered so far (January 2006).

The Managing Director stated (September 2006) that all the pipes could not be lifted in full in the initial stage due to 'dumping problem' at site. Subsequently, since the firm had closed down, the Company approached Small Scale Industries Development Corporation (a State Government Company) for their intervention, as the firm was registered with it, and had also initiated legal action against the firm.

The reply is not tenable as placing purchase orders with the firm, without making adequate storage arrangements, and releasing full payment to the firm in advance without any security had resulted in loss of Rs. 9.04 lakh (including interest of Rs. 2.44 lakh♠).

Inventory Management

7.3.24 Efficient store management calls for fixation of maximum/minimum and re-ordering levels of the stocks and also for maintenance of Priced Store Ledgers. It was noticed during audit that the Company had neither fixed maximum/minimum/re-ordering levels of materials to control its inventory nor had it maintained priced store ledgers depicting receipt, issue/consumption and closing balances of the stocks held by it. The management stated (September 2006) that audit 'instructions' had been communicated to all the units for compliance.

The following deficiencies in the inventory management of the Company also came to notice:

7.3.25 The Company had purchased (prior to July 2001) structural steel for construction of Tawi Bridge. After completion of the work in July 2001, usable/unusable structural steel valued at Rs. 41.32 lakh (usable: Rs. 37.56 lakh; unusable: Rs. 3.76 lakh) was rendered surplus and was lying in the open, exposed to the vagaries of nature at the workshop site of the Company. The Company had not taken any action for its disposal as of September 2006. The Managing Director stated (September 2006) that the material, if disposed of, would fetch less price, and as such would be utilised on similar work in future.

♠ Calculated at of 9.25 *per cent*, the minimum overdraft rate during this period

The reply is not tenable as the purchase of the material in excess of the requirement without ensuring adequate storage had resulted in locking up of Rs. 41.32 lakh for more than five years.

7.3.26 The Company procures shuttering material (wooden/steel) by debiting the cost to the work concerned. The Company does not, however, keep account of the total quantities of material procured/transferred to other units/works and balance of the material available with it indicating defective inventory management.

Deficient costing

7.3.27 Despite recommendations of the COPU, the Company had not framed a consistent policy for working out cost offers. In response to the recommendations of the COPU, the management stated that a standard basis for finalising cost offers had been framed by working out costs on bill of quantities (BOQ) basis and loading of overheads thereon. Audit scrutiny, however, revealed that cost offers in 62 cases were prepared on plinth area basis and not on BOQ basis. In 83 cases profit margin/administrative overheads were not indicated. In the absence of a standard basis for working out the cost offers, the Company could not ensure economic viability of the rates. It was further noticed during audit that due to incorrect cost offers the Company incurred loss of Rs. 1.54 crore in two tendered works (construction of a bridge on railway track at Bhogpur and blanketing/earthwork from Suchi Pind to Cholang) taken up for construction between February 2003 and May 2003. The Company had spent Rs. 4.84 crore on these works against the receivable amount of Rs. 3.30 crore. In nine other deposit works executed between 2001-02 and 2005-06 (detailed in *Appendix-7.10*), the Company incurred loss of Rs. 57 lakh, as the Company had spent Rs. 8.27 crore on these works against the work done worth only Rs. 7.70 crore according to the agreed BOQ.

The Company had not evolved any mechanism to determine the cost of works executed by it, realistically. Though the Board approved (April 1998) creation of two costing wings (one each at Srinagar and Jammu) for this purpose, the management took no action in this regard, except appointing (June 2000) a cost accountant. The Budget Sub-Committee had also recommended (July 2000) preparation of cost accounts of the recently completed works, to assess profitability of each work. Audit, however, noticed that the Company had not done any such exercise as of January 2006.

The management stated (September 2006) that cost accounts were prepared towards the completion stage of the projects after all the transactions of the projects were accounted for.

The reply is not tenable as the cost offers should be prepared and got approved prior to taking up of the execution of works. The management stated that establishment of a costing wing was under process.

Internal Control

7.3.28 Internal Control is an important management tool. An efficient and effective Internal Control System helps the management to achieve the objectives laid down. Audit noticed various deficiencies in the internal control system of the Company, as discussed in the succeeding paragraphs:

Lack of Budgetary Control

7.3.29 According to the instructions issued (July 2002) by the Board, budget proposals were required to be submitted to it for approval prior to the commencement of each financial year. It was noticed during audit that the budget estimates for various years were neither prepared/submitted timely nor were approved before the commencement of the relevant year. The Board approved budget proposals for the years 2001-02, 2002-03 and 2003-04 in March 2004, while proposals for the years 2004-05 and 2005-06 had not been finalised as of January 2006. The Management attributed (February/September 2006) delay to belated approval of the budget proposals by the Budget Sub-committee, and assured that in future budget proposals would be prepared prior to the commencement of the financial year.

Audit further noticed that the projections in the budget proposals were not made realistically. The details of turnover, material cost, labour cost, pay and allowances for the years 2001-04 are given in the table below:

Table 7.10 (Rupees in crore)

S.No	Particulars	2001-02			2002-03			2003-04		
		B	A	V *(Per cent)*	B	A	V *(Per cent)*	B	A	V *(Per cent)*
1.	Turn over	86.00	86.80	0.80 (1)	85.21	103.67	18.46 (22)	58.00	105.00	47.00 (81)
2.	Material cost	31.17	29.77	(-) 1.40 (4)	30.20	39.11	8.91 (29)	18.00	38.72	20.72 (115)
3.	Labour cost	35.22	42.71	7.49 (21)	34.50	52.28	17.78 (52)	20.21	46.32	26.11 (129)
4.	Pay and allowances	17.86	11.86	(-) 6.00 (34)	17.99	12.64	(-) 5.35 (30)	17.19	14.38	(-) 2.81 (16)

B=Budgeted; A=Actuals V=Variation

It can be seen from the table that there were variations up to 129 *per cent* in the budgeted and actual performance indicating poor budgetary control.

The management stated (September 2006) that the value of work done depended on the funds released by the clients. As such, the actuals were at variance with the budgeted figures. The reply is not tenable as these factors are considered while framing the budget proposals.

The Company had also not prepared annual perspective plans nor had fixed targets in terms of number of works to be executed/completed in each year.

Finalisation of Accounts and corporate governance

7.3.30 The Company had finalised its accounts only up to 1988-89 and finalisation of accounts thereafter was in arrears (September 2006). Though the Committee on Public Undertakings (COPU) had expressed (July/September 1997) displeasure over non-finalisation of accounts and had urged the Administrative Department to ensure that these were finalised within a fixed time frame, the Company had, however, not taken any effective action in this regard. The Company had also not prepared any Accounts Manual. Non-finalisation of accounts is fraught with the risk of financial irregularities/frauds/

misappropriations, if any, remaining undetected. On this being pointed out in audit, the management stated (September 2006) that pace of finalisation of accounts would be accelerated and at least two accounts shall be finalised each year. It was also stated that the work of preparation of an Accounting Manual had been taken up and was expected to be completed in near future.

During the four years ended March 2005, the Board of Directors had met only on three occasions against the minimum of 16 meetings required under Section 285 of the Companies Act. This indicated lack of seriousness on the part of the Management to ensure Board level participation in the affairs of the Company.

Inter-unit adjustment account

7.3.31 Advances made to the officers/staff transferred from one unit to another and transfer of stores and stocks from one unit to another are adjusted under "Inter-Unit Adjustment Account" to ensure their adjustments/recovery. It was noticed in audit that the debit balances under the head increased from Rs. 5 crore in 2000-01 to Rs. 7.69 crore in 2004-05, indicating that effective steps had not been taken by the Company to adjust the amounts. Non-adjustment of accounts for a long time is fraught with the risk of frauds/embezzlements remaining undetected. The management stated (September 2006) that instructions in this regard had been issued.

Conclusion

The performance of the company with regard to achieving its stated objectives of executing civil construction works for the Public sector economically and efficiently was found to be poor due to deficient planning, inefficient mobilisation, lack of coordination and deficient costing system coupled with violation of the Board's directives and prescribed procedures. The Company's failure to complete many of the works awarded, to maintain quality of works executed, to obtain prior approval of cost offers and restrict expenditure on deposit works to the deposits received resulted in losses. The internal control system of the Company was inadequate leading to non-compilation of accounts for over 16 years, deficient cost offers, locking up of funds, poor inventory management and costing system and sub-optimal achievement of the objectives of the Company.

Recommendations

In order to improve its performance, the Company needs to:

- Frame a consistent costing policy and streamline the costing system on the basis of realistic market surveys.
- Take up works only when cost offers are approved and formal agreements are drawn up with the clients.
- Improve its inventory management system by using a suitable model for fixing maximum/minimum, buffer stock, reorder levels, etc.
- Improve its quality control system to avoid execution of sub-standard work.
- Strengthen its monitoring mechanism and internal controls.

The audit findings were reported to the Government (August 2006); reply has not been received (September 2006).

Part-B: Audit of Transactions

Introduction

Important audit findings emerging out of test check of transactions of the State Government Company is included in this Chapter.

Finance Department

Jammu and Kashmir Bank Limited

7.4 Loss of Rs. 1.89 crore

Overvaluation of property at the time of grant of loan to a Delhi-based private firm resulted in loss of Rs. 1.89 crore.

The Jammu and Kashmir Bank Limited sanctioned (January 1999) a loan of Rs. 1.50 crore in favour of a Delhi-based proprietary firm for dealership of a petrol pump. The loan was secured, *inter alia*, against hypothecation of stocks of petrol/diesel and other lubricants lying in the petrol pump, equitable mortgage of plant and machinery worth Rs. 70.61 lakh and land and building worth Rs. 1.78 crore of one partnership concern at Haryana, of which the proprietor of the loanee firm was a partner. The value of the stocks and property was assessed by a private Surveyor and Loan Assessor. The loan was released to the firm in February 1999.

Audit scrutiny (December 2005) revealed that the account turned defaulter and was declared Non-Performing Asset by the Bank (April 2001) with an amount of Rs. 2.94 crore (outstanding principal balance: Rs. 1.47 crore; interest: Rs. 1.47 crore) outstanding against it.

The Bank served (December 2002) a notice to the firm and the guarantors under Section 13 of the Securitisation Act. The value of the land and building of the firm got reassessed (February 2003) by the Bank's own valuer was found to be Rs. 87.95 lakh only. One of the partners of the firm filed a suit against the other partners for maliciously mortgaging the firm's property to the Bank. As efforts of the Bank to make the firm repay the loan did not fructify, the Bank decided (February 2005) to settle the account under the One Time Settlement Scheme. Under the scheme, the firm was asked to pay Rs. 1.05 crore, which was deposited by it in five instalments between February 2005 and April 2005.

Thus, by accepting inflated valuation done by a private valuer and that too without verifying the title of the property, the Bank had to forgo an amount of Rs. 1.89 crore (Principal: Rs. 41.94 lakh; interest: Rs. 1.47 crore) under the One Time Settlement Scheme. On this being pointed out in audit, (December 2005), the management stated that it was not possible to evaluate the property of all the applicants by the Bank's approved/registered valuers, as the Bank had to bear the cost of valuation in the case of applicants not considered for sanction of loan. The reply is not tenable in view of the amount and the risk involved. Besides, prevention of such losses would have adequately offset the cost of such verification.

The management added (October 2006) that the Bank had referred the matter to its Inspection and Vigilance Department for investigation in the matter relating to overvaluation and laxity on the part of its staff, if any.

The matter was reported to the Government (August 2006); reply has not been received so far (September 2006).

Power Development Department

(Jammu and Kashmir State Power Development Corporation Limited)

7.5 loss of Rs. 68.27 lakh

Purchase of cement without requirement resulted in loss of Rs. 68.27 lakh.

The Chief Engineer, Kashmir Civil Construction Wing of the Company procured (November 1996) 25,000 bags of 33-grade cement at a negotiated rate of Rs. 186 per bag from a private firm for executing construction work of 65 culverts enroute Sumbal-Sonwari road at a cost of Rs. 46.50 lakh. The purchase was made without (i) call of tenders, (ii) obtaining the required sanction from the purchase committee and (iii) without finalising the agency for the work to be done. The purchase was made during the later part of November when the construction work is not possible in the Kashmir Valley for three to four months due to severe winter conditions.

Audit scrutiny revealed (June 2005) that the cement so purchased was not utilised, as the Company had decided (June 1997) to get the works executed by the Beacon Project[∞]. As a result, while 2,281 bags of cement were issued to other sister divisions, the balance 22,109 bags were stored in 23 shops taken on monthly rent of Rs. 1,000 per shop, without obtaining concurrence of the Rent Assessment Committee. Efforts of the Company to utilise the cement elsewhere did not materialise. The Chief Engineer Upper Sindh Hydel Project-II, who was asked to lift the cement, declared (December 1997) it unfit for any use as the normal shelf life of the cement is three to six months, subject to proper storage. The Company did not initiate any action thereafter to dispose of the unusable cement so as to vacate the rented shops and stop incurring recurring expenditure of Rs. 23,000 per month on its storage.

Thus, irregular purchase of cement resulted in wasteful expenditure of Rs. 41.13 lakh[♣] (cost of cement) and Rs. 27.14 lakh[β] on its storage as of August 2006.

The management stated (August 2005) that the Board of Directors had approved (December 2003) to write off the cement and its disposal by utilisation

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∞ A Wing of Border Road Organisation for construction of roads and highways

♣ Cost of 22109 bags of cement worked out proportionately

β From November 1996 to August 2006 (118 months) at Rs. 23,000 per month on barn slopes. The Company however, had not taken any action in this regard, and the cement continued to be stored in the rented shops.

The matter was reported to the Government February 2006; reply has not been received (November 2006).

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