Chapter-VII

Commercial Activities

Section-I

Overview of Government Companies and Statutory Corporations

7.1 Introduction

As on 31 March 2007, there were 20 Government companies (17 working and three[1] non-working[2] companies) and three Statutory corporations (all working) under the control of the State Government. The position had remained unchanged since 31 March 2006.

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 by the CAG as per the provisions of Section 619 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)

7.1.1 Investment in working PSUs

The total investment in the working PSUs at the end of March 2006 and March 2007 was as follows:

Table 7.2 (Amount: Rupees in crore)

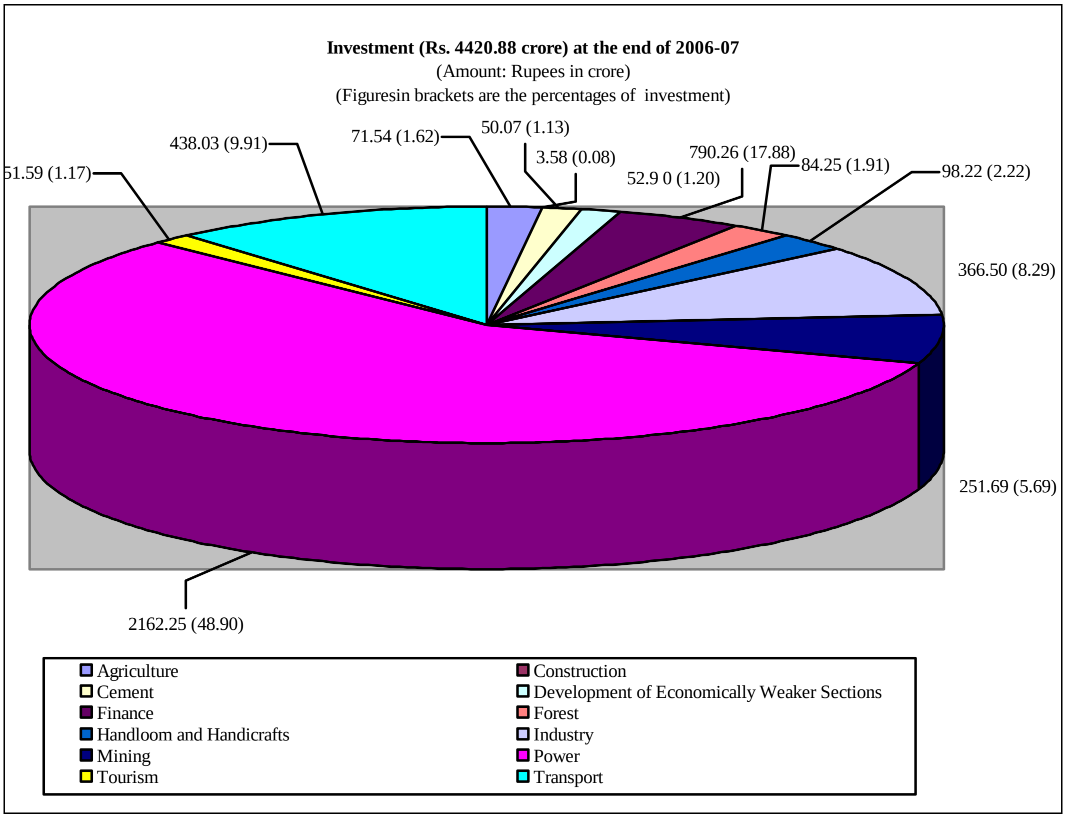
Year	Number of PSUs	Investment by way of		
		Equity	Loan	Total
2005-06	20	395.40	3069.36	3464.76
2006-07	20	398.58	4022.30	4420.88

1 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.

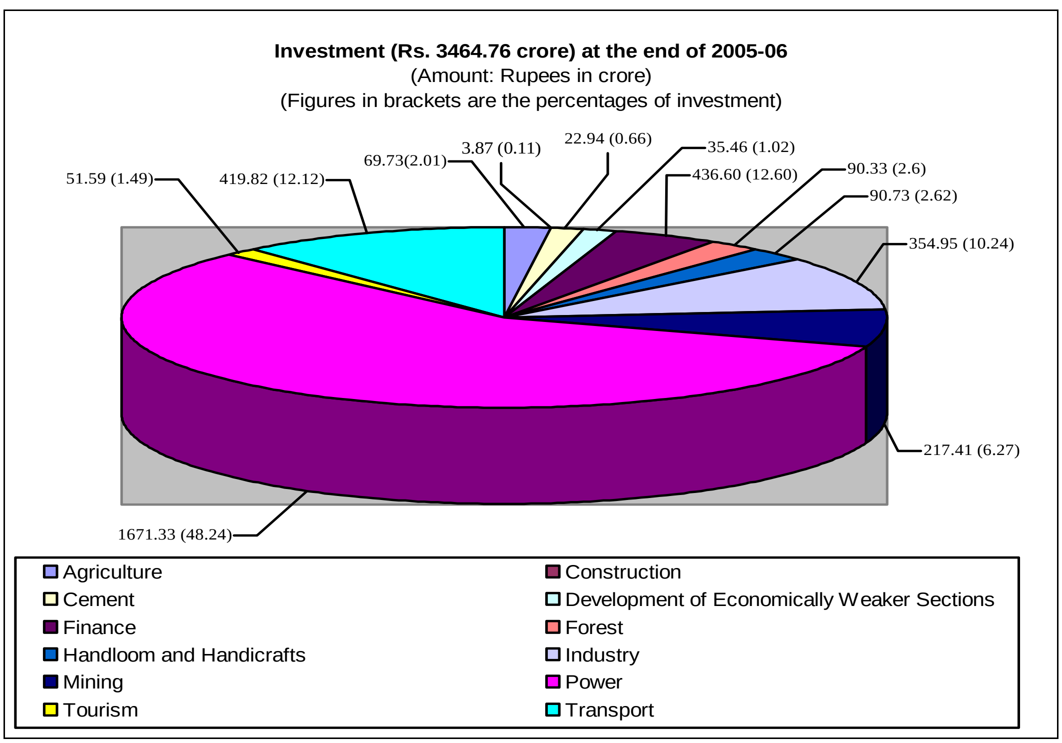
2 Non-working company is the one which is under the process of liquidation/merger, etc.

7.1.2 Sector-wise Investment in Government companies and Statutory corporations

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of March 2007 and March 2006 are indicated in the pie charts below:



Investment (Rs. 4420.88 crore) at the end of 2006-07
(Amount: Rupees in crore)
(Figuresin brackets are the percentages of investment)
51.59 (1.17)
438.03 (9.91)
71.54 (1.62)
50.07 (1.13)
3.58 (0.08)
52.9 0 (1.20)
790.26 (17.88)
84.25 (1.91)
98.22 (2.22)
366.50 (8.29)
251.69 (5.69)
2162.25 (48.90)
Agriculture
Construction
Cement
Development of Economically Weaker Sections
Finance
Forest
Handloom and Handicrafts
Industry
Mining
Power
Tourism
Transport



Investment (Rs. 3464.76 crore) at the end of 2005-06
(Amount: Rupees in crore)
(Figures in brackets are the percentages of investment)
51.59 (1.49)
419.82 (12.12)
69.73(2.01)
3.87 (0.11)
22.94 (0.66)
35.46 (1.02)
436.60 (12.60)
90.33 (2.6)
90.73 (2.62)
354.95 (10.24)
217.41 (6.27)
1671.33 (48.24)
Agriculture
Construction
Cement
Development of Economically Weaker Sections
Finance
Forest
Handloom and Handicrafts
Industry
Mining
Power
Tourism
Transport

7.1.3 Working Government companies

Total investment in the working Government companies as on 31 March 2006 and March 2007 was as follows.

Table 7.3 (Amount: Rupees in crore)

Year	Number of Government companies	Investment		
		Equity	Loan	Total
2005-06	17	215.94	2614.47	2830.41
2006-07	17	219.12	3557.88	3777.00

The summarised statement of Government investments in working Government companies in the form of equity and loan is detailed in the *Appendix*-7.1.

As on 31 March 2007, the total investment in working Government companies comprised 5.80 *per cent* equity capital and 94.20 *per cent* loan as compared to 7.63 *per cent* and 92.37 *per cent* respectively as on 31 March 2006.

7.1.4 Working Statutory corporations

Total investment in the three Working Statutory corporations at the end of March 2006 and March 2007 was as follows:

Table 7.4 (Amount: Rupees in crore)

S.No.	Name of the corporation	2005-06		2006-07	
		Capital	Loan	Capital	Loan
1.	Jammu and Kashmir State Road Transport Corporation	105.83	313.99	105.83	332.20
2.	Jammu and Kashmir State Financial Corporation	64.60	59.60	64.60	56.99
3.	Jammu and Kashmir State Forest Corporation	9.03	81.30	9.03	75.22
	Total	**179.46**	**454.89**	**179.46**	**464.41**

The summarised statement of the Government investments in working Statutory corporations in the form of equity and loan is detailed in *Appendix*-7.1.

As on 31 March 2007, the total investment in Statutory corporations comprised 27.87 *per cent* of equity capital and 72.13 *per cent* of loans as compared to 28.29 *per cent* and 71.71 *per cent* respectively as on 31 March 2006.

7.1.5 Budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government companies and working 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 2006-07 are given below:

Table 7.5 (Amount: Rupees in crore)

	2004-05				2005-06				2006-07			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity Capital from Budget	**5**	**3.23**	**1**	**0.80**	**4**	**7.55**		**-**	**4**	**2.50**	**-**	**-**
Loans given from budget	**6**	**8.51**	**2**	**68.42**	**5**	**13.08**	**1**	**21.84**	**8**	**18.79**	**1**	**17.28**
Grants towards Projects, Programmes/ Schemes	**3**	**1.89**	**-**	**-**	**7**	**312.76**	**-**	**-**	**8**	**359.60**	**-**	**-**
Subsidy	**4**	**11.60**	**-**	**-**	**3**	**6.80**	**-**	**-**	**2**	**1.77**	**-**	**-**
Total outgo	**10**	**25.23**	**2**	**69.22**	**12**	**340.19**	**1**	**21.84**	**12**[3]	**382.66**	**1**	**17.28**

During the year 2006-07, the Government guaranteed loans aggregating Rs. 2,369.69 crore raised by Jammu and Kashmir State Power Development Corporation Limited (Rs. 2,362.69 crore) and Jammu and Kashmir State Scheduled Castes, Scheduled Tribes and Other Backward Classes Corporation Limited (Rs. 7 crore). At the end of the year, guarantees aggregating Rs. 2,303.67 crore against seven working Government companies (Rs. 2,241.17 crore) and two working Statutory corporations (Rs. 62.50 crore) were outstanding.

7.1.6 Finalisation of accounts by working PSUs

The accounts of the Government companies 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. These are required to be laid before the Legislature within nine months from the end of the relevant financial year. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective statutes.

The position of finalisation of accounts by the working PSUs is given in *Appendix*-7.2. It may be seen that only one working Government company (Jammu and Kashmir Bank Limited) finalised its accounts for the year 2006-07 within the stipulated period. During the period from October 2006 to September 2007, nine other working Government companies finalised nine accounts for previous years and one Statutory corporation (Jammu and Kashmir State Financial Corporation) finalised one account for the previous year.

The accounts of 16 working Government companies and three Statutory corporations[4] were in arrears for periods ranging from two to 19 years as on 30 September 2007 as shown in the following table:

[3] Actual number of companies/corporations, which received equity/loan/grant/subsidy from the State Government during the year.

[4] Audit of Jammu and Kashmir Forest Corporation (Incorporated in 1978-79) was entrusted to the CAG from 1996-97. No accounts were submitted by the Corporation for audit.

Table 7.6

S.No.	Number of working		Years for which accounts are in arrears	Number of accounts for which accounts are in arrears	Reference to serial number of *Appendix* 7.2	
	Government companies	Statutory corporations				
1.	1	-	1988-89 to 2006-07	19	A-4	-
2.	1	-	1989-90 to 2006-07	18	A-9	-
3.	1	-	1991-92 to 2006-07	16	A-14	-
4.	1	-	1992-93 to 2006-07	15	A-1	-
5.	2	-	1993-94 to 2006-07	14	A-2,8	-
6.	3	-	1995-96 to 2006-07	12	A-11, 12, 15	-
7.	1	-	1996-97 to 2006-07	11	A-13	-
8.	2	1	1997-98 to 2006-07	10	A-6, 7	B-20
9.	1	-	1999-2000 to 2006-07	8	A-5	-
10.	2	-	2000-01 to 2006-07	7	A-10, 16	-
11.	1	-	2001-02 to 2006-07	6	A-3	-
12.	-	2	2005-06 and 2006-07	2	-	B-18,19

It is the responsibility of the respective administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the administrative departments and the officials of the Government were apprised quarterly by the Accountant General regarding arrears in the finalisation of accounts, no effective measures have been taken by the Government and as a result, the net worth of these PSUs could not be assessed in Audit.

7.1.7 Financial position/working results of Working PSUs

The summarised financial results of working PSUs (Government companies and Statutory corporations), as per their latest finalised accounts are given in *Appendix*-7.2. Besides, statements showing the financial position and working results of individual working Statutory corporations for the latest three years for which their accounts were finalised are given in *Appendices*-7.4 and 7.5, respectively.

According to the latest finalised accounts of 17 working Government companies and three Statutory corporations, nine companies[5] and one Statutory corporation (Jammu and Kashmir State Road Transport Corporation) had incurred aggregate losses of Rs. 74.66 crore and Rs. 54.67 crore, respectively. Seven companies[6] and one corporation (Jammu and Kashmir State Financial Corporation) had earned aggregate profit of Rs. 276.38 crore and Rs. 4.64 crore respectively. Financial position and working results in respect of one Statutory corporation (Jammu and Kashmir State Forest Corporation) and one Company (Jammu and Kashmir State Cable Car Corporation Limited) could not be assessed in audit due to non-receipt of their accounts.

5 S. No. 2, 3, 5, 6,7, 8,12,14 and 16 of *Appendix-7.2*.
6 S. No. 1,4,9,10,11,13 and 17 of *Appendix-7.2*.

Working Government Companies

7.1.8 Profit earning companies and dividend

Out of 17 working Government companies, only one company (Jammu and Kashmir Bank Limited) had finalised its accounts for 2006-07 by September 2007 and earned profit of Rs. 274.49 crore for the year and had declared dividend of Rs. 55.75 crore. The dividend, as a percentage of the share capital of Rs. 48.48 crore of the Company worked out to 115 *per cent*.

The total return by way of above dividend of Rs. 55.75 crore worked out to 30.89 *per cent* in 2006-07 on total equity investment of Rs. 180.48 crore by the State Government in all 17 Government companies as against 21.79 *per cent* in the previous year.

Similarly, out of 15 other[7] working Government companies, which finalised their accounts for previous years by September 2007, six companies earned an aggregate profit of Rs. 1.89 crore and only three companies earned profit for two or more successive years.

7.1.9 Loss incurring working Government Companies

Of the nine loss-incurring working Government companies, eight[8] had accumulated losses aggregating Rs. 409.56 crore, which exceeded their aggregate paid-up capital of Rs. 63.14 crore.

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 contribution towards equity, further grant of loans, subsidy, grants, etc. According to the available information, the total financial support so provided by the State Government during 2006-07 to these eight companies amounted to Rs. 204.38 crore.

Working Statutory corporations

7.1.10 Profit earning working Statutory corporations

None of the three[9] working Statutory corporations had finalised the accounts for 2006-07 by September 2007. Out of two Statutory corporations, which finalised their accounts for previous years by September 2007, one corporation (Jammu and Kashmir State Financial Corporation) earned profit of Rs. 4.65 crore. Though the Corporation had earned profit of Rs. 4.65 crore, it had accumulated loss of Rs. 192.50 crore which exceeded its paid up capital of Rs. 64.60 crore.

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[7] Excluding one company (viz. Jammu and Kashmir State Cable Car Corporation Limited), which has not prepared its accounts since inception.

[8] S. No 2, 3,5, 6,7, 8, 12 and 16 of *Appendix*-7.2.

[9] Including one corporation (Jammu and Kashmir State Forest Corporation) for which information was not available. Though the corporation was incorporated in 1978-79, its audit was entrusted to the CAG with effect from 1997-97 and no accounts of the corporation were received for the years from 1996-97 and onwards.

7.1.11 Loss incurring working Statutory corporation

The only loss-incurring corporation (viz. Jammu and Kashmir State Road Transportation Corporation), which had finalised its accounts for previous year by September 2007, had incurred a loss of Rs. 54.67 crore. The corporation had accumulated loss of Rs. 598.92 crore, which exceeded its paid up capital of Rs. 109.51 crore.

Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to the corporation in the form of further grant of loans. According to the available information, the total financial support so provided by the State Government by way of loans during 2006-07 to Jammu and Kashmir State Road Transport Corporation was Rs. 17.28 crore.

7.1.12 Operational performance of working Statutory corporations

The operational performance of working Statutory corporations is given in *Appendix*-7.6.

7.1.13 Return on Capital Employed

As per the latest finalised accounts (up to September 2007), the capital employed[10] worked out to Rs. 19,034.37 crore in 17 working companies and return[11] thereon amounted to Rs. 1,372.48 crore which is 7.21 *per cent*, as compared to return of Rs. 1,196.52 crore (14.25 *per cent*) in the previous year (accounts finalised up to September 2006). Similarly, the capital employed and return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2007), worked out to Rs. 42.14 crore and (-) Rs. 2.94 crore respectively against the return of (-) Rs. 19.86 crore in the previous year (accounts finalised up to September 2006). 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

7.1.14 Investment in non-working PSUs

As on 31 March 2007, the total investment in three Non-working PSUs (all 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 2007. 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

[10] Capital employed represents net fixed assets (including capital work-in-progress) plus working capital except in finance companies and corporations where it represents the mean of the aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

[11] For calculating total return on capital employed, interest on borrowed funds has been added to the net profit/subtracted from the loss as disclosed in the profit and loss account.

Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) were in the process of being wound up (September 2007). The summarised financial results of these companies, as per their latest finalised accounts are given in *Appendix-7.2*.

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

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

Table 7.6

S.No	Name of the Statutory Corporation	Year up to which SARs placed in the Legislature	Year for which SARs not placed in the Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in the Legislature
1.	Jammu and Kashmir State Road Transport Corporation	2003-04	2004-05	30 August 2006	Information awaited
2.	Jammu and Kashmir State Financial Corporation	2003-04	2004-05	4 June 2007	-do-

7.1.16 Results of audit by the Comptroller and Auditor General of India

During the period from October 2006 to September 2007, the accounts of seven Government companies and the aforementioned two Statutory corporations were selected for audit. The net impact of the important audit observations as a result of the audit was as follows:

Table 7.7

Details	Number of Accounts		(Rupees in lakh)	
	Companies	Corporations	Companies	Corporations
Increase in Loss	1	2	95.51	2074.01
Decrease in profit	1	-	1.11	-

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

Errors and Omissions noticed during Audit of Government companies and Statutory corporations

Jammu and Kashmir State Financial Corporation (2004-05)

7.1.18 The Corporation did not depict in its accounts the dividend of Rs. 5.81 crore and default interest of Rs. 6.86 crore payable to Industrial Development Bank of India (IDBI) under section 6 of SFC Act, 1951. This resulted in under statement of provision and overstatement of profit to the extent of Rs. 12.67 crore.

7.1.19 Grant-in-aid of Rupees two crore received by the Corporation from the State Government as financial support was not depicted in the profit and loss account as income (extraordinary item) distinct from the ordinary activities in terms of Accounting Standard 12 and 5 as issued by the Institute of Chartered Accountants of India. This resulted in overstatement of liabilities (Reserve Fund and Other Reserves) and understatement of income and net profit for the year to the extent of Rs. two crore.

7.1.20 The Profit and Loss account of the Corporation included Rs. 21.64 crore representing excess provision for NPAs in the previous year. The amount was treated as “Reserve” and not as “Provision” and adjusted under Current Liabilities. This resulted in overstatement of Income and understatement of General Resource.

7.1.21 Jammu and Kashmir Scheduled Caste, Scheduled Tribe and other Backward Classes Corporation Limited (1994-95)

The share capital of Rs. 6.26 crore included Rs. 1.87 crore raised during 1994-95, which was not in accordance with the Section 81 of the Companies Act, 1956 rendering the increase in the share capital, irregular.

7.1.22 Jammu and Kashmir Power Development Corporation Limited (1999-2000)

Against the energy sale of Rs. 49.82 crore, the Company has shown sale to the extent of Rs. 50.82 crore. This resulted in overstatement of income and understatement of loss to the extent of Rs. one crore.

7.1.23 Jammu and Kashmir Women Development Corporation Limited (1994-95)

The accounts for the year 1994-95 were certified by the Statutory Auditor without adoption of accounts for the year 1993-94 by the Company in the Annual General Meeting. This was in contravention of the directives issued by the Department of Company Affairs, Ministry of Finance, Government of India.

7.1.24 Jammu and Kashmir Industries Limited (2000-01)

The Company showed in its accounts Rs. 7.40 crore under Loans and Advances. The amount represented expenses on running of a private industrial unit in terms of joint venture between Government of India and an entrepreneur. The amount was not admitted by the Government, as there was no agreement for reimbursement of the expenses or any acknowledgement of the claim preferred by the Company. This resulted in overstatement of Loans and Advances and understatement of losses by Rs.7.40 crore.

7.1.25 Jammu and Kashmir Bank Limited (2006-07)

Fixed assets (Rs. 183.44 crore) of the Company included Rs. 67.39 lakh, spent on addition/alteration of a Government building which was allotted to the Chairman-Cum-Managing Director of the Bank in the capacity of Economic Advisor to the State Government. The expenditure being pending settlement with the Government, was not disclosed in the notes on the accounts of the Bank.

7.1.26 Persistent irregularities and system deficiencies in financial matters of PSUs

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, stock and fuel and non-preparation of inventory of vehicles owned by the Corporation.

7.1.27 Disinvestment of PSUs

In its various Board meetings, the Jammu and Kashmir State Tourism Development Corporation had agreed (September 1997, September 1998 and June 1999) for privatisation/sale of its loss making units. In pursuance of the above 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.

7.1.28 Response to inspection reports, draft paragraphs and reviews

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 2007 pertaining to 19 PSUs disclosed that 1,720 paragraphs relating to 467 Inspection Reports remained outstanding at the end of September 2007. All these paragraphs were pending settlement since 1998-99. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2007 is given in *Appendix*-7.7.

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 out of five draft paragraphs and one performance review forwarded to various departments between March-April 2007, replies to five draft paragraphs as detailed in *Appendix-7.8* were awaited (September 2007).

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 (ATNs) to the recommendations of the COPU, as per the prescribed time schedule; (b) action is taken to recover loss/outstanding advances/overpayments in a time framed schedule and (c) the system of responding to audit objections is revamped.

7.1.29 619-B Companies

There was no company in the State falling under the purview of section 619-B of the Companies Act, 1956.

Section-II

Part-A Performance Review

Forest Department

7.2 Performance Review on the working of Jammu and Kashmir State Forest Corporation

Highlights

- **The Corporation finalised its accounts only up to 1988-89. Non-finalisation of accounts was fraught with the risk of frauds, embezzlements remaining undetected.**

  (Paragraph: 7.2.18.1)

- **Despite enough markings available at the beginning of each year, the Corporation had taken 230.50 lakh cfts of fresh marked trees from the Forest Department for exploitation. This resulted in accumulation of inventory and creation of additional liability on account of royalty amounting to Rs. 75.45 crore.**

  (Paragraph: 7.2.6)

- **Out of 21.21 lakh cfts of *Deodar* and *kail* extracted by the Corporation between 2001-02 and 2005-06, the total outturn aggregated 13.03 lakh cfts against 13.61 lakh cfts as per norms fixed by the Corporation. This resulted in shortfall in outturn by 0.58 lakh cfts, with consequential loss of Rs. 2.83 crore.**

  (Paragraph: 7.2.7)

- **The stock losses suffered by the Corporation since inception of the Corporation (1979-80), on account of floods, fire, pilferage, thefts, transit shortages etc. aggregated to Rs. 272.04 crore as of March 2006. All these cases were pending write off/recovery/enquiry/ settlements as on September 2007.**

  (Paragraph: 7.2.18.6)

- **Improper arrangement at the extraction/mahaning sites led to loss of seven lakh cfts of timber, valued at Rs. 23.33 crore.**

  (Paragraph: 7.2.12)

- **Due to deterioration of stock, various species of timber measuring 12.30 lakh cfts were sold at reduced rates, resulting in loss of Rs. 17.61 crore to the Corporation.**

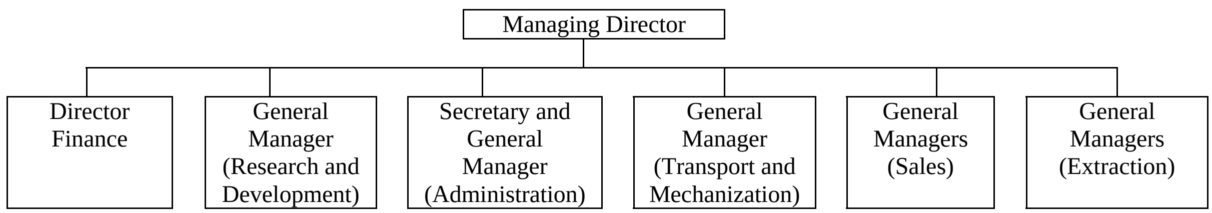
  (Paragraph: 7.2.13.1)

7.2.1 Introduction

The Jammu and Kashmir State Forest Corporation was established (July 1979) as a Statutory Corporation under the Jammu and Kashmir State Forest Corporation Act, 1978, by taking over the erstwhile Government Lumbering Undertaking (GLU). The main objectives of the Corporation are to:

- exploit forest resources;
- undertake research programme relating to forest and forest products;
- render technical advice to the Government on matters relating to forestry;
- manage/maintain such forests transferred to it by the Government and
- encourage small and petty labour class by providing them work and perform such functions as the Government may direct from time to time.

The Management of the Corporation is vested in a Board of Directors (BODs) consisting of nine Directors as on 31 March 2007. The organisational structure of the Corporation was as under:



Audit of the accounts of the Corporation was entrusted (March 2000) by the State Government to the Comptroller and Auditor General of India (CAG) from 1996-97 under Section 19(3) of the CAG's (DPC) Act, 1971. The performance of the Corporation covering the period 1996-97 to 2000-01, was last reviewed in Audit and commented upon in the Report of the CAG for the year 2001-02. The review was discussed by the Committee on Public Undertakings (COPU) during 2004 and 2006. Recommendations of the COPU relevant to the present performance review are summarised below:

- Identification of officers who had failed to recover the Earnest Money Deposit (EMD) from the bidders on spot.
- Furnish reasons as to why the claims were disputed by the Insurance Companies and to fix responsibility for this.
- To vigorously speed up action to get the withheld amounts realised from the Insurance Companies.

7.2.2 Scope of Audit

The performance Review on the working of the Corporation for the period 2002-03 to 2006-07 was conducted between May 2006 and April 2007. The review was conducted on the basis of test-check of records of six Circles (out of 12 Circles) and 22 Divisions (out of 35 Divisions). Selection of units was done on the basis of random sampling and risk analysis.

7.2.3 Audit objectives

This performance audit was undertaken to assess whether:

- the extraction of timber from the forests was done economically and efficiently;
- sales management was efficient and prudent;
- inventory management was effective;
- transportation facilities were utilised economically and efficiently and
- internal control mechanism was adequate and effective.

7.2.4 Audit criteria

The audit criteria adopted to achieve the audit objectives were as follows:

- Targets fixed with reference to Annual Plans and achievements;
- Guidelines issued by the BODs, State Government and the Supreme Court of India;
- Terms and conditions of Standard General Auction Notice for sale of timber, provisions in the Accounting Manual and
- Tendering process for allotment of works of extraction/transportation.

7.2.5 Audit Methodology

Audit followed a mix of the following methodologies:

- scrutiny of records and data maintained at the Corporate Office, Sub-office, Circles and Divisions;
- examination of correspondence with the Forest Department etc.;
- minutes and agenda of the meeting of the BODs;
- examination of cases of sales and transportation of timber and
- interaction with the Management and issue of audit queries.

Audit findings

Audit findings were reported (July 2007) to the Government/Management and discussed (20 September 2007) in a meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) which was attended by the Special Secretary, Forest Department, Government of Jammu and Kashmir and the Financial Advisor and Chief Accounts Officer of the Corporation. The views expressed by the members have been taken into consideration while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

Operational activities

7.2.6 Extraction of timber

Forest Department hands over marked trees comprising dry, diseased and fallen trees to the Corporation for exploitation. According to the instructions issued (June 1999) by the Corporation, fresh markings were not to be taken over from the Forest Department unless these were physically verified by the Corporation staff. It was noticed that the Corporation had taken over (during 2003-04) fresh markings to the extent of 2.40 lakh cfts that were not feasible for exploitation. This indicated that no verification of the markings had been conducted prior to their take over from the Forest Department.

The position of marked trees handed over by the Forest Department, timber extracted/converted by the Corporation during 2001-06 was as under:

Table 7.8 (In lakh cfts.)

Year	Opening Balance of markings	Fresh marking received during the year	Total markings available for extraction	Extraction (standing volume) (percentage)	Extraction (converted volume)	Markings handed back to the Forest Department	Closing Balance of markings
2001-02	121.54	53.64	175.18	58.92 (34)	37.64	1.93	114.33
2002-03	114.33	48.47	162.80	55.12 (34)	39.07	1.29	106.39
2003-04	106.39	42.53	148.92	28.06 (19)	18.67	2.67	118.19
2004-05	118.19	32.88	151.07	28.22 (19)	19.96	1.65	121.20
2005-06	121.20	52.98	174.18	40.68 (23)	22.57	3.41	130.09
Total		**230.50**		**211.00**		**10.95**	

(Figures for 2006-07 not available)

Audit scrutiny revealed the following:

- The Corporation had enough markings available with it at the beginning of each year. Despite this, it had taken 230.50 lakh cfts of fresh marked trees from the Forest Department for exploitation during 2001-02 to 2005-06. Against the total available markings, the extraction varied between 19 *per cent* and 34 *per cent* during the above period. Thus, accepting fresh markings, which were not feasible for exploitation as per the operational plans of the Corporation, resulted in creation of additional liability on account of royalty amounting to Rs. 75.45 crore (worked out at an average rate of Rs. 58 per cft for 130.09 lakh cfts of timber) as on March 2006, besides accumulation of inventory, comprising unextracted markings.
- Prolonged accumulation of unextracted markings resulted in the deterioration of their quality and could not, as such, be exploited for commercial purposes. It was observed that out of 130.09 lakh cfts of unextracted markings as on 31 March 2006, 18.98 lakh cfts of timber had either become rotten or was unfit for extraction. Further, 1.31 lakh cfts comprised green markings, which could not be exploited due to the ban imposed by the Supreme Court of India on exploitation and had not been handed over to the Forest Department.

The Management stated (March/September 2007) that accumulation of inventory was due to delay in handing over of markings by the Forest Department, security scenario, dispute with contractors, etc. It further stated that the operational plan for the current year (2007-08) would be expanded to reduce inventories. However, steps taken by the Management in this direction were not intimated (September 2007). Moreover, the reply is not tenable as the Corporation failed to impress upon the Forest Department for timely handing over of markings and settle dispute with the contractors.

- 0.85 lakh cfts of various species of timber lying since 2001 in forest/loading points of Bhaderwah, Doda and Kishtwar Divisions had not been carried timely to their final destinations. This resulted in deterioration of the stock with corresponding loss of Rs. 2.18 crore (calculated at the minimum rate of Rs. 257 per cft during 2001-02).

Thus, prolonged accumulation of un-extracted markings, accepting markings without any need and retaining green markings, unnecessarily was indicative of absence of control over extraction and quality management of the markings taken over from the Forest Department.

7.2.7 Shortfall in outturn

The Corporation had fixed (June 1999) the minimum outturn percentage of 75 for *Deodar*-Kashmir, 60 for *Deoda*r-Jammu and 55 for *Kail*-Kashmir. It was observed, that, out of 21.21 lakh cfts of *Deodar* and *kail* extracted by the Corporation during 2001-06 in J&K Divisions, the total outturn aggregated to 13.03 lakh cfts against 13.61 lakh cfts as per the aforementioned norms. This resulted in shortfall of 0.58 lakh cfts in outturn, with consequential loss of Rs. 2.83 crore, as detailed below:

Table 7.9

Year	Specie	Standing volume extracted (In lakh cfts)	Outturn (In lakh cfts)				Average sale rate per cft	Loss
			As per norm	Actual	Shortfall	Percentage shortfall	In rupees	Rs. in lakh
2001-02	*Deodar* (Jammu)	10.22	6.13	6.08	0.05	0.82	405.80	20.29
-do-	*Kail* (Kashmir)	3.80	2.09	2.01	0.08	3.83	248.90	19.91
2002-03	*Deodar* (Kashmir)	3.36	2.52	2.37	0.15	5.95	393.15	58.97
2003-04	-do-	1.95	1.46	1.31	0.15	10.27	520.40	78.06
2005-06	-do-	1.88	1.41	1.26	0.15	10.64	702.23	105.33
Total		**21.21**	**13.61**	**13.03**	**0.58**	**-**	**-**	**282.56**

(Data for 2006-07 not available)

The Management stated (September 2007) that the outturn percentage is fixed on average yield of mixed fallen material, which could vary between 15 and 20 *per cent*. The reply is not tenable, as it defeats the very purpose of norms fixation.

7.2.8 Shortfall in production of commercial size timber

Subsequent to taking over of the marked trees from the Forest Department, the Corporation allots the work of extraction/transportation to the contractors. In Jammu Division, where stock is extracted in sawn[1] form, the Corporation had fixed a minimum outturn of 65 *per cent* for production of commercial size timber (10" x 10" x 5" size) for each contract allotted.

Audit scrutiny of 49 cases of four[2] extraction divisions of Jammu Division revealed the following:

- The percentage of the commercial size timber to total outturn was on the lower side and ranged between four and 44. The Management stated

1 A tree cut into small logs then sawn into rectangular pieces called sleepers.
2 Bhaderwah, Kishtwar-East, Kishtwar-West and Udhampur.

(April/September 2007) that the aforementioned percentage had been fixed prior to the year 1997, when there was no ban on felling of green trees. Ever since imposition of ban, the Corporation was left with the activity of cleansing the forests of unwanted material like dry, dead and fallen trees, which could not yield the required percentage. The reply is not tenable, as the Corporation should have taken action to revise the outturn percentage of the commercial size timber in the changed scenario.

- The excess/shortfall in outturn is to be regularised/condoned by the competent authority. Scrutiny of records of the Extraction Division, Doda revealed that there was shortfall in outturn to the extent of 2.94 lakh cft in 12 cases, while there was excess outturn in two cases to the extent of 0.49 lakh cfts. The excess/shortages in the outturn had not been regularised by the competent authority (September 2007). The Management stated (September 2007) that cases of excesses/shortages pointed out by Audit would be looked into and accordingly action against defaulting officers/officials would be initiated.

Allotment of works to contractors

7.2.9 Delay in execution of works

After taking over of the marked trees from the Forest Department, the Corporation allots the work to the contractors, for extraction/transportation. It was noticed that there had been delays in taking over of markings from the Forest Department *vis-a-vis* allotment of works to the contractors and in the commencement of execution of works by the contractors. Audit scrutiny of 466 cases test-checked in ten[3] Divisions, revealed that in 139 cases, there had been delays ranging between one month and four years during 2001-06 in taking over of markings from the Forest Department and allotment of works to the contractors. The age-wise analysis is tabulated and placed at *Appendix*-7.9. Further test-check of 75 cases of six divisions[4] revealed that there had been delays ranging between one month and two and a half years during 2001-06 in the start of works by the contractors. Delay in allotment/execution of works results in deterioration in the quality of fallen trees, thereby affecting adversely their outturn.

The Management attributed (April/September 2007) belated allotment of works to delay in tendering and allotment process, militancy related activities in the areas and late receipt of markings from the Forest Department. It further stated that measures would be taken to avoid such delays in future and suitable action initiated against the officers/officials responsible for causing delay of works by contractors. The reply is not tenable as the Corporation has failed to impress upon the Forest Department for timely handing over of markings and completing the tendering process in a time bound manner.

3 Anantnag, Bhaderwah, Doda, Ganderbal, Kishtwar-East, Kishtwar-West, PP West, Ramban, Udhampur and Zangli.

4 Bhaderwah, Doda, Kishtwar-East/West, Ramban and Udhampur

7.2.10 Allotment of contracts to small/petty contractors

In order to facilitate small and petty contractors, who were unable to compete with big contractors in tendering, the BODs decided (September 1998) to allot contracts of lower magnitude (up to Rs. 5 lakh) for extraction and transportation, to small and petty local labour mates. These works were, however, to be restricted to 33 *per cent* of the total markings in a division, subject to a maximum of 20,000 cfts (15,000 cfts from January 2004), while the remaining (67 *per cent*) works were to be allotted after inviting tenders.

Audit scrutiny of records of six[5] divisions revealed that in contravention of BOD decision, the Corporation allotted (2002-07) 13.95 lakh cfts of markings for extraction/transportation on *Amani*[6] basis exceeding the stipulated limit of 33 *per cent*. Further, in 95 cases in ten[7] Divisions, 52.83 lakh cfts of markings were allotted to labour mates during the same period, in excess of the prescribed limits of 20,000/15,000 cfts of markings.

The Management stated (April/September 2007) that the BODs' directions were violated in some cases on account of low response to the Notice Inviting Tenders (NIT). Necessary care would be taken to regulate allotment of works in future in accordance with the directions of the BODs. The reply is not acceptable, as the records to substantiate low response to the NITs were not made available to Audit.

7.2.11 Improper measurement system

The Corporation did not have an adequate measurement system in the extraction divisions as discussed below:

- After extraction, the timber is stocked at transit depots and thereafter transported to the sale depots. Audit scrutiny revealed that there was no reliable measurement system in the Extraction Divisions, as a result of which, there were variations in the measurement of timber taken at the Extraction Divisions and those received in the sale depots. In two[8] Sales Divisions of Kashmir Region, 3.31 lakh cfts of timber valued at Rs. 8.50 crore was found in excess, while in Jammu Region, there was a shortage of 4.10 lakh cfts valued at Rs. 10.53 crore between the quantity of timber supplied by the Extraction Division and the timber actually received at the Sales Divisions during the period 2001-2007.

The Management stated (September 2007) that timber extracted from forests (particularly in Jammu region) has to pass through odd conditions during transportation and it faces changes due to rough handling, resulting in shortages. Besides, variations were also due to human error. In Kashmir region, the excesses were attributed to dumping of huge inventory of timber in the compartments, where it was not possible to measure the logs, accurately. The Management further stated that the Corporation was taking proper measures to prevent this situation.

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5 Anantnag, Ganderbal, Kishtwar-East, Kishtwar-West, PP West and Udhampur.

6 Works allotted on daily rate basis.

7 Anantnag, Bhaderwah, Doda, Ganderbal, Kishtwar-East, Kishtwar-West, PP West-Srinagar, Ramban, Udhampur and Zangli.

8 Sales Divisions North and South.

➢ Scrutiny of records of Extraction Division, Bhaderwah revealed that the Corporation had extracted (as of November 2005) 59,835 scants equivalent to 1.63 lakh cfts. The timber, after its extraction was put to *Mahan*[9] on its way to loading point (Bathri). It was observed (March 2007) that out of 59,835 scants, 57,194 scants were shown to have been received at the loading station (Bathri), depicting loss of 2,641 scants during *Mahaning*. However, the volume of timber received at the loading station was shown as 1.63 lakh cfts, indicating no corresponding loss in the volume of timber. This was indicative of defective measurement system, as the occurrence of loss of scants without corresponding loss in volume was not possible. The Management stated (September 2007) that a committee of officers was being constituted to enquire into the matter. Further developments were awaited.

7.2.12 Improper arrangement at the extraction/*mahaning* sites

Due to improper arrangement at the extraction/*mahaning* sites, the stock is prone to various risks like fire, thefts, pilferages and deterioration due to prolonged stocking. Audit observed that the Corporation had not evolved any suitable mechanism to ensure that the extraction work and transportation of stock to the sale depots was carried out in a manner so as to minimise these risks. It was further noticed that the Corporation had suffered loss of seven lakh cfts of timber, valued at Rs. 23.33 crore, during extraction/ transportation of stock due to various reasons as discussed below:

➢ During 2002-07, the Corporation suffered loss of 6.03 lakh cfts of timber valuing Rs. 20.04 crore in Jammu Division on various accounts as tabulated below:

Table 7.10

Year	Flood	Mahan	Fire	Other reasons	Total	Avg. rate per cft	Total value
	(In lakh cfts)					(In rupees)	(Rs. in crore)
2002-03	-	0.16	1.34	0.92	2.42	251.69	6.09
2003-04	0.06	0.07	0.15	0.62	0.90	281.32	2.53
2004-05	0.01	0.08	-	0.30	0.39	429.03	1.67
2005-06	0.25	0.36	0.96	0.23	1.80	410.27	7.39
2006-07	0.28	0.02	0.13	0.09	0.52	453.01	2.36
Total:	**0.60**	**0.69**	**2.58**	**2.16**	**6.03**		**20.04**

There was nothing on record to indicate that the cases of losses had ever been investigated and follow up action/corrective measures taken to check recurrence of such eventualities in future. Further, the Corporation had not taken insurance cover against these recurring losses (except in case of fire) to safeguard its interests. The Management stated (September 2007) that necessesary measures were being initiated to check recurrence of such losses in future and insurance agencies were being persuaded to also cover risks other than fire mishaps.

➢ The Corporation allotted (June 2001) extraction/transportation work of two compartments[10] (0.68 lakh cft) of Bhalessa (No. 38 and 39) to a private

9 Down stream transportation

10 Compartment is an area in the forest earmarked for extraction

contractor. After completing extraction work (0.452 lakh cft), the contractor started (July 2004) transportation of the timber after a lapse of 2-3 years due to dispute over settlement of rates. Owing to belated transportation, quantity of 0.16 cfts of timber (out of total of 0.45 cfts) extracted by the contractor deteriorated (December 2005). Of the remaining 0.29 cfts, timber measuring 0.26 cfts lying at the *Mahan* head, were washed away during floods (April-July 2006), of which only 4500 scants (0.12 cfts) could be salvaged. Thus, the Corporation suffered loss of 0.30 lakh cfts of timber valued at Rs. 77.07 lakh, for which no responsibility had been fixed (September 2007).

The Management stated (September 2007) that the compartment had remained unattended due to militancy and subsequent floods had caused loss of stock. The reply is not convincing, as the Management had failed to settle the dispute with the contractors, which resulted in prolonged storage of stock at the *Mahan* head and their consequential loss.

- The period from October to February is considered suitable for undertaking *Mahaning*. It was observed (March 2007) that the Corporation had allotted (June 2005) *Mahaning* works, involving 0.87 lakh cfts of timber of Compartment 65/66 Marmat, to a contractor, which was not an appropriate season for undertaking such work. Consequently, stock measuring 0.23 lakh cfts valued at Rs. 59.08 lakh were washed away in the floods during July 2005. Moreover, the Corporation paid (April 2006) Rs. 4.18 lakh to the contractor for the work executed by him on the washed away stock, resulting in additional loss to the Corporation.

The Management stated (September 2007) that a High Level Committee had enquired the matter and the report thereof submitted to the State Government. However, outcome of the enquiry and follow up action taken in the matter was awaited (September 2007). Thus carrying out *Mahaning* during other than the prescribed period resulted in loss of 0.23 lakh cfts of timber valued at Rs. 59.08 lakh.

- The work of extraction/*Mahaning* of two compartments (77-b and c Siraj) involving 0.52 lakh cft of timber was allotted (December 2003/June 2004) to a contractor for completion by March 2005. The contractor started (October 2004) the work and delivered (January 2005) the timber at the *Mahan* head. He, however, did not undertake the *Mahaning* activities immediately, so as to complete the work within the stipulated period (March 2005). Subsequently, the stock caught fire (June 2005), as a result the Corporation suffered loss of 0.44 lakh cfts of timber valued at Rs. 1.89 crore[11]. Claim for Rs. 49.22 lakh lodged (June 2005) by the Corporation with the Insurance Company was pending assessment by the Insurers. Reasons for preferring claim for Rs. 49.22 lakh only against the loss of Rs. 1.89 crore were neither on record nor intimated.

The Management stated (September 2007) that the case referred to Police for investigation, had been closed and declared as an act of militancy. The reply is not tenable as the loss of Rs. 1.40 crore (less by insurance claim) could have been

[11] Calculated at the average sale rate of Rs. 429.03 per cft for the year 2004-05.

avoided had the Corporation ensured *Mahaning* in accordance with the envisaged time schedule.

7.2.13 Inventory Management

The Accounts Manual provides that the closing inventory at the transit depots should not exceed three *per cent* of the total arrivals at the depot during the year. It was, however, noticed that in the Kashmir Division, the percentage of inventory maintained at the transit depots at the close of each year, between 2002-03 and 2006-07, ranged between 16 and 49 *per cent* as indicated in the following table:

Table 7.11

Year	Total receipts during the year	Closing balance	Percentage of closing balance to total receipts
	In lakh cfts		
2002-03	25.23	4.15	16
2003-04	13.66	2.53	19
2004-05	14.67	4.80	33
2005-06	11.29	5.49	49
2006-07	10.49	3.02	29

Similarly, at the sale depots, the inventory at the close of the year should not exceed 7 *per cent* of the annual sale targets for the year. Audit observed that in contravention of the norms prescribed in the Accounts Manual, the percentage of inventory at sale depots ranged between 14 and 24 of the annual sale targets between 2002-03 and 2006-07, as shown in the following table:

Table 7.12 (In lakh cfts)

Year	Sale targets in the year	Closing inventory	Percentage of closing balance to total sales
2002-03	42	7.22	17
2003-04	42	6.08	14
2004-05	35	4.22	12
2005-06	25	5.29	21
2006-07	25	6.07	24

Thus, holding of stock beyond the permissible limits indicated defective inventory management, lack of supervision, besides exposure of stock to various risks including thefts, floods, fire, etc. The Management stated (September 2007) that the Corporation would initiate action to maintain appropriate level of inventories at the transit/sale depots in future.

7.2.13.1 Rotting of timber

Audit scrutiny revealed that due to prolonged storage and inadequate storage facilities, the quality of various species of timber, measuring 12.30 lakh cfts deteriorated in various Sales Depots of the Jammu Region during 2001-06. The stock was, therefore, sold at reduced rates, resulting in loss of Rs. 17.61 crore to the Corporation. Similarly, in Kashmir Region, the Corporation sold 3,439 cfts of timber of different species at reduced rates during the same period, resulting in a loss of Rs. 3.80 lakh.

The Management stated (September 2007) that due to subversive activities extraction of timber was done partly in forests. It also stated that since the transportation of stock extracted in forests had to pass through many phases, a lot of time was consumed in the process, resulting in rotting of some timber. The reply is not tenable as the audit comment relates to the rotting of timber in sale depots and not during transportation.

7.2.14 Marketing Management

7.2.14.1 Sale targets and achievements

The Corporation conducts sale of timber through auction and transfers timber to the State Forest Department for sale to consumers. The targets of sale fixed and achievements thereagainst during the period 2002-07 were as under:

Table 7.13

Year	Targets	Achievements	Shortfall	Shortfall percentage
	(In lakh cft.)			
2002-03	42	43.46	-	-
2003-04	42	28.70	13.30	32
2004-05	35	21.20	13.80	39
2005-06	25	20.25	4.75	19
2006-07	25	20.25	4.75	19

It would be seen from the above table that the Corporation reduced the targets from 42 lakh cfts in 2003-04 to 35 lakh cfts in 2004-05 and further to 25 in subsequent years. It failed to achieve even the reduced targets and during the period 2003-04 to 2006-07, there was shortfall in achievement of targets ranging between 19 and *39 per cent*. Reasons for lowering of targets and shortfall in achievements though called for in audit, were not furnished (September 2007).
Following further discrepancies were noticed in audit:

7.2.14.2 Non recovery of Earnest Money Deposit

Most of the timber extracted by the Corporation is sold through auction. The auction procedure, *inter alia,* provides that the successful bidder shall deposit Earnest Money Deposit (EMD) equivalent to 10 *per cent* of the bid amount on spot. The Auctioning Authority can, however, allow earnest money to be deposited within two days following the date of auction. In case the successful bidder fails to deposit the EMD within the specified period, the bidder is deemed to have withdrawn from the auction process and the amount, if any, deposited by him as part of EMD is forfeited and the Corporation has the right to re-auction the timber.

It was noticed that the Corporation (East and the West Marketing Division, Jammu) sold timber for Rs. 168.70 crore during 2001-07 through auction. However, in none of the cases the Corporation had recovered EMD to the tune of Rs. 16.87 crore from the bidders on spot.

The COPU, while discussing the previous performance review of the Corporation (included in the Audit Report-2001-02) had directed (August 2005) the Management to identify the officers who had failed to recover the EMD from the bidders. It was, however, observed that Corporation had not only failed to identify such officers but had continued auctions without recovery of the EMD, which was not only in disregard to the directions of the COPU but also in violation of prescribed terms and conditions. The Management stated (March/September

2007) that audit observations had been noted for compliance in future and that the divisional staff had been advised accordingly. The reply was silent about violation of directions of the COPU.

7.2.14.3 Non-recovery of Purchase Tax

As per J&K General Sales Tax Act, 1961, the Corporation was liable to pay purchase tax at 8.4 *per cent* (12.6 *per cent* from 1999-2000) on the stocks of timber transferred by it to the Pathankot sale depot. Accordingly, the Sales Tax Department assessed (1997-2007) the Corporation for payment of Purchase Tax of Rs. 10.04 crore for timber (valued at Rs. 80.02 crore) supplied by the Corporation to the sale depot Pathankot during 1997-2004[12]. The Corporation filed (December 1997) writ petition against the assessment order in the High Court, in response to which the Court directed (December 2001) the State Government to decide the matter at its own level. The State Government held (March 2003) the Corporation liable for payment of the tax. Consequently, the Corporation paid Rs. 9.75 crore to the Sales Tax Department during April 2004 to August 2007.

It was observed that even after the High Court decision (December 2001), no undertaking for payment of Purchase Tax was taken from the subsequent buyers to safeguard its interests. The Management replied (September 2007) that from 2004-05, the reserve price of timber had been increased, taking into account the element of Purchase Tax. It, however, expressed its inability to recover the tax from the buyers to whom stock had been sold/auctioned prior to March 2004.

7.2.14.4 Inadmissible rebate

In accordance with the conditions laid down in the auction notice, the Corporation allows rebate at following rates, in case successful bidders make payments within the stipulated period:

Table 7.14

Payment made within 14 days from the day of auction	9.5 per cent (11 *per cent* for three months between January and March 2004)
Payment made from 15th to 21st day of the auction	5 *per cent*
Payment made within 28 days of the auction	3 *per cent*
Beyond 28th day	No rebate

Scrutiny of records of the East and West Marketing Divisions of Jammu revealed that despite the bidders making payment after 15 to 28 days of the auction, the Corporation allowed (2001-2007) rebate at the higher rate of 9.5 *per cent* (11 *per cent*) and 5 *per cent*, instead of at 5 and 3 *per cent* as admissible. This resulted in payment of excess rebate of Rs. 9.71 lakh in 59 cases with consequential loss to the Corporation.

The Management stated (March/September 2007) that the Corporation had calculated the period of payment by the bidders after excluding the day of

[12] For 1997-1998 and 1988-99: Rs. 9.07 lakh (timber supplied for Rs. 1.08 crore). For 1999-2004 Rs. 9.95 crore (timber supplied for Rs. 78.94 crore).

auction. The reply is not acceptable as according to the condition of the auction notice, the period was to be calculated from the day the auction had taken place.

7.2.14.5 Supply of timber to Forest Department

The Corporation, at the instance of Forest Department, supplies 'A' class timber and firewood to the sales depots of the Forest Department for supply to local people at subsidized rates. The Corporation supplied (1979-2006) 1.22 crore cfts of timber, worth Rs. 243.22 crore to the Forest Department, for which no amount had been recovered/claimed by the Corporation. Reasons for not raising any claim, were also not found on record. It was observed (February 2007) that the Corporation had not reconciled the quantity of stock supplied by it with the receipts of the Forest Department.

The Management stated (March 2007) that the matter of recovering/adjusting the value of timber supplied to the Forest Department was being considered. The reply is not tenable as the value of timber could be recovered/adjusted only when the quantity shown as dispatched was acknowledged by the Forest Department. Moreover, in the absence of reconciliation of dispatch/receipt figures, pilferages, shortages of timber remaining undetected could not be ruled out.

7.2.15 Labour Compensation claims

Scrutiny of records revealed that the Corporation had been incurring expenditure on payment of labour compensation claims, arising out of death/injury caused to the labourers, engaged by the contractors/*amani mates* for executing the works. The Corporation had paid Rs. 3.29 crore during 2001-06 on account of such claims, which had not been recovered from the contractors to whom works had been allotted.

It was observed that the Management failed to incorporate a clause in the agreements executed with the contractors for recovery of Labour compensation paid by the Corporation on their behalf. Though the Management decided (October 2003) to incorporate a clause in the tender notices/agreements to be executed with the contractors, making them liable for payment of such claims, no such clause had, however, been incorporated.

Thus, due to non-inclusion of a clause in the agreements/tender notices, the Corporation had burdened its resources for liability, which otherwise was to be discharged by the Contractors.

The Management stated (September 2007) that the Corporation was contemplating to formulate a comprehensive policy to cover labour class working in various lumbering operations.

7.2.16 Insurance Portfolio Management

The stock of the Corporation, scattered at various places are insured against fire risks only. Review of the management of the insurance portfolio revealed that the Corporation had not aggressively followed the cases pending with the Insurance Companies for settlement of claims. Ten cases were pending with the Insurance Companies, where the value of gutted stock aggregated to Rs. 6.24 crore, against which claims for only Rs. 5.34 crore were lodged. The claims were however pending settlement as on September 2007. Despite directions (June/September 2004) of the COPU to vigorously speed up the action to get the withheld amounts realized from the Insurance Companies and also of the BODs (October 2003) to file suits against defaulting insurance companies, no action had been taken by the Corporation in this regard.

Scrutiny of records further revealed that four cases (involving an amount Rs. 92.94 lakh) had been under dispute (September 2007) with the Insurance Companies, while in one case (involving Rs. 41 lakh), no claim was lodged (September 2007) by the Corporation. The COPU had directed (June/September 2004) the Corporation to furnish reasons as to why the amount was disputed by the Insurance Companies and to fix responsibility for this. It was, however, observed that the Corporation had not fixed any responsibility, so far (September 2007).

The Management stated (September 2007) that the Insurance Companies were being pursued for clearance of pending/disputed claims and that it was contemplating to file recovery suits against these Companies. The reply was, however, silent about fixation of responsibility.

7.2.17 Manpower management

Against the sanctioned strength of 4472 employees, the effective staff strength of the Corporation as on 31 March 2006 was 4077 (91 *per cent*), which included 150 deputationists from the Forest, Finance and Planning Departments. The percentage of expenditure on establishment vis-à-vis total expenditure ranged between 34 and 59 during the period 2002-2006. The State Government had constituted (February 2003) a Core Group to study the functioning of all the State Public Sector Undertakings and also to identify surplus manpower and possible introduction of Voluntary Retirement Scheme (VRS)/Golden Handshake (GHS). The Core Group identified (January 2004) 2000 employees as surplus in the Corporation and advised it for repatriation of the deputationists and retrenchment of the surplus employees in a phased manner (600-700 employees per year) by adopting VRS/GHS. The BODs had also directed (February 2005) the Management to send erstwhile Government Lumbering Undertaking (GLU) staff back to the Forest Department. It was, however, observed that the Corporation had neither taken any action on the recommendations of the Core Group nor had it repatriated GLU staff to the Forest Department, resulting in payment of idle wages to the surplus staff (which could not be quantified in absence of cadre-wise break-up). On the other hand, the Corporation engaged 12 persons on lump sum monthly salary basis during December 2005 to February 2006.

The Management stated (September, 2007) that the VRS scheme prepared (January 2002) by the Corporation had not been approved by the Government and that the Forest Department had refused to accept repatriation of the staff. Further, some of the staff was retiring in the coming three to four years and the Corporation would need more staff to run its present activities. The reply is not convincing, as retention of staff to make up for future vacancies was neither prudent nor advisable, especially in case of a commercial entity.

7.2.18 Internal Control Systems

Internal Control system is an essential pre-requisite for efficient and effective management of an organisation. The following deficiencies were noticed in the internal control mechanism being followed by the Corporation:

7.2.18.1 Arrears in finalisation of accounts

The Company had finalised its accounts up to the year 1988-89 and finalisation of accounts thereafter was in arrears (September 2007). This issue was also raised by Audit in the Report of the CAG for the year ended 31 March 2002. No effective steps had, however, been taken by the Management to finalise the pending accounts.

Moreover, the Accounts Manual prepared by the Corporation in 1993 had not been updated (September 2007), despite entrustment (December 2005) of the work to a Committee comprising officers[13] of the Corporation. The Management stated (September 2007) that updating of the Accounts Manual was under process. The reply was, however, silent about the time frame for finalisation of arrear of accounts.

Thus, Management's casual approach towards clearance of arrears in finalisation of accounts was fraught with the risk of frauds, embezzlements remaining undetected.

7.2.18.2 Non-reconciliation of inter Unit adjustment account

The Corporation transfers funds to different units/divisions for incurring expenditure and keeps the amount under inter-unit adjustment account pending final adjustment. It was noticed that debit balances under this head had increased from Rs. 8.04 crore in 2001-02 to Rs. 23.90 crore in 2005-06[14], indicating that effective steps had not been taken by the Corporation to adjust the amounts. Non-adjustment of accounts for a long time entails risk of frauds and embezzlements, if any, remaining un-detected. The Management stated (September 2007) that reconciliation work was under process and would be completed within the shortest possible time.

7.2.18.3 Corporate Governance

The State Forest Corporation Act, 1978 prescribes holding of meetings of the BODs once in every three months. Audit, however, observed that during the period 2001 to 2006, the Board of Directors had met only on five occasions against prescribed 20 meetings. This was against healthy corporate governance and was liable to impact the decision making process of the Corporation. The Management attributed (September 2007) pre-occupation of Chairman as a reason for not holding the prescribed number of meetings.

[13] General Managers, West/Administration/R&D, Deputy Financial Advisor, Divisional Manager, West Marketing Division Jammu and Divisional Manager, Projects Jammu.

[14] Figures for 2006-07 were not available.

7.2.18.4 Budgetary control

According to the Accounts Manual, the Budget Sub-Committee was required to submit Budget Estimates (BEs) for ensuing years to the BODs in the month of December each year. Audit scrutiny revealed the following:

- The BEs for the year 2001-02 were adopted by the Corporation, belatedly in September 2001, while those for the year 2002-03 had not been approved by the BOD.
- BEs for the years 2003-04 and 2004-05 were approved by the BOD during February 2005, after a delay of 24 months and 12 months respectively.
- BEs for the years 2005-06, 2006-07 and 2007-08 were approved by the Board of Directors in April 2007, after a delay of 28,16 and 4 months respectively.
- BEs for the years 2001-2007 revealed variations ranging between one *per cent* and 71 *per cent* in the budgeted and the actual figures, which were not analysed by the Management.

Thus, unrealistic projections indicated lack of effective planning, incorrect assessment of the requirements of the funds and laxity in control over expenditure. Moreover, incurring of expenditure pending approval of BEs by the BODs, was irregular and defeated the objective of framing of a healthy budgetary policy.

The Management stated (April/September 2007) that in future, proper sequence for preparation and approval from the respective authority would be ensured and effective measures taken to minimise variations in future.

7.2.18.5 Physical verification

The physical verification of stock at the sales depots is conducted annually. Physical verification of the store/sales depots of the East and the West Marketing Divisions, Jammu revealed shortage of stock aggregating 1.43 lakh cfts during the period between 2001-2007 (excepting 2003-04). The cost of the timber, based on the average sale rate from time to time, worked out to Rs. 4.40 crore as detailed in the following table:

Table 7.15

Year	Shortage (in cfts)	Average sale rate/cft. (in rupees)	Loss (Rs in crore)
2001-02	40,097	256.89	1.03
2002-03	60,335	251.69	1.52
2004-05	25,303	429.03	1.08
2005-06	5,065	410.27	0.21
2006-07	12,388	453.01	0.56
Total	**1,43,188**		**4.40**

Audit observed that the Corporation had neither investigated the matter nor had fixed responsibility (May 2007) for the shortages. The Management attributed (March 2007) shortages to handling of stock. The reply is not tenable as the Corporation has not fixed any percentage of handling losses.

7.2.18.6 Material losses

The Corporation regularly suffered losses on account of floods, fire, pilferage, thefts, transit shortages, etc. It was observed that stock losses aggregating

Rs. 272.04 crore (according to the provisional balance sheet for the period ended 31 March 2006), which had accumulated since inception of the Corporation, were pending write off/recovery/enquiry/settlements. The Management stated (September 2007) that matter was under consideration for write off. The reply indicated that the Corporation had not been able to address the issue for the last 27 years, which also brings out gross failure of the control systems and lack of accountability, besides slackness in the system.

7.2.18.7 Lack of control over supplies

The Corporation did not have a proper system to account for stock supplied to the various departments/agencies. It was noticed that in one case, the Corporation came to know about stock supplied by it only, when a commission agent claimed (August 2001) from the Corporation the commission charges of Rs. 13.40 lakh for supply of stock worth Rs. 73.22 lakh through him. This casts doubts on the Management's claim that there is no lacuna in the system of supplying stock to Government departments/undertakings.

7.2.18.8 Internal Audit

Internal Audit Wing of the Corporation is headed by two Divisional Managers at Srinagar and Jammu. Following deficiencies were noticed in the Internal Audit being conducted by the Corporation:

- No internal audit manual has been framed.
- Internal Audit Wing is required to conduct audit of monthly accounts received from its various divisions by 10th of the following month. However, there was delay in submission of monthly accounts ranging between one month and one year. The Corporation had initiated no action to remedy the problem except for issuing routine reminders.
- The Internal Audit Wing had not prepared any calendar of inspections and had conducted field inspection of only one division (Bhaderwah) during the period between 2001 and 2006.

The Management stated (September 2007) that internal audit was being strengthened and improved by providing additional staff to cope-up with the job.

7.2.18.9 Vigilance

The Corporation has a Vigilance Wing headed by a General/Regional Manager and two Divisional Managers, one each at Jammu and Srinagar. It was observed that:

- The Corporation had not framed a Vigilance Manual. As a result, the role and responsibilities of various functionaries were not defined.
- The Wing had no records to indicate details regarding receipt of complaints, enquiries conducted, cases referred to higher authorities for disciplinary/departmental action.
- There existed no record to indicate calendar of inspections and surprise checks conducted by the wing.
- There was no review on the functioning of the Wing conducted by the Board of Directors during the period between 2001 and 2006.

The Management stated (September 2007) that the Corporation was in the process of making rules and procedures in this regard.

7.2.18.10 Non-receipt of utilisation certificates

With a view to maintain ecological balance, the Corporation, at the instance of the Principal Chief Conservator of Forests, sets aside 50 *per cent* of the sale proceeds of the Pathankot Sale Depot for undertaking afforestation programmes to give boost to the development and regeneration of forests in the State. The Corporation paid Rs. 6.56 crore (between April 2001 and January 2007) to various Forest Development Agencies (FDAs), for undertaking afforestation programmes. Audit, however, observed that the amounts were advanced without stipulating any time limit for submission of utilisation certificates. As a result, utilisation certificates for Rs. 2.85 crore (out of Rs. 6.56 crore) were awaited (September 2007) from these Agencies. It was also noticed that the Corporation had no mechanism to ensure that funds paid to these FDAs were utilised for the envisaged purpose. The Management stated (September 2007) that these FDAs were being pursued to furnish utilisation certificates. .

7.2.19 Conclusion

The Corporation had failed to live up to its objectives. It emerges as an entity which lacks focus in its functioning in the absence of planning in financial and operational matters. The Corporation had failed to exploit the forest products to its full potential. Lack of clear policy on Extraction Management had resulted in accumulation of inventory, leading to rotting of stock worth crores of rupees. Untimely extraction and transportation of stock had also led to loss of timber due to floods, fire, etc. at the extraction/transportation stations. The system to control outturn and ensure quality of production was inefficient. The measurement system was outdated, inadequate and defective. Audit noticed defects in the auctioning process, where clauses of the General Auction Notice, especially with regard to spot recovery of Earnest Money Deposits and grant of rebate to the successful bidders, were not enforced consistently. The Corporation had not evolved a mechanism for quick investigation and fixation of responsibilities. As a result, huge amounts were pending write offs, settlements and recoveries for more than 27 years. There was no evidence of any serious effort having been made by the Corporation to bring about reduction in the mounting arrears in finalisation of accounts. Unrealistic Budget Projections indicated lack of effective planning and expenditure control mechanism. Internal Controls including working of the Internal Audit Wing, Vigilance, monitoring recovery of outstandings were found to be ineffective, leading to extra payments and losses of revenue.

7.2.20 Recommendations

The Corporation needs to

- **come out with a clear cut Action Plan to overhaul its functioning, which should be based on targets and achievements;**
- **frame a realistic Annual Working Plan for extraction of markings, keeping in view the manpower and working season;**

- **make efforts to bring about reduction in the arrears in finalisation of accounts and reconciliation of royalty and timber supplies to the Forest Department;**
- **adhere to the instructions of the Committee on Public Undertakings/Board of Directors/Accounts Manual with regard to Budgetary Control, Inventory Management and allotment of works for extraction/transportation;**
- **evolve sound system to exercise control over outturn and production quality;**
- **pursue insurance claims vigorously and file suits against insurance Companies;**
- **surrender surplus staff.**

Part-B: Audit of Transactions

Introduction

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

Finance Department

Jammu and Kashmir Bank Limited

7.3 Non-recovery of debt

Failure of the Bank to assess loanee's ability to compete in the market and conduct proper evaluation of its assets, led to a loss of Rs. 1.25 crore to the Bank.

The J&K Bank Limited (Bank) sanctioned (October 2000) a term loan of Rs. 3.08 crore in favour of a Mumbai-based entrepreneur[1] and his associates (the firm) for (i) taking over of a non-functional private unit namely, Divya Foods Private Limited (DFPL) engaged in the manufacture of bakery products (ii) acquisition of plant and machinery[2] (P&M) from another bakery manufacture viz. QAF-Lamba Foods Distribution Private Limited (QLFDPL) and (iii) for meeting its working capital requirements. The promoters of the DFPL and QLFDPL had the technical/marketing arrangements with each other, whereunder the entire quantities of bread produced by DFPL were to be marketed by the QLFDPL. While the land and building were owned by DFPL, it had taken the P&M on lease from QLFDPL.

The loan was sanctioned to the entrepreneur against hypothecation of land and buildings and P&M, besides the collateral security which included personal guarantee of the entrepreneur and third party guarantee of two individuals. The value of the hypothecated assets was assessed (May 2000) by a private valuer (engaged by the entrepreneur) at Rs. 4.23 crore (land and building: Rs. 1.99 crore; P&M: Rs. 2.24 crore) on the basis of Fair Market Value. The Bank disbursed Rs. 3.08 crore[3] to the firm (May 2001 to March 2003), repayable in 39 months and to be started from November 2001.

Owing to poor market response for the product, the firm suffered losses and failed to adhere to the repayment schedule. The firm was allowed (March 2003) reschedulement/restructure of the outstanding loan/interest. The performance of the firm did not, however, improve and it could not achieve break-even and service its repayment obligations. The firm was ultimately closed (June 2003) and classified (September 2003) as non-performing asset with an outstanding balance of Rs. 3.01 crore (excluding interest) as on September 2003.

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1 Sh. Amit Dalal

2 Having minimum balance working life between 9 and 10 years according to the assessment of the valuer

3 Rs. 2.49 crore in May 2001, Rs. 34.87 lakh in December 2001 and Rs. 24.60 lakh in March 2003.

The Bank's approved valuer assessed (October 2004), the value of mortgaged assets at Rs.2.12 crore (land and building: Rs. 1.64 crore; P&M: Rs. 48 lakh) against the value of Rs. 4.23 crore (land and building: Rs. 1.99 crore and P&M: Rs. 2.24 crore) as assessed (May 2000) by the private valuer before sanction of loan. The loss in the value of assets was mainly due to reduction in the value of the P&M by Rs. 1.76 crore, which was further likely to be limited to Rs. 22.25 lakh only owing to distress sale. The Bank accepted (March 2006) the firm's offer of Rs. 2.60 crore against full and final settlement of the account, thereby foregoing even a part of the principal amount to the extent of Rs. 0.41 crore. It was further observed that the Bank had not invoked guarantee clause to recover its receivables.

On this being pointed out, the Management stated (November 2006) that the firm was not able to face competition from other manufacturers and that high rate of obsolescence and closure of the unit had reduced the value of the P&M to a very low level. The reply is not tenable as the Bank should have assessed the firm's ability to face the competition from other manufacturers. Further, while sanctioning the loan, Bank failed to verify authenticity of the valuation report of the previous valuer through its own sources. The Bank should have released payments to the client after satisfying itself of quality of the P&M purchased. It was also seen that the Bank had framed no guidelines to streamline the procedure of valuation of securities up to December 2006 and the same were framed only after issue (January 2007) of Reserve Bank of India instructions in this regard.

Thus, due to failure in assessing loanee's ability to compete in the market and improper valuation of securities, the Bank had to forego Rs. 0.41 crore (Rs. 3.01 crore minus Rs. 2.60 crore), excluding unapplied interest of Rs. 84.03 lakh (calculated by the Bank up to November 2005).

The matter was reported to the Government/Management in April 2007; their replies had not been received (September 2007).

Industries and Commerce Department

Jammu and Kashmir Handloom Development Corporation Limited

7.4 Misutilisation of Government funds

Misutilisation of Government funds amounting to Rs. 1.41 crore by the Company resulted in denial of intended benefits under Project Package Scheme to the targeted group.

The GOI, on the basis of proposal mooted by the State Industries Department, sanctioned (September 1999) the "Project Package Scheme for Handloom Weavers" for implementation by the State Handloom Development Corporation Limited (Company) at five[4] weaving centres. The Project intended to increase earnings of the handloom weavers by modernising their equipment and by supplying them highly productive and multi-product-oriented looms. Under the

[4] Basholi, Panjar, Sanai Shankarpura and Sumbal.

project, 750 weavers (150 at each station) were to be covered by supplying new looms to 375 weavers and modernizing existing looms of another 375 weavers. The cost of the project (Rs. 1.41 crore) was to be shared between Central (Rs. 85.88 lakh) and State Government (Rs. 55.40 lakh). Out of the Central share, Rs. 21.50 lakh was to be treated as loan carrying interest at 12.5 *per cent* (15.25 *per cent* in case of default) per annum and was repayable in 10 equal instalments. The Industries Department was to ensure implementation of the project, in accordance with the Government of India guidelines.

The Company received Rs. 1.41 crore from the Central/State Governments up to 2002-03 for implementation of the project. According to the Project Managers of these weaving centres (November 2004-April 2005), no loom was actually installed or modernised in any of the aforementioned weaving centres and none of the activities under the scheme had been carried out. Scrutiny of records further revealed (July 2005) that the Company instead of spending the amount on implementation of the project, had diverted major portion[5] of the funds towards payment of salary/wages to its staff. It was further observed that the Company submitted utilisation certificates to the Central Government showing full utilisation of Rs. 85.88 lakh, without mentioning the diversion. The FA&CAO of the Company, while confirming the above facts, also stated (October 2006) that a negligible amount was spent on purchase of raw material, weaver wages and on providing technical guidance to weavers.

At the instance of the Audit, the BOD put up (December 2005) the matter to the State Financial Commissioner (Finance), who directed (March 2006) the Director, Audit and Inspections to conduct special audit on the accounts of the Company. In his interim report, the Director, while confirming the Audit findings, held (July 2006) that misappropriation of Government money had taken place on a large scale and that the Company had submitted incorrect utilisation certificates to the Central Government, without actually spending the money on the schemes for which it was meant. Detailed information as demanded by the audit and inspection wing was awaited from the Company, in the absence of which final report could not be prepared.

The diversion of scheme funds by the Company indicated that the Administrative Department had failed to monitor implementation of the project as required, thereby facilitating misuse of Government money.

Thus, due to misutilisation of Government funds by the Company, the intended benefits of the Scheme could not be passed on to the beneficiaries and in addition, a liability of Rs. 37.50 lakh was also created by the Company towards outstanding loan (Principal: Rs. 21.50 lakh and interest Rs. 16.03 lakh) payable to the Central Government.

The matter was reported to the Government/Management in March 2007; their replies had not been received (September 2007).

[5] The detail of exact amount was not made available by the Company.

7.5 Diversion of funds

Non-remittance of General/Contributory Provident Fund collections to the Provident Fund Commissioner by the Corporation resulted in accumulation of outstanding liability to Rs. 3.39 crore.

As per J&K Employees' Provident Fund Act, 1961, every employer shall remit General Provident (GP)/Contributory Provident (CP) Fund collections recovered from the employees to the Provident Fund Commissioner within 15 days of the close of every month. In case of default, the PF Commissioner may recover damages not exceeding 25 *per cent* of the arrear amount in terms of the Section 16 of the Act, *ibid*.

The State Government (Industries Department) released budgetary support of Rs. 3.50 crore[6] during 2004-07 to the Company for meeting expenditure towards salary of its employees. The sanctions governing the release of funds stipulated clearance of the employer's matching share of the current CP/GP Fund liability as the first charge on the amount and utilisation of the remaining funds for payment of salary to the Company staff. It was, however, observed (December 2006/June 2007) that despite receipt of several notices from the PF Commissioner, the Company, instead of first clearing the current liability of Rs. 1.08 crore as on March 2007 on account of Employer's matching share of CP/GP Fund for the above period, deposited (2004-07) only Rs. 7.39 lakh in respect of deputationists/retired employees. The remaining amount of Rs. 3.43 crore was utilised by the Company for disbursement of salaries to the staff. It was further observed that out of employees' share of Rs. 99.28 lakh deducted at source from the salary of the employees (2004-07), Rs. 6.73 lakh only was remitted (2004-07) to the PF Commissioner. Consequently, the liability on account of CP/GP Fund increased from Rs. 1.45 crore (March 2004) to Rs. 3.39 crore as on March 2007. On account of non-deposit of CP Fund contribution, the PF Commissioner imposed (June 2004/March 2005 and February 2006) penalty of Rs. 21.78 lakh on the six[7] units of the Company for different periods (between June 2004 and February 2006), which had not been paid by the Company as of June 2007. It was also observed (June 2007) that though non-deposit of CP/GP Fund by the Company was in the knowledge of the Industries Department (Administrative Department), yet no action had been taken against the Company.

The Management stated (June 2007) that the Company, due to its financial constraints, had no other option but to utilise the amount for disbursement of salaries to its employees. The reply is not tenable as the Corporation should have sought more funds from the Government or made alternate arrangement to meet the expenditure.

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[6] 2004-05: Rs. 1.34 crore; 2005-06: Rs. 80.50 lakh and 2006-07: Rs. 1.35 crore.

[7] Intensive Handloom Development Project, Kralpora (Budgam), Intensive Handloom Development Project, Leh, Intensive Handloom Development Project, Pulwama, Intensive Handloom Development Project, Pampore, Handloom Silk Weaving Factory, Rajbagh and Handloom Development Corporation, Wazir Bagh Srinagar

Thus, non-remittance of amounts due to the PF Commissioner contravened the provisions of GP/CP Fund Act, *ibid* and violated the conditions imposed in the aforesaid Government sanctions and attracted imposition of penalty.

The matter was reported to the Government/Management in March 2007; their reply had not been received (September 2007).

Jammu and Kashmir Cements Limited

7.6 Avoidable payment of interest

The Company paid avoidable interest of Rs. 15.38 lakh to the Income Tax Department due to incorrect classification of expenditure and belated remittance of tax.

The Company purchased (November 2001) a machine (Output Shaft Gear Wheel Complete) for Rs. 26.74 lakh and classified the expenditure as 'Revenue Expenditure', debiting the same under the head "Repair and Maintenance Expenses" in Profit and Loss Account for the assessment year 2002-03. The Income Tax Authorities, while reviewing the records relating to the Income Tax Return filed by the Company, declared (March 2005) that the expenditure was of capital nature, as the machine was an independent complete unit, having a long lasting life span and involved huge cost. Consequently, the assessing authority treated Rs. 20.05 lakh (cost of the machinery less depreciation) as income. As a result, the net taxable income of the Company for the assessment year 2002-03 was computed by the assessing authority at Rs. 2.64 crore, against Rs. 2.44 crore declared (March 2005) by the Company in the Return. Accordingly, the assessing authority issued (March 2005) demand notice for Rs. 7.16 lakh on account of additional tax payable by the Company on the balance taxable income of Rs. 20.05 lakh, which was paid (April 2005) by the Company. The assessing authority also levied interest of Rs. 15.38 lakh and recovered (November 2005) the same out of the advance tax paid by the Company for the assessment year 2004-05. The Company filed (April 2005) an appeal with the Commissioner Income Tax (Appeals), who ratified (March 2006) the decision of the Assessing Authority and confirmed the demand of Rs. 22.54 lakh (tax: Rs. 7.16 lakh; interest: Rs. 15.38 lakh) raised by the assessing authority.

The Management stated (December 2006) that the Company had filed (July 2006) an appeal with the Income Tax Appellate Tribunal, Amritsar. However, the appeal filed by the Company was time-barred, as it was filed 60 days after the decision of the Commissioner Income Tax (Appeals). The Company, therefore, sought condonation for delay from the Tribunal, which was pending decision (April 2007).

Thus, the Company had to pay interest of Rs. 15.38 lakh due to incorrect classification of Capital expenditure as Revenue expenditure and consequent short payment of tax.

The matter was reported to the Government/Management in March 2007; their replies had not been received (September 2007).

Transport Department

Jammu and Kashmir State Road Transport Corporation

7.7 Unauthorised utilisation of funds

Non-remittance of General/Contributory Provident Fund collections to the Provident Fund Commissioner by the Corporation resulted in accumulation of liability to Rs. 29.26 crore.

As per J&K Employees' Provident Fund Act, 1961, every employer shall remit General Provident (GP)/Contributory provident (CP) Fund collections recovered from the employees to the Provident Fund (PF) Commissioner within 15 days of the close of every month. In case of default, the PF Commissioner may recover damages not exceeding 25 *per cent* of the arrear amount in terms of the Section 16 of the Act, *ibid*.

Scrutiny of the records of the J&K State Road Transport Corporation (Corporation) revealed (June 2005/July 2006) that despite receipt of notices from the PF Commissioner including the arrest warrant against the General Manager, the Corporation defaulted (June 1999 and March 2007) in remittance of Rs. 29.26 crore to the Commissioner on account of PF Collections recovered from the employees and the employer's matching share thereagainst.

Audit scrutiny revealed that the Corporation received budgetary support of Rs. 54.84 crore during 2004-2007 from the State Government to meet the requirement of funds. The conditions governing the release of the budgetary support stipulated, clearance of the GP/CP Fund liability including the matching share payable by the Corporation, as the first charge on the amount so released. It was, however observed that out of Rs. 54.84 crore, the Corporation utilised only Rs. 2.12 crore (Rs. 69 lakh during 2004-05, Rs. 57 lakh during 2005-06 and Rs. 86 lakh during 2006-07) towards clearance of the GP/CP Fund liability, and unauthorisedly diverted the remaining amount of Rs. 52.72 crore towards payment of salary/wages to its staff.

The Management stated (May 2007) that due to annual reduction of 10 *per cent* in the budgetary support by the State Government after the year 1999, the liabilities on account of GP/CP Fund got accumulated. It was also stated that due to acute financial constraints, the Corporation had no other option but to utilise the amount for disbursement of salaries to its employees. The reply is not tenable as the Corporation should either have taken prior approval of the Government for such utilisation or should have sought additional funds from the Government to meet its expenditure. Non-remittance of amount to the PF Commissioner contravened the provisions of GP/CP Fund Act, ibid besides violating the conditions in the aforesaid Government sanctions and could also attract imposition of penalty up to Rs. 7.29 crore[8] by the PF Commissioner.

[8] Representing 25 *per cent* of the un-remitted amount of Rs. 29.16 crore.

The matter was reported to the Government/Corporation in March 2007; their replies had not been received (September 2007).

Jammu **(Ghazala Meenai)**
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Countersigned

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