CHAPTER – V: COMMERCIAL ACTIVITIES

Section-I

5. Overview of State Public Sector Undertakings

Introduction

5.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Jammu and Kashmir, the State PSUs occupy a moderate place in the state economy. The State PSUs registered a turnover of Rs. 3206.88 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 9.21 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. The State PSUs earned a profit of Rs. 232.25 crore in the aggregate as *per* their latest finalised accounts as of September 2009. They had employed 0.13 lakh[1] employees as of 31 March 2009. The State PSUs do not include two prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

5.1.2 As on 31 March 2009, there were 23 PSUs as *per* the details given below. Of these, one company[2] was listed on the stock exchanges.

Type of PSUs	Working PSUs	Non-working PSUs[3]	Total
Government Companies	17	3	20
Statutory Corporations	3	Nil	3
Total	**20**	**3**	**23**

5.1.3 During the year 2008-09, no PSU was established whereas three were under liquidation**.**

Audit Mandate

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

5.1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG

---

1 As per the details provided by 17 PSUs. Remaining six PSUs (including three non-working Companies) did not furnish the details.

2 Jammu and Kashmir Bank Limited.

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

as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

5.1.6 Audit of statutory corporations is governed by their respective legislations. Out of three statutory corporations, CAG is the sole auditor for Jammu and Kashmir State Road Transport Corporation and Jammu and Kashmir State Forest Corporation[4]. In respect of Jammu and Kashmir State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

5.1.7 As on 31 March 2009, the investment (capital and long-term loans) in 23 PSUs was Rs. 4846.47 crore as *per* details given below.

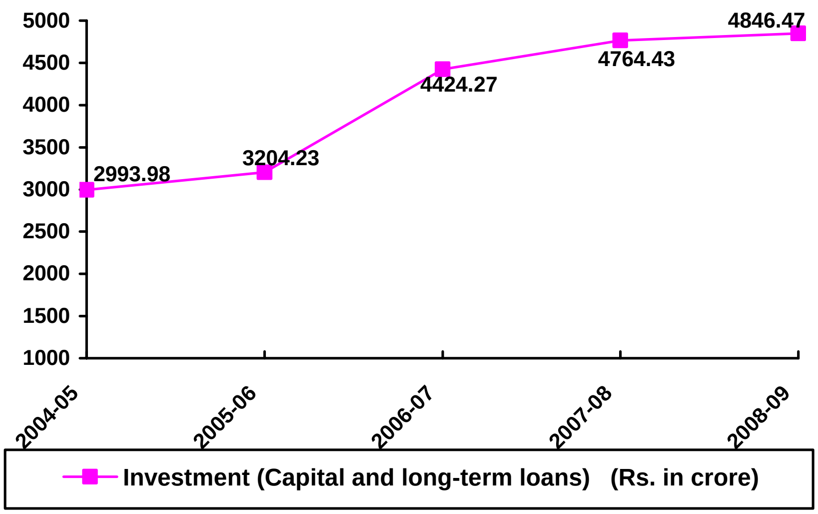
(Rs. in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	228.46	3932.22	4160.68	179.45	502.94	682.39	4843.07
Non-working PSUs	2.57	0.83	3.40	Nil	Nil	Nil	3.40
Total	**231.03**	**3933.05**	**4164.08**	**179.45**	**502.94**	**682.39**	**4846.47**

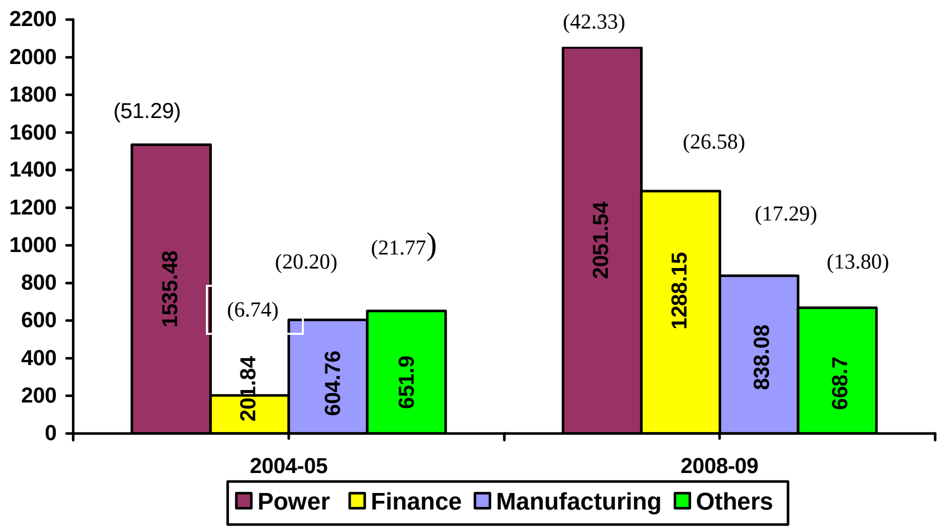
A summarised position of government investment in State PSUs is detailed in **Appendix 5.1**

5.1.8 As on 31 March 2009, of the total investment in State PSUs, 99.93 *per cent* was in working PSUs and the remaining 0.07 *per cent* in non-working PSUs. This total investment consisted of 8.47 *per cent* towards capital and 91.53 *per cent* in long-term loans. The investment has grown by 61.87 *per cent* from Rs. 2993.98 crore in 2004-05 to Rs. 4846.47 crore in 2008-09 as shown in the graph below.

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



5.1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2005 and 31 March 2009 are indicated below in the bar chart. Though the highest investment during 2008-09 was in power sector (42.33 *per cent*), the thrust of PSU investment was mainly in finance sector during the five years which has seen its percentage share rising from 6.74 *per cent* in 2004-05 to 26.58 *per cent* in 2008-09.



(Figures in brackets show the percentage of total investment)

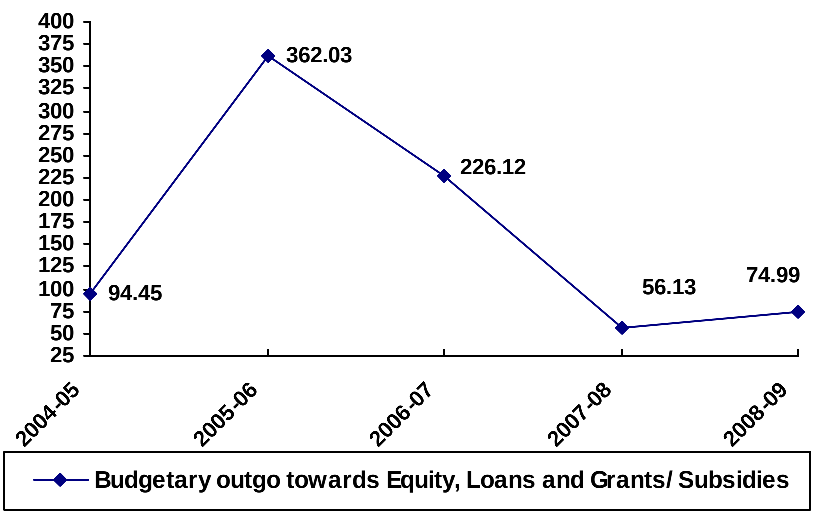
Budgetary outgo, grants/subsidies, guarantees and loans

5.1.10 The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 5.3.** The summarised details are given below for three years ended 2008-09.

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	4	2.50	2	1.20	3	7.63
2.	Loans given from budget	9	36.07	9	42.75	9	43.76
3.	Grants/Subsidy received from State Government.	10	187.55	6	12.18	8	23.60
4.	Total Outgo (1+2+3)	12	226.12	10	56.13	12	74.99
5.	Interest/Penal interest written off	--	--	--	--	2	21.79
6.	Total Waiver (6+7)	--	--	--	--	2	21.79
7.	Guarantees issued	2	2369.69	4	240.66	3	7.51
8.	Guarantee Commitment	9	2303.67	6	2429.77	10	2194.72

5.1.11 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in a graph below.



The budgetary outgo of the State Government towards equity contribution, loans, grants and subsidy was all time high in preceding five years during 2005-06 at Rs. 362.03 crore. The downward trend of budgetary outgo can be seen after 2005-06, with marginal increase during 2008-09 when the budgetary outgo stood at Rs. 74.99 crore.

5.1.12 At the end of 31 March 2009 guarantees amounting to Rs. 2194.72 crore were outstanding. More than 93 *per cent* of these guarantees outstanding were on the loans raised by Jammu and Kashmir Power Development Corporation Limited from various Financial Institutions. However, the State Government has not charged any guarantee commission or fee from the PSUs during 2008-09.

Reconciliation with Finance Accounts

5.1.13 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rs. in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	335.21	335.21	NIL
Loans	672.76	1171.36	498.60
Guarantees	2194.72	2194.72	NIL

5.1.14 Audit observed that the differences occurred are due to misclassification and are under reconciliation. The Government and the PSUs should take concrete steps to reconcile the differences in a time bound manner.

Performance of PSUs

5.1.15 The financial results of PSUs, financial position and working results of working statutory corporations are detailed in **Appendices 5.2, 5.5 and 5.6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2004-05 to 2008-09.

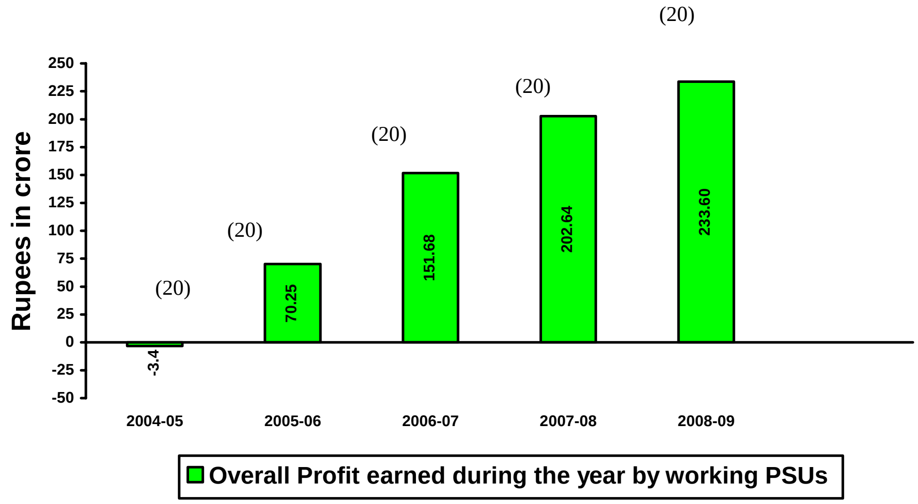
(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover[5]	2130.48	2539.27	2679.33	3595.92	3206.88
State GDP	24265	26537	29030	31793	34805
Percentage of Turnover to State GDP	8.78	9.57	9.23	11.31	9.21

The percentage of turnover to State Gross Domestic Product was 8.78 *per cent* during 2004-05 which increased to 11.31 *per cent* in 2007-08 but marginally decreased to 9.21 *per cent* during 2008-09. This was due to the decrease of turnover of the PSUs in 2008-09.

5.1.16 Profit (losses) earned (incurred) by State working PSUs during 2004-05 to 2008-09 are given below in a bar chart.

[5] Turnover as per the latest finalised accounts as of 30 September 2009.



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

It can be seen from the bar chart that the overall performance of the working PSUs has improved gradually after 2004-05. During the year 2008-09 out of 20 working PSUs, five PSUs earned profit of Rs. 416.99 crore and 13 PSUs incurred loss of Rs. 183.39 crore. One working PSU (Jammu and Kashmir Cable Car Corporation Limited) had not prepared the Profit and Loss Account while one PSU (Jammu & Kashmir State Forest Corporation) had not submitted its accounts since 1996-97 when its audit was entrusted to CAG. The major contributors to profit were Jammu and Kashmir Bank Limited. (Rs. 409.84 crore) and Jammu and Kashmir State Financial Corporation (Rs. 4.64 crore). The heavy losses were incurred by Jammu and Kashmir Power Development Corporation Limited (Rs. 64.65 crore), Jammu and Kashmir State Road Transport Corporation (Rs. 54.67 crore) and Jammu and Kashmir Industries Limited (Rs. 36.23 crore).

5.1.17 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 29.63 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Rs. in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit	151.68	202.64	233.60	587.92
Controllable losses as per CAG's Audit Report	23.95	4.29	1.39	29.63

5.1.18 The above losses pointed out by Audit Reports of CAG are based on test-check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the profits can be enhanced substantially. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

5.1.19 Some other key parameters pertaining to State PSUs are given below.

(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (*Per cent*)	6.21	13.94	7.17	8.85	10.91
Debt	2603.55	2806.26	4023.13	4361.59	4435.99
Turnover[6]	2130.48	2539.27	2679.33	3595.92	3206.88
Debt/Turnover Ratio	1.22:1	1.11:1	1.50:1	1.21:1	1.38:1
Interest Payments	1010.53	1098.72	1977.53	1697.43	2063.75
Accumulated losses (-)	(-) 1056.25	(-) 1172.45	(-) 1230.70	(-) 1285.72	(-) 1338.05

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

It would be seen that debt/turnover ratio deteriorated in 2008-09 as compared to 2004-05. This was due to disproportionate increase in turnover upto 2007-08 with reference to the increase in debts.

5.1.20 The Debt/turnover ratio during 2008-09 is 1.38:1 as compared to 1.22:1 in 2004-05 which is evident that the debts had increased.

5.1.21 The State Government did not intimate whether any dividend policy under which all PSUs were required to pay a minimum return on the paid up share capital contributed by the State Government. As per the latest finalised accounts, five PSUs earned an aggregate profit of Rs. 416.99 crore and only one PSU declared a dividend of Rs. 81.97 crore.

Performance of major PSUs

5.1.22 The investment in working PSUs and their turnover together aggregated to Rs. 8049.95 crore during 2008-09. Out of 20 working PSUs, the following three PSUs accounted for individual investment plus turnover of more than five *per cent* of aggregate investment *plus* turnover.

(Rs. in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
Jammu and Kashmir Bank Limited	1045.11	2988.12	4033.23	50.10
Jammu and Kashmir Power Development Corporation	2051.54	50.82	2102.36	26.12
Jammu and Kashmir State Road Transport Corporation	467.37	60.88	528.25	6.56
Total	**3564.02**	**3099.82**	**6663.84**	**82.78**

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

6 Turnover of working PSUs as *per* the latest accounts as of 30 September 2009.

Jammu & Kashmir Bank Ltd.

5.1.23 The profit of the company has risen continuously in past three years from Rs. 196.84 crore in 2005-06 to Rs. 409.84 crore in 2008-09. Similarly, the turnover too has risen from Rs. 1549.23 crore to Rs. 2988.12 crore during this period. However, the return on capital employed has declined from 16.29 *per cent* to 12.58 *per cent*.

5.1.24 Deficiencies in planning

- Inadequate IT planning resulted in infructuous expenditure of Rs. 2.72 crore on purchases of software and hardware, which could not be utilised after adoption of 'Bancs 2000' software (para 8.2 of SAR on IT Systems of JK Bank).
- Physical and Network security was inadequate at the Bank's critical Data Centre which is connected to 154 branches and 173 ATMs (paras 6.2 and 6.4 of SAR on IT systems of JK Bank).

5.1.25 Deficiencies in implementation

- Failure to adopt a discernable procedure in selection of vendors, the Bank could not be benefited by competitive purchases resulting in an excess payment of Rs. 2.46 crore on purchases of servers, desktops and UPS (paras 9.1 and 9.5 of SAR on IT Systems of JK Bank).
- More than 154 Core Banking Solution branches are being run without any Disaster Recovery Plan or site since 2003 thereby exposing the system to the risk of disruption of its operations in the event of any disaster (para 6.8 of SAR on IT systems of JK Bank).

5.1.26 Deficiencies in monitoring

- Accepting inflated valuation of the property at the time of grant of loan to a Delhi based private firm, resulted into loss of Rs. 1.89 crore (para 7.4 of AR 2006).
- 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 (para 7.3 of AR 2007).
- Failure of the Jammu and Kashmir Bank to re-evaluate the mortgaged property of a firm, resulted in non-recovery of Rs. 4.16 crore with consequent loss to the Bank (para 7.3 of AR 2008).
- Lack of proper evaluation for setting up ATMs led to an unfruitful expenditure of Rs. 3.32 crore on installations and upkeep of nonviable ATMs (para 9.10 of SAR on IT Systems of JK Bank).

5.1.27 Deficiencies in financial management

- Bank incurred an avoidable expenditure of Rs. 65.04 lakh on account of liasoning charges paid to a private firm for providing mediatory services pertaining to BSNL/MTNL lines (para 9.8 of SAR on IT Systems of JK Bank).
- Failure to re-tender for purchase of servers and desktops resulted in loss of Rs. 1.73 crore (para 9.1 of SAR on IT Systems of JK Bank).

- Purchase of uninterrupted supply system from highest bidder resulted in extra expenditure of Rs. 72.64 lakh (para 9.5 of SAR on IT Systems of JK Bank).

Jammu and Kashmir Power Development Corporation

5.1.28 The Company has been running into losses continuously and the accumulated loss amounted to Rs. 107.59 crore as on 31st March 2001. The accounts of the company are in arrear since 2001-02.

5.1.29 Deficiencies in financial management

- Purchase of cement without requirement/irregular purchase resulted in loss of Rs. 68.27 lakh (para 7.5 of AR 2006 - J&K PDC).

Jammu and Kashmir State Road Transport Corporation

5.1.30 The Corporation has been running into losses continuously and the accumulated losses were Rs. 598.92 crore as on 31st March 2005. The turnover of the Corporation has increased from Rs. 41.70 crore to Rs. 60.88 crore during 2002-03 to 2004-05. The accounts of the Corporation are in arrear since 2005-06 and onwards.

5.1.31 Deficiencies in financial management

- 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 (para 7.7 of AR 2007).

Conclusion

5.1.32 The above details indicate that the State PSUs are not functioning efficiently and there is a tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

5.1.33 The accounts of the companies for every 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. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	20	20	20	20	20
2.	Number of accounts finalised during the year	15	11	12	12	15*
3.	Number of accounts in arrears	194	203	211	219	224
4.	Average arrears *per* PSU (3/1)	9.70	10.15	10.55	10.95	11.20
5.	Number of Working PSUs with arrears in accounts	19	19	19	19	19
6.	Extent of arrears	1 to 19	1 to 18	2 to 19	3 to 19	4 to 19

* Excluding account of one Corporation (Jammu and Kashmir State Road Transport Corporation) for the year 2005-06 which was returned to the Corporation for rectification.

5.1.34 Most of the working PSUs had failed to finalise even one account in each year causing accumulation of the arrears. The main reasons for non-finalisation of the accounts by the PSUs noticed during audit were non-constitution of the Boards, non-holding of regular Board meetings, delay in finalization of accounts by the Statutory Auditors and lack of trained staff.

5.1.35 In addition to above, there were also the arrears in finalisation of accounts by non-working PSUs. Out of three non-working PSUs (all companies), two PSUs had gone into liquidation process. The remaining one non-working PSU had arrear of accounts for 19 years.

5.1.36 The State Government had invested Rs. 810.36 crore (Equity: Rs. 57.23 crore, loans: Rs. 258.53 crore, grants: Rs. 476.49 crore and others: Rs. 18.11 crore) in 15 PSUs during the years for which accounts have not been finalised as detailed in **Appendix 5.4**. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

5.1.37 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary/Finance Secretary in April 2009 to expedite the backlog of arrears in accounts in a time bound manner.

5.1.38 In view of above state of arrears, it is recommended that:

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

Winding up of non-working PSUs

5.1.39 There were three non-working PSUs (all companies) as on 31 March 2009, of which two PSUs were under liquidation process. The number of non-working companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working Companies	3	3	3	3	3

5.1.40 The Stages of closure in respect on non-working PSUs are given below.

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

5.1.41 During the year 2008-09, no company was finally wound up. The companies which have taken the route of winding up by court order are under liquidation for more than six years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted for closure of non-working companies. The Government may make a decision regarding winding up of one non-working company where no decision about its continuation or otherwise has been taken. The Government may consider setting up a cell to expedite closing down this non-working company.

Accounts Comments and Internal Audit

5.1.42 Twelve working companies forwarded their audited 15 accounts to PAG during the year 2008-09. Of these, six accounts of six companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needed to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount Rs. in crore)

S.No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	0.40	--	--	1	0.03
2.	Increase in loss	3	1.83	5	34.18	1	0.74
3.	Non-disclosure of material facts	7	7.41	3	22.71	3	31.14
4.	Errors of classification	6	13.88	8	271.85	--	--

5.1.43 During the year, the statutory auditors had given unqualified certificates for one account, qualified certificates for nine accounts, and disclaimers (meaning the auditors are unable to form an opinion on accounts) for three accounts. The compliance of companies with the Accounting Standards remained poor as there were 12 instances of non-compliance in 12 accounts during the year.

5.1.44 Some of the important comments in respect of Accounts of Companies are stated below:

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

- Property tax amounting to Rs. 88 lakh, levied by the Property Tax Department is under appeal. The Company has provided only Rs. 14 lakh towards this liability. Consequently the losses were understated to the extent of Rs. 74 lakh.
- The Tourism Department has transferred various assets of the Department to the company (J&K Tourism Development Corporation Ltd.) and valuation of these assets has not been done till date. Although, the Company has been taking into account revenue generated from these units in its final accounts but the assets have not been accounted for in the books. The fact regarding non-inclusion of transferred assets in books and inclusion of revenue of these units should have been disclosed properly.

Jammu and Kashmir Industries Limited (2001-02)

- There was a case of embezzlement of Rs. 50.31 lakh at Silk Weaving Factory Rajbagh Srinagar and for an amount of Rs. 23. 94 lakh the matter is subjudice. However, the company has not made any provisions in the accounts.
- The Company is not regular in depositing Provident Fund dues with the appropriate authorities. The EP Fund liability on 1st January 2008 was Rs. 7.05 crore and this fact was not disclosed in the Accounts.

Jammu and Kashmir State Cable Car Corporation Limited (1995-96)

- The paid-up capital of the Company was Rs. 2352.12 lakh for which shares had not been allotted so far. This fact was not disclosed by way of notes to the Accounts.

5.1.45 One Statutory Corporation (Jammu and Kashmir State Road Transport Corporation) had furnished the accounts for one year (2005-06) during the year 2008-09[7] which were audited. Based on the audit observations, the Corporation was asked (June 2009) to revise the accounts. The revised accounts from the Corporation were, however, awaited (September, 2009).

5.1.46 The details of aggregate money value of comments of CAG on the accounts of the Statutory Corporation are given below:

(Amount Rs. in crore)

S.No	Particulars	2006- 07		2007- 08		2008- 09	
		No. of accounts[8]	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	12.81	--	--	--	--
2.	Increase in loss	--	14.57	--	--	--	--
3.	Non-disclosure of material facts	1	0.87	--	--	--	--
4.	Errors of classification	1	1.00	--	--	--	--

5.1.47 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement . The Statutory Auditors had stated that internal audit system in respect of six companies[9] for the year 2007-08 and the ten[10] companies for the year 2008-09 was either not in place or internal audit reports were not furnished as given below:

Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix-5.2
Absence of internal audit system commensurate with the nature and size of business of the company	12	A-1, 2, 6, 7, 8, 9, 10, 11, 13, 14, 16 and 17.

Status of placement of Separate Audit Reports

5.1.48 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

7 October 2008 to September 2009.
8 Accounts pertain to the year 2004-05.
9 S. No. A-6,8,9,10,16 and 17 of Appendix 5.2.
10 S. No. A-1,2,6,7,8,10,11,13,14 and 16 of Appendix 5.2.

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

Delay in placement of SARs weakens the legislative control over Statutory Corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature.

Disinvestment, Privatisation and Restructuring of PSUs

5.1.49 The State Government had no plans of disinvestment, privatization or restructuring of any of the PSUs.

Reforms in Power Sector

5.1.50 The State has Jammu and Kashmir State Electricity Regulatory Commission (JKSERC) formed in April 2000, under the Jammu and Kashmir State Electricity Regulatory Commission Act, 2000 with the objective of rationalization of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2008-09, JKSERC issued two orders both of which were on annual revenue requirements and determination of power generation tariff.

5.1.51 Three Memorandums of Understanding (MoU) were signed between the Union Ministry of Power and the State Government till September 2009 as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones as decided in first two MoUs are stated below:

S.No	Milestone	Achievement as at March 2009
1.	SERC to give Tariff order	Tariff orders are being issued from time to time.
2.	65 *per cent* consumers metering in place	48.95 *per cent* consumers metered upto March 2009
3.	Formation of District Distribution centers with responsibility of energy flow accounting	100 *per cent* upto March 2009
4.	Specific proposal for reduction of Establishment and O&M cost by Rs. 15.00 crore	100 *per cent* upto March 2009
5.	Filing of ARR for the year 2008-09 before SERC	100 *per cent* upto March 2009
6.	Capacitor bank to be added at sub-stations/ feeders that feed energy to 65 *per cent* of consumers	59.36 *per cent* capacitor bank had been added at sub-station/feeders.
7.	Total cash collected from large consumers should be at least 70 *per cent* of the amount billed	75 *per cent* cash was collected from large consumers upto March 2009

Discussion of Audit Reports by COPU

5.1.52 The status as on 30 September 2009 of reviews and paragraphs that appeared in Commercial Chapter of Audit Reports (Civil) and discussed by the Committee on Public Undertakings (COPU) is as under.

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2005-06	2	2	2*	2*
2006-07	1	4	Nil	Nil
2007-08	1	3	Nil	Nil
Total	**4**	**9**	**2***	**2***

* Partly discussed.

5.1.53 The matter relating to clearance of backlog of discussion of reviews/paragraphs was taken up by PAG, J&K with Chief Secretary of the State, Speaker of the State Assembly and Chairperson of COPU in July 2009.

Section - II

Part-A Performance Review

Transport Department

5.2 Jammu and Kashmir State Road Transport Corporation

Executive Summary

The Jammu and Kashmir State Road Transport Corporation (Corporation) provides public transport in the Jammu and Kashmir State through its 14 depots. The Corporation had fleet strength of 677 buses as on 31 March 2009 and carried an average of 0.11 lakh passengers per day during 2008-09. Besides buses, the Corporation also has trucks for cargo operations. As on 31 March 2009, the Corporation had 436 trucks. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its bus operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation does not maintain separate records for bus and truck operations. It suffered a loss of Rs. 33.00 crore in 2007-08 from the operation of buses and trucks. Its accumulated loss and borrowings stood at Rs. 465.50 crore and 354.32 crore as at 31 March 2008, respectively. The Corporation earned Rs. 19.07 per kilometre and expended Rs. 31.29 per kilometre in 2007-08.

Share in Public Transport

The Corporation failed to keep pace with growing demand for public transport. The percentage share of Corporation for public transport in the State was around three percent. The vehicle density per lakh population (including private operators' buses) decreased from 187 (2004-05) to 186 (2008-09).

Vehicle profile and utilisation

Corporation's buses consisted of own fleet of 677 buses. Of its own fleet, 523 (77 per cent) were overage, i.e., which are more than eight years old. The percentage of overage buses increased from 54 per cent in 2004-05 to 77 per cent in 2008-09 though the Corporation acquired 78 new buses during 2004-09 at a cost of Rs. 10.47 crore. The acquisition was wholly funded through plan funds released by state Government.

Corporation's fleet utilisation at 80 per cent in 2008-09 was below All India Average (AIA) of 92 per cent. Its vehicle productivity at 138 kilometres per day per bus was below the AIA of 313 kilometres. The achievement of the Corporation was also less than its own target of 200 kilometres per bus per day. Its passenger load factor at 77 per cent was above the AIA of 71 per cent though no target had been fixed for load factor. Preventive maintenance schedules were not adhered to by the Corporation.

Economy in operations

Manpower and fuel constitute 73 per cent of total cost. Interest, depreciation and taxes account for 19 per cent and are not controllable in the short term. Thus, the major cost saving has to come from

manpower and fuel. The Corporation does not maintain separate records for manpower utilisation in respect of bus fleet. However, the Corporation succeeded in reducing the manpower per vehicle from 4.3 in 2004-05 to 3.4 in 2008-09. The expenditure on repairs and maintenance was Rs. 1.99 crore (Rs. 0.27 lakh per bus) in 2007-08.

As a result of cancellations due to controllable factors like want of buses, the Corporation was deprived of traffic revenue to an extent of Rs. 103.23 crore.

Revenue Maximisation

The Corporation has 2.65 lakh square meters of land for future development. However, the Corporation does not have any policy for tapping non-traffic revenue sources by taking up large scale PPP projects in the vacant land.

Need for a regulator

The revision of fare is being effected on the basis of fares fixed by the State Transport Authority. However, the revision does not take into consideration the increase in other operational costs of the Corporation. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. Targets at depot level were not set by the Management. The Corporation has Management Information System (MIS) in place whereby information on various operational activities is communicated to the Head Office on daily/monthly basis. This, information was neither consolidated on top management level nor any remedial action was taken.

Conclusion and Recommendations

The Corporation is suffering losses mainly due to its high cost of operations and decrease in revenue. The Corporation can control the decline by undertaking timely repairs of vehicles and exercising effective control by top Management. This review contains twelve recommendations to improve the Corporation's performance. Creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of these recommendations.

Introduction

5.2.1 In the State of Jammu and Kashmir, the State Road Transport Corporation (Corporation) is mandated to provide an efficient, adequate, economical and properly co-ordinated road transport. The State also allows private operators to provide public transport. The fare structure is controlled and approved by the Government. This structure is same for both the Corporation as well as private operators.

5.2.2 The Corporation was incorporated on 1 September 1976 under Section 3 of the Road Transport Corporation Act, 1950 as a wholly owned Corporation of the State Government. The Corporation is under the administrative control of the Transport Department of the Jammu and Kashmir State. The Management of the Corporation is vested in a Board of Directors (BOD) comprising the Chairman, the Managing Director and eight Directors, appointed by the Government. The day-to-day operations are carried out by the Managing Director, the Chief Executive, with the assistance of three General

Managers and Depot Managers. The Corporation has two Regional Offices, two Central Workshops and 14 Depots. The bus body building and tyre retreading operations are carried out through external agencies.

5.2.3 The Corporation had a fleet strength of 1,113 (677 buses and 436 trucks) as on 31 March 2009. During 2004-05 to 2008-09, the Corporation buses carried an average of 0.18 lakh passengers per day. The Corporation's share in the passenger transport activity in the State was negligible and was 0.11 *per cent* of the State's population during 2008-09. The turnover of the Corporation was Rs. 51.47 crore in 2007-08, which was equal to 0.16 *per cent* of the State's Gross Domestic Product as on 31 March 2008. The Corporation had 3,817 employees as at 31 March 2009.

5.2.4 A review of the operational performance of the Corporation was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000, Government of Jammu and Kashmir. The review was discussed by the Committee on Public Undertakings (COPU) during June 2002 and January 2005. However, recommendations of the COPU on the review are awaited (September 2009).

Scope of Audit and Audit Methodology

5.2.5 The present review conducted during February 2009 to June 2009 covers the performance of the Corporation during the period from 2004-05 to 2008-09. The review mainly deals with the operational efficiency of the bus fleet of the Corporation, financial management, fare policy, fulfillment of social obligations and monitoring by top management of the Corporation. Audit examination involved scrutiny of records of the Corporation at the Head Office, one Central Workshop at Jammu, two Regional Offices and two[11] out of 14 depots. The depots selected for audit catered to a fleet of 448 buses which was 66 *per cent* of the total bus fleet held by the Corporation as on 31 March 2009.

5.2.6 The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management for comments.

Audit Objectives

The objectives of the performance audit were to assess:

5.2.7 Operational Performance

- the extent to which the Corporation was able to keep pace with the growing demand for public transport;
- whether the Corporation succeeded in recovering the cost of operations;
- the extent to which the Corporation was running its operations efficiently;
- whether adequate maintenance was undertaken to keep the vehicles roadworthy; and

[11] Manager, Passenger Services, Jammu and Manager, Tourist Services, Srinagar.

- the extent to which economy was ensured in operations.

5.2.8 Financial Management

- whether the Corporation was able to meet its commitments and recover its dues efficiently; and
- the possibility of realigning the business model of the Corporation to tap non-conventional sources of revenue and adopting innovative methods of accessing such funds.

5.2.9 Fare policy and fulfillment of social obligations

- the existence and adequacy of fare policy; and
- whether the Corporation operated adequately on uneconomical routes.

5.2.10 Monitoring by top management and future needs of the Corporation

- whether monitoring by the Corporation's top management was effective.

Audit Criteria

5.2.11 The criteria adopted for assessing the achievement of the audit objectives were:

- all India averages for performance parameters;
- performance standards and operational norms fixed by the Association of State Road Transport Undertakings (ASRTU);
- physical and financial targets/norms fixed by the Management;
- manufacturers' specifications, norms for life of a bus, preventive maintenance schedule, fuel efficiency norms, etc.;
- instructions of the Government of India (GOI) and State Government and other relevant rules and regulations;
- corporate policy for investment of funds; and
- procedures laid down by the Corporation.

Financial Position and Working Results

5.2.12 The Corporation does not maintain separate accounts for buses, which constituted 66 *per cent* of the total fleet strength as on 31 March 2009. In the absence of separate details, the consolidated position (Buses and Trucks) is given here. The Corporation had finalised its accounts up to 2004-05. The financial position of the Corporation for the four years up to 2007-08[12], on the basis of finalised and provisional accounts, is given below:

[12] Provisional accounts of the Corporation for the year 2008-09 were under compilation and hence not included in the table.

(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08
A-Liabilities				
Paid up Capital	109.51	111.51	111.51	111.51
Borrowings (loan funds)	304.86	328.28	342.48	354.32
Current Liabilities and Provisions	254.99	33.86	52.99	70.11
Total:	**669.36**	**473.65**	**506.98**	**535.94**
B-Assets				
Gross Block	49.59	55.00	57.21	56.02
Less depreciation	4.36	4.77	5.13	5.17
Net Fixed Assets	45.23	50.23	52.08	50.85
Current Assets, Loans and Advances	25.21	23.86	22.40	19.59
Accumulated losses	598.92	399.56	432.50[13]	465.50
Total:	**669.36**	**473.65**	**506.98**	**535.94**

5.2.13 During 2005-06, the Corporation wrote back Rs. 230.74 crore representing interest payable by the Corporation to the State Government on loans raised by it up to 2002-03. Writing back of interest was in contravention of the directions (March 2002) of the State Government, which envisaged that all amounts released to the Corporation by the State Government as budgetary support would be treated as loan, carrying interest at 15 *per cent*. Thus, against the actual accumulated loss of Rs. 630.30 crore, the Corporation adopted Rs. 399.56 crore as accumulated loss for the year 2005-06, thereby understating the accumulated losses in the subsequent years also.

5.2.14 On the basis of the finalised and provisional accounts, the details of working results[14] like operating revenue and expenditure, total revenue and expenditure, net surplus/loss and earnings together with the cost *per* kilometre of the Corporation for the last four years ending 2007-08 are given below.

(Rs. in crore)

S.No	Description	2004-05	2005-06	2006-07	2007-08
1.	**Total Revenue**	**60.88**	**74.35**	**69.85**	**51.47**
2.	**Operating Revenue[15]**	**60.00**	**72.43**	**67.83**	**49.11**
3.	**Total Expenditure:**	**115.55**	**105.72**	**98.82**	**84.47**
4.	Operating Expenditure[16]	87.45	96.20	90.20	75.89
5.	Operating Profit/Loss	(-) 27.45	(-) 23.77	(-) 22.37	(-) 26.78
6.	**Profit/Loss for the year:**	**(-) 54.67**	**(-) 31.38**	**(-) 28.97**	**(-) 33.00**
7.	Accumulated Profit/Loss	(-) 598.92	(-) 399.56	(-) 432.50	(-) 465.50
8.	Fixed Costs:				
	(i) Personnel Costs	41.99	45.07	42.21	39.10
	(ii) Depreciation	4.36	4.77	5.13	5.17
	(iii) Interest	26.82	9.52	8.62	8.58
	(iv) Other Fixed Costs	--	--	--	--
	Total Fixed Costs:	**73.17**	**59.36**	**55.96**	**52.85**
9.	Variable Costs:				
	(i) Fuel & Lubricants	28.06	34.13	33.42	23.09
	(ii) Tyres & Tubes	2.69	2.19	1.86	2.27

13 Against Rs. 428.53 crore (Accumulated loss for 2005-06: Rs. 399.56 crore plus loss for the year 2006-07: Rs. 28.97 crore), the Corporation adopted Rs. 432.50 crore. The difference of Rs. 3.97 crore was under reconciliation.

14 This is consolidated position for buses and trucks. Break-up is not available with the Corporation.

15 Operating revenue includes traffic earnings, passes and season tickets, re-imbursement against concessional passes, fare realised from private operators under KM Scheme, etc.

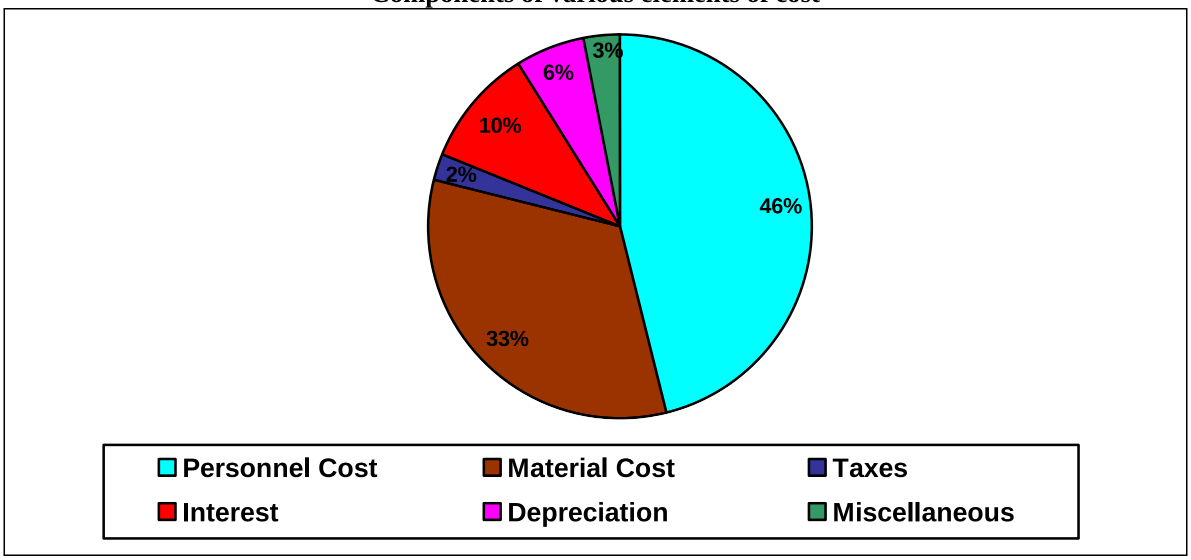
16 Operating expenditure include expenses relating to traffic, repair and maintenance, electricity, welfare and remuneration, licences and taxes and general administration expenses.

S.No	Description	2004-05	2005-06	2006-07	2007-08
	(iii) Other Items/spares	5.06	1.37	3.83	2.82
	(iv) Taxes (MV Tax, Passenger Tax, etc.)	2.55	2.68	2.17	2.03
	(v) Other Variable Costs	4.02	5.99	1.58	1.41
	Total Variable Costs:	**42.38**	**46.36**	**42.86**	**31.62**
10.	Effective kilometers operated (in lakh)	397.92	449.27	382.05	269.95
11.	Earnings *per* kilometer (Rs.) (1/10)	15.30	16.55	18.28	19.07
12.	Fixed cost *per* kilometer (Rs.) (8/10)	18.71	13.21	14.65	19.58
13.	Variable cost *per* kilometer (Rs.) (9/10)	10.33	10.32	11.22	11.71
14.	Cost *per* kilometer (Rs.) (3/10)	29.04	23.53	25.87	31.29
15.	Net Earnings *per* kilometer (Rs.) (11-14)	(-) 13.74	(-) 6.98	(-) 7.59	(-) 12.22
16.	Traffic Revenue[17]	60.00	72.43	67.83	49.11
17.	Traffic revenue *per* KM (Rs.) (16/10)	15.08	16.12	17.75	18.19

Elements of Cost

5.2.15 Personnel costs and material costs constitute major elements of costs. The percentage break-up of costs for 2007-08 is given below in the pie-chart.

Components of various elements of cost



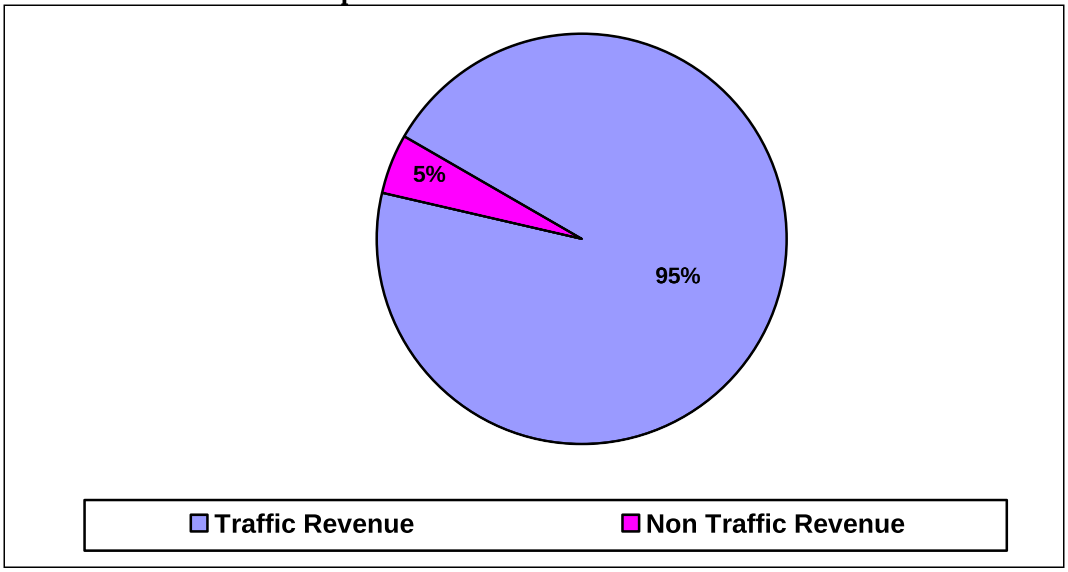
Elements of revenue

5.2.16 Traffic revenue and non-traffic revenue constitute the major elements of revenue. The percentage break-up of revenue for 2007-08 is given below in the pie-chart.

---

17 Traffic revenue represents sale of tickets, advance booking, reservation charges and contract services earnings.

Components of various elements of revenue



Audit Findings

5.2.17 The Audit objectives were explained to the Corporation during an 'entry conference' held on 20 February 2009. Subsequently, audit findings were reported to the Corporation and the Government in August 2009. Exit conference could not be held (October 2009) due to continuous strike in the Corporation since around two months. The audit findings are discussed below.

Operational Performance

5.2.18 The operational performance of the Corporation, based on the finalised and provisional accounts[18], for the five years ending 2008-09 is given in the **Appendix-5.7.** The operational performance of the Corporation was evaluated on various operational parameters as discussed below. It was also done to assess whether the Corporation was able to maintain pace with the growing demand of public transport. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and there is scope for improvement in performance.

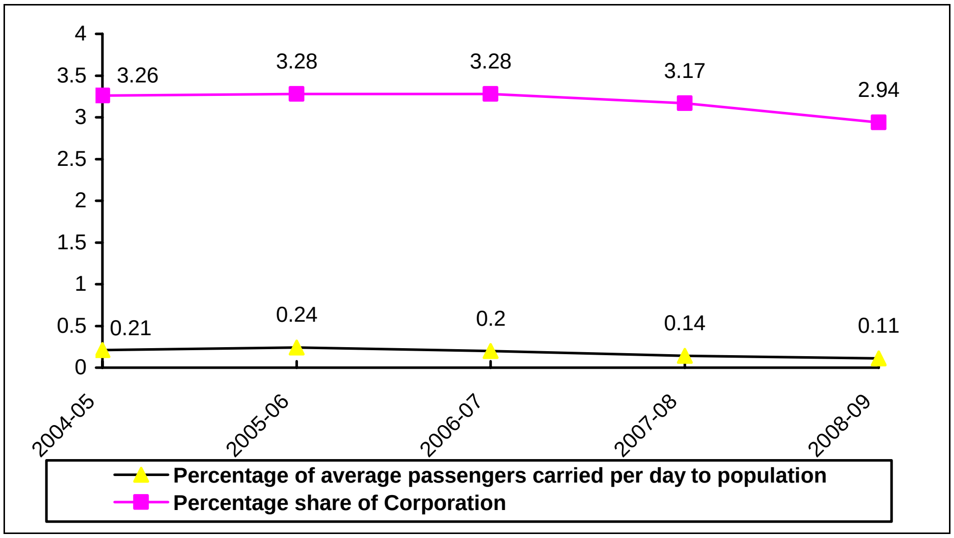
Share of Corporation in public transport

5.2.19 The State Government does not have any definite policy for promoting road transport services. The services to the general masses for meeting their transportation needs in a safe, reliable and cost effective manner has been the mission of the Corporation, without a profit-earning motive.

5.2.20 Line-graphs depicting the share of Corporation buses in the bus passenger traffic[19] of the State and its share in public transport percentage of average passengers carried per day to the population of the State, during the five years ending 2008-09, are given below:

---

[18] Provisional accounts for 2008-09 have not been prepared by the Corporation (September 2009).
[19] Worked out by Audit on the basis of buses held by the Corporation vis-à-vis private operators.



5.2.21 The table below depicts the growth of public transport in the State.

S.No.	Particular	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Corporation's buses	676	702	730	732	677
2.	Private stage carriages (3-1)	20,055	20,695	21,469	22,330	22,385
3.	Total buses for public transport[20]	20,731	21,397	22,199	23,062	23,062
4.	Percentage share of Corporation	3.26	3.28	3.28	3.17	2.94
5.	Percentage share of private operators	96.74	96.72	96.72	96.83	97.06
6.	Estimated population (crore)	1.11	1.14	1.17	1.20	1.24
7.	Vehicle density per one lakh population	187	188	190	192	186

5.2.22 As can be seen from the above graph, the Corporation has not been able to keep pace with the growing demand for public transport. The percentage share of Corporation in public transport in the State was nominal and marginally above three *per cent* during the above period except in 2008-09, when it declined to 2.94 *per cent*. This was mainly due to adverse security situation in the State, growth of transport in private sector, inconsistent replacement of overage fleet and non-augmentation of the fleet. The effective per capita kilometre operated by the Corporation per year also declined as shown in the table below, which depicted the decline in service by the Corporation since 2005-06.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Effective KM operated (in lakh)	299.85	343.69	302.38	207.15	165.02
Estimated Population (in crore)	1.11	1.14	1.17	1.20	1.24
Per capita KM *per* year	2.70	3.01	2.58	1.73	1.33

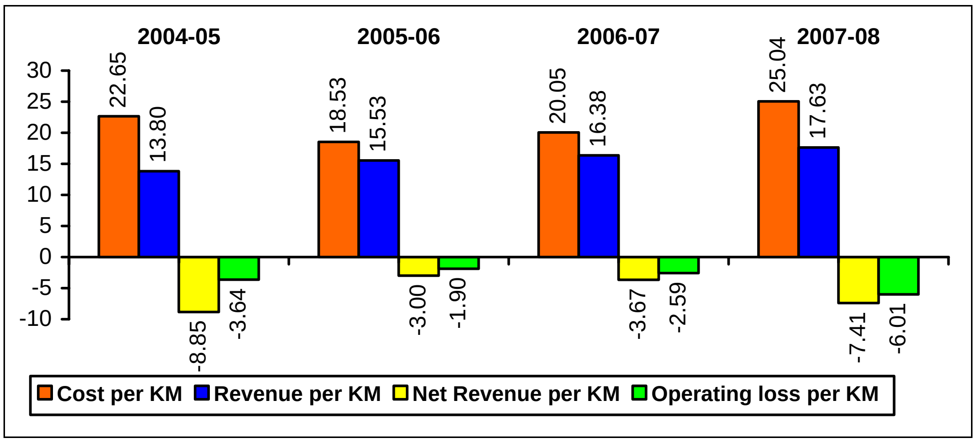
5.2.23 The effective kilometre operated considerably reduced during the period under review due to increase in overage fleet leading to buses being off-road.

[20] In the absence of data for private stage carriages for 2008-09, figures of 2007-08 have been adopted for the purpose of comparison.

5.2.24 Public transport has definite benefits over personalised transport in terms of costs, congestion on roads and environmental impact. Public transport services have to be adequate to derive those benefits. In the instant case, the Corporation was not able to maintain its share in transport mainly due to operational inefficiencies as detailed later.

Recovery of cost of operations

5.2.25 The cost per kilometre, revenue per kilometre[21], net revenue per kilometre and operating loss per kilometre of buses for the four years ended 2007-08 are depicted in the graph[22] below:



5.2.26 The above graph indicates the deteriorating performance of the Corporation over the period. The operating loss too has increased from 2005-06 onwards. The Corporation was not able to achieve the All India Averages (AIA) for cost per KM (Rs. 19.94) during the above period except 2005-06. The operating revenue of the Corporation remained far below than AIA (Rs. 18.22) during the period under review. The deteriorating performance has been impacting the ability of the Corporation to provide public transport services adequately due to non-replacement of its fleet on time and augmentation of its existing fleet to meet the growing demand.

Orissa, Uttar Pradesh and Karnataka registered best net earnings *per* KM at Rs. 0.49, Rs. 0.47 and Rs. 0.34, respectively during 2006-07. (Source: STUs profile and performance 2006-07 by CIRT, Pune).

21 This does not tally with traffic revenue per KM shown in table under Paragraph 5.2.14 due to exclusion of traffic revenue from operation of trucks.

22 Cost per KM represents total expenditure divided by effective KM operated.
Revenue per KM is arrived at by dividing total revenue with effective KM operated.
Net Revenue per KM is revenue per KM reduced by cost per KM.
Operating loss per KM would be operating expenditure per KM reduced by operating income per KM.

Efficiency and Economy in operations

Fleet strength and utilization

Fleet Strength with its age profile

5.2.27 The Corporation has its own fleet of buses. The Corporation did not hire buses from contractors. The table below explains the position of the Corporation's own fleet.

5.2.28 The Association of State Road Transport Undertakings (ASRTU) had prescribed (September 1997) the desirable age of a bus as eight years or five lakh kilometres, whichever was earlier. The table below shows the age-profile of the buses held by the Corporation for the period of five years ending 2008-09.

S.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total number of buses at the beginning of the year	695	676	702	730	732
2.	Additions during the year	22	26	28	2	-
3.	Buses scrapped during the year	41	-	-	-	55
4.	Buses held at the end of the year (1+2-3)	676	702	730	732	677
5.	Of (4), number of buses more than 8 years old	362	390	418	528	523
6.	Percentage of overage buses to total number of buses	54	56	57	72	77

The Corporation had 77 *per cent* of overage buses as on 31 March 2009

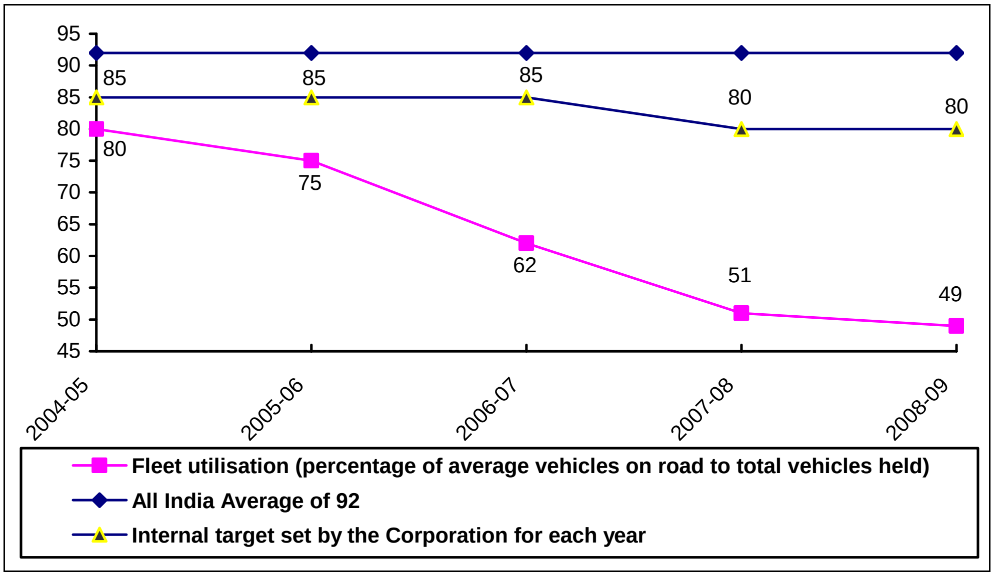
5.2.29 It can be seen from the above table that the Corporation was not able to achieve the norm of right age buses. During 2004-09, the Corporation added 78 new buses at a cost of Rs. 10.47 crore. The expenditure was met out of plan funds released by the State Government (Share Capital Rs. 3.00 crore and Grant-in-aid 7.47 crore). To achieve the norm of right age buses, the Corporation was required to buy 523 new buses additionally, which would have cost it Rs. 78.45 crore approximately (calculated at Rs. 15 lakh *per* bus at 2008-09 rate). However, the Corporation did not generate adequate resources through its operations to finance the replacement of buses. It suffered loss of Rs. 128.60 crore before charging of depreciation during 2004-08 due to which the Corporation could not generate adequate internal resources for further addition of buses. Thus, the Corporation's ability to survive and grow depends on its efforts to remove operational inefficiencies, cut costs and tap non-conventional revenue sources so that it can fund its capital expenditure and be efficient and self-reliant.

5.2.30 An overage fleet requires high maintenance and results in extra cost and reduced availability of vehicles compared to an underage fleet, other things being equal. This only goes on to increase operational inefficiency and causes losses which, in turn, affects the ability of the Corporation to replace its fleet on a timely basis.

Fleet utilisation

5.2.31 Fleet utilisation represents the ratio of buses on road to those held by the Corporation. The Corporation had set targets of fleet utilisation between 80 and 85 *per cent* during the period from 2004-05 to 2008-09. Audit, however, observed that the percentage of fleet utilisation of the Corporation declined from 80 in 2004-05 to 49 in

2008-09. This was significantly lower than the AIA[23] of 92 *per cent* as well as internal targets fixed by the Corporation, as indicated in the graph given below:



5.2.32 The main reasons contributing to low fleet utilisation, as analysed in Audit on the basis of test-check of records, were as follows.

- Inability of the Corporation to replace its overage bus fleet. (Paragraph: 5.2.27).
- Detention of buses for want of spares. (Paragraph: 5.2.48)
- Loss of days for want of renewal of fitness certificate. (Paragraph: 5.2.49)

5.2.33 The Corporation was, thus, not able to achieve optimum utilization of its fleet strength, which in turn impacted its operational performance adversely.

5.2.34 The Management while accepting the audit contention stated (May 2009) that the schedule for up-keep/maintenance of vehicles as indicated in the Revival Plan of the Corporation would be adhered to in future.

Vehicle productivity

5.2.35 Vehicle productivity refers to the average Kilometres run by each bus per day in a year. The vehicle productivity of the Corporation vis-à-vis its overage bus fleet for the five years ended 2008-09 is shown in the table below.

S.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Vehicle productivity[24]	154	181	185	155	138
2.	Overage fleet (percentage)	54	56	57	72	77

23 All India Average is for the year 2006-07, which has been used for comparison for the period under review.

24 Vehicle productivity has been calculated on the basis of average number of buses on road and taking 360 days in the year.

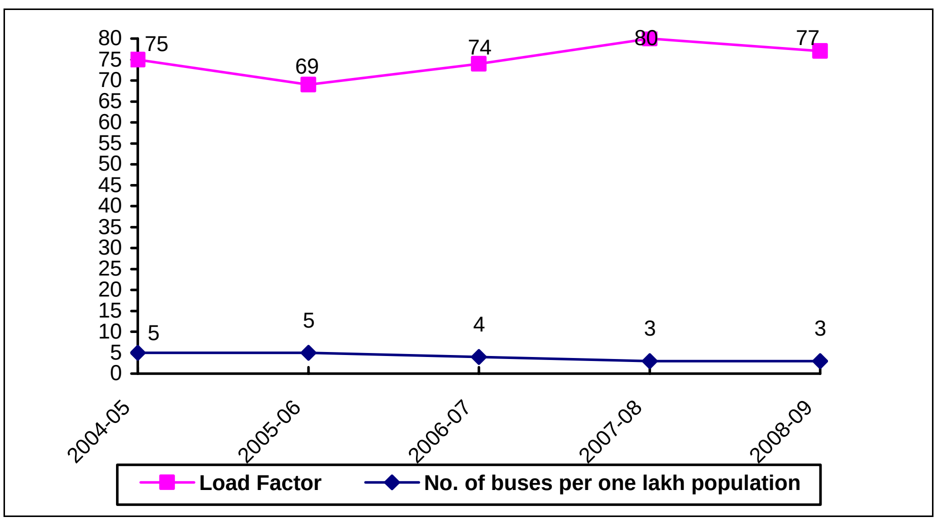
5.2.36 As can be seen from the table above, the vehicle productivity of the Corporation varied between 138 and 185 kms during 2004-09, which was inordinately low as compared to the AIA of 313 kms per day. The Corporation failed even to achieve the target of 200 kms per day per bus fixed by it. Reasons for low vehicle productivity were attributed (April 2009) by the Management to induction of private transport in the State, frequent breakdown of overage buses and law and order situation/strike by the Corporation employees during 2008-09, etc. The contention does not sound convincing as the Management had failed to explore possibility of plying its vehicles on routes not covered by private transporters. Moreover, Management did not take adequate measures to replace overage buses.

Tamil Nadu (Villupuram), Tamil Nadu (Salem) and Tamil Nadu (Kumbakonam) registered best vehicle productivity at 474, 469 and 462.8 KMs per day respectively during 2006-07. (Source : STUs profile and performance 2006-07 by CIRT, Pune)

Capacity utilisation

Load Factor

5.2.37 Capacity utilisation of a transport undertaking is measured in terms of Load Factor, which represents the percentage of passengers carried to seating capacity. The schedules to be operated are to be decided after proper study of routes and periodical reviews are necessary to improve the Load Factor. The Load Factor of the Corporation varied between 69 and 80 *per cent* between 2004-05 and 2008-09 and was higher than the AIA (63 *per cent*). A graph depicting the Load Factor vis-à-vis number of buses on road per one lakh population is given below.



5.2.38 The table below provides the details for break-even load factor (BELF) for traffic revenue. Audit worked out this BELF at the given level of total cost and traffic revenue *per* KM.

S.No.	Particulars	2004-05	2005-06	2006-07	2007-08
1.	Cost *per* KM[25]	22.65	18.53	20.05	25.04
2.	Traffic revenue *per* KM(Rs)	13.80	15.53	16.38	17.63
3.	Earning per KM at 100 percent Load Factor	18.40	22.50	22.13	22.03
4.	Break–even Load Factor considering only traffic revenue	123.1	82.36	90.60	113.66

5.2.39 The break-even load factor is quite high and is not likely to be achieved given the present load factor and the fact that the Corporation is also required to operate uneconomical routes. Thus, while the scope for improving upon the load factor remains limited, there is tremendous scope for cutting down costs of operations as explained later.

Route Planning

5.2.40 Some routes are profitable while others are not. The Corporation had not done separate route costing to identify profitable/unprofitable routes. Some of the routes which appear unprofitable may become profitable once the Corporation improves its efficiency. Given the scenario of mixed routes and obligation to serve uneconomical routes, an organisation should decide optimum quantum of services on different routes so as to optimise its revenue while serving the cause. However, no such exercise was carried out by the Corporation

Cancellation of Scheduled Kilometres

5.2.41 A review of the operations indicated that the scheduled kilometres were not fully operated mainly due to non-availability of adequate number of buses and persistent detention due to breakdowns.

5.2.42 The details of scheduled, effective and cancelled kilometres, calculated as the difference between the scheduled and effective kilometres are furnished in the table below.

(In lakh KMs)

S.No.	Particulars	2004-05	2005-06	2006-07	2007-08
1.	Scheduled kilometres	406.65	432.12	434.54	508.42
2.	Effective kilometres	299.85	343.69	302.38	207.15
3.	Kilometres cancelled	106.80	88.43	132.16	301.27
4.	Percentage of cancellation	26	20	30	59
Cause-wise analysis:					
5.	Want of buses[26]	106.80	88.43	132.16	301.27
6.	Traffic revenue per KM (in Rupees)	13.80	15.53	16.38	17.63
7.	Avoidable cancellation (for want of buses)	106.80	88.43	132.16	301.27
8.	Loss of Traffic Revenue (6x7) (Rs. in crore)	14.74	13.73	21.65	53.11

[25] This does not tally with cost per KM shown in table under Paragraph 5.2.14 due to calculation of the same by Audit on proportionate basis of fleet strength i.e. number of buses and trucks.

[26] Inadequate fleet for operation has been communicated by the Management as the main reason for cancellation.

5.2.43 It can be seen from the above table that the percentage of cancellation of scheduled kilometres varied between 20 and 59 during the above period and remained on the very high side compared to the best performers. Due to cancellation of scheduled kilometres for want of buses, the Corporation was deprived of traffic revenue of Rs. 103.23 crore during the above period.

Tamil Nadu (Salem), State Express Transport Corporation (Tamil Nadu) and Tamil Nadu (Villupuram) registered least cancellation of scheduled KMs at 0.45, 0.67 and 0.78 per cent respectively during 2006-07. (Source: STUs profile and performance 2006-07 by CIRT, Pune)

Due to cancellation of scheduled kilometres, the Corporation was deprived of traffic revenue of Rs. 103.23 crore

5.2.44 It was seen in Audit that the cancellation of scheduled kilometres was due to increase in percentage of overaged fleet and detention of buses for long periods for repairs, maintenance, frequent *bandhs*, curfew and decline in tourist overflow over the years. The Corporation had failed to take effective measures to avoid these factors.

Maintenance of vehicles

Preventive Maintenance

5.2.45 Preventive maintenance is essential to keep the buses in good running condition and to reduce breakdowns/other mechanical failures. The Corporation had TATA and Leyland make buses, for which the preventive maintenance schedule had been prescribed by the Original Equipment Manufacturers (OEMs).

5.2.46 The Management intimated (June 2009) that except for brake inspections, other preventive maintenance schedules were not adhered to by the Corporation. Thus it can be concluded that maintenance of buses to keep them in good condition and reducing breakdowns/mechanical failures was not ensured by the Corporation.

Repairs & Maintenance

5.2.47 A summarised position of fleet holding, over-age buses and Repairs and Maintenance (R&M) expenditure for the last four years up to 2007-08 is given below.

S.No.	Particulars	2004-05	2005-06	2006-07	2007-08
1.	Total buses (at the end of the year)	676	702	730	732
2.	Overage buses (more than 8 years old)	362	390	418	528
3.	Percentage of overage buses	54	56	57	72
4.	Average number of buses off-road during the year	136	176	277	360
5.	R&M expenses (Rs. in crore)	4.00	3.86	2.64	1.99
6.	R&M expenses per bus (in Rs.) (5/1)	59172	54986	36164	27186

5.2.48 There was decrease in the R&M expenses during the period 2004-2008 primarily due to increase in the number of buses remaining off-road during this period. Audit observed that most of the buses remained off-road for want of spares, as the Corporation had not maintained adequate inventory of spares.

Docking of vehicles for fitness certificates

5.2.49 The buses are required to be repaired and made fit before sending them to Regional Transport Office (RTO) for renewal of fitness certificate under Section 62 of

Due to loss of 752 bus days for want of fitness certificate, the Corporation suffered revenue loss of Rs. 17.38 lakh

the Central Motor Vehicle Rules 1989. As the date of expiry of the old fitness certificate is known in advance, Management should plan accordingly to get the buses repaired in time so that bus days are not lost due to delay in renewal of these certificates. Audit observed that that the Corporation had no effective system in place to keep a watch on buses falling due for repairs as well as to monitor timely repairs of buses so as to obtain fitness certificates in time. Test-check of the records in selected Depots showed that seven buses were held up for periods ranging from 5 to 540 days (during the five year-period ending 2008-09) for want of minor repairs (body repairs, light and battery change, painting and seat repair etc.) with consequential delay in issue of Motor Vehicle Inspection Report/ certificate by the RTO. As a result there was an aggregate loss of 752 bus days leading to loss of revenue of Rs. 17.38 lakh.

Manpower cost

5.2.50 The cost structure of the Corporation shows that manpower and fuel constitute 73 *per cent* of total cost during 2007-08. Interest, depreciation and taxes-costs, which are not controllable in the short-term–account for 19 *per cent* during the same period. Thus, major cost saving can come only from manpower and fuel.

Gujarat, Tamil Nadu (Villupuram) and Tamil Nadu (Salem) registered best performance at Rs. 6.10, Rs. 6.13 and Rs. 6.21 cost per effective KMs respectively during 2006-07. (Source: STUs profile and performance 2006-07 by CIRT, Pune).

5.2.51 Manpower is an important element of cost which constituted 46.3 *per cent* of total expenditure of the Corporation in 2007-08. Therefore, it is imperative that this cost is kept under control and the manpower is utilised optimally to achieve high productivity. The Corporation does not maintain separate records of manpower associated exclusively with the bus fleet. The table below provides the details of manpower (associated with the bus and truck fleet collectively), its cost and productivity during the five years ended 2008-09:

S.No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Total manpower (in number)	4979	4844	4626	4334	3817
2.	Manpower cost (rupees in crore)	41.99	45.07	42.21	39.10	Awaited
3.	Effective Kms (in lakh)	397.92	449.27	382.05	269.95	217.52
4.	Cost per effective km (in rupees)	10.55	10.03	11.05	14.48	-
5.	Productivity per day per person (in kms)	22.20	25.76	22.94	17.30	15.83
6.	Total number of vehicles (buses and trucks)	1150	1164	1190	1192	1113
7.	Manpower per vehicle	4.3	4.2	3.9	3.6	3.4

Gujarat, Tamil Nadu (Villupuram) and Tamil Nadu (Salem) registered best performance at Rs. 6.10, Rs. 6.13 and Rs. 6.21 cost per effective KMs respectively during 2006-07. (Source : STUs profile and performance 2006-07 by CIRT, Pune)

5.2.52 The vehicle staff ratio of the Corporation showed a declining trend and reduced from 4.3 to 3.4 during the review period. However, manpower costs increased from Rs. 10.55 per effective km in 2004-05 to Rs. 14.48 during 2007-08 and manpower productivity also declined from 25.76 KM (2005-06) to 15.83 KM (2008-09) due to decline in effective KMs run during the above period. The

Management had failed to take effective measures to improve the manpower productivity.

Fuel Cost

5.2.53 Fuel is a major cost element and control of fuel costs by a road transport undertaking has a direct bearing on its productivity. Fuel cost of the Corporation constituted 27 *per cent* of total expenditure in 2007-08. The Corporation does not maintain separate records for fuel consumption for buses and trucks separately. During the period under review the Corporation consumed 394.77 lakh litres of high speed diesel at a total expenditure of Rs. 115.79 crore and obtained an average KMPL of 3.80, 3.93, 3.79 and 3.93 during 2004-05 to 2007-08 respectively. In the absence of availability of data for fuel consumption by the bus fleet, Audit could not analyse mileage obtained per litre of fuel for buses and compare the same with AIA, which stood at 4.94 KMPL during 2005-06. The Management may consider maintaining separate records of fuel consumption for buses to exercise effective control over fuel expenditure.

5.2.54 Test-check in Audit of Petrol, Oil and Lubricants (POL) statements for two months of each year under review in respect of two selected depots, showed that the Corporation had no mechanism in place to monitor vehicle-wise or driver-wise data in respect of consumption of fuel so as to exercise effective management control, though the Corporation's internal manual prescribes ideal driving speed/norms for drivers to enhance fuel economy.

Body building

5.2.55 The Corporation purchased 78 buses during 2004-05 and 2005-06[27] and got them fabricated through outsourcing. There were delays of 3,724 days in fabrication of these buses as shown in the table below:

S.No.	Particulars	2004-05	2005-06	Total
1.	Number of buses fabricated	28	50	**78**
2.	Total delay in days	593	3,131	**3,724**
3.	Average delay *per* vehicle (in days) (2/1)	21.18	62.62	**-**
4.	Average kilometres covered *per* bus *per* day	154	181	**-**
5.	Average kilometres lost due to delay (2X4) (in lakhs)	0.91	5.67	**6.58**
6.	Traffic revenue *per* kilometre (in rupees)	13.80	15.53	**-**
7.	Revenue lost due to delay in fabrication (Rs. in lakh) (5x6)	12.60	88.01	**100.61**

The Corporation incurred loss of traffic revenue of Rs. 1.01 crore due to delay in fabrication of buses

5.2.56 From the above table, it can be seen that the Corporation had lost 6.58 lakh kilometres of operation during 2004-05 and 2005-06 which consequently resulted in loss of traffic revenue of Rs. 1.01 crore. This was due to failure of the Corporation to lift the fabricated bodies in time from the fabricator. The Corporation attributed (May 2009) the reasons for delay in lifting the vehicles from the fabricators to paucity of funds.

Financial Management

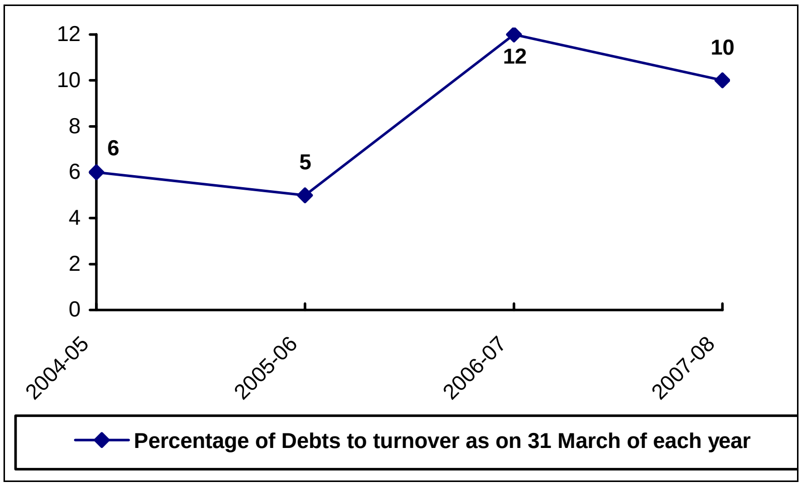
5.2.57 Raising of funds for capital expenditure, i.e., for replacement/ addition of buses happens to be the major challenge in financial management of Corporation's affairs. This

[27] No bus was purchased after 2005-06.

issue has been covered in Paragraphs 7.2.29. The section below deals with the Corporation's efficiency in raising claims and their recovery. This section also analyses whether an opportunity exists to realign the business model to generate more resources without compromising on service delivery.

Claims and dues

5.2.58 The Corporation provides buses on hire to Government departments/Army. Audit scrutiny of debt position of the Corporation during the period of review showed that an amount of Rs. 4.92 crore was outstanding against Government Departments/Army as on March 2008. An analysis of the debts outstanding as a percentage of turnovers for the four years ending March 2008 is depicted in the graph below.



5.2.59 From the above it can be seen that percentage of outstanding dues to the turnover of the Corporation varied from 5 to 12 since 2004-05. Further, the Corporation had not obtained confirmation of the balances outstanding with the parties nor had it carried out age-wise analysis of the debts to monitor debts turning into doubtful or bad.

Realignment of business model

5.2.60 The Corporation is mandated to provide an efficient, adequate and economical road transport to public. Therefore, the Corporation cannot take an absolutely commercial stand in running its operations. It has to cater to uneconomical routes also to fulfill its mandate, while keeping the fares affordable. In such a situation, it is imperative for the Corporation to tap non-traffic revenue sources to cross-subsidize its operations. However, the share of non-traffic revenues (other than interest on investments) was nominal (Rs. 7.17 crore) at 2.79 *per cent* of the total revenue of Rs. 256.55 crore during 2004-08. The non-traffic revenue came mainly from commission from hired vehicles, fines and rentals from shops and buildings. The Corporation had not formulated any plans to diversify its activities to tap revenue from alternate sources to absorb losses.

5.2.61 Over a period of time, the Corporation acquired sites at various locations in cities, district and tehsil headquarters. Audit observed that the Corporation owns land measuring 2.65 lakh square metres at various locations as shown below.

Particulars	Cities (Municipal areas)	District headquarters	Tehsil headquarters	Total
Number of sites	9	7	5	**21**
Occupied Land (square metres in lakh)	1.09	0.37	1.19	**2.65**

5.2.62 It is, thus, possible for the Corporation to undertake projects on Public Private Partnership (PPP) basis for construction of shopping complexes, malls, hotels, offices, etc. at the above sites, so as to bring in a steady stream of revenues without any investment by it. Such projects can be executed without curtailing the existing area of operations of the Corporation. Such projects can yield substantial revenue for the Corporation which can increase year after year.

The Corporation did not had any policy for tapping non-traffic revenue sources

5.2.63 Audit observed that the Corporation has not studied this aspect to assess the likely benefits from such activities nor has it framed any policy in this regard. Since substantial non-traffic revenue will help the Corporation cross-subsidize its operations and fulfil its mandate effectively, it needs to study realigning its business model and frame a policy in this regard.

Fare policy and fulfillment of social obligations

Existence and fairness of fare policy

5.2.64 The Corporation had not formulated any fare policy. Fares fixed by the State Transport Authority are applied by the Corporation. Therefore, the normative costs of the Corporation find no place in the fixation of fares. There is, thus, risk of commuters paying for inefficiency of the Corporation. However, the Corporation does not maintain separate records for manpower and fuel expenditure in respect of buses as already mentioned in paragraph 7.2.51 and 7.2.53 respectively. In the absence of the same, Audit could not work out the normative cost for the Corporation though the loss of revenue due to less vehicle productivity per KM which stood at Rs. 7.01, 6.54, 6.70 and 9.00 during 2004-05 to 2007-08 respectively.

5.2.65 The above fact indicates that it is necessary to regulate the fares on the basis of a normative cost and it would be desirable to have an independent fare policy of the Corporation to fix the fares, specify operations on uneconomical routes and address the needs and problems of commuters.

Adequacy of services on uneconomical routes

5.2.66 As mentioned at paragraph 7.2.40 above, the Corporation had not done route costing. It had also not formulated norms for providing services on uneconomical routes. In absence thereof, the adequacy of services on these routes could not be ascertained in audit. This underlines the desirability to have an independent regulatory body to specify the quantum of services on uneconomical routes, taking into account the specific needs of commuters.

Monitoring by top management

MIS data and monitoring of service parameters

5.2.67 For an organisation like a road transport corporation to succeed in operating economically, efficiently and effectively, there has to be formally stipulated norms of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets and norms. The achievements are to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that the achievement thereof makes an organisation self-reliant. Audit reviewed the system adopted by the Corporation. The observations in this regard are given below.

5.2.68 The Corporation had not set targets at depot level for important operational parameters like fleet utilisation, KMs to be run per day per bus, capacity utilisation, revenue realisation (route-wise) and average age of buses. As a result, unit/depot managers could not be made accountable for their performance.

5.2.69 The Corporation has a MIS in place, whereby information on various operational activities is communicated to the Corporation headquarters on daily/monthly basis. Audit observed that the information received at the headquarters was not consolidated, so as to identify areas for taking corrective measures. Data indicating details of tyre consumption, scheduled departure/arrival timings and trips cancelled, detention of buses in workshops for repairs/maintenance had not been maintained. As a result, the Corporation could not exercise control over these aspects.

5.2.70 The Road Transport Corporation Act, 1950, provides that the Board shall meet at least once in every three months and at least four such meetings shall be held in every year. It was seen in audit that the Corporation failed to conduct the required number of meetings during 2005-06 to 2008-09. While only one meeting was held in each year during 2005-06 and 2006-07, no meeting was held during 2007-08 and only two meetings was conducted during 2008-09. Non-conducting of prescribed number of meetings was not only in violation of the provisions of the Act, but also against the principles of healthy corporate governance and was liable to affect the decision making process of the Corporation adversely. Further, there was nothing on record to indicate that the Chairman/Managing Director and other full time directors had ever discussed various issues concerning the performance of the Corporation.

5.2.71 The top management of the Corporation is expected to set realistic and progressive targets, address areas of weakness and take remedial action wherever things are not moving on expected lines. However, such focus was not evident from the records of performance of the Corporation during the period under review.

Conclusions

Operational performance

- **The Corporation share in public transport was negligible and stood around 3 *per cent* during the period under review. Number of Corporation buses *per* one lakh population reduced from 5 to 3 in the review period.**
- **The Corporation could not recover the cost of operations in any of the five years under review. The operating loss of the Corporation has been increasing since 2005-06, mainly due to operational inefficiencies and inadequate monitoring by the top Management.**
- **The Corporation was not running its operations efficiently as its performance on important operational parameters like age profile of its fleet, fleet utilisation, vehicle productivity and load factor was much less than the All India Average (AIA).**
- **The Corporation did not carry out preventive maintenance as required, impacting adversely the roadworthiness of its buses.**
- **Manpower per vehicle (including buses and trucks) had reduced from 4.3 in 2004-05 to 3.4 in 2008-09. However, audit could not analyze the manpower economy of bus fleet only as the data of deployment of manpower on bus fleet is not maintained separately by the Corporation.**

Financial management

- **The Corporation, despite having tremendous potential to tap revenue from alternate sources, did not frame any policy to undertake large scale tapping of such funds.**

Fare policy and fulfilment of social obligations

- **The Corporation had not framed any policy to operate on uneconomical routes. Therefore, adequacy of coverage could not be ascertained in Audit.**

Monitoring by top management and future needs

- **Though the Corporation has Management Information System but the same is not adequately utilized by the Management to exercise control. The monitoring by its top management of key operational parameters and service standards was largely ineffective.**
- **The Corporation is becoming increasingly dependent upon financial support from the State Government for its survival. Audit reckons, that it would be extremely difficult for it to sustain for long, unless it brings drastic changes in its operational efficiency.**

On the whole, there is immense scope for improving the performance of the Corporation. However, the present set-up of the Corporation does not seem to be equipped to handle this. Effective monitoring of key parameters, coupled with certain policy measures, can see improvement in the performance.

Recommendations

Operational performance

- **The Corporation may consider replacing overage fleet by inducting new fleet to minimise its operational losses by mobilising loans from financial institutions.**
- **The Corporation may maintain adequate inventory of spares/tyres so as to minimise detention of vehicles in Workshops for repair and maintenance.**
- **The Corporation may take steps for reduction in cancellation of scheduled kilometres by ensuring timely repair of buses so that the same do not remain off-road for long period.**
- **The Corporation may observe preventive maintenance schedules prescribed by Original Equipment Manufacturers to reduce break-downs/mechanical failures so as to keep maximum number of buses in running condition.**
- **The Management may consider maintaining separate records of fuel consumption for buses, monitoring vehicle-wise and driver-wise data of fuel consumption and setting targets at depot levels for important operational parameters to exercise effective control over fuel expenditure.**

Financial Performance

- **The Corporation may consider devising a policy for tapping non-conventional sources of revenue by undertaking PPP (Public Private Partnership) projects.**
- **The Corporation should take effective steps to clear the arrears in accounts.**
- **Fare policy**
- **The Government may consider creating a regulator to regulate fares and also services on uneconomical routes.**
- **A policy yardstick to decide on the operation of uneconomical routes/schedules needs to be laid down.**

Monitoring by top management

- **The Corporation should take effective steps for strengthening of the MIS and make use of them for control of the activities.**
- **The Board of Directors may hold adequate number of meetings as per the requirement of Act so as to exercise effective control over the affairs of the Corporation.**
- **The Management may consolidate and analyse monthly performance reports at the top level for taking corrective measures.**

AUDIT OF TRANSACTIONS

J&K Projects Construction Corporation Limited

5.3 Avoidable payment of interest

Failure to remit in advance the assessed tax on taxable income in terms of the provisions of the Income Tax Act, 1961, resulted in avoidable payment of interest aggregating Rs. 14.04 lakh.

Under Section 234 of the Income Tax Act, 1961 if an assessee fails to pay 90 *per cent* of the assessed tax on the taxable income in advance he is liable to pay interest at prescribed rate from the first day of April following such financial year to the date of determination of the total income for the default.

Audit scrutiny showed that the Company had failed to remit 90 *per cent* of the assessed tax on taxable income for the Assessment Years 2005-06 and 2006-07 to the Income Tax (IT) Department. Consequently, in terms of the aforementioned Section of the Act, the Company had to pay interest of Rs. 12.66 lakh[28]. The Company also failed to remit Fringe Benefit Tax (FBT) to the IT Department for the Assessment Year 2006-07, for which the Company had to make further payment of Rs. 1.38 lakh on account of interest.

The Management stated (January 2009) that it was not possible for it to ascertain the advance tax to be deposited with the IT Department due to belated receipt of requisite information from the project authorities and due to some portion of expenditure having been disallowed by the IT Department during the above assessment years. As regards non-remittance of FBT, it was stated (July 2009) that the Company had deposited the same while filing (October 2007) the return for the assessment year 2006-07. It may be pointed out here that ensuring timely receipt of requisite information from the project authorities was the responsibility of the Company. Moreover, the IT Department had disallowed the expenditure due to incorrect filing of return and non-furnishing of requisite information called by the Assessing Authority and the project authorities had no role to play in this regard. Besides, depositing of FBT pertaining to the accounting year 2006-07 in 2007-08 was in violation of the IT Act.

Thus, failure of the Company to adhere to the provisions of the Act ibid resulted in avoidable payment of interest by the Company amounting to Rs. 14.04 lakh.

[28] 2005-06: Rs. 9.04 lakh; 2006-07: Rs. 3.62 lakh.

General

5.4 Lack of remedial action on audit observations

Seventeen PSUs did not either take remedial action or pursue the matters to their logical end in respect of 66 IR paras, resulting in foregoing the opportunity to improve their functioning.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods up to 2003-04 showed that there were 91 Paras in respect of 17 PSUs, which pointed out deficiencies in the functioning of these PSUs. As per the extant instructions of the CAG, the PSUs have to ensure to furnish reply within one month of the receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end, i.e., to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU-wise details of paras are given below. The list of important paras is given in the **Appendix-5.8**

Sr. No.	PSU Name	No. of Paras
1.	SICOP (Small Scale Industries Development Corporation Ltd	2
2.	T.D.C (Tourism Development Department)	3
3.	State Financial Corporation	11
4.	Jammu & Kashmir Bank Limited	13
5.	Jammu & Kashmir Women Development Corporation Limited	3
6.	J&K Projects Construction Corporation Limited	4
7.	Jammu and Kashmir Cement Limited	3
8.	Jammu and Kashmir Minerals Limited	8
9.	J&K Agro industries development corporation Limited	6
10.	Jammu and Kashmir Industries Limited	5
11.	Jammu and Kashmir Power Development Corporation Limited	15
12.	J&K Schedule Caste Schedule Tribes and Other Backward Classes Development Corporation Limited	1
13.	J&K State Industrial Development Corporation Limited	2
14.	J&K Horticulture Produce Marketing Corporation Limited	5
15.	J&K Handicrafts (S&E) Corporation Limited	2
16.	J&K Handloom Development Corporation Limited	2
17.	J&K State Road Transport Corporation	6
Total		**91**

The paras mainly pertain to embezzlement and misappropriations, blockade of money, penalty for delayed filing of returns, irregular waiver of interest, fraudulent/excess payments, wasteful expenditure and shortages etc.

Above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU Management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time-bound manner.

5.5 Opportunity to recover money foregone

Four Public Sector Undertakings did not either seize the opportunity to recover their money or pursue the matter resulting in recovery of Rs. 42.71 lakh remaining doubtful.

A review of unsettled paragraphs appearing in the Inspection Reports (IRs) pertaining to the periods up to 2003-04 showed that there were ten paras in respect of four Public Sector Undertakings (PSUs) involving a recovery of Rs. 42.71 lakh. As per the extant instructions of the CAG, the PSUs have to ensure to furnish reply within one month of the receipt of IRs from Audit. However, no effective action had been taken to take matters to their logical end, i.e. to recover money from the concerned parties. As a result, these PSUs have so far lost the opportunity to recover their money which could have augmented their finances.

PSU-wise details of Paras and recovery amount are given below. The list of individual paragraphs is given in **Appendix-5.9**

S. No	Name of Public Sector Enterprises (PSEs)	No of paragraphs	Amount of recovery (Rupees in lakh)
1.	Jammu and Kashmir Minerals Limited	1	0.41
2.	Jammu and Kashmir Industries Limited, Srinagar	2	9.61
3.	Jammu and Kashmir State Power Development Corporation	6	32.24
4.	Jammu and Kashmir Handicrafts (Sales and Export) Corporation Limited	1	0.45
	Total:	**10**	**42.71**

The Paras mainly pertain to recovery on account of excess pay, rent, decreed amounts, shortages etc.

The above cases point out the failure of the respective PSUs to safeguard their financial interests. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and the PSUs Management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time-bound manner.

Jammu/Srinagar **(D.J.Bhadra)**
The **Principal Accountant General (Audit)**
Jammu and Kashmir

Countersigned

New Delhi **(Vinod Rai)**
The **Comptroller and Auditor General of India**