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Report of the
Comptroller and Auditor General of India
on
Public Sector Undertakings
(Social, General and Economic Sectors)
for the year ended 31 March 2015

Government of Jammu and Kashmir

Report No. 2 of the year 2016

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TABLE OF CONTENTS

APPENDICES

PREFACE

1. This Report deals with the results of test audit of Government Companies and Statutory Corporations for the year ended March 2015.

2. The accounts of Government Companies (including Companies deemed to be Government Companies as per provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956 and Sections 139 and 143 of the Companies Act, 2013 and audit of Statutory Corporations under their respective legislation.

3. The Government is required to submit this Audit Report to the State Legislature of Jammu and Kashmir under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

4. The instances mentioned in this Report are among those which came to notice in the course of test audit during the year 2014-15 as well as those which had come to notice in earlier years but could not be dealt with in previous Audit Reports; instances relating to the period subsequent to 2014-15 have also been included, wherever necessary.

5. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

OVERVIEW

This Report contains one Performance Audit on 'Working of Jammu and Kashmir Cements Limited' and seven paragraphs involving a financial effect of ₹964.32 crore relating to doubtful recovery of loan, avoidable extra expenditure, loss of revenue and blockade of funds, unplanned execution of power projects, non-payment of labour cess etc. Some of the major findings are mentioned below:

Public Sector Undertakings (PSUs)

The State of Jammu and Kashmir had 23 working PSUs (20 Companies and three Statutory Corporations) and three non-working PSUs which employed 24,306 employees. Power sector accounted for 51.42 *per cent*, i.e., ₹2727.54 crore of the total investment in 2014-15. The Government contributed ₹84.67 crore towards Equity, Loans and Grants/Subsidies to State PSUs during 2014-15. As on 31 March 2015, the investment (capital and long-term loans) in 26 State PSUs and Statutory corporations was ₹5304.69 crore. The total investment consisted of 16.50 *per cent* as capital and 83.50 *per cent* as long-term loans. The investment has grown by 1.51 *per cent* from ₹5225.63 crore in 2010-11 to ₹5304.69 crore in 2014-15.

(Paragraphs: 1.1, 1.6, 1.7 and 1.8)

Performance Audit

Industries and Commerce Department

Working of the Jammu & Kashmir Cements Limited

- Accounts of the Company were in arrears since 2008-09. The Company which earned profit of ₹4.35 crore during 2011-12 suffered loss of ₹26.28 crore during 2014-15.

(Paragraphs: 2.1.6 and 2.1.6.1)

- Capacity utilisation *vis-a-vis* installed capacity for clinker and cement production ranged between 25 *per cent* and 48 *per cent*. Raw mills, kilns and cement mills of old plant were under-utilised to the extent of 39 *per cent*, 24 *per cent* and 32 *per cent* and of new plant to the extent of 78 *per cent*, 33 *per cent* and 76 *per cent* of available operational hours. Low operation of kilns led to loss of production of cement valuing ₹187.21 crore.

(Paragraphs: 2.1.7.2 and 2.1.7.3)

- Excess consumption of 58278 MTs of coal and of power to the extent of 658.04 lakh kWh in cement plants caused extra burden of ₹80.17 crore to the Company.

(Paragraph: 2.1.7.4)

- The Company had not formulated a definite procurement policy. Failure of the Company to procure coal under e-auction from ECL Kolkata resulted in extra expenditure of ₹87.50 lakh.

(Paragraph: 2.1.8.1)

- Grade slippages of 75179 MTs of Grade 'A' coal resulted in variation in cost of ₹26.02 crore which was not recovered from the defaulting contractors by the Company.

(Paragraph: 2.1.8.2)

- Shortfall in production of 5.30 lakh MTs of clinker due to low capacity utilization of new cement plant at Khrew resulted in loss of production of cement valuing ₹388.19 crore. Delay in setting up of cement unit at Samba resulted in loss of production of 1.57 lakh MTs of cement valuing ₹113.40 crore.

(Paragraphs: 2.1.10.1 and 2.1.10.2)

- The Company failed to install pollution monitoring and dust control devices required as per norms of Ministry of Environment and Forests and in terms of Mines Act, 1952 and Metaliferous Mines Regulation Act, 1961.

(Paragraph: 2.1.12)

Audit of Transactions

Transaction audit observations included in the Report highlight deficiencies in the management of State Government Companies, which had serious financial implications. Gist of the important audit observations is given below:

Finance Department
(Jammu and Kashmir Bank Limited)

- Non-observance of due diligence to monitor transactions of unusual pattern before sanction of credit facility in favour of a borrower and subsequent failure to initiate timely action resulted in doubtful recovery of ₹1.19 crore.

(Paragraph: 3.1)

Forest Department
(Jammu and Kashmir State Forest Corporation)

- Procurement of imported timber by the Corporation without ascertaining actual requirement of the cloudburst affected families of Leh and at higher rates besides effecting its sale at reduced rates resulted in avoidable extra expenditure of ₹95.35 lakh, loss of ₹1.03 crore besides blocking of resources to the extent of ₹2.19 crore for over four years.

(Paragraph: 3.2)

- Imprudent decision of the Management in entering into public private partnership mode with a non-viable venture selected in non-transparent manner and without ensuring assured market of products resulted in loss of ₹58 lakh, besides blockade of ₹98 lakh.

(Paragraph: 3.3)

Power Development Department
(Jammu and Kashmir State Power Development Corporation Limited)

- Execution of project of renovation, modernisation and upgradation of 15 MW Ganderbal Power House which suffered right from its approval due to delay, repeated revisions necessitated by restricting execution of works resulted in unplanned execution of the project and consequent unfruitful expenditure of ₹9.92 crore. The objective of the project to generate additional power of 63.64 MUs with extra annual revenue of ₹12.72 crore could as such not be achieved.

(Paragraph: 3.4)

- Failure of the Company to ensure timely completion of works of 'Restoration of Wangath Link Canal' and 'Modernisation of spill channel' of Upper Sindh Hydropower Project-II Kangan and inaction to enforce the terms and conditions of the contract for delay in execution against the contractors resulted in loss of power generation of 230.79 MUs valuing ₹19.15 crore.

(Paragraph: 3.5)

- The projects for evacuation of power from BHEP Stage-II which were targetted for completion by November 2014 had not been taken up due to non-acquisition and handing over of land to PGCIL by the Company despite release of ₹2.48 crore in advance.

(Paragraph: 3.6)

- Failure of the Company to comply with provisions of the Act to book labour cess on expenditure incurred on account of payment made to the contractor for execution of works of BHEP Stage-II resulted in non-payment of labour cess to the extent of ₹7.08 crore.

(Paragraph: 3.7)

Chapter-1

Functioning of State Public Sector Undertakings

CHAPTER - 1

1. Functioning of State Public Sector Undertakings

Introduction

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 keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2015, there were 23 PSUs. Of these, one PSU i.e. Jammu and Kashmir Bank Limited is listed (July 1998) on the stock exchange. Of the total paid up equity of the Bank, 53.17 *per cent* is held by the State Government and remaining 46.83 *per cent* is held by the Foreign Institutional Investors, Resident Individuals and others[1]. During the year 2014-15, 4 PSUs[2] were incorporated whereas no PSU was closed down. The details of the State PSUs in Jammu and Kashmir as on 31 March 2015 are given below.

Table-1.1: Total number of PSUs as on 31 March 2015

Type of PSUs	Working PSUs	Non-working PSUs[3]	Total
Government Companies[4]	20	3	23
Statutory Corporations	3	Nil	3
Total	**23**	**3**	**26**

The working PSUs registered a turnover of ₹8652.40 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 12 *per cent* of State Gross Domestic Product (GDP) for 2014-15. The working PSUs earned aggregate profit of ₹828.89 crore as per their latest finalised accounts as of September 2015. They had employed 24,306 employees as at the end of March 2015.

As on 31 March 2015, there were three non-working PSUs existing from last 24 to 39 years and having investment of ₹3.40 crore.

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1 Indian Mutual Funds, Insurance Companies, Non-Resident Indian and Corporate Bodies
2 J&K State Road Development Corporation, Jammu Power Distribution Corporation Limited, Kashmir Power Distribution Corporation Limited and J&K State Power Transmission Corporation Limited
3 Non-working PSUs are those which have ceased to carry on their operations
4 Government PSUs includes other Companies referred to in Section 139 (5) and 139 (7) of the Companies Act 2013

Accountability framework

1.2 The process of audit of Government Companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45), a Government company means any company in which not less than fifty one *per cent* of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company. Further, as per sub-section 7 of Section 143 of the Act, the C&AG may, in case of any company covered under sub-section (5) or sub-section (7) of Section 139, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

1.3 The financial statements of the Government companies (as defined in Section 2(45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act which shall submit a copy of the Audit Report to the C&AG which, among other things, including financial statements of the Company under Section 143 (5) of the Act. These financial statements are subject to supplementary audit conducted by CAG within sixty days from the date of receipt of the Audit Report under the provisions of Section 143 (6) of the Act.

Audit of Statutory corporations, is governed by their respective legislations. Out of 3 statutory corporations, CAG is the sole auditor for State Road Transport Corporation and State Forest Corporation. In respect of State Financial Corporation, the audit is conducted by Chartered Accountants appointed by shareholders in their Annual General Meeting from the approved panel of Reserve Bank of India and supplementary audit by CAG as per provisions of the State Financial Corporation Act, 1951.

Role of Government and Legislature

1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government companies and Separate Audit Reports in case of Statutory corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Jammu and Kashmir

1.5 The State Government has huge financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

1.6 As on 31 March 2015, the investment (capital and long-term loans) in 26 PSUs was ₹5304.69 crore as per details given in **Table-1.2**:

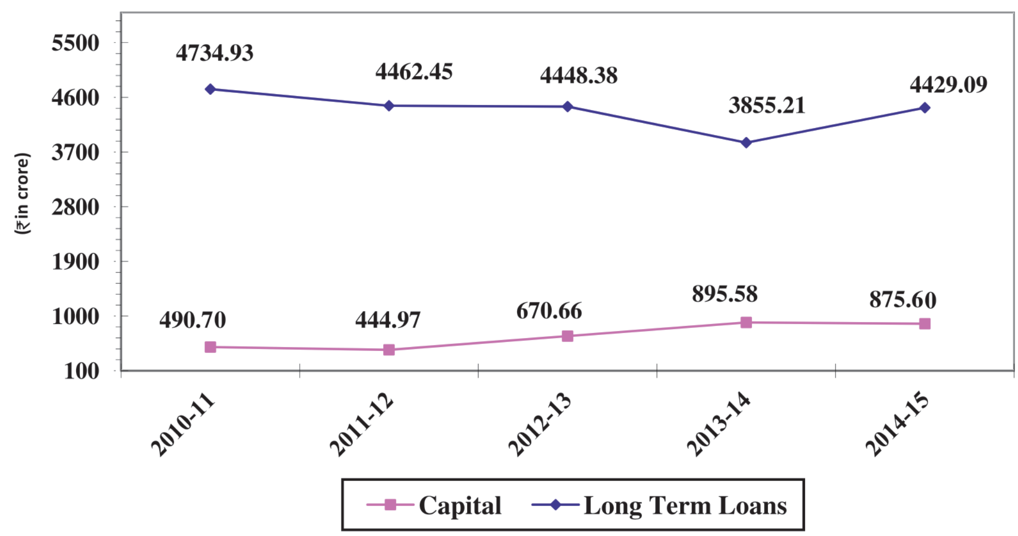
Table-1.2: Total investment in PSUs

(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	501.18	3877.55	4378.73	371.85	550.71	922.56	5301.29
Non-working PSUs	2.57	0.83	3.40	Nil	Nil	Nil	3.40
Total	**503.75**	**3878.38**	**4382.13**	**371.85**	**550.71**	**922.56**	**5304.69**

As on 31 March 2015, 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 16.50 *per cent* towards capital and 83.50 *per cent* in long-term loans. The investment has grown by 1.51 *per cent* from ₹5225.63 crore in 2010-11 to ₹5304.69 crore in 2014-15 as shown in the graph.

Chart-1.1:Total investment in PSUs



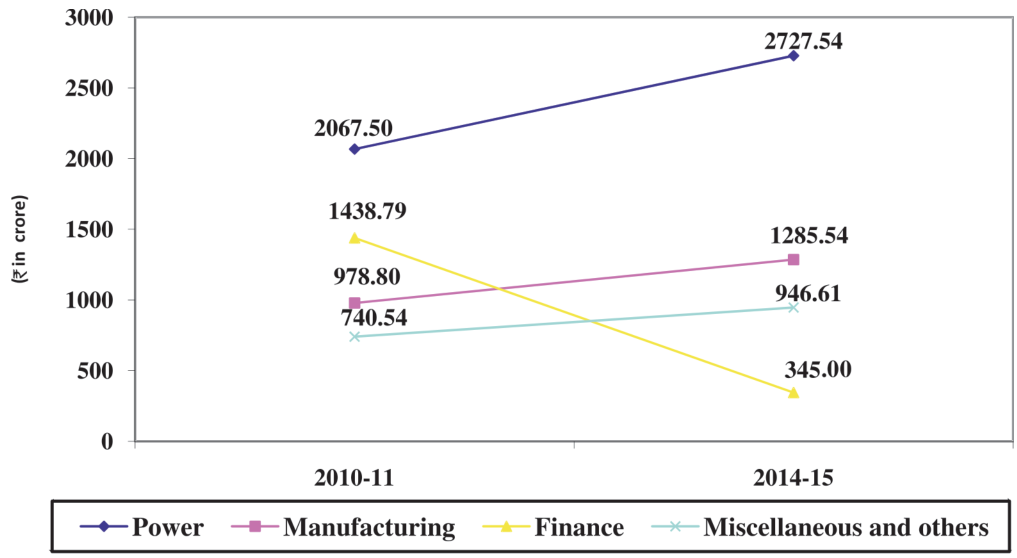
1.7 The sector-wise summary of investments in the State PSUs as on 31 March 2015 is given below:

Table-1.3: Sector-wise investment in PSUs

Name of Sector	Government/ 619B companies		Statutory corporations	Total	Investment
	Working	Non-Working	Working		(₹ in crore)
Power	2727.54	Nil	Nil	2727.54	2727.54
Manufacturing	1282.54	3.00	Nil	1285.54	1285.54
Finance	184.51	Nil	160.49	345.00	345.00
Miscellaneous	4.27	0.40	Nil	4.67	4.67
Service	51.34	Nil	753.04	804.38	804.38
Infrastructure	41.81	Nil	Nil	41.81	41.81
Agriculture & Allied	86.72	Nil	9.03	95.75	95.75
Total	**4378.73**	**3.40**	**922.56**	**5304.69**	**5304.69**

The investment in four significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated below in the bar chart. The thrust of PSU investment was mainly in power sector which increased from 37.66 *per cent* to 51.42 *per cent* during 2010-11 to 2014-15.

Chart-1.2: Sector wise investment in PSUs



Special support and returns during the year

1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarized details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of State PSUs are given below for three years ended 2014-15.

Table-1.4: Details regarding budgetary support to PSUs

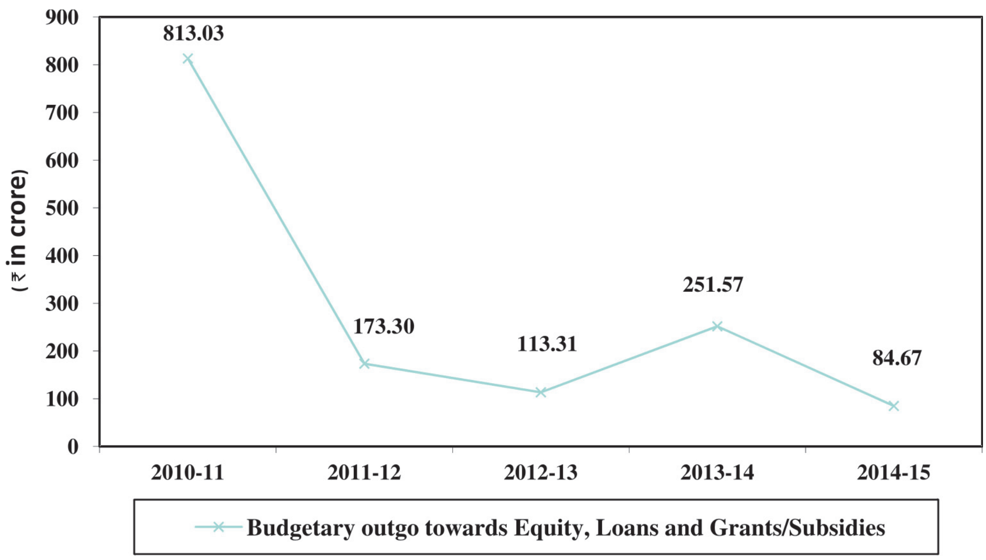
(₹in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	3	7.00	5	25.03	2	1.21
2.	Loans given from budget	10	76.08	7	69.84	8	54.76
3.	Grants/Subsidy from budget	7	30.23	8	156.70	7	28.70
4.	**Total Outgo (1+2+3)**	**13**	**113.31**	**13**	**251.57**	**15**	**84.67**
5.	Waiver of loans and interest	1	11.42	Nil	Nil	Nil	Nil
6.	Guarantees issued	3	2193.97	3	36.37	0	0
7.	Guarantee Commitment	9	1789.80	4	2164.64	5	2574.78
8.	Guarantee Fee	Nil	Nil	1	43.58	Nil	Nil

An amount of ₹0.29 crore on account of guarantee fee was receivable at the end of year 2014-15.

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

Chart-1.3



The budgetary outgo of the State Government towards equity contribution, loan, grant and subsidy during the preceeding three years increased to ₹251.57 crore ending 2013-14 and during the current year the budgetary outgo decreased to ₹84.67 crore.

Amount of Guarantees outstanding ending 2014-15 was ₹2,574.78 crore. In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government charges guarantee fee/ commission at prescribed percentage of two *per cent*. The guarantee commitment increased to ₹2,574.78 crore during 2014-15 from ₹1,789.80 crore in 2012-13. Further, no PSUs paid any guarantee fee during 2014-15.

Reconciliation with Finance Accounts

1.9 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 2015 is stated below.

Table-1.5: Equity, loans, guarantees outstanding as per Finance Accounts vis-a-vis records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	489.85	631.73	-141.88
Loans	527.36	1811.07	-1283.71
Guarantees	2575.52	2574.78	0.74

There was a mismatch between figures furnished by the PSUs with those depicted in the Finance Accounts. Reasons therefor though called for were not intimated (November 2015).

Arrears in finalisation of accounts

1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so, may attract penal provisions under Section 99 of the Companies Act, 2013. 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 details of progress made by working PSUs in finalisation of accounts as of 30 September 2015 are given in **Table-1.6**.

Table-1.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of Working PSUs	21	22	23	23	23
2.	Number of accounts finalised during the year	34	36	38	14	12
3.	Number of accounts in arrears	223	208	195	187	189
4.	Number of Working PSUs with arrears in accounts	19	19	20	20	18
5.	Extent of arrears (numbers in years)	2 to 20	3 to 21	2 to 18	1 to 19	1 to 19

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. It can be observed that the number of accounts in arrears has decreased from 223 (2010-11) to 189 (2014-15). This office has been persistently requesting the State Government for reduction of arrears and in the latest correspondence, the

Accountant General (June 2015) requested the Chief Secretary, J&K Government to frame a time bound schedule to finalise the accounts which were in arrears. The Hon'ble Minister of State for Finance, J&K, held meetings (July 2015) with the PSU heads and the Officers of the State Government and stressed on immediate steps to bring down pendency of accounts by working out a time bound strategy.

1.11 The State Government had invested ₹814.44 crore in 18 PSUs, (equity: ₹39.63 crore in six PSUs, loans: ₹369.05 crore in nine PSUs and grants ₹405.76 crore in 12 PSUs) during the years for which accounts have not been finalised as detailed in ***Appendix-1.1***. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such PSUs remained outside the control of State Legislature.

1.12 In addition to above, there were arrears in finalisation of accounts by non-working PSUs. Out of three non-working PSUs, two were in the process of liquidation whose accounts were in arrears for 15 to 23 years. Of the remaining one non-working PSU, it had arrears of accounts for 25 years.

Table-1.7: Position relating to arrears of accounts in respect of non-working PSUs

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
Tawi scooters Ltd	Since 1990-91	25
Himalayan wool Combers[5]	Since 2000-01	15
Handloom Handicraft Raw[5] material organisation	Since 1992-93	23

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 were informed (November 2014), 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 of the State in June 2015 to expedite the backing of arrears in accounts in a time bound manner.

[5] Under process of liquidation

Placement of Separate Audit Reports

1.13 The position depicted below show the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

Table-1.8: Status of placement of SARs in Legislature

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/Present Status
1.	J&K State Financial Corporation	2012-13	2013-14	18 May 2015
2.	J&K State Road Transport Corporation Ltd	2009-10	2010-11 & 2011-12	28 July 2015
3.	J&K State Forest Corporation			Accounts not submitted by the Company since 1996-97

Impact of non-finalisation of accounts

1.14 As pointed out above (Table 1.6 and 1.7)**,** the 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 relevant statues. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- The Government may set up a suitable mechanism to monitor the clearance of arrears and set the targets for individual companies.
- The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.

Performance of PSUs as per their latest finalized accounts

1.15 The financial position and working results of working Government companies and Statutory Corporations are detailed in ***Appendix 1.2***. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table 1.9 provides the details of working PSU turnover and State GDP for a period of five years ending 2014-15.

Table-1.9: Details of working PSUs turnover vis-a-vis State GDP

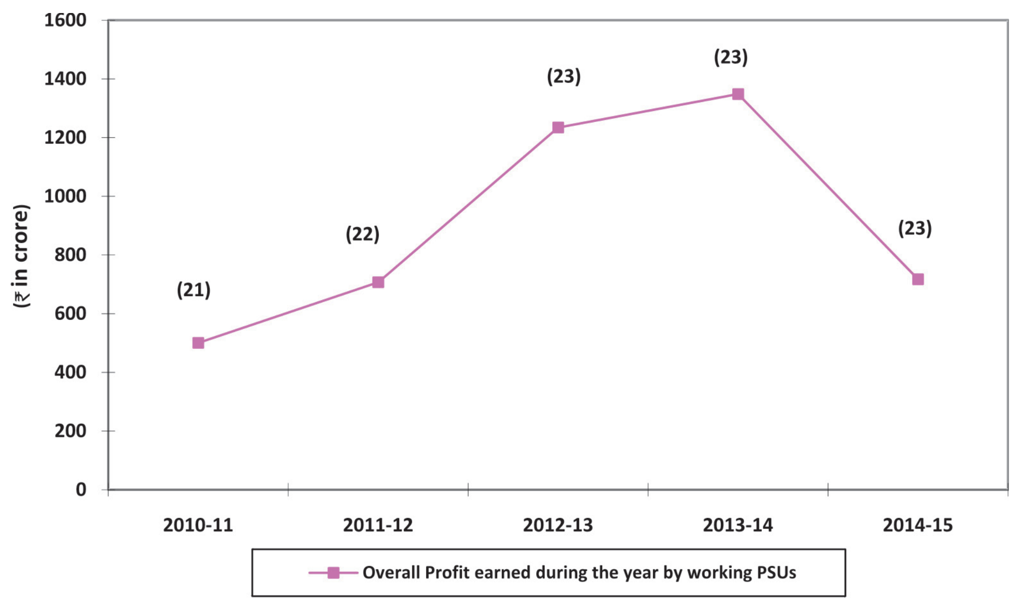
(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover[6]	4409.87	5552.37	8071.43	8272.38	8652.40
State GDP	58073	68185	76916	87570	87921
Percentage of Turnover to State GDP	7.59	8.14	10.49	9.45	9.84

During the last 05 years the turnover of working PSUs of state increased from ₹4409.87 crore to ₹8652.40 crore ending 2014-15 and its percentage to the GDP of the state increased from 7.59 *per cent* in the year 2010-11 to 9.84 *per cent* at the end of the year 2014-15.

1.16 Overall profit (losses) earned (incurred) by State working PSUs during 2010-11 to 2014-15 are given below in a bar chart.

Chart-1.4: Profit/ Loss of working PSUs



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

During the year 2014-15, out of working companies nine PSUs earned profit of ₹828.89 crore and 11 PSUs incurred a loss of ₹111.25 crore. Two PSUs did not prepare their profit and loss accounts, while one PSU State Forest Corporation had not submitted its accounts since 1996-97. The major contributors to profit were J&K Bank Ltd. (₹508.59 crore); J&K Power Development Corporation (₹300.86 crore) and J&K Cable Car Corporation (₹6.22 crore). The heavy losses were incurred by J&K State Road Transport Corporation (₹57 crore); J&K Industries Ltd. (₹46.83 crore) and J&K Horticultural Produce Marketing

6 Turnover as per the latest finalised accounts as of 30 September

and Processing Corporation Ltd. (₹10.62 crore).

1.17 Some other key parameters of PSUs are given below.

Table-1.10: Key Parameters of State PSUs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (*per cent*)	9.61	11.99	13.94	15.35	14.79
Debt	N.A.	4462.45	4448.38	3855.21	4429.09
Turnover[7]	4409.87	5552.37	8071.43	8272.38	8652.40
Debt/ Turnover Ratio	N.A.	0.8037	0.5511	0.4660	0.5118
Interest Payments	2250.07	3081.46	4202.74	4431.88	4762.65
Accumulated Profits (losses)	-1529.98	-1651.07	-2909.13	-2697.69	-2907.29

The debts of PSUs increased from ₹3855.21 crore in 2013-14 to ₹4429.09 crore in 2014-15 which impacted and pressured the profits.

1.18 As per their latest finalised accounts, nine PSUs earned an aggregate profit of ₹828.89 crore and none of these PSUs declared a dividend. Dividend policy of the State Government is awaited in Audit.

Winding up of non-working PSUs

1.19 There were three non-working PSUs as on 31 March 2015. Of these, two PSUs have commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given below.

Table-1.11: Non-working PSUs

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
No. of non-working companies	3	3	3	3	3
No. of non-working corporations	Nil	Nil	Nil	Nil	Nil
Total	**3**	**3**	**3**	**3**	**3**

Since the non-working PSUs are not contributing to the State economy and meeting the intended objectivities, therefore, these PSUs may be considered either to be closed down or revived.

[7] Turnover of working PSUs as per the latest finalised accounts as of 30 September

1.20 The stages of closure in respect of non-working PSUs are given below.

Table-1.12: Closure of Non-working PSUs

Sl. 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[8]	Nil	2
(b)	Voluntary winding up (liquidator appointed)	0	Nil	0
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	1[9]	Nil	1

During the year 2014-15, no company/ corporation was finally wound up. Two companies which have taken the route of winding up by Court order are under liquidation for more than ten years. The Government may take a decision regarding starting of liquidation process in respect of remaining one company where closing instructions have been issued.

Accounts Comments

1.21 Thirteen working companies forwarded their 29 audited accounts to Accountant General during the year 2014-15. Of these, accounts of eight companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given in **Table-1.13.**

Table-1.13: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	4.50	1	0.09	2	1.03
2.	Increase in loss	8	27.6	1	0.15	1	1.57
3.	Non-disclosure of material facts	2	45.17	4	59.35	2	0.36
4.	Errors of classification	10	82.28	3	3.52	4	11.50

During the year, the Statutory Auditors had given unqualified certificates for four accounts; qualified certificates for 14 accounts, but in none of the cases

[8] Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicraft Raw Material Supplies Organisation Limited

[9] Tawi Scooters Limited

adverse certificates/ disclaimers were issued by the Statutory Auditors[10]. In addition to above, CAG did not give any adverse comments/ disclaimer during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were seven instances of non-compliance in four accounts during the year.

1.22 Similarly, two working Statutory Corporations (J&K State Road Transport Corporation 2010-11 & 2011-12; J&K State Financial Corporation 2013-14 & 2014-15) forwarded their four accounts to Accountant General during the year 2014-15. Of these, two accounts of one Statutory Corporation (State Road Transport Corporation) pertained to sole audit by CAG was completed. Of the remaining Statutory Corporation (State Financial Corporation), one account was selected for supplementary audit and finalized while the other account was under process of finalization (November 2015). The Jammu and Kashmir State Forest Corporation had never submitted its accounts since 1996-97 when its audit was entrusted to CAG. The Audit Reports of Statutory Auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given in **Table-1.14.**

Table-1.14: Impact of audit comments on Statutory Corporations

(₹in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	-	-	1	0.50
2.	Increase in loss	5	184.86	-	-	1	58.05
3.	Non-disclosure of material facts	-	-	-	-	1	24.48
4.	Errors of classification	1	3.75	-	-	2	38.10

During audit of these accounts conducted by the Statutory Auditors and supplementary audit by Accountant General, the impact of ₹58.05 crore by way of increase in loss indicates deficiency in proper accounting practices being followed and needs to be brought down substantially. During the year, one account received a qualified certificate.

[10] Remaining 11 accounts out of 29 were under the process of finalization

Response of the Government to Audit

Performance Audit and Paragraphs

1.23 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, one performance audit and seven compliance audit paragraphs involving money value of ₹964.32 crore were issued to the Principal Secretaries of the respective Departments/ Management of the respective Companies with request to furnish replies within six weeks. However, replies in respect of four compliance audit paragraphs were awaited from the State Government (December 2015).

Follow up action on Audit Reports

Replies outstanding

1.24 The Report of the Comptroller and Auditor General (CAG) of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Jammu and Kashmir issued (June 1997) instructions to all Administrative Departments to submit replies/ explanatory notes to paragraphs/ reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation to the legislature, in the prescribed format without waiting for any questionnaires from the COPU.

Table-1.15: Explanatory notes not received (as on 30 September 2015)

Year of Audit Report (Commercial/ PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and paragraphs in the Audit Report		Number of PAs/ paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2000-01	06 April 2002	1	3	-	-
2001-02	21 June 2003	1	4	-	-
2002-03	23 August 2004	1	3	-	-
2003-04	23 March 2005	-	3	-	-
2004-05	27 March 2006	1	4	1	-
2005-06	08 February 2007/ 31 August 2009	3	2	1	-
2006-07	30 January 2008	1	5	-	-
2007-08	05 March 2009	1	3	-	-
2008-09	30 March 2010	1	3	1	2
2009-10	31 March 2011	1	3	-	-
2010-11	04 April 2012	1	5	-	-
2011-12	05 April 2013	2	-	1	-
2012-13	04 March 2014	-	3	1	-
2013-14	27 March 2015	1	6	1	4
Total		**15**	**47**	**6**	**6**

From the above, it could be seen that out of 62 paragraphs/ performance audits, explanatory notes to 12 paragraphs/ performance audits in respect of five departments, which were commented upon, were awaited (September 2015).

Discussion of Audit Reports by COPU

1.25 The status as on 30 September 2015 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as under.

Table-1.16: Reviews/ Paras appeared in Audit Reports vis-a-vis discussed as on 30 September 2015

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2000-01	1	3	1	3
2001-02	1	4	1	4
2002-03	1	3	1	3
2003-04	-	3	-	3
2004-05	1	4	-	4
2005-06	3	2	2	2
2006-07	1	5	1	4
2007-08	1	3	1	2
2008-09	1	3	-	1
2009-10	1	3	1	3
2010-11	1	5	1	5
2011-12	2	-	1	-
2012-13	-	3	-	2
2013-14	1	6	-	2
Total	**15**	**47**	**10**[11]	**38**[11]

Compliance to Reports of Committee on Public Undertakings (COPU)

1.26 Action Taken Notes (ATN) to 29 paragraphs pertaining to seven Reports of the COPU presented to the State Legislature between April 2005 to March 2015 had not been received (September 2015) as indicated below:

[11] Includes partly discussed paragraphs

Table-1.17: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2004-05 (40th Report)	01	06	06
2005-06 (41st Report)	01	06	03
2009-10 (42nd Report)	01	17	08
2010-11 (43rdReport)	01	02	02
2011-12 (44th Report)	01	06	03
2012-13 (45th Report)	01	06	02
2013-14 (46th Report)	01	15	05
Total	**07**	**58**[12]	**29**

These Reports of COPU contained recommendations in respect of paragraphs pertaining to 10 departments, which appeared in the Reports of the CAG of India for the years 2000-01 to 2011-12.

It is recommended that the Government may ensure: (a) sending of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/ outstanding advances/ overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

Disinvestment, Restructuring and Privatisation of PSUs

1.27 The State Government has initiated the process of establishing hydel projects through independent power producers and seven such projects had been privatized in the State as of 31 March 2015. However, final process was yet to be completed (September 2015).

[12] Pertains to 42 paragraphs/ performance audits that featured in the Audit Reports for the years 2000-01 to 2011-12

Chapter-2

Performance Audit

CHAPTER – 2

PERFORMANCE AUDIT

INDUSTRIES AND COMMERCE DEPARTMENT

2.1 Working of the Jammu and Kashmir Cements Limited

Executive Summary

The Jammu and Kashmir Cements Limited (Company) is a wholly owned Government Company with main objectives to manufacture, procure, sell and deal in cement, limestone and other materials used in manufacturing of cement.

Highlights

- **Accounts of the Company were in arrears since 2008-09. The Company which earned profit of ₹4.35 crore during 2011-12 suffered loss of ₹26.28 crore during 2014-15.**

  (Paragraphs: 2.1.6 and 2.1.6.1)

- **Capacity utilisation vis-a-vis installed capacity for clinker and cement production ranged between 25 *per cent* and 48 *per cent*. Raw mills, kilns and cement mills of old plant were under-utilised to the extent of 39 *per cent*, 24 *per cent* and 32 *per cent* and of new plant to the extent of 78 *per cent*, 33 *per cent* and 76 *per cent* of available operational hours. Low operation of kilns led to loss of production of cement valuing ₹187.21 crore.**

  (Paragraphs: 2.1.7.2 and 2.1.7.3)

- **Excess consumption of 58278 MTs of coal and of power to the extent of 658.04 lakh kWh in cement plants caused extra burden of ₹80.17 crore to the Company.**

  (Paragraph: 2.1.7.4)

- **The Company had not formulated a definite procurement policy. Failure of the Company to procure coal under e-auction from ECL Kolkata resulted in extra expenditure of ₹87.50 lakh.**

  (Paragraph: 2.1.8.1)

- **Grade slippages of 75179 MTs of Grade 'A' coal resulted in variation in cost of ₹26.02 crore which was not recovered from the defaulting contractors by the Company.**

  (Paragraph: 2.1.8.2)

- **Shortfall in production of 5.30 lakh MTs of clinker due to low capacity utilization of new cement plant at Khrew resulted in loss of production of cement valuing ₹388.19 crore. Delay in setting up of cement unit at Samba resulted in loss of production of 1.57 lakh MTs of cement valuing ₹113.40 crore.**

(Paragraphs: 2.1.10.1 and 2.1.10.2)

- **The Company failed to install pollution monitoring and dust control devices required as per norms of Ministry of Environment and Forests and in terms of Mines Act, 1952 and Metaliferous Mines Regulation Act, 1961.**

(Paragraph: 2.1.12)

2.1.1 Introduction

The Jammu and Kashmir Cements Limited (Company) was incorporated in December 1974 under the Companies Act 1956 as a wholly owned Government Company having its registered office at Srinagar. The main objectives of the Company are to manufacture, procure, sell and deal in cement, limestone and other materials used in manufacturing of cement. The Company is operating two cement manufacturing plants set up in October 1981 and January 2010 at Khrew (Pulwama) with installed capacity of four lakh Metric Tonnes (MTs) per annum. The other Cement Grinding cum Packing unit at Samba, Jammu with installed capacity of one lakh MT per annum was under implementation (March 2015).

2.1.2 Organizational set up

The Management of the Company is vested in a Board of Directors (BoDs) comprising 10 Directors including the Chairman[1] and the Managing Director. The day to day activities of the Company are managed by the Managing Director who is assisted by two General Managers and a Financial Advisor and Chief Accounts Officer. Besides, Corporate Office at Srinagar, the Company has one Cement Factory at Khrew and one Divisional Office at Jammu. As on March 2015 total of 749 persons were employed in the Company.

2.1.3 Audit objectives

The performance audit was taken up with the objective of assessing whether:

- financial management was efficient and effective;

[1] Hon'ble Minister of Industries and Commerce

- the capacity of plant was utilised to the optimum level, manufacturing and other operations carried out efficiently;
- due procurement process was followed and effective inventory management was in place;
- measures for pollution control were in place; and
- manpower resources utilized effectively and Internal Control Systems were in place.

2.1.4 Scope of audit and methodology

The Performance Audit of the Company covering the period from 2010-11 to 2014-15 was conducted between December 2014 and March 2015 by test-check of records of the Corporate Office at Srinagar, Factory at Khrew and Divisional Office at Jammu on the basis of simple random technique with high value transactions and having repeated nature and significance in the manufacturing process of cement.

The audit objectives, criteria and methodology were discussed during an entry conference held on 03 December 2014 by the Accountant General (Audit) with the Financial Commissioner, Industries and Commerce Department and Managing Director of the Company. The Exit Conference was held on 30 July 2015 with the Special Secretary, Industries and Commerce Department and Managing Director of the Company. The replies of the Management of the Company had been incorporated at appropriate places.

Performance Audit on the working of the Company for the period from 1995-96 to 1999-2000 was incorporated in the Report of Comptroller and Auditor General of India (Government of Jammu and Kashmir) for the year ended 31 March 2000. The report was partly discussed by the Committee on Public Undertakings. However, no recommendations were made by the Committee.

2.1.5 Audit criteria

Audit objectives were benchmarked against the following audit criteria :

- Industry norms for production of cement and performance levels of other cement manufacturing plants;
- Provisions of various Acts/ Rules/ Regulation applicable for Cement Plant, mining activities, pollution control, etc.
- Marketing and price fixation policy of the Company.

2.1.6 Financial position and working results

The Company had authorised share capital of ₹60 crore and the paid-up capital of ₹14.99 crore as on 31 March 2015 wholly contributed by the State Government. In addition to this, ₹35.32 crore contributed by the State Government towards share capital was kept under share application deposit[2]. Further loan of ₹62.47 crore was obtained from the State Government (₹8.84 crore)[3] and Jammu and Kashmir Bank Limited (₹53.63 crore) as on March 2015.

Based on the provisional accounts, Financial Position and Working Results of the Company for five years from 2010-11 to 2014-15 are summarised in ***Appendices-2.1 and 2.2.*** Analysis of the financial position and working results of the Company revealed as follows:

- The capital contribution increased from ₹41.76 crore as on March 2011 to ₹50.51 crore as on March 2015 for implementation of Cement Grinding-cum-Packing Unit at Samba which had not been completed despite delay of about two years.
- The secured loans decreased from ₹32.70 crore as on March 2011 to ₹21.70 crore as on March 2012 and again increased to ₹53.63 crore as on March 2015 due to part repayment of term loan availed for New Plant at Khrew, availing of term loan for Samba Project and cash credit facility of ₹20 crore.
- Inventories which stood at ₹26.25 crore as on March 2011 rose to ₹40.99 crore as on March 2015 as a result inventory to sale ratio rose from 32 *per cent* as on March 2011 to 51 *per cent* as on March 2015 leading to blockade of funds to a large extent.
- During the year 2011-12, the Company had earned profit of ₹4.35 crore. However during the years 2013-14 and 2014-15 the Company suffered loss of ₹16.93 crore and ₹26.28 crore respectively due to less production of clinker, less sales, increase in cost of power/ fuel and steady increase in administrative expenditure, etc. Despite refund of central excise duty of ₹37.88 crore during the period 2010-15 and assured captive market for cement, the Company had failed to maintain and increase its profitability.
- Due to loss, the return on capital employed became negative at 25.07 *per cent* during 2014-15 from positive 3.90 *per cent* during 2010-11.

[2] The contribution was not transferred to paid up share capital in absence of approval of Registrar of Companies

[3] Included interest accrued and due: ₹3.67 crore

The Management of the Company stated (March/ July 2015) that the matter for enhancement of authorised capital was taken up with the Registrar of Companies which was however, pending (August 2015) for want of approval of shareholders. It was further stated that due to frequent breakdown of plant/ machinery during 2010-11 and 2013-14 and receipt of less advances from the State Government Departments against supplies, the Company suffered losses. Besides, the increase in holding of inventory was due to lesser sale and decline in demand from Government Departments due to elections and flood from February 2014 to March 2015. The fact however remained that the Company had not made efforts to meet demand of cement from the Government Departments despite receipt of huge advances for execution of supplies as at the end of years 2010-11 to 2013-14 advances for supply of cement varying between ₹27.06 crore to ₹47.44 crore were lying with the Company.

2.1.6.1 Non-finalisation of Annual accounts

The Company had finalised its accounts upto the year 2007-08. Thereafter accounts of the Company from the year 2008-09 onwards were in arrears. Non-finalisation of accounts is fraught with the risk of financial irregularities remaining undetected.

The Management of the Company stated (July 2015) that statutory audit of the accounts from the year 2008-09 to 2014-15 would be completed by March 2016.

2.1.7 Manufacturing process and operational performance

The cement is produced from clinker being an intermediary product which in turn is produced from raw materials viz limestone, clay, iron ore etc. The Company discontinued (1997) producing Pozzolana Portland Cement (PPC: Brick Bat Based) and instead started manufacturing Ordinary Portland Cement (OPC) 43-Grade under “JHELUM BRAND” with Bureau of Indian Standards (BIS) certification. The BoDs had decided (October 2007) to take into consideration proposal for production of PP Cement (Fly ash based) being cost effective, meeting growing demand and reducing pollution after completion (2010) of new Plant at Khrew. The Company also obtained license upto 31 May 2012 for this purpose from BIS. However, no efforts were made by the Company to produce PP Cement.

During Exit Conference the Managing Director stated that the procurement of fly ash from outside State would be costly. However, the Company had neither made any cost benefit analysis in this regard nor created additional facilities like fly ash handling storage and feeding system for manufacture of PP cement.

2.1.7.1 Mining of limestone

The State Government allotted (November 1977) land measuring 88.10 hectares on lease for 20 years for extraction of lime stone having 12.09 million tonnes (proved) and 5.75 million tonnes (probable) reserve of lime stone. The Company extracted 5.10 million tonnes of lime stone as of September 2014. The lease deed was renewed upto the year 2007 and thereafter no further renewal was obtained.

The extraction and transportation of lime stone was carried out by the Company through its Mining wing[4]. Against installed capacity for extraction of limestone of 4 lakh MTs of this wing, the capacity utilisation was 38 *per cent* during 2010-11 which increased to 54 *per cent* during 2011-12 and thereafter decreased to 48 *per cent* during 2012-13 and further to 33 *per cent* during 2014-15. The initiative taken (2009) by the Company to explore possibility of outsourcing mining activities had not been finalised.

After this was pointed out in audit, the Management stated (March/ July 2015) that the extraction was done as per requirement of the plant and that the matter of lease for non-captive use was in consideration with Director Geology and Mining.

2.1.7.2 Production performance of Factory

The Company has two Cement Plants at Khrew which were commissioned in April 1982 (old plant) and January 2010 (new plant). The installed capacity of production of cement of each plant was 2 lakh MTs per year. The year-wise position of targets and achievements of production of clinker as well as cement is given in the following table:

[4] Heavy earthmoving equipment/ machinery, shovels, trucks/ tippers, air compressor with manpower

Table-2.1

(Figures in lakh MTs)

Sl.No.	Year	2010-11	2011-12	2012-13	2013-14	2014-15
A	**CLINKER**					
1.	**Installed Capacity**[5]	**3.42**	**3.61**	**3.80**	**3.80**	**3.80**
2.	Production Targets	1.61	1.80	2.55	2.54	2.27
3	**Actual Production**	**1.15**	**1.72**	**1.52**	**1.42**	**0.95**
4.	Shortfall (2-3)	0.46	0.08	1.03	1.12	1.32
5.	Percentage shortfall in achievements	29	4	40	44	58
6.	Percentage of fixation of targets vis-a-vis installed capacity	47	50	67	67	60
7.	Percentage of actual production vis-a-vis installed capacity	34	48	40	37	25
8.	Year over year growth (percentage)	-20	+50	-12	-7	-33
B	**CEMENT**					
1.	**Installed Capacity**	**3.60**	**3.80**	**4.00**	**4.00**	**4.00**
2.	Production Targets	1.91	1.98	2.66	2.62	3.20
3.	**Actual Production**	**1.37**	**1.78**	**1.68**	**1.36**	**1.03**
4.	Shortfall (2-3)	0.54	0.20	0.98	1.26	2.17
5.	Percentage of shortfall in achievements	28	10	37	48	68
6.	Percentage of fixation of targets vis-a-vis installed capacity	53	52	67	66	80
7.	Percentage of actual production vis-a-vis installed capacity	38	47	42	34	26
8.	Year over year growth (percentage)	-16	+30	-6	-19	-24
C	**Capacity utilisation of other Cement plants**					
	Public Sector Undertakings					
	Cement Corporation of India Ltd.(CCI)	62	59	-	-	-
	Tamil Nadu Cements Corporation Ltd. (TCC)	-	78	97	-	-
	Local Private Cement plants					
	Tramboo Cements Industries, Khrew	17	55	75	81	105
	Tramboo Cements Industries Khanmoh	91	72	90	91	99
	Saifco Cements (P) Ltd. Khanmoh	39	40	40	37	36
	Khyber Cements Khanmoh	-	85	99	102	103

The capacity utilisation vis-a-vis installed capacity ranged between 25 *per cent* and 48 *per cent* during the period 2010-15. Due to low production of clinker, the Company had to purchase clinker from open market during the years 2010-11 and 2012-13 to the extent of 0.38 lakh MTs at a cost of ₹23.18 crore.

[5] Installed capacity of old plant as well as new plant: 2 lakh MTs per annum for each plant. The clinker production was taken at 95 *per cent* of installed capacity of cement. The Installed capacity of old plant was considered at 100 *per cent* while as for new plant it was considered at 80 *per cent,* 90 *per cent and* 100 *per cent* during 1st (2010-11), 2nd (2011-12) and 3rd (2012-13) years respectively

The capacity utilisation vis-a-vis installed capacity ranged between 26 *per cent* and 47 *per cent* during the period 2010-15.

The Management attributed (July 2015) reasons for lesser capacity utilisation of old plant to frequent breakdown followed by maintenance, interruption in power supply coupled with low voltage. For poor capacity utilisation of new plant the Management stated the contractor failed to bring the plant at the rated capacity and conduct performance guarantee test and the clinker production improved during 2011-12 as the contractor deputed team of experts to attend pending jobs. The reply could be viewed in light of the fact that the old plant performed better than the new plant and the contractor had imparted training to 31 employees[6] for operation of new plant. Despite this the Company failed to maintain the level of production of the year 2011-12.

2.1.7.3 Performance of cement plants

The Factory at Khrew had one Raw Mill in old Plant/ one Vertical Roller Mills (VRM) in new Plant for blending/ grinding of raw meal and two kilns in old Plant and one kiln in New Plant for production of clinker besides two Cement Mills (old and new) for blending/ grinding of clinker with gypsum for production of cement. Audit noticed that Raw Mills, Kilns and Cement Mills had not been utilized to their optimum level as discussed in succeeding paragraphs.

(I) Under-utilization of Raw mills

The position of operation of Raw mill (old plant) and Vertical Roller mill (new plant) during the period from 2010-11 to 2014-15 were as follows:

Table-2.2

Year	Available Hours for Operation[7]	Hours Actually Operated	Hours of Shutdown	Percentage Utilization of Raw Mills	Hours Actually Operated	Hours of Shutdown	Percentage Utilization of VRM
		Raw Mill (old Plant)			Vertical Roller Mill (new Plant)		
2010-11	6600	4165	2435	63	533	6067	8
2011-12	6600	4972	1628	75	1981	4619	30
2012-13	6600	3936	2664	60	1958	4642	30
2013-14	6600	3126	3474	47	2100	4500	32
2014-15	6600	3774	2826	57	600	6000	9
Total	**33000**	**19973**	**13027**	**61**	**7172**	**25828**	**22**

6 From all field i.e. Mechanical (8), Electrical (10), Instrumentation (5) and Process/ operation (8)

7 Total available hours calculated on the basis of 330×20 i.e. 6600 each

The percentage utilisation of Raw mill (old Plant) ranged between 47 and 75 while as percentage utilisation of VRM (new Plant) ranged between 8 and 32 during 2010-11 to 2014-15. The VRM (new plant) was operated for 7172 hours (22 *per cent*) only while as the Raw mill (old Plant) was operated for 19973 hours (61 *per cent*) against available 33000 hours during 2010-15.

The Management stated (July 2015) that the operation of Raw mills is dependent on operation of Kiln and that the Company was making all efforts to improve working of the plant especially the Kilns.

(II) Under-utilisation of kilns

The position of operation of kilns of both old and new plants during the period 2010-11 to 2014-15 was as follows:

Table-2.3

Year	Available Operational hours	Hours actually operated (Percentage operational)	Actual Production of clinker (in MTs)	Hours for which Kiln not operated	Loss of production of Clinker (in MTs)[8]	Loss of production of cement (in MTs)[9]	Value of cement not produced due to loss of production of clinker (₹ in crore)
1	**2**	**3**	**4**	**5 (2-3)**	**6 (4/3x5)**	**7(6x100/95)**	
Old Plant[10]							
2010-11	13200	9112 (69)	69017	4088	30964	32594	19.56
2011-12	13200	11636 (88)	79180	1564	10643	11203	7.62
2012-13	13200	10923 (83)	76178	2277	15880	16716	11.53
2013-14	13200	10569 (80)	72784	2631	18119	19072	13.47
2014-15	13200	8963 (68)	54483	4237	25761	27117	21.15
Total	**66000**	**51203 (76)**	**351642**	**14797**	**101367**	**106702**	**73.33**
New plant[11]							
2010-11	6600	2817 (43)	46525	3783	62479	65767	39.46
2011-12	6600	5717 (87)	93100	883	14379	15136	10.29
2012-13	6600	5518 (84)	75983	1082	14899	15683	10.82
2013-14	6600	4564 (69)	68804	2036	30693	32308	22.81
2014-15	6600	3460 (52)	40938	3140	37146	39101	30.50
Total	**33000**	**22076 (67)**	**325350**	**10924**	**159596**	**167995**	**113.88**

Against total available hours the old Plant was operated between 69 *per cent* and 88 *per cent* during the years 2010-11 to 2014-15. The low operation of old plant caused loss of production of 101367 MTs of clinker with consequent loss of

8 Actual Production per hours x hours of shutdown
9 Calculated after considering consumption of 95 *per cent* of clinker and 5 *per cent* gypsum
10 Old Plant has two kilns of 300 TPD capacity: Total available hours calculated on the basis of 2 × 330 × 20 i.e. 13200 each
11 New Plant has one kiln of 600 TPD capacity: Total available hours calculated on the basis of 330 × 20 i.e. 6600 each

production of cement valuing ₹73.33 crore[12] during the period 2010-15. Similarly, against total available hours the new Plant was operated between 43 *per cent* and 87 *per cent* during the years 2010-11 to 2014-15. The low operation of the new plant caused loss of production of 159596 MTs of clinker with consequent loss of production of cement valuing ₹113.88 crore during the period 2010-15. Thus due to low operation of kilns the Company had to suffer loss of production of cement valuing ₹187.21 crore.

The Management attributed (July 2015) low operation to frequent repair and maintenance of old Kilns and immediate repairs of Kiln-I involving substantial investment, besides, power failure, *hartals.* The Management further stated that the Company had engaged a team of expert to improve the working of Kiln-III of new plant. The reply should be viewed in light of the fact that the Company had not been able to utilise the kilns to optimum level by way of minimizing the period of general maintenance, timely supply of raw/ fine coal, avoid jamming of Mill, etc. The Company had also not taken timely action to improve the operation of Kiln-III.

(III) Poor performance of cement mills

The position of operation of two cement mills during the period from 2010-11 to 2014-15 was as follows:

Table-2.4

Year	Available Hours for Operation	Hours Actually Operated	Hours of Shutdown	Percentage Utilization of the Plant	Available Hours for Operation	Hours Actually Operated	Hours of Shutdown	Percentage Utilization of the Plant
	Old Cement Mills				New Cement Mills[13]			
2010-11	6600	4704	1896	71	-	-	-	-
2011-12	6600	5991	609	91	6600	639	5961	10
2012-13	6600	4322	2278	65	6600	2479	4121	38
2013-14	6600	4660	1940	71	6600	1458	5142	22
2014-15	6600	2625	3975	40	6600	1659	4941	25
Total	**33000**	**22302**	**10698**	**68**	**26400**	**6235**	**20165**	**24**

Against total available hours the old cement mill was operated between 40 *per cent* and 91 *per cent* during 2010-11 to 2014-15. The new cements mill was barely operated and its operation ranged between 10 *per cent* and 38 *per cent* of total available operational hours during 2011-12 to 2014-15. The old cement mill was utilised to the extent of 68 *per cent* while as new cement mill was utilised to the extent of 24 *per cent* only during the period 2010-15.

[12] Calculated on the basis of minimum sale rate during each year
[13] New Cement Mills started operation from 2011-12

The Company attributed (July 2015) low operation of cement mill to power failure, holidays, *hartals,* low voltage, repair/ maintenance, grinding media charging, non-availability of dozing machine and less off-take etc. Besides, the operation of Cement mills was dependent on operation of Kiln.

The above facts brought to fore that Raw/ Roller mills, kilns and cement mills of old plant were under-utilised to the extent of 39 *per cent*, 24 *per cent* and 32 *per cent* and of new plant to the extent of 78 *per cent*, 33 *per cent* and 76 *per cent* of available operational hours respectively during the period 2010-15 indicating that performance of new Plant was even worse than old Plant. The Company had not taken adequate measures to operationalise new plant to the optimum level as discussed in succeeding paragraph 2.1.10.1

2.1.7.4 Consumption of fuel

(I) Excess consumption of coal

For production of clinker, the Kilns are fed by raw meal where it is burnt at a very high temperature with the help of fine coal fed by coal mills. Coal constituted 48-61 *per cent* of total direct cost of production of clinker. While no norms for consumption of coal for production of clinker in respect of old Plant were fixed but performance guarantee test prescribed specific heat consumption at 825 kCal/ kg clinker with fuel consumption scale of 0.183 per MT of clinker production in respect of new Plant.

The position of production of clinker and consumption of coal during the period 2010-11 to 2014-15 in respect of both old and New Plants at Cement Factory Khrew was as follows:

Table-2.5

Sl. No	Particulars	2010-11		2011-12		2012-13		2013-14		2014-15	
	Plant	Old	New	Old	New	Old	New	Old	New	Old	New
1.	Clinker Production (MTs)	69017	46525	79180	93100	76178	75983	72784	68804	54483	40938
2	Coal consumed (MTs)	20930	13905	23839	27966	20799	20696	22600	21370	17159	12947
3.	Imported coal consumed out of ‘2’ above (Percentage of total consumption)	-	-	-	-	2176 (10)	1230 (6)	9142 (40)	8892 (42)	4760 (28)	3179 (25)
4.	Coal consumption per MT of Clinker Production	0.30	0.30	0.30	0.30	0.27	0.27	0.31	0.31	0.31	0.32
5.	Norms in case of New Plant and Old Plant	0.24	0.183	0.24	0.183	0.24	0.183	0.24	0.183	0.24	0.183
6.	Consumption of coal as per Norms	16564	8514	19003	17037	18283	13905	17468	12591	13076	7492
7.	Excess Consumption of coal (2-6)	4366	5391	4836	10929	2516	6791	5132	8779	4083	5455
8.	Average cost per MT of coal (in ₹)	6764	6764	9451	9451	10082	10082	11220	11220	11220	11220
9.	Value of excess coal consumed (₹ in crore)	2.95	3.65	4.57	10.33	2.54	6.85	5.76	9.85	4.58	6.12

Against a norm of 0.183 MT in new Plant, consumption of coal was between 0.27 MT and 0.32 MT during 2010-11 to 2014-15 resulting in excess consumption of 37345 MTs of coal valuing ₹36.80 crore. The consumption of coal in old Plant was also shown at same level. Coal consumption ranged between 0.20 MT and 0.21 MT in Tamil Nadu Cements Corporation Ltd. (TCC) and between 0.23 MT and 0.24 MT in Cement Corporation of India Ltd. (CCI). Audit noticed that consumption of coal in old plant was more than CCI (0.24 MT) resulting in excess consumption of coal to the extent of 20933 MTs valuing ₹20.40 crore. Thus excess consumption of 58278 MTs of coal caused extra burden of ₹57.20 crore to the Company.

All India Industry average thermal energy consumption was 725 kCal/ Kg clinker. The average thermal energy consumption of the Company however ranged between 1229 kCal and 1628 kCal/ Kg clinker during 2010-11 to 2014-15.

The Management attributed (July 2015) reasons for high coal consumption in old plant to frequent power failure, extreme climatic conditions, unstable conditions of old kilns, poor performance of coal mills and inconsistency in chemical composition of raw material and in respect of new plant to non-conducting of performance guarantee test for coal consumption by the contractor. The reply should be viewed in light of the fact that consumption level of coal was same in both plants and that the Company had not made any efforts to optimise the coal consumption.

(II) Excess consumption of power

The power consumption constituted about 13 *per cent* to 18 *per cent* of total direct cost of production of clinker during the period 2010-15. No norms for consumption of power in respect of old Plant were fixed by the Company. However, norm for power consumption at 100 kWh per tonne of cement was fixed in respect of new Plant in its TEVR[14]. Further, power consumption of Cement Corporation of India Limited (CCI) was approximately 150 kWh and of TCC was below 120 kWh per MT of clinker. The All India Industry average electrical energy consumption was 82 kWh per MT of cement.

[14] Techno Economic Viability Report

The clinker production and consumption of power during 2010-11 to 2014-15 at Old and New Plants at Cement Factory was as follows:

Table-2.6

Sl. No.	Particulars/Year	2010-11		2011-12		2012-13		2013-14		2014-15	
	Plant	Old	New	Old	New	Old	New	Old	New	Old	New
1.	Clinker Production (MTs)	69017	46525	79180	93100	76178	75983	72784	68804	54483	40938
2.	Actual power consumed (in 1000 KWh)[15]	22871	4541	25883	10633	21026	13771	22576	10887	13264	5522
3.	Power consumption per MT of Clinker Production (in KWh)	331	98	327	114	276	181	310	158	243	135
4.	Norms as per TEVR in case of New Plant and as per CCI in case of old plant (in KWH per MT Clinker)	150	100	150	100	150	100	150	100	150	100
5.	Power consumption as per norms (in 1000 kWh)	10353	4652	11877	9310	11427	7598	10918	6880	8172	4094
6.	Excess Consumption of power (in 1000 kWh)	12518	-	14006	1323	9599	6173	11658	4007	5092	1428

Power consumption in new Plant remained below norm during 2010-11 (first year of operation) and thereafter during 2011-12 to 2014-15 power consumption ranged between 114 kWh and 181 kWh per MT of clinker resulting in excess consumption of power to the extent of 129.31 lakh kWh valuing ₹4.74 crore during the period 2010-15. In old plant power consumption was between 243 kWh and 331 kWh per MT of clinker during 2010-11 to 2014-15 against 150 kWh per MT[16] of clinker resulting in excess consumption of power to the extent of 528.73 lakh kWh valuing ₹18.24 crore during the period 2010-15. Thus excess consumption of power to the extent of 658.04 lakh kWh caused extra burden of ₹22.97 crore to the Company.

The Management attributed (July 2015) reasons for higher power consumption in old plant to its poor health and frequent power failure and stated that power consumption could be brought down by replacement of old drives and equipment involving substantial investment which the Company was not in position to undertake at present and in respect of new plant to non-conducting of performance guarantee test for power consumption by the contractor.

2.1.7.5 Poor performance of Kiln-II despite major repairs

The Company allotted (May 2011/ October 2011) the works "Repair and improvement of Kiln-II" (₹1.87 crore) and "Design, Supply, Installation, Testing and Commissioning of Mechanical Equipment" (₹1.50 crore) on turnkey basis to

[15] For conversion of KVAH to KWH 0.92 factor was used as agreed by the Company to JKPDD

[16] Comparison was made with power consumption in CCI

a contractor[17]. The contractor was required to provide guarantee for the repaired Kiln to run at minimum of 1.5 Revolution per minute (RPM).

Audit observed that the work was started belatedly in April 2012. The contractor executed works to the extent of ₹3.66 crore[18] upto September 2012 against which payment of ₹3.30 crore was made[19] after withholding ₹0.36 crore for non-installation of pneumatic seal. The Company further incurred expenditure of ₹2.01 crore on electrical, mechanical/ civil works and hiring of crane during July 2011 to January 2013. The Company released (August 2014) ₹15 lakh out of withheld sum of ₹0.36 crore to the contractor for rectification and installation of pneumatic seal. However, no rectification was carried out by the contractor (March 2015).

Audit check of records showed that the Kiln performed between 0.65 RPM and 1.1 RPM only after repairs/ renovation during September 2012 to December 2014 resulting in loss of production of 77753 MTs[20] of clinker and 81845 MTs of cement valuing ₹56.47 crore. The Company had neither included any provision for recovery of liquidated damages for under performance of Kiln-II after repairs nor taken any action against the contractor. The contractor had utilised crane for 2 ½ months and the Company paid full hire charges of ₹38 lakh thereof against 3 days as per allotment order thereby resulting in extra payment of ₹36.48 lakh.

Thus expenditure of ₹5.46 crore incurred on repair/ renovation of the Kiln was rendered unproductive as the desired RPM level of 1.5 was not achieved.

The Management stated (July 2015) that efficiency of the Kiln was dependent upon working of other allied sections and that the crane was utilised on need basis. The reply could be viewed in light of the fact that the crane was utilised for extra days for a considerable period as against 3 days and the Kiln had not been operated at a minimum level of 1.5 RPM.

2.1.8 Procurement of raw material/ stores

The BoDs of the Company had desired (July 2014) for formulation of a 'definite policy for procurement as per standards and norms'. However, no action was initiated by the Management (July 2015) to formulate the procurement policy. Further, the Central Purchase Committee meetings for making purchases had not been held since December 2013.

17 M/s Ashoka Gears, Noida
18 Including taxes
19 December 2011 to June 2012
20 Considering 12.5 MTs per hour production at 1.5 RPM of Kiln-II

The Management stated (July 2015) that the Company was in the process of framing procurement policy. During exit conference the Special Secretary, Industries and Commerce Department informed that e-tendering process would be introduced for procurement in the Company. The transgression in following codal procedures in procurement is instanced in the succeeding paragraphs:

2.1.8.1 Procurement of coal

The Company entered into two Fuel Supply Agreements (FSA) with M/s Eastern Coalfields Limited, Kolkata (ECL) in respect of Old Plant (April 2008) for allocation of 24000 MTs of coal and for New Plant (December 2009) for 26000 MTs[21] of coal. The Company also participated in e-auction for procurement of coal from ECL in case of short supply or non-meeting the requirement of coal at Factory besides procured imported coal from open market and Jammu and Kashmir Minerals Limited (JKML). The position of coal procured by the Company during 2010-11 to 2014-15 was as follows:

Table-2.7

(Quantity in MTs)

Year	Allocation[22] as per FSA	Coal received under FSA	Shortfall of coal under FSA	Percentage shortfall	Coal procured under e-auction	Total from ECL	Coal procured from JKML	Imported coal procured	Total coal procured
2010-11	37000	25482	11518	31	21619	47101	2939	300	50340
2011-12	37000	21771	15229	41	18575	40346	4185	-	44531
2012-13	37000	19153	17847	48	15242	34395	1829	3406	39630
2013-14	37000	18015	18985	51	-	18015	2245	19352	39612
2014-15	37000	25397	11603	31	-	25397	1319	6704	33420

The shortfall in supply of coal under FSA ranged between 31 *per cent* and 51 *per cent* during 2010-11 to 2014-15. The Company had not participated and procured coal under e-auction from ECL from October 2012 to March 2015 despite availability of coal under e-auction with ECL and had instead resorted to purchase of imported coal from open market at higher rates. This resulted in incurring of extra expenditure to the tune of ₹87.50 lakh during the said period.

The BoDs had directed the Company in July 2013 to procure maximum possible coal from JKML. However, no efforts were made by the Company in this regard as against purchase of 4185 MTs of coal during 2011-12 from JKML the Company reduced its procurement in subsequent years and during 2014-15 only 1319 MTs of coal was purchased from JKML.

[21] (13000 MTs from Colliery and 13000 MTs through Imported coal)
[22] Excluding imported coal

The Management stated (July 2015) that against the requirement of 80000 MTs annually, the ECL could supply between 18000 MTs and 25000 MTs and the Company had to bank upon other sources. Besides, the imported coal was procured almost at par with e-auction rates and endeavour had been made to procure coal from JKML which was utilised by blending with ECL coal in a proper ratio and that the Company was in the process of procuring 1000 MTs coal from JKML on monthly basis. The reply should be viewed in light of the fact that there was difference of rates in procurement of imported coal and e-auction coal from ECL and that the Company had not followed the open tendering system.

2.1.8.2 Irregularities in transportation of coal

The coal was loaded by the ECL at colliery, Kolkata and weighed at Railway's siding from where it was transported through Railways upto Bari-Brahmna, Jammu and from there to Cements Factory at Khrew by road in trucks. The Company allotted (March 2010, January 2012 and August 2014) contract for supervision, handling and transportation of coal from ECL coal mines at Kolkata upto Cement Factory at Khrew to two contractors[23].

- As per terms of the contract the contractor was required to have registered office in the Jammu and Kashmir State and a Branch office in Kolkata (West Bengal). Audit noticed that both the contractors had not established any Branch office at Kolkata and instead a firm was appointed as representative of the contractor in contravention of the conditions of the contract.

- The conditions of the contract provided that the contractors were required to arrange adequate trucks and dispatch coal to Factory at Khrew after clearance from Railways at Bari-Brahmna within 4 to 5 days. The contractors, however, delivered 43 out of 44 coal rakes received from ECL Kolkata during April 2010 to December 2014 at Cements Factory Khrew after delays ranging from 3 days to 315 days. The Company allowed dumping of 15 coal rakes at Jammu and paid dumping charges of ₹1.38 crore. Further in five cases dumping was allowed without payment of dumping charges and the remaining 23 coal rakes were unauthorisedly dumped by these contractors and delivered at Factory after considerable delays. No penalty was imposed on the contractors for delay in delivery of coal as no such provision was kept in the contract/ agreement.

[23] M/s Jay Kay Enterprises, Jammu (period from 10 March 2010 to 09 March 2012 and 25 January 2012 to 24 January 2014) and M/s Sharma Trading Company, Bari-Brahmna, Jammu (19 March 2014 to 18 March 2016)

- As per FSA, the ECL was required to take all reasonable steps to remove stone, shale and extraneous matters before loading of coal and complaint, if any, was to be made by the purchaser at colliery site/ delivery point. The Company claimed ₹23.89 crore for the period from 2010-11 and 2011-12 for grade slippages from the ECL which was not acknowledged by it on the plea that proper size and quality of coal was dispatched and that representative of the Company had supervised the rake and recorded satisfactory loading in the joint inspection register kept at the loading siding. However the Company kept on claiming grade slippage and during 2012-13 to 2013-14 further ₹18.48 crore was claimed by the Company from ECL.
- The contractors were fully responsible to deliver to the Plant at Khrew the quality of coal as received from the collieries and billed by the supplier (ECL). The delivered coal was to be sampled and analysed at Khrew and variation, if any, found in respect of quality was to be recovered from the dues of the contractors. Audit noticed that the laboratory at Kolkata from where the contractors had got samples of coal tested was not approved by the Company neither had any sample of coal got tested from any independent Laboratory. 20 coal rakes (75179 MTs) of Grade 'A' was billed by the ECL during the period 2012-15 and was handled by the contractors. Instead of Grade 'A' quality of these rakes the Company received coal at Cements Factory Khrew of quality of Grade 'B' (2582 MTs), Grade 'C' (15449 MTs), Grade 'D' (27902 MTs), Grade 'E' (25410 MTs) and Grade 'F' (3836 MTs) which was delivered by these contractors. These grade slippages resulted in receipt of lower grade of coal by the Company than as billed by the ECL and consequent variation in cost to the extent of ₹26.02 crore which was recoverable from the contractors in terms of the contract. The Company had not taken any action against the defaulting contractors.

The Management stated (March/ July 2015) that contractors had no independent branch at Kolkata and had appointed M/s Abhishekh Enterprises to act as bridge between contractors and ECL. The delivery of the coal at Khrew was dependent upon the condition of Jammu-Srinagar Highway besides other force majeure conditions which took 10-20 days and that large number of trucks was required to arrange transportation which led to dumping of coal at Jammu. For abnormal delay in delivery of coal at Khrew, necessary punitive clause would be incorporated in future contracts. Further the Company had also taken up the matter for variation in quality of coal with ECL and no response was given thereof. During exit conference the Director Finance, Industries and Commerce Department informed that the Company had been instructed to depute personnel for coal handling at Kolkata.

2.1.8.3 Excess payment

The Company allotted (April 2010) contract for handling and transportation work of coal to contractor[24] at a rate of ₹1485 per metric tonne (PMT) effective from 10 March 2010 to 09 March 2012. The Company again allotted (January 2012) the same contract to the same contractor at a rate of ₹1999 PMT of coal effective from 25 January 2012 to 24 January 2014. Audit check of records showed that instead of making effective the second contract from 10 March 2012 after expiry of the first contract, the Company made the contract effective from 25 January 2012 resulting in excess payment of ₹39.53 lakh to the contractor.

The Management stated (February/ July 2015) that the contract was allotted with effect from 25 January 2012 for the period of two years. The reply is not acceptable as the currency of the earlier contract at rate of ₹1485 PMT was effective upto 9 March 2012.

2.1.8.4 Procurement of clinker without any requirement

The Company had projected requirement for procurement of clinker from market to the extent of 8000 MTs during 2012-13 in its Budgets proposals. Audit noticed that the Company procured 21363.09 MTs of clinker during 2012-13 at a cost ₹14.53 crore from the private Cement Manufacturers (M/s Shree Cement Ltd and M/s J K Laxmi Cement Ltd.) without ascertaining reasonability of rates by invitation of tenders. The availability of clinker produced at the Factory ranged between 15693 MTs and 42814 MTs while the consumption of clinker ranged between 4306 MTs and 21761 MTs during 2012-13. This indicated sufficient availability of clinker produced at the Factory and as such there was no need to procure clinker from the open market. Besides, average direct cost of clinker produced at the Factory amounted to ₹4350 PMT during 2012-13 while the Company procured clinker from open market at rate of ₹6803 PMT thereby resulting in incurring of extra expenditure to the tune of ₹5.24 crore.

The Management stated (July 2015) that to meet the demand of cement from Leh and Kargil divisions the Company resorted to procurement of clinker from the manufactures of national repute. The reply was not tenable as there was abundance of own produced clinker at the Factory which was sufficient to meet demand of both Leh and Kargil divisions.

[24] M/s Jay Kay Enterprises Jammu

2.1.9 Inventory management

The Company had not fixed maximum, minimum and re-ordering levels of the inventory. The position of sales, stocks of semi-finished[25] and finished material[26] and closing balance (CB) of clinker during 2010-11 to 2014-15 was as follows:

Table-2.8

(₹ in crore)

Year	Sales	Closing Balance of semi-finished/ finished material	Percentage of semi-finished/ finished material to sales	Value of closing Balance of clinker (Percentage of clinker to sales)	Value of closing Balance of cement (Percentage of cement to sales)	Closing Balance of clinker (in MTs)
2010-11	81.87	1.72	2	1.03 (1)	0.46 (0.56)	2251.52
2011-12	120.50	6.01	5	5.34 (4)	0.43 (0.36)	11130.72
2012-13	116.00	15.63	13	15.31 (13)	0.21 (0.18)	23283.42
2013-14	93.29	26.92	29	23.02 (25)	3.17 (3)	33856.92
2014-15	80.28	25.19	31	20.85 (26)	3.63 (4)	30223.22[27]

The inventory under semi/ finished material increased from meagre 2 *per cent* of sales as on March 2011 to 31 *per cent* as on March 2015 mainly due to increase of stock of clinker from 1 *per cent* to 26 *per cent* of sales during the corresponding period. As of March 2015, the Company had pending orders for supply of 43669 MTs of cement for which ₹34.06 crore were received from various Government Departments. However, the Company had not converted the available stock of clinker to cement to meet the required demand as a result investment of ₹20.85 crore in the shape of closing balance of clinker as on 31 March 2015 remained blocked thereby adversely affecting financial health of the Company. Further in September 2014, the Company reflected 20000 MTs of clinker as lost/ deteriorated due to rain/ floods in its stock. Had the Company made efforts to produce the cement by consumption of available stocks of clinker in time, its loss/ deterioration due to flood/ rain could have been minimised.

2.1.9.1 Physical verification of store/ stock

Financial rules provided that physical verification (PV) of store/ stock articles should be conducted at least once a year and discrepancies, if any, noticed are to be settled/ adjusted immediately. The PV report (December 2013) of raw materials showed discrepancies in book balance and ground balance of various items which *inter-alia,* included shortage of clinker of 17294 MTs valuing

[25] Lime stone, Clay, Silica stone, Iron ore, Clinker
[26] Cement
[27] Includes 20000 MTs of clinker deteriorated/lost due to rain/flood in September 2014

₹7.52 crore. After noticing shortages, the Managing Director decided (January 2014) to conduct PV of raw material again at the end of March 2014. The PV conducted in April 2014 showed shortage of only 160 MTs of clinker. Audit observed that PV team had not recorded ground balances in the stock registers. The variation of shortages detected by PV teams had not been investigated by the company.

The clinker (20000 MTs), coal (1200 MTs), gypsum (500 MTs), raw clay (1000 MTs) and iron ore (300 MTs) was reported lost/ deteriorated during floods of September 2014 and the Company accounted these losses in stock registers. The insurance claim lodged (September 2014) by the Company in this regard with the National Insurance Company to the tune of ₹17.69 crore was repudiated (November 2014) on the plea that the loss, if any, caused was due to rain and not due to flood.

The Management stated (April 2015) that PV of December 2013 was conducted as and where basis and stocks were scattered throughout the plant as such figures were tentative and scheduled PV was conducted in April 2014 when stocks were shifted to storage granaries and the discrepancies reduced comparatively. The reply should be viewed in light of the fact that the discrepancies in PV conducted in December 2013 were huge and could not be ignored and that no responsibility had been fixed in this regard.

2.1.10 Project Implementation

For expansion in cement manufacturing, the Company took up project of new Plant at Cement Factory Khrew with installed capacity of 600 TPD (2 lakh MTs annually) during the year 2005 and Cement Grinding cum Packaging unit at Samba, Jammu (capacity: 300 TPD:-1 lakh MTs annually) in September, 2011.

2.1.10.1 Dismal Performance of new cement plant

The project work of the new cement plant[28] was allotted (September 2005) on turnkey basis to M/s Promac Engineering Industries Ltd., Bangalore (contractor) at a cost of ₹71.01 crore. As per terms of contract the contractor was to commission the plant within 26 months and in case of reduction in capacity of plant, increase in power/ fuel consumption and delay in contract execution the contractor was liable to pay prescribed liquidated damages. Audit noticed that the contractor started (June 2006) execution of work with slow pace and

[28] Supply of Plant equipment (Mechanical/ Electrical), Instrumentation, Erection and commissioning including all civil works

with inadequate manpower executed work to the extent of ₹77.37 crore[29]. The contractor did not execute further work of the project since July 2010 and left the site of work in August 2010. Several notices were issued to the contractor who did not respond and the Company encashed Bank Guarantee of ₹2.39 crore in September 2012. The Company had also incurred expenditure of ₹1.43 crore for acquisition of land (₹0.66 crore), construction of electric sub-station (₹0.77 crore) and consultancy charges (₹0.81 crore) of the project. Meanwhile the Company had started commercial production of the plant from January 2010 on as is where is basis despite delay in execution of work and non-cooperation by the contractor.

Against installed capacity of plant to produce 8.45 lakh MTs of clinker during April 2010 to December 2014, 3.15 lakh MTs of clinker was produced resulting in shortfall of 5.30 lakh MTs of clinker (37 *per cent* capacity utilisation) and consequent loss of production of cement valuing ₹388.19 crore. Further packing plant costing ₹2.19 crore and being part of the project though installed and trial run conducted was not made operational thereby rendering it idle (March 2015).

The Company had also released (March 2007 to October 2008) ₹2 crore for execution of civil work of 'Patented Taiheiyo Coating Solution (TCS) System' for use of high sulphur pet coke[30] and local Kalakote coal[31] to the same contractor. The mechanical works of this system were allotted (December 2008) for ₹3.67 crore and the contractor was required to complete these works within six months from January 2009. The contractor supplied (March 2010 to December 2010) material/machinery/spares costing ₹3.88 crore and the Company released ₹3.19 crore but the TCS system had not been installed resulting in unfruitful expenditure of ₹5.19 crore.

Thus, non-operation of new plant at full capacity due to non-completion of works by the contractor and failure of the Company to take effective steps in this regard resulted in under-utilisation of the plant and consequent loss of production of cement valuing ₹388.19 crore. Further no liquidated damages in terms of contract were levied against the contractor. The Company had also borne interest burden of ₹23.04 crore on term loan of ₹46 crore availed by the Company for the project. The in-efficient running of plant also caused excess consumption of coal and power to the tune of ₹41.54 crore as discussed in preceding paragraphs 2.1.7.4 (I) and (II).

[29] Mechanical/Electric and Instrumentation: ₹55.11 crore, Civil works: ₹20.02 crore and E&C: ₹2.24 crore, including taxes/ duties and excluding service tax of ₹3.63 crore

[30] Having more calorific value

[31] Being economical due to lower rates

The Management stated (July 2015) that the contactor failed to bring the plant at the rated capacity and conduct performance guarantee test and that the clinker production improved during 2011-12 as the contractor deputed team of experts to attend pending jobs. The Management further stated that contractor demanded three months shut down for putting in place the machinery/ equipment who was, however, asked to first make the new plant fully operational after conducting performance guarantee test. The reply should be viewed in light of the fact that the Company had not taken any action to levy any liquidated damages against the contractor for reduction in capacity, increase in coal/ power consumption, delay in project execution and non-installation of TCS system of new plant.

2.1.10.2 Delay in setting up of Cement Grinding-cum-Packing unit

To augment cement production and to accommodate migrant staff stationed at Jammu BODs recommended (April 2002) setting up of 300 TPD Cement Grinding-cum-Packing unit at Samba Jammu. The Detailed Project Report prepared (March 2004) through M/s J&K ITCO[32] envisaged estimated cost of ₹8.56 crore of the project. The land for the project was acquired in February 2009. Another Consultant[33] engaged (October 2009) by the Company submitted Techno Economic Viability Report (TEVR) in January 2010 envisaging cost of project at ₹19.69 crore which was revised (April 2011) to ₹26.97 crore. The State Government approved (September 2011) the project alongwith funding share of ₹8.09 crore to be contributed by the State Government and balance ₹18.88 crore to be arranged by way of term loan. The Company allotted (September 2011) work for supply, erection and successful commissioning of project to the contractor[34] at a cost of ₹18.31 crore who was required to commission the plant within 16 months. For delay in commissioning of the plant the contractor was liable to pay liquidated damages.

Audit noticed that the project which was required to be completed by January 2013 had not been completed despite delay of more than two years and the contractor executed work to the extent of ₹13.51 crore (74 *per cent* of total work) as of March 2015. Besides, the Company had made payment of ₹0.41 crore to the consultant and incurred further expenditure of ₹7.86 crore on the works beyond scope of the contract[35]. The Company revised (July 2014) cost of project to ₹39.51 crore. The Company had not taken any action against the contractor in

[32] J&K Industrial and Technical Consultancy Organisation Ltd.
[33] M/s ERCOM Engineers (P) Ltd.
[34] M/s Ashoka Gears, NOIDA
[35] Interest on term loan; service tax, constructions of electric receiving station/ sub-station, office building/ boundary wall etc.

terms of contract for delay in execution of the project. The Company received (January 2012 to March 2014) ₹7.25 crore from the State Government and availed term loan of ₹19.29 crore[36] for the project for which the Bank charged interest of ₹4.67 crore[37] as of January 2015.

Thus, failure of the Company to take any action against the contractor for delay in execution of the project resulted in loss of production of 1.57 lakh MTs[38] of cement valuing ₹113.40 crore.

The Management attributed (July 2015) reasons to delays in release of equity by the State Government and in commissioning of receiving station by the State Power Development Department. Further the revision in cost was necessitated due to additional items of work and that the plant would come into commercial operation shortly. The reply should be viewed in light of the fact that the delay in execution of work by the contactor was abnormal and that usage of receiving station was required after installation of the unit. Further the Company had parked funds in Fixed Deposit Receipts out of the funds received from the State Government and loan raised from the Bank.

2.1.11 Marketing activities

The sale rate of cement was to comprise basic cost of raw material, direct expenses (coal, power, transportation, etc.), administrative overheads, other variable overhead and applicable duties and taxes and a profit margin fixed by the Company. Audit observed that the Company had not prepared cost sheet and instead sale rate of cement had been fixed on the basis of market rate after considering change, if any in taxes/duties and increase in input costs.

The Company had not framed any sales policy and depended mostly on sales to the Government/ semi-Government Departments. During 2010-11 to 2014-15 these Departments constituted 82 *per cent* to 91 *per cent* of total sales of the Company while as the sales to the private market (distributors and consumers) ranged between 9 *per cent* and 18 *per cent* only. The cement was supplied against advance payment and also on credit basis to Government/ Semi Government Departments. As on 31 March 2015, an amount of ₹11.49 crore was outstanding against 32 Government/ Semi Government Departments of which ₹1.38 crore was outstanding against these 8 Departments since 1996-2010 resulting in their blockade and subsequent loss of interest to the tune of ₹1.11 crore.

36 Original term loan: ₹15.98 crore: and Additional term loan: ₹3.31 crore
37 Payment of ₹2.28 crore has been made so far
38 For 25 months (from February 2013 to February 2015) @ 1.00 lakh MTs per annum

The Management stated (July 2015) that the Company was in the process of framing sales policy giving due regard to market conditions as well as competition and promotion through print and electronic media and also to establish own sale depots.

2.1.11.1 Sale performance

The position of sale targets fixed in the Annual Budget proposals and achievements made thereagainst and Year-over-Year (YOY) growth of the Company during 2010-11 to 2014-15 was as follows:

Table-2.9

(Quantity in MTs and value in crore of Rupees)

Year	Targets		Achievements (Actual Sales)		Shortfall		YoY Growth
	Quantity	Value	Quantity	Value	Quantity	Value (Percentage of shortfall)	
2010-11	182000	108.48	137039	81.87	44961	26.61 (25)	-12
2011-12	197600	133.67	177693	120.50	19907	13.17 (10)	47
2012-13	266500	180.68	168317	116.00	98183	64.68 (36)	-4
2013-14	261000	180.74	131314	93.29	129686	87.45 (48)	-20
2014-15	320000	247.50	103138	80.28	216862	167.22 (68)	-14

The Company failed to achieve annual targets of sale of cement and shortfall was 25 *per cent* during 2010-11 which improved to 10 *per cent* during 2011-12. The performance of sales of the Company worsened in subsequent years with shortfall of 36 *per cent* during 2012-13, 48 *per cent* during 2013-14 and 68 *per cent* during 2014-15. In the absence of non-preparation of cost sheet by the Company the profit margin, if any, considered while fixing sale rate could not be ascertained.

The Management stated (July 2015) that the sales was mainly dependent upon the demand from State Government that had remained very low during last two years. The non-achievement of targets was also attributed to poor performance of the plant and that the Company was adopting various schemes of incentive or reducing sale price.

2.1.12 Environmental issues

The cement plant has impact on the ecology of its surrounding areas due to mining as well as plant operation. The Company was required to obtain 'Consent to operate' (CTO) certificate from the State Pollution Control Board on yearly basis. Audit observed that the said certificate had not been renewed since March 2014. The Company had not installed self pollution monitoring device, three Ambient Air Quality Monitoring Stations, Low Nox burners to control Nox emissions and vacuum dust cleaning system as required under the guidelines of MOEF (GoI). Further, Bag House[39] installed during 2009-10 was not made functional due to non-replacement of filter bags since February 2013.

In terms of provisions of the Mines Act, 1952 and Metaliferous Mines Regulation Act, 1961, dust control equipment on the drill for mining activity were required to be installed. The dust control equipment was not installed on one drill machine while as the equipment installed on another drill machine was not properly functional. The State Pollution Control Board advised (January 2011) the Company to blacktop the internal road of the factory which was not carried out.

The Management stated (March/ July 2015) that obtaining of CTO certificate and procurement of dust collector was under process and black topping would be done in the next financial year. Further the bag house had been made operational satisfactorily by replacing the old bags. However, no measures were taken in respect of other equipment.

2.1.13 Manpower

Manpower plays an important role in the organisation. Being an industrial undertaking, the Company was required to ensure that the employees possessing the right skills were in right place at the right time. The Company had not assessed requirement of staff on technical and non-technical basis. As on March 2015, a total of 749 employees (Head Office: 102, Divisional Office Jammu: 85[40] and Factory Khrew: 562) remained posted in the Company against sanctioned strength of 902. Of the 749 employees[41], 543 were technical and 206 non-technical. The company had incurred expenditure of ₹138.58 crore on employees remuneration during the period 2010-15.

2.1.13.1 Employees productivity

The year-wise details of per employee production of clinker, sale and employee cost of the Company as well as that of Cements Corporation of India (CCI) during the period 2011-15 are given in **Table-2.10.**

[39] A Bag House is an air pollution control device that removes particulates out of air or gas released from commercial processes. Bag House is capable of withstanding high temperature by using bags made of fabric which sustain high heat

[40] Including Samba Project

[41] It included 68 consolidated/ daily wager and 13 contractual employees

Table-2.10

Year	No of employees of the Company	No of employee per lakh installed capacity	Per employee			CCI[42]			
			Clinker production (in MTs)	Sale (₹ in lakh)	Employee cost (₹ In lakh)	No of employees	Per employee		
							No of employee per lakh installed capacity	Clinker production[43] (in MTs)	Sale[44] (₹ in lakh)
2010-11	762	190	152	10.74	2.82	888	61	911	34.01
2011-12	739	184	233	16.31	3.71	815	56	1028	40.83
2012-13	731	183	208	15.87	3.88	815	56	859	34.88
2013-14	732	183	193	12.74	4.13	905	57	905	39.60
2014-15	749	187	127	10.72	4.16	-	-	-	-

Clinker production per employee decreased from 233 MTs during 2011-12 to 127 MTs during 2014-15 while as it was between 905 and 1028 MTs in CCI during 2010-14. Similarly sales per employee decreased from ₹16.31 lakh to ₹10.72 lakh during the corresponding period while as it was between ₹34.01 lakh and ₹40.83 lakh in CCI during 2010-14. Further, per employee cost consistently increased from ₹2.82 lakh during 2010-11 to ₹4.16 lakh during 2014-15.

The Management stated (July 2015) that the Government was reviewing keenly towards its employment and their productivity and that Government Policy would be enforced to clear dead wood.

2.1.14 Corporate governance and internal control system

Against prescribed 20 meetings of BoDs, only 6 meetings[45] were held during the period 2010-15. Audit noticed that no concrete action was taken by the Company on the following directions of BoDs:

- The BoDs had approved (October 2007) framing of proposal of re-organisation of Human Resources Structure for submission to Establishment sub-committee of the Board.
- The BoDs had desired (July 2014) to frame a 'definite policy for procurement as per standard and norms' with the approval of Chairman.
- The BoDs had allowed (February 2010) revision of delegation of powers which was to be put up to Establishment/ Budget sub-committee of the Board.
- The BoDs had desired to prepare a policy for regularisation of employees.

[42] Installed capacity: 14.46 (excluding defunct/ closed units). Figures for 2014-15 were not available as of December 2015
[43] Total production of clinker- 2010-11: 809835 MTs and 2011-12: 838065 MTs
[44] Total Sales- 2010-11: ₹302.03 crore and 2011-12: ₹332.73 crore
[45] 2010-11: One, 2011-12: two, 2012-13: one, 2013-14: one and 2014-15: one

The Management stated (July 2015) that as directed by the BoDs necessary reports were being compiled and would be placed before BoDs.

As per Companies Auditor's Report Order (CARO), 2003 read with Section 209 (1) (d) of the Companies Act, 1956 and Cost Accounting Records (Cement) Rules, 1997 every cement manufacturing Company was required to maintain cost records and get the cost accounts audited under Section 233 B of the Companies Act, 1956. Audit noticed that relevant cost records on day to day basis and cost statements on yearly basis were not maintained by the Company.

The Company established Internal Audit Cell in July 2012 to be headed by Manager (Finance). Though Dy. Manager (Finance) was posted as In-charge Manager no other staff was posted in the Internal Audit Cell. The Internal Audit wing had conducted internal audit of the Head office and Cements Factory at Khrew for the year 2013-14 only. No action was taken by the Company on the issues pointed out in the Internal Audit Reports. Audit noticed that the Company had not devised a proper management information system to evaluate the results and to monitor performance parameters and targets.

Audit observed that no defined internal control system existed in the Company as would be seen from following instances:

- The daily production registers to record the consumption and production of raw material, raw meal, clinker and cement in different section of Cement Factory Khrew had not been maintained.
- The Crusher Section had recorded 7.33 lakh MTs of lime Stone during 2010-11 to 2014-15 (November 2014) in its records while as Research Development and Quality Assurance (RD&QA) Wing had accounted for 8.34 lakh MTs showing excess accountal of lime stone to the extent of 1.01 lakh MTs during 2010-11 to 2014-15.
- Less accountal of production of 6441 MTs of Clinker during December 2010 to March 2012 and from April 2013 to November 2014 and excess accountal of 475 MTs of clinker during 2012-13 by RD&QA Wing than as recorded by the Central Control Room of New Plant was noticed.
- RD&QA Wing accounted for less production of clinker in Kiln-II in August 2014 (328 MTs), November 2014 (317 MTs) and December 2014 (205 MTs); and excess in March 2012 (75 MTs), November 2012 (23 MTs).
- In New cement mill discrepancies in accounting of cement production between cement mill Section and RD&QA Wing were noticed viz. less accountal during October 2012 (32 MTs), January 2013 (19 MTs) and July 2013 (21 MTs); and excess accountal of cement production in

November 2012 (326 MTs), December 2012 (73 MTs), March 2013 (749 MTs), July 2014 (23 MTs) and October 2014 (270 MTs).

The Management stated (July 2015) that the Company was reviewing the internal control system and necessary improvement would be made for sound internal control system.

2.1.15 Conclusion and Recommendations

The Company failed to clear arrears in accounts. Capacity utilisation vis-a-vis installed capacity for clinker and cement production was very low. The decreased production of clinker and low sale of cement coupled with higher administrative cost affected financial health of the Company. No norms for consumption of coal and power were fixed and excess consumption of coal and power in cement plants caused extra burden to the Company.

The Company may consider taking effective steps for finalisation of accounts, improving functioning of plants for achieving production of clinker and cement to optimum level and fixing norms for consumption of coal and power.

The Company had not formulated a definite procurement policy. The Company failed to enforce contractual clauses for transportation of coal and there had been abnormal delay in delivery of coal by the contractors. Grade slippages of Grade 'A' coal resulted in variation in cost which was not recovered from the defaulting contractors.

The Company may frame definite procurement policy for making purchases in a transparent manner and to improve inventory management system. It should enforce contractual clauses for execution of projects and for transportation of coal.

The Company had not installed pollution monitoring and dust control devices. The Company failed to achieve targets of sales and continued to depend on the Government Departments.

The Company should comply with provisions of relevant environmental laws relating to cement plants. Effective steps may be taken to frame a robust sale policy with due regard to market conditions and competition in open market.

Chapter-3

Audit of Transactions

CHAPTER – 3

AUDIT OF TRANSACTIONS

Finance Department

(Jammu and Kashmir Bank Limited)

3.1 Doubtful recovery of loan

Non-observance of due diligence to monitor transactions of unusual pattern before sanction of credit facility in favour of a borrower and subsequent failure to initiate timely action resulted in doubtful recovery of ₹1.19 crore.

According to the Know Your Customer (KYC) guidelines (July 2009) of the Reserve Bank of India monitoring of transactions is an essential element of effective KYC procedures. Banks can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer. Further the Banks are required to pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.

Audit check (February 2015) of records of Zonal Office Pulwama, Kashmir showed that the Bank sanctioned (October 2009) credit facility to the tune of ₹67 lakh for one year in favour of M/s Farukh Enterprises Awantipora[1] engaged in the business of supply of building material against primary security of hypothecation of stock of building material, book debts and collateral security of mortgage of eight *kanals* of land situated at Midoora (Awantipora), Pulwama. After availing loan, the borrower failed to repay and maintain the account from September 2010. The borrower diverted the loan amount by transferring cash credit from one account to another and had not utilised it for the intended purpose. The Bank declared the loan as non-performing asset (NPA) on 31 March 2011 with outstanding balance of ₹89.77 lakh and issued notices to the borrower followed by initiation of recovery proceedings under SARFAESI[2] Act 2002 in October 2013. The Bank came to know that the land which the borrower had mortgaged was attached by the Vigilance Organisation in June 2011 as the land was purchased by the borrower out of misappropriated amount of land compensation during the year 2009-10. Prior to sanction of loan the borrower had FDRs valuing ₹1.60 crore in his name or related persons and the Bank had failed to monitor the transactions of

1 Sole proprietorship concern of Sh. Farukh Jehan Zeb
2 Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act

unusual pattern having no apparent economic purpose. The recovery proceedings were initiated under SARFAESI Act 2002 which was not enacted by the State Government and the Bank had not initiated any action for recovery of dues from October 2010 to October 2013. As of December 2014, the Bank had NPA balance of ₹69.39 lakh with unapplied interest of ₹49.56 lakh thereon.

After this was pointed out in audit, the In-charge Credit Zonal Office South Kashmir Pulwama stated that loan amount had been transferred to related accounts of the borrower and that the KYC norms had been duly followed. The fact, however, remains that the Bank had not monitored transactions of unusual pattern and timely action was not initiated for recovery of dues from the borrower.

Thus, non-observance of due diligence to monitor transactions of unusual pattern before sanction of credit facility in favour of a borrower and subsequent failure to initiate timely action resulted in doubtful recovery of ₹1.19 crore.

The matter was referred to the Government/ Bank in May 2015. The Assistant Vice President of the Bank stated (June 2015) that Bank had filed a civil recovery suit for ₹1.10 crore against the borrower in the civil court in January 2015 and that the transactions in the account prior to sanction of loan were almost of transfer mode and in normal course. The reply should be viewed in light of the fact that transactions of misappropriated amount of land compensation being of unusual pattern with no apparent economic purpose had passed through the Bank accounts of the borrower.

Forest Department

(Jammu and Kashmir State Forest Corporation)

3.2 Avoidable extra expenditure and blockade of funds

Procurement of imported timber by the Corporation without ascertaining actual requirement of the cloudburst affected families of Leh and at higher rates besides effecting its sale at reduced rates resulted in avoidable extra expenditure of ₹95.35 lakh, loss of ₹1.03 crore besides blocking of resources to the extent of ₹2.19 crore for over four years.

For rehabilitation and reconstruction of damaged infrastructure in district Leh caused due to cloud burst (August 2010), the Deputy Commissioner Leh submitted (August 2010) requirement[3] for key construction material[4] including 92,500 cft

[3] On the basis of proposals of Superintending Engineer, Public Works Division Circle Leh

[4] Cement, Tor steel of sorts, Timber of sorts, CGI sheets, Bitumen, GI pipes

of timber of sorts to the State Government. The high powered Committee headed by the State Chief Secretary appointed for the purpose assigned (August 2010) the responsibility of procurement and supply of imported timber to cloud burst hit victims to the Jammu and Kashmir State Forest Corporation on the suggestion of the Principal Chief Conservator of Forests. For this purpose, the Government sanctioned (September 2010) interest free ways and means advance of ₹two crore in favour of the Corporation.

Audit check (April 2015) of records of the Corporation showed that the Managing Director on the recommendations of tender Committee accorded (October 2010) sanction for supply of 30000 cft of spruce (Picea-abies) and 20000 cft of silver (Pinus Sylvester's) varieties of imported timber at a cost of ₹840 per cft and ₹950 per cft respectively from two firms after inviting tenders. The Corporation purchased 92,275 cft of imported Silver and Spruce imported timber from these two firms[5] at a cost of ₹7.62 crore[6] during October-November 2010 against sanction of 50000 cft. The expenditure was met from an advance of ₹two crore and from internal resources of the Corporation (₹5.62 crore). Audit noticed that market rate of imported timber was ₹100[7] less than the rate at which the timber was offered and procured from the selected firms as intimated (September 2010) by the Divisional Forest officer Leh thereby revealing that purchases had been made at higher rate resulting in avoidable extra expenditure of ₹95.35 lakh. No market survey with respect to rates, demand and popularity of this alien species was conducted before deciding upon imported timber.

As the imported timber was found to be expensive by the consumers with a poor demand during the period 2010-12, the Corporation reduced its sale rates by ₹150 per cft on the intervention (August 2011) of Chief Executive Councilor, Ladakh Autonomous Hill Development Council (LAHDC). The sale rates of Silver and Spruce varieties of imported timber were further reduced (May 2013) by ₹220 and ₹130 per cft respectively. The reduction in sale rates resulted in loss of ₹1.03 crore[8] on sale of 68956 cft of imported timber. Further out of 92,275 cft of imported timber purchased by the Corporation, 23,319 cft valuing ₹2.19 crore remained unsold (June 2014) thereby resulting in blocking of resources of Corporation to the extent of ₹2.19 crore for over four years. There was also possibility of this unsold timber getting deteriorated with the passage of time.

5 M/s Green Gold Timber, Kandla, Gujrat and M/s Abdul Gani Kichloo and sons Anantnag

6 Silver timber (61558 cft)= ₹5.11 crore and Spruce timber (30717 cft): ₹2.51 crore

7 As intimated by Divisional Forest Officer Leh

8 Considering sale rate of ₹800 and ₹690 for silver and spruce varieties respectively after reduction of ₹150 per cft

Thus, procurement of imported timber by the Corporation without ascertaining actual requirement of the cloudburst affected families of Leh and at higher rates besides effecting its sale at reduced rates resulted in avoidable extra expenditure of ₹95.35 lakh, loss of ₹1.03 crore besides blocking of resources to the extent of ₹2.19 crore for over four years.

The matter was referred to the Government/ Corporation in May 2015. The Government endorsed (July 2015) reply of the Managing Director who stated that the Deputy Commissioner Leh, Superintending Engineer PWD Circle Leh and LAHDC had worked out the requirement and that the Corporation was not aware as to how the LAHDC and Assistant Director Consumer Affairs and Public Distribution Department had determined market rates. The Managing Director further stated that reduction of sale rates was a conscious decision of the Government so as to give price relief to the victims. The reply should be viewed in light of the fact that since Corporation was made responsible for procurement and supply of imported timber by the high powered committee, it was required to observe due diligence for procurement on the basis of actual requirement as well as for subsequent sale of imported timber to the affected families.

3.3 Loss of revenue and blockade of funds

Imprudent decision of the Management in entering into public private partnership mode with a non-viable venture selected in non-transparent manner and without ensuring assured market of products resulted in loss of ₹58 lakh, besides blockade of ₹98 lakh.

On the basis of request by Managing Director of Tramboo Joinery Mills Private Limited (TJM) (a Private Joinery Mill) and recommendation (May 2009) of the Hon'ble Chief Minister, a Committee[9] was constituted (March 2010) by the Commissioner Secretary of the Department for examining the proposal and to work out the detailed modalities for public private partnership (PPP) between the TJM and the Jammu and Kashmir State Forest Corporation. A detailed proposal on the basis of recommendation of the Committee was submitted to the Hon'ble Chief Minister who approved (October 2010) it with the condition that final contours of PPP arrangement would be decided by the Board of Directors (BOD) of the Corporation. The BOD however, decided to invite offers from other similarly placed firms. Out of four bids including bid of TJM received in December 2012, two offers[10] were rejected on the basis of being constituent members of a cluster

[9] Director General Finance (Chairman), Chief General Manager PP (Member), Chief General Manager Admn. (Member) and Dy. General Manager Estates Jammu (Member)

[10] (i) Kashmir Furniture International (ii) SICOP

of units and other offer[11] was rejected because of inadequate land/ infrastructure and low turnover leaving bid of TJM only for consideration. Thereafter sanction was accorded (January 2011) to the PPP between Corporation and TJM with the creation of new Division 'Public Private Partnership J&K SFC and Trambo Joinery Mills'. An agreement was executed (February 2011) for a pilot period of 18 months between the two parties with the condition that the net revenue from the sale of the finished products would be shared between the Corporation and TJM in the ratio of 75:25.

Audit check (April 2015) of records of the Corporation showed that the only ground that made TJM eligible for PPP was its land and infrastructure and the Committee was silent on the issue of average turnover of the firm for the last three years and other pre bid conditions. The unit had also furnished an affidavit that it was free from all liabilities which was not correct as the unit had outstanding Bank loan of ₹1.25 crore. Though the unit had turned sick for want of raw material and had defaulted in its purchase commitments earlier during the year 1980-81 yet the management failed to take cognizance of its earlier experience.

The unit started functioning from February 2011 and the Corporation supplied 43371 cft of timber (value: ₹2.65 crore) during the period from February 2011 to July 2012. The TJM crushed and processed 27343 cft of timber (value: ₹1.67 crore) to generate joinery items of 6547 cft worth ₹1.09 crore only. The balance timber remained either unutilized or generated as by products/ waste or rendered unfit and the unit stopped its functioning. Out of a total revenue of ₹1.09 crore generated by the venture over a period of six quarters, sharing position was ₹80.48 lakh for the Corporation (74 *per cent*), ₹26.10 lakh for TJM (24 *per cent*) and ₹18 lakh for marketing agency (2 *per cent*). The revenue earned was less by ₹58 lakh than the value of raw material supplied. The Corporation had also to incur an expenditure of ₹55 lakh on the administrative expenses as per clause 13 of the agreement viz. salary and wages in connection with the joint venture project. Audit further noticed following deficiencies in implementation of PPP project.

- As per terms and conditions of the agreement 70 *per cent* of the manpower was required to be recruited by the TJM mutually in consultation with the Corporation but the TJM failed to meet this requirement. The management had never impressed upon the firm to employ skilled labour and also to avoid excessive wastages for value addition which was brought to its notice by the Manager In-charge.

[11] Touch wood Joinery Mill Sopore

- Due to non application of proper skill and optimum utilization of timber PPP could not deliver the desired result. The committee framed in this regard attributed failure of the venture to non application of proper skills.
- The marketing agency appointed for arranging sale of products was a sister concern of the TJM. The objections to the marketing of products by the Corporation were raised by the State Industries and Commerce Department reiterating the Industrial policy of the Government that joinery products should continue to be strictly reserved for SSI units. In absence of any assured market for sale of its finished products the venture failed to remain viable, resulting in loss of ₹58 lakh[12] to the Corporation.

After this was pointed out in audit, Managing Director of the Corporation stated (May 2015) that the management did not initiate any PPP arrangement with TJM of its own but had turned down the project proposal and that the Committee constituted by the Government gave a positive nod to the Corporation for entering into PPP arrangement with TJM. The reply is not acceptable as by ignoring pre-bid conditions the selection of non-viable venture was made in non-transparent manner. Further the Corporation had entered into PPP mode without ensuring assured market of the products and without taking cognizance of Industrial policy of the Government wherein joinery products were to be reserved for SSI units.

Thus, imprudent decision of the Management in entering into PPP mode with a non-viable venture selected in non-transparent manner and without ensuring assured market of products resulted in loss of ₹58 lakh, besides blockade of ₹98 lakh[13].

The matter was referred to the Government/ Corporation in June 2015; their reply was awaited (December 2015).

[12] ₹1.67 crore-₹1.09 crore=₹0.58 crore

[13] Value of unused timber with the firm=16028 x 610.75=₹98 lakh

Power Development Department

(Jammu and Kashmir State Power Development Corporation Limited)

3.4 Unplanned execution of RMU Project of Ganderbal Power House

Execution of project of renovation, modernisation and upgradation of 15 MW Ganderbal Power House which suffered right from its approval due to delay, repeated revisions necessitated by restricting execution of works resulted in unplanned execution of the project and consequent unfruitful expenditure of ₹9.92 crore. The objective of the project to generate additional power of 63.64 MUs with extra annual revenue of ₹12.72 crore could as such not be achieved.

The Chief Engineer (Generation) of Jammu and Kashmir State Power Development Corporation Ltd. (Company) submitted (December 2001) project proposal for renovation, modernisation and upgradation (RMU) of Ganderbal Power House[14] at an estimated cost of ₹39.06 crore[15] to the Central Electricity Authority (CEC), New Delhi. The Project was to generate additional power of 63.64 MUs with extra annual revenue to the extent of ₹12.72 crore. The CEC approved (May 2002) the project at a cost of ₹28.87 crore (electro/ mechanical works: ₹17.58 crore and civil works: ₹11.29 crore). The Board of Directors of the Company approved (August 2006) RMU works of the Power house at a cost of ₹39.30 crore[16] with the plan to raise finances by way of debt of ₹24 crore from Power Finance Corporation Limited New Delhi (PFC), subsidy of ₹10 crore from Ministry of New Renewable Energy (MNRE) and equity of ₹5.30 crore from the State Government. The PFC sanctioned (February 2006) loan of ₹24 crore against which the Company availed (October 2007) loan of ₹3.60 crore only.

Audit check (September 2014) of records of the Company showed that the Company took up the works of the project during 2009-10 and as of July 2014 executed civil works[17] to the extent of ₹9.08 crore and electro-mechanical works[18] to the tune of ₹83.54 lakh upto 30 June 2014. Keeping in view the

[14] Four units (2x3 MW and 2x4.5 MW) of 15 MW installed capacity

[15] (Electro/ mechanical works: ₹24.23 crore and civil works: ₹14.83 crore)

[16] (Electro/ mechanical works: ₹19.42 crore, civil works: ₹14.78 crore and interest during construction: ₹5.10 crore)

[17] In addition to works executed by the contractor M/s Mohd Sultan Dar civil works in respect of Head Works, Water Conductor, Cross-Drainage Improvements, Escape Channel/ Tail Race Channel, Nallah Training Works, Catch Water Drain, Desilting Basin Balancing Reservoir etc.

[18] Reconditioning/ overhauling of Butterfly values of Penstock-II; erection of 11 KV feeder alongwith sub- stations and allied LT lines; electrification/ Lighting/ heating of Power house Control room, Gates & Gearings, renovation of various gates; improvement/ modernisation of workshop and repairs to M/C-I & II etc.

availability of water post execution of 93 MW New Ganderbal Hydroelectric power (NGHEP) project, the Managing Director of the Company accorded (September 2009) approval for carrying out RMU works for reduced capacity of 9 MWs of units III and IV (4.5 MW capacity each) and repairs of units I and II (3 MM capacity each). Thereafter, the civil works of the project was allotted (August 2010) on turnkey basis at a cost of ₹6.98 crore to a contractor[19]. As per the terms of contract, the work was to be started within 15 days from the date of issue (March 2010) of letter of intent. In case of failure to complete the work within stipulated time[20], penalty of 0.5 *per cent* of the contract value was to be imposed for 15 days delay and the Company, in such an event, was free to re-tender the work or execute the work in any manner it deemed fit. Further, the security deposit was to be released after satisfactory completion of defect liability period i.e six months after completion of work.

Audit noticed that the contractor executed work with slow pace and against the scheduled date of completion (21 February 2011) of work, the contractor executed the work to the extent of ₹3.67 crore only (52 *per cent* of the allotted cost) as of March 2011. Thereafter the Company revised the drawings for construction of super passages of the project in October 2011 and the contractor executed the works[21] to the tune of ₹5.52 crore (79 *per cent* of the allotted cost) as of March 2013 and abandoned the balance work in July 2013. The Company had not taken any action against the contractor in terms of contract for not executing and completing the balance work. After this was pointed out (September/ November 2014) in Audit, the Executive Engineer, CMD, Sindh Valley Projects, Kangan stated (November 2014) that various notices had been issued to the contractor for resumption of work. The Company again decided (April 2014) to take up RMU works of only one unit of 4.5 MW capacity at an estimated cost of ₹9.81 crore in view of inadequate discharge of water due to execution of 93 MW NGHEP project. The contract for these works had not been finalised (March 2015).

Audit check of records further showed that the Company had repaid the loan of ₹3.95 crore (Principal: ₹1.71 crore, interest: ₹2.24 crore) to PFC as of September 2014. The Ministry of New Renewable Energy (GoI) had sanctioned (March 2002) ₹10 crore for the project and had released ₹56.40 lakh as of March 2014 (₹55 lakh: March 2002 and ₹1.40 lakh during 2012-13). As there was considerable delay in execution of works of the project, the balance amount was not released by the MNRE (November 2014).

[19] M/s Mohd. Sultan Dar, Srinagar

[20] Within 150 working days from 1 April 2010

[21] Improvement to weir and restoration of glacis: ₹1.10 crore; Repairs to Sindh Power Canal etc: ₹3.05 crore; Re-construction of super passages/ overheads etc.: ₹3.13 lakh and improvement to existing B/R: ₹1.34 crore

The matter was referred to the Government/ Company in January 2015. The Director Finance of the Company stated (March 2015) that final notice for termination of contract and imposition of penalties was given to the contractor in November 2014 who approached the Hon'ble Court and obtained stay order. Further progress in the matter was awaited (December 2015).

Thus, the execution of project of renovation, modernisation and upgradation of 15 MW Ganderbal Power House which suffered right from its approval in May 2002 due to delay, repeated revisions necessitated by restricting execution of works resulted in unplanned execution of the project and consequent unfruitful expenditure of ₹9.92 crore. The objective of the project to generate additional power of 63.64 MUs with extra annual revenue of ₹12.72 crore could also not be achieved.

3.5 Delay in execution of works of Power project

Failure of the Company to ensure timely completion of works of 'Restoration of Wangath Link Canal' and 'Modernisation of spill channel' of Upper Sindh Hydropower Project-II Kangan and inaction to enforce the terms and conditions of the contract for delay in execution against the contractors resulted in loss of power generation of 230.79 MUs valuing ₹19.15 crore.

The water conductor of Wangath Link Canal feeding Upper Sindh Hydropower Project (USHP)-II, Kangan[22] as well as the spill channel got damaged (September 2009) which put the power house to halt. By delinking Wangath Canal, the Company made (April 2010) two turbines of the Power House Operational by feeding water through Sumbal Link Canal. The proposal for restoration of Wangath Link Canal[23] was taken up with Central Water Commission and Geological Survey of India. The work of 'Restoration of Wangath Link Canal' by way of construction of 288 M circular shape tunnel (4 M dia) and 144 M cut and cover conduits in open cut excavation was allotted (May 2012) to a contractor[24] at a cost of ₹8.83 crore. The work was to be completed within 13 calendar months and the date of start of work was to be reckoned from date of issuance (13 March 2012) of letter of intent. Further, for arresting recurring progressive damages caused to spill channel the work of 'Modernisation of Spill Channel, from RD 801.7 M to RD 1338.55 M' of the power house USHP-II was allotted (September 2012) in four parts[25] to the contractors at a cost of ₹14 crore. The work was required to be completed within

22 Three turbines of 35 MW each

23 Between 6285 M to 6657 M (432 M approximate)

24 M/s Rash Builders India Limited, Srinagar and M/s Himalayan Construction Company Private Limited New Delhi (a Joint Venture with lead partner M/s Rash Builders India Ltd.)

25 801-861 M: ₹3.57 crore; 861-1100 M: ₹4.25 crore; 1100-1280 M; ₹3.28 crore and 1280-1338 M: ₹2.90 crore

six calendar months. In case of failure to complete the work within stipulated time, the contractors were liable to pay a penalty of 0.5 *per cent* of the contract sum per week of delay subject to maximum of five *per cent* of contract sum for a total cumulative delay of eight weeks and beyond that additional penalty of ₹two lakh/ ₹0.10 lakh for each day of delay. Besides the Engineer-in-charge had also the powers to get the work executed, in part/ full at the risk and cost of the defaulting contractors.

Audit check of records of Executive Engineer, Civil Maintenance Division USHP-II Kangan, Kashmir showed that the work of 'Restoration of Wangath Link Canal' was executed by the contractor very slowly with less deployment of men and machinery and as of December 2014, works to the extent of ₹5.26 crore (60 *per cent* of the total allotted cost) were executed out of which ₹3.81 crore was paid to the contractor and ₹1.45 crore remained unpaid. The Executive Engineer, CMD, USHP-II, Kangan and the Chief Engineer Civil Investigation and Design, (CID) Wing Bemina, Srinagar time and again instructed the contractor to gear up the pace of execution of work in multiple shifts by deployment of men and machinery adequately to complete the work in time. The work which was to be completed by April 2013 had remained incomplete and the Company had not taken any action against the contractor in terms of the contract for delayed execution of work.

In respect of work of 'Modernisation of spill Channel' the District Court, Ganderbal in a land dispute case passed (December 2012) orders in favour of the Company and directed (December 2012) the contractors to resume and accelerate the work at full swing in multiple shifts. The Contractors however executed the work with slow pace without paying any heed to the notices issued by the Company. As of December 2014, the contractors had executed work to the extent of ₹9.18 crore (including liability of ₹3.21 crore) constituting 65 *per cent* of the total allotted cost of the contract. The Company terminated (October 2014) the contract allotted for section RD 1100-RD 1280 M and allotted (December 2014) it to another contractor. No action had been taken against other contractors for delay in completion of work in term of the contract.

The delay in execution of works had put the Company to loss of generation of power to the extent of 230.74 MUs valuing ₹19.15 crore for the period from May 2013 to December 2014.

The Executive Engineer (CMD) USHP-II Kangan stated (December 2014) that execution of work of 'Restoration of Wangath Link Canal' suffered due to one or another reason and that the contractor was directed to gear the work for early completion. It was further stated that progress of work of a section of spill channel was held up due to non-completion of next section and the Company was working out modalities of penalties to be imposed on defaulters in light of the agreement clauses. The fact remains that the Company failed to initiate timely action for getting the work completed resulting in recurring loss of generation of power and consequent revenue therefrom.

Thus failure of the Company to ensure timely completion of works of 'Restoration of Wangath Link Canal' and 'Modernisation of spill channel' of Upper Sindh Hydropower Project-II Kangan and inaction to enforce the terms and conditions of the contract for delay in execution against the contractors resulted in loss of power generation of 230.79 MUs valuing ₹19.15 crore.

The matter was referred to the Government/ Company in May 2015; their reply was awaited (December 2015).

3.6 Delay in execution of projects of evacuation of power

The projects for evacuation of power from BHEP Stage-II which were targetted for completion by November 2014 had not been taken up due to non-acquisition and handing over of land to PGCIL by the Company despite release of ₹2.48 crore in advance.

With a view to evacuating power from the Baglihar Hydro-electric Project Stage-II (BHEP-II) the commercial operation of which was expected to start from 1 April 2015, the Jammu and Kashmir State Power Development Corporation Limited (Company) entered (March 2013) into an agreement with the Power Grid Corporation of India Limited (PGCIL) for execution of project 'Loop in and Loop out of one circuit of 400 KV D/C Kishenpur-Wagoora transmission line at Pot head yard of Hydroelectric project'. The scope of services/ works of the project (estimated cost: ₹10.75 crore) to be rendered by the PGCIL was to include design, engineering, NIT, tender evaluation, finalisation of contract, procurement, erection, project management, testing and commissioning etc. The entire work of the project was to be completed within 20 months from the date of release of first instalment or signing of the contract whichever was later. The terms of the agreement stipulated that ten *per cent* of the estimated project cost along with consultancy fee was to be paid within fifteen days of signing of the agreement and ten *per cent* of the awarded cost along with consultancy fee after award of contract by the PGCIL. The Company had also executed (April 2013) a supplementary agreement with the PGCIL for execution of another project for 'Rerouting of 400 KV D/C Baglihar-Kishanpur transmission line' (estimated cost: ₹7 crore) with all terms and conditions of the agreement of March 2013. The Company was responsible for acquisition of land for transmission line and handing over the same to the PGCIL free from all encumbrances.

Audit check (December 2014) of records of Executive Engineer 400 KV TLD (BHEP) Chanderkote, Ramban showed that Company advanced ₹1.62 crore

(March 2013) and ₹0.86 crore (April 2013) to the PGCIL for these two projects in accordance with the conditions of the agreement. The PGCIL submitted approved route alignment for both the projects to the Company in November 2013 and thereafter the Company approached the Forest Department in December 2013 for forest clearance for these projects after nine months of entering into an agreement for execution of work. Audit noticed that despite expiry of over 15 months, the clearance for use of forest land was awaited from the Forest Department (March 2015). In view of urgency of the projects, the Chief Engineer (C) BHEP-II Chanderkote took up the matter of forest clearance with the District Development Commissioner Ramban which was reported (March 2015) to be under process. The contract for both the projects had been awarded (December 2014) by the PGCIL after over 21 months of execution of the agreement.

Thus the projects which were to be completed by November 2014 before schedule date of commissioning of the BHEP Stage-II for evacuation of power therefrom had not been taken up due to non-acquisition and handing over of land to the PGCIL by the Company.

The matter was referred to the Government/ Company in May 2015; their reply was awaited (December 2015).

3.7 Non-payment of labour cess

Failure of the Company to comply with provisions of the Act to book labour cess on expenditure incurred on account of payment made to the contractor for execution of works of BHEP Stage-II resulted in non-payment of labour cess to the extent of ₹7.08 crore.

Section 3 of the Building and Other Construction Workers Welfare Cess Act, 1996 provide for levy and collection of cess for the purposes of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 at such rate not exceeding two *per cent* but not less than one *per cent* of the cost of construction incurred by an employer. Further, Rule 4 of the Building and Other Construction Workers Welfare Cess Rules, 1998 *interalia* provide that where the duration of the project or construction work exceeds one year, cess is to be paid within 30 days of completion of one year from the date of commencement of work and every year thereafter. Section 8 of the Act stipulates that if any employer fails to pay any amount of cess within the specified time such employer shall be liable to pay interest[26] on the amount to be paid.

Audit check (January/ February 2015) of records of the Executive Engineer, (EE) Head Race Tunnel (HRT) Division (BHEP) and EE, Power

[26] At the rate of two *per cent* for every month or part of a month till such amount is actually paid

House Division (BHEP) Chanderkote of the Jammu and Kashmir State Power Development Corporation Limited (Company) showed that expenditure of ₹707.97 crore was incurred on account of payment made to the contractor[27] for execution of civil and mechanical works[28] of Baghlihar Hydro Electric Project (BHEP) Stage-II during the period from April 2012 to August 2014 by the Company. However, the Company had not booked labour cess of ₹7.08 crore on the expenditure of ₹707.97 crore in terms of provisions of the Act. This resulted in non-payment of labour cess of ₹7.08 crore and creation of liability to that extent by the Company. Audit noticed that the Company had not reflected this liability in its accounts as well.

After this was pointed out in audit, the EE, HRT Division (BHEP) and EE Power House Division (BHEP) Chanderkote stated (January/ February 2015) that the matter had been taken up with the Chief Engineer (BHEP) (Civil) and with the Corporate Office of the Company. Further progress in the matter was awaited (May 2015).

Thus, failure of the Company to comply with provisions of the Act to book labour cess on expenditure incurred on account of payment made to the contractor for execution of works of BHEP Stage-II resulted in non-payment of labour cess to the extent of ₹7.08 crore and creation of liability to that extent by the company.

The matter was referred to the Government/ Company in May 2015; their reply was awaited (December 2015).

Srinagar/Jammu — **(Hoveyda Abbas)**
The 29th March 2016 — **Accountant General (Audit)**
Jammu and Kashmir

Countersigned

New Delhi — **(Shashi Kant Sharma)**
The 31st March 2016 — **Comptroller and Auditor General of India**

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27 Jaiprakash Associates Limited

28 Civil works infrastructure: ₹26.10 crore; Civil works-Main: ₹667.12 crore and Hydro mechanical equipment erection: ₹14.75 crore

APPENDICES

Appendix-1.1

(Reference Paragraph: 1.11; Page: 8)

Statement showing investments made by State Government in PSUs whose accounts are in arrears

(Figures in columns 4 & 6 to 8 are ₹ in crore)

Sl. No	Name of the Public Sector Undertakings	Year up to which accounts finalized	Paid-up capital	Period of accounts pending finalisation	Investment made by the State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A	**Working Government Companies**						
1.	J&K State Agro Industries Development Corporation Limited	1999-2000	1.96	15	0	7.2075	1.8703
2.	J&K State Horticultural Produce Marketing and Processing Corporation Limited	1996-97	9.2	18	0	13.7892	1.37
3.	J&K State Handloom Development Corporation Limited	1999-2000	3.00	15	2.21	30.5922	17.7194
4.	J&K Handicrafts (Sale and Export) Development Corporation Limited	1998-99	5.05	16	1.875	24.01	4.5205
5.	J&K Industries Limited	2005-06	16.27	09	0	78.82	29.5
6.	J&K Small Scale Industries Development Corporation Limited	1997-98	3.12	17	0	0	12.47
7.	J&K State Industrial Development Corporation Limited	2007-08	17.65	07	0	0	113.8
8.	J&K Minerals Limited	1995-96	8.00	19	0	66.1724	33.7031
9.	J&K Cements Limited	2005-06	15.00	09	11.27	0	0
10.	J&K State Power Development Corporation Limited	2010-11	5.00	04	0	0	127.75
11.	J&K State Tourism Development Corporation Limited	2009-10	15.96	05	0	0	6.95
12.	J&K State Cable Car Corporation Limited	2010-11	23.57	04	0	0	28.43
13.	J&K Police Housing Corporation Limited	2005-06	2.00	09	0	0	0
14.	J&K Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	1997-98	9.28	17	12.48	15.2	27.68
15.	J&K State Women's Development Corporation Limited	2010-11	6.97	04	3.04	6.64	0

Sl. No	Name of the Public Sector Undertakings	Year up to which accounts finalized	Paid-up capital	Period of accounts pending finalisation	Investment made by the State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
16.	J&K State Overseas Employment Corporation limited	2010-11*	4.27	04	0	0	0
17.	J&K Projects Construction Corporation Ltd	2000-01	1.97	14	0	0	0
	Total A (Working Government Companies)			**-**	**30.88**	**242.43**	**405.76**
(B)	**Working Statutory Corporations**						
18.	J&K State Road Transport Corporation	2011-12	154.60	03	8.75	126.62	0
	Total (B) (Working Statutory Corporation)			**-**	**8.75**	**126.62**	**0**
	Grand Total (A)+(B)				**39.63**	**369.05**	**405.76**

Note: if any

(Figures based on the data furnished by the PSUs from time to time subject to reconciliation and as incorporated in the Audit Reports of the respective years).

*The company has submitted its 1st account for the period ending July 2011 to this office for supplementary check which is under process.

Appendix-1.2
(Reference Paragraph: 1.15; Page: 9)

Summarised financial position and working results of Government companies and Statutory Corporations as per their latest finalized financial statements/ accounts

Sl. No.	Sector/ name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments*	Capital employed@	Return in capital employed	Percentage of return on capital employed	Manpower
A. WORKING GOVERNMENT COMPANIES													
AGRICULTURE AND ALLIED													
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	1999-2000	2014-15	3.54	38.07	-12.54	46.58	3.43	0	-13.68	3.44	25.15	76
2.	Jammu and Kashmir State Horticulture Produce Marketing and Processing Corporation Limited	1996-97	2012-13	9.20	35.91	-72.86	2.51	-10.62	0	11.24	-0.49	0	232
	Sector-Wise Total			**12.74**	**73.98**	**-85.40**	**49.09**	**-7.19**	**0**	**-2.44**	**2.95**	**20.01**	**308**
FINANCE													
3.	Jammu and Kashmir Bank Limited	2014-15	2015-16	48.48	0	0	7061.13	508.59	0	29620.07	4918.83	16.61	9283
4.	JKB Financial Services Limited	2014-15	2015-16	20.00	0	-1.60	5.06	-0.16	0	15.92	-0.16	-1.01	67
5.	Jammu and Kashmir Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	1997-98	2014-15	42.22	13.32	-1.60	0.40	-1.93	10.20	15.82	-1.72	-10.87	107
6.	Jammu and Kashmir State Women's Development Corporation Limited	2010-11	2014-15	9.99	50.50	-4.78	1.01	-0.87	0.82	6.54	-0.29	-4.43	37
	Sector-Wise Total			**120.69**	**63.82**	**-7.98**	**7067.60**	**505.63**	**11.02**	**29658.35**	**4916.66**	**16.58**	**9494**

Sl. No.	Sector/ name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments*	Capital employed@	Return in capital employed	Percentage of return on capital employed	Manpower
INFRASTRUCTURE													
7.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	1997-98	2014-15	3.12	9.46	-7.89	38.23	-1.32	0.10	11.02	-0.50	0	296
8.	Jammu and Kashmir State Industrial Development Corporation Limited	2007-08	2014-15	17.65	8.05	-85.44	8.91	-2.77	0	42.79	-2.77	0	479
9.	Jammu and Kashmir Projects Construction Corporation Limited	2001-02	2014-15	1.53	0	10.89	62.80	0.28	2.44	1.52	0.33	0	990
10.	Jammu and Kashmir Police Housing Corporation Limited	2005-06	2014-15	2.00	0	3.85	1.43	0.60	0.15	5.83	0.60	10.29	98
Sector Wise Total				**24.30**	**17.51**	**-78.59**	**111.37**	**-3.21**	**2.69**	**61.16**	**-2.34**	**-3.83**	**1863**
MANUFACTURE													
11.	Jammu and Kashmir Industries Limited	2005-06	2012-13	16.27	516.78	-447.47	6.44	-46.83	-0.98	-49.28	-18.59	0	488
12.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	1989-99	2014-15	7.97	109.01	-30.54	3.91	-5.33	1.57	0.45	-3.27	0	244
13.	Jammu and Kashmir State Handloom Development Corporation Limited	1999-2000	2012-13	5.00	117.29	-13.59	5.36	-3.54	-0.03	11.07	-2.19	0	187
14.	Jammu and Kashmir Cements Limited	2005-06	2012-13	49.76	48.21	-5.30	60.45	3.16	-1.16	33.41	3.39	10.15	749
15.	Jammu and Kashmir Minerals Limited	1995-96	2012-13	8.00	404.25	-43.10	3.47	-10.36	-10.12	-0.31	-5.65	0	848
	Sector Wise Total			**87.00**	**1195.54**	**-540.00**	**79.63**	**-62.90**	**-10.72**	**-4.66**	**-26.31**	**10.15**	**2516**

Sl. No.	Sector/ name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments*	Capital employed@	Return in capital employed	Percentage of return on capital employed	Manpower
POWER													
16.	Jammu and Kashmir State Power Development Corporation Limited	2010-11	2014-15	5.00	2522.44	-922.34	1220.62	300.86	17.77	7212.47	563.61	7.81	2664
17.	Chenab Valley Power Projects Private Limited (Demand Government Company	2014-15	2015-16	200.10	0	0	0	0	0.90	178.11	0	0	193
	Sector-Wise Total			**205.10**	**2522.44**	**-922.34**	**1220.62**	**300.86**	**18.67**	**7390.58**	**563.61**	**7.63**	**2857**
SERVICE													
18.	Jammu and Kashmir State Tourism Development Corporation Limited	2009-10	2012-13	23.51	4.26	-9.34	19.61	1.36	-15.70	59.36	1.38	2.32	1017
19.	Jammu and Kashmir State Cable Car Corporation Limited	2010-11	2014-15	23.57	0	-3.97	12.50	6.22	40.47	56.84	6.22	10.94	118
	Sector-Wise Total			**47.08**	**4.26**	**-13.31**	**32.11**	**7.58**	**24.77**	**116.20**	**7.60**	**0**	**1135**
MISCELLANEOUS													
20.	Jammu and Kashmir State Overseas Employment Corporation Limited	2010-11	2013-14	4.27	The Company has submitted its accounts for the period ending 2011 to this office for supplementary check under section 619 (4) of the companies act, 1956, without preparing any schedule of incidental expenditure pending capitalisation/ prior and loss account being the first balance sheet after incorporation it has prepared only statement of pre-operative expenditure.								**4**
	Sector-Wise Total			**4.27**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**4**
Total A (All sector-wise working Government Companies				**501.18**	**3877.55**	**-1647.62**	**8560.42**	**740.77**	**46.43**	**37219.19**	**5462.17**	**14.67**	**18177**

Sl. No.	Sector/ name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments*	Capital employed@	Return in capital employed	Percentage of return on capital employed	Manpower
B. Statutory corporations													
AGRICULTURE & ALLIED													
1.	Jammu and Kashmir State Forest Corporation Limited	-	-	9.03	Accounts for the years 1996-97 and onwards not received. (The Corporation was incorporated in 1978-79, however, its audit was entrusted to the CAG from 1996-97).								3128
	Sector-Wise Total			**9.03**									**3128**
FINANCE													
2.	Jammu and Kashmir State Financial Corporation	2013-14	2014-15	159.68	0.81	-136.20	8.54	4.07	1.34	-11.47	4.49	0	195
	Sector-Wise Total			**159.68**	**0.81**	**-136.20**	**8.54**	**4.07**	**1.34**	**-11.47**	**4.49**	**0**	**195**
SERVICE													
3.	Jammu and Kashmir State Road Transport Corporation	2011-12	2014-15	203.14	549.90	-1111.94	83.44	-57.00	119.79	-372.65	-16.17	0	2806
	Sector Wise Total			**203.14**	**549.90**	**-1111.94**	**83.44**	**-57.00**	**119.79**	**-372.65**	**-16.17**	**0**	**2806**
Total B (All sector wise working Statutory Corporations)				**371.85**	**550.71**	**-1248.14**	**91.98**	**-52.93**	**121.13**	**-384.12**	**-11.68**	**0**	**6129**
	Grand Total (A+B)			**499.64**	**4428.26**	**-2895.76**	**8652.40**	**687.84**	**167.56**	**36835.07**	**5450.49**	**14.79**	**24306**
C. Non working Government companies													
	MANUFACTURING												
1.	Tawi Scooters Limited	1989-90	1991-92	0.80	0.83	-1.04	0	-0.06	0	0.59	-0.06	0	0
2.	Himalyan Wool Combers Limited	1999-2000	2000-01	1.37	0	-10.49	0	-1.29	0	-1.71	-1.29	0	0
	Sector-Wise Total			**2.17**	**0.83**	**-11.53**	**0**	**-1.35**	**0**	**-1.12**	**-1.35**	**0**	**0**
	MISCELLANEOUS												
3.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalyan Wool Combers Limited)	1991-92	1999-2000	0.40	NA	0	0	0	0	0	0	0	0
	Sector-Wise Total			**0.40**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total C (All sector wise non-working Government companies)				**2.57**	**0.83**	**-11.53**	**0**	**-1.35**	**0**	**-1.12**	**-1.35**	**0**	**0**
	Grand Total (A+B+C)			**875.60**	**4429.09**	**-2907.29**	**8652.40**	**686.49**	**167.56**	**36833.95**	**5449.14**	**14.79**	**24306**

* Impact: 1. Chenab Valley Power Project Private Limited has not prepared its profit and loss accounts due to the fact that the company has not started its operation. 2. Capital employed represents net fixed assets (including capital works in progress) plus working capital 3. Accounts for 2014-15 were received and are under process.

@ Capital employed represents Shareholders fund and long term borrowings

Appendix-2.1

(Reference Paragraph: 2.1.6; Page: 20)

Financial Position of Jammu and Kashmir Cements Limited

(₹ in crore)

Sl.No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
A	**Capital and liabilities**					
	Share Capital	14.99	14.99	14.99	14.99	14.99
	Share Application Deposit	26.77	30.77	31.77	34.02	35.52
	Total contribution by the State Government	**41.76**	**45.76**	**46.76**	**49.01**	**50.51**
	Reserve and Surplus	0.16	0.16	0.16	0.16	0.16
	Secured loans	32.7	21.7	22.52	44.91	53.63
	Unsecured Loans	8.33	8.46	8.58	8.71	8.84
	Current Liabilities and Provisions					
	Advances from customers	46.94	47.44	28.40	27.06	34.06
	Others	22.63	24.8	28.95	39.39	55.12
	Total Current Liabilities and Provisions	**69.57**	**72.24**	**57.35**	**66.45**	**89.18**
	Accumulated profits	15.46	18.06	19.75	3.01	-
	Total Capital and liabilities (A)	**167.98**	**166.38**	**155.12**	**172.25**	**202.32**
B	**Assets**					
	Net Fixed Assets	71.85	76.91	78.55	76.52	72.03
	Capital Work in progress	14.08	5.07	12.46	18.66	23.89
	Current Assets Loan and Advances					
	Inventories	26.25	24.68	30.49	37.15	40.99
	Sundry Debtors	8.65	15.65	6.32	9.62	11.49
	Cash and Bank balance					
	Fixed Deposit Receipts (FDRs)	19.76	10.60	1.78	2.14	0.03
	Others	2.41	3.07	1.89	1.87	3.78
	Total Cash and bank balance	22.17	13.67	3.67	4.01	3.81
	Loans and Advances	23.74	30.06	23.14	25.77	26.30
	Advance tax	1.24	0.34	0.49	0.52	0.53
	Total Current Assets, Loans and Advances	**82.05**	**84.4**	**64.11**	**77.07**	**83.12**
	Accumulated Loss	**-**	**-**	**-**	**-**	**23.28**
	Total Assets	**167.98**	**166.38**	**155.12**	**172.25**	**202.32**
	Inventory to sale ratio	**32.06**	**20.48**	**26.28**	**39.82**	**51.06**
	Capital Employed	98.41	94.14	97.77	105.80	89.86
	Return	3.84	7.25	4.04	-14.61	-22.53
	Return on Capital Employed (in *per cent*)	3.90	7.70	4.13	-13.81	-25.07
	Debt	41.03	30.16	31.1	53.62	62.47
	Equity	57.38	63.98	66.67	52.18	27.39
	Debt/ Equity Ratio	**0.72:1**	**0.47:1**	**0.47:1**	**1.03:1**	**2.28:1**
	Debtors to Sales Ratio (in *per cent*)	**10.57**	**12.99**	**5.45**	**10.31**	**14.31**

Appendix – 2.2

(Reference Paragraph: 2.1.6; Page: 20)

Working results of Jammu and Kashmir Cements Limited

(₹ in crore)

Sl.No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	**Income**					
	Sales	81.87	120.50	116.00	93.29	80.28
	Other Incomes	0.41	0.22	0.35	0.21	0.22
	Interest on FDR	2.35	1.85	1.09	0.29	0.01
	Excise Duty Claimed	5.81	8.24	Nil	7.50	5.99
	Accretion/ -Decretion	-1.33	4.31	9.60	11.29	-1.73
	Total Income	**89.11**	**135.12**	**127.04**	**112.58**	**84.77**
2.	**Clinker Produced in MTs**	**115542**	**172280**	**152161**	**141588**	**95421**
3.	**Expenditure**					
	Raw Material Consumed	9.87	10.31	19.46	4.87	4.82
	Less: Cost of imported clinker consumed	5.65	3.9	14.53	0	0
	Remaining Cost of Raw Material	4.22	6.41	4.92	4.87	4.82
	Power/Fuel	33.50	62.57	56.06	64.99	46.72
	Consumables	1.29	1.86	2.33	1.69	1.79
	Packing charges	2.05	2.78	2.92	2.37	2.17
	Excise Duty	7.94	11.68	2.45	10.30	8.84
	Employee Remuneration	21.47	27.43	28.35	30.19	31.14
	Interest	4.41	2.90	1.92	2.32	3.75
	Other Expenses	4.63	6.27	6.74	7.80	6.81
	Depreciation	4.52	4.97	4.69	4.98	5.00
	Total Expenditure	**89.68**	**130.77**	**124.92**	**129.51**	**111.05**
4.	**Profit/ Loss**	**-0.57**	**4.35**	**2.12**	**-16.93**	**-26.28**
	No of employees	**762**	**739**	**731**	**732**	**749**
	Employee Remuneration per employee (₹ in lakh)	**2.82**	**3.71**	**3.88**	**4.13**	**4.16**
	Sales per employees (₹ in lakh)	**10.74**	**16.31**	**15.87**	**12.74**	**10.72**
	Clinker production per employee (In MTs)	**152**	**233**	**208**	**193**	**127**
	Cost of Raw Material per MT of Clinker Production (in rupees)	365.24	372.07	326.99	343.96	505.13
	Cost of Power Fuel per MT of Clinker Production(in rupees)	2899.38	3631.88	3684.26	4590.08	4896.20

Glossary of Abbreviations

PSU	Public Sector Undertakings
CAG	Comptroller and Auditor General of India
OPC	Ordinary Portland Cement
BIS	Bureau of Indian Standards
VRM	Vertical Roller Mills
TCC	Tamil Nadu Cements Corporation Ltd.
CCI	Cement Corporation of India Ltd
ECL	Eastern Coalfields Limited, Kolkata
JKML	Jammu and Kashmir Minerals Limited
PV	Physical verification
TCS	Taiheiyo Coating Solution
CTO	Consent to operate
CARO	Companies Auditor’s Report Order
RD&QA	Research Development and Quality Assurance
KYC	Know Your Customer
LAHDC	Ladakh Autonomous Hill Development Council
TJM	Tramboo Joinery Mills Private Limited
CEC	Central Electricity Authority
NGHEP	New Ganderbal Hydroelectric Power Project
USHP	Upper Sindh Hydropower Project
CID	Civil Investigation and Design
HRT	Head Race Tunnel
BHEP	Baghlihar Hydro Electric Project
CAPD	Consumer Affairs and Public Distribution

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