Chapter-5

Audit of Transactions

(Public Sector Undertakings)

CHAPTER – 5

AUDIT OF TRANSACTIONS

Finance Department

Jammu and Kashmir State Financial Corporation Limited

5.1 Management of Borrowings as per Prudential Norms

Disbursement of loan by the Company decreased from ₹15.23 crore in 2012-13 to ₹8.87 crore in 2015-16. The total loan assets of the Company also decreased from ₹100.52 crore in 2012-13 to ₹66.95 crore in 2015-16. The percentage of recovery of overdues of principal amount ranged between 20-22 *per cent* which too could be achieved only after sacrificing interest of ₹165.79 crore.

5.1.1 Introduction

The Jammu and Kashmir State Financial Corporation (JKSFC) was established in December 1959 under the State Financial Corporation Act, 1951, with the objective of promoting and developing industrial growth in the State by providing financial assistance in the form of term loans to Small and Micro Enterprises (SMEs). JKSFC was to follow the prudential norms approved (October 2011) by its Board of Directors (BoD) relating to income recognition, asset classification and provisioning pertaining to advances issued by Small Industrial Development Bank of India (SIDBI) based on Reserve Bank of India (RBI) guidelines. The Commissioner Secretary to the Government of Jammu and Kashmir, Finance Department, is the administrative head of the Corporation who is assisted by the Managing Director for running the affairs of the SFC.

An audit review of the activities of the Corporation related to financing and management of loans and implementation of prudential norms of SIDBI and of One Time Settlement (OTS) was conducted between January 2016 and March 2016 covering the period from 2012-13 to 2015-16.

5.1.2 Business Plan, Resourcing and Loan Assets Management

The Corporation is to prepare annually a Business Plan and Resource Forecasting (BPRF) for submission to SIDBI and borrows funds from financial institutions and through private placement of public bonds. JKSFC had not prepared the BPRF nor forwarded to SIDBI for last 12 years. No re-finance was made available by SIDBI from 2002-03 onwards due to continued default and failure to repay the sums borrowed by the JKSFC.

The position of disbursement and recovery for last four years shown below in **Table-5.1** brings out variations in target and achievement which continued to persist year after year without any correction. The targets were achieved during 2015-16 only after reduction of targets of disbursement and recovery ranging between 50 and 71 *per cent* respectively vis-à-vis previous year.

Table-5.1: Disbursement and Recovery

(₹ crore)

Year	Disbursement		Recovery	
	Target	Achievement	Target	Achievement
2012-13	21.00	15.23	29.35	26.15
2013-14	22.00	11.30	28.70	19.55
2014-15	32.00	8.55	41.00	18.92
2015-16	9.00	8.87	20.71	20.02

The Management attributed (January 2016) the non-achievement of the targets to constraints of funds, infected loan assets and natural calamities.

5.1.3 Financial Position

The financial position of JKSFC for the period 2012-13 to 2015-16 is shown in **Table-5.2** below.

Table-5.2: Financial Position

(₹ in crore)

S. No	Particulars	2012-13	2013-14	2014-15	2015-16
1.	**Liabilities**				
(a)	Paid up capital	98.19	98.19	98.19	98.19
(b)	Reserve and Surplus	(-)94.52	(-)72.95	(-)71.68	(-)64.84
(c)	Borrowings	18.31	0.81	0.81	0.81
(d)	Current Liabilities and provisions	83.48	75.15	69.93	43.79
	Total Liabilities (a+b+c+d)	**105.46**	**101.20**	**97.25**	**77.95**
2.	**Assets**				
(e)	Gross Block	0.70	0.60	0.50	0.59
(f)	Less Depreciation	0.10	0.08	0.07	0.06
(g)	Net block	0.60	0.52	0.43	0.53
(h)	Current Assets and Provisions	104.86	100.68	96.82	77.43
	Total Assets (g+h)	**105.46**	**101.20**	**97.25**	**77.85**
(i)	**Net worth***	**3.67**	**25.24**	**26.51**	**33.35**
(j)	**Capital**employed**	**9.40**	**24.01**	**26.68**	**30.74**
(k)	**Current Ratio**	**0.25**	**0.10**	**0.20**	**0.96**

**Net worth represents paid up capital plus free reserves minus intangible assets.*

***Capital employed worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).*

Audit noted as follows:

- There was no change in the paid up capital of JKSFC during the period.
- The position of Reserve and Surplus improved from (-) ₹94.52 crore in March 2013 to (-) ₹64.84 crore in March 2016 due to receipt of ₹44 crore re-capitalization support from the State Government for repayment of SIDBI liability and conversion of borrowing of ₹17.50 crore out of ₹18.31 crore received from State Government into equity.
- The current liabilities and provisions decreased from ₹83.48 crore (2012-13) to ₹43.79 crore (2015-16) due to decrease in the provision for Non-Performing Assets (NPA) owing to settlement of NPAs under One Time Settlement (OTS) besides reduction in the sundry deposits pending appropriation.
- The fixed assets decreased from ₹0.60 crore (2012-13) to ₹0.53 crore (2015-16) due to depreciation and no major addition in fixed assets.
- The current assets decreased from ₹104.86 crore (2012-13) to ₹77.43 crore (2015-16) due to encashment of Fixed Deposit Receipt (FDR) of ₹1.55 crore and reduction in term loan by ₹5.64 crore.

5.1.4 Restoration of Refinance Facility by SIDBI

Stoppage of re-finance facility by SIDBI for financial assistance granted by JKSFC to targeted sectors from 2002-03 due to the continued default by JKSFC and failure to service the debts in timely manner adversely impacted financing to Small and Micro Enterprises (SMEs) and other sectors. Subsequently, on the advice (May 2012) of Ministry of Finance, Government of India, SIDBI agreed to re-start the re-finance subject to fulfillment of certain pre-conditions viz. (a) achieving positive net worth, (b) clearing the mutually settled liability of ₹44 crore, and (c) updating statutory audit by March 2013.

After receipt of funds from the State Government, JKSFC re-paid the outstanding to SIDBI between November 2011 and March 2012, updated its statutory audit and achieved positive net worth. In December 2013, SIDBI conveyed resuming refinance to JKSFC up to ₹50 crore subject to guarantee from the State Government through signing of a tripartite Memorandum of Understanding and meeting other regulatory requirements. This was awaited as of October 2016.

Management stated (February 2016) that a copy of the draft MOU and Tripartite Agreement has been forwarded to the State Government.

5.1.5 Loan Disbursement

The position of receipt of loan proposals and disbursement for the period 2012-13 to 2015-16 is detailed in **Table-5.3**.

Table-5.3: Disbursements of Loan

(₹ in crore)

Year	Receipt and disbursement of Loan cases								
	Opening Balance		Received (R)		Sanctioned (S)		Disbursed (D)		
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	Percentage of Disbursement to total Received
2012-13	09	2.50	291 (300)*	23.60 (26.10)*	284	18.80	286	15.23	**58**
2013-14	12	5.14	239 (251)	37.57 (42.71)	211	20.65	193	11.31	**26**
2014-15	30	17.88	157 (187)	17.23 (35.11)	131	8.34	137	8.55	**24**
2015-16	21	7.69	178 (199)	7.84 (15.53)	176	8.65	168	8.87	**57**

**Figures in the brackets is total proposals/amount including opening balances*

Disbursement of loan by JKSFC dropped from ₹15.23 crore in 2012-13 to ₹8.87 crore in 2015-16 indicating shrinking business portfolio and weakened capacity to carry on business.

The Management stated (February 2016) that due to prolonged turmoil of last two decades, JKSFC had to suffer huge revenue losses for reasons beyond its control and source of funds have dried up though the Corporation is rendering financial assistance from its own cash generation.

5.1.6 Classification of Loan Asset and Categorization of NPAs

The details of loan assets and their classification for the period 2012-13 to 2015-16 are given in **Table-5.4** below.

Table-5.4: Classification of Loan Assets

(₹ crore)

Particulars		2012-13	2013-14	2014-15	2015-16
Total assets		100.52	99.29	94.71	66.95
Standard assets		30.00	33	32	29.54
Non-Performing assets	Substandard/Doubtful	27.58	25.96	24.42	20.76
	Loss Asset	42.94	39.80	38.05	16.65
Percentage of standard assets to total assets		30	34	34	44
Percentage of NPA	Sub-standard/doubtful to total assets	27	26	26	31
	Loss assets to total assets	43	40	40	25

The total loan assets of JKSFC decreased from ₹100.52 crore (2012-13) to ₹66.95 crore (2015-16) as no fresh large advances were granted and recoveries were effected by settlement of loan accounts under compromises. Detailed analysis in audit revealed that the entity after foregoing interest/penal interest of ₹165.79 crore[1] settled them under OTS resulting in considerable

[1] 2012-13: ₹79.42 crore; 2013-14: ₹43.31 crore, 2014-15: ₹10.30 crore and 2015-16: ₹32.76 crore

reduction in NPAs. However, despite settlement of high value loan accounts under OTS and financing in comparatively small size loans of transport sector, the tendency of fresh slippage of standard assets into non-performing category continued. The percentage of NPAs ranged between 56 and 70 *per cent* which included loss assets ranging between 25 and 43 *per cent* during 2012-16. Lack of proper appraisals/sanctions and effective post disbursement follow up led to cases of advances turned non-performing causing blocking of capital of the Corporation.

Thus, JKSFC's performance in terms of disbursement and sanction of loans against applications as well as recovery of loan assets were lower than targets while its fixed assets decreased due to depreciation with no addition fixed assets.

5.1.7 Income Recognition

Audit review of the income recognition policy brought out the following:

(i) As required under SIDBI/RBI norms, the income from NPAs is not recognized on accrual basis but is booked as income when it is actually received i.e. on cash basis. JKSFC had booked interest income of ₹30.63 crore[2] which included accrual interest of ₹2.95 crore[3] during 2012-16. The details of actual interest received were not prepared by JKSFC which indicated procedural lapses on the part of JKSFC in application of prudential norms stipulated by SIDBI/RBI.

(ii) RBI norms stipulate that on an account turning NPA, the interest already charged should be reversed and not collected by debiting Profit and Loss account and further application of interest should be stopped. However, such accrued interest may be continued to be debited in a Memorandum Account and for the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account. JKSFC had not maintained the Memorandum Account at any level depicting the interest postings of NPAs indicating weakness in internal control with regard to application of guidelines of SIDBI/RBI.

(iii) As per the prudential norms, interest realized on NPAs are to be taken to income account provided the credits in the accounts towards interest are not out of fresh/additional credit facilities sanctioned to the borrower concerned. An amount of ₹14.93 crore received under NPA accounts during 2012-16 were kept under sundry deposits instead of taking them into income account.

[2] 2012-13: ₹8.77 crore; 2013-14: ₹8.55 crore and 2014-15: ₹7.05 crore and 2015-16: ₹6.26 crore

[3] 2012-13: ₹0.46 crore; 2013-14: ₹0.53 and 2014-15: ₹0.92 crore and 2015-16: ₹1.04 crore

(iv) JKSFC had not maintained any records of NPA income taken into income account to indicate whether interest credits were not out of fresh/additional credit facilities sanctioned to the borrower concerned. There was no system prevalent in JKSFC for any clear agreement with the borrowers for the purpose of appropriation of recoveries in NPAs i.e. towards principal and interest due.

Thus, JKSFC had not followed the prudential norms of income recognition of income from NPAs, interest application and treatment of interest realized on NPAs.

5.1.8 Provisioning Norms

Audit observed the following:

(i) JKSFC had made advances to Small and Micro Enterprises (SMEs) with outstanding balance of ₹4.78 crore, ₹6.18 crore and ₹8.01 crore and ₹9.11 crore ending March 2013, March 2014, March 2015 and March 2016 respectively. Provisioning was made at a uniform rate of 0.40 *per cent* instead of 0.25 *per cent* as per the prudential norms for SMEs leading to excess provision of ₹4.21 lakh (2012-13: ₹0.72 lakh, 2013-14: ₹0.93 lakh, 2014-15: ₹1.20 lakh: 2015-16: ₹1.36 lakh) in contravention of provisioning norms.

(ii) The prudential norms in respect of doubtful assets under secured portion require provisioning of 100 *per cent* of the extent to which the advance is not covered by the realisable value of the security and the realisable value is estimated on a realistic basis in respect of secured portion. Provision is required to be made at the rates ranging from 25 *per cent* to 100 *per cent* of the secured portion depending upon the period for which the asset has remained doubtful. The doubtful assets under secured portion had been divided into three categories vis-a-vis doubtful-I (doubtful assets up to one year), doubtful-II (doubtful assets of one to three years) and doubtful-III (doubtful assets beyond three years) as per the age[4] in the NPA category. However, there was no system of regular valuation of securities in JKSFC. In three[5] test-checked units, securities had not been verified/valued for the period ranging between one and 25 years after sanction in respect of 112 (62 *per cent*) out of 180 industry-related loans which included six cases where securities document files were either missing or were not made available to audit. This indicated that diminution in the value of securities had been ignored while considering the secured portion in substandard and doubtful category as per prudential norms resulting into inaccurate provisioning in the respective categories.

[4] Assets remaining doubtful for up to one year are categorized as D1 and provision of 25 *per cent* is kept. Doubtful assets of one to three years are categorized as D2 and beyond three years as D3 and provision of 40 and 100 *per cent* respectively is made

[5] Two Large Branch Office Jammu, District Office Udhampur and District Office Kathua

(iii) JKSFC had treated the entire doubtful asset portfolio in category I and II as 100 *per cent* secured to avoid provisioning at higher percentage and made provision of 25 *per cent* and 40 *per cent* respectively resulting in under-statement of NPA provision.

(iv) Category III of doubtful assets were ₹22.42 crore, ₹20.28 crore, ₹20.42 crore and ₹12.36 crore during 2012-13, 2013-14, 2014-15 and 2015-16 respectively with un-secured portion of ₹2.68 crore, ₹3.67 crore, ₹3.36 crore and ₹1.41 crore respectively. In the absence of regular verification of assets, the authenticity of secured and unsecured categories depicted in the books could not be vouchsafed in audit and under-statement of provisioning doubtful assets-III could not be ruled out.

(v) Prudential norms stipulate that in cases of NPAs with balance of ₹5 crore and above, stock audit at annual intervals by external agencies (appointed as per the guidelines approved by the Board) would be mandatory in order to enhance the reliability on stock valuation. Eight NPA accounts with balances exceeding ₹5 crore had not gone through stock audit indicating weakness in approach and lack of seriousness in ensuring available adequate saleable securities to match the advances made so that recoveries could be affected by auction/sale of the mortgaged properties/stocks for recovery of balances.

The Management stated (March 2016) that valuation of securities and stock audit in case of NPAs by an external agency was costly which was not affordable by the Corporation. The reply is not acceptable since non-verification or valuation of securities could lead to subsequent losses due to diminishing and non-enforceable collateral securities.

5.1.9 Recovery of Dues

Details of demand and recovery in respect of loan portfolio for the period 2012-13 to 2015-16 are detailed in **Table-5.5** below.

Table-5.5: Demand and Recovery Performance

(₹ crore)

Year	Demand			Recovery			Percentage		
	P*	I*	T*	P	I	T	P	I	T
2012-13	82.55	494.78	**577.33**	17.84	8.30	**26.14**	22	02	**4.5**
2013-14	61.04	484.79	**545.83**	12.78	6.77	**19.55**	21	01	**3.5**
2014-15	59.66	446.89	**506.55**	12.36	6.57	**18.93**	21	01	**04**
2015-16	69.25	411.19	**480.44**	13.97	6.06	**20.03**	20	01	**04**

*P=Principal; I=Interest which include NPA interest in proforma accounts and T=Total

The percentage recovery on principal amount ranged between 20-22 *per cent* during 2012-16 which too could be achieved only after sacrificing huge interest/ penal interest of ₹165.79 crore[6] after settling the default cases under OTS. Non-achievement of recovery as targeted indicated that return on investment was dismal undermining the viability of business activity.

The Management attributed (January 2016) poor performance to high cost of funds and large scale turmoil in the State. The Management added that JKSFC was exercising its due diligence in recovery of overdues.

5.1.10 Legal Documentation and Audit

As per the prudential norms, while sanctioning credit facility to borrowers, the legal documentation/guidelines are to be formulated for drafting/vetting/audit of the loan/security documents and meticulously followed. Further, title deeds of high value exposures shall be subjected to legal audit for ensuring that securities offered are genuine, traceable, adequate and enforceable.

Out of 47 cases test-checked, 38 cases involving a balance of ₹14.58 crore were pending in lower courts for demand of residual balances after auction of assets mortgaged in the absence of adequate securities. JKSFC had filed appeal in four cases involving a balance of ₹3.49 crore. In five other cases involving balance of ₹1.45 crore, the borrowers had filed appeal for cancellation of auction notices.

JKSFC had not maintained year-wise data showing loan cases due for legal audit, number of accounts covered, deficiencies noticed and steps taken to rectify the deficiencies with the result a large number of cases had accumulated. Legal audit was conducted covering period 2014-15 and 2015-16 but cases sanctioned prior to 2014-15 were not covered. However neither compliance report was on record nor could be obtained from units audited, rendering the legal audit unfruitful. Audit noticed that 114 pending court cases involving principal of ₹7.58 crore and interest of ₹33.70 crore as of March 2016 was locked for more than three years due to lack of relevant details that could have been addressed had there been a regular legal audit of documents as mentioned above.

The matter was reported to the Government in June 2016; their reply was awaited (October 2016).

[6] 2012-13: ₹79.42 crore; 2013-14: ₹43.31 crore; 2014-15: ₹10.30 crore and 2015-16: ₹32.76 crore

Jammu and Kashmir Bank Limited

5.2 Doubtful recovery of loans

Lack of due diligence in verification of genuineness of security before release of loans and credit facilities resulted in recovery of ₹3.22 crore being rendered doubtful.

According to the Know Your Customer (KYC) guidelines (July 2013) of the Reserve Bank of India regarding Customer Acceptance Policy (CAP), banks should prepare a profile for each new customer based on risk categorization. The nature and extent of due diligence will depend on the risk perceived by the Bank. Audit noticed two cases of banks not exercising due diligence to verify securities before release of credit facilities and loans followed by lack of monitoring which resulted in recovery of loans being rendered doubtful as detailed below.

(i) The Business Unit (BU), Panchkula (Haryana) of the Bank sanctioned (March 2011) a term loan of ₹1.90 crore and working capital facility of ₹24 lakh in favour of a borrower[7] to set up a hi-tech Dairy Unit at Panchkula (Haryana). BU also sanctioned (November 2011) another term loan facility of ₹25 lakh. The loans were primarily secured by equitable mortgage of land measuring 13 *kanals* and 09 *marlas* besides hypothecation of live stocks/inventory and plant and machinery and all other immovable fixed assets to be created/procured. In addition, the loan was secured by way of a collateral security comprising a residential house in the name of the borrower's father valued at ₹1.20 crore and a third party guarantee. The borrower defaulted in repayment and BU declared (March 2013) the account as Non-Performing Asset (NPA) with outstanding balance of ₹2.48 crore as of April 2015. BU initiated (March 2013) recovery proceedings against the borrower and took over (March 2014 and June 2015) the possession of the residential house and land on which the unit was to come up. On scrutiny of the records (October 2015), audit observed the following:

- The residential house offered as collateral security by the borrower and accepted by BU on the basis of certified copy of the title deed was found mortgaged (August 2015) with another Bank[8] that had taken possession of the said house in another loan case under section 13 (2) of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI), Act 2002.
- In March 2015, inspection conducted by BU revealed that inventory, live stock, current assets, plant and machinery and civil structures created by the borrower out of bank finance held as primary security by

[7] M/S Shyam Diary
[8] State Bank of Bikaner and Jaipur Mandi Dapwali

BU were missing/removed from the site. Accordingly, the bank lodged (March 2015) a complaint against the borrower with the Police under various sections. However, First Information Report (FIR) had not been registered (October 2015).

- The credit facility was released by BU in April 2011 along with term loan much before the start of commercial operation in violation of the sanction.

The Management stated (October 2015) that matter shall be taken up with State Bank of Bikaner and Jaipur (SBBJ) for taking requisite legal measures to recover outstanding amount from the defaulter.

(ii) Cluster Office Jammu (Central) of the Jammu and Kashmir Bank Limited sanctioned (December 2011) a Term Loan Facility (TLF) of ₹60 lakh for purchase of livestock, machinery, equipment and for creation of fixed and miscellaneous fixed assets as well as Cash Credit Facility (CCF) of ₹5.19 lakh to meet working capital requirement in favour of a sole propriety-ship firm to establish a dairy farm[9]. The loan facility was secured against primary and collateral securities[10] obtained by the Bank.

The Cash Credit (CC) and Term Loan (TL) facilities were released between January 2012 and June 2013. As per the terms of the sanction, cash credit facility was to be released for purchase of fresh livestock only after ensuring that requisite infrastructure to house the unit was completed in all respects and the unit had commenced operation. The loan amount was to be released in phased manner depending upon the progress of the work and in accordance with the Project Report (up to ₹17.70 lakh for building construction, ₹25 lakh for purchase of livestock, ₹13.95 lakh for miscellaneous fixed assets and ₹3.35 lakh as pre-operative expenses). The loan was repayable in 78 equal monthly installments of ₹1,21,700 each after moratorium of six months from the date of first disbursement. Cash Credit facility was available for one year to be renewed subsequently.

Audit noticed that the promoter, after servicing first installment in August 2012 failed to deposit the monthly installment and turned defaulter. The Bank declared the account as NPA in September 2013 with an outstanding balance of ₹62.67 lakh (TL: ₹57.49 lakh, CC limit: ₹5.18 lakh). The Bank issued (October 2013) notice under section 13 of the SARFAESI for taking possession

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[9] M/s Evergreen Dairy Farm Jammu

[10] Primary Security: All kinds of stocks/book debts, live stock, equipments, plant and machinery and fixed assets to be purchased/installed in the unit valuing ₹54.45 lakh (as per the project report), Registered Mortgage five *kanals* of land valued at ₹15 lakh as per the valuation report dated 06.12.2011, registered mortgage of building to be constructed in the unit valued at ₹27.46 lakh
Collateral Security: Registered mortgage of land measuring 19 *kanals* valued at ₹57 lakh as per the valuation report of December 2011 and third party guarantee of three persons

of the secured assets and seized the dairy in April 2014. The assets were got re-valued by the Bank in July 2014 and total realizable value of the mortgaged assets was assessed at ₹58.16 lakh[11] as against outstanding of ₹71.28 lakh (Principal amount including CC limit ₹57.67 lakh and interest ₹13.61 lakh) indicating that the borrower had not utilised the credit facility for the intended purpose of purchasing livestock, equipment and creation of fixed assets.

The Management stated (April 2016) that violation of terms and conditions in releasing the facility was got investigated and action had been taken against the erring officials. It was also stated that recovery suit had been filed (November 2015) against the party.

Thus, lack of due diligence as envisaged in RBI guidelines in verifying the genuineness of the documents submitted by the borrower and verification of assets held as primary security before release of credit facilities and to monitor progress of the unit during disbursement of loans/credit facilities resulted in recovery of outstanding amount of ₹3.22 crore becoming doubtful.

The matter was referred to the Government/Company in April/May 2016; their reply was awaited (October 2016).

Industries and Commerce Department

Jammu and Kashmir State Industrial Development Corporation Limited

5.3 Disbursement of soft/term loan to a defaulter Company

Injudicious decision by the Company in releasing soft and term loans out of own resources to a defaulter company for settlement of its Non Performing Assets account led to subsequent default by the borrower company and non-recovery of term loan and interest of ₹1.04 crore.

The Jammu and Kashmir State Industrial Development Corporation Limited (JKSIDCO) established (1969) to set up infrastructure facilities to promote industrialization of the State. For this purpose, JKSIDCO grants term loan to industrial units under Refinance Scheme of Industrial Development Bank of India (IDBI) and Small Industrial Development Bank of India (SIDBI).

The State Level Rehabilitation Committee (SLRC) accorded (July 2008) approval in favour of a defaulter private company[12] for grant of soft loan of ₹30 lakh at

[11] ₹38 lakh under primary securities and ₹10 lakh under collateral security of land and constructed structure amounting to ₹10.16 lakh

[12] Tramboo Joinery Mills (TJM) a private Company was disbursed (1980) term loan (TL) of ₹50 lakh by J&K SIDCO under refinance scheme of SIDBI but owing to default in repayment, Corporation had to settle (September 2000) the facility under One Time Settlement scheme after waiving off accrued interest of ₹369.68 lakh

the rate of one *per cent* interest as 30 *per cent* margin money towards working capital of ₹1.60 crore sanctioned by the Jammu and Kashmir Bank Limited. Based on recommendations of the Board of Directors (BoD), the Corporation again accorded (February 2014) approval to release of a Term Loan (TL) of ₹3 crore in favour of the company for settlement of its liabilities[13]. The TL was to be disbursed after obtaining collateral security from the borrower company and valuation report of existing assets of the Company from approved valuer.

Audit noticed that at time when the Refinance Scheme of IDBI and SIDBI was not in force and the accumulated losses of the Corporation had surged to ₹72.19 crore (March 2015), an amount of ₹2.94 crore was released between May 2014 and August 2014 by the Corporation out of its own sources without obtaining valuation report of all assets of the borrower except plant and machinery. Further, it was noticed that company had again defaulted in repayment of current TL to the extent of ₹1.04 crore (Principal: ₹0.45 crore and Interest: ₹0.59 crore) as of April 2016.

Thus, imprudent decision by the Company to release soft and term loans out of own resources to a defaulter company for settlement of its NPA accounts led to further default by the borrower company resulted in non-recovery of term loan and interest of ₹1.04 crore.

The Management stated (May 2016) that TL was fully secured against securities and personal guarantee from the defaulter private company and that JKSIDCO was vigorously pursuing the recovery of its dues. The reply may be viewed in light of the fact that the private Company had previously defaulted in repayment of loan taken from JKSIDCO which was forced to settle the account under OTS.

The matter was referred to the Government/Company in June 2016; their reply was awaited (October 2016).

5.4 Non-recovery of interest

Failure to invoke terms of lease agreement providing for levy of penal interest and eviction proceedings for default in payment of ground rent resulted in non-recovery of ₹2.17 crore and interest of ₹71.40 lakh.

Jammu and Kashmir State Industrial Development Corporation Limited (JKSIDCO) is the nodal agency for providing ancillary services to entrepreneurs who had been allotted land in industrial estates maintained by the Corporation. The Corporation was to recover annual ground rent @ ₹3,000 per *kanal* from the allotees of land in advance. Further, as per terms of the allotment of land, the Corporation was to charge interest at the rate of 18 *per cent* on delayed payment

[13] ₹200 lakh for settlement of NPA account with J&K Bank Hari Singh High Street, Srinagar

of ground rent on the outstanding balance from the date of default till date of payment. In that eventuality, the Corporation was also entitled to initiate any other legal remedy against the lessee including eviction from the premises and termination of the lease by giving 30 days' notice to be reckoned from date of delivery of the notice.

Test check of records (September 2015) of JKSIDCO Bari Brahmna, Jammu revealed that an amount of ₹2.17 crore was outstanding on account of ground rent against 82 entrepreneurs ending March 2015 for varying periods ranging up to 21 years. The Corporation had neither sought to levy penal interest as stipulated under terms of the lease deed agreement nor had it initiated any action against the defaulters for eviction of plots. Failure of the company to ensure timely recovery of its dues as per the agreed terms with the entrepreneurs not only blocked the capital of the Corporation ₹2.17 crore but also resulted in non-recovery of interest of ₹71.40 lakh.

The Management stated (September 2015) that steps are being taken to effect the recoveries.

The matter was referred to the Government/Company in May 2016; their reply was awaited (October 2016).

Public Works Department

Jammu and Kashmir Projects Construction Corporation Limited

5.5 Incurring of expenditure in excess of approved estimates

Despite clear instructions of competent authority to restrict the value of a work of construction of a bridge along with approach road to the approved estimates, the Company exceeded the approved cost of estimates by ₹2.48 crore. This was aggravated by construction of approach road without requisite protection works resulting in avoidable expenditure of ₹2.01 crore.

As per orders of the State Government (1988) and instructions of its Board of Directors (BOD), the J&K Projects Construction Corporation Limited (J&KPCC) was required to restrict the value of work done to the amount of funds received from the project authorities. The Chief Engineer, Public Works Department (PWD) Roads and Bridges (R&B), Jammu, allotted (May 2009) construction of 164 meter span steel girder bridge along with five kms. approach road over Jhajjar Nallah connecting Shri Mata Vaishno Devi University Campus with National Highway-1A to J&KPCC. The Company submitted (June 2009) cost of ₹19.24 crore for the project against approved estimated cost of ₹16.20 crore under Central Road Fund (CRF). The enhanced cost was not approved by the project authority. The cost of the work was revised in September 2011 by the Company to ₹23.69 crore which was also rejected by the project authority and the Company was instructed (February 2012) to restrict the job within the originally approved amount of ₹16.20 crore.

Audit scrutiny of records (October 2015) brought out that the Company took up (July 2009) the execution of the work and spent ₹20.37 crore against the released amount of ₹17.89 crore between August 2009 and January 2011 thereby exceeding expenditure by ₹2.48 crore. The work was completed in August 2014 in 61 months against stipulated completion within 24 months. It was further noticed that due to non-providing of protection work on the approach road completed at a cost of ₹2.01 crore, the road was washed away by heavy rains within a month of inauguration of the bridge rendering the entire expenditure of ₹20.37 crore as idle.

The Management stated (October 2015) that the length of the approach road had been taken as 2.15 kms. in the initial proposal of ₹16.20 crore while the actual length of road during construction was 3.95 kms. It added that a revised cost of ₹23.69 crore was sent to the higher authority and a proposal was being processed for release of funds exceeding ₹20.37 crore under National Bank for Agriculture and Rural Development under State Plan.

Audit observed execution of works exceeding the approved cost despite clear instructions of the competent authority to restrict the value of work done to the approved cost was irregular. Moreover, the excess expenditure was aggravated by construction of approach road without requisite protection work resulting in avoidable expenditure of ₹2.01 crore.

The matter was referred to the Government/Company in June 2016; their reply was awaited (October 2016).

Tourism Department

Jammu and Kashmir State Cable Car Corporation Limited

5.6 Undue delay in construction of building

The Company acquired a plot of land at a cost of ₹1.25 crore for construction of a building that was also to house its head office which was in a rented building. However, no progress could be achieved in construction of the building despite lapse of five years thereby defeating the objective of the expenditure on land acquisition as well as resulting in avoidable payment of rent ₹57.70 lakh.

The Board of Directors (BoD) of the Jammu and Kashmir State Cable Car Corporation Limited (Company) decided in December 2008 to acquire a piece of land measuring 2.5 *kanals* at Bemina in Srinagar from the Jammu and Kashmir Industries Limited (JKI) for construction of a multi-storeyed commercial building. A part of the building was to be utilized for accommodation of the

Head Office of the Company that was functioning from a rented building. JKI accorded (January 2010) sanction for transfer of the land in favour of the Company at the rate of ₹50 lakh per *kanal*. The Company released (June 2010) ₹1.25 crore in favour of JKI for the land and took possession of the site in June 2011.

Test check (August 2015) of the records of the Company brought out that despite lapse of over five years, the Company had so far failed to allot construction work to any agency. The Company continued to house its Head Office in a rented building defeating the very purpose of acquiring land and had paid ₹85.49 lakh on account of rent for the rented building during July 2010 to March 2016. Allowing a margin of one and half years for construction of building, the Company had incurred an expenditure of ₹57.70 lakh (April 2013 to March 2016) on account of rent for the office building which could have been avoided.

The Management stated in August 2015 that the matter would be referred to the Board of Directors for approval to start construction work.

The matter was referred to the Government/Company in June 2016; their reply was awaited (October 2016).

Srinagar/Jammu
The 6th JAN 2017

(Hoveyda Abbas)
Accountant General (Audit)
Jammu and Kashmir

Countersigned

New Delhi
The 9th JAN 2017

(Shashi Kant Sharma)
Comptroller and Auditor General of India