

PRESS RELEASE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

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CAG's COMPLIANCE AUDIT REPORT OF JAMMU AND KASHMIR PRESENTED IN PARLIAMENT

The Report No. 3 of the year 2022 Comptroller and Auditor General of India on Compliance Audit for the year ended 31 March 2021, Government of Jammu and Kashmir has been presented to the Parliament here today. The Report has been prepared in accordance with Article 151 of the Constitution of India and presented to the Parliament in terms of decision (22 June 1994) of the Government of India, Ministry of Finance, Department of Economic Affairs.

This Report contains ten chapters.

- **Chapter I** contains a brief profile of the UT Government with the receipt/ expenditure for the year 2020-21, the authority for audit, audit jurisdiction, planning and conduct of audit, response of the Government to various audit products namely Inspection Reports, audit observations/ paragraphs and follow up action on Audit Reports.
- **Chapter II** contains observations of the Subject Specific Compliance (SSCA) on Processing of refund claims under GST in J&K State Tax Department.
- **Chapter III** contains observations of the SSCA on Transitional credits in J&K State Tax Department.
- **Chapter IV** contains observations of the SSCA on Human Resources Management in Sher-e-Kashmir University of Science and Technology, Kashmir and Sher-e-Kashmir University of Science and Technology, Jammu.
- **Chapter V** contains observations of the SSCA on Swachh Bharat Mission (Urban) in Jammu and Kashmir.
- **Chapter VI** contains audit observations relating to Compliance Audit of various UT Government Civil Departments.
- **Chapter VII** contains a brief profile of investments made in Public Sector Undertakings (PSUs) by Government of Jammu and Kashmir, audit mandate of PSUs and oversight role of the Comptroller and Auditor General of India.
- **Chapter VIII** contains observations of the SSCA on Development of Micro/ Mini/ Small Hydroelectric projects in Jammu and Kashmir.
- **Chapter IX** contains observations of the SSCA on Management of fixed assets by Jammu and Kashmir Bank Limited.
- **Chapter X** contains audit observations relating to Compliance Audit of PSUs of UT Government.

Chapter I: Overview

During the year 2020-21, the revenue raised by the UT Government (₹ 12,953.37 crore) was 24.68 *per cent* of the total revenue receipts. The balance 75.32 *per cent* was received from the Government of India (GoI) as Grants-in-aid.

During the year, the share of Capital Expenditure was 16.67 *per cent* and Revenue Expenditure was 83.29 *per cent* of total expenditure. The combined share of Social Services (₹ 21,964.27 crore) and Economic Services (₹ 14,842.46 crore) was 58.27 *per cent* of total expenditure during 2020-21, and 41.63 *per cent* of total expenditure was incurred on General Services (₹ 26,297.40 crore).

Chapter II: Processing of refund claims under GST

A SSCA, covering the period from July 2017 to July 2020, on processing of refund claims under GST was conducted and audit findings emerged, in course of the audit, are as follows:

There was delay in issue of acknowledgement in 21 cases (13 *per cent*) from one to 477 days with the average delay being 52 days in these cases.

Delay in sanction of refunds ranged between two and 446 days in 43 refund cases (24 ST Circles) with the average delay being 75 days in these cases. The Department had not paid interest under section 56 amounting to ₹ 2.34 lakh to the claimants. Of these, 32 cases were delayed by one to three months, six cases were delayed by three to six months and five cases were delayed by more than six months, respectively.

Out of 33 refund cases examined, the Department considered Input Tax Credit (ITC) availed on input services in five refund cases (two ST Circles). The mistake resulted in irregular allowance of refund to the tune of ₹ 39.82 lakh.

Department had issued provisional refund of 90 *per cent* in three cases of one taxpayer in Circle Anantnag-II on account of inverted duty structure, which were other than the cases of zero rated supply of goods or services. This resulted in irregular grant of refund of ₹ 19.94 lakh on provisional basis.

Refunds had been sanctioned in respect of 26 cases despite non filing of returns (GSTR I) by the registered persons for prior periods between November 2018 and June 2020. Even registrations were cancelled in respect of two dealers in Kashmir Division and of three dealers in Jammu Division.

In respect of 15 refund claims exceeding ₹ two lakh in each case, refund of ₹ 328.25 lakh was sanctioned without obtaining certificates from the Chartered Accountant/ Cost Accountant in violation of above rules.

Refund of ₹ 144.67 lakh, in respect of sanction on exports, was sanctioned in favour of a dealer without documentary evidence such as shipping bills/ export invoices/ undertaking of no duty drawback claimed.

Refund of ITC in respect of zero rated supplies (two cases) and Inverted Duty Structure (eight cases) revealed that refund had been claimed and admitted by the

Department despite difference of ₹ 110.33 lakh between GSTR-3B and GSTR-2A, in support of which no invoices were found on record.

Post audit of refund cases has not been conducted, resulting in non-compliance of Board's instructions.

Chapter III: Transitional Credits

A SSCA covering the period from July 2017 to March 2020, on transitional credits under GST was conducted and audit findings, are as follows:

In respect of 46 transitional credit cases, the front end data shared by GSTN did not match with the data shared by GSTN at the back end. There was mismatch of data in these 46 cases with respect to transitional credit (TRAN-1) amounting to ₹ 282.56 lakh.

In four cases, transitional credit amounting to ₹ 11.25 lakh was claimed in excess of actual balance of Input Tax Credit available under the earlier VAT regime.

In four cases, the dealer(s) had not filed all the requisite returns but carried forward the input tax credit in the Electronic Credit Ledger resulting in ineligible transitional credit of ITC amounting to ₹ 10.75 lakh.

In 13 cases, the undue/ excess transitional credit claims were reversed under the provisions of the J&K GST Act, 2017, however, the interest liability under section 50(3) of the J&K GST Act, 2017 was not charged.

Chapter IV: Human Resources Management in Sher-e-Kashmir University of Agricultural Sciences and Technology

A SSCA of human resources management covering the period 2016-17 to 2020-21 was conducted to assess whether the Agriculture Universities had complied with the relevant guidelines, and audit findings are as follows:

The universities had repeatedly violated instructions for creation/ up-gradation/ conversion of posts. Availability of vacant posts facilitated re-designation of posts to accommodate irregular appointments, attachments and adjustment of staff appointed in excess of sanctioned strength.

There were instances of appointments without adoption of mandatory Academic Performance Indicators, appointments without mandatory NET qualification, appointments by counting inadmissible periods in teaching experience and appointments through lateral entry by irregular up-gradation of technical posts.

There was faulty implementation of Career Advancement Scheme (CAS) due to dilution of prescribed criteria regarding Academic Performance Indicators and requirement of research publications, extension of benefit of retrospective CAS to direct appointees, premature placements, counting of inadmissible past service, non-completion of mandatory trainings, counting of period spent on acquiring PhD and leave without pay towards teaching experience, etc.

There were instances in respect of non-teaching employees wherein recruitments were made through regularisation of adhoc/ contractual employees, appointments made without qualifying mandatory tests, direct recruitments to posts required to be filled

through promotion, lateral entry to posts prescribed to be filled through direct recruitment etc.

The laid down norms for promotions of non-teaching staff were not fully complied and there were instances in which inadmissible financial up-gradations had been granted due to faulty implementation of two-tier career advancement schemes, premature promotions etc.

There were ambiguities/ inconsistencies in Recruitment Rules of the Universities which had resulted in irregular appointments, indefinite continuation of employees in higher grades and avoidable litigations/non filling of posts.

Chapter V: Swachh Bharat Mission (Urban)

A SSCA of two components under Swachh Bharat Mission (Urban) viz. Individual Household Latrines (IHLs) and Public Toilets (PTs), was carried out covering the period from 2016-17 to 2020-21, and audit findings are as follows:

No house-to-house survey was carried out to see whether beneficiaries had or did not have existing sanitary latrine.

The process for monitoring physical progress of work at various stages was not specified. This had resulted in non-conversion of insanitary latrines into sanitary ones and excess/ double payment to beneficiaries.

Out of 942 beneficiaries selected for Beneficiary survey and physical verification, whose IHLs were shown as constructed by NGOs, only 95 IHLs (10 per cent) were found functional. Further, 238 beneficiaries stated that NGOs had not constructed their IHLs, but they constructed on their own.

Allotment of construction works of Public toilets was made without execution of valid agreements and no penalty was levied on contractors for non-completion of works within time.

During joint physical verification of PTs, audit *inter alia* noticed that majority of the PTs constructed under Swachh Bharat Mission (Urban) were either non-functional or were functional without O&M.

Chapter VI: Compliance Audit Paragraphs of Civil Departments

Short levy of tax due to suppression of turnover

Failure of the Assessing Authority, State Taxes Circle-H, Jammu to levy tax at correct rates, while assessing the two dealers for accounting years 2014-15 to 2017-18 (up to 07 July 2017) resulted in short levy of tax and interest aggregating ₹ 4.49 crore.

Short levy of tax due to concealment of purchases

Failure of the Assessing Authorities, State Taxes Circles-C, L, J, Jammu and Circle-I, Udhampur to detect concealment of Interstate Purchases made by the dealers during 2013-14 to 2015-16 resulted in short levy of tax, interest and penalty aggregating ₹80.20 lakh.

Probable loss due to delay in auction of space and consequent non-realisation of rent

Delay in finalisation of modalities to rent out shops/ spaces by auction after fixation of minimum reserve rent resulted in probable loss of rent of ₹ 2.70 crore.

Inadmissible payment on account of one month additional salary to police personnel

Irregular action of Home Department to pay one-month additional salary to police personnel who were not deployed for election duties during the conduct of Municipal/ Panchayat elections, 2018 resulted in inadmissible payment of ₹ 1.58 crore in respect of 483 police personnel.

Non-recovery of supervision charges

Failure of two works executing divisions to comply with extant rules resulted in loss of ₹ 1.61 crore due to non-deduction of supervision charges in respect of works of National Hydro Power Corporation Limited, executed by these divisions.

Avoidable wasteful expenditure on rent, maintenance and upkeep of hostel buildings hired for Other Backward Classes students

Injudicious decision of the Jammu and Kashmir State Advisory Board to hire two private buildings as hostels from September 2014 to March 2021, without conducting survey of students' willingness to avail hostel facilities and despite lack of demand, resulted in avoidable wasteful expenditure of ₹ 66.05 lakh on rent, maintenance and upkeep of hired hostels.

Wasteful expenditure on construction of Other Backward Class (OBC) Boys' hostel

Failure of Social Welfare Department to get DPR for construction of hostel for OBC boys students approved and Central share of funds released by GoI and failure of the department to get the work of hostel building completed out of State funding as was originally planned resulted in wasteful expenditure of ₹ 1.55 crore.

Chapter VII: Functioning of Public Sector Undertakings

As on 31 March 2021, there were 42 PSUs in Jammu and Kashmir under the audit jurisdiction of the CAG. These include 39 Government Companies (including six inactive Government Companies with delay in accounts ranging between four years to 31 years), two Statutory Corporations and one Government Controlled Other Company. One PSU (Jammu and Kashmir Bank Limited) is listed on the stock exchange. There are six inactive PSUs (including four under liquidation) having investment of ₹ 57.57 crore towards capital (GoJ&K: ₹ 56.59 crore and others: ₹ 0.98 crore) and long term loans of ₹ 0.83 crore (GoJ&K: ₹ 0.83 crore and others: Nil).

As of 31 March 2021, there were 40 Companies under the purview of CAG's audit. Of these, accounts for the year 2020-21 were due from 34 Government Companies. However, only three Government Companies submitted their accounts for the financial year 2020-21 for audit by CAG on or before 30 November 2021. As of 31 March 2021, there were two Statutory Corporations under the purview of CAG's

audit. The accounts of Jammu & Kashmir State Road Transport Corporation and Jammu & Kashmir Financial Corporation for the years 2019-20 and 2020-21 were awaited as on 30 November 2021.

Chapter VIII: Development of Micro/ Mini/ Small Hydroelectric Projects in Jammu and Kashmir

A SSCA on development of Micro/ Mini/ Small Hydroelectric Projects in Jammu and Kashmir was conducted and audit findings are as follows:

Out of 374 identified project sites with power generation capacity of 1,725.53 MWs, only 10 projects with capacity of 79.75 MWs (five per cent) had been commissioned with time overrun ranging between four months and over seven years. No action was taken for 225 sites after their identification.

For 20 sites proposed under Prime Minister's Development Package, GoI had not acceded to request of GoJ&K for release of funds in view of high project cost and unviable tariff.

Nodal agencies did not coordinate with line Departments/ Agencies for facilitating Independent Power Producers (IPPs) in obtaining clearances, approvals and finances for their projects in a time bound manner. Execution of projects was also not monitored. The IPPs had also attributed poor performance in development of projects *inter alia* to lack of financing by banks due to non-availability of buy back agreement with GoJ&K.

Failure of JKPDC in ensuring completion of transmission line alongside the commission of hydro project at Dah resulted in non-utilisation of power generation of 59.37 Million Units and consequent loss of revenue of ₹ 16.45 crore.

Chapter IX: Management of Fixed Assets by Jammu & Kashmir Bank Limited

A SSCA in management of Fixed Assets by Jammu & Kashmir Bank Limited was conducted and audit findings are as follows:

The Bank purchased land valuing ₹ 184.92 crore during 2016-21, out of which land valuing ₹ 140.22 crore could not be utilised. Funds to the tune of ₹ 22.78 crore remained blocked due to improper planning.

There was wasteful expenditure of ₹ 5.28 crore in hiring of premises. Due to hiring of unfurnished premises, the Bank had to pay lease rent of ₹ 5.14 crore as it took considerable time in furnishing works leading to delay in relocation of business units. There were delays in execution of works, however, penalty amounting to ₹ 8.77 crore was not recovered from contractors.

Chapter X: Compliance Audit Paragraphs of Public Sector Undertakings

Doubtful recovery on account of Non-exercising of due diligence at the time of sanctioning/ enhancing bill discounting facility

Non-exercising of due diligence at the time of sanctioning/ enhancing bill discounting facility resulted in doubtful recovery of ₹ 102.55 crore.

Doubtful recovery on account of sanction of credit facility without obtaining adequate security cover

Sanction of credit facility without obtaining adequate security cover and release of credit facility without complying with the pre-disbursement condition resulted in doubtful recovery of ₹ 11.98 crore.

Grant of interest free advances to Small Scale Industrial Units

Grant of interest free advances to Small Scale Industrial Units resulted in avoidable expenditure of ₹ 1.91 crore.

Payment of penal interest on account of delay in deposit of GST

Company's failure to recover GST of ₹ 95.26 lakh from the industrial units resulted in payment of GST out of its own resources, besides leading to payment of penal interest of ₹ 20.36 lakh on account of delay in deposit of GST.

BSC/SS/TT/NS