EXECUTIVE SUMMARY

The period of Twelfth Finance Commission (TFC), is over and the State of Jammu and Kashmir did well in introducing Fiscal responsibility and Budget Management (FRBM) Act in August 2006 during its currency and framed rules thereunder. The State Government took some important decisions like introduction of new pension scheme, bringing more items under the ambit of VAT and a host of other institutional and sectoral reform measures as announced in the annual budgets subsequently. The reforms undertaken have shown signs of improvement in the financial health of the State as the State has done well in maintaining revenue surplus and there has also been increase in capital expenditure which is encouraging.

The State Government has done well in establishing an institutional mechanism on fiscal transparency and accountability by bringing out Macro Economic Framework Statement/ Medium Term Fiscal Policy Statement. Although the recommendations of Twelfth commission were not achieved in full yet the State was able to maintain revenue surplus. The budget outcomes indicators tend to serve the limited purpose of measuring the department–wise performance against the targets. They do not, however, give the macro picture of the status of financial management including debt position for the benefit of the State Legislature and other stake holders.

The Report

Based on the audited accounts of the Government of Jammu and Kashmir for the year ending March 2010, this report provides an analytical review of the Annual Accounts of the State Government. This report is structured in three Chapters.

Chapter I *is based on audit of Finance Accounts and makes an assessment of the State Government's fiscal position as on 31 March 2010. It provides an insight into trends in committed expenditure, borrowing pattern besides a brief account of central funds transferred directly to the State implementing agencies through off budget route.*

Chapter 2 *is based on audit of Appropriation Accounts and it gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by service delivery departments.*

Chapter 3 *is an inventory of the State Government's compliances with various reporting requirements and financial rules. The report also has an appendage of additional data collected from several sources in support of the findings. Appendix 1.2 at the end gives a glossary of selected terms related to State economy, as used in this report.*

Audit findings and recommendations

The expenditure pattern of the State reveals that the revenue expenditure

(2005-10) continued to share a dominant proportion in the total expenditure of the State and was around 71 per cent during 2009-10. Moreover, within the revenue expenditure, the non-plan revenue expenditure at ₹ 14,771 crore constituted about 96 per cent of the total expenditure. The continued prevalence of fiscal and primary deficits indicates the increasing reliance of the State on borrowed funds. This coupled with non collection of revenue arrears for the past several years have affected the revenue receipts of the State Government.

The State had attached low fiscal priorities towards development expenditure as the ratio of development expenditure to aggregate expenditure had decreased in 2009-10 as compared to 2005-06. The growth rate of fiscal liabilities was 18.31 per cent during 2009-10 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 63.31 per cent in 2005-06 to 75.02 per cent in 2009-10.

The debt sustainability of the State was dismal. The resource gap also increased during 2009-10.

Review of Government Investment

The State Government had invested ₹ 422.82 crore in its Statutory Corporations (₹ 181.91 crore), Government Companies (₹ 211.49 crore), Joint Stock Companies (₹ 34.40 lakh) and Cooperative Societies (₹ 22.62 crore), others (₹ 6.46 crore) as on 31 March 2010. The return on investment of ₹ 44.16 crore accrued to the State Government during 2009-10 from the Jammu and Kashmir Bank Limited (₹ 43.56 crore), and from the Jammu and Kashmir Cements Limited ₹ 60 lakh. The average return of interest on Government borrowings during 2005-09 was nine per cent which was reduced to eight per cent in 2009-10.

As on 31 March 2010, there were 20 Government companies (17 working and three non-working companies) and three Statutory corporations (all working) under the control of the State Government. The total capital investment made by the State Government in the working PSUs at the end of March 2010 was ₹ 390.83 crore. Besides this, the loan of ₹ 6152.84 crore was also outstanding against the companies/corporations. Out of 17 working companies, only one company (J&K bank) had finalised its accounts for 2009-10 and earned a profit of ₹ 512.38 crore. During the year 2009-10 out of 20 working PSUs, four PSUs earned profit of ₹ 514.89 crore and 14 PSUs incurred loss of ₹ 158.86 crore. One working PSU (Jammu and Kashmir Cable Car Corporation Limited) had not prepared the Profit and Loss Account while one PSU (Jammu & Kashmir State Forest Corporation) had not submitted its accounts since 1996-97 when its audit was entrusted to CAG. The major contributors to profit were Jammu and Kashmir Bank Limited. (₹ 512.38 crore) and Jammu and Kashmir cements Ltd. (₹ 1.53 crore). The heavy losses were incurred by Jammu and Kashmir State

Road Transport Corporation (₹ 54.67 crore), Jammu and Kashmir Power Development Corporation Limited (₹ 39.05 crore), and Jammu and Kashmir Industries Limited (₹ 36.23 crore).

Cash management

The State Government has no agreement with RBI for carrying out State transactions. These activities are carried out by the State through Jammu and Kashmir Bank Limited. Government obtains temporary loan from Jammu and Kashmir Bank for its ways and means requirements. The State Government took temporary loan from the Bank for all the 365 days of the year. The maximum temporary loan obtained was ₹ 2974.33 crore on 31 March 2010. The total temporary loans raised during the year amounted to ₹ 3517.55 crore. A balance of ₹ 2290.25 crore was also outstanding as on 1st April 2009. Government repaid ₹ 2842.74 crore during the year leaving a balance of ₹ 2965.06 crore as of 31 March 2010. During the year 2009-10, ₹ 234.15 crore was paid as interest by the Government.

The cash balances of the State Government decreased by ₹ 4.10 crore during 2009-10 as compared to previous year. Details of ₹ 37.39 crore investments held in the cash balance investment Account were not intimated by the State Government and continued in the books for over eleven years.

Funds transferred directly by GOI to the State implementing agencies

The Central Government has been transferring sizeable quantum of funds directly to the State Implementing Agencies for various schemes/ programmes in social and economic sectors. An approximate amount of ₹ 1395 crore was transferred by the GOI directly to the implementing agencies during 2009-10. As these funds are not routed through the State Budget/Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are understated.

Consolidated data-base at the apex level was not maintained by the State Government. A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government and sent to the Principal Accountant General (Accounts & Entitlement).

Financial management and budgetary control

The overall excess of ₹ 1390.54 crore was the result of excess of ₹ 4062.58 crore in five grants and one appropriation under Revenue Section and nine grants and one appropriation under Public Debt-Repayments (Loan Section), offset by saving of ₹ 2,672.03 crore in 24 grants and five *appropriations under Revenue Section and 19 grants under Capital Section.*

There were also instances of persistent savings in some grants, excessive expenditure, expenditure without provision of funds, drawal of funds to avoid lapse of budget grant, unnecessary supplementary provisions, etc.

There was also significant pendency in submission of detailed countersigned bills against abstract contingent bills. A total amount of ₹ 1922.23 crore was drawn on AC bills by various DDOs (34 departments) during March 1996-2010 for which corresponding DC bills have not been submitted (June 2010) to the Principal Accountant General. Non-rendition of AC bills for such a huge amount over a very long period is fraught with the risk of misappropriation.

Non-reconciliation of expenditure by State Offices with the Principal Accountant General (Accounts & Entitlement) is the area requiring attention. 104 Controlling Officers did not reconcile the expenditure amounting to ₹ 12731.08 crore as of October 2010 which constituted 59 per cent of the total net revenue and capital expenditure.

Errors in the budgeting process were also noticed.

Financial reporting

State Government's compliance with various rules, procedures and directives was unsatisfactory as is evident from delays in furnishing of utilisation certificates against the loans/grants from various institutions. There was also delay in submission of annual accounts by some autonomous bodies. Accounts of Ladakh Autonomous Hills District Councils', Leh and Kargil have not been prepared since their formation.