

EXECUTIVE SUMMARY

This Report provides an analytical review of the Annual Accounts (Finance and Appropriation Accounts) of the Government of Jammu and Kashmir for the year ending March 2011. The 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 2011. It provides an insight into trends in revenue generated, committed expenditure, borrowing pattern, progress in implementation of Finance Commission award besides a brief account of central funds transferred directly to the State implementing agencies through off budget route.*

***Chapter II** 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 III** 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

(2006-11) continued to share a dominant proportion in the total expenditure of the State and had increased to 75 per cent during 2010-11. Within the revenue expenditure, the non-plan revenue expenditure at ₹ 17,558 crore constituted about 95 per cent of the total expenditure. Though fiscal and primary deficits had come down considerably during 2010-11 their continued prevalence indicates the 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 ratio of development expenditure to aggregate expenditure had increased in 2010-11 as compared to 2007-08 indicating that the State has started attaching high fiscal priority towards its development.

Though in absolute terms the growth rate of fiscal liabilities was 8.83 per cent during 2010-11 over the previous year, the ratio of these liabilities to GSDP decreased from 66.46 per cent in 2009-10 to 65.55 per cent in 2010-11.

Similarly, there was considerable improvement in debt sustainability of the State, however, the resource gap had increased during 2010-11.

Review of Government Investment

As of 31 March 2011, Government had invested ₹ 470.78 crore in Statutory

Corporations, Rural Banks, Joint Stock Companies and Co-operatives. The average return on such investments during five years (2006-11) was 9.62 per cent while the Government paid an average interest rate of 8.97 per cent on its borrowings during these years. Out of 20 working companies, only one company (J&K Bank) had finalised its accounts for 2010-11.

Cash management

The State Government has entered into an agreement with RBI for carrying out State transactions w.e.f 01 April 2011. During 2010-11 these activities were carried out by the State through Jammu and Kashmir Bank Limited. Government obtained 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 ₹ 2694.25 crore as on 30 June 2010. The total temporary loans raised during the year amounted to ₹1847.42 crore. A balance of ₹ 2965.06 crore was also outstanding as on 1st April 2010. Government repaid ₹ 4812.48 crore during the year leaving a nil balance as of 31 March 2011. During the year 2010-11, ₹ 227.71 crore was paid as interest by the Government.

The cash balances of the State Government increased by ₹32.75 crore during 2010-11 as compared to the previous year.

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 ₹2174 crore was transferred by the GOI directly to the implementing agencies during 2010-11. 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 Accountant General (Accounts & Entitlement).

Financial management and budgetary control

The net excess expenditure of ₹2368.31 crore over the original/supplementary grants/appropriations was the result of excess of ₹ 6130.76 crore in 11 grants and one appropriation under Revenue Section and five grants and one appropriation under Public Debt-Repayments (Loan Section), offset by saving of ₹ 3762.45 crore in 18 grants and five appropriations under Revenue Section and 24 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 (DC) bills against abstract contingent bills. DC bills for an amount of ₹1933.04 crore drawn on AC bills by various DDOs (35 departments) during 1995-2011 have not been submitted (June 2011) to the Accountant General (A&E). Non-remittance of DC 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 Accountant General (Accounts & Entitlement) is the area

requiring attention. 38 Controlling Officers did not reconcile the expenditure amounting to ₹ 6923.89 crore as of October 2011 which constituted 28 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.