

Overview

This Report includes two chapters containing observations of audit on Finance and Appropriation Accounts of the State for the year 2005-06 and five other chapters with seven performance audit reviews and 27 paragraphs dealing with the results of audit of selected schemes/programmes, the financial transactions of the Government, commercial/trading activities and one review on internal control system in the Public Works Department (Roads and Buildings Division) with special emphasis on works executed with the assistance of NABARD loans.

1. Finances of the State Government

The overall fiscal position of the State as reflected in terms of key parameters—revenue, fiscal and primary deficits—indicates deterioration during 2005-06 over the previous year. Although the State has maintained revenue surplus of Rs. 394 crore during 2005-06, it was lower by Rs. 168 crore as compared to revenue surplus during 2004-05 while fiscal and primary deficits have shown substantial increases during the year. The capital and revenue expenditure have increased by 38.5 *per cent* and 19.5 *per cent* during 2005-06 but revenue receipts and non-debt receipts could not keep pace with the increase in expenditure of the State. Despite the fact that the State has received an increase of Rs. 1,278 crore in Central transfers compared to the previous year, the worsening fiscal situation indicates that the State's own resources have not shown buoyancy during the year. The balance from current revenue of the State has also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure. The spiraling debt liabilities accompanied by secular trends in fiscal deficit might result in a vicious cycle of deficit, debt and debt service payments, unless suitable measures are taken to arrest the persistent increase in fiscal liabilities.

(Paragraphs: 1.1 to 1.11)

2. Allocative Priorities and Appropriation

Against the total provision of Rs. 14,644.61 crore during 2005-06, the expenditure aggregated Rs. 25,792.02 crore resulting in overall excess of Rs. 11,147.41 crore. The excess expenditure was due to the net effect of excess of Rs. 12,954.06 crore and saving of Rs. 1,806.65 crore in 15 Grants and two Appropriations and 28 Grants and seven Appropriations, respectively. Out of 226 controlling officers, only 113 controlling officers completed reconciliation in full and 37 controlling officers conducted reconciliation partly. Expenditure of Rs. 8,034.52 crore, which constituted 62.08 *per cent* of the total net revenue and capital expenditure, remained un-reconciled.

(Paragraphs: 2.2 to 2.13)

3 Performance reviews

Home Department

Security Related Expenditure

The accounting/reporting and reconciliation system of SRE followed by the State Government was not adequate. The Department had not obtained Audit Certificate for SRE from the Accountant General.

(Paragraph: 3.1.7)

Payment of Rs. 74.54 crore made by the Central Government directly to the Ordnance factories was not accounted for by the State in its accounts under SRE.

(Paragraph: 3.1.8)

Delay in dehiring of expensive hotels and buildings resulted in avoidable/excess payment of rent of Rs. 1.45 crore.

(Paragraph: 3.1.11.1)

**Housing and Urban Development Department
(Lakes and Waterways Development Authority)
Conservation and Management of Dal Lake**

The open area of the Lake had reduced to 11.98 square kilometers (2006) from 24 square kilometers (1962) and its average depth had also reduced to three metres, with no significant improvement in the overall health of the Lake despite incurring an expenditure of Rs. 235.70 crore. Problems like excessive weed growth, deterioration in the water quality, discharge of sewage/nutrients into the Lake body and deposition of silt persisted.

(Paragraphs: 3.2.1 and 3.2.10)

Under the Lake Conservation Programme, against the target of acquiring 4,580 *kanals* of hamlet land and 3,741 structures, only 590 *kanals* of land (13 *per cent*) and 528 structures (14 *per cent*) had been acquired as of March 2006.

(Paragraph: 3.2.10.1)

Failure of the Lakes and Waterways Development Authority to ascertain the use of the acquired land in the Master Plan of the Srinagar City prior to its acquisition, rendered the expenditure of Rs. 8.32 crore unfruitful, besides adversely affecting the evacuation programme of the Lake dwellers.

(Paragraph: 3.2.10.1)

Despite undertaking Catchment Area Management Works, the rate at which the silt had entered the Lake had increased from 7,254 tonnes per year (between August 1998 and August 2003) to 22,354 tonnes per year (between September 2003 and August 2005).

(Paragraph: 3.2.10.2)

**Industries and Commerce Department
Industrial Development in Jammu and Kashmir State**

Survey to assess the industrial potential including availability of human resource, raw material, marketing avenues and other factors for preparation of Perspective Plan and Annual Plan on realistic basis, had not been conducted since the last twenty years.

(Paragraph: 3.3.8)

Cases for acquisition of land initiated from September 2000 onwards, for which Rs. 31.69 crore was advanced to land acquisition authorities during February 2004 to February 2006, were pending with the revenue authorities as of August 2006. The delay in finalisation of land acquisition cases has proved to be a major constraint in maintaining the flow of investment in the State and sustaining the pace of industrialisation.

(Paragraph: 3.3.11)

Industrial estates have not been established in three identified industrially backward blocks despite delay ranging between 12 to 16 years, rendering the expenditure of Rs. 1.69 crore incurred on them unfruitful.

(Paragraph: 3.3.12)

The expenditure of Rs. 2.95 crore incurred on imparting training to 6,819 persons in various trades was rendered unproductive as they did not set up their own business.

(Paragraph: 3.3.13)

Failure of the department to pay decretal amount immediately after the court judgment resulted in avoidable payment of interest of Rs. 60 lakh.

(Paragraph: 3.3.16)

Ladakh Affairs Department

Ladakh Autonomous Hill Development Council, Leh

Development Activities in Leh District

The Council had not prepared its accounts since its establishment, in the absence of which, true and fair view of its assets/liabilities could not be assessed in audit.

(Paragraph: 3.4.7)

Delay in release of funds to the implementing agencies resulted in non-utilisation of Plan funds aggregating Rs. 45.36 crore as of March 2006.

(Paragraph: 3.4.8)

There was cost overrun of Rs. 4.79 crore and time overrun of 4 to 10 years in 16 test-checked works (scheduled for completion up to 2003-04), indicating unplanned execution of works. Further, in two cases, investment of Rs. 1.14 crore was rendered unfruitful due to unplanned execution.

(Paragraph: 3.4.13.2)

Power Development Department

Accelerated Power Development Reforms Programme

Expenditure of Rs. 1.16 crore on procurement of 847 feeder meters, which could not be installed/commissioned, was rendered idle due to non-procurement of required Current and Potential Transformers.

(Paragraph: 3.5.10.1)

Purchase and installation of the Automatic Meter Reading (AMR) system without seeking prior approval from the Standing Advisory Committee for Radio Frequency Allocation (SACFA) for construction of towers, and absence of dedicated telephone lines for the system rendered the expenditure of Rs. 1.07 crore unfruitful.

(Paragraph: 3.5.10.1)

Against the target of metering 9,87,873 consumer installations, only 64,255 meters (7 *per cent*) had been installed (March 2006).

(Paragraph: 3.5.10.2)

Against the target of reducing transmission and distribution losses to 25 *per cent* by December 2006, the losses were around 46 *per cent* during 2002-03 to 2005-06. The accumulated shortfall of 914.13 million units in achieving reduction of AT & C losses resulted in the State foregoing potential revenue of Rs. 140 crore as of March 2006.

(Paragraphs: 3.5.15.1 and 3.5.15.2)

Against the recoverable revenue of Rs. 1034.76 crore, Rs. 1243.81 crore and Rs. 1334.89 crore respectively during 2003-04, 2004-05 and 2005-06, actual realisation was Rs. 340.12 crore (33 *per cent*), Rs. 393.39 crore (32 *per cent*) and 435.01 crore (33 *per cent*) only.

(Paragraph: 3.5.17)

4. Audit of Transactions

Finance Department

Injudicious action of the Commissioner Secretary, Finance Department in making advance payment without first ascertaining the actual enrollment under the 'Scheme' resulted in excess payment of Rs. 7.70 crore to the Insurance company.

(Paragraph: 4.1)

Health and Medical Education Department

Failure of the Director, Health Services, Jammu to observe financial propriety resulted in blocking of Rs. 51.33 lakh, and also affected the supply of medicines to patients in various health care institutions.

(Paragraph: 4.2)

Home Department

Diversion of Rs. 1.14 crore by the Executive Engineer (PHQ) resulted in avoidable interest payment of Rs.73.95 lakh, and delay in acquisition of land for construction of Police Complex.

(Paragraph: 4.3)

Non-observance of rules and procedures by the Director General of Police while making advance payment of Rs. 62 lakh to the Forest Department resulted in blocking of Rs. 24 lakh for over three years and avoidable interest liability of Rs. 7.33 lakh thereon.

(Paragraph: 4.6)

Power Development Department

Lack of effective planning by the department and taking up execution of the scheme without financial backing resulted in blocking of Rs 1.24 crore for over four years besides non-accrual of the intended benefits of the scheme

(Paragraph: 4.11)

Lack of proper planning and taking up works without clearance from the Techno Economic Committee resulted in idle investment of Rs 4.70 crore and wasteful expenditure of Rs 20.87 lakh.

(Paragraph: 4.12)

Departmental failure to ensure availability of the equipment and funds needed for the sub-station resulted in unfruitful expenditure of Rs 58.06 lakh and non-accrual of the benefits of the System Improvement Scheme in the envisaged area.

(Paragraph: 4.14)

Public Health Engineering Department

Execution of works on a disputed site without administrative approval and identification of water source resulted in an unfruitful investment of Rs. 51.83 lakh.

(Paragraph: 4.15)

Social Welfare Department

Construction of Milk Chilling Plant building, Chann Datyal without arranging for the machinery to be installed therein, resulted in idle investment of Rs. 41.97 lakh and also deprived the intended beneficiaries of the envisaged benefits.

(Paragraph: 4.16)

5 Internal control and internal audit arrangements

Public Works Department

Roads and Buildings

Development of Rural Roads and Bridges under Rural Infrastructure Development Fund in National Bank for Agriculture and Rural Development

Despite observations of PAC in the 46th Report, five R&B divisions advanced Rs. 7.16 crore to procurement agencies between April 2000 and November 2005 against which supplies for Rs. 2.88 crore were awaited. Material costing Rs. 1.20 crore received for seven schemes between 1998-99 to 2005-06 was not utilised.

(Paragraph: 5.7.3)

The overall shortfall in achievement of targets in respect of fair weather and shingled roads during 2002-03 to 2005-06 was 11 and 15 *per cent* respectively.

(Paragraph: 5.8.1)

Out of 560 Projects taken up under RIDF-IV to VIII during 1998-99 to 2002-03, only 12 Projects were completed in time; 230 Projects were completed after time over runs of one to five years and 318 were incomplete (March 2006). Departmental failure to ensure timely completion of 15 Projects under RIDF-IV tranche and arrange for the additional funds for their completion, led to non-accrual of full benefits of the investment of Rs. 17.68 crore incurred thereon.

(Paragraph: 5.8.2)

Delay in land acquisition and environment/forest clearance and non-allotment of funds led to blocking of Rs. 13.89 crore.

(Paragraph: 5.8.4)

6. Tax administration (Revenue receipts)

Finance Department

Failure of the assessing authority to detect concealment of turnover, non-levy of tax, suppression of purchases/stocks, incorrect computation of interest, misclassification of turnover and nonwithdrawal of exemption resulted in non/short levy of tax, penalty and interest amounting to Rs. 77.18 lakh, out of which an amount of Rs. 1.25 lakh has been recovered.

(Paragraphs: 6.2, 6.3, 6.4, 6.5, 6.6 and 6.7)

Law Department

Failure of the assessing authority to levy stamp duty at correct rates in 45 cases of conveyance resulted in short levy of stamp duty of Rs. 6.40 lakh. Besides, in one case of mortgage deed there was short levy of stamp duty/registration fee amounting to Rs. 3.79 lakh.

(Paragraphs: 6.8 and 6.9)

7.1 General view of Government companies and Statutory corporations

As on 31 March 2006, there were 20 Government companies (17 working and three non-working companies) and three working Statutory corporations under the control of the State Government. The total investment in the working PSUs increased from Rs. 2,990.58 crore as on 31 March 2005 to Rs. 3,200.83 crore as on 31 March 2006. The total investment in the non-working PSUs was Rs. 3.40 crore as on 31 March 2006.

The budgetary support in the form of capital, loans, grants and subsidies to the working PSUs increased from Rs. 94.45 crore in 2004-05 to Rs. 362.03 crore in 2005-06. During 2005-06, the State Government guaranteed loans aggregating Rs. 2,362.69 crore. The outstanding loans guaranteed by the Government increased from Rs. 1,592.86 crore (31 March 2005) to Rs. 1,623.56 crore (31 March 2006).

According to the latest finalised accounts, five companies earned aggregate profit of Rs. 197.91 crore, of which only one company declared dividend of Rs. 38.78 crore. Twelve PSUs (ten companies and two Statutory corporations) suffered an aggregate loss of Rs. 127.66 crore. Of the ten loss-incurring companies, eight had accumulated losses aggregating Rs. 352.01 crore, which exceeded their aggregate paid-up capital of Rs. 66.67 crore by Rs. 285.34 crore. Two Statutory corporations had accumulated losses aggregating Rs. 796.05 crore which exceeded their aggregate paid-up capital of Rs. 173.31 crore. The financial position and working results of two companies and one Statutory corporation could not be assessed in audit due to non-receipt of their accounts.

(Paragraph: 7.1)

Reviews relating to Government companies

7.2 Infrastructural Development by State Industrial Development Corporation Limited

The performance of the Company with regard to infrastructure development was deficient due to lack of planning and foresight. The Company's failure to select a suitable site for Growth Centre Lassipora and Food Park Sopore resulted in unproductive and idle investment of Rs. 16.97 crore.

(Paragraphs: 7.2.10 and 7.2.14)

The Company failed to attract entrepreneurs for establishing their units in the growth centres developed by the Company.

(Paragraph: 7.2.10)

Drilling of tubewell and construction of the overhead tanks at Growth Centre Samba, prior to the transfer of land to the Company resulted in expenditure of

Rs. 55.72 lakh remaining idle, as the tube well and the overhead tank could not be put to any use.

(Paragraph: 7.2.11)

Due to unrealistic demand survey conducted by the Company, an expenditure of Rs. 3.61 crore incurred on establishment of Inland Container Depot at Bari-Brahmna was rendered unproductive.

(Paragraph: 7.2.22)

7.3 Construction activities of the Jammu and Kashmir Projects Construction Corporation Limited

The performance of the Company with regard to construction activities was found to be sub-optimal. The Company failed to successfully execute the works secured on tender basis. As a result, the clients rescinded four works resulting in loss of Rs. 20.38 lakh and doubtful recovery of Rs. 2.75 crore.

(Paragraph: 7.3.9)

The Company executed four works without costing for the works and without drawing formal agreements with the clients which rendered the recovery of Rs. 1.82 crore doubtful, besides locking up of Rs. 2.78 crore.

(Paragraph: 7.3.13)

Execution of a sub-standard work by the Company resulted in the client withholding payment of Rs. 84 lakh.

(Paragraph: 7.3.18)

The Company incurred expenditure in excess of the deposits received from the project authorities in violation of the prescribed procedures, which contributed to its mounting receivables.

(Paragraph: 7.3.21)

Due to incorrect cost offers, the Company suffered loss of Rs. 2.11 crore in 11 works test-checked in audit.

(Paragraph: 7.3.27)

Transaction audit observations

Jammu and Kashmir Bank Limited

Overvaluation of property at the time of grant of loan to a Delhi-based private firm resulted in loss of Rs. 1.89 crore.

(Paragraph: 7.4)