

## Overview

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This Report contains 30 paragraphs, nine performance audit reviews and comments on the Finance and Appropriation Accounts for the year 2006-07, Review on Internal Control System in the General Provident Fund Organisation is given in a separate chapter. Copies of the draft paragraphs and draft reviews were sent to the Commissioner/Secretary to the State Government of the Departments concerned by the Accountant General with a request to furnish replies within six weeks. However, in respect of 25 paragraphs included in the Report, no replies were received from the Commissioners/Secretaries concerned. A synopsis of the important findings contained in the Report is presented in the Overview.

### **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 improvement in the fiscal situation during 2006-07 over the previous year. The improvement in fiscal position of the State during the current year was mainly on account of increase of Rs. 833 crore in non-debt receipts of the State. There was only a marginal increase in the total expenditure during the current year due to decline of Rs. 564 crore in capital expenditure over previous year leading to improvement in the fiscal deficit of the State. Further, the revenue expenditure which has increased by 7 *per cent* (Rs. 693 crore) during 2006-07 was essentially on account of a steep increase of 12 *per cent* in non-plan revenue expenditure (Rs. 1,056 crore) which was counterbalanced by a decline of 30 *per cent* in plan revenue expenditure (Rs. 363 crore). The non-plan revenue expenditure of the State at Rs. 9,781 crore was significantly higher by 65 *per cent* than the normative assessment of TFC (Rs. 5,926 crore). The continued prevalence of fiscal deficit alongwith negative balance from current revenue might hamper the process of achieving debt stabilization and improving the debt sustainability of the State unless suitable measures are initiated by the State Government in medium and long run.

**(Paragraphs: 1.1 to 1.12)**

### **2. Allocative Priorities and Appropriation**

Against the total provision of Rs. 15,917.96 crore during 2006-07, the expenditure aggregated Rs. 15,178.45 crore resulting in overall saving of Rs. 739.51 crore. The saving was due to the net effect of savings of Rs. 2,889.54 crore (Revenue Rs. 531.99 crore; Capital Rs. 2,357.55 crore) and excess of Rs. 2,150.03 crore (Revenue Rs. 929.10 crore; Capital Rs. 1,220.93 crore) in respect of twenty eight grants and five appropriations and fourteen grants and one appropriation respectively. Out of 227 controlling officers, 21 controlling officers had not conducted the reconciliation in respect of the expenditure of Rs. 1,255.06 crore which constituted 10 *per cent* of the total net revenue and capital expenditure.

**(Paragraphs: 2.2 to 2.12)**

### **3 Performance Reviews**

#### **Consumer Affairs and Public Distribution Department**

##### **Procurement and Distribution of Foodgrains/Sugar and Kerosene Oil**

The Department did not prepare its Accounts since 1973-74 and 1974-75 in respect of Jammu and Kashmir Divisions, respectively.

**(Paragraph: 3.1.7)**

Benefits under PDS could not be provided to all the eligible families due to the failure of the Department to identify BPL families in accordance with the Central Government guidelines.

**(Paragraph: 3.1.9)**

In Kashmir Division (Leh and Kargil districts), foodgrains were lifted in excess of the requirement leading to accumulation of huge closing stocks at the end of each year during 2002-07.

**(Paragraph: 3.1.10.3)**

Prolonged storage of food stocks led to destruction of 1,377 MTs of rice, 1,225 MTs of *atta* and 19.8 MTs of sugar, costing Rs. 1.50 crore. Besides, 4,248 MTs of sub-standard foodgrains had to be sold at reduced rates in Kargil district leading to further loss of Rs. 1.03 crore.

**(Paragraph: 3.1.10.3)**

In Leh and Kargil districts, 2,441 MTs of rice, 2,077 MTs of *atta*, 267 MTs of sugar and 1,780 kilolitres of kerosene oil (aggregate cost: Rs. 4.38 crore) were irregularly charged off on account of driage/wastage and shortages during 2001-07.

**(Paragraphs: 3.1.12.1 and 3.1.12.2)**

#### **Forest Department**

##### **Review of Forest Department**

There was no approved Forest Policy. Out of 28 Forest Divisions, the working plans of only four Divisions were approved.

**(Paragraphs: 3.2.9 and 3.2.9.1)**

No projects were formulated for afforestation against the availability of compensatory afforestation funds amounting to Rs. 79.34 crore.

**(Paragraph: 3.2.9.3)**

There was no noticeable impact of rehabilitation of degraded forests despite expending Rs. 18.11 crore during the 10<sup>th</sup> Plan.

**(Paragraph: 3.2.9.6)**

There was no approved control policy of Resin. Indecisiveness of the Department to sell resin in time resulted in loss of Rs. 1.16 crore.

**(Paragraphs: 3.2.9.9 and 3.2.9.10)**

The rules governing service conditions, area of activity and handling of arms and ammunition in Forest Protection Force were not approved resulting in an unfruitful investment of Rs. 84.69 lakh.

**(Paragraph: 3.2.10)**

## **Housing and Urban Development Department**

### **Developmental Activities of Jammu Development Authority**

Annual accounts of the Authority were in arrears from 1985-86 onwards. Balance Sheets prepared by external auditors on year to year basis from 2002-03 onwards did not reflect the true and fair view of the assets and liabilities for want of balances of left over years.

**(Paragraphs: 3.3.7.1 and 3.3.7.3)**

Mismanagement in land acquisition for Satellite Township at Sidhra resulted in unfruitful expenditure of Rs. 11.86 crore.

**(Paragraph: 3.3.9.1)**

Non-allotment of 305 dwelling units out of 550 units constructed for weaker sections of society resulted in idling of Rs. 1.81 crore.

**(Paragraph: 3.3.10.3)**

Non-maintenance of property register of built up assets and allotments resulted in double and irregular allotments besides revenue loss of Rs. 2.05 crore.

**(Paragraphs: 3.3.14.1 to 3.3.14.3)**

Lack of internal control and monitoring mechanism resulted in non/short realisation of premia and rent of built up assets to the extent of Rs. 56.61 crore.

**(Paragraph: 3.3.14.4)**

## **Public Health Engineering Department**

### **Accelerated Rural Water Supply Programme (ARWSP)**

The State lost Central Assistance of Rs. 41.51 crore due to shortfall in its matching share under Minimum Needs Programme (MNP) and excessive closing balance.

**(Paragraph: 3.4.7.2)**

Financial liability of Rs. 3.81 crore was created due to execution of works without availability of funds.

**(Paragraph: 3.4.7.5)**

Incomplete water supply schemes were to be prioritised over New Schemes to avoid delay and cost overrun. There was cost escalation of Rs. 91.57 lakh due to non-prioritisation.

**(Paragraph: 3.4.8.3)**

In spite of additional funding of Rs. 72.71 crore, there was shortfall in coverage of 'Not Covered' (NC) and 'Partially Covered' (PC) habitations which ranged between 52 to 91 and 44 to 97 *per cent* respectively during 2002-07.

**(Paragraph: 3.4.9.1)**

Unplanned execution of 23 water supply schemes without identifying source etc. resulted in idle/unfruitful expenditure of Rs. 12.26 crore.

**(Paragraph: 3.4.9.3)**

Failure of Government in providing matching share delayed completion of schemes under "Kandi Action Plan" resulting in idle investment of Rs. 37.27 crore.

**(Paragraph: 3.4.11)**

## **Revenue Department**

### **Earthquake Relief and Rehabilitation**

Payment of Rs. 11.06 crore was made to 819 ineligible persons due to non-verification of genuineness of claims.

**(Paragraph: 3.5.8.2)**

Payment of relief to 10,920 beneficiaries in Baramulla district without taking into account the actual damages assessed by the assessment committees resulted in overpayment of Rs. 15.58 crore.

**(Paragraph: 3.5.8.6)**

In four test checked DDOs, undue relief of Rs. 2.44 crore was disbursed to 585 persons.

**(Paragraph: 3.5.8.12)**

In 19 vulnerable villages of Uri and Tangdhar, the victims constructed houses at the same location exposing themselves to future risks.

**(Paragraph: 3.5.9.3)**

Relief material and 1,100 prefabricated huts arranged (December 2005) by Defence Ministry under operation IMDAD were not fully utilised (April 2007).

**(Paragraph: 3.5.9.6)**

## **Rural Development Department**

### **Sampoorna Grameen Rozgar Yojana (SGRY)**

Non-adherence to guidelines for implementation of the programme by the State Government deprived people in 12 districts of Central cash assistance of Rs. 3.54 crore and 1,500 tons of foodgrains.

**(Paragraph: 3.6.7.2)**

In ten blocks 345 works (estimated cost: Rs. 1.29 crore) approved in the Annual Action Plans during 2002-06 were not executed. However, an expenditure of Rs. 1.46 crore was incurred on 314 unapproved works.

**(Paragraph: 3.6.8.1)**

281.63 lakh mandays shown generated through execution of programme works during 2002-07 as communicated to GOI were arrived at arbitrarily and were not based on data worked out from muster rolls.

**(Paragraph: 3.6.9.2)**

Rupees 67.46 lakh were spent on execution of 112 works prohibited under the programme. Besides, programme funds of Rs. 1.24 crore were diverted to activities not related to the programme.

**(Paragraphs: 3.6.12 and 3.6.7.3)**

Distribution of inadequate quantity of foodgrains in far-flung areas defeated the objective of providing food security to rural poor, besides disturbing the proportion of cash and foodgrains in other blocks.

**(Paragraph: 3.6.15.2)**

## **Audit of Transactions**

### **Housing and Urban Development Department**

Faulty planning by the Corporation in taking up construction works without ensuring site free from encumbrances and failure to provide drawing in time, etc. resulted in unfruitful expenditure of Rs. 2.92 crore.

**(Paragraph: 4.2.3)**

### **Power Development Department**

Failure of the Department to complete the System Improvement Schemes in time and ensuring sufficient funds/equipment resulted in unfruitful expenditure of Rs 4.49 crore.

**(Paragraph: 4.2.5)**

### **Public Works Department (Roads and Buildings)**

Construction of a bridge without provision for approach roads resulted in idle expenditure of Rs. 30.97 lakh.

**(Paragraph: 4.2.6)**

### **Social Welfare Department**

Over-drawal and non-accountal of funds by District Social Welfare Officer, Srinagar from treasury for disbursement to beneficiaries under National Old Age Pension Scheme resulted in misutilisation of Rs. 10.22 lakh.

**(Paragraph: 4.2.10)**

### **Health and Medical Education Department**

Delay in initiating action by the Department resulted in blocking of Rs. 1.48 crore for periods ranging between one and three years besides denying intended benefits to the targeted population.

**(Paragraph: 4.3.3)**

Indecision of the Department in purchase of equipment resulted in non-utilisation of Rs. 85 lakh for more than two years besides depriving Lal-Ded Hospital of a Waste Management System.

**(Paragraph: 4.3.4)**

## **5. Internal Control and Internal Audit arrangements**

### **General Provident Fund Organisation**

Lack of initiative and non-adherence to the manualised procedure led to accumulation of departmental un-posted debits and credits of Rs. 64.21 lakh and Rs. 14.10 crore respectively.

**(Paragraph: 5.7.2.5)**

Laxity in maintenance of accounts and lack of coordination between the Drawing and Disbursing Officers and Fund Offices resulted in increase in non-operative accounts and accumulation of negative balance of Rs. 2.95 crore.

**(Paragraph: 5.7.2.6)**

Non-existence of a viable mechanism between sister Fund Offices and Drawing and Disbursing Officers led to non-finalisation of Final Refund cases of migrants and non-adjustment of Transfer Advices.

**(Paragraphs: 5.7.2.7 and 5.7.2.8)**

## **6. Revenue receipts**

### **Finance Department**

#### **Performance review**

#### **Industrial exemption under GST and CST Acts**

Failure of the assessing authorities (AAs) to ensure submission of prescribed declaration forms at the time of assessment and verify their correctness resulted in irregular exemption of Rs. 34.80 crore including interest.

**(Paragraph: 6.2.6.1)**

Failure of the AAs to disallow exemption to 15 dealers whose business activities did not amount to manufacture resulted in non-levy of tax and interest of Rs. 7.76 crore.

**(Paragraph: 6.2.7.1)**

Failure of the AAs to levy tax on eight industrial units which had purchased and sold finished goods without carrying out any processing thereof led to inadmissible tax exemption of Rs. 5.19 crore including interest.

**(Paragraph: 6.2.7.2)**

Failure of the AAs to detect concealment and disallow exemption to 16 industrial unit holders resulted in non-raising of demand of Rs. 4.80 crore.

**(Paragraph: 6.2.7.3)**

Failure of the AAs to follow the directions of the CCT led to undue allowance of tax exemption to seven dealers who had not carried out manufacturing of finished goods and resulted in non-raising of demand of Rs. 3.16 crore.

**(Paragraph: 6.2.7.4)**

Loss of revenue due to lacunae in notifications providing exemption of CST for interstate sales

**(Paragraph: 6.2.8)**

## **Audit of Transactions**

### **Finance Department**

Failure of the Assessing authorities to detect concealment of purchases and erroneous/incorrect computations resulted in short levy of tax, interest and penalty aggregating Rs. 1.32 crore

**(Paragraphs: 6.3 to 6.5)**

### **Law Department**

Failure of Sub-Registrar Ramban to levy Stamp duty in accordance with the prescribed rates on eight sale deeds resulted in short levy of stamp duty of Rs. 4.52 lakh and non imposition of maximum penalty of Rs. 45.22 lakh.

**(Paragraph: 6.6)**

## **7.1 General view of Government companies and Statutory corporations**

As on 31 March 2007, 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. 3,464.76 crore as on 31 March 2006 to Rs. 4,420.88 crore as on 31 March 2007. The total investment in the non-working PSUs was Rs. 3.40 crore as on 31 March 2007.

The budgetary support in the form of capital, loans, grants and subsidies to the working PSUs increased from Rs. 362.03 crore in 2005-06 to Rs. 399.94 crore in 2006-07. During 2006-07, the State Government guaranteed loans aggregating Rs. 2,369.69 crore. The outstanding loans guaranteed by the Government increased from Rs. 1,623.56 crore as on 31 March 2006 to Rs. 2,303.67 crore as on 31 March 2007.

According to the latest finalised accounts, seven companies and one Statutory corporation earned aggregate profit of Rs. 276.38 crore and Rs. 4.64 crore respectively, of which only one company (J&K Bank Limited) declared dividend of Rs. 55.75 crore. Ten PSUs (nine companies and one Statutory corporation viz. Jammu and Kashmir State Road Transport Corporation) suffered an aggregate loss of Rs. 129.33 crore. Of the nine loss-incurring companies, eight had accumulated losses aggregating Rs. 409.56 crore, which exceeded their aggregate paid-up capital of Rs. 63.14 crore. The loss-incurring corporation (viz. Jammu and Kashmir State Road Transportation Corporation), which had finalised its

accounts for previous year by September 2007, had incurred a loss of Rs. 54.67 crore. The corporation had accumulated loss of Rs. 598.92 crore, which exceeded its paid up capital of Rs. 109.51 crore.

**(Paragraph: 7.1)**

## **Reviews relating to Government companies**

### **7.2 Performance Review on the working of Jammu and Kashmir State Forest Corporation**

The Jammu and Kashmir State Forest Corporation, established with the main objectives to exploit forest resources; undertake research programmes relating to forest and forest products; manage/maintain such forests transferred to it by the Government, had largely failed to live up to its objectives. It failed to exploit the forest products to its full potential. Untimely extraction and transportation of stock had led to loss of timber due to floods, fire at the extraction/transportation stations. There existed no efficient system to control outturn and quality of production. The measurement system was inadequate and defective.

Some of the major findings were as follows:

The Company had finalised its accounts only up to 1988-89. Non-finalisation of accounts was fraught with the risk of frauds, embezzlements remaining undetected.

**(Paragraph: 7.2.18.1)**

Despite enough markings available at the beginning of each year, the Corporation had taken 230.50 lakh cfts of fresh marked trees from the Forest Department for exploitation. This resulted in accumulation of inventory and creation of additional liability on account of royalty amounting to Rs. 75.45 crore.

**(Paragraph: 7.2.6)**

Out of 21.21 lakh cfts of *Deodar* and *kail* extracted by the Corporation between 2001-02 and 2005-06, the total outturn aggregated 13.03 lakh cfts against 13.61 lakh cfts as per norms fixed by the Corporation. This resulted in shortfall in the outturn by 0.58 lakh cfts, with consequential loss of Rs. 2.83 crore.

**(Paragraph: 7.2.7)**

The stock losses suffered by the Corporation since its inception (1979-80), on account of floods, fire, pilferage, thefts, transit shortages, etc., aggregated to Rs. 272.04 crore. All these cases were pending write off/recovery/enquiry/settlements as on March 2007.

**(Paragraph: 7.2.18.6)**

Improper arrangement at the extraction/*mahaning* sites led to loss of 7 lakh cfts of timber, valued at Rs. 23.33 crore.

**(Paragraph: 7.2.12)**



Due to deterioration of stocks, various species of timber, measuring 12.30 lakh cfts were sold at reduced rates, resulting in loss of Rs. 17.61 crore to the Corporation.

**(Paragraph: 7.2.13.1)**

### **Audit of Transactions**

#### **Jammu and Kashmir Bank Limited**

Failure of the Company to assess loanee's ability to compete in the market and conduct proper evaluation of its assets, led to a loss of Rs. 1.25 crore to the Bank.

**(Paragraph: 7.3)**

#### **Jammu and Kashmir Handloom Development Corporation Limited**

Misutilisation of Government funds amounting to Rs 1.41 crore by the Company resulted in denial of intended benefits under Project Package Scheme to the targeted group.

**(Paragraph: 7.4)**

Non-remittance of General/Contributory Provident Fund collections to the Provident Fund Commissioner by the Company resulted in accumulation of outstanding liability to Rs. 3.39 crore.

**(Paragraph: 7.5)**

#### **Jammu and Kashmir State Road Transport Corporation Limited**

Non-remittance of General/Contributory Provident Fund collections to the Provident Fund Commissioner by the Corporation resulted in accumulation of liability to Rs. 29.26 crore.

**(Paragraph: 7.7)**