

This Report contains 32 paragraphs, eight performance audit reviews (including Integrated audit of Agriculture department) and comments on the Finance and Appropriation Accounts for the year 2007-08. Copies of draft paragraphs and draft reviews were sent to the Commissioner/Secretary of the Department concerned by the Accountant General with the request to furnish replies within six weeks. However, in respect of 31 draft paragraphs and eight performance reviews 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 mixed trends in the fiscal situation during 2007-08 over the previous year. While the revenue surplus has increased and reached the peak level of Rs 1088 crore in 2007-08, the fiscal and primary deficits have deteriorated over the previous year. The improvement in revenue surplus of the State may however be viewed in the light of the fact that little more than *55 per cent* of the incremental revenue receipts of the State during 2007-08 (Rs 2095 crore) were contributed by the Central transfers comprising the State's share in Central taxes and duties and grants-in-aid from the GOI. The expenditure pattern of the State reveals that the revenue expenditure exhibited a declining trend during the period 2003-08, but continued to share a dominant proportion in the total expenditure of the State and was around *76 per cent* during 2007-08. Moreover, within the revenue expenditure, the non-plan revenue expenditure at Rs 11666 crore in 2007-08 was significantly higher than the normative assessment of TFC (Rs 6514 crore) for the State for the year and its four components – salaries and wages, pension liabilities, interest payments and subsidies – constituted about *67 per cent* during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. The continued prevalence of fiscal and primary deficits indicates the increasing reliance of the State on borrowed funds. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilise additional resources both through the tax and non tax sources in the ensuing years.

(Paragraphs: 1.1 to 1.12)

2 Allocative Priorities and Appropriation

Against the total provision of Rs. 19,003.44 crore during 2007-08, the expenditure aggregated Rs. 18,490.31 crore resulting in overall saving of Rs. 513.13 crore. The saving was due to net effect of savings of Rs. 2,791.04 crore (Revenue: Rs. 507.10 crore; Capital: Rs. 2,283.94 crore) and excess of Rs. 2,277.91 crore (Revenue: Rs. 695.39 crore; Capital: Rs. 1,582.52 crore) in respect of 28 grants and three appropriations and 14 grants and one appropriation respectively. Out of 284 controlling officers, 80 controlling officers had not

conducted the reconciliation in respect of the expenditure of Rs. 3659.40 crore which constituted 23 *per cent* of the total net revenue and capital expenditure.

(Paragraphs: 2.2 to 2.12)

3 Performance Reviews

Education Department

Jammu University

The University of Jammu was incorporated with the objectives of imparting education, carrying out independent research, advancement and dissemination of knowledge, recognizing and affiliating colleges, holding examinations, conferring degrees, diplomas and other academic distinctions. This was the first University in the country to have its management systems certified under ISO 9001:2000. The teaching departments and centres of the University have also developed links/research collaborations with different National/International Academic/Research bodies.

- Research projects were not completed on time. 43 *per cent* of PhD scholars had not submitted their thesis even after five years. Research thesis of 48 scholars received two months to five years back were pending acceptance due to non-availability of experts/scholars to evaluate them.

(Paragraph: 3.1.9.2)

- There was inordinate delay in declaration of results and issuance of degree certificates.

(Paragraphs: 3.1.10.1 and 3.1.10.3)

- There was high incidence of revision of results consequent on revaluations.

(Paragraph: 3.1.10.2)

National Programme of Nutritional Support of Primary Education (Mid-day Meal Scheme)

The Mid Day Meal scheme was launched by the Government of India in the State on 1st September 2004 with the objective of boosting primary education by increasing enrolment, retention and attendance of students in Government schools and EGS centres. While the implementation of the programme resulted in an increase in the rate of attendance of the students in the schools the actual enrolment has declined during 2004-08.

- The average utilisation of funds during 2004-08 was only 41 *per cent*.

(Paragraph: 3.2.8.2)

- Average consumption of food grains per child per school day during 2005-08 was only 77.90 gms, against 100 gms envisaged in the programme guidelines.

(Paragraph: 3.2.9.2)

- There was no mechanism to ascertain that food grains supplied conformed to the FAQ specification, so that it did not have any adverse impact on the children.

(Paragraph 3.2.9.6)

- Infrastructure was inadequate. Rs. 34.89 crore, released during 2006-08, for construction of kitchen-cum-store were not utilised; as a result, meals were prepared in class rooms and open spaces.

(Paragraph: 3.2.10.1)

Housing and Urban Development Department

Srinagar Development Authority

The Srinagar Development Authority was established with the objective of promoting and securing the development of the local area of Srinagar city in accordance with the approved Master Plans. To achieve the objectives, the Authority is vested with powers to acquire, hold, manage and dispose of land and other property and carryout building and engineering operations. A review of the functioning of the Authority during 2003-08 revealed that although it succeeded in generating substantial internal resources, the main objectives were not achieved fully due to non-implementation of Master Plans. Although the Authority pulled up the arrears in its accounts to a large extent, it is yet to appoint auditors to certify these accounts for submission to the State Legislature.

- Failure to implement Master Plan of Srinagar City resulted in its unplanned development.

(Paragraph: 3.3.7)

- While there was a significant increase in revenue generation from internal resources during 2003-08, utilisation of available resources ranged between 34 and 48 *per cent* only.

(Paragraph: 3.3.8.1)

- Works costing Rs. 1.22 crore were got executed by the Authority during 2004-08 without invitation of tenders, in violation of rules.

(Paragraph: 3.3.9.3)

- National Slum Development Project (NSDP) funds (Rs. 2.43 crore) were spent in contravention of scheme guidelines. Subsidy for construction of dwelling units under VAMBAY was allowed to non-deserving beneficiaries.

(Paragraphs: 3.3.9.4 and 3.3.9.5)

- Lack of internal control and monitoring mechanism resulted in non-realisation of Rs. 7.48 crore on account of premia and rent of built-up assets.

(Paragraphs: 3.3.13)

Irrigation and Flood control Department

Lift Irrigation Schemes

The construction and maintenance of lift irrigation schemes is vested with the State Irrigation and Flood Control Department. The lift irrigation schemes irrigate 22.83 thousand hectares (*7 per cent*) of cultivable land. Performance review of the lift irrigation schemes in the State revealed that the schemes had been executed in an unplanned manner and were incomplete for more than 20 years in some cases. Even the irrigation potential created was not fully utilised which adversely affected the contribution of lift irrigation scheme.

- Delay in release of Government of India funds by planning/administrative department ranged between 30 and 252 days.

(Paragraph: 3.4.9.1)

- Four schemes completed at a cost of Rs. 3.86 crore cultivated only *19 per cent* of envisaged area.

(Paragraph: 3.4.10.1)

- Unplanned execution of works resulted in unfruitful expenditure of Rs. 4.27 crore

(Paragraph: 3.4.10.2)

- Time overrun on execution of schemes ranged between 1 and 31 years while as cost overrun ranged up to Rs. 33.86 crore.

(Paragraph: 3.4.10.3)

- Internal control mechanism of the Department was weak which resulted in irregular payments, irregular execution of works, etc.

(Paragraph: 3.4.11)

4. Audit of Transactions

Embezzlement/loss/non-recovery of dues

Lax supervision and non-observance of prescribed control procedures by Chief Accounts Officer and various revenue realising wings of Jammu Municipal Corporation resulted in embezzlement of Rs. 12.71 lakh.

(Paragraph: 4.1.1)

Idle investment/blocking of funds/unfruitful expenditure/avoidable expenditure, etc.

Departmental failure to settle the land compensation issue before taking up the construction of PHC resulted in idle investment of Rs. 98.50 lakh and blocking of Rs. 42.50 lakh.

(Paragraph: 4.2.1)

Departmental failure to sequence the procurement of leather technology equipment with the civil works construction schedule resulted in idle investment of Rs. 1.01 crore.

(Paragraph: 4.2.2)

Non-completion of textile block buildings due to changes in their designs after the allotment of contract, and non-installation of machinery purchased for the course led to idle investment of Rs. 94.40 lakh.

(Paragraph: 4.2.3)

Failure of the Department to arrange funds for liquidation of loan despite acquisition of huge infrastructure resulted in avoidable interest liability of Rs. 13.70 crore.

(Paragraph: 4.2.6)

Departmental failure to ensure availability of the equipment and misreporting of the facts to the REC resulted in blocking /idle investment of Rs. 1.36 crore.

(Paragraph: 4.2.7)

Taking up of work without AA/TS resulted in irregular expenditure of Rs. 46.33 lakh spent on the bridge, which had been rendered idle due to non construction of approaches.

(Paragraph: 4.2.9)

Funds were advanced to the Collector, Land Acquisition without adhering to the rules and material was procured without assessment resulting in blocking of Rs. 1.50 crore.

(Paragraph: 4.2.10)

Failure of the Department to acquire land before allotment of work for construction of a road rendered an expenditure of Rs. 67.09 lakh unfruitful.

(Paragraph: 4.2.11)

Non-adherence to scheme guidelines resulted in payment of Rs. 2.64 crore as scholarship to undeserving students.

(Paragraph: 4.2.16)

Regularity and other issues

CEO, Anantnag irregularly utilised Rs. 17.01 lakh meant for improvement of schools, to meet day-to-day expenditure.

(Paragraph: 4.3.1)

5. Integrated audit

Agriculture Department

The objective of the Department is to increase food production, by increasing the distribution of high yielding variety of seeds to farmers, bringing more land under

cultivation and improving the performance of seed farms. The production of food grains in the State increased steadily during 2003-08. However, the Department failed to achieve the Tenth Plan targets mainly due to underutilisation of funds, poor performance of departmental farms, non-utilisation of the available area, etc. due to which the State had to rely on imports.

- Out of an expenditure of Rs. 550.68 crore (excluding on CSS) incurred during 2003-08, the Department incurred Rs. 470.66 crore (85 *per cent*) on establishment.

(Paragraph: 5.10)

- Yield obtained in respect of breeder seeds was not as per the norms or assessments. Actual distribution of seeds was far below the requirement.

(Paragraphs: 5.10.2 and 5.10.4)

- The net sown area declined by 11,000 hectares during 2004-07 and the irrigated area reduced by 2,000 hectares.

(Paragraph: 5.10.5)

- 1,402 items of pump sets and sprayers purchased during 2004-05 had not been issued to farmers.

(Paragraph: 5.11)

6. Revenue Receipts

Transport Department

Performance review on Motor Vehicle taxes

Non-conducting of inspection of vehicles resulted in non-recovery of Rs. 9.25 crore during 2003-07. Token tax of Rs. 1.15 crore was also not recovered during the same period.

(Paragraphs: 6.2.7.3 and 6.2.7.4)

Non-imposition of penalty due to over-loading of vehicles resulted in loss of Rs. 25.72 crore during April 2004 to March 2008.

(Paragraph: 6.2.11)

Administrative inspections as well as internal audit of the subordinate units were not conducted.

(Paragraphs: 6.2.12.2 and 6.2.12.3)

Information Technology Audit of Computerisation in Transport Department, Government of Jammu and Kashmir.

Absence of a time frame in implementation of software resulted in delay in project implementation.

(Paragraph: 6.3.7)

Inadequate control environment adversely affected functioning of the system.

(Paragraph: 6.3.12)

Absence of application controls resulted in low assurance regarding completeness and reliability of database.

(Paragraphs: 6.3.13.1, 6.3.13.4, 6.3.13.7)

Check/control mechanism was not in place resulting in registration of vehicle on fraudulent/duplicate Insurance Cover Notes.

(Paragraph: 6.3.13.6)

Audit of Transactions

Finance Department (Commercial Taxes)

Failure to detect the concealment of purchases made by two industrial units resulted in irregular exemption of sales tax of Rs. 46.89 lakh.

(Paragraph: 6.4)

Failure of the AA Commercial Tax Circle ‘E’ Srinagar to determine correct taxable turnover of a dealer and apply correct rates of tax on the sales made to Government departments resulted in short levy of tax and interest of Rs. 1.26 crore and loss of Rs. 86.42 lakh due to time barring.

(Paragraph: 6.5)

Failure of the assessing authority (AA) Commercial Tax Circle ‘E’ Srinagar to apply the correct rates of tax on sales made by a dealer to a corporation, resulted in short levy of tax and interest aggregating Rs. 1.83 crore.

(Paragraph: 6.6)

Failure of the assessing authority to take cognizance of the certificate issued by the Excise Department and determine the correct taxable turnover of a dealer resulted in short levy of tax, interest and penalty aggregating Rs. 7.71 lakh.

(Paragraph: 6.7)

Failure of the assessing authority to cross-check the purchases disclosed by a dealer in the purchase statement and trading account with his C form consumption account resulted in short levy of tax, interest and penalty aggregating Rs. 5.73 lakh.

(Paragraph: 6.8)

Power Development Department

Non-levy of surcharge to the Gondola Cable Car Project, Gulmarg by the Power Development Department resulted in non-recovery of Rs. 8.60 lakh.

(Paragraph: 6.9)

Transport Department

Lack of co-ordination between the two departments led to non-recovery of Rs. 46.97 lakh. Besides the vehicle owners of six vehicles against which

Rs. 2.18 lakh were outstanding as of March 2008 managed to get their documents renewed without obtaining no objection certificate.

(Paragraph: 6.10)

7. General view of Government companies and statutory corporations

As on 31 March 2008, 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 investment in the working PSUs increased from Rs. 4,420.88 crore as on March 2007 to Rs. 4761.03 crore as on March 2008.

The budgetary support in the form of capital, loans, grants and subsidies to the working PSUs decreased from Rs. 226.12 crore in 2006-07 to Rs. 56.13 crore in 2007-08. During the year 2007-08, the State Government guaranteed loans aggregating Rs. 240.66 crore. The outstanding loans guaranteed by the State Government increased from Rs. 2,303.67 crore as on March 2007 to Rs. 2,429.77 crore as on March 2008.

The accounts of 16 working Government companies and three Statutory corporations were in arrears for periods ranging from 3 to 19 years as on 30 September 2008. According to the latest finalised accounts, six companies and one statutory corporation (Jammu and Kashmir State Financial Corporation) had earned aggregate profit of Rs. 362.21 crore and Rs. 4.64 crore respectively, of which only one company (J&K Bank Limited) had declared dividend of Rs. 29.64 crore. Eleven PSUs (10 companies and one Statutory corporation viz. Jammu and Kashmir State Road Transport Corporation) suffered aggregate loss of Rs. 164.21 crore. Of the 10 loss-incurring working Government companies, eight had accumulated losses aggregating Rs. 463.84 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)

Performance review relating to working of Company

The working of Jammu and Kashmir Small Scale Industries Development Corporation Limited

The Jammu and Kashmir Small Scale Industries Development Corporation Limited was incorporated in November 1975 with the main objectives of aiding, assisting and promoting Small Scale Industrial units in the State. However, only a negligible number of SSI units are utilising its services in the procurement of raw material and in marketing their products. The Company largely failed in achieving the objective of providing marketing support to SSI units. Its role in marketing the products of SSI units was also very insignificant. There was slow progress in the establishment of estates at Govindsar and Zakura indicating the

casual approach adopted by the Company in pursuing its objectives. Some of the major findings were as follows:

The Company failed to develop Industrial Estates at Govindsar and Zakura due to lack of sustained efforts and co-ordination with the State Revenue Department.

(Paragraphs 7.2.9 and 7.2.10)

By engaging private parties for procurement/distribution of raw material, the intended purpose of setting up Raw Material Bank got defeated, as the weavers/artisans continued to be dependent on the intermediaries.

(Paragraph 7.2.15)

The percentage of units provided marketing assistance by the Company declined from 67 in 2002-03 to 43 in 2007-08. As a result, the earning of the Company by way of service charges also declined from Rs. 3.28 crore in 2004-05 to Rs. 2.62 crore in 2007-08.

(Paragraph 7.2.16)

The Company spent Rs. 4.58 crore (*69 per cent*) out of Rs. 6.65 crore received, between 2003-04 and 2007-08. Underutilization of funds hampered implementation of various projects like providing infrastructural facilities to the SSI units at the Industrial Estates, Govindsar and Udhampur, modernisation of testing centres, etc.

(Paragraph 7.2.20)

Audit of Transactions

Jammu and Kashmir Bank Limited

Failure of the Jammu and Kashmir Bank to re-evaluate the mortgaged property of a firm, resulted in non-recovery of Rs. 4.16 crore with consequent loss to the Bank.

(Paragraph 7.3)

J&K Cements Limited

The J&K Cements Limited failed to recover Rs. 13.12 lakh from a private firm due to its failure to enforce terms of the agreement entered into with the firm.

(Paragraph 7.4)

J&K Horticultural Produce Marketing and Processing Corporation Limited

Diversion of General/Contributory Provident Fund collections by the J&K Horticultural Produce Marketing and Processing Corporation Limited resulted in accumulation of outstanding liability to Rupees five crore.

(Paragraph 7.5)