

Overview

This Report includes two chapters containing observations of Audit on Finance and Appropriation Accounts of the State for the year 2002-03 and seven other chapters with six audit reviews and 35 paragraphs dealing with the results of the audit of selected schemes, programmes, the financial transactions of the Government, commercial/trading activities and internal control systems of the Government. A synopsis of the major audit findings is set out in this overview.

1. An overview of the finances of the State Government

The accounts of the State Government for the year 2002-03 closed with a revenue surplus of Rs 368 crore against deficit of Rs 334 crore during 2001-02, mostly due to adjustments of past years' credits during the year. The actual revenue surplus for the year worked out to Rs 51 crore only.

Revenue receipts of the State increased from Rs 4509 crore in 1998-99 to Rs 7548 crore in 2002-03 at an average trend rate of 10.67 *per cent* per annum.

The overall expenditure of the State comprising revenue expenditure, capital expenditure and loans and advances, increased from Rs 5567 crore in 1998-99 to Rs 8941 crore in 2002-03 at an average annual trend rate of 12.04 *per cent*.

The fiscal liabilities of the State increased from Rs 6835 crore in 1998-99 to Rs 12279 crore in 2002-2003 at an average annual rate of 14.54 *per cent* constituting about 59 *per cent* to 66 *per cent* of the GSDP during this period. The returns on Government investments ranged between zero to 5.38 *per cent* during 1998-99 to 2002-03 against the average borrowing rate of 10.10 *per cent* during the period. The amount locked in 132 incomplete projects was Rs 603 crore at the end of the year 2002-03.

(Paragraphs: 1.1 to 1.12)

2. Appropriation audit and control over expenditure

Against the provision of Rs 10736 crore during 2002-03, the expenditure aggregated Rs 9818 crore which resulted in overall saving of Rs 918 crore. The saving was due to net effect of saving of Rs 1424 crore and excess of Rs 506 crore in respect of 29 grants and nine appropriations, and 14 grants and one appropriation respectively. The excess expenditure of Rs 506 crore was mainly due to incurring of expenditure without budget provision.

(Paragraphs: 2.2 and 2.3)

123 controlling officers (out of 224) had not completed reconciliation in respect of expenditure of Rs 4989 crore, which constituted 58 *per cent* of the total revenue and capital expenditure.

(Paragraph: 2.13)

**3. Performance review of schemes/programmes/corporation/
autonomous bodies**

Agriculture Production Department

Sericulture Development Programme

The programme comprised activities like mulberry culture, seed production and worm rearing leading to production of cocoons. During the period 1997-98 to 2002-03, 40.82 lakh kgs of cocoons were produced against the reduced targets of 48 lakh kgs and the average yield of cocoon was only 28 kgs per ounce of seed against the norm of 40 kgs per ounce. The cost of production of cocoons worked out to Rs 73.50 crore against which only Rs 25.35 crore were realised on their sale resulting in implicit subsidy of Rs 48.15 crore, of which Rs 31.61 crore were indirectly passed on to the buyers of other states.

(Paragraph: 3.1)

Irrigation and Public Health Engineering Department

Accelerated Irrigation Benefit Programme

The programme was introduced in the State to complete on-going major and medium irrigation projects. Implementation of the programme was poor as there was both time and cost overrun in all nine projects taken up in the State. Central Loan Assistance (CLA) of Rs 32.36 crore (52 per cent) only was utilised during 1996-97 to 2002-03, resulting in accumulation of unspent balance of Rs 30.15 crore at the end of March 2003. In addition, State and CLA funds amounting to Rs 4.49 crore were diverted.

(Paragraph: 4.1)

Minimum Needs Programme

The programme aims at upgradation and completion of on-going rural water supply schemes. 16 water supply schemes could not be made functional rendering the expenditure of Rs 7.19 crore unfruitful. 74 schemes executed between 1977-78 and 1996-97 at a cost of Rs 24.43 crore became partially or fully defunct within 2 to 10 years of their completion due to source depletion, defective laying of distribution system and inadequate infrastructure.

(Paragraph: 4.2)

Finance Department

A review, **Assessment and Collection of Toll Tax** revealed the following:

Inadequate co-ordination between Toll and Sales Tax/Railway Authorities and non-application of revised rates of additional toll resulted in short assessment/levy of toll of Rs 3.95 crore.

(Paragraph: 6.2.17)

Ten small scale industrial units were allowed exemption from payment of additional and special toll of Rs 46.16 lakh without obtaining the material receipt/consumption verification certificates from Industries and Commerce Departments for one or more quarters during the period 1999-2002.

(Paragraph: 6.2.24)

Arrears of toll amounted to Rs 32.80 crore as of January 2003 out of which Rs 29.56 crore were in arrears for more than five years.

(Paragraph: 6.2.32)

Toll collections by the Jammu and Kashmir Bank Limited were not credited to Government in time which would have resulted in saving of interest of Rs 2.62 crore on the overdrafts taken by Government from the Bank.

(Paragraph: 6.2.35)

Review relating to Government company

Jammu and Kashmir Tourism Development Corporation Limited

The Jammu and Kashmir Tourism Development Corporation Limited was incorporated in February 1970 as a wholly owned Government company with the main objective of promoting and operating schemes for development of tourist traffic to the state.

The Company had finalised its accounts up to 1988-89 only. The accumulated loss of the Company as per its provisional accounts, stood at Rs 7.85 crore at the end of March 2003, which represented 242 *per cent* of its paid-up capital.

(Paragraph: 7.2.7)

The number of units incurring operational losses increased from 29 (1998-99) to 39 (2002-03) and the losses suffered by them during this period aggregated Rs 7.45 crore. Of the loss-making units, 18 suffered losses continuously for the last five years.

(Paragraph: 7.2.8)

The Company suffered losses of Rs 1.03 crore during 1997-2002 on running departmental canteens not connected with development of tourism in the State.

(Paragraph 7.2.15)

Injudicious decision of the Company to shift its regional office from its existing site to new location resulted in wasteful expenditure of Rs 28.85 lakh.

(Paragraph: 7.2.17)

Agriculture Production Department

(Sher-E-Kashmir University of Agricultural Sciences and Technology Kashmir)

The University was established for furthering advancement of learning and research in agriculture, animal husbandry and other allied branches. There was shortfall in admission of students to its various courses with the percentage shortfall ranging between 20 and 100 in graduate courses (except during 2000-01) and between 6 and 83 in postgraduate courses. Only 46 out of 485 research experiments taken up during 1998-2002 were concluded during the period. Two institutions of the University at Shuhama and Wadoora had excess teaching/non-teaching staff (*vis-à-vis* UGC norms) on whom expenditure on salaries amounted to Rs 16.10 crore during the period 1998-2003. The scientists had not published any of their research work in national/international papers.

(Paragraph: 8.2)

4. Transaction Audit Findings

Agriculture Production Department

Director Agriculture, Kashmir identified defective sites for installation of pump sets at Agriculture Farm Padgampora (Pulwama) and subsequently failed to relocate them during the period 1997-2003 for their smooth functioning, which resulted in unfruitful expenditure of Rs 24.94 lakh.

(Paragraph: 3.2)

Civil Aviation Department

Commissioner, Civil Aviation Department started heli-skiing operations in February 1999 injudiciously without obtaining the permission of Director General of Civil Aviation. One Cheetah helicopter on heli-skiing mission crashed in March 1999. Non-insurance of the helicopter by the Department resulted in loss of Rs 3.54 crore to Government.

(Paragraph: 3.4)

Home Department

Non-observance of codal provisions by the Staff Officer to Additional Director General of Police Home Guards, Civil Defence and Auxiliary Police, Srinagar and the Treasury Officer, Civil Secretariat facilitated fraudulent drawal of Rs 17.75 lakh in July 2001.

(Paragraph: 3.8)

Tourism Department

The Department made loan assistance of Rs 6.47 crore to 4307 units. As of July 2003, neither the loan amount nor the interest thereon was recovered from any of the unit holders. 185 persons sponsored for loan to Jammu and Kashmir Bank Limited, kept Rs 4.35 crore out of the sanctioned loan amount in fixed deposits in the same bank. The Department irregularly disbursed Rs 62.50 lakh subsidy to two cinema hall owners in August 1999, which did not fall under the purview of Tourism Incentive Rules 1995.

(Paragraph: 3.9)

Power Development Department

Chief Engineer, System and Operation purchased 299 energy meters during the period 1997-99 without ensuring their suitability with the existing transmission system rendering the expenditure of Rs 50.63 lakh thereon unfruitful.

(Paragraph: 4.6)

Failure of the Executive Engineer, Sub-Transmission Division, Udhampur to submit reimbursement claims to Rural Electrification Corporation during the period 1997-2003 resulted in non-release of balance funds under the scheme and consequent non-completion of the work and idle investment of Rs 96.45 lakh. Cost of idle investment worked out to Rs 78.44 lakh.

(Paragraph: 4.8)

Roads and Buildings Department

Executive Engineer, R&B Division, Udhampur irregularly advanced Rs 1.03 crore to Jammu and Kashmir Small Scale Industries Development Corporation from February 2000 to March 2002 mainly to avoid lapse of funds which resulted in locking up of Rs 68.94 lakh. The cost of locked funds amounted to Rs 17.96 lakh.

(Paragraph: 4.10)

Chief Engineer, Mechanical Engineering Department, Jammu without assessing actual requirement of Mechanical Divisions Jammu, Khellani (Doda) and Udhampur purchased three wheel loaders during March/April 1999 at a cost of Rs 41.73 lakh. These loaders were not utilised due to inadequate work load rendering the investment idle.

(Paragraph: 4.12)

Irrigation and Public Health Engineering Department

Non-observance of rules and ineffective control of stores by the Executive Engineers, Public Health Engineering Divisions, Sopore and Baramulla facilitated shortage of stores costing Rs 53.21 lakh noticed in June 1998 and July 1998 during handing over of charge by the store keepers of these divisions. These shortages had not been investigated even after five years of their detection.

(Paragraph: 5.1)

Roads and Buildings Department

(Stores Procurement Department)

The Department had not maintained quantitative accounts *viz.* priced store ledgers and bin cards of the stores. Receipt of material against advance payments was not monitored and inventories in excess of the prescribed stock reserve limit were maintained. Material issued to the user divisions on loan basis was not reflected in the accounts. Cases of short receipt of supplies, avoidable and excess payments aggregating Rs 5.79 crore were also noticed in audit.

(Paragraph: 5.2)

Revenue Receipts

The total receipts of Government of Jammu and Kashmir were Rs 7548 crore in the year 2002-03 as against Rs 6489 crore in 2001-02. The arrears of revenue as on 31 March 2003, in respect of some principal heads of revenue aggregated to Rs 733 crore, of which Rs 478 crore were outstanding for more than 5 years. The number of Sales Tax assessment cases in arrears aggregated 65460 at the end of March 2003. Only 36 *per cent* of these cases, were disposed of during 2002-03. The cost of collection of sales tax, taxes on vehicles, state excise and stamps duty and registration fee in the State was higher than all India average cost of collection.

(Paragraph: 6.1)

Sales Tax Department

Failure to detect suppression/concealment of turnover, misclassification of turnover, incorrect computations and allowance of exemption on sale of goods by the Assessing Authorities resulted in non/short levy of tax, penalty and interest amounting to Rs 53.16 lakh.

(Paragraphs: 6.3 to 6.8)

Law Department

Failure of the Assessing Authorities to levy stamp duty at lesser rates in 71 cases of conveyance of immovable property registered in April 2000, resulted in short levy of stamp duty of Rs 7.58 lakh.

(Paragraph: 6.9)

Revenue Department

Tehsildar, Anantnag did not recover licence fee and renewal licence fee at revised rate from July 1990 to March 2002 from brick kiln licensees resulting in short realisation of revenue of Rs 6.99 lakh.

(Paragraph: 6.10)

Commercial activities

As on 31 March 2003, the State had 23 Public Sector Undertakings (PSUs) comprising 19 Government companies and four Statutory corporations, as was the number in the previous year. There was also one non-working Government company as on 31 March 2003. The total investment in the working PSUs increased from Rs 2729.62 crore as on 31 March 2002 to Rs 2887.90 crore as on 31 March 2003. The total investment in the non-working PSU was Rs 1.64 crore as on 31 March 2003.

The budgetary support in the form of capital, loan, grants and subsidy to working PSUs increased from Rs 56.49 crore in 2001-02 to Rs 61.96 crore in 2002-03. During 2002-03, the State Government guaranteed loans aggregating Rs 29.39 crore. Outstanding loans guaranteed by the Government decreased from Rs 1160.26 crore as on 31 March 2002 to Rs 1127.71 crore as on 31 March 2003.

Only one working Company (Jammu and Kashmir Bank Limited) had finalised its accounts for the year 2002-03. The accounts of the remaining working PSUs were in arrears for periods ranging between one and 18 years as on 30 September 2003. The accounts of the non-working Company were in arrears for 13 years.

According to the latest finalised accounts, five companies earned an aggregate profit of Rs 339.40 crore, of which only one company declared dividend of

Rs 29.10 crore. 12 PSUs (10 Government companies and two Statutory corporations) suffered an aggregate loss of Rs 90.08 crore. Of the 10 loss-incurring companies, six had accumulated losses aggregating Rs 163.64 crore which exceeded their aggregate paid-up capital by Rs 124.45 crore. Two Statutory corporations had accumulated losses aggregating Rs 581.39 crore which exceeded their aggregate paid-up capital by Rs 412.21 crore. Financial position and working results of four companies and two Statutory corporations could not be assessed in audit due to non-receipt of their accounts.

Even after completion of 26 to 35 years of their existence, the turnover of five working companies had been less than Rs five crore in each of the preceding five years of their latest finalised accounts. Of these, three companies had been incurring losses for five consecutive years leading to negative net worth. Besides, two working Statutory corporations had been incurring losses for five consecutive years leading to negative net worth. In view of poor turnover and continuous losses, Government may either improve performance of these PSUs or consider their closure.

(Paragraph: 7.1)

Industries and Commerce Department

Injudicious decision of the Board of Directors of Jammu and Kashmir Minerals Limited to invest in a joint venture with a private firm, without verifying credentials of the private firm and lack of proper monitoring and follow up resulted in loss of Rs 58.60 lakh.

(Paragraph: 7.3)

Power Development Department

The Jammu and Kashmir State Power Development Corporation Limited made avoidable payment of interest of Rs 40.64 lakh to a private firm owing to delay in releasing payments due to the firm.

(Paragraph: 7.4)

Transport Department

Failure of the Jammu and Kashmir State Road Transport Corporation Limited to follow proper procedure for issuing mechanical inspection certificates facilitated leakage of revenue of Rs 23.83 lakh.

(Paragraph: 7.5)

Ladakh Autonomous Hill Development Council

Food and Supplies Department

Lax supervision, defective storage and retention of a storekeeper by the Department for 13 years after his transfer, facilitated shortage of stores at food store, Leh besides, resulting in deterioration of 2000 quintals of rice and consequent loss of Rs 19.58 lakh to the State exchequer.

(Paragraph: 8.4)

Roads and Buildings Department

The Executive Engineer, R&B Construction Division, Leh failed to observe prescribed codal provisions for safe custody of stores which resulted in shortage of stores of Rs 16.70 lakh noticed on the eve of transfer of charge of stores in November 2000.

(Paragraph: 8.5)

Finance Department

(Internal Audit)

Finance Department introduced internal audit of Government offices and other aided institutions on a limited scale in 1986. A separate Directorate of Audit and Inspections was established by the Government in January 1997. Non-fixation of auditing norms/procedures, low coverage of units, non-pursuance of audit observations and inadequate provisions of staff rendered the internal audit activity of the Directorate ineffective.

(Paragraph: 9.1)