

## Overview

This Report includes two chapters containing observations of Audit on Finance and Appropriation Accounts of the State for the year 2003-04 and five other chapters with three audit reviews, one long paragraph in the nature of performance review and 28 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. No response was received from the Government/Department in respect of one review and 22 paragraphs. A synopsis of the major audit findings is set out in this overview.

### 1. Finances of the State Government

The accounts of the State Government for the year 2003-04 closed with a revenue surplus of Rs. 458 crore. Revenue receipts of the State increased from Rs. 5514 crore in 1999-2000 to Rs. 8212 crore in 2003-04 at a trend growth rate of 12.35 *per cent*. Rate of growth of revenue receipts during 2003-04 was only 8.80 *per cent* as compared to 16.32 *per cent* during 2002-03.

The overall expenditure of the State comprising revenue expenditure, capital expenditure and loans and advances, increased from Rs. 6857 crore in 1999-2000 to Rs. 9703 crore in 2003-04 at a trend growth rate of 10.97 *per cent* per annum

The fiscal liabilities of the State increased from Rs. 8182 crore in 1999-2000 to Rs. 13038 crore in 2003-04 at an average annual growth rate of 13.93 *per cent* and ranged between 58.61 *per cent* to 65.60 *per cent* of the Gross State Domestic Product during this period. The returns on Government investments ranged between nil to 5.38 *per cent* during 1999-2000 to 2003-04 against the average borrowing rate of 10.04 *per cent* during the period. The amount locked up in 194 incomplete projects was Rs. 757 crore at the end of the year 2003-04.

**(Paragraphs: 1.1 to 1.10)**

### 2. Allocative priorities and Appropriation

Against the provision of Rs. 11035 crore during 2003-04, the expenditure aggregated Rs. 19749 crore resulting in overall excess of Rs. 8714 crore. The excess expenditure was due to net effect of excess of Rs. 9771 crore and saving of Rs. 1057 crore in respect of 18 grants and two appropriations and 24 grants and six appropriations, respectively. The excess expenditure was mainly due to part clearance of overdraft of Rs. 8346 crore obtained by State Government from Jammu and Kashmir Bank Limited during the current year.

**(Paragraphs: 2.2 and 2.3)**

Out of 226 controlling officers, 105 had not completed reconciliation in respect of expenditure of Rs. 3790 crore, which constituted 39 *per cent* of the total revenue and capital expenditure.

**(Paragraph: 2.13)**

### **3. Performance review of programmes/departments**

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

##### **Functioning of Health and Medical Education Department**

The basic objective of the Health and Medical Education Department is to improve the standard of public health by eradicating diseases, providing primary health care facilities to the patients, impart teaching/in-service training, enhancing professional development and research activities besides ensuring supply of quality drugs and food articles to the people. The performance of these activities undertaken by the Department was not satisfactory due to shortage of health care institutions and medical/para-medical staff, inadequate infrastructure, shortcomings in testing of drug and food articles and improper planning. Mandatory testing of blood units for HIV and Hepatitis B had not been ensured. Sub-standard drugs/surgicals were administered to patients in various hospitals. Machinery/equipment valued at Rs. 1.52 crore remained non-functional due to non-availability of trained manpower, lack of infrastructure, etc.

An amount of Rs. 1.01 crore remained locked up due to non-execution of works by the executing agencies and non-receipt of supplies from suppliers to whom funds were advanced. Hospital service charges of Rs. 3.28 crore were either not realised or were waived without specifying reasons. Diet valuing Rs. 44.24 lakh was supplied irregularly to the attendants of indoor patients in Children Hospital Srinagar during 1999-2004. Inadmissible payments of Rs. 2.15 crore were made to various employees in the Department.

**(Paragraph: 3.1)**

##### **Sher-I-Kashmir Institute of Medical Sciences**

Sher-I-Kashmir Institute of Medical Sciences was established in 1982 to provide specialised medical care, need-based education in medical and health services and clinical research. Though the Institute was declared as a research institute, it failed to undertake any research work. Dysfunctional machinery/equipment coupled with shortage of staff constituted a major bottleneck in providing adequate medical care to patients, need-based education in medical and health services, etc. Period required for clearance of backlog in conducting surgeries ranged between three and eight months.

**(Paragraph: 3.2)**

## **Power Development Department**

### **Stores and Stock Management in Procurement and Material Management Wing**

The Procurement and Material Management Wing was created for centralised procurement and supply of material and equipment. However, the objective of organisation was not achieved fully as the user divisions made direct purchase of stores. No proper check over inventory management was exercised as there existed no system to monitor overall position of purchases and issue of store/stock items. Store items procured during 1990-1998 for Rs. 2.85 crore were not issued to the user divisions resulting in locking up of funds. Investment of Rs. 2.16 crore made on modernisation of workshops was rendered unproductive due to non-release of balance funds. Purchase of stores was made in excess of those advertised in the tender notices.

**(Paragraph: 3.3)**

## **Forest Department**

### **Integrated Watershed Development Project**

Integrated Watershed Development Project, Hills-II was taken up in the State from September 1999 to improve the productive potential and alleviating poverty in the contiguous areas with focus on decreasing soil erosion and increasing water availability. The impact of implementation of the Project could not be ascertained in Audit, as no baseline survey had been conducted prior to its launching.

Against Rs. 73.34 lakh recoverable as contribution from beneficiaries during 1999-2003 only Rs. 20.93 lakh had been realised. Excess expenditure of Rs. 7.90 crore was incurred for creation of 1,18,625 cubic meter crate wire structures for drainage line stabilisation. 419 civil works executed by Chief Executive Officer Sub-Watershed, Akhnoor in anticipation of administrative approval were not approved by the World Bank resulting in unauthorised expenditure of Rs. 40.52 lakh and creation of liability of Rs. 2.15 crore.

**(Paragraph: 3.4)**

## **4. Audit of Transactions**

### **Election Department**

Non-observance of procedures and instructions regarding conduct of State Assembly elections resulted in diversion/misutilisation of election funds amounting to Rs. 1.89 crore.

**(Paragraph: 4.1)**

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

Lax supervision and non-observance of prescribed control procedures by the Accounts Officer and Resident Medical Officer (OPD), SMHS Hospital, Srinagar facilitated embezzlement of Rs. 12.48 lakh.

**(Paragraph: 4.2)**

Failure of the Health and Medical Education Department to acquire the land for construction of two Public Health Centre buildings resulted in unfruitful expenditure of Rs. 15.10 lakh.

**(Paragraph: 4.3)**

### **Home Department**

Non-adherence to prescribed rules/instructions by 20 Drawing and Disbursing Officers of Police Department resulted in irregular payment of House Rent Allowance of Rs. 24.31 lakh to 184 employees occupying Government accommodation.

**(Paragraph: 4.4)**

Purchase of uniform cloth at higher rates from a local firm by the Director General of Police, resulted in avoidable extra expenditure of Rs. 19.09 lakh.

**(Paragraph: 4.5)**

Wrong planning by the Director General of Police to purchase part machinery/equipment for printing press, Srinagar and without ensuring trained manpower to operate it, resulted in unfruitful expenditure of Rs. 43.97 lakh, besides defeating the objective of upgrading the press.

**(Paragraph: 4.6)**

Injudicious purchase of radio equipment by Director General of Police without ascertaining the actual requirement of accessories vital for their installation resulted in idle investment of Rs. 12.27 lakh. The cost of financing the idle investment worked out to Rs. 5.93 lakh.

**(Paragraph: 4.7)**

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

Drawal of Rs. 3.50 crore by the Director, Local Bodies, Jammu without any immediate requirement, resulted in locking up of the amount for the period ranging between nine and 40 months. Cost of blocked funds worked out to Rs. 53.48 lakh.

**(Paragraph: 4.8)**

Poor selection of sites for construction of shops and irrational fixing of Minimum Reserve Price for auctioning of these shops by the Housing and Urban Development Department, resulted in idle investment of Rs. 83.16 lakh.

**(Paragraph: 4.9)**

### **Industries and Commerce Department**

Selection of an unsuitable site by State Industrial Development Corporation for establishing an Industrial Park at Ompora, Budgam rendered investment of Rs. 4.82 crore idle for over six years. Cost of idle funds worked out to Rs. 6.32 crore.

**(Paragraph: 4.10)**

### **Irrigation and Public Health Engineering Department**

Failure of the Superintending Engineer/Executive Engineer, Public Health Engineering Division, Kargil to ensure unencumbered source of water resulted in unfruitful expenditure of Rs. 12.70 lakh.

**(Paragraph: 4.11)**

The Executive Engineer, Public Health Engineering Division, Udhampur defaulted in releasing payments to a contractor engaged for construction of overhead tank at Nagrota-Kallar, Udhampur which led to suspension of the work and consequent unfruitful expenditure of Rs. 22.84 lakh.

**(Paragraph: 4.12)**

Defective planning in execution of works on Water Supply Scheme, Kud by Executive Engineer, Public Health Engineering Division, Udhampur resulted in unfruitful investment of Rs. 66.67 lakh.

**(Paragraph: 4.13)**

Superintending Engineer (Mechanical Circle), Irrigation and Flood Control Department, Srinagar placed Rs. 25 lakh at the disposal of Executive Engineer, Flood Mechanical Division, Baramulla at fag end of year 2001-02. The amount

was subsequently deposited in deposit account which resulted in locking up of Rs. 22.78 lakh.

**(Paragraph: 4.14)**

#### **Power Development Department**

Failure of the Chief Engineer, Systems and Operations, Jammu for not making prior funding arrangements for reconditioning of the transformers rendered the expenditure of Rs. 36.12 lakh on purchase of transformer oil unfruitful for more than three years.

**(Paragraph: 4.15)**

Failure of Executive Engineer, Sub-Transmission Division-II, Jammu to submit reimbursement claims to Rural Electrification Corporation and non-prioritisation of the scheme in annual works programme 2002-03 and 2003-04 resulted in idle investment of Rs. 42.57 lakh, besides non-achievement of objective of saving annual energy losses of Rs. 38.17 lakh. Cost of idle investment worked out to Rs. 12.77 lakh.

**(Paragraph: 4.16)**

Chief Engineer, Electric Maintenance and Rural Electrification, Jammu approved System Improvement Scheme for Ghomanhasa for erection of receiving station without upgrading the existing transmission system. This resulted in idle investment of Rs. 46.79 lakh on the receiving station. The objective of saving energy losses worth Rs. 1.09 crore annually was also not achieved.

**(Paragraph: 4.17)**

#### **Roads and Buildings Department**

Injudicious action of Executive Engineer, Roads and Buildings Division, Basholi in taking up construction of Machedi-Badnota road without obtaining administrative approval/clearance of the Forest Department and ignoring the land compensation component, led to unfruitful expenditure of Rs. 27.73 lakh.

**(Paragraph: 4.18)**

#### **Rural Development Department**

Injudicious action of the Director Rural Development Department, Kashmir to advance funds to the Jammu and Kashmir Projects Construction Corporation Limited for construction of training centre at Chadoora, Budgam without

acquiring land, resulted in unfruitful expenditure of Rs. 24.22 lakh and locking up of Rs. 15.78 lakh, besides diversion of Rs. 50 lakh.

**(Paragraph: 4.19)**

### **Tourism Department**

Non-observance of rules and procedures by the District Tourist Officer, Kargil for acquisition of land for establishing Tourist Adventure Centre at Kargil, resulted in extra avoidable payment of Rs. 14.52 lakh on compensation to land owners and registration fee.

**(Paragraph: 4.20)**

### **Finance Department**

#### **(Internal Audit)**

The Directorate of Audit and Inspections of the Finance Department had not taken up the internal audit more effectively and is still functioning at its basic level. Non-fixation of auditing norms/procedures, low coverage of units and non-pursuance of audit observations had rendered the organisation ineffective. The monitoring system needs to be strengthened to enable it to exercise better control over Government departments.

**(Paragraph: 5.1)**

### **Revenue Receipts**

The revenue raised by the State during 2003-04 amounted to Rs. 8,211.67 crore comprising Rs. 1,170.28 crore as tax revenue and Rs. 632.54 crore as non-tax revenue. Rs. 817.42 crore were received from Government of India as State's share of divisible Union taxes and Rs. 5,591.43 crore as Grants-in-aid.

**(Paragraph: 6.1.1)**

At the end of 2003-04, the arrears in respect of taxes administered by the department of sales tax, motor vehicle tax, state excise, taxes and duties on electricity, irrigation and flood control and public works amounted to Rs. 1,453.85 crore out of which Rs. 743.41 crore pertained to sales tax.

**(Paragraph: 6.1.6)**

### **Finance Department (Sales Tax)**

Failure of the Assessing Authorities to detect suppression/concealment of purchases, incorrect computations and allowance of exemption on sale of goods resulted in non/short levy of tax, penalty and interest amounting to Rs. 30.06 lakh

**(Paragraphs: 6.2 to 6.4)**

### **Law Department**

Failure of the Department to levy stamp duty at correct rates in 65 cases of conveyance of immovable property resulted in short levy of revenue of Rs. 14.86 lakh.

**(Paragraph: 6.5)**

### **Commercial activities**

As on 31 March 2004, there were 20 Government companies (17 working and three non-working companies) and three working Statutory corporations (against 19 working and one non-working Company and four Statutory corporations as on 31 March 2003) under the control of the State Government. The total investment in the working PSUs decreased from Rs. 2887.90 crore as on 31 March 2003 to Rs. 2360.49 crore as on 31 March 2004. The total investment in the non-working PSUs was Rs. 3.40 crore as on 31 March 2004.

**(Paragraphs: 7.1.1, 7.1.2 and 7.1.14)**

The budgetary support in the form of capital, loan, grants and subsidy to working PSUs increased from Rs. 61.96 crore in 2002-03 to Rs. 65.56 crore in 2003-04. During 2003-04, the State Government guaranteed loans aggregating Rs. 404.74 crore. Outstanding loans guaranteed by the Government increased from Rs. 1127.71 crore as on 31 March 2003 to Rs. 1281.93 crore as on 31 March 2004.

**(Paragraph: 7.1.6)**

According to the latest finalised accounts, four companies earned an aggregate profit of Rs. 407.72 crore, of which only one company declared dividend of Rs. 48.50 crore. Eleven PSUs (nine working companies and two Statutory corporations) suffered an aggregate loss of Rs. 101.45 crore. Of the nine loss-incurring companies, six had accumulated losses aggregating Rs. 206.15 crore which exceeded their aggregate paid-up capital by Rs. 150.16 crore. Two Statutory corporations had accumulated losses aggregating Rs. 684.99 crore which exceeded their aggregate paid-up capital of Rs. 171.31 crore. Financial position and working results of four companies and one Statutory corporation could not be assessed in audit due to non-receipt of their accounts.

**(Paragraphs: 7.1.8, 7.1.9, 7.1.10 and 7.1.11)**



Even after completion of 26 to 36 years of their existence, the turnover of four working companies had been less than rupees five crore in each of the preceding five years of their latest finalised accounts. Of these, two companies had been incurring losses for five consecutive years leading to negative net worth. Besides, two working Statutory corporations had also 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: 7.1.21)**

**Jammu and Kashmir Horticultural Produce Marketing and Processing Corporation Limited**

Decision of the Company to engage a private firm for sale of cherry not in consonance with its objective and to enter into a deal without safeguarding its financial interests, resulted in loss of Rs. 10.13 lakh.

**(Paragraph: 7.2.1)**

**Jammu and Kashmir Projects Construction Corporation Limited**

Failure of the Company to file income tax return and to deposit advance tax in time resulted in avoidable payment of interest of Rs. 9.40 lakh.

**(Paragraph: 7.2.2)**

**Jammu and Kashmir State Power Development Corporation Limited**

Injudicious purchase of material by the Company resulted in locking up of Rs. 16.43 lakh for more than seven years and consequent loss of interest of Rs. 19.89 lakh.

**(Paragraph: 7.2.3)**