

CHAPTER – II

AUDIT OF TRANSACTIONS

Fraud/Embezzlement/Mis-appropriation/Loss

Animal Husbandry Department

2.1 *Loss of Government money*

Failure of the department to incorporate a suitable penalty clause in the agreement resulted in loss of ₹ 25.35 lakh.

To improve the local live-stock genetically, the State Government approved implementation of embryo transfer technology. A contract for supply and implantation of 900 frozen embryos was awarded (June 2008) by the Director Sheep Husbandry (DSH), Jammu to M/S Canadian Sheep Genetics International (company) at a cost of \$ 430 per embryo. As per the terms and conditions of agreement, the firm had to guarantee a minimum success rate of 50 *per cent* confirmed pregnancies in the ewes implanted with the embryos supplied by the company. Also, in the event of failure to achieve 50 *per cent* pregnancy in the first instance, the company was to provide additional embryos and services to meet the guarantee.

Scrutiny (October 2010) of the records of DSH, Jammu showed that out of 420 frozen embryos implanted (February/March 2009) in 210 ewes, only 33 pregnancies (16 *per cent*) against the assured 105 pregnancies (50 *per cent*) had been achieved. Further correspondence with the company to provide additional embryos and services to meet the minimum 50 *per cent* success rate as per the agreement evoked no response as of October 2010. The matter was taken up by the DSH with the Government for seeking legal opinion from the Law Department. This had not been received as of March 2011. It was seen that ₹ 53.23 lakh constituting 60 *per cent* payment of the total value of the embryos supplied had been paid to the contractor as per terms and conditions of the contract.

The DSH, Jammu stated (October 2010) that the matter had been taken up with the Administrative Department to initiate legal action against the company. The reply of the department was not acceptable as it had failed to incorporate a proper penalty clause in the agreement for safeguarding Government interests required in terms of J&K Financial rules. This had resulted in a loss of ₹ 25.35 lakh¹ to the public exchequer.

The matter was referred to Government in May 2011; reply had not been received (October 2011).

¹ Worked out proportionately on cost of 72 against 105 assured pregnancies

Public Works Department
(Roads and Building Department)

2.2 Payment against fake documents

Failure of the Department to verify the genuineness of bank guarantees furnished by the contractor before sanction of mobilisation and machinery advance resulted in inadmissible payment of ₹ 1.64 crore.

As per the standing instructions for payment of Mobilisation Advance to contractors executing *Pradhan Mantri Gram Sadak Yogna* (PMGSY) works, the payment is *inter-alia* subject to the conditions that (a) a Bank Guarantee (BG) of an equal amount is furnished by the contractor and (b) the payment is made to the contractor only after verification of the BG furnished by the contractor from the concerned Bank branch.

Audit scrutiny of records of the Executive Engineers (EE), PMGSY Division, Bandipora (May 2010) and Baramulla (June 2011) revealed that the Chief Engineer (CE), PMGSY, Jammu allotted road construction works to M/S Jay Kay Sam Construction Private Limited, Srinagar on turnkey basis for completion in 18 months. Mobilisation/Machinery advance was sanctioned by the CE in favour of the contractor for both the works subject to above mentioned conditions.

The details of contracts and Mobilisation advance paid are given in the following table;

Division	Name of Work	Date of allotment	Contract Cost	Month of payment of the Advance	Amount of advance
Bandipora	Construction of Binlipora-Ketson road	July 2008	₹ 5.41 crore	March 2009	₹ 78.86 lakh
Baramulla	Construction of Isham-Nawarunda road	October 2008	₹ 11.19 crore	July 2009	₹ 96.73 lakh

The payment of Mobilisation/Machinery advance was made to the contractor by both the Divisions against BGs issued by Manager, State Bank of India, TRC Branch, Srinagar. The contractor in both the cases abandoned the works midway and despite repeated notices and reminders did not resume the works. To recover the amount, the CE sent (February 2010), both the guarantees to the concerned Bank for verification/encashment. However, both the BGs turned out to be fake, indicating that the BGs had not been verified by the concerned EEs before release of the advance. Till abandonment of the works, the contractor had executed works to the tune of ₹ 80.66 lakh only against which ₹ 11.73 lakh had been adjusted from the mobilisation advance (MA). An amount of ₹ 1.64 crore was recoverable from the contractor at the time of abandonment of the works. While the EE, Bandipora stated that the matter had been forwarded to the crime branch for investigation, the EE, Baramulla stated that since the contractor had backed

out, the works had been allotted after fresh tendering. The EEs, however, did not forward any cogent reasons for their inaction in verification of the correctness and validity of the BGs before the release of advances.

Failure of Department to verify the genuineness of the BGs furnished by the contractor before release of mobilisation/machinery advance, thus, resulted in inadmissible/recoverable payment of ₹ 1.64 crore.

The matter was referred to Government/Department in July 2011. In reply the Financial Advisor and Chief Accounts Officer, Public Works Department stated that the Department had already initiated action against the said contractor by way of withholding payments lying in his deposits besides, approaching the sister departments for stoppage of any payment due to the said contractor.

Health and Medical Education Department

2.3 *Embezzlement of Government money*

Lax supervision and lack of internal control mechanism resulted in embezzlement of ₹ 1.06 crore in two hospitals.

(A) Rule 2.2 of the Jammu and Kashmir Financial Code Volume I envisages that all sums of money which a Government servant receives in his official capacity must immediately be paid in full into the nearest treasury/bank. Further, Rule 2.10 of the ibid code prescribes for maintenance of cash book and controls to be exercised by the Drawing and Disbursing Officer (DDO)/Head of office over cash balances. Accordingly, the control mechanism involves receipt of cash against proper FC-I receipt, maintenance of stocks of FC-I, entry of cash received into a subsidiary cash book, deposit with the main cashier for entry into main cash book and deposit of money into Government Account on daily basis. Further, checks by DDO over the receipt of cash include verification of entries into FC-I book, the subsidiary/main cash book, cross checking of entries and attestation thereof on daily basis and subsequent reconciliation of cash book with the Bank balances.

Audit scrutiny (November/December 2009) of the records of Medical Superintendent, SMHS Hospital, Srinagar revealed that out of ₹ 4.73 crore (includes ₹ 8.36 lakh available as on 31 March 2007) realized from April 2007 to December 2009 on account of sale of OPD²/IPD³ tickets, medical facilities/investigation⁴ charges, parking charges etc, ₹ 70.60 lakh had not been accounted for and un-authorisedly retained by the cashier. The non-accountal of huge sums by the cashier had been facilitated due to lack of an internal control mechanism and lax supervision by the DDO. Based on detection of the embezzlement by Audit, an enquiry committee was constituted (March 2010) by the

² Out patient Department

³ Indoor patient Department

⁴ X-Ray, USG, ECG, Laboratory tests/Blood bank/Dental

Principal, Medical College, Srinagar. While confirming the embezzlement, the Committee raised the quantum of embezzlement from ₹ 70.60 lakh (covering period from April 2007 to December 2009), detected by the Audit, to ₹ 1.03 crore (covering period from April 2007 to March 2010). Out of this, ₹ 54.10 lakh had been recovered (December 2009 to April 2010), thus leaving a balance ₹ 48.70 lakh unrecovered from the delinquent official (August 2011).

The delinquent cashier was placed under suspension (June 2010) and the Department stated (August 2011) that a case had been registered (August 2010) against the official by the State Vigilance Organization which had also seized the relevant records for investigation.

Thus, failure of the DDO/Medical Superintendent in adhering to the monitoring system and internal controls as prescribed in the Financial Code resulted in misappropriation of revenue of ₹ 1.03 crore.

(B) Scrutiny (April 2011) of records of the Medical Superintendent (DDO), District Hospital, Pulwama revealed that against ₹ 18.06 lakh realized from 9th January 2010 to 14th September 2010 as OPD/IPD/DC⁵/investigation charges by an official posted as incharge Registration section, ₹ 14.89 lakh only had been deposited with the office cashier for onward deposition into the Hospital Development Fund (HDF) account, thereby, embezzling ₹ 3.17 lakh.

The embezzlement was facilitated due to lax supervision and non-observance of following prescribed control procedure by the DDO.

- cash receipts were not entered in the subsidiary cash book promptly and had never been checked by the concerned RMO⁶ or the Medical Superintendent;
- reconciliation/verification of accounts with reference to actual revenue realized and that deposited into the bank was not conducted;
- receipts were not issued under the signatures of RMO;
- non-reconciliation of OPD/IPD tickets and FC-I receipt books issued from the stores to the Registration section;
- reconciliation of revenue realized and deposited in the bank account by the cashier was not carried out;
- reconciliation of work done reports of X-Ray, USG, ECG, Laboratory section, Blood bank and Dental section with the total revenue realized was not done to see whether the revenue realized and the total work done by respective sections were in agreement with each other; and
- surprise checks by the DDO/RMO over the physical cash balances had not been conducted.

⁵ Discharge certificates

⁶ Resident Medical Officer

On this being pointed out, the DDO stated (April 2011) that the official had been directed to deposit the outstanding amount into HDF account. An amount of ₹ 0.27 lakh only had been deposited into HDF by the official as intimated (July 2011) by the DDO. However, the reply was silent about any disciplinary action having been taken or contemplated against the erring official. Progress of recovery was awaited (October 2011).

The matter was referred to Government (October 2011); reply was awaited (November 2011).

Excess payment/Wasteful expenditure

Public Health Engineering Department

2.4 Wasteful expenditure due to improper planning/execution of a project

Improper planning by the Department in execution of water supply schemes resulted in non-completion of overhead tanks and consequent wasteful expenditure of ₹ 68.92 lakh.

For improvement/augmentation of the existing water supply to Channi Himmat, Trikuta Nagar and Greater Kailash areas of Jammu city, the Executive Engineer (EE), Public Health Engineering (PHE) City Division-II, Jammu proposed three different schemes (aggregate estimated cost of ₹ 3.80 crore)⁷, which included construction of tube-wells, water sumps, laying of allied distribution network and construction of four Over-Head Tanks (OHTs).

Audit scrutiny (November 2009) of records of the Division revealed that work of construction of three (out of four) OHTs was allotted (April/August 2004) by the Chief Engineer, PHE Department, Jammu to two contractors⁸ at an estimated cost of ₹ 68.92 lakh⁹ for completion within one year. However, after taking up the work and completing the OHTs upto shaft (OHTs at Channi Himmat/Trikuta Nagar) and Dome (OHT at Greater Kailash) levels, the Contractors abandoned (between July 2007 and June 2008) the works due to non-supply of key construction material by the Department and non-availability of funds for these schemes. An expenditure of ₹ 68.92 lakh (including payment of ₹ 48.43 lakh made to the contractors) had been booked by the Division against these works as of March 2011. The efforts during 2007-11 of the Department to have funds sanctioned for completion of the pending works had failed (May 2011). Further, efforts to persuade the contractors to re-start the works during 2006-07 had also

⁷ Improvement/augmentation of water supply scheme Channi Himmat colony (Estimated Cost: ₹ two crore); Improvement/augmentation of water supply to Greater Kailash colony (Estimated Cost: ₹ 1.27 crore) and Construction of two lakh Gallon capacity OHT including allied works at GSR complex Trikuta Nagar Jammu (Estimated Cost: ₹ 53.30 lakh)

⁸ M/S Mengi Constructions, Jammu (OHT tanks at Channi Himmat and Trikuta Nagar) and M/S Janak Raj Gupta (OHT at Greater Kailash)

⁹ OHT Channi Himmat, Jammu: ₹ 14.98 lakh; OHT Greater Kailash: ₹ 27 lakh and OHT Trikuta Nagar: ₹ 26.94 lakh

failed as the contractors asked for compensation for escalation in cost and other losses suffered by them due to delay in supply of material. Moreover, the Department with a view to testing the strength of existing reinforced cement concrete structures of the unfinished OHTs approached (July/August 2009) the Research Officer, Material Testing Laboratory (Design Directorate) and Government College of Engineering and Technology Jammu for R.C.C testing. Both these agencies expressed inability to conduct the tests due to lack of facilities with them. No further action was taken in the matter till a high level committee was constituted (January 2010) by the Department to address the issue of incomplete OHTs, which suggested (February 2010) revision of designs of all the structures in accordance with Indian Standard Code. The committee further recommended that the structures be got inspected through some expert committee so as to strengthen the existing half constructed OHTs. The Department thereafter had sought the help of Economic Reconstruction Agency for suggesting remedial measures and further progress in the matter was awaited (May 2011).

Thus, due to improper planning by the Department by way of inadequate funding, non-availability of key construction material and not designing OHTs as per the Indian Standard Code, the construction of OHTs could not be completed despite delay of more than six years which rendered the investment of ₹ 68.92 lakh wasteful, besides depriving the intended consumers of the benefits of the water supply schemes.

The matter was referred to Government/Department in July 2011; the reply had not been received (October 2011).

Power Development Department

2.5 Excess payment due to admission of higher rates of duty/tax

Failure of the Department to verify admissibility of payment of excise duty and central sales tax to the contractors resulted in excess payment of ₹ 2.48 crore.

(A) The Chief Engineer (CE), System and Operation Wing, Power Development Department, Kashmir awarded (May 2008) a contract for construction of 160 MVA, 220/132 KV and 50 MVA, 132/33 KV Grid Sub-station, Amargarh (Delina) to M/S Jyoti Structures Ltd., Mumbai (Contractor) on turnkey basis at a cost of ₹ 52.75 crore. As per the terms of the contract, 100 *per cent* of Central Excise duty (CED) and Central Sales Tax (CST) was admissible to the firm on the purchases, on receipt of goods. At the time of allotment of the contract, the rates of CED and CST stood at 14 *per cent* and three *per cent* which had been reduced by the Government to eight *per cent* and two *per cent* from 1 March 2009 and 1 June 2008, respectively.

Audit scrutiny (May 2010) of records of the Executive Engineer (EE) Transmission Line Construction Division-I Bemina, Srinagar revealed that CED at the rate of 14 *per cent* and CST at the rate of three *per cent* had been allowed while making payment on the bills submitted by the Contractor between March 2009 and March 2010. The EE without

verifying the claims of the contractor with reference to admissibility had made payment of taxes at higher rates resulting in excess payment of ₹ 70.46 lakh¹⁰. This was despite the fact that the contractor had procured material from different suppliers/manufacturers by paying CED and CST of eight *per cent* and two *per cent* respectively.

Audit also noticed that in another case pertaining to construction of 220 KV D/C Zainakote-Amargarh Transmission line, where the CE had allotted (May 2008) contract to M/s ECI Engineering & Construction Co. Ltd., Hyderabad on turnkey basis, an excess payment¹¹ of ₹ 55.12 lakh on similar account had been made by the EE.

The lapse on this account had led to excess payment aggregating ₹ 1.26 crore by the division on Eighteen (18) bills submitted by the Contractors.

On this being pointed out by audit, the EE stated (February 2011) that the Division had made a payment of ₹ 42.70 lakh only on account of CED, CST on ten (10) bills of two Contractors and that the excess would be recovered and the remaining claims had been withheld. The reply, however, is not based on facts, as verification of records of Director Finance, Power Development Department, Srinagar, who is entrusted with release of payments to the Contractors, revealed that the payment on all the Eighteen (18) bills had been made during 2009-10.

Thus, failure of the Department to verify admissibility of payment of excise duty and central sales tax to the contractors resulted in excess payment of ₹ 1.26 crore.

The matter was referred to Government/Department in August 2011. The EE stated (September 2011) that the excess amount of ₹ 70.46 lakh had been recovered from M/S Jyoti Structures Limited, Mumbai and the recovery of ₹ 55.12 lakh made to M/S ECI Engineering and Construction Corporation would be effected.

(B) The Chief Engineer, System and Operation Wing, Power Development Department, Jammu awarded (April 2008) two contracts both on turnkey basis, for construction of '220 KV D/C transmission line from *Hiranagar to Barn* with LILO at Grid Station Bishnah' and construction of '132 KV D/C transmission line from *Battal Manwal to Hiranagar*' to M/s KEC International Limited, Mumbai (contractor) at a cost of ₹ 35.70 crore and ₹ 13.53 crore respectively. According to the relevant clauses of the contracts, 100 *per cent* of admissible taxes/duties and levies was to be paid on receipt of goods at site. At the time of allotment of contracts, the rate of Central Excise Duty (CED) was 16 *per cent* which was reduced by the Government to 14 *per cent* with effect from 1 March 2008, 10 *per cent* with effect from 7 December 2008 and to eight *per cent* with effect from 1 March 2009.

¹⁰ Excise duty: ₹ 56.10 lakh: CST: ₹ 14.36 lakh

¹¹ Excise duty: ₹ 46.36 lakh: CST: ₹ 8.76 lakh

Scrutiny (June 2010) of the records of the Executive Engineer (EE), Transmission Line Construction Division-II, Jammu revealed that CED at an inadmissible rate of 16 *per cent* had been allowed while making payment on the bills submitted by the contractor between August 2008 and December 2009. The EE, without verifying the claims of the contractor with reference to the admissibility of rates, had made payment of taxes at the higher rate resulting in excess payment of ₹ 1.22 crore on account of excise duty. On this being pointed out in audit (February 2011/April 2011), the Financial Advisor cum Chief Accounts Officer of the department accepted the Audit contention and directed (May 2011) the Chief Engineer, Systems and Operation Wing, Jammu to recover the excess payment from the contractor.

Thus, failure of the department to ensure payment of excise duty at the rates admissible at the time of supply of material/equipment resulted in excess payment of ₹ 1.22 crore to the contractor.

The matter was referred to Government/Department in September 2011. In reply the Government stated (September 2011) that the excess payment of ₹ 1.22 crore made to the contractor has been recovered in full.

Housing and Urban Development Department (Patnitop Development Authority)

2.6 Abandonment of road construction project

Action of the CEO, Patnitop Development Authority in embarking upon a project without taking into account the environmental concerns resulted in abandonment of road project on which expenditure of ₹ 1.42 crore was incurred.

To develop Patnitop and its adjoining areas, the Patnitop Development Authority (Authority) decided to construct nine Km Karlah-Gaurikund road. The project estimated to cost ₹ 3.20 crore was submitted (December 2000) to the Government for approval.

Scrutiny (April 2011) of the records of the Authority showed that in anticipation of administrative approval and technical sanction, the Authority advanced (2002-03) ₹ 38.70 lakh to Land acquisition Officer, Udhampur for acquisition of private land and ₹ 5.69 lakh to D F O, Batote for transfer of forest land coming under the first two kms of the road alignment. The Authority got the work on the first two kilometers of the road executed through Executive Engineer, R&B Division, Udhampur during 2002-05 at a cost of ₹ 81.55 lakh. The Authority also spent ₹ 15.80 lakh on construction of retaining walls and lanes during 2007-10 on the already constructed stretch of the road. No further execution was carried out thereafter (October 2011). On this being pointed out (April 2011), the Chief Executive Officer (CEO) of the Authority stated that the project got bogged down due to passing of the proposed road alignment through forest land and a wild life sanctuary and to avoid loss to the green wealth and the sanctuary, decision to

think of an alternative route was taken. The reply was not acceptable as these aspects should have been taken into cognizance by him before embarking upon the project. Thinking of these aspects after spending ₹ 1.42 crore on the project was indicative of the casual approach of the Authority in planning the project.

It was seen in audit that the Authority formulated a revised project (January 2007) at a cost of ₹ 2.08 lakh through a consultant who put the revised cost of the project at ₹ 18.24 crore. The revised estimates envisage construction of a 680 meters tunnel which would reduce the length of the road to 6.650 kms only. Though the project report had been sent (February 2007) to the Government for getting it funded by the Government of India, yet it was decided (March 2011) by the Board of the Authority, in view of the escalation in the project cost, to get the balance work executed through the State PWD. Incurring of an expenditure of ₹ 15.80 lakh on the first two kms of the road in view of appointment of a consultant for revising (March 2005) the project for an alternative road to save green wealth was also questionable.

The action of the CEO in embarking upon a project without taking the environmental concerns into account, which dawned on him after spending ₹ 1.42 crore, resulted in the whole expenditure becoming unproductive.

The matter was referred to Government/Department in July 2011; the reply had not been received (October 2011).

Unfruitful/Unproductive/Idle expenditure

Higher Education Department

2.7 Deficiencies in the construction of an auditorium resulting in unfruitful expenditure

Non-provision of the acoustics component in the estimates and subsequent delays in rectification of deficiencies resulted in non-utilisation of an auditorium. As a result, the investment of ₹ 1.06 crore was unfruitful.

Based on the approval of the State Education Minister, the Principal, Degree College, Udhampur requested (October 2003) Jammu and Kashmir Projects Construction Corporation Ltd (JKPCC) to furnish a cost offer for construction of an auditorium (Multi-purpose Hall) in the college. Against the cost offer of ₹ 83 lakh submitted (August 2004) by JKPCC, the department released (2004-08)¹² the amount in anticipation of accord of administrative approval and technical sanction. The work was started by JKPCC in December 2004.

¹² 2004-05: ₹ 23 lakh, 2005-06: ₹ 40 lakh, 2006-07: ₹ 15 lakh, 2007-08: ₹ 05 lakh

Records of the college showed (July 2010) that while the work was in progress, the Principal asked (June 2007) JKPC to execute some additional items of work not included in the original estimates for which an additional cost offer for ₹ 23 lakh was submitted (April 2008) by JKPC. The agency requested (September 2008) the Principal to take over the possession of the building and release the balance ₹ 23 lakh to it. The funds were, however, released belatedly in March 2009 (₹ eight lakh) and March 2010 (₹ 15 lakh). It was seen in audit that the building was not taken over by the Principal due to certain deficiencies including the acoustic problem noticed by him. The issue was discussed (October 2009) with JKPC which demanded additional ₹ 18.65 lakh to rectify the acoustic problem. Owing to non-release of the amount, the multi- purpose hall had not been taken-over by the college as of April 2011. The Principal stated (April 2011) that the provision of acoustics had not been provided in the original estimates by the JKPC. The reply of the Principal is not acceptable as he had failed to assess the requirement and communicate it to the agency and also could not locate the deficiency on receipt of the initial and the supplementary cost offers submitted by JKPC.

The failure of the Principal to specifically intimate JKPC about the requirements for inclusion in the estimates, thus, resulted in blocking of ₹ 1.06 crore.

The matter was referred to Government/Department in June 2011; the reply had not been received (October 2011).

Public Works Department

2.8 Unfruitful expenditure on construction of a road

Inaction of the Government on the recommendation of a committee to use manual chiseling instead of blasting resulted in unfruitful expenditure of ₹ 59.26 lakh.

The Superintending Engineer, Roads and Buildings (R&B), Kargil, in anticipation of Administrative Approval and Technical Sanction, allotted (February 2007) the work for constructing four Km fair-weather link road from Chaulichan to Sharchay to a contractor at a cost of ₹ 2.02 crore for completion by September 2008. The contractor took up the work in April 2007 and after spending ₹ 59.26 lakh on construction of 1.5 Km road stopped (December 2007) further execution owing to a dispute between the villagers¹³ over the possible damage, due to blasting, to an irrigation *khul* belonging to Chaulichan and running along the alignment of the road under construction. The road was subsequently (June 2008) taken over by the PMGSY Division, Kargil for completion.

Scrutiny (August 2010) of records of the Executive Engineer (EE), PMGSY, Kargil showed that no work on the road had been executed after its taking over by PMGSY. To complete the road, the District Administration constituted (October 2009) a committee

¹³ Chaulichan and Sharchay

which recommended (February 2010) manual chiseling in place of blasting, revision of the project and re-tendering of the work after closure of the earlier contract. It further recommended that the extra financial burden of ₹ 25 lakh involved due to the change be met by the State Government. However, the recommendations referred (April 2010) by the Chief Engineer (CE), PMGSY to the Administrative Department had not been approved by the latter as of April 2011.

Thus, inaction of the Government on the recommendations of the committee resulted in unfruitful expenditure of ₹ 59.26 lakh incurred on the work so far besides, depriving the inhabitants of the area of a motorable road.

The matter was referred to Government/Department in May 2011. In reply, the Financial Advisor and Chief Accounts Officer, Public Works (R&B) Department endorsed (June 2011) the departmental reply stating that the work had been re-tendered in June 2011. Further progress was awaited (October 2011).

Public Health Engineering Department

2.9 Injudicious purchase of Hand Pump Jackets

Purchase of Hand Pump Jackets by the Department without actual requirement led to blocking of ₹ 32.69 lakh for over three years.

On the basis of an indent placed (May 2007) by the Executive Engineer (EE), Ground Water Division (GWD), Srinagar, the Chief Engineer (CE), Public Health Engineering Department, Kashmir purchased (October 2007) 300 (450 meters) V-Wire Hand Pump Jackets (HPJ) at a cost of ₹ 33.02 lakh from a private firm¹⁴. These HPJs were to add to the performance of the hand pumps by way of removing suspended impurities from water thereby prolonging their life.

Scrutiny (July 2009) of the records of the EE, GWD, Srinagar showed that out of 300 HPJs purchased, only three¹⁵ had been utilised and the balance (297) HPJs valued at ₹ 32.69 lakh¹⁶ had not been utilised as of May 2011 despite the fact that the division had dug 1,734 deep wells during 2007-11. This shows that the material had been requisitioned/purchased without actual requirement and such purchases are in violation of instruction of the State Financial Rules. On this being pointed out by Audit, the EE stated (April 2011) that stern steps had been effected to utilise the material wherever required. The reply of the EE should be viewed in the light of the fact that utilisation of just three out of the 300 HPJs when 1,734 deep wells had been dug during the last over three years ended March 2011 indicated injudicious purchase.

¹⁴ M/S Sumer Chand and Sons, Delhi

¹⁵ 2008-09: 2; 2009-10: 1

¹⁶ Worked out on proportionate basis

Purchase of Hand Pump Jackets without actual requirement, thus, resulted in blocking of ₹ 32.69 lakh for over three years. Deterioration in the condition of the item due to prolonged storage can not be ruled out.

The matter was referred to Government/Department in May 2011; the reply had not been received (October 2011).

Public Health Engineering Department

2.10 Unfruitful expenditure due to improper planning of a water supply scheme

Failure of the departmental authorities to ascertain a viable and technically feasible source of water before taking up execution of a water supply scheme resulted in unfruitful expenditure of ₹ 1.79 crore.

To augment water supply to seven¹⁷ villages in Ganderbal area drawing water from WSS Zarna extension (two¹⁸ villages) and from a tube well at Takenwaripora (5-villages), the Executive Engineer (EE), Rural Water Supply Division, Ganderbal conceived (2003-04) a project at an estimated cost of ₹ 1.17 crore. The scheme proposed lifting of water from river Jehlum at Karnabal and was targeted to be completed during 2005-06. The need for augmentation had been proposed on the grounds that the existing supply to two¹⁹ villages had been found to be inadequate and in the case of other five²⁰ villages the water reportedly contained excess iron and thus, was unfit for consumption.

Scrutiny (January 2010) of the records showed that the work taken up (2003-04), in anticipation of administrative approval, had been lying incomplete despite being under execution for more than seven years as of March 2011. It was seen that almost all the components which included works at in-take point, laying of pipes, construction of treatment plant/OHT and electric and mechanical works etc., proposed in the original plan were incomplete despite incurring an amount of ₹ 1.79 crore as of March 2011. Apart from the slow pace of execution, the problem had reportedly been complicated midway due to objection to tapping of source (intake point) by the locals on the pretext of violation of their privacy. The department after a site inspection (September 2010) of the source concluded that the activities around would contaminate the water and thus, decided for an alternate source of the scheme. The Department subsequently prepared (February 2011) a revised proposal for the work at an enhanced cost of ₹ 3.54 crore. It was, however, seen that since the project revision had taken place due to change in the original source point, no mention about the new source point had been made in the revised proposal. Further, construction of an OHT provided in the original estimates had been deleted in the revised proposal and instead laying of pipes for connecting the tank

¹⁷ Khan Mohalla, Dar Mohalla, Bonapora, Karnabal, Bangladesh colony, Takenwaripora and Gurhanjipora

¹⁸ Khan Mohalla, Dar Mohalla

¹⁹ Khan Mohalla, Dar Mohalla

²⁰ Bonapora, Karnabal, Bangladesh colony, Takenwaripora and Gurhanjipora

area to an already existing OHT about 2.2 Kms away from the plant area had been proposed on the ground that the source (a tube well) which fed the existing OHT had gradually been depleting. An amount of ₹ 5.48 lakh had been booked as expenditure on OHT works deleted in the revised proposal. None of the proposal submitted by the Department had received administrative approvals as of March 2011 and despite this the department had been executing works and booking expenditure throughout 2003-11 and an amount of ₹ 1.79 crore had been incurred on the partly completed works as of March 2011.

Thus, delay in execution, non-provision of a dispute free source and subsequent inconsistencies in the revised proposal resulted in non-accrual of intended benefits to the populace who continue to be fed from the same source of water as was existing in 2003-04, thereby, raising a question mark on the very utility of the whole exercise.

On this being pointed in audit, the EE stated (May/October 2011) that the execution of the scheme could not be carried forward due to the dispute over the site of source of water as the locals residing near the site did not allow tapping of source. The reply is not tenable as the Department had not been able to complete the project during the last eight years.

The matter was referred to Government in July 2011; the reply had not been received (October 2011).

Public Works Department

2.11 Un-productive expenditure due to stoppage of road work

Wrong reporting about land availability and lackadaisical approach in completion of work resulted in unproductive expenditure of ₹ 90.18 lakh for over three years, besides depriving the populace of road connectivity.

With a view to developing village Bed Blore, which was unconnected, the Chief Engineer (CE), PMGSY, Jammu allotted (March 2007) construction of 6.50 Kms Janglote-Bed Blore road to a firm²¹ at a turnkey cost of ₹ 2.77 crore under PMGSY, for completion in 12 months. In the DPR submitted to the GOI, the Executive Engineer (EE), R&B, Kathua/Superintending Engineer, R&B, Jammu-Kathua Circle, Jammu had certified that land was available and that no forest land was involved. It was further certified that the villagers were ready to part with the land coming under the road alignment free of compensation.

Scrutiny (June 2010) of the records of the EE, PMGSY Division, Kathua showed that the work, which should have been completed by April 2008, remained incomplete despite a lapse of more than three years (August 2011). It was seen that Department's claim of land availability and non-involvement of forest land in the proposed road alignment was found

²¹ M/S New Jehlum Construction Company, Jammu

to be incorrect immediately after start (April 2007) of the work by the contractor who had reported (April 2007) that the work could not be started as neither the private land had been made available by the Department nor the land under the forest department coming under the road alignment had been transferred.

As a result, the contractor could complete only 47 *per cent* of the allotted work in piece-meals/stretchers against which ₹ 90.18 lakh had been paid by the Department between August 2007 and June 2008. Though the Department could finally get the land transferred from the Forest Department in June 2008, the contractor did not re-start the work.

A perusal of the protracted correspondence between the Department and the contractor during 2007-08 revealed that while on the one hand the Department had been highlighting the shortcoming on the part of the contractor leading to slow pace of work and breach of various contract clauses²², on the other hand the contractor had been complaining about the non-provision of encumbrance free land by the Department leading to idling of his men and machinery with consequential financial losses. The correspondence which continued through 2008-09 revealed that though the Department had been warning of action in accordance with clauses and even cancellation of contract and re-allotment of work at the risk and cost of the contractor, no such action had been taken. The contractor in the meanwhile had requested (September 2008) the Department for termination of the contract and approached (January 2009) the Hon'ble High Court for appointment of an arbitrator to adjudicate the issue. The arbitrator appointed to look into the issue had not delivered its judgment so far (August 2011). The Departmental initiative (November 2008) for termination of the contract took about two years upto June 2010 when the contract was eventually terminated. In August 2011 the Department stated that it had floated tenders for the balance work.

The Department did not furnish any reasons for allotment of the work without completion of the basic formalities of acquisition of land coming under the road alignment and issuance of a wrong certificate regarding availability of the required land.

Thus, wrong reporting of the Department combined with departmental delays in having the work completed resulted in unproductive investment of ₹ 90.18 lakh for over three years, besides depriving the populace of the area the benefit of the road facility.

The matter was referred to Government in September 2011. In reply the Government forwarded (October 2011) the reply of the Department, furnished to Audit in August 2011.

²² Clause 52.2-non-setting up of field laboratory, clause 9-non-placement of technical person at the site, clause 26- non-submission of bar chart etc.

Rural Development Department

2.12 Non-operationalisation of Production and Training Centres for Handicrafts

Wrong planning by DRDA leading to blocking of ₹ 2.02 crore and unproductive expenditure of ₹ 0.87 crore.

On the basis of a proposal mooted (January 2002) by the District Rural Development Agency (DRDA), the Project titled 'Production and Training Centres for Handicrafts in Baramulla District' was sanctioned (July 2002) by the Government of India (GOI), under *Swaranjayanti Gram Swarozgar Yojana* (SGSY), at a cost of ₹ 3.40 crore for completion in three years. The cost of the project was to be shared by the GOI and State Government in 75:25 ratio. The project had envisaged to ameliorate the lot of 4200 BPL rural craftsmen through promotion of handicrafts by providing logistical, technological and marketing support for producing quality products for national/international market and remove middle-men to ensure that the craftsmen get due price of their skill.

For bringing production, training, skill up-gradation, technology transfer, quality control, marketing and group formation under one roof, 16 production centers and five sales outlets were to be set up in 14 blocks of the District which would generate income of ₹ 4.34 crore for 1400 families at an average of ₹ 0.31 lakh per annum per family. The Project had also envisaged procurement of Plant and Machinery to be installed at a centrally located place in the District for washing/finishing of products which were to be produced in the production centres.

Scrutiny (May 2011) of the records of the Project Officer, DRDA, Baramulla (Agency) showed that against the releases (July 2002 to March 2007) of ₹ 2.89 crore²³, the department had only set up six production centres and nine production centres were either incomplete or not handed over to the Agency despite grant of extension to the life of the project twice (October 2007 and October 2009). An amount of ₹ 75 lakh had been spent on this component of work. Also, ₹ 10 lakh had been advanced to the Block Development Officers (BDO) for construction of five show-rooms out of which only three show-rooms²⁴ had been constructed at a cost of ₹ six lakh (₹ two lakh each) and no work had been taken up in respect of two show-rooms²⁵ due to non-availability of land. Further, the Agency had booked ₹ six lakh on the activities not falling within the purview of the project.

²³ GOI: ₹ 2.04 crore (₹ 1.02 crore each in July 2002 and March 2007) and State Government: ₹ 0.85 crore {(₹ 0.34 crore (March 2003) and ₹ 0.51 crore (March 2007)}

²⁴ Sopore, Baramulla, Bandipora

²⁵ Uri and Tangmarg

It was seen in audit that despite spending ₹ 86.58 lakh on completion of six production centres and three sales outlets, the Agency had failed to impart training to the intended beneficiaries, which should have been conducted simultaneously with other components of the project, due to which the infrastructure created so far had not been put to the intended use. Of the six completed production centres, three had been used for office purposes, two had been damaged by earthquake/unrest and one had been occupied by the security forces. Similarly, one show-room had been used for office purpose, one was being used by a self-help group and the third one was in dilapidated condition.

Wrong planning of the Agency in not imparting training to the beneficiaries had resulted in unproductive expenditure of ₹ 86.58 lakh spent on the project so far. Due to non-completion of the project even in the extended period and non-submission of the utilization certificates for the entire release, the GOI did not release the balance amount. The work on the project had been stopped from February 2007 and had not been resumed as of May 2011.

The Agency attributed (May 2011) non-implementation of scheme to the earthquake of October 2005 and unrest during 2008-09. Further, the Agency stated that the project period had expired in October 2009 and the matter would be taken up with the GOI for restart of the project. The reply is not acceptable as other programmes under SGSY undertaken by the Agency from 2006-07 to 2010-11 had not been hampered for the reasons forwarded by the Agency. Besides, the State/District Level Monitoring Committees had not been framed to monitor the project.

Non-monitoring of the project and non-imparting of training to the beneficiaries had resulted in unproductive expenditure of ₹ 86.58 lakh and consequent denial of intended benefits and also in projected annual income loss of ₹ 4.34 crore to 1400 BPL families. Further, funds to the extent of ₹ six lakh was diverted and ₹ 2.02 crore remained unutilised so far which were lying in saving account of DRDA.

The matter was referred to Government/Department in July 2011; the reply had not been received (October 2011).

Regularity issues and Other

Irrigation and Flood Control Department

2.13 Blockage of funds due to stoppage of water storage schemes

Departmental failure in adhering to the instructions of the GOI in getting the designs of the projects vetted by the CWC before execution and subsequent failure to ensure execution of works resulted in blocking of ₹ 8.67 crore.

To create irrigation potential of 3,500 acres for hitherto uncultivable land and to overcome drought like situations, the Chief Engineer (CE), Irrigation and Flood Control

Department, Jammu awarded (July 2007) contract for three²⁶ water storage schemes (Construction of RCC Check Dams) in Samba, Jammu under Border Area Development Programme (BADP)²⁷ to a contractor²⁸ for completion in eight months. As per the directions (November 2006) of the GOI, the design and drawings of all the Check Dams were to be approved by Central Water Commission (CWC) before their implementation.

Audit scrutiny (November 2010/March 2011) of the records of the CE, however, showed that despite spending ₹ 8.67 crore, the schemes had not been completed as of March 2011 for the reasons indicated against each in the table.

Scheme/Estimated cost	Audit findings
Nallah Yakh, near U/S of village Gurha Mundian/₹ 4.02 crore	<ul style="list-style-type: none"> ✓ Work was taken up (July 2007) as per the design approved/vetted by the Design Directorate, Jammu. ✓ After completing 70 per cent of the allotted works, the work had been abandoned (November 2009). ✓ ₹ 2.64 crore (66 per cent of the allotted cost) on account of material (₹ 1.34 crore), labour (₹ 1.10 crore) and mobilisation advance (₹ 20.13 lakh) had been booked by the Division against this work (March 2011). ✓ Only ₹ 5.39 lakh out of the Mobilisation Advance had been adjusted.
River Basanter, near SKUAST, Samba/ ₹ 8.39 crore	<ul style="list-style-type: none"> ✓ Work abandoned by the contractor after executing 10 per cent of the allotted work. ✓ The work was also taken up after approval of designs by Design Directorate which was, however, changed by the CWC to whom these were submitted after taking up of the work. ✓ Based on the drawings approved by the CWC, the contractor stopped further work and submitted a revised cost offer of ₹ 23.01 crore. ✓ A committee constituted for inspection of work recommended closing of contract and invitation of fresh tenders (February 2011). ✓ ₹ 3.34 crore (40 per cent of the approved cost) on material (₹ 2.92 crore) and mobilisation advance (₹ 41.95 lakh) had been booked by the division as of March 2011. ✓ Entire Mobilisation Advance remained unadjusted.
River Devak near, village Utter Behni/ ₹ 4.37 crore	<ul style="list-style-type: none"> ✓ The contractor had not started the work at all. Even the drawings had not been submitted. ✓ The division had paid mobilisation advance of ₹ 21.83 lakh to the contractor and booked ₹ 2.46 crore as cost of material against this work. ✓ The work had not been started as of May 2011. ✓ Entire Mobilisation Advance remained unadjusted.

It was seen that despite the fact that the contractor had either not taken up the works at all or the pace of work, wherever taken up, had been tardy, the Department had all along (2005-11) booked expenditure on procurement of material on all the three works. The Department had, in addition, paid (November 2007) interest free Mobilisation Advance to the contractor, which apart from being prohibited resulted in extension of undue benefit to the contractor. Out of the payment of MA of ₹ 83.91 lakh, ₹ 5.39 lakh only had been recovered from the executed portion of the works and the balance ₹ 78.52 lakh continued to be retained by the contractor for the last four years.

²⁶ (1) Nallah Yakh, near U/S of village Gurha Mundian-RD 2275M (2) River Basanter, near SKUAST Samba RD 500M and; (3) River Devak near, village Utter Behni RD 1000M.

²⁷ A Cent per cent GOI sponsored scheme

²⁸ M/s UAN Raju Construction Ltd; Vishakhapatnam

The Department was either evasive or did not reply at all to the audit queries regarding allotment of works without ensuring vetting of designs by the CWC, booking of huge amounts on material against the works which had either been taken up partially or not taken up at all, payment of mobilisation advance and subsequent failure to ensure start/re-start of works by the contractor. No cogent reasons for delay in completion despite huge spending were furnished to audit.

The department failed to adhere to the instructions of the GOI in getting the designs of the projects vetted from the CWC before execution and subsequently failed to ensure execution of works. This resulted in blocking of ₹ 8.67 crore and defeated the intended purpose.

The matter was referred to Government/Department in August 2011. In response the Chief Engineer, Irrigation and Flood Control Department, Jammu while confirming (November 2011) the status of the project, as pointed out by audit, did not furnish any reasons for delays in completion of the project. Reply from the Government, however was awaited (November 2011).

Education Department

(Sarva Shiksha Abhiyan)

2.14 Diversion/blocking of funds meant for up-gradation of the State Institute of Education Jammu

Release of funds by the society in anticipation of clearance of the project by the State Government resulted in blocking of funds.

The Government of India (GOI) approved (July 2003) up-gradation of the State Institute of Education (SIE) Jammu to the level of Institute of Educational Management and Training (SIEMAT) subject to furnishing of a proposal by the State Government and also taking-over of the project once its central funding was over. A provision of ₹ three crore was kept for the project in the Xth Plan under *Sarva Shiksha Abhiyan* (SSA).

Scrutiny (February 2011) of records of the State Project Director (PD), Ujalla Society, J&K (*Sarva Shiksha Abhiyan*) showed that the State Government proposal/MOA forwarded to the GOI in July 2005 was returned (December 2005 and May 2006) for modification in the light of certain observations made by the National Institute of Educational Planning and Administration (NIEPA). In anticipation of clearance of the project by the State Government, the society received ₹ 2.10 crore²⁹ from GOI for implementation of the project out of which the society released ₹ 60.00 lakh³⁰ in favour of SIE, Jammu which was lying unutilized as of February 2011. The balance ₹ 1.50 crore

²⁹ 2003-04: ₹ 50 lakh; 2004-05: ₹ 100 lakh; 2006-07: ₹ 50 lakh and 2007-08: ₹ 10 lakh

³⁰ March 2007: ₹ 50 lakh and March 2008: ₹ 10 lakh

had been diverted by the Society, without approval of the grant sanctioning authority, for other spillover works not covered under the programme. The Society had not maintained project-wise details of the funds received by it. Funds for all the projects were amalgamated and consolidated utilization certificates (UC) were submitted annually to the grant sanctioning authority without giving project-wise details of receipts/expenditure figures.

The PD stated (February 2011) that the project had not been cleared by the State Government so far and every effort was being made to finalize it. The reply is not tenable as the Society should not have released or utilized the funds for activities not covered under the programme without clearance of the project by the State Government.

Lack of monitoring of the approved projects by the Government, non-existent internal controls in the Society coupled with inaction of the Government in finalizing the project resulted in blocking of ₹ 60 lakh for the periods ranging between 36 and 46 months and diversion of ₹ 1.50 crore.

The matter was referred to Government/Department in May 2011; the reply had not been received (October 2011).

General

2.15 Follow-up on Audit Reports

Non-submission of suo-moto Action Taken Notes

To ensure accountability of the executives to the issues dealt with in various Audit Reports, the State Government (Finance Department) issued instructions in June 1997 to the administrative departments to furnish to Public Accounts Committee (PAC)/Committee on Public Undertakings (COPU), *suo-moto* Action Taken Notes (ATNs) on all the audit paragraphs featuring in the Audit Reports irrespective of the fact that these are taken up for discussion by these Committees or not. These ATNs are to be submitted to these Committees duly vetted by the Accountant General (AG), within a period of three months from the date of presentation of Audit Reports in the State Legislature. Consequent upon the holding of National Seminar on Legislature Audit Interface on 5th July 2010 at New Delhi regarding strengthening of Legislative Control over the financial activities of the Government and securing greater response of the Executive to the Reports of the Comptroller and Auditor General of India and recommendations of the PAC and COPU on these Reports, the suggestions of the CAG of India were adopted by the Committees. The Committees (PAC and COPU) skipped over the paragraphs prior to Audit Report 2000-01 and sought ATNs on all the pending audit paragraphs thereafter 2007-08 from the concerned Secretaries (Government).

It was, however, noticed that out of 356 paragraphs featuring in the Civil Chapters of Audit Reports 2000-01 to 2008-09, *suo-moto* ATNs in respect of only 167 paragraphs have been received during the period January 2011 to March 2011.

2.16 Action taken on recommendations of the PAC/COPU

Action Taken Notes, duly vetted by the PAG on the observations/recommendations made by the PAC/COPU in respect of the paragraphs discussed by them are to be furnished to these Committees within six months from the date of such observations/recommendations. Out of 356 paragraphs featuring in the Civil chapters of Audit Reports for the years 2000-01 to 2008-09 (excluding Audit Reports presented in the Jammu and Kashmir State Legislature on 31 March 2011), only 122 paragraphs have been discussed by the PAC up to March 2011. Recommendations in respect of 108 paragraphs have been given by the PAC but ATNs on the recommendations of the Committee have been received in respect of only 22 paragraphs despite the PAG taking up the matter with the Chairperson of the committee and the Chief Secretary.

2.17 Lack of response to Audit

The Hand Book of Instructions for speedy settlement of Audit observations/Inspection Reports (IRs), etc., issued by the Government (Finance Department) provides for prompt response by the executive to the IRs issued by the AG to ensure remedial/rectification action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, etc. brought out in the IRs. The Heads of offices and next higher authorities are required to comply with the observations contained in the IRs and rectify the defects promptly and report their compliance to the Accountant General.

Nine Audit Committee meetings were held during 2010-11 in respect of paragraphs contained in IRs pertaining to the civil wing, wherein 627 transaction audit paragraphs were discussed and 241 paragraphs were settled.

At the end of March 2011, 5613 IRs involving 28769 paragraphs pertaining to the period 1998-2011 were outstanding.

Lack of response to Audit indicated inaction against the defaulting officers, and facilitated continuation of serious financial irregularities and loss to Government even after being pointed out in audit.

The Government should look into this matter and revamp the system to ensure proper response to the audit observations from the departments in a time-bound manner.