

OVERVIEW

This Report contains Civil and Commercial chapters comprising 19 paragraphs and six performance reviews (including one CCO-based review of Public Works Department). Copies of draft paragraphs and reviews were sent to the concerned Commissioner/Secretary of the Department concerned by the Principal Accountant General with a request to furnish replies within six weeks. However, in respect of 16 draft paragraphs and five 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. PERFORMANCE REVIEWS

EDUCATION DEPARTMENT

ELEMENTARY EDUCATION PROGRAMME

Education is one of the most important indicators of social progress of a Nation. Both the State and GOI have been spending enormous funds on increasing enrolment, retention and providing quality education at the elementary level. To achieve this, the Government of India (GOI) introduced the Right of Children to Free and Compulsory Education (RTE) Act 2009 from 1st April 2010. The RTE Act had not been extended to J&K State as the 42nd constitutional amendment had not been adopted by the State. The education system in the State is governed by the Jammu and Kashmir School Education Act 2002 which contains provisions similar to the RTE Act. To achieve the goal of education for all, the GOI introduced two flagship programmes viz. *Sarva Shiksha Abhiyan* (SSA) and Mid-day Meal (MDM) scheme to support the State in creating, developing and strengthening the Elementary School System and increasing enrolment, retention and creation of necessary infrastructure for the school going children. Audit observed poor utilization of funds under the programmes resulting in huge unspent balances at the close of the financial years at all the levels. The department had failed to provide basic amenities and facilities to students. Some of the highlights of audit findings are summarised below.

- The Department had not prepared any perspective plan. Annual plans prepared were not based on inputs from school/Zonal level or Household Surveys. NGO's were not involved at any level.
- At the State level 3256 habitations (12 *per cent*) were without any schooling facility. Though Teacher Pupil ratio in test-checked schools was 1:12 and within the prescribed norm of 1:40, 718 schools out of 7016 schools in test-checked districts were run by single teachers.
- Out of 5232 works relating to construction of schools, additional class rooms cluster resource centres, etc., taken up during 2002-11, only 65 *per cent* had been

completed. Work on 560 school buildings had not been started. 485 works had been abandoned mid-way and work on 34 school buildings in test-checked districts had been taken up on disputed sites.

- There was a lack of basic amenities and facilities such as toilets, drinking water, play grounds, etc., in many schools.
- Delay of more than three to five months in issue of text books to students was observed.
- Introduction of Mid-day-meals programme did not have the desired impact due to inadequate infrastructure, deficient survey for preparation of Annual plans and less lifting of food grains from Food Corporation of India.
- Monitoring of the programme was virtually non-existent.

AGRICULTURE PRODUCTION DEPARTMENT

COMMAND AREA DEVELOPMENT AND WATER MANAGEMENT PROGRAMME

Command Area Development and Water Management (CAD & WM) Programme was introduced by the GOI with the objective of bridging the gap between irrigation potential created and irrigation potential utilized through micro-level infrastructure development and efficient Farm Water Management. The Programme involves execution of On Farm Development (OFD) works like construction of field channels and field drains, reclamation of water logged areas, renovation and rehabilitation of Minor Irrigation (MI) tanks, correction of system deficiencies of outlets up to distributaries, etc. Performance review of the Scheme revealed deficiencies in implementation process leading to delays in overall coverage of the identified Command Area. Some of the highlights of audit findings are summarised below.

- Delay in release of funds received from the GOI at the Finance Department level ranged between 25 and 46 days and at the Directorate level between 27 and 252 days.
- Proposals for release of GOI assistance during 2007-11 were submitted to the GOI with a delay ranging between one and four months from the due dates of submission.
- No data relating to topographical surveys, as envisaged in the guidelines, had been maintained by the Department.
- Participatory Irrigation Management (PIM) Act had not been enacted by the State and legalized Water User Agencies (WUAs), a pre-requisite for ensuring public participation in the programme, had not been formed.

- Though achievements against annual targets for construction of field channels and drains were satisfactory, pace of overall implementation of the Projects had been tardy.
- Lack of post construction maintenance had resulted in damage to the created assets (field channels/drains).

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

MANAGEMENT OF DAL LAKE

Jammu and Kashmir is gifted with numerous water bodies, Dal Lake being the most famous among them. Conservation of these water bodies has been a serious challenge for the State Government due to large scale encroachments, non-availability of funds and improper management. Although some progress has been made in the scientific management of the Dal Lake, other lakes in the valley have remained largely ignored. Some of the highlights of audit findings are summarised below.

- The State Government had not conducted any survey for source water protection. A nodal agency for overall formulation, implementation and coordination of a comprehensive programme for pollution control in water bodies was not in place.
- There was considerable underutilization of funds ranging between 32 and 60 *per cent* during 2006-01 due to inaction of LAWDA to execute works like house boat sanitation, infrastructure development, etc.
- The DPR for conservation of the lake had not been prepared on the basis of an exhaustive investigation and survey.
- The performance efficiency of STPs was not up to the mark; as a result, ₹ 11.05 crore spent on installation of these STPs had remained largely unfruitful. Also, non-completion of IPS and Sewer works/trunk sewer/remodeling of drains had resulted into non-optimal use of installed STPs.
- Despite spending ₹ 70 lakh on pilot studies for management of solid/liquid wastes of population residing in and around Dal Lake, no considerable headway had been made on the sanitation front.
- Improper land use planning by LAWDA prior to acquiring land and delayed decision of the State Government to change the originally envisaged land-use had rendered ₹ 8.32 crore unfruitful, besides adversely affecting the rehabilitation and resettlement programme of the lake-dwellers.
- The monitoring by scientific advisory committee and Board of Directors was poor. Also, the internal control mechanism was virtually non-existent.

POWER DEVELOPMENT DEPARTMENT

POWER DISTRIBUTION IN JAMMU AND KASHMIR

The distribution system of the power sector constitutes the final link between the power sector and the consumer. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. As this sector has been incurring huge losses, the real challenge of reforms in the power sector lies in efficient management of the distribution system. The National Electricity Policy (NEP) in this regard, *inter alia*, emphasizes transition from providing mere funding support to aiding restructuring of distribution utilities, efficiency improvements and recovery of cost of services with a view to making the power sector sustainable at reasonable and affordable prices.

Performance audit of the sector revealed that the aims and objectives of bringing about reforms in the Power Distribution Sector so as to provide reliable and quality power supply for all by 2012 by way of system upgradation, control and reduction of T&D losses and power thefts and by making the sector commercially viable as per National Electricity Policy and Plan were not achieved. The T&D losses, instead of decreasing had increased, the failure rate of distribution transformers had gone up and the arrears in revenue realization had swelled during 2006-11. Implementation of Centrally Sponsored Programmes had suffered due to non-adherence to the stipulated time frames, slow/non-execution of essential components like consumer metering, capacitor installation, modernization works etc., besides, idle/unfruitful and excess expenditure, blocking and diversion of funds. Project works under APDRP were not executed through pre-qualified turnkey contractors and most of the assets created were commissioned without prior issuance of fitness certificates. The activities under R-APDRP had not started fully as Part-B of the programme was still under finalization process.

2. AUDIT OF TRANSACTIONS

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

(Paragraph: 2.1)

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

(Paragraph: 2.2)

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

(Paragraph: 2.3)

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.

(Paragraph: 2.4)

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.

(Paragraph: 2.5)

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

(Paragraph: 2.6)

Non-provision of an 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.

(Paragraph: 2.7)

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

(Paragraph: 2.9)

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.

(Paragraph: 2.10)

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 the road facility.

(Paragraph: 2.11)

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

(Paragraph: 2.12)

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.

(Paragraph: 2.13)

3. CCO BASED AUDIT

PUBLIC WORKS DEPARTMENT

The State Roads and Buildings Department is mandated with the construction and maintenance of roads, bridges and buildings in the State in Government sector. Sufficient funds are being poured in the sector through both State and Centrally Sponsored Schemes. Despite huge spending in the sector, the outcome has not been up to the mark primarily due to non-prioritization of schemes, taking up of unapproved schemes for execution and incurring huge sums on execution without ensuring that the land on which the works are being executed are free from all encumbrances. Some of the highlights of audit findings are summarised below.

- No comprehensive road planning policy was in place in the State. Planning of works was not upto the mark.
- Delay in release of funds was seen at all the levels which impacted programme implementation.
- Diversion of ₹ 16.30 crore to other schemes impacted the schemes for which the funds were meant.
- Unauthorised liability of ₹ 110.82 crore had been created due to execution of unapproved works.
- Shortfall in achievement of targets was witnessed in all the programmes.
- Unrealistic estimation led to cost over-run over the original estimates in 1803 road works. Cost overrun of ₹ 27.52 crore was witnessed in 98 roads and 45 building works. Also, time over-run of one to nine years was seen in 167 road and 220 building works.
- Works taken up on disputed sites resulted in blocking of ₹ 140.34 crore on 112 road and 81 building works.
- 59 works had been split at different levels to avoid sanction of the higher authority.
- Due to non-procurement of sufficient construction material, eight executing divisions spent ₹ 62.47 crore on procurement of material from the open market and incurred an extra expenditure of ₹ 1.04 crore.
- Internal control mechanism, monitoring and quality control of works were virtually non-existent.

4. COMMERCIAL ACTIVITIES

Section I: Overview of State Public Sector Undertakings

The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Jammu and Kashmir, the State PSUs occupy a moderate place in the state economy. The Working PSUs registered a turnover of ₹ 4409.87 crore in 2010-11 as per their latest finalised accounts as of 30th September 2011. This turnover was equal to 9.24 *per cent* of State Gross Domestic Product (GDP) of ₹ 47709 crore in 2010-11. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. The working PSUs earned a profit of ₹ 500.37 crore in the aggregate as *per* their latest finalised accounts as of 30th September 2011. They had employed 0.25 lakh employees as on 31 March 2011. The State PSUs do not include two¹ prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

Investment in State PSUs

As on 31 March 2011, the investment (capital and long-term loans) in 24 PSUs was ₹ 5225.63 crore. Total investment in State PSUs, 99.93 *per cent* was in working PSUs and the remaining 0.07 *per cent* in non-working PSUs. The total investment consisted of 9.39 *percent* towards capital and 90.61 *per cent* in long-term loans. The investment has grown by 63.09 *percent* from ₹ 3204.23 crore in 2005-06 to ₹ 5225.63 crore in 2010-11.

Performance of PSUs

During the year 2010-11 out of 21 working PSUs, six PSUs earned profit of ₹ 654.31 crore and 13 PSUs incurred loss of ₹ 153.94 crore. One working PSU (Jammu and Kashmir State Cable Car Corporation Limited) had not prepared the Profit and Loss Account while one PSU (Jammu & Kashmir State Forest Corporation Limited) had not submitted its accounts since 1996-97 when its audit was entrusted to C&AG. The major contributors to profit were Jammu and Kashmir Bank Ltd (₹ 615.20 crore) and Jammu and Kashmir State Power Development Corporation (₹ 37.17 crore). The heavy losses were incurred by Jammu and Kashmir State Road Transport Corporation (₹ 52.52 crore), Jammu and Kashmir Industries Limited (₹ 42.31 crore) and Jammu and Kashmir State Financial Corporation (₹ 26.22 crore).

The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of C&AG shows that the State PSUs

¹ Consumer Affairs & Public Distribution Department and Government Press

incurred losses to the tune of ₹ 226.11 crore which were controllable with better management.

Arrears in finalisation of accounts

Most of the working PSUs had failed to finalise even one account in each year causing accumulation of the arrears. The main reasons for non-finalisation of the accounts by the PSUs noticed during audit were non-constitution of the Boards, non- holding of regular Board meetings, delay in audit of accounts by the Statutory Auditors and lack of trained staff.

Section II: Performance Review

Jammu and Kashmir Bank Ltd.

The Jammu & Kashmir Bank Limited (Bank) was incorporated on 01 of October 1938. As on 31 March 2011, the Bank had 11 Zonal offices controlling a network of 548 branches (excluding extension counters) spread over 20 States and one Union Territory of the country. The turnover (income) of the Bank was ₹ 4077.89 crore during 2010-11 as against ₹ 2059.54 crore during 2006-07. The Bank employed 7939 employees as on 31 March 2011. The paid up capital as on March 2011 was ₹ 48.49 crore. The performance audit of the Bank for the period from 2006-07 to 2010-11 was conducted to assess the performance of core activities of the Bank viz: Advances, Priority Sector Lending and Investments.

Advances

Though the overall achievements against the targets of advances were satisfactory, inter-zone disparity required attention. Credit Deposit Ratio of the Bank declined from 69.02 *per cent* in the year 2006-07 to 59.67 *per cent* in 2010-11 and remained on lower side as compared to average CD Ratio of all Scheduled Commercial Banks (SCB) in India. The Bank lacked in monitoring the credit facilities. The percentage of NPA to total advances of the Bank ranged between 2.89 and 1.95 during 2006-11.

Priority Sector lending

The Bank's achievement under agriculture sector was dismal. Consequent upon shortfall of targets on this account, the Bank had to invest an amount of ₹ 2862.74 crore in low yielding (interest rate off three to six *per cent* per annum) Rural Infrastructure Development Fund (RIDF) for a period of three to seven years, leading to loss of interest to the tune of ₹ 334.49 crore. The Bank had not been able to achieve the targets under centrally/State sponsored schemes leading to tardy implementation of various programmes. Under Lead Bank Segment, the Bank had not been able to discharge its responsibilities.

Investments

For maximizing the yield and boosting the profitability, the Bank holds investment portfolio. Funds are deployed in SLR and Non-SLR Securities. The return on investments portfolio remained below seven *per cent* which was not financially prudent. Bank had written off NPAs leading to loss to the tune of ₹ 49.72 crore during 2007-10.

Conclusion and Recommendations

The Bank had suffered huge losses on account of low CD Ratio, Consortium advances, settlement cases under OTS Scheme, non-achievement of targets under Priority Sector Lending, low yield on investment. By achievement of targets under advances, increase of CD ratio, effective monitoring, reduction of Zonal level NPA, avoiding sacrifice of Principal amount under OTS Scheme, achievement of targets under Priority Sector Lending and strengthening the investment portfolio, the Bank can avoid losses and increase income. The performance audit contains seven recommendations to improve Bank's performance and to minimise losses.

Section-III Transaction Audit Observations

Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Backward Classes Development Corporation Limited

The Company unauthorizedly diverted share capital contribution amounting to ₹ 1.15 crore received for financing the targeted groups towards payment of salary.

(Paragraph 4.3.1)

Public Works Department

Jammu And Kashmir Projects Construction Corporation Limited

Allotment of work without inviting tenders and payment of unsecured interest free mobilization advance to the contractor resulted in undue favour to contractor and interest loss of ₹ 1.64 crore.

(Paragraph 4.3.2)

Failure to collect labour cess on the works executed by the Company resulted in non-recovery of ₹ 2.68 crore.

(Paragraph 4.3.3)

Tourism Department

Jammu and Kashmir State Cable Car Corporation Limited

Execution of work without administrative approval and proper technical advice resulted in blocking of ₹ 45.28 lakh besides wasteful expenditure of ₹ 17.77 lakh incurred on foundation.

(Paragraph 4.3.4)

Consumer Affairs and Public Distribution Department

Non-adherence to prescribed system of monitoring and control of the stocks lying in CAPD, Store Udhampur, resulted into misappropriation of food grains stocks.

(Paragraph 4.3.5)