This Report contains Civil, Revenue and Commercial chapters comprising 22 paragraphs and seven performance reviews (including one integrated audit of Social Welfare Department). Copies of draft paragraphs and reviews were sent to the 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 seven 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

Health and Medical Education Department

National Rural Health Mission

Government of India launched (April 2005) the National Rural Health Mission (NRHM) to carry out necessary architectural correction in the basic health-care delivery system. The Plan of Action includes increasing public expenditure on health, reducing regional imbalance in health infrastructure, decentralization and district management of health programmes, community participation and operationalising community health centres into functional hospitals. The performance audit review showed that the status of health profile of the State has been quite encouraging vis-à-vis the performance indicators available for the country. These can be further improved if there is proper fund management/utilisation and various sectors involved are covered in conformity with the guidelines issued for implementation of the Programme. There are large gaps in planning as well as implementation of the Mission activities in the State even after four years of launching the programme. This is evidenced by the findings that no new health centre was put in place, essential services and amenities were not available in many centres and there was critical shortage of technical manpower. Maternal and child health programmes have not made much headway. Planning, implementation and monitoring of the programme through participation of NGOs and community-based organisations was non-existent.

Home Department

Modernisation of Police Forces

Government of India (GOI) introduced the ‘Modernisation of Police Forces’ (MPF) scheme in 1969 (modified in 2000-01, was extended for a period of ten years) to meet the deficiencies in basic infrastructure like Police Stations/Police Posts and police housing, modern weaponry, mobility, communication, forensic science equipment and skill up-gradation of police personnel. Implementation of the scheme during the review period was satisfactory with regard to the weaponry and training components. However, infrastructure development is a matter of serious concern, as the police personnel were not provided adequate level of housing, secured police stations and outposts despite availability of funds. Inadequate provision of vehicles at the field level is another area of concern as it has a direct bearing on the response time. Communication system including computerisation needs to be addressed on a priority basis, as this would enable the force to share critical information rapidly.

Irrigation and Flood Control Department

Implementation of Irrigation Schemes

The Irrigation and Flood Control Department is entrusted with the job of providing assured irrigation facility to cultivable/cultivated land in the State by construction, renovation, modernisation and maintenance of irrigation canals/channels/*khuls*, etc. Majority of the schemes executed by the Department are funded by the GOI. The objective of speedy development of irrigation potential and its eventual utilisation for the benefit of the farmer was not achieved to the desired extent in the State due to inherent deficiencies in planning, execution and monitoring. Implementation of the schemes was affected due to delay in release/diversion of funds, delays in execution and non-fulfilment of pre-requisites. In the absence of a time bound strategy for systematic harnessing of estimated irrigation potential, there was shortfall in the creation of irrigation potential. Even the irrigation potential created under various schemes was not utilised optimally. Thirty two *per cent* of the 39 completed schemes could not provide adequate irrigation due to land disputes and non-restoration of damages. Consequently, the ultimate cost benefit ratio achieved in respect of some schemes was less than unity.

2. AUDIT OF TRANSACTIONS

Embezzlements/Losses/Non-recovery of dues

Non-recovery of supervision charges for works executed on behalf of Northern Railways resulted in loss of Rs. 8.28 crore.

(Paragraph: 2.1)

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

Failure of the Sher-e-Kashmir University of Agricultural Sciences and Technology, Jammu to get the HT line shifted and have the drawings and the key construction material issued to the contractor in time resulted in avoidable extra expenditure of Rs. 1.76 crore.

(Paragraph: 2.2)

Change of executing agency, engaged for construction of a 300 bedded hospital at Anantnag resulted in wasteful expenditure of Rs. 21.25 lakh incurred on drawings/ conceptual plans.

(Paragraph: 2.3)

Improper planning of the department resulted in idle expenditure of Rs. 16.86 crore and non-completion of transmission line for 27 years.

(Paragraph: 2.6)

Decision of the Department to take up construction of the Sub-station at south portal of Jawahar Tunnel without taking into consideration the meteorological report and advice of the Geologist resulted in wasteful expenditure of Rs. 68.93 lakh besides blocking of Rs. 71.05 lakh.

(Paragraph: 2.7)

Taking up of allied works without first ensuring the development of source and failure of the department in resolving dispute resulted in unfruitful expenditure of Rs. 6.86 crore.

(Paragraph: 2.11)

Failure to get the title of a piece of land in favour of the Department before taking up execution of work resulted in non-completion of the irrigation project on which Rs. 75.16 lakh has been incurred.

(Paragraph: 2.12)

3. INTEGRATED AUDIT

Social Welfare Department

The State Government established Social Welfare Department in 1960 for implementation of various developmental schemes. The Department plays an important role in upliftment of the weaker sections of the society. Integrated audit of the Department showed non-provision of benefits to the intended beneficiaries due to non-availability of baseline data and non-disbursement of assistance to the beneficiaries in time due to which the unspent balances increased over a period of time. The Contributory Social Security Scheme for marginal workers had largely failed due to poor response.

4. REVENUE RECEIPTS

The Chapter contains five paragraphs and two reviews relating to non/short levy of tax, fees, interest and penalty, etc. involving Rs. 28.58 crore. Of these, the Departments/Government accepted audit observations amounting to Rs. 6.50 crore.

FINANCE DEPARTMENT (COMMERCIAL TAXES)

Performance Review on 'Transition from Sales Tax to VAT'

Though there was increase in revenue growth after the implementation of VAT in the State, revenue per assessee decreased from Rs. 0.03 crore in 2004-05 to Rs. 0.02 crore in post-VAT period.

(Paragraph: 4.2.6)

The existing shortage of person in position in the pre-VAT period, coupled with the increased workload under VAT, was not addressed by the Department which affected proper implementation of the Act.

(Paragraph: 4.2.7.2)

Non-levy of penalty of Rs. 98.10 crore on dealers collecting tax as unregistered dealers and availing input tax credit of Rs. 16.21 crore irregularly.

(Paragraph: 4.2.8.2)

Non-levy of penalty for delayed submission of returns/audit reports resulted in short realisation of Government revenue of Rs. 4.39 crore.

(Paragraph: 4.2.11)

Non-verification of the correctness of opening stock declared by the dealer as on 1 April 2005 resulted in revenue loss of Rs. 48.03 lakh including interest and penalty.

(Paragraph: 4.2.14.5)

The Deputy Commissioners (Audit) had failed to check even the minimum prescribed percentage of tax remission cases.

(Paragraph: 4.2.19)

Performance Review on 'Assessment and collection of Toll Tax'

Absence of a provision for cross-verification of the toll post records of import and export of goods with Commercial Taxes Department resulted in non-levy of toll of Rs. 55.23 lakh.

(Paragraphs: 4.3.7.1 and 4.3.7.2)

Allowing of vehicles carrying load in excess of the permissible limit resulted in loss of revenue of Rs. 15.14 lakh on account of basic toll.

(Paragraph: 4.3.8.1)

There was delay in transfer of toll receipts to the Government account by the Jammu & Kashmir Bank Ltd. Timely deposit would have saved the Government from payment of the interest of Rs. 69.35 lakh on overdrafts.

(Paragraph: 4.3.9)

Due to non-functioning of weighbridges assessment of additional toll in respect of 17.12 lakh vehicles that crossed the toll post was made on lump sum basis and not on actual laden weight leaving scope for loss of revenue.

(Paragraph: 4.3.10)

Lack of monitoring resulted in incorrect grant of exemption from payment of additional toll to the extent of Rs. 4.58 crore to various industrial units. The correctness of the exemption allowed on 1,27,952 metric tons of raw material and finished goods involving toll of Rs. 5.11 crore could not be verified due to non-preparation of the chief article statement.

(Paragraph: 4.3.11)

AUDIT OF TRANSACTIONS

FINANCE DEPARTMENT (COMMERCIAL TAXES)

Undue exemption from payment of sales tax resulted in short realisation of Rs. 17.25 lakh including interest**.**

(Paragraph: 4.4)

Failure of the assessing authority to apply correct rates of tax and detecting concealment of turnover of a dealer, resulted in short levy of tax aggregating Rs. 7.16 lakh including interest and penalty.

(Paragraph: 4.5)

Failure of the assessing authority to detect the concealment of purchase resulted in short levy of tax of Rs. 4.30 lakh.

(Paragraph: 4.6)

Failure of the assessing authority to detect non-accounting of opening stock in the trading account by a dealer resulted in short levy of tax amounting to Rs. 5.98 lakh including the interest and penalty.

(Paragraph: 4.7)

Grant of irregular exemption of Rs. 59.10 lakh.

(Paragraph: 4.8)

5. COMMERCIAL ACTIVITIES

Section I: Overview of State Public Sector Undertakings

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Jammu and Kashmir had 23 PSUs (17 companies, three statutory corporations and three non-working companies) which employed 0.13 lakh employees. The working PSUs registered a turnover of Rs. 3206.88 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 9.21 *per cent* of State GDP indicating a moderate role played by State PSUs in the economy. The PSUs earned a profit of Rs. 233.60 crore for 2008-09 and had accumulated losses of Rs. 1338.05 crore.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 23 PSUs was Rs. 4846.47 crore. It increased by over 61.87 *per cent* from Rs. 2993.98 crore in 2004-05 mainly because of grant of loans to PSUs during the period. Power Sector accounted for 42.33 *per cent* of total investment in 2008-09. The Government contributed Rs. 74.99 crore towards equity, loans and grants/subsidies during 2008-09.

Performance of PSUs

During the year 2008-09, out of 20 working PSUs, five PSUs earned profit of Rs. 416.99 crore and 13 PSUs incurred loss of Rs. 183.39 crore. One PSU did not prepare profit and loss account while another one PSU had not submitted its first accounts. The major contributors to profit were Jammu and Kashmir Bank Ltd. (Rs. 409.84 crore) and Jammu and Kashmir State Financial Corporation (Rs. 4.64 crore). The heavy losses were incurred by Jammu and Kashmir Power Development Corporation Limited (Rs. 64.65 crore), Jammu and Kashmir State Road Transport Corporation (Rs. 54.67 crore) and Jammu and Kashmir Industries Limited (Rs. 36.23 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs. 29.63 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 15 accounts finalised during October 2008 to September 2009, nine accounts received qualified certificates and three accounts received disclaimer. There were 12 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the 12 companies indicated absence of internal audit system commensurate with the size and nature of business of company.

Arrears in accounts

Nineteen working PSUs had arrears of 224 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts.

Discussion of Audit Reports by COPU

The Commercial Chapter of Audit Report (Civil) for 2005-06 had been partially discussed and Commercial Chapter of Audit Reports (Civil) for 2006-07 and 2007-08 are yet to be discussed by COPU. These three audit reports contained four reviews and nine paragraphs.

Section II - Part A: Performance Reviews

Jammu and Kashmir State Road Transport Corporation

Performance review relating to 'Operational performance of Jammu and Kashmir Road Transport Corporation' was conducted. Executive summary of audit findings is given below.

The Jammu and Kashmir State Road Transport Corporation (Corporation) provides public transport in the Jammu and Kashmir State through its 14 depots. The Corporation had fleet strength of 677 buses as on 31 March 2009 and carried an average of 0.11 lakh passengers per day during 2008-09. Besides buses, the Corporation also has trucks for cargo operations. As on 31 March 2009, the Corporation had 436 trucks. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its bus operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation does not maintain separate records for bus and truck operations. It suffered a loss of Rs. 33.00 crore in 2007-08 from the operation of buses and trucks. Its accumulated loss and borrowings stood at Rs. 465.50 crore and Rs. 354.32 crore as at 31 March 2008, respectively. The Corporation earned Rs. 19.07 per kilometre and expended Rs. 31.29 per kilometre in 2007-08.

Share in Public Transport

The Corporation failed to keep pace with growing demand for public transport. The percentage share of Corporation for public transport in the State was around three *per cent*. The vehicle density per lakh population (including private operators' buses) decreased from 187 (2004-05) to 186 (2008-09).

Vehicle profile and utilisation

Corporation's buses consisted of own fleet of 677 buses. Of its own fleet, 523 (77 *per cent*) were overage, i.e., which are more than eight years old. The percentage of overage buses increased from 54 *per cent* in 2004-05 to 77 *per cent* in 2008-09 though the Corporation acquired 78 new buses during 2004-09 at a cost of Rs. 10.47 crore. The acquisition was wholly funded through plan funds released by state Government.

Corporation's fleet utilisation at 80 *per cent* in 2008-09 was below All India Average (AIA) of 92 *per cent*. Its vehicle productivity at 138 kilometres per day per bus was below the AIA of 313 kilometres. The achievement of the Corporation was also less than its own target of 200 kilometres per bus per day. Its passenger load factor at 77 *per cent*, was above the AIA of 71 *per cent* though no target had been fixed for load factor. Preventive maintenance schedules were not adhered to by the Corporation.

Economy in operations

Manpower and fuel constitute 73 *per cent* of total cost. Interest, depreciation and taxes account for 19 *per cent* and are not controllable in the short term. Thus, the major cost saving has to come from manpower and fuel. The Corporation does not maintain separate records for manpower utilisation in respect of bus fleet. However, the Corporation succeeded in reducing the manpower per vehicle from 4.3 in 2004-05 to 3.4 in 2008-09. The expenditure on repairs and maintenance was Rs. 1.99 crore (Rs. 0.27 lakh per bus) in 2007-08.

As a result of cancellations due to controllable factors like want of buses, the Corporation was deprived of traffic revenue to an extent of Rs. 103.23 crore.

Revenue Maximisation

The Corporation has 2.65 lakh square meters of land for future development. However, the Corporation does not have any policy for tapping non-traffic revenue sources by taking up large scale PPP projects in the vacant land.

Need for a regulator

The revision of fare is being effected on the basis of fares fixed by the State Transport Authority. However, the revision does not take into consideration the increase in other operational costs of the Corporation. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. Targets at depot level were not set by the Management. The Corporation has Management Information System (MIS) in place whereby information on various operational activities is communicated to the Head

Office on daily/monthly basis. This information was neither consolidated at top management level nor any remedial action was taken.

Conclusion and Recommendations

The Corporation is suffering losses mainly due to its high cost of operations and decrease in revenue. The Corporation can control the decline by undertaking timely repairs of vehicles and exercising effective control by top Management. This review contains twelve recommendations to improve the Corporation's performance. Creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of these recommendations.