सत्यमेव जयते

Report of the Comptroller and Auditor General of India on Revenue Sector and Public Sector Undertakings (Social, General and Economic Sectors) for the year ended 31 March 2018

भारतीय लेखापरीक्षा और लेखा विभाग

INDIAN AUDIT AND ACCOUNTS DEPARTMENT

लोकहितार्थ सत्यनिष्ठा

Dedicated to Truth in Public Interest

JAMMU & KASHMIR

Government of Jammu and Kashmir

Report No. 1 of the year 2020

Report of the
Comptroller and Auditor General of India

on

Revenue Sector
and
Public Sector Undertakings
(Social, General and Economic Sectors)

for the year ended 31 March 2018

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PREFACE

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2018 has been prepared under Article 151 of the Constitution of India. The Report is being sent to the Lieutenant Governors of the successor Union Territory of Jammu and Kashmir and Union Territory of Ladakh under Section 82(1) of the Jammu & Kashmir Reorganization Act, 2019.

This Report contains two parts.

Part-A: Revenue Sector

This part contains significant findings of audit of receipts and expenditure of major revenue earning departments conducted under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

Part-B: Public Sector Undertakings

This part deals with the results of test audit of Government Companies and Statutory Corporations for the year ended March 2018.

The accounts of Government Companies (including companies deemed to be Government Companies as per provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act 1956 and Sections 139 and 143 of the Companies Act 2013. The audit of Statutory Corporations is conducted under their respective legislation.

The Government is required to submit this portion of the Audit Report to the Legislature of Jammu and Kashmir under Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The instances mentioned in this Report are those which came to notice in the course of test audit during the period 2017-18 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports. Instances relating to the period subsequent to 2017-18 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

OVERVIEW

This Report is in two parts. Part-A covers audit findings of Revenue Sector comprising one Performance Audit on 'Imposition and Collection of Taxes on Vehicles' and eight paragraphs on 'Preparedness for transition to Goods and Services Tax', short levy and loss of tax revenue due to concealment, suppression and misclassification of sales turnover, incorrect allowance of input tax credit, incorrect application of rates and short levy of stamp duty/ registration fee, involving ₹186.62 crore. Some of the major findings are mentioned below:

Revenue Sector

General

During the year 2017-18, the overall receipts of the State increased by 15.56 *per cent* over the previous year. The revenue raised by the State Government (₹13,898.74 crore) was 29 *per cent* of the total revenue receipts against 28 *per cent* in the preceding year. The balance 71 *per cent* of the receipts during 2017-18 was from the Government of India (GoI) of which 65.59 *per cent* came in the form of grants-in-aid. The grants-in-aid from GoI constituted 46.79 *per cent* of the total receipts of the State.

(Paragraph: 1.1)

Test-check of the records of 94 units out of 402 auditable units of Commercial Taxes (Sales tax/ Value Added Tax), State Excise, Motor Vehicles and Law Departments conducted during the year 2017-18 showed under assessment/ Evasion of tax/ Irregular allowance of Input Tax Credit, etc. aggregating ₹377.77 crore in 33,237 cases. During the year, the departments concerned accepted under assessment and other deficiencies of ₹2.22 crore involved in 97 cases, which were pointed out in audit during 2017-18 and earlier years. The departments collected/ recovered ₹53.38 lakh in 19 cases pertaining to audit findings of previous years.

(Paragraph: 1.10)

Performance Audit

A Performance Audit on '**Imposition and Collection of Taxes on Vehicles**', showed the following:

- The shortfall in revenue collection vis-a-vis targets fixed during 2013-14 to 2016-17 was between 11 *per cent* and 25 *per cent*. Targets fixed for 2017-18, though achieved upto the level of 135 *per cent* were far less in comparison to targets of previous two years.

(Paragraph: 2.3.6)

- Certificate of registration in respect of 21,918 private vehicles registered with eight (out of 11) selected Regional Transport Offices/ Assistant Regional Transport Offices (RTOs/ ARTOs) have not been renewed after prescribed time frame which involved revenue implication of ₹6.12 crore.

(Paragraph: 2.3.8)

- Incorrect application of rates of temporary registration fee by 91 registered dealers led to short recovery of fee of ₹3.54 crore.

(Paragraph: 2.3.8.1)

- Non-renewal of All India/ All J&K route permits of passenger vehicles, District route permits and authorisation of National Permit for prolonged periods resulted in non-recovery of renewal fee/ additional fee of ₹11.16 crore.

(Paragraphs: 2.3.11.1 to 2.3.11.3)

- Non-renewal of licences of Goods Agents, Motor Transport Services, Pollution control checking centres, Driving Institutes and trade certificates in time resulted in non/ short recovery of ₹157.04 lakh.

(Paragraphs: 2.3.12 to 2.3.16)

- Audit scrutiny in selected Regional Transport Offices/ Assistant Regional Transport Offices revealed charging of excess fee of ₹1.24 crore on 10239 hypothecation agreements and short charging of ₹0.02 crore in 2479 hypothecation agreements by charging hypothecation fee at pre-revised rates.

(*Paragraph: 2.3.17*)

Compliance Audit

Preparedness for transition to Goods and Services Tax (GST)

Jammu and Kashmir was the last State in the country to implement the GST Act. State Taxes department claimed that it had sufficient IT infrastructure. There was low enrolment of existing taxpayers and delayed establishment of dedicated help lines. Frequent changes were made in the rules/ regulations on the recommendation of the GST Council by the State Government, affecting the implementation of the Act. The Goods and Services Tax Network (GSTN) has not been able to provide the complete IT solution and thus the problems regarding filing of returns GSTR-2 and GSTR-3 have not been resolved. The State was hamstrung in implementing the provisions of GST as it had limited role in these matters. Department needs to verify all the transitional credits availed by the migrated dealers and sort out the legacy issues like pre-GST assessments and recovery of arrears pertaining to pre-GST regime expeditiously in a time bound manner.

(Paragraph: 2.4)

Failure of the Assessing Authority, Commercial Taxes Circle, Rajouri to detect the concealment and misclassification of purchases resulted in short levy of tax, interest and penalty of ₹6.45 lakh. There was also a revenue loss of ₹2.17 lakh.

(Paragraph: 2.5)

Failure of the Assessing Authority Commercial Taxes Circle, Leh to recover tax on damaged stock or reverse the input tax credit availed by a dealer resulted in short recovery of tax and interest of ₹9.45 lakh.

(Paragraph: 2.6)

Failure of the Assessing Authority Commercial Taxes Circle, Udhampur-II to disallow the inadmissible input tax credit availed by a dealer on purchase of fuel during the years 2011-12 and 2012-13 resulted in short demand of ₹8.60 lakh.

(Paragraph: 2.7)

Failure of the Assessing Authority Commercial Taxes Circle, 'E' Jammu to detect the concealment of turnover while assessing the dealer under section 39(5) of the Jammu and Kashmir Value Added Tax Act, 2005 resulted in short levy of tax, interest and penalty of ₹23.04 lakh.

(Paragraph: 2.8)

Failure of the Assessing Authority Commercial Taxes Circle, 'N' Jammu to detect the concealment of stock transfer of goods received against 'F' forms by a dealer resulted in short levy of tax, interest and penalty of ₹7.28 lakh.

(Paragraph: 2.9)

Failure of the Registering Authorities Leh and Kargil, to apply the correct rate of registration fee in 71 mortgage deeds registered during July 2013 and October 2016, resulted in short levy of registration fee of ₹34.06 lakh.

(Paragraph: 2.10)

Failure of the Registering Authority (Sub-Registrar Bijbehara) to apply correct rates resulted in short levy of Stamp Duty of ₹6.72 lakh and Registration Fee of ₹0.05 lakh.

(Paragraph: 2.11)

Failure of the Registering Authority (Sub-Registrar Shopian) to apply correct rate of Stamp Duty on relinquishment deeds resulted in short levy of Stamp Duty of ₹6.74 lakh.

(Paragraph: 2.12)

Part-B covers audit findings of Public Sector Undertakings comprising one Performance Audit on 'Working of Jammu and Kashmir Bank Limited', and seven paragraphs relating to deficiencies in procurement of medicines and equipment by Jammu and Kashmir Medical Supplies Corporation Limited, loss/ blocking of funds, unproductive/ unfruitful/ avoidable expenditure and low capacity utilisation of cement grinding-cum-packing unit involving ₹3,323.81 crore. Some of the major findings are mentioned below:

Public Sector Undertakings (PSUs)

As on 31 March 2018, there were 33 PSUs, including three Statutory Corporations and 30 Government Companies (including nine inactive Government Companies) under the audit jurisdiction of the Comptroller and Auditor General of India (C&AG). Of these, one PSU i.e. Jammu and Kashmir Bank Limited is listed (July 1998) on the stock exchange. Of the total paid-up equity of the Bank, 59.23 *per cent* is held by the State Government and remaining 40.77 *per cent* is held by Foreign Institutional Investors, Resident Individuals and others. The working PSUs registered an annual turnover of ₹8,571.68 crore as per their latest finalised accounts, as of 30 September 2018. This turnover was equal to 6.08 *per cent* of Gross State Domestic Product (GSDP) of ₹1,40,887 crore for 2017-18. The working PSUs earned an aggregate profit of ₹198.15 crore, as per their latest finalised accounts.

(Paragraph: 3.1.1)

Performance Audit

The Jammu & Kashmir Bank Limited (Bank) was incorporated with the objective to establish and carry on business of a banking company; borrow or raise money; to lend money by making loans and advances; to buy, sell, collect and deal in bills of exchange, hundies, promissory notes, drafts, bills of lading, debentures and other instruments; to deal in stocks, shares, debentures, securities and investment of all kinds; to buy and sell foreign exchange including foreign notes; and to act as agents for Government or local authorities. A performance audit of the Bank for the period 2013-14 to 2017-18 brought out certain deficiencies. Some of the highlights of the performance audit are as under:

- The Bank had not complied with the SEBI Regulations and some of the provisions of Companies Act, 2013 relating to corporate governance.

(Paragraphs: 4.5.1 & 4.5.2)

- Profit earned by the Bank declined from ₹1,182.47 crore during 2013-14 to ₹202.72 crore in 2017-18, mainly due to increase in the Gross Non-Performing Assets (NPAs) of the Bank from ₹643.77 crore, as on 31 March 2013 to ₹6,006.70 crore, as on 31 March 2018. Percentage of NPAs to Gross Advances also increased from 1.62 *per cent* at the end of March 2013 to 9.96 *per cent* at the end of March 2018. The Bank also suffered a loss of ₹1,632.29 crore during 2016-17.

(Paragraph: 4.6)

- The Bank's credit control system and financial reporting system failed to identify NPAs in time.

(*Paragraphs: 4.6.1 & 4.6.2*)

- Although there had been 24.58 *per cent* growth in deposits during 2013-14 to 2017-18, annual growth of deposits of Bank during last four years ending March 2017 was far below overall National average of Scheduled Commercial Banks.

(*Paragraph: 4.7.2*)

- The Bank had recorded an increase of 51.30 *per cent* in advances during 2013-14 to 2017-18, annual growth fluctuated between (-) 1.78 *per cent* and 18.28 *per cent*. Percentage of unsecured advances to total net advances had increased from 20.16 *per cent* at the end of March 2014 to 27.90 *per cent* at the end of March 2018.

(*Paragraph: 4.7.3*)

- The Bank's concentration risk for industry-wise exposure was on higher side when compared to average of overall banking industry.

(*Paragraph: 4.7.4 (i)*)

- Sanction/ release of credit facilities, without safeguarding the Bank's interest through adequate security cover, proper credit appraisal, adherence to the pre or post-disbursement conditions of the sanctions, regular monitoring, etc. not only led to NPAs but also loss/ non-recovery of ₹197.98 crore, doubtful recovery of ₹1,599.14 crore and excess payment of ₹14.10 crore in test-checked cases.

(*Paragraph: 4.7.5.2*)

- Deficiencies were noticed in Information Technology systems of the Bank due to which it could not ensure technology based solutions for some of its operations.

(*Paragraph: 4.7.6*)

- Sanctioning of one-time settlement in deviation of Bank's recovery policy resulted in sacrificing of principal amount of ₹17.97 crore in test-checked cases.

(*Paragraph: 4.7.9.1*)

- The Bank sold ten NPAs to Asset Reconstruction Companies (ARCs) during the period 2014-2018 by sacrificing principal amount of ₹671.10 crore and unapplied interest of ₹504 crore. Sale of financial asset to ARC below the reserve price resulted in loss of ₹21.89 crore.

(*Paragraph: 4.7.10*)

- Imprudent decision-making, non-invoking of guarantee and non-safeguarding of Bank's interest led to doubtful recovery/ loss of ₹180.43 crore in test-checked Non-Performing Investments.

(Paragraph: 4.7.11.2)

- Irregularities in recruitment of Relationship Executives and Banking Associates were noticed.

(Paragraph: 4.10.1)

- Bank had spent 53.09 *per cent* to 83.82 *per cent* of Corporate Social Responsibility (CSR) budget during 2016-17 and 2017-18 on a single activity/ project and had also incurred 49.33 *per cent* to 95.27 *per cent* under a single segment during 2015-16 to 2017-18, which was in violation of CSR policy. Further, in contravention to Bank's CSR policy and Companies Act 2013, an irregular expenditure of ₹46.96 crore was incurred out of CSR fund.

(Paragraph: 4.11)

Compliance Audit

Audit on procurement of medicine and equipment by Jammu and Kashmir Medical Supplies Corporation Limited revealed delays in finalisation of rate contracts and consequent delay/ non-procurement of medicines/ drugs, instruments, machinery, equipment; thereby defeating the purpose of creation of the Company. Audit also came across instances of non-levy of liquidated damages of ₹7.92 crore for delayed supplies, undue favour to a supplier by rejecting the seven bidders and procuring suture items at negotiated rates for ₹25.48 crore from the eighth bidder, non-operationalisation of 102 Ambulance Service in the State over a period of more than three years despite receiving the fund of ₹3.18 crore and non-observance of prescribed procedure for empanelment of testing laboratories leading to extra-expenditure of ₹9.47 lakh etc.

(Paragraph: 5.1)

Rejection of apple juice concentrate by the buyer, not being of acceptable quality and subsequent reduction in prices resulted in loss of ₹7.93 lakh, besides blocking of capital of ₹2.03 crore on account of unsold stock in Jammu and Kashmir Horticultural Produce Marketing and Processing Corporation Limited.

(Paragraph: 5.2)

Failure of Jammu and Kashmir Cements Limited to utilise the cement grinding-cum-packing unit Samba to the optimum capacity, as well as market the cement produced to private parties/ Government departments resulted in operating loss of ₹1.26 crore during 2015-18.

(Paragraph: 5.3)

Failure of Industries and Commerce Department to take timely action for setting up of International Trade Centre (ITC) at Pampore resulted in blocking of ₹3.94 crore for around ten years. Besides, the expenditure of ₹1.06 crore incurred on fencing of land and payment of registration fee was rendered unfruitful and the State could not avail the benefits from envisaged facility for holding national/ international trade fairs, buyer/ seller meets, transaction of international business as well as the interface with the overseas markets.

(Paragraph: 5.4)

Improper planning of the Jammu and Kashmir State Overseas Employment Corporation Limited, to set up its office at New Delhi without any meaningful activity, resulted in unproductive expenditure of ₹47.86 lakh on salary of staff, hiring of premises and other expenses.

(Paragraph: 5.5)

Failure of Jammu and Kashmir State Power Development Corporation Limited to deposit the advance tax on taxable income during the assessment year 2015-16, in accordance with the provisions of the Income Tax Act, 1961 resulted in avoidable interest payment of ₹3.26 crore.

(Paragraph: 5.6)

Lax supervision and control in Jammu and Kashmir State Power Development Corporation Limited over the execution of contract for Design, Engineering and Commissioning of 48 MW Lower Kalnai Hydel Electric Project led to unfruitful expenditure of ₹25.30 crore. Company could not generate 219.30 Million Units of energy per annum and had to pay an interest of ₹17.49 crore on the term loan availed for the project. Company also failed to sequence the payment of consultancy fee with the progress of the contract which led to avoidable expenditure of ₹6.57 crore. Despite encashment of bank/ performance guarantee of ₹79.20 crore, the Company suffered a minimum loss of ₹11.20 crore.

(Paragraph: 5.7)

Part ‘A’

Revenue Sector

Chapter-1

General

CHAPTER – 1

GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenues raised by the Government of Jammu and Kashmir during the year 2017-18, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table–1.1.**

Table–1.1: Trend of revenue receipts

(₹ in crore)

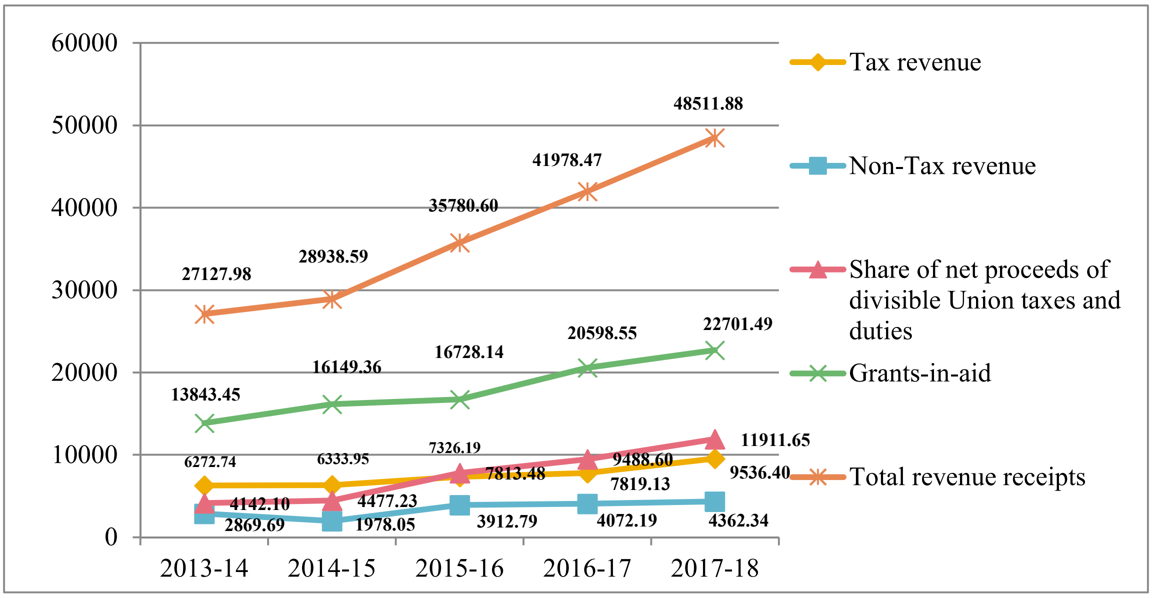
Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	**Revenue raised by the State Government**					
	Tax revenue	6,272.74	6,333.95	7,326.19	7,819.13	9,536.40
	Non-tax revenue	2,869.69	1,978.05	3,912.79	4,072.19	4,362.34
	Total	**9,142.43**	**8,312.00**	**11,238.98**	**11,891.32**	**13,898.74**
2.	**Receipts from the Government of India**					
	Share of net proceeds of divisible Union taxes and duties	4,142.10	4,477.23	7,813.48	9,488.60	11,911.65
	Grants-in-aid	13,843.45	16,149.36	16,728.14	20,598.55	22,701.49
	Total	**17,985.55**	**20,626.59**	**24,541.62**	**30,087.15**	**34,613.14**
3.	**Total revenue receipts of the State Government (1 and 2)**	**27,127.98**	**28,938.59**	**35,780.60**	**41,978.47**	**48,511.88**
4.	**Percentage of 1 to 3**	**34**	**29**	**31**	**28**	**29**

(Source: State Finance Accounts 2017-18)

The year-wise trend in revenue receipts during 2013-14 to 2017-18 is depicted in the **Chart-1.1.**

Chart-1.1

(₹ in crore)



During the year 2017-18, the overall receipts of the State increased by 15.56 *per cent* over the previous year. The revenue raised by the State Government (₹13,898.74 crore) was 29 *per cent* of the total revenue receipts against 28 *per cent* in the preceding year. The balance 71 *per cent* of the receipts during 2017-18 was from the Government of India (GoI) of which 65.59 *per cent* came in the form of grants-in-aid. The grants-in-aid from GoI constituted 46.79 *per cent* of the total receipts of the State.

1.1.2 The details of the tax revenue raised during the period 2013-14 to 2017-18 are given in **Table-1.2**.

Table-1.2: Details of Tax Revenue raised

(₹ in crore)

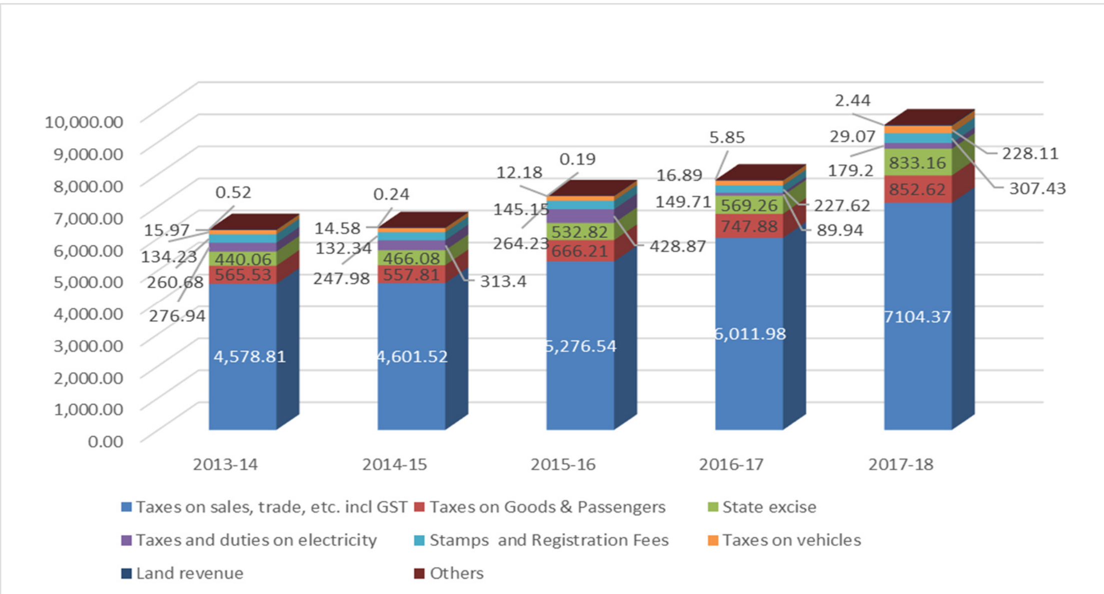
Sl. No.	Head of revenue	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage of increase (+) or decrease (-) in Actual in 2017-18 over 2016-17
1.	Taxes on sales, trade, etc. including GST	4,578.81	4,601.52	5,276.54	6,011.98	7,104.37	(+) 18.17
2.	Taxes on Goods & Passengers	565.53	557.81	666.21	747.88	852.62	(+) 14.00
3.	State excise	440.06	466.08	532.82	569.26	833.16	(+) 46.36
4.	Taxes and duties on electricity	276.94	313.40	428.87	89.94	179.20	(+) 99.24
5.	Stamps and Registration Fees	260.68	247.98	264.23	227.62	307.43	(+) 35.06
6.	Taxes on vehicles	134.23	132.34	145.15	149.71	228.11	(+) 52.37
7.	Land revenue	15.97	14.58	12.18	16.89	29.07	(+) 72.11
8.	Others	0.52	0.24	0.19	5.85	2.44	(-) 58.29
	Total	**6,272.74**	**6,333.95**	**7,326.19**	**7,819.13**	**9,536.40**	

(Source: State Budget 2018-19 and Finance Accounts 2017-18)

Year-wise trend of various tax revenues is depicted in **Chart-1.2.**

Chart- 1.2

(₹ in crore)



There was an increase in actual receipts in 2017-18 over 2016-17, ranging between 14 *per cent* and 99.24 *per cent* under the heads 'Taxes on Goods and Passengers', 'Taxes on Sales, Trade, etc. including State Goods and Services Tax', Stamps and Registration Fees, State Excise, 'Taxes on vehicles', 'Land revenue' and 'Taxes and Duties on Electricity'.

There was a decrease of about 58.29 *per cent* under the head 'Others' during the year 2017-18 as compared to previous year. Decrease was mainly under 'Other Taxes and Duties on Commodities and Services (Entertainment tax[1])'which has been subsumed under GST with effect from 8 July 2017.

The respective departments attributed the following reasons for increase of revenue in 2017-18 over 2016-17:

Taxes on sales, trade, etc.: The increase was mainly due to implementation of GST, subsuming of certain taxes[2] under new tax regime, better monitoring and increase in tax base.

State Excise: Increase was due to realisation of additional assessment fee on sale of different types of liquor products by licensees at the rate of 31.5 *per cent* after implementation of GST, which was earlier collected under VAT.

Taxes and Duties on electricity: Increase was mainly due to better monitoring and improvement in power infrastructure through implementation of various centrally sponsored schemes.

Stamps and Registration Fees: Increase was mainly due to annual increase of the market rates of property as notified by Government and increase in number of registrations.

Taxes on Vehicles: Increase was mainly due to increase in registration of vehicles[3] and revision of rates of fee/ taxes[4] of different types of vehicles.

Land Revenue: Increase was mainly due to increase in the issuance of revenue extracts and collection of *Chowkidari cess*, which was due for long time.

1.1.3 The details of the non-tax revenue raised during the period 2013-14 to 2017-18 are indicated in **Table-1.3.**

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1 Entertainment tax during 2016-17 was ₹5.85 crore, which decreased to ₹2.44 crore during 2017-18

2 Value Added Tax, Central Sales Tax, Entry Tax, tax on services levied under General Sales Tax Act 1962 and Entertainment Tax

3 Fresh registration of vehicles increased from 1,22,638 during 2016-17 to 1,69,243 during 2017-18

4 Registration charges increased from ₹200 to ₹600, trade certificate from ₹200 to ₹500, Imported motor vehicles from ₹800 to ₹5,000, etc.

Table-1.3: Details of Non-tax revenue raised

(₹ in crore)

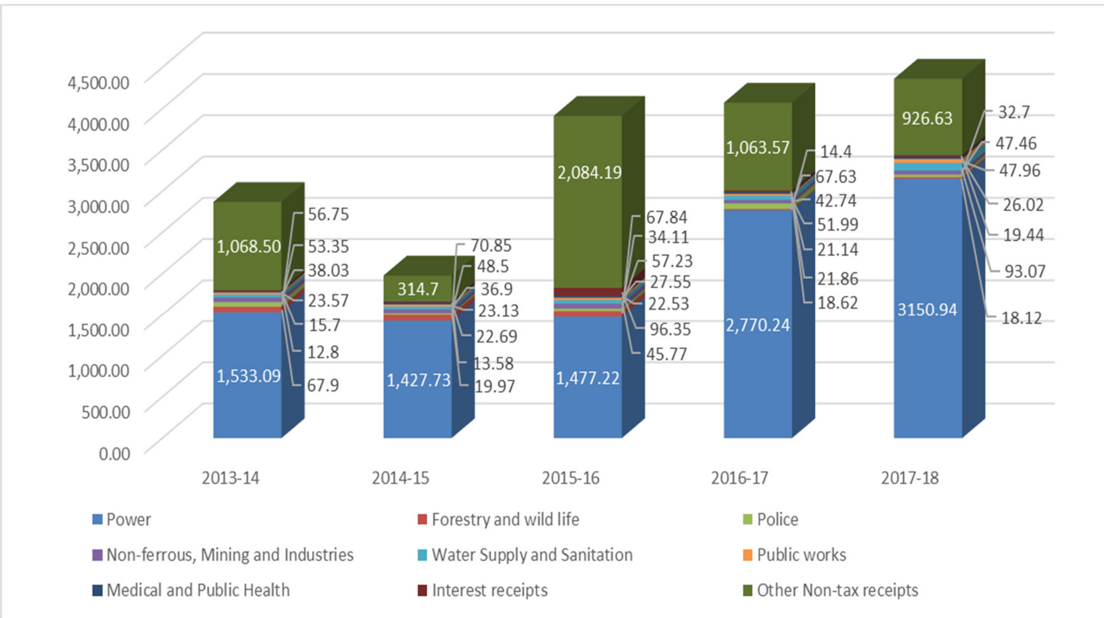
Sl. No	Head of revenue	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage of increase (+) or decrease (-)
1.	Power	1,533.09	1,427.73	1,477.22	2,770.24	3,150.94	(+) 13.74
2.	Forestry and wild life	67.90	70.85	67.84	14.40	18.12	(+) 25.83
3.	Police	56.75	19.97	34.11	67.63	32.70	(-) 51.65
4.	Non-ferrous, Mining and Industries	53.35	48.50	57.23	42.74	47.46	(+) 11.04
5.	Water Supply and Sanitation	38.03	36.90	45.77	51.99	93.07	(+) 79.02
6.	Public works	23.57	23.13	27.55	21.14	47.96	(+) 126.87
7.	Medical and Public Health	15.70	22.69	22.53	21.86	26.02	(+) 19.03
8.	Interest receipts	12.80	13.58	96.35	18.62	19.44	(+) 4.40
9.	Other Non-tax receipts	1,068.50	314.70	2,084.19	1,063.57	926.63	(-) 12.88
	Total	**2,869.69**	**1,978.05**	**3,912.79**	**4,072.19**	**4,362.34**	

(Source: State Budget 2018-19 and Finance Accounts 2017-18)

Year-wise trend of various Non-tax revenues is depicted in **Chart-1.3.**

Chart- 1.3

(₹ in crore)



There was an increase ranging between 4.40 *per cent* and 126.87 *per cent* in actual collection from interest receipts, non-ferrous mining and metallurgical Industries, power, medical and public health, forestry and wild life, water supply and sanitation and public works. Further, there was a decrease in receipts under the heads 'Police' and 'Other non-tax receipts' ranging between 12.88 *per cent* and 51.65 *per cent.*

The respective departments reported the following reasons for increase/ decrease of revenue in 2017-18 with respect to previous year:

Power: Increase was mainly due to better monitoring and improvement in power infrastructure through implementation of various centrally sponsored schemes[5].

Forestry and Wild Life: Increase was mainly due to more extraction, sale of minor forest produce and other receipts, more auction of trees/ sale of plantation from nurseries, etc.

Water Supply and Sanitation: Increase was mainly due to revision of water tariff rates and regularisation/ inclusion of new connections.

Public Works: Increase was mainly due to increase in agency charges from various telecom agencies for laying of Optical Fiber Cable.

Medical and Public health: Increase was mainly due to increase in number of patients/ increase in number of tests/ investigations undertaken, besides revision of parking contracts/ rent of canteens and medical shops/ registration fee of private nursing homes/ laboratories, auction of unserviceable items, coverage of more shops under Drugs and Food Control Organisation.

Non-ferrous, Mining and Industries: Increase was due to establishment of District Mineral offices in all the districts of the State that led to proper monitoring, supervision of extractions, checking of illegal extractions with seizures and compounding of offences as well as imposition of fines.

Police: Decrease was mainly due to delay in reimbursement claims received from Airport Authority of India on account of police service charges provided at Airports in the State and lesser receipts from Local Bodies/ Other organizations.

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2018 on some principal heads of revenue amounted to ₹1,566.94 crore of which ₹844.75 crore was outstanding for more than five years, as detailed in the **Table-1.4.**

Table-1.4: Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2018	Amount outstanding for more than five years as on 31 March 2018	Replies of Department
1.	Taxes on Sales/ VAT, Trade, etc.	1,410.41	781.68	The department has taken various steps viz. issuance of notice of demand (Dastak), issuance of memos, seizure of bank accounts and thereafter attachment of immovable property, besides, arrest warrants issued to ensure recovery of the arrears.
2.	Passenger tax	22.01	15.78	
3.	Motor spirit tax	0.09	0.09	
4.	Entertainment tax	0.21	0.21	Out of total arrears, recovery of ₹45.36 crore has been stayed by the court/ appellate authorities. However, action has been taken under Land Revenue Act for recoverable arrears of ₹2.08 crore.
5.	Toll Tax	28.24	28.00	
6.	State Excise	18.99	18.99	
7.	Taxes on vehicles	86.99	Age-wise breakup not available with the Department	Specific action taken in respect of these arrears was not intimated.
Total		**1,566.94**	**844.75**	

(Source: Data provided by the departments)

[5] Like RAPDRP-B, PMDP, DDUGJY, IPDS, SAUBHAGYA, etc.

1.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Commercial Taxes Department in respect of Sales Tax/ VAT and Tax on Works contracts are given in **Table-1.5.**

Table-1.5: Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2017-18	Total assessments due	Cases disposed of during 2017-18	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Sales Tax/ VAT	12,002	15,668	27,670	18,679	8,991	68
Tax on Works contract	30,256	36,320	66,576	17,925	48,651	27

(Source: Data provided by the department)

Out of the total cases due for assessment, only 68 *per cent* of the assessments were completed in respect of Sales Tax/ VAT and 27 *per cent* in the case of Tax on Works contract. Reasons for less assessments during 2017-18, though called for, were not intimated by the departments (March 2019).

The Government may consider fixing a time limit for finalization of the pending assessment and put in place a system for monitoring the progress of finalization of assessment periodically, to ensure that the time limit so fixed is adhered to by the departmental authorities.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected, cases finalized and the demands for additional tax raised, as reported by the Department are given in **Table-1.6.**

Table-1.6: Evasion of Tax

(₹ in crore)

Sl. No	Head of revenue	Cases pending as on 31 March 2017	Cases detected during 2017-18	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty, etc. raised			Number of cases pending for finalisation as on 31 March 2018
					Number of cases	Amount of demand	Amount recovered	
1.	Sales Tax/ VAT	206	1,184	1,390	1,170	12.24	0.55	220
2.	Passenger tax	Nil	414	414	414	0.03	0.03	Nil
3.	Toll Tax	Nil	330	330	330	0.36	0.36	Nil
	Total	**206**	**1,928**	**2,134**	**1,914**	**12.63**	**0.94**	**220**

(*Source: Data furnished by the Department)*

Against the total demand of ₹12.63 crore raised in 1,914 cases during the year 2017-18, an amount of ₹0.94 crore had been recovered which is only 7.44 *per cent* of the total recoverable amount. The reasons for slow pace of recovery were not furnished (March 2019) by the Department.

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2017-18, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2017-18 as reported by the Department is given in **Table-1.7**.

Table- 1.7: Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales tax / VAT	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	8	1.93
2.	Claims received during the year	7	0.83
3.	Refunds made during the year	8	2.01
4.	Balance outstanding at the end of the year	7[6]	0.75

(Source: Data furnished by the Department)

The Government may take effective steps for immediate disposal of the cases.

1.6 Response of the Government/ departments towards audit

The Accountant General (Audit), Jammu and Kashmir (AG), conducts periodical inspection of the Government Departments to test-check the transactions and verify the maintenance of important accounting and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating the audit findings, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of the offices/ Government are required to take necessary corrective action on the observations contained in the IRs, rectify the defects and omissions and report compliance to the Accountant General within four weeks from the date of receipt of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

A total of 4,111 paragraphs involving ₹1,216.35 crore relating to 811 IRs issued upto December 2017 remained outstanding at the end of June 2018 as detailed in **Table-1.8**.

Table-1.8: Details of pending Inspection Reports

Sl. No.	Particulars	June 2016	June 2017	June 2018
1.	Number of IRs pending for settlement	711	775	811
2.	Number of outstanding audit observations	3,400	3,875	4,111
3.	Amount of revenue involved (₹ in crore)	1,276.83	1,176.45	1,216.35

The Department-wise details of the IRs and audit observations outstanding as on 30thJune 2018 and the amounts involved in respect of Commercial Taxes, State Excise, Motor Vehicles, Law and Transport Department (Revenue Sector) are mentioned in the **Table-1.9**.

[6] 2016-17: Two; 2017-18: Five

Table-1.9: Department-wise details of Inspection Reports/ Audit observations

(₹ in crore)

Sl. No	Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Commercial Taxes	Taxes on Sales, Trade, etc.	503	3,044	1,002.30
2.	State Excise	State Excise	152	376	119.98
3.	Motor Vehicles	Taxes on Motor Vehicles	107	414	83.08
4.	Law	Stamp duty and Registration fee	49	277	10.99
Total			**811**	**4,111**	**1,216.35**

Out of 89 IRs issued during 2017-18, replies in respect of only four IRs were received from the Head of the offices. This is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out in the IRs. Further, no Audit committee was constituted by the State Government for discussion of pending objections relating to tax revenue (Commercial Taxes, State Excise, Motor Vehicles and Law Departments).

It is recommended that the Government should (a) ensure prompt action on audit observations and send replies to the Accountant General within the stipulated time and (b) advise the departments to constitute Audit Committees, hold its meeting and monitor the progress of settlement of paragraphs.

1.7 Position of Inspection Reports

The summarised position of the Inspection Reports of Departments of Finance (Commercial Taxes), State Excise, Law (Stamp Duty and Registration Fee), Transport (Motor Vehicles) under Revenue Sector issued during the last five years, paragraphs included in these Reports and their status as on 31 March 2018 are tabulated below in **Table-1.10**.

Table-1.10: Position of Inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year			Percentage of paragraphs cleared
		IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	
1.	2013-14	575	2,472	1,023.77	56	515	180.29	14	157	15.77	617	2,830	1,188.29	05
2.	2014-15	617	2,830	1,188.29	59	553	67.00	08	194	24.93	668	3,189	1,230.36	06
3.	2015-16	668	3,189	1,230.36	70	494	76.86	07	140	25.90	731	3,543	1,281.32	04
4.	2016-17	731	3,543	1,281.32	51	403	329.16	28	237	424.04	754	3,709	1,186.44	06
5.	2017-18	754	3,709	1,186.44	89	767	173.79	09	110	41.24	834	4,366	1,318.99	02

The clearance and settlement of audit paragraphs at the end of each year was minuscule, ranging between two *per cent* and six *per cent* of the total number of pending audit paragraphs. Lackadaisical approach of executive action on audit observations weakens accountability and raises the risk of avoidable loss of revenue. The continuous increase in the number of pending audit paragraphs merits the attention of the Government to ensure effective mechanisms to regularly monitor and review the compliance and settlement of audit observations including constitution of audit committees in each department.

1.8 Follow up on Audit Reports

1.8.1 Non-submission of Action Taken Notes

The State Government (Finance Department) issued instructions in June 1997 to all administrative departments to furnish *suo moto* Action Taken Notes (ATNs) on all the audit paragraphs featuring in the Audit Reports to Public Accounts Committee (PAC) irrespective of whether they were taken up for discussion by the Committee or not. These ATNs are to be submitted to the Committee duly vetted by the Accountant General (Audit) within a period of three months from the date of presentation of Audit Reports in the State Legislature.

It was noticed that out of 110 audit paragraphs featuring in the Chapters of Revenue Sector of Audit Reports from 2000-01 to 2015-16, *suo moto* ATNs in respect of 88 audit paragraphs had not been received upto 30 September 2018.

1.8.2 Action taken on recommendations of the PAC

Action Taken Notes, duly vetted by the Accountant General (Audit) on the observations/ recommendations made by the PAC in respect of the audit paragraphs discussed by them are to be furnished to the Committee within six months from the date of such observations/ recommendations. Out of 110 audit paragraphs featuring in the Revenue Sector of Audit Reports for the years from 2000-01 to 2015-16, only 17 audit paragraphs have been discussed by the PAC up to 30 September 2018. Recommendations in respect of 17 audit paragraphs including 12 discussed partly have been made by the PAC, however, ATNs on the recommendations of the Committee is pending from the State Government in respect of 13 paragraphs.

1.8.3 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are mentioned in **Table-1.11**.

Table-1.11: Paragraphs included in the Audit Reports of the last five years

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year 2017-18	Cumulative position of recovery of accepted cases as of 31 March 2018
2012-13	06	244.53	06	244.53	Nil	0.10
2013-14	05	9.28	05	1.11	Nil	0.04
2014-15	04	0.76	04	0.76	Nil	0.10
2015-16	07	124.10	06	88.76	Nil	0.07
2016-17[7]	08	2.14	08	2.14	Nil	0.20
Total	**30**	**380.81**	**29**	**337.30**		**0.51**

In respect of paragraphs featured in the Audit Reports 2012-13 to 2016-17, the Department/ Government accepted audit observations involving ₹337.30 crore, of which only ₹0.51 crore was recovered upto 2017-18, which is only 0.15 *per cent* of

7 Audit Report 2016-17 has not been presented in the State Legislature so far

the accepted amount. The department may take appropriate action to pursue and monitor recovery of the dues involved in accepted cases.

1.9 Audit Planning

The unit offices under various Departments are categorized into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* include critical issues in Government revenues and tax administration i.e., budget speech, white paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during past five years.

During the year 2017-18, there were 402 auditable units of revenue receipts (Commercial Taxes, State Excise, Transport and Law departments) out of which 108 (27 *per cent*) units were planned and 94 units had been audited.

1.10 Results of audit

Position of local audit conducted during the year

Test-check of the records of 94 units out of 402 auditable units of Commercial Taxes (Sales tax/ VAT), State Excise, Motor Vehicles and Law Departments conducted during the year 2017-18 showed under assessment/ Evasion of tax/ Irregular allowance of Input Tax Credit, etc. aggregating ₹377.77 crore in 33,237 cases. During the year, the departments concerned accepted under assessment and other deficiencies of ₹2.22 crore involved in 97 cases, which were pointed out in audit during 2017-18 and earlier years. The departments collected/ recovered ₹53.38 lakh in 19 cases pertaining to audit findings of previous years. Unit-wise details of recoveries accepted are detailed in ***Appendix-1.1.1***.

1.11 Coverage of the Revenue Chapter

This Report contains one Performance Audit on ‘Imposition and Collection of Taxes on Vehicles’ and eight paragraphs involving revenue implication of ₹186.62 crore relating to ‘Preparedness for transition to Goods and Services Tax’, short levy of tax due to concealment, misclassification of purchases and sales turnover, incorrect allowance of input tax credit, short levy of stamp duty/ registration fee and incorrect application of rates, etc. The Departments/ Government have accepted audit observations involving ₹178.34 crore, out of which ₹15.80 lakh have been recovered.

Chapter-2

Performance and Compliance Audit

(Revenue Sector)

CHAPTER - 2

Performance and Compliance Audit (Revenue Sector)

A. General

2.1 Tax administration

2.1.1 Sales Tax/ Value Added Tax/ Goods and Services Tax

Sales Tax/ Value Added Tax/ Goods and Services Tax are administered at the Government level by the Principal Secretary to Government, Finance Department. The Commissioner State Taxes is entrusted with overall control and superintendence of the State Taxes Department. He is assisted by three Additional Commissioners (one each in Jammu and Kashmir Divisions and one for Tax Planning), 19 Deputy Commissioners (Jammu: 09; Kashmir: 08 and one each for headquarter and judicial matters) and 10 Assistant Commissioners (Jammu: 05; Kashmir: 05). The State is divided into 63 State Taxes Circles (Jammu: 30; Kashmir 33) each headed by one State Taxes Officer.

2.1.2 State Excise

The J&K State Excise Department is responsible for charging of excise duties under the J&K Excise Act, 1901 and the Rules made thereunder. The department is headed by the Excise and Taxation Commissioner who is assisted by five Deputy Excise Commissioners (Jammu: 04; Kashmir: 01) and 16 Excise and Taxation Officers (Jammu: 10; Kashmir: 06). There are 20 Distilleries/ Bottling Plants which fall within the jurisdiction of the Excise and Taxation Officer, Distilleries, Jammu.

2.1.3 Taxes on Vehicles

Receipts from the Transport Department are regulated under the Central and the State Motor Acts and Rules made thereunder and are under the administrative control of the Transport Commissioner.

2.2 Results of audit

Test-check of records of 94 units out of a total of 402 units of Sales Tax/ Value Added Tax/ State Excise, Motor Vehicles and Law Department conducted during the year 2017-18 revealed under-assessment/ short levy of revenue aggregating ₹377.77 crore in 33,237 cases as detailed in **Table-2.1.**

Table – 2.1: Results of Audit

(₹ in crore)

Sl. No.	Categories	Number of cases	Amount
Taxes on Sales, Trade/ VAT, etc.			
1.	Under-assessment of Tax	114	25.25
2.	Evasion of tax due to suppression of sales/ purchase	424	128.97
3.	Irregular/ incorrect/ excess allowance of Input Tax Credit	54	3.52
4.	Other irregularities	266	16.72
	Total	**858**	**174.46**
Stamp Duty and Registration Fee			
1.	Under valuation of property/ short levy	621	1.13
2.	Non-accountal/ less accountal/ short deduction	01	0.07
3.	Other irregularities	03	0.35
	Total	**625**	**1.55**
Motor Vehicle Taxes			
1.	Short deduction/ non and less accountal	94	0.01
2	Other irregularities	31,659	16.56
3.	Performance Audit on "Imposition and Collection of Taxes on Vehicles"	01	185.19
	Total	**31,754**	**201.76**
	Grand Total	**33,237**	**377.77**

Category-wise audit findings noticed under taxes on sales, trade VAT, etc., Stamp duty/ registration fee and Motor Vehicle taxes is depicted in **Chart- 2.1, 2.2 and 2.3** respectively.

Chart-2.1

(₹ in crore)

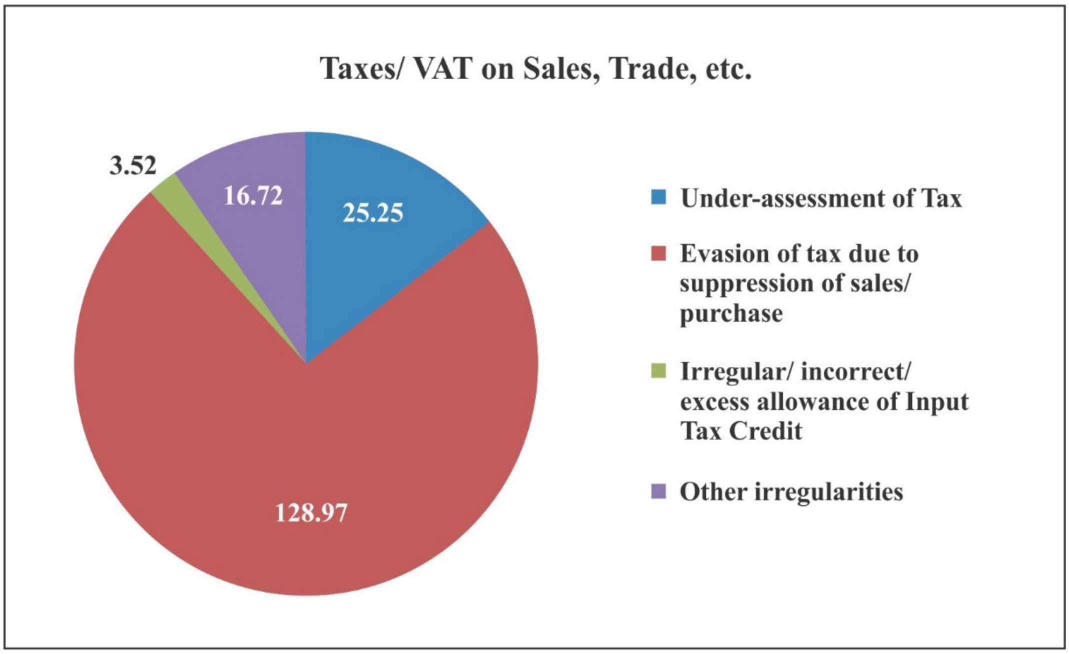


Chart-2.2

(₹ in crore)

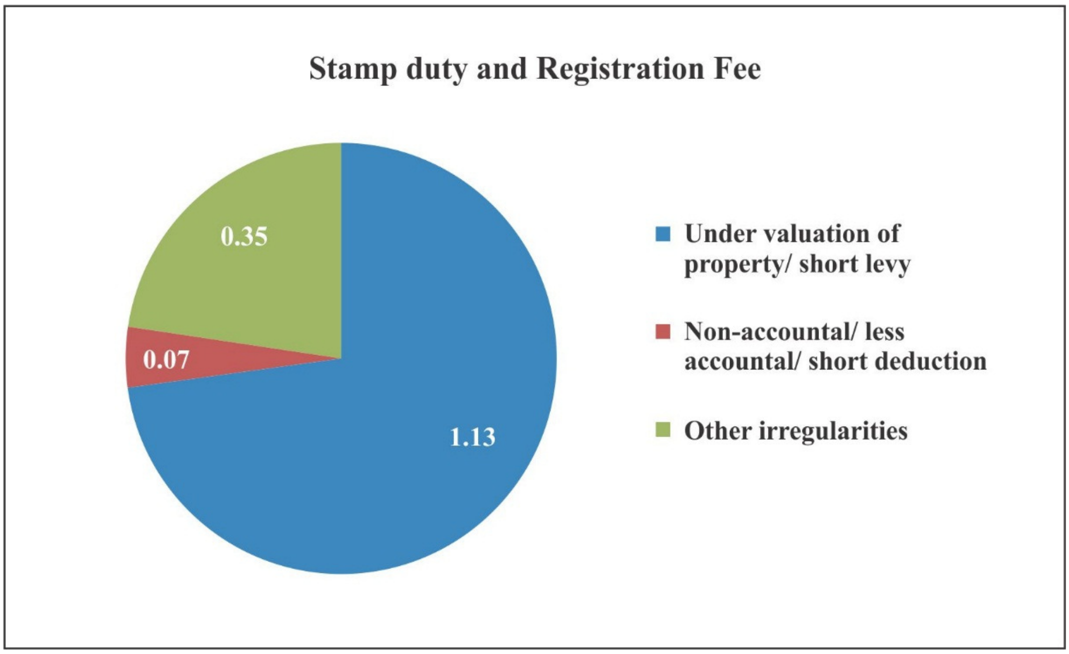
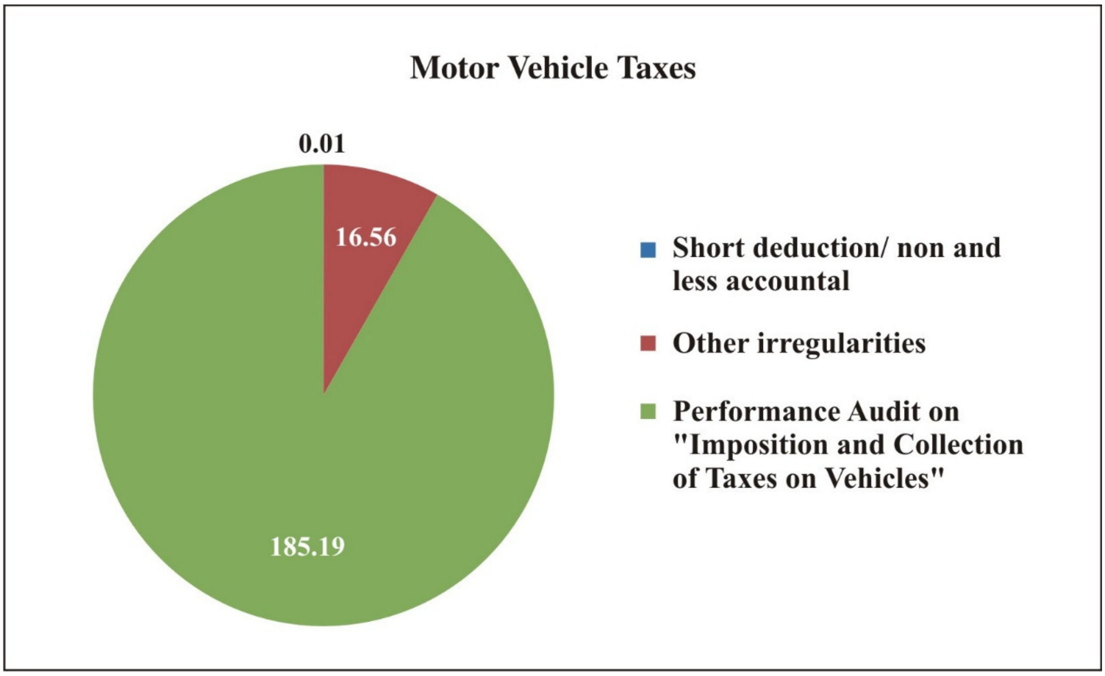


Chart-2.3

(₹ in crore)



During the year the department recovered revenue of ₹53.38 lakh under various heads that had been pointed out in audit during previous years.

B. Performance Audit

Transport Department

2.3 Performance Audit on "Imposition and Collection of Taxes on Vehicles"

The Transport Department regulates vehicle plying in the State and is responsible for registration of vehicles, grant of permits for vehicles and fitness certificates. The Department also issues licences to drivers, conductors and grants trade licences to vehicle traders. It is also responsible for issuing authorization certificates to pollution control centres. A performance audit was undertaken to assess the efficiency of the Department in realization of revenue receipts.

Highlights

- **The shortfall in revenue collection vis-a-vis targets fixed during 2013-14 to 2016-17 was between 11 *per cent* and 25 *per cent*. Targets fixed for 2017-18, though achieved upto the level of 135 *per cent* were far less in comparison to targets of previous two years.**

(Paragraph: 2.3.6)

- **Certificate of registration in respect of 21,918 private vehicles registered with eight (out of 11) selected RTOs/ ARTOs have not been renewed after prescribed time frame due to which Department could not recover the registration fee/ tax of ₹6.12 crore.**

(Paragraph: 2.3.8)

- **Incorrect application of rates of temporary registration fee by 91 registered dealers led to short recovery of fee of ₹3.54 crore.**

(Paragraph: 2.3.8.1)

- **Non-renewal of All India/ All J&K route permits of passenger vehicles, District route permits and authorization for National Permit for prolonged periods resulted in non-recovery of renewal fee/ additional fee of ₹11.16 crore.**

(Paragraphs: 2.3.11.1 to 2.3.11.3)

- **Non-renewal of licences of Goods Agents, Motor Transport Services, Pollution control checking centres, Driving Institutes and trade certificates in time resulted in non/ short recovery of ₹157.04 lakh.**

(Paragraphs: 2.3.12 to 2.3.16)

- **Audit scrutiny in selected RTOs/ ARTOs revealed charging of excess fee of ₹1.24 crore on 10,239 hypothecation agreements and short charging of ₹0.02 crore in 2,479 hypothecation agreements by charging hypothecation fee at pre-revised rates.**

(*Paragraph: 2.3.17*)

2.3.1 Introduction

Registration of motor vehicles, issuance of licences/ permits, and levy and collection of fees and taxes in the State are regulated under the Motor Vehicles (MV) Act, 1988, Central Motor Vehicles (CMV) Rules 1989, the Jammu and Kashmir Motor Vehicles Taxation (JKMVT) Act, 1957, and the Jammu and Kashmir Motor Vehicles (JKMV) Rules, 1991. The VAHAN and SARATHI softwares are conceptualized to capture the functionalities as mandated by Central Motor Vehicle Act, 1988 as well as State Motor Vehicle Rules with customization in the core product to suit the requirements of the States. Upgraded version of VAHAN 4.0 and SARATHI 4.0 was implemented in Jammu and Kashmir State (excepting Leh and Kargil) with effect from 25 November 2016. However, in Leh it was implemented from 19 March 2018 and in Kargil from 26 July 2018. **Computerisation of all processes of RTOs/ ARTOs through VAHAN software has facilitated creation of complete data base of vehicles/ citizen information. VAHAN provides complete reports on vehicle registration, permits, taxes, fitness and enforcement. SARATHI provides pan-India database of drivers.**

2.3.2 Organisational set up

Principal Secretary (Transport) is the administrative head of the Motor Vehicles Department and Transport Commissioner is the functional head. Transport Commissioner is assisted by three Regional Transport Officers[1] (RTOs) and 19 Assistant Regional Transport Officers[2] (ARTOs). Transport Commissioner functions as State Transport Authority, coordinates and regulates the activities of the Regional Transport Authorities[3] (RTAs) to implement and administer the provisions of the MV Act, 1988. The RTOs/ ARTOs function as Registration Authority for registration of vehicles, Licensing Authorities for issuance of Driving Licences, collect MVT (Road Tax), issuance of permits and various fees prescribed in the Act and Rules.

2.3.3 Audit Objectives

The Performance Audit was conducted with a view to ascertain whether:-

- the system to comply with the provisions in the Acts/ Rules for levy and collection of taxes were in place and were consistent and complementary to the computerised application;
- the computerised application such as VAHAN and SARATHI working in the department are adequate, complete, accurate and also delivering the desired output; and
- adequate monitoring and internal control mechanism exists in the department to prevent leakage of revenue.

2.3.4 Scope and Audit methodology

The Performance Audit was conducted between January 2018 to August 2018 covering the office of the Transport Commissioner, all the three RTOs[4] and eight (out

1 Srinagar, Jammu and Kathua

2 Anantnag, Bandipora, Baramulla, Budgam, Gandarbal, Kargil, Kulgam, Kupwara, Leh, Pulwama, Shopian, Doda, Kishtwar, Poonch, Rajouri, Ramban, Reasi, Samba and Udhampur

3 Jammu, Srinagar and Kathua

4 Jammu, Kathua and Srinagar

of 19) ARTOs[5] covering the period of 2013-14 to 2017-18. The selection was made on the basis of Probability Proportionate to Size without Replacement (PPSWR) method taking MVT receipts as the size measure. The vehicle records were selected using Systematic Random Sampling method and use of Data Analytics.

An entry conference was held with the Transport Commissioner, on 3 January 2018, in which the objectives, criteria, scope and methodology of the Performance Audit were discussed. The findings of the Performance Audit were forwarded to the Government/ Department in October 2018 for their comments. An exit conference was also held with the Department on 11 January 2019. The replies of the Department and views expressed during Exit Conference have been incorporated in the Report.

2.3.5 Audit Criteria

The audit criteria were drawn from the following sources:

- Motor Vehicles (MV) Act, 1988
- Central Motor Vehicles (CMV) Rules 1989
- Jammu and Kashmir Motor Vehicle Taxation (JKMVT) Act, 1957
- Jammu and Kashmir Motor Vehicles (JKMV) Rules, 1991; and
- Circular and Notifications issued by the Department and Government from time to time.

2.3.6 Trend of revenue receipt

Actual receipts vis-à-vis budget estimates, its contribution to the total receipts of J&K and cost of collection during the period 2013-14 to 2017-18 are exhibited in the Table below:

Table-2.3.1: Year-wise revenue collected vis-a-vis targets fixed

(₹ in crore)

Year	Budget Estimates (BE)	Actual Receipts	Variation excess (+)/ shortfall (-) (*Per cent*)	Tax revenue raised by State	MVT as percentage of Tax revenue	No. of vehicles (In lakh)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2013-14	151.60	134.23	(-) 17.37 (*11*)	6,272.74	2.13	11.33
2014-15	159.55	132.34	(-) 27.21 (*17*)	6,333.95	2.09	12.44
2015-16	183.00	145.15	(-) 37.85 (*21*)	7,326.19	1.98	13.65
2016-17	199.50	149.71	(-) 49.79 (*25*)	7,819.13	1.91	14.88
2017-18	168.51	228.11	(+) 59.60 (*35*)	9,536.40	2.39	16.57

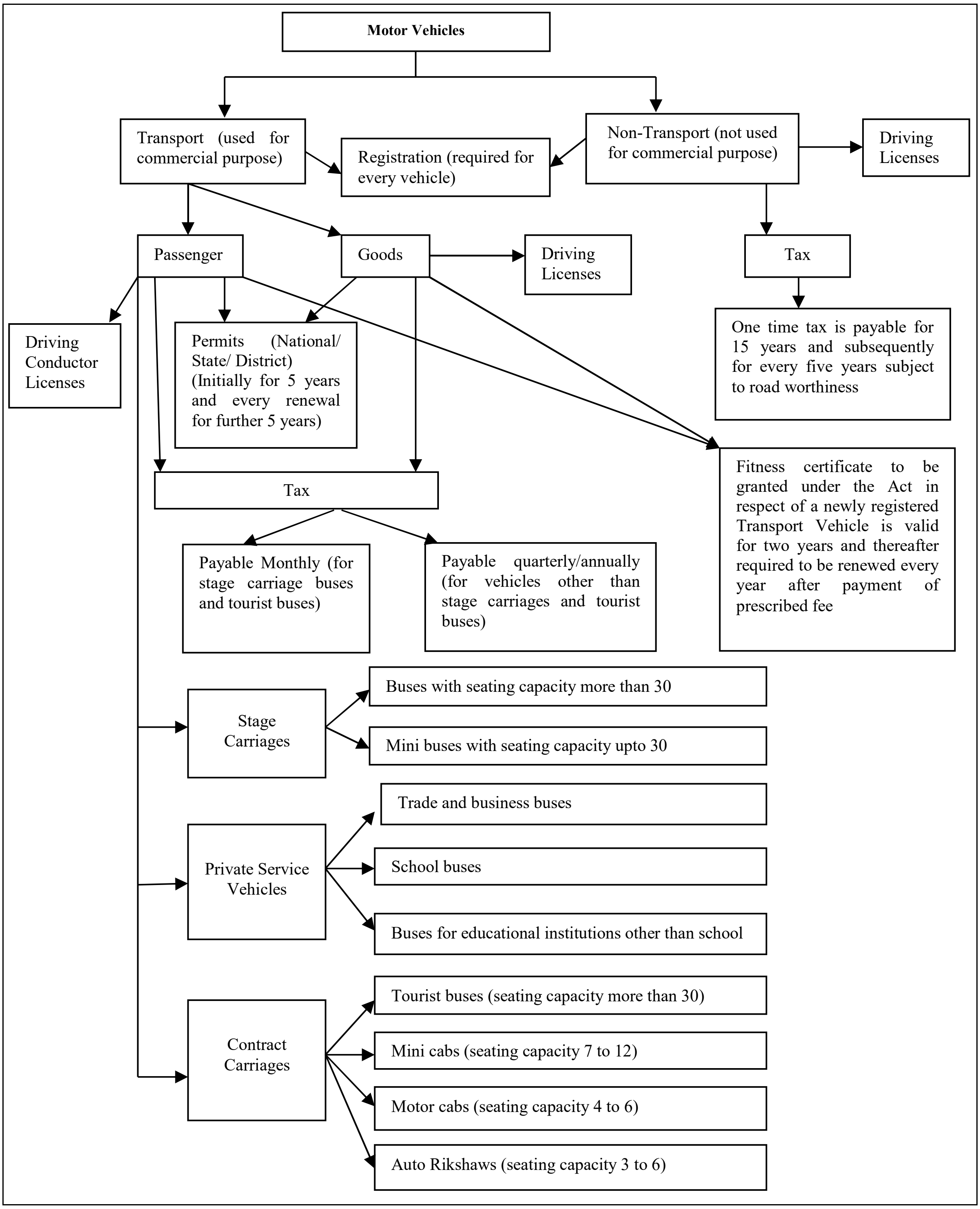
(Source: Finance Accounts, Departmental figures; figures in parentheses are in per cent)

Receipts from taxes on motor vehicles showed an increasing trend during 2013-18. Motor vehicles tax receipts accounts for around two *per cent* of the State's own tax receipts during last five years. The shortfall in revenue collection vis-a-vis budget estimates during 2013-14 to 2016-17 was between 11 *per cent* and 25 *per cent*. During 2017-18, there was an increase in revenue receipts by 52 *per cent* over the previous year's receipt. The increase was due to revision of rates of driving licenses, trade certificate, registration, hypothecation and fitness fee, etc. Targets fixed for 2017-18, though achieved upto the level of 135 *per cent* were far less in comparison

5 Udhampur, Rajouri, Samba, Anantnag, Baramulla, Budgam, Kupwara and Leh

to targets of 2015-16 and 2016-17. In reply Transport Commissioner stated (October 2018) that targets have been fixed mechanically by Finance Department from year to year without consideration of actual achievements. The target of 2017-18 were fixed, keeping in view the shortfall of previous year and were achieved fully.

2.3.7 Activity flow chart



Stage Carriage buses are vehicles which carry more than six passengers excluding the driver for hire or reward at separate fares paid by or for individual passengers, either for the whole journey or for stages of the journey.

Private Service Vehicles are vehicles which carry more than six persons excluding driver used by or on behalf of its owner for the purpose of carrying persons for or in connection with, his trade or business otherwise than for hire or reward but does not include a motor vehicle used for public purpose.

Contract Carriage means a motor vehicle which carries a passenger or passengers for hire or reward from point to point and is engaged under a contract entered into by a person holding a permit.

Audit findings

2.3.8 Non-renewal of registration certificates of private vehicles/ two wheelers

MV Act, 1988 stipulates that certificate of registration in respect of motor vehicle other than a transport vehicle shall be valid for a period of 15 years from the date of issue and shall be renewable as per the provisions of the Act. On receipt of application, renew the certificate of registration for a period of five years and intimate the fact to the original registering authority.

Data analysis of VAHAN revealed that, in all, there were 4,31,459 private cars and 8,06,001 two wheelers registered with the 11 selected RTOs/ARTOs. Of these, registration of 15,075 private cars and 12,672 two wheelers in eight[6] RTOs/ARTOs were due for renewal of registration during 2013-14 to 2017-18. However, only 5,829 vehicle owners (cars: 4,782; two wheelers: 1,047) (21 *per cent*) got their registration certificates renewed during April 2013 to March 2018. The remaining 10,293 private cars and 11,625 two wheelers owners neither renewed the registration nor surrendered the registration certificate to the registering authority, after expiry of 15 years. The Department had not taken any action against these vehicle owners for renewal of registration. The revenue implication in respect of these 21,918 vehicles was ₹6.12 crore (registration fee/ Motor Vehicles tax[7]).

On this being pointed out, the concerned RTOs/ ARTOs and the Transport Commissioner stated that notices would be issued to the defaulters for renewal of the registration of their vehicles and accordingly the recovery of revenue would be effected from them. Non-renewal of registration certificates was pointed out in earlier Report for the period ended March 2008.

Non-monitoring of surrender of RC and absence of provision regarding generation of Reports in VAHAN 1.0 resulted in non re-registration of non-transport vehicles. VAHAN 4.0 can generate reports, date-wise and registration number wise, to list out vehicles whose re-registration is due. The Department should put in place an efficient mechanism for effective pursuance so that the benefit of features available in VAHAN 4.0 can be utilised.

6 Jammu, Kathua, Rajouri, Udhampur, Samba, Srinagar, Budgam and Kupwara

7 Renewal fee: (Cars: ₹600; Two wheelers: ₹300); User Charges: (Cars: ₹200; Two wheelers: ₹100); Motor Vehicle tax for five years: (Cars: ₹3000; Two wheelers: ₹1500)

2.3.8.1 Short levy of Temporary Registration Fee by dealers

In terms of JKMV Rules 1991, dealer has to pay Temporary Registration fee prescribed under Rule 81 of CMV Rules, 1989 in respect of every vehicle sold. In terms of the GoI Notification (December 2016), the revised rates for temporary registration fee in respect of various categories of vehicles effective from 29 December 2016 were endorsed by Transport Commissioner to the respective implementing agencies on 11 January 2017.

Audit scrutiny of records of two RTOs (Jammu and Srinagar) responsible for issuing the temporary registrations, however, revealed that against the temporary registration fee of ₹4.97 crore due in respect of 1,08,011 vehicles registered after 11 January 2017 upto 31 October 2017, only ₹1.43 crore had been recovered by 91 registered dealers, thereby resulting in short recovery of ₹3.54 crore[8].

The RTO Jammu stated (March 2018) that short levy of temporary registration fee was due to non-receipt of the copy of order of revision of rates and due amount would be recovered from the dealers.

Department may consider devising an auto system whereby the notifications issued in the department are displayed on the official website and are circulated in the department to all the concerned through email. Besides, a system needs to be devised for updating the notified rates in system software, wherever required, so as to ensure that the revenues are collected as per prescribed rates issued from time to time.

2.3.9 Levy of tax and non-imposition of fine on outstanding tax

In accordance with the provisions of the JKMVT Act and Rules made thereunder, MVT is leviable on all types of vehicles at prescribed rates and is recoverable in advance in equal quarterly installments. Failure to pay tax by due date attracts an interest at two *per cent* per month of the tax due. Where tax due in respect of any vehicle has not been paid the department may issue notices to the vehicle owners. The tax, if any not paid can be recovered as arrears of land revenue. The rate of tax applicable from time to time is given in ***Appendix-2.3.1.***

Scrutiny of Tax defaulter reports of 11 selected RTOs/ ARTOs revealed that MVT of ₹27.36 crore had not been recovered in respect of 40,337 vehicles as detailed below:

Table-2.3.2: Details of outstanding MVT in test checked RTOs/ARTOs

Sl. No.	Type of vehicle	Total population	Cases involved in objection	RTOs/ ARTOs involved	Nature of objection	Amount due	Amount paid	Amount due in cases involved in the objection
		(Numbers)				(₹ in crore)		
1.	Buses	12,603	1,610	11	Outstanding MVT	11.78	10.85	0.93
2.	Motor Cab/ Education buses	17,380	1,010	10[9]	Outstanding MVT	3.47	3.20	0.27
3.	Goods carrier/ other Commercial vehicles	92,436	22,585	11	Outstanding MVT	95.25	76.97	18.28
4.	Maxi cab	36,802	4,413	11	Outstanding MVT	15.20	14.03	1.17
5.	3-Wheeler (Goods)/ 3-Wheeler (Passenger)	56,278	10,719	10[10]	Outstanding MVT	14.17	7.46	6.71
	Total	**2,15,499**	**40,337**			**139.87**	**112.51**	**27.36**

8 RTO Jammu: ₹2.32 crore; RTO Srinagar: ₹1.22 crore
9 Irregularity was not found in ARTO Anantnag
10 Irregularity was not found in ARTO Leh

Adequate measures were not taken to recover the outstanding arrears. **There is no inbuilt mechanism in reports generated from "VAHAN 4.0" for calculation of interest under Section 7A of JKMVT Act, 1957 at the rate of two *per cent* per month of such tax, where tax due in respect of any vehicle is not paid and the same was being calculated manually.**

An analysis of tax paid data of sampled 11 RTOs/ ARTOs generated from "VAHAN 4.0" reports for the period April 2013 to March 2018 also revealed that there were delays in payment of tax in 88,863 instances[11] (8 *per cent*) by the vehicle owners for which penalty at the prescribed rate of two *per cent* had not been levied, which resulted in short levy of penalty of ₹10.58 crore.

The concerned RTOs/ ARTOs and Transport Commissioner stated that notices would be issued to defaulters for payment of outstanding MVT and recovery of revenue under rules. Transport Commissioner also stated (October 2018) that the matter would be taken up with NIC to build in VAHAN software, the penalty on delayed tax. **Despite being pointed out in earlier reports ended March 2011 and March 2013, and confirmation (September 2011) by the department that the matter will be taken up with the NIC, no steps have been taken in this regard.**

Immediate steps need to be taken to ensure that the dues are recovered from defaulting vehicle owners. Besides, a system needs to be devised for collection of all outstanding dues including penalty/ fines whenever the owner of vehicles apply for a particular renewal.

2.3.10 Fitness certificates of Transport Vehicles

In terms of the MV Act, 1988 read with Rule 62 of the CMV Rules, 1989, a transport vehicle shall not be deemed to be validly registered unless it carries a certificate of fitness which remains valid initially for two years and thereafter is to be renewed every year after payment of prescribed[12] fee.

Data analysis of "VAHAN 4.0" in respect of transport vehicles in the selected 11 RTOs/ ARTOs revealed that fitness certificate of 1,04,635 vehicles were due upto March 2018. 67,538 vehicles (65 *per cent*) renewed fitness certificate and the remaining 37,097 (35 *per cent*) registered vehicles, did not renew fitness certificates. The revenue that was not realized works out to ₹122.19 crore. **There is a risk that these vehicles might not be road worthy, thereby endangering life of passenger/ commuters, besides enhancing pollution levels.**

An analysis of VAHAN reports further revealed that 16,789 vehicle owners (out of 37,097) who had not obtained the fitness certificates till March 2018 from the selected RTOs/ ARTOs had paid MVT during the same period, which indicated that

11 Out of 10,47,597 instances

12 Fee for grant or renewal of certificate of fitness at the rate ₹200 per vehicle; for conducting test of a vehicle for grant or renewal of certificate of fitness: Three wheeler/ LMV/ quadricycle: ₹400 (Manual); Medium or HMV: ₹600 (Manual); Additional Fee of ₹25 for each day of delay after expiry of certificate of fitness (effective from 15th January 2018, ₹50 prior to that)

Department had not ensured watch over fitness of vehicles before acceptance of MVT.

The concerned RTOs/ ARTOs and Transport Commissioner stated that notices would be issued to the defaulters for violation of Act/ rules and recover the amount. It was also stated that a check will be kept for fitness of the vehicles during submission of MVT, etc. by vehicle owners. **Despite being pointed out in earlier reports ended March 2008 and March 2013, no concrete action has been taken in this regard.**

A viable robust mechanism needs to be devised to have synergy among departments like State traffic police and other officers[13] responsible for compounding of offences so that vehicles which are either unfit or cases where taxes have not been paid are not allowed to ply on roads. Besides, an auto system needs to be devised whereby intimations/ notices are issued to vehicle owner's mobile phone for ensuring prompt action in this regard.

2.3.11 Grant/ renewal of various types of route permits

MV Act, 1988 prescribes the procedure for granting of permits. In terms of the section 81 of the above Act, a permit other than a temporary permit[14] shall be valid for a period of five years and the application for its renewal is to be submitted 15 days before its expiry. Rules 79 and 80 of the JKMV Rules, 1991 (Rates given in ***Appendix-2.3.1***) *inter alia* prescribe the rates of application fee, permit fee, renewal fee as well as additional fee for delayed application for renewal of permits.

Transport Commissioner deals with issue/ renewal of National/ All India/ All J&K State route permits. The route permits within a District are issued/ renewed by the respective RTOs/ ARTOs. Although the details regarding issuance/ renewal of District route permits issued in 20 (out of 22) districts of State are available on VAHAN, the details in respect of National/ All India/ All J&K State route permits issued by the Transport Commissioner were not available on the VAHAN as of March 2018.

2.3.11.1 Non-renewal of All India/ All J&K route permits of vehicles other than goods carriage

Scrutiny (August 2018) of records showed that out of 1,795 All India/ All J&K route permits of vehicles other than Goods carriages allotted (upto March 2018) by Transport Commissioner, 974 permits have not been renewed for periods ranging between one to 7,403 days. Non-renewal of these permits has resulted in non-recovery of renewal fee/ additional fee[15] of ₹25.23[16] lakh and there is a risk that these vehicles might be plying without the valid permits.

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13 District Magistrates, Divisional Commissioners, Deputy Commissioners, etc.

14 Temporary Permit is a permit issued for a limited period, which shall not in any case exceed four months. Temporary permit is issued on special occasion such as fair, religious gathering and seasonal business

15 Application fee at the rate of ₹30; Renewal fee at the rate of ₹300 for heavy and medium transport vehicles and ₹125 for light motor vehicles; Additional fee at the rate of ₹20 per day for first 45 days delay and ₹30 per day for subsequent delay beyond 45 days subject to maximum amount of fee prescribed for grant of fresh permit for such vehicle (Big buses: ₹10,000; Medium Buses: ₹7,000; Mini Buses: ₹5,000; Taxi Cabs: ₹750)

16 Renewal fee: ₹5.93 lakh; late fee: ₹19.30 lakh

A test-check of Import record of Toll post Lakhanpur of the State Excise Department for the month of March 2018 revealed that 33[17] such vehicles had crossed the Borders of the State without renewing their permits. This proves that these vehicles are running. **Department has not devised any control mechanism to check crossing of State Borders/ plying on all J&K routes, by such vehicles without the valid permits.**

Transport Commissioner stated (October 2018) that notices have been served to all such permit holders to acquire renewal. Besides, department has constituted checking squads to organize special drive against the violation/ defaulters in whose case route permits are not renewed.

2.3.11.2 Non-renewal of District route permits

Check of the permit reports in respect of 10[18] selected RTOs/ ARTOs (as on 24 January 2018) generated from VAHAN and manual records maintained by ARTO Leh, showed that District route permits of 6,619 vehicles[19] (out of 2,15,499) had not been renewed for periods ranging between 1 and 6,508 days. The revenue that was not realized works out to ₹2.60 crore (permit fee and fine).

An analysis of VAHAN reports further revealed that out of 5,843[20] vehicles (excluding 776 vehicles of Leh) that had not renewed permits, 3,175 such vehicle owners had paid MVT once or multiple times in 6,347 instances during the same period. This indicates that these vehicles were plying on roads without valid permits. However, after January 2018 no such report with complete details of vehicles, permit and their validity could be generated from VAHAN due to change of format as new format generates only summary of vehicles.

The concerned RTOs/ ARTOs stated that action would be taken jointly with the help of sister organisations[21] for renewal of permits and recover the amount. Transport Commissioner replied (October 2018) that RTOs/ ARTOs shall be directed to issue notices to the concerned defaulters through print media to get the permits of their vehicles renewed along with fine. **Despite being pointed out in earlier Audit Report ended March 2013, no concrete steps have been taken.**

2.3.11.3 Non-renewal of authorization of National Permits

Government of India, Ministry of Road Transport and Highways finalized[22] (May 2010) a new national permit system with a view to provide a framework for uninterrupted movement of goods vehicles across the country.

Accordingly, Government of Jammu and Kashmir vide SRO 387 dated 25 October 2010 inserted Section 80(H) in J&K Motor Vehicle Rules, 1991 which

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17 Kashmir: one; Jammu: 32

18 Except Leh which was not computerised on VAHAN upto 31.03.2018

19 Stage Carriage: 718; Goods Carrier: 3,292; Contract Carriage: 2,609

20 Does not include 776 vehicles of Leh district, data whereof was not available on VAHAN

21 All traffic police officers above the rank of Asstt. Sub-Inspector, all District Magistrates and Divisional Commissioners, All RTOs/ ARTOs have powers to compound the offences

22 Vide Government Order No. RT-16031/3/2009-T dated 7 May 2010 issued by GOI, MORTH

stipulates: (a) The consolidated fee in respect of Goods Carriages having National Permits granted by different State/ UT's for purpose of plying in the State of Jammu & Kashmir shall be ₹15,000 per annum (b) The consolidated fee as aforesaid shall be collected on yearly basis. In case of failure to deposit the fee within the said period, an additional amount of ₹100 per month or part thereof shall be recoverable as penalty in addition to the fee and (c) the consolidated fee in respect of goods carriages which have National Permits granted by the State Transport Authority (Jammu & Kashmir) for the purpose of plying in any State and UT's other than the State of J&K shall be collected by the State Transport Authority (Jammu & Kashmir) at the rate of ₹15,000 per annum and shall also collect ₹1,000 as authorization fee towards the State of Jammu & Kashmir. The amended rule[23] provides for levy of national permit fee of ₹16,500 per annum per vehicle (revised with effect from 01 April 2012).

The details of National permits as on March 2018 is as under:

Table-2.3.3: Position of National Permits issued in Jammu and Kashmir

Province	Total National Permits issued in J&K	Permits cancelled	Balance active permits	Pending authorizations
Jammu	6,397	548	5,849	3,025
Kashmir	5,708	350	5,358	1,724
Total	**12,105**	**898**	**11,207**	**4,749**

Scrutiny (April 2018) of records showed that against 11,207 (5,849 Jammu and 5,358 Srinagar) National permits, owners of 4,749 goods carriages neither renewed the authorizations nor surrendered the National Permit for cancellation. The Department also did not issue notices to the defaulter. The amount of authorization fee involved in these 4,749 vehicles was ₹8.31 crore (4,749 x 16,500 + 1,000).

Transport Commissioner replied (January 2019) that notices will be issued to the defaulters to get their permits renewed and recovery of revenue.

Department may consider linking the renewal of permits with MVT or any other tax which is most complied.

2.3.12 Non-renewal of Goods Agent Business Licences

JKMV Rules, 1991 envisage that licence of an agent engaged in the business of collection, forwarding and distribution of goods by vehicles plying for hire shall be valid for a period of one year from the date of grant of licence or its renewal. The licensee is required to deposit security deposit of ₹50,000 at the time of acquiring of a new license. An agent's licence may be renewed on an application made to the licensing authority not less than thirty days before the date of its expiry and shall be accompanied by principal and all supplementary licences, if any, besides fee specified in Rule 137.

Scrutiny (April 2018) of records of Transport Commissioner revealed that out of total 268 Agent licences issued by the Transport Commissioner, the licences of 155 Agents had not been renewed for the periods ranging upto 22 years and consequently renewal

[23] Vide Government Order No. RT-16031/6/2010-T dated 2 April 2012

fee and late fee[24] of ₹57.47 lakh[25] due in respect of these agents could not be recovered (March 2018).

The Transport Commissioner stated (August/ October 2018) that notices will be served to all such licence holders to acquire renewal from the Competent Authority, within 30 days. It was also stated that steps would be taken to cancel the licences of defaulters and recover the outstanding amount from their security deposits and as arrears of land revenue. Latest status in this regard was awaited (September 2019). **Despite being pointed out in earlier reports ended March 2008 and March 2013, no concrete action has been taken in this regard.**

Department may devise an auto system whereby intimations/ notices are issued to Goods Agent's mobile phone/ email address for periodical renewal of their licences and ensure compliance of the laid down provisions of the Acts/ Rules.

2.3.13 Non-renewal of Motor Transport Service Licence

JKMV Rules, 1991 envisages that persons/ firms having Motor Transport Service licences have to get the licences renewed after one year on submission of an application in the prescribed form to the State Transport Authority after payment of fee at the rate of ₹5,000 per annum[26]. Licence holder shall apply for renewal of his licence to the Registering Authority not less than 30 days before the date of expiry of his licence, failing which the licence holder was to be charged ₹200 per day as a fine for late renewal. Further, any person/ persons or firm/ firms found dealing in transport business without any valid transport service licence shall be imposed a fine up to ₹30,000[27].

Scrutiny (April 2018) of records of Transport Commissioner showed that out of 180 Motor Transport services licences issued by the Transport Commissioner, 109 licence holders have not renewed their licences after delays ranging between 1 to 20 years, which has resulted in non-realisation of revenue of ₹73.86 lakh[28]. **Department has not put in place adequate monitoring mechanism to ensure that licences of these Motor transport service providers were renewed by the licence holders.**

The Transport Commissioner stated (August/ October 2018) that notices will be served to all such licence holders for renewal from the Competent Authority, within 30 days. **Despite being pointed out in earlier Reports ended March 2008 and March 2013, no concrete action has been taken in this regard.**

2.3.14 Non-renewal of Pollution control checking Licence

In order to check the emission in vehicles, pollution checking centres were established under CMV Rules, 1989.

24 Licence fee/ renewal fee at the rate of ₹3,750; late fee at the rate of ₹500 for renewal of licence if application is made late by 90 days or part thereof

25 Renewal fee: ₹37.84 lakh; Late fee: ₹19.63 lakh

26 Rates amended as per SRO 250 dated 11 August 2011

27 As per SRO 190 dated 28 April 2010

28 Renewal fee: ₹41.16 lakh; Late fee: ₹32.70 lakh

In terms of Government notification (December 2005), for issuance of fresh Pollution Control Licence to the Pollution Checking Centres, prescribed fee of ₹7,000 was to be realized at the time of registration of Pollution Checking Centre and a renewal fee of ₹3,000 was also to be recovered on yearly basis.

Scrutiny (April 2018) of records of Transport Commissioner showed that out of 103 Pollution Control Licences, the licences of 26 Pollution Checking Centres have not been renewed (March 2018) for periods ranging between one to six years resulting in non-recovery of revenue to the extent of ₹1.80 lakh. **There is a risk that these centres may have unauthorisedly carried on their business during the periods without possessing valid licences.**

The Transport Commissioner stated (August/ October 2018) that notices have been served for renewal of licences. **Despite being pointed out in earlier Audit Report ended March 2008, no concrete action has been taken in this regard.**

2.3.15 Non/ short recovery of licence renewal fee from Driving Institutes

CMV Rules, 1989 envisage that no person shall establish or maintain any Driving School or establishment for imparting instructions for hire or reward in driving motor vehicles, without a licence granted by the Licensing Authority. The licence granted shall be in force for a period of five years and has to be renewed in not less than sixty days before the date of its expiry on payment of prescribed[29] fee.

Scrutiny of the records revealed that out of 169 Driving Institute licences issued by two RTOs, 70 licence holders had not renewed their licences upto March 2018. There is no record of inspection available with the respective RTOs showing that these institutes were non-functional. Thus, the non-renewal of these licences has resulted in non-recovery of licence renewal fee of ₹10.67 lakh[30]. **There is a risk that these institutes may have unauthorisedly carried on their business during the periods when they were not possessing the valid licences.**

Scrutiny of records in RTO Jammu also revealed that in 18 cases of the licences of driving schools, the licences were renewed either without charging any fee or by using the same Demand draft/ GR on multiple occasions and has resulted in short charging of renewal fee of ₹0.77 lakh.

RTO Srinagar stated (April 2018) that steps will be taken for recovery of licence renewal fee. Transport Commissioner stated (October 2018) that notices will be issued to the concerned defaulters to get the licences of their institutes renewed and accordingly recovery of revenue shall be effected. **However, the fact remains that despite being pointed out in earlier Audit Report ended March 2008, no concrete action has been taken in this regard.**

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29 ₹2,500 upto 28 December 2016 and increased to ₹10,000 from 29 December 2016 amended as per Ministry of Road Transport and Highway notification No. GSR 1183 (E) dated 29 December 2016

30 RTO Jammu: ₹6.75 lakh; RTO Srinagar: ₹3.92 lakh

Department may devise a system whereby collection of applicable fees is ensured before providing any service. Besides, for compliance of the provisions department also needs to devise centralize mechanism or auto system whereby intimations/ notices are issued to the licence holder for periodical renewals.

2.3.16 Non-renewal of Trade Certificates

In terms of CMV Rules, 1989 a dealer possessing motor vehicles is required to obtain a trade certificate from the registering authority. Trade certificate is issued after payment of appropriate fee[31] and remains in force for a period of twelve months from the date of issue or renewal.

A review of the manual record relating to issuance/ renewal of Trade Certificates in the four registering authorities[32] revealed, that out of 587 trade certificates issued, 131 dealers have not renewed certificates in respect of their dealerships between one to thirteen years as on 31 March 2018 and Department could not recover fee of ₹12.47 lakh.

The Registering Authorities and Transport Commissioner stated (October 2018) that notices would be issued to the dealers to get trade certificates renewed. It was also stated that a survey would be conducted to detect violation of Act/ Rules and identification of unregistered/ unidentified dealers. However, the fact remains that despite being pointed out in earlier Audit Report ended March 2008, no concrete action has been taken in this regard.

2.3.17 Excess/ short charging of Hypothecation fee

The rates of fee for endorsing hire purchase/ lease/ hypothecation agreement were revised[33] in terms of the Government notification of 15 January 2018.

Scrutiny of records for the period 15 January 2018 to 31 March 2018, in selected RTOs/ ARTOs revealed that these authorities continued to charge hypothecation fee at pre-revised rates, which has resulted in excess charging fee of ₹1.24 crore on 10,239 hypothecation agreements and short charging of ₹0.02 crore in 2,479 hypothecation agreements[34].

The concerned RTOs/ ARTOs and Transport Commissioner attributed the excess levy of hypothecation fee to non-inclusion of revised rates in VAHAN software by NIC. Transport Commissioner also stated (October 2018) that department will take up the matter with NIC for updating of VAHAN software regarding hypothecation fee. **However, the fact remains that excess/ short fee was charged from the public and no action had been taken to refund the same and also to recover the short amount charged.**

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31 Motorcycle/ Invalid Carriage: ₹50, Others: ₹200 upto 28.12.2016, thereafter Motorcycle/ Invalid Carriage: ₹500, Others: ₹1,000 from 29.12.2016

32 RTO Jammu: ₹8.65 lakh; RTO Kathua: ₹2.29 lakh; RTO Srinagar: ₹1.19 lakh; ARTO Leh: ₹0.34 lakh

33 From ₹1500 to ₹300 in respect of Three wheelers/ quadricycle/ LMV; from ₹3,000 to ₹500 in respect of Medium or heavy vehicle and from ₹100 to ₹200 in respect of cancellation

34 Excess charging in case of Hypothecation addition of 10,036 vehicles: ₹1,20,58,400 and Hypothecation continuation of 203 vehicles: ₹3,32,000 (total 10,239 vehicles: ₹1,23,90,400); short charging in case of Hypothecation cancellation fee in respect of 2,479 vehicles: ₹2,47,900

2.3.18 Non-issue/ renewal of conductor's licences

MV Act, 1988 provide that no person shall act as a conductor of a stage carriage unless he holds a conductor licence which remains valid for three years. The fee for conductor licence and each renewal shall be half of that for a driving licence.

Scrutiny of records of selected RTOs/ ARTOs revealed that as against 729 conductor licences issued, there were 15,187 working stage carriages, which indicated that 14,458 stage carriages were plying either without the conductors or they did not possess the conductor licences, thus, jeopardising safety of commuters/ property and resulting in non-recovery of revenue of ₹56.75 lakh on account of conductor licence fee.

The concerned RTOs/ ARTOs and Transport Commissioner stated that action would be taken up jointly with the help of sister organizations, on the defaulters for violation of Act/ rules and recovery of revenue.

Department needs to verify if some conductors are working without valid licences.

2.3.19 Enforcement

As per Rule 306 of J&K Motor Vehicles Rules, 1991, all the traffic police officers of and above the rank of Assistant Sub-Inspector, all the Motor Vehicle Inspectors, all District Superintendents of Police and other supervisory officers of police, all District Magistrates/ Mobile Traffic Magistrates and Divisional Commissioners, all Regional Transport officers, Assistant Regional Transport officers and Deputy Commissioners shall have powers to compound various traffic offences mentioned in Section 200 of the Motor Vehicle Act, 1988. Further as per Rule 308 of J&K Motor Vehicle Rules 1991, an officer not below the rank of a Motor Vehicle Inspector or the Assistant Traffic Inspector may for purposes of public safety and convenience order removal of any material which obstructs view of the checking staff of the Motor Vehicles Department and/ or the traffic Department.

Section 200 of the Motor Vehicle Act, 1988 'Composition of certain offences' provided that – (1) Any offence whether committed before or after the commencement of this Act punishable under Section 177, Section 178, Section 179, Section 180, Section 181, Section 182, Sub-Section (1) or Sub-Section (2) of Section 183, Section 184, Section 186, Section 189, Sub-Section (2) of Section 190, Section 191, Section 192, Section 194, Section 196 or Section 198, may either before or after the institution of the prosecution, be compounded by such officers or authorities and for such amount as the State Government may, by notification in the Official Gazette, specify in this behalf. (2) Where an offence has been compounded under sub-section (1), the offender, if in custody, shall be discharged and no further proceedings shall be taken against him in respect of such offence.

Audit observed following deficiencies in the enforcement process:

(i) Non–consolidation of vehicle wise offences: Sections 180 to 192-A under the Motor Vehicle Act, 1988 provides for enhanced fine with or without imprisonment for the second or subsequent offences committed for driving at excessive speed, driving dangerously, driving under the influence of liquor/ drugs, driving when mentally or physically unfit to drive, offences related to accidents, using vehicles in unsafe conditions/ without permit.

Audit observed that neither enforcement module of "VAHAN 4.0" was operational nor data regarding vehicle wise detail of offences and number of times a particular offence was committed were maintained. Maintenance of such data would help in identifying the repeat offenders for levy of enhanced compounding fee. However, in the absence of such mechanism, implementation of provision of enhanced compounding fee on repeated offence could not be ensured in audit.

(ii) Overloaded Vehicles: Audit scrutiny (August 2018) of records of RTO Kathua revealed that 2,828 overloaded vehicles escaped notice of the Motor Vehicles Department (MVD) at Lakhanpur Toll Post without paying the fine prescribed under Section 194 of the MV Act during the period April 2013 and March 2018. Failure to check the offence resulted in loss of revenue of ₹56.56 lakh on account of minimum fine (at the rate of ₹2000).

(iii) Non-maintenance of record relating to recovery of fine: Check of Challan books vis-a-vis Compound books of ARTO Samba revealed that though the documents of the vehicles had been retained by the office and the vehicles were seized/ placed in the custody of concerned Police station, but no cut off date was mentioned in the challans to attend the Court/ Office of the Transport Commissioner/ ARTO. No action has been taken against the offenders as no record relating to challan books and fines deposited by offenders maintained by the Department.

2.3.20 Internal Controls

Internal control mechanism in a department is meant to ensure that its activities are carried out according to the prescribed rules and regulations and in an economical, efficient and effective manner. The control mechanism in the department is guided by Acts, rules, instructions, etc. to protect the resources of the Government and ensure that revenue is realised by the Government in a systematic way. Audit scrutiny revealed lapses in adhering to these rules, as discussed below:

2.3.20.1 Delayed remittance/ transfer of revenue receipts into Government account

Jammu and Kashmir Financial code Volume-I stipulates that the departmental receipts collected during the day should be credited into the treasury on the same day. However, it was noticed in audit that seven (out of 11 test checked) RTOs/ ARTOs[35], had not remitted revenue receipts ranging from ₹45 to ₹9.78 lakh into the treasury on the same day. Further, in RTO Jammu, revenue receipts ranging between ₹0.37 lakh to ₹7.79 lakh were not remitted into treasury for periods ranging between 26 and 314 days.

[35] RTO Srinagar, ARTO Rajouri, ARTO Baramulla, ARTO Anantnag, ARTO Budgam, ARTO Kupwara, ARTO Leh

Revenue collected in the shape of fees, fines and taxes was deposited by five offices[36] in eight current accounts of respective Jammu and Kashmir Bank branches for onward transmission into the Government Account/ Treasury. However, revenue collected in these accounts was not deposited into the Government treasury on the same day and there was undue retention of cash balances of ₹300 to ₹3.59 crore for periods ranging from 01 to 293 days which resulted in minimum interest[37] loss of ₹28.05 lakh. Some of the significant instances of delayed deposits are detailed in ***Appendix-2.3.2***.

Adequate measures were not taken in the Department to ensure timely transfer/ remittance of revenue receipts into the Government Account and periodical reconciliation of accounts with bank was also not conducted. Transport Commissioner stated (October 2018) that explanations will be sought from concerned RTOs/ ARTOs and they will be directed to avoid belated remittances in future.

2.3.20.2 Mis-management of revenue

The revenue received in the shape of bank drafts in the Department showed the following shortcomings:

- In Transport Commissioner's office bank drafts were received at multiple cash points/ counters and remitted directly from these points into the Bank without routing through the main cash book due to which their clearance and transfer into the Government account could not be monitored. Transport Commissioner stated (October 2018) that directions shall be issued in this regard.
- The system of monthly reconciliation of revenue/ receipts realised through the bank drafts sent for collection to the Bank was not in place in Transport Commissioner's office, RTO Jammu, RTO Kathua, ARTO Udhampur, ARTO Samba. As such, the factual position regarding amount realised and credited into the Government Account through bank drafts was not available/ monitored in these offices. Transport Commissioner stated (October 2018) that notices shall be issued in this regard.
- In five[38] selected offices it was noticed that there was delay ranging between 01 to 371 days in depositing 35 bank drafts involving amount of ₹21.42 lakh with the bank and these drafts were credited by the respective bank branches into Government account after delays ranging between 01 and 118 days. Some of the instances of significant delays are detailed in ***Appendix-2.3.3.*** Transport Commissioner replied (October 2018) that explanation would be sought from the respective offices.

System of revenue collection through cash/ bank drafts needs to be streamlined and digital payment encouraged.

36 Civil Secretariat, Transport Commissioner, RTO Jammu, ARTO Rajouri, ARTO Samba

37 Prevailing interest of J&K Bank on saving accounts at the rate of 4 *per cent* upto 11 September 2017 and thereafter at the rate of 3.5 *per cent*

38 Transport Commissioner, RTO Jammu, RTO Kathua, ARTO Udhampur, ARTO Samba

2.3.20.3 Non-maintenance of cash records

In order to ensure timely collection, accounting and remittance of revenue receipts into the Government account, the J&K Financial Code provide for maintenance of various records which *inter-alia* include cash book, remittance register, stock register of GR[39] Books, subsidiary cash book (in offices where cash is collected at multiple counters), etc. It was noticed in audit that the selected offices as detailed in ***Appendix-2.3.4*** had not maintained these records in prescribed manner and there is a risk of non-accountal/ non-recovery of Government receipts and their non/ delayed remittance into the Government account. Bank reconciliation was also not being conducted in these offices.

Transport Commissioner stated (October 2018) that all the field offices shall be directed to maintain the cash records properly now onwards and also conducts reconciliation.

2.3.20.4 Administrative inspection and internal audit

Administrative inspection of a subordinate office required to be conducted periodically by the next higher authority so as to exercise necessary checks and controls over the resources and functioning of the office, had not been conducted by the Transport Commissioner in respect of 9[40] out of 11 selected RTOs/ ARTOs during 2013-18.

Further, the internal audit of only four[41] (out of 11 selected from total 22) RTOs/ ARTOs offices, had been conducted by the Director of Audit, Finance Department and their reports were awaited. Transport Commissioner replied (October 2018) that steps shall be taken for periodic administrative inspections and internal audit of offices so as to streamline their functioning.

Internal controls of the department need to be strengthened so that all the rules provided in the financial code are complied with.

2.3.21 Follow up on previous Performance Audit Reports

Four performance audits involving taxes on motor vehicles have featured in the Reports of the Comptroller and Auditor General of India during the recent past. These performance audits contained audit findings relating to short collection of MVT, fees and fines amounting to ₹62.05 crore as detailed in ***Appendix-2.3.5***. The Public Accounts Committee of the State Legislature has not discussed these paras so far. Status regarding recoveries against the audit observations featuring in these performance audits is awaited from the Government/ Department. Although issues like non-renewal of registrations, permits and licences, outstanding taxes/ non recovery and short realization of revenue, etc., were raised in the above Reports, yet these shortcomings still persist.

39 General Receipt Book
40 Except RTO Jammu and ARTO Baramulla
41 RTO Jammu, ARTO Rajouri, ARTO Anantnag, ARTO Baramulla

2.3.22 Conclusion

System failures like non-renewal of registration of vehicles after expiry of validity, non-issuance of fitness certificates of vehicles, non-renewal of permits in respect of different categories of vehicles, non-renewal of licences/ trade certificates of different service providers not only led to non-recovery of prescribed fee but also carried the risk of unauthorised plying of certain categories of vehicles or unauthorised conduct of business by certain service providers. Despite being pointed out in previous Audit Reports, deficiencies in numerous areas persisted. Adequate measures to recover the outstanding tax were not taken. Penalty/ fine for non/ delayed payment of tax had not been imposed. Delay in updating the revised rates in the system led to short charging of temporary registration fee and excess charging of hypothecation fee. There was delay in depositing the bank drafts in the Government account, despite the fact that provisions exist in the codes.

The Transport Commissioner stated (October 2018) that there has been least efforts on the part of RTOs and ARTOs in performing their legitimate duties which led to certain deficiencies as highlighted in the report. It was also stated that the concerned authorities have been directed to take immediate corrective measures.

The cases pointed out are based on test check conducted by Audit. The Department may initiate action to comprehensively examine similar cases and take necessary corrective action.

C. Compliance Audit

Finance Department

(State Taxes Department)

2.4 Preparedness for transition to Goods and Services Tax (GST)

2.4.1 Introduction

Goods and Services Tax (GST) was implemented in Jammu Kashmir State with effect from 8th July 2017. GST[42] is being levied on intra-State supply of goods or services (*except on the supply of alcoholic liquor for human consumption and five specified petroleum products*[43]) separately but concurrently by the Union (CGST) and the States (SGST). Further, Integrated GST (IGST) is being levied on inter-State supply of goods or services (including imports) and the Parliament has exclusive power to levy IGST. Prior to implementation of GST, Value Added Tax (VAT) was leviable on intra-State sale of goods in the series of sales by successive dealers, as per Jammu and Kashmir Value Added Tax (J&KVAT) Act, 2005 and Central Sales Tax Act (CST) on sale of goods in the course of inter-State trade or commerce, as per CST Act, 1956.

The State Government was empowered to regulate the provisions of J&KVAT Act, whereas provisions relating to GST were being regulated by the Centre and State on recommendation of Goods and Services Tax Council (GSTC) which was constituted with representation from Centre and all the States to recommend on the matters related to GST. The State Government notified (July 2017) the Jammu and Kashmir Goods and Services Tax (J&KGST) Act, 2017 and the Jammu and Kashmir Goods and Services Tax Rules, 2017, where under various taxes[44] were subsumed.

Goods and Services Tax Network (GSTN) was set up by the Government of India as a private company to provide IT services. It provides *Front-end IT services* to tax payers namely registration, payment of tax and filing of returns. *Back-end IT services* i.e. registration approval, taxpayer detail viewer, refund processing, management information system (MIS) reports, etc. are also being provided by GSTN to Model-II[45] States. Jammu and Kashmir has opted for Model-II.

2.4.2 Scope of Audit

The activities of the State Government/ Commercial taxes Department relating to implementation of GST since 101st amendment to the Constitution of India i.e. 8 September 2016 to March 2018 (effective in Jammu and Kashmir from 6 July 2017) were analysed on the basis of information provided by the Department.

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42 Central GST: CGST and State/ Union Territory GST: STGST/ UTGST

43 Petroleum products: crude, high speed diesel, petrol, aviation turbine fuel (ATF) and natural gas

44 Value Added Tax, Central Sales Tax, Entry Tax, Tax on services levied under General Sales Tax Act 1962, and Entertainment Tax

45 **Model-I States**: only *Front-end services* provided by GSTN; **Model-II States**: both *Front-end* and *Back-end services* provided by GSTN

2.4.3 Trend of Revenue

GST was implemented in Jammu & Kashmir State from 8th July 2017 and total receipts under GST including non-subsumed/ subsumed taxes from July 2017 to March 2018 were ₹4,296.79 crore, against ₹3,887.79 crore under pre-GST taxes during the same period of previous year 2016-17 i.e. increase of about 11 *per cent*. Actual receipts under pre-GST taxes and GST are given below:

Table-2.4.1: Receipts under pre-GST Taxes and GST

(₹ in crore)

Year	Budget Estimate (BE)	Receipts under pre-GST taxes[46]	Receipts under GST		Total	Compen-sation received	Total receipts	Revenue to be protected
			GST	IGST appropriation GST				
2013-14	3,990.00	3,746.00	0	0	3,746.00	0	3,746.00	Nil
2014-15	3,740.00	3,744.93	0	0	3,744.93	0	3,744.93	Nil
2015-16	5,123.54	4,396.82	0	0	4,396.82	0	4,396.92	Nil
2016-17	5,137.56	5,029.20	0	0	5,029.20	0	5,029.20	Nil
2017-18 (April 2017 to June 2017)	6,194.28[47]	1,387.88	0	0	1,387.88	0	1,387.88	Nil
2017-18 (July 2017 to March 2018)		1,502.34	1,000.75	1,610.51	4,113.60	1,137.00	5,250.60	4,645.71[48]

The above table indicates an increasing trend in receipts during last three years.

2.4.4 Legal/ statutory preparedness

The State notified (07 July 2017) the Jammu and Kashmir Goods and Services Tax Act, 2017 and Jammu and Kashmir Goods and Services Tax Rules, 2017. E-way bill system was implemented on inter-State transactions with effect from 1st April 2018 and on intra-State transactions with effect from 1st June 2018. Further, necessary notifications were issued by the State Government from time to time for facilitating implementation of GST in the State. The State Government/ Commercial Taxes Department had issued 262 notifications/ circulars/ orders regarding GST, from July 2017 to March 2019.

2.4.5 IT preparedness and capacity building efforts by the Department

GSTN was to provide three front end services to the taxpayers namely registration, payment of tax and filing of returns. As Jammu and Kashmir had opted for model-II for implementation of GST, *back-end applications* like registration approval, taxpayer detail viewer, Letter of Undertaking (LUT) processing, refund processing, management information system (MIS) reports, etc. for GST administration were being developed by GSTN. GSTN System is accessed by the authorities of the department based on roles, and login IDs created on the basis of individual credentials of the users.

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46 Includes taxes under VAT, General Sales Tax, Central Sales Tax including Non-GST items like liquor and ATF but excludes taxes on Motor spirits

47 The projected revenue for the year 2017-18 in accordance with base year figure (2015-16: ₹4,766.30 crore) was: ₹4,766.30 crore x $(1+14/100)^2$ = ₹6,194.28 crore

48 The projected revenue figure under GST for nine months period from July 2017 to March 2018: ₹6,194.28 crore x 3/4 = ₹4,645.71 crore

Training to the officers of the State has been given by the Goods and Services Tax Network. Further, State Taxes Department has established computer labs each in Jammu and Srinagar for providing IT trainings. As per information made available, the State Taxes Department has organised 542 workshops across the State in which 23,660 stake holders participated. The Department had established (January 2019) dedicated help lines each in Jammu and Srinagar to attend to the problems of the taxpayers. Department stated (March 2019) that it had sufficient IT infrastructure to meet the requirements of GST.

2.4.6 Implementation of GST

Major issues/ challenges faced by the Department in implementation of GST were in registration, migration, allocation of taxpayers, filing of returns, payment of tax, transitional credit, refund, etc.

2.4.6.1 Registration of taxpayers

Every supplier making a taxable supply of goods or services or both in the State is liable to be registered under the SGST Act if his aggregate turnover in a financial year exceeds twenty lakh rupees. Further, every person who, on the day immediately preceding the appointed day (8th July 2017), is registered or holds a license under an existing law, shall be liable to be registered under SGST Act with effect from the appointed day.

- As per Rule 8 of Jammu and Kashmir GST Rules 2017 every person registered under any existing law of subsumed taxes and having Permanent Account Number (PAN) shall enroll on the common portal by validating his e-mail address as well as mobile number, either directly or through facilitation centre notified by the Commissioner. Upon enrolment, such person shall be granted registration on a provisional basis. Every person who has been granted a provisional registration shall submit an application alongwith the information and documents specified in the application on common portal. A certificate of registration shall be made available to the registered person electronically.
- As per information provided by the Department, position of provisional registration and final registration of existing registered dealers in the Commercial Taxes Department is given below:

Table-2.4.2: Position regarding enrolment of existing registered dealers

Total number of existing registered dealers with valid PAN	Total number of provisional ID received from GSTN (*percentage* with reference to column-1)	Number of dealers primary enrolled (*percentage* with reference to column-1)	Complete enrolment done (*percentage* with reference to column-1)
(1)	(2)	(3)	(4)
72,256	72,049 (99.71 *per cent*)	50,163 (69.42 *per cent*)	47,051 (65.12 *per cent*)

(*Source: Information provided by the department*)

Although 99.71 *per cent* of provisional IDs were received from GSTN, only 65 *per cent* of the existing dealers completed the enrolment.

(I) Allocation of taxpayers between Centre and State

(a) Existing registered taxpayers of Commercial Taxes Department and Central Excise Department

As per recommendations of GST Council, 90 *per cent* of existing registered taxpayers having turnover upto ₹1.50 crore and 50 *per cent* of existing registered tax payers having turnover of more than ₹1.50 crore were to be allotted to the State. Distribution of dealers between Centre and State in respect of Jammu and Kashmir was done in September 2018, i.e. 15 months after the implementation of GST. Reasons for belated distribution were not intimated.

Out of 6,423 taxpayers having turnover of above ₹1.50 crore, 3,211 taxpayers were allotted to the Centre and 3,212 (50 *per cent*) to the State. All the remaining taxpayers were allotted to the State in relaxation of the recommendations of the GST council.

(b) New taxpayers

In the State, all new registrations irrespective of turnover were under its jurisdiction. The position of new registrations as on 28th February 2019 is given below:

Table-2.4.3: Position of new registrations

Application received upto 28th February 2019	Number of applications rejected	Number of applications approved	Number of applications pending
62,691	11,375	50,535	607

(*Source: Information provided by the department*)

There were 607 applications pending as on 28th February 2019; the percentage of approved applications and those rejected was 82 *per cent* and 18 *per cent*, respectively.

2.4.6.2 Filing of returns

As per Rule 59 to 61 of J&K GST Rules 2017, tax payers other than composition taxpayers were required to furnish details of outward supplies of goods or services in form GSTR-1[49], details of inward supplies of goods or services in Form GSTR-2[50] and return in Form GSTR-3 (electronically generated by system on the basis of information furnished through GSTR-1 and GSTR-2) monthly, whereas composition taxpayers were required to file a quarterly return GSTR-4.

The prescribed process of return filing was amended to address the difficulties faced by the taxpayers in the initial period of the new tax regime. The filing of GSTR-2 and GSTR-3 was postponed and all taxpayers were mandated to submit a simple monthly return in Form GSTR-3B[51] with payment of tax by 20th of the succeeding month.

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[49] GSTR-1: (a) Invoice wise details of all inter-State and intra-State supplies made to the registered persons and inter-State supplies with invoice value more than ₹2.50 lakh made to the unregistered persons (b) consolidated details of all intra-State supplies made to unregistered persons and State wise inter-State supplies with invoice value upto ₹2.50 lakh made to the unregistered persons and (c) debit and credit notes, if any, issued during the month

[50] GSTR-2: (a) Invoice wise details of all inter-State and intra-State supplies received from registered persons or unregistered persons (b) Import of goods and services made and (c) debit and credit notes, if any, received from the supplier

[51] GSTR-3: A monthly return required to be filed by all taxpayers other than composition taxpayers

Further, taxpayers having turnover below ₹1.50 crore were to file GSTR-1 on quarterly basis.

2.4.6.3 Payment of Tax

Monthly return GSTR-3B and quarterly return GSTR-4 were required to be filed after payment of due tax. Therefore, monitoring of these returns was important to ensure timely deposit of due tax by the taxpayers. As per the information provided by the Department for the period July 2017 to February 2019, the position of registered taxpayers and taxpayers who filed monthly returns in GSTR-3B and quarterly returns in GSTR-4 is given below:

Table-2.4.4: Details regarding filing of monthly and quarterly returns by the dealers

Sl. No.	Month	Monthly returns				Quarterly returns			
		Number of registered taxpayers	Registered taxpayers who filed monthly returns		Number of registered taxpayers who had not filed monthly returns	Number of eligible dealers	Registered taxpayers who filed quarterly returns		Number of registered taxpayers who had not filed quarterly returns
			Number	*Per cent*			Number	*Per cent*	
1.	July 2017	49,895	48,912	98	983	5,417	4,256	79	1,161
2.	August 2017	56,938	54,717	96	2,221				
3.	September 2017	61,619	58,389	95	3,230				
4.	October 2017	61,963	57,626	93	4,337	9,686	7,623	79	2,063
5.	November 2017	64,428	58,881	91	5,547				
6.	December 2017	66,077	59,825	91	6,252				
7.	January 2018	68,043	61,052	90	6,991	10,958	7,014	64	3,944
8.	February 2018	70,292	62,265	89	8,027				
9.	March 2018	71,994	63,461	88	8,533				
10.	April 2018	72,923	64,255	88	8,668	9,387	8,184	87	1,203
11.	May 2018	75,470	65,494	87	9,976				
12.	June 2018	77,492	66,262	86	11,230				
13.	July 2018	78,995	67,040	85	11,955	9,375	7,835	84	1,540
14.	August 2018	80,214	67,634	84	12,580				
15.	September 2018	81,069	67,947	84	13,122				
16.	October 2018	82,347	68,221	83	14,126	9,391	7,319	79	2,072
17.	November 2018	83,494	66,796	80	16,698				
18.	December 2018	84,692	66,254	78	18,438				
19.	January 2019	86,258	64,174	74	22,084	Quarterly return to be submitted after March 2019			
20.	February 2019	87,367	43,585	50	43,782				
	Total	**14,61,570**	**12,32,790**	**85**	**2,28,780**	**54,214**	**42,231**	**78**	**11,983**

In 2,28,780 cases (15 *per cent*), tax payers had not filed the monthly returns for the period July 2017 to February 2019. The month-wise shortfall in filing of returns ranged between 2 *per cent* and 26 *per cent*.

Similarly, in 11,983 cases (22 *per cent*) composition tax payers had not filed the quarterly returns in GSTR-4 for the period July 2017 to December 2018. The quarter-wise shortfall in filing of returns ranged between 13 *per cent* and 36 *per cent*.

Non-filing of returns is fraught with the risk of evasion of tax by the defaulters and claiming of ITC by the recipients against the tax paid to the defaulters.

There is a need to investigate the reasons for non-filing/ declining trend in filing of returns by the registered dealers and the department may ensure timely filing of returns and expeditious payment of taxes by the dealer.

2.4.6.4 Transitional credit

As per Rule 117 of Jammu and Kashmir GST Rules read with Section 140 of Jammu and Kashmir GST Act, the registered taxpayers were entitled to carry forward and claim un-availed amount of ITC[52] of the pre-GST regime (as per VAT returns) in the GST regime. The registered taxpayers were required to file a return in prescribed form TRAN-1.

As per the information made available to audit, 2,029 dealers had claimed transitional credit of ₹420.461 crore[53], out of which ₹51.225 crore only were claimed as transitional credit under SGST Act. Random check of 276 cases in 8 State Tax offices conducted by audit revealed that 14 dealers in 5 State Tax offices[54] had claimed transitional credit of ₹37.26 lakh in excess of ITC shown carried forward in their VAT returns. In one case, a dealer in State Tax office Baramulla had claimed lesser transitional credit of ₹0.84 lakh of ITC than shown/ carried forward in their VAT returns. This indicated that the transitional credit availed was not cross verified with the returns filed under earlier tax laws.

On this being pointed out, State Taxes Officer, circle 'J' Jammu, stated (February 2019) that notices have been issued in seven such cases. System for verification of input tax credit in respect of the dealers transferred from the jurisdiction of Central Government departments to the State Taxes Department and *vice-versa* was not intimated.

2.4.6.5 Refund under GST

Refund module under GSTN was not operational, hence the refunds are being allowed through manual system to the applicants. As per information provided by the Department the position of refunds was as under:

Table-2.4.5: Information regarding refund cases

Applications received for refund upto 28.02.2019		No. of refund applications allowed within prescribed period		No. of applications allowed after prescribed period		No. of applications rejected	
Number of tax payers	Amount (in lakh)	Number of tax payers	Amount (in lakh)	Number of tax payers	Amount (in lakh)	Number of tax payers	Amount (in lakh)
1,154	52.92	344	7.96	0	0	67	0.33

Out of 1,154 applications, refunds in 344 cases were allowed within prescribed period. Although 67 applications were rejected, status of balance 743 applications was not provided. Further, due to postponement of filing of GSTR-2, match/ mismatch report of ITC could not be generated from the IT system by the Department.

52 ITC: Input tax credit

53 Includes CGST of ₹369.236 crore

54 Baramulla: one case, ₹0.43 lakh; Kupwara: three cases, ₹0.98 lakh; Circle (J) Jammu: 7 cases, ₹33.62 lakh; Circle (E) Jammu: two cases, ₹0.08 lakh; Circle (K) Jammu: one case, ₹2.05 lakh

Therefore, possibility of claim of refund in case of unutilised input tax showing incorrect ITC amount in GSTR-3B cannot be ruled out.

2.4.7 Legacy issues

On the basis of information furnished by the Department, audit analysed the legacy issues regarding assessment, recovery of arrears and other related matters and our observations are as follows:

2.4.7.1 Assessment of dealers

The details of outstanding cases pending assessment for the period 2014-15 to 2016-17, as on 28 February 2019, under subsumed taxes levied under Jammu and Kashmir Value Added Tax Act, 2005 and Jammu and Kashmir General Sales Tax Act, 1962 was as follows:

Table-2.4.6: Information regarding pending pre-GST assessments

Particulars	2014-15		2015-16		2016-17	
	VAT	General Sales Tax	VAT	General Sales Tax	VAT	General Sales Tax
Number of cases selected for assessment	5,827	44,890	6,709	49,818	5,548	58,839
Number of cases where assessment has been completed	5,487	13,905	6,050	11,196	4,630	14,375
Outstanding cases as on 28.02.2019	340	30,985	659	38,622	918	44,464

Details of pending assessments for the year 2017-18 (upto 07 July 2017) were not provided. The Department had not prescribed any scheme or timeline for clearing the pending assessments under erstwhile tax regime and these were simultaneously dealt with by the departmental authorities alongside GST. This has resulted in deployment of human resources in multiple tax regimes simultaneously, effecting the finalisation of pending assessments under the erstwhile State Acts.

Government/ Department may devise a mechanism for speedy assessment of pre-GST cases and ensure that the Government dues are recovered in a time bound manner.

2.4.7.2 Recovery of arrears

As per information furnished by the Department, the position of arrears in respect of various subsumed taxes under GST was as detailed in table:

Table-2.4.7: Position of arrears under pre-GST taxes

(₹ in crore)

Particulars	VAT	General Sales Tax	CST	Total
Outstanding arrears as on 07.07.2017	572.26	841.90	0.00	1,414.16
Fresh arrears received from 08.07.2017 to 28.02.2019	133.05	42.79	0.08	175.92
Total	**705.31**	**884.69**	**0.08**	**1,590.08**
Recovery effected upto 28.02.2019	313.61	32.69	0	346.30
Balance outstanding	391.70	852.00	0.08	1,243.78

Although outstanding amount had come down from ₹1,414.16 crore as on appointed day i.e. 7th July 2017 to ₹1,243.78 crore on 28 February 2019, the Department needs to strengthen the recovery processes so as to clear the arrears.

2.4.8 Conclusion

Jammu and Kashmir was the last State in the country to implement the GST Act. State Taxes department claimed that it had sufficient IT infrastructure. There was low enrolment of existing taxpayers and delayed establishment of dedicated help lines. Frequent changes were made in the rules/ regulations on the recommendation of the GST Council by the State Government, affecting the implementation of the Act. The GSTN has not been able to provide the complete IT solution and thus the problems regarding filing of returns GSTR-2 and GSTR-3 have not been resolved. The State was hamstrung in implementing the provisions of GST as it had limited role in these matters. Department needs to verify all the transitional credits availed by the migrated dealers and sort out the legacy issues like pre-GST assessments and recovery of arrears pertaining to pre-GST regime expeditiously in a time bound manner.

The matter was referred to the Government/ Department in April 2019, reply was awaited (September 2019).

Finance Department
(State Taxes Department)

During 2017-18, audit test-checked 36 Assessment circles of Commercial Taxes Department and pointed out short levy of tax of ₹106.23 crore in 232 cases which included concealment of purchases in 169 cases involving tax of ₹97.86 crore, suppression of freight in 31 cases involving ₹1.46 crore, availing of irregular input tax credit in 22 cases involving ₹0.91 crore, disclosure of less toll tax in trading account in two cases involving ₹0.07 crore and concealment of stock transfer in eight cases involving ₹5.93 crore. Some cases where action was taken by the Department and demands raised are detailed below:

2.5 Short levy and loss of tax revenue due to concealment and misclassification of purchases

Failure of the Assessing Authority, Commercial Taxes Circle Rajouri to detect the concealment and misclassification of purchases resulted in short levy of tax, interest and penalty of ₹6.45 lakh. There was also a revenue loss of ₹2.17 lakh.

Jammu and Kashmir Value Added Tax (VAT) Act, 2005 stipulates that where after a dealer is assessed for any year or part thereof and the Assessing Authority has reason to believe that whole or any part of the turnover of the dealer in respect of any period has escaped assessment, the assessing authority may after giving a reasonable opportunity of being heard and making such enquiries as it considers necessary, proceed to assess to the best of its judgement, the amount of tax due from the dealer in respect of such turnover and the provisions of the Act, shall so far as may be, apply accordingly. Further, the Act stipulate that if any person conceals his turnover or furnishes inaccurate particulars thereof, the appropriate authority shall direct such person to pay in addition to fee or tax by way of penalty, sum equal to double the amount of tax attempted to be evaded. For default in making the payment, the dealer is liable to pay interest on such amount at the rate of two *per cent* per month.

Test-check of the records of Commercial Taxes Circle, Rajouri, revealed that a dealer[55] had made purchases of ₹153.38 lakh[56] during 2010-11, 2011-12 and first quarter of 2012-13 from another dealer assessed in Commercial Taxes Circle-I, Jammu but accounted for purchases of ₹140.41 lakh[57] in his trading account and VAT returns which resulted in concealment of purchases of ₹12.97 lakh. It was also noticed that the purchases of ₹3.56 lakh taxable at the rate of 13.5 *per cent* were wrongly accounted for by the dealer in five *per cent* category. The Assessing Authority while assessing the returns of the dealer, failed to detect the concealment and misclassification of purchases which resulted in short levy of tax, interest and penalty of ₹8.62 lakh[58].

The Assessing Authority reassessed (February 2017) the dealer for accounting years 2011-12 and 2012-13 and raised a demand of ₹6.55 lakh[59]. However, it was stated (June 2017) that the reassessment for account year 2010-11 could not be done, as the case was barred by limitation of time.

The Deputy Commissioner Commercial Taxes (Judicial) stated (April 2018) that the dealer had availed Amnesty scheme[60] and deposited (upto July 2017) ₹2.30 lakh, against the principal amount of ₹2.12 lakh. The demand of ₹6.60 lakh on account of interest and penalty had been waived off, as per the scheme. Reply is not tenable as the dealer had concealed the turnover chargeable to tax, the demand created in consequence thereof was outside the purview of the Amnesty Scheme and hence, not remissible.

2.6 Non-recovery of tax on damaged stocks

Failure of the Assessing Authority to recover tax on damaged stock or reverse the input tax credit availed by a dealer resulted in short recovery of tax and interest of ₹9.45 lakh.

Jammu and Kashmir Value Added Tax (J&K VAT) Act, 2005 stipulates that, any dealer who in the course of his business purchases any taxable goods from a registered dealer in the circumstances in which no tax is payable by that registered dealer on the sale price of such goods or from any other person, the dealer shall be liable to pay tax on purchase price of such goods, if after such purchase, the goods are

55 Dealing in sale of cold drinks, chips, biscuits, etc

56 2010-11: ₹43.73 lakh; 2011-12: ₹61.01 lakh; 2012-13 (First quarter): ₹48.64 lakh

57 2010-11: ₹41.79 lakh; 2011-12: ₹58.50 lakh; 2012-13 (First quarter): ₹40.12 lakh

58 2010-11: ₹2.17 lakh (Tax: ₹0.50 lakh; Interest: ₹0.66 lakh; Penalty: ₹1.01 lakh); 2011-12: ₹1.66 lakh (Tax: ₹0.41 lakh; Interest: ₹0.44 lakh; Penalty: ₹0.81 lakh); First quarter of 2012-13: ₹4.79 lakh (Tax: ₹1.25 lakh; Interest: ₹1.04 lakh; Penalty: ₹2.50 lakh)

59 2011-12: ₹1.58 lakh (Tax: ₹0.39 lakh; Interest: ₹0.42 lakh; Penalty: ₹0.77 lakh); 2012-13: ₹4.97 lakh (Tax: ₹1.23 lakh; Interest: ₹1.28 lakh; Penalty: ₹2.46 lakh)

60 Under Government Order No. 39-FD of 2018 dated 05.02.2018

not sold within the State or in the course of inter-State trade and commerce or exported out of the territory of India. J&KVAT Act, 2005 stipulates that no input tax credit (ITC) shall be claimed or allowed to a registered dealer in respect of goods purchased on payment of tax, if such goods are not sold because of any theft or due to their destruction. J&KVAT Act, 2005 provides for reversal of the tax credit availed in respect of goods lost due to theft or destroyed due to any other reasons. For default in making the payment, dealer is liable to pay interest on such amount at the rate of two *per cent* per month.

Test-check (August 2016) of the records of Commercial Taxes Circle Leh, revealed that a dealer[61] had reduced the damaged stock of ₹28 lakh from his trading account during 2010-11, without paying any tax thereon. The Assessing Authority while accepting the return of the dealer for accounting year 2010-11 and assessing the dealer for accounting year 2011-12, failed to recover the tax or reverse the ITC availed by the dealer which resulted in short levy of tax and interest of ₹9.45 lakh[62].

The Assessing Authority re-assessed (December 2016) the dealer and reversed the ITC availed on damaged stock of ₹28 lakh and raised a demand (December 2016) of ₹8.99 lakh[63].

The Deputy Commissioner Commercial Taxes (Judicial) Srinagar stated (July 2018) that the dealer had availed Amnesty scheme[64] and deposited principal amount of ₹3.78 lakh. Reply is not tenable as the dealer had concealed the turnover chargeable to tax, the demand created in consequence thereof was outside the purview of the Amnesty Scheme and hence, not remissible.

2.7 Short demand due to incorrect allowance of input tax credit

Failure of the Assessing Authority to disallow the inadmissible input tax credit availed by a dealer on purchase of fuel during the years 2011-12 and 2012-13 resulted in short demand of ₹8.60 lakh.

J&K VAT Act, 2005 provides for allowance of ITC on purchase of goods made within the State for specified purposes from a registered dealer holding a valid certificate of registration. Commissioner Commercial Taxes clarified[65] (February 2008) that fuel does not qualify for availing ITC. J&K VAT Act, 2005 stipulates that when a dealer is in default or is deemed to be in default in making payment, he shall be liable to pay simple interest on such amount at the rate of two *per cent* per month from the date of such default, for so long as he continues to make default in the payment of said tax. J&K VAT Act, 2005 further stipulates that if the Commissioner or the Assessing Authority is satisfied that, the dealer, in order to evade or avoid payment of tax/ has availed tax credit to which he is not entitled to, shall after giving the dealer a reasonable opportunity of being heard, direct the

61 Dealing in motor vehicles, spare parts, lubricants, etc.
62 Tax at the rate of 13.5 *per cent* on damaged stock of ₹28 lakh: ₹3.78 lakh; Interest: ₹5.67 lakh
63 Tax: ₹3.78 lakh; Interest under Section 51(4) of the Act: ₹5.21 lakh
64 Under Government Order No. 39-FD of 2018 dated 05.02.2018
65 Clarification No. 09 of 2008 dated 28 February 2008

dealer to pay, by way of penalty, a sum equal to twice the amount of additional tax assessed.

Scrutiny (October 2016) of the records of Commercial Taxes Circle Udhampur-II, revealed that a dealer dealing in processed foods and Beverages, had claimed ITC of ₹2.14 lakh[66] on purchase of liquefied petroleum gas, which was not allowable to him as it was used as a fuel during accounting years 2011-12 and 2012-13. The Assessing Authority while assessing (March 2015/ February 2016) the dealer for those years failed to disallow the ITC claimed on LPG by the dealer which resulted in short demand of ₹8.60 lakh[67].

The Assessing Authority re-assessed the dealer (January 2018) and raised a demand of ₹9.24 lakh[68]. The Deputy Commissioner Commercial Taxes (Judicial) Srinagar stated (June 2018) that the dealer had availed Amnesty scheme[69] and deposited (upto May 2018) tax amount of ₹2.14 lakh. The demand on account of interest and penalty had been waived off as per the scheme. Reply is not tenable as the dealer had concealed the turnover chargeable to tax, the demand created in consequence thereof was outside the purview of the Amnesty Scheme and hence, not remissible.

2.8 Short levy of tax due to concealment of turnover

Failure of the Assessing Authority to detect the concealment of turnover while assessing the dealer under Section 39(5) of the Jammu and Kashmir Value Added Tax Act, 2005 resulted in short levy of tax, interest and penalty of ₹23.04 lakh.

J&K VAT Act, 2005 stipulates that where after a dealer is assessed for any year or part thereof, and the Assessing Authority has reason to believe that whole or any part of the turnover of the dealer in respect of any period has escaped assessment, the Assessing Authority may serve a notice on the dealer and after giving a reasonable opportunity of being heard and making such enquiries as it considers necessary, proceed to assess to the best of its judgment, the amount of tax due from the dealer in respect of such turnover and the provisions of the Act, shall so far as may be, apply accordingly. Further, if any person conceals his turnover or furnishes inaccurate particulars thereof, the appropriate authority shall direct such person to pay, in addition to the fee or tax by way of penalty, a sum equal to double the amount of tax attempted to be evaded. For default in making the payment, dealer is liable to pay interest on such amount at the rate of two *per cent* per month.

Scrutiny (November 2016) of records of Commercial Taxes Circle 'E' Jammu, revealed that a dealer[70] had made inter-state purchase of cement in a consignment of

66 2011-12: ₹91,134; 2012-13: ₹1,22,912
67 2011-12: ₹3,79,291 (Tax: ₹91,130; Interest: ₹1,05,901; Penalty: ₹1,82,260)
2012-13: ₹4,80,828 (Tax: ₹1,22,912; Interest: ₹1,12,092; Penalty: ₹2,45,824)
68 2011-12: ₹4,06,635 (Tax: ₹91,134; Interest: ₹1,33,241; Penalty: ₹1,82,260)
2012-13: ₹5,17,703 (Tax: ₹1,22,912; Interest: ₹1,48,967; Penalty: ₹2,45,824)
69 Under Government Order No. 39-FD of 2018 dated 05.02.2018
70 Dealing in sale and purchase of Cement

729 trucks[71] for which he was liable to pay toll charges of ₹64.75 lakh[72]. However, the dealer had accounted for freight and toll tax of ₹25.79 lakh[73] only in the trading accounts for the accounting years 2011-12 and 2012-13, a concealment of sales turnover[74] of ₹42.86 lakh[75]. The Assessing Authority while assessing (August 2014/ January 2016) the dealer for these years, failed to notice the concealment, which resulted in short levy of tax, interest and penalty of ₹23.04 lakh[76].

On this being pointed out, the Assessing Authority re-assessed (March 2018) the dealer and raised a demand of ₹24.40 lakh[77] against him.

The Deputy Commissioner Commercial Taxes (Judicial) Srinagar stated (June 2018) that the dealer had applied (May 2018) for availment of Amnesty Scheme of February 2018 and paid ₹1.95 lakh as first instalment (May 2018). Reply is not tenable as the dealer had concealed the turnover chargeable to tax, the demand created in consequence thereof was outside the purview of the Amnesty Scheme and hence, not remissible.

2.9 Short levy of tax due to concealment of stock transfer inward

Failure of the Assessing Authority to detect the concealment of stock transfer of goods received against 'F' forms by a dealer resulted in short levy of tax, interest and penalty of ₹7.28 lakh.

J&K VAT Act, 2005 stipulates that where after a dealer is assessed for any year or part thereof, the Assessing Authority has reason to believe that whole or any part of the turnover of the dealer in respect of any period has escaped assessment, it may serve a notice on the dealer and after giving a reasonable opportunity of being heard and making such enquiries as it considers necessary, proceed to assess to the best of its judgment, the amount of tax due from the dealer in respect of such turnover and the provisions of the Act, shall so far as may be, apply accordingly. Further, if any person conceals his turnover or furnishes inaccurate particulars thereof, the appropriate authority shall direct such person to pay in addition to the fee or tax by way of penalty, a sum equal to double the amount of tax attempted to be evaded. For default in making the payment, the dealer is liable to pay interest on such amount at the rate of two *per cent* per month.

Scrutiny (April 2017) of records of Commercial Taxes Circle 'N' Jammu, revealed that a dealer[78] had not accounted for the stock transfer of goods worth ₹11.22 lakh, received against F-forms, in the stock transfer inward statement which led to

[71] 3-Axle vehicles (2011-12: 358; 2012-13: 371)
[72] 2011-12: ₹30.43 lakh; 2012-13: ₹34.32 lakh
[73] 2011-12: ₹13.75 lakh; 2012-13: ₹12.04 lakh
[74] Includes 10 *per cent* gross profit on the concealed amount of ₹38.96 lakh
[75] 2011-12: ₹18.35 lakh; 2012-13: ₹24.51 lakh
[76] 2011-12:Tax: ₹2.48 lakh; Interest: ₹2.77 lakh; Penalty:₹4.95 lakh
2012-13: Tax: ₹3.31 lakh; Interest: ₹2.91 lakh; Penalty:₹6.62 lakh
[77] 2011-12:Tax: ₹2.46 lakh; Interest: ₹3.49 lakh; Penalty:₹4.91 lakh
2012-13: Tax: ₹3.24 lakh; Interest: ₹3.82 lakh; Penalty:₹6.48 lakh
[78] Dealing in re-sale of Paint, Varnish, etc.

concealment of sales turnover of ₹12.90 lakh[79]. The Assessing Authority, while passing assessment order (March 2016), failed to notice the concealment, which resulted in short levy of tax, interest and penalty of ₹7.28 lakh[80].

The Assessing Authority re-assessed (March/ June 2018) the dealer and raised a demand of ₹7.28 lakh[81].

The Deputy Commissioner Commercial Taxes (Judicial) stated (June 2018) that the dealer had applied for Amnesty scheme[82] of February 2018 and paid (April 2018) entire principal amount of tax of ₹1.82 lakh. Reply is not tenable as the dealer had concealed the turnover chargeable to tax, the demand created in consequence thereof was outside the purview of the Amnesty Scheme and hence, not remissible.

Law Department

During 2017-18, audit test-checked 46 Registering offices and noticed short levy of stamp duty/ registration fee of ₹1.82 crore in 633 cases which included ₹0.23 crore in 40 mortgage deeds, ₹0.45 crore in 149 relinquishment deeds, ₹0.58 crore in 248 sale deeds and ₹0.56 crore in 196 other deeds/ documents. Some cases where action was taken by the department are detailed below:

2.10 Short levy of registration fee due to incorrect application of rates

Failure of the Registering Authorities Leh and Kargil, to apply the correct rate of registration fee in 71 mortgage deeds registered during July 2013 and October 2016, resulted in short levy of registration fee of ₹34.06 lakh.

Jammu and Kashmir Registration Act SVT. 1977 (1920 AD) stipulates that for sale deeds and mortgage deeds, where the amount or value entered in the document exceeded ₹1000, Registration fee at the rate of ₹1.20 was to be charged for every ₹100 or part thereof in excess of ₹1000.

I. Scrutiny (August 2017) of the records of the Sub Registrar, Chief Judicial Magistrate (CJM), Leh revealed that in 40 mortgage deeds registered during April 2015 and October 2016, the Registering Authority had not levied the registration fee at prescribed rates. Failure to apply the correct rates of registration fee in respect of these 40 mortgage deeds has resulted in short levy of registration fee of ₹23.32 lakh[83].

The Sub-Registrar CJM, Leh stated (February/ August 2018) that recovery notices had been issued (December 2017) to the defaulters and an amount of ₹1.27 lakh recovered from five defaulters. It was also stated (July 2019) that the notices will be sent to mortgagers afresh.

[79] Including incidentals at the rate of 15 *per cent*

[80] Tax: ₹1,74,144; Interest: ₹2,05,490 and Penalty: ₹3,48,288

[81] Tax: ₹1,74,148; Interest: ₹2,05,495; and Penalty: ₹3,48,297

[82] Under Government Order No. 39-FD of 2018 dated 05.02.2018

[83] Registration Fee due: ₹33,30,732; Registration Fee charged: ₹9,99,224; Short Registration Fee: ₹23,31,508

II. Similarly, scrutiny (October 2016) of the records of the Sub Registrar, Chief Judicial Magistrate (CJM), Kargil revealed that in 31 mortgage deeds out of 139 registered during July 2013 and October 2015, the Registering Authority had not levied the registration fee at prescribed rates. Failure to apply the correct rates has resulted in short levy of registration fee of ₹10.74 lakh[84].

On this being pointed out, the Sub-Registrar CJM Kargil stated (February/ April/ August 2018) that recovery notices were issued (December 2017) to the defaulters and an amount of ₹1.17 lakh recovered (August 2018) from 12 defaulters.

The matter was referred to Government/ Department in May/ June 2018; their reply was awaited (September 2019).

2.11 Short levy of stamp duty and registration fee

Failure of the Registering Authority to apply correct rates resulted in short levy of Stamp Duty of ₹6.72 lakh and Registration Fee of ₹0.05 lakh.

In terms of article 18 of Schedule I of the Stamp Act, stamp duty is to be charged at the rate of seven *per cent* of the market value for conveyance where land or estate is within the urban area and five *per cent* of market value where the land or estate is within rural area. Same rates were also to be applied in respect of gift deeds as per article 27 of the above schedule. Jammu and Kashmir Government vide SRO 152 dated 31 March 2010 directed that there shall be reduction of 25 *per cent* in the stamp duty leviable on land purchased in the name of a female member of a family. However, this reduction was not applicable on gift deeds. Further, any instrument not being a release as provided for by Section 23-A[85], whereby a person renounces a claim upon another person or against any specified property, stamp duty as per article 48 of Schedule I is to be charged at the rate of two *per cent* on the market value of the share of the property over which the claim is relinquished, whichever is higher. Registration fee at prescribed rates is also to be charged from sale deeds and mortgage deeds under Section 78 of Registration Act.

Scrutiny (September 2017/ March 2018) of the records of the Sub-Registrar, Bijbehara revealed that out of total 2,986 deeds[86] registered during April 2011 and August 2017, the Registering Authority had not charged the stamp duty and registration fee at prescribed rates in 14 deeds[87]. Besides, 25 *per cent* discount on stamp duty applicable on purchase of land in the name of females was irregularly allowed on eight gift deeds. Failure to apply the correct rates has resulted in short levy of stamp duty of ₹6.72 lakh and registration fee of ₹0.05 lakh.

84 Registration Fee due: ₹14,69,388; Registration Fee charged: ₹3,95,135; Short Registration Fee: ₹10,74,253

85 Section 23-A details certain instruments connected with mortgages of marketable securities to be chargeable as agreements

86 Sale deeds: 365; Miscellaneous deeds: 2,621

87 Relinquishment deeds: 08 cases; Other deeds: 01 case and Sale deeds: 05 cases registered during April 2011 and June 2017

On being pointed out, the Sub-Judge Bijbehara stated (February 2018) that notices would be issued to the defaulters and recovery made. An amount of ₹1.37 lakh[88] had been recovered as of May 2018, in nine deeds.

The matter was referred to the Government/ Department in June 2018; their reply was awaited (September 2019).

2.12 Short levy of stamp duty on relinquishment deeds

Failure of the Registering Authority to apply correct rate of Stamp Duty on relinquishment deeds resulted in short levy of Stamp Duty of ₹6.74 lakh.

Sections 3, 4 and 5 of the Stamp Act stipulate the instruments that are chargeable to stamp duty. In terms of article 48 of Schedule I of the Act, any instrument not being a release as provided for by Section 23-A[89], whereby a person renounces a claim upon another person or against any specified property, stamp duty is to be charged at the rate of two *per cent* on the market value of the share of the property over which the claim is relinquished, whichever is higher.

Scrutiny of the records of the Sub Registrar, Shopian revealed that the Registering Authority had not charged the stamp duty at prescribed rates in 14 relinquishment deeds registered during April 2011 and June 2014. Failure to apply the correct rates has resulted in short levy of stamp duty of ₹6.74 lakh.

The Sub-Registrar Shopian stated (April/ December 2017) that the short levy of stamp duty was inadvertent. It was further stated that deficient stamp duty had been recovered in two instances and notices issued in all other cases.

The matter was referred to the Government/ Department in February 2018, reply was awaited (September 2019).

The cases pointed out are based on test check conducted by Audit. The Department may initiate action to comprehensively examine similar cases and take necessary corrective action.

88 Sale deeds: 02 cases (Stamp duty: ₹16,680, Registration fee: ₹2,400); Relinquishment deeds: 05 cases (Stamp duty: ₹1,10,000) and Gift deeds: 02 cases (Stamp duty: ₹7,940)

89 Section 23-A details certain instruments connected with mortgages of marketable securities to be chargeable as agreements

PART ‘B’

Public Sector Undertakings

Chapter-3

Functioning of State Public Sector Undertakings

CHAPTER - 3

Functioning of State Public Sector Undertakings

3.1 Introduction

3.1.1 General

State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2018, there were 33 PSUs (six in Power Sector and 27 in Non-Power Sector), including three Statutory Corporations[1] under the audit jurisdiction of the Comptroller and Auditor General of India (C&AG). Of these, 24 are active and nine are inactive (four in Power sector and five in non-power sector). One PSU i.e. Jammu and Kashmir Bank Limited is listed (July 1998) on the stock exchange. Of the total paid-up equity of the Bank, 59.23 *per cent* is held by the State Government and remaining 40.77 *per cent* is held by Foreign Institutional Investors, Resident Individuals and others[2]. During the year 2017-18, no PSU was incorporated/ closed down.

There were two power generation companies viz. Jammu and Kashmir State Power Development Corporation Limited (JKSPDC) and Chenab Valley Power Project Private Limited (CVPPP). CVPPP is a joint venture of Jammu and Kashmir State Power Development Corporation Limited (JKSPDC), National Hydroelectric Power Corporation (NHPC) and Power Trading Corporation (PTC) wherein Government of Jammu & Kashmir has not made any investment. The Joint venture Company has investment of ₹1,051.44 crore (Jammu and Kashmir State Power Development Corporation Limited: ₹465 crore, National Hydroelectric Power Corporation: ₹582.36 crore and by Power Trading Corporation: ₹4.08 crore). The CVPPP is under implementation as of March 2018.

There is one power transmission company, two power distribution companies and one power trading company incorporated to perform trading activities on behalf of the State Government. Although the companies have been incorporated between March 2013 and June 2013, these companies are yet to start their operational activities as of March 2018. In absence of commercial operations by these companies, the power transmission and distribution activities are still carried out by the Power Development Department.

The financial performance of the PSUs on the basis of latest finalised accounts, as on 30 September 2018 is covered in this report.

The 24 working PSUs registered an annual turnover of ₹8,571.68 crore and earned an aggregate profit of ₹198.15 crore as per their latest finalised accounts, as of 30 September 2018. This turnover was equal to 6.08 *per cent* of Gross State Domestic

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1 Jammu and Kashmir State Financial Corporation, Jammu and Kashmir State Road Transport Corporation and Jammu and Kashmir State Forest Corporation

2 Indian Mutual Funds, Insurance Companies, Non-Resident Indian and Corporate Bodies

Product (GSDP) of ₹1,40,887 crore for 2017-18. They had 23,985 employees as of March 2018.

There are nine inactive PSUs which are non-operational for last four to 28 years having an investment of ₹56.60 crore towards share capital (₹55.77 crore) and long term loans (₹0.83 crore). No investment was made in these PSUs by the Government in the last three years.

3.1.2 Accountability Framework

The procedure for audit of Government Companies are laid down in Sections 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2 (45) of the Act 2013, a Government Company means any Company in which not less than 51 *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments, and includes a Company which is a subsidiary Company of such a Government Company.

C&AG of India appoints the Statutory Auditors of a Government Company and Government Controlled Other Company under Section 139(5) and (7) of the Companies Act, 2013. Section 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the C&AG within a period of 180 days from the commencement of the financial year. Section 139 (7) of the Companies Act, 2013 provides that in case of a Government Company or Government Controlled Other Company, the first auditor are to be appointed by the C&AG within 60 days from the date of registration of the Company and in case C&AG does not appoint such auditor within the said period, the Board of Directors of the Company or the members of the Company have to appoint such auditor.

Further, as per sub-Section 7 of Section 143 of the Act 2013, the C&AG may, in case of any Company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the C&AG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

3.1.3 Statutory Audit

The financial statements of the Government Companies (as defined in Section 2 (45) of the Act 2013) are audited by Statutory Auditors, who are appointed by the C&AG as per the provisions of Section 139(5) or (7) of the Act 2013. The Statutory Auditors submit a copy of the Audit Report to the C&AG including, among other things, financial statements of the Company under Section 143(5) of the Act 2013. These financial statements are also subject to supplementary audit by the C&AG within 60 days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act 2013.

Audit of Statutory Corporations is governed by their respective legislations. Out of three Statutory Corporations, the C&AG is sole auditor for Jammu and Kashmir State Road Transport Corporation. In respect of Jammu and Kashmir State Financial Corporation and Jammu and Kashmir State Forest Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the C&AG.

3.1.4 Role of Government and Legislature

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the C&AG, in respect of State Government Companies and Separate Audit Reports of the C&AG in case of Statutory Corporations, are to be placed before the State Legislature under Section 394 of the Act 2013 or as stipulated in the respective Acts. The Audit Reports of C&AG are submitted to the Government under Section 19A of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.5 Impact of contribution of Public Sector Undertakings to GDP of the State

To assess the reasonable rate of return on the investment made by the Government of Jammu & Kashmir (GoJK), viz. return on equity, return on capital employed and to assess the ability of the Companies to service the debt owed to Government, banks and other financial institutions by commenting on debt turnover ratio, interest coverage ratio, etc., these PSUs are bifurcated into two categories viz. PSUs in power sector (six[3]) and PSUs in other than power sector (27 PSUs[4]) to get a fair view about the impact and contribution of these PSUs separately towards the economy of the State.

[3] Two Working PSUs: viz. Jammu and Kashmir State Power Development Corporation Limited (JKSPDC) and Chenab Valley Power Project Private Limited (CVPPP) and four inactive PSUs: (1) Jammu and Kashmir Power Trading Company Limited (2) Jammu and Kashmir Power Transmission Company Limited (3) Jammu Power Distribution Company Limited and (4) Kashmir Power Distribution Company Limited

[4] 24 Government Companies and three Statutory Corporations i.e. Jammu and Kashmir State Forest Corporation, Jammu and Kashmir State Financial Corporation, Jammu and Kashmir State Road Transport Corporation

Table-3.1: Details of turnover of State PSUs vis-a-vis GSDP of J&K

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover of power sector[5] as per latest finalised accounts	1,220.62	1,220.62	1,119.90	1,119.90	992.46
Turnover of PSUs other than power sector as per latest finalised accounts	7,048.17	7,449.34	7,296.59	7,238.03	7,579.22
GSDP of J&K at current prices	95,619	98,370	1,17,187	1,26,847	1,40,887
Percentage of turnover of power sector to GSDP of J&K (in *per cent*)	1.28	1.24	0.96	0.88	0.70
Percentage of turnover of PSUs other than power sector to GSDP of J&K (in *per cent*)	7.37	7.57	6.23	5.71	5.38

(Source: Compiled based on turnover figures of PSUs and GSDP figures as per information provided by the GoJ&K, Finance Department)

3.1.6 Disinvestment, restructuring and privatisation of State PSUs

During the year 2017-18, no disinvestment, restructuring and privatisation was done by the State Government in power as well as in other than power sector undertakings.

3.1.7 Investment in Public Sector Undertakings

Investment made in these 33 State PSUs in form of equity and long term loans upto 31 March 2018 are as follows:

Table-3.2: Activity-wise investment in PSUs

(₹ in crore)

Sector	Number of PSUs	Investment					
		Equity		Long term loans		Total	
		GoJK	Others	GoJK	Others	GoJK	Others
PSUs in Power Sector	6*	5.20	1051.44	0	2045.88	5.20	3097.32
PSUs other than Power Sector^							
PSUs in Social sector	12	89.59	34.58	1098.05	91.86	1187.64	126.44
PSUs in Competitive environment	11	486.66	111.24	1185.06	1665.92	1671.72	1777.16
Others	4	56.58	0.00	0.00	0.00	56.58	0.00
Total	**33**	**638.03**	**1197.26**	**2283.11**	**3803.66**	**2921.14**	**5000.92**

(Source: Compiled based on information received from PSUs.)

* *Out of six power sector PSUs only two are active- JKSPDC and CVPPP. The GoJ&K has not made any investment in CVPPP.*

^ *Details in* ***Appendix 3.1.1***

As on 31 March 2018, out of total investment of ₹1,056.64 crore in equity under power sector, only ₹5.20 crore (0.49 *per cent*) was contributed by the GoJ&K. The long term loans of ₹2,045.88 crore availed by JKSPDC were from banks and other financial institutions.

[5] Turnover pertains to only JKSPDC as out of six power sector PSUs, four PSUs viz (1) Jammu and Kashmir Power Trading Company Limited (2) Jammu and Kashmir Power Transmission Company Limited (3) Jammu Power Distribution Company Limited (4) Kashmir Power Distribution Company Limited are inactive and in CVPPP, the GoJ&K has not made any investment

The State Government had infused ₹5,753.83 crore upto the finalized accounts of 2013-14 as plan fund to JKSPDC for creation of capital assets detailed hereunder:

Table-3.3: Status of plan funds in JKSPDC

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Accounts finalised upto	2010-11	2010-11	2011-12	2011-12	2013-14
Plan fund infused (₹ in crore)	3857.15	3857.15	5346.91	5346.91	5753.83

Though the Board of directors decided (March 2013) to issue shares against this amount, the Company is yet to issue the same. The State Government instructed (December 2018) JKSPDC to adjust ₹3,668.81 crore against liability of State Government on account of power purchase from the Company and issue of equity worth ₹2,588.34 crore[6] to the State Government.

The adjustment of outstanding electricity bill of State Government against funds received for capital assets was irregular and violative of legislative will since the funds were provided by the Government for construction of capital assets. Besides the accounts of the Company were also showing funds as capital reserves. The Company however, has not yet issued shares in compliance of Government orders (November 2019). This has resulted in understatement of share capital to the same extent.

As on 31 March 2018, the total investment (equity and long term loans) in 27 other than Power PSUs was ₹4,819.54 crore. The investment consisted of 16.16 *per cent* towards equity and 83.84 *per cent* in long-term loans. The long term loans advanced by the State Government constituted 56.50 *per cent* (₹2,283.11 crore) of the total long term loans (₹4,040.89 crore) whereas 43.50 *per cent* (₹1,757.78 crore) of the total long term loans were availed from other financial institutions.

3.1.8 Budgetary support to Public Sector Undertakings

(A) Budgetary support to power sector undertakings

The GoJ&K provides financial support to power sector undertakings in various forms through annual budget as equity, loans, grants/ subsidies, loans written off and loans converted into equity.

Budgetary assistance of ₹135 crore was received by JKSPDC as grant during 2017-18. No budgetary assistance was received from the State Government during 2015-16 and 2016-17.

The GoJ&K provides guarantee to PSUs to seek financial assistance from Banks and financial institutions. The State Government has not enacted a Guarantee Act prescribing limit for guarantees to be given by the State Government and stipulating guarantee commission/ fee. However, the FRBM Act, 2006 lays down limit within

[6] The amount also includes cost of assets transferred at token value at the time of incorporation valuing ₹916.54 crore and ₹22.00 crore in year 2011 by State Government

which State Government may give guarantee on the security of Consolidated fund of the State. The GoJ&K also constituted (August 2006) Guarantee Redemption Fund for meeting obligations arising out of guarantees issued on behalf of the State Government. Outstanding guarantee commitments decreased by 18.15 *per cent* from ₹2,499.64 crore in 2015-16 to ₹2,045.88 crore in 2017-18. During the year 2017-18, no guarantee fee was paid by the power sector undertakings.

(B) Budgetary support to State PSUs (other than Power Sector)

The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and loans converted into equity in respect of State PSUs (other than power sector) for the last three years ending March 2018 are as follows:

Table-3.4: Details regarding budgetary support to State PSUs (other than power sector) during 2015-16 to 2017-18

(₹ in crore)

Sl. No.	Particulars[7]	2015-16		2016-17		2017-18	
		Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
1.	Equity Capital outgo	2	6.85	3	9.56[8]	4	23.20[9]
2.	Loans given	10	69.19	8	54.77	8	50.82
3.	Grants/ Subsidy provided	8	66.44	9	133.30	7	126.85
	Total outgo (1+2+3)	**13[10]**	**142.48**	**13**	**197.63**	**12**	**200.87**
4.	Loan repayment written off	-	-	-	-	-	-
5.	Loans converted into equity	-	-	-	-	1	72.88
6.	Guarantees issued	1	2.00	1	2.00	1	8.00
7.	Outstanding Guarantee Commitment	3	47.33	3	60.60	2	98.28

(Source: Compiled based on information received from PSUs.)

In PSUs other than power sector, the annual budgetary assistance ranged between ₹142.48 crore and ₹200.87 crore during the period 2015-16 to 2017-18. The budgetary assistance of ₹200.87 crore given during the year 2017-18 included ₹50.82 crore in the form of loans, ₹126.85 crore as grants/ subsidy and ₹23.20 crore on account of equity assistance. The subsidy/ grants given by the State Government was primarily to provide for reconstruction of damaged assets and up-gradation of industrial estates, it also included grants provided to Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation for meeting its salary expenses.

Outstanding guarantee commitments increased by 107.65 *per cent* from ₹47.33 crore in 2015-16 to ₹98.28 crore in 2017-18. During the year 2017-18, no guarantee fee was paid by other than power sector PSUs.

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7 Amount represents outgo from State Budget only

8 The State Government infused investment of ₹250 crore in Jammu and Kashmir Bank Limited against which bank had issued 3.66 crore shares (at premium of ₹67 per share against face value of ₹one per share) during 2016-17. The addition to share capital had been reflected accordingly

9 The State Government infused investment of ₹282 crore in Jammu and Kashmir Bank Limited against which bank had issued 3.55 crore shares (at premium of ₹78 per share against face value of ₹one per share) during 2017-18. The addition to share capital had been reflected accordingly

10 The figure represents number of PSUs which have received outgo from budget under one or more heads i.e. equity, loans and grants/ subsidies

3.1.9 Reconciliation with Finance Accounts of Government of Jammu and Kashmir

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the GoJ&K. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The mismatch between the figures furnished by the PSUs with those depicted in the Finance Account, as on 31 March 2018 is given below:

Table-3.5: Equity and Loans outstanding as per Finance Accounts vis-a-vis records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts		Amount as per records of PSUs		Difference	
	Power Sector	Other than power sector	Power Sector[11]	Other than power sector	Power Sector	Other than power sector
Share capital	7.45	592.38	5.00	577.26	(-) 2.45	(-) 15.12
Outstanding Loans	85.05	768.14	0.00	2,282.28	(-) 85.05	1,514.14
Guarantees	2,045.88	98.28	2,045.88	98.28	Nil	Nil

(Source: Compiled based on information received from PSUs and Finance Accounts)

Audit observed that out of 22 State PSUs[12], other than power sector such differences occurred in respect of 17 PSUs as shown in ***Appendix-3.1.2***. The differences between the figures are persisting since last many years. The issue of reconciliation of differences was also taken up with the PSUs and the Departments from time to time. Major difference in balances was observed in Jammu and Kashmir Minerals Limited in respect of loan outstanding and Jammu and Kashmir State Industrial Development Corporation Limited in respect of equity.

It is recommended that the State Government and the respective PSUs should reconcile the differences in a time-bound manner.

3.1.10 Submission of accounts by Public Sector Undertakings

There were 24 working PSUs and accounts for the year 2017-18 were required to be submitted by all the working PSUs by 30 September 2018.

[11] Difference was in respect of JKSPDC only

[12] Data in respect of five inactive PSUs viz. (1) Jammu and Kashmir State Road Development Corporation Limited, (2) Jammu and Kashmir International Trade Centre Corporation Limited, (3) Tawi Scooters Limited, (4) Himalayan Wool Combers Limited and (5) Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited is not considered

Table-3.6: Position of accounts

Nature of PSUs	Total Number	Number of PSUs of which accounts received during the reporting period[13]				Number of PSUs of which accounts are in arrears (total accounts in arrears) as on 30 September 2018
		Accounts upto 2017-18	Accounts upto 2016-17	Accounts upto 2015-16	Total	
Working Government Companies[14]	21[15]	3	1	-	4	17 (158)
Statutory Corporations	3[16]	-	1	-	1	2 (5)
Total Working PSUs	**24**	**3**	**2**	**-**	**5**	**19 (163)**
Inactive Government Companies	9[17]	-	-	-	-	3 (72)
Total	**33**	**3**	**2**	**-**	**5**	**22 (235)**

Out of 24 PSUs, three Government Companies[18] submitted their accounts for the year 2017-18 for audit by C&AG on or before 30 September 2018, and accounts of 19 Government Companies were in arrears. Two PSUs (Jammu and Kashmir Medical Supplies Corporation Limited and Jammu and Kashmir State Forest Corporation) did not submit its accounts since inception.

The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. Details of arrears in finalization of accounts are given in ***Appendix-3.1.3 (A).***

The GoJ&K had provided ₹657.16 crore (Loan: ₹636.21 crore, Subsidy: ₹20.95 crore) to 11 out of 19 working State PSUs accounts of which had not been finalised by 30 September 2018 and in 08 PSUs there was no investment by the State Government during the period for which the accounts are in arrears.

PSU-wise details of investment made by State Government during the years for which accounts were in arrears as of September 2018 are shown in ***Appendix-3.1.3(B).***

Delay in finalisation of accounts not only results in violation of the provisions of the relevant statutes but there is also a risk of fraud and leakage of public money. In view of the above state of arrears of accounts, the actual contribution of the State PSUs to State GDP for the year 2017-18 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

13 From October 2017 to September 2018

14 Government PSUs include other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013

15 Jammu and Kashmir Medical Supplies Corporation Limited though functional but arrears of accounts not considered since it has never submitted its accounts since inception (March 2014)

16 Arrears of accounts in respect of Jammu and Kashmir State Forest Corporation not considered since the Company had not submitted any account since its inception (July 1979)

17 Arrears of accounts in respect of six Companies viz. (1) Jammu and Kashmir Power Trading Company Limited (2) Jammu and Kashmir Power Transmission Company Limited (3) Jammu Power Distribution Company Limited (4) Kashmir Power Distribution Company Limited (5) Jammu and Kashmir State Road Development Corporation Limited (6) Jammu and Kashmir International Trade Centre Corporation Limited are not considered since these Companies have never submitted their accounts since inception

18 CVPPP, Jammu and Kashmir Bank Limited and Jammu and Kashmir Bank Financial Services Limited

It is recommended that the Finance and concerned Administrative Department may ensure that (i) the State PSUs take immediate corrective action for liquidating arrears in accounts and (ii) budgetary support is not extended to such PSUs whose accounts are not current. The Government may also look into the constraints in preparing the accounts of the PSUs and take necessary steps for making the accounts current.

Placement of Separate Audit Reports of Statutory Corporations

Separate Audit Reports (SARs) are audit reports of the C&AG on the accounts of Statutory Corporations. These reports are to be laid before the Legislature as per the provisions of the respective Acts. Out of three working Statutory Corporations, none had forwarded their accounts of 2017-18 by 30 September 2018.

The status of annual accounts of Statutory Corporations and placement of their SARs in Legislature is detailed below:

Table-3.7: Status of placement of SAR of the Statutory Corporations

Name of the Corporation	Year of Accounts	Month of placement of SAR
Jammu and Kashmir State Financial Corporation	2016-17	February 2018
Jammu and Kashmir State Road Transport Corporation	2013-14	February 2018
Jammu and Kashmir State Forest Corporation	-	Accounts not submitted by the Corporation since 1996-97

(Source: Compiled based on information furnished by the Jammu and Kashmir Legislative Assembly)

3.1.11 Performance of Public Sector Undertakings

(A) Performance of Power Sector Undertakings

The Public Sector Undertakings are expected to yield reasonable return on investment made by Government in the undertakings. The financial position and working results of six power sector Companies as per their latest finalised accounts, as of 30 September 2018 are detailed in ***Appendix-3.1.4***.

The amount of investment in the power sector PSUs was ₹2,883.13 crore[19] consisting of ₹1,056.64 crore as equity and ₹1,826.49 crore as long term loans. Out of this, GoJ&K has made an investment of equity share capital of ₹5.20 crore only in five[20] power sector PSUs.

JKSPDC, the only active power PSU having Government investment, was a profit making Company, with profits ranging from ₹433.41 crore to ₹668.95 crore in respect of four accounts finalised during last five years.

19 As per latest finalised Accounts. This information may differ from the information furnished by the PSUs

20 Excluding Chenab Valley Power Project Private Limited which has not received any contribution from the GoJ&K

Position of power purchases made by J&K State vis-a-vis generation/ supplies made by the JKSPDC during 2015-16 to 2017-18 is detailed in table below:

Table-3.8: Power purchases made vis-a-vis generation/ supplies made by the JKSPDC

(Energy in MUs)

Sl. No.	Particulars	2015-16	2016-17	2017-18
1.	Total Power purchases made by J&K State Government	14612.12	15426.00	16224.30
2.	Total Power procured from JKSPDC	2660.55	3830.95	3922.33
3.	**Percentage of power purchased from JKSPDC to total power purchased by the State Government (in *per cent*)**	**18.21**	**24.83**	**24.18**
4.	Total Power generated by JKSPDC	4178.11	4966.01	5274.33
5.	**Percentage of power sold to State Government to total power produced by JKSPDC (in *per cent*)**	**63.68**	**77.14**	**74.37**

As can be seen from above, although JKSPDC sells most of power generated (ranging from 64 *per cent* to 77 *per cent*) to State Government, it was able to meet only around 18 *per cent* to 25 *per cent* of power requirement of the State. JKSPDC sells entire quantum of power from its power plants other than the 450 MW Baglihar-I plant to the State Government. Part of the power from Baglihar-I power plant is sold to other State utilities through the Power Trading Corporation (PTC). Arrangement for sale of power by JKSPDC is governed by Power Purchase Agreements (PPA) entered into by the JKSPDC with the respective buyers. This arrangement is made for meeting the debt servicing obligations on loans taken for construction of projects and to meet the Operation and Maintenance expenditure.

Rates obtained on sale of power through PTC is higher ₹3.60 (short term PPA) and ₹3.65 (long term PPA) per unit than those obtained on sale to JKPDD (₹1.85 to ₹2.25 per unit).

(B) Performance of State PSUs (other than power sector)

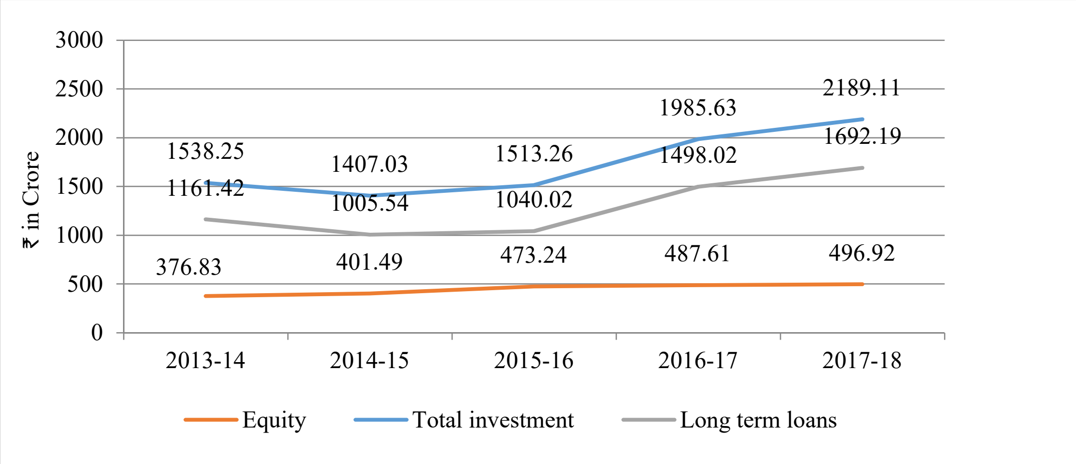
The financial position and working results of the 27 State PSUs (other than power sector) as per their latest finalised accounts, as of 30 September 2018, are detailed in ***Appendix-3.1.5***.

The total investment of State Government and others in these non-power PSUs was ₹4,219.64 crore consisting of equity of ₹590.33 crore and long term loans of ₹3,629.31 crore. Out of this, GoJ&K has made an investment of ₹2,189.11 crore in 26 PSUs[21] consisting of equity of ₹496.92 crore and long term loans of ₹1,692.19 crore.

The year-wise position of investment of GoJ&K in the PSUs during 2013-14 to 2017-18 is as follows:

[21] Excluding J&K Bank Financial Services Limited wherein the State Government has not made any investment

Chart-3.1: Total investment of GoJ&K in PSUs (other than power sector)



It is recommended that since the continued existence of loss making PSUs causes a substantial drain on the public exchequer, the State Government may review the functioning of all loss making PSUs.

3.1.12 Key Parameters

The profitability of a Company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment (ROI) measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to total investment. Return on capital employed[22] (ROCE) is a financial ratio that measures the Company's profitability and the efficiency with which its capital is used and is calculated by dividing Company's earnings before interest and taxes by capital employed. Return on equity (ROE) is a measure of performance calculated by dividing the net profit after tax by shareholder's fund[23].

The Key financial ratios used to assess the performance of the PSUs as per their latest finalised accounts are given in tables-3.9 (A) and (B) below:

(A) Power PSUs

Table-3.9 (A): Key parameters of power sector PSUs

(in *per cent*)

Parameter	2013-14	2014-15	2015-16	2016-17	2017-18
ROCE	6.72	6.72	10.57	10.57	5.85
ROI	4.84	4.84	7.54	7.54	2.78
ROE	4.59	4.59	8.34	8.34	2.87

The ROCE ranges between 5.85 *per cent* and 10.57 *per cent* and ROI between 2.78 *per cent* and 7.54 *per cent* and ROE ranges between 2.87 *per cent* and *8.34 per cent*. These parameters have been worked out taking into consideration plan fund infusion (as shown in Table 3.3) by GoJK.

[22] ROCE= Earnings before interest and taxes/ Capital Employed, Capital employed= Paid up share capital + free reserves and surplus + long term loans - accumulated losses - deferred revenue expenditure. Figures are as per the latest year for which accounts of the PSUs are finalised

[23] Shareholders Fund = Paid up Capital + Free Reserves – Deferred revenue expenditure – Accumulated losses

(B) Other than Power PSUs

Table-3.9 (B): Key parameters of PSUs other than Power Sector PSUs

(in *per cent*)

Particulars	Parameter	2013-14	2014-15	2015-16	2016-17	2017-18
Aggregate for Non Power PSUs (26)	ROCE	113.62	38.81	31.24	-91.40	21.69
	ROI[24]	218.48	77.76	47.44	-316.07	5.61
	ROE[25]	-	-	-	-	-
Profit Making PSUs	ROCE*	97.94	41.66	33.33	9.05	25.32
	ROI^	526.98	251.06	183.41	7.52	140.20
	ROE	2162.75	870.05	328.15	13.95	83.67
Loss Making PSUs	ROCE*	-53.89	-23.90	-28.51	-97.31	-35.01
	ROI^	-58.93	-55.86	-63.10	-563.34	-55.45
	ROE	-	-	-	-	-

** Only companies with positive capital employed were considered*
^ Excluding five[26] companies which have not prepared the Profit and Loss accounts

The major contributor to profit was Jammu and Kashmir Bank Limited. The ROE/ ROI and ROCE was high during 2013-14 to 2017-18 (except during 2016-17), mainly due to high Profit after tax earned by Jammu and Kashmir Bank Limited, which is functioning under monopolistic/ protective environment in terms of Government business.

ROCE in table 3.9 (B) has been worked out at face value of investment. ROCE worked at realized value of investment is as follows:

Table-3.10: ROCE for other than Power PSUs considering share premium

(in *per cent*)

ROCE	Year				
	2013-14	2014-15	2015-16	2016-17	2017-18
Aggregate	107.74	37.51	30.18	-75.55	16.80
Profit making PSUs	93.69	40.24	32.21	9.05	19.65
Loss Making PSUs	-53.89	-23.90	-28.51	-79.49	-35.01

The ROCE during 2013-14 and 2017-18, after considering the share premium account of Jammu and Kashmir Bank Limited ranged between -75.55 *per cent* to 107.74 *per cent*. Only nine companies with positive Capital Employed (details in ***Appendix-3.1.6***) during this period had Profit before tax as per the finalized accounts. Among these Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited had profit only for the year 2013-14 while Jammu and Kashmir Bank Limited incurred losses in 2016-17.

The ROI ranged between -316.07 *per cent* and 218.53 *per cent* during 2013-18. During 2016-17, negative rate of return was mainly due to loss of ₹1,632.29 crore incurred by Jammu and Kashmir Bank Limited. In the other years the ROI were higher mainly due to profits earned by Jammu and Kashmir Bank Limited.

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24 Equity infused by other than GoJ&K also considered while arriving at total ROI

25 ROE for the Non-Power Sector PSUs and loss making Non-Power sector PSUs cannot be worked out as the total Shareholder's fund for all the years were negative

26 Jammu Kashmir Overseas Employment Corporation Limited, Jammu and Kashmir Medical Supplies Corporation Limited, Jammu and Kashmir State Forest Corporation, Jammu and Kashmir State Road Development Corporation and Jammu and Kashmir International Trade Centre Corporation Limited

ROE for the Non-Power PSUs could not be worked out as the aggregate Shareholder's fund for all the years remained negative.

3.1.13 Return on the basis of present value of investment

Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value of money. Therefore, in addition to the calculation of return on funds invested on historical cost basis, the return on investment has also been calculated after considering the Present Value (PV) of money. PV was computed where funds had been infused by the State Government as equity and interest free loan since inception of these companies till 31 March 2018.

The PV in these undertakings was computed on the following assumptions:

- Interest free loans have been considered as fund infusion. However, in case of repayment of loans by the PSUs, the PV was calculated on the reduced balances of interest free loans over the period. The funds made available in the form of grant/ subsidy have not been reckoned as investment since they do not qualify as investment.
- The average rate of interest on Government borrowings for the concerned financial year was adopted as discount rate for arriving at Present Value since they represent the cost incurred by the Government towards investment of funds for the year.

(A) Power Sector PSUs

The State Government infused only ₹5.20 crore (details in ***Appendix-3.1.7 (A)***) as equity in the Power Sector PSUs. In addition to this, the State also provided ₹5,753.83 crore as Plan funds to JKSPDC for creation of Capital Assets. These funds were given as plan assistance in different years since inception of the Company (1994-95). Net Present Value (NPV) for the Power Sector PSUs, therefore, could not be worked out.

(B) Other than Power Sector PSUs

An analysis of the earnings vis-a-vis investments in respect of those 26 State PSUs[27] (other than power sector) where funds had been infused by the State Government was carried out to assess the profitability of these PSUs. During the period from 2013-14 to 2017-18, these 26 PSUs had a positive return on investment (excepting 2016-17).

The PSUs-wise position of 26 PSUs[28] wherein the GoJ&K had made an investment in the form of equity and interest free loans on historical cost basis is indicated in ***Appendix-3.1.7 (B).*** Further, consolidated position of NPV of the State Government investment relating to all the PSUs for the same period is indicated in table below:

[27] Excluding Jammu and Kashmir Bank Financial Services Limited wherein the GoJ&K had not made any investment

[28] Between 1999-2000 investment was made only in 18 PSUs as mentioned in ***Appendix-3.1.7 (B)***

Table-3.11: Year-wise details of investment by the State Government and present value (PV) of Government investment for the period from 1999-2000 to 2017-18

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the State Government during the year	Interest free loans given by the State Government during the year	Interest free loans converted during the year	Total investment during the year	Average rate of interest on Government borrowings[29] (in *per cent*)	Total investment at the end of the year	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year[30]	Total earnings for the year[31]
1	**2**	**3**	**4**	**5**	**6= (3+4-5)**	**7**	**8=2+6**	**9={8*(1+ 7/100)}**	**10=7*8/ 100**	**11**
Upto 1999-2000	347.29[32]	7.14	Nil	Nil	7.14	11.96	354.43	396.82	42.39	48.40
2000-01	396.82	4.56	Nil	Nil	4.56	9.23	401.38	438.43	37.05	92.76
2001-02	438.43	1.82	Nil	Nil	1.82	11.20	440.25	489.56	49.31	182.06
2002-03	489.56	13.29	Nil	Nil	13.29	10.54	502.85	555.85	53.00	249.26
2003-04	555.85	2.80	Nil	Nil	2.80	10.95	558.65	619.82	61.17	304.91
2004-05	619.82	4.03	Nil	Nil	4.03	8.97	623.85	679.81	55.96	-4.75
2005-06	679.81	7.55	Nil	Nil	7.55	8.15	687.36	743.38	56.02	68.90
2006-07	743.38	2.50	Nil	Nil	2.50	11.66	745.88	832.85	86.97	150.32
2007-08	832.85	1.20	11.55	Nil	12.75	14.07	845.60	964.58	118.98	201.28
2008-09	964.58	7.63	Nil	Nil	7.63	7.94	972.21	1049.40	77.19	232.25
2009-10	1049.40	17.09	Nil	Nil	17.09	9.45	1066.49	1167.27	100.78	354.68
2010-11	1167.27	11.06	Nil	Nil	11.06	9.03	1178.33	1284.73	106.40	499.02
2011-12	1284.73	6.09	Nil	Nil	6.09	8.28	1290.82	1397.70	106.88	705.53
2012-13	1397.70	7.00	Nil	Nil	7.00	8.19	1404.70	1519.74	115.04	1232.83
2013-14	1519.74	78.08	Nil	Nil	78.08	7.14	1597.82	1711.90	114.08	1048.22
2014-15	1711.90	1.21	3.62	Nil	4.83	7.68	1716.73	1848.57	131.84	378.25
2015-16	1848.57	6.85	Nil	Nil	6.85	7.25	1855.42	1989.94	134.52	264.80
2016-17	1989.94	9.56	Nil	Nil	9.56	7.83	1999.50	2156.06	156.56	-1809.73
2017-18	2156.06	96.08	50.82	17.50	129.40	7.23	2285.46	2450.70	165.24	32.62
Total		**285.54**	**65.99**	**17.50**	**334.03**					

(Source: Compiled based on latest information furnished by the respective PSUs as of March 2018)

The balance of investment by the State Government in these PSUs at the end of 2017-18 increased to ₹681.32 crore[33] from ₹347.29 crore at the beginning of 1999-2000 as the State Government made further investments in form of equity (₹285.54 crore) and interest free loans (₹65.99 crore) during the period 1999-2000 to 2017-2018. The PV of investment infused by the State Government upto 31 March 2018 amounted to ₹2,450.70 crore.

29 The average rate of interest on Government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Jammu and Kashmir) for the concerned year wherein the calculation for the average rate for interest paid = Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities) /2]*100

30 Present value of total investment at the end of the year -Total investment at the end of the year

31 Total earning for the year depicts total of net earnings (profit/ loss) for the concerned year relating to those 25 PSUs (other than Power Sector) where funds were infused by State Government. In case where annual accounts of any PSU was pending during any year then net earnings (profit/loss) for that year has been taken as per latest audited accounts of the concerned PSU

32 Investment made by the GoJ&K ended 31 March 2018 (₹632.83 crore) - investment made during 1999-2000 to 2017-18 (₹ 285.54 crore). The present value of investment upto 1999-2000 was treated as ₹347.29 crore

33 ₹347.29 crore + (₹285.54 crore + ₹65.99 crore) - ₹17.50 crore as interest free loan converted into equity

3.1.14 Comparison of investment as per historical cost and as per present value of such investment

Other than Power Sector

The Government had positive returns on investments in 26 PSUs in four years during the years 2013-14 to 2017-18 (except in 2016-17). Comparison of returns on investment at historical cost and at present value for these four years as per the latest finalised accounts is given in table below:

Table-3.12: Comparison of return on investment

(₹ in crore)

Year*	Total earnings	Funds invested by the GoJ&K	Funds invested by other than the GoJ&K	Total invest-ment	Return on investment on historical cost basis (*per cent*)	PV of the investment at end of the year[34]	Return on investment considering the present value of the investments (*per cent*)
2013-14	1,048.22	405.88	73.90	479.78	218.48	1,791.08	58.52
2014-15	378.25	413.04	73.41	486.45	77.76	1,933.84	19.56
2015-16	264.80	484.79	73.41	558.20	47.44	2,081.39	12.72
2017-18	32.62	508.47	73.41	581.88	5.61	2,556.44	1.28

**During 2016-17 the total earnings were negative due to losses incurred by J&K Bank Ltd.*

The return earned on investment on historical cost basis was 218.48 *per cent* in 2013-14. It declined and dropped to 5.61 *per cent* during 2017-18, whereas the returns earned considering the present value of the investments dropped from 58.52 *per cent* during 2013-14 to 1.28 *per cent* during 2017-18. During 2016-17 the returns were negative due to losses of ₹1,632.29 crore incurred by Jammu and Kashmir Bank Ltd.

3.1.15 Erosion of Net worth

(A) Power Sector

Net worth means the sum total of the paid-up capital and free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially, it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses and deferred revenue expenditure. The overall accumulated losses of JKSPDC[35] was ₹178.81 crore as against the capital investment of ₹five crore, resulting in negative net worth of ₹173.81 crore as detailed in ***Appendix-3.1.4***.

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[34] Arrived at by adding PV of State Government investment and other investment. The present value on private equity has been calculated from 2013-14 onwards

[35] Excluding CVPPP wherein no investment was made by the GoJ&K and other four being inactive although ₹0.20 crore were invested by the GoJ&K in these Companies

Table-3.13: Net worth of JKSPDC as per the latest finalised accounts during 2013-14 to 2017-18

(₹ in crore)

Year	Paid up Capital at end of the year	Free reserves and surplus	Accumulated Profit (+)/ Loss (-) at end of the year	Deferred revenue expenditure	Net worth
2013-14	5.00	1,134.66	-922.34	Nil	217.32
2014-15	5.00	1,134.66	-922.34	Nil	217.32
2015-16	5.00	Nil	-519.06	Nil	-514.06
2016-17	5.00	Nil	-519.06	Nil	-514.06
2017-18	5.00	Nil	-178.81	Nil	-173.81

The State Government had not infused any equity in JKSPDC during the period 2013-18. Further, ₹1,134.66 crore was transferred from 'Other Reserves' to separate head of 'Revaluation Reserve' in 2015-16 which resulted in no free reserves being available from 2015-16 onwards.

(B) Other than Power Sector

The capital investment, accumulated losses and free reserves of 20 State PSUs[36] (other than power sector) as per their latest finalised accounts were ₹525.68 crore, ₹2,150.57 crore and ₹100.03 crore respectively, resulting in negative net worth of ₹1,524.86 crore as detailed in ***Appendix-3.1.8***. Analysis of investment and accumulated losses disclosed that net worth was eroded fully in ten out of these 20 PSUs as the capital investment and accumulated losses of these PSUs were ₹341.53 crore and ₹2,242.53 crore, respectively. Of these ten PSUs, the maximum net worth erosion was in Jammu and Kashmir State Road Transport Corporation (₹969.75 crore), Jammu and Kashmir Industries Limited (₹513.13 crore), Jammu and Kashmir State Industrial Development Corporation Limited (₹112.18 crore) and Jammu and Kashmir State Handloom Development Corporation Limited (₹81.52 crore). Of these ten PSUs where net worth had been fully eroded, two[37] PSUs earned profit during the year 2017-18 although there were substantial accumulated losses.

Further, the following table indicates total paid up capital, total accumulated profit/ loss, and total net worth of the 20 PSUs during 2013-14 to 2017-18 where the State Government has made direct/ indirect investment.

[36] Excluding five inactive PSUs viz: (1) Tawi Scooters Limited (2) Himalayan Wool Combers Limited (3) Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) (4) Jammu and Kashmir Road Development Corporation Limited and (5) Jammu and Kashmir International Trade Centre Corporation Limited and two working PSUs viz: (1) Jammu and Kashmir Medical Supplies Corporation Limited (2) Jammu and Kashmir State Forest Corporation which never submitted their accounts since inception

[37] Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited and Jammu and Kashmir Small Scale Industries Development Corporation Limited

Table-3.14: Net worth of 20 PSUs as per the latest finalised accounts during 2013-14 to 2017-18

(₹ in crore)

Year	Paid up capital at end of the year	Free reserves and surplus	Accumulated profit (+) loss (-) at end of the year	Net worth
2013-14	458.16	3.90	-1,645.39	-1,183.33
2014-15	483.30	4.11	-1,851.08	-1,363.67
2015-16	502.00	11.84	-1,885.60	-1,371.76
2016-17	516.37	25.38	-2,049.16	-1,507.41
2017-18	525.68	100.03	-2,150.57	-1,524.86

As can be seen, overall net worth of these PSUs remained negative during the period. It decreased from ₹1,183.33 crore in 2013-14 to ₹1,524.86 crore in 2017-18. Out of 20 PSUs, 9 PSUs[38] showed positive net worth and net worth of 10 PSUs was negative during 2013-14, while one PSU[39] has not prepared its profit and loss account. During 2013-14, the net worth of Jammu and Kashmir Projects Construction Corporation Limited was negative and thereafter remained positive during 2014-18, whereas the net worth of Jammu and Kashmir Small Scale Industries Development Corporation Limited was positive during 2013-16 and thereafter remained negative during 2016-18. During 2013-14 to 2017-18, the net worth of ten PSUs decreased whereas eight PSUs recorded an increase in net worth. As of 31 March 2018, nine PSUs had positive net worth whereas ten PSUs had negative net worth and in respect of one PSU viz. Jammu and Kashmir State Overseas Employment Corporation Limited, though one account of 2010-11 was finalised during 2013-18 but its net worth could not be worked out due to non-submission of profit and loss account.

3.1.16 Dividend Payout

As per latest finalised accounts during 2017-18, one power sector PSU viz. JKSPDC and nine working PSUs other than power sector earned an aggregate profit of ₹160.23 crore and ₹228.92 crore, respectively. However, no PSUs had declared dividend.

It is recommended that the State Government may consider dividend policy for profit making PSUs.

3.1.17 Analysis of long term loans of the Companies

The analysis of the long term loans of the Companies which had leverage during 2013-18 was carried out to assess the ability of the Companies to service the debt owed by the Companies to Government, banks and other financial institutions. This is assessed through the Interest coverage ratio and Debt Turnover Ratio.

38 (1) Jammu and Kashmir Bank Limited (2) Jammu and Kashmir Bank Financial Services Limited (3) Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited (4) Jammu and Kashmir State Women's Development Corporation Limited (5) Jammu and Kashmir Small Scale Industries Development Corporation Limited (6) Jammu and Kashmir Police Housing Corporation Limited (7) Jammu and Kashmir Cements Limited (8) Jammu and Kashmir State Tourism Development Corporation Limited and (9) Jammu and Kashmir State Cable Car Corporation Limited

39 Jammu and Kashmir Overseas Employment Corporation Limited

3.1.18 Interest coverage ratio

Interest coverage ratio is used to determine the ability of a Company to pay interest on outstanding debt and is calculated by dividing a Company's Earnings Before Interest and Taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser the ability of the Company to pay interest on debt. An interest coverage ratio of below one indicates that the Company was not generating sufficient revenues to meet its expenses on interest.

(A) Power Sector

The details of interest coverage ratio of JKSPDC[40] as per the latest finalised accounts during the period from 2013-14 to 2017-18 are given in table below:

Table-3.15: Interest coverage ratio

(₹in crore)

Year	Interest	EBIT	Interest coverage ratio
2013-14	262.75	460.45	1.75
2014-15	262.75	460.45	1.75
2015-16	227.34	668.95	2.94
2016-17	227.34	668.95	2.94
2017-18	155.78	433.41	2.78

It could be seen that the JKSPDC had interest coverage ratio of more than one during entire period from 2013-14 to 2017-18, indicating that the Company is generating sufficient revenue to meet its expenses on interest.

(B) Other than Power Sector

The details of interest coverage ratio of 16 PSUs[41] other than power sector as per the latest finalised accounts during the period from 2013-14 to 2017-18 are given in table below:

[40] Remaining five power sector companies had not availed any kind of loan

[41] Excluding five inactive PSUs viz: (1) Tawi Scooters Limited (2) Himalayan Wool Combers Limited (3) Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) (4) Jammu and Kashmir State Road Development Corporation Limited and (5) Jammu and Kashmir International Trade Centre Corporation Limited, two Working PSUs viz: (1) Jammu and Kashmir Medical Supplies Corporation Limited (2) Jammu and Kashmir State Forest Corporation which never submitted their accounts since inception and four PSUs viz: (1) Jammu and Kashmir Bank Financial Services Limited (2) Jammu and Kashmir Police Housing Corporation Limited (3) Jammu and Kashmir State Cable Car Corporation Limited and (4) Jammu and Kashmir Overseas Employment Corporation Limited which have not taken any loan

Table-3.16: Interest Coverage Ratio relating to State PSUs (other than power sector)

(₹ in crore)

Year	Interest	EBIT	Number of PSUs having liability of loans from Government and Banks and other financial institutions	Number of PSUs having interest coverage ratio	
				More than one	Less than one
2013-14	186.06	1803.72	16	5	11
2014-15	290.04	965.16	16	5	11
2015-16	248.14	763.93	16	4	12
2016-17	206.27	-1464.76	16	3	13
2017-18	257.83	439.21	16	5	11

Of the 16 State PSUs (other than power sector) having liability of loans from Government as well as banks and other financial institutions during 2017-18, five PSUs had interest coverage ratio of more than one, whereas remaining 11 PSUs had interest coverage ratio below one, which indicates that these 11 PSUs could not generate sufficient revenues to meet their expenses on interest during the period.

3.1.19 Debt-Turnover Ratio

(A) Power Sector

During the last four years, the turnover of JKSPDC recorded negative compounded annual growth of turnover and debt of 5.04 *per cent* and 9.98 *per cent*, respectively due to which the Debt-Turnover Ratio improved from 2.28 in 2013-14 to 1.84 in 2017-18, as given in table below:

Table-3.17: Debt-Turnover ratio relating to the JKSPDC

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Debt from Government and others (Banks and Financial Institutions)	2,781.97	2,781.97	1,493.55	1,493.55	1,826.49
Turnover	1,220.62	1,220.62	1,119.90	1,119.90	992.46
Debt-Turnover Ratio	2.28:1	2.28:1	1.33:1	1.33:1	1.84:1

(Source: Compiled based on latest finalised accounts)

(B) Other than Power Sector

During the last five years, the turnover of 19 PSUs[42] recorded compounded annual growth of 1.83 *per cent* and compounded annual growth of debt was 3.43 *per cent* due to which the debt-turnover ratio dropped from 0.45 in 2013-14 to 0.48 in 2017-18. The debt-turnover ratio ranged between 0.43 and 0.53 during this period, as given in table below:

[42] Excluding five inactive PSUs viz: (1) Tawi Scooters Limited (2) Himalayan Wool Combers Limited (3) Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) (4) Jammu and Kashmir State Road Development Corporation Limited and (5) Jammu and Kashmir International Trade Centre Corporation Limited, two Working PSUs viz: (1) Jammu and Kashmir Medical Supplies Corporation Limited (2) Jammu and Kashmir State Forest Corporation which never submitted their accounts since inception and one working PSU viz: Jammu and Kashmir Overseas Employment Corporation Limited which had not prepared the profit and loss account

Table-3.18: Debt-Turnover Ratio relating to the 19 PSUs (other than power sector)

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Debt from Government and others (Banks and Financial Institutions)	3,175.63	3,875.23	3,834.30	3,097.52	3,633.37
Turnover	7,048.17	7,449.34	7,296.59	7,238.03	7,579.22
Debt-Turnover Ratio	0.45:1	0.52:1	0.53:1	0.43:1	0.48:1

(Source: Compiled based on latest finalised accounts)

3.1.20 Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

The Ministry of Power (MoP), Government of India launched (20 November 2015) Ujwal DISCOM Assurance Yojana (UDAY Scheme) for operational and financial turnaround of State owned Power Distribution Companies (DISCOMs). In the State of Jammu and Kashmir, although two[43] Power Sector DISCOMs, one[44] Transmission company and one[45] Trading company have been incorporated (March/ June 2013), however, these DISCOMs are yet to start their operational activities as of March 2018, in absence of which, the power transmission/ distribution activities are still carried out by the Power Development Department.

3.1.21 Winding up of inactive State PSUs

Four out of the six power sector undertakings were inactive and were having a total investment of ₹0.20 crore towards share capital, as of 31 March 2018.

Similarly, five of the 27 State PSUs (other than Power Sector) were inactive and were having a total investment of ₹56.40 crore[46] towards capital (₹55.57 crore) and long term loans (₹0.83 crore) as on 31 March 2018. The number of inactive PSUs at the end of each year during last five years ended 31 March 2018 are given below:

Table-3.19: Inactive State PSUs

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Number of inactive PSUs in power sector	Nil	Nil	2	4	4
Number of inactive PSUs (other than power sector)	3	3	4	5	5

(Source: Compiled from the information included in Audit Report (PSUs), GoJ&K of respective years)

Out of five inactive PSUs in other than power sector, three PSUs[47] were inactive from last 17 to 26 years and were under liquidation. The Government may take appropriate decision for winding up of these PSUs.

[43] (1) Jammu Power Distribution Company Limited and (2) Kashmir Power Distribution Company Limited

[44] Jammu and Kashmir Power Transmission Company Limited

[45] Jammu and Kashmir Power Trading Company Limited

[46] Tawi Scooters Limited: ₹1.63 crore, Himalyan Wool Combers Limited: ₹1.37 crore, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalyan Wool Combers Limited): ₹0.40 crore, Jammu and Kashmir State Road Development Corporation Limited: ₹5.00 crore and Jammu and Kashmir International Trade Centre Corporation Limited: ₹48.00 crore

[47] Tawi Scooters Limited, Himalyan Wool Combers Limited and Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited

3.1.22 Comments on Accounts of Public Sector Undertakings

(A) Power sector

Two power sector PSUs forwarded their three audited accounts to the Accountant General during 01 October 2017 to 30 September 2018. Both accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the C&AG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of Statutory Auditors and the C&AG, for the accounts of 2015-18 are as follows:

Table-3.20: Impact of audit comments on power sector PSUs

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	2	517.29	-	-	1	4.19
2.	Increase in profit	1	7.50	-	-	1	63.22
3.	Increase in loss	-	-	-	-	-	-
4.	Decrease in loss	-	-	-	-	-	-
5.	Non-disclosure of material facts	1	9.50	-	-	2	112.83
6.	Errors of classification	1	1129.01	-	-	-	-

(Source: Compiled from comments of the Statutory Auditors/ C&AG in respect of Government Companies)

During the year 2015-16 and 2017-18, the Statutory Auditors had issued qualified certificates on three accounts. Compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors pointed out four instances of non-compliance to the Accounting Standards in four accounts.

(B) Other than Power Sector

Twelve PSUs forwarded 37 audited accounts to the Accountant General during the period from 01 October 2017 to 30 September 2018. The Audit Reports of Statutory Auditors and supplementary audit conducted by the C&AG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of Statutory Auditors and the C&AG are as follows:

Table-3.21: Impact of audit comments on State PSUs (other than power sector)

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	2	0.53	2	2.33	2	0.16
2.	Increase in profit	-	-	-	-	2	0.05
3.	Increase in loss	4	12.10	1	0.06	3	1.55
4.	Decrease in loss	2	0.71	1	0.03	2	1.17
5.	Non-disclosure of material facts	3	7.33	1	2.56	4	21.82
6.	Errors of classification	4	120.06	4	30.98	5	97.39

(Source: Compiled from comments of the Statutory Auditors/ C&AG in respect of Government Companies)

During the year 2017-18, the Statutory Auditors had issued qualified certificates on ten accounts. Compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors pointed out nine instances of non-compliance to the Accounting Standards in three accounts.

The State has three Statutory Corporations *i.e.* (i) Jammu and Kashmir State Road Transport Corporation (J&KSRTC), (ii) Jammu and Kashmir State Financial Corporation (J&KSFC) and (iii) Jammu and Kashmir State Forest Corporation. The C&AG is sole auditor in respect of J&KSRTC.

Out of three working Statutory Corporations, one Corporation (J&KSFC) forwarded its annual accounts for the year 2016-17, whereas J&KSRTC and Jammu and Kashmir State Forest Corporation failed to forward any accounts during 01 October 2017 to 30 September 2018. The Statutory Auditors had given qualified certificates on annual accounts of J&KSFC for the year 2017-18.

The details of aggregate money value of the comments of Statutory Auditors and supplementary audit by the C&AG in respect of Statutory Corporations are given below:

Table-3.22: Impact of audit comments on Statutory Corporations

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	-	-	-	-	-	-
2.	Increase in profit	-	-	-	-	-	-
3.	Increase in loss	-	-	1	28.04	1	15.14
4.	Decrease in loss	-	-	1	0.07	-	-
5.	Non-disclosure of material facts	-	-	1	8.58	-	-
6.	Errors of classification	-	-	1	12.17	1	5.00

(Source: Compiled from comments of the Statutory Auditors/ C&AG in respect of Statutory Corporations.)

It is recommended that the concerned PSUs may ensure strict compliance to Statutory norms for error free accounts to avoid over/ under-statement of Profit/ Loss. Besides, Finance and Administrative Department should oversee that corrective action is taken by these PSUs.

3.1.23 Performance Audit and Compliance Audit Paragraphs

(A) Power Sector

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2018, two audit paragraphs relating to power sector undertakings were issued to the Commissioner Secretary of Power Development Department, GoJ&K with request to furnish replies within six weeks. Reply on one audit paragraph has been received (February 2019) from the State Government and suitably incorporated in this report. The total financial impact of the audit paragraph is ₹46.33 crore.

(B) Other than Power Sector

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2018, five compliance audit paragraphs (other than power sector) relating to Jammu and Kashmir Medical Supplies Corporation Limited (JKMSCL), International Trade Centre Corporation Limited, Jammu and Kashmir Cements

Limited, Jammu and Kashmir Horticultural Produce Marketing and Processing Corporation Limited and Jammu and Kashmir State Overseas Employment Corporation Limited and one performance audit regarding Working of Jammu and Kashmir Bank Limited, were issued to the Principal Secretaries/ Secretaries of the respective Administrative Departments with request to furnish replies. Replies on the three compliance audit paragraphs have been received from the State Government and taken into account while finalising paragraphs. The total financial impact of these audit paragraphs is ₹3,277.48 crore[48].

3.1.24 Follow-up action on Audit Reports

The Report of the C&AG of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Jammu and Kashmir issued (June 1997) instructions to all Administrative Departments to submit replies/ explanatory notes to paragraphs/ reviews included in the Audit Reports of the C&AG of India within a period of three months after their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The position of explanatory notes on Audit Reports as of September 2018 was as under:-

Table-3.23: Position of explanatory notes on Audit Reports related to PSUs not received (as on 30 September 2018)

Year of Audit Report (Commercial/ PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and paragraphs in the Audit Report				Number of PAs/ paragraphs for which explanatory notes were not received			
		PAs		Paragraphs		PAs		Paragraphs	
		Power	Other than power	Power	Other than power	Power	Other than power	Power	Other than power
2000-01	6 April 2002	-	1	1	2	-	-	-	-
2001-02	21 June 2003	-	1	-	4	-	-	-	-
2002-03	23 August 2004	-	1	1	2	-	-	-	-
2003-04	23 March 2005	-	-	1	2	-	-	-	-
2004-05	27 March 2006	-	1	-	4	-	-	-	1
2005-06	8 February 2007/ 31 August 2009	-	3	1	1	-	1	-	-
2006-07	30 January 2008	-	1	-	5	-	-	-	-
2007-08	5 March 2009	-	1	-	3	-	-	-	-
2008-09	30 March 2010	-	1	-	3	-	-	-	2
2009-10	31 March 2011	1	-	-	3	-	-	-	-
2010-11	4 April 2012	-	1	-	5	-	-	-	-
2011-12	5 April 2013	-	2	-	-	-	1	-	-
2012-13	4 March 2014	-	-	1	2	-	-	-	1
2013-14	27 March 2015	-	1	-	6	-	-	-	-
2014-15	27 June 2016	-	1	4	3	-	-	-	-
2015-16	4 July 2017	1	-	-	6	1	-	-	3
Total		**2**	**15**	**9**	**51**	**1**	**2**	**-**	**7**

From the above, it could be seen that out of 11 paragraphs/ performance audits of power sector, explanatory notes in respect of only one performance audit on Jammu

48 Jammu and Kashmir Bank Limited: ₹3,142.09 crore; JKMSCL: ₹126.54 crore and draft paragraphs: ₹8.85 crore

and Kashmir State Power Development Corporation Limited was awaited (September 2018).

Similarly, out of 66 paragraphs/ performance audits of other than power sector, explanatory notes to nine paragraphs/ performance audits in respect of two departments, which were commented upon, were awaited (September 2018).

3.1.25 Discussion of Audit Reports by COPU

The status of discussion of performance audits and paragraphs that appeared in Audit Reports, by the COPU, as on 30 September 2018, was as under:

Table-3.24: Performance Audits/ Paragraphs appeared in Audit Reports vis-a-vis discussed as on 30 September 2018

Period of Audit Report	Number of Performance Audits/ paragraphs							
	Appeared in Audit Report				Paragraphs discussed			
	PAs		Paragraphs		PAs		Paragraphs	
	Power sector	Other than power	Power sector	Other than power	Power sector	Other than power	Power sector	Other than power
2000-01	-	1	1	2	-	1	1	2
2001-02	-	1	-	4	-	1	-	4
2002-03	-	1	1	2	-	1	1	2
2003-04	-	-	1	2	-	-	1	2
2004-05	-	1	-	4	-	1	-	3
2005-06	-	3	1	1	-	2	1	1
2006-07	-	1	-	5	-	1	-	5
2007-08	-	1	-	3	-	1	-	3
2008-09	-	1	-	3	-	1	-	1
2009-10	1	-	-	3	1	-	-	3
2010-11	-	1	-	5	-	1	-	5
2011-12	-	2	-	-	-	1	-	-
2012-13	-	-	1	2	-	-	1	1
2013-14	-	1	-	6	-	1	-	6
2014-15	-	1	4	3	-	1	4	3
2015-16	1	-	-	6	-	-	-	3
Total	**2**	**15**	**9**	**51**	**1**	**13**[49]	**9**	**44**[49]

Out of 11 audit paragraphs (PAs: two; paragraphs: nine) of power sector PSUs featuring in the Audit Reports for the years 2000-01 to 2015-16, one performance audit on Jammu and Kashmir State Power Development corporation Limited has not been taken up for discussion by COPU, as on 30 September 2018.

Similarly, out of 66 audit paragraphs (PAs: 15; paragraphs: 51) of PSUs other than power sector featuring in the Audit Reports for the years 2000-01 to 2015-16, nine audit paragraphs (PAs: two; paragraphs: seven) have not been taken up for discussion by COPU, as on 30 September 2018.

49 Includes partly discussed paragraphs

3.1.26 Compliance to Reports of COPU

Action Taken Notes (ATN) on five paragraphs of power sector PSUs pertaining to two Reports of the COPU and Action Taken Notes (ATN) on 45 paragraphs pertaining to eight Reports of the COPU other than power sector and presented to the State Legislature between April 2005 to March 2018 had not been received (September 2018), as indicated below.

Table-3.25: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total number of recommendations in COPU Report	Number of recommendations where ATNs not received
Power sector paras			
2015-16 (47th Report)	01	02	02
2017-18 (49th Report)	01	04	03
Total	**02**	**06**	**05**
Other than power sector paras			
2004-05 (40th Report)	01	06	05
2009-10 (42nd Report)	01	13	04
2010-11 (43rdReport)	01	02	01
2011-12 (44th Report)	01	05	01
2013-14 (46th Report)	01	14	01
2015-16 (47th Report)	01	15	06
2016-17 (48th Report)	01	06	03
2017-18 (49th Report)	01	25	24
Total	**08**	**86**[50]	**45**

These Reports of COPU contained recommendations in respect of paragraphs pertaining to 10 departments which appeared in the Reports of the C&AG of India for the years 2000-01 to 2015-16.

It is recommended that the Government may ensure: (a) sending of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/ outstanding advances/ overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

[50] Pertains to 57 paragraphs/ performance audits that featured in the Audit Reports for the years 2000-01 to 2015-16

Chapter-4

Performance Audit (PSUs)

CHAPTER - 4

PERFORMANCE AUDIT (PSUs)

FINANCE DEPARTMENT

4 Working of Jammu and Kashmir Bank Limited

The Jammu & Kashmir Bank Limited (Bank) was incorporated with the objective to establish and carry on business of a banking Company; borrow or raise money; to lend money by making loans and advances; to buy, sell, collect and deal in bills of exchange, hundies, promissory notes, drafts, bills of lading, debentures and other instruments; to deal in stocks, shares, debentures, securities and investment of all kinds; to buy and sell foreign exchange including foreign notes; and to act as agents for Government or local authorities. A performance audit of the activities of Bank for the period 2013-14 to 2017-18 was conducted, highlights of which are:

Highlights

- **The Bank had not complied with the SEBI Regulations and some of the provisions of Companies Act, 2013 relating to corporate governance.**

  (Paragraphs: 4.5.1 & 4.5.2)

- **Profit earned by the Bank declined from ₹1,182.47 crore during 2013-14 to ₹202.72 crore in 2017-18, mainly due to increase in the Gross Non-Performing Assets (NPAs) of the Bank from ₹643.77 crore, as on 31 March 2013 to ₹6,006.70 crore, as on 31 March 2018. Percentage of NPAs to Gross Advances also increased from 1.62 *per cent* at the end of March 2013 to 9.96 *per cent* at the end of March 2018. The Bank also suffered a loss of ₹1,632.29 crore during 2016-17.**

  (Paragraph: 4.6)

- **The Bank's credit control system and financial reporting system failed to identify NPAs in time.**

  (Paragraphs: 4.6.1 & 4.6.2)

- **Although there had been 24.58 *per cent* growth in deposits during 2013-14 to 2017-18, annual growth of deposits of Bank during last four years ending March 2017 was far below overall National average of Scheduled Commercial Banks.**

  (Paragraph: 4.7.2)

- **The Bank had recorded an increase of 51.30 *per cent* in advances during 2013-14 to 2017-18, annual growth fluctuated between (-) 1.78 *per cent* and 18.28 *per cent*. Percentage of unsecured advances to total net advances had increased from 20.16 *per cent* at the end of March 2014 to 27.90 *per cent* at the end of March 2018.**

  (Paragraph: 4.7.3)

- **The Bank's concentration risk for industry-wise exposure was on higher side when compared to average of overall banking industry.**

(Paragraph: 4.7.4 (i))

- **Sanction/ release of credit facilities, without safeguarding the Bank's interest through adequate security cover, proper credit appraisal, adherence to the pre or post-disbursement conditions of the sanctions, regular monitoring, etc. not only led to NPAs but also loss/ non-recovery of ₹197.98 crore, doubtful recovery of ₹1,599.14 crore and excess payment of ₹14.10 crore in test-checked cases.**

(Paragraph: 4.7.5.2)

- **Deficiencies were noticed in Information Technology systems of the Bank due to which it could not ensure technology based solutions for some of its operations.**

(Paragraph: 4.7.6)

- **Sanctioning of one-time settlement in deviation of Bank's recovery policy resulted in sacrificing of principal amount of ₹17.97 crore in test-checked cases.**

(Paragraph: 4.7.9.1)

- **The Bank sold ten NPAs to Asset Reconstruction Companies (ARCs) during the period 2014-2018 by sacrificing principal amount of ₹671.10 crore and unapplied interest of ₹504 crore. Sale of financial asset to ARC below the reserve price resulted in loss of ₹21.89 crore.**

(Paragraph: 4.7.10)

- **Imprudent decision-making, non-invoking of guarantee and non-safeguarding of Bank's interest led to doubtful recovery/ loss of ₹180.43 crore in test-checked Non-Performing Investments.**

(Paragraph: 4.7.11.2)

- **Irregularities in recruitment of Relationship Executives and Banking Associates were noticed.**

(Paragraph: 4.10.1)

- **Bank had spent 53.09 *per cent* to 83.82 *per cent* of CSR budget during 2016-17 and 2017-18 on a single activity/ project and had also incurred 49.33 *per cent* to 95.27 *per cent* under a single segment during 2015-16 to 2017-18, which was in violation of CSR policy. Further, in contravention to Bank's CSR policy and Companies Act 2013, an irregular expenditure of ₹46.96 crore was incurred out of CSR fund.**

(Paragraph: 4.11)

4.1 Introduction

The Bank was incorporated in October 1938 under the provisions of the then Jammu & Kashmir Companies Regulations of 1977 Samvat (1920 AD) and commenced its business from 04 July 1939. After extension (November 1956) of the Companies Act, 1956 to the State of J&K, the Bank became a Government Company in terms of section 617 of the Companies Act, 1956 and is now governed by provisions of Companies Act, 2013. The Reserve Bank of India (RBI) notified (1971) the Bank as a Scheduled Commercial Bank and included it in Second Schedule to RBI Act, 1934. The Bank is also regulated by RBI Act, 1934 and Banking Regulation Act, 1949.

The J&K Bank was established to carry out the business of banking Company – borrowing, raising or taking up of money, lending and advancing of money, acting as agents of government or local authorities. It also seeks to deliver financial solutions for household, small and medium enterprises.

4.2 Audit objectives

The audit objectives were to assess:

- the achievement of targets and growth of Deposits;
- the growth of Advances, the efficacy of monitoring system of Advances, implementation of NPA Recovery Policy and One Time Settlement Scheme;
- the implementation of Investment policy of Bank and the extent of growth of Investment vis-a-vis income;
- the achievements of the targets under Priority Sector Lending as fixed by the RBI and the Bank's performance as Lead Bank; and
- whether the provisions of various Acts/ regulations governing the Bank with regard to the areas covered under the audit have been complied with.

4.3 Audit scope and methodology

A performance audit of the working of the Bank covering the period from the year 2013-14 to 2017-18 was conducted between February and June 2018. For assessing the performance of the Bank, records at Corporate Office and five zones[1] (selected on the basis of funds advanced and NPAs) were scrutinised. As audit findings discussed herein are in respect of sample zones selected for test check in audit, the management may like to exercise similar checks over its total area of action/ operations. The audit objectives were discussed (February 2018) with Management. The audit findings were reported to Management and discussed (December 2018) in an exit conference.

A Performance audit of the core activities of the Bank viz., Advances, Priority Sector Lending and Investments was incorporated in the Report of the Comptroller and Auditor General of India (C&AG) for the year ended 31 March 2011. The audit findings were partially discussed by the Committee on Public Undertakings (COPU) of the State Legislature. Its recommendations are awaited.

[1] Jammu Central-I, Kashmir Central-I, Mumbai, Delhi and Bangalore covering 272 branches

4.4 Audit criteria

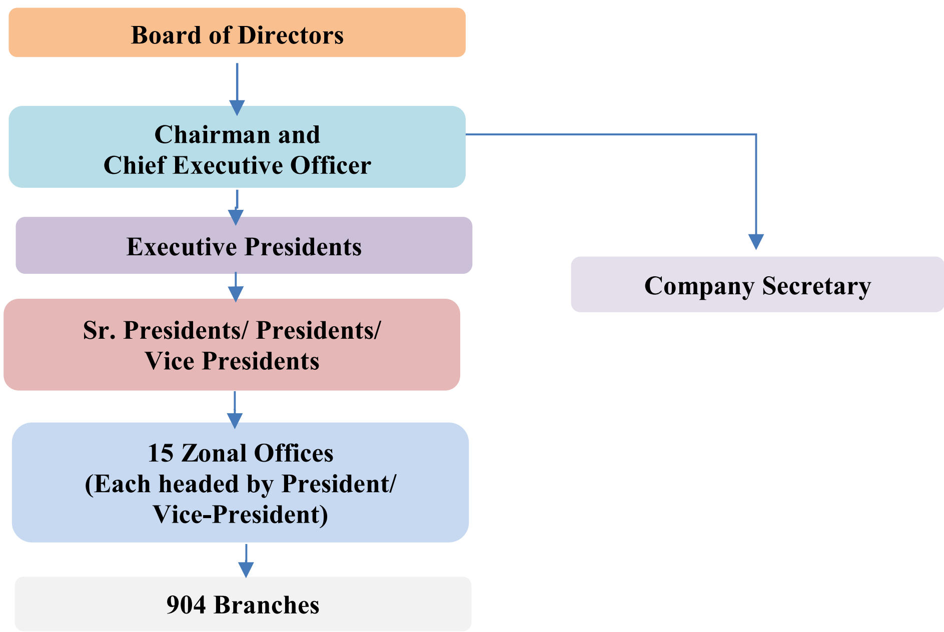
The audit findings were evaluated against criteria sourced from:

- Reserve Bank of India Act, 1934 and guidelines/ master circulars issued from time to time;
- Bank's policies on Credit, Investment, Recovery of NPA, One Time Settlement etc.;
- Banking Regulation Act, 1949, Companies Act, 2013;
- Listing Agreement and Regulations of Securities Exchange Board of India (SEBI);
- Internal targets fixed by the Bank and targets fixed by State Level Bankers Committee;
- Guidelines of Central/ State and Lead Bank Schemes.

4.5 Corporate Governance

The Management of the Bank is vested in a Board comprising of 13 Directors[2] including the Chairman and Chief Executive Officer. As on 31 March 2018, the Bank had 15 zonal offices[3] controlling 904 Branches in 20 States and one Union Territory. During 2014-18, the Bank expanded its network by opening 220 new branches while one branch was closed. The Organisational structure of the Bank is as under:

Chart-4.1: Organisational structure



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[2] Four non-independent non-executive Directors; one RBI nominee; one Government nominee, one executive Director of the Bank and six independent non-executive Directors appointed by the shareholders in the Annual General Meeting

[3] Kashmir-Central-I, Kashmir-Central-II, Kashmir-North, Kashmir-South-I, Kashmir-South-II, Jammu-Central-I, Jammu-Central-II, Jammu-North-I, Jammu-North-II, Jammu-West, Ladakh, North-Delhi, Upper North- Mohali, Mumbai, South-Bangalore

4.5.1 Non-compliance with SEBI Regulations

A Company includes various stakeholders viz. investors, shareholders, customers, employees, vendor partners, government and society. Its objective is not confined to maximizing the shareholder value but should be responsible to all stakeholders. Its governance should be fair and transparent to all stakeholders in all its transactions.

J&K Bank is a listed entity on the major stock exchanges – National Stock Exchange and Bombay Stock Exchange. For a Company to be listed on stock exchange, it has to sign an agreement which is known as Listing Agreement, the main purpose of agreement is to ensure that companies are following good corporate governance. The essence of good corporate governance is derived from Clause 49 of Listing Agreement, SEBI (Listing Obligations and Disclosures Requirements) Regulations 2015 (LO&DR) on Corporate Governance. It was observed that the Bank deviated from the criterion as under:

i) Independent Directors on the Board

In terms of Clause 49 of Listing Agreement and Regulation 17 of SEBI (LO&DR) Regulations 2015, where the Chairman of the Board of Directors (BODs) is an executive Director, at least half of the Board should comprise of independent Directors. However, the Bank did not have the required number of independent Directors on the Board during 2013-14, 2014-15 and 2016-17 as detailed in **Table 4.1** below:

Table 4.1- Position of Independent Directors

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Required number of independent Directors	5	5	5	4	6
Actual number of independent Directors	Nil	3	6	2	6

The Management replied (August 2018) that the Bank could not appoint required number of independent Directors during 2014-15 and 2016-17 due to restriction imposed under the Articles of Association (AOA) of the Bank.

The reply is not tenable as the responsibility to amend AOA so as to ensure appointment of requisite number of independent Directors rested with the Bank's Board.

In absence of requisite number of independent Directors on the Board, good corporate governance and corporate creditability, as discussed in succeeding paragraphs, could not be ensured in the Bank.

ii) Credit facilities availed by Independent Director

Section 20(1)(b)(i) &(ii) of the Banking Regulation Act, 1949 prohibits the banking Company to grant any loan or advance to or on behalf of any of its Directors or any firm in which any of its Directors is interested as partner, manager, employee or guarantor. Further, as per Regulation 16(1)(b)(vi)(E), an independent Director is one who is not a material supplier, service provider or customer or a lessor or lessee of the listed entity.

The Board of Directors in its meeting dated 10 August 2016, upon the recommendations of the Nomination Committee of the Board based on its due diligence, appointed Mr. Mohammad Ashraf Mir as independent Director of the Bank to fill up the casual vacancy caused due to resignation of two Directors. Consequently, the shareholders of the Bank in their meeting held on 17 June 2017 appointed him as independent Director on the Board of the Bank for a period of two years i.e. up to 16 June 2019. Furthermore, the Board recommended (June 2019) his re-appointment for a further period of two years as independent Director.

The Bank appointed Mr. Mir as an independent Director on the Board despite the fact that he was availing fund based credit facilities[4] from the Bank during the period between August 2016 and June 2019. This was in violation of provisions of Banking Regulation Act, 1949 and SEBI Regulations of 2015. This may be viewed in light of the fact that the Nomination Committee of the Board carried out (August 2016) due diligence to determine his suitability for directorship of the Bank.

The Management replied that Mr. Mir was having a working capital facility with the bank at the time of his appointment as independent Director and the same was not renewed after his appointment and the drawing power in the account was reduced to zero, which is in conformity with section 20(1)(b)(iii) and Section 20(2) of Banking Regulation Act 1949. Keeping in view his relationship with the Bank, the Director maintained his Cash Credit (CC) account as Current Deposit (CD) account without availing any credit facility from the bank.

Though the CC account of Mr. Mir was not renewed after his appointment, the drawing power of CC account was not reduced to zero as evident from the fact that fresh debits in CC account were raised even between December 2016 and August 2017. Further, there was outstanding amount of ₹9.62 lakh in Working Capital Term Loan as of July 2019. This may be viewed in light of Regulation 16(1)(b)(vi)(E) which stipulates that an independent Director is one who is not a customer of the listed entity.

iii) Audit Committee of the Board headed by non-independent Director

Clause 49 of Listing Agreement and Regulation 18(1)(d) of SEBI (LO&DR) Regulations, 2015 stipulated that Chairman of the Audit Committee shall be an independent Director.

Audit observed that in violation of the provisions the Chairman of the Audit Committee for the years 2013-14, 2014-15 and 2016-17 was a non-independent Director.

Since the independency of Audit Committee was compromised, the Committee could not exercise proper oversight over the Bank's financial reporting process as discussed in paragraphs 4.6.1 and 4.6.2.

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4 Cash Credit facility, Working Capital Term loans and Secured Overdrafts with balance of ₹1.64 crore as of August 2016

iv) Audit Committee's discussion with statutory auditors

Audit Committee did not hold discussion with Statutory Auditors before commencement of Audit during 2014-18.

Clause 49 of Listing Agreement and SEBI (LO&DR) Regulations, 2015 stipulated that the Audit Committee should hold discussion with statutory auditors before commencement of audit about the nature and scope of audit as well as hold post-audit discussion, to ascertain any area of concern.

Audit Committee of the Bank did not hold discussion with statutory auditors before commencement of audit about the nature and scope of audit during 2014-2018.

The Management stated (December 2018) that pre-audit discussions on special areas were held with the central statutory auditors by the Chief Financial Officer (CFO) and top management of the Bank before the accounts are forwarded to them for the purpose of audit.

The meeting of the statutory auditors with the CFO and management before commencement of audit is not the same as meeting with the Audit committee, two-thirds of which have to be independent Directors. The opportunity available to the Committee for independent examination of audit concerns and ascertain opinion of the statutory auditors on specific areas of interest was thus not utilized.

v) Non-review of Whistle Blower Mechanism

The above cited regulations stipulated review of the functioning of the 'Whistle Blower Mechanism'[5] by the Audit Committee. However, the Audit Committee had not reviewed the functioning of the 'Whistle Blower Mechanism' during 2014-2018.

The Management replied (December 2018) that in future the Board will review all policies of the Bank, including the Whistle blower policy of the Bank.

vi) Nomination and Remuneration Committee

Clause 49(IV)(A) of Listing Agreement and Regulation 19(1) and (2) of SEBI (LO&DR) Regulations, 2015 stipulated that each Company shall constitute Nomination and Remuneration Committee (NRC) and its Chairman shall be an independent Director.

However, the Chairman of NRC was a non-independent Director during the years 2014-15 and 2016-17. Further, the NRC was required to recommend to the Board a policy, relating to the remuneration for Directors. However, no such recommendation was made by the NRC with regard to payment of remuneration to Government nominee Director as discussed under paragraph 4.5.3 (ii) of the report.

vii) Meeting of independent Directors

Regulation 25 of SEBI (LO&DR) Regulations, 2015 required that independent Directors shall meet at least once in a year, without the presence of non-independent

[5] An act of disclosing whatever employee or former employee believes to be unethical in nature or illegal behavior in an organization to the higher management or to any external authority or to the public

Directors and shall review (a) Performance of non-independent Directors (b) Performance of Chairperson and (c) Assess the flow of information between management and BODs.

However, independent Directors did not conduct such meeting during 2018 and had not reviewed the performance of non-independent Directors and Chairman for the year 2017-18. We also observed that evaluation reports on performance of non-independent Directors/ Chairman had not been placed before the Board of the Bank for review.

The Management stated (August 2019) that the words 'in a year' were replaced (July 2017) with the word 'in a financial year' in Schedule IV (VII) (1) of the Companies Act, 2013. Accordingly, Independent Directors Meeting for financial year 2018-19 was held on 26 March 2019.

However, the independent Directors did not meet during the period between January 2018 and February 2019 with the result the performance of non-independent Directors and Chairman for the year 2017-18 could not be reviewed.

viii) Evaluation of performance of independent Directors

Regulation 17 (10) of SEBI (LO&DR) Regulations, 2015 stipulated that the BODs shall evaluate the performance of independent Directors.

However, the BODs of the Bank had not evaluated the performance of independent Directors for the year 2016-17. It was also observed that evaluation reports on performance of independent Directors for the years 2015-16 and 2017-18 had not been placed before the Board for review.

4.5.2 Non-compliance with the provisions of the Companies Act, 2013

The following provisions of the Companies Act, 2013 had not been complied with:

i) Approval of financial statements by the Board

In terms of the provisions of Section 134(1) of the Companies Act, the financial statements of the Bank should have been approved by the Board of Directors before they are signed on behalf of the Board and sent to Statutory Auditors. The Bank had not complied with these provisions and had placed the audited financial statements before the Board.

Since the draft financial statements were not got approved from the Board, the Bank's Board was not aware of the fact that the Bank downgraded advances as Non-Performing Assets only after the same were identified by the Statutory Auditors as discussed in paragraph 4.6.2.

ii) Non-placing of Annual Report in the State Legislature

The Bank had not been forwarding its annual report on its working and affairs to the State Government to enable its placement in the State Legislature, as required under provisions of Section 395 of the Companies Act, 2013.

Thus, the State Legislature could not monitor the accounting and utilisation of investments made by the Government in the Bank.

iii) Notices of Annual General Meetings

Section 136 (1) of the Companies Act, 2013 required that a copy of the financial statements, auditor's report and every other document required by law to be annexed or attached to the financial statements, which were to be laid before a Company in its general meeting, shall be sent to every member of the Company not less than 21 days before the date of the meeting. However, the comments of C&AG of India were not sent to the shareholders while sending notice of Annual General Meeting (AGM) for the year 2017-18.

iv) Non-inclusion of comments of C&AG in the Annual Report

Section 143 (6) of the Companies Act, 2013 required that any comments given by the C&AG upon, or supplement to, the Statutory Auditor's report will be placed before the Annual General Meeting of the Company at the same time and in the same manner as the Audit Report. However, the comments of C&AG were not included in the Annual Report for the year 2017-18.

The Management stated (August 2018) that the comments of C&AG of India were not available at the time of sending notice to shareholders and the same were supplied to all shareholders at AGM and were read out by Company Secretary of the Bank.

The Bank sent notices for AGM to its shareholders without waiting for the comments of C&AG of India.

v) Appointment of Chief Financial Officer

Section 203 of the Companies Act, 2013[6] stipulated that every listed Company shall have a Chief Financial Officer (CFO). Further, the RBI advised (May 2017) all scheduled commercial banks to appoint CFO in banks management structure with a minimum qualification and experience. The Regulator prescribed that only a qualified Chartered Accountant should be appointed as CFO.

However, the Bank did not appoint any CFO during the period between 1 April 2014 and 16 May 2015, thereby contravening the provisions of Companies Act, 2013. We further noticed that CFOs appointed between July 2017 and June 2019 were not qualified Chartered Accountant and did not meet the qualification criteria as fixed (May 2017) by the Regulator.

4.5.3 Board Meetings

The following observations with regard to meetings of Board of Directors were also made:

6 Applicable from 1 April 2014

i) Participation of nominee Directors in Board meetings

The Government of Jammu and Kashmir (GoJK), being majority shareholder of the Bank, appoints[7] one nominee Director on Board of the Bank. Further, the RBI also appoints[8] one additional Director on Board of the Bank.

The Government Nominee Director (Principal Secretary, Finance, GoJK) attended 40 *per cent* and 55 *per cent* Board meetings held during 2013-14 and 2014-15, respectively. Further, RBI nominee had attended 64 *per cent*, 60 *per cent*, 58 *per cent* and 67 *per cent* of the Board meetings held during 2014-15, 2015-16, 2016-17 and 2017-18, respectively. Records also showed that the Government nominee Director had not recorded any dissent note in the Board meetings with regard to unsound decisions taken by the Board viz., irregular expenditure under CSR activities, sanctioning of credit facilities in deviation to Bank's credit policy and One Time Settlement in favour of defaulters in contravention of recovery policy of the Bank etc. as discussed in succeeding paragraphs.

The Management stated (August 2019) that the Nominee Directors having important assignment at the Government/ RBI level may have skipped Board/ Committee Meeting. However, minutes of Board/ Committee meetings are sent to the concerned Directors.

However, the purpose of appointment of a nominee Director to represent and safeguard the interest of the nominator and to play the role of a 'watchdog' in monitoring the activities and operations of the Bank could not be achieved.

ii) Remuneration to Government nominee Director

The Articles of Association (AOA) of the Bank was amended (July 2016) in 78th Annual General Meeting (AGM) of the shareholders to allow remuneration to Government nominee Director. Consequently, remuneration[9] of ₹58.80 lakh[10] was paid to the Government nominee Director during 2016-17 to 2018-19.

> Sitting Fee and commission as percentage of profit amounting to ₹58.80 lakh was paid to the Government nominee Director during 2016-17 to 2018-19.

However, the payment of remuneration to the nominee Director (Principal Secretary, Finance, GoJK) was not in line with the best practices followed by various Government Companies/ PSU Banks viz., National Thermal Power Corporation Limited, National Hydroelectric Power Corporation Limited, Indian Oil Corporation Limited, State Bank of India, Punjab National Bank etc. Records further showed that amendment of the AOA in the AGM of the shareholders had been carried out without the approval of the Board.

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7 Section 161(3) of the Companies Act, 2013 stipulates that the BOD may appoint any person as a Director who is nominated by the State Government by virtue of its shareholding in a Government company

8 Section 36AB of the Banking Regulation Act, 1949 empowers the RBI to appoint additional Director on the Board of the Bank

9 Sitting fee and commission as percentage of profit

10 2016-17: ₹16.30 lakh; 2017-18: ₹14.10 lakh; 2018-19: ₹28.40 lakh

After being pointed out by audit, the Bank amended (September 2019) the AOA to dispense with payment of remuneration to Government Nominee Directors (with full time Government employment) on board of the Bank. The matter has also been taken up with the Chief Secretary, Government of Jammu & Kashmir to examine whether the payments made were in consonance with Fundamental Rules and Supplementary Rules (FR & SR) and whether remuneration was accepted by the nominee with due approval/ knowledge of the Government. Reply is awaited (December 2019).

iii) Placing of significant issues as tabled-items before the Board

The Notes on Agenda explain each item of the Agenda in an endeavour to provide an understanding of proposal for discussion by the Board. If the Directors are to perform their duties effectively, actively contribute to the deliberations of the Board, and take informed decisions, it is necessary that they receive adequate information sufficiently in advance of the meeting. Although there is no prohibition on tabling the agenda items before the Board without sending of agenda and notes to the Directors, as a matter of best practices proposals on significant issues should not be placed before BOD as tabled items. However, records showed that certain significant issues viz., sanctioning of credit facility of ₹100 crore, approval of Strategic Debt Restructuring package in favour of a Company, approval for spending money on redevelopment of Golf course under CSR, One Time Settlement of NPA cases, confirmation of Chairman's action of appointing employees on contractual basis and their regularization, modification in recruitment rules etc. were placed before the Board as tabled items. The matter regarding tabled agenda items was also highlighted by the independent Directors of the Bank, while assessing the flow of information between management and BODs, in their meeting in March 2019.

The Management stated (August 2019) that efforts are being made to reduce tabled agenda to the minimum.

The Bank management should avoid placing significant proposals before the BOD as tabled items.

iv) Agenda and minutes of meetings of Board of Directors

The independent Directors, in their meeting in March 2019, highlighted that agenda notes of meetings of Board of Directors were unreasonably voluminous rather than well-structured documents with analysis and agenda items were not prioritized considering their importance. Further, timelines fixed for complying with directions of the Board were not recorded in the minutes of meetings.

The Management stated (August 2019) that compliance to all the decisions of the Board are reported to the Board in the subsequent meetings through Action Taken Reports.

The reply of the Bank is not tenable as quality of the agendas left a lot to be desired and no timeline was fixed for compliance of Board decisions.

v) Bifurcation of post of Chairman and Chief Executive Officer of the Bank

In order to bring in appropriate checks and balances and to ensure accountability at the Board level, the Government of India decided (April 2015) to separate the post of Chairman and Managing Directors in Public Sector Banks. While the Chairman would be non-executive and give overall policy directions to the Bank, the Managing Director and Chief Executive Officer would be the executive head and responsible for day-to-day management. Further, most of the Private Sector Banks in the country had already separated the post of Chairman and Managing Directors in accordance with the recommendations of Report of the Consultative Group of Directors of Banks/ Financial Institutions, constituted by RBI in April 2002.

It was noticed that the Board of Directors of the Bank had belatedly recommended (June 2019) for splitting the post of Chairman and Managing Director which indicated Bank's lackadaisical approach in ensuring good corporate governance.

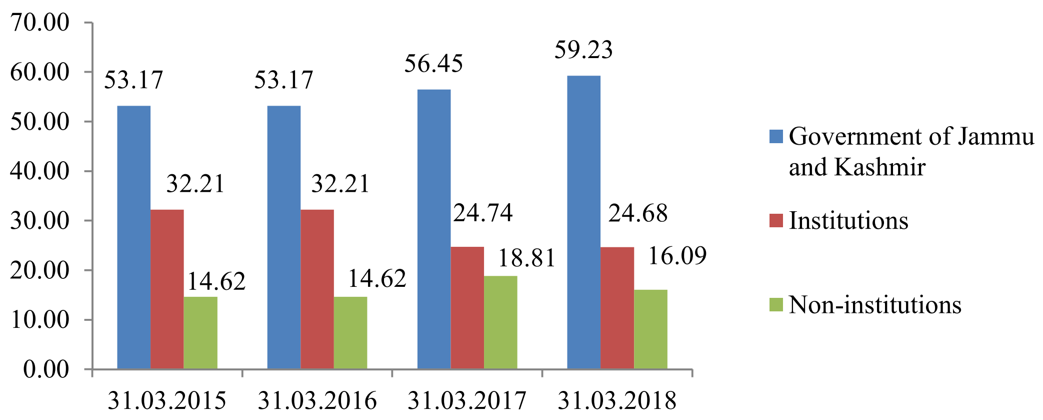
The Management stated (August 2019) that RBI advised (April 2008) the Bank to initiate action for splitting of the posts of Chairman and Chief Executive Officer. However, the Bank sought exemption from the directive issued but did not receive any response from RBI. Subsequent appointments to the post continued to be approved by the RBI.

The reply is not tenable, as timely action for bifurcation of posts for better governance was not taken despite advice of Regulator.

4.6 Financial position and working results

As on 31 March 2018, against an authorized share capital of ₹95 crore divided into 95 crore shares of ₹one each, the paid-up capital was ₹55.70 crore. Of this, the share of GoJK was ₹32.98 crore, Institutions[11] was ₹13.74 crore and Non-institutions[12] was ₹8.98 crore. During 2016-17 and 2017-18, the GoJK infused amount of ₹250 crore and ₹282 crore against which the Bank allotted 3,65,55,051 and 3,55,25,321 shares having face value of ₹one each to the GoJK at premium of ₹67.39 and ₹78.38 per share, respectively. This had resulted in increase in the shareholding of GoJK from 53.17 *per cent* by end of March 2015 to 59.23 *per cent* by end of March 2018 as depicted in the **Chart-4.2** below:

Chart-4.2: Shareholding Pattern (*in percentage*)



11 Including Foreign Institutional Investors
12 Including Resident and Non-Resident Individuals and including ₹0.02 crore amount of forfeited shares

The Bank had drawn its annual accounts in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Companies Act, 2013.

A) Financial position

The financial position of the Bank as per its audited annual accounts for the five years ending 31 March 2018 is given in ***Appendix-4.1.1***.

The Net Worth[13] of the Bank which was ₹5,723.61 crore as on 31 March 2014 increased to ₹6,423.97 crore as on 31 March 2016 and was ₹5,676.50 crore as on 31 March 2017, due to loss of ₹1,632.29 crore reported during 2016-17. The net worth increased to ₹6,161.21 crore as of 31 March 2018 due to profit of ₹202.72 crore and allotment of shares at premium during 2017-18. The fixed assets of the Bank had increased from ₹533.80 crore by end of March 2014 to ₹1,614.59 crore by end of March 2018. Out of increase of ₹1,080.79 crore recorded during this period, appreciation of ₹634.81 crore was on account of revaluation of fixed assets carried out by the Bank during 2016-17.

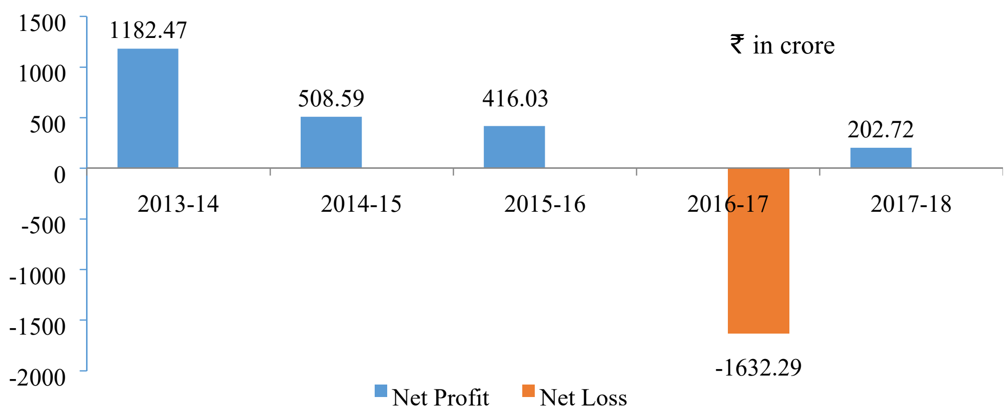
B) Working results

- The Bank earned net profit of ₹202.72 crore in 2017-18.
- The net worth increased from ₹5,723.61 crore as on 31 March 2014 to ₹6,161.21 crore as on 31 March 2018.

The working results of the Bank as per audited annual accounts for the five years ending 31 March 2018 are given in ***Appendix-4.1.1***. The Bank earned profits of ₹1,182.47 crore during 2013-14. It reported loss of ₹1,632.29 crore in 2016-17 due to creation of provision of ₹2,115.93 crore against NPAs. The Bank earned profit of ₹202.72 crore in 2017-18. The earnings per share of the Bank declined from ₹24.39 in 2013-14 to ₹3.64 in 2017-18.

The Bank's profitability during the last five years ending 31 March 2018 is shown in **Chart-4.3** below:

Chart-4.3: Profitability of the Bank



[13] Net worth is aggregate of paid up share capital and reserves and surplus

The reasons for declining profitability are attributable to increase in Gross NPAs of the Bank. The Bank had gross NPAs of ₹643.77 crore as on 01 April 2013 rising to ₹6,000.01 crore as on 31 March 2017 and ₹6,006.70 crore on 31 March 2018. The percentage of NPAs to Gross Advances increased from 1.62 *per cent* at the end of March 2013 to 9.96 *per cent* at the end of March 2018. As a result of increase in NPAs over the period of five years, the Bank made higher provisions which affected its profitability.

During the year 2016-17, the Bank suffered loss of ₹1,632.29 crore mainly due to provisioning of ₹2,115.93 crore against NPAs including additional provision of ₹517.40 crore (pertaining to 2015-16) made due to divergence pointed out by RBI.

Further, Profits for the year 2017-18 had been overstated by ₹85.63 crore on account of under-provisioning as discussed in Para 4.6.1 below.

4.6.1 Under-Provisioning against Non-Performing Assets

As per prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRAC) formulated by RBI, the Bank was required to classify the advances. An asset becomes a Non-Performing Asset (NPA) if it remains overdue for 90 days. Further, as per IRAC norms (July 2015), a Bank is required to make provisions against NPAs (outstanding amount) as per the classification of assets[14] viz. sub-standard, doubtful and loss asset.

- In doubtful category, the Bank had to provide for 100 *per cent* of the extent to which the advance is not covered by realistic realisable value of the security.
- For the secured portion, provision at the rates[15] depending upon the period for which the asset had remained doubtful, has to be made.

A test-check of NPA cases as on 31 March 2018, revealed that in three cases (out of 27 test-checked) as detailed in **Table-4.2** below, as per prescribed norms provision of ₹226.81 crore was required to be kept. However, the Bank had made a provision of only ₹141.18 crore, thereby leading to under-provisioning of ₹85.63 crore.

[14] An asset is classified as sub-standard which remains non-performing upto a period of twelve months. Assets which are non-performing for period above 12 months are classified as doubtful. A loss asset is one which is identified by either the Bank or the external/ statutory auditors or by the RBI inspection

[15] When the doubtful period is up to one year (DF-I): provision of 25 *per cent* of secured portion of advance is required; When the doubtful period is from one to three years (DF-II): provision of 40 *per cent* of secured portion of advance is required; When the doubtful period is more than three years (DF-III): provision of 100 *per cent* of secured portion of advance is required

Table-4.2: Details of test-checked under provisioned cases

(₹ in crore)

Particulars of the NPA	Outstanding (NPA) as of March 2018 (A)	Realisable value of securities (B)	Provision to be created[16] (C)	Provision actually created (D)	Under-provisioned amount[17] (E)
M/s ETA Engineering Private Limited	174.86	76.87	128.74	69.94	58.80
M/s Paradise Avenue	156.47	118.16	85.57	62.59	22.98
M/s Trumboo Trading Company	21.61	15.18	12.50	8.65	3.85
Total	**352.94**	**210.21**	**226.81**	**141.18**	**85.63**

(Source: Calculations based on the information provided by the Bank)

The Management replied (August 2018) that provisioning statements are being generated by the Management Information System Department and provisioning in case of NPA accounts is done as per security details. They added (December 2018) that in two[18] NPA cases, the security details in bank database had not been updated timely while finalizing the annual accounts for the year ended 31 March 2018. The database has since been updated.

The RBI guidelines for asset classification and provisioning were not adhered to which indicates deficiencies in the financial reporting system of the Bank as discussed in succeeding paragraph.

4.6.2 Divergence in asset classification and provisioning

The RBI assesses compliance by banks with IRAC norms as part of its supervisory process. Further, in order to ensure greater transparency, promote better discipline and compliance with IRAC norms, RBI directed (April 2017) all the banks to make suitable disclosures in the financial statements wherever either (a) the additional provisioning requirements assessed by RBI exceed 15 *per cent* of the published net profits after tax for the reference period or (b) the additional Gross NPAs identified by RBI exceed 15 *per cent* of the published incremental Gross NPAs for the reference period, or both. There was divergence in reporting of NPAs by the Bank for the years 2015-16 and 2016-17, as detailed in the **Table-4.3** below:

Table-4.3: Divergence in reporting of NPAs by the Bank

(₹ in crore)

Sl. No.	Particulars	2015-16	2016-17
1.	Gross NPAs as on March 31 as reported by the Bank	4,368.62	6,000.01
2.	Gross NPAs as on March 31 as assessed by RBI	6,252.32	6,909.00
3.	**Divergence in Gross NPAs (2-1)**	**1,883.70**	**908.99**
4.	Provisions for NPAs as on March 31 as reported by the Bank	2,111.80	3,425.29
5.	Provisions for NPAs as on March 31 as assessed by the RBI	2,629.20	3,546.48
6.	**Divergence in Provisioning (5-4)**	**517.40**	**121.19**
7.	Reported Net Profit After Tax (PAT) for the Year ended March 31	416.04	(1,632.29)
8.	Adjusted (notional) Net Profit After Tax (PAT) after taking into account the divergence in provisioning	(101.36)	(1,753.48)

16 C=100 *per cent* of (A-B) + 40 *per cent* of B
17 E=(C-D)
18 M/s Paradise Avenue and M/s Trumboo Trading Company

Bank had reported Gross NPAs of ₹4,368.62 crore at the end of March 2016 and ₹6,000.01 crore at the end of March 2017 and made provisions amounting to ₹2,111.80 crore and ₹3,425.29 crore, respectively. However, the RBI had assessed Gross NPAs of ₹6,252.32 crore at the end of March 2016 and ₹6,909 crore at the end of March 2017, thereby resulting in divergence of 43.12 *per cent* and 15.15 *per cent* during 2015-16 and 2016-17, respectively. As a result of divergence pointed out by RBI, the Bank had to make additional provisioning of ₹517.40 crore (pertaining to 2015-16) and ₹121.19 crore (pertaining to 2016-17) in the financial statements for 2016-17 and 2017-18, respectively.

Records further revealed that the advances of ₹246.89 crore in 2015-16, ₹936.56 crore in 2016-17 and ₹305.19 crore in 2017-18 constituting 11.56 *per cent*, 40 *per cent* and 10.90 *per cent* of the total NPAs were classified as NPAs only after the same were identified by the Statutory Auditors.

The Management replied (December 2018) that in order to ensure proper and timely identification of NPAs, the Bank has in place a system level asset classification wherein the accounts are automatically downgraded as per their asset class on monthly basis from the effective date of the asset being downgraded. Further, a special credit monitoring cell at the apex level and at the zones had been set up (2016) to ensure the asset classification of these accounts, as per the regulatory norms.

However, despite having a system level asset classification, special credit monitoring cell at apex level and at the zones, there was huge divergence in asset classification and provisioning as reported/ noticed by the RBI/ statutory auditors.

Thus, the Bank's credit control system and financial reporting system failed to identify the NPA accounts in time which is indicative of the fact that the Audit Committee of the Board did not exercise proper oversight over the Bank's financial reporting process. The Bank needs to review the current asset classification system to identify and rectify the gaps leading to under reporting of NPA accounts.

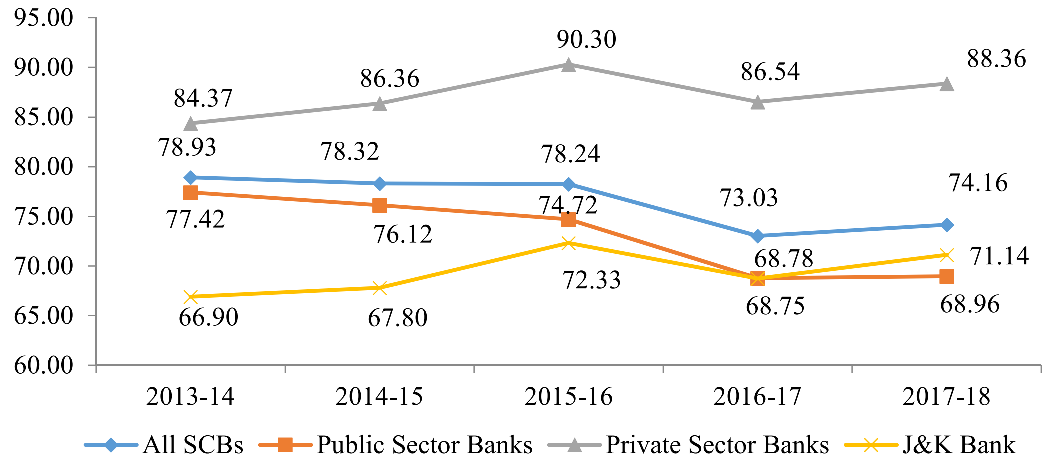
4.7 Banking operations

One of the important functions of the Bank is to accept deposits from the public for the purpose of lending. The Bank accepts deposit from customers through various forms viz., term deposits, savings bank deposits, current account deposits, etc. Interest payments are made by the Bank to the customers on their deposits. Advances granted by commercial banks take various forms such as term loans, cash credit, overdrafts, purchase or discounting of bills, etc. Interest on Advances is major source of income for a banking Company.

4.7.1 Credit Deposit Ratio

Credit Deposit (CD) Ratio is an index of the health of banking system in terms of demand for credit in proportion to total deposit growth in the Banking sector. CD Ratio of the Bank during 2013-14 to 2017-18 detailed in **Chart-4.4** below remained below the overall National average of Scheduled Commercial Banks (SCBs).

Chart-4.4: Credit Deposit Ratio-Comparison



(Source: Reports of Reserve Bank of India)

Zone-wise analysis of data revealed that during 2017-18, the CD Ratio in Jammu Central-I and Kashmir Central-I remained as low as 25.28 *per cent* and 52.40 *per cent*, respectively. In comparison, CD Ratio remained as high as 350.19 *per cent* in Bangalore Zone, 844.21 *per cent* in Mumbai Zone and 230.78 *per cent* in Delhi Zone during 2017-18.

As depicted in Table-4.5, the deposits within the State had grown from ₹45,193.38 crore in March 2014 to ₹71,472.00 crore in March 2018. However, poor CD ratio within the State indicated that the Bank had not been able to advance the funds within the State commensurate to the deposits raised within the State. Instead, the funds were raised from within the State and advances were made outside the State. With this approach, the Bank may not succeed in fulfilling its vision to engender and catalyse economic transformation of Jammu and Kashmir.

The Management attributed (December 2018) the low CD ratio in the State zones during 2016-17 to inflow of large deposits during the implementation of demonetisation in Q3 of the financial year.

The reply of management is not tenable as the effect of demonetization in the year 2016-17 was evident for all SCBs. The fact remained that the CD ratio of J&K Bank remained the lowest in four out of the five years among all the categories compared.

The deposits and advances are discussed in detail in the succeeding paragraphs.

4.7.2 Deposits

The position of Deposits of the Bank and targets achieved during 2013-14 to 2017-18 is given in **Table-4.4** and **Table-4.5**.

Table-4.4: Year-wise growth of deposits

(₹ in crore)

31 March of Year	Deposits	Year over Year Growth	Growth rate (*per cent*) of the deposits of		Break up of deposits of the Bank	
			J&K Bank	All SCBs[19]	Within State	Outside State
2013-14	69,335.86	5,115.24[20]	7.97	14.85	45,193.38 (65.18)	24,142.48 (34.82)
2014-15	65,756.19	(-) 3,579.67	(-) 5.16	10.55	48,724.60 (74.10)	17,031.59 (25.90)
2015-16	69,390.25	3,634.06	5.53	6.98	52,762.34 (76.04)	16,627.91 (23.96)
2016-17	72,463.10	3,072.84	4.43	10.12	61,416.95 (84.76)	11,046.15 (15.24)
2017-18	80,006.00	7,542.91	10.41	6.12	71,472.00 (89.33)	8,534.00 (10.67)
Growth during 2013-2018		**15,785.38**	**24.58**			

(Source: Information provided by the Bank)
Figures in parenthesis denote percentage of deposits made within/ outside the State to total deposits

Table-4.5: Target and achievement of Deposits

(₹ in crore)

Year	Geographical	Targets	Achievements	Shortfall	Shortfall (*per cent*)
2013-14	Within the State	48,431.00	45,193.38	3,237.62	6.69
	Outside the State	26,706.00	24,142.48	2,563.52	9.60
	Total	**75,137.00**	**69,335.86**	**5,801.14**	**7.72**
2014-15	Within the State	52,882.00	48,724.60	4,157.40	7.86
	Outside the State	27,199.00	17,031.59	10,167.41	37.38
	Total	**80,081.00**	**65,756.19**	**14,324.81**	**17.89**
2015-16	Within the State	57,761.00	52,762.34	4,998.66	8.65
	Outside the State	19,902.00	16,627.91	3,274.09	16.45
	Total	**77,663.00**	**69,390.25**	**8,272.75**	**10.65**
2016-17	Within the State	60,728.00	61,416.95	@	--
	Outside the State	18,546.00	11,046.15	7,499.85	40.44
	Total	**79,274.00**	**72,463.10**	**6,810.90**	**8.59**
2017-18	Within the State	70,572.00	71,472.00	@	--
	Outside the State	12,701.00	8,534.00	4,167.00	32.81
	Total	**83,273.00**	**80,006.00**	**3,267.00**	**3.92**

(Source: Information provided by the Bank) @ - targets achieved

The deposits of Bank grew by 24.58 *per cent* during the period 2013-18. However, the growth rate of deposits of Bank remained below the National average of Scheduled Commercial Banks during 2013-17.

- The growth rate of deposits of Bank remained below the National average of Scheduled Commercial Banks during 2013-17.
- The overall targets for deposits was not achieved in any of the years covered, especially from outside the State.

Analysis showed that deposits outside the State had come down from ₹24,142.48 crore at the end of March 2014 to ₹8,534 crore by the end of March 2018. Further, the percentage of deposits outside the State which constituted 34.82 *per cent* of its total deposits at the end of March 2014 had decreased to 10.67 *per cent* by the end of March 2018.

19 All Scheduled Commercial Banks (Source: Reports of Reserve Bank of India)
20 Calculated on Deposits as on 31 March 2013: ₹64,220.62 crore

The Bank achieved its targets of mobilization of deposits in the period 2016-18 within the State. However, there was shortfall in achievement of targets of deposits from outside State ranging between 9.60 *per cent* and 40.44 *per cent* during 2014-18.

The shortfall in achievement of targets in Mumbai Zone was 59.97 *per cent* during 2014-15. The position at the end of March 2018 had not improved, as the shortfall during 2017-18 was 58.66 *per cent*. In Delhi and Bangalore Zones, shortfall during 2016-17 was 40.81 *per cent* and 69.50 *per cent*, respectively.

The growth rate of deposits in 2017-18 over 2016-17 was 10.41 *per cent* as compared to 6.12 *per cent* of all scheduled commercial banks. The Government deposits in the Bank grew by ₹1,929.58 crore (34.61 *per cent*) and deposits from Corporate Sector by ₹3,401.91 crore (15.70 *per cent*) in the year 2017-18 over 2016-17.

We further observed that during the period 2013-14 to 2016-17 the Bank focused on maximising low cost deposits and did not rollover high-cost bulk deposits which had mainly been raised from outside the J&K State, bringing down the percentage share of deposits from outside the state vis-à-vis J&K State.

However, the Bank was reducing the targets of raising deposits from outside the State in successive years but could not achieve even the reduced targets of deposits. Further, the Bank was unable to attain the overall targets of deposits in any of the years during 2014-18.

4.7.2.1 Saving Bank accounts of Government departments in violation of RBI directives

As per the 'RBI (Interest Rate on Deposits) Directions, 2016', Scheduled Commercial Banks were prohibited (March 2016) to open a saving account in the name of entities other than individuals, Karta of Hindu Undivided Family and organisations/ agencies. Further, the Banks were allowed to open saving account of Government departments/ bodies/ agencies in respect of grants/ subsidies released for implementation of various programs/ schemes sponsored by Central Government/ State Government.

Records, however, showed that the Bank had allowed operations of saving accounts maintained by departments of GoJK with Moving Secretariat Branch of the Bank in contravention of the RBI directions of March 2016 as these accounts were not operated for management of grants/ subsidies released for implementation of any program/ scheme sponsored by Government. Instead, the accounts were operated for collection of revenue.

The Management replied (December 2018) that as of 31 March 2018, the Bank had complied with the guidelines of the RBI.

However, two[21] saving accounts as highlighted above were operational till December 2018, despite directions of RBI in March 2016. Further, the Bank had credited interest of ₹3.06 crore to these accounts between March 2016 and December 2018.

21 Saving Bank Accounts maintained by Finance Department and PHE Department of Government of J&K

4.7.3 Advances

Position of Advances (Gross) of the Bank during the 2013-14 to 2017-18 and their annual growth vis-a-vis Private, Public and SCBs is given in **Table-4.6**:

Table-4.6: Year-wise position of advances

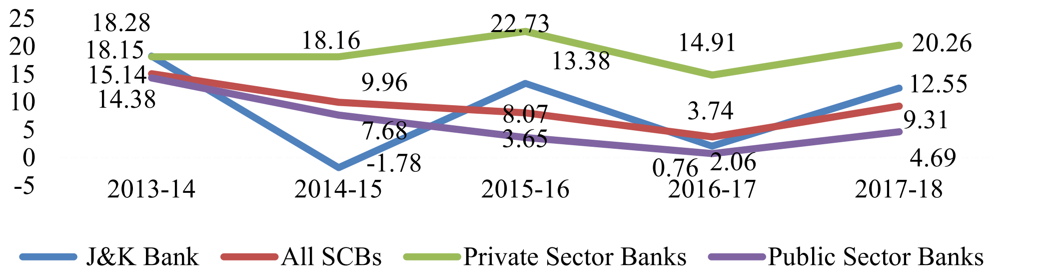
(₹ in crore)

Year	Advances (Gross)	Year over Year Growth	Growth (*per cent*) of advances of J&K Bank	Growth (*per cent*) of advances[22] of		
				All SCBs	Private Sector Banks	Public Sector Banks
2013-14	47,137.54	7,283.84[23]	18.28	15.14	18.15	14.38
2014-15	46,300.54	-837.00	-1.78	9.96	18.16	7.68
2015-16	52,493.74	6,193.20	13.38	8.07	22.73	3.65
2016-17	53,573.45	1,079.71	2.06	3.74	14.91	0.76
2017-18	60,298.28	6,724.83	12.55	9.31	20.26	4.69

(Source: Information provided by the Bank and information obtained from reports of RBI)

The Bank recorded an increase of 51.30 *per cent* in advances during 2013-14 to 2017-18 with the Year over Year (YoY) growth fluctuating between (-) 1.78 *per cent* and 18.28 *per cent* as shown in **Chart 4.5**.

Chart-4.5: Growth of Advances of the Bank vis-a-vis Other Banks (*Per cent*)



Advances within the State recorded growth of 82.38 *per cent* during 2013-14 to 2017-18. However, advances outside the State showed a decrease of 11.72 *per cent* during 2013-14 to 2017-18. Negative growth in advances of 29.02 *per cent* and 16.26 *per cent* was observed in Bangalore and Mumbai zones respectively during the period 2013-14 to 2017-18. Further, growth of advances of the Bank during 2014-15 and 2016-17 remained below the overall National average of all SCBs.

Management attributed (December 2018) the lower credit off take during 2014-15 and 2016-17 to floods in September 2014 and social disturbances in 2016 in the State. They added that the Bank continued its low-ticket high-volume credit dispensation in J&K State and selective big-ticket lending in the rest of the country.

Audit also observed that the shortfall in achievement of targets of advances during 2014-2018 ranged between 5.89 *per cent* and 19.73 *per cent* as detailed in **Table-4.7**:

22 Source: Reserve Bank of India
23 Calculated on advances at the end of March 2013: ₹39,853.70 crore

Table-4.7: Position of targets vis-à-vis achievements in respect of advances

(₹ in crore)

Year	Targets (Gross)	Achievements	Shortfall	
			Amount	*(In per cent)*
2013-14	50,304.00	47,137.54	3,166.46	6.29
2014-15	57,679.00	46,300.54	11,378.46	19.73
2015-16	55,778.00	52,493.74	3,284.26	5.89
2016-17	62,117.00	53,573.45	8,543.55	13.75
2017-18	70,822.00	60,298.28	10,523.72	14.86

(Source: Information provided by the Bank)

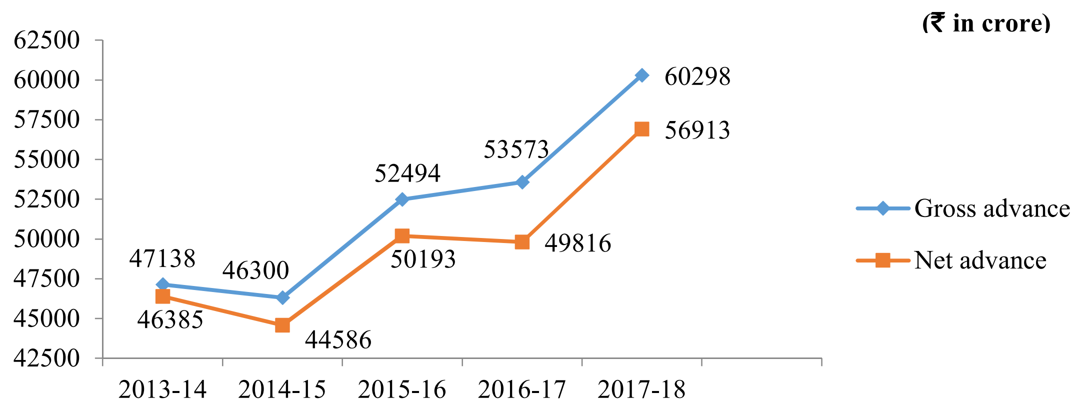
Shortfall in advances of 39.15 *per cent* in Bangalore zone during 2014-15, 28.84 *per cent* in Mumbai Zone during 2017-18, 37.26 *per cent* in Delhi Zone during 2017-18, 16.36 *per cent* in Jammu Central-I during 2015-16 and 16.25 *per cent* in Kashmir Central-I during 2016-17 was observed. The non-achievement of targets of advances had resulted in the funds remaining idle to the extent of shortfall.

The Management replied (December 2018) that low growth in advances resulted in shortfall in achievement of targets and focus was on retail lending outside the State.

i) Quality of advances

Audit observed that gross advances increased by 51.30 *per cent*[24] during 2013-14 to 2017-18 and corresponding increase in the net advances[25] as depicted in **Chart-4.6** was 45.18 *per cent*[26].

Chart-4.6: Growth of Gross Advances vis-à-vis Net Advances



The increasing gap between gross advances and net advances is indicative of the deteriorating quality of advances during the review period as the Bank had to make more provisions for doubtful advances. The Management replied (December 2018) that Bank had to face business disruptions due to floods in September 2014 and social disturbances in 2016. The reply of the Management is not tenable as floods and social disturbances affected the business within the State whereas during the period covered in audit, Bank's gross NPA ratio outside the State remained much higher as compared to within the State which indicates deteriorating quality of Bank's advances.

24 Calculated on gross advances at the end of March 2013: ₹39,853.70 crore
25 Net Advance is equal to Gross Advance less Provisions
26 Calculated on net advances at the end of March 2013: ₹39,200.41 crore

ii) Position of unsecured advances

The position of unsecured advances for the last five years ended 31 March 2018 is given in **Table-4.8** below:

Table-4.8: Position of Unsecured Advances

(₹ in crore)

Category of Net Advances	2013-14	2014-15	2015-16	2016-17	2017-18
Secured by Tangible Assets	36,983	34,130	37,922	36,584	40,453
Covered by Bank/ Government Guarantees	51	342	583	596	582
Unsecured	9,351	10,114	11,688	12,636	15,878
Total Net Advances	**46,385**	**44,586**	**50,193**	**49,816**	**56,913**
Percentage of Unsecured to total advances	*20.16*	*22.68*	*23.29*	*25.37*	*27.90*

(Source: Information provided by the Bank)

The percentage of unsecured advances to total net advances had increased from 20.16 per cent at the end of March 2014 to 27.90 per cent at the end of March 2018 which was in excess of the ceiling of 20 per cent fixed by the Bank for advancing under unsecured exposure. The increase indicates that the Bank had increased its exposure to unsecured advances, without safeguarding itself against the risk of non-recovery of advances in case of loans turning NPA.

Management attributed the growth in unsecured advances to the fact that it prefers to give advances to PSUs in the rest of India, rather than the risky advances (collaterally secured). The Management contention is not borne out of facts as unsecured advances to PSUs constituted a mere 9.62 *per cent* of the total unsecured advances by end of March 2014 and came down to 6.23 *per cent* as on 31 March 2018.

4.7.4 Risk Management Framework

Banks in the process of financial intermediation are confronted with various kinds of financial and non-financial risks viz., credit, market, liquidity, legal, regulatory, reputational, operational, etc. These risks are highly interdependent and events that affect one area of risk can have ramifications for a range of other risk categories. Thus, top management of banks should attach considerable importance to improve the ability to identify, measure, monitor and control the overall level of risks undertaken.

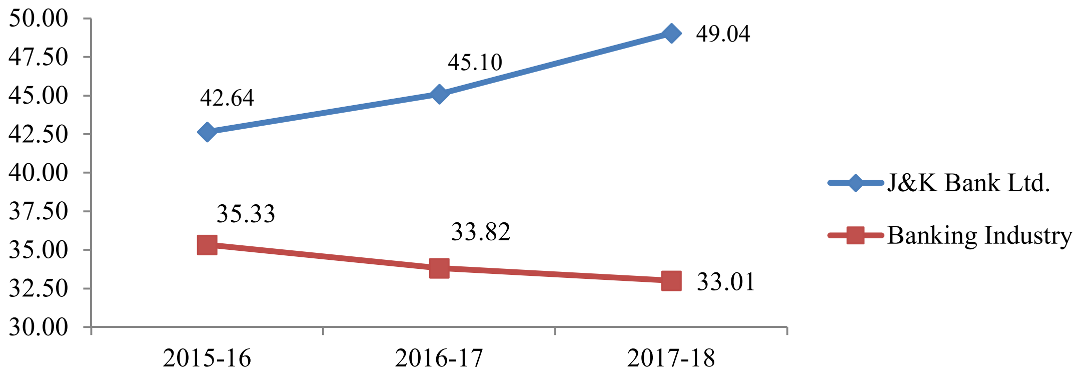
i) Credit concentration Risk

In accordance with the RBI guidelines, the Bank carries out a detailed concentration risk analysis of its credit portfolio. The objective of the analysis is to draw the picture of concentration in various segments for assessing limit position and devising further lending strategies.

The Bank's concentration risk for industry-wise exposure as on 31 March 2016 was categorized as 'moderate', as advances to infrastructure industry constituted 42.64 *per cent* of the total industry exposure. It was categorized as 'high' during 2016-17 and 2017-18 due to infrastructure advances rising to 45.10 *per cent* ending March 2017 and 49.04 *per cent,* ending March 2018.

The Bank's concentration risk for industry-wise exposure was on higher side when compared to the average of overall banking industry as shown in the **Chart-4.7** below:

Chart-4.7: Percentage of Infrastructure Advance to Total Industrial Advances



Despite increase in exposure in Infrastructure sector, the Bank did not initiate any steps to keep a check on further lending in the sector. Further, the Bank did not carry out analysis of industry-wise growth of NPAs.

Management stated (August 2019) that the concentration risk in infrastructure sector was being monitored closely by the bank and the percentage of Infrastructure advances to industry exposure as on 31 March 2019 had come down to 42.02 *per cent*.

ii) Appointment of Chief Risk Officer

The role of Chief Risk Officer (CRO) in a bank is to review and manage potential risks which may arise from regulatory changes/ or changes in economic/ political environment, to facilitate the analysis of risks and interrelationships of risks across market, credit and operational risks, to review the risk profile and to prioritize action to mitigate the potential risks.

In order to align the risk management system with the best practices, the RBI advised (April 2017) all the banks to appoint a CRO for a fixed tenure, with the approval of the Board. Further, the Banks were advised to lay down a Board-approved policy clearly defining the role and responsibilities of the CRO.

However, it was noticed in audit that the post of CRO remained vacant between April 2017 and May 2018 as there was no Board-approved policy on roles and responsibilities of CRO till May 2018.

The Management stated (August 2019) that during the period from April 2017 to May 2018, the function was looked after by President, Risk Management.

iii) Policy on Risk Based Internal Audit

The RBI issued (December 2002) guidance note on Risk Based Internal Audit (RBIA) in banks and advised all the banks to develop a well-defined policy, duly approved by the Board, for undertaking risk-based internal audit. The policy was required to include the risk assessment methodology for identifying the risk areas based on which the audit plan would be formulated.

The Bank did not have a Board-approved RBIA policy during 2013-14 to 2018-19 despite the fact that the Audit Committee of the Board, in its meeting held on 08 December 2013, recommended that steps for framing RBIA policy should be initiated. However, the RBIA policy was approved by the Board only in March 2019, indicating poor compliance framework.

In absence of RBIA policy, allocation of audit resources could not be prioritized and risk sensitivity amongst field staff could not be created.

iv) Preventive Vigilance Framework

The RBI issued (May 2011) detailed guidelines for private sector banks on internal vigilance. As per the guidelines, the Bank was required to appoint an officer of suitable seniority as Chief of Internal Vigilance (CIV) who will head the Internal Vigilance Division of the bank. However, CIV should not be a party to processing and decision-making processes or be involved in other administrative transactions, which are likely to have clear vigilance sensitivity.

The officer designated as CIV of the Bank, during the period between October 2016 and May 2017, also looked after the Advances and Asset Planning (J&K State) portfolio and Asset Monitoring and Information Department during the same period which was in violation of *ibid* guidelines.

Further, as per guidelines, CIV was required to furnish a report on the vigilance activities in the bank to the Board on a periodic basis. However, CIV of the Bank failed to submit any reports to the Board during 2013-14 to 2017-18. The Bank formulated a policy document on Preventive Vigilance Framework only in November 2018.

The Management admitted that the reports on working of vigilance were not placed before the Board during the period under audit scrutiny and stated (August 2019) that the same are now being submitted on periodic basis.

v) Appointment of Chief Technology Officer

In order to strengthen the Bank's risk governance framework in the area of technology, the RBI advised (May 2017) all scheduled commercial banks to appoint Chief Technology Officer (CTO) in banks. The Regulator prescribed that the minimum qualification for appointment as CTO should be engineering Graduate or MCA or equivalent qualification from a recognized university/ Institution.

However, the Presidents who held the charge of Technology Department of the Bank during the period between May 2017 and June 2019 did not meet the qualification criteria fixed by the regulator.

The Management attributed (August 2019) the same to non-availability of IT Professionals at the Vice President level.

4.7.5 Non-Performing Assets

The movement of gross NPAs of the Bank during the years from 2013-14 to 2017-18 is given in **Table-4.9** below:

Table-4.9: Movement of Non-Performing Assets

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	**NPA at the beginning of the year**	643.77	783.42	2,764.08	4,368.62	6,000.01
2.	**Addition during the year**	410.60	2,525.80	2,383.23	3,278.41	3,104.69
3.	**Total NPAs during the year**	**1,054.37**	**3,309.22**	**5,147.31**	**7,647.03**	**9,104.70**
	Less					
4.	Upgraded accounts[27]	117.70	343.77	188.92	154.76	185.64
5.	Recovery made	146.16	197.53	272.07	664.34	1,300.63
6.	Written off	7.09	3.84	317.70	827.92	1,611.73
7.	**Total reduction in NPA (Row 4 +5+6)**	**270.95**	**545.14**	**778.69**	**1647.02**	**3,098.00**
8.	NPA at the end of each year	783.42	2,764.08	4,368.62	6,000.01	6,006.70
9.	Gross Advances	47,137.54	46,300.54	52,493.74	53,573.45	60,298.28
10.	NPA to Gross Advance (*Percentage*)	1.66	5.97	8.32	11.20	9.96

(Source: Information provided by the Bank and annual accounts of the bank)

Audit analysis revealed that Gross NPAs of the Bank increased by ₹5,362.93 crore (833.05 *per cent*) from ₹643.77 crore as on 01 April 2013 to ₹6,006.70 crore as on 31 March 2018. The Bank had classified advances of ₹11,702.73 crore as NPAs during the period 2014-2018. Of this NPA, ₹7,164.98 crore (61.22 *per cent*) were contributed by three Zones[28] during 2014-2017. The overall reduction of ₹6,339.80 crore in NPAs during 2013-14 to 2017-18 was on account of actual recovery of ₹2,580.73 crore (40.71 *per cent*), up-gradation of accounts of ₹990.79 crore (15.63 *per cent*) and write-off of ₹2,768.28 crore (43.66 *per cent*).

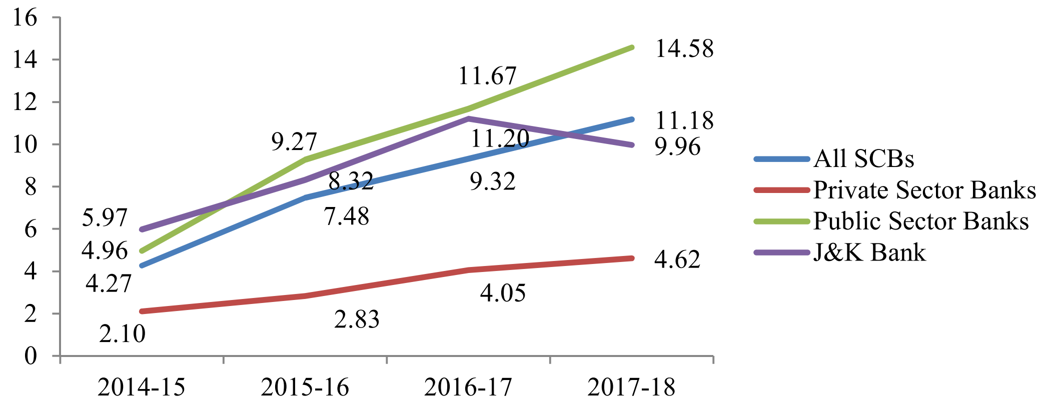
The percentage of NPAs to Gross Advances had increased from 1.66 *per cent* at the end of March 2014 to 9.96 *per cent* at the end of March 2018.

The Gross NPA ratio of bank was above that of average of Private Sector Banks and all Scheduled Commercial Banks (except 2017-18) in the Country as depicted in **Chart-4.8** below:

[27] Once the past dues are paid, the account will be regularized and converted from NPA to standard asset

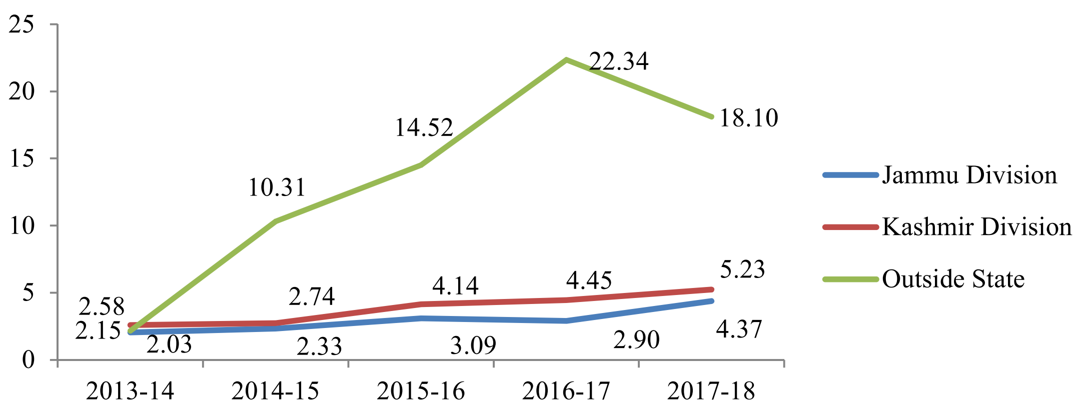
[28] Delhi Zone: ₹3,544 crore; Mumbai Zone: ₹2,718.15 crore; Kashmir Central-I Zone: ₹902.83 crore

Chart-4.8: Comparison of Gross NPA ratio of the Bank with Industry (*per cent*)



Analysis of division-wise data revealed that percentage of Gross NPAs to total advances as on 31 March 2018 was lower within the State in comparison to those advanced to customers outside the State. It was 4.37 *per cent* in Jammu Division, 5.23 *per cent* in Kashmir Division and 18.10 *per cent* outside the State as depicted in **Chart-4.9** below:

Chart-4.9: Division-wise Gross NPAs (*per cent*)



This indicated that the Bank failed to effectively check the slippage of advances to NPAs outside the State.

Consortium financing

Credit Policy authorizes the Bank to make advances under Consortium arrangements to share credit risk. While extending credit under consortium, the Bank also has to make independent appraisal of project besides that made by the lead bank.

- Advances under this segment ranged between 10.78 *per cent* and 16.86 *per cent* of the total advances during 2014-15 to 2017-18.
- The outstanding balance of advances under Consortium at the end of March 2018 was ₹6,502.60 crore which included NPAs of ₹3,312.69 crore. As against the overall Gross NPA ratio of 9.96 *per cent* as on 31 March 2018, the NPAs under Consortium advances were 50.94 *per cent*.

- Despite the fact that NPAs under Consortium advances reached an alarming level, the Bank had not fixed any prudential limit/ ceiling for advancing loans under the consortium lending.

The Management attributed (December 2018) the higher percentage of NPAs in advances extended outside the State to stress in Infrastructure/ steel/ power sectors. The Bank asserted that it mostly lent funds as part of consortium finance and owing to the economic slowdown in the country, it came under stress as a result of which the accounts slipped to NPA and added that due to decisions taken, the Gross and Net NPAs as percentage to Gross and Net Advances as on March 2018 have been brought down to 9.96 *per cent* and 4.90 *per cent* from 11.20 *per cent* and 4.87 *per cent* a year ago. For advances extended within the State, it attributed the high NPA ratio to natural calamity and social unrest.

It was, however, observed that during 2014-15 to 2016-17, J&K Bank's NPA ratio had exceeded the average gross NPA ratio of both private sector and all Scheduled Commercial Banks in the Country. The Bank's gross NPA ratio was recorded at 11.20 *per cent* at the end of March 2017 whereas the gross NPA of all SCBs as on 31 March 2017 was 9.32 *per cent.* Also Bank's contention that disruptions on account of floods and disturbances contributed to higher NPA ratio is also not tenable as the Bank's Gross NPA ratio within the State increased from 2.41 *per cent* as on 31 March 2014 to 3.90 *per cent* at the end of 31 March 2017, whereas Gross NPA outside the State had increased from 2.15 *per cent* to 22.34 *per cent* during this period.

The percentage of NPAs came down in March 2018 mainly due to write-off of ₹1,611.73 crore.

The Bank's gross NPA ratio came down from 11.20 *per cent* by end of March 2017 to 9.96 *per cent* by end of March 2018 only after writing off ₹1,611.73 crore of NPAs during 2017-18.

4.7.5.1 Failure to effect recoveries leading to doubtful recoveries and losses

The position of NPA under three categories viz. sub-standard, doubtful and loss assets at the close of financial year during 2013-14 to 2017-18 is given in **Table-4.10** below:

Table-4.10: Classification of NPAs

(₹ in crore)

Classification	31.03.2014		31.03.2015		31.03.2016		31.03.2017		31.03.2018	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Sub-standard	2,909	171.29 (21.86)	11,743	1,317.27 (47.66)	9,655	2,052.08 (46.97)	7,748	614.27 (10.24)	4,721	1,092.53 (18.19)
Doubtful	8,751	533.03 (68.04)	8,227	1,215.21 (43.96)	13,112	1,473.84 (33.74)	17,693	5,062.57 (84.38)	18,212	4,864.59 (80.99)
Loss	5,382	79.10 (10.10)	5,365	231.60 (8.38)	4,548	842.70 (19.29)	4,091	323.17 (5.38)	3,327	49.58 (0.82)
Total	**17,042**	**783.42**	**25,335**	**2,764.08**	**27,315**	**4,368.62**	**29,532**	**6,000.01**	**26,260**	**6,006.70**

(Source: Information provided by the Bank)
Figures in parenthesis are percentage under each category to total NPAs as on respective dates

The Bank had failed to effect recoveries in case of chronic NPA cases, as a result of which the NPAs under doubtful and loss assets category increased from ₹612.13 crore (78.14 *per cent* of total NPAs) at the end of March 2014 to ₹5,385.74 crore (89.76 *per cent* of total NPAs) at the end of March 2017. However, the same had come down to ₹4,914.17 crore (81.81 *per cent* of total NPAs) at the end of March 2018, mainly due to write-off of ₹1,611.73 crore of NPAs during 2017-18.

The Management replied (December 2018) that most of these accounts are under consortium banking arrangement and the Bank's share in the total advances in these accounts ranged from one *per cent* to five *per cent*, so the Bank has to follow the consortium decision for recovery of dues in these accounts.

The reply of the management is not tenable as out of NPAs of ₹4,914.17 crore under doubtful and loss assets category at the end of March 2018, the NPAs under consortium segment was ₹2,627.16 crore and the Bank could not effect recovery in respect of ₹2,287.01 crore of NPAs under multi-banking and sole-banking arrangement.

4.7.5.2 Case Studies-Non-Performing Assets

Test-check of NPA cases[29] revealed that loan and credit facilities were extended overlooking Bank's interest. There was loss/ non-recovery of ₹197.98 crore, doubtful recovery of ₹1,599.14 crore and excess payment of ₹14.10 crore in the 29 cases[30] detailed in ***Appendix-4.1.2*** on account of non-enforcement of internal control procedures, inadequate security cover, improper credit appraisal, non-adherence to the pre or post-disbursement conditions of the sanctions, irregular monitoring etc. These causes contributed to advances turning into NPAs enforcement of which would have sent warning to Bank to take rectificatory measures. The following cases are highlighted:

Sl. No.	NPA Case	Brief facts and observations
1.	M/s. Chhaparia Industries Private Limited	• The Bank extended credit facility of ₹41.95 crore (up to February 2011) including Cash Credit (CC), Term Loans (TL) and Inland Letter of Credit (ILC) secured by charge on assets, stock and debtors. • Bank sanctioned (October 2011) another ILC of ₹three crore which was dishonoured. • Bank restructured (July 2012) the facilities on default of Company in servicing the credit and accepted the projected Debt Service Coverage Ratio (DSCR[31]) of 1.23 (average) of the Company which was lower than minimum acceptable ratio[32] reflecting weak credit

29 312 NPA cases in five selected zones were test-checked where the outstanding balance as on 31 December 2017 was more than ₹five crore

30 Includes M/s Go Fresh which took over the credit facility of M/s Kehwah Square Pvt. Limited

31 DSCR refers to the amount of cash flow available to meet annual interest and principal payments on debt

32 As per credit policy minimum DSCR should be 1.30 with average of 1.50

		risk controls. Further, the Bank did not ensure adequate security cover despite the external rating[33] of high/ very high risk assigned to the long term/ short term debts of the Company. • The Bank also enhanced (June 2013) credit exposure by ₹five crore. • Bank, despite non-servicing of the credit facilities, sanctioned (May 2014) *adhoc* cash credit facility of ₹six crore and also allowed the borrower company to sell off one of its properties mortgaged with the Bank thereby reducing its security cover. • Company failed to service its loan and Bank classified (December 2014) the same as NPA. • Against a principal and unapplied interest of ₹47.20 crore, the Bank held a security of ₹22.15 crore (September 2016). • The assets were sold (February 2017) to an Asset Reconstruction Company for ₹19 crore. • Extending of credit facilities in deviation to Bank's credit policy coupled with inadequate security cover resulted in loss of ₹28.20 crore[34].
2.	M/s REI Agro Limited	• The Bank sanctioned three crop loans (between December 2012 and August 2013) aggregating ₹400 crore[35] to 80 Joint Liability Groups (JLGs)[36] of farmers. The Company, engaged in marketing of basmati paddy was required to repay the Company in three structured instalments. • The credit was secured by corporate guarantee of the Company, receivables generated by JLGs against basmati paddy supplied to Company and post-dated cheques. • The Company failed to repay the interest and principal as a result of which loan was classified (June 2014) as NPA. • The Bank did not obtain undertakings from farmers/ JLGs that the funds availed would be utilised for intended purpose although this was one of the conditions of the sanction. • The Bank relied exclusively on certification by Chartered Accountants regarding end use of funds. These were found to be deficient as the certification was only with regard to transfer of funds by the leader of JLGs to farmers and the end use of funds by the farmers was not ensured. This was despite RBI directives to Banks to strengthen and conduct post-sanction supervision to ensure end use of credit reflecting poor compliance of regulator's directives.

33 External rating by Credit Analysis and Research (CARE), a credit rating agency

34 ₹47.20 crore – ₹19.00 crore

35 Crop Loan of ₹200 crore in December 2012, ₹100 crore in February 2013 and ₹100 crore in August 2013

36 Joint Liability Group (JLG) is a lending model that enables a group of individuals to avail loans for income generating activity by forming a group

		• Disbursement conditions of loan stipulated for transfer of loan amount to savings accounts of farmers/ JLGs to be opened with J&K Bank but they were transferred to accounts of leaders of JLGs held in other banks and hence were outside the control of bank indicating poor compliance culture at operational level. • Bank did not obtain the details of land holdings of the farmers and their financial position. No specific policy of extension of credit to such JLGs was in place. KYC details of farmers were not obtained and duplicity of farmers' names in different JLGs was observed (***Appendix 4.1.3***). • The Bank, in deviation to its credit policy, had not rated 80 JLGs accounts of ₹five crore each through risk score application and extended credit merely on the corporate guarantee of the Company indicating weak credit risk controls. • Non-exercising of due diligence in sanctioning/ disbursing of crop loans coupled with non-obtaining of tangible security to safeguard the Bank's interest led to doubtful recovery of ₹639.42 crore[37].
3.	M/s REI Agro Limited	• The Bank sanctioned (May 2011) bill discounting (BD) facility of ₹100 crore secured against collateral security, corporate guarantee of the Company and post-dated cheques. • Company was to procure basmati paddy from identified suppliers and Bank was to discount the bill drawn by these suppliers. • The BD facility was renewed (October 2013) even though the current ratio of the Company (1.27) was below the minimum acceptable level of Bank which stood at 1.33 indicating weak credit risk controls. • *Adhoc* BD of ₹15 crore was extended (January 2014) without competent authority's approval and despite the existing facility being overdue for more than 90 days which had already rendered the account as NPA indicating weak internal controls. • Company failed to adjust the overdue discounted bills and account was classified (June 2014) as NPA. • The collateral security obtained was already charged to term loans availed by the Company from other branches of the Bank which had also turned NPAs in June 2014. Charged properties which were valued at ₹305.38 crore against a book value ₹149.82 crore and on being taken over (November 2015/ March 2016) were assessed at ₹168 crore and could not be sold at reserve price of even ₹60 crore. • Non-safeguarding of Bank's financial interest in discounting of supplier bills resulted in doubtful recovery of ₹172.45 crore[38].

37 NPA of ₹400 crore and unapplied interest of ₹239.42 crore

38 NPA balance of ₹111.27 crore and unapplied interest of ₹61.18 crore

4.	M/s Aanjaneya Life Care Limited	• The Company availed (September 2011) Short Term Loan (STL) of ₹20 crore from Bank against primary security of four lakh promoters equity shares and collateral security by way of second charge on fixed assets and post-dated cheques. • Bank sanctioned (December 2011) ILC/ FLC of ₹15 crore and took over existing term loans of ₹10.66 crore from another Bank. • The Company defaulted in servicing of STL of ₹20 crore and the Bank restructured (November 2012) the account and its repayment was rescheduled from September 2012 to June 2014. • The loan was assessed as sub-standard in September 2013. However, the Bank further sanctioned (December 2013) ILC of ₹8.71 crore and one time Packing Credit[39] (PC) of ₹18.38 crore without ensuring adequate security cover for facility extended reflecting weak credit risk controls. • The export shipment for which facility was disbursed was not shipped and the PC facility disbursed by the Bank was utilised by the Company to service the interest and instalments of overdue amount in various other accounts (STL of ₹20 crore and term loans of ₹10.66 crore)[40] by routing the transactions through another firm which indicates that post-disbursement monitoring was inadequate. • Company failed to meet its obligations and was declared (March 2014) as NPA. • Sanctioning/ disbursing of credit facilities without safeguarding the Bank's interest led to doubtful recovery of ₹40.32 crore[41].
5.	M/s Paradise Avenue, a partnership firm (firm), for construction of residential township at Narwal Bala, Jammu	• The Bank[42] sanctioned four Term Loans (TL-I: ₹74.27 crore in January 2012; TL-II: ₹68.91 crore in May 2014; TL-III: ₹20 crore in June 2015 and TL-IV: ₹14.50 crore in February 2017) aggregating to ₹177.68 crore against which disbursement of ₹175.60 crore was made. • As per Bank's credit policy, credit exposure to partnership firm was to be restricted to ₹50 crore and in exceptional cases of borrowers having good track record, the Board may consider relaxation. However, the Bank made disbursement of TL-1 of ₹74.27 crore in departure to its credit policy and without obtaining prior approval of the Board. • The credit was extended without obtaining any collateral security thereby exposing to risk of loss in case of default**.** Necessary credit rating of debt portfolio was not obtained from an independent external agency thereby deviating Bank's credit policy.

39 Packing credit is a loan provided to exporters to finance the goods' procurement before shipment

40 Advanced by the J&K Bank Limited

41 Against outstanding balance of ₹40.96 crore (Principal amount: ₹27.96 crore and Unapplied Interest: ₹13 crore), the securities were valued at ₹0.64 crore

42 Business Unit, New University Campus, Jammu

		• The Bank obtained Board's approval in May 2014 for extending TL-II of ₹68.91 crore. However, it had not apprised (May 2014) the BODs that the firm failed to infuse requisite promoter's contribution[43]. Further, the firm was allowed (March/ April 2014) by the Chairman to withdraw ₹6.59 crore for payment to suppliers, out of the Escrow account, designated for repayment of term loan only. However, the action of the Chairman was accorded post-facto approval by the Board in May 2014. • The Bank accepted (May 2014) Debt-Equity ratio of 2.75:1 against benchmark of 2:1 and also did not conduct credit audit of the firm on quarterly basis though required as per its credit policy. • The Bank, time and again, rescheduled the repayment of Term Loans from October 2014 to June 2017 citing change in scope and size of the project from ₹96.36 crore to ₹209.90 crore. • The Bank disbursed ₹128.79 crore[44] up to May 2017, and the firm was required to employ the margin of ₹46.72 crore, thereby making total funding of ₹175.51 crore (loan plus margin). However, the project was valued (January 2018) at ₹118.16 crore[45] which indicated that margin money was not employed by the firm. • Mismatch between reports of chartered engineers and chartered accountants were overlooked which indicates that monitoring was not adequate. • The firm did not make any repayment and its failure to service the account led to classification (December 2017) of account as NPA. • Against the outstanding principal of ₹156.47 crore and unapplied interest of ₹28.19 crore, the account was settled for ₹130.00 crore. • The Bank sacrificed principal of ₹26.47 crore and unapplied interest of ₹28.19 crore.
6 (i)	M/s Kehwah Square Private Limited	• The Bank[46] sanctioned (August 2013) a term loan of ₹42.76 crore for setting up controlled atmosphere storage facilities and a CC limit of ₹7.50 crore for meeting working capital requirement. • As per disbursement conditions of sanction, the CC was to be released only after commissioning of plant. However, the Bank released (July 2014 and October 2014) ₹5.91 crore under CC limit before commissioning of plant (November 2014), indicating poor compliance culture at operational level. • Funds of ₹3.02 crore were diverted (March 2016) from CC account of M/s KSPL to its sister concern engaged in business of silk products. The Bank also released the funds in excess of the available drawing power reflecting inadequate monitoring.

43 Against the term loan of ₹74.27 crore fully released by the Bank up to February 2014, the promoter's contribution should have been ₹22.09 crore whereas the firm infused only ₹6.96 crore

44 Excluding Interest of ₹46.81 crore during construction

45 Including the cost of land: ₹21.96 crore

46 Business Unit, Air Cargo, Srinagar

		• Cash withdrawals of ₹2.30 crore[47] were allowed in CC account of the Company without ensuring end use of funds and cash deposits of ₹2.45 crore[48] were also accepted in CC account. • Temporary overdrafts amounting to ₹six crore sanctioned (December 2015) to associate entities[49] for meeting their working capital requirements were diverted to M/s KSPL which is indicative of lack of monitoring of account at operational level. • The Company defaulted in repayment of interest/ instalment as a result of which the Bank classified (June 2016) the accounts as NPA. • The storage facility project implemented by M/s KSPL was eligible under capital investment subsidy scheme of National Horticulture Board (NHB). • As per the scheme guidelines, subsidy of ₹16.50 crore was released by NHB to the Bank which was to be kept in the separate 'Subsidy Reserve Fund' and the subsidy amount in the borrower's TL account was to be adjusted only as recovery of last instalment. However, the Bank transferred (₹four crore in March 2016 and ₹12.50 crore in March 2017) subsidy amount to adjust term loan of M/s KSPL in contravention of the NHB guidelines. • Total outstanding balance against M/s KSPL on 31 March 2017 was ₹58.61 crore[50] before adjustment of subsidy of ₹12.50 crore. • The Bank sanctioned (31 March 2017) a term loan ₹40.10 crore in favour of M/s Go Fresh for acquiring the project of the Company. • As per terms of sanction, the loan amount sanctioned in favour of M/s Go Fresh was to be credited directly to the existing term loan account of M/s KSPL. The loan amount to M/s Go Fresh was disbursed through an accounting adjustment by crediting accounts (TL: ₹25.64 crore and CC: ₹10.30 crore) of M/s KSPL and debiting equal amount to M/s Go Fresh. • Adjustment of ₹10.30 crore to CC limit of M/s KSPL was in violation of conditions of sanction of term loan. • In the process of adjustment of credit facilities of M/s KSPL, the Bank also waived off interest of ₹6.58 crore in TL account and ₹1.69 crore in CC account of M/s KSPL thereby resulting in loss of ₹8.27 crore. • The account of M/s Go Fresh turned NPA in April 2019 with outstanding amount of ₹39.56 crore.
6(ii)	M/s Kehwah Wheels Private Limited	• The Bank sanctioned (February 2013) a TL of ₹30.89 crore in favour of M/s Kehwah Wheels Private Limited (KWPL) for setting up and providing bus services in the State.

47 28 July 2014: ₹0.80 crore; 01 September 2014: ₹1.50 crore

48 01 September 2014: ₹2.00 crore; 29 June 2015: ₹0.45 crore

49 Mr. Adil Shokat, Mr. Abdul Aziz and M/s Hotel Grand Mahal

50 TL: ₹46.62 crore (NPA of ₹40.04 crore and unapplied interest of ₹6.58 crore) and CC: ₹11.99 crore (NPA of ₹10.30 crore and unapplied interest of ₹1.69 crore)

		• In February 2015, the Bank restructured the existing TL and also sanctioned a fresh TL of ₹1.76 crore in favour of M/s KWPL under 'Rehabilitation Package of 2014'. • Owing to non-servicing of instalments of credit facilities by the Company, the Bank classified the accounts as NPA in March 2016[51]. • The Bank did not obtain credit rating of Company's debt portfolio from any external agency thereby departing from its credit policy reflecting weak credit risk controls. • The Bank did not obtain lease deed of shops (kept as primary security against the credit facility) resulting in non-creation of charge on the property. • The disbursement of loan amount was made without ensuring infusing of margin money by promoters. Funds of ₹4.68 crore were transferred between April and June 2013 from TL to Current Account of the Company resulting in diversion of funds which reflects poor compliance culture and inadequate monitoring at operational level.
6 (iii)	Kehwah Group of Companies	• In addition to the credit facilities availed by M/s KSPL and M/s KWPL, the Kehwah Group of companies viz. M/s Kehwah Xpress Services Private Limited (KXSPL), M/s Kashmir Sunsilk Industries Pvt. Ltd. (KSIPL), M/s Silk Enterprises, M/s Kehwah Food & Retail, M/s Kashmir Threads & Color Mills and M/s Bangalore Silk House were also availing various credit facilities from the Bank. • Owing to non-servicing of instalments of credit facilities by Kehwah Group, the Bank classified the accounts as NPA in March 2016[52]. • The Bank did not file legal suit against the group for recovery thereby departing from its recovery policy. • The Bank sanctioned (March 2017) One Time Settlement (OTS) in favour of the Kehwah Group for ₹105.00 crore against the outstanding amount of ₹159.84 crore[53]. As per the OTS, the group was required to deposit ₹50.00 crore by March 2017 and remaining ₹55.00 crore by June 2017. • The group did not pay the settlement amount as per agreed terms and the scheme was terminated (October 2017) by the Bank. Meanwhile, the Group deposited (March 2019) ₹11 crore in its various loan accounts (NPAs) out of which amount of ₹two crore was deposited in cash.

51 Effective date 30 September 2014

52 Effective date of NPA was taken as 30 September 2014/ March 2015

53 NPA of ₹138.79 crore and unapplied interest of ₹21.05 crore as of February 2017 (before taking over of accounts of M/s KSPL by M/s Go Fresh)

		• Non-adhering to disbursement conditions, exercise post-sanction monitoring and ensure the end use of funds resulted in loss of ₹8.27 crore, and recovery of ₹124.06 crore[54] from Kehwah group and ₹39.56 crore[55] from M/s Go Fresh became doubtful. Bank also irregularly released subsidy of ₹16.50 crore to the Company.
7.	M/s Haldia Coke and Chemicals Private Limited	• Bank sanctioned (March 2011) Cash Credit limit (CC) of ₹12 crore and ILC/ FLC of ₹48 crore and renewed (February 2013 and June 2014) the facilities. • The Bank did not obtain any collateral security and extended facilities against primary security by way of first *pari passu* charge on current assets, stores and stocks. • CRISIL indicated (March 2012 and April 2013) moderate to high risk to debt portfolio of the Company, Bank renewed (February 2013 and June 2014) the credit facilities by overlooking CRISIL ratings indicating deficiencies in credit appraisal process. • Funds were released beyond drawing powers and mandatory credit audit was not conducted indicating inadequate monitoring mechanism. • The account due to non-servicing was declared (July 2016) as NPA and total outstanding was ₹84.77 crore[56]. • Company approached the National Company Law Tribunal for resolution under Insolvency and Bankruptcy Code from which Bank received (April 2018) ₹21.39 crore. • Due to non-obtaining of adequate securities and weak post-sanction monitoring, the Bank lost ₹63.38 crore[57].
8.	M/s. AGL Televentures and M/s Trunks & Roots	• Bank sanctioned (December 2010 to November 2013) cumulative credit facilities of ₹57.40 crore to M/s AGL and to M/s Trunk and Roots. • Funds were released without ensuring receipt of required margin money. MOUs of the firms with purchasers of their products were not obtained. • Funds were released under cash credit limits beyond the drawing powers which were framed incorrectly. Regular credit and stock audit were not conducted. Diversion of funds by the firms was undertaken indicating poor compliance culture and inadequate monitoring mechanism. • The facilities were defaulted by both the firms and were classified (December 2014 and June 2015) as NPAs.

[54] NPA balance of ₹71.64 crore and unapplied interest of ₹52.42 crore as of June 2019
[55] NPA balance of ₹39.18 crore and unapplied interest of ₹0.38 crore
[56] NPA balance of ₹53.54 crore (CC: ₹12.00 crore; ILC/ FLC: ₹41.54 crore) and unapplied interest of ₹31.23 crore
[57] Principal of ₹32.15 crore and unapplied interest of ₹31.23 crore

		• Bank took self-possession (December 2017) of one of the properties for ₹23 crore. • Outstanding balance against both the firms after adjusting the above amount was ₹51.09 crore[58]. • Non-adherence to disbursement conditions, to exercise post-sanction monitoring and to ensure end use of funds led to doubtful recovery of ₹30.53[59] crore.
9.	M/s. Cranes Software International Limited	• Bank sanctioned (September 2010) restructuring of existing credit facilities[60] and two Working Capital Term Loans (WCTL) of ₹25 crore and ₹19.58 crore. A Term Loan (TL) of ₹5.58 crore and Funded Interest Term Loan (FITL)[61] of ₹4.55 crore were also sanctioned. • The credit facilities were secured by way of hypothecation of stocks, book debts and fixed assets of the Company on *pari passu* basis with other lenders besides immovable properties and personal guarantee of promoters. • Restructured loans were repayable from October 2011 in quarterly instalments. • Bank recovered instalments till June 2014 through sale of mortgaged securities at ₹32.11 crore. • Bank sanctioned Temporary Overdrafts (TODs) of ₹10.46 crore in favour of group firms without any additional security cover despite the fact that the Company did not adhere to the repayment schedule of existing facilities. • TODs were released without prior approval of competent authority indicating weak internal controls. • Withdrawal of funds in cash was allowed from TODs reflecting poor monitoring. • Inability to service the loan resulted (September 2014) in downgrading of loan account. • Company approached (August 2017) the Bank for One Time Settlement and was sanctioned (September 2017) for ₹23 crore. • Against outstanding amount (July 2017) ₹41.60 crore[62], the Bank settled the accounts at ₹23 crore by sacrificing principal of ₹3.92 crore and unapplied interest of ₹14.68 crore.

As discussed in above paragraphs, significant deviations from the terms and conditions of sanction orders, credit policies, RBI directives etc. were noticed. The major lapses noticed were disbursement of loans without complying with terms of sanctions, departure from bank's credit policy with regard to minimum acceptable

58 NPA of ₹24.92 crore and unapplied interest of ₹26.17 crore
59 ₹51.09 crore - ₹20.56 crore (being realizable value of property)
60 Cash Credit, Term loan and post-shipment limit
61 A loan extended to the borrower for making repayment of interest component of an existing loan
62 NPA of ₹26.92 crore and unapplied interest of ₹14.68 crore

ratios, non-conducting of fresh valuation of mortgaged properties in accordance with Bank's credit policy, non-classification of accounts as NPA in line with the prudential norms of RBI, non-obtaining of credit rating of the borrower's debt portfolio from any external agency as required under credit policy of the Bank, non-conducting of credit audit and stock audit at regular intervals, releasing of funds in excess of available drawing powers, diversion of funds for purpose other than that specified in the sanction orders, non-creation of charge on mortgaged properties, non-maintenance of Drawing Powers Register and disbursements without ensuring matching contribution by promoter.

We also observed that Audit Committee of the Board while reviewing the top NPAs of the Bank on quarterly basis had also reviewed the NPA cases highlighted in this report. However, the agenda notes placed before the Audit Committee did not analyse and highlight the lapses noticed in these accounts viz., non-adherence to disbursement conditions, poor monitoring, deviation from bank's credit policy, non-classification of accounts as NPA, non-conducting of credit audit/ stock audit, irregular release/ diversion of funds, non-creation of charge on mortgaged properties, non-obtaining of adequate security etc. In absence of analysed information, the Audit Committee could not review these accounts properly and could not utilize the opportunity to issue directions to eradicate the weaknesses in the Bank's credit process as one of the prime roles of audit committee is to provide oversight of Company's system of internal controls.

Audit observations where advances made by the Bank have not yielded returns and recovery is doubtful had featured in Reports of C&AG of India in earlier years[63] also. However, the Bank had failed to eradicate weaknesses in its credit process as evident from the NPA cases discussed above.

4.7.6 Information Technology Systems

As Information Technology (IT) becomes more pervasive, technology-based solutions are increasingly used for business operations. In order to ensure smooth functioning of IT systems, effective design and operation of automated internal controls are also becoming more and more important. In order to automate its operations through Core Banking Solution (CBS), the Bank employed 'Finacle' application in the year 2003. Following deficiencies were noticed with regard to IT systems of the Bank:

i) Incorrect linking/ Non-linking of PANs

Bank's policy on Know Your Customer (KYC) norms and Anti Money Laundering standards stipulates that Business Unit should verify the genuineness of Permanent Account Number (PAN) Card submitted by customer by authenticating the same on the income tax web portal enabled through bank's intranet. Further, the RBI advised (November 2016) all the banks to ensure quoting of PAN while accepting deposit of more than ₹50,000 in cash.

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[63] Para No. 5.2 of Report No. 1 of the year 2018; Para No. 5.1 of Report No. 3 of 2015, Para 3.1 of Report No. 2 of 2016 of Government of Jammu and Kashmir

PAN is a ten-digit unique alphanumeric number issued by the Income Tax Department. The fourth character of PAN represents the status of the PAN holder[64]. Data analysis showed that bogus PANs were entered in case of 3,944 accounts. Further, a test-check of accounts[65] showed that cash deposits in excess of the threshold limit of ₹50,000 were accepted in case of 21 such accounts, indicating that mechanism was not in place to counter high cash deposits in accounts linked with bogus PANs. We also observed that there was no inbuilt feature in Bank's IT system to ensure authentication of PAN while entering it in the Finacle, which resulted in non-linking/ incorrect linking of PAN with Customer Identification Numbers (CIDs).

The following deficiencies were also noticed:

- A test check of 36 CIDs[66] revealed that PANs of Individuals were linked in case of CIDs of three registered companies[67]. Further, PANs were not linked in case of CIDs of six registered companies[68].
- Out of six CIDs where PANs were not linked, high value cash transactions (credits) ranging between ₹2.50 lakh and ₹15.00 lakh were allowed in case of M/s Green Land Cements Private Limited during the period from October 2017 to January 2019, thereby violating advisory of the regulator.
- Cash transactions (credits) ranging between ₹1.00 lakh and ₹5.82 lakh were also allowed in accounts of two customers[69] during the period from November 2016 to March 2019, despite the fact that PANs were not tagged with the CIDs.
- Test-check of 43 CIDs of borrowers who were provided benefit under Interest subvention scheme further revealed that in case of five customers[70] registered as Private limited companies, PANs of individual/ firms were linked. Out of these five customers, cash deposits ranging between ₹37 lakh and ₹50 lakh were made in March/ April 2019 in current deposit account of M/s Kehwah Xpress Services Pvt. Limited.
- In case of two CIDs[71], bogus PANs (with fourth character as 'D') were linked. Both these customers were advanced consumption loans of ₹10 lakh each during April/ May 2017.

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64 'P' stands for Individual, 'C' stands for Company, 'H' stands for Hindu Undivided Family, 'A' stands for Association of Persons, 'B' stands for Body of Individuals, 'G' stands for Government Agency, 'J' stands for Artificial Juridical Person, 'L' stands for Local Authority, 'F' stands for Firm/ Limited Liability Partnership and 'T' stands for Trust

65 Out of 3944 accounts, 138 accounts were test-checked

66 Pertaining to NPA cases of registered Companies

67 CIDs-002762993 (M/s Meera Motors Pvt. Limited), 006167698 (M/s Jammu Chemicals Pvt. Limited) and 001962191 (M/s Sultan Agro Tech Pvt. Ltd.)

68 CIDs-003169820(M/s Astra Asia Therapeutics Pvt. Limited), 003169831 (M/s Tanwell Tanneries Pvt. Limited), 042916165 (M/s Green Land Cements Pvt. Limited), 004139797 (M/s Samash Technology Pvt. Limited), 000732052 (M/s Tanwell Tanneries Pvt. Limited) and 001893604 (M/s Baba Anmol Food Pvt. Limited)

69 CIDs-011425809 (M/s Dream Travel) and 003816346 (Mr. Mohd. Ramzan Dar)

70 M/s Shuhul Automobiles Pvt. Limited, M/s Halycon Builders Developers and Construction Pvt. Limited, M/s Himalayan Rolling Steel Industries Pvt. Limited, M/s Kehwah Xpress Services Pvt. Limited and M/s Shuhul Roller Flour Mills Pvt. Limited

71 CIDs-013511049 (Mr. Amit Wanchoo) and 013635494 (Mr. Ramesh Kaul)

Non-linking or incorrect linking of PAN may result in tax evasion by individuals and entities as all financial transactions made by a particular individual or entity could not be tracked. Besides, acceptance of deposits in excess of ₹50,000 without obtaining PAN details violated RBI's advisory of November 2016.

The Management replied (August 2019) that most of the accounts were seeded with PAN/ Form 60. However, the accounts which could not be seeded with PAN/ Form 60 were centrally frozen except the Government Offices, small and other accounts. Further, a separate application for PAN/ TAN verification has been made available to business units for ascertaining the authenticity of PAN of a customer. With respect to bogus PANs, the Management stated that accounts are being rectified.

However, there was no inbuilt feature in Bank's IT system to ensure authentication of PAN while entering it in the Finacle as a result of which bogus PANs were entered in the system and incorrect PANs were linked with CIDs.

ii) High Value Transactions in small accounts under PMJDY

The RBI issued (August 2014) a press release wherein it clarified that persons who do not have any of the 'officially valid documents' can open 'small accounts' with banks under Prime Minister Jan Dhan Yojna (PMJDY). A 'small account' can be opened on the basis of a self-attested photograph and putting her/ his signature or thumb print in the presence of an official of the bank. Further, the Regulator clarified that the aggregate credits in such accounts should not exceed Rupees one lakh in a year.

Audit analysis of data revealed that no check was put in place and high value transactions were allowed in these small accounts. In 2,271 Jan Dhan accounts, 2,538 high value credit transactions exceeding ₹one lakh and ranging up to ₹ten lakh were noticed during the months of March 2018 and March 2019, thereby violating RBI guidelines.

The Management replied (August 2019) that in case of PMJDY accounts there were adequate checks in place in the system for disallowing high value transactions in such accounts. However, on fulfilling the full KYC requirements, transaction limits shall not be applicable to such PMJDY accounts, as allowed by the regulator.

The reply is not acceptable as high value transactions were noticed in 397 PMJDY accounts where full KYC was pending as of June 2019.

iii) Non-closure of small accounts pending KYC

The RBI (August 2014) clarified that the 'small accounts' would be valid normally for a period of twelve months. Such accounts would be allowed to continue for a further period of twelve more months, if the account holder provides a document showing that she/ he has applied for any of the Officially Valid Document (OVD), within twelve months of opening the small account.

Audit, however, observed that the Bank had allowed operations in 1,64,816 small accounts where KYC was pending for more than two years, as the IT systems of the Bank were not programmed to deactivate or stop operations in these accounts.

Age-wise analysis of data further showed that out of 1,64,816 small accounts, KYC in case of 1,15,428 accounts were pending for more than four years.

Non-closure of small accounts where KYC is pending for more than two years resulted in exposure to the risk of being used by criminal elements for money laundering activities, besides violating the guidelines of the Regulator.

The Management replied (August 2019) that most of the small accounts pertained to beneficiaries of social welfare schemes and customers belonging to lower economic strata of the society.

The reply is not tenable as the cases highlighted above were operational small accounts where KYC was pending for more than two years.

iv) Non-strengthening of SWIFT related controls

The RBI asked (February 2018) all the scheduled commercial banks to implement and strengthen SWIFT[72] related operational controls in a time-bound manner. Records showed that the Bank failed to ensure that the users entering/ passing/ authorizing the transactions in CBS[73] are different from those operating in SWIFT. Further, the Bank failed to ensure that the logs generated from SWIFT were fully reconciled for financial and non-financial messages independently on a daily basis by either the internal audit or concurrent audit. As the Bank failed to implement SWIFT related controls within the timelines set by the Regulator, penalty of ₹two crore was imposed (February 2019) on the Bank by the regulator.

The Management replied (August 2019) that the RBI direction stands complied as the integration of CBS with SWIFT has been completed and the SWIFT messages are getting generated from CBS (Finacle) itself.

However, the Bank failed to comply with directions within the timelines set by the Regulator as a result of which it had to pay a penalty of ₹two crore.

v) Punching of Date of Birth in Finacle System

The date of birth as part of the customer's profile helps the bank to identify a prospective customer of legal age to open an account with the bank. Further, when the minor attains the age of majority he has to comply with certain rules before he is allowed to operate the account. The date of birth also helps the Bank to identify the senior citizens once the account holder reaches the age, as the bank offer special privileges to senior citizens.

Data analysis revealed that 'Date of Birth' in case of 14,51,988 Customer IDs (CIDs)[74] had not been entered in the Finacle system, in absence of which the age of the customer could not be ascertained and the applicability of correct interest rate could not be ensured.

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72 Society for Worldwide Interbank Financial Telecommunication system
73 Core Banking Service
74 Out of 1,17,97,142 CIDs

Considering the importance of date of birth in identification of customer, the 'Date of Birth' field should be made mandatory.

vi) Non-uploading of scanned signatures

The Corporate Office of the Bank advised (June 2017) all operating levels to ensure that signatures are scanned and uploaded into the system immediately on opening of the new customer accounts in the eligible schemes of the bank, besides also ensuring that scanning of signatures in all pending legacy accounts is taken up on war footing to complete the process in minimum possible time.

Data analysis revealed that scanned signatures had not been uploaded in the system in case of 17,85,455 accounts. As such, instant verification of signature through IT system was not possible in respect of these accounts which may result in customer inconvenience, particularly while handling inter-branch transactions.

We further observed that out of these accounts, the Bank had issued cheque books in case of 22,197 accounts, thereby exposing itself to the risk of fraud.

The Management stated (August 2019) that the scanning and uploading of signatures has been undertaken on a war footing.

vii) Multiple Customer Identification Numbers allotted to one customer

The increased complexity and volume of financial transactions necessitated that customers do not have multiple identities within a bank. The RBI advised (June 2012) all the scheduled commercial banks to introduce a unique identification code for each customer which would help banks to identify customers, track the facilities availed, monitor financial transactions in a holistic manner and enable banks to have a better approach to risk profiling of customers, besides smoothening banking operations for the customers.

Audit, however, observed that multiple customer identification numbers (CIDs) have been allotted to single customer. Data analysis revealed that 9,209 customers, identified on the basis of Permanent Account Numbers (PAN) issued by Income Tax Department, had been allotted multiple CIDs ranging between two and 172 CIDs.

This defeated the very purpose of creating unique customer identification, besides rendering the database unreliable.

The Bank stated (August 2019) that it is pursuing the matter with the concerned business units.

viii) Non-capturing of details of RCs in case of vehicle loans

In order to meet the twin objectives of obtaining of Registration Certificates (RC), viz. proof of purchase of the vehicle out of the bank finance and its hypothecation to the bank, the Corporate Office of the Bank advised (January 2009) that all business units shall invariably obtain the copies of RCs in all vehicle loans soon after their disbursement.

Audit, however, observed that the IT system of the Bank had not been capturing details of RCs in case of vehicle loans[75] in absence of which the Bank Management could not exercise control through Management Information System (MIS) over the business units to ensure obtaining of RCs by them.

ix) Insurance details in case of Vehicle Loans

In order to safeguard the bank's interest, the copy of insurance cover is obtained from the borrowers in case of vehicle loans. Further, the corporate office of the Bank advised (January 2019) all the business units to ensure that the vehicles financed by them remain comprehensively insured during the course of finance, in order to safeguard the interests of the Bank.

Data analysis, however, showed that field 'POLICY-AMT' in the IT system of the Bank had not been filled in 1,464 vehicle loan accounts. Further, bogus data like '0' (28 cases), '1' (4,551 cases), '2 to 100' (173 cases) and '100000000000000' (215 cases) had been entered in field 'POLICY-AMT' of the database, thereby rendering the database unreliable.

x) Punching of value of securities in Finacle System

The data captured in the Finacle system is of paramount importance as the Bank relies heavily on this data to comply with the regulatory guidelines and also for financial reporting. The operative levels of the Bank were advised (November 2017) to cross check the security value as well as other details punched in the Finacle in respect of existing credit facilities with the records available with them and make necessary changes in CBS.

Data analysis[76] revealed that values of primary securities had not been entered in the Finacle system in case of 44 Cash Credit (CC) accounts despite the fact that the CC limits were primarily secured by way of hypothecation of stock/ debtors. It was also observed that in case of 23 accounts, the value of primary security entered ranged between 1,038 *per cent* and 1,90,533 *per cent* of the sanctioned limit.

Entering of incorrect data in the Finacle system had rendered the data base unreliable.

xi) Non-updation of KYC of high-risk customers

The RBI instructed (July 2013) all the scheduled commercial banks to carry out full 'Know Your Customer' (KYC) exercise at least every two years for high risk individuals and entities[77].

Data analysis, however, revealed that KYC of 11,901 high risk customers had not been updated so far (May 2019). Age-wise analysis of data showed that out of 11,901 customers, KYC updation in case of 2,006 customers was pending for more than three years.

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75 95,385 vehicle loans were outstanding as of May 2019

76 2,933 accounts having sanctioned limit between ₹one crore and ₹five crore

77 As per guidelines of RBI, every bank is required to categorize the customers into low, medium and high risk considering parameters of risk perception like nature of business activity, location of customer, mode of payments, volume of turnover, social and financial status etc.

In absence of KYC updation of high-risk customers, the objective of KYC guidelines to prevent the bank from being used, intentionally or unintentionally, by criminal elements for money laundering activities could not be achieved.

In reply, the Management stated (August 2019) that the matter is being pursued with the business units.

xii) Non-application of preferential rate of interest on auto-renewal of term deposits of Senior Citizens

As per the Bank's policy, domestic Term Deposits of Senior Citizens of over 60 years of age shall earn 0.50 *per cent* additional rate over and above the normal rate as applicable to other term deposits.

Audit, however, observed that term deposits which were auto renewed had not been applied additional rate of interest of 0.50 *per cent,* despite the fact that the customers had attained the age of 60 years.

The Management stated (August 2019) that the matter has been taken up with the Finacle vendor.

xiii) Non-punching of date of valuation of security in Finacle System

In terms of prudential norms of RBI on Income Recognition, Asset Classification and Provisioning pertaining to Advances, collateral securities charged in favour of the bank should be got valued once in three years. Further, Bank's credit policy stipulates that fresh valuation of the property mortgaged to the bank as primary or collateral security should be made after every three years.

Audit observed that the actual dates of valuation of securities had not been punched in the Finacle system in absence of which the Management could not exercise control through MIS over the security valuations.

This may be viewed in light of the fact that values of securities captured in the Finacle system in case of 14 NPA accounts[78] have not been updated even after lapse of more than three years from the date of their entry in the Finacle system thereby contravening regulator's norms.

4.7.7 Restructuring/ Rescheduling of loan accounts

RBI guidelines allow rescheduling of repayment terms of loans in cases where borrowers face difficulties in meeting obligations due to internal and external factors. The guidelines are aimed at enabling the revival of loans and have to be considered after assessing viability of units and ascertaining certainty of repayment. The Bank regularly reviews the financial position of its borrowers through examination of their financial statements, progress of the projects for which loan have been advanced, etc. Similarly, customers who have been advanced loans, being part of consortium of lenders, are pursued through lead bankers. The credit policy of the bank prescribes

[78] Out of 37 NPA accounts test-checked

that in case of restructuring of loan assets, the sanctioning authority has to submit its proposal of restructuring to the next higher authority in the Bank hierarchy.

During 2014-18 the Bank restructured 32,893 loan accounts involving ₹5,765.64 crore. Of these, 1,780 accounts involving ₹1,906.62 crore (33 *per cent*) were downgraded to non-performing assets and eventually 79 restructured accounts were written off, involving ₹344.85 crore.

The Management replied (December 2018) that it had to restructure a large quantum of its credit portfolio in the State on account of natural calamities in September 2014 and disturbances in July 2016. They added that some accounts rehabilitated in 2014 slipped to NPA category as a result of mismatch of cash flows due to social disturbances in July 2016 and that Bank is pursuing NPA loan accounts.

The Bank's reply is not tenable as the accounts affected in July 2016 were again restructured as per Special Rehabilitation Package of 2016 and their cash flow mismatch was offset as discussed in succeeding paragraphs.

4.7.7.1 Rehabilitation Package to the borrowers hit by riots/ disturbance

Government of J&K declared (November 2016) the State as 'disturbance hit' from 08 July 2016 to 15 November 2016. In order to provide relief to borrowers affected due to turmoil/ disturbances, the RBI advised (December 2016) that all borrowal accounts as on 07 July 2016, except those which were overdue[79], should be considered for restructuring. Consequently, the Bank rehabilitated/ restructured 36,132 borrowal accounts to the tune of ₹3,265.83 crore between January and March 2017 under the Rehabilitation Package. Audit checked all 64 cases of borrowers with outstanding balances of ₹five crore and above which were rehabilitated. They included ten ineligible borrowal accounts[80] amounting to ₹333.24 crore, which were overdue as on 07 July 2016 but were included under this rehabilitation package.

> The downgrading and writing off of restructured loans showed that the purpose of revival of the loans through restructuring was not achieved.

The Management replied (December 2018) that in order to provide relief to borrowers, the Bank undertook the rehabilitation package in accordance with RBI Master Direction on Natural Calamities. As such, the Bank ensured that all dues up to 07 July 2016 were cleared and only those accounts were rehabilitated.

The Bank did not offer its comments to the specific ten ineligible borrowers pointed out by Audit which were also considered for rehabilitation.

79 Any amount due to the Bank under any credit facility is overdue if it is not paid on the due date fixed by the Bank

80 M/s Himalayan Rolling Steel Industries Pvt. Ltd. (two Accounts), M/s HK Cement Industries (two Accounts), M/s Magpie Hydel Construction Operation Industries Pvt. Ltd., M/s Valley Fresh Cold Chain Pvt. Ltd., M/s Kashmir Premium Apples Pvt. Ltd., M/s Pinnacle Resorts Pvt. Ltd. (two Accounts) and M/s Alpine Fresh Pvt. Limited

4.7.8 Interest subvention to restructured accounts under Prime Minister's Development Package

In order to provide financial assistance for restoration of livelihood of traders/ self-employed/ business establishments etc. affected during September 2014 floods in Jammu and Kashmir State, the Scheme for Interest Subvention (Scheme) was announced by the Hon'ble Prime Minister on 07 November 2015 under 'Prime Minister's Development Package'. Accordingly, the Government of India released (25 April 2016) ₹800 crore under the Scheme. Since Jammu and Kashmir Bank Limited is convenor of Jammu and Kashmir State Level Banker's Committee (JKSLBC), the scheme was to be implemented and monitored by the State Government through the Bank. Further, the State Government accorded (29 April 2016) sanction for:

i. subsidizing interest to the extent of 50 *per cent* for the period from 01 September 2014 to 31 December 2015 in case of accounts restructured under Special Rehabilitation Package after floods of September 2014, with a cap of ₹five lakh per unit; and

ii. grant of five *per cent* interest subvention to these restructured accounts with effect from 01 January 2016 to 31 December 2019, with a cap of ₹five lakh per business unit, per annum.

Providing of interest subvention to restructured accounts

Audit observed that the Bank provided subvention to the extent of 50 *per cent* of interest charged between 01 September 2014 and 31 December 2015 to 11,449 accounts which were restructured after floods of September 2014. Scrutiny of records, however, revealed that accounts of nine ineligible borrowers which were sub-standard as on 30 June 2014 were also restructured under Special Rehabilitation Package after floods of September 2014. Subsequently, these accounts were provided interest subvention of 50 *per cent* of the interest charged during 01 September 2014 to 31 December 2015 amounting to ₹0.16 crore. Further, the Bank also provided five *per cent* of interest subvention from 01 January 2016 to 30 September 2018 amounting to ₹0.37 crore to these nine borrowers' accounts.

Since these accounts were not to be restructured as per Special Rehabilitation Package, providing of interest subvention to the extent of ₹0.53 crore was not in order.

4.7.9 One Time Settlement

The Bank had formulated a policy[81] for recovery of NPAs by way of compromise/ negotiated settlement and write-off under the guidelines of the RBI for reducing its NPA level. The position of cases settled under OTS, recovery effected and amount

[81] OTS requests received as per policy are awarded marks on various parameters and ultimate settlement amount is dependent on the quantum of marks received by the requests. The minimum settlement amount can vary from 100 *per cent* of the principal amount of NPA to any amount that may be possible to recover

waived off (Principal and Interest) during 2014-2018 is indicated in **Table-4.11** below:

Table-4.11: One Time Settlements

(₹ in crore)

Year	No of cases settled	Balance outstanding		Settlement amount		Amount waived off	
		NPA	Un-applied interest	NPA	Un-applied interest	NPA	Un-applied interest
2013-14	1,456	70.02	24.73	59.12	3.64	10.90	21.09
2014-15	1,008	47.89	27.63	44.33	3.39	3.56	24.24
2015-16	1,362	95.47	40.17	75.38	5.44	20.09	34.73
2016-17	1,326	619.95	298.66	547.00	16.26	72.95	282.40
2017-18	2,989	547.35	405.76	388.44	8.78	158.91	396.97
Total	**8,141**	**1,380.68**	**796.95**	**1,114.27**	**37.51**	**266.41**	**759.43**

(Source: Information provided by the Bank)

From the table above, it could be seen that the Bank settled 8,141 NPA cases involving outstanding balance of ₹2,177.63 crore (NPA: ₹1,380.68 crore; Unapplied interest: ₹796.95 crore) during 2014-2018 under One Time Settlement (OTS) Scheme and recovered ₹1,151.78 crore (NPA: ₹1,114.27 crore; Unapplied interest: ₹37.51 crore) through compromise/ negotiated settlements and sacrificed ₹1,025.84 crore (principal amount: ₹266.41 crore; un-applied interest: ₹759.43 crore) constituting 47.11 *per cent* of the outstanding balances of principal (19.30 *per cent*) and un-applied interest (95.29 *per cent*), respectively.

4.7.9.1 Case studies-One Time Settlement

Audit scrutiny of 21 One Time Settlement (OTS) cases (where the outstanding amount exceeded ₹one crore) revealed that in following four cases OTS was sanctioned in deviation of Bank's recovery policy which resulted in sacrificing of principal amount of ₹17.97 crore.

Sl. No.	OTS Case	Brief observations
1.	M/s Oriental Trimex Limited	• The Bank sanctioned (December 2000) a CC limit of ₹11.60 crore in favour of M/s Oriental Trimex Limited (Company) which was further enhanced (December 2012) to ₹25.00 crore. The Bank also sanctioned ILC/ FLC of ₹1.60 crore, BG of ₹1.00 crore and a term loan of ₹3.40 crore in favour of the Company. • The Company defaulted in repayment of credit facilities and the Bank declared (March 2016) accounts as NPA. The outstanding balance at the end of August 2017 against the Company was ₹33.56 crore (NPA of ₹27.22 crore and unapplied interest of ₹6.34 crore). • The Company approached (August 2017) the Bank for OTS with a total sum of ₹12.00 crore which was accepted by the Bank. • As per Bank's recovery policy, minimum recovery of ₹20.41 crore[82] was to be made under OTS. However, the Bank settled the case by accepting ₹12.00 crore and got the OTS approved from the Board.

[82] 75 *per cent* of ₹27.22 crore

		The Bank justified the deviation on the plea that its share in realizable value of security available was ₹9.69 crore. • Realizable value of Plant and Machinery (having book value of ₹12.58 crore as on 31 March 2017) was not considered at the time of settlement despite the same being hypothecated to Bank. • As per the Bank's recovery policy, huge variation in valuation of properties at the time of considering the OTS as compared to its valuation at the time of advance was to be critically examined. • However, the Bank had not examined the variation in valuation of properties despite the fact that the value of securities at the time of advance was ₹42.55 crore[83] which had come down to ₹19.38 crore[84] at the time of settlement. • Thus, sanctioning of one time settlement in deviation of Bank's recovery policy resulted in sacrificing of principal amount of ₹8.41 crore.
2.	M/s Zain Autocrafts Private Limited	• The Bank sanctioned (May 2013) a CC limit of ₹5.61 crore and a term loan of ₹0.50 crore in favour of M/s Zain Autocrafts Private Limited (Company) against primary security of hypothecation of plant and machinery, tools and equipments etc. and collateral security of mortgage of four immoveable properties valued (March 2013) at ₹6.26 crore. Besides, the personal guarantee of Directors and third party guarantee of four persons were also obtained. • The Company defaulted in repayment and the Bank classified (March 2017) the accounts of the Company as NPA. The outstanding balance at the end of October 2017 against the Company was ₹9.17 crore (NPA of ₹8.19 crore and unapplied interest of ₹0.98 crore). • The Bank settled (December 2017) the account at ₹6.15 crore under OTS. • As per Bank's recovery policy, minimum ₹8.19 crore[85] was to be recovered. • The Bank settled the case by accepting ₹6.15 crore and got the OTS approved from the Board of Directors. The Bank justified the deviation on the plea that realizable value of security available was ₹5.87 crore. However, the personal guarantees were not considered despite the fact that guarantors were having net worth of ₹five crore at the time of settlement. • Thus, sanctioning of one time settlement in contravention of Bank's recovery policy resulted in sacrificing of principal amount of ₹2.04 crore.

83 As per valuation report of June 2012/ January 2013
84 Valuation report of January 2017
85 100 *per cent* of NPA balance

3.	M/s Hind Industries Limited	• The Bank sanctioned (July 2011) a term loan of ₹40.00 crore in favour of M/s Hind Industries Limited against equitable mortgage of immoveable property, situated at Okhla Industrial Area, valued (June 2011) at ₹43.62 crore, corporate guarantee of M/s Hind Agro Industries Limited and personal guarantee of promoter Directors of the borrower company. • The Bank also sanctioned a term loan of ₹10.60 crore in favour of M/s Hind Air Links Private Limited[86] against the primary security by way of equitable mortgage of immoveable property, situated at Nariman Point Mumbai, valued (June 2010) at ₹20.13 crore and collaterally secured by way of hypothecation of current assets of the Company, corporate guarantee of the Company and personal guarantee of promoter Directors. • Further, the Bank sanctioned (July 2012) a Cash Credit limit of ₹15.60 crore in favour of M/s Integrated Livestock Village Farm Private Limited[87]. The facility was extended against primary security by way of hypothecation of stock and other current assets and collaterally secured by way of mortgage of agricultural land, situated in Aligarh, valued (January 2011) at ₹6.20 crore. • Owing to non-servicing of accounts, the Bank classified (September 2015) the accounts of all the three Companies as NPA. The outstanding balance at the end of February 2017 against the group companies was ₹59.73 crore (NPA of ₹45.90 crore and unapplied interest of ₹13.83 crore). • The Bank settled (March 2017) the accounts of all the three companies under OTS at ₹35.00 crore by considering all the three companies as one consolidated entity. • As per the recovery policy, the Bank was required to recover NPA balance of ₹4.13 crore[88] in case of Hind Air Links Private Limited, NPA balance of ₹26.17 crore[89] in case of M/s Hind Industries Limited and 75 *per cent* of NPA balance equivalent to ₹11.69 crore[90] in case of M/s Integrated Livestock Farms Private Limited. • The Bank accepted amount of ₹35.00 crore against the minimum amount of ₹41.99 crore required to be recovered from the group companies thereby departing from its recovery policy. • The Bank had not examined the variation in valuation of properties despite the fact that the value of securities at the time of advance was ₹57.38 crore[91] which had come down to ₹28.09 crore[92] at the time of

86 Sister Concern of M/s Hind Industries Limited

87 Sister Concern of M/s Hind Industries Limited

88 100 *per cent* of NPA balance

89 100 *per cent* of NPA balance

90 75 *per cent* of NPA balance

91 Immoveable property at Okhla Industrial Area with realizable value (June 2011) of ₹39.26 crore and Immoveable property situated at Nariman Point Mumabi with realizable value (June 2010) of ₹18.12 crore. It does not include value of agricultural land at Aligarh as the same was not revalued at the time of settlement

92 Valuation report of June 2016/ January 2017

		settlement, thus recording 51 *per cent* decline in value over the period of six years. • Thus, sanctioning of OTS in deviation to Bank's recovery policy resulted in sacrificing of principal amount of ₹6.99 crore.
4.	M/s Rajendra Exports	• The Bank sanctioned (February 2012) a CC facility of ₹0.90 crore in favour of M/s Rajendra Exports (firm) which was further enhanced (November 2012) to ₹two crore. The facility was extended against primary security by way of hypothecation of stocks and books debts and collaterally secured by way of equitable mortgage of property having value of ₹2.24 crore. • Owing to non-servicing of account, the Bank declared (September 2014) the accounts as NPA. • The outstanding balance at the end of February 2017 against the firm was ₹3.23 crore (NPA of ₹2.18 crore and unapplied interest of ₹1.05 crore). • As per the recovery policy, the Bank was required to recover minimum ₹2.18 crore[93] under OTS. • The Bank settled (April 2017) the account at ₹1.65 crore thereby departing from its recovery policy. • The Bank had not examined the variation in valuation of property despite the fact that value of mortgaged property had shown a decline of 33 *per cent*[94] over the period of time. • Thus, sanctioning of OTS in contravention of Bank's recovery policy resulted in sacrificing of principal amount of ₹0.53 crore[95].
	Total	**Sacrifice of Principal amount of ₹17.97 crore**

(Source: Calculations based on the information provided by the Bank)

4.7.10 Assignment of rights to Assets Reconstruction Companies

The SARFAESI Act, 2002 provides for acquisition by any Securitisation Company or Reconstruction Company of any right or interest of any Bank or Financial Institution in any financial assistance for the purpose of realisation of such financial assistance. The Bank had a policy for sale of financial assets to Securitisation Companies/ Reconstruction Companies under the SARFAESI Act, 2002 as also to other Banks/ FIs/ NBFCs etc.

92 Valuation report of June 2016/ January 2017
93 100 *per cent* of NPA balance
94 Property valued at ₹2.24 crore at the time of advance (November 2012) was valued at ₹1.50 crore at the time of settlement (January 2017)
95 ₹2.18 crore less ₹1.65 crore

The Bank sold ten NPAs to Asset Reconstruction Companies (ARCs) during the period 2014-18 by sacrificing principal amount of ₹671.10 crore and unapplied interest of ₹504 crore as detailed in **Table-4.12** below:

Table-4.12: Assignment of rights to Assets Reconstruction Companies

(₹ in crore)

Year	No. of cases sold	Balance Outstanding		Settlement Amount		Sacrificed Amount	
		NPA	Unapplied interest	NPA	Unapplied interest	NPA	Unapplied Interest
2015-16	01	38.27	1.87	38.27	1.87	0	0
2016-17	03	139.03	35.60	125.83	0	13.20	35.60
2017-18	06	1,606.35	468.40	948.45	0	657.90	468.40
Total	**10**	**1,783.65**	**505.87**	**1,112.55**	**1.87**	**671.10**	**504.00**

(Source: Information provided by the Bank)

Audit findings in respect of one of the test-checked cases sold by Bank to ARC are discussed below:

4.7.10.1 Sale of financial assets to ARC below the reserve price resulted in loss of ₹21.89 crore

The Corporate office of the Bank identified (October 2016) the account of M/s Eurobond Industries Private Limited (Company) for sale in response to which the Sale Initiating Committee recommended (January 2017) to fix the reserve price at ₹36.89 crore on 25:75 basis (Cash: Security Receipts). The outstanding balance against the Company at the end of November 2016 was ₹73.83 crore[96] against the available securities of ₹53.43 crore. The Bank management accorded (October 2017) approval for sale/ assignment of financial asset at the reserve price of ₹36.89 crore. The Bank invited (October 2017) bids, in response to which only one bid was received for ₹12 crore. After negotiations with the bidder, the Bank sold (March 2018) the financial assets of the Company to CFM Asset Reconstruction Private Limited (bidder) at a price of ₹15 crore, on Cash (25 *per cent*) and SR (75 *per cent*) basis.

Bank's policy on sale of stressed assets stipulated that realisation on sale of asset to ARC should not be less than Net Present Realisable Value (NPRV)/ Reserve Price. However, the Bank accepted the bid for the financial assets of the Company at a sale price of ₹15 crore, against the reserve price of ₹36.89 crore and departed from its policy, resulting in loss of ₹21.89 crore.

The Management replied (December 2018) that CFM (ARC) offered ₹12 crore, who had already taken over the account of the UCO Bank at 20 *per cent* which was holding 49.26 *per cent* stake in the consortium. Since the J&K Bank was holding 32.36 *per cent* stake in the consortium, it was considered fit to accept offer of CFM at 25 *per cent* of the NPA balance. Further, the account was fully provided and there was no negative impact on P&L of the bank with the deal.

96 NPA of ₹59.22 crore and unapplied interest of ₹14.61 crore

However, the sale of financial asset to ARC below the reserve price resulted in loss of ₹21.89 crore and the Bank's plea that the account was fully provided and there was no negative impact on P&L of the Bank may be seen in light of the fact that the provision was made in the accounts by charging the P&L of the Bank for the earlier years. Further, the Bank was not under any obligation to sell financial assets at a price lower than the reserve price.

4.7.11 Investments

The investment portfolio of the Bank comprised Statutory Liquidity Ratio (SLR) securities[97] and non-SLR Investments[98]. The position of investments during 2014-2018 is detailed in ***Appendix-4.1.4.***

> The Bank had to invest funds under RIDF/ NABARD/ SIDBI as it failed to meet priority sector lending targets.

- As on 31 March 2018, total Investments (SLR and Non-SLR) was ₹22,036.41 crore against ₹25,770.83 crore as on 31 March 2013.
- SLR investments increased from ₹14,067.43 crore at the end of March 2013 to ₹17,201.97 crore at the end of March 2018, registering a 22.28 *per cent* increase. The annual return on SLR investments during 2014-18 ranged between 7.57 *per cent* and 8.60 *per cent*.
- Non-SLR investment decreased from ₹11,703.40 crore at the end of March 2013 to ₹4,834.44 crore at the end of March 2018 registering a 58.69 *per cent* decrease. The annual return from Non-SLR investments was 8.87 *per cent* in 2013-14, which declined to 6.09 *per cent* during 2017-18.
- The Bank placed ₹10,971.30 crore under Rural Infrastructure Development Fund (RIDF)/ National Bank for Agriculture and Rural Development (NABARD)/ Small Industries Development Bank of India (SIDBI) during 2014-2018 at rate of return ranging between 4.45 *per cent* and 5.43 *per cent*.
- Overall annual yield on investment had decreased from 8.06 *per cent* in 2013-14 to 7.26 *per cent* in 2017-18.

4.7.11.1 Non-Performing Investments

A non-performing investment (NPI) is one where interest/ instalment (including maturity proceeds) is due and remains unpaid for more than 90 days. The movement of NPIs during 2013-14 to 2017-18 is depicted in **Table-4.13** below:

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97 Investment in securities of the Government of India issued under Market Borrowing Programme and the Market Stabilisation Scheme, Treasury Bills of the Government of India, State Development Loans of the State Governments issued under the Market Borrowing Programme

98 Non-SLR securities comprise of PSU Bonds, Corporate Debentures, Commercial papers (CP), Certificate of Deposits (CD) etc.

Table-4.13: Movement of Non-Performing Investments

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1. Total NPIs at the beginning of each year	95.96	144.61	251.24	369.53	569.67
2. Additions during the year	48.80	108.33	209.11	227.95	167.69
3. Total	**144.76**	**252.94**	**460.35**	**597.48**	**737.36**
4. NPIs written off	0.00	0.00	0.00	0.00	0.00
5. Recovery Made					
(a) In full	0.00	1.70	90.82	27.81	0.00
(b) By way of settlement/ sale	0.15	0.00	0.00	0.00	84.14
(c) Amount waived off under OTS	0.00	0.00	0.00	0.00	0.00
6. Total Adjustment (4+5)	**0.15**	**1.70**	**90.82**	**27.81**	**84.14**
7. Total NPIs at the end of each year (3-6)	144.61	251.24	369.53	569.67	653.22
8. Gross Investment at the end of each year	26215.85	25126.14	22882.80	23553.88	22036.41

(Source: Information provided by the Bank)

During 2013-14 to 2017-18, NPIs had increased from ₹95.96 crore at the end of March 2013 to ₹653.22 crore at the end of March 2018 whereas investment had decreased to ₹22,036.41 crore at the end of March 2018 from ₹26,215.85 crore at the end of March 2014. The Bank had recovered ₹204.62 crore during 2014-2018. The recovery of NPI as a percentage of total NPI during 2014-2018 ranged between 0.10 *per cent* and 19.73 *per cent*.

4.7.11.2 Case studies-Non-Performing Investments

Audit scrutiny of NPI cases revealed imprudent investment decisions, non-invoking of State Government's guarantee in a case and non-safeguarding of Bank's interest, which led to doubtful recovery/ loss of ₹180.43 crore in four[99] test-checked cases out of 28 NPI cases as below.

Sl. No.	NPI case	Facts
1.	Investment (December 2010) of ₹20 crore in Secured Redeemable Non-Convertible Debentures (NCDs) of M/s Elder Pharmaceuticals Limited at interest rate of 10.75 *per cent* payable half yearly and the principal amount was to be repaid in 12 quarterly instalments.	• Investment secured by first charge on immovable properties of the borrower. • The Company did not pay first three quarterly instalments of principal due on 23 March 2013, 23 June 2013 and 23 September 2013. • The half yearly interest payment due on 23 June 2013 was defaulted and the investment was declared (September 2013) as NPI. • External rating agency (M/s CARE) assigned safety rating 'A+' signifying adequate safety of investment. • The Bank's internal rating was not correct as a result of which the higher score (adequate safety) was awarded instead of lower score of moderate safety.

99 Includes case study on investment of ₹48.37 crore in Commercial Papers (CP) of M/s Deccan Chronicle Holdings Limited (Company), already commented in para 5.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2017

		• As per the investment policy, entry level minimum rating for debentures by external agency should be A(+) and above. Further, the proposal for investment was subject to bank's internal rating system. • The Bank could not ensure parity of internal rating with external rating.
2.	Investment in SLR Bonds of Jammu and Kashmir State Financial Corporation (a State Government of Jammu and Kashmir undertaking) of ₹seven crore[100].	• The Bonds were secured by way of guarantee of Government of Jammu and Kashmir (GoJK). • The interest payments were to be made by the Corporation on half yearly basis and principal was to be repaid on date of maturity. • The Corporation failed to make repayments as a result of which the Bank (September 2012) declared investment as NPI. • The total outstanding was ₹9.14 crore (Principal: ₹seven crore and Interest: ₹2.14 crore) by end of June 2016. • Bank did not invoke the guarantee of State Government for repayment of full principal and accrued interest thereon. • The account was settled by accepting ₹seven crore as full and final settlement against the total outstanding of ₹9.14 crore. • Interest due of ₹2.14 crore sacrificed.
3.	Investment (May 2010) in ₹100 crore[101] Deep Discount Convertible Debentures (DDCDs) of M/S Lavasa Corporation Limited.	• External rating agency (M/s CARE) assigned adequate safety rating – 'A+'[102] based on promise of 'put option' on promoter Company, M/s Hindustan Construction Company Limited. • Investment of ₹100 crore was secured by mortgage over one acre of land valuing ₹0.50 crore only. • The Bank had no specific policy/ guidelines in place for investments in unsecured financial instruments. • The DDCDs were converted (August 2010) into non-convertible debentures (NCDs) at rate of interest of 10.75 *per cent* per annum redeemable on 12 May 2015. • Bank had right to exercise 'put option' for repayment of principal at the end of 39^{th}, 48^{th} and 60^{th} month from closing date of offer or on a material breach of contract if breach not cured within 60 days.

100 Investment in Bonds of face value ₹three crore at interest rate 8.30 *per cent* with date of maturity as 20 February 2012, Bonds of face value ₹two crore at interest rate 7.92 *per cent* with date of maturity as 26 July 2012 and Bonds of face value ₹ two crore at interest rate of 6.50 *per cent* with date of maturity as 12 March 2013

101 At a discount of ₹six crore

102 Instrument with this rating offer adequate safety for timely servicing of debt obligations

		• Company made interest payments up to August 2011 and expressing inability to pay further interest requested non-exercise of 'put option'. • In lieu of non-exercising of put option – rate of interest raised from 10.75 *per cent* per annum to 12.50 *per cent*. • Company could not make interest payment due on February 2015 and Bank exercised put option available at 60th month. • Company expressing inability to honour repayment of NCDs, Bank declared (June 2015) the NCDs as NPI. • The investment was sold (October 2018) to an ARC for ₹13.50 crore. • The Bank lost ₹130.87 crore (Principal: ₹82.89 crore and Interest: ₹47.98 crore) in the sale.
4.	Investment of ₹48.37 crore in Commercial Papers (CP) of M/s Deccan Chronicle Holdings Limited (Company)	• Investment was made (27 March 2012) in deviation to RBI guidelines as internal credit analysis of CP was not carried out by the Bank and it relied on external rating of 'A1+'[103] by M/s Credit Analysis & Research Limited (CARE). • The CP were due (26 June 2012) for redemption with maturity value of ₹50 crore. • The Company failed to pay the redemption amount and the Bank declared (September 2012) the investment as a Non-Performing Investment (NPI). • The Bank filed (November/ December 2012) an application for recovery of dues in Debt Recovery Tribunal-1 (DRT), Mumbai and winding up petition at National Company Law Tribunal (NCLT). As per the approved resolution plan, the Bank's share was ₹0.95 crore. However, the implementation of the Resolution Plan was pending (October 2019). • The Bank overlooked the constraints[104] highlighted by M/s CARE while assigning the rating of A1+. • The Bank did not take cognizance of decline of 73.87 *per cent* in Company's profit for period ending December 2011 vis-à-vis profit for the period ending December 2010. • The Bank also ignored the fact that the stocks of the Company which were trading at ₹180 in Mumbai Stock Exchange during April 2010, fell to ₹49.20 in December 2011.

103 Instrument with this rating offer very strong degree of safety for timely servicing of debt obligations

104 Higher collection days leading to stretched working capital cycle, decline in the profitability margins and inherent industry risk, political uncertainty in Andhra Pradesh for its publication business, current ratio and quick ratio declined between March 2010 and March 2011 and the Company posted decline of 11.15 *per cent* in 2010-11 in Publication Division which was the core business of the Company

		• There was an issue of CP of the same value i.e. of ₹50 crore by the Company, subscribed by the Bank, which carried a settlement date of 27 March 2012 which is the commencement date of the current CP, i.e. roll over, that met with default. This indicated that the fresh issue of CP was a renewal or means of providing funds to the Company to honour its repayment commitment in the earlier CP. • Thus, investment in CP in violation of the RBI guidelines and by placing complete reliance on the ratings of CARE led to doubtful recovery of ₹47.42 crore[105].
	Total	**Doubtful recovery/ loss: ₹180.43 crore**

(Source: Calculations based on the information provided by the Bank)

4.7.12 Priority Sector Lending

All the Commercial Banks are advised by RBI to lend to priority sector[106] at 40 *per cent* of Adjusted Net Bank Credit (ANBC)[107] on the rate of interest, as determined from time to time. The advances extended to Priority Sector are detailed in ***Appendix-4.1.5***.

There had been shortfall in all the years during 2014-2018 in lending to the Agriculture Sector. The highest shortfall was ₹4,601.56 crore (in 2016-17) and least shortfall was ₹1,815.63 crore (in 2017-18). Under Micro & Small and Other Enterprises sector, the shortfall was ₹828.72 crore (14.57 *per cent* of target) during 2013-14. The lending to weaker sections sector saw a shortfall of ₹756.20 crore (13.81 *per cent* of target) during 2016-17.

The Bank had not fixed any targets for recovery and has not maintained data pertaining to movement of NPAs under Priority Sector during 2013-2018. The NPA ratio for advances to this sector was 2.28 *per cent* at the end of March 2014 and 4.77 *per cent* at the end of March 2018.

The Management stated (December 2018) that the Bank has been making efforts to achieve targets of loan disbursements under priority sector. The Bank had to face disturbances/ calamities which culminated in targets under priority sector not being achieved.

The Management's contention of targets under priority sector lending not being achieved due to disturbances/ calamities in the home state is not acceptable as there was shortfall of 44.06 *per cent* and 31.66 *per cent* during 2013-14 and 2015-16 respectively under Agriculture Sector which was before the difficult business period quoted.

105 ₹48.37 crore less ₹0.95 crore

106 Agriculture sector, Weaker sections of society and Micro, small and other enterprises

107 Net Bank Credit (Gross advance less provisions) *plus* investments made by banks in non-SLR bonds held in 'Held to Maturity' category

4.8 Compliance framework

The activities of the Bank are subject to and controlled by various regulatory and statutory bodies besides its own internal control procedures. The broad internal controls in the Bank are its:

- **Stock audit** wherein the Bank periodically reviews borrower's credit availing capacity through physical verification of stocks against which Bank has extended credit;
- **Credit audit** wherein Bank reviews the compliance of the terms and conditions prescribed while extending loan;
- **Concurrent audit** of its branch level operations and **Risk Based Internal Audit (RBIA)** of activities to ensure operational risk levels are within acceptable limits**.**

The external controls on the Bank are exercised by operation of various Acts and policy frameworks[108] made thereunder by the regulator viz., the RBI. Besides, the Bank is subject to audit by its Statutory Auditors who are appointed by the C&AG. Further, C&AG also conducts supplementary audit of the accounts of the Bank under section 143 of the Companies Act, 2013.

The C&AG also conducts compliance audit of the Bank and significant issues of interest noticed during audit are reported to the State Legislature through its Audit Reports.

4.8.1 Post-sanction follow-up of Advances

Bank undertakes review of its advances portfolio on regular basis as a part of internal control. Credit Policy of the Bank stipulates close supervision and post disbursal follow up of advances for timely detection of warning signals and taking preventive measures for avoiding possible slippage into NPAs. The procedures for review of advances are discussed below:

4.8.1.1 Non-periodic review of Working Capital Limits

The Bank procedures stipulate renewal/ review of all working capital credit limits sanctioned and outstanding at least once in a year. All renewal of sanctioned working capital shall be ensured within due dates and not later than three months after due date in accounts, where it was not possible due to specific reasons.

The Bank had not reviewed/ renewed all the Working Capital (WC) limit accounts, as laid in Credit Policy. The shortfall in review/ renewal of accounts during 2013-14 to 2017-18 ranged between 3,612 (2.33 *per cent*) and 37,126 (7.42 *per cent*). Age-wise analysis of accounts revealed that 3,143 out of 5,00,403 accounts remained un-reviewed/ un-renewed as of March 2018, for more than three months, thereby enhancing the chances of slippage of these accounts to NPA.

The Management attributed (December 2018) the major portion of pendency in the renewal of working capital limits to Kissan Credit Card (KCC) Scheme where review is on annual basis but the renewal of the facilities is to be conducted after five years.

[108] Prudential norms on Income Recognition, Asset Classification (IRAC) and Provisioning pertaining to Advances, Know Your Customer (KYC) norms, RBIA etc.

The Bank added that follow-up mechanism for review/ renewal of accounts has been strengthened.

The reply of the Management is not tenable as the KCC accounts remaining un-reviewed/ un-renewed for more than three months constituted 21.96 *per cent,* 36.53 *per cent* and 30.26 *per cent* of the total working capital accounts remaining un-reviewed/ un-renewed for more than three months during 2015-16, 2016-17 and 2017-18, respectively.

Non-review/ renewal of working capital limits of the loans beyond three months after the due date had resulted in inadequate monitoring of the 3,143 accounts and indicated inadequate internal control.

4.8.1.2 Stock Audit

Credit policy of the Bank (2013) stipulates annual stock audit[109] of all accounts availing fund-based working capital limit of ₹one crore and above. In accounts where working capital limit is ₹0.50 crore and above, but designated as high risk, annual stock audit is done.

Table-4.14 indicates the position of stock audits planned and conducted during 2013-18 with working capital limit of ₹one crore and above:

Table-4.14: Stock Audit

Year	Targets/planned	Actually conducted	Shortfall	Percentage of shortfall
2013-14	838	777	61	7.28
2014-15	687	610	77	11.21
2015-16	765	697	68	8.89
2016-17	500	354	146	29.20
2017-18	810	731	79	9.75

The Management assured (December 2018) for completion of stock audit of eligible accounts on time.

In absence of timely stock audit, the Bank management could not review the performance of accounts and ensure the end use of funds. Audit also observed, in cases where deficiencies were pointed out by stock auditors, corrective measures were taken by the Bank before renewing working capital credit facilities.

4.8.1.3 Credit Audit

Credit Policy of the Bank also stipulates that all borrower accounts where Bank has exposure of ₹one crore will be subject to internal credit audit annually. Audit noticed that the Bank neither planned credit audit of all the eligible accounts during 2013-2018 nor conducted credit audit of all the accounts planned for coverage during this period. The shortfalls ranged between 50.78 *per cent* and 70.80 *per cent*, as detailed in **Table-4.15**:

[109] Including Book Debts

Table-4.15: Credit Audit

Year	Number of accounts having exposure of more than ₹one crore and above (A)	Targets/ planned (B)	Actually conducted (C)	Shortfall (A-C)	Percentage of shortfall
2013-14	3,264	1,615	953	2,311	70.80
2014-15	3,159	1,831	1,516	1,643	52.01
2015-16	3,471	1,818	1,585	1,886	54.34
2016-17	3,692	1,749	1,332	2,360	63.92
2017-18	4,145	2,571	2,040	2,105	50.78

Analysis showed as many as 109 observations relating to deficiencies in documentation and securities, non-conducting of external credit rating, infirmities in insurance covers, non-obtaining of fresh valuation of properties etc. were pending for compliance, as of February 2018.

The Management replied (December 2018) that care is taken to cover all the accounts during the particular year but there were some deficiencies in timely completion. They added that of the 109 observations raised in the credit audit, more than 50 *per cent* observations stand rectified by the concerned units and rest are under process.

The point stays that the Bank had not been able to complete the credit audit of targeted accounts within the scheduled time period. Observations raised in credit audit still remained un-attended, periodicity of which could not be ascertained in Audit as age-wise data of observations was not available.

The non-conducting of credit audit on regular basis deprived the Bank Management an opportunity of picking up early warning signals and initiating timely corrective action. Test check also showed that out of 29 NPA cases highlighted in the report, credit audit was not conducted regularly in 13 NPA cases.

4.8.2 Legal Audit and Status of cases under litigation

Credit policy of the Bank stipulates (April 2013) that the title deeds and other documents received in respect of all credit exposures of ₹five crore will be subject to annual legal audit. Re-verification of title deeds with relevant authorities was to form part of regular audit exercise till the loan stood fully repaid. However, legal audit department was established only by April 2016 and the Bank had not fixed any targets for legal audit during 2016-17 and 2017-18. Further, the Bank did not have any approved legal audit policy until July 2018 when the first ever policy on legal audit was approved by the Board of the Bank.

The Management stated (August 2018) that the Bank had initially fixed target of auditing legal documents for all loan accounts with credit exposure of ₹50 crore which was achieved as of 31 March 2018. They added (December 2018) that legal audit policy of the Bank was approved by the Board of Directors in July 2018 and now, the legal audit of all accounts exceeding exposure of ₹five crore would be covered.

Thus, the control requirement as stipulated in credit policy of regular verification of legal documents had not been fulfilled.

4.8.2.1 Position of NPA cases under litigation

As of March 2018, 1,686 cases involving ₹2,117.61 crore were under litigation. Pending litigation cases included 378 cases involving ₹194.71 crore filed more than five years back, where final decisions from competent courts were awaited. The Bank could not execute orders passed in its favour in 518 cases involving ₹26.84 crore. It could not effect recovery or dispose-off assets of borrowers in 620 cases involving ₹241.91 crore, where decrees in favour of the Bank had been executed.

The Management attributed (December 2018) the delays to non-taking over of mortgaged properties in absence of the borrowers/ guarantors to execute the orders and procedural delays in disposal of mortgaged properties.

4.9 Lead Bank Scheme

As per the directives of the RBI, the Lead Bank Scheme came into existence with objectives of improvement in branch expansion, financial inclusion, deposit mobilisation and lending to the priority sectors, especially in rural/ semi-urban areas.

i) Financial Literacy Camps

In terms of RBI guidelines (June 2013) the rural branches were required to hold at least one financial literacy programme every month and the banks were also advised (January 2016) to organise special camps for five target groups[110] during 2016-17.

Details of Financial Literacy camps conducted by the Bank during last four years ending March 2018 are given in **Table-4.16** below:

Table-4.16: Financial Literacy camps

Particulars	2014-15	2015-16	2016-17	2017-18
Targets	5,070	5,295	33,264	5,676
Achievements	2,750	2,759	2,182	3,745
Shortfall	2,320	2,536	31,082	1,931
Per cent	45.76	47.89	93.44	34.02

(Source: Information provided by the Bank)

The Management attributed (December 2018) the shortfall to natural calamity and social causes. The Management may make efforts to improve Bank's social outreach.

ii) Finance to Joint Liability Farming Groups of 'Bhoomiheen Kissan'

Government of India launched (October 2014) a scheme for landless farmers called 'Joint Liability Farming Groups of Bhoomiheen Kissan' to be implemented through NABARD. The Bank could not achieve targets set by NABARD for formation of Joint Liability Groups (JLGs) during 2016-2018. The shortfall ranged between 12.02 *per cent* and a high of 81.82 *per cent*, as detailed in **Table-4.17** below:

110 Farmers, SHGs, Micro & Small Entrepreneurs, Senior Citizens and School children

Table-4.17: Finance to JLGs under Bhoomiheen Kissan Scheme

(₹ in crore)

Year	Target	No. of JLGs formed	Shortfall	*Percentage* of Shortfall	Accounts of JLGs credit linked	Amount of Credit
2015-16	641	304	337	52.57	207	3.14
2016-17	749	659	90	12.02	546	10.21
2017-18	2,112	384	1,728	81.82	310	3.71

The Management attributed (December 2018) low take-off of JLG scheme to the social causes which had adversely affected the credit dispensation.

iii) Financial Inclusion plan of J&K State

RBI advised (December 2015) the State Level Bankers Committee (SLBC) convenor banks to identify villages having population of more than 5000 but without any branch of scheduled commercial banks and allot these to banks for opening of branches by 31 March 2017. In J&K State, 104 such villages were identified by J&KSLBC and 48 villages were allocated to the Bank. RBI allowed (May 2017) to provide banking services cover in these villages by opening 'CBS-enabled Banking Outlets'[111]. Records showed that the Bank had covered only nine such villages by the end of May 2018.

The Management stated (December 2018) that the Bank had expedited the process of coverage of these locations and has further covered 12 more locations, thus taking the total number of villages to 21. The opening of banking outlets in other uncovered villages is under process.

4.10 Human Resources Management

As per Bank's recruitment policy, the posts of Probationary Officers (POs), Relationship Executives (REs) and Banking Associates (BAs) are required to be filled through a written examination conducted by Institute of Banking Personnel Selection (IBPS) or by any other agency, as decided from time to time. The written examination shall be followed by interview to be conducted by selection committee of the Bank. Further, as per the practice in vogue, the Chairman of the Bank had made need-based appointment of attendants/ sub-staff. Since the records relating to appointment of attendants/ sub-staff had been seized by Anti-Corruption Bureau, Kashmir, the same were not made available to audit for scrutiny.

The details of Bank's business and manpower for the last five years ending 31 March 2018 are given in **Table-4.18** below:

[111] Core Banking Solution (CBS) enabled Banking Outlet is a fixed point service delivery unit, manned by either bank's staff or its Business Correspondent where services of acceptance of deposits, encashment of cheques/ cash withdrawal, lending, transfer of money are provided for a minimum of 4 hours per day for at least five days a week

Table-4.18: Bank's Business and Human Resources

Particulars	March 2014	March 2015	March 2016	March 2017	March 2018
Number of Employees[112]	10,418	10,281	10,161	10,022	11,422
Total Business[113] (₹ in crore)	1,09,913.17	1,06,061.64	1,15,252.88	1,21,725.15	1,37,870.78
Business per Employee (₹ in crore)	**10.55**	**10.32**	**11.34**	**12.15**	**12.07**
Number of Business Units	777	817	857	865	904
Employees per Business Unit	13.41	12.58	11.86	11.59	12.63
Employee Cost (₹ in crore)	743.91	894.03	1,057.4	1,122.54	1,286.88
Cost per Employee (₹ in crore)	**0.07**	**0.09**	**0.10**	**0.11**	**0.11**

(Source: Data provided by the Bank and Bank's Annual Report for the respective years)

Analysis showed that number of employees of the Bank had increased from 10,418 by end of March 2014 to 11,422 by end of March 2018 and business per employee had also increased from ₹10.55 crore by end of March 2014 to ₹12.07 crore by end of March 2018. The cost per employee which was ₹0.07 crore in March 2014 had increased to ₹0.11 crore in March 2018.

4.10.1 Irregularities in recruitment process

In order to meet its manpower requirement, the BODs of the Bank resolved (December 2014) to recruit 1,014 Relationship Executives (REs) and 554 Banking Associates (BAs). The Bank invited (March 2015) online application for the post of REs. However, posts of BAs were not advertised. The written examination of REs consisted of three tests viz., English Language (30 marks), Reasoning (35 marks) and Quantitative Aptitude (35 marks) aggregating 100 marks and were conducted in September 2015 through Institute of Banking Personnel Selection (IBPS). Out of 38,000 candidates who appeared for the examination, IBPS shortlisted (September 2015) 6,155 candidates by applying test-wise criteria[114].

The Bank, however, revised (December 2015) the requirement for the post of REs to 1,327 on district-wise basis, out of which 760 vacancies (57 *per cent*) were allotted to Kashmir Division, 520 (39 *per cent*) to Jammu Division and 47 (four *per cent*) to Ladakh Division, on the basis of total business handled by each division.

However, the Bank applying fresh criteria decided to interview candidates with minimum 30 marks (overall)[115] in the written examination and called (December 2015) 3,107 candidates for interview. Interviews of 2,851 shortlisted candidates[116] were conducted between June 2016 and September 2016.

Meanwhile, the BODs accorded (March 2017) approval for creation cum appointment of 350 REs and 1,250 BAs citing huge time gap between the two assessments (December 2014/ 2015 and March 2017).

The Bank declared (March 2017) the final result for the post of 350 REs. 1,250 candidates were offered (March 2017) the post of BAs, against which only 872 joined. The Bank offered post of BAs to 378 more candidates in order of merit,

112 Including contractual employees
113 Advances plus Deposits (Net-off Inter-bank deposits)
114 Minimum marks to be obtained in each test
115 Without any minimum marks criteria for each test
116 256 candidates did not appear for interview

after BODs approval for filling up the unfilled posts in the cadre, out of 2,851 interviewed candidates.

Further, the BODs accorded (September 2018) approval for initiating recruitment process of 1,200 BAs and 250 Probationary Officers (POs). The Bank advertised the recruitment notification for said vacancies in October 2018. The BODs also accorded (October 2018) approval to appoint 582 leftover candidates as BAs, out of 2,851 interviewed candidates.

Audit observed the following:

- The Bank had an Officers Service Manual 2000 which was the policy document for Human Resources (HR) related issues. The Manual *inter alia* included J&K Bank Ltd. Officer Recruitment, Discipline, Conduct and Appeal Rules 2000. However, the Manual was not reviewed during the period between July 2000 and August 2018. Resultantly, recruitment of officers/ employees during this period were made on the basis of rules which were not updated, as discussed in succeeding paragraph.
- The Bank advertised (March 2015) the post of REs without disclosing the number of vacancies to be filled, as the same was not required to be disclosed as per Recruitment Rules in vogue. The requirement of notifying the number of vacancies was incorporated only in September 2018.
- The Bank prepared district-wise merit list of 3,107 candidates. The fact that the recruitment would be district-wise was not mentioned in the advertisement notification. Bank's recruitment policy did not specify preparation of merit list on district-wise basis and the decision was taken by the Chairman without approval of the BODs.
- The District-wise preparation of merit list allowed the Bank to call 1,377 candidates (44 *per cent*) from Jammu Division, 1,614 candidates (52 *per cent*) from Kashmir Division and 116 candidates (four *per cent*) from Ladakh Division, whereas as per short listing by IBPS on the basis of marks obtained in individual tests, 57.60 *per cent* successful candidates were from Jammu Division, 39.80 *per cent* from Kashmir Division and 2.60 *per cent* from Ladakh Division.
- The Bank did not have any defined criteria approved by the BODs for selection of candidates for interview, thereby leaving scope for flexibility in shortlisting the candidates. This was evident from the fact that the IBPS initially shortlisted (September 2015) 6,155 candidates[117] which was revised to 3,107 after deciding to call district-wise candidates with minimum of 30 marks in the written examination. Further, the short listing of candidates by applying the fresh criteria was approved by the Chairman without placing the same before the BODs.
- The Bank did not place (March 2017) any agenda papers before the BODs for seeking its approval for creation cum appointment of 350 REs and 1,250 BAs, against recruitment of 1,014 REs and 554 BAs, as approved earlier by the BODs in

[117] After applying test-wise and category-wise criteria as per Bank's requirement

December 2014. The same was got approved from the BODs without detailed analysis of manpower requirement. The Bank also did not apprise the BODs that it had advertised (March 2015) only for post of REs and the appointment of 1,250 BAs would be out of the shortlisted candidates who appeared for post of REs.

- The BODs desired (20 March 2017) that there shall be no waiting list in respect of those vacancies which remained unfilled due to non-joining of selected candidates. The Board further directed that recruitment process should be completed in a time bound manner. However, the BODs overturned its earlier decision and accorded (September 2017) approval for filling up of 378 vacancies in BAs cadre from the available shortlisted candidates.
- The Bank initiated (6 October 2018) the recruitment process for filling of posts of 1,200 BAs. However, the Bank appointed (16 October 2018) 582 leftover candidates as BAs, out of 2,851 selected on the basis of written exam conducted in September 2015.
- The Bank advertised (March 2015) the posts of REs, whereas the shortlisted candidates were offered the posts of BAs, indicating Bank's extemporary approach in recruitment of employees. This may be viewed in light of different roles, responsibilities, qualification etc. attached to the posts of REs and BAs.
- As per the Bank's recruitment policy, the minimum qualification for the post of clerical staff (Banking Associate) was graduation from any recognized university. However, the Bank invited (March 2015) applications for post of REs with minimum qualification as 55 *per cent* marks in graduation or 50 *per cent* in post-graduation. The Bank's offer of posts of BAs to candidates shortlisted against the posts of REs without advertising these posts had deprived the graduates of the State with required eligibility criteria from participating in the selection process**.**

Thus, number of posts was not disclosed in the advertisement and was kept open-ended as a result of which the Bank revised the manpower requirement from time to time without detailed analysis. There was no Board-approved policy with regard to shortlisting of candidates on district-wise/ test-wise basis. The Bank offered appointments to 2,560 candidates to the post of RE/ BA in multiple tranches[118] during March 2017 to October 2018 by shortlisting the candidates on the basis of written examination conducted for the post of REs and held way back in September 2015. The purpose of conducting the interview was also defeated as 90 *per cent*[119] of the interviewed candidates were offered appointment for the post of RE/ BA.

The Management admitted that the number of posts for RE was not mentioned in the advertisement notification and stated (November 2019) that Recruitment Policy 2018 has now provided for notifying the number of vacancies in the advertisement notification. They also added that the Bank shall review Recruitment Rules on annual

118 350 candidates were offered post of RE and 1,250 candidates were offered post of BA in March 2017, 378 candidates were offered post of BA in September 2017 and 582 candidates were offered post of BA in October 2018

119 2,560 out of 2,851 interviewed candidates

basis. Further, the advertisement notification did not mention any selection procedure to be followed by the Bank. However, the selection of REs/ BAs was done on the basis of requirement as per Board Resolution. The Management further stated that the candidates who were not considered for post of RE were offered post of BA to fill the vacancies in BAs, as recruitment process is a costly and time consuming affair.

Since there was no Board-approved policy with regard to shortlisting of candidates on district-wise/ test-wise basis, the criteria applied for shortlisting of candidates should have been approved by the BODs. Further, appointment of 350 REs and 1,250 BAs, against recruitment of 1,014 REs and 554 BAs, as approved earlier by the BODs in December 2014, was got approved from the BODs without detailed analysis of manpower requirement. The Bank's offer of posts of BAs to candidates shortlisted against the advertised posts of REs had deprived opportunity to the graduates of the State with less than 55 *per cent* marks, thereby restricting the competition.

4.11 Corporate Social Responsibility (CSR)

As per the provisions of Companies Act, 2013 read with Companies (Corporate Social Responsibility Policy) Rules, 2014, the Bank formulated CSR Policy for incurring expenditure under CSR activities. The main objective of the Bank's CSR Policy envisaged continuous commitment to operate in an economically, socially and environmentally sustainable manner, so as to ensure upliftment of the marginalized and under-privileged sections of the society.

The Bank spent, directly or through various implementing agencies, ₹95.80 crore on the projects/ activities under CSR during 2014-15 to 2017-18. CSR Policy of the Bank stipulates that it shall spend a maximum of 15 *per cent* of the prescribed CSR budget for a single activity/ project and not more than 35 *per cent* in a single segment. Audit, however, observed, that in contravention to its CSR Policy, the Bank had spent 53.09 *per cent* and 83.82 *per cent* on a single activity/ project (Kashmir Golf Course Development) during 2016-17 and 2017-18, respectively**.** Further, the Bank had spent 49.33 *per cent,* 75.99 *per cent* and 95.27 *per cent* under a single segment (Ecology and Environment) during 2015-16, 2016-17 and 2017-18, respectively.

Bank spent ₹39.17 crore during 2015-16 to 2017-18 on re-development of Kashmir Golf Course owned by GoJK, ₹6.28 crore on Amusement Park at Pahalgam, ₹1.51 crore on printing of Ration Cards (RCs) issued by State Government during 2015-16 in contravention of the Bank's CSR policy.

The Management replied (December 2018) that CSR is a Board level activity and all the decisions regarding CSR activities/ programs remain in the knowledge of the Board. Accordingly, deviations for segment/ project approvals are exercised by the Board within the purview of its powers.

The reply of the Management is not tenable as the Board was not apprised of the fact that the expenditure on the particular activity/ program exceeded the threshold fixed under the CSR policy.

Following deficiencies were noticed in spending of CSR fund by the Bank:

i) Expenditure on re-development of Kashmir Golf Course out of CSR fund

The Bank incurred an expenditure amounting to ₹39.17 crore during 2015-16 to 2017-18 on re-development of Kashmir Golf Course, owned by GoJK, in contravention of the Bank's CSR policy, which focuses on upliftment of the marginalized and under-privileged sections of the society. We also observed that redevelopment of golf course under CSR activities was approved by the Board without the same being placed before the CSR Committee of the Board, thereby deviating from Bank's CSR policy.

The Management stated (December 2018) that floods in 2014 damaged the Golf Course and the Bank as a conscious corporate took up its re-development under CSR.

We are of the opinion that as Bank's CSR policy focuses on upliftment of the marginalized and under-privileged sections of the society, the expenditure on re-development of golf course, which is a preserve of the elite, was not in order. Further, the expenditure on Golf Course during 2016-18 constituted 47.73 *per cent* of the total funds spent under CSR activities by the Bank during this period.

ii) Expenditure on Amusement Park, Pahalgam

The Bank incurred an expenditure of ₹6.28 crore on Amusement Park, Pahalgam under the segment 'Ecology/ Environment' during 2015-16 to 2017-18. The amusement park is an entertainment spot and expenditure thereon was not related with ecology & environment activities.

iii) Expenditure on printing of Ration Cards issued by State Government

The Bank incurred an expenditure of ₹1.51 crore out of CSR funds, on printing of Ration Cards (RCs) issued by State Government during 2015-16, despite the same being responsibility of State Government, for which cost was charged from beneficiaries. The Management replied (December 2018) that the issue will be taken up with the concerned departments.

iv) Monitoring of CSR projects

Rule 5(2) of CSR Rules, 2014 stipulates that the CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the Company. Audit observed that an adequate and transparent monitoring mechanism commensurate to the size and nature of expenditure incurred by the Bank was not in place.

The Management stated (December 2018) that the monitoring system shall be strengthened further.

4.12 Conclusion and Recommendations

- The Bank had not complied with the SEBI Regulations and some of the provisions of Companies Act, 2013 relating to corporate governance. The Bank may adopt the best practices to ensure good corporate governance;
- Overlooking and non-enforcement of internal control procedures, inadequate security cover, improper credit appraisal, non-adherence to the pre or post-disbursement conditions of the sanctions, irregular monitoring etc. were observed which contributed to advances turning into NPAs. There was loss/ non-recovery of ₹197.98 crore, doubtful recovery of ₹1,599.14 crore and excess payment of ₹14.10 crore in the 29 cases. The Bank may exercise due diligence while extending credit facilities, so as to safeguard its interests;
- The Bank's credit control system and financial reporting system was deficient. The Bank may improve the monitoring system of advances to ensure that high risk accounts are identified in time and corrective steps taken to prevent slippage to NPA;
- Deficiencies were noticed in IT systems of the Bank. The Bank may take steps to strengthen controls of its Information Technology Systems;
- The Bank sanctioned OTS in deviation of its recovery policy resulting in sacrifice of principal amount of ₹17.97 crore in test-checked cases. The Bank may settle the OTS cases strictly in accordance with the policy guidelines and ensure realisation of principal amount in full;
- Imprudent decision-making, non-invoking of guarantee and non-safeguarding of Bank's interest led to doubtful recovery/ loss of ₹180.43 crore in test-checked NPI cases;
- The Bank could not achieve targets under priority sector lending. The Bank may make efforts to achieve the targets under Priority sector lending;
- Irregularities in recruitment process were noticed. The Bank may take steps to streamline its recruitment process; and
- The Bank incurred irregular expenditure on activities in violation of its CSR policy. The Bank may spend money under CSR activities strictly in accordance with its CSR policy.

The cases pointed out are based on test check conducted by Audit. The Bank may initiate action to comprehensively examine similar cases and take necessary corrective action.

Chapter-5

Compliance Audit (PSUs)

CHAPTER - 5

COMPLIANCE AUDIT (PSUs)

Health and Medical Education Department

(Jammu and Kashmir Medical Supplies Corporation Limited)

5.1 Deficiencies in procurement of medicines and equipment by Jammu and Kashmir Medical Supplies Corporation Limited

There were delays in finalisation of rate contracts and consequent delay/ non-procurement of medicines/ drugs, instruments, machinery, equipment; thereby defeating the purpose of creation of the Company. Audit came across instances of non-levy of liquidated damages of ₹7.92 crore for delayed supplies, undue favour to a supplier by rejecting the seven bidders and procuring suture items at negotiated rates for ₹25.48 crore from the eighth bidder, non-operationalisation of 102 Ambulance Service in the State over a period of more than three years despite receiving ₹3.18 crore and non-observance of prescribed procedure for empanelment of testing laboratories leading to extra-expenditure of ₹9.47 lakh.

To purchase and supply medicines, surgical equipments, machinery/ vehicles for various medical colleges and hospitals of the State Government and to relieve the service providers (Head of the Departments/ Doctors) of the additional burden of procurement and distribution process, the State Government approved (May 2013) establishment of Jammu and Kashmir Medical Supplies Corporation Limited (Company) which was incorporated on 5th March 2014 under the Companies Act, 1956 and functions under the administrative control of the Health and Medical Education (HME) Department. Audit on procurement of medicines and equipments by the Company covering the period from 2014-15 to 2017-18 was conducted during March 2018 to June 2018 by test check of records of the Corporate Office and five[1] (out of 13[2]) Drug Ware Houses (DWH), selected on the basis of value of medicines/ equipments/ disposables handled during the period 2015-16 to 2017-18 and considering the regional balance of the two broad regions (Kashmir and Jammu) of the State of Jammu and Kashmir.

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1 Three in Jammu Province viz. (i) Regional DWH Nagrota (ii) GMC DWH Nagrota (iii) Regional DWH Rajouri and two in Kashmir Province viz. (iv) GMC DWH Srinagar and (v) Regional DWH Anantnag

2 Seven in Jammu Province viz. (i) Regional DWH Jammu (ii) Regional DWH Nagrota (iii) GMC DWH Nagrota (iv) Regional DWH Kathua (v) Regional DWH Rajouri, (vi) Regional DWH Doda and (vii) ISM Provincial Jammu and six in Kashmir Province viz. (i) Regional DWH Anantnag, (ii) Regional DWH Baramulla, (iii) GMC DWH Srinagar (iv) DWH Dental College Srinagar, (v) Regional DWH Srinagar and (vi) ISM Provincial, Srinagar

Out of total expenditure of ₹573.63 crore incurred by the 11[3] Heads of Department in HME Department for procurement of drugs/ medicines, machinery/ equipment, furniture etc. during 2014-15 to 2017-18, only ₹236.07 crore (41 *per cent*) were transferred to the Company and procurements worth ₹337.56 crore (59 *per cent*) were made by these HoDs themselves, which indicated that the objective of relieving the service providers of the extra burden of purchase/ distribution was not served.

Audit observed that there had been delay in finalisation of Annual Rate Contract (ARC) leading to delay in procurement of drugs/ medicines/ machinery/ equipments. Audit findings are as under:

1. In first phase, the Company invited tender for the procurement of drugs/ medicines/ fluids comprising 870 items (increased to 940[4]) in June 2015, January 2016 and July 2016, out of which the Company finalised ARCs for only 592 items (63 *per cent*) in three instances during November 2015 and June 2017 by taking time ranging between 87 days and 320 days after issue of NIT (Notice Inviting Tender). Similarly, out of 723 items advertised (February 2017) in second phase, the ARCs for only 362 items were finalised during November 2017 and March 2018 by taking time ranging between 273 days and 403 days. Delay and non-finalisation of ARCs in respect of 348 drugs and medicines in first phase and 361 drugs and medicines in second phase implied that these items could not be procured by the Company for the indenting Department, thereby defeating the purpose of creation of the Company.

The Management attributed (March 2019) the reasons for delay in the first phase to lack of response from bidders. Delay in second phase tender was attributed to implementation of Goods and Services Tax (GST), as the rates quoted by the qualified bidders were pre-GST and the clarifications of basic rates sought after opening of bids and their manual calculations took extra time. Reply could be viewed in light of the fact that 87 to 403 days were taken for finalisation of rate contracts and there is an urgent need to devise a mechanism for time bound finalisation of ARCs, so as to ensure timely procurement of drugs/ medicines.

2. The Company had not prescribed any time-line for finalisation of technical/ financial evaluation, meeting of the State Level Purchase Committee (SLPC) and issuance of ARC in its Standard Procurement Procedures (SPP). Audit test-checked (June 2018) 16 NITs of 11 types of items viz. drugs/ medicines, sutures, disposals, instruments, machinery, equipments, etc. and observed that considerable time was consumed at various stages of procurement process as detailed in ***Appendix-5.1.1***. Time ranging between 26 days and 284 days was taken (in respect of 14 NITs) for

[3] (i) Director Health Service (DHS) Kashmir; (ii) DHS Jammu; (iii) & (iv) Principal GMC and Associated Hospitals, Jammu; (v) & (vi) Principal GMC and Associated Hospitals, Srinagar; (vii) Government Dental College, Srinagar; (viii) Government Dental College, Jammu; (ix) Director, Indian System of Medicine Jammu and Kashmir; (x) Controller Drug and Food and (xi) Directorate of Family Welfare MCH and Immunisation

[4] 870 items in the initial NIT-01 of 2015, additional 45 items in NIT-356 of 2016 and additional 25 items in NIT-26 of 2016

holding technical evaluation meeting from the date of issue of NITs, between one day and 194 days (in respect of 11 NITs) for holding financial evaluation committee meeting from the date of holding of technical evaluation committee meeting, between three days and 253 days (in respect of 11 NITs) for holding SLPC meeting from the date of financial evaluation committee meeting. Overall time taken from issue of NIT to finalise the ARC/ RC (in 15 cases) ranged between 77 days and 487 days. Further, in one case ARC/ RC had not been finalised (March 2019) over a period of 737 days from the date of issue of NIT. Thus, due to delays in finalisation of ARC, the Company could not ensure the procurements for the indenting Department in a time bound manner.

The Management stated (March 2019) that the delay in finalization of tenders and issuance of ARC was due to reasons such as certain items requiring clearance from technical experts as well as laboratories, grievances/ complaints and court orders. The reply is not tenable as the Company failed to prescribe any time line for the various stages in its SPP.

3. The Company invited tenders for procurement of machinery/ equipments/ instruments to be supplied to the Indenting Health institutions. Audit scrutiny of 17 NITs invited by the Company during November 2015 to December 2017 revealed that against the requirement of 463 different types of instruments, machinery, equipment, etc. tendered by the Company, the rate contract of 118 items (25 *per cent*) was finalised (March 2018) between three months and 28 months. The rate contract in respect of remaining 345 items (75 *per cent*) had not been finalised despite lapse of 2 to 27 months from the date of issuance of NITs.

The Management attributed (July 2018) the delay to various stages including technical evaluation, physical demonstration of samples, rejection by the technical expert committee, etc. The Management also stated (March 2019) that delay was also due to non-participation of bidders and frequent unavailability of internet facility in Kashmir Valley as a result of which the NITs were extended several times, on the request of prospective bidders. The reply could be viewed in light of the fact that the ARCs/ RCs in respect of 75 *per cent* machinery/ equipment items had not been finalised despite lapse of 2 to 27 months from the dates of issuance of NITs.

4. For procurement of Suture[5] material (208 items of various specifications), Company invited (December 2015) tenders, wherein eight[6] manufacturers participated and technical bids were opened on 10th February 2016. However, it was arbitrarily decided (April 2016) that in view of past experience and patient safety, the Company would open financial bid of only M/s Johnson & Johnson (J&J), rejecting other seven bidders without assigning any reasons. This was done despite the fact that no adverse

[5] Various types of threads (absorbable/ non-absorbable) including needles, meshes, etc.

[6] (1) Johnson & Johnson Pvt. Ltd., (2) Lotus Surgical Pvt. Ltd., (3) Dolphin Sutures through Futura Surgicare Pvt. Ltd., (4) B. Braun Medical (India) Pvt. Ltd. through Shrim International Pvt. Ltd. (5) Sutures India Pvt. Ltd., (6) Meril Endo Surgery Pvt. Ltd. through Sanyog Enterprises, (7) MCO Hospital Aids Pvt. Ltd. and (8) Stericat Gutstrings Pvt. Ltd. through Crown Pharmaceuticals

comments were found against any of the participating bidders in terms of quality of material with regard to suture material used/ procured by the All India Institute of Medical Sciences (AIIMS) New Delhi and Tamil Nadu Medical Services Corporation Limited (TMSCL). The Company, after opening financial bid, issued (July 2016) Letter of Intent (LoI) in favour of J&J at negotiated rates in respect of 197 items and issued (October 2016 to March 2018) purchase orders valuing ₹27.03 crore, against which supplies of ₹25.48 crore were received till March 2019. The ARC for remaining 11 items was not finalised (March 2019).

Audit further found that Gujarat Medical Services Corporation Limited (GMSCL) and Rajasthan Medical Services Corporation Limited (RMSCL) had also made (26 April 2017/ 28 March 2018) rate contract of Suture items with bidders/ suppliers/ firms including those rejected by the Company.

The Management stated (March 2019) that for procurement of sample based items finalisation of tender depends upon the opinion of technical experts and at times item of single bid may get approved. However, to improve upon the existing system during 2018-19, the Company in the interest of fair competition has requested the end users to provide a fair chance to all the reputed manufacturers of suture material in the country. The reply is not tenable as the AIIMS, New Delhi and TMSCL had not reported any adverse comment against the manufacturers which were arbitrarily rejected by the Company. The rejection of seven bidders and procurement of suture items from J&J, at negotiated rates, defeated the very purpose of competitive bidding and had resulted in undue favour to the supplier.

5. In terms of para 6.1 of SPP of the Company, purchase orders should provide for 100 *per cent* supply within 60 days (in respect of Indian items) and 90 days (in respect of imported items) failing which penalty/ liquidated damages to the extent of maximum[7] 10 *per cent* shall be charged. In case of non-supply within 120 days, supply was deemed to be unexecuted. The Company may either accept supplies beyond 120 days after levying penalty of 20 *per cent* of the unexecuted supply or debar the supplier.

Test-check of 10 manufacturers/ suppliers (out of 108) who supplied 47 *per cent* of the supplies and to whom 2,421 purchase orders for ₹88.71 crore were issued upto September 2017 and against which supplies of ₹79.25 crore were received, revealed, that only supplies valuing ₹19.30 crore (24 *per cent*) in respect of 1,017 invoices were received within stipulated 60 days and the remaining supply of medicines/ drugs for ₹59.95 crore (76 *per cent*) was received beyond 60 days (***Appendix-5.1.2***). Delayed supplies comprised supply worth ₹35.97 crore (45 *per cent*) received after 61 to 120 days, ₹14.14 crore (18 *per cent*) after 121 to 200 days, ₹9.53 crore (12 *per cent*) after 201 to 400 days and ₹0.31 crore (one *per cent*) beyond 400 days. As per data furnished by the Company in respect of track purchase order generated through

[7] 2.5 *per cent* in case of delay ranging between one and 15 days and subsequent additional liquidated damages of 2.5 *per cent* for each 15 days delay upto 60 days

e-aushadhi, liquidated damages of ₹7.92 crore[8] which were required to be charged/ levied on these 10 suppliers were not levied and the same were condoned in respect of all supplies made by 29 December 2017 due to the reason that the Company failed to make timely payment to suppliers. Audit observed that the delay in making payment was due to the negligence on the part of the management, as the Company had sufficient funds for making payments. Thus, the failure of the Company to make timely payment to the suppliers despite availability of funds led to non-levy of liquidated damages for delay in supplies and impacted the availability of medicines/ drugs in the respective health institutions.

The Management stated (March 2019) that due to non-uniform funding pattern and delay in releasing funds by the HoDs, the Company was not able to make timely payments to the suppliers and the liquidated damages for delayed supplies upto 29 December 2017 were condoned with the approval of Chairman of the Company. However, during 2018-19, the Company imposed liquidated damages of ₹81 lakh for delayed supplies.

The reply is not tenable as the decision to condone the liquidated damages for all the delayed supplies upto a particular date was arbitrary. Further, the availability of adequate cash/ cash equivalents[9] at the close of financial years 2015-16 (₹71.54 crore) and 2016-17 (₹19.75 crore), as well as holding of funds received from State Government in civil deposits during 2016-17 (₹82.85 crore) and 2017-18 (₹59.83 crore) suggests that there were no constraints on account of availability of funds.

6. The Company invited (November 2015) tenders for 'Operationalisation of 102 Ambulance Service across the State' by way of installation of Healthcare Equipments, GPS system in 150 ambulances (BLS[10]: 123 and ALS[11]: 27) and setting up of two data centres and operation thereof, against which only two bidders participated. Technical Evaluation Committee (TEC) decided (April 2016) to open the financial bids wherein L1 had offered to execute the project at ₹37.10 crore. The SLPC, after 253 days from holding of meeting of financial evaluation committee, accorded approval of the rate contract on 07 January 2017 and the Company issued (January 2017) LoI to the successful bidder at a cost of ₹25.48 crore[12] for operationalisation of Ambulance services. However, the bidder sent (March 2017) termination notice, citing abnormal delay in facilitating the start of the project, including non-handing over of building and ambulances and increase in input cost[13] and the rate contract was cancelled (September 2017). The Company again floated NIT (November 2017); however, rate

8 Penalty was taken upto the purchase orders placed till September 2017
9 As per provisional accounts of the Company
10 Basic Life Support
11 Advance Life Support
12 As per revised decision (September 2016), CAPEX cost (Healthcare Equipment, GPS Device and Retrofitting charges) of 100 BLS ambulances and one call centre: ₹7.30 crore; OPEX cost (manpower, running and maintenance for one year) in respect of 125 ambulances (100 BLS and 25 ALS) and one call centre: ₹18.18 crore
13 Like fuel, implementation of GST, tax liability and manpower

contract could not be finalised (March 2018), despite the fact that ₹3.18 crore were received from the Ministry of Health and Family Welfare GoI, in March 2016. Thus, delay in finalisation of rate contract and facilitating the start of the project by way of handing over the building/ ambulances led to cancellation of the contract and project could not be executed despite availability of funds.

The Management replied (July 2018) that the space and ambulances were to be provided by the Indenting Department after execution of agreement which could not be handed over in view of non-execution of agreement. It was also stated that Director Health Services Kashmir and Mission Director NHM have expressed their reservations regarding operationalisation of the service, as no such model existed in the country. It was further stated (March 2019) that the tender was once again floated in August 2018 and the purchase committee had approved the L1 bidder to whom the LoI would be issued shortly. The fact remains, that despite availability of funds the envisaged project could not be finalised (March 2019) even after lapse of more than three years from the issuance of NIT.

7. The Company empanelled (December 2015) four laboratories[14] for testing and analysis of 1,336 items (out of advertised 2,043 drugs, medicines, surgical sutures) and rate contracts expired in August/ September 2017. Even after extension of three months, new tender was not floated till March 2018. The testing and analysis of drugs was assigned (October 2017) to a firm[15] empanelled with RMSCL and the agreement was executed (December 2017) without following the quality control policy and procedures which provided for empanelment of testing laboratories on the basis of L1 rates. Audit scrutiny revealed that for 608 tests (of 112 medicines) conducted by the firm, an amount of ₹15.71 lakh was paid. Out of 608 tests[16], in 487 tests (involving 87 medicines) the rates of the firm were 1.04 times to 12.54 times higher (₹9.51 lakh) than those of previously empanelled laboratories, while in 46 tests (involving eight medicines/ drugs), rates were lesser (₹0.04 lakh), thereby resulting in an overall extra-expenditure of ₹9.47 lakh. Thus, due to non-observance of prescribed procedure for empanelment of testing laboratories, competitive rates were not ensured.

The Management stated (March 2019) that the samples were being tested by the previously empanelled laboratories and the laboratory empanelled with RMSCL after seeking the approval of the Chairman[17] of the Company. It was also stated that State Level Purchase Committee has now finalised the empanelment of laboratories, but the rate contract had not been issued (March 2019). The fact remains that Company had failed to empanel the testing laboratories for around 18 months (October 2017 to March 2019) during which the testing and analysis was done from the laboratories selected without competitive bidding.

[14] (i) International Testing Centre, Panchkula, (ii) Dove Research & Analytical, Panchkula (iii) Ozone Pharmaceuticals Limited, Bahadurgarh (iv) Multani Pharmaceuticals Limited, Haridwar

[15] M/s Oasis Test House Limited

[16] In 75 tests (involving 17 medicines) comparison could not be drawn, as rates of empanelled laboratories were not available

[17] Minister for Health and Medical Education

8. The empanelled laboratories were required to furnish the test reports of samples in case of Tablets, Capsules, Ointments, Powder and Liquid Oral preparations within 10 days of receipt and in case of I.V. Fluids and Injections within 21 days. Failure to furnish test report within stipulated time, attracted penalty/ liquidated damages upto 10 *per cent*[18] of the laboratory charges payable. In test-check of seven months[19] database (out of 24 months), audit noticed that in case of tablets/ capsules/ oral preparations/ powder, etc. there had been delay ranging between one to 184 days in 566 (out of total 714) samples sent to laboratories. Similarly, in cases of Injections/ I.V. fluids, there had been delay ranging between one to 309 days in respect of 279 (out of 377) samples. However, penalty/ liquidated damages to the extent of ₹0.47 lakh[20] had not been levied on the defaulting laboratories. Delay in furnishing of reports by the laboratories delayed the issuance of drugs/ medicines to the indenting departments.

The Management stated (May 2018) that the matter has been taken up with the laboratories. It was further stated (March 2019) that the details of delayed reports have been updated so that the penalty/ liquidated damages could be charged. However, no penalty/ liquidated damages were recovered (March 2019).

Thus, there were delays in finalisation of rate contracts and consequent delayed/ non-procurement of medicines/ drugs, instruments, machinery, equipments; thereby defeating the purpose of creation of the Company. The Company had not prescribed any time line for finalization of rate contracts and making the procurements in a time bound manner. There were instances of non-levy of liquidated damages, undue favour to contractors, non-operationalisation of 102 Ambulance Service across the State despite availability of funds, non-observance of prescribed procedure for empanelment of testing laboratories.

The matter was referred to the Government/ Company in September 2018. Management provided its reply in March 2019, which has been incorporated in the report at appropriate places. However, reply of the Government was awaited (September 2019).

The cases pointed out are based on test-check conducted by Audit. The Department may initiate action to comprehensively examine similar cases and take necessary corrective action.

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18 2.5 *per cent* in case of delay upto one fourth period of prescribed delivery period, five *per cent* in case of delay exceeding one fourth but not exceeding half of the prescribed delivery period and 10 *per cent* in case of delay exceeding half but not exceeding three fourth of the prescribed period

19 February 2016, May 2016, September 2016, January 2017, April 2017, August 2017 and December 2017

20 Penalty/ Liquidated damages of ₹0.30 lakh (in 521 cases) in case of Tablets, Capsules, Ointments, Powder and Liquid Oral preparations and ₹0.17 lakh (in 254 cases) in case of I.V. Fluids and Injections

Horticulture Department

(Jammu and Kashmir Horticultural Produce Marketing and Processing Corporation Limited)

5.2 Loss and blocking of funds due to unsold juice concentrate

Rejection of apple juice concentrate by the buyer, not being of acceptable quality and subsequent reduction in prices resulted in loss of ₹7.93 lakh, besides blocking of capital of ₹2.03 crore on account of unsold stock.

Jammu and Kashmir Horticultural Produce Marketing and Processing Corporation (J&KHPMC) Limited (Corporation) having its plant at Doabgah Sopore entered into an agreement (August 2013) with a buyer[21] for supply of apple juice concentrate of 450 MTs at the rate of ₹86,000 per MT, for a period of one year, from 01 October 2013 to 30 September 2014. The Corporation had an opening stock of 15 MTs of apple juice concentrate as on April 2012 and produced 429[22] MTs during 2012-13 to 2014-15 and thereafter, no production was carried out for around three years. The operations of the plant resumed for a brief period of 41 days during 23 October 2017 to 03 December 2017 and were called off after production of 73 MTs of juice concentrate due to non-availability of working capital.

Audit scrutiny of the records of Corporation revealed that against the available stock of 517 MTs of apple juice concentrate, it could sell only 183 MTs during 2012-13 to 2017-18. Buyer, who had agreed to purchase 450 MTs, lifted only 114 MTs during November 2013 to May 2014 and refused to lift the balance quantity which was not of the requisite quality. Aware of its perishable nature, as it had already exceeded its shelf life of 18 months in June 2014[23], the Corporation sold 51 MTs which included sale of 45 MTs of stock at a reduced rate of ₹60,000 per MTs to an another buyer[24] during May/ August 2016, resulting in a loss of ₹7.93 lakh[25]. Further efforts of the Corporation to sell the balance stock of 334 MTs, which included stock of 261 MTs produced during 2012-15 did not materialise as of March 2018, resulting in blocking of capital of ₹2.03 crore[26]. In view of its perishable nature, the stock may entail a loss to the Corporation due to its expiry.

On being pointed out, the General Manager J&KHPMC attributed (January 2017) it to increased global production, leading to drastic reduction in rates. It was also stated (May 2018) that the Corporation had received offer for purchase of old unsold stock at the rate of ₹40 per kg (April 2018) and would be put up for administrative approval of the Board of Directors. Reply is not tenable, as the Corporation could not dispose

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21 M/S Unique Foods

22 280 MTs: during 21.07.2012 to 12.12.2012, 135 MTs: during 06.10.2013 to 02.12.2013, 14 MTs: during 27.10.2014 to 27.11.2014

23 Reckoned from the date (December 2012) when the first lot was prepared

24 M/s Keshav Agro Pvt. Ltd.

25 Value of 45 MTs at the differential rate of ₹17,620 per MT (between average production rate of ₹77,620 and reduced sale rate of ₹60,000 per MT)

26 Value of 261 MTs at the average production rate of ₹77,620 per MT

of the stock lying with it for the last more than five years, despite reduction in prices, leading to blocking of ₹2.03 crore. Further, even after selling the stock at the reduced price of ₹40 per kg, the Corporation is going to incur a loss of ₹0.98 crore[27].

The matter was referred to Government/ Company in July 2018. In reply Secretary, Horticulture Department stated (January 2019) that the sales during 2013 to 2017 got affected due to presence of imported concentrate in the national market at a much lower cost. Further, the prices for apple juice concentrate had currently increased and the Corporation had received fresh offers for lifting old stock of 254 MTs and fresh stock of 73 MTs at the rate of ₹48,000 and ₹77,540 per MT, respectively, and the sale would be finalised after approval of the Board of Directors. The fact remains that the Corporation could not dispose off the stock for over six years, which has led to blocking of the capital of ₹2.03 crore.

Industries and Commerce Department

(Jammu and Kashmir Cements Limited)

5.3 Low capacity utilisation of cement grinding-cum-packing unit Samba

Failure of Jammu and Kashmir Cements Limited to utilise the cement grinding-cum-packing unit Samba to the optimum capacity, as well as market the cement produced to private parties/ Government departments resulted in operating loss of ₹1.26 crore during 2015-18.

An audit observation regarding 'delay in setting up of cement grinding-cum-packing unit Samba' featured as para 2.1.10.2 in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015 (Report No. 2 of 2016, Jammu and Kashmir Government), wherein a production loss of 1.57 lakh MTs of cement during February 2013 to February 2015 valuing ₹113.40 crore had been pointed out.

Audit scrutiny of records in Divisional office, Jammu and Kashmir Cements Limited, Jammu (Company) revealed (February 2018) that the production of the Cement grinding-cum-packing unit Samba started in September 2015 and the Company had incurred a capital expenditure of ₹26.10 crore on the plant, as of March 2017. However, against the envisaged production of 1,93,050 MT cement through capacity utilisation of 70 *per cent*, 80 *per cent* and 90 *per cent*, respectively during the first three years of production, the actual production during October 2015 to March 2018 was 34,619 MTs (18 *per cent*) only, as detailed below:

[27] Value of 261 MTs at the differential rate of ₹37,620 per MT (between average production rate of ₹77,620 per MT and reduced offer of ₹40,000 per MT)

Table-5.3.1: Year-wise production of cement

Period	Production capacity of the unit in MTs	Capacity utilisation as per techno-economic feasibility report of the project during	Envisaged production in MTs as per techno-economic feasibility report	Actual production in MT (*per cent*)
October 2015 to March 2016	99,000	First year: 70 *per cent* Second year: 80 *per cent* Third year: 90 *per cent*	34,650[28]	6,705 (19.35)
2016-17			74,250[29]	19,271 (25.95)
April 2017 to March 2018			84,150[30]	8,643 (10.27)
Total			**1,93,050**	**34,619 (17.93)**

Low capacity utilisation indicated that the plant was conceived without ascertaining the demand position and the Company could not market the sale of cement and get the sale orders from private parties or the Government departments. To provide market support for sale of cement manufactured, Government directed (April 2016) all the departments to purchase their requirement in Jammu Division from Jammu and Kashmir Cements limited in the first instance and opt for open market only after the Company was unable to supply the requisite quantity and provided a non-availability certificate. Despite these directions the Company could not increase its sales and utilise the plant to its optimum level. Envisaged sale realisation of ₹178.19 crore[31] during the first three years of operation of the plant as projected in the techno-economic feasibility report could not achieved. Records showed that during the years 2015-16 to 2017-18, against the revenue earnings of ₹27.13 crore[32], the Company incurred expenditure of ₹28.39 crore[33] on running the plant, resulting in operating loss of ₹1.26 crore.

In reply, the reasons for under-utilisation of plant were attributed (March 2018) to trouble in operation of plant, retirement of technical staff and delay in realisation of sale proceeds from the Government departments to whom the cement was sold on credit due to which Company was not able to procure the essential material for uninterrupted operations of the plant. It was further stated (March 2019) that against the demand of 35,926 MTs[34] of cement during 2015-18, the sales were 34,618 MTs[35] (96 *per cent*) and due to implementation of Civil Accounting system, the Company

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28 70 *per cent* of annual capacity of 99,000 MTs for six months: 34,650 MTs

29 70 *per cent* of annual capacity of 99,000 MTs for six months: 34,650 MTs and 80 *per cent* of annual capacity of 99,000 MTs for six months: 39,600 MTs is 74,250 MTs

30 80 *per cent* of annual capacity of 99,000 MTs for six months: 39,600 MTs and 90 *per cent* of annual capacity of 99,000 MTs for six months: 44,550 MTs is 84,150 MTs

31 First year: ₹51.97 crore; second year: ₹59.40 crore; third year: ₹66.82 crore

32 2015-16: ₹5.04 crore; 2016-17: ₹15.02 crore; 2017-18: ₹7.07 crore

33 2015-16: ₹6.56 crore; 2016-17: ₹15.15 crore; 2017-18: ₹6.68 crore

34 2015-16: 6,704.07 MTs; 2016-17: 19,761.35 MTs; 2017-18: 9,460.45 MTs

35 2015-16: 6,704.07 MTs; 2016-17: 19,270.90 MTs; 2017-18: 8,642.65 MTs

could not get the advance payments from the Government departments for booking of cement and was forced to make sales on credit basis. The fact remains that the plant was under-utilised to the extent of 82 *per cent* of the envisaged capacity and the Company could not generate adequate supply orders from private parties or Government departments due to which the expenses of the plant exceeded the revenue earnings, resulting in direct loss of ₹1.26 crore. Despite lower sale rate[36] of cement per bag as compared to private cement sellers[37] the Company has failed to increase its sales. Further, in view of 77 *per cent* cash sales[38] of cement during 2015-18, the argument regarding credit sale was also not tenable.

The matter was referred to Government/ Company in August 2018; their reply was awaited (September 2019).

Industries and Commerce Department

(SIDCO and J&K International Trade Centre)

5.4 Blocking of funds and unfruitful expenditure

Failure to take timely action for setting up of International Trade Centre (ITC) at Pampore resulted in blocking of ₹3.94 crore for around ten years. Besides, the expenditure of ₹1.06 crore incurred on fencing of land and payment of registration fee was rendered unfruitful and the State could not avail the benefits from envisaged facility for holding national/ international trade fairs, buyer/ seller meets, transaction of international business as well as the interface with the overseas markets.

The Government of India (GoI) Ministry of Commerce and Industries released (December 2008) the first installment of ₹five crore to the Jammu and Kashmir State Industrial Development Corporation Limited (SIDCO) as a grant under the Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) for setting up of International Trade Centre (ITC) at Pampore. The project envisaged creation of State of art facility for holding national/ international trade fairs, buyer/ seller meets, transaction of international business and a place from where the exporters of the State could have an interface with the overseas markets. The total cost of the project and the contribution of GoI under ASIDE were ₹40 crore and ₹30 crore, respectively. The amount over and above the ASIDE contribution was to be provided by the State Government. The project was to be completed in a time bound manner and the State Government was to submit Utilization Certificate immediately after its utilisation, not later than 31 March 2010.

36 ₹425 per bag
37 Ranging between ₹ 435 to ₹ 470 per bag
38 Total sales during 2015-18: ₹27.13 crore (cash sales: ₹20.99 crore + credit sales: ₹6.14 crore)

Audit scrutiny of the records of SIDCO revealed that the amount of ₹five crore released by GoI in December 2008 was retained by the Corporation for around two years. On the GoI demanding (July 2010) the Utilisation Certificates of the amount, it was transferred (January 2011) to the bank account of Managing Director, (Director, Handicrafts Department, J&K Government) J&K International Trade Centre, being maintained with Jammu and Kashmir Bank, New Secretariat, Srinagar. Bank statements indicating the details with regard to investment of the amount, interest earned, as well as the amounts spent during the period of retention by SIDCO was not provided to audit. However, as per bank statement of ITC account, the amount was retained in current account from 11 January 2011, which did not earn any interest.

Although the land[39] measuring 371 *kanals* and 6.5 *marlas* was transferred (September 2004) in favour of Director Handicrafts by the State Government for establishment of ITC, the Special Purpose Vehicle[40] (SPV) under Companies Act 1956 for managing its activities was constituted only in April 2012 and the Detailed Project Report (DPR) of the project was prepared in January 2014. Project works could not be taken up as the decision with regard to identification of executing agency between SICOP[41] and JKPCC[42] and finalisation of the DPRs was not taken (November 2018). It was stated (September 2017) that revised DPR had been submitted to India Trade Promotion Office (ITPO) for technical vetting but the approval was awaited (November 2018). An amount of ₹1.01 crore out of ₹five crore was advanced (September 2012 to January 2016) to R&B Department for construction of fencing around the land and the balance ₹3.99 crore retained in the current deposit account. However, in the absence of any approved DPR, the amount of ₹1.01 crore spent (November 2018) on construction of fencing cannot be treated as utilised for the intended purpose. It was stated (May 2018) that State Government had now floated (October 2017) a Company, Jammu and Kashmir Trade Promotion Organisation (JKTPO) and an expenditure ₹0.05 crore incurred for obtaining license under section 8 of the Companies Act 2013.

Thus, the failure to take timely action for setting up of International Trade Centre (ITC) at Pampore resulted in blocking of ₹3.94 crore for around ten years. Besides, the expenditure of ₹1.06 crore incurred on fencing of land and payment of registration fee was rendered unfruitful and the State could not avail the benefits from envisaged facility for holding national/ international trade fairs, buyer/ seller meets, transaction of international business as well as the interface with the overseas markets.

The matter was referred to the Government/ Company in July 2018 and in reply, Director Finance, Industries and Commerce Department stated (October 2018), that the amount was retained by SIDCO for less than two years and it was transferred to Directorate of Handicrafts on the basis of their assurance that formal registration of

39 Of Ply Board Factory managed by Jammu and Kashmir Industries Limited
40 Under the Companies Act 1956 for undertaking the project
41 Small Scale Industries Development Corporation
42 Jammu and Kashmir Projects Construction Corporation

SPV would be done within weeks time. However, the fact remains that despite availability of funds, the envisaged facility has not been established which has resulted in blocking of funds and unfruitful expenditure.

Labour and Employment Department

(Jammu and Kashmir State Overseas Employment Corporation Limited)

5.5 Unproductive expenditure on setting up of office at New Delhi

Improper planning of the Jammu and Kashmir State Overseas Employment Corporation Limited, to set up its office at New Delhi without any meaningful activity, resulted in unproductive expenditure of ₹47.86 lakh on salary of staff, hiring of premises and other expenses.

To facilitate the educated/ skilled labour force of the State in seeking employment within and outside the country, the Jammu and Kashmir Government accorded (November 2009) sanction for setting up of Jammu and Kashmir State Overseas Employment Corporation Limited (JKSOECL). To assist/ facilitate the candidates selected by the Head Office in the completion of formalities like obtaining passport, extending passport validity, visa clearance, airlines reservation and authentication of documents from the concerned agencies, office of the General Manager (Marketing) was established in New Delhi from December 2010. However, it was made functional from March 2012.

Against the post of one General Manager (Marketing), one Assistant Marketing Manager, one Computer Assistant and one orderly (contractual), only one General Manager (Marketing) and one orderly were posted in Delhi office. The Company hired (December 2010) an office premises on a monthly rent of ₹30,000. General Manager (Marketing) was posted for a brief period of 28 months from August 2011 to December 2013, while the premises continued to remain rented upto June 2016, i.e., a period of 2 ½ years.

Audit scrutiny (February 2018) of the records of Managing Director, JKSOECL, Jammu revealed that the Head Office of the Company failed to select and recommend any candidate to the New Delhi office during the entire period (December 2010 to June 2016). As a result, New Delhi office could not provide services to any candidate. This showed that the office was created without any planning and existed without any meaningful activity. An expenditure of ₹47.86 lakh[43] incurred on payment of salary of staff and rent of the office premises was thus, rendered unproductive.

On being pointed out in Audit, the Management stated (March/ July 2018) that anticipated results could not be achieved due to lack of clear policy for continuance of activities of providing overseas job to the candidates after change in administrative set

[43] Rent of the office premises: ₹20.10 lakh; Salary of General Manager: ₹19.17 lakh; Salary of orderly: ₹2.49 lakh; Maintenance expenses: ₹0.76 lakh, Advertising and Travel expenses ₹5.34 lakh

up of the Government. The reply is not acceptable, as due to failure of Head Office to select/ recommend any candidate, office established at New Delhi could not perform its mandated work.

Thus, improper planning to set up office at New Delhi without assessing the need, resulted in unproductive expenditure of ₹47.86 lakh on salary of staff, hiring of premises and other expenses.

The matter was referred to Government/ Company in August 2018. Director Finance, Labour and Employment Department, forwarded (February 2019) the earlier reply (July 2018) of Management and did not explain the reasons for improper planning and unproductive expenditure.

Power Development Department

(Jammu and Kashmir State Power Development Corporation Limited)

5.6 Avoidable payment of interest

Failure of Jammu and Kashmir State Power Development Corporation Limited to deposit the advance tax on taxable income during the assessment year 2015-16, in accordance with the provisions of the Income Tax Act, 1961 resulted in avoidable interest payment of ₹3.26 crore.

Sections 234 (B) and 234 (C) of the Income Tax Act, 1961 stipulate that, where in any financial year, an assessee who is liable to pay advance tax under section 208 has failed to pay such tax or, where the advance tax paid by such assessee under the provisions of section 210 is less than 90 *per cent* of the assessed tax, the assessee shall be liable to pay interest for defaults in payment of advance tax and also interest for deferment of advance tax.

Test-check (July 2017) of the records of the Jammu and Kashmir State Power Development Corporation Limited (J&KSPDCL) revealed that the Corporation failed to deposit the advance tax during the financial year 2014-15 (assessment year 2015-16) as stipulated in these sections of the Income Tax Act, 1961. As a result, the Corporation had to pay (March 2017) interest of ₹3.26 crore for the assessment year 2015-16, as assessed (December 2016) by the Income Tax Department. Interest payment could have been avoided through timely payment of advance tax.

In reply, the Director, Finance, J&KSPDCL stated (July 2017/ May 2018) that the Corporation has paid income tax of ₹68.05 crore, despite having received meagre amounts from State Government against sale of power. It was also stated that the payment of interest was on account of deficient cash balance available during the period. It was further stated that the Corporation had committed liabilities towards various financial institutions against the principal and interest payment.

The fact, however, remains that the income tax is to be paid on accrued income and non-receipt of dues from State Government did not absolve the Corporation of its failure to meet its statutory obligations. Further, there was sufficient cash and cash equivalents amounting to ₹100.24 crore as on 31st March 2015 available with the Corporation to pay the advance tax. For non/ delayed payment of advance tax, the Corporation had to pay avoidable interest which reflected imprudent financial management.

The matter was referred to Government/ Company in May 2018; their reply was awaited (September 2019).

5.7 Unfruitful expenditure/ avoidable expenditure

Lax supervision and control over the execution of contract for Design, Engineering and Commissioning of 48 MW Lower Kalnai Hydel Electric Project led to unfruitful expenditure of ₹25.30 crore. Company could not generate 219.30 Million Units of energy per annum and had to pay an interest of ₹17.49 crore on the term loan availed for the project. Company also failed to sequence the payment of consultancy fee with the progress of the contract which led to avoidable expenditure of ₹6.57 crore. Despite encashment of bank/ performance guarantee of ₹79.20 crore, the Company suffered a minimum loss of ₹11.20 crore.

The State Government granted (August 2013) approval for Design, Engineering and Commissioning of 48 MW, Lower Kalnai Hydel Electric Project (LKHEP) with an estimated completion cost of ₹576.87 crore, including escalation during construction. The expected design energy of the project was envisaged as 219.30 Million Units (MUs), per annum. The Jammu and Kashmir State Power Development Corporation Limited (Company) awarded (September 2013) contract for Design, Engineering and Commissioning of LKHEP on EPC[44] mode to a firm[45] at a cost of ₹396 crore[46] for completion within 48 months from the date of award of contract i.e by September 2017. As per the stipulation of the notification of award, the contract agreement was to be signed within 30 days from the date of issue of notification of award. The Company also engaged (October 2013) another firm[47] as Project Management Consultant (PMC) for the work, at a cost of ₹10.39 crore.

Audit scrutiny of the records of Executive Engineer, Civil Construction Division-II LKHEP, Thathri revealed that the contractor failed to furnish performance security

44 Engineering, Procurement and Commissioning

45 M/s Coastal Projects Limited

46 First contract of ₹103.02 crore for supply of Plant and equipment of EPC contract package and second contract of ₹292.98 crore for inland transportation, insurance, installation, planning, design and engineering, civil works, etc.

47 M/s Indo Canadian Consultancy Services in consortium with Rodic Consultant Private Limited

and seven and half months were lost between issuance (12 September 2013) of notification of award and signing (23 April 2014) of contract agreement. The work started in May/ June 2014, was executed at a very slow pace, as only 6.39 *per cent* progress (₹25.30 crore) was achieved (October 2017). Despite assurances, the contractor failed to finalise the design and engineering activities and accelerate execution of work. Company did not take any action against the contractor for delay. Time extension sought (July 2017) by the contractor was not granted and the Company decided (September 2017) to terminate the contract. However, the bank/ performance guarantee of ₹79.20 crore available with the Company was only encashed (September 2017) and the contract was not terminated. After incurring the expenditure of ₹65.68 crore[48], the project work was suspended (October 2017) and could not be resumed (December 2018). Company could not generate envisaged 219.30 MUs of energy annually, valuing ₹78.73 crore[49] and had to pay an interest of ₹17.49 crore during 2015-19, on the term loan of ₹45 crore availed for the project. Despite encashment of bank/ performance guarantee of ₹79.20 crore, the Company could not recover the expenditure of ₹90.40 crore[50] incurred on the project so far and suffered a minimum loss of ₹11.20 crore.

Audit scrutiny also revealed that due to deficient contract management, the payment of consultancy fee to PMC was not sequenced with the progress of work of the EPC contract. Payment clause, among other things provided that the interim payments for consultancy services rendered were to be made in monthly intervals upon presentation/ compilation of the monthly invoices by the consultant. Company released 70 *per cent* (₹7.23 crore) consultancy fee, against 6.39 *per cent* (₹25.30 crore) work executed by the EPC contractor (February 2018), thereby resulting in avoidable expenditure of ₹6.57 crore[51].

On being pointed out in audit, Executive Engineer, Civil Construction Division-II LKHEP, Thathri admitted (December 2017) that non-completion of project was due to delay in signing of agreement, slow progress in execution of project works, inadequate mobilization of men, machinery, equipment and material by the contractor and further stated that the bank/ performance guarantee of the contractor had been encashed. After the matter was referred (October 2018) to Government/ Company, it was also stated (December 2018/ February 2019) that the contractor applied for extension of time before the scheduled date of completion, which was recommended by the Corporation but the same could not materialize till date. Besides, a proposal for termination submitted (September 2017) to the Board of Directors could not be approved before expiry of the contract period. The reply can be seen in the light of the

48 Civil works: ₹54.85 crore (including mobilization advance of ₹28.87 crore), EM works: ₹9.87 crore (initial advance payment to the contractor), cost escalation during construction: ₹0.96 crore

49 219.30 MUs multiplied by levellized tariff of ₹3.59 per kwh

50 Expenditure on project work: ₹65.68 crore; Interest on the term loan: ₹17.49 crore and consultancy fee: ₹7.23 crore

51 Calculated on the basis of percentage completion by the EPC contractor i.e 6.39 *per cent*

fact that the work had come to a standstill (February 2019) and the management has not taken any decision over a period of more than one year, to either terminate the contract or extend it, resulting in unfruitful expenditure of ₹25.30 crore. Further, the liquidated damages as per contractual obligations due upon commissioning of the project could also not be recovered from the contractor.

Srinagar/Jammu
The 3rd February 2020

(SUSHIL KUMAR THAKUR)
Accountant General (Audit)
Jammu & Kashmir and Ladakh

Countersigned

New Delhi
The 6th February 2020

(RAJIV MEHRISHI)
Comptroller and Auditor General of India

Appendices

Appendix - 1.1.1

(Reference Paragraph: 1.10; Page: 10)

Unit-wise details of recovery accepted and recovery effected cases during 2017-18

(Amount ₹ in lakh)

Sl. No.	Name of the unit	Recovery accepted cases		Recovery made	
		No. of cases	Amount of recovery accepted	No. of cases	Amount recovered
1.	Commercial Taxes Officer, Circle-L, Jammu	01	7.14	-	-
2.	Commercial Taxes Officer, Circle-E, Jammu	04	35.59	-	-
3.	Commercial Taxes Officer, Budgam	05	10.37	-	-
4.	Commercial Taxes Officer, Circle- Anantnag-II	11	29.97	01	0.20
5.	Commercial Taxes Officer, Circle-L, Srinagar	02	0.06	-	-
6.	Commercial Taxes Officer, Circle-D, Srinagar	04	2.79	-	-
7.	Commercial Taxes Officer, Circle-J, Srinagar	06	0.73	-	-
8.	Commercial Taxes Officer, Circle- Rajouri	02	7.73	-	-
9.	Commercial Taxes Officer, Kargil	09	4.93	-	-
10.	Commercial Taxes Officer, Circle-G, Srinagar	08	4.54	-	-
11.	Commercial Taxes Officer, Circle-K, Jammu	04	6.53	-	-
12.	Commercial Taxes Officer, Circle-J, Jammu	01	0.16	01	0.16
13.	Commercial Taxes Officer, Circle-L, Jammu	07	6.47	01	0.03
14.	Commercial Taxes Officer, Circle-B, Jammu	02	0.17	02	0.17

Sl. No.	Name of the unit	Recovery accepted cases		Recovery made	
		No. of cases	Amount of recovery accepted	No. of cases	Amount recovered
15.	Commercial Taxes Officer, Circle-D, Jammu	02	1.60	02	1.60
16.	Commercial Taxes Officer, Circle-F, Jammu	03	9.94	01	0.50
17.	Commercial Taxes Officer, Circle-I, Anantnag	03	2.15	-	-
18.	Commercial Taxes Officer, Rajouri	05	6.37	02	2.59
19.	Commercial Taxes Officer, Circle-K, Jammu	02	0.14	02	0.14
20.	Commercial Taxes Officer, Circle-G, Jammu	02	23.63	01	0.03
21.	Commercial Taxes Officer, Circle-B, Srinagar	01	1.14	-	-
22.	Commercial Taxes Officer, Leh	08	13.53	-	-
23.	Commercial Taxes Officer, Circle-F, Jammu	01	0.09	-	-
24.	Commercial Taxes Officer, Pulwama	-	-	01	1.34
25.	Excise and Taxation Officer, Samba	-	-	01	0.04
26.	Excise and Taxation Officer, Kathua	01	0.07	01	0.07
27.	Excise and Taxation Officer, New India Distilleries	01	13.65	01	13.65
28.	Excise and Taxation Officer, Tawi Bottlers	01	10.28	01	10.28
29.	Regional Transport Officer, Jammu	01	22.58	01	22.58
	Total	**97**	**222.35**	**19**	**53.38**

Appendix - 2.3.1

(Reference Paragraphs: 2.3.9 & 2.3.11; Pages: 20 & 22)

Rate of Motor Vehicles Tax

Sl. No.	Categories of Motor Vehicles	Rate of Motor Vehicles Tax
1.	Motor Cycle with Gear	₹4000 Life time tax
2.	Motor Cycle/ Scooter without Gear	₹2400 Life time tax
3.	Light Motor Vehicle (NT)	₹6000 Life time tax
4.	Auto Rikshaw (Passenger)	₹250 Per quarter
5.	Auto Rikshaw (Goods) (under 10000 kg Gross vehicle weight)	Vehicles with registered gross vehicle weight up to 1000 kg is ₹400
6.	Light Goods Vehicle (under 10000 kg Gross vehicle weight)	Vehicles exceeding the GVW 1000 kg but not exceeds 3600 kg is ₹900
7.	Medium Goods Vehicle	Vehicles exceeding the GVW 3600 kg but not exceeds 8100 kg is ₹1000
8.	Heavy Goods Vehicle	Vehicles exceeding GVW of 8100 kg is ₹1100
9.	Contract Carriages	₹250 for those vehicles which have seating capacity not more than four persons, ₹375 for seating capacity not more than seven persons and ₹600 for those vehicles which have seating capacity for not more than 12 persons
10.	Stage Carriage	₹600 for those vehicles which have seating capacity not more than 22 persons, ₹1000 for seating capacity for not more than 38 and ₹1100 for above 39 seating capacity

Fee (in ₹) applicable under Rule 81 of CMV Rules, 1989		
Item	**Rates up to 28.12.2016**	**Rates revised with effect from 29.12.2016**
1. Grant or renewal of trade certificate in respect of each class of vehicle		
(a) Motorcycle	50	500
(b) Invalid Carriage	50	500
(c) Others	200	1000
2. Duplicate trade certificate:		
(a) Motorcycle	30	300
(b) Invalid Carriage	30	300
(c) Others	100	500
3. Appeal under Rule 46	100	1000
4. Issue or renewal of certificate of registration and assignment of new registration mark		
(a) Invalid Carriage	20	50
(b) Motor cycle	60	300
(c)Three wheeler/ Quadricycle/ Light Motor Vehicles:		
(i) Non transport	200	600
(ii) Transport	300	1000
(d) Medium goods vehicle	400	1000

Fee (in ₹) applicable under Rule 81 of CMV Rules, 1989		
Item	**Rates up to 28.12.2016**	**Rates revised with effect from 29.12.2016**
(e) Medium passenger motor vehicle	400	1000
(f) Heavy goods vehicle	600	1500
(g) Heavy passenger motor vehicle	600	1500
(h) Imported motor vehicle	800	5000
(i) Imported motor cycle	200	2500
(j) Any other vehicle not mentioned above	300	3000
5. Issue of duplicate certificate of registration	Half of the fee mentioned against Serial No. 4	Half of the fee mentioned against Serial No. 4
6. Transfer of ownership		
7. Change of residence	20	
8. Recording alteration in the certificate of registration	50	
9. Endorsing hire-purchase/ lease/ hypothecation agreement	100	Motorcycle: 500, Three wheeler/ quadricycle/ light motor vehicle: 1500, Medium or heavy vehicle: 3000
10. Cancellation of hire-purchase/ lease/ hypothecation agreement or issue of fresh certificate of registration	100	Nil
11. Conducting test of a vehicle for grant and renewal of certificate of fitness		
(i) Two/ three-wheeled vehicle	100	200
(ii) Light motor vehicle	200	200
(iii) Medium motor vehicle	300	400
(iv) Heavy motor vehicle	400	600
12. Grant or renewal of certificate of fitness for motor vehicle	100	200
13. Grant or renewal of letter of authority	5000	15000
14. Issue of duplicate letter of authority	5000	7500
15. Appeal under Rule 70	4000	3000

Fee in respect of grant of Permit during the period of audit

Rule 79 of J&K Motor Vehicles Rules 1991- Application fee (in ₹) for Permits			
Sl. No.	**Type of permit**	**Type of vehicle**	**Amount**
i	State Carriage	(a) Big Buses (HTV)	350
		(b) Medium Buses	225
		(c) Mini Buses	150
ii	Particular Service Stage Carriage		350
iii	Contract Carriages (including Tourist Vehicles)	(a) Omni Buses	350
		(b) Medium Buses	225
		(c) Taxi Cabs & Auto Rikshaws	150
iv	Goods Carriages		350
v	Private Service Vehicles		350
vi	Special Permits		60
vii	National Permit for Goods Carriages		350
viii	Zonal Authorization		50
ix	Temporary Permit or Counter Signature of Permit		20
x	Renewal Fee for each category of Permit		30
xi	Replacement of Vehicles		60
Rule 80 of J&K Motor Vehicles Rules 1991-Fees (in ₹) for various Permits			
(A)	**Permit fee for 1st year validity**		
(I)	**Stage Carriages**	(a) Big Buses	10000
		(b) Medium Buses	7000
		(c) Mini Buses for urban routes	5000
		(d) Mini Buses for rural routes	3000
(II)	**Contract Carriages**	(a) All India Omni Buses (Heavy/ Medium)	10000
		(b) All India Tourist Taxi Cabs	750
		(c) Taxi Cabs	750
		(d) Three-Wheelers (Auto Rikshaws)	
		(i) City Routes	1000
		(ii) Rural Routes	500
(III)	**Goods Carriages**	(a) Goods Carriages including Goods Carriages (Trade & Business)	7000
		(b) Goods Carriages for National Permits	7000
(IV)	**Private Service Vehicles**		3500
(B)	**Fee for altering the Routes**		
(a)	Stage Carriages	1. Stage Carriage (Big Buses)	1500
		2. Medium Passenger Buses	
		(i) Rural Routes	1750
		(ii) Urban Routes	3000
(b)	State Carriages	Mini Buses	
		(i) Rural Routes	500
		(ii) Urban Routes	750
(c)	Goods Carriages (Trade & Business)		500

Rule 80 of J&K Motor Vehicles Rules 1991-Fees (in ₹) for various Permits			
Sl. No.	**Type of permit**	**Type of vehicle**	**Amount**
(C)	**Fee for Temporary Permits**	(i) For Light Transport Vehicles (Goods/ Passenger)	20 per day
		(ii) For Medium Transport Vehicles (Goods/ Passenger)	25 per day
		(iii) For Heavy Transport Vehicles (Goods/ Passenger)	40 per day
(D)	**Fee for countersignature for Permits**	(i) For Light Transport Vehicles (Goods/ Passenger)	On substantive basis = ½ of the amount prescribed for grant of free Permit
		(ii) For Medium Transport Vehicles (Goods/ Passenger)	On temporary basis ₹20 per day or ₹100 per week or ₹250 per month or part thereof up to a maximum of 4 months
		(iii) For Heavy Transport Vehicles (Goods/ Passenger)	
		(a) For Taxi/ Maxi Cab holding national permit and after completion of nine years to be converted into local permits	4000
		(b) For buses holding national permits and after completion of nine years to be converted into local permits	10000
(E)	**Renewal of Permits**	(i) Heavy and Medium Transport Vehicles	300 per year
		(ii) Light Motor Vehicles	125 per year
(F)	**Fee for replacement of Permits**	(i) Light Transport Vehicles	100
		(ii) Heavy Goods Vehicles and others	500

Rule 80 of J&K Motor Vehicles Rules 1991-Fees (in ₹) for various Permits			
Sl. No.	**Type of permit**	**Type of vehicle**	**Amount**
(G)	**Additional fee for belated applications for renewal of Permits**	In respect of belated applications for renewal of all categories of permits additional fee chargeable shall be:	₹10 per day for 45 days; and ₹20 for each subsequent day
		Subject to the maximum amount of fee prescribed for grant of fresh permit for such vehicles	
(H)	(a) The consolidated fee in respect of Goods Carriages having National Permits granted by different States/ UTs for purpose of plying in the State of Jammu & Kashmir shall be ₹15000 per annum.		
	(b) The consolidated fee as aforesaid shall be collected on yearly basis. In case of failure to deposit the fee within the said period an additional amount of ₹100 per month or part thereof shall be recoverable as penalty in addition to the fee and		
	(c) The consolidated fee in respect of goods carriages which have National Permits granted by the State Transport Authority (Jammu & Kashmir) for the purpose of plying in any State and UT's other than the State of J&K shall be collected by the State Transport Authority (Jammu & Kashmir) @ ₹15000 per annum and shall also collect ₹1000 as authorization fee toward the State of Jammu & Kashmir. The amended rule[1] provides for levy of national permit fee of ₹16500 per annum per vehicle (revised with effect from 01.04.2012)		

1 Vide Government Order No. RT-16031/6/2010-T dated 2nd April 2012

Appendix - 2.3.2

(Reference Paragraph: 2.3.20.1; Page: 30)

Instances of significant delay of deposit of revenue into Government account

Sl. No.	Amount (in ₹)	Deposited with the Department	Deposited to Government Account	Delay in remittance
Civil Secretariat, Account No. 00846				
1.	3,58,78,125	06.01.2018	08.01.2018	02 days
2.	3,26,40,940	05.01.2018	08.01.2018	03 days
3.	2,98,85,065	04.01.2018	08.01.2018	04 days
4.	2,66,69,090	03.01.2018	08.01.2018	05 days
5.	2,28,54,565	02.01.2018	08.01.2018	06 days
6.	97,19,690	30.12.2017	08.01.2018	09 days
7.	61,18,670	29.12.2017	08.01.2018	10 days
RTO Jammu				
1.	2,79,86,001	11.15.2015	15.12.2015 (₹55,22,126)	04 days
Civil Secretariat, Account No. 00817				
1.	1,77,09,565	16.09.2017	20.11.2017	65 days
2.	1,62,65,985	14.08.2017	20.11.2017	97 days

Appendix - 2.3.3

(Reference Paragraph: 2.3.20.2; Page: 30)

Instances of delayed deposit of bank drafts into the Government account

(a) Instances of delayed deposit of bank drafts by the Transport Commissioner

Bank draft number	Dated	Amount	Date of deposit in bank and delay (in days)	Date of credit into the Government account bank and delay (in days)
68133	28.02.2016	3,000	06.03.2017 (371)	09.03.2017 (03)
533521	05.11.2016	1,330	03.03.2017 (119)	09.03.2017 (06)
533520	05.11.2016	1,330	03.03.2017 (119)	09.03.2017 (06)
282517	20.10.2016	1,620	04.03.2017 (136)	09.03.2017 (05)
299906	19.10.2016	1,370	04.03.2017 (137)	20.05.2017 (77)
533210	24.11.2016	1,330	03.03.2017 (100)	09.03.2017 (06)
352723	15.11.2016	1,500	03.03.2017 (109)	29.06.2017 (118)
352744	29.11.2016	1,350	03.03.2017 (95)	29.06.2017 (118)

(b) Instances of delayed deposit by RTO Kathua and delayed credit by the Bank

Date of Receipt of Drafts	Amount of Drafts	Date of Submission to Bank and delay (in days)	Date of credit in the bank and delay (in days)
Account Number CD-51			
04.05.2016	2,24,680.00	16.06.2016 (43 days)	11.07.2016 (25 days)
1.05.2016 to 08.05.2016	33,390.00	09.05.2016 (08 days)	20.07.2016 (72 days)
10.05.2016	4,52,150.00	-	30.05.2016 (20 days)
12.05.2016	4,19,620.00	16.06.2016 (35 days)	14.07.2016 (28 days)
13.05.2016	1,43,640.00	16.06.2016 (34 days)	14.07.2016 (28 days)
16.05.2016	1,09,750.00	16.06.2016 (30 days)	07.07.2016 (21 days)
09.05.2016 to 15.05.2016	37,440.00	16.05.2016 (07days)	15.06.2016 (29 days)
16.05.2016 to 23.05.2016	35,130.00	23.05.2016 (07days)	15.06.2016 (29 days)
18.05.2016	2,09,520.00	16.06.2016 (28 days)	07.07.2016 (21 days)
19.05.2016	66,720.00	16.06.2016 (27 days)	20.06.2016 (04 days)
20.05.2016	67,880.00	16.06.2016 (27 days)	20.06.2016 (04 days)
24.05.2016	2,17,800.00	16.06.2016 (22 days)	29.06.2016 (13 days)
26.05.2016	1,37,100.00	16.06.2016 (20 days)	15.07.2016 (29 days)
27.05.2016	85,780.00	16.06.2016 (19 days)	05.07.2016 (19 days)
23.05.2016 to 31.05.2016	38,690.00	02.06.2016 (09 days)	20.07.2016 (48 days)
08.03.2017 to 14.03.2017	11,710.00	15.03.2017 (07 days)	06.06.2017 (81 days)

Date of Receipt of Drafts	Amount of Drafts	Date of Submission to Bank and delay (in days)	Date of credit in the bank and delay (in days)
Account Number CD-245:			
04.05.2016	29,870.00	16.06.2016 (43 days)	11.07.2016 (26 days)
12.05.2016	11,970.00	16.06.2016 (35 days)	16.07.2016 (30 days)
19.05.2016	30,280.00	16.06.2016 (27 days)	20.06.2016 (04 days)
20.05.2016	15,440.00	16.06.2016 (26 days)	20.06.2016 (04 days)
26.05.2016	18,150.00	16.06.2016 (20 days)	15.07.2016 (29 days)
27.05.2016	41,600.00	16.06.2016 (19 days)	05.07.2016 (19 days)
Account Number CD-176:			
01.05.2016 to 08.05.2016	29,700.00	09.05.2016 (07 days)	10.06.2016 (31 days)
09.05.2016 to 15.05.2016	33,000.00	16.05.2016 (07 days)	27.06.2016 (42 days)
16.05.2016 to 22.05.2016	31,020.00	23.05.2016 (07 days)	10.06.2016 (17 days)
23.05.2016 to 31.05.2016	34,980.00	02.06.2016 (09 days)	15.07.2016 (43 days)
08.03.2017 to 14.03.2017	7,920.00	15.03.2017 (07 days)	30.06.2017 (105 days)
23.03.2017 to 31.03.2017	5,940.00	31.03.2017 (09 days)	07.04.2017 (07days)

Appendix – 2.3.4

(Reference Paragraph: 2.3.20.3; Page: 31)

Office-wise status regarding non-maintenance of essential records for proper accounting of revenue receipts

Sl. No.	Name of office	Status regarding maintenance of prescribed records for handling of cash				
		Revenue Cash book	Subsidiary cash book	Remittance register	Stock Register of GR books	Bank reconciliation done
1.	RTO Jammu	Yes	No	Yes	Yes, but not properly	No
2.	RTO Kathua	Yes, but not properly	No	Yes	Yes, but not properly	No
3.	ARTO Rajouri	Yes, but not properly	No	No	Yes	No
4.	ARTO Samba	Yes, but not properly	No	Yes	Yes	No
5.	ARTO Udhampur	Yes, but not properly	No	Yes	Yes	No
6.	ARTO Leh	No	No	Yes	Yes	No
7.	RTO Srinagar	Yes, but not properly	No	Yes	Yes	No
8.	ARTO Anantnag	Yes	No	Yes	Yes, but not properly	No
9.	ARTO Baramulla	Yes, but not properly	No	Yes	Yes, but not properly	No
10.	Transport Commissioner	No	No	Yes	Yes	No
11.	ARTO Budgam	Yes	No	Yes	Yes	No
12.	ARTO Kupwara	Yes	No	Yes	Yes	No

Appendix-2.3.5

(Reference Paragraph: 2.3.21; Page: 31)

Money value of Audit findings that have featured in the previous performance audit reports involving taxes on motor vehicles

Sl. No.	Para No.	Para Heading	Observation	Money Value (₹ in crore)
(A) Para: 6.2: "Taxes on Motor Vehicles" included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2008				
1.	6.2.7.1	Registration of Vehicles	Non-realisation of renewal fee due to Non-renewal of registration of 932 non-transport vehicles registered between April 1988 and December 1992	0.0151
2.	6.2.7.2	Issuance of Permits	Non recovery due to non-renewal of 126 Permits during 2003-04 to 2007-08	0.0609
			Short recovery of Permit fee in 550 cases	0.0226
			Non-recovery due to non-obtaining of permits in 55 cases	0.0450
3.	6.2.7.3	Fitness/ Inspection of Vehicles	Non-recovery of inspection/ fitness fee due to shortfall in inspections during 2003-04 to 2006-07	9.2500
4.	6.2.7.4	Levy of tax	Non recovery of Token tax alongwith interest in respect of 2,782 vehicles during 2003-04 to 2007-08	1.1500
5.	6.2.8.1	Issuance of conductor licence	Non-realisation due to non-issuance of conductor licence and renewal thereof	0.3769
6.	6.2.8.2	Licences issued by driving institutes	Non recovery of licence fee of 11 driving institutes for the period ranging between 2 and 11 years	0.0047
7.	6.2.8.3	Agents Licence (Goods)	Non-renewal of Agents Licence in 70 cases from last 1 to 11 years	0.1069
8.	6.2.8.4	Motor Transport Service Licence	Short recovery of Licence Fee in 81 cases between April 2003 to March 2008	0.0528
			Non recovery of licence fee due to non-renewal of licence in 56 cases between April 2003 to March 2008	0.0835
9.	6.2.9	Trade certificate	Non-recovery of fees due to non renewal of trade certificate in 40 cases during August 2001 to March 2008	0.0046
10.	6.2.10	Pollution checking centres	Non-recovery of renewal fee due to non-renewal of licence fee of four pollution checking centres between one and eight years	0.0048

Sl. No.	Para No.	Para Heading	Observation	Money Value (₹ in crore)
11.	6.2.11	Penalties and Offences	Revenue loss due to non-recovery of Penalty for over loading of vehicles in 1,28,620 cases booked between April 2004 and March 2008	25.7200
			Loss of revenue due to non-levy of penalty on 10,919 overloaded vehicles escaped notice of Motor Vehicle Department between April 2004 to March 2008	2.7300
12.	6.2.12.1	Cash Book	Short accountal due to lack of proper check	0.0163
			Total	**39.6441**
(B) Para: 6.3: "Information Technology Audit of Computerisation in Transport Department, Government of Jammu and Kashmir" included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2008				
1.	6.3.13.2	Incorrect application of rates of road tax	Short levy/ excess levy of road tax in 1,859 cases from May 2005 to March 2008	0.0828
2.				0.0109
3.	6.3.13.5	Delayed registration of vehicles	Non-levy of fine for delay in registration of 17,181 vehicles resulted in loss of revenue	0.1718
			Total	**0.2655**
(C) Para: 3.5: "Computerisations in Motor Vehicles Department" included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2011				
1.	3.5.9.6	Generation of list of defaulters and provision for calculating additional tax	Default in payment of tax of 13,369 Goods and Passenger vehicles	12.3600
			Total	**12.3600**
(D) Para: 2.6: "Revenue Mobilization in Motor Vehicles Department" included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2013				
1.	2.6.3	Outstanding Token Tax	Outstanding token tax against 7,123 vehicles as of March 2013 for the period ranging between 3 to 69 months	3.1900
2.	2.6.4 (i)	Non-renewal of national permits for goods carriage	Non-recovery of revenue due to Non-renewal of 1,391 goods carriage permits during 2010-11 to 2012-13	0.2464
3.	2.6.4 (ii)	Non-renewal of permits of Jammu and Kashmir Road Transport Corporation	Outstanding revenue due to Non-renewal of 378 permits of SRTC vehicles as of March 2013	0.3128
4.	2.6.4 (iii)	Non-renewal of district route permits	Outstanding revenue due to Non-renewal of 404 district route permits for the last 1 to 12 years as of March 2013	0.2026
5.	2.6.4 (iv)	Renewal of certificate of fitness of vehicles	Outstanding revenue due to Non-renewal of 4,245 fitness certificates of transport vehicles as of March 2013	0.3911

Sl. No.	Para No.	Para Heading	Observation	Money Value (₹ in crore)
6.	2.6.6	Passenger welfare fund	Short realisation of contribution towards Passenger welfare fund during the period 2010-11 to 2012-13	4.7600
7.	2.6.7	Non-renewal of goods agent business licence	Non-realisation of revenue due to Non-renewal of 64 business licence till March 2013	0.2593
8.	2.6.8	Non-renewal of motor transport service licence	Non-realisation of revenue due to Non-renewal of 83 motor transport service licence between 1997-1998 to 2012-13	0.4187
			Total	**9.7809**
			Grand Total	**62.0505**

Appendix – 3.1.1

(Reference paragraph: 3.1.7; Page: 52)

Statement showing position of equity and outstanding loans relating to State PSUs (other than power sector) as on 31 March 2018

(₹ in crore)

Sl. No.	Sector and Name of the PSU	Name of the Department	Month and year of incorporation	Equity at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
				GoJ&K	GoI	Others	Total	GoJ&K	GoI	Others	Total
1	2	3	4	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)
A.	**Social Sector**										
	I. Working Government Companies										
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	Agriculture production	30 January 1970	2.60	0.94	0	3.54	61.25	0	0	61.25
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	Agriculture production	10 April 1978	6.00	3.20	0	9.20	109.64	0	0	109.64
3.	Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited	Social Welfare	1 April 1986	18.87	28.05	0	46.92	0	0	43.08	43.08
4.	Jammu and Kashmir State Women's Development Corporation Limited	Social Welfare	10 May1996	10.00	0	0	10.00	0	0	48.78	48.78
5.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	Industry and Commerce	28 November 1975	3.12	0	0	3.12	10.38	0	0	10.38
6.	Jammu and Kashmir State Industrial Development Corporation Limited	Industry and Commerce	17 March 1969	17.65	0	0	17.65	8.05	0	0	8.05
7.	Jammu and Kashmir Industries Limited	Industry and Commerce	4 October 1960	16.27	0	0	16.27	622.35	0	0	622.35
8.	Jammu and Kashmir Overseas Employment Corporation Limited	Finance	10 October 2010	4.06	0	0	4.06	0	0	0	0

Sl. No.	Sector and Name of the PSU	Name of the Department	Month and year of incorporation	Equity at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
				GoJ&K	GoI	Others	Total	GoJ&K	GoI	Others	Total
1	2	3	4	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)
9.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	Industry and Commerce	6 January 1970	7.08	0.89	0	7.97	137.80	0	0	137.80
10.	Jammu and Kashmir State Handloom Development Corporation Limited	Industry and Commerce	29 June 1981	3.49	1.50	0	4.99	148.58	0	0	148.58
11.	Jammu and Kashmir Medical Supplies Corporation Limited	Health	31 March 2014	0.05	0	0	0.05	0	0	0	0
	Total-I A			**89.19**	**34.58**	**0**	**123.77**	**1098.05**	**0**	**91.86**	**1189.91**
	II. Inactive Company										
12.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited)	Industries and Commerce	29 November 1991	0.40	0	0	0.40	NA			
	Total-II A			**0.40**	**0**	**0**	**0.40**	**0**	**0**	**0**	**0**
	Total A (I+II)			**89.59**	**34.58**	**0**	**124.17**	**1098.05**	**0**	**91.86**	**1189.91**
B.	**Competitive Sector**										
	I. Working Government Companies										
13.	Jammu and Kashmir Cements Limited	Industry and Commerce	24 December 1974	52.01	0	0	52.01	9.22	0	37.58	46.80
14.	Jammu and Kashmir Minerals Limited	Industry	5 February 1960	8.00	0	0	8.00	462.35	0	0	462.35
15.	Jammu and Kashmir State Cable Car Corporation Limited	Tourism	28 November 1988	23.57	0	0	23.57	0	0	0	0
16.	Jammu and Kashmir Bank Limited	Finance	10 October 1938	32.98	0	22.72	55.70	0	0	1628.34	1628.34
17.	Jammu and Kashmir Bank Financial Services Limited	Finance	27 August 2009	0	0	20.00	20.00	0	0	0	0
18.	Jammu and Kashmir State Financial Corporation	Finance	2 December 1959	157.35	0	28.72	186.07	0.81	0	0	0.81
19.	Jammu and Kashmir State Road Transport Corporation	Transport	1 September 1976	178.05	15.01	24.79	217.85	645.45	0	0	645.45

Sl. No.	Sector and Name of the PSU	Name of the Department	Month and year of incorporation	Equity at close of the year 2017-18				Long term loans outstanding at close of the year 2017-18			
				GoJ&K	GoI	Others	Total	GoJ&K	GoI	Others	Total
1	2	3	4	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)
20.	Jammu and Kashmir State Tourism Development Corporation Limited	Tourism	13 February 1970	23.50	0	0	23.50	4.26	0	0	4.26
21.	Jammu and Kashmir State Forest Corporation	Forest	1 July 1979	9.03	0	0	9.03	62.14	0	0	62.14
	Total-I B			**484.49**	**15.01**	**96.23**	**595.73**	**1184.23**	**0**	**1665.92**	**2850.15**
	II. Inactive Companies										
22.	Tawi Scooters Limited	Industries and Commerce	15 December 1976	0.80	0	0	0.80	0.83	0	0	0.83
23.	Himalayan Wool Combers Limited	Industries and Commerce	24 January 1978	1.37	0	0	1.37	0	0	0	0
	Total-II B			**2.17**	**0**	**0**	**2.17**	**0.83**	**0**	**0**	**0.83**
	Total B (I+II)			**486.66**	**15.01**	**96.23**	**597.90**	**1185.06**	**0**	**1665.92**	**2850.98**
C.	**Others**										
	I. Working Government Companies										
24.	Jammu and Kashmir Projects Construction Corporation Limited	Public Works	22 May1965	1.53	0	0	1.53	0	0	0	0
25.	Jammu and Kashmir Police Housing Corporation Limited	Home	26 December 1997	2.05	0	0	2.05	0	0	0	0
	Total-I C			**3.58**	**0**	**0**	**3.58**	**0**	**0**	**0**	**0**
	II. Inactive Companies										
26	Jammu and Kashmir State Road Development Corporation Limited	Public Works	31 March 2014	5.00	0	0	5.00	The Companies have not yet submitted their accounts to this office for supplementary audit since inception.			
27.	Jammu and Kashmir International Trade Centre Corporation Limited	Industries and Commerce	1 February 2014	48.00	0	0	48.00				
	Total-II C			**53.00**	**0**	**0**	**53.00**	**0**	**0**	**0**	**0**
	Total C (I+II)			**56.58**	**0**	**0**	**56.58**	**0**	**0**	**0**	**0**
	Grand Total (A+B+C)			**632.83**	**49.59**	**96.23**	**778.65**	**2283.11**	**0**	**1757.78**	**4040.89**

(Source: Compiled based on the information furnished by the PSUs)

Appendix – 3.1.2

(Reference paragraph: 3.1.9; Page: 55)

Statement showing equity, loans, guarantees outstanding as per Finance Account of GoJ&K vis-à-vis records of State PSUs (Other than power sector) as on 31 March 2018

(₹ in crore)

Sl. No.	Name of PSU	As per records of the State PSUs			As per Finance Accounts of GoJ&K			Difference		
		Paid up capital	Loans outstanding	Guarantee committed	Paid-up capital	Loans outstanding	Guarantee committed	Paid-up capital	Loans outstanding	Guarantee committed
1	2	3	4	5	6	7	8	9	10	11
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	2.60	61.25	0	2.60	7.95	0	0	53.30	0
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	6.00	109.64	0	6.00	12.67	0	0	96.97	0
3.	Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited	18.87	0	43.07	17.57	0	43.07	1.30	0	0
4.	Jammu and Kashmir State Women's Development Corporation Limited	10.00	0	55.21	13.66	0	55.21	-3.66	0	0
5.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	3.12	10.38	0	4.12	0	0	-1.00	10.38	0

Sl. No.	Name of PSU	As per records of the State PSUs			As per Finance Accounts of GoJ&K			Difference		
		Paid up capital	Loans outstanding	Guarantee committed	Paid-up capital	Loans outstanding	Guarantee committed	Paid-up capital	Loans outstanding	Guarantee committed
1	2	3	4	5	6	7	8	9	10	11
6.	Jammu and Kashmir State Industrial Development Corporation Limited	17.65	8.05	0	45.81	0	0	-28.16	8.05	0
7.	Jammu and Kashmir Industries Limited	16.27	622.35	0	18.09	383.99	0	-1.82	238.36	0
8.	Jammu and Kashmir Overseas Employment Corporation Limited	4.06	0	0	1.35	0	0	2.71	0	0
9.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	7.08	137.80	0	6.70	0	0	0.38	137.80	0
10.	Jammu and Kashmir State Handloom Development Corporation Limited	3.49	148.58	0	12.81	0	0	-9.32	148.58	0
11.	Jammu and Kashmir Medical Supplies Corporation Limited	0.05	0	0	0.05	0	0	0	0	0
12.	Jammu and Kashmir Cements Limited	52.01	9.22	0	30.27	0	0	21.74	9.22	0
13.	Jammu and Kashmir Minerals Limited	8.00	462.35	0	26.73	1.86	0	-18.73	460.49	0
14.	Jammu and Kashmir State Cable Car Corporation Limited	23.57	0	0	23.82	0	0	-0.25	0	0

Sl. No.	Name of PSU	As per records of the State PSUs			As per Finance Accounts of GoJ&K			Difference		
		Paid up capital	Loans outstanding	Guarantee committed	Paid-up capital	Loans outstanding	Guarantee committed	Paid-up capital	Loans outstanding	Guarantee committed
1	2	3	4	5	6	7	8	9	10	11
15.	Jammu and Kashmir Bank Limited	32.98	0	0	32.98	0	0	0	0	0
16.	Jammu and Kashmir Bank Financial Services Limited	0	0	0	0	0	0	0	0	0
17.	Jammu and Kashmir State Financial Corporation	157.35	0.81	0	148.85	0	0	8.50	0.81	0
18.	Jammu and Kashmir State Road Transport Corporation	178.05	645.45	0	164.85	346.73	0	13.20	298.72	0
19.	Jammu and Kashmir State Tourism Development Corporation Limited	23.50	4.26	0	23.51	0	0	-0.01	4.26	0
20.	Jammu and Kashmir State Forest Corporation	9.03	62.14	0	9.03	0	0	0	62.14	0
21.	Jammu and Kashmir Projects Construction Corporation Limited	1.53	0	0	1.53	0	0	0	0	0
22.	Jammu and Kashmir Police Housing Corporation Limited	2.05	0	0	2.05	0	0	0	0	0
						14.94[2]			14.94	
	Total	**577.26**	**2282.28**	**98.28**	**592.38**	**768.14**	**98.28**	**-15.12**	**1514.14**	**0**

2 As per Finance Account, loan amount of ₹14.94 crore was advance under Loan for Tourism (loan to public sector and other undertakings)

Appendix -3.1.3 (A)

(Reference paragraph: 3.1.10; Page: 56)

Statement showing position of State Government investment in working State PSUs, accounts of which are in arrears as of September 2018

(₹ in crore)

Sl. No.	Name of PSU	Period upto which accounts finalised	Number of accounts are in arrears	Paid up capital as per latest finalised accounts	Investment made by State Government during the period for which accounts are in arrears		
					Loans	Subsidy	Total
1	2	3	4	5	6	7	8
A.	**Working Government Companies**						
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	2003-04	14	3.54	6.05	0.43	6.48
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	2004-05	13	9.20	21.77	0	21.77
3.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	2006-07	11	3.12	0	0	0
4.	Jammu and Kashmir State Industrial Development Corporation Limited	2012-13	05	14.47	0	0	0
5.	Jammu and Kashmir Projects Construction Corporation Limited	2013-14	04	1.97	0	0	0
6.	Jammu and Kashmir Police Housing Corporation Limited	2009-10	08	2.00	0	0	0
7.	Jammu and Kashmir State Handloom Development Corporation Limited	2010-11	07	4.66	22.64	0.44	23.08
8.	Jammu and Kashmir Handicrafts (Sale and Export) Development Corporation Limited	1999-2000	18	5.71	30.37	0	30.37
9.	Jammu and Kashmir Industries Limited	2008-09	09	16.27	78.75	0	78.75
10.	Jammu and Kashmir Minerals Limited	1996-97	21	8.00	62.12	0	62.12

Sl. No.	Name of PSU	Period upto which accounts finalised	Number of accounts are in arrears	Paid up capital as per latest finalised accounts	Investment made by State Government during the period for which accounts are in arrears		
					Loans	Subsidy	Total
1	2	3	4	5	6	7	8
11.	Jammu and Kashmir State Tourism Development Corporation Limited	2012-13	05	15.96	0	0	0
12.	Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited	2001-02	16	10.63	19.37	4.54	23.91
13.	Jammu and Kashmir State Women's Development Corporation Limited	2016-17	01	10.00	3.00	0	3.00
14.	Jammu and Kashmir Cements Limited	2009-10	08	41.77	0	0	0
15.	Jammu and Kashmir State Cable Car Corporation Limited	2010-11	07	23.57	0	0	0
16.	Jammu and Kashmir Overseas Employment Corporation Limited	2010-11	07	2.56	0	0	0
17.	Jammu and Kashmir State Power Development Corporation Limited	2013-14	04	5.00	258.58	15.54	274.12
	Total A		**158**	**178.43**	**502.65**	**20.95**	**523.60**
B.	**Working Statutory Corporations**						
18.	Jammu and Kashmir State Road Transport Corporation	2013-14	04	178.37	131.08	0	131.08
19.	Jammu and Kashmir State Financial Corporation	2016-17	01	98.19	2.48	0	2.48
	Total B		**05**	**276.56**	**133.56**	**0**	**133.56**
	Total (A+B)		**163**	**454.99**	**636.21**	**20.95**	**657.16**

Appendix – 3.1.3 (B)

(Reference to paragraph: 3.1.10; Page: 56)

Position relating to submission of accounts

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Number of PSUs[3]	23	23	24	24	24
2.	Number of accounts submitted during current year	14	19	29	24	40
3.	Number of PSUs which finalised accounts for the current year	03	03	03	03	03
4.	Number of previous year accounts finalised during current year	11	16	26	21	37[4]
5.	Number of PSUs with arrears in accounts	20	20	21	21	21
6.	Number of accounts in arrears	183	190	183	181	163

3 Arrears of accounts in respect of two Power Sector PSU's viz. Jammu and Kashmir Power Trading Company Limited and Jammu and Kashmir Power Transmission Company Limited incorporated in March 2013 and another two Power Sector PSUs viz. Jammu Power Distribution Company Limited and Kashmir Power Distribution Company Limited incorporated in June 2013 have not been considered since these PSUs neither been operationalised nor have rendered their accounts since inception

4 Chenab Valley Power Project Private Limited, Jammu and Kashmir Bank Limited and Jammu and Kashmir Bank Financial Services Limited

Appendix – 3.1.4

(Reference paragraphs: 3.1.11 (A) and 3.1.15 (A); Pages: 57 and 63)

Detail showing financial position and working results of six power sector companies as per their latest finalised accounts as of 30 September 2018

(₹ in crore)

Sl. No.	Activity and name of the power Sector Undertaking	Period of accounts	Net profit/ loss before interest and tax	Net profit/ loss after interest and tax	Turn over	Paid up capital	Long term loan	Capital employed[5]	Net worth[6]	Accumulated profit/ loss
1	2	3	4	5	6	7	8	9	10	11
A.	**Power generation PSUs**									
1.	Jammu and Kashmir State Power Development Corporation Limited	2013-14	433.41	160.23	992.46	5.00	1826.49	1652.68	-173.81	-178.81
2.	Chenab Valley Power Projects Private Limited (Deemed Government Company)	2017-18	5.66	3.95	0	1051.44	0	1076.67	1076.67	25.23
	Sub-total		**439.07**	**164.18**	**992.46**	**1056.44**	**1826.49**	**2729.35**	**902.86**	**-153.58**
B.	**Power transmission PSU**									
3.	Jammu and Kashmir Power Transmission Company Limited					0.05	The Company though incorporated in March 2013 has not yet submitted its Accounts to this office for supplementary audit.			
	Sub-total					**0.05**				
C.	**Power distribution PSUs**									
4.	Jammu Power Distribution Company Limited					0.05	The Company though incorporated in June 2013 has not yet submitted its Accounts to this office for supplementary audit.			
5.	Kashmir Power Distribution Company Limited					0.05	The Company though incorporated in June 2013 has not yet submitted its Accounts to this office for supplementary audit.			
	Sub-total					**0.10**				
D.	**Other PSU**									
6.	Jammu and Kashmir Power Trading Company Limited					0.05	The Company though incorporated in March 2013 has not yet submitted its Accounts to this office for supplementary audit.			
	Sub-total					**0.05**				
	Grand total		**439.07**	**164.18**	**992.46**	**1056.64**	**1826.49**	**2729.35**	**902.86**	**-153.58**

5 Capital employed = Paid up share capital + free reserves and surplus + long term loans – accumulated losses - deferred revenue expenditure. Figures are as per the latest year for which accounts of the PSUs are finalised

6 Net worth = Sum total of paid up share capital and free reserves and surplus – accumulated losses and deferred revenue expenditure. Figures are as per the latest year for which accounts of the PSUs are finalised

Appendix – 3.1.5

(Reference paragraph: 3.1.11 (B); Page: 58)

Summarised financial results of State PSUs (other than power sector) as per their latest finalised accounts as of 30 September 2018

(₹ in crore)

Sl. No.	Sector, type and name of the PSU	Period of accounts	Year in which finalized	Net profit/ loss before dividend, interest and tax	Net profit/ loss after dividend, interest and tax	Turn over	Paid up capital	Long term loan	Capital employed	Net worth	Accumulated profit/ loss
1	2	3	4	5	6	7	8	9	10	11	12
A.	**Social Sector**										
	I. Working Government Companies										
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	2003-04	2015-16	-3.51	-3.52	44.45	3.54	11.48	-3.44	-14.92	-18.46
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	2004-05	2018-19	1.08	0.39	4.56	9.20	49.68	-7.19	-56.87	-75.49
3.	Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited	2001-02	2016-17	-0.85	-1.27	0.11	10.63	10.76	16.38	5.62	-5.01
4.	Jammu and Kashmir State Women's Development Corporation Limited	2016-17	2018-19	2.29	0.89	3.24	10.00	91.52	119.26	27.74	8.87
5.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	2006-07	2018-19	1.66	1.09	218.68	3.12	8.63	-2.77	-11.40	-14.52
6.	Jammu and Kashmir State Industrial Development Corporation Limited	2012-13	2018-19	-11.59	-11.65	27.24	14.47	22.72	-89.46	-112.18	-126.80
7.	Jammu and Kashmir Industries Limited	2008-09	2018-19	-11.36	-43.50	3.66	16.27	489.06	-24.07	-513.13	-529.40
8.	Jammu and Kashmir Overseas Employment Corporation Limited	2010-11	2013-14	0	0	0	2.56	0	2.56	2.56	0

Sl. No.	Sector, type and name of the PSU	Period of accounts	Year in which finalized	Net profit/ loss before dividend, interest and tax	Net profit/ loss after dividend, interest and tax	Turn over	Paid up capital	Long term loan	Capital employed	Net worth	Accumulated profit/ loss
1	2	3	4	5	6	7	8	9	10	11	12
9.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	1999-2000	2016-17	-3.15	-5.40	2.39	5.71	26.54	-3.78	-30.32	-36.03
10.	Jammu and Kashmir State Handloom Development Corporation Limited	2010-11	2018-19	-1.03	-6.75	6.63	4.66	83.57	2.05	-81.52	-86.18
11.	Jammu and Kashmir Medical Supplies Corporation Limited						0.05	The Company though incorporated in March 2014 has not yet submitted its accounts to this office for supplementary audit.			
	Total A-I			**-26.46**	**-69.72**	**310.96**	**80.21**	**793.96**	**9.54**	**-784.42**	**-883.02**
	II. Inactive Government Company										
12.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited)	1991-92	1999-2000	0	0	0	0.40	NA	0	0	0
	Total A-II			**0**	**0**	**0**	**0.40**	**0**	**0**	**0**	**0**
	Total A (I+II)			**-26.46**	**-69.72**	**310.96**	**80.61**	**793.96**	**9.54**	**-784.42**	**-883.02**
B.	**Competitive Environment Sector**										
	I. Working Government Companies										
13.	Jammu and Kashmir Cements Limited	2009-10	2018-19	10.84	5.23	92.51	41.77	51.16	111.08	59.92	18.15
14.	Jammu and Kashmir Minerals Limited	1996-97	2016-17	-5.44	-28.92	4.16	8.00	68.17	4.30	-63.87	-72.03
15.	Jammu and Kashmir State Cable Car Corporation Limited	2010-11	2013-14	6.23	6.23	12.51	23.57	0	19.60	19.60	-3.97

Sl. No.	Sector, type and name of the PSU	Period of accounts	Year in which finalized	Net profit/ loss before dividend, interest and tax	Net profit/ loss after dividend, interest and tax	Turn over	Paid up capital	Long term loan	Capital employed	Net worth	Accumulated profit/ loss
1	2	3	4	5	6	7	8	9	10	11	12
16.	Jammu and Kashmir Bank Limited	2017-18	2018-19	497.98	202.72	6621.40	55.69	1628.34	1684.03	55.69	0
17.	Jammu and Kashmir Bank Financial Services Limited	2017-18	2018-19	-0.03	-0.02	5.49	20.00	0	16.37	16.37	-3.63
18.	Jammu and Kashmir State Tourism Development Corporation Limited	2012-13	2015-16	0.26	0.26	30.74	15.96	4.26	16.34	12.08	-3.88
	Total B-I			**509.84**	**185.50**	**6766.81**	**164.99**	**1751.93**	**1851.72**	**99.79**	**-65.36**
	II. Working Statutory Corporation										
19.	Jammu and Kashmir State Financial Corporation	2016-17	2017-18	-1.00	-1.02	5.00	98.19	2.81	-34.50	-37.31	-135.50
20.	Jammu and Kashmir State Road Transport Corporation	2013-14	2017-18	-44.74	-92.90	87.18	178.37	1079.45	109.70	-969.75	-1148.12
21.	Jammu and Kashmir State Forest Corporation Limited						9.03	Accounts for the years 1996-97 and onwards not received. (The Corporation was incorporated in 1978-79, however, its audit was entrusted to the CAG from 1996-97).			
	Total B-II			**-45.74**	**-93.92**	**92.18**	**285.59**	**1082.26**	**75.20**	**-1007.06**	**-1283.62**
	III. Inactive Government Company										
22.	Tawi Scooters Limited	1989-90	1991-92	-0.06	-0.06	0	0.80	0.83	-	-	-1.04
23.	Himalayan Wool Combers Limited	1999-2000	2000-01	-1.29	-1.29	0	1.37	0	-	-	-10.49
	Total B-III			**-1.35**	**-1.35**	**0**	**2.17**	**0.83**	**-**	**-**	**-11.53**
	Total B (I+II+III)			**462.75**	**90.23**	**6858.99**	**452.75**	**2835.02**	**1926.92**	**-907.27**	**-1360.51**

Sl. No.	Sector, type and name of the PSU	Period of accounts	Year in which finalized	Net profit/ loss before dividend, interest and tax	Net profit/ loss after dividend, interest and tax	Turn over	Paid up capital	Long term loan	Capital employed	Net worth	Accumulated profit/ loss
1	2	3	4	5	6	7	8	9	10	11	12
C.	**Others**										**-**
	I. Working Government Company										
24.	Jammu and Kashmir Projects Construction Corporation Limited	2013-14	2018-19	7.77	4.78	402.13	1.97	0.33	125.44	125.11	61.57
25.	Jammu and Kashmir Police Housing Corporation Limited	2009-10	2018-19	10.87	7.33	7.14	2.00	0	41.72	41.72	19.86
	Total C-I			**18.64**	**12.11**	**409.27**	**3.97**	**0.33**	**167.16**	**166.83**	**81.43**
	II. Inactive Government Company										
26.	Jammu and Kashmir Road Development Corporation Limited						5.00	The Company though incorporated in March 2014 has not yet submitted its accounts to this office for supplementary audit.			
27.	Jammu and Kashmir International Trade Centre Corporation Limited						48.00	The Company though incorporated in February 2014 has not yet submitted its accounts to this office for supplementary audit.			
	Total C-II			**-**	**-**	**-**	**53.00**	**-**	**-**	**-**	**-**
	Total C-(I+II)			**18.64**	**12.11**	**409.27**	**56.97**	**0.33**	**167.16**	**166.83**	**81.43**
	Grand Total (A+B+C)			**454.93**	**32.62**	**7579.22**	**590.33**	**3629.31**	**2103.62**	**-1524.86**	**-2162.10**
I	**Working Government Companies**			**502.02**	**127.89**	**7487.04**	**249.17**	**2546.22**	**2028.42**	**-517.80**	**-866.95**
II	**Working Statutory Corporations**			**-45.74**	**-93.92**	**92.18**	**285.59**	**1082.26**	**75.20**	**-1007.06**	**-1283.62**
III	**Working PSUs (I+II)**			**456.28**	**33.97**	**7579.22**	**534.76**	**3628.48**	**2103.62**	**-1524.86**	**-2150.57**
IV	**Inactive Government Companies**			**-1.35**	**-1.35**	**0**	**55.57**	**0.83**	**0**	**0**	**-11.53**

Appendix – 3.1.6

(Reference paragraph: 3.1.12 (B); Page: 60)

Profit making State PSUs (other than power sector) as per their latest finalised accounts as of 30 September 2018

2013-14	**Name of Company**	Jammu and Kashmir Cements Limited	Jammu and Kashmir State Cable Car Corporation Limited	Jammu and Kashmir Bank Limited	Jammu and Kashmir State Women's Development Corporation Limited	Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	Jammu and Kashmir State Tourism Development Corporation Limited	Jammu and Kashmir Police Housing Corporation Limited
	PBIT (₹ in crore)	3.61	6.23	1861.14	0.13	0.21	0.89	1.38	1.43
2014-15	**Name of Company**	Jammu and Kashmir Projects Construction Corporation Limited	Jammu and Kashmir Police Housing Corporation Limited	Jammu and Kashmir Cements Limited	Jammu and Kashmir State Tourism Development Corporation Limited	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	Jammu and Kashmir State Cable Car Corporation Limited	Jammu and Kashmir Bank Limited	
	PBIT (₹ in crore)	0.01	0.60	3.61	1.38	0.89	6.23	1014.71	
2015-16	**Name of Company**	Jammu and Kashmir State Tourism Development Corporation Limited	Jammu and Kashmir Projects Construction Corporation Limited	Jammu and Kashmir Police Housing Corporation Limited	Jammu and Kashmir State Women's Development Corporation Limited	Jammu and Kashmir Cements Limited	Jammu and Kashmir State Cable Car Corporation Limited	Jammu and Kashmir Bank Limited	
	PBIT (₹ in crore)	0.26	0.97	1.22	2.18	5.86	6.23	818.50	
2016-17	**Name of Company**	Jammu and Kashmir State Tourism Development Corporation Limited	Jammu and Kashmir Projects Construction Corporation Limited	Jammu and Kashmir State Women's Development Corporation Limited	Jammu and Kashmir Cements Limited	Jammu and Kashmir State Cable Car Corporation Limited	Jammu and Kashmir Police Housing Corporation Limited		
	PBIT (₹ in crore)	0.26	0.82	4.10	5.86	6.23	8.00		
2017-18	**Name of Company**	Jammu and Kashmir State Tourism Development Corporation Limited	Jammu and Kashmir State Women's Development Corporation Limited	Jammu and Kashmir State Cable Car Corporation Limited	Jammu and Kashmir Projects Construction Corporation Limited	Jammu and Kashmir Cements Limited	Jammu and Kashmir Police Housing Corporation Limited	Jammu and Kashmir Bank Limited	
	PBIT (₹ in crore)	0.26	2.29	6.23	7.77	10.84	10.87	497.98	

Appendix – 3.1.7 (A)

(Reference paragraph: 3.1.13 (A); Page: 61)

Statement showing State Government funds infused in five power sector undertakings since inception till 31 March 2018

(₹ in crore)

Year	Jammu and Kashmir State Power Development Corporation Limited			Jammu and Kashmir Power Transmission Company Limited	Jammu Power Distribution Company Limited	Kashmir Power Distribution Company Limited	Jammu and Kashmir Power Trading Company Limited	Total		
	Equity	IFL[7]	IFL converted into equity	Equity	Equity	Equity	Equity	Equity	IFL	IFL converted into equity
1994-95	5.00	0	0	0	0	0	0	5.00	0	0
1995-96	0	0	0	0	0	0	0	0	0	0
1996-97	0	0	0	0	0	0	0	0	0	0
1997-98	0	0	0	0	0	0	0	0	0	0
1998-99	0	0	0	0	0	0	0	0	0	0
1999-2000	0	0	0	0	0	0	0	0	0	0
2000-01	0	0	0	0	0	0	0	0	0	0
2001-02	0	0	0	0	0	0	0	0	0	0
2002-03	0	0	0	0	0	0	0	0	0	0
2003-04	0	0	0	0	0	0	0	0	0	0
2004-05	0	0	0	0	0	0	0	0	0	0
2005-06	0	0	0	0	0	0	0	0	0	0
2006-07	0	0	0	0	0	0	0	0	0	0
2007-08	0	0	0	0	0	0	0	0	0	0
2008-09	0	0	0	0	0	0	0	0	0	0
2009-10	0	0	0	0	0	0	0	0	0	0

[7] Interest free loan

Year	Jammu and Kashmir State Power Development Corporation Limited			Jammu and Kashmir Power Transmission Company Limited	Jammu Power Distribution Company Limited	Kashmir Power Distribution Company Limited	Jammu and Kashmir Power Trading Company Limited	Total		
	Equity	IFL[8]	IFL converted into equity	Equity	Equity	Equity	Equity	Equity	IFL	IFL converted into equity
2010-11	0	0	0	0	0	0	0	0	0	0
2011-12	0	0	0	0	0	0	0	0	0	0
2012-13	0	0	0	0.05	0	0	0.05	0.10	0	0
2013-14	0	0	0	0	0.05	0.05	0	0.10	0	0
2014-15	0	0	0	0	0	0	0	0	0	0
2015-16	0	0	0	0	0	0	0	0	0	0
2016-17	0	0	0	0	0	0	0	0	0	0
2017-18	0	0	0	0	0	0	0	0	0	0
Total	**5.00**	**0**	**0**	**0.05**	**0.05**	**0.05**	**0.05**	**5.20**	**0**	**0**

[8] Interest free loan

Appendix – 3.1.7 (B)

(Reference paragraph: 3.1.13 (B); Page: 61)

Statement showing State Government funds infused in State PSUs (other than power sector) during the period from 1999-2000 to 2017-18

(₹ in crore)

Sl. No.	1		2		3		4		5		6	
Year	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited		Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited		Jammu and Kashmir State Women's Development Corporation Limited		Jammu and Kashmir State Industrial Development Corporation Limited		Jammu and Kashmir Industries Limited		Jammu and Kashmir Overseas Employment Corporation Limited	
	Equity	IFL[9]	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL
1999-2000	0	0	0.10	0	0.03	0	1.00	0	0	0	0	0
2000-01	0	0	0.10	0	0.03	0	0	0	0	0	0	0
2001-02	0	0	0.10	0	0.03	0	0.80	0	0	0	0	0
2002-03	0	0	0.35	0	0.23	0	0	0	0	0	0	0
2003-04	0	0	1.50	0	0.50	0	0	0	0	0	0	0
2004-05	0	0	1.53	0	0.90	0	0	0	0	0	0	0
2005-06	0	0	2.80	0	0.50	0	0	0	0	0	0	0
2006-07	0	0	0.70	0	0.50	0	0	0	0	0	0	0
2007-08	0	0	0.70	0	0.50	0	0	11.55	0	0	0	0
2008-09	0	0	0.20	0	0.16	0	0	0	0	0	0	0
2009-10	0	0	1.00	0	1.00	0	0	0	0	0	0	0
2010-11	0	0	1.00	0	1.00	0	0	0	0	0	4.06	0
2011-12	0	0	1.00	0	1.09	0	0	0	0	0	0	0
2012-13	0	0	1.00	0	1.00	0	0	0	0	0	0	0
2013-14	0	0	0.90	0	0.63	0	0	0	0	0	0	0
2014-15	0	0	0.90	0	0.31	0	0	0	0	0	0	0
2015-16	0	0	0.90	0	0	0	0	0	0	0	0	0
2016-17	0	0	0.90	0	0	0	0	0	0	0	0	0
2017-18	0	3.50	0.90	0	0	3.00	0	0	0	1.37	0	0
Total	**0**	**3.50**	**16.58**	**0**	**8.41**	**3.00**	**1.80**	**11.55**	0	**1.37**	**4.06**	**0**

9 Interest free loan

Sl. No.	7		8		9		10		11		12	
Year	**Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited**		**Jammu and Kashmir State Handloom Development Corporation Limited**		**Jammu and Kashmir Medical Supplies Corporation Limited**		**Jammu and Kashmir Cements Limited**		**Jammu and Kashmir Minerals Limited**		**Jammu and Kashmir State Cable Car Corporation Limited**	
	Equity	**IFL**	**Equity**	**IFL**	**Equity**	**IFL**	**Equity**	**IFL**	**Equity**	**IFL**	**Equity**	**IFL**
1999-2000	0.35	0	0	0	0	0	0	0	0	0	0.16	0
2000-01	0.45	0	0	0	0	0	0	0	0	0	0.15	0
2001-02	0.30	0	0	0	0	0	0	0	0	0	0.14	0
2002-03	0.13	0	0	0	0	0	0	0	0	0	9.15	0
2003-04	0.20	0	0	0	0	0	0	0	0	0	0.60	0
2004-05	0.20	0	0.35	0	0	0	0	0	0	0	0.25	0
2005-06	0.25	0	0	0	0	0	4.00	0	0	0	0	0
2006-07	0	0	0.30	0	0	0	1.00	0	0	0	0	0
2007-08	0	0	0	0	0	0	0	0	0	0	0	0
2008-09	0	0	0	0	0	0	7.27	0	0	0	0	0
2009-10	0	0	1.56	0	0	0	0	0	0	0	0	0
2010-11	0	0	0	0	0	0	0	0	0	0	0	0
2011-12	0	0	0	0	0	0	4.00	0	0	0	0	0
2012-13	0	0	0	0	0	0	0	0	0	0	0	0
2013-14	0	0	0	0	0.05	0	2.25	0	0	0	0	0
2014-15	0	0	0	0	0	0	0	3.62	0	0	0	0
2015-16	0	0	0	0	0	0	0	0	0	0	0	0
2016-17	0	0	0	0	0	0	0	0	0	0	0	0
2017-18	0	4.25	0	5.11	0	0	0	0	0	1.11	0	0
Total	**1.88**	**4.25**	**2.21**	**5.11**	**0.05**	**0**	**18.52**	**3.62**	**0**	**1.11**	**10.45**	**0**

Sl. No.	13		14		15		16		17		18	
Year	Jammu and Kashmir Bank Limited		Jammu and Kashmir State Financial Corporation		Jammu and Kashmir State Road Transport Corporation		Jammu and Kashmir State Tourism Development Corporation Limited		Jammu and Kashmir Road Development Corporation Limited		Jammu and Kashmir International Trade Centre Corporation Limited	
	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL	Equity	IFL
1999-2000	0	0	0	0	5.00	0	0.50	0	0	0	0	0
2000-01	0	0	0	0	3.38	0	0.45	0	0	0	0	0
2001-02	0	0	0	0	0.45	0	0	0	0	0	0	0
2002-03	0	0	0	0	0	0	3.43	0	0	0	0	0
2003-04	0	0	0	0	0	0	0	0	0	0	0	0
2004-05	0	0	0.80	0	0	0	0	0	0	0	0	0
2005-06	0	0	0	0	0	0	0	0	0	0	0	0
2006-07	0	0	0	0	0	0	0	0	0	0	0	0
2007-08	0	0	0	0	0	0	0	0	0	0	0	0
2008-09	0	0	0	0	0	0	0	0	0	0	0	0
2009-10	0	0	0	0	13.53	0	0	0	0	0	0	0
2010-11	0	0	0	0	5.00	0	0	0	0	0	0	0
2011-12	0	0	0	0	0	0	0	0	0	0	0	0
2012-13	0	0	0	0	5.00	0	0	0	0	0	0	0
2013-14	0	0	17.50	0	3.75	0	0	0	5.00	0	48.00	0
2014-15	0	0	0	0	0	0	0	0	0	0	0	0
2015-16	0	0	0	0	5.95	0	0	0	0	0	0	0
2016-17	3.66	0	0	0	5.00	0	0	0	0	0	0	0
2017-18	3.55	0	87.88	2.48	3.75	30.00	0	0	0	0	0	0
Total	**7.21**	**0**	**106.18**	**2.48**	**50.81**	**30.00**	**4.38**	**0**	**5.00**	**0**	**48.00**	**0**

Appendix – 3.1.8

(Reference paragraph: 3.1.15 (B); Page: 64)

Summarised financial results of State PSUs (other than power sector) as per their latest finalised accounts as of 30 September 2018

(₹ in crore)

Sl. No.	Sector, type and name of the PSU	Period of accounts	Year in which finalised	Paid up capital	Free reserves and surplus	Accumulated profit/ loss	Deferred revenue expenditure	Net worth
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
A.	**Social Sector**							
	I. Working Government Companies							
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	2003-04	2015-16	3.54	0	-18.46	0	-14.92
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	2004-05	2018-19	9.20	9.42	-75.49	0	-56.87
3.	Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited	2001-02	2016-17	10.63	0	-5.01	0	5.62
4.	Jammu and Kashmir State Women's Development Corporation Limited	2016-17	2018-19	10.00	8.87	8.87	0	27.74
5.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	2006-07	2018-19	3.12	0	-14.52	0	-11.40
6.	Jammu and Kashmir State Industrial Development Corporation Limited	2012-13	2018-19	14.47	0.15	-126.80	0	-112.18
7.	Jammu and Kashmir Industries Limited	2008-09	2018-19	16.27	0	-529.40	0	-513.13
8.	Jammu and Kashmir Overseas Employment Corporation Limited	2010-11	2013-14	2.56	0	0	0	2.56
9.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	1999-2000	2016-17	5.71	0	-36.03	0	-30.32
10.	Jammu and Kashmir State Handloom Development Corporation Limited	2010-11	2018-19	4.66	0	-86.18	0	-81.52
	Total A-I			**80.16**	**18.44**	**-883.02**	**0**	**-784.42**

Sl. No.	Sector, type and name of the PSU	Period of accounts	Year in which finalised	Paid up capital	Free reserves and surplus	Accumulated profit/ loss	Deferred revenue expenditure	Net worth
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
B.	**Competitive Environment Sector**							
	I. Working Government Companies							
11.	Jammu and Kashmir Cements Limited	2009-10	2018-19	41.77	0	18.15	0	59.92
12.	Jammu and Kashmir Minerals Limited	1996-97	2016-17	8.00	0.16	-72.03	0	-63.87
13.	Jammu and Kashmir State Cable Car Corporation Limited	2010-11	2013-14	23.57	0	-3.97	0	19.60
14.	Jammu and Kashmir Bank Limited	2017-18	2018-19	55.69	0	0	0	55.69
15.	Jammu and Kashmir Bank Financial Services Limited	2017-18	2018-19	20.00	0	-3.63	0	16.37
16.	Jammu and Kashmir State Tourism Development Corporation Limited	2012-13	2015-16	15.96	0	-3.88	0	12.08
	Total B-I			**164.99**	**0.16**	**-65.36**	**0**	**99.79**
	II. Working Statutory Corporation							
17.	Jammu and Kashmir State Financial Corporation	2016-17	2017-18	98.19	0	-135.50	0	-37.31
18.	Jammu and Kashmir State Road Transport Corporation	2013-14	2017-18	178.37	0	-1148.12	0	-969.75
	Total B-II			**276.56**	**0**	**-1283.62**	0	**-1007.06**
	Total B (I+II)			**441.55**	**0.16**	**-1348.98**	**0**	**-907.27**
C.	**Others**							
	I. Working Government Company							
19.	Jammu and Kashmir Projects Construction Corporation Limited	2013-14	2018-19	1.97	61.57	61.57	0	125.11
20.	Jammu and Kashmir Police Housing Corporation Limited	2009-10	2018-19	2.00	19.86	19.86	0	41.72
	Total C			**3.97**	**81.43**	**81.43**	**0**	**166.83**
	Grand Total (A+B+C)			**525.68**	**100.03**	**-2150.57**		**-1524.86**

Appendix - 4.1.1

(Reference paragraph: 4.6; Page: 87)

Financial position and working results of the Bank

(I) Financial position

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
A. Liabilities					
(a) Paid up capital	48.49	48.49	48.49	52.15	55.70
(b) Reserves and Surplus	5675.12	6061.56	6375.48	5624.35	6105.51
(c) Deposits	69335.87	65756.19	69390.25	72463.09	80006.50
(d) Borrowings	1765.00	2339.67	2240.00	1276.05	1628.34
(e) Other Liabilities and Provisions	1795.25	1879.54	2213.85	2603.03	1891.57
Total	**78619.73**	**76085.45**	**80268.07**	**82018.67**	**89687.62**
B. Assets					
(a) Cash and Balance with RBI	3045.60	2373.05	3126.74	3590.97	4328.36
(b) Balance with Banks & Money at Call & Short Notice	1168.31	1360.71	76.27	1794.96	3924.52
(c) Investments	26195.07	25124.30	20353.62	21290.89	18880.03
(d) Net Advances	46384.60	44585.82	50193.29	49816.11	56912.75
(e) Fixed Assets	533.80	688.91	763.71	1543.32	1614.59
(f) Other Assets	1292.35	1952.66	5754.44	3982.42	4027.37
Total	**78619.73**	**76085.45**	**80268.07**	**82018.67**	**89687.62**
Net Worth[10]	**5723.61**	**6110.05**	**6423.97**	**5676.50**	**6161.21**

(II) Working results

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1. Income					
(a) Interest Earned	6767.00	7061.13	6843.57	6685.80	6621.40
(b) Other Income	390.26	593.96	504.02	492.86	495.31
Total	**7157.26**	**7655.09**	**7347.59**	**7178.66**	**7116.71**
2. Expenditure					
(a) Interest expended	4082.52	4410.22	4133.48	4173.86	3750.61
(b) Operating Expenses	1174.99	1409.05	1546.20	1710.46	1984.23
(c) Provisions and Contingencies	717.28	1327.23	1251.88	2926.63	1179.15
Total	**5974.79**	**7146.50**	**6931.56**	**8810.95**	**6913.99**
3. Net Profit/ Loss	**1182.47**	**508.59**	**416.03**	**(1632.29)**	**202.72**
4. Appropriations					
(a) Statutory Reserves	295.62	127.15	104.00	-	50.68
(b) Revenue & Other Reserves	596.20	247.00	207.46	(1640.01)	152.04
(c) Dividend Proposed	242.39	101.80	84.84	-	-
(d) Tax on Dividend	41.19	20.35	17.27	-	-
(e) Investment Reserve	7.07	12.29	2.46	-	-
(f) Capital Reserve	-	-	-	7.72	-
Total	**1182.47**	**508.59**	**416.03**	**(1632.29)**	**202.72**
Earnings per Share (in ₹)	24.39[11]	10.49	8.58	(33.59)	3.64

(Source: Annual Reports of the Bank)
(Figures in parenthesis represent negative figures/ loss)

10 Aggregate of Paid up Capital and Reserve & Surplus

11 Earning per share has been calculated considering face value of each share as ₹one

Appendix - 4.1.2

(Reference paragraph: 4.7.5.2; Page: 102)

Details of deficiencies noticed in test-checked Non-Performing Asset cases

(₹ in crore)

Sl. No	NPA case	Amount of NPA			Brief of observation
		Principal	Interest	Total	
	Cases of doubtful recovery				
1.	M/s REI Agro Limited	400.00	239.42	639.42	Non-exercising of due-diligence coupled with inadequate security cover led to doubtful recovery of ₹639.42 crore.
2.	M/s REI Agro Limited	111.27	61.18	172.45	Non-exercising of due-diligence coupled with inadequate security cover led to doubtful recovery of ₹172.45 crore.
3.	M/s Aanjaya Life Care Limited	27.96	13.00	40.96	Sanctioning/ disbursing of credit facilities outside consortium without safeguarding the Bank's interest led to doubtful recovery of ₹40.32 crore.
4.	M/s Himgiri Infrastructure Development Private Limited	28.10	1.21	29.31	Deficient credit appraisal coupled with non-compliance of pre-disbursement conditions resulted in doubtful recovery of ₹20.90 crore.
5.	M/s AGL Televentures Private Limited and M/s Trunks & Roots	24.92	26.17	51.09	Non-compliance with disbursement conditions coupled with inadequate monitoring led to doubtful recovery of ₹30.53 crore.
6.	M/s Bilcare Limited	65.94	26.64	92.58	Non-exercising of due diligence at the time of sanction and non-compliance of terms of sanction led to doubtful recovery of ₹92.58 crore.
7.	M/s Manish Sharma	20.00	4.04	24.04	Deficient credit appraisal led to doubtful recovery of ₹2.27 crore.
8.	M/s S.L. Telecom and S.P. Enterprises	3.59	2.39	5.98	Improper valuation of mortgaged properties, non-release of funds strictly in accordance with the terms and conditions of the sanction and weak post-sanction monitoring led to doubtful recovery of ₹10.33 crore.
		4.84	2.86	7.70	
9.	M/s Handa Ornaments House	7.02	5.82	12.84	Improper valuation of mortgaged properties at the time of sanction/ enhancement, non-release of CC strictly in accordance with the terms and conditions of the sanction and poor monitoring led to doubtful recovery of ₹7.31 crore.
10.	M/s Kashmir BMG Steel and Alloys Pvt. Ltd.	5.22	2.97	8.19	Lack of post-disbursement monitoring led to doubtful recovery of ₹3.70 crore.
11.	M/s Sunshine International	3.52	2.53	6.05	Non-compliance of post-sanction conditions led to doubtful recovery of ₹6.05 crore.
12.	M/s Creation Computer Tech Private Limited	4.38	4.86	9.24	Lack of post-disbursement monitoring coupled with inadequate security cover led to doubtful recovery of ₹7.59 crore.
13.	M/s First Value Impex Private Limited	14.97	7.76	22.73	Extending of credit facilities without adequate security cover and poor monitoring resulted in doubtful recovery of ₹7.91 crore.
14.	M/s Calyx Chemicals and Pharmaceuticals	49.82	25.07	74.89	Failure of Bank to obtain adequate securities to safeguard its interest led to doubtful recovery of ₹64.18 crore.

Sl. No.	NPA case	Amount of NPA			Brief of observation
		Principal	Interest	Total	
	Cases of doubtful recovery				
15.	M/s Mir Group	100.32	32.05	132.37	Non-adherence to disbursement conditions, weak post-sanction monitoring and non-ensuring of end use of funds resulted in doubtful recovery of ₹25.08 crore.
16.	M/s K.S. Oils Limited	90.47	46.41	136.88	Sanction/ disbursement of credit facility on the basis of deficient credit appraisal and without exercising due-diligence led to doubtful recovery of ₹98.98 crore.
17.	M/s Tramboo Trading Company	21.61	5.44	27.05	Non-fulfillment of pre-disbursement condition, weak monitoring coupled with inadequate security cover led to doubtful recovery of ₹11.87 crore.
18.	M/s Tulip Data Centre	41.86	17.97	59.83	Deficient credit appraisal and non-exercising of due diligence at the time of sanctioning/ releasing of credit led to doubtful recovery of ₹29.50 crore.
19.	M/s Fairdeal Supplies Limited	25.58	16.22	41.80	Failure of the Bank to obtain adequate securities and weak post-sanction monitoring led to doubtful recovery of ₹34.97 crore.
20.	M/s ETA Engineering	174.86	31.59	206.45	Renewing of credit facilities without adequate security cover and weak monitoring led to doubtful recovery of ₹129.58 crore.
21.	M/s Kehwah Group	71.64	52.42	124.06	Non-adhering to disbursement conditions, exercise post-sanction monitoring and ensure the end use of funds resulted in loss of ₹8.27 crore, recovery of ₹163.62 crore from Kehwa group and M/s Go Fresh becoming doubtful and irregular release of subsidy of ₹16.50 crore.
	Total amount of doubtful recovery: ₹1,599.14 crore				
	Cases of loss/ non-recovery				
1.	M/s Chhaparia Industries Private Limited	36.57	10.63	47.20	Extending of credit in deviation to Bank's credit policy coupled with inadequate security cover resulted in loss of ₹28.20 crore.
2.	M/s Paradise Avenue	156.47	28.19	184.66	Extending of credit in deviation to credit policy coupled with non-exercising of due diligence at the time of disbursement led to sacrificing of principal of ₹26.47 crore and unapplied interest of ₹28.19 crore.
3.	M/s Haldia Coke and Chemicals Private Limited	53.54	31.23	84.77	Inadequate security cover and weak post-sanction monitoring resulted in non-recovery of ₹63.38 crore.
4.	M/s Cranes Software International Limited	26.92	14.68	41.60	Release of Temporary overdraft to the sister concerns of company without safeguarding Bank's interest led to non-recovery of ₹18.60 crore.

Sl. No.	NPA case	Amount of NPA			Brief of observation
		Principal	Interest	Total	
	Cases of loss/ non-recovery				
5.	M/s Gremach Infrastructure Equipments and Projects Limited	3.23	1.80	5.03	Inadequate security cover and weak post-disbursement monitoring led to non-recovery of ₹4.11 crore.
6.	M/s Chowdhary Motors Private Limited	9.98	18.78	28.76	Sanctioning of credit facilities before seeking statutory clearance and weak-post disbursement monitoring led to non-recovery of ₹20.76 crore.
	Total amount of loss/ non-recovery: ₹197.98 crore				
	Case of excess release				
1.	M/s Lanco Solar Private Limited	75.96	18.99	94.95	Excess release of loan of ₹14.10 crore under consortium banking on the advice of lead bank without carrying out any internal assessment.
	Total amount of excess release: ₹14.10 crore				

(Source: Calculations based on the information provided by the Bank)

Appendix - 4.1.3

(Reference paragraph: 4.7.5.2; Page: 104)

Details of deficiencies noticed in lists of farmers/ Joint Liability Groups (JLGs)

Sl. No.	Account No.	Name of the JLG Leader	Address of JLG Leader	Deficiency noticed	Loan amount involved (₹ in crore)
1.	530266000000036	Manish Kumar Sharma	Narela, Delhi	Names and parentage of 23 farmers are also appearing against A/c Nos. 77, 121 and 125 with different/ same addresses.	4.60
2.	530266000000033	Sushil Sharma	Narela, Delhi	Names and parentage of four farmers are also appearing against A/c No. 35 with different addresses.	0.80
3.	530266000000039	Ravi Kumar	Narela Mandi, Delhi	Names and parentage of 32 farmers are also appearing against A/c Nos. 71, 78, 85, 118 and 119 with different/ same addresses.	6.40
4.	530266000000052	Ramdayal Jain	Narela Mandi, Delhi	Names and parentage of 43 farmers are also appearing against A/c No. 40 with same addresses.	8.60
5.	530266000000059	Sandeep Kumar	Naya Bazar, Delhi	Names and parentage of 49 farmers are also appearing against A/c No. 51 with same addresses.	9.80
6.	530266000000068	Pawan Kumar	Jagatpuri Ext., Delhi	Names and parentage of 34 farmers are also appearing against A/c No. 123 with different addresses.	6.80
7.	530266000000074	Rohit Gupta	Pahari Dhiraj, Delhi	Names and parentage of 11 farmers are also appearing against A/c No. 120 with same addresses.	2.20
8.	530266000000075	Rattan Sharma	Naya Bazar, Delhi	Names and parentage of 47 farmers are also appearing against A/c Nos. 114 and 122 with different addresses.	9.40
9.	530266000000077	Sadhu Ram	Sonepat, Haryana	Names and parentage of 34 farmers are also appearing against A/c No. 109 with different addresses.	6.80
10.	530266000000078	Ajay Kumar	Jhajjar, Haryana	Names and parentage of 37 farmers are also appearing against A/c No. 108 with different addresses.	7.40
11.	530266000000085	Naresh Kumar Yadav	Begampur, Delhi	Names and parentage of 35 farmers are also appearing against A/c No. 110 with different addresses.	7.00
				Total	**69.80**

Appendix - 4.1.4

(Reference paragraph: 4.7.11; Page: 125)

Investments in Statutory Liquidity Ratio (SLR) and Non-SLR instruments

(₹ in crore)

Investments	2013-14	2014-15	2015-16	2016-17	2017-18
(A) SLR Investments					
1. Government securities	14304.24	13084.73	13107.29	16340.94	16572.67
2. Treasury bills	643.74	369.95	840.75	0.00	629.30
3. Trustee securities	6.96	6.96	6.96	0.00	0.00
Total (A)	**14954.94**	**13461.64**	**13955.00**	**16340.94**	**17201.97**
(B) Non-SLR Investments					
1. RIDF, NABARD, SIDBI	2140.42	2210.00	2348.08	1765.24	2507.56
2. Others					
(i) Equity	151.05	153.91	165.09	329.68	510.12
(ii) Preference shares	86.65	83.08	82.52	74.86	83.68
(iii) Bonds & debentures (including suit filed)	2051.84	1770.12	1864.27	1804.00	1045.09
(iv) Commercial Papers/ certificate of deposits including suit file	6747.79	7344.94	4373.40	3059.26	471.08
(v) Security receipts	15.20	14.23	9.99	103.50	151.22
(vi) Investment in sponsored institutes	34.01	45.67	45.67	45.67	45.67
(vii) Investment in subsidiary	10.00	20.00	20.00	20.00	20.00
(viii) Venture capital	23.94	22.54	18.77	10.73	0.02
Total (B)	**11260.90**	**11664.49**	**8927.79**	**7212.94**	**4834.44**
Grand Total (A+B)	**26215.84**	**25126.13**	**22882.79**	**23553.88**	**22036.41**
Year-over-Year Growth	445.01	(-) 1089.71	(-) 2243.34	671.09	(-) 1517.47
Percentage of YoY Growth	1.73	(-) 4.16	(-) 8.93	2.93	(-) 6.44
Income					
Income on SLR Investments	1093.67	1104.04	1049.25	1238.91	1219.92
Return on SLR Investments	7.71	8.25	8.60	8.31	7.57
Income on Non-SLR Investments					
(i) RIDF, NABARD, SIDBI	90.81	102.12	122.64	108.08	103.26
(ii) Non- SLR	506.49	626.03	587.86	492.04	250.43
(iii) Interbank funds	58.95	60.88	36.91	80.74	106.55
(iv) Trading income	45.64	109.85	143.06	139.53	39.74
(v) Redemption income	8.07	12.87	20.28	31.97	9.46
Total income on Non-SLR Investment	**709.96**	**911.75**	**910.75**	**852.36**	**509.44**
Return on Non-SLR Investment	8.87	8.74	8.00	6.83	6.09

(Source: Information provided by the Bank)

Appendix - 4.1.5

(Reference paragraph: 4.7.12; Page: 129)

Priority Sector Lending

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
ANBC for determination of Priority Sector Lending	47406.00	48845.00	48545.00	54742.00	51269.86
Target for Priority Sector Lending (40 per cent)	**18962.40**	**19538.00**	**19418.00**	**21896.80**	**20507.94**
(a) Agriculture and Allied Sector (18 *per cent*)	8533.08	8792.10	8738.10	9853.56	9228.57
(b) Micro & Small and Other Enterprises (12 *per cent*)	5688.72	5861.40	5825.40	6569.04	6152.38
(c) Weaker section (10 *per cent*)	4740.60	4884.50	4854.50	5474.20	5126.99
Total	**18962.40**	**19538.00**	**19418.00**	**21896.80**	**20507.94**
Advance Under Priority sector					
(a) Agriculture and Allied Sector	4773.00	5667.00	5972.00	5252.00	7412.94
(b) Micro & Small and Other Enterprises	4860.00	6148.00	8338.00	7112.00	6239.78
(c) Weaker section	5639.00	5733.00	4917.00	4718.00	5173.63
Total	**15272.00**	**17548.00**	**19227.00**	**17082.00**	**18826.35**
Shortfall					
(a) Agriculture and Allied Sector (Shortfall *per cent*)	3760.08 (*44.06*)	3125.10 (*35.54*)	2766.10 (*31.66*)	4601.56 (*46.70*)	1815.63 (*19.67)*
(b) Micro & Small and Other Enterprises (Shortfall *per cent*)	828.72 (*14.57*)	-	-	-	-
(c) Weaker Section (Shortfall *per cent*)	-	-	-	756.20 (*13.81*)	-

(Source: Information provided by the Bank)

Appendix – 5.1.1

(Reference paragraph: 5.1; Page: 142)

Statement showing time taken in finalisation of annual rate contract/ rate contract

Sl. No.	Category	Date of NIT	Technical evaluation committee meeting		Financial evaluation committee meeting		State level Purchase Committee meeting		Issuance of rate contract	
			Date	Time taken with respect to Col. 3	Date	Time taken with respect to Col. 4	Date	Time taken with respect to Col. 6	Date	Time taken with respect to Col. 3
1	2	3	4	5	6	7	8	9	10	11
1.	Drugs/ medicines/ fluids	01.06.2015	20.10.2015	141	17.11.2015	28	23.11.2015	6	25.11.2015	177
		19.01.2016	NA	-	NA	-	16.04.2016	-	16.04.2016	88
		16.07.2016	10.12.2016	147	19.12.2016	9	07.01.2017	19	07.01.2017	175
		02.02.2017	29.03.2017	55	20.09.2017	175	05.10.2017	15	03.11.2017, 15.11.2017, 13.03.2018	404
2.	Suture Item	18.12.2015	10.02.2016/ 23.04.2016	127	23.04.2016	-	19.10.2016	179	19.10.2016	306
3.	Hospital furniture	28.11.2015	04.03.2016	97	11.03.2016	7	14.03.2016	3	16.03.2016	109
		07.04.2017	16.01.2018	284	13.06.2018	148	04.07.2018	21	07.08.2018	487
4.	Dental material	09.12.2015	NA	-	NA	-	01.06.2016	-	01.06.2016	175
		18.01.2017	07.04.2017/ 29.06.2017	162	09.01.2018	194	15.03.2018	65	18.04.2018	455
5.	Laboratory Kits, Chemical Reagents and Glassware Items	24.03.2017	01.11.2017	222	03.11.2017	2	NA	-	*Pending	737
6.	Operationalisation of 102 Ambulance Service	27.11.2015	29.04.2016	154	29.04.2016	0	07.01.2017	253	11.01.2017	411
7.	Opening/ Running of Pharmacy Shops in Hospital Premises (Jammu Province)	27.11.2015	09.01.2016	43	11.01.2016	2	27.01.2016	16	09.03.2016	103
8.	Procurement of 16 Slices CT Scan Machine	28.01.2017	02.11.2017	278	03.11.2017	1	09.11.2017	6	18.11.2017	294
9.	Procurement of Laboratory Equipments and Mobile Food Testing Van	28.09.2016	24.10.2016	26	NA	-	16.11.2016	-	14.12.2016	77
10.	Finalisation of Rate Contract for Procurement of Blood Bags	23.11.2017	19.02.2018	88	13.06.2018	114	04.07.2018-	21	04.09.2018	285
11.	Empanelment of laboratories for Testing & Analysis of Drugs	14.09.2015	17.11.2015	64	23.11.2015	6	23.11.2015	0	15.12.2015	92

* Status as on 31.03.2019 *(NA: Not made available)*

Appendix - 5.1.2

(Reference paragraph: 5.1; Page: 144)

Details of non-imposition of liquidated damages against the firms for delayed supplies

Sl. No.	Name of the firm	Total No. of POs test-checked	No. of POs where delay noticed	Amount of penalty (₹ in lakh)	Range of days taken to receive supply (cases in days)											
					0-60 days	Value (₹ in lakh)	61-120 days	Value (₹ in lakh)	121-200 days	Value (₹ in lakh)	201-400 days	Value (₹ in lakh)	Above 400 days	Value (₹ in lakh)	Total No. of supplies	Total Value (₹ in lakh)
1.	Bharat Serums & Vaccines Limited	11	3	1.87	19	346.63	6	56.76	0	0	0	0	0	0	**25**	**403.39**
2.	Denis Chem Lab Limited	84	53	103.74	4	4.21	344	295.32	302	175.26	210	217.12	22	12.46	**882**	**704.37**
3.	Modern Laboratories	493	449	146.28	3	1.67	872	844.63	497	407.54	61	24.31	2	0.50	**1435**	**1278.65**
4.	M/s Allied Hospital Traders	129	69	27.42	42	141.52	51	117.45	27	34.39	14	19.17	0	0	**134**	**312.53**
5.	M/s Johnson & Johnson Pvt. Ltd.	554	481	167.21	263	517.02	230	506.16	117	167.35	240	271.34	0	0	**850**	**1461.87**
6.	M/s Lal Surgicals & Pharmaceuticals	89	58	80.04	26	112.20	55	244.52	26	109.83	17	128.13	1	9.63	**125**	**604.31**
7.	M/s National Surgico	138	126	24.57	8	1.24	624	442.89	49	17.59	34	4.83	3	3.94	**718**	**470.49**
8.	M/s Vikrant Life Sciences (P) Ltd.	58	38	21.37	30	177.19	31	148.70	11	19.29	7	2.75	1	0.34	**80**	**348.27**
9.	Theon Pharmaceuticals	61	39	17.36	98	388.31	133	210.41	15	14.49	0	0	2	1.27	**248**	**614.48**
10.	Unicure India Limited	804	563	201.75	524	239.57	1258	730.18	674	467.95	260	285.85	8	2.71	**2724**	**1726.26**
Total		**2421**	**1879**	**791.61**	**1017**	**1929.56**	**3604**	**3597.02**	**1718**	**1413.69**	**843**	**953.50**	**39**	**30.85**	**7221**	**7924.62**

(POs: Purchase Orders)

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