

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

In Summary

Jammu and Kashmir had a revenue surplus of Rs. 562 crore during 2004-05, but persistence of large fiscal deficits year after year indicated continued fiscal imbalances.

Revenue of the State consists mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs. 5,660 crore in 2000-01 to Rs. 8,866 crore in 2004-05 at trend growth rate (TGR) of 10.97 *per cent*. There were, however, significant inter year variations in the growth rates. Rate of growth of revenue receipts during 2004-05 was low at 7.96 *per cent* in comparison to 16.32 *per cent* during 2002-03 and 8.80 *per cent* during 2003-04. Arrears of tax revenue were at a high of Rs. 850 crore and represented 63 *per cent* of tax receipts during 2004-05. State's own resources constituted 22 *per cent*, while Central tax transfers and grants-in-aid from Government of India comprised 78 *per cent* of the total revenue.

Total expenditure of the State increased from Rs. 7,547 crore in 2000-01 to Rs. 10,550 crore in 2004-05 and registered a trend growth rate of 8.97 *per cent* during this period. The proportion of capital expenditure to the total expenditure during 2004-05 increased by nine *per cent* over the level of 2000-01.

Interest on borrowings increased from Rs. 769 crore in 2000-01 to Rs. 1,103 crore in 2004-05. The rate of interest paid on the borrowings of the State during 2002-04 was more than the rate of growth of GSDP during these years violating the cardinal rule of debt sustainability. Against the debt receipts of Rs. 4,498 crore during 2004-05 Government used Rs. 4,440 crore for repayment of principal and interest, and as such, the net availability of borrowed funds was only 1.29 *per cent*. The finances of the State continued to be dependent on the overdraft from Jammu and Kashmir Bank.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large fiscal deficit could lead the State finances into a debt trap.

1.1 Introduction

The Finance Accounts of the Government of Jammu and Kashmir are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The layout of the Finance Accounts is depicted in the **Box 1.1**.

Box 1.1

Layout of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No. 3 gives financial results of electricity schemes and irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayments of loans, etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan and plan separately and capital expenditure major head wise.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, cooperative banks and societies, etc. up to the end of the current year.

Statement No. 15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts disbursements and balances under heads of account relating to debt, Contingency Fund and Public Account.

Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Jammu and Kashmir, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19 gives the details of balances of earmarked funds.

1.2 Trend of Finances with reference to Previous year

Finances of the State Government during the current year compared to previous year were as under:

Table 1 (Rupees in crore)

2003-04	Major Aggregates	2004-05
8212	1. Revenue receipts (2+3+4)	8866
1170	2. Tax Revenue	1351
633	3. Non-tax Revenue	641
6409	4. Other Receipts	6874
4	5. Non-Debt Capital Receipts	19
4	6. Of which recovery of loans	19
8216	7. Total Non-Debt Receipts (1+5)	8885
7046	8. Non-plan Expenditure (9+11+12)	7331
6807	9. On Revenue Account	7239
1246	10. Of which interest payments	1103
239	11. On capital Account	92
-	12. On Loans disbursed	-
2657	13. Plan Expenditure (14+15+16)	3219
947	14. Revenue Account	1065
1642	15. On Capital Account	2088
68	16. On Loans disbursed	66
9703	17. Total Expenditure (8+13)	10550
1487	18. Fiscal Deficit (17-1-5)	1665
458	19. Revenue Surplus (1-9-14)	562
241	20. Primary Deficit (18-10)	562

1.3 Summary of Receipts and Disbursements for the year

Table 2 summarises the finances of the State Government of Jammu and Kashmir for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, receipts and disbursements on account of public debt and public account made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements. Abstract of receipts and disbursements during the year 2004-05 and also the sources and application of funds has been depicted in *Appendices-2* and *3* respectively.

Table 2: Summary of receipts and disbursements for the year 2004-2005

(Rupees in crore)

Receipts			Disbursements				
2003-04		2004-05	2003-04		2004-05		
Section-A: Revenue							
8211.67	I. Revenue Receipts	8866.48	7754.17	I. Revenue expenditure	7238.81	1065.20	8304.01
1170.28	Tax revenue	1351.05	3373.71	General Services	3252.49	34.20	3286.69
632.54	Non-tax revenue	641.42	1827.58	Social Services	1460.85	535.08	1995.93
817.42	Share of Union Taxes/ Duties	934.43	2552.88	Economic Services	2525.47	495.92	3021.39
5591.43	Grants from Government of India	5939.58					
Section-B: Capital							
-	II-Miscellaneous Capital Receipts	-	1880.48	II-Capital Outlay	92.43	2087.90	2180.33
4.54	III-Recoveries of Loans and Advances	18.55	68.30	III-Loans and Advances Disbursed			66.00
1853.80	IV-Public debt receipts	1799.53	1332.35	IV-Repayment of Public Debt			1003.84
1.33	V-Contingency Fund	0.49	1.43	V-Contingency Fund			0.47
19048.53	VI-Public account receipts	19119.59	18105.83	VI-Public Account Disbursement			18250.71
105.61	Opening balance	82.92	82.92	Closing Balance			82.20
29225.48	Total	29887.56	29225.48	Total			29887.56

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure for the year 2004-05 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a corporate has been presented by the application of ratios commonly adopted for the relational interpretation of fiscal aggregates. The reporting parameters are depicted in the **Box 1.2**.

Box 1.2
Reporting Parameters

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The GSDP series as provided by the Directorate of Economics and Statistics Department of the State Government were used for this purpose.

For tax revenues, non-tax revenues, revenue expenditure, etc. buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most of the series a trend growth during 2000-2005 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix 1*.

The accounts of the State Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account as defined in **Box 1.3**.

Box 1.3
State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All receipts of the State Government from revenues, loans and recoveries of loans go into Consolidated Fund constituted under Section 115 of constitution of Jammu and Kashmir. All expenditure of the Government is incurred from this Fund from which no amount can be drawn without authorisation from the State Legislature. This part consists of two main divisions, namely Revenue Account (Revenue Receipts and Revenue expenditure) Capital Account (Capital Receipts, Capital expenditure, Public Debt and loans, etc.)	The Contingency Fund created under Section 116 of the Constitution of Jammu and Kashmir is in the nature of an imprest placed at the disposal of the Governor of the State to meet urgent unforeseen expenditure pending authorisation from the State Legislature. Approval of the State Legislature is subsequently obtained for such expenditure and for transfer of equivalent amount from the Consolidated Fund to Contingency Fund. The corpus of this Fund authorised by the Legislature during the year was Rs. 40 lakh.	Receipts and disbursements in respect of small savings, provident funds, deposits, reserve funds, suspense, remittances, etc. which do not form part of the Consolidated Fund, are accounted for in Public Account and are not subject to vote by the State Legislature.

1.5 State finances by key indicators

1.5.1 Resources by volumes and sources: Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts comprise tax revenues, non-tax revenues, state's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts form miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz., market loans, borrowings from financial institutions/commercial banks, etc. and loans and advances from Government of India as well as accruals from Public Accounts.

As shown in Table 3, the total receipts of the State Government for the year 2004-05 were Rs. 29,804 crore. Of these, the revenue receipts of the State Government were Rs. 8,866 crore only, constituting 30 per cent of the total receipts. The balance came from borrowings and public account receipts.

Table 3: Resources of Jammu and Kashmir (Rupees in crore)

I. Revenue Receipts		8866
II. Capital Receipts		1818
(a) Miscellaneous Receipts	-	
(b) Recovery of Loans and Advances	19	
(c) Public Debt Receipts	1799	
III. Contingency Fund Receipts		₹
IV. Public Account Receipts		19120
(a) Small Savings, Provident Fund, etc.	698	
(b) Reserve Fund	151	
(c) Deposits and Advances	1091	
(d) Suspense and Miscellaneous	308	
(e) Remittances	16872	
Total Receipts		29804

1.5.2 Revenue Receipts: Statement No.11 of the Finance Accounts details the Revenue Receipts of the Government. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GDP) and its buoyancy is indicated in Table 4.

Table 4: Revenue Receipts-Basic indicators

(Value in Rupees crore and other figures in per cent)

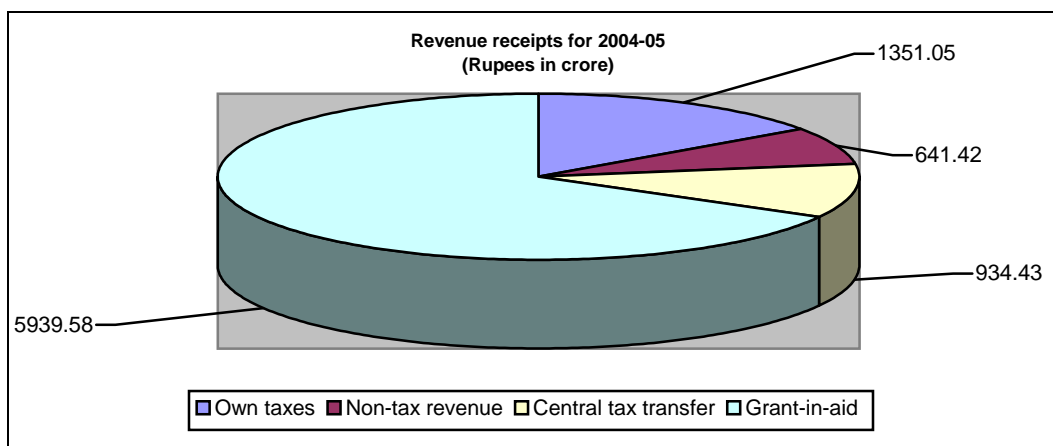
	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Receipts	5660	6489	7548	8212	8866	7355
Own taxes	746	804	1033	1170	1351	1021
Non-Tax Revenue	444	462	865	633	641	609
Central tax Transfers	675	576	685	817	934	737
Grants-in-aid	3795	4647	4965	5592	5940	4988
Rate of Growth of Revenue Receipts	2.65	14.65	16.32	8.80	7.96	10.97
Revenue Receipts/GSDP	37.05	38.00	40.32	42.94	42.80	40.45
Buoyancy of Revenue receipts	0.281	1.245	1.696	4.067	0.956	1.348
Buoyancy of Own taxes	3.081	0.661	2.960	6.129	1.857	2.233
GSDP Growth	9.433	11.769	9.622	2.164	8.330	8.140

₹ Rs. 0.49 crore

The revenue receipts of the State increased from Rs. 5,660 crore in 2000-01 to Rs. 8,866 crore in 2004-05 at a trend growth rate of 10.97 *per cent*. There were, however, significant inter-year variations in these growth rates. Rate of growth of revenue receipts during 2004-05 was low as compared to 16.32 *per cent* during 2002-03 and 8.80 *per cent* during 2004-05. During the five-year period 2000-2005, the State's GDP grew at an average level of 8.14 *per cent* at current prices. Average revenue growth during this period exceeded average GSDP growth with revenue buoyancy of greater than one. The year 2004-05, however, witnessed decline in revenue buoyancy to 0.956 due to moderate growth in revenue receipts relative to GSDP.

While 22 *per cent* of the revenue receipts during 2004-05 have come from State's own resources comprising tax and non-tax revenue, the central tax transfers and grants-in-aid together contributed 78 *per cent* of the total revenue. Sales tax was the major contributor (60 *per cent*) of State's own tax revenue followed by State Excise (20 *per cent*), Stamps and Registration fees (3 *per cent*), taxes on vehicles (3 *per cent*). Of the non-tax revenue sources, power receipts (60 *per cent*) interest receipts (18 *per cent*) and receipts from Forestry and Wild life (7 *per cent*) were the major contributors.

Chart 1.1



Besides, the arrears of tax revenue at the end of March 2005 were Rs. 850 crore which constitute 63 *per cent* of tax revenue of the state. Of these, Rs. 646 crore (76 *per cent*) were more than five years old.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government were 0.14 *per cent* for secondary education, 0.08 *per cent* for university and higher education, 0.25 *per cent* for technical education, 1.95 *per cent* for medical and public health, 3.05 *per cent* for water supply and sanitation and 4.12 *per cent* for Housing.

The source of total receipts under different heads and GSDP during 2000-2005 is indicated in Table 5.

Table 5: Sources of Receipts: Trends (Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross Domestic product
		Non-Debt Receipts [∇]	Debt Receipts	Accruals in Public Account [♦]		
2000-01	5660	14	902	18177	24753	15278
2001-02	6489	132	1062	17615	25298	17076
2002-03	7548	82	1390	16830	25850	18719
2003-04	8212	4	1854	19049	29119	19124
2004-05	8866	19	1799	19120	29804	20717

♦ Excludes the receipts into Contingency Fund

1.6 Application of resources

1.6.1 Trend of growth: Statement No. 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 6.

Table 6: Total Expenditure-Basic Parameters (value in Rupees crore and other figures in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Total Expenditure*	7547	8095	8941	9703	10550	8967
Rate of Growth	10.06	7.26	10.45	8.52	8.73	8.97
TE/GSDP Ratio	49.40	47.41	47.76	50.74	50.92	49.32
Revenue Receipts/TE ratio	74.99	80.16	84.42	84.63	84.04	82.02
Buoyancy of Total Expenditure with						
GSDP	1.066	0.617	1.086	3.937	1.048	1.102
Revenue Receipts	3.796	0.496	0.640	0.968	1.097	0.818

*Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances

Overall expenditure of the State comprising revenue expenditure, capital expenditure and loans and advances, increased from Rs. 7,547 crore in 2000-01 to Rs. 10,550 crore in 2004-05 at an average annual trend rate of 8.97 *per cent*. On an average, for each one *per cent* increase in State's GDP, the expenditure increased by 1.102 *per cent* during 2000-05. For each one *per cent* increase in revenue receipts, expenditure increased by 0.818 *per cent*.

In terms of the activities, total expenditure constitutes expenditure on General services, Interest payments, Social and Economic Services, and loans and advances. Relative share of these components in total expenditure is indicated in Table 7.

[∇] Includes recoveries of loans and advances

Table 7: Components of Expenditure-Relative Share (in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
General Services	22.67	24.47	23.66	22.62	21.26	22.85
Interest Payments	10.19	12.93	12.25	12.84	10.45	11.73
Social Services	25.04	24.02	23.40	23.86	24.13	24.06
Economic Services	41.32	38.00	36.89	39.98	43.53	40.07
Loans and Advances	0.78	0.58	3.80	0.70	0.63	1.29

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations, but expenditure on General services and interest payments which are considered non-developmental, together accounted for 34.58 *per cent* during 2000-2005. On the other hand, average development expenditure i.e., on Social and Economic services together accounted for 64.13 *per cent* during 2000-2005.

1.6.2 Incidence of Revenue expenditure: Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. It constituted a predominant share of total expenditure. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 8.

Table 8: Revenue Expenditure-Basic Parameters

(Value in Rupees crore and other figures in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Expenditure	6621	6823	7180	7754	8304	7336
Rate of Growth (<i>per cent</i>)	9.35	3.05	5.23	7.99	7.09	6.20
RE/GSDP	43.34	39.96	38.36	40.55	40.08	40.35
RE as percentage of TE	87.73	84.29	80.30	79.91	78.71	81.81
RE as percentage of RR	116.98	105.15	95.12	94.42	93.66	99.74
Buoyancy of Revenue Expenditure with:						
GSDP	0.991	0.259	0.544	3.692	0.851	0.762
Revenue Receipts	3.528	0.208	0.320	0.908	0.891	0.565

Overall revenue expenditure of the State showed a trend growth rate of 6.20 *per cent*. Rate of growth of revenue expenditure during 2004-05 was 7.09 *per cent*. Revenue expenditure during 2000-05 contributed to 40.35 *per cent* of State's GDP. On an average 81.81 *per cent* of the total expenditure was on current consumption.

1.6.3 High salary expenditure: Salaries accounted for 36 *per cent* of the revenue receipts and 38 *per cent* of the revenue expenditure of the State during 2004-05. The expenditure on salaries increased from Rs. 3,032 crore in 2000-01 to Rs. 3,184 crore in 2004-05 as indicated in Table 9.

Table 9

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Salary expenditure*	3032	3119	3260	3124	3184
As a percentage of GSDP	19.846	18.265	17.415	16.335	15.369
As a percentage of Revenue Receipts	53.57	48.07	43.19	38.04	35.91
As a percentage of Revenue expenditure	45.794	45.713	45.404	40.29	38.34

1.6.4 Expenditure on pension payments: Pension payments have increased by 62.81 *per cent* from Rs. 449 crore in 2000-01 to Rs. 731 crore in 2004-05. Year-wise break-up of expenditure incurred on pension payments during the years 2000-01 to 2004-05 was as under:

Table 10

(Rupees in crore)

Year	Expenditure on pension payments	Percentage to total revenue expenditure
2000-01	449	6.78
2001-02	556	8.15
2002-03	593	8.26
2003-04	677	8.73
2004-05	731	8.80

With the increase in number of retirees, the pension liabilities are likely to increase further in future.

1.6.5 Interest payments: Interest payments made and their ratio to Revenue Receipts and Revenue Expenditure during the period 2000-2005 are detailed in Table 11.

Table 11

Year	Interest payments (Rupees in crore)	Percentage of interest payments with reference to	
		Revenue Receipts	Revenue Expenditure
2000-01	769	13.587	11.615
2001-02	1047	16.135	15.345
2002-03	1095	14.507	15.251
2003-04	1246	15.173	16.069
2004-05	1103	12.441	13.283

Although interest payments decreased from Rs. 1,246 crore during 2003-04 to Rs. 1,103 crore during 2004-05, yet they accounted for 12 *per cent* of revenue receipts and 13 *per cent* of revenue expenditure. The decrease was mainly due to lower borrowing rate* during 2004-05 and decline in the quantum of outstanding loans* from Government of India. The interest payment was on

- * Salary expenditure figures for the years 2000-2001 to 2002-03 provided by the Finance Department Jammu and Kashmir Government
- * Interest charged by Jammu and Kashmir Bank Limited on temporary loans from 1 April 2003 to 23 August 2003 was at the rate of 12 *per cent* (up to Rs. 1000 crore) and 13.50 *per cent* (above Rs. 1000 crore), from 24 August 2003 to 31 August 2004 at the rate of 10.50 *per cent* and from 1 September 2004 to 31 March 2005 at the rate of 9.25 *per cent*
- * From Rs. 4098.16 crore as on 31 March 2004 to Rs. 3625.95 crore as on 31 March 2005

internal debts (Rs. 580 crore), loans raised from Central Government (Rs. 274 crore) and other obligations (Rs. 249 crore).

1.7 Expenditure by Allocative priorities

The expenditure of the State in the nature of plan, capital and developmental expenditure reflects its quality. Higher the ratio of these components to total expenditure better is its quality. Table 12 gives these ratios during 2000-05:

Table 12: Quality of Expenditure (per cent to total expenditure)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Plan Expenditure	20.53	26.32	25.99	26.87	30.07	26.28
Capital Expenditure	11.58	15.22	16.52	19.52	20.79	17.12
Developmental Expenditure	66.88	62.38	62.68	64.29	68.08	64.96

(Total expenditure does not include Loans and Advances)

The share of capital expenditure showed a significant increase from 11.58 per cent in 2000-2001 to 20.79 per cent in 2004-05. Developmental expenditure increased marginally from 64.29 per cent in 2003-04 to 68.09 per cent in 2004-05.

Out of the developmental expenditure of Rs. 7,138 crore during the year 2004-05 Social services accounted for 36 per cent (Rs. 2,546 crore). Expenditure on General Education, Health, Medical and Family Welfare, Water supply and sanitation constituted 89 per cent of the expenditure on social sector during 2004-05.

Table 13: Social Sector Expenditure (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Education	867	865	903	939	1032
Health, Medical and Family Welfare	382	432	432	433	499
Water Supply and sanitation	499	499	542	666	724
Total	1748	1796	1877	2038	2255
As a percentage of expenditure on Social sector	92.49	92.39	89.72	88.03	88.57

Similarly, the expenditure on Economic Services (Rs. 4,592 crore) accounted for 64 per cent of the developmental expenditure (Rs. 7,138 crore) during 2004-05. Out of this Irrigation, Flood Control, Energy and Transport accounted for 69 per cent.

Table 14: Economic Sector Expenditure (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Irrigation and Flood Control	167	177	198	258	311
Energy	1811	1399	1628	1969	2506
Transport	177	245	285	280	356
Total	2155	1821	2111	2507	3173
As a percentage of Expenditure on Economic sector	69.11	59.20	63.99	64.63	69.09

1.7.1 Financial Assistance to Local Bodies and other Institutions

(i) **Extent of assistance:** The quantum of assistance provided department-wise to different local bodies etc. during the period of five years ending 2004-05 was as follows:

Table 15: Financial Assistance to local bodies and other institutions

Name of the Department	(Rupees in crore)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Education	77.66	76.02	76.77	43.11	79.34
Housing and Urban Development	61.27	61.62	65.96	71.66	78.60
Agriculture	46.21	40.40	40.66	36.74	47.81
Art and culture	4.28	4.52	3.50	3.31	14.71
General Administration	2.40	2.93	2.75	3.29	2.69
Industries	4.87	2.89	3.00	2.43	4.00
Tourism	0.98	2.66	3.87	2.41	5.34
Law and Justice	1.76	1.22	1.65	0.92	1.60
Health family welfare and Medical	0.52	0.55	1.14	0.70	0.82
Others	10.36	22.22	0.04	1.18	0.76
Total	210.31	215.03	199.34	165.75	235.67
Percentage of increase (+)/ decrease (-) over previous year	(+) 13.106	(+) 2.244	(-) 7.297	(-) 16.851	(+) 42.184
Assistance as a percentage of Revenue expenditure	3.176	3.152	2.776	2.138	2.838

The total assistance at the end of 2004-05 increased by 12 *per cent* over the level of 2000-01, and by 42 *per cent* as compared to previous year mainly as a result of increased assistance to Education sector.

(ii) Delay in furnishing Utilisation Certificates

Financial rules provide that where grants are given for specific purposes, utilisation certificates (UCs) should be obtained by departmental officers from the grantees and after verification, these should be forwarded to the Accountant General within 18 months from the date of their sanction unless specified otherwise.

In respect of grants paid upto 2003-04, 9,092 UCs for an aggregate amount of Rs. 1,305.29 crore were awaited as on 30 September 2005. Department-wise break-up of UCs not received in respect of grants paid during 2002-04 is given in *Appendix-4*. In the absence of utilisation certificates, it was not clear as to how the departmental officers satisfied themselves whether and to what extent recipients utilised the grants for the purpose for which these were paid.

(iii) Delay in submission of accounts: In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, Government/ Heads of Departments are required to furnish to Audit every year, detailed

information about the financial assistance given to various institutions, the purpose for which such assistance was sanctioned and the total expenditure of the institutions. The details of two defaulting departments which had not furnished information for 2004-05 is given in *Appendix-5*. The particulars of 35 bodies/authorities whose 139 annual accounts for 2004-05 and earlier years were awaited are indicated in *Appendix-6*.

Two autonomous bodies mentioned below covered under Section 19 (3) and 20 (1) of the CAG's DPC Act had also not furnished the accounts for the period shown against each of them.

Table 16

S. No	Name of the Body	Period for which Accounts awaited	Number of Accounts
Section 19 (3)			
1.	Khadi and Village Industries Board	2002-03 and 2003-04	2
Section 20 (1)			
2.	Sher-E-Kashmir University of Agricultural Sciences and Technology, Kashmir	2003-04 and 2004-05	2

1.8 Assets and liabilities

The existing Government accounting system does not cover comprehensive accounting of the fixed assets like land and buildings, etc. owned by Government. However, the Government Accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Appendix-7* gives an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. *Appendix-7* shows that the liabilities and assets grew by 11 *per cent* and 14 *per cent* respectively. The liabilities of Government of Jammu and Kashmir depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to retired state employees, guarantees/letters of comforts issued by the State Government. *Appendix-8* depicts the Time Series Data on State Government Finances for the period 2000-2005.

1.8.1 Financial results of irrigation works

The financial results of six irrigation projects with capital outlay of Rs. 153.29 crore showed that revenue realised during 2004-05 (Rs. 28.42 lakh) was only 0.19 *per cent* of the capital invested. After meeting the working and maintenance expenditure (Rs. 1.21 crore) and interest charges (Rs. 35.01 lakh) the net loss was Rs. 57.34 lakh.

1.8.2 Incomplete projects: According to the information furnished by the State Government there were 219 incomplete projects as of March 2005 in which

Rs. 1,036.08 crore were blocked. This showed that the Government spread its resources thinly without prioritisation, which failed to yield any return.

1.8.3 Investments and returns: As on 31 March 2005, Government had invested Rs. 347.82 crore in its statutory corporations, Government companies, joint stock companies and co-operative Societies. Average return on this investment was only 4.18 *per cent* during the last five years. With an average interest rate of 9.36 *per cent* being paid by Government on its borrowings the average annual subsidy amounted to 5.18 *per cent* and the implicit subsidy during the period 2000-2005 was Rs. 94.15 crore.

Table 17: Return on Investment

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Investment (Rs. in crore)	359.60	363.35	375.27	349.93	347.82	359.19
Returns (Rs. in crore)	-Nil-	19.53	13.34	15.92	26.28	15.01
Percentage of returns	-Nil-	5.38	3.56	4.55	7.56	4.18
Average interest rate paid by Government	8.84	10.65	9.64	9.84	8.10	9.36
Difference between interest rates and return	8.84	5.27	6.08	5.29	0.54	5.18
Implicit subsidy (Rs. in crore)	31.79	19.15	22.82	18.51	1.88	18.61

1.8.4 Loans and advances by State Government: In addition to investment in co-operatives, corporations and companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance as on 31 March 2005 was Rs. 884.58 crore (Table 18). Interest received on such loans was meagre and it decreased from 0.42 *per cent* in 2001-02 to 0.15 *per cent* in 2004-05. Total implicit subsidy during 2000-2005, on such loans was Rs. 314.11 crore.

Table 18: Average Interest received on Loans advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	555.17	599.93	515.25	773.37	837.13
Amount Advanced during the year	58.58	47.12	340.20	68.30	66.00
Amount repaid during the year	13.82	131.80	82.07	4.54	18.55
Closing Balance	599.93	515.25	773.37	837.13	884.58
Net Addition	44.76	(-) 84.68	258.12	63.76	47.45
Interest Received	1.64	2.36	1.03	1.09	1.27
Interest Received as <i>per cent</i> to Loans advanced	0.28	0.42	0.16	0.14	0.15
Average interest paid by the State (<i>per cent</i>)	8.84	10.65	9.64	9.84	8.10
Difference between interest paid and received (<i>per cent</i>)	8.56	10.23	9.48	9.70	7.95
Implicit subsidy	49.44	57.04	61.08	78.11	68.44

1.8.5 Commercial activities-Lack of accountability in the use of public funds in departmental commercial undertakings: Activities of quasi-commercial nature are performed by the departmental undertakings/Government departments which are required to prepare annually *proforma* accounts in prescribed formats showing the results of financial operations so that Government

can assess their functioning. The Heads of Departments in Government are to ensure that the undertakings, which are funded by the budgetary releases, prepare the accounts in time and submit the same to Accountant General for Audit.

As of March 2005 preparation of proforma accounts in respect of two departmentally managed units viz. Directors, Consumer Affairs Public distribution Department, Jammu and Srinagar was in arrears for the period of six and 30 years respectively.

1.8.6 Management of cash balances: Ideally, the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Jammu and Kashmir Bank has been put in place. There was no improvement in management of cash balances as overdraft facilities were used for all the 365 days during 2004-05.

Table 19: Ways and Means and overdraft of the State and Interest Paid thereon

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Ways and Means Advances/overdraft					
Taken in the year	5928.19	6000.15	7212.35	8345.85	1114.20
Outstanding	1183.55	1382.55	1381.10	1546.51	1726.85
Interest Paid	71.57	130.88	137.58	126.99	131.81
Number of Days	365	365	365	366	365

1.8.7 Undischarged liabilities

i) Fiscal liabilities-public debt and guarantees: Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State, to lay down any such limit. Table 20 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table 20: Fiscal Liabilities-Basic Parameters

(Value in Rupees crore and ratios in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Fiscal Liabilities\$	9224	10443	12279	13038	14199	11837
Rate of Growth	12.74	13.22	17.58	6.18	8.90	11.97
Ratio of Fiscal Liabilities to						
GSDP	60.37	61.16	65.60	68.18	68.54	65.10
Revenue Receipt	162.97	160.93	162.68	158.77	160.15	160.94
Own Resources	775.13	824.88	646.95	723.13	712.80	726.20
Buoyancy of Fiscal Liabilities						
GSDP	1.350	1.123	1.827	2.856	1.068	1.471
Revenue Receipt	4.810	0.902	1.077	0.702	1.118	1.091
Own resources	0.605	2.069	0.352	φ	0.849	0.750

\$ Includes internal debt, loans and advances from GOI and other obligations.

φ Own resources had a negative trend

Overall fiscal liabilities of the State increased from Rs. 9,224 crore in 2000-01 to Rs. 14,199 crore in 2004-05 on an average growth rate of 11.97 *per cent*. The ratio of these liabilities to GSDP also increased from 60.37 *per cent* in 2000-01 to 68.54 *per cent* in 2004-05. These liabilities stood at 1.60 times State's revenue receipts and 7.13 times its own resources.

In addition to these liabilities, Government has guaranteed loans raised by various Corporations and others which at the end of 2004-05 stood at Rs. 1,913.52 crore. The guarantees are in the nature of contingent liabilities, which were about 22 *per cent* of revenue receipts of the State. No law under Article 293 of the Constitution had been passed by the State legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

The fiscal liabilities during 2000-2005 grew faster (11.97 *per cent*) than the State's GDP (8.14 *per cent*) and revenue receipts (10.97 *per cent*). Average buoyancy of these liabilities with respect to GSDP was 1.471 indicating that for each one *per cent* increase in GSDP, fiscal liabilities were growing at the rate of 1.471 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in the case of Jammu and Kashmir though the average spread between rate of growth of GSDP and interest rate was positive during 2000-2005, negative spread was observed in two of the five years.

Table 21: Debt Sustainability-Interest Rate and GSDP Growth (In *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Weighted Interest Rate	8.84	10.65	9.64	9.84	8.10	9.36
GSDP Growth	9.43	11.77	9.62	2.16	8.33	8.14
Interest spread	0.60	1.12	(-) 0.02	(-) 7.68	0.23	1.22

Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal and interest. Table 22 below gives the position of receipt and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The average net funds available from the total receipts on account of internal debt, loans and advances from Government of India and other liabilities after providing for interest and repayments were 2.16 *per cent* of the total debt receipts during the period 2000-2005.

Table 22: Net Availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Internal debt						
Receipt	6236	6470	811 ^{&}	9316	2409	5048
Repayment (Principal+ Interest)	5999	6225	606 ^{&}	8930	1722	4696
Net Fund Available	237	245	205	386	687	352
Net Fund Available (per cent)	3.80	3.79	25.27	4.14	28.52	6.97
Loans and Advances from GOI						
Receipt	435	393	579	718	324	490
Repayment (Principal+ Interest)	615	846	739	1598	1070	974
Net Fund Available	(-) 180	(-) 453	(-) 160	(-) 880	(-) 746	(-) 484
Net Fund Available (per cent)	(-) 41.38	(-) 115.27	(-) 27.63	(-) 122.56	(-) 230.25	(-) 98.78
Other obligations^φ						
Receipt	1100	1408	1756	1533	1765	1512
Repayment (Principal+ Interest)	883	1028	1060	1527	1648	1229
Total liabilities						
Receipt	7771	8271	3146 ^{&}	11567	4498	7051
Repayments	7497	8099	2405 ^{&}	12055	4440	6899
Net receipts	274	172	741	(-) 488	58	152
Net Funds Available (per cent)	3.53	2.08	23.55	(-) 4.22	1.29	2.16

During 2004-05, the net fund availability was only 1.29 per cent as against the debt receipts of Rs. 4,498 crore, Government used Rs. 4,440 crore on repayment of principal and interest on debt.

1.9 Management of deficits

1.9.1 Fiscal imbalances: The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to its fiscal health. The revenue deficit of the State, which in turn indicates the excess of its revenue expenditure over revenue receipts, during 2000-01 and 2001-02 was Rs. 961 crore and Rs. 334 crore respectively. The State had a revenue surplus of Rs. 368 crore, Rs. 458 crore and Rs. 562 crore during 2002-03, 2003-04 and 2004-05 respectively. The fiscal deficit which represents the total borrowings of the Government and the total resource gap increased from Rs. 1,487 crore in 2003-04 to Rs. 1,665 crore in 2004-05.

Table 23: Fiscal Imbalances-Basic Parameters

(Values in Rupees crore and ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue surplus (+)/Deficit (-)	(-) 961	(-) 334	(+) 368	(+) 458	(+) 562	(+) 19
Fiscal Deficit	(-) 1873	(-) 1474	(-) 1311	(-) 1487	(-) 1665	(-) 1562
Primary Deficit	(-) 1104	(-) 427	(-) 216	(-) 241	(-) 562	(-) 510
RD/GSDP	(-) 6.290	(-) 1.956	(+) 1.966	(+) 2.395	(+) 2.713	(+) 0.104
FD/GSDP	(-) 12.259	(-) 8.632	(-) 7.004	(-) 7.776	(-) 8.037	(-) 8.590
PD/GSDP	(-) 7.226	(-) 2.501	(-) 1.154	(-) 1.260	(-) 2.713	(-) 2.805
RD/FD	51.31	22.66	NA [*]	NA [*]	NA [*]	NA [*]

(Negative figures indicate deficit)

[&] The figure is less in comparison to the previous years due to net accounting of overdraft receipts of Rs. 7,212.35 crore and repayment of Rs. 7,213.80 crore under the internal debt during 2002-03.

^φ Comprises small savings, provident fund, reserve fund and deposits

^{*} Not applicable

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 24 below presents a summarised position of Government finances over 2000-2005, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facts.

Table 24: Indicators of Fiscal Health

(In per cent)

Fiscal indicators	2000-01	2001-02	2002-03	2003-04	2004-05	Average
I. Resource Mobilization						
Revenue Receipt/GSDP	37.05	38.00	40.32	42.94	42.80	40.45
Revenue buoyancy	0.281	1.245	1.696	4.067	0.956	1.348
Own tax/GSDP	4.883	4.708	5.518	6.118	6.521	5.615
II. Expenditure Management						
Total Expenditure/GSDP	49.40	47.41	47.76	50.74	50.92	49.32
Revenue Receipt/Total Expenditure	74.99	80.16	84.42	84.63	84.04	82.02
Revenue Expenditure/Total Expenditure	87.73	84.29	80.30	79.91	78.71	81.81
Plan Expenditure/total Expenditure	20.53	26.32	25.99	26.87	30.07	26.28
Capital Expenditure/Total Expenditure	11.58	15.22	16.52	19.51	20.79	17.12
Development Expenditure/Total Expenditure	66.88	62.38	62.68	64.29	68.08	64.96
Buoyancy of TE with RR	3.796	0.496	0.640	0.968	1.097	0.818
Buoyancy of RE with RR	3.528	0.208	0.320	0.908	0.891	0.565
III. Management of Fiscal Imbalances						
Revenue surplus (+) deficit (-) (Rs. in crore)	(-) 961	(-) 334	(+) 368	(+) 458	(+) 562	(+) 19
Fiscal deficit (Rs. in crore)	(-) 1873	(-) 1474	(-) 1311	(-) 1487	(-) 1665	(-) 1562
Primary Deficit (Rs. in crore)	(-) 1104	(-) 427	(-) 216	(-) 241	(-) 562	(-) 510
Revenue Deficit/Fiscal Deficit	51.31	22.66	NA*	NA*	NA*	NA*
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/GSDP	60.37	61.16	65.60	68.18	68.54	65.10
Fiscal Liabilities/RR	162.97	160.93	162.68	158.77	160.15	160.94
Buoyancy of FL with RR	4.810	0.902	1.077	0.702	1.118	1.091
Buoyancy of FL with OR	0.605	2.069	0.352	- ^N	0.849	0.750
Interest spread	0.60	1.12	(-) 0.02	(-) 7.68	0.23	1.22
Net Funds Available	3.53	2.08	23.55	(-) 4.22	1.29	2.16
V. Other Fiscal Health Indicators						
Return on Investment	0.00	5.38	3.56	4.55	7.56	4.18
BCR (Rs. in crore)	(-) 1820	(-) 1644	(-) 1002	(-) 1527	(-) 1865	(-) 1572
Financial Assets/Liabilities	1.02	0.99	1.02	1.05	1.08	1.04

The ratio of own taxes to GSDP had shown continuous improvement in the five-year period. The ratio of Revenue receipt to GSDP and its buoyancy was on a rising trend during 2001-02 to 2003-04, but the revenue buoyancy declined sharply during 2004-05. Various ratios concerning expenditure indicate quality of

* Not applicable

^N Own resources had a negative growth

expenditure and sustainability in relation to resources. The total expenditure to GSDP is buoyant. Although revenue expenditure showed a decreasing trend over the five-year period 2000-2005, it still comprised 79 *per cent* of total expenditure during 2004-05, which reveals that most of the expenditure was incurred on current consumption. Fiscal deficit year after year indicates growing fiscal imbalances of the State. The decreasing primary deficit indicates increasing interest payments and lesser availability of borrowed funds for developmental purposes.

Increasing ratio of fiscal liabilities to GSDP with a growing fiscal deficit on account of increased interest payments indicate that the State is gradually getting into a debt trap. Also, the higher buoyancy of the debt with regard to its revenue receipts indicate its unsustainability. The average interest paid by the State on its borrowings during 2002-2004 has also exceeded the rate of growth of its GSDP, violating the cardinal rule of debt sustainability. There has also been a decline in net availability of funds (except 2002-03) from its borrowings due to a larger portion of these funds being used for debt servicing. The State's return on investment was insignificant. The balance from current revenue of the State has also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure.

1.11 Impact of Government policies

Appendix-9 depicts the progress achieved, as indicated by the State Government during 2004-05 as compared to 2002-03 and 2003-04 in various sectors. It would be seen that the percentage of literacy has remained static at 54 *per cent* during 2002-04. No new institutions except one dental college were opened in Health and Family Welfare and Technical Education sectors. In Power sector self-generation of power during 2003-04 constituted only 13 *per cent* of total consumption in the State.

Commercial Activities

Overview of Government companies and statutory corporations

Introduction

1.12 As on 31 March 2005, there were 20 Government companies (17 working and three* non-working companies^α) and three working Statutory corporations (the same as on 31 March 2004) under the control of the State Government.

The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit, conducted by the CAG as per the provisions of Section 619 (4) of the Companies Act, 1956. The audit arrangements of the three Statutory corporations are as shown below:

Table 25

S.No	Name of the Corporation	Authority for audit by the CAG	Audit arrangements
1.	Jammu and Kashmir State Forest Corporation	Section 19 (3) of the CAG (DPC) Act, 1971	Sole audit by the CAG
2.	Jammu and Kashmir State Road Transport Corporation	Section 33 (2) of the Road Transport Corporations Act, 1950	Sole audit by the CAG
3.	Jammu and Kashmir State Financial Corporation	Section 37 (6) of the State Financial Corporations Act, 1951	Audit by Chartered Accountants and supplementary audit by the CAG

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.12.1 The total investment in the working PSUs at the end of March 2004 and March 2005 was as follows:

Table 26

(Amount: Rupees in crore)

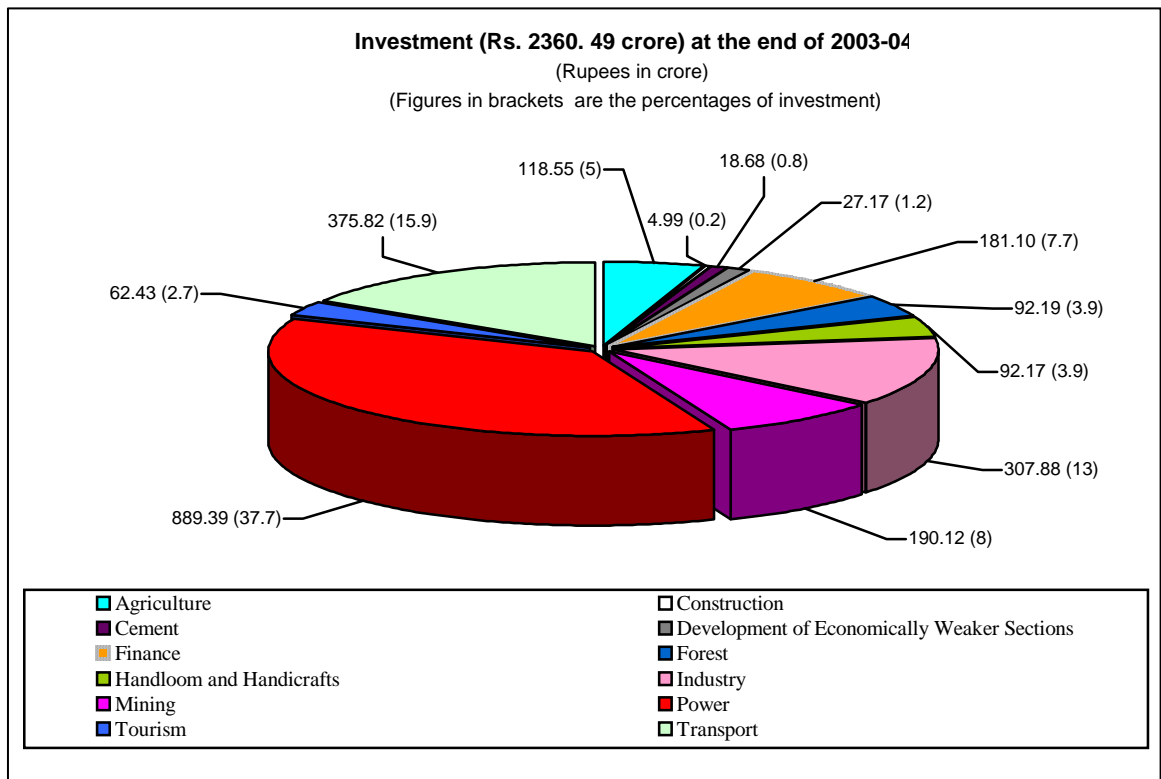
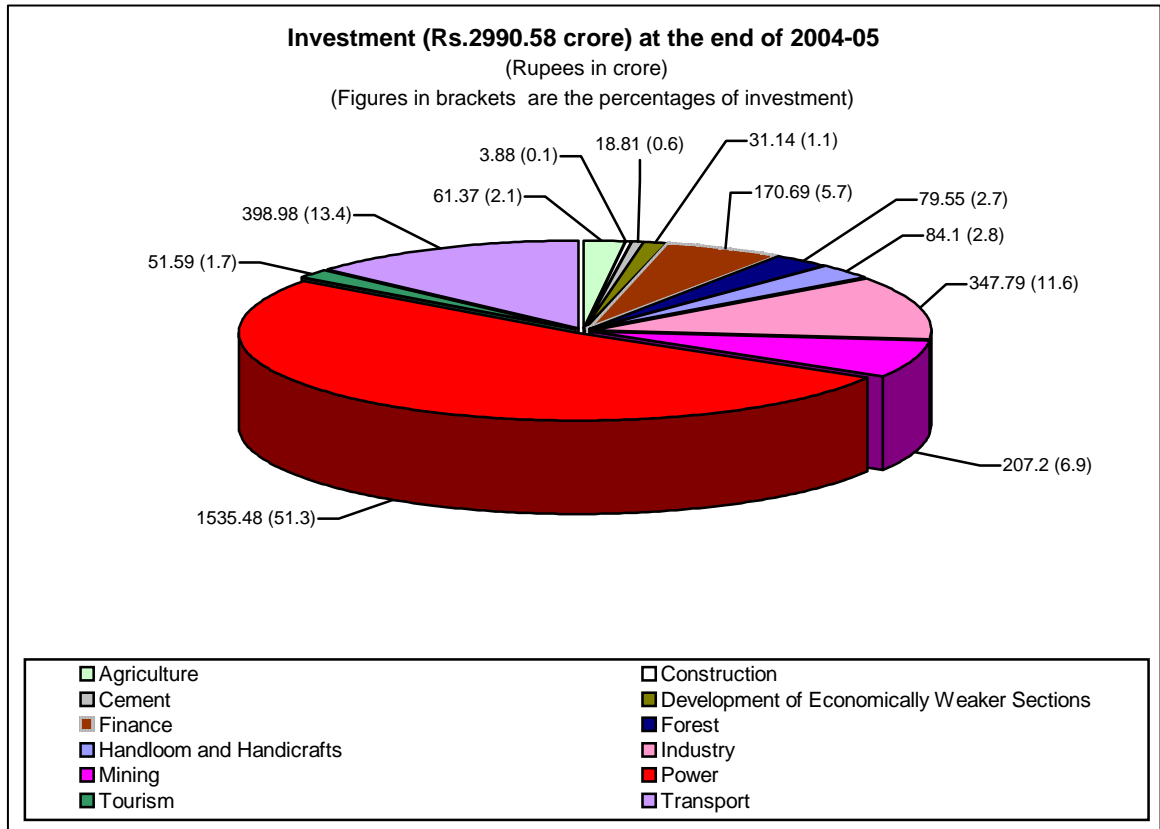
Year	Number of PSUs	Investment by way of		
		Equity	Loan	Total
2003-04	20	393.23	1967.26	2360.49
2004-05	20	387.87	2602.71	2990.58

* Tawi Scooters Limited, Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited).

^α Non-working company is one which is under the process of liquidation/merger, etc.

Sector-wise investment in Government companies and Statutory corporations

1.12.2 The investment (equity and long-term loans) in various sectors and percentage thereof at the end of March 2005 and March 2004 are indicated in the pie charts given below:



Working Government companies

1.12.3 Total investment in working Government companies as on 31 March 2004 and March 2005 was as follows.

Table 27 (Amount: Rupees in crore)

Year	Number of Government companies	Investment		
		Equity	Loan	Total
2003-04	17	214.57	1545.06	1759.63
2004-05	17	208.41	2181.44	2389.85

A summarised statement of Government investment in these companies in the form of equity and loan is detailed in *Appendix-10*.

As on 31 March 2005, the total investment in these companies comprised nine *per cent* equity capital and 91 *per cent* loan against 12 *per cent* equity capital and 88 *per cent* loan as on 31 March 2004.

Working Statutory corporations

1.12.4 Total investment in the three working Statutory corporations at the end of March 2004 and March 2005 was as follows:

Table 28 (Amount: Rupees in crore)

S.No.	Name of Corporations	2003-04		2004-05	
		Capital	Loan	Capital	Loan
1.	Jammu and Kashmir State Road Transport Corporation	105.83	269.99	105.83	293.15
2.	Jammu and Kashmir State Financial Corporation	63.80	69.04	64.60	57.60
3.	Jammu and Kashmir State Forest Corporation	9.03	83.17	9.03	70.52
	Total	178.66	422.20	179.46	421.27

As on 31 March 2005, the total investment in the Statutory corporations comprised 30 *per cent* equity capital and 70 *per cent* loan (the same as on 31 March 2004).

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.12.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the Central/State Governments in respect of the working companies/Statutory corporations are given in *Appendices-10* and *12*.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the Central/State Governments to the working companies/Statutory corporations for the three years up to 2004-05 are given below:

Table 29

(Amount: Rupees in crore)

	2002-03				2003-04				2004-05			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital from budget	5	13.29	-	-	4	2.80	-	-	5	3.23	1	0.80
Loans given from budget	5	9.94	1	20.45	6	10.04	1	25.43	6	8.51	2	68.42
Grants towards projects, programmes/schemes	5	16.99	-	-	8	25.84	-	-	3	1.89*	-	-
Subsidy	4	1.29	-	-	3	1.45	-	-	4	11.60*	-	-
Total outgo	11*	41.51	1	20.45	12*	40.13	1	25.43	10*	25.23	2*	69.22

During the year 2004-05, Government guaranteed loans aggregating Rs. 906.82 crore obtained by three working Government companies. At the end of the year, guarantees worth Rs. 1,592.86 crore against nine working Government companies (Rs. 1,528.61 crore) and two working Statutory corporations (Rs. 64.25 crore) were outstanding. Central/State Governments did not waive off any dues during the current year. Details of subsidy given, guarantees received/outstanding are indicated in the *Appendix-12*.

Finalisation of accounts by working PSUs

1.12.6 The accounts of the Public Sector Undertakings (PSUs) for each financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also required to be laid before the Legislature within nine months from the end of the relevant financial year. Similarly, in the case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. It can be seen from *Appendix-11* that out of 17 companies and three Statutory corporations, only one company had finalised its accounts for the year 2004-05 within the stipulated period. During the period from October 2004 to September 2005, 13 Government companies finalised 19 accounts for previous years. Similarly, during this period, one Statutory corporation finalised one account for the previous year. The accounts of 16 working Government companies and three Statutory corporations were in arrears for periods ranging from one to 19 years as on 30 September 2005 as indicated in the *Appendix-13*.

* Jammu and Kashmir Small Scale Industries Development Corporation Limited: Rs. one crore (State Government), Jammu and Kashmir State Handloom Development Corporation Limited: Rs. 41.98 lakh (Central Government: Rs. 21.56 lakh; State Government: Rs. 20.42 lakh) and Jammu and Kashmir State Agro-Industries Development Corporation Limited: Rs. 47 lakh (State Government).

* Jammu and Kashmir State Industrial Development Corporation Limited: Rs. 10 crore (Central Government), Jammu and Kashmir State Agro-Industries Development Corporation Limited: Rs. 25 lakh, Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited: Rs. 1.25 crore and Jammu and Kashmir State Power Development Corporation Limited: Rs. 10 lakh (Central Government).

* Actual number of companies/corporations

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit regarding the arrears in finalisation of accounts, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in Audit.

Financial position and working results of working PSUs

1.12.7 The summarised financial results of the working PSUs (Government companies and Statutory corporations), as per their latest finalised accounts are given in *Appendix-11*. Besides, statements showing the financial position and the working results of individual working Statutory corporations for the latest three years for which accounts have been finalised are given in *Appendices-14* and *15* respectively.

According to the latest finalised accounts of 17 working Government companies and three Statutory corporations, eight companies* and two# Statutory corporations had incurred aggregate losses of Rs. 53.99 crore and Rs. 65.36 crore, respectively. Only five companies@ had earned an aggregate profit of Rs. 115.95 crore. The financial position and working results in respect of four♥ companies and one Statutory corporation (Jammu and Kashmir State Forest Corporation) could not be assessed in audit due to non-receipt of their accounts.

Working Government companies

Profit earning working companies and dividend

1.12.8 Only one company (Jammu and Kashmir Bank Limited) which finalised its accounts for 2004-05, earned a profit of Rs. 115.07 crore and declared dividend of Rs. 38.78 crore. The dividend, as a percentage of the share capital of Rs. 48.49 crore of the Company worked out to about 80 *per cent*. As a percentage of total equity capital of Rs. 172.53 crore invested by the State Government in 17 companies up to 2004-05, it worked out to 22.48 *per cent* as against 26.90 *per cent* in the previous year. Three more companies♣ which finalised their accounts for the year 1985-86, 1987-88 and 1995-96 respectively in the current year, earned a total profit of Rs. 82.28 lakh in these years. These Companies, however, did not declare any dividend.

Loss incurring working Government companies

1.12.9 Of the eight loss-incurring working Government companies, seven∞ had accumulated losses aggregating Rs. 293.10 crore which exceeded their aggregate

* S.No. 1, 2, 3, 5, 6, 7, 8, and 14 of Appendix-11.

S.No. 1 and 2 of Appendix-11.

@ S.No. 4, 9, 11, 13 and 17 of Appendix-11.

♥ S.No. 10, 12, 15 and 16 of Appendix-11.

♣ Jammu and Kashmir Small Scale Industries Development Corporation Limited, Jammu and Kashmir Projects Construction Corporation Limited and Jammu and Kashmir Cements Limited

∞ S.No 1, 2,3,5,6, 7 and 8 of Appendix-11.

paid-up capital of Rs. 60.78 crore by Rs. 232.32 crore as per their latest available accounts.

Despite their poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of loan, equity, etc. According to available information, financial support so provided by the State Government during 2004-05 to six[^] of these seven companies amounted to Rs. 20.10 crore.

Working Statutory corporations

1.12.10 As per their latest finalised accounts, the two working Statutory corporations had accumulated losses aggregating Rs. 738.88 crore which exceeded their aggregate paid-up capital of Rs. 172.31 crore. Despite their poor performance and complete erosion of paid up capital, the State Government continued providing financial support to these corporations in the form of equity, loan, etc. According to available information, financial support so provided by the State Government during 2004-05 to these two corporations amounted to Rs. 69.22 crore.

Operational performance of working Statutory corporations

1.12.11 The operational performance of working Statutory corporations is given in *Appendix-16*.

Return on capital employed

1.12.12 As per their latest finalised accounts, the capital employed worked out to Rs. 16,212.54 crore in 17 working companies and return thereon amounted to Rs. 1,039.35 crore (6.41 *per cent*), as compared to return of Rs. 1,283.21 crore (9.64 *per cent*) in the previous year. Similarly, capital employed and return thereon in case of working Statutory corporations as per the latest finalised accounts worked out to Rs. 61.55 crore and minus Rs. 26.94 crore, respectively against the return of minus Rs. 22.67 crore in the previous year. The details of capital employed and return thereon in case of working Government companies and Statutory corporations are given in *Appendix-11*.

Non-working PSUs

Investment in non-working PSUs

1.12.13 As on 31 March 2005, the total investment in three non-working Government companies was Rs. 3.40 crore (equity: Rs. 2.57 crore: long-term loans: Rs. 83 lakh). One Company (Tawi Scooters Limited) was under the process of liquidation with the Jammu and Kashmir State Industrial Development Corporation Limited since 1990. The process of liquidation had not been completed as of September 2005. The State Government during 2000-05 incurred an expenditure of Rs. 9.19 lakh on its establishment. Expedient action for liquidation of the Company was necessary to avoid further non-productive

[^] S.No 1, 2, 5, 6, 7 and 8 of *Appendix-11*.

expenditure. The other two non-working companies which have been closed are under the process of being wound up. The summarised financial results of these companies, as per their latest finalised accounts are given in *Appendix-11*.

Status of placement of Separate Audit Reports on the accounts of Statutory corporations in the Legislature

1.12.14 The following table indicates the status of placement of Separate Audit Reports (SARs) on the accounts of Statutory corporations, issued by the Comptroller and Auditor General of India, in the State Legislature by the Government:

Table 30

S.No.	Name of the Statutory Corporation	Year up to which SARs placed in the Legislature	Year for which SARs not placed in the Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay
1.	Jammu and Kashmir State Road Transport Corporation	2002-03	2003-04	NA	Under finalisation
2.	Jammu and Kashmir State Financial Corporation	2001-02	2002-03	18 July 2003	Non-convening of AGM

Results of audit by the Comptroller and Auditor General of India

1.12.15 During October 2004 to September 2005, the accounts of 12 Government companies and two above mentioned Statutory corporations were selected for audit review. The net impact of these audit observations as a result of the review was as follows:

Table 31

Details	Number of accounts		(Amount: Rupees in lakh)	
	Companies	Corporations	Companies	Corporations
Increase in loss	-	1	-	975.00
Increase in profit	4	-	11.43	-

Some of the major errors and omissions noticed in the course of review of the annual accounts of some of the companies and corporations are mentioned below:

Errors and omissions noticed in the case of Government companies and Statutory corporations

Jammu and Kashmir State Road Transport Corporation (2003-04)

1.12.16 The Corporation did not make provision for the interest liability of Rs. 7.64 crore, payable on contributory/general provident fund balances and on amounts payable under the State Life Insurance for the years 1991-92 to 2003-04, resulting in understatement of loss to that extent.

- The Corporation did not make provision of Rs. 50.56 lakh payable to the Srinagar Municipality on account of rent of City Services Yard, resulting in understatement of loss.
- The revenue liability had been understated due to non-provision of Rs. 1.07 crore on account of revenue expenditure for the year 2003-04, resulting in understatement of loss to that extent.
- Against Rs. 1.28 crore payable by the Corporation as audit fee for the period September 1976 to March 2004, a provision of Rs. 1.17 crore only was made in its accounts. This resulted in understatement of liabilities and accumulated loss by Rs. 11 lakh.
- No provision had been made for Rs. 42.35 lakh payable as compensation/interest up to the year 2003-04 on account of awards passed by the Motor Accidental Claims Tribunal (MACT) in accident cases. This resulted in understatement of loss to that extent.

Persistent irregularities and system deficiencies in financial matters of PSUs

1.12.17 The following irregularities and system deficiencies in the financial matters of the Jammu and Kashmir State Road Transport Corporation had been repeatedly pointed out during the course of audit of accounts, but the Corporation did not take any corrective action.

- Non-maintenance of accounts and other records according to the principles of commercial accounting.
- Non-operation of inter-unit adjustment accounts for the adjustment of advances, transfer of stores, etc.
- Non-segregation of the book debts as good, bad or doubtful.
- Abnormal delays in recoveries, adjustment of balances under advances, deposits, etc.
- Non-conducting of the physical verification of the fixed assets, stores, stocks and fuel and non-preparation of inventory of the vehicles owned by the Corporation.

Recommendations for closure of PSUs

1.12.18 Even after completion of 26 to 37 years of their existence, seven* Government companies and two♦ working Statutory corporations had been incurring losses for five consecutive years leading to negative net worth. In view of the continuous losses, Government may either take steps to either improve performance of these PSUs or consider their closure.

* Jammu and Kashmir State Agro Industries Development Corporation Limited, Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited, Jammu and Kashmir Industries Limited, Jammu and Kashmir State Handicrafts (Sales and Export) Corporation Limited, Jammu and Kashmir State Industrial Development Corporation Limited, Jammu and Kashmir Tourism Development Corporation Limited and Jammu and Kashmir Minerals Limited.

♦ Jammu and Kashmir State Road Transport Corporation Limited and Jammu and Kashmir State Financial Corporation Limited.

Disinvestment of public sector undertakings

1.12.19 The Board of Directors of the Jammu and Kashmir Tourism Development Corporation Limited in its various meetings (held in September 1997, September 1998 and June 1999) considered privatisation, joint venture or sale of its loss-making units. The Company, however, had not taken any action in this direction as of October 2005.

Response to inspection reports, audit paragraphs and reviews

1.12.20 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of the departments within a period of six weeks. The Inspection Reports issued up to March 2005 pertaining to 18 PSUs show that 1165 paragraphs relating to 326 Inspection Reports remained outstanding at the end of March 2005. All these paragraphs were outstanding since 1998-99. Department-wise break-up of the Inspection Reports and audit observations outstanding as on March 2005 is given in *Appendix-17*.

Similarly, audit paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative departments concerned demi-officially seeking confirmation of the facts and figures and their comments thereon within a period of six weeks. For one review and three audit paragraphs forwarded to the departments concerned during May 2005 and June 2005 (detailed in *Appendix-18*), no reply was, however received (October 2005).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to the Inspection Reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule, and (c) the system of responding to the audit observations is revamped.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.12.21 The status of reviews/paragraphs of Commercial Chapter pending discussion as on 31 March 2005 is shown below:

Table 32

Period of Audit Report	Number of reviews and paragraphs that appeared in Commercial Chapter of Audit Report		Number of reviews and paragraphs pending for discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1990-91	1	4	1	2
1991-92	3	2	2	2*
1992-93	2	1	1	-
1993-94	1	2	1*	-
1994-95	3	1	1*	-
1995-96	1	4	-	-
1996-97	2	1	2*	1*
1997-98	1	1	1*	1*
1998-99	2	4	2*	1
1999-2000	2	3	2*	2 (1+1*)
2000-01	1	3	1*	3 (2+1)
2001-02	1	4	1*	4 (1+3)
2002-03	1	3	1	3
2003-04	-	3	-	3
Total:	21	36	16	22

Corporate Governance

1.12.22 Corporate Governance is the system by which Companies are directed, controlled and governed by the Board of Directors (Board) in the best interest of the stakeholders and to ensure greater transparency, timely financial reporting and management of risks. In terms of Section 217 of the Companies Act 1956, the Board has to report to the shareholders that the company has taken proper and sufficient care for the maintenance of accounting records for safeguarding the assets of the company and for preventing and detecting frauds/irregularities.

Records of 11* companies were test-checked in Audit with the objective of assessing compliance by these companies of the provisions of the Act, *ibid*. Results of the test-check are given in the succeeding paragraphs:

Meetings of the Board

1.12.23 In terms of section 285 of the Act, *ibid*, the Board of each Company is required to hold at least four meetings in a year. It was, however, noticed in audit that no Company (other than Jammu and Kashmir Bank Limited and Jammu and Kashmir State Power Development Corporation Limited) held the requisite

* Partly discussed.

* Jammu and Kashmir State Agro-Industries Development Corporation Limited, Jammu and Kashmir Bank Limited, Jammu and Kashmir Cements Limited, Jammu and Kashmir Small Scale Industries Development Corporation Limited, Jammu and Kashmir State Industrial Development Corporation Limited, Jammu and Kashmir State Handloom Development Corporation Limited, Jammu and Kashmir Handicrafts (Sale and Export) Corporation Limited, Jammu and Kashmir Police Housing Corporation Limited, Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited, Jammu and Kashmir Cable Car Corporation Limited and Jammu and Kashmir State Power Development Corporation Limited.

number of meetings and the shortfall ranged between 25 and 75 per cent. Relevant details are given in the *Appendix-19*.

Absence of members in the Board meetings

1.12.24 Absence of one or two members of the Board in each meeting was a common feature in all these Companies. The highest absenteeism was noticed in the case of the Jammu and Kashmir Police Housing Corporation, where out of seven Directors, only three attended the meetings held in June 2002, October 2002 and March 2005 and four meetings during July 2003, April 2004 and September 2004.

Formation of Audit Committees

1.12.25 According to Section 292 of the Companies Act, *ibid*, every Government company having paid-up capital of rupees five crore and above, shall constitute an Audit Committee at the Board level. Of the 11 Companies test-checked, only seven ♦ came within the ambit of this section.

It was noticed in audit that only two companies (Jammu and Kashmir Bank Limited and Jammu and Kashmir State Power Development Corporation Limited) had constituted audit committees. The remaining five Companies had not constituted these committees violating the provisions of the relevant Section of the Act. It was also observed that Jammu and Kashmir State Power Development Corporation Limited had not held any Audit Committee meeting. In case of Jammu and Kashmir Bank Limited, the Committee did not review irregularities pointed out by Audit, in any of its meetings.

♦ Jammu and Kashmir Bank Limited, Jammu and Kashmir Cements Limited, Jammu and Kashmir State Industrial Development Corporation Limited, Jammu and Kashmir Handicrafts (Sales and Export) Corporation Limited, Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited, Jammu and Kashmir Cable Car Corporation Limited and Jammu and Kashmir State Power Development Corporation Limited.