

Preface

1. This Report has been prepared for submission to the Governor under Article 151 of the Constitution.
2. The Report deals with the findings of performance reviews and audit of transactions in various departments including Public Works, Power Development, Public Health Engineering, Irrigation and Flood Control, Health and Medical Education, Revenue, Social Welfare Departments, audit of autonomous bodies and departmentally run commercial undertakings.
3. The Report also contains the observations arising out of audit of Statutory Corporations, Boards and Government Companies and revenue receipts.
4. The cases mentioned in this Report are among those which came to notice in the course of test audit of accounts during the year 2009-10 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports; matters relating to the period subsequent to 2009-10 have also been included wherever necessary.
5. Audit observations on matter arising from the examination of Finance Accounts and Appropriation Accounts of the State Government for the year ended 31 March 2010 are included in a separate Report on State Government Finances.
6. The audits have been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

This Report contains Civil, Revenue and Commercial chapters comprising 22 paragraphs and six performance reviews (including one CCO-based review of Animal and Sheep Husbandry Department). Copy of draft paragraphs and reviews was sent to the concerned Commissioner/Secretary of the Department concerned by the Principal Accountant General with a request to furnish replies within six weeks. However, in respect of 19 draft paragraphs and six performance reviews included in the Report, no replies were received from the Commissioners/Secretaries concerned. A synopsis of the important findings contained in the Report is presented in the overview.

1 PERFORMANCE REVIEWS

Agriculture Production Department

Technology Mission for integrated Development of Horticulture

The Government of India (GOI) approved a Centrally Sponsored Scheme (CSS) ‘Technology Mission (TM) for integrated development of Horticulture’ in Jammu and Kashmir in 2003-04. The goals of the Mission are to establish convergence and synergy among ongoing governmental programmes in the field of horticulture. The department had not formulated a long term Horticulture policy for the State due to which it could not plan its activities on a scientific basis. The department had neither taken an integrated approach by involving all other concerned departments in planning nor collected data from the Remote Sensing Department for identification of waste land. Utilisation of funds was not proper which had resulted in huge unspent balances at the close of the financial years and loss of assistance to the State. Funds meant for implementation of the programmes were diverted to other activities and had resulted in non-achievement of the objectives. The department had laid more emphasis on area expansion thereby ignoring certain crucial activities like irrigation etc. which had adversely impacted survival of plants, and consequently production. The department had failed to provide outlets to the farmers for their produce. Monitoring mechanism was virtually non-existent.

Consumer Affairs and Public Distribution Department

Public Distribution System in Jammu and Kashmir

The Consumer Affairs and Public Distribution Department (CAPD) is responsible for providing food security to the public in general and vulnerable sections of society in particular. The PDS has failed in its objectives to evolve as a major instrument for ensuring food security to the public, especially in case of BPL. The failure is evidenced by delay in identification of BPL families, non-lifting of the allocated food grains in full, inadequate storage capacity, non-fixation of norms of dryage/wastage for food grains and kerosene oil, etc. due to which the department could not entirely cover the target groups. Inefficient Management Information System, lack of effective planning, internal controls including monitoring and inspections was also noticed. Network for distribution of food grains/sugar was deficient.

Housing and Urban Development Department

Jammu Municipal Corporation

The Jammu Municipal Corporation (JMC) was established and declared a self-financing Body Corporate under the Jammu and Kashmir Municipal Corporation (JKMC) Act 2000. The mandate of the Corporation is to provide sanitation and public health, construction and maintenance of *lanes/drains* and *nallahs* for providing civic amenities, regulation and control of building activities and levy and collection of tax/fee in municipal areas. A review conducted on the working of the Corporation for the period 2005-10 revealed that the Corporation had failed to make itself self-reliant due to non-imposition/non-levy of sale/trade/professional taxes. Under-utilisation and diversion of funds were also areas of concern. Action to reduce, recycle or reuse the municipal waste had not been taken. Works had not been taken up for execution in a planned manner and asset management system was non-existent.

2. AUDIT OF TRANSACTIONS

Failure of the department to apply correct rates of excise duty led to excess payment of ₹ 1.26 crore.

(Paragraph: 2.2)

Improper decision of Director, Health Services, Jammu to place ₹ 7.02 crore for the procurement of CT Scanners at the disposal of Jammu and Kashmir Projects Construction Corporation Limited, which has no expertise in procurement of medical equipment, resulted in blocking of funds for over two years; besides denial of much needed healthcare facility to the needy people.

(Paragraph: 2.4)

The Custodian, Evacuees Property, Jammu constructed 30 flats by investing ₹ two crore without assessing the potential to generate income. This resulted in unfruitful investment as the flats remain unoccupied even after a lapse of more than two years of its construction.

(Paragraph: 2.5)

Unplanned purchase of drilling rig and its subsequent non-testing resulted in the rig not utilised leading to an idle expenditure of ₹ 2.73 crore.

(Paragraph: 2.6)

Injudicious decision of Purchase Committee in resorting to fresh tendering resulted in an avoidable extra expenditure of ₹ 2.94 crore.

(Paragraph: 2.7)

Unplanned project execution and subsequent delays for computerization of Water Supply Schemes rendered ₹ 90.51 lakh spent on the scheme unfruitful.

(Paragraph: 2.10)

Lapse on part of the Department to provide a proper regulatory system at the head-works coupled with construction of a channel of unsuitable design resulted in an unfruitful expenditure of ₹ 1.36 crore. The Department did not rectify the deficiencies pointed out in an enquiry report even after a lapse of two years.

(Paragraph: 2.11)

Injudicious purchase of Steel Tubular poles by Sher-e-Kashmir University of Agricultural Science and Technology, Jammu resulted in blocking of ₹ 1.93 crore.

(Paragraph: 2.12)

Due to improper planning, the multipurpose e-learning system established by Sher-e-Kashmir University of Agriculture Science and Technology was not made operational even after three years of its inauguration. As a result, the entire expenditure of ₹ 3.65 crore incurred on its creation has remained unfruitful.

(Paragraph: 2.13)

3 C.C.O. Based Audit of Animal and Sheep Husbandry Department

The Animal and Sheep Husbandry Department in the State of Jammu & Kashmir is entrusted with the task of genetically improving the livestock of the State by providing exotic variety bulls and rams to the farmers, increasing production of mutton, milk, egg and other poultry products, and making the State self-sufficient with regard to these products. The schemes introduced did not yield adequate results due the fact that Perspective plans were not prepared nor was any phasing done. Year-wise targets were not realistically fixed. Production of milk, poultry meat, mutton and wool had not increased to the required levels. Mortality rate of livestock had increased in Kashmir division. Mid-way appraisal of the ongoing CSSs had not been conducted. Cases of financial irregularities, like advance drawal of funds without requirements, incurring of expenditure without the sanction and diversion of funds were noticed. CSSs like Strengthening of Poultry/Duck Farms, National Project on Cattle and Buffalo Development, Integrated Dairy Development Programme, Special Central Assistance to Tribal Sub Plan were not implemented as per guidelines. Effective internal control mechanism was not in place.

4. Revenue Receipts

The Chapter contains five paragraphs and one review relating to incorrect computation of interest, concealment of purchases, short/non- levy of tax, interest etc. involving tax ₹ 1.81 crore.

POWER DEVELOPMENT DEPARTMENT

Performance Review on Collection of Electricity Duty and Fee

- Arrears of electric charges including electricity duty at the end of your 2009-10 had swollen from ₹ 838.65 crore to ₹ 986.45 crore due to non-pursuance of these by the department.

(Paragraph: 4.2.8.1)

- The internal control mechanism of the Department was weak in absence of independent internal audit wing and poor functioning of Revenue cell.

(Paragraph: 4.2.8.2)

- Delays of seven days to 28 days in deposition of revenue collected by the J&K Bank into the Government account had led to availing of overdraft and consequential interest liability of ₹ 8.15 lakh.

(Paragraph: 4.2.8.3)

- Loss of Electricity Duty could not be assessed due to non-framing of rules under the Electricity Regulation Act 1963.

(Paragraph: 4.2.8.4)

- The Department failed to levy and collect electricity duty from autonomous bodies/corporations/consumers in accordance with the provisions of the Act.

(Paragraph: 4.2.9)

5. Commercial Activities

Section I: Overview of State Public Sector Undertakings

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As of 31 March 2010, the State of Jammu Kashmir had 23 PSUs (17 companies and three corporations and three non-working companies) which employed 0.21 lakh employees. The State PSUs registered a turnover of ₹ 3700.38 crore for 2009-10 as per their latest finalized accounts as of September 2010. This turnover was equal to 9.66 *per cent* of State Gross Domestic Product (GDP) for 2009-10. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. The State PSUs earned a profit of ₹ 354.68 crore in the aggregate as per their latest finalised accounts as of September 2010.

Investment in PSUs

As on 31 March 2010, the investment (capital and long-term loans) in 23 PSUs was ₹ 4962.91 crore. Of the total investment in State PSUs, 99.93 *per cent* was in working

PSUs and the remaining 0.07 *per cent* in non-working PSUs. The total investment consisted of 9.42 *per cent* towards capital and 90.58 *per cent* in long-term loans. The investment has grown by 65.76 *per cent* from ₹ 2,993.98 crore in 2004-05 to ₹ 4,962.91 crore in 2009-10. The downward trend of budgetary outgo witnessed after 2005-06 upto 2007-08 showed marginal increase during 2008-09 and stood at ₹ 149.73 crore in 2009-10.

Performance of PSUs

During the year 2009-10, out of 20 working PSUs, four PSUs earned profit of ₹ 514.89 crore and 14 PSUs incurred loss of ₹ 158.86 crore. One working PSU (Jammu and Kashmir Cable Car Corporation Limited) had not prepared the Profit and Loss Account while one PSU (Jammu & Kashmir State Forest Corporation) had not submitted its accounts since its audit was entrusted (1996-97) to CAG. The major contributors to profit were the Jammu and Kashmir Bank Limited. (₹ 512.38 crore) and Jammu and Kashmir Cements Limited (₹ 1.53 crore). Heavy losses were incurred by Jammu and Kashmir State Road Transport Corporation (₹ 54.67 crore), Jammu and Kashmir State Power Development Corporation Limited (₹ 39.05 crore), and Jammu and Kashmir Industries Limited (₹ 36.23 crore).

The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of the CAG shows that the State PSUs incurred losses to the tune of ₹ 19.72 crore which were controllable with better management.

Quality of accounts

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

Arrears of accounts

Twenty working PSUs had arrears of 234 accounts as of September 2010. The arrears need to be cleared.

Section II-Part A: Performance Review

Jammu and Kashmir State Power Development Corporation

Power being an essential requirement for all facets of life, has been recognized as a basic human need. The availability of reliable and quality power at competitive rates is very crucial to sustain growth of all sectors of the economy. The Electricity Act 2003 provides a framework conducive to development of the Sector, promote

transparency and competition and protect the interest of the consumers. In the State, generation of power is carried out by the Jammu & Kashmir State Power Development Corporation Limited, which is under the administrative control of the State Power Development Department (PDD). The performance audit of the Company for the period from 2005-06 to 2009-10 was conducted to assess the status of various projects, capacity additions and optimization of existing capacity, economy and effectiveness of funding of new projects, operational efficiency and effectiveness of the top management in monitoring the affairs of the Company.

Planning

The Peak power demand in the State had increased from 1800 MW to 2247 MW and deficit in meeting peak demand ranged between 31 and 37 *per cent* during the review period. Against this, the generating capacity of the State at the end of March 2010 was 967.67 MW.

Execution of the project

There were cost and time overruns in four projects. Time overrun ranged between four and 16 years and cost overrun ranged between 41 and 687 *per cent*. The projects got delayed due to unplanned executions, arranging of funds on adhoc basis, inadequate contract management, etc.

Performance of Units

Against the design energy of 10,790.53 MU in respect of Hydro Projects, actual generation was 7,979.31 MU only. PLF of the Company ranged between 40 and 56 *per cent*. The forced outages were as high as 59 *per cent* against 10 *per cent* fixed by CEA during review period. The average capacity utilization in the State ranged between 66 and 90 *per cent*.

Financial performance

Ineffective system of recovery of dues from Power Development Department led to outstanding amount of ₹ 1,041.28 crore resulting in Company's dependence on loans. Improper planning in the fund management resulted in payment of interest on delayed payment to the contractor to the tune of ₹ 3.08 crore. The Company extended undue benefit to contractors by releasing interest free mobilization advances of ₹ 433 crore.

Manpower

Company had not assessed the actual requirement of manpower for the operation of its power houses. Despite training of employees of the Company, it failed to manage Operations and Maintenance of BHEP, which had to be outsourced to NHPC.

Monitoring

The Company did not devise a proper management information system to evaluate power demand and supply position in the State to take timely policy-decision regarding capacity addition programme.

The Company does not have a system to minimize the delay in decision-making process, monitor the implementation of the projects in accordance with the comprehension plan and evaluate mid-term progress of the projects for taking corrective action timely.

Conclusion and Recommendations

Timely commissioning of the power projects could have enabled the Company to increase generation. Achieving higher PLF could have helped in additional generation. The review contains six recommendations which include increasing the PLF and reducing forced outages.

Chapter –I: PERFORMANCE REVIEWS

Agriculture Production Department

1.1 Technology Mission for Integrated Development of Horticulture

The Government of India (GOI) approved a Centrally Sponsored Scheme (CSS) ‘Technology Mission (TM) for integrated development of Horticulture’ in Jammu and Kashmir in 2003-04. The goals of the Mission are to establish convergence and synergy among ongoing governmental programmes in the field of horticulture. The department had not taken an integrated approach by involving all other concerned departments in planning. Utilisation of funds was not proper which had resulted in huge unspent balances at the close of the financial years and loss of assistance to the State. The department had laid more emphasis on area expansion thereby ignoring certain crucial activities like irrigation etc. which had adversely impacted survival of plants and consequently production. The department had failed to provide outlets to the farmers for their produce.

Highlights

- *The department had not prepared any perspective plan. Remote Sensing Technology was not used for identification of waste lands for possible exploitation.*

(Paragraph: 1.1.7)

- *The department had laid more emphasis on ‘area expansion’ thereby spending more funds on the activity at the cost of other components.*

(Paragraph: 1.1.9.1)

- *The account of the excess vegetable seed costing ₹ 93 lakh procured and issued to the subordinate offices was not shown.*

(Paragraph: 1.1.9.2)

- *The production of fruit had increased marginally but the productivity per hectare (ha) had declined during 2005-10.*

(Paragraph: 1.1.9.6)

- *Marketing facilities had not been provided to the farmers.*

(Paragraph: 1.1.12)

- *The monitoring mechanism was non-existent.*

(Paragraphs: 1.1.17)

1.1.1 Introduction

The Government of India (GOI) approved a Centrally Sponsored Scheme (CSS) under the nomenclature ‘Technology Mission (TM) for integrated development of Horticulture’ in the State of Jammu and Kashmir in 2003-04. The goals of the Mission are to establish convergence and synergy among ongoing governmental programmes in the field of horticulture by achieving horizontal and vertical integration of these programmes so as to ensure adequate, appropriate, timely and concurrent attention to all the links in the production, post harvest management and

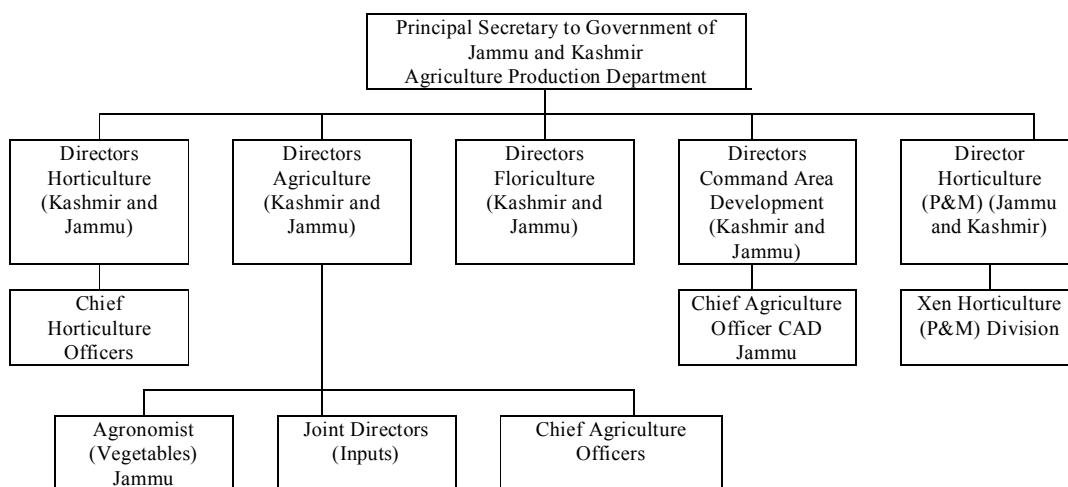
consumption chain, to maximize economic, ecological and social benefits from the existing investments and infrastructure created for horticulture development and to provide the missing links in ongoing horticulture.

The CSS, ‘Technology Mission’ is to be implemented through four mini missions (MM). The MM-I (research) and MM-IV (processing) are implemented by Indian Council for Agricultural Research (ICAR) and the Ministry of Food Processing Industries, respectively. The MM-II (production and productivity) is implemented by four¹ departments and MM-III (post harvest management, marketing and export) by the Horticulture (P&M) department.

1.1.2 Organisational set up

Activities undertaken under the programme are implemented by the various agencies mentioned in the following organisational set-up.

Chart-I



1.1.3 Scope of Audit

The audit, covering the activities undertaken in the State under TM during the period April 2005 to March 2010, was carried out during December 2009 to May 2010. Records of the administrative department, eight provincial² Directors (two each of Horticulture, Agriculture, Floriculture and Command Area Development), Director, Horticulture (Planning and Marketing), eight³ out of 20 Chief Horticulture Officers and nine⁴ out of 20 Chief Agriculture Officers were test-checked covering an expenditure of ₹ 47.88 crore constituting 57 per cent of the total expenditure of ₹ 83.89 crore.

¹ Horticulture, Agriculture, Floriculture and Command Area Development

² Kashmir and Jammu

³ Jammu, Kathua, Udhampur, Rajouri, Poonch, Anantnag, Pulwama and Baramulla

⁴ Jammu, Kathua, Udhampur, Rajouri, Srinagar, Anantnag, Baramulla, Pulwama and Budgam

1.1.4 Audit Objectives

The main audit objectives were to assess whether:

- activities were planned properly;
- financial management was efficient and effective;
- targets set under various components of the programme were achieved;
- proper linkages and coordination existed between various mini missions, and
- adequate monitoring mechanism existed to evaluate the programme.

1.1.5 Audit Criteria

Audit findings were benchmarked against the following criteria:

- Guidelines of the CSS Technology Mission.
- Annual action plans.
- General financial rules and instructions of the Government of India (GOI) issued from time to time.

1.1.6 Audit Methodology

The audit was conducted by an examination of the records of the sampled units, specified in para-3, selected on random sampling basis. An entry conference was held with the Principal Secretary to the Government of J&K, Agriculture Production Department in February 2010 wherein the scope, objectives, criteria and methodology of audit were discussed. An exit conference was also held (13 December 2010) with officials of the Department where audit findings were discussed.

Audit Findings

The important points noticed during the course of audit are discussed in the succeeding paragraphs.

1.1.7 Project Formulation and Planning

Formulation of a long term policy for development of Horticulture in the state as a whole based on its physical, material and available fiscal resources and identification of priority areas is essential for optimizing the benefits of horticulture for the state. The guidelines of the TM programme envisage use of remote sensing technology for identification of waste lands⁵ for exploitation besides water resources development, infrastructure development for harvest management and maintenance of inventory/database for management of existing orchards.

Audit observed the following in regard to Project Formulation and Planning:

- The State Government had not formulated any perspective plan for the development of horticulture in the State as a whole. Activities were, however, selected/implemented on the basis of available financial resources through Annual Action Plans (AAPs). Remote sensing technology had also not been used for

⁵ *Jhoom* not applicable in J&K.

identification or use of waste land areas for expansion to boost production of horticulture crops.

The Director Horticulture, Jammu stated (April 2009) that preliminary meetings had been held at the administrative level but the issue had not been taken up with the remote sensing agency for providing necessary data. Inaction of the department in not taking advantage of the available technology had resulted in increase in culturable waste land area from 1.41 lakh ha in 2004-05 to 1.46 lakh ha in 2007-08.

- As per the programme guidelines, the project reports/work plans/action plans are required to be prepared by experts/consultants and the work plans are required to reflect the export potential and provide detailed quantification of all the inputs and outputs. Records showed that the department had not utilized the services of experts to prepare the work plans which had instead been prepared by the department itself without any surveys and without making any assessment of the export potential or providing detailed quantification of all inputs and outputs.

The CHOs and CAOs replied that no instructions had been issued by the higher authorities on the matter.

- The guidelines also envisage conduct of baseline surveys before preparation of work plans and involvement of local self bodies such as *panchayats* and village level councils to identify beneficiaries and check misutilization of subsidy. Audit noticed that beneficiaries were identified/selected by the field staff. While beneficiaries lists were not made available in two CAOs (Udhampur, Rajouri), records of five⁶ CHOs, two CAOs⁷ and Director, Floriculture, Jammu showed that the department had not planned as to how the beneficiaries were to be identified.

Due to non-adherence to the guidelines, 228 beneficiaries of five test-checked districts had managed to avail multiple subsidies (more than once) under the same activity. It had led to misutilization of subsidy of ₹ 32 lakh during 2005-10 which could have been avoided had the department worked out a plan for identification of beneficiaries in accordance with the guidelines.

The CHOs/CAOs stated that no instructions regarding conduct of baseline surveys had been issued by the higher authorities. However, they stated that payment of subsidy to the same beneficiary for the same activity would be avoided in future.

1.1.8 Financial Management

1.1.8.1 Allotment and Expenditure

The position of funds released by the GOI, expenditure incurred thereagainst and unspent balances at the close of each year for the period from 2005-06 to 2009-10 was as under:-

⁶ Jammu, Kathua, Poonch, Rajouri and Udhampur

⁷ Jammu and Kathua

Table 1.1.1

(₹ in crore)

Year	Opening Balance	Funds released during the year	Total available funds	Expenditure incurred	Closing balance
2005-06	2.65	20.80	23.45	13.10	10.35
2006-07	10.35	12.74	23.09	16.00	7.09
2007-08	7.09	40.59	47.68	23.19	24.49
2008-09	24.49	16.23	40.72	20.18	20.54
2009-10	20.54	14.78	35.32	11.42	23.90
Total		105.14		83.89	

(Source: Departmental Records)

Out of ₹ 105.14 crore released by the GOI during 2005-10 under the programme, the department had utilized ₹ 83.89 crore only. Due to poor utilisation of funds, unspent balances at the close of the financial year had swelled from ₹ 2.65 crore in 2004-05 to ₹ 26 crore in 2009-10, (₹ 23.90 crore plus interest of ₹ 2.10 crore). Due to non-utilisation of the available funds in full the department had also lost central assistance of ₹ 50.41 crore as against the approved outlay of ₹ 155.55 crore, as the GOI released ₹ 105.14 crore only during 2005-10.

Further analysis showed that 72 per cent (₹ 60.75 crore) of the total expenditure of ₹ 83.89 crore was incurred on Horticulture, 18 per cent on Agriculture and 3 to 4 per cent on Floriculture, Command Area Development and Development of *Mandies*. More emphasis on horticulture at the expense of other related activities has resulted in non-availability of irrigation facilities, adequate marketing infrastructure and as a result intended objectives of the mission could not be achieved to full extent.

While the Directors, Horticulture and Agriculture, Jammu stated that the TM was an ongoing scheme and its funds did not lapse at the end of the financial year, the Director Horticulture (P&M) stated that the second instalment had not probably been released due to non-utilization of the released funds in full. The replies of the Directors underscore the fact that the department's inaction in utilising full funds and submission of UCs in time had adversely impacted the fund flow from the GOI.

1.1.8.2 Excess release of assistance

As per programme guidelines, the maximum assistance for area expansion of vegetable crops, where seed varieties are used should not exceed ₹ 4,000 per hectare. Records showed that against the proposal for release of assistance @ ₹ 4,000 per hectare by the Directors, Agriculture, the GOI had released the assistance at the rate of ₹ 13,000 per hectare during 2005-07 resulting in an excess release of funds to the extent of ₹ 1.87 crore.

1.1.8.3 Reporting of expenditure

As per the conditions laid down by the GOI in the sanction orders issued under the programme, the Department was required to furnish utilisation certificates (UCs) in respect of the released funds. It was seen that against ₹ 3.54 crore actually incurred during 2007-08, the Director, Horticulture, Jammu reported to the GOI that ₹ 5.90 crore had been spent under the programme in the UCs submitted by him. The unspent

balance of ₹ 2.37 crore had been deposited in the bank account of the department. This indicated that the department had misreported the facts to the GOI.

The Director while accepting the audit contention stated that ₹ 2.37 crore were booked as expenditure against the achievement made during the year 2007-08 but could not be spent due to delayed release of funds by the State Government.

1.1.8.4 Release of funds to line departments

The guidelines envisage immediate release of funds to the line department. Audit noticed that there were delays ranging between 34 to 335 days in release of funds by the Government to the Directorate during 2005-10. Reasons for delayed release of funds, though called for (June 2010), were not provided by the Government.

1.1.8.5 Diversion of funds

Records of the three Directors⁸, the Joint Director Agriculture (Input) Srinagar, the Agronomist (Vegetables), Jammu, 5 CHOs and 2 CAOs (Jammu and Kathua) showed that the programme funds of ₹ 66.25 lakh had been diverted to/utilized on unapproved⁹ activities/items in violation of the guidelines.

The CHOs stated (May 2009) that the money had been spent to monitor/increase production in the nurseries, which was not included in the AAPs. The CAO, Jammu stated (February 2010) that Air Conditioners had been purchased to provide facilities to the officers of the department who came to agriculture complex to attend review meetings, which was grossly in violation of laid down guidelines.

As a result of these diversions, the funds available for implementation of the programme was curtailed to that extent.

1.1.9 Programme implementation

Out of the total amount of ₹ 79.09¹⁰ crore spent under the programme, ₹ 34.52 crore (44 *per cent*) had been spent on area expansion, ₹ 8.01 crore (10 *per cent*) on irrigation, ₹ 1.96 crore (two *per cent*) on development of nurseries, ₹ 0.98 crore (one *per cent*) on construction of vermi compost, ₹ 14.44 crore (18 *per cent*) on rejuvenation of old orchards, ₹ 3.06 crore (four *per cent*) on development of *mandies* and ₹ 16.12 crore (20 *per cent*) on polygreen houses, etc. Audit analysis showed major gaps in implementation of programme which are discussed below:

1.1.9.1 Targets and achievements

For deriving optimum benefits out of a programme, a Department is required to take up items of work envisaged under AAPs. As per the approved outlay, the details of envisaged expenditure and actual expenditure on various components were as under:

⁸ Floriculture, Kashmir; Horticulture, Jammu; Agriculture, Jammu,

⁹ Air fare, purchase of vehicles, laptops, computers, photocopier machine, generator sets, furniture, air conditioners, POL, repair of vehicle, payment of TA bills etc.

¹⁰ Excluding Floriculture Department

Table 1.1.2

(₹.in crore)

Name of the component	Envisaged expenditure (percentage)	Actual expenditure (percentage)
Area expansion	29.67 (29)	34.52 (44)
Rejuvenation of old orchards	17.56 (17)	14.44 (18)
Irrigation	10.74 (11)	8.01 (10)
Establishment of nurseries	4.61 (5)	1.96 (2)
Establishment of Poly Green Houses	5.28 (5)	1.45 (2)
Transfer of technology	4.35 (4)	2.76 (3)
Organic farming	0.92 (1)	0.87 (1)
Agriculture equipment	19.43 (19)	8.63 (9)
Apiculture	0.75 (1)	0.60 (1)
Development of Mandies	4.22 (4)	3.06 (3)
Assistance of survival.	5.75 (6)	1.73 (2)
Vermi compost	0.84 (1)	0.98 (1)
On-farm water management	0.97 (1)	0.08 (0.08)

The comparison of envisaged expenditure *vis-a-vis* actual expenditure across components indicated that the department had laid more emphasis on area expansion/rejuvenation of old orchards while undermining other components scheduled under the programme. Against the envisaged 46 per cent, the department had actually spent 62 per cent of the funds on area expansion/rejuvenation of old orchards alone. Consequently, activities such as irrigation, establishment of polygreen houses and on-farm water management, did not get proper attention from the department resulting in shortfall in achievement of targets in various components of the programme, as detailed below.

Table 1.1.3

Component	Nomenclature of the department							
	Horticulture		Agriculture		Floriculture		Total	
	T	A	T	A	T	A	T	A (per cent)
Area expansion (In ha)	24,188	27,110	7,420	4,746	2,150	955	33,758	32,811(97)
Rejuvenation of old orchards (In ha)	15,540	14,090	-	-	-	-	15,540	14,090(91)
Irrigation (In number)	3,988	2,437	1,119	471	24	2	5,131	2,910 (57)
Establishment of nurseries (In number)	143	162	-	-	25	3	168	165 (98)
Establishment of polygreen houses (Sq. m)	4,07,300	1,35,209	2,74,244	48,512	27,325	15,981	7,08,869	1,99,702 (28)
Construction of vermin-compost (In number)	-	-	481	362	-	-	481	362 (75)
On Farm Water Management (In ha)	375	2	463	6	-	-	838	8 (1)
Transfer of technology (In number)	14,154	7,875	4,611	3,137	961	604	19,726	11,616 (59)
Agriculture equipment (In number)	32,042	8,532	4,913	3,057	220	3	37,175	11,592 (31)

Component	Nomenclature of the department							
	Horticulture		Agriculture		Floriculture		Total	
	T	A	T	A	T	A	T	A (per cent)
Organic farming (In ha)	-	-	1,340	752	-	-	1,340	752 (56)
Apiculture Development (In number)	-	-	9,973	3,170	-	-	9,973	3,170 (32)
Mushroom Development (In number)	-	-	54	30	-	-	54	30 (56)

Source: Departmental Figures

(T: Target; A: Achievement)

The table above shows that there were shortfalls in achievement of targets in respect of irrigation, establishment of polygreen houses, on-farm water management, construction of vermi-compost and organic farming. Activities like transfer of technology, agriculture equipment, Apiculture/Mushroom development; development of *mandies* etc. did not get the required attention during the period.

Though in respect of establishment of nurseries the targets were stated to have been achieved to the extent of 98 *per cent*, audit noticed that no new nursery/progeny centre were set up in five test checked districts and the entire expenditure was incurred on repairs/renovation of already established nurseries, maintenance of office buildings, etc. as discussed in paragraph 1.1.9.4.

1.1.9.2 Physical achievement not commensurate with financial progress

- Scrutiny of records of the Agronomist, Jammu, the authority to implement the activity, revealed that entire release of ₹ 2.07 crore during 2005-10 were spent on purchase of seeds, which was sufficient for coverage of 5,182 ha of land. It was, however, seen that coverage of 2,869 ha of land only had been achieved during the period. As per the guidelines, assistance of ₹ 1.15 crore only was required to cover this area. The records for the remaining seed issued by SDAOs to the farmers costing ₹ 0.93 crore were not provided. The possibility of misuse of funds cannot be ruled out.

Further, the verification of the data of 1,053 beneficiaries issued with vegetable seeds, provided by the CAOs, Jammu and Kathua, showed that the cost of seeds issued to beneficiaries was in the range of ₹ 330 to ₹ 4,125 per ha. This showed that the average rate of issue of seed of ₹ 4,000 as fixed by the GOI was sufficient to meet the requirement of the beneficiaries.

- The Director, Kashmir issued seed, organic manure and chemical fertilisers at the fixed cost of ₹ 6,000, ₹ 5,000 and ₹ 2,000 per ha, respectively to the farmers in the province thereby incurring an irregular expenditure of ₹ 1.47 crore. Had the department adhered to the programme guidelines in letter and spirit, it could have covered 4,976 ha of land under vegetable in Kashmir province alone against the 1290 ha actually covered during 2005-10.

1.1.9.3 *Distribution of vegetables seeds*

The book 'package of practices for vegetables crops' published by SKAUST Jammu has recommended the time for sowing of crops in agro-climatic zones of Jammu province.

Records of the Agronomist (Vegetables) Jammu and three CAOs¹¹ showed that 162.84 quintal of various varieties of vegetable seed valued at ₹ 42 lakh had been procured and distributed to the farmers much after the sowing periods during 2006-10. This indicated that the department had not kept the timing of sowing of vegetables in view while procuring the seeds.

The Agronomist (Vegetables) Jammu stated that sowing period of vegetable crops varies from plains to hilly areas of all the districts of the division. The reply should be viewed in the light of the fact that the department had issued eight varieties of seed valued at ₹ 29.12 lakh to the farmers after one month to five months of the actual sowing periods which could be used only in the next season much after the expiry of shelf-life of six months fixed for sowing of the seed by Agronomist, Vegetables Department of Agriculture Jammu. The impact of untimely procurement and distribution of vegetable seed to the farmers could not, however, be assessed as the department had at no point of time worked out the impact of the various programmes implemented by it.

1.1.9.4 *Performance of nurseries*

As per programme guidelines, the department was required to provide disease free, healthy plants suitable for tropical, sub-tropical and temperate climatic conditions to the growers as per their requirement to increase the existing production capacity. For this purpose, 2-3 new integrated multi-crop nurseries (envisaged capacity 5 lakh plants per year) were to be established at the State level and a few small nurseries (envisaged capacity 2 lakh plants per year) were to be established at the district level under TM.







Audit scrutiny revealed that five test-checked CHOs¹² reported to GOI that 18 new nurseries (big: 3; small: 15) and two progeny centres were established under public sector at a cost of ₹ 51 lakh during the period 2004-09. However, it was seen that no new nursery/progeny centre had been set up and the entire expenditure had been incurred on repairs/renovation of already established nurseries, maintenance of office buildings, etc.

The CHOs stated that no land was available with the department for establishment of new nurseries and progeny centres and, as such, the expenditure was incurred on maintenance of already established departmental nurseries. Thus, the information supplied to the GOI was misleading.

¹¹ Jammu, Kathua, Udhampur

¹² Jammu, Udhampur, Kathua, Poonch and Rajouri

Further, the field visit to five private nurseries established with the assistance of ₹ three lakh under the programme during 2004-10 in three test-checked CHOs¹³ revealed that these nurseries were well established and were supplying plant material to the growers as well as to the department. In contrast, the position of five nurseries, visited by audit, established at a cost of ₹ 12.66 lakh in the public sector was found to be defunct. A comparative position of the condition of the nurseries in the public and the private sectors is shown in the photographs.

Public Sector nurseries	Private Sector nurseries
	
<i>Closed Nursery at Kidmoo, Ramnagar</i>	<i>Well established B.L.Nursery, Kidmoo, Ramnagar</i>
	
<i>Not well performing Nursery Agriculture Complex Talab Tilloo, Jammu</i>	<i>Well maintained Neelam Nursery Domana, Jammu</i>
	
<i>Not well performing Nursery at Balode, Samba</i>	<i>Well established Hill Top Nursery, Dudwara, Billowar</i>

The CAOs attributed non-functioning of these nurseries to non-release of funds for maintenance.

The performance of existing nurseries was also poor as given in the following table:-

¹³ Jammu, Udhampur, Kathua

Table 1.1.4

(In number)

District	Number of Nurseries	Annual capacity	Actual Production (in number)				
			2005-06	2006-07	2007-08	2008-09	2009-10
Udhampur **	22/8	3,00,000/ 1,59,000	39,227	32,355	57,003	23,363	26,882
Kathua	6	62,000	51,096	55,297	34,041	31,067	38,799
Jammu **	8/7	86,000/ 60,000	37,257	41,396	16,752	9,044	20,393
Rajouri @	4	74,200	47,979	43,459	47,578	29,890	35,398
Poonch	6	1,25,750	31,941	20,196	30,253	38,953	39,452
Anantnag@	9	1,00,000	39,708	54,415	88,620	50,664	22,293
Baramulla	5	1,00,000	20,988	23,548	18,330	27,867	N.A
Pulwama	5	82,800	7,824	18,863	25,881	8,804	20,104
Total (percentage)	65	9,30,750 2,19,000	2,76,020 (30)	2,89,529 (31)	3,18,458 (34)	2,19,652 (24)	2,03,321 (22)

** Due to bifurcation of the districts, number of nurseries came down from eight to seven in Jammu district from 2007-08 and from 22 to 8 in Udhampur district from 2008-09 and accordingly the annual capacity got reduced.

@ Damaged due to natural calamity.

The total annual production of 65 nurseries varied from 22 to 34 *per cent*. Since the expansion of area through new plantation depended upon the availability of quality plant material, due to the poor performance of departmental nurseries the department failed to meet the requirement of growers and was forced to purchase plants from the open market. This is evident from the fact that eight¹⁴ test-checked CHOs purchased plants worth ₹ 2.29 crore from the open market during 2005-10 for distribution to the growers, which could have been avoided had the departmental nurseries produced optimum yield.

The dismal performance of departmental nurseries can also be gauged from the fact that in 51 nurseries of six¹⁵ districts, during the period 2005-10, the success rate of the germination of seeds sown ranged between 11 and 72 *per cent* whereas in case of budding and grafting it was between 9 and 77 *per cent*.

The CHOs stated that the low production in the nurseries was due to non-availability of assured irrigation facilities, unfavourable weather conditions, lack of technical staff, depletion in soil fertility and non-receipt of adequate funds.

The reply is not tenable as funds were never a constraint, the department had failed to even utilise the available funds and the manpower position in the department was also not alarming. The main reason could be lack of assured irrigation facilities which the department has failed to address.

1.1.9.5 Survival of fruit plants

During 2004-10, in five¹⁶ test-checked CHOs survival rate of plantation was poor as tabulated below:-

¹⁴ Anantnag, Baramulla, Pulwama, Jammu, Kathua, Rajouri, Poonch and Udhampur

¹⁵ Kathua, Poonch, Udhampur, Rajouri, Pulwama and Jammu

¹⁶ Jammu, Udhampur, Kathua, Poonch and Rajouri

Table 1.1.5

Year	Fruit plants(In number)			Area (In hectares)		
	Planted	Survived	Mortality (percentage)	Covered	Existing as of March 2010	No longer under horticulture coverage due to mortality (percentage)
2004-05	2,89,422	1,03,933	1,85,489 (64)	1,766.07	678.39	1,087.68 (62)
2005-06	2,75,325	1,06,121	1,69,204 (61)	1,658.18	674.99	983.19 (59)
2006-07	4,61,382	1,89,828	2,71,554 (59)	2,804.34	1,160.66	1,643.68 (59)
2007-08	4,03,827	2,13,408	1,90,419 (47)	2,299.17	1,231.06	1,068.11 (46)
2008-09	2,26,190	1,37,794	88,396 (39)	1,338.50	839.74	498.76 (37)
2009-10	3,33,662	2,88,824	44,838 (13)	1,905.25	1,616.96	288.29 (15)
Total	19,89,808	10,39,908	9,49,900 (48)	11,771.51	6,201.80	5,569.71 (47)

Due to poor survival rate of fruit, only 6,201.80 ha (52 per cent) out of 11,771.51 ha of land brought under fruit cultivation during 2004-10 in five¹⁷ districts of Jammu Province at a cost of ₹ 13.85 crore was under horticulture as of March 2010.

The decline in the covered area was attributed by the CHOs to high mortality of plants. The reply points to the fact that the crucial pre-requisite for providing assured irrigation facilities and maintenance had not been addressed during the execution of the programme under horticulture between 2004-10. Thus, the main purpose of the programme to expand area under horticulture had got defeated and the expenditure of ₹ 6.63 crore incurred on expansion during 2004-10 had been rendered unproductive to a significant extent.

1.1.9.6 Production and productivity

Against the fruit production target of 14.40 lakh MT fixed by the department for the 10th Plan (2002-07), the production was in the vicinity of 15.03 lakh MT against 10.97 lakh MT at the beginning of the plan, which was encouraging.

The ultimate aim of the scheme, besides increasing productivity per hectare, was production of quality fruit through use of hybrid variety of seed and increased production over a period of time by way of getting more area under horticulture cover. Despite spending ₹ 60.75 crore on the sector under TM during the period 2005-10 there was only marginal increase in production of fruits.

The production and productivity per hectare area of fruit in the State during 2005-10 was as under:

¹⁷

Jammu, Udhampur, Kathua, Poonch and Rajouri

Table 1.1.6

Year	Particulars	Variety of fruit						
		Apple	Pear	Apricot	Walnut	Almond	Others	Total
2005-06	Area (In lakh ha)	1.12	0.11	0.05	0.77	0.16	0.47	2.68
	Production (In lakh MT)	11.51	0.42	0.12	1.08	0.14	0.90	14.17
	Productivity (In MT/ha)	10.27	3.81	2.40	1.40	0.87	1.91	20.66
2006-07	Area (In lakh ha)	1.19	0.11	0.05	0.81	0.16	0.50	1.80
	Production (In lakh MT)	12.22	0.43	0.13	1.15	0.15	0.95	15.03
	Productivity (In MT/ha)	10.26	3.90	2.60	1.41	0.93	1.90	21.00
2007-08	Area (In lakh ha)	1.28	0.12	0.05	0.82	0.16	0.52	2.95
	Production (In lakh MT)	13.11	0.46	0.13	1.44	0.11	1.06	16.31
	Productivity (In MT/ha)	10.24	3.83	2.60	1.75	0.68	2.03	21.13
2008-09	Area (In lakh ha)	1.34	0.12	0.05	0.85	0.17	0.55	3.08
	Production (In lakh MT)	13.33	0.47	0.14	1.49	0.12	1.36	16.91
	Productivity (In MT/ha)	9.94	3.91	2.80	1.75	0.70	2.47	21.57
2009-10	Area (In lakh ha)	1.39	0.12	0.06	0.89	0.18	0.57	3.21
	Production (In lakh MT)	13.68	0.46	0.14	1.54	0.13	0.80	16.75
	Productivity (In MT/ha)	9.84	3.83	2.33	1.73	0.72	1.40	19.85

While the production of apple had increased from 11.51 lakh MT to 13.68 lakh MT during 2005-10, the production of Pear, Apricot and Walnut had only marginally increased. The production of Almonds, however, reduced from 0.14 lakh MT in 2005-06 to 0.13 lakh MT in 2009-10.

It can be seen from the above table that during 2005-10, productivity of Pear and Walnut had increased whereas it has decreased in respect of the main fruits in the State, namely Apple, Almonds and Apricot.

The production and productivity per hectare of vegetables in the state during 2005-10 was as under:

Table 1.1.7

Activity	2005-06	2006-07	2007-08	2008-09	2009-10
Area (In '000 Ha)	52.33	56.80	28.74*	60.25	60.66
Production (in '000 MT)	921.20	1041.69	546.04	1392.01	1415.65
Productivity (In MT/Ha)	17.60	18.34	19.00	23.10	23.34

* Figures in respect of Kashmir Division not furnished by the department

It could be seen that during 2005-10 area under vegetables had increased by 0.08 lakh ha (15 per cent). Both overall production of vegetables and the productivity had recorded increase which was encouraging.

1.1.10 Subsidy

To give a boost to horticulture, subsidy under TM is provided to farmers to encourage them to take up cultivation of fruit trees for increasing production. Guidelines of the programme envisage assistance to the maximum of ₹ 22,500 per ha (75 per cent of the estimated cost of ₹ 30,000) in the ratio of 50:20:30 in the three years of operation. The assistance includes, cost of fruit plants and handling/carriage charges for establishment of one hectare orchard estimated at ₹ 5,000 for which subsidy of ₹ 2,750 is provided by the department and balance ₹ 2,250 is borne by the beneficiary.

Audit noticed that in five districts¹⁸, against the envisaged ₹ 2,750 on account of cost of fruit plants and handling/carriage charges, subsidy of ₹ 3,750 had been paid as cost of fruit plants alone to the beneficiaries during 2006-09. In addition the department had also paid the cost of carriage/handling of plants of varied amounts. This had resulted in excess payment of ₹ 62.73 lakh towards subsidies (cost of plants: ₹ 44.64 lakh; carriage/handling charges: ₹ 18.09 lakh) as detailed below:

Table 1.1.8

(₹ in lakh)

Year	Cost of plants	To be borne by Dept	Actually borne by Dept	Excess	Carriage/handling Cost	To be borne by Dept	Actually borne by Dept	Excess
2006-07	66.03	36.31	49.52	13.21	9.05	4.97	9.05	4.08
2007-08	53.64	29.50	40.23	10.73	9.33	5.13	9.33	4.20
2008-09	46.53	25.59	34.89	9.30	10.38	5.70	10.38	4.68
2009-10	56.98	31.34	42.74	11.40	11.41	6.28	11.41	5.13
Total				44.64				18.09

Scrutiny of the records of CHO, Udhampur showed that out of 810 cases, 152 beneficiaries had been provided the assistance in excess of the prescribed limit of ₹ 11,250 per ha for the first year. No such case, however, came to the notice of audit in Kashmir Division.

The reply furnished by CHOs¹⁹ was irrelevant. The fact remains that the payments were not restricted to ₹ 11,250 per ha in individual case.

The guidelines also provide that after the first instalment, the subsequent two instalments shall be paid depending upon the progress made by the beneficiary in the preceeding year(s). For any unsatisfactory performance, further funds shall not be released and funds advanced in the first year shall be recovered.

Audit noticed that survival rate of fruit plants planted in 2661.03 ha of land during 2006-09 in 47 zones of five CHOs²⁰ was below 75 per cent and did not qualify for payment of the subsequent instalments. As a result of poor performance, ₹ 3.01 crore paid to 3304 beneficiaries as the first instalment was to be recovered under the provisions of the guidelines. It was, however, seen that no recovery had been effected from the concerned beneficiaries.

The CHOs stated that there was no provision/possibility of recovery of the financial assistance provided to the beneficiaries on legal grounds. The reply was not justified as the CHOs had failed to incorporate a clause to that effect in the agreements executed with the beneficiaries to avoid legal complications/loss due to non-recovery of the assistance.

¹⁸ Jammu, Udhampur, Kathua, Poonch and Rajouri

¹⁹ Jammu, Udhampur, Kathua, Poonch and Rajouri

²⁰ Jammu, Udhampur, Kathua, Poonch and Rajouri

1.1.11 Saffron Cultivation

Apart from Apple, the State is famous for saffron cultivation. To increase its production, saffron was also brought under the ambit of the programme. The programme guidelines envisage bringing more area under saffron cultivation by providing subsidy of ₹ 13,000 per ha to the farmers to boost its production. The department (Agriculture) targeted coverage of additional 701 ha for cultivation under TM programme at a cost of ₹ 91.73 lakh during 2005-10. It was, however, seen that only 119 ha constituting just 17 *per cent* of the targeted area had been covered during the period. The reasons for huge shortfall (83 *per cent*) in achievement of targets, though called for, were not intimated. The overall production of saffron in the State had shown a jump of 22 *per cent* during the last five years.

1.1.12 Post-harvest management, marketing and export

The MM-III aims to create infrastructural facilities for post-harvest management, marketing and export. Under this mission, outlets are to be provided to the farmers for their produce.

Some of the interesting points noticed in audit are discussed below:

1.1.12.1 With a view to providing proper outlets for State's produce (vegetables and fruit), construction of 14 wholesale markets (Jammu: six; Kashmir: eight), estimated to cost at ₹ 35.70 crore, was taken up (1997-98) under NABARD loan assistance, for completion by the end of March 2000. Scrutiny of records showed that while eight wholesale markets of Kashmir province estimated to cost ₹ 20.99 crore had been completed at a cost of ₹ 21.89 crore during 2009-10 after a lapse of 10 years, the construction work of six wholesale markets of Jammu province estimated to cost ₹ 14.71 crore had been taken up for execution in 2008-09 even though the land for these markets had been acquired in 1998-99 at a cost of ₹ 2.38 crore. The Director Horticulture (P&M), J&K attributed delay in execution of construction works of these markets to non-accordance of administrative approval. Thus, non-completion/delayed completion of works had deprived the farmers of the outlets for their produce. (June 2010).

1.1.12.2 Audit noticed that the GOI had released ₹ 7.50 crore to the State Government for development of 15 wholesale markets (Jammu: seven; Kashmir: eight) during 2005-06. The department had incurred an expenditure of ₹ 3.25 crore on development of seven wholesale markets of Kashmir province during the period 2005-09. The balance funds of ₹ 4.25 crore meant for other eight wholesale markets (Jammu: seven; Kashmir: one) had been diverted by the state Government to MM-II (production) as the construction work of these markets could not be taken up as of 2008-09. It is evident that the State Government had submitted incorrect proposal for development of wholesale markets to the GOI during 2004-05. Diversion of funds for MM-III (development of Markets) to MM-II (production) is irregular. Reasons for the diversion, though called for (June 2010), were not furnished by the Government.

1.1.13 Manpower Management

1.1.13.1 Human resource development

The position of manpower availability in the department as on 31 March 2010 is tabulated below:-

Table 1.1.9

Sl. No	Designation	Kashmir		Jammu		Total	
		Sanctioned	Vacant	Sanctioned	Vacant	Sanctioned	Vacant (percentage)
1.	Gazetted	150	11	288	64	438	75 (17)
2.	Technicians	1747	264	1342	298	3089	562 (18)
3.	Subject matter specialist (SMS)	120	29	120	26	240	55 (23)
4.	HDOs/SDAOs/AEOs/AAs/JAAs**	1192	109	264	59	1456	168 (12)
5.	Gardeners/Malies	466	138	919	279	1385	417 (30)
6.	Ministerial Staff/others	2799	200	1419	279	4218	479 (11)
	Total	6474	751	4352	1005	10826	1756 (16)

**HDO: Hort. Development Officer, SDAO: Sub-divisional Agri. Officer, AEO: Agri. Extension Officer, AA: Agri Assistant and JAA: Junior Agri. Assistant

There was an overall shortage of 1756 personnel (16 per cent) in the department. The shortage of technical and ministerial staff was in the range of 12 and 30 per cent. For the development of horticulture, technical staff, viz. technicians and gardeners, are regarded as the backbone of the department. Audit observed that there was a significant shortage technician (562) and gardeners (417) in the department (March 2010). The Directors²¹ stated that the matter of filling up of the vacant posts had already been taken up with the higher authorities for appropriate action.

1.1.13.2 Appointment of agriculture graduates

To overcome the shortage of trained manpower, the GOI permitted (August 2006) the State Government to engage one agriculture graduate in each block on hire basis to assist in the implementation of the programme. Accordingly, the State Government could hire 119 agriculture graduates for as many blocks in the State. Scrutiny of records revealed that 21 candidates were engaged by the department in November 2005 in anticipation of permission of the GOI, which was irregular. It was also seen that the criteria of engaging the staff had not been followed as nine candidates engaged did not possess the required qualification provided under the guidelines.

1.1.14 Establishment of integrated mushroom unit

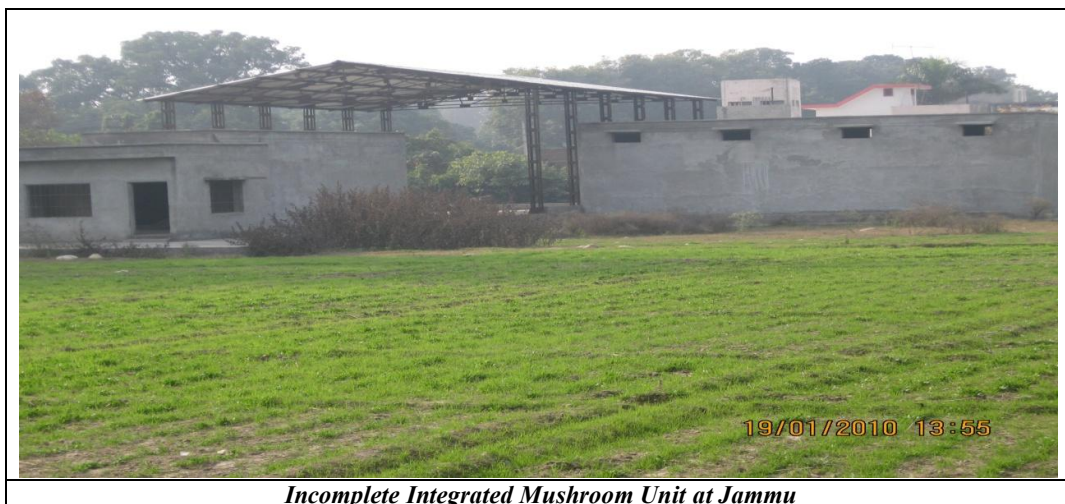
To provide compost and spawn to the mushroom growers and for processing and marketing of the produce of growers, the GOI had approved construction of integrated mushroom unit under the programme during 2004-05 for completion within 24 months. For this purpose, the GOI had released ₹ 50.00 lakh during 2004-05.

Scrutiny of records revealed that the department had retained the funds unnecessarily and released only ₹ 35.00 lakh to the Executive Engineer, Horticulture (P&M)

²¹ Director, Agriculture Jammu; Director Floriculture Jammu and Director Horticulture Jammu

Division, Jammu for execution of work during 2007-09 (₹ 20.00 lakh in 2007-08 and ₹ 15.00 lakh in 2008-09). The balance ₹ 15.00 lakh remained with the CAO Jammu as of May 2010.

Audit noticed that the Executive Engineer, Horticulture (P&M) Division, Jammu had spent ₹ 35.00 lakh on construction of compost unit, bulk pasteurisation unit, underground blower room and lecture hall and that the execution of work in respect of processing/canning unit and spawn laboratory could not be taken up due to non-release of balance funds by the department.



Unnecessary retention of funds by the department had, thus, led to stoppage of construction work rendering ₹ 35.00 lakh spent on the unit unfruitful. Further, non-completion of integrated mushroom unit had adversely impacted the mushroom development programme in the region.

The Director Agriculture, Jammu stated (June 2010) that the construction works would be started after final outcome of the discussion with the Mechanical Engineering Department and after receipt of revised proposals for mechanical and civil works. The reply is not acceptable as ₹ 15 lakh was available and was retained by the CAO, Jammu irregularly, which was a contributory factor for the delay.

1.1.15 Establishment of Plant Health Clinic

To provide support for diagnosis of diseases and also assist quality management, the GOI had approved (2007-08) establishment of a plant health clinic at Jammu at an estimated cost of ₹ 20.00 lakh during 2007-08.

Audit noticed that the Director Agriculture, Jammu released the funds in favour of the Agriculture Chemist, Jammu in March 2009 after a lapse of one year. An amount of ₹ 9.77 lakh had been incurred on construction of building and purchase of instruments till March 2010.



Non-functional Plant Health Clinic at Jammu

Scrutiny of records revealed that the plant health clinic could not be made functional due to non-purchase of equipment and other items required for the functioning of the clinic owing to non-finalization of rates by the State Purchase Committee.

In reply, the agriculture chemist, stated (May, 2010) that the clinic would be made functional within a fortnight.

1.1.16 Cash payment to beneficiaries

As per guidelines of Technology Mission, barbed wire and poles valued at ₹ 7,300 (during the period 2004-06) and ₹ 6000 (from 2006-07 onwards) was required to be provided to the beneficiaries for fencing of one ha orchard. The barbed wire and poles were required to be purchased by the department. Further, the TM guidelines prohibit cash payment to the beneficiaries.

Records showed that while Chief Horticulture Officer, Jammu, Udhampur and Kathua had procured barbed wire and poles and provided them to the beneficiaries for fencing of orchards, the CHO, Rajouri and Poonch made cash payment of ₹ 1.78 crore to 2924 beneficiaries for construction of wall of stones during the period 2005-10 in violation of programme guidelines. The CHOs stated that the construction of protection wall of stones was taken up in pursuance of the decision of District Development Board, Poonch during December 2004 and on the recommendations of Local MLA/MLC. The CHOs further stated that the payment would be made to the payees through account payee cheques in future. The reply of the department was not acceptable as the decision taken in the Board meeting had not been got approved from the fund-releasing agency.

1.1.17 Monitoring and evaluation

Under the programme guidelines, a State Level Steering Committee (SLSC) under the chairmanship of the Chief Secretary is to monitor the progress of the scheme. It was seen that meeting held during 2004-2008 had not been chaired by the Chief Secretary. No meeting had been held in 2008-2009.

The Director, Horticulture, Jammu stated (April 2009) that progress of the scheme was reviewed at the end of each planting season each year. No monitoring reports were, however, produced to audit though called for (March 2009).

As per the guidelines, external evaluation is required to be carried out through reputed firms at the end of the plan period. Audit observed that no such evaluation had been got carried out by the department at the end of the plan period 2002-07. In absence thereof, the impact of the implementation of the programme could not be ascertained. However, the State Level Evaluation Committee had started evaluation of the scheme during 2007-08; the comments thereof were awaited as of March 2010.

The Director, Horticulture, Jammu stated (April 2009) that experts from the GOI monitor the scheme at regular intervals. The reply of the Director should be viewed in the light of the fact that the guidelines provided for monitoring through an external agency which can not be substituted by monitoring conducted by the GOI.

1.1.18 Conclusions

The department had not formulated a long term Horticulture policy for the State due to which it could not plan its activities on a scientific basis. The department had neither taken an integrated approach by involving all other concerned departments in planning nor collected data from the Remote Sensing Department for identification of waste land. Utilisation of funds was not proper which had resulted in huge unspent balances at the close of the financial years and loss of assistance to the State. Funds meant for implementation of the programmes were diverted to other activities had resulted in non-achievement of the objectives. The department had laid more emphasis on area expansion thereby ignoring certain crucial activities like irrigation etc. which had adversely impacted survival of plants and consequently production. The department had failed to provide outlets to the farmers for their produce. Monitoring mechanism was virtually non-existent.

1.1.19 Recommendations

- Action plans should not be prepared in isolation but linked and prepared by dovetailing funds from different sources to adopt a holistic approach to derive optimum benefits out of the investment.
- Remote sensing technology for preparation of integrated development plans for identification of sites for expansion should be adopted.
- Assured irrigation facilities should be ensured and new water harvesting technologies adopted through co-ordination with other Government departments/agencies.
- External evaluation should be carried out to ascertain the impact of the programme.

Consumer Affairs and Public Distribution Department

1.2 Public Distribution System

The Consumer Affairs and Public Distribution Department (CAPD) is responsible for providing food security to the public in general and vulnerable sections of society in particular. The identification of beneficiaries under BPL/AAY was not completed. There was no bench mark for quality check of food grains. The storage capacity of the department was also not adequate and as per the required standards. The internal control system of the department also needs to be strengthened.

Highlights

- *Despite recommendations of PAC the accounts of the department were in arrears since 1973-74 in Jammu Division and 1974-75 in Kashmir Division.*
(Paragraph: 1.2.7)
- *In spite of the saving of ₹ 38.30 crore during 2007-09, the department failed to clear outstanding liability as a result there was outstanding interest liability of ₹66.66 crore against the Department*
(Paragraph:1.2.9)
- *The storage capacity of food grains in five districts test checked was not adequate as none of the districts could hold even one month's requirement in godowns.*
(Paragraph: 1.2.14)
- *The shortfall in sale outlets/FPs during 2007-10 ranged between 34 and 38 per cent in Jammu Division and between 21 and 28 per cent in Kashmir Division.*
(Paragraph: 1.2.15)
- *The storekeepers wrote off 399 MTs of food grains as dryage/wastage in their stock in excess of norm allowed by the Hon'ble High Court resulting in a loss of ₹54.92 lakh.*
(Paragraph1.2.16)
- *Against ₹1.11 crore allotted under Annapurna scheme during 2007-10, only ₹20 lakh had been spent and balance ₹91 lakh was surrendered.*
(Paragraph: 1.2.19.1)
- *The department had not instituted any mechanism to exercise proper control over the issue and distribution of food grains.*
(Paragraph: 1.2.22)

1.2.1 Introduction

Public Distribution System (PDS) is the system for distribution of essential commodities²² to targeted consumers (ration card holders) through Fair Price Shops (FPSs) and is a major instrument of Government's economic strategy for ensuring

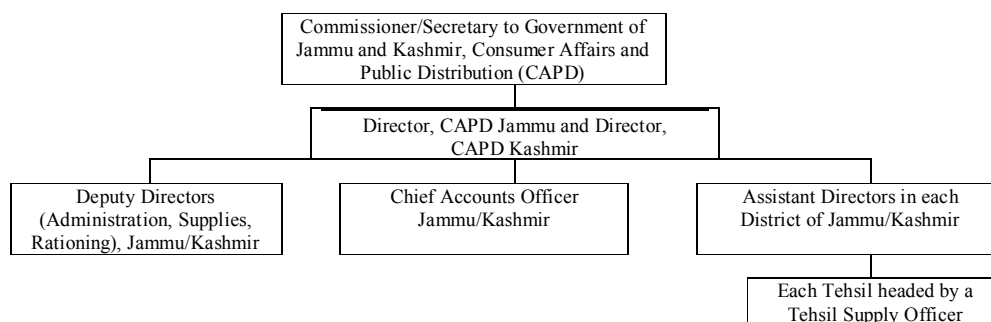
²² Rice, wheat, sugar, kerosene oil, etc.

food security for the public at large and vulnerable sections of the society, in particular. The system involves procurement, storage and distribution of foodgrain and essential commodities to ration card holders at affordable prices and is regulated under the provisions of 'Public Distribution System (Control) Order, 2001'. To strengthen PDS, Government of India introduced (February 1997) the scheme of Targeted Public Distribution System (TPDS) whereunder special cards are issued to the Below Poverty Line (BPL) families to provide them foodgrain at subsidised prices. The Consumer Affairs and Public Distribution Department (CAPD) is responsible for implementation of the PDS in the State.

1.2.2 Organisational Set up

Chart-I

The organisational chart of the Department is as under:-



1.2.3 Scope of Audit

The performance audit of the operations of the Department with regard to implementation of the PDS was reviewed in Audit from May to August 2010 and in October 2010 and is based on a test-check of records of the Directorate office at Jammu, six²³ (out of 22) Assistant Directors and 13 (out of 78) Tehsils (Tehsil Supply Officers) of the State. The review discusses the performance of the Department in procuring and distributing foodgrain, sugar and kerosene oil during 2007-10.

1.2.4 Audit Objectives

The objectives of the performance audit were to assess:

- efficacy of the system for identifying beneficiaries;
- effectiveness of the system of allocation and distribution to ensure that all people have access to prescribed quantity of foodgrain in time and at affordable rates;
- convergence of PDS with other food grain based welfare schemes; and
- effectiveness of the monitoring mechanism.

1.2.5 Audit Criteria

The audit criteria used for assessing the performance of PDS were:

²³

Jammu, Kathua, Rajouri (Jammu Division) and Anantag, Budgam and Kargil (Kashmir Division)

- Guidelines prescribed by the GOI for identification of beneficiaries.
- Provisions of the PDS (Control) Order, 2001.
- Scale of price and issue of foodgrain prescribed by GOI.
- Orders/instructions of State Government for issuance of ration cards, weeding out bogus ration cards and units, scale of rates, monitoring over the functioning of FPSs.
- Norms for payment of transportation/incidental charges of foodgrain.
- Government instructions regarding quality of foodgrain.
- Prescribed monitoring mechanism.

1.2.6 Audit Methodology

Before taking up the Performance Audit, discussions were held with the officers of the CAPD in an entry conference held on 25th May 2010 in which objectives, criteria and scope of Audit were discussed. Audit evidence was collected through an examination of the records and data maintained at Directorate, district/tehsil level, Fair Price Shops, etc., selected by simple random sampling method. An exit conference was held with Commissioner Secretary, CA&PD Department on 23 December 2010. The views of the department have been appropriately incorporated wherever relevant.

Audit Findings

The important audit findings arising out of the review are discussed in the succeeding paragraphs.

1.2.7 Non-preparation of Proforma Accounts

The Department was required to prepare Proforma Accounts immediately after the close of each financial year but not later than 1st June for certification by Audit before 30th September each year. Despite recommendations (1962 and November 2009) of the Public Accounts Committee, accounts were in arrears since 1973-74 and 1974-75 in respect of Jammu and Kashmir Divisions, respectively. Due to non-preparation of accounts, the financial position and working results of the Department could not be ascertained in Audit.

Non-preparation of the accounts meant that the objectives of using accounts as an instrument of financial control could not be effectively fulfilled by the Department, risks of fraud and embezzlement could not be ruled out with a reasonable degree of confidence, and legislative oversight of public expenditure could not be ensured.

The department stated that preparation of proforma accounts involved huge expenditure and the department intends to approach the Government to exempt preparation of the accounts or else allow preparation of accounts prospectively.

1.2.8 Identification of beneficiaries

GOI proposed (June 2001) adoption of the provisional estimates of the BPL population (BPL families: 7.36 lakh) arrived at by the Planning Commission (1993-94). Under the PDS (Control) Order, 2001, annual re-verification of BPL and AAY

families by the Department was made mandatory for the purpose of deletion of ineligible families. According to GOI guidelines, the State Government was also required to identify the BPL population in the State by involving *Gram Panchayats* and *Gram Sabhas*. Subsequently, the State Government ordered (June 2009) determination of the exact BPL population and rectification of the BPL lists prepared earlier through committees²⁴ constituted for the purpose. The Deputy Commissioners and the Tehsildars were designated as nodal authorities within their respective jurisdiction. The re-verification was to be conducted and reports were required to be submitted to the State Planning and Development Department within a period of three months from the date of issuance of the order. The State Government also ordered (October 2009) that while deleting the names of ineligible families from the existing BPL/*Antodaya Anna Yojna (AAY)*; the eligible families should be enlisted against the families deleted during the re-verification.

Audit observed that the Department had conducted annual re-verification of BPL and AAY families in three²⁵ out of six districts test-checked during 2007-10, deleted 1908 BPL and 966 AAY families and included the same number of families thereagainst to keep the number of beneficiaries within the figures conveyed by the Commission. No such re-verification had been conducted in Anantnag, Budgam and Kargil Districts. The records in two (Rajouri and Kathua) test-checked districts had, however, not been maintained to indicate the category of the beneficiaries from which inclusions were made.

It was observed during audit of six²⁶ test-checked districts that re-verification was again done in Rajouri and Kargil Districts and completed by June 2010 and April 2010, respectively. While in Rajouri district the committee had deleted 1805 BPL and 750 AAY families and included the same number of respective families thereagainst, in Kargil District, 466 BPL/AAY had been deleted and 565 families included thereagainst. Though the exercise of re-verification had been taken up in other four districts, yet it had not been completed as of June 2010.

No reasons for non-completion of verification of BPL beneficiaries in other Districts were furnished (November 2010) except by AD, Budgam who stated that due to prevailing situation in the valley, the verification process could not be completed and would be completed by November 2010. The delay in completing the re-verification process within the prescribed period resulted in the risk of passing of benefits to ineligible beneficiaries at the cost of eligible beneficiaries.

The department stated (December 2010) that the process of identification had not been completed and final list of BPL families have not been provided by Planning and Development Department.

²⁴ Committees comprises of officers of the Departments of Consumer Affairs & Public Distribution, Rural Development (In Rural Areas), Housing and Urban Development (In Urban Areas) and Department of Revenue.

²⁵ Jammu, Kathua and Rajouri.

²⁶ Jammu, Kathua, Rajouri Anantnag, Budgam and Kargil.

1.2.9 Financial Management

The details of allocation of funds for lifting of foodgrain and sugar from the FCI during 2007-10 and expenditure incurred thereagainst are as under:-

Table 1. 2.1

(₹ in crore)

Year	Allocation	Expenditure	Savings
2007-08	582.01	579.33	2.68
2008-09	622.96	587.34	35.62
2009-10*	757.50	757.50	--

* includes Allotment/Expenditure under OMSS (D)

Underutilisation of allocation during 2007-08 and 2008-09 resulted in the Department not being able to lift its full quota of foodgrain/sugar during these years as discussed in paragraph 1.2.10.

Following further significant points were also noticed.

- The State Government had agreed (May 2003) to release ₹ five crore every month to FCI for clearing the outstanding on account of credit sales of foodgrain made up to 31st August 2002 and allowed fortnightly credit for the foodgrain issued subsequently.

Audit scrutiny revealed that the outstanding had not been cleared by the Directors, CAPD, Jammu/Kashmir and the FCI had lodged (upto September 2009) a claim for ₹ 66.66 crore as interest ending August, 2009 on the outstanding credit sales of ₹ 28.57 crore. Thus, failure to clear the outstanding, despite savings of ₹ 38.30 crore during 2007-09, had resulted in avoidable interest liability of ₹ 66.66 crore.

The Department stated (December 2010) that matter of waiver of interest had been taken up with GOI.

- Under the Hill Transport Subsidy Scheme introduced (August 1975) by the GOI, States having little or no rail connectivity or poor road communication were allowed reimbursement of cost of transportation of foodgrain/sugar incurred by them from FCI depots to the declared Principal Distribution Centres (PDCs). The claims were to be lodged with the FCI within 15 days following the month in which the foodgrain were transported. It was seen that reimbursement claims amounting to ₹ 17.31 crore were either pending recovery or disallowed by the FCI, as discussed below.
 - ★ Against the reimbursement claims of ₹ 19.01 crore lodged (upto September 2009) by the Department with the FCI for transportation in Jammu Division, only ₹ 4.81 crore had been adjusted by the FCI. Of the balance, amount of ₹ 0.62 crore had been disallowed and ₹ 13.58 crore was pending settlement (June 2010).
 - ★ Similarly, against the reimbursement claims of ₹ 8.22 crore lodged (2007-10) by the Department with the FCI for transportation in Kashmir Division, only ₹ 5.11 crore had been paid by the FCI. An amount of ₹ 1.02 crore was

disallowed on the plea that the Department had not lifted the foodgrain from the depot at Kupwara and ₹ 2.09 crore was pending settlement.

The department stated (December 2010) that in view of the topography it was difficult to forward claims for Hill Transport Subsidy within the prescribed 15 days and added that delays in submission of claims would be minimised and issue of re-imburement would be taken up with FCI.

1.2.10 Allocation and lifting of food-grains

(a) Rice and Wheat

It was noticed in audit that the Department had not lifted the entire allocated quantity of foodgrain during 2007-10. As against the total allocation of 24.37 lakh MTs, the Department had actually lifted 22.90 lakh MTs of foodgrain for all categories of beneficiaries as given in the table below.

Table 1.2.2

(Figures in lakh MTs)

Year	Allocation/ Lifting						Excess (+)/Shortfall (-)					
	Wheat			Rice			Wheat			Rice		
	APL	BPL	AAAY	APL	BPL	AAAY	APL	BPL	AAAY	APL	BPL	AAAY
2007-08	1.97/ 1.87	0.50/ 0.50	0.21/ 0.21	3.17/ 2.49	1.52/ 1.51	0.85/ 0.86	- 0.10	--	--	- 0.68	- 0.01	+ 0.01
2008-09	1.70/ 1.66	0.50/ 0.52	0.21/ 0.20	3.07/ 2.95	1.50/ 1.55	0.86/ 0.91	- 0.04	+ 0.02	- 0.01	- 0.12	+ 0.05	+ 0.05
2009-10	1.70/ 1.50	0.52/ 0.51	0.22/ 0.21	3.45/ 3.08	1.55/ 1.51	0.87/ 0.86	- 0.20	- 0.01	- 0.01	- 0.37	- 0.04	- 0.01
Total	5.37/ 5.03	1.52/ 1.53	0.64 0.62	9.69/ 8.52	4.57/ 4.57	2.58/ 2.63	- 0.34	+ 0.01	- 0.02	- 1.17	-	+ 0.05

As could be seen from the above table, there was shortfall in lifting of Wheat and Rice under APL category in all years during the period 2007-10. There was marginal shortfall in lifting in some years during the period under BPL/AAAY categories. As a result of short-lifting of foodgrain, the consumers had to depend on open market to meet their requirement.

(b) Sugar

The year-wise details of allocation of sugar and lifting thereagainst during 2007-10 are as follows:

Table 1.2.3

(Figures in MTs)

Year	Allocation	Lifting	Shortfall (-)/Excess (+) (Percentage)
2007-08	82,992.00	72,400.39	(-) 10,591.61 (13)
2008-09	83,210.00	69,328.62	(-) 13,881.38 (17)
2009-10	82,892.00	69,208.00	(-) 13,684.00 (17)

Though the allocation of sugar had been made as per the requirement based on the scale prescribed by the Government, yet there was shortfall ranging between 10591.61 MTs and 13881.38 MTs (13 and 17 per cent) in lifting of sugar against the allocation made during 2007-10. Thus, consumers were deprived of the benefits available to them.

The department stated that short lifting in sugar was due to non-availability of stock with FCI.

1.2.11 Distribution of foodgrain

Lack of proper monitoring coupled with absence of clear policy with the Department affected distribution of foodgrain to the beneficiaries as given hereunder.

- Under AAY, the beneficiaries are to be provided foodgrain @ 35 kg per family per month at subsidized rates of ₹ two per kg for wheat and ₹ three per kg for rice. A target of 1,12,900 AAY families (Jammu Division: 50,600 and Kashmir Division: 62,300) was set (June/November 2001) by the GOI constituting 15.33 per cent of the 7.36 lakh BPL families (as per 1991 census) for coverage in the State. The GOI expanded the scope of the scheme to cover other sections of the society like old people, widows and displaced persons having no family or social support. A target of 26,500 families was set under 3rd expansion for coverage in Jammu Division. Accordingly, the Department identified (September 2006) additional 26,253 AAY families against 26,500 AAY families under 3rd expansion and instructions were issued to provide ration cards to the identified beneficiaries. The foodgrain had not, however, been released to the beneficiaries identified under 3rd expansion as of July, 2010.

The department stated (December 2010) that it will approach GOI to adjust allocation for BPL/AAY families so as to enable it to cover all the families identified under 3rd expansion.

- Against the admissible 15.61 lakh MTs of foodgrain due for issuance to the APL families, the Department had issued 13.75 lakh MTs of foodgrain only, resulting in less issuance of 1.86 lakh MTs. Non-issuance, as such, had the possibility of increasing the dependence of the APL beneficiaries on the open market to meet the shortage. The reasons for less issue, though called for, were not intimated.
- The State Government accorded (December 2007) sanction for distribution of free ration to 85,365 APL/BPL/AAY families in drought-hit area of Kathua District for three months commencing from January 2008 at a fixed scale of 35 kg per month (Rice: 17 Kg and Wheat: 18 Kg) per family. Scrutiny of records showed that against 8963.32 MTs due, 9303.04 MTs of foodgrain had actually been issued, thereby resulting in excess distribution of 339.72 MTs foodgrain (Cost: ₹ 18.96 lakh). The AD, Kathua did not give any cogent reason for the excess distribution.
- Audit also observed that the Department had also not prepared Utilisation Certificates (UCs) for 0.24 lakh MTs (Rice: 0.10 lakh MTs and Wheat: 0.14 lakh MTs) of foodgrain issued free of cost in four²⁷ test-checked Districts during 2009-10 for verification by the District Revenue Authority. In the absence thereof, correctness of issuance of ration free of cost could not be verified in audit. The AD, Rajouri stated that the UCs had been obtained. No such UCs

²⁷

Kathua, Rajouri, Anantnag and Budgam

were, however, shown to audit. The AD, Kathua did not reply to the audit observation. The ADs Anantnag and Budgam, however, stated (October 2010) that the concerned TSOs had been directed to obtain the UCs.

1.2.12 Availability of foodgrain at Sale Centres

The Department fixes monthly quota of foodgrain and sugar for issuance to sale centres. The quota is fixed on the basis of rationed population attached to each sale centre. Records showed a dismal position of the availability of foodgrain/sugar in the sale centres of nine tehsils in three test-checked Districts of Jammu during 2009-10 as given in the table:

Table 1.2.4

District	No. of sale centres	Total months	No. of times food-grains/sugar were not provided during the year (Percentage)						
			Wheat/Atta			Rice			Sugar
			APL	BPL	AAY	APL	BPL	AAY	
Kathua ²⁸	177	2124	253 (12)	147 (7)	265 (12)	609 (29)	599 (28)	530 (25)	362 (17)
Jammu ²⁹	414	4968	2097 (42)	852 (17)	931 (19)	2152 (43)	1010 (20)	1106 (22)	849 (17)
Rajouri ³⁰	180	2160	522 (24)	413 (19)	562 (26)	764 (35)	393 (18)	366 (17)	293 (14)

(Source: Departmental Records)

It would be seen that foodgrain/sugar were not made available at sale centres round the year for all categories of beneficiaries. Issue of inadequate foodgrain and sugar to sale centres especially BPL/AAY quota defeated the basic objective of PDS, which envisages food security to the poor. The Assistant Director, Jammu (Rural) stated (July 2010) that non-availability of foodgrain at Fair Price Shops (FPS) was due to inclusion of such FPSs in the details which were meant only for APL category. The reply should be viewed in the light of the fact that the shortage had been arrived at by Audit after due consideration of these aspects. The Assistant Director, Rajouri attributed (July 2010) the shortage to scarcity of foodgrain.

The AD, Budgam had not maintained such records. Information on the issue was awaited from AD, Kargil. Records of 15 (out of 122) FPSs in one tehsil (Anantnag) showed (October 2010) that the quantity of foodgrain and sugar requisitioned for a month were not provided and the shortfall in provision of foodgrain ranged between five and 100 per cent in Rice; 20 and 100 per cent in Atta and nine and 100 per cent for sugar in 2009-10. The AD, Anantnag stated (November 2010) that due to non-deposition of cash in time by the fair price shops for delivery of foodgrain for issuance resulted in lifting of less quantity against the due quota. The reply was unacceptable as the department should have ensured deposition of the full amount by the dealer or else appoint a new dealer.

²⁸ Kathua District includes Kathua, Hiranagar and Basohli tehsils only.

²⁹ Jammu District includes Jammu, Bishnah and R.S. Pura tehsils only.

³⁰ Rajouri District includes Rajouri, Sunderbani and Kalakote tehsils only.

The department stated (December 2010) that due to less allocation by GOI the quantity due, foodgrain could not be issued to some FPS as per their requirement.

1.2.13 Open Market Sale Scheme, Domestic

To check the inflationary trends in food economy, the GOI decided (October, 2009) to release Wheat and Rice to the State/UT Governments under 'Open Market Sale Scheme (OMSS)' on pre-payment basis as per the rates³¹ fixed by the High Level Committee of the FCI.

Against 0.45 lakh MTs of foodgrain allocated to Jammu Division, a quantity of only 0.35 lakh MTs (Rice 0.11 lakh MTs; Wheat 0.24 lakh MTs) was lifted (January/March, 2010). Audit observed that the Department, in absence of any system to evaluate inflationary trends in food economy, issued 0.11 lakh MTs food-grains lifted under OMSS upto March 2010 at APL rates, causing a subsidy burden of ₹ 5.35 crore to the State. Also, in contravention of the guidelines, the Department issued 1,503 MTs Atta instead of wheat between January 2010 and March 2010 with additional cost of ₹ 4.51 lakh as grinding charges.

The department admitted (December 2010) that broader objective of the scheme could not be achieved.

1.2.14 Storage capacity

Adequate storage capacity and proper management of the available capacity are critical for the efficient and effective functioning of a PDS. The Department had 131 godowns (Owned 56, Hired 75) as of 31st March, 2010 with storage capacity of 33,260 MTs in Jammu Division. Audit observed that on an average 29,092 MTs of foodgrain and 2,948 MTs of sugar had been lifted monthly by the Department during 2007-10 from the FCI. The storage capacity was, thus, adequate to hold the quota to meet the requirement of the Division for 31 days. In view of the fact that it was necessary for the CAPD authorities to create buffer and lift the foodgrain in advance to meet its requirements for the far-flung areas in the State, the existing infrastructure of godowns was insufficient to meet the requirements of the Division. Audit also observed that the Department had not evolved a systematic policy for forecasting and planning the storage capacity. The shortage of space not only adversely affected the efficiency of the supply chain but also led to wastage of foodgrain as brought out in subsequent paragraph (1.2.17).

The storage capacity of the five districts test-checked in audit was also not adequate and none of the districts could hold even one month's requirement in its godowns as given in the table.

³¹ Wheat: ₹ 1,109.54 per quintal and Rice: ₹ 1,614.68 per quintal.

Table 1.2.5

(Figures in MTs)

District	Storage Capacity	Average Monthly Lifting/consumption of food-grains and sugar	Storage Capacity equal to Monthly consumption
Rajouri	1850	2532.32	22 days
Kathua	2800	3086.25	27 days
Jammu (Rural)	1100	4013.03	8 days
Anantnag	1750	6525.26	8 days
Budgam	3500	4878.38	21 days

(Source: Departmental Records)

The storage capacity of these districts ranged between 8 and 27 days which is even less than one month's consumption.

Records also showed that eight departmental godowns had been occupied by Government/Private agencies for the last 25 years, but the Department had made no concrete efforts to get them vacated. The AD, Budgam stated (November 2010) that the higher authorities would be apprised of the matter. The other four ADs did not reply to the Audit observation.

Audit further noticed that the Department had taken up (2002-03) construction of three godowns at an estimated cost of ₹ 39.14 lakh (Revised Cost: ₹ 1.06 crore) under a CSS and had spent ₹ 42.64 lakh thereon. These godowns had not been completed as of August 2010 resulting in idle investment of ₹ 42.64 lakh. The DD (Planning and Statistics), Jammu stated (April 2010) that the work on the godowns was in progress and was expected to be completed in the current year.

The department stated (December 2010) that the State Government was contemplating to construct 13 more godowns (Kashmir: nine and Jammu: four). The project reports have been sent to GOI.

1.2.15 Performance of Sale Outlets/Fair Price Shops

For easy access to the sale centres for drawing foodgrain by the ration card holders, the State Government ordered (August 2003) that one FPS be opened in a particular area/locality for every 250 ration cards. For the average rationed families of 19.70 lakh in the State, there should be 7,880 FPSs as per the prescribed norms against which only 5,538 FPSs existed and the shortfall was 30 *per cent*. In Jammu Division, the shortfall in sale outlets/FPSs ranged between 34 and 38 *per cent* and in Kashmir Division between 21 and 28 *per cent* during 2007-10. Audit further noticed that establishment of Sale Outlets/FPSs among the rationed population was not only short but also uneven. It was seen that 31 to 127 FPSs catered to four to 249 beneficiaries while nine to 48 FPSs to 501 to 3,110 beneficiaries during 2007-10.

Performance of FPS, in three³² test-checked districts of Jammu and the information furnished by AD, Anantnag revealed the following:

- Under the PDS (Control) Order, 2001, the beneficiary-wise records of allotment, sale, stock, ration card registers etc. are to be maintained in Fair Price Shops (FPSs), field Offices and at Headquarters level. These registers are required to be submitted to *Gram Panchayats/Vigilance Committees/any other body or*

32

Jammu, Kathua and Rajouri.

authority, authorised by the State Government for the purpose, to ensure close monitoring of sale/distribution of essential commodities.

It was observed that these registers had not been maintained at District level although allotment registers had been maintained at the tehsil levels and receipt/issue registers at FPS's. These records were, however, not submitted for verification to any body or authority. Thus, in the absence of maintenance of proper records and authentication of existing records by the authorized persons, the accuracy and genuineness of sale and distribution of essential commodities could not be vouched in audit.

The AD, Rajouri stated that the instructions had been noted for future. The AD, Anantnag stated (November 2010) that no check was being conducted by *Gram Panchayats/Vigilance Committees*.

- Under the extant Orders, the FPSs are required to furnish monthly returns indicating opening stock, quantity received/distributed, etc. by 7th of the month following the month of allocation of foodgrain to the District authority.

It was seen that FPSs in five tehsils in three³³ test-checked Districts had not furnished the requisite return to the ADs for which no reasons were on record. However, there were delays of 10 to 17 days in submitting the returns by other two³⁴ districts. The Department, on the other hand, had been releasing food stocks to these FPSs on the basis of previous off-take statements. Lack of exercise of the prescribed controls implied that the beneficiaries could be deprived of their benefits due to leakage of foodgrain into the open market.

- The ADs were required to conduct inspection of the FPS's once in six months to ensure transparency in their functioning.

Test-check of records of five³⁵ Districts showed that inspections had not been conducted as per norm and shortfall in conduct of inspections had ranged between 13 and 96 *per cent* during 2007-10. Failure to conduct regular inspections indicated lack of monitoring and weak internal controls.

The department stated (December 2010) that necessary instructions had been issued to Assistant Directors of respective districts to implement the requirements of PDS (Control) Order 2001.

1.2.16 Charging of Dryage/Wastage

To determine the extent of dryage/wastage to be allowed to the storekeepers of the Department in Kargil and Leh Districts, a committee constituted by the Government (February 2003) recommended (February 2005) dryage/wastage of 2.5 *per cent* and 1.5 *per cent* for Kargil/Leh in respect of foodgrain and sugar, respectively. The

³³ Rajouri: 3, Anantnag: 1 and Budgam: 1 (tehsils).

³⁴ Jammu and Kathua.

³⁵ Jammu, Kathua, Rajouri, Anantnag and Budgam.

Hon'ble High Court of Jammu and Kashmir in an interim judgement (August 2007), allowed three *per cent* wastage/dryage on all stores. The Hon'ble High Court also directed (December 2007) the Director, CAPD-Kashmir to pass final order on the issue within a period of eight weeks from the date of issue of its order. The matter referred (January 2008) by the Director CAPD, Kashmir to the Administrative Department had evoked no response as of July 2010. The Storekeepers had, however, charged off 399MTs³⁶ of foodgrain/sugar as dryage/wastage in their stocks in excess of the norms allowed by the Hon'ble High Court of as tabulated below:

Table 1.2.6

(Quantity in MTs)

Year	Items	Opening stock	Receipts	Total	Dryage/Wastage charged (Percentage)	Dryage/Wastage allowed (Percentage)	Excess quantity of Dryage/Wastage	Total value of excess quantity (₹ in lakh)
2007-08	Rice	3005	5384	8389	286 (3.41)	252 (3)	34	2.12
	Atta	1056	4988	6044	233 (3.85)	181 (3)	52	2.73
	Sugar	195	750	945	27 (2.85)	14 (1.5)	13	1.76
2008-09	Rice	2731	5103	7834	320 (4)	235 (3)	85	5.31
	Atta	1183	5313	6496	260 (4)	295 (3)	65	3.41
	Sugar	150	749	899	25 (2.78)	13 (1.5)	12	1.62
2009-10	Rice	1614	7888	9502	353 (3.71)	285 (3)	68	4.25
	Atta	941	6233	7174	274 (3.81)	215 (3)	59	3.10
	Sugar	99	779	878	24 (2.73)	13 (1.5)	11	1.49
Total							399	25.79
Calculation of loss at BPL Rate w.e.f 2007-08 to 2009-10.					Rice. ₹ 625/- Atta ₹ 525/- and Sugar ₹ 1,350 Per quintal			
Recommended norms for <i>dryage</i> as per Court directions.					Rice and Atta 3 <i>per cent</i> on foodgrains and Sugar 1.5 <i>per cent</i>			

Test-check of records of Assistant Director, CAPD, Kargil showed that storekeepers had also charged off 271 kilolitres of Kerosene Oil (Cost: ₹ 29.13 lakh) as dryage/wastage during 2007-10. The reply (July 2010) of the Assistant Director, CAPD, Kargil that the dryage/wastage was charged off as per the orders of the Hon'ble court was not correct as the norms for dryage/wastage of kerosene oil were neither fixed nor stipulated by any authority and the dryage/wastage allowed were even more than those fixed by the Hon'ble court for foodgrain.

Thus, inaction on the part of the Government in general and the Department in particular has resulted in loss of ₹ 54.92 lakh to the public exchequer. Despite the fact that this aspect had been highlighted in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2007, no action had been taken in this regard indicating lack of commitment on part of the Government/Department.

1.2.17 Deteriorated/Sub-standard foodgrain

It was seen that foodgrain (14701.27 MTs) valued at ₹ 9.44 crore (worked out at BPL rates) lying at various sale outlets in Kargil district were declared (October 2009) by a committee to be sub-standard and unfit for human consumption. These stocks were required to be disposed off within three months. Audit observed that the food-grains had become sub-standard as these had been stored in *kuccha*/mud rented rooms and

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Rice: 187 MTs; Atta: 176 MTs and Sugar: 36 MTs, costing: ₹ 25.79 lakh

the Department had not taken steps to construct their own godowns. Audit also observed that 18,318.93 MTs sub-standard foodgrain valued at ₹ 11.53 crore including the stocks (3,459.74 MTs) which remained un-disposed off during 2002-03 in Kargil and (157.92 MTs) in Anantnag District during 2000-01 had not been disposed off as of July 2010.

The Assistant Director, CAPD, Kargil admitted (August 2010) the Audit contention of storing the foodgrain in *kuccha*/mud rented rooms. He further stated that disposing off the sub-standard foodgrain was in process. The AD, Anantnag stated (October 2010) that a report for disposal of the stock had been submitted to the Administrative Department.

The department stated (December 2010) that steps had been initiated to dispose off the deteriorated/sub-standard foodgrain.

1.2.18 Transportation of foodgrain/sugar

As per extant orders, all Government Departments/Undertakings are to utilise the services of truck fleet available with J&K State Road Transport Corporation (SRTC). In the event of non-availability of vehicles against the demand, SRTC is to either provide vehicles to the departments/undertakings or issue a No Objection Certificate (NOC) within seven days so that an alternate arrangement is made. The State Government also issued (August 2009) instructions that requirement of trucks be conveyed to SRTC in advance and firm number of trucks that would be made available by SRTC be taken from them. To lift and rush food in emergent situations, the Department was, however, authorised to hire trucks at rates 10 *per cent* less than those charged by SRTC.

Test-check of records of AD, Rajouri and Assistant Director (Trade & Stores), Jammu showed that the Department had spent ₹ 28.15 crore during 2007-10 on hiring of vehicles from private transporters for movement of foodgrain, etc. without obtaining NOC from SRTC. This had resulted in undue benefit to private transporters besides in denial of a commission of ₹ 2.25 crore³⁷ the SRTC would have otherwise earned had the transporters been got selected through it. Thus, the Department had followed an *ad hoc* approach and had yet to evolve a proper system in this regard.

The department stated (December 2010) that SRTC does not normally issue NOC and the engagement of private transport was necessitated to facilitate delivery of food stocks, which is time bound.

1.2.18.1 Avoidable expenditure on transportation of wheat

Audit observed that 13.56 lakh quintals of wheat received from FCI during 2007-10 were first stored in Departmental stores at Jammu and subsequently transferred to flour mills for grinding. This had resulted in avoidable expenditure of ₹ 2.46 crore on transportation of wheat for internal movement during 2007-10. The Department should have despatched wheat directly from FCI godowns to the mills. Reasons for

³⁷ Calculated at the minimum of eight *per cent* charged by the SRTC.

first storing wheat in the Departmental stores and transferring these stocks to mills thereafter were neither on record nor intimated (June 2010).

The department stated (December 2010) that the present system would be streamlined so that wheat is dispatched directly to the mills.

1.2.19 Convergence with food-grain based Welfare Schemes

1.2.19.1 Annapurna Scheme

With a view to ensuring food security to senior citizens (above 65 years of age) not covered under National Old Age Pension Scheme/State Pension Scheme and having no regular means of subsistence, 10 Kg of foodgrain (Wheat or Rice) per month is to be provided to them free of cost. In Jammu Division, 4,650 beneficiaries were identified for coverage under the scheme. It was seen that the Department had lifted foodgrain to the extent of just 35 and 60 *per cent* of the requirement during 2007-09 but no stocks had been lifted during 2009-10. Against ₹ 1.11 crore allotted under the scheme during 2007-10, only ₹ 20 lakh had been spent and the balance ₹ 91 lakh surrendered. Lifting of less quantity of foodgrain than that required coupled with surrender of funds deprived the beneficiaries of food security under the scheme. The DD (P&S), Jammu stated (July 2010) that non-allocation by the Administrative Department hindered lifting of the foodgrain.

Records of Chief Accounts Officer, Kashmir showed that the Department identified 4,772 beneficiaries against a target of 5,570 beneficiaries. It was seen that no foodgrain had been issued (June 2010) by the FCI against ₹ 35 lakh released to it by the Department during 2009-10. The non-issuance of foodgrain under the scheme had resulted in depriving the beneficiaries of food security and blocking of ₹ 35 lakh advanced to the agency.

1.2.19.2 Foodgrain to welfare institutions

The Ministry of Tribal Affairs, GOI decided (January 2001) to provide foodgrain at BPL rates to the people living in Welfare Institutions such as beggar homes, hostels for Scheduled Caste/Scheduled Tribes and Backward Classes students, *Nari Niketan*, etc. The Deputy Commissioners had to assess the requirement in the Welfare Institutions in their Districts and communicate to the FCI through the State Government about the additional allocation.

Records of the four³⁸ test-checked districts showed that no additional allocation of foodgrain for the purpose had been made with the result 3,007.63 MTs of foodgrain/sugar had been issued to various institutions during the period 2007-10 at APL rates. The welfare institutions had not been able to get foodgrain at subsidised rates envisaged under the scheme too.

The department stated (December 2010) that the District Commissioners have been instructed to verify the details of inmates living in welfare institutions and matter would be taken up with GOI for making additional allocation.

³⁸ Jammu, Kathua, Rajouri and Anantnag.

1.2.20 Disposal of empty gunny bags

Departmental instructions (February, 2007) envisage that sale of foodgrain shall be conducted along with gunny bag after charging cost thereof.

Test check of records of CAO, CAPD, Kashmir, three³⁹ District and Assistant Director (Trade & Stores) Jammu showed that 27.16 lakh empty gunny bags of different categories valuing ₹ 1.86 crore lying in various stores and sale depots ending March, 2010 had not been disposed off. The Chief Accounts Officer, CAPD, Kashmir stated (June 2010) that tenders had been floated (June 2010) for sale of empty gunny bags.

Delay in disposal and non-adherence to Departmental instructions had resulted in blockage of funds and possible deterioration in the quality of gunny bags with the passage of time leading to avoidable loss.

Accepting the audit finding the department stated (December 2010) that auction would be carried out to dispose off empty gunny bags.

1.2.21 Monitoring and Evaluation

Monitoring of the system is important to run the affairs of a Department in an effective manner. Under various orders of the Government, monitoring and evaluation mechanism has been introduced/put in place. A review thereof revealed significant weaknesses as brought out hereunder.

- The PDS (Control) Order, 2001 stipulated that future allocation of foodgrain to the States be subject to furnishing of Utilisation Certificates (UCs) to GOI by the respective States within a period of two months from the month of allocation. Audit observed that the department had not submitted UCs for the period 2007-10 so far (July, 2010) at the risk of non-allocation of foodgrain by the GOI.

The department stated (December 2010) that it would ensure timely submission of UCs

- Under the PDS (Control) Order, 2001, the Department was required to constitute Vigilance Committees at all levels to review the functioning of PDS for monitoring receipt of foodgrain at Food stores/Sale Depots and their further distribution to beneficiaries. Audit observed that out of six districts test-checked, Vigilance Committees had been constituted at Fair Price Shop level in Jammu district only. These committees were also required to hold meetings on regular basis. Vigilance Committees though constituted in Anantnag had not been made functional.

Against the minimum meetings of 1,900 to 1,944 to be conducted by the committees each year, the number of meetings held ranged between 240 and 252 during 2007-10. While the AD, Rajouri stated (July 2010) that the meeting would be convened in future, the AD, Jammu stated (July 2010) that the constitution of

³⁹

Jammu, Kathua, Rajouri

Vigilance Committees was under process. The AD, Kathua did not reply to the observation.

- To monitor the functioning of PDS at Fair Price Shops level, the State Government had allotted ₹ 18.80 lakh⁴⁰ to the Director CAPD, Jammu for computerisation. Audit observed that even after spending ₹ 16.78 lakh the modalities had not been devised (July 2010) and there was no online connectivity between the Directorate and the District offices. The DD, (P&S) CAPD, Jammu while admitting (July 2010) that MIS would help in generation of reports stated that IT department had deputed two software programmers to CAPD, Jammu for developing software. The software had not, however, been developed as of July 2010.

The department stated (December 2010) that the computerisation of PDS activities was in infancy and would be outsourced in future.

- Complaint registers had not been maintained in three⁴¹ out of the six test-checked Districts. Records maintained at the Directorate Office, however, showed that out of 104 complaints received (2008-10), 57 had been disposed off and 48 of them had remained pending as of 31st March 2010 indicating that the Department was not prompt in disposing off the complaints. The AD(G), CAPD, Jammu, however, stated (April 2010) that maximum number of complaints stands redressed by the concerned persons and final disposal would be recorded after receipt of the written report.
- It was seen (April 2010) that no action on the reports submitted by the squad constituted (August 2009) under the supervision of a Vigilance Officer to monitor the despatches/distribution of foodgrain and Kerosene Oil had been taken by the Department. Reasons for not taking action on the reports were not intimated.
- Test-check of records revealed that physical verification of food stores of Assistant Director (Trade & Stores) Jammu and three⁴² Districts of Jammu Division for the period 2007-10 had not been conducted so far (June, 2010). Non-conduct of physical verification periodically, besides being in violation of the provisions of the Financial Rules, is also fraught with the risk of shortages, frauds, misappropriations of foodgrain, etc. remaining undetected and could entail loss to Government exchequer.

1.2.22 Internal controls

The Department had not instituted any mechanism to exercise proper control over the issue and distribution of foodgrain as discussed below:

- Distinct ration cards required to be issued to APL, BPL and AAY families under the PDS (Control) Order, 2001; had been issued to the beneficiaries partially in Rajouri, Kathua and Anantnag Districts. AD, Budgam had not

⁴⁰ 2007-08: ₹ 4.80 lakh, 2008-09: ₹ 5.00 lakh and 2009-10: ₹ 9.00 lakh

⁴¹ Jammu, Kathua, Rajouri

⁴² Jammu, Kathua, Rajouri

taken any action in this regard. The process of issuance of Photo Identity Cards (distinctive) ordered (October 2008) by the Director, CAPD, Jammu to be completed by December, 2008 had not been completed as of June 2010.

The department stated (December 2010) that the issue of distinctive ration cards has been completed in Kashmir and nearing completion in Jammu Region.

- For 3,066.57 MTs of Rice, 2,814.54 MTs of wheat and 267.99 MTs of Sugar despatched by AD, Anantnag from June 2007 to March 2010, the TSO, Marwah had not submitted accounts of receipt/issue and remittance statement. Besides being a serious lapse, the possibility of misappropriation of foodgrain/cash cannot be ruled out. On this being pointed out (October 2010), the AD, Anantnag stated (October 2010) that the salary of the staff of the TSO had been withheld for the last two years and reported the matter to the higher authorities. The reply of the AD should be viewed in the light of the fact that despite non-submission of the requisite documents the AD has been despatching the monthly consignments to the TSO without fail without taking any action against the delinquent officials. This was indicative of the failure of the internal control mechanism.

- Test-check of records revealed that out of ₹ 10.01 crore (Jammu: ₹ 1.50 crore and Kashmir: ₹ 8.51 crore) outstanding (March 2010) against various Store-keepers/Salesman on account of shortages/misappropriation of foodgrain, ₹ one crore was outstanding against 27 persons who were either retired or deceased and ₹ 0.71 crore against one person whose appointment had been terminated.

Thus, due to laxity in effecting recovery of outstanding amounts, ₹ 10.01 crore had remained under unauthorised retention with the employees outside the Government account. An amount of only ₹ 0.76 crore was recovered during the review period. The percentage of recovery had ranged between nine and 15 per cent. Audit also observed that the shortages had pertained to the periods ranging between one year and 17 years. This indicated lack of monitoring and weak internal controls.

- Sale proceeds of foodgrain/sugar at Government Sale Depots and private dealers are remitted by the dealers and salesmen into Treasuries/Sub-Treasuries and a monthly consolidated remittance statement is sent by the District offices to the Chief Accounts Officer, Jammu.

Scrutiny of monthly consolidated statements of remittances furnished by the District offices and departmental off-take statements of foodgrain/sugar (2009-10)⁴³ revealed a variation of ₹ 17.63 crore. Thus, due to non-existence of a proper mechanism to reconcile the remittances made by District Offices against the off-take of foodgrain maintained in the Direction Office, possibility of misappropriation of foodgrain/cash cannot be ruled out.

⁴³

Information for the years 2007-09 were not provided.

- The Department makes advance payments to the officers/officials for making payments to FCI for purchase of foodgrain/sugar, meeting handling expenses, etc. It was observed that the Department had been making fresh advances without adjusting the previous advances. As a result, advances outstanding against various departmental officers/officials had accumulated to ₹ 493.20 crore as on 31st March, 2010. The year-wise details of outstanding advances for the period 2007-10 are given hereunder:

Table 1.2.7

(₹ in crore)

Year	Outstanding Advances at the start of the year	Advances made during the year	Total adjustable advances	Adjustments made during the year	Advances outstanding at the end of the year
2007-08	300.22	295.46	595.68	80.54	515.14
2008-09	515.14	327.11	842.25	463.32	378.93
2009-10	378.93	395.74	774.67	281.47	493.20

It can be seen from the above table that adjustment of advances during 2007-10 had ranged between 14 per cent and 55 per cent which had resulted in accumulation of outstanding advances. Audit further observed that advances had remained unadjusted for periods ranging between one year and 50 years. Non-adjustment of advances for longer periods, besides being financially improper, is also fraught with the risk of fraud/embezzlements remaining undetected. No responsibility for the lapse had been fixed by the Department (June 2010).

1.2.23 Quality Control of food-grains

PDS (Control) Order, 2001 envisages that the representatives of the Department and FCI should conduct joint inspection of stocks intended for PDS to ensure that quality of foodgrain conformed to the prescribed quality specifications. Audit noticed that there was no testing laboratory or trained manpower for conducting quality inspection of foodgrain supplied through PDS. Neither had any joint inspections been held nor any stake-wise samples lifted. The Department had, however, collected 43 samples of PDS *Atta* and got quality check conducted by the Public Analyst, Jammu during 2009-10 (April to October) The quality checking had, however, been stopped after November 2009. Viewed from the fact that the Department had issued 1.73 lakh MTs of Wheat/*Atta* at an average annually during 2007-10 through PDS in Jammu Division, conducting of quality check of the foodgrain for only seven months during the last three years, through an outside agency, indicated non-seriousness of the Department to supply quality food-grains to the consumers through PDS. In the absence of testing facilities and trained manpower, there is risk of supply of contaminated/sub-standard food-grains to the public. No such checks had, however, been conducted in Kashmir division.

The department accepted (December 2010) the fact and stated that instructions would be issued to obtain samples of foodgrain intended to be issued under PDS regularly and also conduct quality tests as required.

1.2.24 Conclusion

The PDS has failed in its objectives to evolve as a major instrument for ensuring food security to the public, especially in case of BPL. The failure is evidenced by delay in identification of BPL families, non-lifting of the allocated foodgrain in full, inadequate storage capacity, non-fixation of norms of dryage/wastage for foodgrain and kerosene oil, etc. due to which the department could not entirely cover the target groups. The benefits under PDS were also passed on to ineligible families. Inefficient Management Information System, lack of effective planning, internal controls including monitoring and inspections was also noticed. Network for distribution of foodgrain/sugar was deficient. Compilation/finalization of accounts has been in arrears for about 35 years.

1.2.25 Recommendations

- The identification of beneficiaries under BPL/AAY should be completed immediately to delete ineligible beneficiaries.
- The Department should ensure availability of foodgrain for the rationed population so that the beneficiaries could draw ration according to the fixed scale.
- The department needs to fix a benchmark for quality check and ensure that quality foodgrain are issued to the public.
- The Department should accord prioritization for acquiring adequate storage capacity.
- Steps need to be taken urgently to fix the dryage/wastage of the commodities issued under PDS.
- A strong internal control mechanism should be put in place in the Department.
- An efficient procedure for hiring of vehicles for the movement of foodgrain need to be put in place.
- There is an immediate need for establishing reliable and efficient MIS.
- Accounts in arrears should be finalised expeditiously to ensure transparency in the system.

Housing and Urban Development Department

1.3 Jammu Municipal Corporation

The Jammu Municipal Corporation (JMC) was established and declared a self-financing Body Corporate under the Jammu and Kashmir Municipal Corporation (JKMC) Act 2000. The mandate of the Corporation is to provide sanitation and public health, construction and maintenance of lanes/drains and nallahs for providing civic amenities, regulation and control of building activities and levy and collection of tax/fee in municipal areas. A review conducted on the working of the Corporation for the period 2005-10 revealed that the Corporation had failed to make itself self-reliant due to non-imposition/non-levy of sale/trade/professional taxes. Under-utilisation and diversion of funds were also areas of concern. Action to reduce, recycle or reuse municipal waste had not been taken. Works had not been taken up for execution in a planned manner and asset management system was non-existent.

Highlights

- *Shortfall in utilisation of funds ranged between 26 and 45 per cent during 2005-10 which had impacted the developmental programmes.*

(Paragraph: 1.3.8)

- *Neither had the Corporation switched-over to accrual system of accounting nor prepared the receipt and expenditure accounts*

(Paragraph: 1.3.8.3)

- *The Corporation had diverted ₹1.82 crore out of NSDP funds by utilising them on development of non-slum areas*

(Paragraph: 1.3.8.5)

- *Non-levy of tax on sale/transfer of immovable property, trade tax on notified trades/profession and non-renewal of licence fee had resulted in a loss of ₹1.44 crore to the Corporation.*

(Paragraph: 1.3. 9.1)

- *Outstanding rent had accumulated to ₹1.03 crore out of which ₹14.78 lakh had remained outstanding against 88 allottees in nine areas for the last one to nine years.*

(Paragraph:1.3. 9.3)

- *Asset management was poor and the Corporation had not maintained a record of assets. The Corporation had lost some of its assets either by inaction or to encroachments.*

(Paragraph: 1.3.14)

- *Internal control and monitoring mechanism were virtually non-existent.*

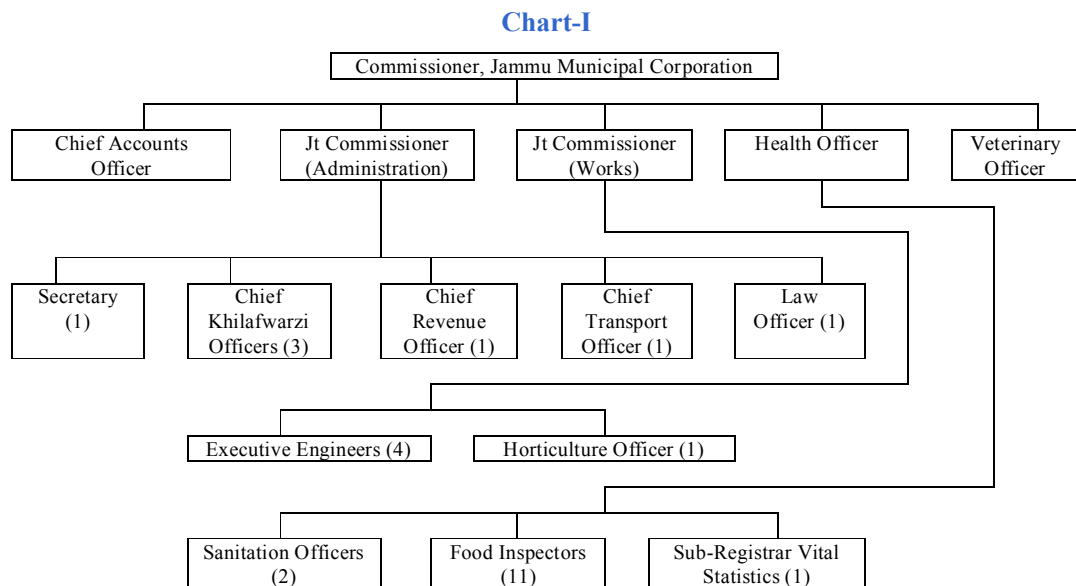
(Paragraph: 1.3.17 and 1.3.18)

1.3.1 Introduction

Jammu Municipal Corporation (JMC) was established under the Jammu and Kashmir Municipal Corporation (JKMC) Act 2000 and was declared a self-financing body corporate. The limits of JMC was extended from 32 to 112 Sq km (September 2003) with a permanent population of about 8 lakh and a floating population of 10 to 12 lakh. In February 2005, the first election of JMC was held and its term expired in March 2010. The Mayor heads the Corporation and is assisted by a Commissioner who is the executive authority. The Corporation's mandate is to provide sanitation and public health, construction and maintenance of lanes/drains and *nallahs*, regulation and control of building activities and levy and collection of tax/fee in municipal areas. Due to non-framing of Municipal Regulations, the provisions of Jammu and Kashmir State Government Rules currently in force are adopted by the Corporation.

1.3.2 Organisational set up

1.3.2.1 Executive



1.3.2.2 Governing Body

The Governing Body of the Corporation, constituted (February 2005) for a period of five years, had 71 councillors elected from territorial constituencies (wards) of the Municipal area. The first Mayor of the Corporation was elected in March 2005 and four standing committees viz., (i) General Functions Committees (for establishment matters communications, construction of buildings and roads, housing and relief against natural calamities etc.), (ii) Finance and Planning Committee (to perform functions relating to finances of the Corporation, budget, taxes, examination of receipt and expenditure statements, sale/leases of Corporation properties, recovery of loans etc), (iii) Public Health and Sanitation Committee (to perform functions relating to health, sanitation, water supply, drainage and sewage disposal) and (iv) Social Justice

Committee (to perform function relating to promotion of education, social, cultural and other interests like amelioration of SCs, STs, Backward Communities and weaker sections of the society) were constituted to perform functions relating to their defined activities. The term of the body expired in March 2010 and the elections for the new body had not been conducted (November 2010).

1.3.3 Audit Criteria

Audit Findings were benchmarked against the following criteria:

- Action plans prepared by the Corporation for implementation of the schemes
- Guidelines of the State/Central Governments for implementation of various programmes.
- Implementation of decisions taken in various committee meetings.
- Targets fixed for various activities and achievements thereof vis-a-vis the utilisation of funds.
- Plans for making the Corporation self financing.
- Municipal Solid Waste (Management and Handling) Rules 2000.

1.3.4 Scope of Audit

Review on the working of erstwhile Jammu Municipality (now Municipal Corporation) featured in Comptroller and Auditor General's Audit Report for the year 1996-97. An embezzlement of ₹ 12.71 lakh noticed during local audit of the Corporation for the period 2005-07 was commented upon in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2008. Records of different wings of the Corporation for the period 2005-10 covering an expenditure of ₹ 204.97 crore (ending March 2010) incurred on developmental activities and providing basic amenities were test-checked between September 2009 and March 2010.

1.3.5 Audit Objectives

The objectives of the performance audit were to assess whether:

- the Corporation performed the necessary functions of an Urban Local Body and provided services in an efficient and reliable manner;
- claims were raised and recoveries made effectively and that plans were formulated and implemented to make the Corporation self reliant;
- economy, efficiency and effectiveness were ensured in incurring expenditure; and
- monitoring mechanism was adequate and commensurate with the size of operations.

1.3.6 Audit Methodology

The Audit objectives, criteria and audit methodology were discussed in an entry conference held (February 2010) with the Commissioner Secretary, Housing and Urban Development Department, Jammu and Kashmir Government. Audit evidence

was collected through examination of records and data maintained by the Corporation. Results of audit were discussed with the Administrative department in an exit Conference on 10 December 2010 with Principal Secretary to Government of Jammu and Kashmir, Housing and Urban Development Department. The replies furnished to audit queries, questionnaires etc. by the Corporation have been incorporated at appropriate places.

Audit Findings

The important points noticed during the course of the performance audit are discussed in the succeeding paragraphs.

1.3.7 Survey and Planning

The principal objective of JMC is to provide basic amenities such as construction and maintenance of lanes/drains, sanitation and public health, management of waste/garbage, regulation and control of building activities and collection of fee and taxes within its Municipal areas. To fulfil its objective, JMC was required to draw up long-term development plans based on comprehensive surveys, assess existing infrastructure, project growth of the municipal area and establish a strong monitoring mechanism. It was, however, seen that the Corporation had not conducted any baseline survey to identify problem areas requiring attention, enumerate ward-wise population or draw perspective plan for achieving the objective. The deficiencies had resulted in revenue loss, unplanned execution of developmental works and other shortfalls as brought out in the succeeding paragraphs.

1.3.8 Financial Management

In addition to revenue generated through internal resources such as premia, taxes and rent of built up assets; the Corporation receives funds in the form of grant-in-aid from the State Government, GOI assistance and local assistance⁴⁴ for implementation of various schemes. The position of funds available and expenditure thereagainst as worked out from monthly accounts of the corporation during 2005-10 was as under:-

Table 1.3.1

(₹ in crore)

Year	Opening balance	Funds received			Internal Receipts	Total	Expenditure	Unspent balance	Percentage of utilisation
		State Govt	Central Assistance	Local Assistance					
2005-06	5.75	26.97	1.89	0.52	7.2	42.33	31.39	10.94	74
2006-07	10.94	33.56	1.99	0.49	6.55	53.53	37.42	16.11	70
2007-08	16.11	34.49	0.005	0.48	7.52	58.61	37.87	20.74	65
2008-09	20.74	42.36	-	0.42	6.55	70.07	38.36	31.71	55
2009-10	31.71	51.65	5.16	0.90	12.48	101.90	59.93	41.97	59

Overall percentage utilisation of available funds by the Corporation varied between 55 and 74 per cent during 2005-10. Underutilisation of funds was attributed to late receipt of funds from the Administrative Department and non-submission in time of work done estimates by the subordinate wings to the administration.

⁴⁴ MP/MLA/MLC constituency development funds

Chief Accounts Officer stated (December 2010) that shortfall in percentage of is due to the fact the grant-in-aid has increased during these years and sometimes it remains unutilised as the amount is received at the far end of the year.

Shortcomings/deficiencies in the following areas of the financial management were noticed.

1.3.8.1 Utilisation certificates

J&K Financial Rules provide that for the grants released by the Government, utilisation certificates (UCs) are to be submitted to the grant releasing authority within one year of such release. In contravention thereto, the Corporation had not furnished the UCs for ₹ 41.43 crore to the Government out of the grant/assistance of ₹ 141.27 crore released during 2005-09. In cases where UCs were furnished, there were delays between six and 19 months.

The Chief Accounts Officer (CAO) stated (October 2009) that due to receipt of grants at the fog end of the year the funds could not be utilised which delayed submission of UCs in time. CAO further stated (December 2010) that utilisation certificates would be sent in time to the concerned authorities as provided in the regulation.

Under the extant rules, release of future grants by the Government was subject to submission of the UCs. It was, however, seen that without insisting upon submission thereof, the Government had been releasing funds in the subsequent years.

1.3.8.2 Accountal of grants/assistance

Against an aggregate of ₹ 172.67 crore released by the Government during 2005-10, ₹ 161.01 crore had been accounted for in the accounts of the Corporation. Discrepancy of ₹ 11.66 crore between the two figures had neither been investigated nor reconciled.

The CAO stated (December 2010) that reconciliation of figures has been taken with Administrative Department (May 2010) and final results would be communicated.

1.3.8.3 Preparation of accounts

The Corporation was to switch over to accrual system of accounting and was required to prepare accounts (duly audited) of receipts and disbursements and balances at the close of each year and render the same to the Government. However, the Corporation had neither prepared any accounts nor switched over to the accrual system of accounting.

The Chief Accounts Officer, JMC stated (October 2009) that monthly accounts of receipt and expenditure was being prepared and forwarded to local fund audit cell. The reply highlights laxity on the part of administration as the trial balances and ledgers/journals were not maintained. In the absence of the finalised accounts, the financial position and details of assets available with the Corporation could not be ascertained in audit.

The CAO further stated (December 2010) that the process of accrual based double entry accounting system had been started for which a consultant had been appointed.

1.3.8.4 Budgeting

The Corporation was required to prepare, for the ensuing year, budget estimates and get it approved by the Government before incurring expenditure.

Audit observed that although the Corporation frames budget estimates every year, none of the budget estimates was got approved during 2005-10. Moreover, these estimates were not realistic as the expenditure exceeded the proposals by four to 60 *per cent* during 2005-10.

The CAO stated (October 2009) that the budget proposals were framed on tentative basis. The reply was not acceptable as the Corporation was required to frame the estimates realistically to avoid variations between the estimates and the expenditure.

1.3.8.5 Diversion of funds

Out of ₹ 3.45 crore available under 'National Slum Development Programme (NSDP)', a centrally sponsored scheme meant for development of slum areas, the Corporation diverted ₹ 1.82 crore for developmental works in areas other than slum areas during 2005-08.

The CAO (July 2010) stated that the works were taken up on the basis of their selection by Corporators. CAO further stated (December 2010) that JMC will soon conduct an in-depth survey of the areas so that slum areas could be identified and notified and efforts would be made to utilise the funds allocated for providing better civic amenities and improvement of infrastructure. The fact, however, remains that funds were diverted other than slum areas.

1.3.8.6 Parking of funds

An amount of ₹ 3.90 crore released (GOI: ₹ 2.15 crore, State Government: ₹ 1.75 crore) between May 2005 and March 2009 under various programmes (Implementation of Reform Measures under Urban Reforms Incentive Fund: ₹ 65 lakh; Construction of Indoor Stadium at Kanji House: ₹ 22.50 lakh; Construction of Slaughter House at Nagrota: ₹ 150 lakh- Central Share and ₹ 153 lakh- State Share) had remained unutilised and was parked under 'Deposits' as of March 2010. Audit also observed that the details of ₹ 11.70 lakh lying in treasury prior to March 2005 were not known to the Corporation. As a result of non-utilisation of the funds the beneficiaries were deprived of the intended benefits of these programmes.

The CAO stated (October 2009) that necessary efforts were being made to ascertain the factual position regarding details of ₹ 11.70 lakh. The CAO stated (June/December 2010) that steps were underway to utilise the funds.

1.3.8.7 Creation of liabilities

The High Powered Committee of Jammu Central Area Development Project had suggested (November 1992) that ways and means be found to ensure that the cost of street lighting was paid for by the public. JKMC Act 2000 also provides for charging of fee for street lighting. No action had, however, been taken in this regard and the

undercharged liability on account of electricity charges due to State Electricity department had accumulated to ₹ 20.80 crore (March 2010).

The CAO stated (December 2010) that the matter is under active consideration by the Government to work out a feasible plan of action as regards payment of billed energy by two Corporations in the State in consultation with Housing and Urban Development Department.

1.3.8.8 Miscellaneous advance

Audit scrutiny revealed that ₹ 7.00 lakh was debited (April and June 2009) to Miscellaneous Public Works Advance without availability of funds under the sub-head and continued to remain unadjusted against the EE, Central Division.

The Corporation stated that action to transfer the necessary amount to Miscellaneous Public Works Advance had been initiated by the higher authorities.

1.3.8.9 Unclaimed deposits

Audit observed that deposits of ₹ 5.11 lakh remaining unclaimed for more than three complete account years had not been credited to the revenue head of the Corporation as of March 2010 as lapsed deposit. The EE stated (April 2010) that all deposits would be reviewed and credited to 'Municipal receipts'.

1.3.8.10 Expenditure on establishment

Further, the expenditure on establishment of the Corporation had ranged between 40 and 49 per cent⁴⁵ which was higher than the prescribed limit of 33 per cent of the total expenditure of the Corporation as provided in the Municipal Act.

1.3.9 Municipal Receipts

As per JKMC Act 2000, the Corporation was to make itself a self-financing body by creating and expanding its sources for revenue earnings by devising an efficient mechanism for levy and collection of rent/taxes on different trades, professions, land/buildings, business establishments, etc. Though revenue realisation had exceeded the budget estimates by 10 to 88 per cent during 2005-10, it was not sufficient to meet the needs of the Corporation and constituted only 18 per cent of the total requirement of the Corporation for 2005-10. As such, the Corporation continued to depend on Government support.

Some significant instances of loss of revenue that were noticed in audit are discussed in the succeeding paragraphs.

1.3.9.1 Trade/Professional Tax/Licence Fee

- As per JKMC Act 2000, the Corporation was required to levy tax in the shape of duty (under the Stamp Act *Samvat* 1977) on the transfer of immovable property falling within the limits of the Corporation. This tax was to be levied at the rate of one to two per centum of the amount of consideration, value of property, or the

⁴⁵ 2005-06: ₹ 15.08 crore; 2006-07: ₹ 16.11 crore; 2007-08: ₹ 17.61 crore; 2008-09: ₹ 18.90 crore, 2009-10: ₹ 24.26 crore.

amount secured by mortgage. The provisions of the Act were not, however, adhered to by the Corporation.

Audit noticed that the total consideration of immovable property transfers executed in two out of nine sub-registrars amounted to ₹ 109.02 crore during 2005-10 on which the Corporation had failed to levy and collect the tax of ₹ 1.09 crore⁴⁶.

The CAO stated (June 2010) that levy of tax was under the active consideration of the Government. The reply should be viewed in the light of the fact that the provisions envisaged in the Act are not subject to further consideration of the Government.

- Jammu Municipality notified rates (June 1994) for levy of trade/professional tax from traders/professionals conducting business within its jurisdiction. The Corporation had no mechanism to ensure a foolproof registration of traders. It had also failed to utilise the data available with other departments involved in realisation of other taxes/duties or issuance of licences for conducting a particular trade etc. Information regarding the number of traders conducting business and liable to pay trade/professional tax was not available with the Corporation.

Audit noticed that the Corporation had collected a meagre amount of ₹ 20.81 lakh during 2005-10 as trade/profession tax from the enlisted traders. Further, tax of ₹ 1.20 crore was in arrears from these traders.

According to information collected from three⁴⁷ Government Departments, there were 389 traders who were registered with these departments and who were liable to be taxed by the Corporation. As no tax was levied on these traders, due to the inability of the Corporation to obtain the data from these departments, it had suffered a loss of ₹ 22.50 lakh during 2005-10.

- The wholesale and retail dealers engaged in the manufacture and sale of food articles were required to obtain and renew their trade licences annually on payment of prescribed fee depending on the nature of trade. Test-check of eight out of 11 trades (3,334 traders out of 7,410 traders) showed that 1,737 traders (52 *per cent*) had not got their trade licences renewed during 2005-10. The unlicensed trade activity, besides being an offence, had led to a revenue loss of ₹ 12.57 lakh.

The Corporation had no data showing ward-wise details of such trades. It had also not conducted any check to identify establishments running without valid licences, so that they could be brought under tax-net. Had the Corporation established a comprehensive database of traders in synergy with other departments, the loss on account of non-renewal/non-charging of licence fee could have been avoided.

The CAO stated (December 2010) that the JMC is taking effective steps to make collection of taxes more stringent.

⁴⁶ Calculated at the minimum rate of one *per centum*

⁴⁷ Director Tourism Jammu: 40 Hotels; Director School Education Jammu: 184 Schools; Director Health Services Jammu: 165 Health care units

1.3.9.2 Allotment of assets

- The Corporation had invited offers (March 2001) to rent out the first floor of Tawi Municipal Complex, having one hall each in basement and three floors, at minimal rental of ₹ 10 per sq ft. per month. In response, the J&K Bank offered (September 2001) to hire the first floor of the complex at ₹ 8.50 per sq ft per month for a period of 10 years with the provision of enhancement of rent at the rate of 25 *per cent* every five years. Not satisfied with the offer, the Administrator, Jammu Municipal Corporation re-invited tenders (May 2003) for all the three floors of the complex (excluding basement). The J&K Bank again requested (June 2003) for allotment of the first floor on already offered rates. Not acceding to the request of JKBL, first and third floors of the complex were leased out (July 2003) to 'Amar Ujala' on single offer basis at a lower rate of ₹ 4 per sq ft per month with the condition for revision of the rent at the rate of 15 *per cent* every 2 years. The second floor initially allotted after a delay of one year (July 2004) to another organisation was also transferred (May 2006) to 'Amar Ujala'. Reasons for not hiring the basement of the complex was not on record even though 'Amar Ujala' had shown interest to hire it (January 2006).

Thus, due to non-acceptance of the higher offer of ₹ 8.50 per sq ft by the J&K Bank, delay in allotment of second floor and non-allotment of basement of the complex the Corporation had suffered a loss of ₹ 10.53 lakh (ending March 2010).

The Corporation stated that steps would be taken to avoid such losses in future. The Corporation was, however, silent about its inaction to rent out basement.

- Six shops constructed by the Corporation near Police Station, Gandhi Nagar prior to the year 1991 were under illegal occupation. Of these, three shops were auctioned (January 1998) and rent deed was executed with the allottees (October 1998) even though the shops continued to remain under illegal occupation. The shops were finally got vacated and handed over to the allottees only after 39 months which had resulted in a loss of rent of ₹ 0.74 lakh.

No response was received for the bids called between August 2007 and April 2008, for hiring remaining three shops. This was indicative of poor site selection.

Similarly, delay in allotment of four shops at Trikuta Complex had resulted in a loss of rent of ₹ 1.06 lakh.

The Corporation stated that the revenue records of the assets were being updated so that these remain free from encroachments.

1.3.9.3 Outstanding rent

Demand and collection registers of 42 out of 83 test-checked areas (Land and Building: 27 out of 34 areas and Open Space: 15 out of 49 areas) did not show the capital cost of the assets available with the Corporation, rent/ground fee assessed, etc.

Audit noticed that outstanding rent had increased from ₹ 0.72 crore at the beginning of April 2005 to ₹ 1.03 crore at the end of March 2010. In nine test-checked areas,

₹ 14.78 lakh was outstanding against 88 allottees for the periods ranging from one to fifteen years which was indicative of the absence of an effective system of collection of rent.

The CAO stated (December 2010) that efforts are being made to collect the revenue arrears from the occupants of the Corporation assets and wherever arrears have accumulated the eviction notices had been served upon and efforts were being made to get them evicted so that the same could be re-allotted.

1.3.9.4 Outstanding charges

An amount of ₹ 21.41 lakh pertaining to 2007-10 was outstanding (March 2010) against 12 Government departments as charges for lifting of garbage.

1.3.9.5 Cost of collection of revenue

The Corporation derives major portion of its revenue from rents of remunerative assets (shops/flats) and taxes on trades and professions. The position of expenditure incurred on collection of major revenues during 2005-10 was as under:

Table 1.3.2

(₹ in crore)

Year	Revenue collected (Rent and Taxes)	Expenditure on collection	Percentage of expenditure to collection
2007-08	2.92	0.94	32
2008-09	3.56	1.00	28
2009-10	6.05	1.51	25

The percentage of expenditure on collection of revenue ranged between 25 and 32 *per cent* during 2007-10 which was high.

1.3.10 Health activities

Provisions of Prevention of Food Adulteration Act and rules made thereunder provide for frequent inspection of units dealing with manufacture, storage or sale of food articles, lifting of food samples by Food Inspector for subsequent analysis and maintenance of records of all inspections made and action taken by him in performance of his duties including seizure of stock, etc.

Audit noticed that no systematic records were maintained in respect of the inspections conducted or the premises visited by the Food Inspectors. Details furnished to audit revealed that out of 1,174 food samples lifted during 2005-10, 156 (13 *per cent*) were found adulterated. Further, decisions in respect of the prosecution initiated against 161 dealers framed for adulteration were pending (March 2010).

Further, all the 3,388 milk samples collected by Municipal Veterinary Officer (MVO) and tested at milk testing laboratory of the Corporation for milk fat and milk solids had not conformed to prescribed parameters. Instead of initiating prosecution against milk vendors/dealers whose samples were found below the prescribed parameters, the MVO merely imposed penalty on them, which was in contravention of Prevention of Food Adulteration Act.

Also, no proper mechanism had been devised by the Corporation to prevent sale of adulterated food. Details/comments offered on samples referred to Public Analyst were not made available to audit.

On this being pointed out in audit, the Corporation stated that no targets for lifting of the food articles had been fixed. The reply has to be seen in the light of the fact that the number of food samples lifted for check was too insignificant to exercise proper check over the sale/consumption of adulterated food.

1.3.11 Waste Management

As per Municipal Solid Wastes (Management and Handling) Rules, 2000, every Municipal authority, within its territorial area, is responsible for collection, storage, segregation, transportation, processing and disposal of Municipal Solid Wastes.

1.3.11.1 Collection

About 300 metric tonne Municipal waste/garbage generated daily in 71 Municipal wards is collected by the Corporation from various collection points for disposal. Scrutiny of records revealed that no proper mechanism was in place to handle and dispose off the wastes in accordance with the provisions of the Solid Waste (Management and Handling) Rules 2000 where under such wastes are to be treated scientifically so as to avoid threat to human health and surrounding environment. Waste collection schedules for different areas had to be notified as required under rules, which was not done by the Corporation.

1.3.11.2 Segregation/Storage/Transportation

Under Municipal Solid Wastes (Management and Handling) Rules 2000, the Corporation was required to establish and maintain storage facilities in such a way that these do not create unhygienic and insanitary conditions. Storage bins were to be painted green for bio-degradable, white for recyclable and black for other wastes.

Audit noticed that the Corporation had not made adequate arrangement in this regard. The wastes were being dumped either in open spaces or common bins at a few places. Most of the waste was not being put in bins provided and instead had been found dumped in open sites near public places along main road and streets. In the absence of notified time schedules for clearance, the storage bins were found over-flowing and in un-hygienic conditions. Waste was found scattered all around the bins with stray animals moving around such bins as can be seen from the photographs below.





Garbage lying scattered on road

The rules also provide for use of covered vehicles for transportation purposes as it should not be visible to public or exposed to open environment.

Audit noticed that the Corporation was not equipped with such facilities and waste was transported in uncovered vehicles.

The CAO stated (February 2010) that the vehicles were covered with tarpaulin after loading of garbage. The reply is not based on facts as is evident from the photographs taken by the audit party during the review period.



Open vehicle Garbage collection and carriage



1.3.11.3 Processing and disposal

Management of municipal solid waste requires that municipal authorities adopt suitable technologies to make use of waste to minimize the burden on landfill. Bio-degradable wastes are to be segregated and processed by composting, vermi-composting or anaerobic digestion.

Although a decision (July 2008) to set up a waste treatment plant had been taken by the Governing body of the Corporation, authorisation to set up waste processing and disposal facility units is yet to be obtained. CAO stated (December 2010) that conversion of solid waste into energy has been conceived by JMC and in this connection tenders had been invited for preparation of Detailed Project Report.

In the absence of such processing facilities, waste was being dumped in open sites which had no facilities for containment and were unmanned, with free excess to cattle and human beings.

1.3.11.4 Awareness programmes

The Corporation was required to organise awareness programmes by arranging quarterly meetings with local resident associations/non-government organisations, etc. to encourage citizens to reduce, recycle and reuse the waste material after proper segregation. Audit noticed that resident associations/non-government organisations had not been involved in any process.

1.3.11.5 Hospital/Hazardous waste

Biomedical Waste (Management and Handling) Rules 1998 envisage proper collection, treatment and disposal of hazardous wastes at authorised places by the occupier of these wastes. The Corporation had not identified hazardous waste producing units and was unable, as a result, to ensure proper collection, treatment and disposal of such wastes and prevent their adverse impact on environment and public health. Further, there was no system of handling hospital waste/garbage which was collected and disposed off by the Corporation manually.

The Corporation stated that it did not have enough funds to collect or dispose of the waste on scientific lines and that it had taken up (August 2009) the matter with the Government.

1.3.12 Developmental works

The Corporation has four divisions⁴⁸ for carrying out execution of developmental works, providing streetlights and repair/maintenance of its transport fleet.

1.3.12.1 Civil works

Most of the civil works were executed under 'Capital City Development Programme' (CCDP). Funds from Community Development Fund (CDF) and National Slum Development Programme (NSDP) were also utilised on minor developmental works. The position of targeted works under CCDP during 2005-10 was as under:

⁴⁸ Central, Trikuta, Electric and Mechanical

Table 1.3.3

Year	Targets			Achievements			Percentage achievement
	Central	Trikuta	Total	Central	Trikuta	Total	
2005-06	188	158	346	131	156	287	83
2006-07	171	307	478	102	303	405	85
2007-08	70	166	236	101	146	247	100
2008-09	92	280	372	72	216	288	77
2009-10	250	390	640	182	218	400	63

The overall achievement in targets ranged between 63 and 85 *per cent* except during 2007-08 where it was 100 *per cent*. Execution of works was based on administrative approvals and technical sanctions as required. However, audit noticed that while Central Division had taken up the works from the tentatively formulated unapproved works programme, Trikuta Division had taken up works without formulation of the works programme on the recommendation of the Councillors. The progress reports did not show the date of start/completion of each work.

Test-check of the records of Central division showed that out of 521 works (Estimated cost: ₹ 6.27 crore) identified for execution during 2005-09, 325 works of Central Division were outside the works programme on which ₹ 3.83 crore had been spent.

The Executive Engineer (EE), Central Division stated that deviation from the works programme was on the recommendations of Councillors. Such deviations had rendered framing of works programmes meaningless. There was also no evidence of monitoring by various supervisory levels.

Some of the irregularities noticed in the audit are discussed below.

1.3.12.2 Irregular payments

As per Public Works Account Code, payment of daily labour through a contractor instead of muster roll is objectionable. Audit scrutiny revealed that in contravention thereto, during 2005-10, the Corporation engaged labour through labour *mates* and paid ₹ 2.61 crore on hand receipts which were irregular *ab-initio*. Out of 3,013 works (cost: ₹ 34.27 crore) executed under CCDP, NSDP, Non-Plan and CDF, 1,226 works (41 *per cent*) of ₹ 7.21 crore were got executed through *mates*. The Executive Engineer stated that such payments would be made on muster rolls in future.

1.3.12.3 Undue financial aid to the contractor

Under Government instructions, key construction material is to be issued to contractors departmentally on cash payment. Notwithstanding the instructions material costing ₹ 3.92 crore (cement: ₹ 2.40 crore; torsteel: ₹ 1.52 crore) was issued to contractors on loan instead of on cash payment during 2005-10 thereby giving undue financial aid to the contractor. The EEs while accepting the fact stated that material was issued to Self Help Groups and petty class contractors and that the practice would be stopped.

1.3.12.4 *Street lighting*

JKMC Act 2000 envisages taking measures for lighting of all public streets/places in a suitable manner. Audit noticed that the Electric wing of the Corporation had neither formulated any plan on the basis of ward-wise survey to determine areas requiring attention nor prepared inventory of lighting points. In the absence of this, the expenditure of ₹ 7.22 crore incurred on purchase of lamps/tubes/fittings and maintenance during 2005-10 was not susceptible of audit check. The Corporation stated that the lighting was done on the recommendations of the Mayor, Councillors and on public demand. Regarding the inventory, the Corporation stated that it would be maintained in future. The CAO further stated (December 2010) that a survey was being conducted and dark spots wherever existing were being identified so that street lights could be installed there.

1.3.12.5 *Pedestrian and parking facilities*

Provision of unobstructed footpaths is the first requirement for effective foot traffic enforcement. Audit did not find any evidence of records showing total length and breadth of available footpaths on roads within the limits of JMC and action taken to remove temporary and permanent encroachments of footpaths so that it could be used by the pedestrians unobstructed. No inspection/monitoring reports were ever prepared or submitted to any authority by the anti-encroachment authorities of the Corporation which made conducting of such drives ineffective.

Parking is another key issue requiring the attention of the Corporation as the problem of parking of vehicles was escalating in an exponential manner with their rapid growth. The Corporation with an area of 112 square kilometres had only three parking lots. No study had ever been carried out by the Corporation or in collaboration with other agencies to ascertain the parking demand so that prevailing parking problems and road congestions is solved.

The Corporation stated that though drives for removal of encroachments were being conducted, they were again being raised by the shopkeepers. This was indicative of the fact that action taken by the Corporation was ineffective. Regarding creation of parking lots, the Corporation stated that steps would be taken by interacting with the Traffic department and Jammu Development Authority for conducting surveys regarding establishment of new parking lots.

1.3.12.6 *Implementation of re-arrangement schemes*

Under J&K Municipal Corporation Act 2000, the Corporation was required to frame an improvement scheme for re-arrangement and construction of the streets and buildings in respect of areas where existing buildings by reasons of non-repair, sanitary defects, poor conditions of light, ventilation, convenience were dangerous or injurious to health of inhabitants of that area. The Corporation neither conducted any survey nor framed any action plan for the approval of the Government.

1.3.13 Management of Stores and Inventory Control

Financial Rules provide that stores for public services should be procured in the most economical manner after assessing definite requirements for the year. The details of inventory⁴⁹ held by three Engineering Divisions of the Corporation were as under:

Table 1.3.4

(₹ in crore)

Year	Opening balance	Receipts	Issue	Closing balance
2005-06	1.07	4.48	4.81	0.74
2006-07	0.74	4.22	4.22	0.74
2007-08	0.74	4.26	4.39	0.61
2008-09	0.61	2.28	2.63	0.26
2009-10	0.26	11.36	8.65	2.97

From above table it can be seen that the closing inventory at the end of each year ranged between ₹ 0.26 crore and ₹ 2.97 crore⁵⁰. In the absence of any prescribed monetary stock reserve limit laid down for each division it was not possible for the Corporation to know whether inventory leads were uneconomical and locked funds could be released for other productive purposes. The CAO stated that fixing of the scale for holding the stock would be taken up with the higher authorities.

1.3.13.1 Physical verification of stores

Physical verification of stores is to be conducted at least once a year and discrepancies, if any, noticed are to be adjusted according to financial rules. Out of seven stores (Divisions:4; Others:3) physical verification was conducted in one store (2005-06) and two stores each (2006-07 and 2008-09). No verification was conducted in the remaining four stores during 2005-10. Non-conducting of the physical verification for so long is fraught with the risk of theft/loss of stores.

Shortages of stores, if any, are to be recovered immediately from the officials concerned. However, shortage of ₹ 1.78 lakh (₹ 1.03 lakh worked out by audit in May 2010 and ₹ 0.75 lakh noticed during internal verification of one division in 2005-06) was not recovered (March 2010). The Corporation stated that action under rules would be initiated for recovery of the amount from the officials concerned.

It was also noticed that cash security/personal surety required to be received from the person dealing/handling stores to safeguard the interests of the corporation had not been received. In reply, the Corporation stated that the cash security/personal surety shall be obtained in future.

1.3.13.2 Material-at-site

Material issued for utilisation on works was to be accounted for in material-at-site register so as to keep a watch over its utilisation against the estimated requirements. In Central Division, key construction material⁵¹ for ₹ 63 lakh⁵² was outstanding

⁴⁹ Cement, Bitumen, Torsteel, Electric items (10)

⁵⁰ Worked out on rates furnished by the divisions

⁵¹ Cement, Bitumen and Torsteel

against 13 Junior Engineers for periods ranging from one to three years. Trikuta Division had not maintained the register in absence of which material issued and consumed on works could not be verified in audit. The EE stated (April 2010) that instructions would be issued for early recovery/adjustment of outstanding material.

1.3.13.3 Priced store ledger

To have an effective control over store/stock balances, the quantity accounts for receipts, issues and balances at the close of each month are to be reconciled with priced store ledger (PSL) maintained in the divisional office. The accuracy of stock accounts in PSLs of two divisions⁵³ could not be confirmed in audit as these had not been valued. The EEs stated that instructions had been issued for maintenance of such records. The Electric Division had not, however, maintained the PSL.

1.3.14 Asset management

To safeguard against misuse of assets and to assess future requirements and also to provide for their periodic maintenance and repairs, the maintenance of records relating to assets is essential. The Corporation had over the years acquired fixed and other assets in the shape of land, buildings, lodges, godowns, etc. No computerised assets register showing consolidated records of assets in possession of the Corporation with details of acquisition in each case, their book value, physical status and extent to which these were utilised was in existence. The assets were never verified by the Corporation. Similarly, data showing details of municipal area under illegal occupation or encroached upon, area evicted, details of land transferred by State Government to JMC, were not available with the Corporation. No strategy to remove such encroachment by framing short/long term plans has been framed by the Corporation.

Two instances of lapse in asset management noticed in audit during the test-check of records are discussed below.

1.3.14.1 Two pieces of Municipal land measuring 3 *kanals* and 36 square yards and 3 residential quarters having a built-up area of 538 sq ft, 180 sq ft and 225 sq ft, situated at left side of River Tawi, were allotted in favour of a private-party on rent basis. The allottee, in violation of terms and conditions of the agreement sublet the area and subsequently changed the basic structure of the property by making additional constructions for commercial use as a result of which allotment in his favour was cancelled (May 1973). The Corporation, despite court directions (April 1997) did not take any action between May 1973 and May 2003 to get the encroacher evicted. In the intervening period, the encroacher managed to get the land registered/mutated in his favour.

On this being pointed out, the Chief Revenue officer stated (October 2009) that the concerned *patwari* did not pursue the eviction process and that mutation would be got

⁵² Worked out on current issue rate

⁵³ Central Division, Trikuta Division

cancelled. This state of affairs was indicative of weak internal control system prevailing at the Corporation.

1.3.14.2 JMC had constructed 12 shops at Raipur (Satwari) and issued notice for their auction in 1991. The notice was challenged in court immediately on the ground that the land actually belonged to State Irrigation Department which was held (February 2007) by the court with directions to evict unauthorised occupant and remove encroachment. Accordingly, all the 12 shops were demolished (May 2008) by the State Irrigation Department which resulted in wasteful expenditure. The loss could not be evaluated in audit due to non-availability of construction cost of the infrastructure.

1.3.15 Repairs and maintenance of vehicles

The Mechanical Division of the Corporation entrusted with the job of repairs and maintenance of transport fleet of 104 vehicles in its possession had never prepared 'annual repair demand' during 2005-10. The division was not equipped adequately with a workshop to facilitate economic and timely repairs of vehicles. The repair works for ₹ 2.54 crore were got done by the Mechanical Division of the Corporation from the open market on the basis of *dasti*⁵⁴ quotations without obtaining 'no objection certificates' from State Motor Garages (SMG) Department. No schedule for periodic maintenance including overhauling of vehicles had been framed.

The reply of the Corporation that the works were got executed through open market as the Mechanical Division was understaffed should be viewed in the light of the fact that in that case the Corporation was required to obtain the NOCs from SMG which had not been done. Regarding other points, the Corporation stated that these points would be adhered to in future.

1.3.16. Satisfaction levels

With a view of assessing public opinion on general functioning and quality of services provided by the Corporation an Audit Survey was conducted in 15 out of 71 wards of the Corporation. Survey questionnaires were issued to 1000 household by Audit through a Non-Government Organization (NGO) for obtaining their remarks.

The opinions of the general public about various activities undertaken by the Corporation are categorised as under:

Table 1.3.5

Activity	Percentage	
	Yes	No
Is there a fixed garbage collection time schedule	20	80
Are the Wards provided with bins for collection of garbage	30	70
Are the Wards provided with green yellow and black bins	2	98
Is the garbage/waste dumped on road sides/streets and open spaces/vacant residential plots	78	22
Is the garbage lifted in covered or uncovered vehicles	Uncovered 80	Covered 20
Is the garbage collected manually or mechanically	Manual 74	Mechanical 26

⁵⁴

By hand

Activity	Percentage	
	Yes	No
Do the persons associated with collection of garbage / filth wear hand gloves, masks special shoes/uniforms etc.	2	98
Do Sanitary Inspectors visit garbage collection units	20	80
Are Awareness programmes held for educating the civil society to segregate waste / garbage before dumping it in bins	0	100
Is lighting system provided in a planned manner	20	80
Are food samples lifted for adulteration test from food stores/eat points located within the ward	20	80
Is the milk sold being tested on spot	10	90
Are the encroachments removed immediately	5	95

1.3.17 Internal Control

Existence of an internal control mechanism in a department is helpful in exercising control of various activities undertaken by the department for fulfilment of its mandate. Non-existence thereof is bound to adversely affect the working of the department.

Shortcomings and lapses noticed in the internal control mechanism are discussed below.

- An amount of ₹ 0.22 lakh was drawn by the Corporation for payment to the travel agent on purchase of five tickets between April 2008 and February 2009. The amount was required to be adjusted from the adjustment bills of the officer. While making payment of the adjustment bills, the amount was again paid, resulting in drawal of the amount twice for the same purpose.

Also, in seven cases involving six officers, ₹ 0.49 lakh had been drawn and paid, between September 2005 and September 2008, to the travel agent for purchase of tickets. The adjustment TA bills which were required to be preferred within one year had not been submitted. The Corporation had not taken any action for recovery of the amount.

On this being pointed out, the Corporation stated (July 2010) that action would be taken to recover the amount after a recheck.

- ₹ 1.04 crore paid as advances to 91 officers/officials for procurement of spares and other store items are outstanding pending adjustment for period ranging from one to 15 years. Of this, ₹ 3.12 lakh was outstanding against 18 retired and ₹ 15.89 lakh against 8 transferred officials. No action was taken to recover the outstanding amount.

The Corporation stated that efforts were being made to effect recoveries from the concerned persons/officials. The reply of the Corporation should be viewed in the light of the fact that non-recovery for such a long period is bound to result in the amount becoming unrecoverable. Also, the recovery of the amount from retired officials is doubtful.

- ₹ 25.85 lakh advanced to eight private agencies by the Corporation for construction of urinals/toilets/acquisition of land, without approval of

Government/Finance Department, are pending recovery for a period of two to 15 years. Similarly, ₹ 25.99 lakh advanced for construction of lanes/drains etc. was outstanding against 17 Government agencies for similar periods. No action to recover, the outstanding amounts or to fix responsibility had been taken by the Corporation.

In reply, the Corporation stated that action to recover the amount would be initiated. However, recovery of the amount after such a long period appears doubtful.

- In accordance with Jammu and Kashmir Employees Provident Fund Act 1961, every employer shall remit General Provident Fund (GPF)/Contributory Provident Fund (CPF) collections made from its employees to the District Fund Office/Provident Fund Commissioner within 15 days of the close of every month. Scrutiny revealed that contributions recovered during a month in respect of GPF had not been remitted in full to District Fund Office; as a result, the balance retained/the amount due to be remitted by the Corporation ending March 2010 had accumulated to ₹ 25.72 lakh. However, in respect of CPF contributions, the Corporation had remitted excess amount (₹ 0.90 lakh) ending March 2010 to the Provident Fund Commissioner.

It was stated that contributions had been credited in the next month which is not correct as the balances retained by the Corporation as GPF was in the range between ₹ 14.30 lakh and ₹ 112.11 lakh where as the monthly recovery ranged between ₹ 5.63 lakh and ₹ 27.94 lakh during 2005-10.

- Audit scrutiny of cash book/drawal register revealed that totals of the cash book had never been checked by a person other than the cashier and the cash balances at the close of each month was not physically verified by the head of the office as required under rules. Drawals made from the treasury had either not been verified by the Treasury Officer at the end of each month or had been verified belatedly after delays of 45 to 301 days.
- Test check of 3 wings⁵⁵ revealed that ₹ 40.33 lakh received during 2007-09 was remitted into treasury after retention for 5 to 210 days. The Corporation had not conducted periodical reconciliation of its accounts with those of bank/treasury during 2005-09.
- Official entrusted with the job of cashier is required to furnish cash security/personal surety to the Corporation which was not obtained even after an embezzlement of ₹ 23.43 lakh in the Corporation.

The Corporation while admitting the audit observations replied that instructions would be complied with in future.

- No mechanism to conduct internal audit/inspection, checking accuracy of assessments, holding of review meetings was in existence.

1.3.18 Monitoring

The Corporation had not devised any mechanism for ensuring continuous monitoring of its wings entrusted with implementation of programmes and delivery of services by obtaining monitoring reports from executing officers. Impact of activities/services delivered was never assessed or evaluated by any internal or external agency. Citizens Charter showing time bound delivery of services and facilities provided by the Corporation or making citizens aware of their rights was never framed or displayed. Though a cell for redressal of public grievances was in existence yet the complaints received were not produced to audit to ascertain the extent to which the grievances were redressed.

1.3.19 Non-furnishing of records

The Corporation lacks focus and direction which was reflected in non-maintenance of basic records of various wings. Records of purchases, human resources, *khilafwarzi*/building sections and public grievances cell were not produced to audit despite matter having been discussed at the highest level. This indicates lack of seriousness of the Corporation in handling its mandate.

1.3.20 Conclusions

The Corporation lacks direction which is reflected in non-maintenance of basic records of assets and of daily demand and collection registers with unique identification number allotted to each tax/fee-payer in absence of which tax/fee actually due to the Corporation was not ascertainable. Non existence of internal control mechanism deprived the Corporation of an effective tool of monitoring its performance.

1.3.21 Recommendations

- Major changes are required to be brought about in regard to levy/collection of tax and fee to make the Corporation self-reliant.
- Financial management needs to be strengthened and measures taken to switch over to accrual system of accounting.
- The Corporation needs to have an effective strategy in place to bring about improvements in recovery of dues and to avoid loss.
- Development works should be taken up only after formulating plans in consultation with public representatives.
- Basic records of land and other assets should be maintained for keeping proper inventory to protect assets, avoid encroachments, and make systematic disposals.
- A time-bound plan should be drawn up for setting up waste management facilities and steps should be taken to improve waste disposal system.

CHAPTER – II

AUDIT OF TRANSACTIONS

Embezzlements/Losses/non-recovery of dues

Public Works Department (Roads and Buildings)

2.1 Wasteful expenditure on execution of foot suspension bridge

The Executive Engineer (EE), Public Works Department (R&B) Basohli commenced construction of foot-suspension bridge without obtaining administrative approval/technical sanction and finalization of structural designs and as a result, work had to be abandoned midway rendering expenditure of ₹ 26 lakh incurred on it wasteful.

The Executive Engineer (EE), Public Works Department (R&B) Basohli, took up (2001-02) construction of a 150 mtrs foot suspension bridge over Ujh Nallah at Ludhera in Billawar block of Kathua district without administrative approval (AA)/technical sanction (TS) and finalisation of the structural designs. The bridge was to provide connectivity to village Guddu Flail and its surrounding villages.

Scrutiny of records of the Division revealed (October 2009) that after incurring (February 2002) an expenditure of ₹ 2.38 lakh on construction of approach road leading to the right abutment, the work was stopped (March 2002) due to local dispute. The EE, again in anticipation of AA/TS and structural designs, restarted the construction of the foot suspension bridge at village Birdhat and an amount of ₹ 21.69 lakh was incurred by the Division on construction of right and left abutments and the right side approach road in piece-meal from 2002 upto 2005-06. However, the abutments were reportedly damaged (November 2005) due to change in the course of the river resulting in increase in the river expanse and deposition of *malba/debris* over the abutments. A fresh survey conducted (November 2005/June 2006) concluded that the change in river course had resulted in increase of the span of the proposed bridge to 260 m. Subsequently, the department proposed (October 2007) construction of a 220 m foot suspension bridge at a cost of ₹ 3.40 crore. The proposal was revised (April 2009) to construction of motorable bridge at the same site at a cost of ₹ 7.00 crore. In the meanwhile, the Division booked an amount of ₹ two lakh¹ during 2006-08 to the work.

The EE informed (March 2010) that the work for construction of the motorable bridge had been entrusted (December 2009) to Jammu and Kashmir Projects Construction Corporation Limited (JKPCC) at an estimated cost of ₹ 7.00 crore and the division was not in a position to ascertain whether already constructed right side abutment would be utilized for construction of a motorable bridge as the site plan and design were to be decided by JKPCC. However, the abutments constructed for a foot suspension bridge would not sustain the load of a motorable steel bridge which is

¹ ₹ 1.50 lakh (2006-07) on other works and ₹ 0.48 lakh (2007-08) on material for works not connected with the bridge.

evident from the fact that the Department in the revised project report had proposed new abutments.

Thus, taking up construction of the bridge without technical sanction and finalisation of structural designs, resulted in wasteful expenditure of ₹ 26 lakh. Besides, the targeted population was deprived of connectivity which would have contributed to economic upliftment of the people of the area.

The matter was referred to Government in July 2010. The Government in response thereto, endorsed (October 2010) the reply of the Chief Engineer which is based on the reply furnished by the Executive Engineer.

Power Development Department

2.2 Excess payment due to application of incorrect rates of excise duty

Failure of the department to apply correct rates of excise duty led to excess payment of ₹ 1.26 crore.

The Chief Engineer, System and Operation Wing, Power Development Department (PDD) awarded contract for construction of three 132 KV transmission lines² and three Grid Stations³ under the jurisdiction of Executive Engineer (EE), Grid Construction Division, Jammu and EE, Transmission Line, Maintenance Division-III, Udhampur to M/S K.E.C International Limited, Mumbai on turnkey basis between December 2007 and April 2008. The relevant clause governing payment for supply of material, *inter-alia*, provided for 100 *per cent* payment of admissible taxes/duties and levies, if any, on receipt of goods at site.

Scrutiny of the records of the EEs showed (January and February 2010) that while making payments for the material between August 2008 and January 2010, EEs allowed excise duty at a uniform rate of 16 *per cent* against the admissible rates of 14, 10 and eight *per cent* effective from 01 March 2008, 07 December 2008 and 24 February 2009, respectively, resulting in excess payment of ₹ 1.26 crore (i: EE, Transmission Line Maintenance Division, Udhampur: ₹ 1.01 crore ii: EE, Grid Construction Division Jammu: ₹ 25.00 lakh).

The EE Grid Construction Division, Jammu stated (January 2010) that the issue of revision of excise duty from time to time would be looked into and recovery effected from the firm. The EE Transmission Line Maintenance Division, Udhampur however, stated (February 2010) that the matter regarding recovery of excise duty paid in excess had been taken up with the higher authorities of System and Operation Wing and any progress achieved in this regard would be reported to audit. The excess payment made to the contractor had not, however, been recovered as of April 2010.

² (i) 132 KV D/C Barn-Siot-Kalakot Transmission Line alongwith LILO of one circuit at 132/33 KV Grid Station Akhnoor (ii) 132 KV D/C Ramban-Khellani-Kishtwar Transmission Line (iii) 132 KV S/C Thathri-Bhallesa Transmission Line

³ (i) 2x10 MVA, 132/33 KV Grid Station at Bhallesa (ii) 3x40 MVA, 132/33 KV Grid Station at Ramban (iii) 132/33 KV, Grid Station at Kishtwar

Thus, failure of the department to apply admissible rates of excise duty led to an excess payment of ₹ 1.26 crore.

The matter was referred to Government/Department in July 2010; reply had not been received (November 2010).

Public Health Engineering Department

2.3 Excess payment due to wrong application of rates

Due to wrong application of rates by the Public Health Engineering Department, two suppliers got excess payment of ₹ 40.33 lakh for supply of GMS tubes supplied by them.

On the demand of Kashmir-based Public Health Engineering (PHE) Divisions, the Chief Engineer (CE), PHE Department, Srinagar placed ten supply orders with six suppliers in October 2008 and March 2009 for supply of 1,856.58 MT of GMS tubes of different diameters at a cost of ₹ 10.98 crore at the lowest uniform negotiated rates inclusive of all taxes and duties.

Scrutiny of the records of the Executive Engineer (EE), Material and Procurement Division, Srinagar (consignee) revealed (September 2009) that two Delhi-based suppliers⁴, exempted from payment of Excise Duty (ED), were also allowed to supply the material at the composite rates inclusive of all taxes and duties irrespective of the fact that both the suppliers had categorically mentioned in the price bids about their firms being exempted from payment of Excise Duty. For the 820.404 MT of GMS tubes supplied by these firms, excess payment of ₹ 40.33 lakh had been made to the two excise duty exempted firms, when compared to the basic rates at which the suppliers in the fray had been paid.

The CE stated (January 2010) that rates quoted by both the suppliers were higher in most of the cases. However, in certain cases their quoted rates were lowest which were considered for negotiation with other tenderers and the uniform rates were allowed to all the suppliers on 'all told' basis. The plea of the department is not acceptable as the negotiations should have been held on the basic ex-factory rates, in which case the department would have got better prices.

Action of the department in not negotiating with the suppliers the basic (Ex-factory) rates and treating all the suppliers including those exempted from payment of Excise Duty at par with others, thus, resulted in excess payment of ₹ 40.33 lakh.

The matter was referred to the Government/Department in July 2010; reply had not been received (November 2010).

⁴ M/S H.M Steels Limited; Punjab; M/S Parshotam Industries Limited New Delhi

Idle investment/blocking of funds/unfruitful expenditure/avoidable expenditure

Health and Medical Education Department

2.4 Blocking of funds due to improper planning and denial of healthcare facility

Improper decision of Director, Health Services, Jammu to place ₹ 7.02 crore for the procurement of CT Scanners at the disposal of Jammu and Kashmir Projects Construction Corporation Limited, which has no expertise in procurement of medical equipment, resulted in blocking of funds for over two years; besides denial of much needed healthcare facility to the needy.

Director Health Services (DHS), Jammu, in March 2008, released ₹ 1.17 crore each in favour of Medical Superintendent, Gandhi Nagar Hospital, Jammu, and the Chief Medical Officers (CMOs) of five District Hospitals (Kathua, Doda, Rajouri, Udhampur and Poonch) for purchase of six CT Scanners. The release order, *inter-alia*, stipulated placement of the allotted funds at the disposal of the Jammu and Kashmir Projects Construction Corporation Limited (JKPCC) – a State owned Construction Company.

Scrutiny of the records of the CMOs, Poonch and Kathua revealed that ₹ 1.17 crore was drawn (March 2008) and placed at the disposal of JKPCC for supply of CT scanner. However, as of December 2009, JKPCC had not supplied the CT scanners. Also, CMOs, Udhampur and Doda intimated that the funds had been placed at the disposal of the JKPCC in accordance with the directions contained in the sanction order.

On this being pointed out by audit, JKPCC admitted (March 2010) that an amount totaling ₹ 7.02 crore deposited by one Medical Superintendent and five CMOs was lying with the Corporation and the same would be refunded to the DHSJ, as the Corporation did not have any technical expertise for purchase of such equipment. The reasons for instructing the CMOs for placing the money with the JKPCC, though called for (December 2009 and February/March/May 2010) from the DHSJ, were not intimated.

Thus, improper decision of the DHS Jammu to place the funds at the disposal of an agency which has no expertise in purchase of medical equipment resulted in blocking of ₹ 7.02 crore for over two years defeating the intention of the Government to provide modern/improved medical facilities to the beneficiaries at the State run medical institutions at an affordable cost. The cost of blocked funds works out to a minimum of ₹ 1.52 crore⁵ as the State Government through out the period has availed overdraft facilities to meet its expenses.

The matter was referred to the Government/Department in July 2010; reply had not been received (November 2010).

⁵ Calculated at the interest rate charged by the Jammu and Kashmir Bank on overdraft during the period April 2008 to March 2010

Revenue Department

2.5 Unfruitful expenditure on construction of residential flats at Jammu

The Custodian, Evacuees Property, Jammu constructed 30 flats by investing ₹ two crore without assessing the potential to generate income. This resulted in an unfruitful investment as the flats remained unoccupied even after a lapse of more than two years of its construction.

The Jammu & Kashmir Evacuees (Administration of Property) Act wherein the powers and duties of the Custodian (Evacuee Property) are enumerated, *inter alia*, authorizes the Custodian to improve, with the previous sanction of the Government, any evacuee property by way of erection of building including renewal, reconstruction and any addition/alteration therein. With a view to creating income generating assets for the department by leasing/renting out, the Custodian (Evacuees Property) Jammu proposed (December 2004) construction of 42 residential flats at an estimated cost of ₹ 2.16 crore, on the land measuring 21 *kanals* belonging to the department at Meen Sarkar, Tehsil Samba.

Scrutiny (January 2010) of the records of the Custodian General, Jammu showed that the construction of 30 flats was started in October 2005 in anticipation of the Administrative Approval (AA), which was accorded only in February 2008 when the construction was nearing completion. The construction was completed in June 2008 at a cost of ₹ two crore, met out of local funds of the department. The department issued advertisement notices from time to time, latest in December 2009 to lease/rent out the residential flats. The flats remained un-allotted as of January 2010 due to poor response. The poor response from the public was indicative of the fact that these flats had been constructed without assessing the demand for residential units in the area, a view endorsed (March 2009) by the Custodian General after an on-the-spot assessment of the premises.

On this being pointed out, the department stated (January 2010) that the construction works were taken up to safeguard the evacuee property which had been encroached upon by some vested interests. The reply is an after thought and is an attempt to deflect the failure of the department to correctly assess the potential for commercial exploitation of the property. The department ought to have made appropriate arrangement to secure the property and the problem of encroachment could not be overcome just by constructing the flats on the land; in fact it may attract further encroachments unless it is properly secured.

Thus, the department's action in constructing flats without ascertaining the potential to generate income has resulted in an unfruitful investment of ₹ two crore.

The matter was reported to Government/Department in August 2010; reply had not been received (November 2010).

Industries and Commerce Department

2.6 Idle expenditure due to unplanned purchase of drilling rig

Unplanned purchase of a drilling rig and its subsequent non-testing resulted in the rig not being utilised leading to an idle investment of ₹ 2.73 crore.

Based on a proposal submitted (November 2003) by the Senior Drilling Engineer of the Department, the Director, Geology and Mining, J&K placed (July 2004) a supply order for purchase of a Rotary-cum-Concentrix-cum-DTH hydraulically operated combination Drilling Rig, from M/S Revathi Equipment Limited, Coimbatore at a cost of ₹ 2.15 crore (excluding taxes, duties, freight and transit insurance etc.) after due process of tendering. The main aim of the procurement was to supplement the already existing rotary and percussion drilling rigs with one capable of performing multiple drilling jobs. The conditions of the supply order *inter-alia* included 90 per cent payment to the supplier at the time of receipt of the rig and release of the balance after live demonstration of one complete job of drilling of Tube Well to the maximum size and depth in accordance with the specification⁶ of the rig, in the presence of suppliers, at a place identified by the Department.

Scrutiny (December 2009) of the records of the Director revealed that after receipt (March 2005), the rig was put to performance tests during 2005-09 at four different sites⁷ in Kashmir valley, but the rig had not performed to the prescribed/desired capacity owing to limitations in operation in the encountered strata formations. Against the expected drilling of any strata formation⁸, combination and sequence, it was noticed that the rig did not operate in different sequences and that at one of the drilling sites⁹, the drilling had to be shelved after one of the accessories viz., ODEX bit got snapped, at 85 feet depth, from the drill string and was lost in the well. Testing of drilling rig at a site¹⁰ identified in 2006 having the requisite strata combination for full performance testing of the rig, had not been carried out as of May 2010, even after a lapse of nearly four years of its purchase. Records made available to Audit showed that issues like non-identification of a proper test site containing strata appropriate for full capacity testing of the rig, absence of information about requirement of lithology¹¹ of a particular site, delay in procurement of consumable parts/accessories such as bits, casing pipes of proper specifications, oil filters etc., required during test runs, were the main impediments in conducting the test. Though the issue of non-testing of the rig to the full capacity has been actively followed up, yet the ultimate performance testing had not been carried out as two (ODEX and

⁶ The Rig as per the specification is capable of drilling in (i) DTH Drilling : Bore hole diameter= 165-270 mm, Depth of bore hole: 275 meters (ii) ODEX drilling: Bore hole diameter= 199mm & 140 mm, Depth of bore hole: 199mm-80 meters and for 240mm-70 meters deep (iii) Mud Rotary drilling: Bore hole diameter= 250mm to 311mm, Depth of bore hole: 200 meters

⁷ Damjan Qazigund, Chowgam Qazigund, Lassipora Pulwama and Ompora Budgam.

⁸ Clay, Loam, Boulders, Boulders with sand etc

⁹ Lassipora Pulwama

¹⁰ Khrew, Pulwama.

¹¹ The microscopic study, description and classification of a rock or rock formation.

DTH) out of three (Rotary-ODEX and DTH drilling) systems were pending testing as of May 2010.

Further, there are doubts about the performance of the rig in any strata formation as is evident from the opinion expressed by the service engineer of the supplier, in the meeting held in May 2008, after examining a typical lithology of 96 meters approximately that the DTH rig could not bore in a formation of strata comprising boulders followed by clay/silt and further by boulders and so on. Except for testing, the rig had not been put for economic utilisation thereby rendering it almost idle for the last five years. The Director, Geology and Mining despite having been approached (December 2009, February/March/April/May 2010), did not offer any comment on the whole issue.

It is evident that the Department had not properly planned the purchase of the rig and its subsequent testing. As a result, the Department had not been able to derive any tangible benefits from the rig on which ₹ 2.73 crore (90 per cent of the cost of the rig paid to supplier plus taxes, duties, freight and insurance) had already incurred. In addition, a liability of ₹ 8.30 lakh on purchase of different consumables for test runs of the rig purchased from the supplier of the rig is yet to be settled. Also, the non-utilisation had resulted in loss of warranty and a considerable period of life of the machinery and equipment.

The matter was referred to the Government/Department in July 2010; reply was awaited (November 2010).

Power Development Department

2.7 Avoidable extra expenditure

Injudicious decision of Purchase Committee in resorting to fresh tendering resulted in an avoidable extra expenditure of ₹ 2.94 crore.

On the requisition of the Chief Engineer, System and Operation (CE, S&O) wing, Jammu and Srinagar, the Superintending Engineer, Electric Planning and Design Circle (SE, P&D), Jammu invited (February 2005) tenders (NIT) for supply of four 40/50MVA transformers. The terms and conditions of the NIT stipulated that the purchaser reserved the right to increase or decrease the quantities of the items at the time of placing the orders.

Scrutiny (May 2008/January 2010) of records of the CE, P&D wing, Jammu showed that by the time the tenders were received (April/May 2005), the demand for the transformers had increased to 16. The additional demand was to meet the requirements for the works undertaken under PM's Reconstruction Programme. Accordingly, on the authorisation (October 2005) of the Purchase Committee (PC), a letter of intent (LOI) was issued by the CE, P&D to M/S Bharat Heavy Electrical Limited (M/s BHEL), being the lowest tenderer, for purchase of 20 transformers which was accepted by the firm. During the deliberations, the decision to procure the entire quantity of transformers was struck down by the PC without assigning any

reasons. As a result, only four transformers were procured at a cost of ₹ 2.59 crore each, ignoring the actual requirement.

To meet the additional requirement, a fresh NIT was issued (August 2007) after a lapse of two years for purchase of seven transformers of 40/50 MVA capacity against the requirement of 16 transformers. The requirement was subsequently increased to 11 during the PC deliberations which approved purchase of 11 transformers at ₹ 3.15 crore (all inclusive) each from M/S Vijay Electrical Limited, Hyderabad. This resulted in a cost difference of ₹ 56 lakh per transformer compared to the rates approved for M/s BHEL. It was seen that out of the ordered quantity, only 10 transformers, including the one damaged during transit, had been received by the consignees. Against the due payment of ₹ 28.35 crore for nine transformers, the department had paid ₹ 26.23 crore as of January 2010. Compared to the rates on which the transformers were supplied by M/s BHEL, the department had so far (January 2010) incurred an avoidable extra expenditure of ₹ 2.94 crore which was likely to go up by a further amount of ₹ 2.10 crore after full payment for the nine transformers is made. The payment had not, however, been made by the department for defective and unsupplied transformers.

The CE, P&D wing, Jammu stated (June 2009/August 2010) that the decision to procure the entire quantity of transformers was struck down by the PC which recommended for purchase of the tendered quantity only. The reply highlights shortsightedness of the PC which was aware of the increase in requirement but did not recommend the purchase of enhanced quantity.

The matter was referred to Government in April 2010; reply had not been received (November 2010).

2.8 *Idle investment/blocking of fund on purchase of transformer*

Injudicious decision of the Chief Engineer to purchase a transformer in advance of requirement for a grid station resulted in locking up of ₹ 1.38 crore.

Financial rules provide that purchase of stores for public service should be made in accordance with definite requirement during a year and purchases in advance or in excess of requirement involving locking up of money should be avoided.

Scrutiny (September 2008) of records of the Executive Engineer (EE), Transmission Line Maintenance Division-III, Udhampur showed that the Chief Engineer (CE), Planning and Design Wing, Jammu in anticipation of start of work for construction of a 132/33 KV Grid Station at Kishtwar, placed (November 2005) an order for purchase of one 20 MVA transformer for the proposed Grid Station. The transformer costing ₹ 1.38 crore, with a warranty of 12 months from the date of commissioning or 18 months from the date of receipt, whichever was earlier, was received in February 2007. The work on construction of the Grid Station was, however, allotted only in April 2008 i.e., after more than one year of procurement of the transformer, to a firm on turnkey basis at a cost of ₹ 15.47 crore, which had not been completed as of August 2010. As such the transformer was not put to use and continued to lie idle.

The purchase of the transformer much in advance of allotment of the work, thus, apart from loss of warranty resulted in idle investment of ₹ 1.38 crore with possible deterioration of its critical components. On further enquiry (August 2010/October 2010), the EE stated that the transformer had been dispatched (July 2010) for installation at Grid Station, Ramban, which, was yet (October 2010) to be commissioned.

Thus, injudicious decision taken by the CE (November 2005) to purchase the transformer much in advance for Grid Station, Kishtwar not only resulted in idle investment of ₹ 1.38 crore for over three years but also loss of optimum operational utility of the transformer due to non-installation within the warranty period.

The matter was referred to the Government/Department in August 2010; reply had not been received (November 2010).

Public Works Department

2.9 Avoidable burden on State exchequer

Non-compliance with the instructions of the Government regarding engagement of private architect by Chief, Engineer, Public Works Department (Roads and Buildings), Srinagar for the building project of the District Court Complex, Srinagar resulted in avoidable burden of ₹ 44.12 lakh on public exchequer.

The Jammu and Kashmir Government had directed (December 1989) all its departments and corporate bodies to provide details of their building programmes to the State Architect Organisation, headed by the State Chief Architect (SCA), for preparation of architectural designs and structural drawings etc. Further, cases where engagement of private architect for prestigious projects was deemed necessary, private architect was to be hired in consultation with the SCA. The aim was to avoid unnecessary burden on public exchequer as a result of hiring of private architects. Apart from this, codal provisions require that hiring of private firms for Government projects should be hired only after undertaking competitive bidding process.

Scrutiny of the records of the Executive Engineer (EE), PWD (R&B) Project Circle Division-I, Srinagar showed (September 2009) that violating these instructions, the Chief Engineer, PWD (R&B) Department, Srinagar engaged a private architect for the for building project of the District Court Complex, Srinagar without consulting SCA and that too without following the codal formalities. The architects consultancy fee of 2.5 per cent of the total cost (₹ 74.35 crore) of the project worked out to ₹ 1.86 crore. The department had paid ₹ 44.12 lakh to the architect between March 2007 and March 2009.

The EE stated (October 2009) that the private architect was engaged with the concurrence of the Administrative authorities of the District Court, Srinagar. The reply was not based on facts as the authorities had at no stage recommended or approved hiring of a private architect. Even the Principal, District Court, Srinagar had pointed out (January 2006) that the powers to engage architects had been conferred by

the Government upon the PWD and it was exclusively the domain of the works department to settle the terms and conditions with the architect within the rules prescribed on the subject.

As the State had its own Architect Organisation headed by a SCA, for preparation of architectural designs and structural drawing etc., the non-compliance with the instructions of the Government resulted in unnecessary burden of ₹ 44.12 lakh on public exchequer so far (October 2010) and an avoidable burden of ₹ 1.42 crore that required to be liquidated as the project progress.

The matter was referred to Government/Department in June 2010. In response the Government stated (October 2010) that the decision with regard to engagement of the consultant was taken in the presence of the Hon'ble Chief Justice of a High Court in a meeting held in August 2005. The reply is not acceptable, as being the executing department, it was the responsibility of the CE to follow the instructions of the Government. Further, there is nothing on record to indicate that the CE had appraised the Administrative authorities about the instructions of the Government with regard to engagement of consultants.

Public Health Engineering Department

2.10 Unfruitful expenditure on computerisation of Water Supply Schemes

Unplanned project execution and subsequent delays in computerisation of Water Supply Schemes rendered ₹ 90.51 lakh spent on the scheme unfruitful.

On the basis of tenders, the Public Health Engineering Department (PHED) awarded a contract to M/S Pricewaterhouse Coopers (PWC) Private Limited for computerisation of various Water Supply Schemes in the State, under Rajiv Gandhi National Drinking Water Mission (RGNDWM), for ₹ 88.50 lakh to be completed in two years reckoned from the date of signing (May 2006) of an agreement with the firm. As per the agreement, the firm had to develop web-based application software and recommend appropriate framework for hardware, system software, networking and training of personnel. The agreement, *inter alia*, laid down the mode of payment for completion of each of the five milestones.

Scrutiny (September 2009) of the records of the Executive Engineer, PHE, Procurement and Material (P&M) Div, Srinagar, the designate authority to make payments, showed that the Department after entering into the agreement for development of the application software did not initiate any parallel action for procurement/creation of necessary infrastructure, a pre-requisite, for completion of the project. It was seen that ₹ 90.51 lakh had been spent on the project by March 2009 (development of software- ₹ 39 lakh, part procurement of hardware ₹ 24.36 lakh, training of personnel- ₹ 22.15 lakh and site preparation- ₹ five lakh). The software developed worked satisfactorily on the available servers and hardware during demonstration. The system due for completion in May 2008 could not 'go live' due to non-establishment of data-centre, non-procurement of 86 desktops and non-receipt of requisite data from the field offices of the department. The status report (May 2010)

of the project showed that the issue regarding purchase of balance hardware and placement of servers in an established data centre had been taken up with the Government and the State National Institute of Technology. No action had been taken thereon by the Government as of May 2010.

Thus, unplanned project implementation and subsequent delays in the procurement of hardware/software and data collection from field units, led to the scheme having remained a non-starter even after a lapse of four years which has rendered the expenditure of ₹ 90.51 lakh incurred on the project unfruitful and also resulted in non-utilisation of the services of the skilled officials who had been imparted training.

The matter was referred to Government/Department in July 2010; reply had not been received (November 2010).

Irrigation and Flood Control Department

2.11 Unfruitful expenditure due to defective execution of work

Lapse on part of the Department to provide a proper regulatory system at the head-works coupled with construction of a channel of unsuitable design resulted in an unfruitful expenditure of ₹ 1.36 crore. The Department did not rectify the deficiencies pointed out in an enquiry report even after a lapse of two years.

To provide irrigation to 272 acres of land in five villages of Pulwama, the Executive Engineer (EE), Irrigation Construction Division, Pampore took up (2003-04) construction of Neehama-Benagund Lift Irrigation Scheme, at an estimated cost of ₹ 1.07 crore, under Accelerated Irrigation Benefit Programme. The proposed scheme was to be fed from the existing Neehama minor scheme at RD 500. The water to be carried by the channel was to be lifted at tail-end (RD 4200) at village Lolipora by construction of a sump and installation of a pump house. The pump house was to lift the water into a delivery tank for eventual feeding of Honipura *khul* and the old Lolipora *khul*.

Scrutiny (December 2009) of the records of the EE showed that the scheme stated to have been completed (2007-08) at a cost of ₹ 1.32 crore had not been made operational (March 2010) as the channel was not able to carry the water as intended as is evident from the fact that the pump at RD 4200 had been put to use for brief durations aggregating 12 and 13 hours during 2007-08 and 2008-09 respectively. The main reason for failure of the channel to carry water was attributed (September 2007) by an enquiry officer to the channel design which apart from being open had varying depths. Also, the initial starting bed level of the channel being higher by two feet than the bed level of the feeder Neehama canal proved to be a major impediment in smooth water regulation at the mouth of the channel as per the enquiry report. The problem had increased over a period of time due to dumping of garbage and other waste by the locals into the channel. Adoption of a design lacking proper regulation mechanism coupled with execution of defective works were the reasons for failure of the scheme which is attributable to faulty execution of the project and lack of effective monitoring by the Department.

Other than de-silting of the channel carried out (September 2008-October 2009) at a cost of ₹ 3.99 lakh, which had not borne any fruit, no remedial measure like laying of underground pipe up to RD 1500, the point beyond the residential area, and installation of pump-set at the take-off point of the channel as suggested in the technical report had been undertaken as of March 2010. There were no records to show that any action had been taken against the officers responsible for faulty execution of this work.

Thus, lapse of the Department to provide an efficient regulatory system at the head-works coupled with construction of channel of unsuitable design resulted in unfruitful expenditure of ₹ 1.36 crore besides denial of irrigation facilities to the targeted beneficiaries for the last two years.

The matter was referred to the Government/Department in July 2010; reply had not been received (November 2010).

Agriculture Production Department

Sher-e-Kashmir University of Agricultural Science and Technology, Jammu

2.12 Blocking of funds due to injudicious purchase of steel tubular poles

Injudicious purchase of Steel Tubular poles by Sher-e-Kashmir University of Agricultural Science and Technology, Jammu resulted in blocking of ₹ 1.93 crore.

The Sher-e-Kashmir University of Agricultural Science and Technology (SKUAST) Jammu assessed (October 2005) a requirement of 10,000 Steel Tubular (ST) poles for electrification of its campuses and research stations pending acquisition of the required land on which electrification was to be carried out. The cost of electrification was estimated by the University at ₹ 19 crore.

Scrutiny of the records of the University showed (May 2010) that based on the supply orders (November 2005; December 2006) placed on M/S R.G. Industries, Jalandhar for supply of 2500 poles, the University received (between January and July 2006) 2499 poles of different sizes valued at ₹ 2.96 crore at the rates approved by DGS&D. Out of the poles received, the University installed 1420 poles valued at ₹ 1.53 crore up to July 2008 after incurring an expenditure of ₹ 1.88 crore. The remaining 1079 poles valued at ₹ 1.43 crore along with the electric material worth ₹ 50.57 lakh, procured for electrification, were lying unutilized as of May 2010.

The Executive Engineer (EE), Estates Division, SKUAST stated (June/July 2010) that the remaining poles could not be utilised for want of funds and due to non-availability of land which had been demarcated as late as March 2010. The reply of the EE should be viewed in the light of the fact that the University authorities had procured the poles injudiciously without ensuring availability of funds and acquisition of the land on which electrification was to be carried out.

Injudicious purchase of ST poles by the SKUAST in the absence of an immediate requirement, thus, resulted in blocking of ₹ 1.93 crore for about four years.

The matter was referred (June 2010) to the Government/University. In his reply, the Vice Chancellor while admitting the audit contention, attributed (August 2010) the blocking of funds to lack of foresight on the part of the University authorities in purchase of ST poles without getting the land handed over to the University. The Vice Chancellor also stated that the ST poles and other electrical accessories, already installed, were also not working properly. Reply from the Government was, however, awaited as of July 2010.

2.13 Unfruitful expenditure on establishment of e-learning facility

Due to improper planning, the multipurpose e-learning system established by Sher-e-Kashmir University of Agriculture Science and Technology was not made operational even after three years of its inauguration. As a result, the entire expenditure of ₹ 3.65 crore incurred on its creation has remained unfruitful.

Based on the proposals submitted by vendors¹², Sher-e-Kashmir University of Agricultural Science and Technology (SKUAST), Jammu decided (November 2006) to establish a state-of-the-art e-learning system for dissemination of agriculture related information to the farmers. Apart from the prime objective of disseminating scientific information to the farming community, the network envisaged data-sharing between the main campus and research stations. The system involved setting up of a Studio in the main campus at Chatha, Jammu and connecting it with multipurpose e-learning kiosks in various campuses, research stations and *Krishi Vigyan Kendras* in six districts of Jammu Division with interlinking through VSATs manned from main satellite HUB at Gurgaon. The mode and interface of delivery was both online and offline through interactive live lectures and other forms of simple-to-operate multimedia presentations, to be developed through the vendors and also by the SKUAST itself. The operationalisation of the facility required a provision for VSAT bandwidth and 512 Kbps MPLS¹³ bandwidth for linking of Studio and the kiosks with the main HUB. Also, trained manpower¹⁴ was required for content development and to run the system successfully.

Scrutiny of the records of SKUAST revealed that a contract was awarded in February 2007 to M/S Indian Telephone Industries Limited (a Government of India Undertaking) for setting up of the Studio and 20 Kiosks at a total cost of ₹ 3.37 crore (taxes extra) which included ₹ 11.79 lakh for VSAT bandwidth charges for a year payable to M/S Hughes Communications (I) Limited. The project was to be completed within 6 weeks from the date of placement of the order, failing which a penalty @ five *per cent* per week was to be imposed subject to a maximum of six *per cent* of the value of the purchase order. Also, a contract was entered into with M/S Bharti Airtel Limited in July 2007 for providing 512 Kbps MPLS Bandwidth from

¹² M/S Telecommunication Consultants India Limited (TCIL) and M/S Indian Telephone Industries Limited (ITI)

¹³ Multi-Protocol Label Switching

¹⁴ Cameramen (2), studio operators/helpers (4), Video Jockey/Comperer (2), Technical Assistants for kiosks (20) Technical Assistants/Computer Operators (6), Network System Administrator (01) and Project Coordinator (01)

Jammu to Gurgaon with one time charge of ₹ 1.25 lakh and annual recurring charges of ₹ 1.70 lakh for MPLS.

Audit scrutiny revealed the following:

- With the Studio and only five out of 20 kiosks in place, the facility was inaugurated in August 2007.
- In all, 18 kiosks had been setup and the remaining two kiosks¹⁵ could not be set up due to non availability of concrete roof for fitting of VSATs. The uninstalled hardware of two sites was lying at the SKUAST main campus in Jammu.
- The connectivity among all the installed sites had not been tested except for the purpose of demonstration to the VIPs on a few occasions and that too interacting with four or five locations.
- The connectivity with both M/S Hughes and M/S Airtel for VSAT and MPLS, respectively, obtained for the first year, expired in December 2008 and had not been renewed since.
- Four Kiosks located in private buildings at four locations had been closed down since December 2009 to avoid payment of rent.
- No technical staff to run the facility had been appointed.

As of August 2010, a total expenditure of ₹ 3.65 crore had been incurred on establishing the facility (₹ 3.26 crore for supply of equipment and other material by M/S ITI Limited; ₹ 11.79 lakh for VSAT bandwidth by M/S Hughes; ₹ 2.26 lakh for MPLS bandwidth and allied hardware by M/S Airtel; ₹ 22.50 lakh on the uninterrupted power supply (UPS), computers, etc. for the studio and the kiosks, and ₹ 1.50 lakh as rent for the accommodation till their de-hiring). The proposal for appointment of technical staff to run the facility, sent to the Government in March 2008, had not been approved as of May 2010.

Even after a lapse of three years of the inauguration, the multipurpose state-of-the-art e-learning facility had not been put to use except on a few occasions for the purpose of demonstration to VIPs. Thus, the entire expenditure of ₹ 3.65 crore incurred on creation of the facility had remained unfruitful and the envisaged benefits had not accrued to the targeted group.

The Director, Extension Education, SKUAST, while accepting the facts, stated that the project was at the connectivity stage only and did not reach the actual implementation stage. He further added that the efforts to make e-learning facility functional were continuous and once the manpower and funds for meeting the recurring expenses were made available, the envisaged activities would be resumed after renewal of connectivity from the concerned service providers.

¹⁵ Kishtwar and Poonch

The reply has to be viewed in the backdrop of the fact that even after nearly three years of inauguration, the facility had not been made operational as the University did not plan the project properly and the appointment of technical manpower required for making the facility functional, which was a primary requirement, had not been contemplated when initiating the project.

Regularity issues

Power Development Department

2.14 Undue benefit to the suppliers due to non-recovery of risk purchase costs

Non-enforcement of contract clause for recovery of risk purchase costs from the suppliers for short supply resulting in loss of ₹ 44 lakh.

Chief Engineer, Procurement and Material Management Wing, Jammu placed orders (2005-06) for supply of conductors¹⁶ with four firms¹⁷. The agreement executed with the suppliers, *inter-alia*, stipulated that in the event of failure to supply the stores (conductors), the Department could make alternate arrangements for supply of the equipment/stores and the supplier would reimburse the Government for losses sustained as a result of the same.

Scrutiny (June 2008) of the records of the Executive Engineer (EE), Electric Central Store Division, Jammu showed that three firms (Firms: A, B and D) had made only partial supplies of ACSR *Panther* conductors (150.772 kms.) and ACSR *Zebra* conductors (82.474 kms.) against the ordered quantities, leaving the quantity of 373.724 km¹⁸ conductors, valued at ₹ 4.48 crore, unsupplied. The Department floated fresh NITs during the years 2005-07 for supply of the conductors and short closed (July 2007) the purchase orders placed as per the NIT of 2004-05. Further, it was seen that fresh orders (July 2007 and August 2007) had been placed, *inter-alia*, on two firms A and B, ignoring the fact that these same firms had failed to deliver the complete quantity ordered earlier in July 2005. A total of 464 km *Panther* conductor had been procured from these firms (firm-A: 182 km and Firm-B: 182 km).

Audit analysis revealed that the quantity supplied short (value: ₹ 4.48 crore) had been procured at a higher cost of ₹ 4.92 crore, thereby incurring an extra expenditure of ₹ 44 lakh, which as per the terms of the agreement was recoverable from the defaulter supplier. However, while short-closing the earlier supply orders, the Department except for forfeiting the paltry security deposit of ₹ five thousand from each supplier, had not initiated any action for recovery of the loss sustained due to short supply of the item ignoring the terms of the agreement executed with the suppliers.

The Deputy Financial Advisor & Chief Accounts Officer, Procurement and Material Management Wing, Jammu intimated (February 2010) that the case had been

¹⁶ ACSR *Panther*: 1055 kms and ACSR *Zebra*: 298 kms.

¹⁷ Firm-A: M/s. E.H.V. Power Cables & Wires Private Limited, Jammu (ACSR *Panther*: 400 kms),
Firm-B: M/s. New India Wire & Cable Industries, Jammu (ACSR *Panther*: 415 kms and *Zebra*: 99 kms),
Firm-C: M/s. Oswal Cables (P) Limited, Jaipur (ACSR *Panther*: 240 kms. and *Zebra*: 100 kms),
Firm-D: M/s Payal Enterprises, Jammu (*Zebra*: 99 kms)

¹⁸ ACSR *Panther*: 324.228 kms. and ACSR *Zebra* 49.496 kms.

disposed off as per the terms of the NIT/purchase orders by forfeiture of security deposits of the firms. The reply was not acceptable as the agreement specifically provided for recovery of loss due to non-supply of the material from the suppliers and action of the department has to be viewed as extending undue benefit to the firms. Thus, Departmental failure to invoke the terms of the agreement executed with the contractors had resulted in a loss of ₹ 44 lakh.

The matter was referred to Government/Department in August 2010; reply had not been received (November 2010).

General

2.15 Follow-up on Audit Reports

Non-submission of suo-moto Action Taken Notes

To ensure accountability of the executives to the issues dealt with in various Audit Reports, the State Government (Finance Department) issued instructions in June 1997 to the administrative departments to furnish to PAC/COPU, *suo-moto* Action Taken Notes (ATNs) on all the audit paragraphs featuring in the Audit Reports irrespective of the fact that these are taken up for discussion by these Committees or not. These ATNs are to be submitted to these Committees duly vetted by the Accountant General (AG), within a period of three months from the date of presentation of Audit Reports in the State Legislature.

It was, however, noticed that none of the Departments had submitted *suo-moto* ATNs in respect of their paragraphs/reviews featuring in the Audit Reports for the years 1990-91 to 2008-09.

2.16 Action taken on recommendations of the PAC/COPU

Action Taken Notes, duly vetted by the AG on the observations/recommendations made by the PAC/COPU in respect of the paragraphs discussed by them are to be furnished to these Committees within six months from the date of such observations/recommendations. The PAC/COPU reconstituted (November 1996) after the expiry of President's rule in the State decided to skip over the discussion of Audit Reports prior to the year 1990-91. Out of 858 (Civil: 623; Revenue Receipts: 153; Commercial: 82) paragraphs featuring in the Audit Reports for the years 1990-91 to 2008-09, only 271 (Civil: 190; Revenue Receipts: 22; Commercial: 59) paragraphs have been discussed by the PAC/COPU up to March 2010. Recommendations in respect of 258 (Civil: 179; Revenue Receipts: 22; Commercial: 57) paragraphs have been given by the Committees (PAC/COPU) but ATNs on the recommendations of the Committees have not been furnished by the Administrative Departments despite the PAG taking up the matter with the Chairpersons of the two committees and the Chief Secretary.

2.17 Lack of response to Audit

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

Twelve Audit Committee meetings were held during 2009-10 in respect of paragraphs contained in IRs pertaining to the civil wing, wherein 1,036 transaction audit paragraphs were discussed and 571 paragraphs were settled.

At the end of March 2010, 5,899 IRs involving 20,714 paragraphs pertaining to the period 1998-2010 were not settled.

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

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

Chapter –III: CCO BASED AUDIT

ANIMAL SHEEP HUSBANDRY DEPARTMENT

The Animal and Sheep Husbandry Department in Jammu & Kashmir is entrusted with the task of genetically improving the livestock of the State by providing exotic variety of bulls and rams to the farmers, increasing production of mutton, milk, egg and other poultry products, and making the State self-sufficient with regard to these products. A CCO based audit of the department covering the period 2005-10 indicated that these objectives had not been achieved in full mainly due to non-utilisation of available funds, non-issuance of adequate number of bulls/rams, and inadequate supply of medicines to farmers for prevention and treatment of diseases to the livestock.

Highlights

- *Perspective plan had not been prepared. Persistent savings at the close of financial years had resulted in a loss of assistance amounting to ₹ 2.29 crore to the State.*

(Paragraphs: 3.9 and 3.11.1)

- *The department had not improved the quality of indigenous breed to the envisaged exotic level of 70 per cent, as brought out in the Status Report, due to shortage of bulls in the departmental farms for production of semen-straws required for artificial insemination.*

(Paragraph: 3.11.2)

- *Due to non-utilisation of the programme funds, the implementation of various centrally Sponsored Schemes had not yielded the envisaged benefits.*

(Paragraph: 3.11.8)

- *Inability of the department to utilise programme funds in full had resulted into non-achievement of the goal of making the State self-reliant in milk, poultry and poultry products and increased dependence on imports.*

(Paragraphs: 3.11.9 and 3.11.10)

- *Procurement of medicines, particularly the FMD vaccine, had been insufficient to immunize the entire population of the livestock due to which the livestock continued to be exposed to morbidity risks.*

(Paragraph: 3.11.14)

- *Internal control mechanism was inadequate and monitoring of programmes non-existent.*

(Paragraph: 3.14)

3.1 Introductory

Jammu and Kashmir, with a total geographical area of 2.22 lakh square kilometres, is hilly and mountainous. Seventy nine *per cent* of its population reside in rural areas with agriculture and animal/sheep husbandry as their main occupation. Seventy *per cent* of the livestock population exist in hilly and difficult areas and only 30 *per cent* exist in irrigated belt. Cross-bred and improvised livestock is available only in the irrigated and plain belt of the State.

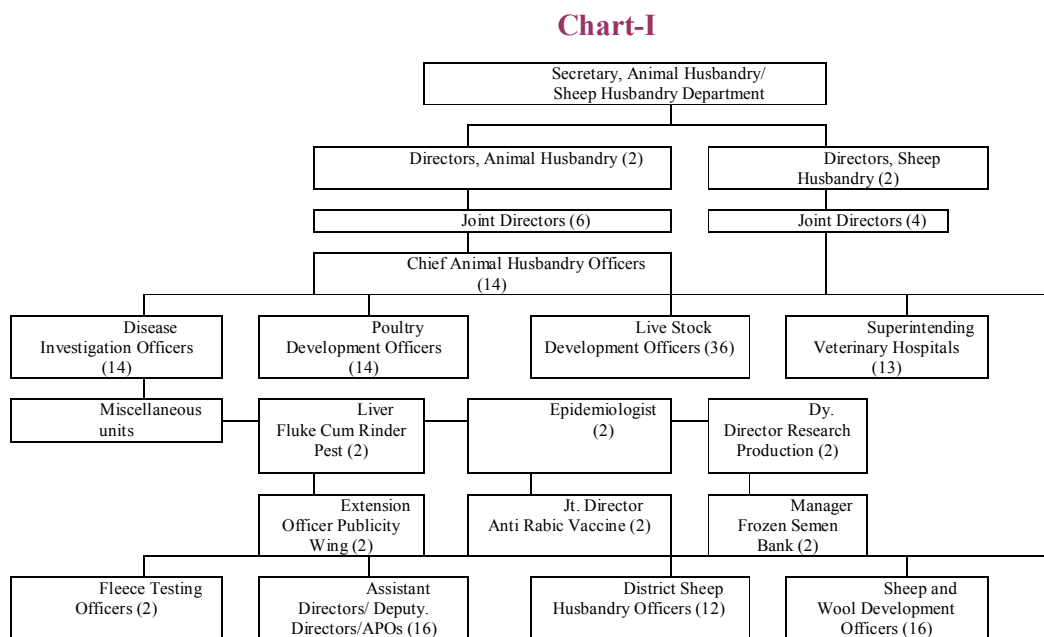
The welfare of the section of society engaged in the rearing of livestock is taken care of by the Sheep and Animal Husbandry Departments.

3.2 Overview of the Department

Cattle-rearing, as an ancient traditional activity, is enmeshed in the socio-economic structure and fabric of the rural population of the State, and undertaken not only for production of meat but also for value-added by-products such as wool, skin, hides, milk and manure. Considering the utility of this sector in the overall development of the State, a full-fledged Department of Animal and Sheep Husbandry was established. With the introduction of new schemes under State and Central Sectors, the workload of the Department increased and the Department was bifurcated in 1965 into two separate Departments of Animal Husbandry and Sheep Husbandry.

3.3 Organisational set up

The organisational structure of the department is depicted in the following chart:



3.4 Scope of Audit

A review of the activities of the Animal and Sheep Husbandry Departments was last conducted in 2004-05 and incorporated in the Comptroller and Auditor General's Audit Report for the year ended 31 March 2005.

The present Chief Controlling Officer (CCO) based audit is the first attempt of its kind and due care has been taken to make it complementary to the conventional review. The audit was carried out during July 2009 to March 2010 and covered the period from 2005-06 to 2009-10.

3.5 *Audit objectives*

The focus of the audit has been on assessing the performance of the Departments in discharging their responsibilities with regard to implementation of schemes and to see whether:

- the-schemes were properly planned and efficiently executed;
- poultry backyard/dairy units and sheep and goat farms were established as per the guidelines;
- adequate steps were taken to popularize the rearing of livestock;
- adequate infrastructure was created for preservation, processing and marketing of milk, eggs, meat, mutton and wool;
- the expenditure incurred was reported correctly at all levels; and
- mechanism for effective monitoring, evaluation and reporting existed.

3.6 *Audit criteria*

The performance of the departments was benchmarked against the following audit criteria:

- Government notifications and instructions issued from time to time for implementation of the State and Centrally Sponsored Schemes.
- Departmental Manual/Policies /Rules and Regulations.
- State financial rules.
- Budget manual.
- State Government's vision document of 2002.

3.7 *Audit methodology*

An entry conference was held with the Secretary, Animal/Sheep Husbandry Departments, J&K in August 2009 wherein audit objectives, criteria and scope of audit were discussed. An exit conference was also held at the conclusion of the audit.

3.8 *Audit coverage*

Seventy three units (Jammu: 44; Kashmir: 29) including *inter alia* four Directors, eight Joint Directors, six Deputy Directors, five Assistant Directors and 27 CAHOs/DSHOs out of a total of 163 units were selected for CCO-based audit of Animal and Sheep Husbandry Departments. Out of ₹ 887.57 crore spent during 2005-10, ₹ 141.68 crore was test-checked in audit.

3.9 Planning

Proper planning is essential for success of a programme. A long term perspective plan is an appropriate framework to prioritize funds and multi-year schemes based on base-line surveys and gap analysis. It serves as both a roadmap and a long-term action plan, against which actual transfer of the intended benefits of the schemes to the target groups can be bench-marked during performance evaluation and mid-course corrections should flow from and be consistent with the prioritizations and goals set forth in the Perspective Plan.

It was, however, seen that no long-term perspective plans had been formulated by the departments and Annual Action Plans were not based on inputs from field offices. The fund projection in Annual Action Plans had been made on the basis of 10 per cent escalation over the previous year's expenditure instead of activities to be undertaken during the year.

3.10 Project Management

The activities undertaken by the Animal and Sheep Husbandry departments are distinct and different from one another. Accordingly, the audit observations in respect of the two departments have been discussed separately under paras 3.11 and 3.12 below.

3.11 Animal Husbandry

The Animal Husbandry Department is mandated with the task of increasing production of milk, eggs, poultry and meat, besides providing employment to the local population through establishment of dairy and poultry backyard units in the private sector. The objectives were to be achieved through cross-breeding of cow with exotic Holstein Frison (HF) and *Jersey* breeds and up-gradation of Buffaloes with *Murrah* and *Neeli Ravi* breeds of buffs of exotic variety through artificial insemination, besides providing health-care and diagnostic facilities to the livestock.

3.11.1 Financial management

Efficient financial management of funds by proper planning of programme activities through timely release of funds from one level to another was imperative. The position of allotment of funds during 2005-10 and expenditure thereagainst is given in the table.

Table 3.1

(₹ in crore)

Year	Allotment			Expenditure			Savings
	State budget	GOI***	Total	State budget	GOI	Total	
2005-06	88.15	5.88	94.03	85.57	2.71	88.28	3.17
2006-07	96.08	7.21	103.29	92.98	4.77	97.75	2.44
2007-08	100.89	4.94	105.83	96.96	3.70	100.66	1.24
2008-09	136.80	6.16	142.96	127.20	3.80	131.00	2.36
2009-10	146.46	6.17	152.63	132.82	4.49	137.31	1.68
Total	568.38	30.36	598.74	535.53	19.47	555.00	10.89

***.(Indicates the position of availability of funds including revalidated funds out of the unspent balances.)

It is clear, the percentage utilisation of GOI funds was not upto the mark and ranged between 46 and 75 *per cent* during 2005-10. Non-utilization of funds to this extent impacted the overall implementation of the programme as discussed in the subsequent paragraphs under 'implementation' (Para 3.11.2).

Following significant points were noticed.

- Overall administrative expenses during 2005-10 was ₹.505.44 crore which constituted 91 *per cent* of the total expenditure of the Department. This is indicative of the fact that there were very little funds available for development activities in the State.
- Rules provide that expenditure should be evenly distributed over the year. It was, however, observed that there was rush of expenditure at the fag end of the financial year in the offices of the two Directors (Jammu, Srinagar). The percentage of expenditure in the last quarter of the financial year 2008-09, test-checked in audit, was 71 *per cent* of the allotment in these two offices and was largely on purchase of medicines, flow of which to the field functionaries for use should have been regular and throughout the year.
- For nine projects approved (2005-06) for strengthening of poultry/duck farms, the GOI released the first part of the assistance of ₹ 3.83 crore during 2006-09. Out of this, ₹ 1.40 crore was spent by the department during 2006-10 and the balance ₹ 2.43 crore had remained unspent. As the utilisation certificates for the funds were not submitted to the GOI, the second instalment of ₹ 2.29 crore had not been released. The Joint Directors stated (December 2009) that the funds could not be utilised due to non-finalisation of the guidelines/rate contract for the feed mixing plants by the Directors. The reply underscores the lack of seriousness of the department and as a result central assistance could not be availed which would have helped in better implementation of the scheme.
- The department had diverted programme funds to the extent of ₹ 1.11 crore (State plan: ₹ 15.33 lakh and CSS: ₹ 95.83 lakh) to various activities, not related to the programme. The Joint Director, Farms/CEO, NPCBB, Jammu stated that the expenditure was incurred as per the Annual Action Plan. The reply has to be viewed in the light of the fact the Annual Action Plan referred to by the Joint Director was not approved by the competent authorities viz., Director/GOI.

3.11.2 Implementation

To increase milk production, an interim cattle breeding policy was formulated (January 2002) wherein an optimum level of 50 to 62.5 *per cent* of exotic breed cattle was to be maintained. The graded bulls to be used were to be locally selected. However, under a subsequent status report (2009) the Government targeted increasing the proportion of exotic breed cattle to 70 *per cent* by introducing *Murrah* or *Neeli Ravi* (exotic) buffalo variety breeds by the end of 11th plan. Audit check showed that exotic breed cattle population stood only at 34 *per cent* indicating dismal performance of the department in improving the quality of the breed.

Interaction with 160 livestock owners of four districts of Jammu province showed that approximately 80 *per cent* of cows were cross-bred, which was encouraging.

3.11.3 Cattle breeding

The department was required to explore the possibility of procuring the required breed of bulls to meet the demand of germ plasma of required pedigree for upgrading the local indigenous cattle population to exotic breed.

To achieve the required exotic blood level and number of germ-plasma doses/semens straws for the female breedable population, the department was required to have adequate number of bulls in its farms. Audit observed that a huge gap existed between the requirement of germplasm doses/serum straws for artificial insemination and those produced, as detailed in the following table. This was due to the inadequate number of bulls available in the departmental farms.

Table 3.2

(In number)

Year	Semen-straws/germ plasma doses		Shortage of doses (percentage)
	Requirement	Production	
2005-06	5,02,714	3,25,803	1,76,911 (36)
2006-07	4,97,104	4,57,930	39,174 (08)
2007-08	5,56,680	4,95,300	61,380 (12)
2008-09	6,03,815	5,70,280	33,535 (06)
2009-10	5,73,641	5,68,730	4,911 (01)

(Source: Figures provided by JDs Farms)

As a result the department had to spend ₹ 45.62 lakh on purchase of germ-plasm from outside the State during 2005-09. The Director, AH, Srinagar failed to offer any response.

3.11.4 Storage of semen straws

For storage/preservation of the semen-straws, the department needed to have Liquid Nitrogen Plants (LNP) in adequate number. Out of 13 LNPs (Kashmir: 8; Jammu: 5), five LNPs (Kashmir: 2; Jammu: 3) had become non-functional during 2003-10. The department, to meet its requirement, had to purchase Liquid Nitrogen Gas for ₹ 8.81 lakh from outside the State. When pointed out, the Director, AH, Kashmir stated that storage capacity for semen straws was inadequate as the LNPs at Ranbirbagh - I&II and Jammu were very old and beyond economic repairs. The reply indicated that the department had neither initiated any action to procure new plants nor got the non-functional plants repaired.

3.11.5 Distribution of bulls

To improve the indigenous breed of cattle, National Project on Cattle and Buffalo Breeding (NPCBB) scheme funded by the GOI was introduced (2005-06) in the State which provided for 100 *per cent* coverage of breedable cows and buffaloes through artificial insemination and natural service. As per the scheme bulls are to be provided free of cost which were to be reared by private farmers for which nominal natural service fee is charged from the farmers. Apart from creation of necessary

infrastructure, the department had to purchase bulls for issuance to farmers and machinery and equipment to make the artificial insemination facility available to farmers at their doorsteps. Despite release of funds by the GOI in 2005-06, the programme was started only in 2006-07 (Kashmir) and 2007-08 (Jammu). Out of ₹ 4.06 crore released by the GOI for strengthening of frozen semen bank, ₹ 2.93 crore had been spent on purchase of 61 bulls (₹. 8.36 lakh) and machinery/equipment (₹ 1.89 lakh) and an amount of ₹ 95.83 lakh had been diverted for purchase of various items not related to the scheme while ₹ 1.13 crore remained un-utilized at the end of March 2010.

Out of 61 bulls purchased (March 2009 and 2010), only 39 bulls purchased in March 2009 had been issued to the farmers while the balance bulls were being kept in the departmental farms. The Joint Director, Farms, Jammu stated (March 2010) that the bulls available with the department would be issued on demand. Audit, however, observed that at no stage had the department worked out the demand of bulls required for issuance.

The purchase/issuance of bulls to farmers was particularly important because 160 farmers contacted by Audit showed preference for natural service method for breeding through issuance of improvised breed of bulls over artificial insemination (AI) method for breeding due to the very low pregnancy rate achieved by AI.

3. 11.6 Targets and achievements

Physical targets and achievements in respect of various activities undertaken by the department during the period 2005-10 are given below:-

Table 3.3

(Number in lakh)

Activity	2005-06		2006-07		2007-08		2008-09		2009-10	
	Target	Ach.	Target	Ach.	Target	Ach.	Target	Ach.	Target	Ach.
Artificial Insemination	3.88	4.45	4.40	4.28	4.40	4.77	4.62	4.92	5.45	6.49
Births recorded	1.44	1.69	1.74	1.85	1.77	2.09	1.92	1.58	2.12	2.69
Natural service ¹	0.13	0.16	0.13	0.06	0.03	0.07	0.06	0.02	0.07	0.62
Castration done	1.26	1.21	0.83	1.22	1.20	1.25	0.92	1.26	1.32	1.26
Vaccination done	91.00	117.52	100.28	117.59	103.59	109.77	106.68	115.00	116.53	116.51
Dosing performed	26.81	30.10	28.85	36.14	30.75	39.38	30.80	38.02	32.68	36.86
Cases treated (Need-based)		35.03		39.05		38.62		37.37		35.75

(Source: Directors, AH, Kashmir and Jammu)

It would be seen that the achievements in respect of various activities was invariably more than the target fixed for the respective years which was apparently due to fixing

¹ Information in respect of Kashmir was awaited.

of targets on *ad hoc* basis without taking cognisance of the fact that achievement during the previous years was always more than the target fixed for those years. The Joint Director, Farms stated (March 2010) that the targets were fixed by adding 10 *per cent* to the achievements of the previous year. The reply of the department is acceptance of the fact that targets were fixed in *ad hoc* manner and not based on the actual population of livestock and availability of resources.

3.11.7 Fodder production

To overcome deficiency (which was in the range of 45 to 47 *per cent*) in fodder, the department had distributed 74,707 mini kits, received from GOI during 2007-10, to farmers/cattle growers. However, during audit it was observed that the criteria for distribution of fodder mini-kits to the beneficiaries and the list of beneficiaries were not available with the department. In the absence of the criteria and the list, the genuineness of the beneficiaries to whom the kits had been issued could not be ascertained in audit. It was also observed that no monitoring to assess the impact of the programme on fodder production and economic status of the beneficiaries had been undertaken by the department. The Director, AH, Jammu stated that the kits had been distributed to small and marginal farmers having spare land for growing grass but did not provide reasons for not adopting a prescriptive process for identification or monitoring the progress and impact of the programme.

Following further points were noticed:

- Audit scrutiny revealed that out of ₹ 55 lakh released (2008-09) to the department under 'centrally sponsored scheme for fodder developments', ₹ 7.14 lakh only had been spent (2008-09) on leveling of farm at Lam, Nowshera. The balance ₹ 47.86 lakh had remained unutilized as of 31 March 2010. The JD, did not furnish reasons for non-release of the balance funds to the CAHOs for fodder production.
- To overcome the fodder deficiency and to avoid dependence on private suppliers for the Government livestock, the department had advanced (1989-92), ₹ 66 lakh to the Land Acquisition Officer (LAO), Baramulla for establishment of a fodder farm at Asham, Tehsil Sonawari for which a piece of land measuring 414 *kanal* and 01 *marla* was identified. The LAO had not so far (March 2010) been able to acquire the required land due to non-fixation of the rates with land owners. This had resulted in continued dependence of the department on private suppliers besides locking of funds for over 17 years. The Forage Production Officer, Sheep Husbandry, Kashmir stated that the land for the establishment of fodder farm had been identified at Singhpore, Delina and Baramulla and that acquisition of land would be processed immediately after receipt of the techno-feasibility report.

3.11.8 Centrally Sponsored Schemes

To increase milk production, through genetically improved cattle, other than NPCBB discussed in para 3.11.5 ante, two CSS programmes, viz. Integrated Dairy

Development Programme (IDDP) and Tribal Sub Plan were introduced in the State during 1999-2000 and 2005-06 with 50 per cent and 100 per cent central assistance respectively. The schemes are discussed hereunder.

(i) Integrated Dairy Development Programme (IDDP)

The basic objective of the scheme is to provide better veterinary aid facilities by way of immunization and treatment, strengthening existing infrastructure, creating employment for un-employed youth by establishing dairy units, etc. The IDDP project was launched in six districts² of the State. Out of the central assistance of ₹ two crore allotted during 2005-10, ₹ 1.47 crore only, had been utilized, leaving ₹ 52.61 lakh unreleased/unspent with the Directors at the close of March 2010. Following points were noticed:

- Under the scheme, heifers were to be purchased and distributed to beneficiaries selected by the DDCs in four³ districts. Four CAHOs test-checked in audit showed that ₹ 51.37 lakh drawn (July 2009) by three CAHOs⁴ had been kept in banks and no heifers were purchased till March 2010, due to non-identification of the beneficiaries. The CAHOs Baramulla and Budgam stated that funds could not be utilized due to paucity of time. The CAHO Kupwara stated that the matter would be looked into. This was indicative of the casual approach of the department in providing benefits to the rural poor to be covered under the scheme.
- Out of ₹ 70.42 lakh released (1999-2008) for establishment of dairy units, the CAHO, Udhampur spent ₹ 23.93 lakh on establishment of 301 dairy units. Regarding the balance ₹ 46.49 lakh which was shown to have been released by the Director, the CAHO stated that the amount had not been received by him. The reason for the mismatch between the two sets of figures, though called for, was not provided by the Director, AH, Jammu.

(ii) Tribal Sub Plan Programme.

The scheme was launched (1999-2000) in the State for establishment of dairy units, creation of infrastructure facilities, fodder production and providing marketing facilities to the rural poor, especially those living in forest villages. The scheme is funded by the GOI and the State on 50:50 sharing basis. Out of a total allotment of ₹ 3.33 crore, an expenditure of ₹ 2.01 crore only was incurred during 2007-10; as a result, unspent balances had accumulated to ₹ 1.32 crore (March 2010).

The position of allotment, expenditure, targets fixed and those achieved thereagainst in respect of five (out of 20 test-checked) CAHOs is given hereunder:

² Jammu, Udhampur, Rajouri, Budgam, Baramulla and Kupwara

³ Baramulla, Kupwara, Badgam and Udhampur

⁴ Baramulla: ₹ 17.44 lakh; Budgam: ₹ 17.68 lakh; Kupwara: ₹ 16.25 lakh

Table 3.4

(₹ in lakh)

District	Allotment/Release	Expenditure	Targets	Achievement	Percentage Shortfall
			In number		
Kupwara	19.86	19.40	199	194	3
Budgam	3.10	3.10	31	31	-
Pulwama	3.58	2.16	36	21	42
Baramulla	12.67	12.67	126	126	-
Kathua	43.81	37.30	438	373	15
Total	83.02	74.63	830	745	

(Source: CAHOs)

Above table shows shortfalls in the achievement of targets by 42 and 15 per cent in CAHOs, Pulwama and Kathua, respectively. Non-achievement of targets and accumulation of balances was attributed by the CAHOs to non-identification of beneficiaries (Kathua) and non-acceptance of cows for purchase by the committee (Pulwama). It indicates that release of funds to the CAHOs by the Director was not based on the requirement and was a mere formality in the absence of finalisation of the list of targeted beneficiaries.

3.11.9 Milk production

The main objective of investment by the Government was to increase milk production in the State. Although targets fixed were achieved in full yet the increase in milk production had not reduced the dependence of the State on imports from other states which had increased from 78,016 tons in 2008-09 to 78,126 tons in 2009-10. In view of the ever-increasing dependence of the State on imports, making the State a milk-surplus, as brought out (2009-10) in the Vision document on the Sector, was yet a remote possibility.

Following further points were noticed:

To enhance availability of milk to the consumers, three Milk Chilling Plants (MCPs) had been established. The status of the plants as on date is given in the table below.

Table 3.5

(₹ in lakh)

Name	Status	Date of completion	Amount spent	Remarks
Sudhra, Rajouri	Non-functional	April 2007	63.70	Against the requirement of 10,000 litre of water per day, availability was found to be in the range of 2000 litre only.
Pulwama	Work yet to commence	-	10.05	Land for the project has not been identified. ₹. 6.05 lakh advanced to LAO. and Rs four lakh advanced to Milk Federation for procurement of machinery diverted to Pulwama Municipality .
Datyal, Kathua	Completed	2003	67.80	The plant has been made functional in May 2009.

Out of three plants, only one plant at Datyal, Kathua had been made functional, after a time overrun of over six years. The MCP at Rajouri constructed at a cost of ₹ 63.70 lakh did not have adequate quantity of water required to run it properly. To get the problem solved, a detailed estimate for ₹ 66.67 lakh was received from PHE Division,

Rajouri which had been forwarded (November 2007) to the Director, Animal Husbandry, Jammu had not been approved. In view of the magnitude of the cost involved, the department contemplated transfer of the plant to J&K Milk Federation. Investment of substantial funds without ascertaining the availability of water which was a pre-requisite for running the plant satisfactorily indicated improper planning.

3.11.10 Poultry production

The Animal Husbandry Department is also mandated with increasing production and quality of poultry meat and eggs by providing day-old chicks to farmers, supply of chicks to various poultry demonstration centers for distribution to the progressive farmers, after rearing them for 2-3 months, providing health coverage facilities to the poultries and setting up new poultries and backyard poultry units.

Following points were noticed:

- To provide day-old chicks (DOC) to the farmers, nine⁵ hatcheries had been established in the State. Out of nine⁶, only five hatcheries were functional as of March 2010. The dates from which the hatcheries had become non-functional and the reasons put forth by the department thereof are given in the table.

Table 3.6

Sl. No.	Name of the Hatchery	Year since non-functional	Reasons
1.	Sumbal	2000-01	Occupation of the poultry building by security forces.
2.	Mattan	May 1997	Hatchery closed due to non-providing of running cost by the Government
3.	Poonch	2006-07	Closed due to depleted rearing space.
4.	Doda	2007-08	Production affected due to unsafe building since 2005 and production ultimately stopped in 2007-08.

The Poultry Project Officer, Mattan stated (September 2009) that the hatchery had been made functional during 2009. Action taken to make the closed/non-functional hatcheries, shown in the above table, functional was not intimated.

To boost production of poultry mutton, eggs, day-old chicks and establish backyard poultry units, the GOI launched (2005-06) a CSS 'Assistance to Poultry/Duck farms' with 80 *per cent* central assistance for completion in five years. The programme was to be implemented through JDs of Kashmir and Jammu who were to act as nodal officers.

Nine projects (Kashmir: 5; Jammu:4) were approved (2006-07) at a total project cost of ₹ 7.65 crore (Centre share: ₹ 6.12 crore; State share: ₹ 1.53 crore) for seven components⁷ to be undertaken under each project. The projects were to be undertaken with defined amount earmarked for each component. Against the total project cost,

⁵ Including one hatchery under CSS established in November 2009 at Hiranagar

⁶ Jammu, Udhampur, Kathua, Doda, Poonch, Rajouri, Mattan, Sumbal and Hiranagar

⁷ Revolving Fund: ₹ 15 lakh, Marketing infrastructure: ₹ 8 lakh, Strengthening/training: ₹ 5 lakh, Strengthening poultry/duck farms: ₹ 5 lakh, Poultry demonstration centre: ₹ 19.10 lakh, Strengthening hatcheries ₹ 8.50 lakh and Strengthening of poultry farms: ₹ 24.40 lakh.

the GOI released only ₹ 3.83 crore. The State Government also allotted only ₹ 59.70 lakh out of its share. Even the funds released by the GOI had not been utilised in full and the unspent balances at the close of financial year 2009-10 was ₹ 2.43 crore which constituted 63 *per cent* of the funds released by the GOI. Likewise, only ₹ 44.12 lakh out of the funds allotted under State share had been spent.

The position of funds allotted to each project and expenditure incurred are given in the table below:

Table 3.7

(₹ in lakh)

Project	Allotment			Expenditure			Period
	SS	GOI	Total	SS	GOI (percentage)	Total	
Belicharana	21.36	72.32	93.68	21.34	58.71 (81)	80.05	2005-10
Kathua	15.41	42.44	57.85	8.92	25.88 (61)	34.80	2005-09
Udhampur	-	65.29	65.29	-	3.99 (06)	3.99	2005-10
Doda	-	65.18	65.18	-	20.23 (31)	20.23	2005-10
Hariparbat	12.93	70.82	83.75	6.12	10.33 (15)	16.45	2005-09
Mattan	10.00	20.38	30.38	7.74	5.89 (29)	13.63	2005-09
Athwajan	-	27.83	27.83	-	0.20 (01)	0.20	2005-09
Achabal	-	9.50	9.50	-	7.50 (79)	7.50	2008-09
Sumbal	-	9.25	9.25	-	7.50 (81)	7.50	2008-09
Total	59.70	383.01	442.71	44.12	140.23 (37)	184.35	

(Source: Figures collected from the two Directors.)

The expenditure pattern indicates the tardy implementation of the project.

The JD/CAHOs attributed non-utilisation of funds to hatcheries having been occupied by the security forces (Sumbal), shortage of funds (Achabal), inadequate funds having been released for each activity (Udhampur) and money having been advanced to the executing agencies for construction of poultry sheds (Kathua). This indicated that funds had been released by the Directors to the subordinate offices without taking cognizance of the ground realities.

The data collected from the two projects showed discrepancies between the figures of releases made by the Director, Jammu with those actually shown to have been received by the Project Officers.

Table 3.8

(₹ in lakh)

Project	Amount released by the Director	Amount received by the Project	Excess (+)/less(-)
Kathua	42.44	21.25	(-) 21.19
Udhampur	65.29	10.01	(-) 55.28

Probability of fraud/embezzlement could not be ruled out unless the discrepancies are reconciled at the earliest. Further, CAHO, Udhampur indicated the expenditure from Central funds as ₹ 1.66 lakh which was far less than that shown by the Director to have been expended by the CAHO. The above variations indicated that the progress reports maintained by the Director, Jammu were not based on the inputs from the subordinate offices.

3.11.11 Mortality

Success of a poultry project, besides depending on the physical existence of birds and their rearing, also depends upon the maintenance of the livestock. It was seen in audit that against the prescribed mortality rate of 5 per cent, huge mortality of day-old chicks (DOC) ranged from 16 to 50 per cent (Jammu: 16 – 30 per cent; Kashmir: 26 - 50 per cent) had been recorded in the two regions during 2006-09. This translated into a loss of ₹ 33.94 lakh⁸ (after excluding the acceptable 5 per cent mortality) during 2006-09. The Joint Director, Poultry (JDP), Kashmir stated that the mortality of poultry stock in recent years was due to ever increasing human population around the farm area. The PDO, Poonch (Jammu) attributed the mortality to unfriendly climatic conditions and carriage of DOC to the far-flung areas. The reply is not acceptable as the prescribed mortality rate is expected to have factored in various operational hazards including distances to travel and climatic conditions.

3.11.12 Targets and achievements

The Department had not fixed the targets for production of Eggs and DOCs in departmental farms. It was noted that the production of Egg had decreased from 11.14 lakh (2005-06) to 7.69 lakh (2009-10). Similarly, the production of DOC had also decreased from 3.87 lakh (2005-06) to 3.01 lakh (2009-10). As a result the State had to rely on import of poultry products. The JDs attributed decrease in production to closure of hatcheries due to unsafe buildings and lack of infrastructure. The reply of the Director should be viewed in the light of the fact that the department had failed to plan things properly by utilising funds provided under the programmes so that production could be improved.

3.11.13 Medicines

To provide medicines/vaccines to the farmers to reduce mortality of animals, the GOI introduced (2003-04) a CSS, 'Assistance to States for Control of Animal Diseases (ASCAD)' on 75:25 sharing pattern for implementation in both the Animal and Sheep husbandry sectors. The position of funds allotted during 2005-10 and expenditure incurred thereagainst is given below.

Table 3.9

(₹ in lakh)

	2005-06	2006-07	2007-08	2008-09	2009-10
(A) Funds released					
Centre Share	180.24	187.31	156.16	170.86	299.37
State Share	60.31	38.02	28.45	12.00	3.66
Total	240.55	225.33	184.61	182.86	303.03
(B) Expenditure					
Central Share	110.52	153.46	134.05	151.49	189.98
State Share	33.69	37.83	28.45	12.00	3.64
Total	144.21	191.29	162.50	163.49	193.62
Savings (%age)	96.34 (40)	34.04 (15)	22.11 (12)	19.37 (11)	109.41 (36)

(Source: Directors AH, Kashmir and Jammu)

⁸ (67,873x 50) mortality multiplied by approximate cost

The table indicates that the department had failed to utilise the funds in full with savings ranging between 11 *per cent* and 40 *per cent*. The savings were particularly high at 40 *per cent* and 36 *per cent* during 2005-06 and 2009-10, respectively. The Director, Animal Husbandry, Kashmir (April 2010) attributed the savings to late receipt of funds/central share.

3.11.14 Purchase and distribution

Medicines were purchased by the department from the authorized dealers at rates approved by the State Level Purchase Committee (SLPC) and were verified by the technical committee before inventoring them to the central store. Audit check showed that no reconciliation was ever conducted between central store, district officers and the Block Veterinary Officers (BVOs).

Audit further found that the basic data of age-wise population of cattle, number of male/female cattle, pregnant animal and morbidity patterns were not available in any of the 21 test-checked block level centers. This indicated that the requirements of vaccines had been worked out tentatively at the block/centre level and forwarded to the district officers for consolidation.

This was illustrated by the fact that the department had not procured the actual quantity of vaccines required by it to control the foot mouth disease (FMD). Audit check showed that shortfalls in requirement and purchase/issue to farmers had ranged between 38 and 52 *per cent* during 2005-10 which meant that a very high proportion of the animal population of the State was at risk of contracting the disease. The Director, Animal Husbandry, Kashmir (April 2010) attributed shortfall in purchase of medicines to non-availability of sufficient funds which was not true as the department had sufficient funds (Table-3.9) at its disposal to meet its requirements.

144 of the 228 livestock owners interviewed expressed unhappiness over this issue saying that the drugs/medicines demanded were not available in the BVOs.

Following significant points were also noticed:

- Medicines are issued by the department to the farmers at subsidized rates through Block Veterinary Centres. It was seen that the recoverable cost had accumulated to ₹ 57.97 lakh (Jammu: ₹ 18.67 lakh, Kashmir: ₹ 39.30 lakh) at the close of the financial year 2009-10. The reply of the department that it was a continuous process could not be confirmed in audit because the department had not done any age-wise analysis of recoverable cost of the drugs/vaccines issued by it.
- The vaccine Lasota required for treatment of poultry birds is manufactured and supplied to the departmental farms by the Government-owned Anti-rabic Vaccine Laboratory, RS Pura. For other vaccines, two laboratories established (2003-04), one each at Srinagar and Jammu, at a cost of ₹ 24.37 lakh could not be made functional due to non-availability of technical staff, with the result the requirement was met during 2006-10 by procurement from outside sources at a cost of ₹ 5.34 lakh.

3.11.15 *Veterinary Hospitals*

Thirteen Veterinary Hospitals are functioning in the State. The main objectives of these Hospitals is to provide on-spot treatment / artificial insemination facilities, create awareness among the farmers/livestock owners about various developmental schemes of the Central and the State Governments, and make elaborate arrangements for the disposal of bio-medical wastes.

Only three, out of 13 Veterinary Hospitals, test-checked had their own buildings and sufficient infrastructure/equipments to execute the assigned job, viz. providing dozes, artificial insemination, dosing castration and providing on-spot treatment to the animals.

Audit noticed the following discrepancies.

- Surveillance Report provided by the department indicated that symptoms of animal disease like Foot and Mouth disease (FMD), Black Quarter (BQ), Fowl Duck cholera (FDC), Anthrox, Rani-khet disease (RKD), etc. had persisted in the livestock resulting in the mortality of the livestock.

On being pointed out, the department stated that the organisms usually undergo genetic re-assortments which makes the control of the disease difficult. The department, however, failed to clarify as to why immunisation of the entire susceptible livestock population could not be made in a phased manner so as to eradicate the disease completely despite the fact that sufficient funds had been made available to the department under ASCAD.

- The FMD vaccines are required to be stored within a temperature range of 0 to 8 degree Centigrade. It was seen that the Directorate had issued F.M.D vaccines costing ₹ 13.43 lakh in the off season and that BVO, Baramulla had stored the vaccines where no cold storage system was available which meant that the efficacy of these vaccines for further use was doubtful.

3.12 *Sheep Husbandry*

The main function of the department is to increase mutton and wool production, both qualitatively and quantitatively, through various programme activities as detailed below.

Financial Management

3.12.1 *Allotment and Expenditure*

The position of allotment and expenditure for the Sheep Husbandry during the period 2005-10 is given in the table.

Table 3.10

(₹ in crore)

	Allotment			Expenditure			Savings
	State budget	GOI***	Total	State budget	GOI	Total	
2005-06	57.14	3.00	60.14	53.25	1.61	54.86	1.39
2006-07	59.90	4.41	64.31	56.29	1.63	57.92	2.78
2007-08	64.81	3.73	68.54	59.95	0.93	60.88	2.80
2008-09	79.52	4.68	84.20	75.41	1.34	76.75	3.34
2009-10	89.27	8.51	97.78	79.03	3.12	82.15	5.39
Total	350.64	24.33	374.97	323.93	8.63	332.56	5.39

*** (Indicates the position of availability of funds which include revalidated funds out of the unspent balances)

Audit scrutiny showed that only 7 per cent of the expenditure had been incurred on developmental activities for increasing mutton and wool production out of the total amount of ₹ 323.93 crore spent during 2006-10, the balance being administrative expenditure.

3.12.2 Programme implementation

The main activities of the department are to undertake extensive cross-breeding, open Sheep Extension Centres (SECs), provide adequate health coverage by way of dosing, vaccination, dipping and castration, and generate employment opportunities by establishing sheep and goat units. This is being done in sheep farms and facilities are also being provided through various extension centres of the department.

3.12.2.1 Targets and Achievements

As per the records of the department, there was no overall shortfall in achievement of targets under mutton, wool production, dosing, vaccination, dipping, castration and breeding coverage. However, information available in six⁹ test-checked units of the department revealed that there were overall shortfalls in the achievement of targets ranging between four and 32 per cent during 2005-10 as indicated in the following table. As such, the records of the department does not reflect the true picture:

Table 3.11

Nature of the activity	Targets	Achievements	Shortfall	Percentage Shortfall
Vaccination (In lakh)	61.94	42.17	19.77	32
Progeny born (in number)	10.79	8.80	1.99	18
Mutton Production (In tons)	437.48	391.83	45.65	10
Wool Production (In quintals)	95.98	86.04	9.94	10
Breeding coverage (in lakh)	12.84	11.30	1.54	12
Dosing (in lakh)	119.91	105.88	14.03	12
Dipping (in lakh)	65.05	62.59	2.46	4
Castrations (in lakh)	3.21	2.82	0.39	12

The reasons for shortfall was attributed by the DDOs to re-organisation of the district (DSHOs Jammu and Udhampur), poor nutritive value of pastures (DSHO Poonch),

⁹ District Sheep Husbandry Officers: Jammu, Udhampur, Rajouri, Poonch; B.V.O Reasi A.P.O. Migratory Project Jammu

the targets having been fixed by higher authorities (BVO Reasi) and shortage of finance and manpower (DSHO Rajouri). The replies furnished by the DSHOs were indicative of the fact that the targets had been fixed by the department without taking into account all these factors.

3.12.2.2 Extension centres

Extension centres are the primary windows of the department for extending benefits of artificial insemination and providing medicines under the programmes, especially in far-flung areas. Against the requirement (based on live-stock population) of 2,874 extension centres for sheep and goat population of 57.49 lakh (sheep 36.80 lakh: goat: 20.69 lakh) in the State, only 870 centres (30.3 *per cent*) were functioning (March 2010). The Assistant Project Officer, Sheep Husbandry Department, Kashmir stated that creation of sheep extension centres as per sheep population norms had been proposed to the Government. Since the extension centres constitute a vital link in providing facilities to the breeders, shortage of 2004 centres was bound to hamper dissemination of information regarding incentives available under sheep and wool development programmes for the intended beneficiaries.

3.12.2.3 Goat farm

Only one goat farm at Rajbagh, Kathua, existed in the State, which had distributed 271 bucks during 2006-10. It was seen in audit that against the requirement of 41,380 bucks¹⁰, the department had distributed only 587 bucks since 1991. In view of the huge gap between the requirement and the distribution, improvement in the genetic breed of the goat in the State was not possible. It was stated that purchase of Beetal bucks was underway and 76 Beetal bucks were distributed during 2005-10 in Jammu division. Due to limited availability, bucks could not be provided to each extension centre.

Interaction with 68 breeders revealed that the breeders were generally satisfied with the performance of ram distribution. The breeders, however, complained about the non-availability of doctors in any of the sheep extension centres.

3.12.2.4 Breeding

According to the prescribed norms, 80 out of 100 ewes put to breeding, should lamb. Records showed that lambing *percentage* ranged between 15 and 85 during 2005-10 in Kashmir division. In Jammu division, the percentage of lambing remained more than 80 *per cent*, which was encouraging, except in sheep breeding farm, Panthal, where the lambing *percentage* was 63 during 2007-08. The reasons for low lambing in Kashmir Division were attributed (March 2010) by the AD, Dachigam to spread of disease at the sheep breeding farms. The Deputy Director, Sheep Breeding Farm, Daksum stated that efforts had been made to achieve the breeding performance as per norms. However, specific action contemplated to control the disease was not intimated.

¹⁰ Calculated at the rate of one buck per 50 goats

3.12.2.5 Distribution of rams

Sheep breeding farms, being reservoirs of exotic germ plasm, rams produced at these farms were required to be distributed to the field for mating with local ewes for genetic improvement of livestock. However, a few rams were to be retained in the farms for maintaining the prescribed ratio for in-house breeding. Records of 12 sheep farms revealed that out of 6,529 rams produced during 2005-10, 3,651 rams were distributed in the field for providing breeding coverage and 2,901 were retained which was in excess of requirement¹¹. This resulted in substantial reduction in propagation of exotic germ plasm.

The Deputy Director, Sheep Breeding Farm, Daksum stated that during 2005-10, the rams were not up to mark for breeding purposes due to which the department was not in a position to distribute such rams. The Deputy Director, Sheep Breeding Farm, Dachigam stated that due to disease, the lifting/transportation of these animals to other places was temporarily suspended and non-availability of transport and often rigid selection adopted by breeders were the reasons for not lifting the full consignment of rams. The Deputy Director, Sheep Breeding Farm, Billawar stated that one ram was not sufficient for performing natural service to 50 ewes whereas the Deputy Director, Sheep Breeding Farm, Reasi stated that the rams were retained on the advice of the veterinary doctors. The replies of the officers are indicative of deficiencies in the department and non-uniform policy regarding distribution, etc.

3.12.2.6 Mortality

The mortality rate should be low in departmental livestock keeping in view the availability of healthcare facilities. 10 *per cent* mortality of the livestock has been fixed as a permissible limit. Mortality was in excess of permissible limit in sheep breeding farms at Daksum (11.60 *per cent* in 2005-06), Kralpatheri (15.74 *per cent* in 2005-06 and 11.43 *per cent* in 2006-07), Poshnar (14.92 *per cent* in 2005-06 and 37.47 *per cent* in 2006-07) and Kewa (17.64 *per cent* in 2005-06, 11.54 *per cent* in 2006-07 and 16.52 *per cent* in 2008-09). It also exceeded the permissible limit during some years during 2005-10 in departmental extension centres in the Districts of Pulwama, Budgam, Baramulla, Anantnag, Kupwara and Srinagar.

Director, Sheep Husbandry, Kashmir stated (February 2010) that the mortality at sheep breeding farms was due to emergence of an obscure disease with symptoms of abortion, still birth, neo-natal deaths, etc. and sudden onset of an unexpected hailstorm. The mortality at sheep breeding farm Kralipathri during 2005-06 was observed by the Investigation Committee to be a result of lackadaisical approach of some officials towards their duties.

3.12.2.7 Medicine

The department had spent ₹ 5.78 crore on purchase of medicines under ASCAD at the approved rates of SLPC during 2005-10. Audit check showed shortfall (29-76 *per cent*) in availability of doses as tabulated below:

¹¹ One ram for 50 ewes.

Table 3.12

Name of the vaccine	Year	Minimum requirement	Doses administered	Percentage shortfall
Sheep pox	2005-06	17.00 lakh doses	4.09 lakh	76
	2006-07	20.00 lakh doses	8.62 lakh	57
	2007-08	20.00 lakh doses	9.50 lakh	52
	2008-09	25.00 lakh doses	17.70 lakh	29

Sources: Departmental figures

The DSHOs stated that enough quantity of medicines was not supplied to them. Against the average requirement of ₹ 30 per animal for medicine fixed under the vision document (2009-10), the department was receiving just ₹ 4.18 per animal. The reply was unacceptable as the department had enough funds to purchase medicines which are borne out by the fact that the department had unspent balances at the close of each year which had accumulated to ₹ 1.09 crore at the end of 2009-10 (Table-3.10).

Audit scrutiny further revealed that the cost of medicines issued to the breeders through the BVOs at the subsidized rates of 25 per cent, 50 per cent and 75 per cent amounting to ₹ 13.72 lakh in respect of nine test-checked units of Jammu division had not been recovered in full. It was stated by the auditees that recovery of the cost of medicines was a continuous process and at no point of time the balance could be 'nil'. Recoverable cost of medicine had, however, not been worked out in the absence of which the year to which the recoverable cost pertained could not be ascertained in audit.

The general complaint of the breeders/ultimate beneficiary, however, was that they were not receiving medicines as per their requirement and instead medicines were issued to them as per the availability of medicines in the store. During interaction with 68 breeders of four DSHOs, it was seen that the breeders were not receiving any medicines even after repeatedly visiting the sheep extension centres. Medicines were not being made available to them at the doorsteps as envisaged; instead they had to go to main office at district headquarters to collect medicines defeating the purpose of creation of extension centres.

The Government stated (October 2010) that the complaints received from the breeders would be in isolated cases.

3.12.2.8 Wool production

As per norms fixed by the department, the annual average of wool yield per sheep should be 2.50 to 3.50 kg. Out of 13 farms where exotic breed of sheep is being maintained, the average wool yield per animal per annum during 2005-06 to 2008-09 in 14 farms was only 1.60 kg. The percentage shortfall of wool yield ranged between 26 and 59 per cent during 2005-09. The Director, Kashmir stated that the quantitative and qualitative wool yield and average have declined gradually during the last two decades due to non-import of superior germplasm for the last seven years which adversely affected breeding and production of wool.

Integrated Wool Improvement Programme under Technology Mission

Integrated wool improvement programme under the Prime Minister Special Package was launched (2002-03) in the State with 100 *per cent* central assistance to improve the healthcare, nutritional improvement, establishment of multipurpose sheep and wool extension centers, etc.

Out of ₹ 8.02 crore allotted/released during 2002-09, ₹ 4.08 crore were spent on the relevant activities and ₹ 3.94 crore remained unspent at the end of March 2010 indicating inability of the department to utilize the funds in full. The scheme was discontinued in the 11th FYP and unutilized funds remained parked with the Finance Department. Therefore, the intended benefits of the scheme could not be derived in full.

Wool Board

The Wool Board was constituted with the objective of procuring Wool and Pashmina from primary growers and sale thereof after grading, combing, spinning, etc. Audit check showed that out of the wool valued at ₹ 19.54 lakh produced at the Government farms and sold to the Board during 2006-10, ₹ 8.12 lakh was still outstanding (March 2010) against it. Low performance of the Board was attributed in vision document, to recession in the wool trade, nationally and globally, with the result the Board could not sell wool as per its envisaged objectives. The Director, Sheep Kashmir stated that the matter was under active follow-up action.

3.12.2.9 Fleece Testing Laboratory

There are two fleece testing laboratories one each at Srinagar and Jammu, to monitor the improvement in wool. It was seen that in 7671 wool samples randomly selected from Government sheep farms for fleece testing at Jammu, no quality-wise improvement had been noticed. The wool tested revealed that clean wool yield remained at 54 to 55 *per cent* only and objective of the department to improve wool production qualitatively had failed to yield the intended results. The Director, Sheep, Kashmir stated that poor nutrition and non-availability of vaccines/medicines and non-import of germ-plasm from outside the country had hampered production of quality wool. Failure of the department in procuring quality sheep/germ-plasm to maintain the quality of the local breed in the farms had resulted in non-achievement of the objectives for which the laboratories had been established.

3.13 Infrastructure

Out of the total allotment of ₹ 17.32 crore (2005-10), ₹ 14.71 crore had been spent on construction of 94 (out of projected 99) buildings. Five incomplete works taken up in 2003-04 had not been completed despite spending ₹ 88.96 lakh thereon upto March 2007. The works had remained incomplete for non-release of the balance funds to the extent of ₹ 25.32 lakh, which had been demanded by the executing agencies¹² from

¹² PWD, Horticulture and Sericulture

time to time. Due to non-release of funds, ₹ 88.96 lakh spent on the works had proved unfruitful.

Funds did not seem to be a constraint as demanded by the agencies for completion of these works as ₹ 2.61 crore had been lying unspent with the executing agencies as against ₹ 24.95 crore advanced during 2005-10, works costing ₹ 14.71 crore only had been executed by the executing agency. Audit has seen that funds were being released to the executing agencies work-wise but no details thereof were available with/maintained by the Directors of the two departments. The Directors stated that the agencies were being requested to complete the works which indicated lack of monitoring mechanism in the department over the assets being created.

3.14 Internal control

Internal control system is a management tool used to provide assurance that the objectives are being achieved as planned. The main objective of the internal control system is to establish adequate and effective procedures, supervisory controls and management information system in the organization so as to insulate it from financial irregularities and frauds and help it achieve its targets and goals efficiently. Effective internal controls include financial and operational controls including periodic review of internal control to ensure its adequacy. Audit observed that the controls though in place were not being adhered to as discussed below.

The department had been slow in responding to the audit objections/queries. The Director, Animal Husbandry, Jammu had not furnished the reply to the audit observations till date (April 2010). The latest position of outstanding paras/inspection reports is as under:-

Table 3.13

Outstanding at the beginning of the year		Settled during the year		Outstanding as of March 2010	
IRs	Paras	IRs	Paras	IRs	Paras
455	1,343	71	280	384	1,063

At the close of March 2010, 384 Audit Inspection Reports involving 1063 paragraphs were pending settlement. Lack of response to Audit indicated inaction on the part of the departments concerned which resulted in recurring of irregularities and consequent loss to the Government.

- Progress reports of achievements of targets vis-a-vis expenditure incurred on account of SCA to TSP¹³ were not being submitted to the Directorate by the respective District Officers on the plea that funds on this account were directly received from the respective District Development Commissioners.
- No assets register was maintained in any of the test-checked units. On this being pointed out by audit it was stated that the register would be maintained in future.

¹³ Special central assistance to Tribal Sub plan.

- Tender sale register/tender select register, agreement register, comparative statements, CDR register, equipments history sheet, etc. were not maintained in respect of the National Project on Cattle and Buffalo Breeding in the JD/CEOs Jammu.
- To ensure proper accountal of all monetary transactions, the totals of the cash book maintained in each office were to be verified by a responsible officer other than the cashier. A certificate to this effect was to be recorded on the cash book. The procedure was not followed in any of the test-checked units. No cash security or personal sureties were obtained from the officials entrusted with the job of cashier in all the test-checked units.
- Advance payment register was not maintained in the office of the Director, Animal Husbandry Department, Jammu. As a result, the funds released to the executing agency could not be watched. Against ₹ 25.56 lakh released to the Executive Engineer, Construction Division-I, for the construction of veterinary building at Kangrail, ₹ 23.56 only were shown to have been received by the executive agency.
- Budget control register was maintained by all the auditees but monthly progress of available funds and expenditure incurred, were not indicated in the drawal registers.
- Annual physical verification of store stock, in respect of 18 (out of 73) auditee units, was not conducted. Reconciliation of the Divisional store with the subordinate store was not conducted.
- Unserviceable articles ought to be disposed off/written off/auctioned. It was observed that unserviceable articles were lying un-disposed, in most of the test-checked auditee units. On being pointed out all the auditee units replied that needful was being done and compliance would be shown to audit.
- Annual Administrative Inspection required to be conducted by the higher authority, had not been conducted in 55 out of the 73 auditees.
- The Environment Act 1986 and Bio-management Handling Rule 1998 envisage that the veterinary hospitals have to ensure that bio-medical waste is handled without any adverse effect to the human health and environment. The hospitals were required to keep record of generation, collection, storage and disposal of bio-medical waste and a detailed report on this account was to be submitted to the concerned authority on 1st January each year showing the category and quantity, of bio-Medical waste, handled during the year. No record and arrangement for bio-medical waste were maintained in all the three auditee units.

The Superintendent, Veterinary Hospital, Jammu stated that the matter had been taken up with the Government for providing excavator. The Superintendent Veterinary Hospital, R.S. Pura and Poonch stated that bio-medical waste was of very small magnitude and the same were being buried underground. In respect of non-fixation of

targets it was stated by all the three auditees that the number of animals coming, for getting on-spot treatment, could not be ascertained in anticipation.

3.15 Manpower management

The department had a sanctioned strength of 11,088 posts in various cadres, Gazetted (1,006) and Non-gazetted (10,082) and 1,633 posts were lying vacant constituting about 12 per cent of the sanctioned posts.

Instances of poor manpower management are given as under.

- Despite shortage of staff in the field offices, the Director, Animal Husbandry Kashmir attached eight Veterinary Assistant Surgeons posted in far-flung area of Kupwara with the Directorate.
- Hatching activity in Sumbal, Doda and Poonch were stopped in 2000-01, 2007-08 and 2006-07, respectively. It was however, seen that the staff deployed in the hatcheries at Sumbal and Doda had not been re-allocated to some other place where their services could have been utilized profitably. This resulted in payment of idle wages of ₹ 56.80 lakh¹⁴.
- The production of Neural Tissue Anti-Rabies Vaccine had been completely stopped since April, 2008 but three doctors including one Assistant Director Production were continued to be posted. ₹ 13.31 lakh was incurred on salary from May 2008 to March 2010 even though no duty was performed by them. It was stated that the matter had been taken up with the higher authorities for appropriate action.
- Idle wages amounting to ₹ 25.99 lakh had been paid to the four drivers attached with four offices as no vehicle was allotted to these offices. It was stated that the salary of the drivers was released against the sanctioned strength because against the availability of one vehicle there were three sanctioned posts.
- At the end of March 2009 there were about 100 departmental cases pending settlement in the Hon'ble court on account of various pay and seniority anomalies.

3.16 Monitoring

Monitoring is an effective tool to ascertain the affects and impact of schemes/programmes undertaken for implementation by the departments.

Audit observed that no physical progress reports were maintained at any level, which was indicative of a non-existent monitoring mechanism in the department. Neither any committee to monitor the progress of the CSSs like IDDP 'Strengthening of Poultry Infrastructure', NPCBB and SCA to TSP was formulated nor any midway appraisal of these schemes ever conducted.

¹⁴ Baramulla, Kupwara, Budgam, Pulwama and Doda, Duck Farm Sumbal, Kashmir = ₹ 43.23 lakh
Doda hatchery = ₹ 13.57 lakh

Internal Audit Inspection, which serves as a guiding principle for the officers to assess its achievements, has not been conducted by the finance department in respect of all the auditees except the Directorate Offices.

3.17 Conclusion

Perspective plans were not prepared nor was any phasing done. Year-wise targets were not realistically fixed. Production of milk, poultry meat, mutton and wool had not increased to the required levels. Mortality rate of livestock had increased in Kashmir division. Mid-term appraisal of the ongoing CSSs had not been conducted. Cases of financial irregularities, like advance drawal of funds without requirements, incurring of expenditure without sanction and diversion of funds were noticed. CSSs like Strengthening of Poultry/Duck Farms, National Project on Cattle and Buffalo Development, Integrated Dairy Development Programme, Special central assistance to Tribal Sub plan were not implemented as per guidelines. Effective internal control mechanism was not in place.

3.18 Recommendations

- Perspective plan, based on baseline surveys and gap analysis, for various activities should be drawn up and implemented in letter and spirit.
- The State Government should draw up a road map and fix year-wise targets for up-gradation of indigenous cattle, buffaloes and sheep for achieving the exotic levels prescribed in the Breeding Policy.
- Infrastructural facilities including office buildings, liquid nitrogen plants, sample testing laboratory, etc. needs to be created for effective discharge of the mandate of the department.
- Adequate number of sheep extension centres need to be established and sheep population may be covered under Sheep and Wool Development Programme.

CHAPTER-IV

REVENUE RECEIPTS

PART A - GENERAL

4.1.1 Trend of Revenue Receipts

The tax and non-tax revenue raised by the Government of J&K during the year 2009-10, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:-

Table 4.1

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Revenue raised by the State Government					
	Tax Revenue	1626.84	1798.97	2558.18	2682.96	3027.32
	Non-tax revenue	535.81	632.53	807.98	837.16	955.03
	Total	2162.65	2431.50	3366.16	3520.12	3982.35
2.	Receipts from the Government of India					
	Share of net proceeds of divisible Union taxes and duties	1135.36	1413.43	1775.01	1826.95	1914.76
	Grants-in-aid	7017.14	7337.10	8135.87	8955.46	11690.71
	Total	8152.50	8750.53	9910.88	10782.41	13605.47
3.	Total revenue receipts of the State Government (1& 2)	10315.15	11182.03	13277.04	14302.53	17587.82
4.	Percentage of 1 to 3	21	22	25	25	23

The above table indicates that during the year 2009-10, the overall receipts of the State increased by 23 per cent over the previous year. The revenue raised by the State's own receipts (₹ 3,982.35 crore) was 23 per cent of the total revenue receipts against 25 per cent in the preceding year. The balance 77 per cent receipts were met from the funds received from Government of India (GOI) of which 85.9 per cent came in the form of Grants-in-aid. The Grants-in-aid from GOI constituted 66.5 per cent of the State's receipts.

4.1.1.1 The following table presents the details of tax revenue raised during the period 2005-06 to 2009-10.

Table 4.2 (₹ in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/decrease (-) in 2009-10 over 2008-09
1.	Tax on sales trade (sales tax/VAT) etc.	1014.49	1159.72	1804.81	1835.99	2145.72 ¹	(+) 17
2.	State excise	218.68	212.80	244.15	238.67	293.78	(+) 23
3.	Stamp duty and registration fees						
	Stamps judicial	3.74	7.48	5.00	5.83	9.01	(+) 55
	Stamps non-judicial	33.99	41.36	50.48	41.75	51.97	(+) 24
	Registration fees	8.70	8.08	10.14	9.55	8.53	(-) 11
4.	Taxes and duties on electricity	58.02	59.70	93.49	150.76	120.34	(-) 20
5.	Taxes on vehicles	49.17	63.96	72.60	65.47	83.09	(+) 27
6.	Tax on goods and passengers	236.27	243.16	264.59	271.39	299.43	(+) 10
7.	Taxes on immovable property on other than agricultural income	0.09	0.06	-	-	-	-
8.	Land revenue	3.47	2.57	9.58	63.53	15.41	(-) 76
9.	Others taxes and duties commodities and services	0.22	0.07	3.33	0.01	0.02	(+) 100
	Total	1626.84	1798.96	2558.17	2682.95	3027.30	(+) 13

The reasons for variations in receipts for 2009-10 from those of 2008-09 reported by the departments concerned are as under:-

Taxes on Sales/Trades etc: The increase was due to more receipts under VAT.

State Excise: The increase was mainly due to more receipts on 'sale of country spirits'.

Stamps: The increase was due to increased sale of stamp (judicial and non-judicial).

Taxes and Duties on Electricity: Decrease under taxes and duties on electricity was due to collection of less receipts on account of taxes on consumption and sale of electricity than that assessed.

Taxes on vehicles: Increase was mainly due to collection of more receipts under State Motor Vehicle Taxation.

¹ Includes ₹ 50 crore representing waiver booked as incentive under MH-2040 by credit to MH-0040 by the Department.

Tax on goods and passengers: Increase is mainly due to more collection of ‘tolls on roads’ and ‘passenger tax’.

4.1.1.2 The following table presents the details of the non-tax revenue raised during the period 2005-06 to 2009-10.

Table 4.3

(₹ in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/ decrease (-) in 2009-10 over 2008-09
1.	Power	384.31	478.94	600.94	629.98	723.64	(+) 15
2.	Interest receipts, dividends and profits	25.05	34.02	65.33	56.51	54.80	(-) 3
3.	Forestry and wild life	45.51	18.99	32.20	31.61	37.46	(+) 19
4.	Public works	12.63	16.16	16.44	16.89	23.87	(+) 41
5.	Medical and Public Health	8.83	12.62	13.21	9.92	9.49	(-) 4
6.	Water supply and sanitation	9.58	10.95	13.64	14.65	13.16	(-) 10
7.	Police	8.01	6.59	4.21	10.35	12.84	(+) 24
8.	Non-ferrous mining and metallurgical industries	8.54	9.98	16.43	14.86	25.34	(+) 71
9.	Crop Husbandry	4.35	4.31	4.52	5.00	5.23	(+) 5
10.	Animal Husbandry	3.98	4.75	4.66	4.70	5.13	(+) 9
11.	Education, Sports, art and culture	1.33	1.69	1.53	1.61	2.21	(+) 37
12.	Others	23.69	33.53	34.87	41.08	41.86	(+) 2
	Total	535.81	632.53	807.98	837.16	955.03	(+) 14

The reasons for variations in receipts for 2009-10 from those of 2008-09 reported by the concerned departments are as under:-

Power: The increase was due to collection of more receipts on account of power tariff.

Interest Receipts: The decrease was mainly due to collection of less revenue on other interests and less credit afforded under irrigation schemes.

Non-ferrous Mining and Metallurgical industries: The increase was mainly due to more receipts on account of Mineral Concession Fees, Rents and Royalties.

4.1.2 Variation between the budget estimates and actuals

The variation between the budget estimates of revenue receipts and the actual receipts under the principal heads of tax and non-tax revenue for the year 2009-10 is mentioned below:-

Table 4.4

(₹ in crore)

S. No	Revenue head	Budget estimates	Actual Receipts	Variations increase(+)/ shortfall(-)	Percentage of increase (+)/ decrease (-) in 2009-10 over 2008-09
Tax Revenue					
1.	Taxes/VAT on sales , trade etc.	2065.70	2145.72	(+) 80.02	(+) 4
2.	State Excise	260.00	293.78	(+) 33.78	(+) 13
3.	Stamp duty and registration fees	82.61	69.51	(-) 13.10	(-) 16
4.	Taxes on vehicles	83.50	83.10	(-) 0.40	(-) 0.48
5.	Taxes and duties on electricity	195.38	120.35	(-) 75.03	(-) 38
6.	Land revenue	8.52	15.41	(+) 6.89	(+) 81
7.	Other taxes and duties on commodities and services	-	0.02	-	-
8.	Taxes on goods and passengers-Tax on entry of goods into local areas	315.64	299.43	(-) 16.21	(-) 05
Non-Tax Revenue					
1.	Non-ferrous mining and metallurgical industries	18.15	25.34	(+) 7.19	(+) 40
2.	Forestry and wild life	39.49	37.46	(-) 2.03	(-) 05
3.	Interest receipts	21.24	10.63	(-) 10.61	(-) 50
4.	Water rates (medium irrigation)	1.96	1.37	(-) 0.59	(-) 30

The departments did not inform (October 2010) the reasons for variation despite repeated requests.

4.1.3 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on sales, trade and Motor spirits, etc. during the year 2009-10 and corresponding figures for the preceding four years as furnished by the Finance (Commercial Taxes) Department is mentioned below:

Table 4.5

(₹ in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment	Penalty for delay in payment of taxes and duties	Total collection ²	Percentage of column 3 to 6
1	2	3	4	5	6	7
Taxes on Sales/VAT,	2005-06	736.74	3.66	-	740.37	100
	2006-07	887.11	1.00	-	888.11	100
	2007-08	1160.63	1.16	50.30	1212.09	96
	2008-09	1275.28	4.65	55.43	1335.36	96
	2009-10	1768.08	7.42	16.15	1791.65	99
Motor spirit tax.	2005-06	218.27	0.14	-	218.41	100
	2006-07	248.99	-	0.20	249.19	100
	2007-08	268.37	0.02	0.02	268.41	100
	2008-09	294.90	-	-	294.90	100
	2009-10	369.24	-	-	369.24	100

(Source: Figures supplied by the Department)

The foregoing table indicates that pre-assessment collections ranged between 96 and 100 per cent.

4.1.4 Cost of collection

The gross collection of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the year 2007-08 to 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collections for 2008-09 are mentioned below: -

Table 4.6

(₹ in crore)

S. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2008-09
1.	Taxes/VAT on sales, trade etc.	2007-08	1804.81	14.52	0.80	0.88
		2008-09	1835.99	15.30	0.83	
		2009-10	2145.72	23.56 ³	1.10	
2.	State excise	2007-08	244.15	9.88	4.05	3.66
		2008-09	238.67	11.10	4.65	
		2009-10	293.78	12.37	4.21	
3.	Stamp duty and registration fees	2007-08	65.63	13.41	20.43	2.77
		2008-09	57.14	6.04	10.57	
		2009-10	69.51	7.80	11.22	
4.	Taxes on vehicles	2007-08	72.60	3.98	5.48	2.93
		2008-09	65.47	4.73	7.22	
		2009-10	83.10	4.56	5.49	

Evidently the percentage cost of collection in respect of all the revenue heads mentioned in the table was much higher than the All India Average, which needs to be looked into.

² Variation between departmental figures and figures of finance account has been pointed out to the Department. The reply has not been received (October 2010).

³ Excluding ₹ 50 crore representing waiver booked as incentive under MH-2040 by credit to MH-0040 by the Department.

4.1.5 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2010, in respect of the principal heads of revenue as reported by the departments was ₹ 1211.70 crore of which ₹ 650.52 crore were outstanding for more than five years as mentioned below:-

Table 4.7

(₹ in crore)

S. No.	Heads of revenue	Amount outstanding as on 31 March 2010	Amount outstanding for more than five years	Remarks
1.	Taxes on Sales/VAT, Trades etc.	1153.66	616.27	Out of the arrears recovery of ₹ 82.26 crore was stayed by courts/appellate authorities/proposed for recovery as arrears of land revenue.
2.	State excise	4.77	4.77	Out of total arrears, recovery of ₹ 0.94 crore was stayed by court and ₹ 2.09 crore was proposed to be recovered by collectors as arrears of land revenue.
3.	Motor spirit tax	0.75	-	The recovery of ₹ 0.75 crore was stayed by courts/appellate authorities/proposed for recovery as arrears of land revenue.
4.	Passenger tax	28.06	18.67	Nil.
5.	Entertainment Tax	0.21	0.21	Nil.
6.	Toll Tax	24.25	10.60	Out of total arrears, ₹ 4.61 crore are proposed to be recovered as arrears of land revenue and ₹ 9.02 crore have been stayed by the Courts. ₹ 0.02 crore are due for recovery for which demand notices have been issued.
	Total	1211.70	650.52	

(Source: Figures supplied by the Department)

The arrears outstanding for more than five years constituted 54 per cent of total arrears and need to be recovered quickly.

4.1.6 Arrears in assessment

The details of cases pending assessment at the beginning of the year 2009-10, cases due for assessment, those disposed of during the year and cases pending finalisation at the end of the year 2009-10, as furnished by the Commercial Taxes Department in respect of sales tax/VAT and tax on works contracts, are as follows:

Table 4.8

(₹ in crore)

Sl. No.	Name of tax	Opening balance	New cases due for assessment during 2009-10	Total number of assessments due	Cases disposed during the year 2009-10	Balance at the end of the year	Percentage of column 6 to 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Sales tax	11,364	12,778	24,142	15,647	8,495	65
2.	Tax on works contracts	17,175	9,400	26,575	4,269	22,306	16
Total		28,539^d	22,178	50,717	19,916	30,801	39

(Source: Figures supplied by the Department)

The foregoing table indicates that the percentage of disposal of assessment was very low.

The Government may consider issuing directions to the Department to take immediate steps to complete the pending assessments in a time bound manner.

4.1.7 Evasion of tax

The details of cases of evasion of tax detected by the departments, cases finalized and demands raised as reported by the department concerned are mentioned below:

Table 4.9

Department	Cases pending as on 31 March 2009	Cases detected during 2009-10	Total	Number of cases in which assessments/investigation completed and additional demand including penalty etc. raised during the year 2009-10		Number of pending cases as on 31 March 2010
				No. of cases	(₹ in lakh)	
1. Commercial Tax Department	277 ⁵	2357	2634	2424	296.38	210
2. State Excise	1	-	1	-	-	1
3. Passenger Tax	Nil	688	688	688	1.48	Nil

(Source: Figures supplied by the Department)

The progress of recovery against the demand raised was not intimated (October 2010).

4.1.8 Write-off and waiver of revenue

The status of arrears pertaining to Sales Tax/VAT waived off and reduced due to rectification, appeals and remission during the year 2009-10 is given in the following table.

Table 4.10

(₹ in crore)

Amount of arrears waived off	66.51
Amount of arrears reduced due to rectification, appeals and remission	157.95

(Source: Figures supplied by the Department)

⁴ The variations in closing balance ending 31 March 2009 and opening balance as on 01 April 2009 has been pointed out to the Department (September 2010), the reply is awaited (October 2010).

⁵ The variations in closing balance ending 31 March 2009 and opening balance as on 01 April 2009 has been pointed out to the Department (September 2010), the reply is awaited (October 2010).

4.1.9 Refund

The number of refund cases pending at the beginning of the year 2009-10, claims received during the year, refunds allowed during the year and cases pending at the close of the year (March 2010), as reported by the Sales tax department is mentioned below.

Table 4.11

(₹ in lakh)

S. No.	Particulars	Sales Tax	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	13 ⁶	13.75
2.	Claims received during the year	Nil	Nil
3.	Refunds made during the year	3	0.95
4.	Balance outstanding at the end of the year	10	12.80

(Source: Figures supplied by the Department)

Reduction in pending refund cases as compared to previous year was encouraging.

⁶ The variations in closing balance ending 31 March 2009 and opening balance as on 01 April 2009 has been pointed out to the Department (September 2010), the reply is awaited (October 2010).

PART B - SALES TAX/VALUE ADDED TAX**4.1.10 Tax Administration**

The Commissioner-cum-Secretary, Finance is responsible for overall working of the Commercial Taxes Department at the Government level. The control and superintendence of the Department vests with the Commissioner Commercial Taxes (CCT), who is assisted by three Additional Commissioners of Commercial Taxes (two at Jammu and one at Srinagar) and 11 Deputy Commissioners, Commercial Taxes for carrying out various functions of the Department. The State has been divided into 45 Commercial Taxes Circles, each headed by a Commercial Taxes Officer (CTO).

4.1.11 Trend of receipts

Actual receipts from VAT during the last five years from 2005-06 to 2009-10 alongwith the total tax receipts during the same period are mentioned below:-

Table 4.12 (₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax /Non-tax receipts of the State	Percentage of actual VAT receipts vis-a-vis total tax/non-tax receipts
2005-06	950.00	1014.49	(+) 64.49	07	2162.65	47
2006-07	1235.00	1159.72	(-) 75.28	06	2431.50	48
2007-08	1422.31	1804.81	(+) 382.50	27	3366.16	54
2008-09	1778.00	1835.99	(+) 57.99	03	3520.12	52
2009-10	2065.70	2145.73	(+) 80.03	04	3982.35	54

4.1.12 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 on account of taxes on Sale/VAT, Trades, etc. amounted to ₹ 1153.66 crore of which ₹ 616.27 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2005-06 to 2009-10.

Table 4.13 (₹ in crore)

Year	Opening balance of arrears	Closing balance of arrears
2005-06	825.94	877.08
2006-07	877.08	943.48
2007-08	943.48	960.39
2008-09	960.39	735.07
2009-10	735.07	1153.66

(Source: Figures supplied by the Department)

As can be seen the arrears have accumulated to ₹ 1153.66 crore showing quantum jump of 57 per cent over the arrears of the previous year. Appropriate steps need to be taken for recovery. The arrears outstanding for more than five years constituted 53 per cent of the total arrears and need to be recovered on priority.

4.1.13 Cost of VAT per assessee

Table 4.14

Year	No. of assessee	Sales Tax/VAT (₹ in crore)	Cost of collection (₹ in crore)	Cost of collection of VAT per assessee (₹)
2009-10	57722	2145.72	23.56 ⁷	4082

4.1.14 Cost of collection

The gross collection of VAT receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the year 2007-08 to 2009-10 along with the relevant all India Average percentage of expenditure on collection to gross collections for 2008-09 are mentioned below:-

Table 4.15

(₹ in crore)

S. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2008-09
1.	Taxes/VAT on sales trade etc.	2007-08	1804.81	14.52	0.80	0.88
		2008-09	1835.99	15.30	0.83	
		2009-10	2145.73	23.56	1.09	

(Source: Figures supplied by the Department)

The figures in the above table reveal that the cost of collection of VAT on sales/Trade, etc. upto 2008-09 has been lower than the all India average, which was encouraging. However, during 2009-10 there has been substantial increase (54 per cent) in the growth rate in cost of collection, as compared to previous year which needs to be looked into.

⁷ Excluding ₹ 50 crore representing waiver booked as incentive under MH 2040 by credit to MH-0040 by the Department.

PART C Response of the Government and assurances**4.1.15 Failure of senior officials to enforce accountability and protect the interest of the State Government**

The Principal Accountant General (Audit), J&K (PAG) conducts periodical inspection of the Government Departments to test-check the transactions and verify the maintenance of the important accounts and other records as prescribed under rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, 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 promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

Inspection reports issued upto June 2009 disclosed that 1,678 paragraphs involving ₹ 745.83 crore relating to 487 IRs remained outstanding at the end of June 2009 as mentioned below along with the corresponding figures for the preceding two years.

Table 4.16

	June 2007	June 2008	June 2009
Number of outstanding IRs	377	437	487
Number of outstanding audit observations	1363	1503	1678
Amount involved (₹ in crore)	687.40	725.59	745.83

The department-wise details of the IRs and audit observations outstanding as on 30th June 2009 and the amounts involved are mentioned below:-

Table 4.17

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance	Taxes/VAT on sales, trade etc.	232	1070	639.33
2.	Excise	State excise	48	92	81.12
3.	Transport	Taxes on motor vehicles	45	144	20.49
4.	Stamps and registration	Stamps and registration fees	162	372	4.89
	Total		487	1678	745.83

This large pendency of the IRs due to non-receipt of replies indicated failure of the heads of offices and heads of the Departments to initiate action to rectify the defects, omissions and irregularities pointed out by the PAG.

It is recommended that the Government must take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedules and also fail to take action to recover loss/outstanding demand in a time bound manner.

4.1.16 Departmental Audit Committee Meetings

During the year 2009-10, no Audit Committee meeting was held in respect of Revenue Audit Wing.

4.1.17 Response of the Departments to the draft audit paragraphs

The draft paragraphs containing important audit observations noted during periodical local inspections, proposed to be included in the Audit Report of the Comptroller and Auditor General of India (CAG), are forwarded to the Secretaries of the Departments concerned, drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the Departments is invariably indicated at the end of each such paragraph included in the Audit Report.

Five audit paragraphs and one review proposed to be included in the Report of the CAG for the year ended March 2010, Government of Jammu and Kashmir were forwarded to the Secretaries of the respective Departments' upto September 2010. Out of these, replies of only three paragraphs were received upto October 2010. The remaining two draft paragraphs have been included without the response of the Government.

4.1.18 Follow up on Audit Reports - summarised status

Status of reviews/paragraphs of Revenue Receipts Chapter pending discussion by the Public Accounts Committee as on 31 March 2010 was as under:

Table 4.18

Period of Audit Reports	Total number of reviews and paragraphs that appeared in Revenue Receipts Chapter of Audit Report		No. of reviews and paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1990-1991	-	5	-	5
1991-1992	-	8	-	8
1992-1993	1	5	1	5
1993-1994	2	5	2	5
1994-1995	1	14	1	14
1995-1996	4	9	4	9
1996-1997	2	4	2	4
1997-1998	-	9	-	4+2 ⁸
1998-1999	1	11	1	9+2 ⁸
1999-2000	-	7	-	6+1 ⁸
2000-2001	1	7	1 ⁵	7
2001-2002	1	8	1	6+2 ⁸
2002-2003	1	8	1	7+1 ⁸
2003-2004	-	4	-	4
2004-2005	1	5	1	1+2 ⁸
2005-2006	-	8	-	2+3 ⁸
2006-2007	1	4	1	4
2007-2008	2	7	2	7
2008-09	2	5	2	5
Total	20	133	20	125

⁸ Partly discussed.

4.1.19 Analysis of the mechanism for dealing with the issues raised by Audit**4.1.19.1 Position of Inspection Reports**

The summarised position of inspection reports issued during the year 2009-10 including those of previous two years and their status as on 31.03.2010 are tabulated below.

Table 4.19

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2007-08	361	1245	628.06	67	313	110.02	5	112	13.08	423	1446	725.00
2008-09	423	1446	725.00	53	266	28.69	2	67	14.58	474	1644	739.11
2009-10	474	1644	739.20	70	342	935.57	4	96	49.20	540	1890	1625.57

The above table indicates lackadaisical approach of the Departments in clearing the IRs/paragraphs as only 11 IRs with 275 paragraphs were settled during 2007-08 to 2009-10.

4.1.20 Assurances given by the Department/Government on the issues highlighted in the Audit Reports**4.1.20.1 Recovery of accepted cases**

The position of paragraphs included in the Audit Reports of the last 5 years, those accepted by the Department and the amount recovered are mentioned below:-

Table 4.20

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year	Commutative position of recovery of accepted cases
2004-05	05	0.27	05	0.27	0.02	0.02
2005-06	08	0.87	08	0.84	-	0.02
2006-07	08	1.82	08	1.82	0.00	0.027
2007-08	07	5.11	07	4.26	0.42	0.45
2008-09	05	0.94	05	0.94	0.01	0.46
Total	33	9.01	33	8.13	0.43	

Thus, against the accepted cases involving ₹ 8.13 crore, the departments/Government could recover only a sum of ₹ 0.43 crore. This shows that the departments/Government have failed to recover the dues even in the cases where they have accepted audit observations.

The department may consider to take immediate action to install a mechanism to pursue and monitor prompt recovery of dues involved in accepted cases.

PART D *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 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 5 years, features of the tax administration, audit coverage and its impact during past 5 years, etc.

During 2009-10, out of 273 auditable units, 97 units were planned and 62 units audited which is 23 *per cent* of the total auditable units.

Besides, one performance review namely ‘Levy and Collection of Electricity Duty and Fees’ was also taken up to examine the efficacy of the tax administration of these receipts, which forms paragraph 4.2 of this Report.

4.1.21 *Results of Audit*

4.1.21.1 *Position of local audit conducted during the year*

Test-check of the records of 62 units of commercial tax, State excise, motor vehicles and other departmental offices conducted during the year 2009-10 revealed underassessment/short levy/loss of revenue aggregating ₹ 53.52 crore in 471 cases. During the course of audit, the Departments concerned accepted underassessment and other deficiencies of ₹ 0.90 crore involved in 29 cases pointed out in 2009-10 and earlier years.

4.1.21.2 *This Report*

This Report contains five draft paragraphs relating to short/non-levy of tax, duty and interest, penalty etc. involving financial effect of ₹ 0.89 crore and one performance review on ‘Levy and collection of Electricity Duty and Fees’ involving financial effect of ₹ 0.91 crore. These are discussed in succeeding paragraphs.

PERFORMANCE REVIEW

POWER DEVELOPMENT DEPARTMENT

4.2 Levy and Collection of Electricity Duty and Fee

Highlights

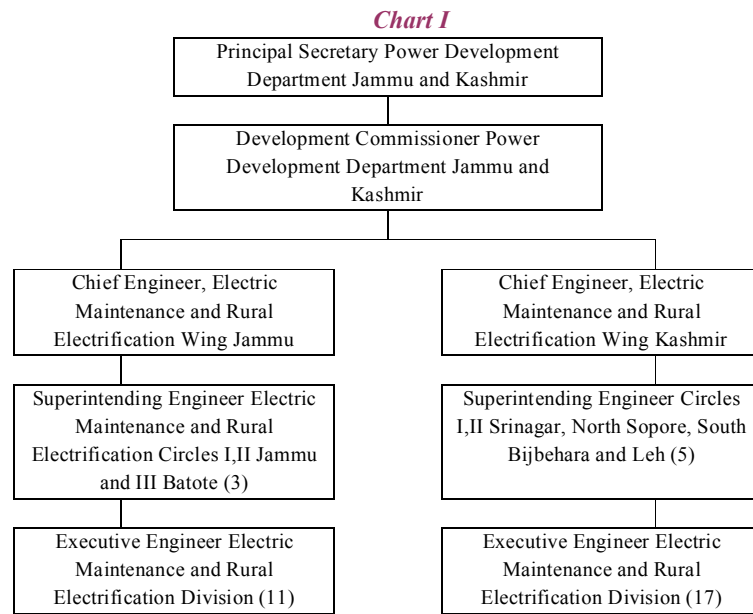
- *Arrears of electric charges including electricity duty at the end of 2009-10 had swollen from ₹ 838.65 crore to ₹ 986.45 due to non-pursuance of these by the department.*
(Paragraph: 4.2.8.1)
- *The internal control mechanism of the Department was weak in absence of independent internal audit wing and poor functioning of Revenue cell.*
(Paragraph: 4.2.8.2)
- *Delays of seven days to 28 days in deposition of revenue collected by the J&K Bank into the Government account had led to availing of overdraft and consequential interest liability of ₹8.15 lakh.*
(Paragraph: 4.2.8.3)
- *Loss of Electricity Duty could not be assessed due to non-framing of rules under the Electricity Regulation Act 1963.*
(Paragraph: 4.2.8.4)
- *The Department failed to levy and collect electricity duty from autonomous bodies/corporations/consumers in accordance with the provisions of the Act.*
(Paragraph: 4.2.9)

4.2.1 Introduction

The levy and collection of duty on electricity is governed by the Jammu and Kashmir Electricity Duty Act 1963. The Act provides for levy of duty on sale or consumption of electricity at the rates notified by the State Government. The rate of Electricity Duty (ED) was fixed (October 1984) at 22 *per cent* of the cost of electric energy sold/consumed (energy charges). The tariff fixed by the State Government/State Electricity Regulatory Authority (SERC) from time to time is exclusive of the ED. The fee recovered by the Government includes both energy charges and ED. No ED is leviable on the energy consumed or sold to Government of India (GOI); or consumed in the construction, maintenance or operation of any railway by the GOI or any Railway Company.

4.2.2 Organisational set up

The organisational setup of the department is as under:



4.2.3 Audit Objectives

The review was conducted to assess whether:

- the provisions of the Act/Rules were enforced efficiently in proper/prompt realization of energy charges and ED.
- the infrastructure in place was sufficient as required under the provisions of the Act/Rules;
- statutory inspections of electric installations were being carried out regularly; and
- the internal control mechanism was adequate.

4.2.4 Scope of Audit and Methodology

The review of the system of Levy and Collection of Electricity Duty and fee for the period from 2005-06 to 2009-10 was conducted from May 2010 to July 2010 by test-check of the records of the Administrative Department, Development Commissioner (Power), Chief Engineers, PDC and EM&RE, and 10⁹ divisions (out of 28 divisions). Besides this, information/data furnished by the other three divisions were also included in the review.

4.2.5 Audit Criteria

The performance review was benchmarked against the following criteria:

⁹ Four divisions are located in industrial belts: four in commercially important places and five in predominantly consumer-based areas covering approximately 60 per cent of the revenue earned and 50 per cent of consumers in all.

- Provisions of the Electricity Duty Act;
- Provisions contained in the State Electricity Act/rules; and
- Tariff orders issued by the State Government from time to time.

4.2.6 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the Power Development Department and the Power Development Corporation for providing necessary information and records for audit check. An entry conference was held with the Development Commissioner (Power), J&K Government on 26 April 2010 wherein the audit objectives were discussed. The deficiencies noticed in the system of Levy and Collection of Electricity Duty and Fee were discussed with the Divisional Officers of each test checked units. An exit conference was held on 24 November 2010 with Development Commissioner (Power) J&K, Jammu in which the results of audit and recommendations were discussed. The Development Commissioner (Power) assured that the conclusion/recommendations mentioned in the review report shall be implemented to safeguard government revenue on account of Electricity Duty and Fee. The comments/reply of the department has been appropriately included in this report under the respective paragraphs.

4.2.7 Trend of Revenue

As per the State Budget Manual, the actuals of the past three years and the sanctioned (revised) estimate of the current year ordinarily afford the best guide in framing the estimates for the revenue of the ensuing year. However, while framing the Budget Estimates due regard is to be paid to any general tendency either towards stability or increase or decrease indicated by the data of the four years and to the arrears of the past years due for recovery in the ensuing year. Special attention is to be paid to addition of any new sources or discontinuance of any existing sources of revenue. The reasons which led to the adoption of the figures for the estimates of the ensuing year are to be carefully explained.

The Department had not set separate targets/estimates for energy charges (EC) and electricity duty(ED), which had been clubbed and budgeted in totality. The budget estimates and the actual realisation of Revenue on account of EC including ED during the years from 2005-06 to 2009-10 for the State was as under:

Table 4.21

Year	Budget estimates	Actual realization	Variation	Percentage variation
	₹in crore)			
2005-06	575.14	434.48	(-) 140.66	24
2006-07	480.98	453.63	(-) 27.35	6
2007-08	935.27	691.39	(-) 243.88	26
2008-09	1105.00	736.00	(-) 369	33
2009-10	911.84	823.16	(-) 88.68	10

As can be seen, the actual realisation during each of the five years from 2005-06 to 2009-10 was significantly less than the estimates for the year. The overall short realisation ranged between six and 33 *per cent*. The short realization was higher in the

Kashmir division, ranging between 21 and 55 *per cent* over the period. The consistent short realisations of revenue over the budget estimates indicated that the budget estimates had not been prepared realistically.

The CE, Jammu attributed (July 2010) the shortfall to huge outstanding electricity dues against Government Departments. The detailed list substantiating the details of outstanding dues was not made available.

Audit Findings

4.2.8 System Deficiencies

4.2.8.1 Arrears of energy charges including electricity duty

Under provisions of the Act/tariff orders, EC along with ED payable thereon by a consumer is to be paid to the Government by the 15th of the month following the month to which the charges pertain. As per the information furnished by the department, EC including the ED due had not been recovered from the consumers in full in terms of the provisions of tariffs/Act. The position of arrears of revenue at the end of each year during the last five years ended March 2010 as furnished by the department was as under:

Table 4.22

(₹ in crore)

<i>Year</i>	<i>Opening balance</i>	<i>Assessment during the year</i>	<i>Recoverable amount</i>	<i>Amount realised</i>	<i>Closing Balance of recoverable amount at the end of 31st March</i>
2005-06	838.65	495.71	1334.36	434.48	899.88
2006-07	899.88	499.48	1399.36	453.63	945.73
2007-08	945.72	695.08	1640.80	691.39	949.41
2008-09	949.51	759.01	1708.52	736.00	972.52
2009-10	972.53	837.08	1809.61	823.16	986.45

It can be seen that the old arrears as well as current demand of EC had not been fully realised, with the result that the arrears of un-recovered energy charges had swollen from ₹ 838.65 crore ending March 2005 to ₹ 986.45 crore ending March 2010. The age-wise and assesse-wise break-up of the outstanding arrears ending March 2010 was not available with the department as part of an established Management Information System. However, in seven out of 13 test-checked divisions, the Audit determined that ₹ 9.56 crore was outstanding against disconnected cases, ₹ 20.15 crore was unrecoverable being dead arrears, ₹ 4.96 crore was outstanding against sick industrial units and ₹ 2.08 crore was under dispute.

The Chief Engineer stated (October 2010) that no special drive had been launched to recover the dues from the Government. However, the higher authorities had been apprised from time to time regarding accumulation of huge arrears.

The State Government may consider establishing a system for maintenance of records in respect of levy and collection of EC and ED indicating therein the category/age-wise position of arrears of EC and ED separately from Sub-divisional level in State level.

4.2.8.2 *Internal audit*

Internal Audit is a vital component of internal control mechanism and is generally called as control of all controls which enables an organisation to assure itself that the prescribed systems are functioning reasonably well. It was, however, noticed that no Internal Audit Wing was in existence in the Department. Though the Revenue Cell (at each circle level) existed but it had no Manual, Guidelines, instructions regarding planning and conduct of audit, maintenance of records, filling of returns on the functioning of the cell and pursuing of objections to their logical conclusions. The department was, thus, vulnerable to the risk of control failures.

Scrutiny of the records of two (out of 3) test-checked circles in Jammu revealed that there was no procedure for preparation of annual programme/plan for conducting internal audit. However, parties were sent to the divisions/sub-divisions for conducting audit by comparing cash book with ledgers/meter reader's schedules and receipt counterfoils. Objection Book register was not found maintained by the Revenue Officer, Circle-III, Batote and Circle-I, Jammu. Number of audits conducted by the Circle decreased from eleven in 2006-07 to 2 in 2009-10. Out of 150¹⁰ paragraphs, which included 14 paragraphs on Electricity duty, outstanding during 2008-09, none had been settled as of June 2010. Reply of the Government was awaited (October 2010).

The State Government may consider setting up an Internal Audit Wing or strengthening existing Revenue Cells towards establishing an effective internal audit system.

4.2.8.3 *Delayed deposit of revenue*

In terms of the agreement(March 2004) executed by the State Government with the J&K Bank, the branches of the bank that collect energy charges from the consumers have to transfer the entire proceeds to the Government Account of the Moving Branch of the J&K Bank in the Civil Secretariat within 72 hours of their receipt.

Scrutiny of bank statements of the eight test-checked divisions for the month of March each year of the review period revealed that revenue amounting to ₹ 32.67 crore over the five-year period had not been transferred by the banks to Government accounts within the prescribed period; the delays ranging from seven days to 28 days. Timely deposition of money would have led to avoidance of overdraft by State Government from the Jammu and Kashmir Bank to that extent with consequential avoidance of interest liability of ₹ 8.15 lakh.

On this being pointed out, the Executive Engineers concerned stated (June and July 2010) that the matter would be taken up with higher authorities of the bank.

The State Government may consider introducing a penal clause in the agreement executed with the J&K Bank for delayed remittance of revenue collected by it.

¹⁰ Information received from third division included.

4.2.8.4 Levy of Electricity Duty on Energy Generating Sets

Under the provisions of the Act, ED is to be levied @ four paisa per unit (kwh) on the energy generated by a person. The Act also provides for maintenance of records by the owner for this purpose.

Audit check showed that no Electricity Duty rules had been framed by the Government nor had records been otherwise prescribed for maintenance by the person generating energy for his own use or consumption. Also, no returns indicating energy generated/consumed or ED payable or paid were found filed in any of the divisions. Audit check further showed that there was no consolidated data available with the department regarding the number of electricity generating units, as a result of which total ED paid and due could not be checked by Audit. Test-check of four divisions revealed that the Department had allowed purchase of 216 generators by persons/individuals for their own use during 2005-06 to 2009-10. The ED had been paid by eight generator owners only without any prudent criteria. Absence of criteria for measurement and monitoring of consumption of electricity and non-levy of ED in respect of persons generating energy for own use had resulted in loss of revenue which, however, could not be quantified in the absence of any records maintained by the owners/department.

The Chief Engineer, Jammu accepted (August 2010) that the provisions of the Act could not be enforced due to non-framing of rules and ensured that the matter would be taken up with the Government. The foregoing reply notwithstanding the fact remains that the Department had not taken appropriate steps to enforce the statutory provisions for levy of ED on person generating/consuming electricity.

The State Government may consider framing of Electricity Duty rules providing therein the manner of calculation, collection, and payment and recovery of unpaid ED including maintenance of records for energy generated.

4.2.9 Compliance Deficiencies

Non-levy of ED on the sale of electricity

4.2.9.1 Under Section 3 of the Act, only the GOI and the agencies dealing in construction, maintenance and operation of Railways are exempted from payment of ED on the energy sold to/consumed by them. As per the information furnished by Power Development Corporation, 57,260¹¹ lakh units (Cost: ₹ 1177.85 crore) had been sold to the State PDD and Power Trading Corporation during 2005-10. It was, however, seen that ED in terms of the provisions of the Act had not been levied and paid to the State Government on the sale resulting in loss of ₹ 259.13 crore to the State Government as tabulated below:

¹¹ Power Development Corporation 43,803 lakh units sold during 2005-10 (Cost ₹ 568.49 crore) Power Trading Corporation 13,457 lakh units sold during 2008-10 (Cost ₹ 609.36 crore).

Table 4.24

Year	Units sold to PDD/PTC	Cost of energy sold (₹ in crore)	E.D. @ 22 per cent (₹ in crore)
2005-06	862687160	114.55	25.20
2006-07	952750467	125.29	27.56
2007-08	859264399	121.16	26.66
2008-09	977341304/ 1345730000	138.40/ 609.36	30.45/ 134.06
2009-10	728245795	69.10	15.20
Total	4380289125/ 1345730000	568.50/ 609.36	125.07/ 134.06

The CE, Generation, PDC stated that the ED was not being levied as the decision to that effect had not been taken by the Government as yet. The Government have not intimated whether there was any proposal to exempt PDD from electricity duty levy.

4.2.9.2 Under section 3 (1) of the Act 1963 read with SRO No. 566 dated 25.10.1984, ED on the cost of energy sold to or consumed is to be charged from the consumer other than Government of India or when it is consumed in the construction, maintenance or operation of any railway.

Records of EM&RE Division, Udhampur, however, showed that the ED of ₹ 7.55 crore on the cost of energy supplied (1998-2010) to SHEP, Jyotipuram remained unpaid by the project authorities. Further check revealed that the SHEP had not been paying the ED, though billed for, on the ground that project was owned by NHPC which was a Public Sector Undertaking partly owned by GOI. The grounds put forth by SHEP are not acceptable as it has not been exempted from payment of ED under any orders of the Government. No action in terms of section 8 of the Act which calls for recovery of the amount due as arrears of land revenue was initiated by the Department.

On being pointed out the EE stated that the matter was under correspondence with the NHPC authorities.

4.2.9.3 Development Commissioner, Power clarified vide letter No: DC/PD/TO-1/133/70-72 dated 3.04.2008 that Corporations and other autonomous bodies like BSNL, MTNL, Doordarshan, Indian Oil Corporation are not exempt from payment of the ED and that ED is to be levied on these Corporations and other autonomous bodies owned by Government of India.

Audit noticed that despite these clear orders, the Department did not levy/recover ED of ₹ 65.87 lakh in 57 cases (9 divisions) during 2005-10, from BSNL, MTNL, Doordarshan, Indian Oil Corporation.

The Executive Engineer (EMRE) stated (July to August 2010) that bills would be raised against the agencies.

4.2.10 Shortfall in Electrical inspection and levy of fee

Under the J&K Electricity Rules, each electricity consumer is to be periodically inspected and tested at intervals not exceeding 5 years and fee for the purpose, save for the domestic installations, fixed by the Government is to be paid by the owner.

Audit check showed that out of a total 11.63 lakh consumers due for inspection in the State, only 139 inspections had been conducted by the Executive Engineers (EE) (Inspection Divisions) during 2005-06 to 2009-10. Not only had this resulted in a loss of ₹ 88.03 lakh as inspection fees but also prevented the department from identifying installations where pilferage of energy could take place.

The EE, Inspection Agency (PDD), Jammu attributed the shortfall of inspections to the EM &RE Authorities for not furnishing the details of consumer installations to him. The reply indicated lack of coordination between the offices of the same department.

The State Government may ensure filing of returns regarding collection of revenue and conducting of inspections of metered/un-metered installations at each level.

4.2.11 Irregular Adjustment of ED incentive

Under Section 10 the Act, Government may by notification exempt any consumer or person from payment of whole or part of the ED for such periods and subject to such conditions as may be specified therein.

The Industries and Commerce Department sanctioned (2008-09) ₹ 10 crore as incentive in form of ED for disbursement to industrial units in the State on non-cash basis without issuing any guidelines/modalities indicating class or category of industry eligible for incentive, period for which incentive was to be paid, and amount of ED paid/payable against which incentive was to be adjusted. An amount of ₹ 5 crore, meant for providing incentive to the industrial units of Kashmir province, was adjusted (March 2009) by the Chief Engineer, EMRE, Srinagar irregularly by contra-crediting the amount to the Receipt Head thereby inflating the revenue figures for that year. The benefit was not extended to the beneficiaries in Kashmir province for want of guidelines/modalities.

Audit check showed that ₹ 4.20 crore out of ₹ 4.52 crore allotted to the test-checked divisions in Jammu Division, was adjusted against the ED recoverable from the industrialists in 2009-10 without any prudent formula/guidelines for such adjustment. The adjustment of the amount in the absence of any formula/guidelines, was arbitrary and as such irregular/unjustified.

4.2.12 Non-recovery of energy charges and ED

Section 8 of the Act envisages that outstanding arrears of duty or penalty, imposed under section 7 on a consumer or a person generating energy for his own use or consumption, shall be recovered as arrears of land revenue by the Government.

Test-check of the assessment records of 13 (out of 28) divisions revealed that 914 installations had been disconnected without recovering the outstanding arrears. It was seen that no case had been referred yet to the land revenue authorities for recovery of arrears as land revenue though envisaged in the Act. This had resulted in non-recovery of energy charges of ₹ 7.84 crore and ED of ₹ 1.72 crore thereon.

On this being pointed out, the Executive Engineers stated (June and July 2010) that steps would be taken to recover the arrears.

4.2.13 *Non-reconciliation of energy charges*

Under an agreement executed with the J&K Bank which collects energy charges including electricity duty from consumers on behalf of the Government, the Bank has to send the details of individual payments to the Sub-Divisional/Divisional Officers concerned of the EM&RE Divisions who in turn has to maintain the Receipt-Cum-Remittance register for reconciliation to ensure that the amount specified by the bank has actually been remitted into the Moving Branch of the Bank in Civil Secretariat Treasury. Neither had any such register been maintained nor any reconciliation got conducted. In the absence thereof, the accurate deposition/accountal of the money by the Bank in the Government account could not be ensured. The EEs stated that reconciliation/ verification would be got done in future.

4.2.14 *Conclusions*

Though the Jammu and Kashmir Electricity Duty Act had been approved by the legislature in 1963, yet the Power Development Department had not framed any rules which resulted in partial implementation of the provisions of the Act. The Department had failed to levy and collect electricity duty from Autonomous Bodies/Corporations/ Consumers in accordance with provisions of the Act. The internal control mechanism of the Department was weak as is evidenced by the absence of independent Internal Audit Wing and poor functioning of Revenue Cells.

4.2.15 *Recommendations*

The State Government may consider:

- Establishing a system for maintenance of records in respect of levy and collection of EC and ED indicating therein the category/age-wise position of arrears of EC and ED separately from Sub-divisional level to State level.
- Setting up of Internal Audit Wing or strengthening of existing Revenue Cells for an effective internal audit system.
- Introducing a penal clause in the agreement executed with J&K bank for delayed remittance of energy charges collected by it.
- Framing of Electricity Duty Rules providing therein the manner of calculation, collection and payment and recovery aspects.

Audit Paragraphs

Finance Department

(Sales Tax)

4.3 Other Audit Observations

Scrutiny of assessment records of sales tax/value added tax (VAT) revealed several cases of non-observance of provisions of Acts, rules, non-levy/short levy of tax/ interest/penalty, concealment of purchases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out in audit. Such omissions on the part of assessing authority are pointed out in audit each year, but not only irregularities persist, these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal control.

4.4 Incorrect computation of interest

Incorrect computation of interest by the Assessing Authority resulting in short levy of interest of ₹ 4.80 lakh.

The Jammu and Kashmir, GST Act and Rules made thereunder provide that if tax or any other amount due under this Act is not paid by the dealer or any other person within the stipulated period, the dealer or such other person shall be liable to pay interest at the prescribed rates from the date it was payable to the date of actual payment.

Test-check (April 2009) of records of the Sales Tax Circle 'B' Jammu revealed that the Assessing Authority (AA) while assessing a dealer for the accounting year 2001-02 determined tax of ₹ 19.73 lakh. But the dealer remitted ₹ 13.37 lakh only during the year 2001-02 thereby leaving ₹ 6.36 lakh uncovered. For the unpaid amount of tax, the dealer was liable to pay interest¹² of ₹ 12.49 lakh, up to July 2007, on the balance amount of the assessed tax of ₹ 6.36 lakh. It was, however, seen that the AA wrongly computed the interest as ₹ 7.69 lakh against the due amount of ₹ 12.49 lakh resulting in short levy of interest of ₹ 4.80 lakh.

After the case was pointed out (April 2009), the AA made reassessment (March 2010) and raised (March 2010) an additional demand of ₹ 4.80 lakh.

The matter was reported to the Government/Department (May 2010). In reply, the Department stated (June 2010) that the dealer had filed an appeal before the Deputy Commissioner (Appeals) against the re-assessment order. A report on further development had not been received (July 2010).

¹² U/S 8 (8) of the J&K GST Act, 1962.

4.5 Concealment of purchases

Failure of the Assessing Authority to detect the concealment of purchases resulted in short levy of tax of ₹ 5.23 lakh.

The Jammu and Kashmir General Sales Tax (J&K GST) Act 1962 and the rules made thereunder provide that every dealer shall submit a true and correct return of his turnover in such a manner as may be prescribed under the Act. Further, if a person (dealer) who has, without any cause, failed to furnish correct return of turnover or has concealed any particulars of his turnover, the Assessing Authority (AA) shall direct that person to pay, in addition to tax and interest payable by him, an amount by way of penalty not less than the amount of tax evaded, but not exceeding twice the amount of tax.

Test check (June 2009) of the records of Commercial Tax Circle-L, Srinagar revealed that a dealer¹³ had, against purchases of ₹ 32.63 lakh from a supplier¹⁴, as depicted in C-Form consumption account, included purchases of ₹ 25.58 lakh only in his total purchases (₹ 87,26,314.68) reflected in the trading account for the year 2003-04. The AA failed to cross-check the purchases which resulted in concealment of purchases of ₹ 7.05 lakh involving tax, interest and penalty of ₹ 2.33 lakh.

After the case was pointed out (June 2009), the AA made reassessment (March 2010) by determining the concealment as ₹ 8.00 lakh and raised an additional demand of ₹ 2.33 lakh¹⁵ against the dealer.

Also, test-check (November 2009) of the records of CTO Circle, Pulwama, Kashmir showed that a dealer dealing in sale of tractors, diesel engines, power sprayers, spare/parts, trolleys, levers, etc. did not account for purchases worth ₹ 19.52 lakh in his trading account for the year 2004-05 which resulted in concealment of purchases to that extent. The Department while assessing (May 2008) the returns filed by the dealer failed to cross-check the purchases with the bills of the dealer. This resulted in non-levy of tax of ₹ 0.91 lakh.

On this being pointed out (November 2009), the AA raised an additional demand of ₹ 2.90 lakh¹⁶ on the dealer.

The cases were reported to the Government/Department (May 2010) and in reply the Department stated (June 2010) that the cases have been referred to the Collector for effecting the recovery under Land Revenue Act. Further progress of recovery is awaited (July 2010).

¹³ M/s Kanna Glass Agency, Magarmal Bagh, Srinagar.

¹⁴ M/s Triveni Glass Limited, Kanpur, Allahabad.

¹⁵ Tax: ₹ 0.64 lakh; Interest: ₹ 0.99 lakh; Penalty: ₹ 0.67 lakh; Surcharge: ₹ 0.03 lakh.

¹⁶ Sales tax: ₹ 90597; Penalty: ₹ 90597 and Interest: ₹ 108716.

4.6 Short levy of central sale tax and interest

Failure of the Assessing Authority to assess the dealer as per the provisions of CST Act resulted in short levy of tax and interest of ₹ 8.43 lakh.

Section 8 (1) of CST Act 1956 provide that every dealer who in the course of inter-state trade or commerce sells goods to the Government or to a registered dealer other than the Government, shall be liable to pay tax under the act which shall be 4 *per cent* of his turnover or at the rate applicable to the sale or purchase of such goods inside the state under the sales tax law of the State, whichever is lower, provided the dealer selling the goods furnished a declaration duly filled and signed by the registered dealer to whom the goods are sold in a prescribed form obtained from the prescribed authority; otherwise, tax rate of 10 *per cent* or rate applicable to the sale or purchase of such goods inside the state, whichever is higher, shall be applicable.

Test-check (October 2009) of the records of CTO, Kupwara revealed that the Assessing Authority (AA) while finalising assessment of the dealer allowed concessional rate of tax on inter-state sale of scrap aggregating ₹ 57.35 lakh during 2002-03 to 2005-06 even though the prescribed declaration certificate in Form C had not been furnished by the assessee. This had resulted in short levy of tax and interest amounting to ₹ 7.84 lakh.

On the case being pointed out (October 2009), the A.A re-assessed (March 2010) the dealer for the years 2002-03 to 2004-05 and raised a demand of ₹ 6.78 lakh including interest. For the year 2005-06, notices were served upon the dealer. As the notices were not responded by the dealer, a further demand of ₹ 1.65 lakh (Tax: ₹ 0.77 lakh and Interest: ₹ 0.88 lakh) was raised (June 2010) against the dealer for the first two quarters of the assessment year 2005-06.

The matter was reported to the Department/Government in June 2010. The reply has not been received (October 2010).

4.7 Non-levy of sales tax

Allowance of irregular exemption resulted in non-levy of sales tax and interest of ₹ 20.20 lakh.

The Government vide notification of 20 August 1998, issued under SRO 246, directed that the finished goods manufactured by small scale industrial units registered with the Department of Industries and Commerce and Handicrafts/Handloom Development Corporation shall be exempted from payment of general sales tax. For non-payment of general sale tax on sale of goods other than such finished goods interest is leviable at prescribed rates.

Test-check (May 2009) of the records of the Commercial Tax Circle-I, Jammu showed that an industrial unit registered for manufacture of cement had not undertaken any manufacturing activity during the first three quarters (till January 2004) of 2003-04 due to non-availability of power supply. The Assessing Authority (AA) while assessing (February 2008) the dealer for the accounting year 2003-04 had,

however, allowed irregular exemption of ₹ 6.52 lakh on the sales of ₹ 51.71 lakh shown in the quarterly returns as sales for the period during which no manufacturing activity was carried out by the dealer.

After this was pointed out (May 2009), the AA reassessed (April 2010) the dealer and raised a demand of ₹ 20.20 lakh which included interest of ₹ 13.68 lakh on the basic tax.

The department stated (September 2010) that demand of ₹ 20.20 lakh had been raised against the dealer and the recovery certificate had been forwarded to recovery wing of the Department for its recovery.

4.8 Short levy of tax and interest

Allowing of exemption in contravention of the provisions/rules resulted in irregular sales tax exemption of ₹ 53.96 lakh.

Under notification issued under SRO 246 dated 20 August 1998 (read with notification issued under SRO 21 of 21 February 2000), the Government provided exemption to registered manufacturing Small Scale Industrial units from payment of the General Sales Tax on sale of the finished goods. The exemption was, however, subject to the condition that no exemption shall be entitled to the dealer (Industrial Unit) found guilty of the offence under section 15(5), 15(A) and 17(1)(f)(g) and (I) of the J&K GST Act 1962 for the year in which such offence is committed or for subsequent years.

Test-check (May 2009) of the records of CTO Circle-I Jammu revealed that the Assessing Authority (AA) while finalising assessment of a dealer, engaged in business of cutting and polishing of marble tiles and slabs, allowed exemption on sales aggregating to ₹ 1.38 crore for the accounting year 2003-04 even though the dealer was found guilty (August 2003), under section 15A(4) and 15-A(9) of the J&K GST Act 1962 for the offence of importing marble slices for sale. This resulted in short levy of tax and interest of ₹ 53.96 lakh.

On this being pointed out (May 2009), the AA re-assessed the dealer (May 2010) and raised a demand of ₹ 53.96 lakh including interest against the dealer.

The matter was reported to the Government/Department (June 2010) and, in reply, the Department stated (July 2010) that the matter had been referred to Deputy Commissioner Commercial Taxes (Recovery) Jammu for effecting recovery. Further report on the progress of recovery has not been received (July 2010).

CHAPTER – V: COMMERCIAL ACTIVITIES

Section-I

5. Overview of State Public Sector Undertakings

5.1 Introduction

5.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Jammu and Kashmir, the State PSUs occupy a moderate place in the State economy. The State PSUs registered a turnover of ₹ 3700.38 crore for 2009-10 as per their latest finalized accounts as of September 2010. This turnover was equal to 9.66 *per cent* of State Gross Domestic Product (GDP) for 2009-10. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. The State PSUs earned a profit of ₹ 354.68 crore in the aggregate as per their latest finalised accounts as of September 2010. 15 out of 20 PSUs were running the activities with 0.21 lakh¹ employees as of 31 March 2010. The State PSUs do not include two prominent Departmental Undertakings (DUs)², which carry out commercial operations but are a part of Government departments.

5.1.2 As on 31 March 2010, there were 23 PSUs as per the details given below. Of these, one company³ was listed on the stock exchanges.

Type of PSUs	Working PSUs	Non-working PSUs ⁴	Total
Government Companies	17	3	20
Statutory Corporations	3	Nil	3
Total	20	3	23

5.1.3 During the year 2009-10, no PSU was established whereas three⁵ were under liquidation.

Audit Mandate

5.1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in

¹ As per the details provided by 15 PSUs. Remaining eight PSUs (including three non-working Companies) did not furnish the details.

² State Consumer Affairs and Public Distribution and Government press

³ Jammu and Kashmir Bank Limited.

⁴ Non-working PSUs are those which have ceased to carry on their operations.

⁵ Himalayan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited and Tawi Scooters Limited

which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act, 1956.

5.1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act.

5.1.6 Audit of statutory corporations is governed by their respective legislations. Out of three statutory corporations, CAG is the sole auditor for Jammu and Kashmir State Road Transport Corporation and Jammu and Kashmir State Forest Corporation⁶. In respect of Jammu and Kashmir State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

5.1.7 As on 31 March 2010, the investment (capital and long-term loans) in 23 PSUs was ₹ 4962.91 crore as per details given below.

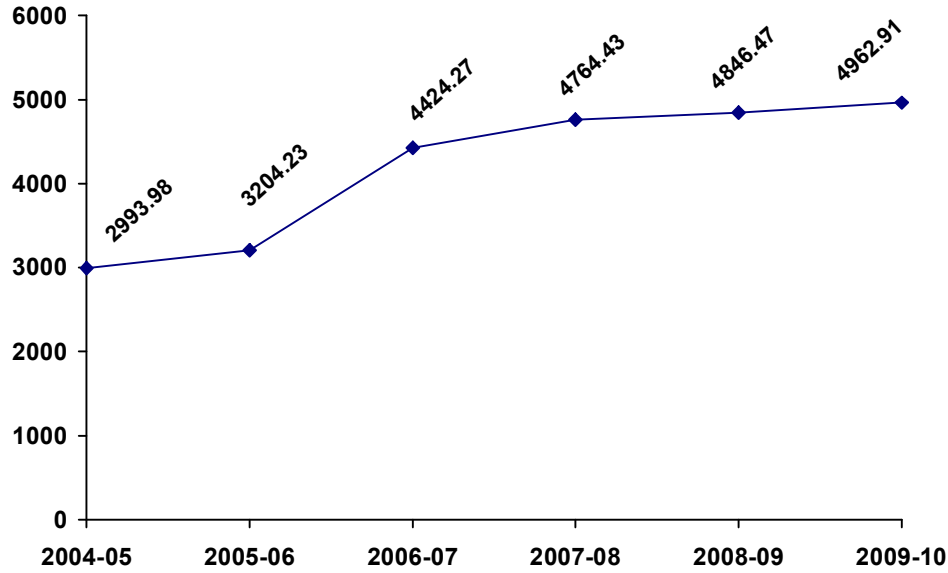
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	243.14	3937.61	4180.75	221.62	557.14	778.76	4959.51
Non-working PSUs	2.57	0.83	3.40	Nil	Nil	Nil	3.40
Total	245.71	3938.44	4184.15	221.62	557.14	778.76	4962.91

A summarised position of government investment in State PSUs is detailed in **Appendix 5.1**

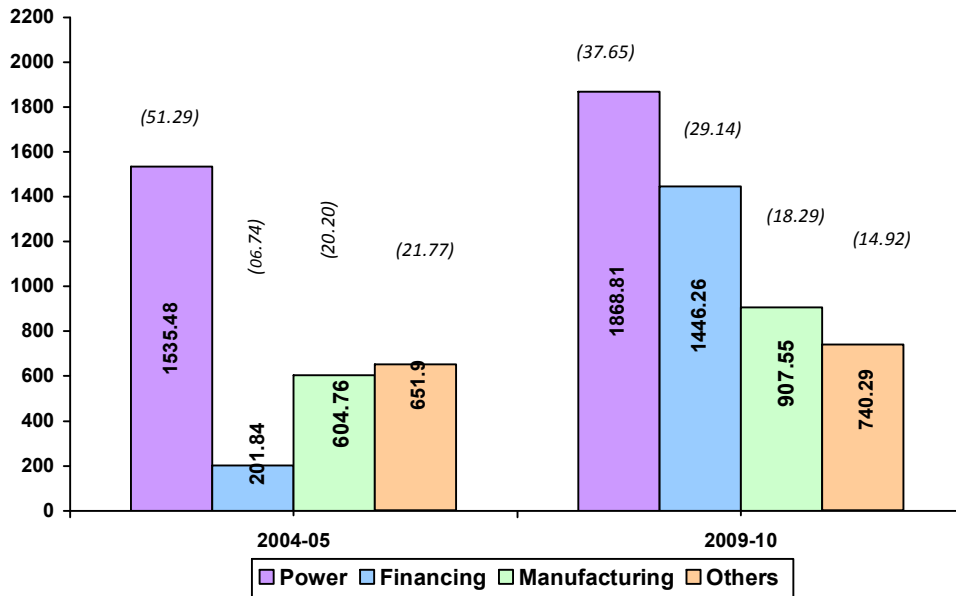
5.1.8 As on 31 March 2010, of the total investment in State PSUs, 99.93 *per cent* was in working PSUs and the remaining 0.07 *per cent* in non-working PSUs. The total investment consisted of 9.42 *per cent* towards capital and 90.58 *per cent* in long-term loans. The investment has grown by 65.76 *per cent* from ₹ 2993.98 crore in 2004-05 to ₹ 4962.91 crore in 2009-10 as shown in the graph below.

⁶ Jammu and Kashmir State Forest Corporation was incorporated in 1978-79 and its audit was entrusted to CAG w.e.f. 1996-97. The Corporation, however, had never submitted its accounts to CAG for audit for any of the years.



Investment (Capital and Long-term Loans) (₹ in crore)

5.1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2005 and 31 March 2010 are indicated in the bar chart. The thrust of investment was mainly in power and finance sectors during the six years which has seen its percentage share rising from 58.03 per cent in 2004-05 to 66.80 per cent in 2009-10.



(Figures in brackets show the percentage of total investment)

Budgetary outgo, grants/subsidies, guarantees and loans

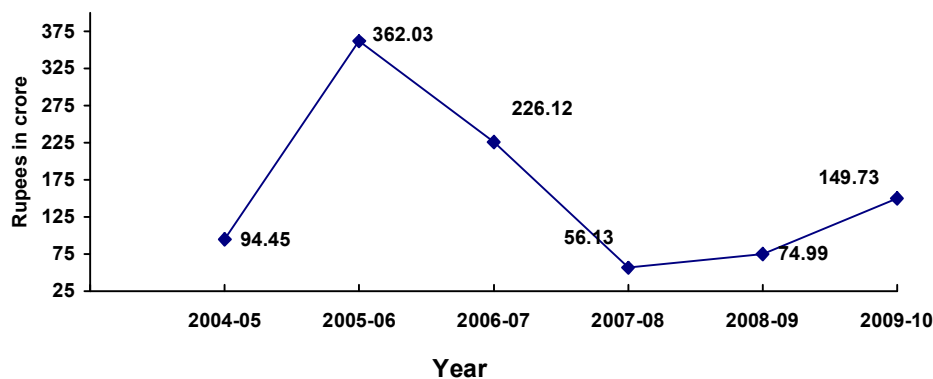
5.1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 5.3**. The summarised details are given below for three years ended 2009-10.

(₹ in crore)

S. No.	Particulars	2007-08		2008-09		2009-10	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	2	1.20	3	7.63	4	17.09
2.	Loans given from budget	9	42.75	9	43.76	9	56.57
3.	Grants/Subsidy received from State Government.	6	12.18	8	23.60	4	76.07
4.	Total Outgo (1+2+3)	10	56.13	12	74.99	11	149.73
5.	Loan repayment written off	--	--	2	21.79	1	4.04
6.	Total Waiver	--	--	2	21.79	1	4.04
7.	Guarantees issued	4	240.66	3	7.51	2	485.54
8.	Guarantee Commitment	6	2429.77	10	2194.72	8	2598.77

5.1.11 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past six years are given in a graph below.

Budgetary outgo towards equity, loans and grants/subsidies



The budgetary outgo of the State Government towards equity contribution, loans, grants and subsidy was at an all time high during 2005-06 at ₹ 362.03 crore in the preceding six years. The downward trend of budgetary outgo witnessed after 2005-06 upto 2007-08 showed marginal increase during 2008-09 and stood at ₹ 149.73 crore in 2009-10.

5.1.12 Guarantees amounting to ₹ 2598.77 crore were outstanding at the end of 31 March 2010. More than 98 per cent of these were on the loans raised by the Jammu and Kashmir State Power Development Corporation Limited from various

Financial Institutions. However, the State Government had not charged any guarantee commission or fee from the PSUs during the year.

Reconciliation with Finance Accounts

5.1.13 The figures of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation to locate the differences. The position in this regard as at 31 March 2010 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	393.30	350.69	42.61
Loans	798.43	1514.55	(-) 716.12
Guarantees	2698.83	2598.77	100.06

5.1.14 There was a mismatch between figures furnished by the PSUs with those depicted in the Finance Accounts. Reasons therefor, though called for, were not intimated (November 2010).

Performance of PSUs

5.1.15 The financial results of PSUs, financial position and working results of working statutory corporations are detailed in **Appendices 5.2, 5.5 and 5.6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2004-05 to 2009-10.

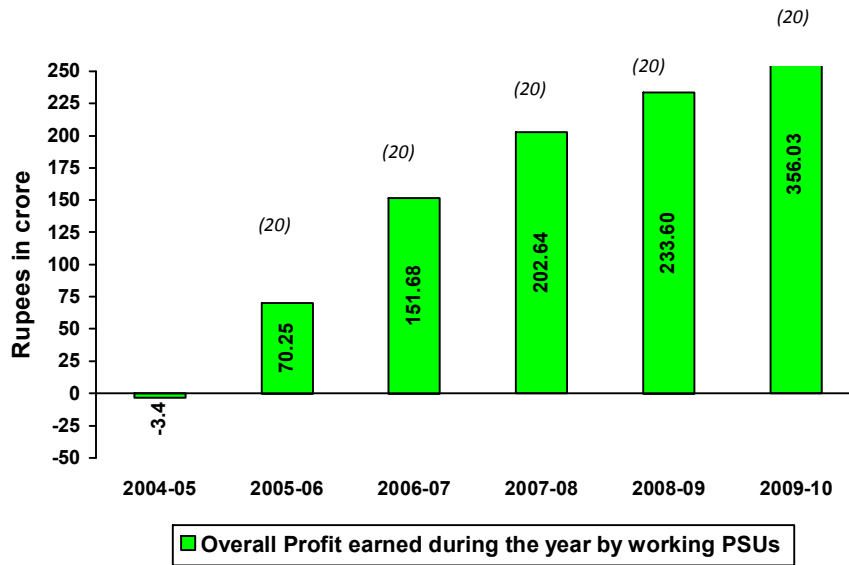
(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover ⁷	2130.48	2539.27	2679.33	3595.92	3206.88	3700.38
State GDP	24265	26537	29030	31793	34805	38298
Percentage of Turnover to State GDP	8.78	9.57	9.23	11.31	9.21	9.66

The percentage of turnover to State Gross Domestic Product was 8.78 *per cent* during 2004-05 which stood at 9.66 *per cent* in 2009-10. This was due to increase of turnover of the PSUs in 2009-10.

5.1.16 Profit (losses) earned (incurred) by State working PSUs during 2004-05 to 2009-10 are given below in a bar chart.

⁷ Turnover as per the latest finalised accounts as of 30 September 2010.



(Figures in brackets show the number of working PSUs in respective years)

It can be seen from the bar chart that the overall performance of the working PSUs has improved gradually after 2004-05. During the year 2009-10, out of 20 working PSUs, four PSUs earned profit of ₹ 514.89 crore and 14 PSUs incurred loss of ₹ 158.86 crore. One working PSU (Jammu and Kashmir Cable Car Corporation Limited) had not prepared the Profit and Loss Account while one PSU (Jammu & Kashmir State Forest Corporation) had not submitted its accounts since its audit was entrusted (1996-97) to CAG. The major contributors to profit were the Jammu and Kashmir Bank Limited. (₹ 512.38 crore) and Jammu and Kashmir Cements Limited (₹ 1.53 crore). Heavy losses were incurred by Jammu and Kashmir State Road Transport Corporation (₹ 54.67 crore), Jammu and Kashmir State Power Development Corporation Limited (₹ 39.05 crore), and Jammu and Kashmir Industries Limited (₹ 36.23 crore).

5.1.17 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of the CAG shows that the State PSUs incurred losses to the tune of ₹ 45.38 crore which were controllable with better management. Year-wise details collected from Audit Reports are stated below.

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	Total
Net Profit	202.64	233.60	356.03	792.27
Controllable losses as per CAG's Audit Report	4.29	14.04	27.05	45.38

5.1.18 The above losses pointed out in the CAG Audit Reports are based on test-check of records of PSUs. The actual controllable losses would be much more. The

above table shows that with better management, the profits can be enhanced substantially. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

5.1.19 Some other key parameters pertaining to State PSUs are given below.

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Return on Capital Employed (<i>per cent</i>)	6.21	13.94	7.17	8.85	10.91	10.83
Debt	2603.55	2806.26	4023.13	4361.59	4435.99	4495.58
Turnover ⁸	2130.48	2539.27	2679.33	3595.92	3206.88	3700.38
Debt/Turnover Ratio	1.22:1	1.11:1	1.50:1	1.21:1	1.38:1	1.21:1
Interest Payments	1010.53	1098.72	1977.53	1697.43	2063.75	2000.65
Accumulated losses (-)	(-1056.25)	(-1172.45)	(-1230.70)	(-1285.72)	(-1338.05)	(-1384.70)

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

The debt/turnover ratio which stood at 1.22:1 in 2004-05 increased to 1.50:1 in 2006-07 and stood at 1.21:1 in 2009-10, due to marginal increase in the turnover of the working State PSUs.

5.1.20 The State Government did not intimate any dividend policy under which all PSUs were required to pay a minimum return on the paid up share capital contributed by the State Government. As per the latest finalised accounts, four PSUs earned an aggregate profit of ₹ 514.89 crore and only one⁹ PSU declared a dividend of ₹ 106.65 crore.

Arrears in finalisation of accounts

5.1.21 Under Sections 166, 210, 230, 219 and 619-B of the Companies Act, the accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2010.

S. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Number of Working PSUs	20	20	20	20	20	20
2.	Number of accounts finalised during the year	15	11	12	12	15	10*
3.	Number of accounts in arrears	194	203	211	219	224	234
4.	Average arrears per PSU (3/1)	9.70	10.15	10.55	10.95	11.20	11.70
5.	Number of Working PSUs with arrears in accounts	19	19	19	19	19	19
6.	Extent of arrears	1 to 19	1 to 18	2 to 19	3 to 19	4 to 19	4 to 20

* Excluding account of one Corporation (Jammu and Kashmir State Road Transport Corporation) for the year 2005-06 which was returned to the Corporation for rectification was not returned for the last more than one and half year. Besides three companies (Jammu and Kashmir Industries Ltd., Cable Car Corporation Ltd. and Power Development Corporation Ltd.) have submitted accounts in June and July 2010 for the years 2002-03, 1998-99 and 2002-03 respectively, the audit of which could not be taken up due to continued disturbances in the valley (September 2010).

⁸ Turnover of working PSUs as per the latest accounts as of September 2010

⁹ Jammu and Kashmir Bank Limited

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

5.1.23 In addition to above, arrears in finalisation of accounts by non-working PSUs were also noticed. Out of three non-working PSUs (all companies), two PSUs had gone into liquidation process and in respect of the one the liquidation process had not started which had arrears of accounts for 20 years.

5.1.24 The State Government had invested ₹ 1220.43 crore (Equity: ₹ 100.26 crore, loans: ₹ 549.00 crore, grants: ₹ 552.86 crore and Subsidy: ₹ 18.31 crore) in 16 PSUs during the years for which accounts have not been finalised as detailed in **Appendix-5.4**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested had been achieved. Thus, Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts have the risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

5.1.25 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 prescribed period. Though the concerned administrative departments and officials of the Government were informed by the Audit every quarter regarding arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (April 2009) with the Chief Secretary/Finance Secretary to expedite the backlog of arrears in accounts in a time bound manner.

5.1.26 In view of above state of arrears, it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lack expertise.**

Winding up of non-working PSUs

5.1.27 There were three non-working PSUs (all companies) as on 31 March 2010 all of which were under liquidation process. The number of non-working companies at the close of each year during the past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
No. of non-working Companies	3	3	3	3	3	3

5.1.28 The Stages of closure in respect on non-working PSUs are given below.

S.No.	Particulars	Companies	Statutory Corporations	Total
1.	Total no. of non-working PSUs	3	Nil	3
2.	Of (1) above, the No. under			
(a)	Liquidation by Court (liquidator appointed)	2 ¹⁰	--	2
(b)	Voluntary winding up (liquidator appointed)	--	--	--
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	1 ¹¹	--	1

5.1.29 During the year 2009-10, no company was finally wound up. The companies which have taken the route of winding up by court order are under liquidation for more than seven years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted for closure of non-working companies. The Government may consider setting up a cell to expedite closing down Tawi Scooter Limited, being a non-working company.

Accounts Comments and Internal Audit

5.1.30 Six working companies forwarded their nine audited accounts to PAG during the year 2009-10. Of these, one company (Jammu & Kashmir State Women Development Corporation Limited) forwarded four accounts for the period 1995-96 to 1998-99 for supplementary audit and another company (Jammu & Kashmir Cable Car Corporation Limited) forwarded two accounts for the period 1996-97 & 1997-98 for supplementary audit. The audit reports of statutory auditors and the supplementary audit of CAG indicated that the quality of maintenance of accounts required substantial improvement. The details of aggregate money value of comments of the statutory auditors and CAG are given below.

(₹ in crore)

S. No	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	--	--	1	0.03	-	-
2.	Increase in loss	5	34.18	1	0.74	1	0.86
3.	Non-disclosure of material facts	3	22.71	3	31.14	4	8.32
4.	Errors of classification	8	271.85	--	--	3	28.11

¹⁰ Himaliyan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited

¹¹ Tawi Scooters Limited

5.1.31 During the year, the statutory auditors had given unqualified certificates for four accounts and qualified certificates for five accounts. The compliance of companies with the Accounting Standards remained poor as 12 instances of non-compliance in nine accounts during the year were noticed.

5.1.32 Some of the important comments in respect of Accounts of Companies are stated below:

Jammu and Kashmir Power Development Corporation Limited (2001-02)

- Non-accountal of ₹ 26.26 crore sanctioned by the State Govt. vide Order No. 99 dated 27-03-2002 under the head Reserve & Surplus (Plan Grants received for capital assets) resulted in understatement of Reserve & Surplus as well as Current Assets.
- Contingent liabilities regarding three awards of ₹ 7.08 crore (₹ 6.00 crore, ₹ 0.29 crore & ₹ 0.79 crore) passed against the company during the year 2001-02 had not been disclosed in the accounts.

Jammu and Kashmir State Financial Corporation Limited (2005-06)

- The current liabilities & provisions did not included dividend payable amounting to ₹ 5.80 crore claimed by Industrial Development Bank (IDBI) up to March 2000 resulting in understatement of provision & loss to that extent.

Jammu and Kashmir State Cable Car Corporation Limited (1996-97)

- Fixed assets included ₹ 17.45 lakh on account of site development. Since the company did not own any land, as such, the expenditure should have been treated as deferred revenue expenditure to be written off over a period of time and to be classified under “Miscellaneous Expenditure”. This resulted in overstatement of Fixed Assets and understatement of Miscellaneous Expenditure to that extent.

J&K State Industrial Development Corporation (2000-01)

- Current Assets Loans & Advances included an amount of ₹ 168.52 lakh under sundry debtors being the value of assets of Watch Case Factory which had been transferred to J&K Industries (1986) by the J&K Government. Instead of showing these as fixed assets, the company had shown it under Sundry Debtors. Wrong accountal of these assets overstated the Current Assets, Loans & Advances and understated the Fixed Assets by ₹ 1.69 crore. As these assets virtually remained with SIDCO and had never been transferred to JKI, remained under dispute and ultimately status quo order was passed during 1991 by the J&K Government. Therefore, depreciation at the rate of five *per cent* for the period April, 1987 to March, 2001 which works out to ₹ 86.33 lakh, was not provided for in the accounts resulting in overstatement of Current Assets, Loans & Advances and understated loss.

5.1.33 One Statutory Corporation (Jammu and Kashmir State Financial Corporation) forwarded one account during 2009-10 which was selected for supplementary audit and completed. One Statutory Corporation (Jammu and Kashmir State Road

Transport Corporation) had furnished the accounts for 2005-06 during the year 2008-09¹² which was audited. Based on the audit observations, the Corporation was asked (June 2009) to revise the accounts. The revised accounts from the Corporation were, however, awaited (September, 2010).

5.1.34 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited under section 619(3) (a) of the Companies Act, 1956 in accordance with the directions issued by the CAG to them and to identify areas which needed improvement. The Statutory Auditors had stated that internal audit system in respect of five companies for the year accounts were finalised was either not in place or reports thereof were not furnished as given below:

Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix-5.2
Absence of internal audit system commensurate with the nature and size of business of the company	5	A-5, 9, 15, 17 B-1

Status of placement of Separate Audit Reports

5.1.35 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory Corporations in the Legislature by the Government.

S. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Jammu and Kashmir State Road Transport Corporation	2004-05	Nil	Nil	Nil
2.	Jammu and Kashmir State Financial Corporation	2005-06	Nil	Nil	Nil

The SARs of SFC for the years 2004-05 and 2005-06 issued to the Government in June 2007 and December 2009 respectively were placed in the Legislature on 13.3.2010. Placement of SARs after a considerable delay weakens the Legislative control over the Statutory Corporations and dilutes the latter's financial accountability.

¹² October 2008 to September 2009.

Disinvestment, Privatisation and Restructuring of PSUs

5.1.36 The State Government had no plans of disinvestment, privatisation or restructuring of any of the PSUs.

Reforms in Power Sector

5.1.37 The State has Jammu and Kashmir State Electricity Regulatory Commission (JKSERC) formed in April 2000, under the Jammu and Kashmir State Electricity Regulatory Commission Act, 2000 with the objective of rationalization of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2009-10, JKSERC issued two orders in May 2010 both of which were on annual revenue requirements and determination of power generation tariff.

5.1.38 Three Memorandums of Understanding (MoU) were signed between the Union Ministry of Power and the State Government till September 2009 as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones as decided in first two MoUs are stated below:

S.No	Milestone	Achievement as at March 2010
1.	SERC to give tariff order	Tariff orders are being issued from time to time.
2.	65 per cent consumers metering in place	45.86 per cent consumers metered upto March 2010
3.	Formation of District Distribution centers with responsibility of energy flow accounting	100 per cent upto March 2010
4.	Specific proposal for reduction of Establishment and O&M cost by ₹ 15.00 crore	100 per cent upto March 2010
5.	Filing of ARR for the year 2009-10 before SERC	100 per cent upto March 2010
6.	Capacitor bank to be added at sub-stations/feeders that feed energy to 65 per cent of consumers.	59.36 per cent capacitor bank had been added upto March 2009. Information ending March 2010 not available.
7.	Total cash collected from large consumers should be at least 70 per cent of the amount billed	90 per cent cash was collected from large consumers upto March 2010

SECTION - II

5.2 Performance Audit of J&K State Power Development Corporation Ltd.

Executive Summary

Power being an essential requirement for all facets of life, has been recognized as a basic human need. The availability of reliable and quality power at competitive rates is very crucial to sustain growth of all sectors of the economy. The Electricity Act 2003 provides a framework conducive to development of the Sector, promote transparency and competition and protect the interest of the consumers. In the State, generation of power is carried out by the Jammu & Kashmir State Power Development Corporation Limited, which is under the administrative control of the State Power Development Department (PDD). The performance audit of the Company for the period from 2005-06 to 2009-10 was conducted to assess the status of various projects, capacity additions and optimization of existing capacity, economy and effectiveness of funding of new projects, operational efficiency and effectiveness of the top management in monitoring the affairs of the Company.

Planning

The Peak power demand in the State had increased from 1800 MW to 2247 MW and deficit in meeting peak demand ranged between 31 and 37 per cent during the review period. Against this, the generating capacity of the

State at the end of March 2010 was 967.67 MW.

Execution of the project

There were cost and time overruns in four projects. Time overrun ranged between four and 16 years and cost overrun ranged between 41 and 687 per cent. The projects got delayed due to unplanned executions, arranging of funds on adhoc basis, inadequate contract management, etc.

Performance of Units

Against the design energy of 10790.53 MU in respect of Hydro Projects, actual generation was 7979.31 MU only. PLF of the Company ranged between 40 and 56 per cent. The forced outages were as high as 59 per cent against 10 per cent fixed by CEA during review period. The average capacity utilisation in the State ranged between 66 and 90 per cent.

Financial performance

Ineffective system of recovery of dues from Power Development Department led to outstanding amount of ₹1041.28 crore resulted in Company's dependence on loans. Improper planning in the fund management resulted in payment of interest on delayed payment to the contractor to

the tune of ₹ 3.08 crore. The Company extended undue benefit to contractors by releasing interest free mobilisation advances of ₹ 433 crore.

Manpower

Company had not assessed the actual requirement of manpower for the operation of its power houses. Despite training of employees of the Company, it failed to manage Operations and Maintenance of BHEP, which had to be outsourced to NHPC.

Monitoring

The Company did not devise a proper management information system to evaluate power demand and supply position in the State to take timely

policy-decision regarding capacity addition programme.

The Company does not have a system to minimize the delay in decision-making process, monitor the implementation of the projects in accordance with the comprehension plan and evaluate mid-term progress of the projects for taking corrective action timely.

Conclusion and Recommendations

Timely commissioning of the power projects could have enabled the Company to increase generation. Achieving higher PLF could have helped in additional generation. The review contains six recommendations which include increasing the PLF and reducing forced outages.

5.2.1. Introduction

Power is an essential requirement for all facets of life and has been recognized as a basic human need. The availability of reliable and quality power at competitive rates is very crucial to sustain growth of all sectors of the economy. The Electricity Act 2003 provides a framework conducive to development of the Power Sector, promote transparency and competition and protect the interest of the consumers. In compliance with Section 3 of the Act, the Government of India (GOI) prepared the National Electricity Policy (NEP) in February 2005 in consultation with the State Governments and Central Electricity Authority (CEA) for development of the Power Sector based on optimal utilisation of resources like coal, gas, nuclear material, hydro and renewable sources of energy. The Policy aims at, inter alia, laying guidelines for accelerated development of the Power Sector. It also requires CEA to frame National Electricity Plan once in five years. The Plan would be a short-term framework of five years and give a 15 years' perspective.

During 2005-06, electricity requirement in the State was assessed at 10503 Million Units (MUs) of which only 7916 MUs were available leaving a shortfall of 2587 MUs (24.63 per cent) of the requirements. The total installed power generation capacity in the State was 1678.92 Mega Watt (MW) out of which 1170 MW was in Central and 508.92 MW in the State sector. The effective available capacity was 649.32 MW (including 140.40 MW representing 12 per cent free power from Central sector of 1170 MW) against the peak demand of 1706 MW leaving a deficit of 1056.68 MW. During 2009-10 the comparative figures of requirement and available power were 15511 MUs and 10238 MUs with deficit of 5273 MUs. Thus, there was a growth in demand of 5008 MUs during review period.

In the State, generation of power is carried out by the Jammu and Kashmir State Power Development Corporation Limited (hereinafter, the Company), which was incorporated in February 1995 under the administrative control of the State Power Development Department (PDD). The Management of the Company is vested with a Board of Directors comprising 10 Directors appointed by the State Government. The day-to-day operations are carried out by the Managing Director, who is also the Chief Executive of the Company with the assistance of Director (Finance), Consultant, Chief General Manager (Law), one Chief Geologist, two General Managers (Finance), General Manager (Electrical) –all in the Corporate Office and by five Chief Engineers and three Chief Project Engineers in the field offices. The Company has two thermal generation stations and 19 hydro generation stations with the installed capacity of 175 MW and 754.70* MW respectively as of 31 March 2010. Besides the company has 9 MW Mohra Hydro Electric Project which is non-functional.

The turnover of the Company was ₹ 1177.11 crore in 2009-10, which was equal to three *per cent* of the State Gross Domestic Product. It employed 3331 employees as on 31 March 2010.

* This does not include one Hydro Project of 4 MW(Stanka) being operated by PDD.

5.2.2 Scope and Methodology of Audit

The present review conducted during January to June 2010 covers the performance of the Company during the period from 2005-06 to 2009-10. The review mainly deals with Planning, Project Management, Financial Management, Operational Performance, and Monitoring by the Top Management. The audit examination involved scrutiny of records at the Head Office and ten¹³ (86 *per cent* of the total installed capacity) out of 21 generating stations. The units have been selected covering Mega, Medium, and Small projects and also covering all the river basins and other types of projects.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted in explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management for comments.

5.2.3 Audit Objectives

The objectives of the performance audit were to assess:

¹³ Jammu: BHEP-I (450MW), Chenani-I (23.30 MW), Chenani-II (2 MW), Chenani-III (7.50MW) and Sewa-III (9 MW), Kashmir: USHP-I (22.60 MW), USHP-II (105 MW), Gas Turbine-I (100 MW) and Gas Turbine-II (75 MW) and Ladakh: Igo-mercillong (3 MW). Total Installed capacity : 797.40 MW

Planning and Project Management

- whether capacity addition programme taken up/to be taken up to meet the shortage of power in the State is in line with the National Policy of Power for All by 2012;
- whether a plan of action is in place for optimization of generation from the existing capacity;
- whether the contracts were awarded with due regard to economy and in a transparent manner;
- whether the execution of projects was managed economically, effectively and efficiently;
- whether hydro projects were planned and formulated after taking into consideration the optimum design to get the maximum power, dam design and safety aspects, and

Financial Management

- whether all claims including energy bills and subsidy claims were properly raised and recovered in an efficient manner; and
- the soundness of financial health of the generating undertakings.

Operational Performance

- whether the power plants were operated efficiently and preventive maintenance as prescribed was carried out minimising the forced outages;
- whether requirements of each category of fuel was worked out realistically, procured economically and utilised efficiently;
- whether the manpower requirement was realistic and its utilisation optimal;
- whether the life extension (renovation and modernization) programme were ascertained and carried out in an economic, effective and efficient manner, and
- The impact of R&M/LE activity on the operations/performance of the Unit.

Monitoring and Evaluation

- Whether adequate MIS existed in the entity to monitor and assess the impact and utilise the feedback for preparation of future schemes.

5.2.4 Audit Criteria

The audit criteria adopted for assessing the achievement of the audit objectives were:

- National Electricity Plan, norms/guidelines of Central Electricity Authority (CEA) regarding planning and implementation of the projects;

- Standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- Targets fixed for generation of power;
- Parameters fixed for plant availability, Plant Load Factor (PLF), etc;
- Performance of best unit in the regions/all India averages;
- Prescribed norms for planned outages.

5.2.5 Financial Position and Working Results

The Company has been maintaining its books on cash basis instead of the accrual basis and attracted comments from the Statutory Auditors for not maintaining proper books of accounts as required under the Companies Act, 1956.

The accounts of the Company had been finalised upto the year 2001-02 and accounts for the years 2002-03 and onwards were in arrears (November 2010). The Management stated that Statutory Audit of the annual accounts of the Company for the year 2002-03 to 2004-05 had been completed. It was also stated that shifting of accounts to accrual basis shall also be completed shortly.

The financial position of the Company on the basis of provisional accounts for the five years ending 2009-10 is given below:

Table 1

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
A. Liabilities					
Paid up Capital	5.00	5.00	5.00	5.00	5.00
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	1514.22	1821.26	1965.81	2499.64	2587.50
Borrowings (Loan Funds)					
Secured	592.69	592.69	592.69	434.47	364.99
Unsecured	2571.75	3092.84	3635.68	4084.66	4207.11
Current Liabilities & Provisions	89.71	105.49	113.82	145.17	190.34
Total	4773.37	5617.28	6313.00	7168.94	7354.94
B. Assets					
Gross Block	3941.56	4502.84	5219.27	5547.74	5830.74
Less: Depreciation	375.23	398.37	418.32	435.48	1196.24
Net Fixed Assets	3566.33	4104.47	4800.95	5112.26	4634.50
Capital works-in-progress (including cost of chassis)	517.51	608.52	823.57	1098.30	1259.19
Current Assets, Loans and Advances	509.82	744.24	541.33	848.39	1274.43
Accumulated losses	179.71	160.05	147.15	109.99	186.82
Total	4773.37	5617.28	6313.00	7168.94	7354.94
Debt equity ratio	2.08:1	2.02:1	2.15:1	1.80:1	1.76:1

(Source: Figures depicted in provisional balance sheets for respective years)

An analysis of financial position of the Company revealed that unsecured loans of the company increased from ₹ 2571.75 crore in 2005-06 to ₹ 4207.11 crore in 2009-10.

The details of working results like cost of generation of electricity, revenue realisation, net surplus/loss and earnings and cost per unit of operation are given below:

Table 2

(₹ in crore)

S. No	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Income					
	Generation Revenue	129.41	120.20	116.87	120.68	1177.11
	Other income including interest	1.71	4.43	7.03	2.51	2.73
	Total Income	131.12	124.63	123.90	123.19	1179.84
2.	Generation					
	Total generation (In MUs)	946.57	985.57	909.65	1702.96	3471.24
	Less: Auxiliary consumption (In MUs)	4.69	5.08	5.03	12.33	33.83
	Total generation available for Transmission and Distribution (In MUs)	941.88	980.49	904.62	1690.63	3437.41
3.	Expenditure					
(a)	Fixed cost					
(i)	Employees cost	46.21	46.79	51.32	52.83	62.94
(ii)	Administrative and General expenses	2.22	3.63	3.22	2.94	7.96
(iii)	Depreciation	25.61	23.14	19.95	17.16	760.76
(iv)	Interest and finance charges ¹⁴	20.48	30.50	31.45	10.77	297.70
	Total fixed cost	94.52	104.06	105.94	83.70	1129.36
(b)	Variable cost					
(i)	Repair/maintenance/operation charges	0.47	0.93	5.07	2.33	98.13
(ii)	Fuel consumption including cost of HSD/lubricants/consumables	30.83	0	0	0	17.70
(iii)	Rebate and discounts	0	0	0	0	11.47
	Total variable cost	31.30	0.93	5.07	2.33	127.30
	Total cost 3(a) + (b)	125.82	104.99	111.01	86.03	1256.66
4.	Realisation (per unit)	1.37	1.23	1.29	0.71	3.42
5.	Fixed cost (per unit)	1.00	1.06	1.17	0.50	3.29
6.	Variable cost (per unit)	0.33	0.009	0.06	0.01	0.37
7.	Total cost per unit (5+6)	1.34	1.07	1.23	0.51	3.66
8.	Contribution (4-6) (per unit)	1.04	1.22	1.23	0.70	3.05
9.	Profit (+)/Loss(-) (4-7)	0.03	0.16	0.06	0.20	(0.24)

(Source: Figures depicted in provisional balance sheets for respective years)

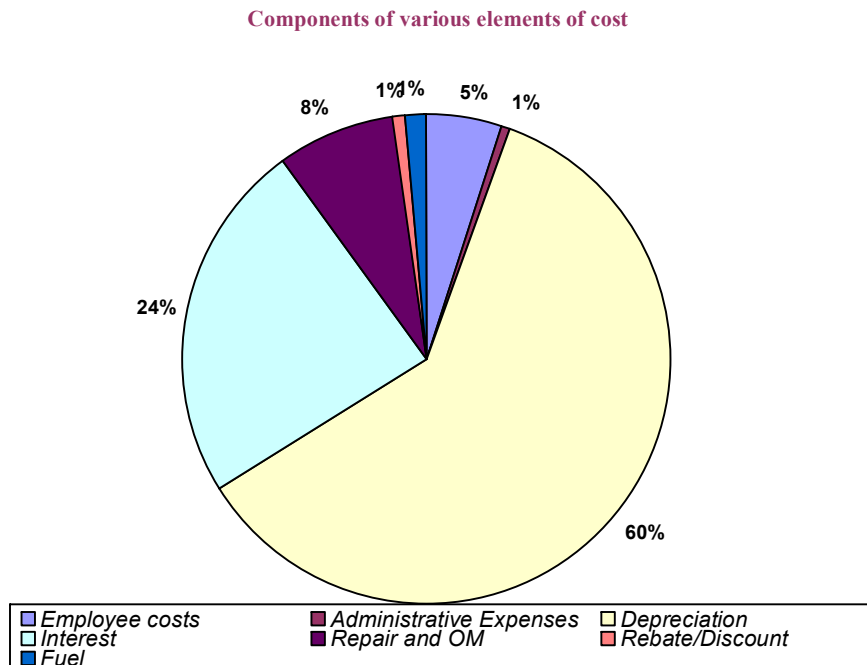
We observed the following:

- The Company suffered a continuous drop in generation revenue from ₹ 1.37 per unit in 2005-06 to ₹ 0.71 per unit in 2008-09. However, after commissioning (October 2008/March 2009) of the Baglihar HEP, the revenue per unit increased to ₹ 3.42 during 2009-10.
- Contribution per unit also decreased from ₹ 1.04 per unit in 2005-06 to ₹ 0.70 per unit in 2008-09 and increased to ₹ 3.05 during 2009-10.

¹⁴ Figures upto 2008-09 exclude interest on loans raised for Baglihar HEP, treated as pre-operating costs and classified under the head 'Capital Work-in-Progress' pending capitalization of BHEP

5.2.5.1 Elements of Cost

Depreciation, interest and employee costs constitute the major elements of cost. The percentage break-up of costs for 2009-10 is given below in the pie-chart.

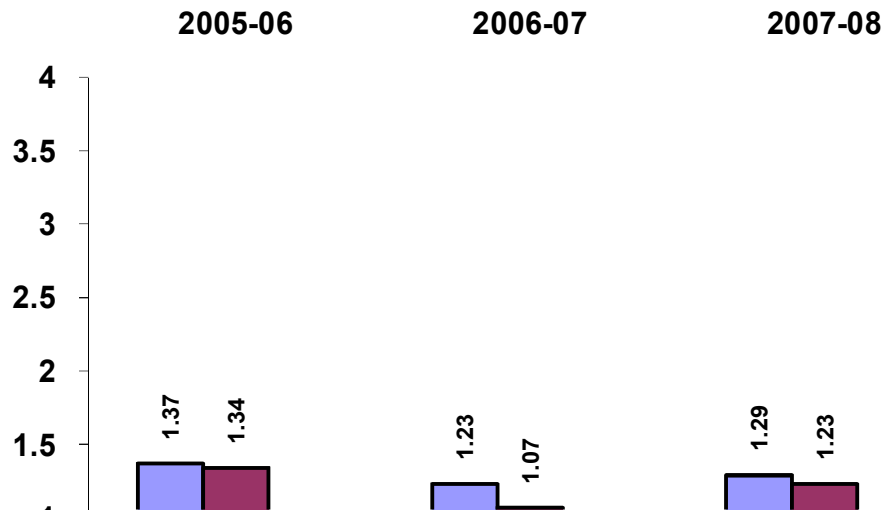


5.2.5.2 Elements of revenue

Main source of revenue is sale of power.

5.2.5.3 Recovery of cost of operations

The Company was able to recover its cost of operations. During the last five years ending 2009-10, the net revenue remained positive during the period covered under present review.



5.2.6. Audit Findings

Audit explained the audit objectives to the Company during an ‘entry conference’ held on 19th February 2010. Subsequently, audit findings were reported to the Company and the State Government in August 2010 and discussed in an ‘exit conference’ held with the management of the Company on 6th December, 2010. The Company also replied to audit findings in December 2010. The views expressed by them have been considered while finalising this review. The audit findings are discussed below.

5.2.7 Operational Performance

The operational performance of the Company for the five years ending 2009-10 is given in *Appendix-5.7*. The operational performance was evaluated on various operational parameters as described below. It was also examined whether the Company was able to maintain pace in terms of capacity addition with the growing demand for power in the State. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and that there was scope for improvement in performance.

5.2.8 Planning

National Electricity Policy aims to provide availability of over 1,000 Units of per Capita electricity by 2012, for which it was estimated that need-based capacity addition of more than 1,00,000 MW would be required in the country during 2002-2012. The Government has laid emphasis on full development of hydro potential, being the cheaper source of energy as compared to thermal. The Central Government would support the State Government for expeditious development of hydro power projects by offering the services of Central Public Sector Undertakings like NHPC, NTPC and NEEPCO. Besides, environmental concerns would have to be suitably addressed through appropriate advance actions. The power availability scenario in the

State indicating own generation, purchase of power, peak demand and net deficit was as under.

Table 3

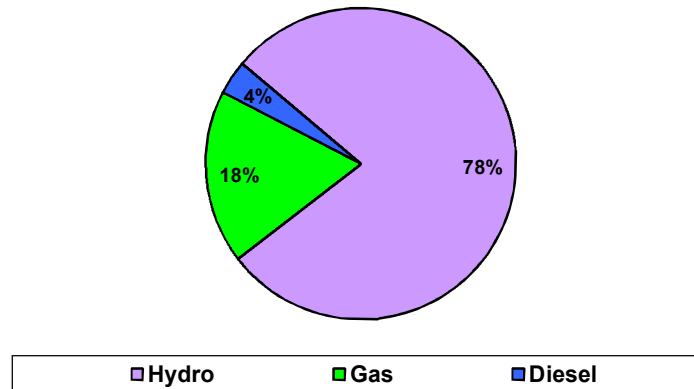
Year	Peak Demand (MW)	Peak demand met (MW)	Peak deficit (MW)	Peak deficit (percentage)
2005-06	1800	1242	558	31
2006-07	1925	1306	619	32
2007-08	2020	1350	670	33
2008-09	2120	1340	780	37
2009-10	2247	1434	813	36

As may be seen from the table above, during 2005-09, the peak deficit increased from 31 to 37 *per cent* and slightly decreased to 36 *per cent* in 2009-10.

This section deals with capacity additions and optimal utilisation of existing facilities.

5.2.8.1 Capacity Additions

The State had a total installed capacity of 508.92 MW at the beginning of 2005-06 which had increased to 967.67 MW at the end of 2009-10. The break up of generating capacities, as on 31 March 2010, under Hydro (758.70 MW), Gas (175 MW) and Diesel (33.97 MW) is shown in the pie chart below. While diesel generating stations are under the control of Power Development Department, the Gas turbines were run only in emergencies during review period due to prohibitive cost of generation.



The particulars of capacity additions envisaged, actual additions and peak demand vis-à-vis energy supplied during the review period are given below:

Table 4

S. No	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Capacity at the beginning of the year (MW)	508.92	515.92	517.67	517.67	967.67
2.	Additions planned by the State (MW)	NA	NA	450*	3.61*	--
3.	Actual Additions (MW)	7.00	1.75	-	450	-
4.	Capacity at the end of the year (MW) (1 + 4)	515.92	517.67	517.67	967.67	967.67
5.	Shortfall in capacity addition (MW) (4 – 3)	-	-	450	(+)446.39	-

* As per economic survey 2006-07, 2007-08 and 2008-09 of the State.

The inadequacies in the actual capacity additions as per the plan are discussed in the subsequent paragraphs.

5.2.8.2 Optimum Utilisation of existing facilities

In order to cope with the rising demand for power, not only is the additional capacity to be created as discussed above, the plan needs to be in place for optimal utilisation of existing facilities and also undertaking life extension programme/replacement of the existing facilities which are near completion of their age besides timely repair/maintenance. The details of the power generating units, when they fell due for Renovation and Modernisation/Life extension programmes (as per CEA norms) during the five years ending 2009-2010 vis-a-vis when actually taken up for the same are indicated in the table below.

Table 5

S. No.	Name of the Plant	Unit No.	Installed Capacity	Date of commissioning	Due Date (as per CEA norms)	Date when actually taken up
1	Lower Jhelum	I	35.00	Feb, 1978	1998	2003-04
		II	35.00	Jan, 1979	1999	2003-04
		III	35.00	Nov, 1979	1999	2003-04
2	Upper Sind Hydro Electric Project-I	I	11.30	Dec, 1973	1993	2005-06
		II	11.30	July, 1974	1994	2005-06
3	Ganderbal	I	3.00	Feb, 1955	1975	2009-10
		II	3.00	Feb, 1955	1975	2009-10
		III	4.50	1961	1981	2009-10
		IV	4.50	1961	1981	2009-10
4	Chenani-I	I	4.66	1971	1991	2005-06
		II	4.66	1971	1991	2005-06
		III	4.66	1971	1991	2005-06
		IV	4.66	1975	1995	2005-06
		V	4.66	1975	1995	2005-06
5	Hunder	I	0.20	1995	2015	2007-08
		II	0.20	1995	2015	2007-08
6	Sumoor	I	0.05	1993	2013	2007-08
		II	0.05	1993	2013	2007-08
7	Bazgo	I	0.15	1994	2014	2007-08
		II	0.15	1994	2014	2007-08

There was a delay of 4 to 33 years in the renovation, modernisation and upgrading (RMU) of 14 units due to lack of comprehensive RMU policy, delay in decision making, non-availability of funds, etc. On the other hand, RMU of three projects due was undertaken pre maturely without ensuring availability of adequate funds. We observed instances of undertaking RMU of various units in an unplanned manner as discussed below:

- Though RMU programmes of four power projects were necessary, the process was started belatedly in November 2000. However, factors like procedural delays in getting approval of the CEA, inability to obtain adequate funding subsequent to approval, failure to obtain Government guarantees, etc, resulted in delays upto August 2005. The RMU of Lower Jhelum had been started (2003-04) in anticipation of the CEA approvals. The delay in taking up RMU, thus, resulted in escalation of the estimated cost from ₹ 137.75 crore (2002) to ₹ 243.70 crore (2005). The work on RMU was started in piecemeal during 2003-09, that too with meager funding, with the result that the whole process which, otherwise, would have been completed within one to three years continued to be incomplete as of May 2010. An expenditure of ₹ 68.96 crore was spent as of March 2010. The Management stated (December, 2010) that the RMU programme got delayed due to huge demand supply gap of power prior to commissioning of Baglihar HEP. However, the Company should have planned the RMU programme in a phased manner to overcome this constraint.
- RMU scheme for Chenani-I project was approved (2005) at a cost of ₹ 42.35 crore, which included electro/mechanical and civil works. The Company incurred ₹ 2.38 crore during 2005-10 on civil works and balance works (including electro/mechanical) had not been taken up (March 2010). We observed that the work had been hampered due to non-availability of funds as also due to delay in finalisation of suppliers for proprietary electro-mechanical equipment to be procured from original manufacture (Hungry based firm) and BHEL. The lapse on the part of the management to arrange funds and finalise the supplier(s) resulted in delay in completion of the RMU. The Management stated (December 2010) that the open bidding process has now been started which is yet underway.
- RMU of USHP-I project was approved (2005) at a cost of ₹ 26.43 crore against which ₹ 7.39 crore¹⁵ (28 per cent) only were incurred during the period 2005-10. It was seen that though the major civil work of renovation of canal (estimated cost: ₹ 8.60 crore) was allotted to the contractor belatedly in December 2009, the work is still under execution, thus delaying the execution. Apart from this, the delay occurred due to non-allotment of electro-mechanical works to the BHEL in time. No action had been taken by the Company to allot the balance works till date (April 2010).

¹⁵ Electro-mechanical works: ₹ 4.71 crore and Civil Works: ₹ 2.68 crore

- The Company with the aim of replacing existing Governors (USHP-I), which were almost 30 years old, avoiding forced shutdowns and saving a generation loss of two lakh units per day, approached (March 2005) BHEL for supply of New Digital Type Max DNA Microprocessors Based Governors with other spares/parts under RMU. BHEL offered (June 2005) the rate of ₹ 1.63 crore (excluding Excise Duty and Sales Tax, etc). The Company, belatedly, placed (July 2007) an order for supply of the above specified governors, against which only part supply was received as of October 2010, after a delay of more than three years and the balance equipment had not been supplied. Non-replacement of Governors which were the brain and heart of the hydro machinery resulted in loss of generation of two lakh units per day, as estimated by the Company. The Management stated that the delay in placement of order was procedural and supplies got delayed due to non-availability of funds and that the Governors shall be installed after receipt of complete supplies. It was further stated (December 2010) that the replacement of Governors was only to improve the central mechanism and did not affect generation. The reply is not based on the facts as the Company at its own assessed the loss and it was also noticed that intermittent failure of Governors resulted in shut down of the power house.

5.2.9 Project Management

Preparation of an accurate and realistic Draft Project Reports (DPRs) after considering feasibility study, factors like creation of infrastructure facility, addressing bottlenecks likely to be encountered in various stages of project planning are critical activities in the planning stage of the project.

Project management includes timely acquisition of land, effective actions to resolve bottlenecks, obtaining necessary clearances from the Ministry of Forest and Environment and other authorities, rehabilitation of displaced families, proper scheduling of various activities using PERT/CPM technique, adequate budget provisions, etc. Notwithstanding this, time and cost overruns were noticed due to absence of coordinating mechanism throughout the implementation of the projects during review period as discussed in succeeding paragraphs.

The following table indicates the scheduled and actual dates of completion of the four power stations, start of transmission, commissioning of power stations and the time overrun.

Table 6
Time overrun

S.No	Phase-wise name of the Unit	Details	As per DPR	Actual Date	Time overrun (In years)
1.	Haftal (1 MW)	Date of completion of unit	8/1990	8/2006	16
		Date of start of transmission	8/1990	8/2006	16
		Date of commercial operation/ commissioning of unit	8/1990	8/2006	16
2	Marpachoo (0.75 MW)	Date of completion of unit	1990	6/2006	15
		Date of start of transmission	1990	6/2006	15
		Date of commercial operation/ commissioning of unit	1990	6/2006	15
3.	Igo-mercellong (3 MW)	Date of completion of unit	9/1997	8/2005	8
		Date of start of transmission	9/1997	8/2005	8
		Date of commercial operation/ commissioning of unit	9/1997	8/2005	8
4.	Baglihar HEP-I (450 MW)	Date of completion of unit	11/2004	10/2008	4
		Date of start of transmission	11/2004	10/2008	4
		Date of commercial operation/ commissioning of unit	12/2004	4/2009	4

None of the projects was completed in time and slippages in time schedule were avoidable at various stages of implementation on account of the following:

- Delay in acquisition of land and handing over of site
- Undue time taken in obtaining clearances from various agencies
- Militancy in the State and other Law and Order problems
- Delay in obtaining Government sanctions and subsequent delayed financial closures and delay in release of payments to contractors
- Settlement of Indus Water treaty issue
- Floods and other Force Majeure events

The Management stated (December 2010) that avoidable delays would be avoided in future by short circuiting the tedious and lengthy procedure.

5.2.9.1 Cost Overrun

The estimated cost of the various power stations executed under different phases, actual expenditure, cost escalation and the percentage increase in the cost are tabulated below:

Table 7
Cost overrun

(₹ in crore)

S.No.	Phase-wise name of the Unit	Estimated cost as per DPR	Actual expenditure as on 31 March 2010	Expenditure over and above estimate (4)=3-2	Per centage increase as compared to DPR
	(1)	(2)	(3)	(4)	(5)
1.	Pahalgam	16.70	55.20	38.50	231
2.	Bhadarwah	2.39	10.60	8.21	344
3.	Igo mercellong	21.63	49.42	27.79	128
4.	Marpacho	1.63	12.84	11.21	687
5.	Haftal	3.95	16.12	12.17	308
6	Baglihar HEP-I	3899.00	5510.09	1611.09	41

It would be seen from the above that in six projects implemented during the review period, there was cost overrun ranging from 41 to 687 *per cent*. As analysed by us the reasons for cost overrun were as under:

- Lack of effective control over the completion of various packages.
- Additional items of work not envisaged in the DPR executed at a cost of ₹ 239.51 crore in respect of Baghlihar Project and ₹ 7.67 crore of Igo-Mercilong project.
- The Company paid ₹ 757.30 crore as interest against ₹ 637.60 crore provided in the DPR, during the construction period in respect of BHEP-I.

The time and cost over-run of two projects are discussed below:

5.2.9.2 Baghlihar HEP Stage-I.

Baghlihar HEP Phase-I with three units was taken up for execution in 1999 on turnkey basis in State sector at an estimated cost of ₹ 3495 crore against the DPR cost of ₹ 3899 crore. Civil and hydro mechanical works were awarded (April 1999) to a contractor¹⁶ for ₹ 1622 crore and the electro-mechanical works were allotted (July 1999) to another firm¹⁷ for ₹ 492 crore, for completion by 31 December 2004.

The project underwent cost revisions three times (August 2004/April 2008/October 2009) with final cost estimated (October 2009) at ₹ 5827 crore¹⁸. All the three units of the project were taken over from the contractors between October 2008 and March 2009 and after trial run, the commercial operation was started in April 2009, after 51 months of the scheduled date of completion. However, ancillary works relating to the project continued to be executed as of May 2010, and a total expenditure of ₹ 5515 crore had been incurred (May 2010) on the project. Thus, the project witnessed a cost

¹⁶ M/S Jaiprakash Associates Ltd (formerly Jaiprakash Industries Ltd.)

¹⁷ M/S Voith Siemens and VA

¹⁸ Still under evaluation of CEA

overrun of ₹ 2020 crore¹⁹ and a time overrun of 51 months as of May 2010, which was likely to increase by the time ancillary works are completed.

An analysis of various factors in audit which led to cost and time overrun revealed the following:

- Despite having been accorded top priority by the State Government and the GOI with all necessary clearances for starting the project, the Company could not mobilize the requisite funding for the project in a planned manner and the Company obtained financial closure, from financial institutions, in January 2005, well past the target date of the project. It was seen that instead of awaiting a firm financial closure, the Company started work by deploying Plan assistance (Equity) received from the State, raising bridge loan/bonds and utilising its internal resources. By the time financial closure was obtained, an amount of ₹ 2366 crore²⁰ had been spent.
- Unprecedented snowfall (January 2005) and heavy monsoon rains (July 2005) resulted in damages, inter-alia, to the river diversion arrangement (diversion tunnels) and triggered collapse of rock and debris slope on the right bank by way of massive slides. The rehabilitation/reinstatement works on account of this force majeure event was assessed by the Company at ₹ 501 crore. The Company received (March 2006 to February 2009) ₹ 103.66 crore against a claim of ₹ 120 crore from the insurers and the balance amount of ₹ 16.34 crore was pending with the Insurance Company. Inadequate follow up of the insurance claim indicated lack of seriousness on the part of the Company to save itself from the financial loss. The Management stated that the remaining amount under this policy is under finalisation with the insurers and is being followed vigorously. The claim is likely to be settled within a month.
- Even after obtaining financial closure, the Company had not ensured release of timely payments with the result that the contractor was paid ₹ 3.08 crore on account of delayed payments ending May 2010 which could have been avoided by a meticulous financial planning. The Company had not fixed any responsibility for causing pecuniary loss to the Company due to unsound fund management. The management admitted (June 2010) that the interest on delayed payments was due to financial problems encountered prior to obtaining financial closure of the project. It was also stated (December 2010) that non release of Special Plan Assistance of ₹ 440 crore led to delayed payments.
- Delay in construction of alternative roads and bridges²¹ in submergence areas, resulted in reservoir filling remaining static at 836 MASL²² against the envisaged

¹⁹ Against the estimated cost (₹ 3495 crore)

²⁰ Civil works: ₹ 2034 crore (including Transmission Line expenditure), Electro-mechanical: ₹ 332 crore.

²¹ Ganpat bridge, bridge at Trungal, bridge at Marsoo, bridge at Kulthi Nallah, Khellani Pul Doda (Re-alignment road), Roapway at Marsoo and Trungal.

²² Meters Above Sea Level

full 840 MASL and the project thereby remaining without full load testing and also losing benefit of extension peaking hours during winter. This also reduced cushion for floods substantially.

5.2.9.3 Bhaderwah Mini Hydel Project

The Company awarded (May 2002) a contract for design, manufacture, supply, supervision, erection, testing and commissioning of Unit-III (0.5 MW) of Bhaderwah HEP to a firm²³. Although the work was completed (April 2006), the unit could not be commissioned as one of the vital component (sluice valve) was not installed. The firm had not supplied the equipment as the same was not specifically mentioned in the list of equipment to be supplied by the firm. We observed that while executing the contract for Unit-I and Unit-II, the firm was required to supply the sluice valve and in the contract for Unit-III no provision for this mandatory item was kept. The equipment was installed (February 2009) after about three years.

Apart from this, water conductor, feeding all the three Units (two already commissioned) of the Bhaderwah HEP, damaged in September 2007 due to heavy rains/shooting stones, had not been repaired (May 2010). No reasons for non-repair of the water conductor were furnished by the Company. As a result, all the three units remained non-functional from September 2007 to September 2010 resulting in generation loss of 6.79 MU²⁴ valuing ₹ 1.24 crore. Reasons for non-provisioning of mandatory item of equipment were not found on record. No responsibility for executing the contract without this mandatory equipment had been fixed by the Company. The Management stated that the machine of Unit-III could not be tested and commissioned due to non-availability of water. The reply is not logical as despite lapse of three years no serious efforts were made by the Company for repair of the water conductor and all the three units remained non-functional since September 2007. Management also stated (December 2010) that responsibility shall be fixed and efforts were on to restart the Bhaderwah HEP.

5.2.10 Contract Management

5.2.10.1 Contract management is the process of efficiently managing contract (including inviting bids and award of work) and execution of work in an effective and economic manner. The work is generally awarded on turnkey (Composite) basis to a single party involving civil construction, supplies of machines and ancillary works.

We observed that the Company had not maintained any details of contracts at the Corporate Headquarters in respect of various field units and as such the position of total contracts signed by the Company during 2005-10 could not be ascertained.

²³ M/S. Jyoti Ltd

²⁴ Worked out on the basis of potential generation arrived at minimum PLF of 20 *per cent* for the respective periods and the per unit sale rate of the corresponding period.

5.2.10.2 Following deficiencies were noticed in implementation of contracts in respect of Baglihar HEP-I:

- Clause 24.4 of the general conditions of the contract provided that granting of an extension of the time for completion would imply that the contractor would be entitled to additional payment of costs arising from the time extension. It was seen that only 60 and 65 *per cent* of the works were actually completed by the Civil and Electro Mechanical contractors ending December 2004. However, factors like non- availability of land, inadequate security, law and order problem, adverse geology encountered, delay in release of payments, flash floods in 2005, Indus Water Treaty issues and also delays in obtaining financial closures etc. resulted in further delay in completion of the works. The Company, thus, had to grant extension of time (EOT) eight times during 2005-2009 which resulted in payment of extension claim of ₹ 196 crore to the contractor.
- Delay in civil works, resulted in five extensions in time in respect of electromechanical contractors²⁵ and payment of ₹ 106.86 crore on account of cost escalation due to EOT (₹ 77.88 crore), extension in defect liability period (₹ 24.10 crore) and preservation charges (₹ 4.88 crore) to the contractors.
- This also led to continued supervision by consultants due to which additional expenditure of ₹ 69.23 crore was incurred beyond ₹ 60.77 crore payable to consultant as per schedule.

5.2.10.3 *Delay in execution of allied works of Baglihar BHEP*

Consequent upon impounding of Baglihar Reservoir, several roads and bridges upstream were envisaged to be submerged. In order to provide alternate roads and bridges upstream for use by the local populace, the status of all the submergence roads and bridges was delayed resulting into inability of the Corporation to impound its reservoir upto the designed dam level. Major deficiencies noticed in completion of these allied works are discussed below.

- Construction of Ganpat Bridge at Pul Doda was allotted (December 2006) to the J&K Projects Construction Corporation at a cost of ₹ 29.95 crore for completion by February 2009. We observed that even after 40 months, JKPCC could achieve only 40 *per cent* progress on the work. Records revealed that despite having been paid (December 2006 and March 2007) the mobilization advance of ₹ 5.99 crore, the JKPCC failed to arrange Gantry Girders, most essential component of the work. The work on the site was further delayed due to litigation between JKPCC and its sub-contractors for one and half years and belated demand (January 2010) of additional land for bridge abutment. The Company had not imposed any penalty as per the agreement, computed at ₹ 2.99 crore (10 *per cent* of the cost),

²⁵

M/S Voith Siemens Ltd

upon JKPCC for delay in completion of work. The Management while confirming the delay stated that action would be initiated as stipulated in the MOU.

- The work of design, supply, fabrication, erection and launching of foot suspension bridge over river Chenab for villages of Marsoo area was awarded (July 2006) to a contractor²⁶ at a cost of ₹ 2.82 crore. The work was to be completed by March 2007, failing which a penalty at 10 *per cent* of the contract value had to be imposed and in the event of failure to execute the contract and the re-allotment had to be at the risk and cost of the contractor.

The contractor submitted (September 2006) the design for vetting which was returned (April 2008) by the Company, after a delay of about 20 months. It was seen that the reason for delay in vetting of designs was refusal by the State Design Directorate to vet them which prompted the Company to have the designs vetted from a private firm (M/s Lahmeyer International). Further, the contractor had not started the work at all even after two years of approval of the design. After being pointed out in audit, the management informed (June 2010) that the contractor after having been notified had started the work and penalty, if any, would be worked out. The reply, however, did not elaborate whether the option of canceling the existing contract and re-allotting to another contractor at the risk and cost was also considered.

5.2.10.4 Undue favour to Contractors

- The Central Vigilance Commission (CVC) prohibited (1997/2004) payment of interest-free advance to contractors engaged for implementation of projects. We observed that, in contravention of these guidelines, the Company had granted interest-free mobilization advance of ₹ 405.60 crore (₹ 162.24 crore each in April and December 1999 and ₹ 81.12 crore in July, 2000) to contractor executing Hydro-mechanical works of Baglihar HEP-I. Similarly, ₹ 40 crore had been paid (August 2002) to contractors for execution of Baglihar Stage-II, which was pending adjustment (June 2010). This resulted in huge interest losses to the Company besides passing of undue financial benefit to the contractors.

The Management stated (June 2010) that the advance was granted and recovered from the contractors in line with the contractual stipulations. It, however, assured that mobilization advances, if allowed in future, shall be paid keeping in view the recommendations of the CVC in this behalf.

- The work of construction of 18.5 Km long External Access Road to Sawlakote Hydro Electric Project was awarded (July, 2002) to a firm²⁷ at a cost of ₹ 137 crore for completion within 20 months. It was seen that the Company, without ensuring availability of land for the road, which passed through the forest area,

²⁶ M/s Malik Construction Company, Batote

²⁷ M/s Larsen and Toubro

paid (September 2002) ₹ 27.40 crore to the contractor as mobilisation advance without interest. However, the contractor started the work belatedly in November 2004 by which time the contract was re-negotiated (September 2003) at a reduced cost of ₹ 119 crore with completion period of 24 months. Though the contract had been rescheduled twice (June 2007 and October 2009) for completion by July 2011, only 55 *per cent* of the work had been completed as of March 2010.

Thus, payment of Mobilization advance without interest and without providing the un-encumbered land to the contractor, coupled with delay in completion of work, etc. put the Company to loss of ₹ 6.39 crore²⁸. This also jeopardized the starting of the main project. The Management stated that 25 *per cent* of the value of work done is being deducted from each Interim Payment Certificate (IPC) and ₹ 15.58 crore had been recovered as of March 2010. The management in its reply, however, did not indicate reasons for grant of mobilisation advance without making available the site.

5.2.11 Operational Performance

Operations of a Power Generation Company is dependent on input efficiency consisting of material and manpower and output efficiency comprising Plant Load Factor, plant availability, capacity utilization, outages and auxiliary consumption. These aspects have been discussed below.

5.2.12 Manpower Management

Consequent upon reorganisation (June 1994) of the J&K State Power Development Department and coming into existence of JKSPDC in February 1995, the State Government decided that the staff engaged in these projects/power stations/units on the date would be taken as their respective sanctioned strengths. However, despite the BoD repeatedly deliberating upon restructuring and assessment of staff requirement, the Company did not follow it up.

The position of actual manpower, sanctioned strength and expenditure on salaries is given below:

Table 8

S. No.	Particulars.	2005-06	2006-07	2007-08	2008-09	2009-10
1	Sanctioned strength	5067	5067	5067	5067	5067
2	Actual manpower	3722	3697	3551	3649	3331
3	Expenditure on salaries (₹ in crore)	46.21	46.79	51.32	52.83	62.94

The Management stated that Company was in the process of undertaking requirement analysis based on the report of the consultants engaged for the purpose. In the course of audit, we observed instances of idle manpower as detailed below:

²⁸ Calculated on the basis of 10 *per cent* rate of interest for 28 months i.e. delay in handing over the land.

- In pursuance to MOU (July 2000) with the NHPC, Kishen Ganga Hydel Project (KGHEP) was transferred (July 2000) to NHPC for execution. Audit scrutiny revealed that after transfer of the project, the Staff attached to the Project, had not been relocated for gainful employment elsewhere upto October 2009, when the staff was redeployed to needy divisions/projects. An amount of ₹ 12.33 crore was paid as salary to these employees during July 2000 to February 2009, thereby indicating a deficient human resource management. Management stated (December 2010) that some staff was also supposed to be taken over by NHPC which did not mature as NHPC did not exhibit any inclination for this and staff was redeployed in October 2009.
- The State Government ordered (July 1999) transfer of Electric Sub-division, Karnah of the Company to Power Development Department alongwith the staff posted therein. We observed that the Company continued to pay salaries to these employees and ₹ 3.61 crore had been paid as of September 2010. The State Government neither reimbursed the salary to the Company nor did they accept repatriation stating (October 2006) that the staff could not be accommodated in the PDD for want of posts. From the above, it would be seen that the Company was unable to take decisions independently and curtail cost of generation thereby, compromising on cost effective power supply to the State.

5.2.12.1 *Operation and Maintenance of BHEP*

The Company had not planned for Operation and Maintenance (O&M) of the Bhagliar project. We observed that until the wet commissioning (August 2008) of the Project, requisite trainings for handling/operation of the equipment were not planned/imparted to the staff.

The electro mechanical contractor, as per the agreement, was to provide necessary training in handling of Electro Mechanical equipments to the Company staff and during 2004-05, six officers²⁹ had been sent to Germany by the Contractor, for training. However, two of these officers were repatriated to their parent departments while the services of others could not be utilised as two of them belonged to Mechanical and Civil disciplines and could not be deployed on power house operational duties, indicating that selections of trainees had not been done properly. The Company had paid ₹ 4.62 crore to the Contractors ending February, 2010 for the purpose, yet it failed to build a cadre which could independently handle the operation and maintenance of the Power House rendering the expenditure infructuous.

Due to non-availability of trained manpower, the Company engaged (March 2009), NHPC for O&M of BHEP at a cost of ₹ 74.10 crore for the first year with annual escalation thereafter as permissible under CERC guidelines. The NHPC started

²⁹ 1 EE., 1 AEE, 1 AE, 3 JEs

rendering service from September 2009 and Rs 51.58 crore had been paid by the Company as of May 2010.

5.2.13 Output Efficiency

5.2.13.1 Shortfall in generation

The targets for generation of power for each year are fixed/approved by the management. We observed that instead of fixing targets in terms of Units to be generated, the Company had been fixing it in terms of the expected revenue. However, based on the targets computed by audit in terms of Units taking into account the design energy, it was seen that the Company was able to generate a total of 7979.31 MU of power during 2005-06 to 2009-10 against the revalidated design energy of 10790.53 MU. This resulted in a shortfall of 2811.22 MU as shown in the following table:

Table 9

(Figures in MUs)

Year	Design Energy	Actual	Shortfall	Per centage of Shortfall
2005-06	1520.38	922.31	598.07	39
2006-07	1529.05	985.57	543.48	36
2007-08	1529.05	909.65	619.40	41
2008-09	2146.93**	1702.96	443.97	21
2009-10	4065.12	3458.82	606.30	15
Total	10790.53	7979.31	2811.22	26

** The design energy of Baglihar HEP has been taken for the corresponding operational period of the machines.

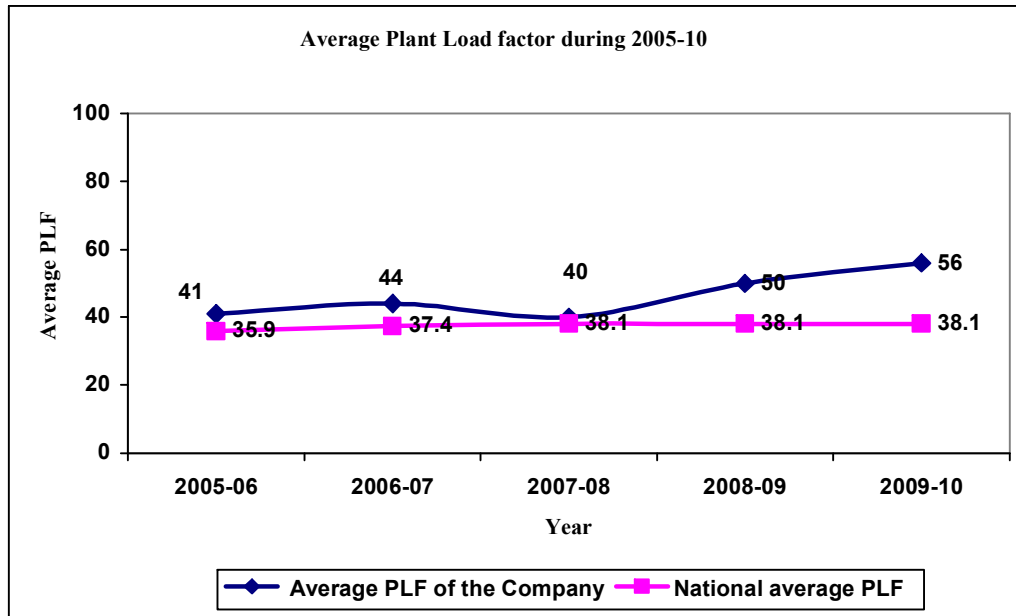
Note: The design energy and actual generation was excluding the figures in respect of Gas Turbine Units.

Major reasons for huge shortfall were delay in decision making at various levels of the management for timely repairs/restoration of the damages to the machinery/components/feeding canals of various power houses, low discharge of water, feeding line faults, frequent breakdown of power houses, etc. as brought out in the preceding paragraphs.

The year-wise details of energy to be generated as per design, actual generation, plant load factor (PLF) as per design and actual plant load factor in respect of the power Projects commissioned up to March 2010 are given in *Appendix- 5.8*.

5.2.13.2 Low Plant Load Factor (PLF)

Plant load factor (PLF) refers to the ratio between the actual generation and the maximum possible generation at installed capacity. According to norms fixed by Central Electricity Regulatory Commission (CERC), the PLF for hydro power generating stations should be 80 *per cent*, against which the national average was 35.9 to 38.1 *per cent* during 2005-10. The PLF achieved by the Company was 40 to 56 *per cent* of the Hydel Power Projects during 2005-10 as depicted below.



An analysis of the *Appendix-5.8* revealed that in 9 to 11 power houses, the PLF remained 20 per cent and below during review period.

The details of average realisation vis-a vis average cost per unit, PLF achieved, PLF at which average cost would be recovered are given in the following table:

Table 10

S. No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Average Realisation (paise per Unit)	1.37	1.23	1.29	0.71	3.42
2.	Average Cost (paise per Unit)	1.34	1.07	1.23	0.51	3.66
3.	Actual PLF (per cent)	41	44	40	50	56
4.	PLF at which average cost stands recovered (per cent) (2/1 X 3)	40	38	38	35	60

The main reasons for the low PLF with reference to CERC norms, as observed in audit were:

- Low plant availability
- Low capacity utilization
- Natural calamities in some projects
- Major shutdowns and delays in repairs and maintenance
- Old projects were under RMU programme

The Management stated (December 2010) that the steps have been taken to carry out stabilisation work/RMU to improve the plant availability and consequently the PLF.

These are discussed in the following paragraphs.

5.2.13.3 Low plant availability

Plant availability means the ratio of actual hours operated to maximum possible hours available during certain period. Against the CERC norm of 80 *per cent* plant availability during 2004–2009 and 85 *per cent* during 2010–2014, the average plant availability of power stations was from 50 to 65 *per cent* during 2005-10.

The details of total hours available, operated, planned/forced outages and overall plant availability in respect of the Company (excluding Gas turbine) are shown below:

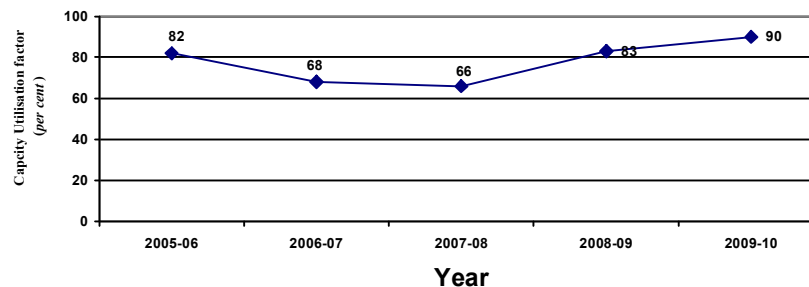
Table 11

S. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Total hours available	271416	320040	391056	397920	416400
2.	Operated hours	125264	143634	145902	200217	184697
3.	Planned outages (in hours) (<i>per centage</i> to total hours available)	7941 (2.93)	10579 (3.31)	12669 (3.24)	10684 (2.68)	20160 (4.84)
4.	Forced outages (in hours) (<i>per centage</i> to total hours available)	138211 (50.92)	165827 (51.81)	232485 (59.45)	187019 (46.99)	211543 (50.80)
5.	Plant availability (<i>per cent</i>)(weighted)	50	65	61	60	62
6.	Average PLF (<i>per cent</i>)	41	44	40	50	56
7.	Capacity Utilisation factor (6/5*100)	82	68	66	83	90

The planned and forced outages remained between 2.68 *per cent* and 4.84 *per cent* and between 46.99 *per cent* and 59.45 *per cent* respectively during the period 2005-10. The low availability of Power plants was due to longer duration of outages caused by inordinate delays in repair and maintenance, delay in RMU of old units, low water discharge, Feeder problems from State PDD, Manual Voltage regulation problems, etc.

5.2.13.4 Capacity Utilisation

Capacity utilisation means the ratio of actual generation to possible generation during actual hours of operation. The average capacity utilisation factor of power plants in the State ranged between 66 and 90 *per cent* during 2005-10 as shown in the graph below.



The main reasons for the low utilisation of available capacity during 2005-10, analysed in audit were:-

- Running of units with partial load/without load.
- Reduced capacity of old generating units.
- Constraints on transmission capacity.

5.2.13.5 Outages

Outages refer to the period for which the plant remained closed for attending planned/forced maintenance. Audit observed the following deficiencies in planned and forced outages:

- The total number of hours lost due to planned outages increased from the 7941 hours (2.93 *per cent*) in 2005-06 to 20160 hours (4.84 *per cent*) in 2009-10 of the total available hours. The planned outages primarily were due to taking up of RMU of the units.
- The forced outages in power stations increased from 138211 hours in 2005-06 to 211543 hours in 2009-10. The forced outages remained more than the norm of 10 *per cent* fixed by CEA. Compliance of the CEA norms would have entailed availability of generation of 3962.88 MU valuing ₹ 897.80 crore³⁰ during 2005-10. Major reasons for huge outages were delay in decision making at various levels of the management for timely repairs/restoration of damages to the machinery/components/feeding canals of various power houses, low discharge of water, feeding line faults, frequent breakdown of power houses as highlighted in the preceding paragraphs.

5.2.13.6 Auxiliary consumption of power

Energy consumed by power stations themselves for running their equipments and common services is called Auxiliary Consumption. J&K SERC allowed (June 2003) 0.50 *per cent* of the power generated to be used as auxiliary consumption and 0.50 *per cent* as transmission losses. The actual auxiliary consumption including transmission losses ranged between 0.51 and 0.95 *per cent* during the years 2005-10 which was within the desired range.

5.2.14 Repairs and maintenance

To ensure long term sustainable levels of performance, it is important to adhere to periodic maintenance schedules. The efficiency and availability of equipment is dependent on the strict adherence to annual maintenance and equipment overhauling schedules. Non-adherence to schedule carry a risk of the equipment consuming more coal, fuel oil and a higher risk of forced outages which necessitate undertaking R&M

³⁰ Calculated on the basis of difference of generation loss at 90 *per cent* availability and actual availability (50 to 65 *per cent*) with the per unit sale rate during review period.

works. These factors lead to increase in the cost of power generation due to reduced availability of equipments which affect the total power generation.

Instance, of delay in carrying out repairs resulting in shutdowns noticed in audit are elaborated below.

5.2.14.1 Restoration work of damages of Wangat spill channel

The downhill side of water conductor of Wangat Link Canal feeding Kangan Power House got eroded during 2005-2006. Due to inaction in arresting the erosion, a huge slips (September 2009) adjacent to the exposed conduit damaged the main canal as well as the spill channel, putting the power house to halt. The Company allotted (September 2009-March 2010) the work for repairs of spill channel and allied works to contractors without resorting to tendering and executed part works departmentally. An amount of ₹ 3.02 crore had been incurred and the power house was made operational in April 2010, though work had not been completed fully and continued to be in progress. No work related to restoration of canal had, however, been initiated with the result that the canal had been lying defunct affecting the generation capacity of the Power house, which was being run on the feed from Sumbal link canal only³¹. The delay in completion of survey for generating data required for clearance of restoration proposal by the Central Water Commission (CWC), primarily led to delay in taking up the restoration work of the canal. In reply, the management stated that the work had been executed through the inducted agencies on reasonably awarded/allotted cost only to run the Power House at the earliest. The works were still under execution due to increase in allotted quantities as per requirement at site and that the survey required for clearance of proposal by the CWC is being pursued vigorously. The reply is not convincing as the Company did not carry out the repairs to arrest erosion noticed during 2005-06 initially which resulted in halting of the operation of the Power House and huge financial losses.

5.2.14.2 Faulty design leading to extra burden

USHP-II, Kangan Unit-II and Unit-III, commissioned in September 2001 and June 2002, respectively developed (September 2002) excessive shaft vibration. This resulted in shutdown of Unit-II intermittently during January/February 2003, May 2003 to September 2003, and completely in May 2004, as the repair works failed to restore the Unit. Similarly, Unit III was also under shutdown from January 2003 to September 2003, November 2003 to February 2004, and completely from September 2004.

After consultation with M/s BHEL, Central Water Commission (CWC), Central Electricity Authority (CEA) during 2002-03, the Company belatedly approved (September 2005) modification/restoration/repair works at a cost of ₹ 6.98 crore.

³¹ USHP-II Kangan is the only power house having two feeder canals viz., Sumbal link canal and Wangat link Canal

Procedural delays involved during consultation with above agencies and further delay in finalisation by the Company subsequent to recommendations of these agencies resulted in belated approval. While the Unit-III was restored in March 2006, Unit-II was restored in May 2007.

We observed that faulty design of the tail race pool was the main cause of excessive vibration which led to modification/restoration/repair works at a cost of ₹ 6.06 crore³². This extra cost excluded expenditure incurred on non-BHEL electrical works, other civil and mechanical works and consultancy charges, which were not intimated. Apart from this, the forced shutdowns resulted in generation loss of 275.94 MUs³³ valuing ₹ 43.53 crore.

5.2.14.3 Overhauling of Unit-I of USHP-II, Kangan

USHP-II, Kangan Unit-I developed (2006) a trend of high vibrations. We observed that rotating sleeve of turbine shaft sealing system and textolite insulation had deteriorated with erosion of guide vanes. For rectification, the machines were required to be completely dismantled and overhauled. The unit was closed down (November 2007) and the rectification work was allotted (December 2007/July 2008) to BHEL at a cost of ₹ 1.77 crore for completion by October 2008. The unit was ultimately synchronized with the Grid in August 2009. It was seen that the delay in undertaking the repairs of affected parts was mainly due to delay in finalization of rates, delay in decision for repairing and reconditioning of underwater parts, etc. However, apart from the delays in initiating the repairs, the delay (November 2008 to July 2009) in completion of allotted works resulted in potential loss of generation of 45.99 MU³⁴ valuing ₹ 7.39 crore.

5.2.14.4 Delayed completion of restoration work

The restoration work of water conductor feeding Chenani power house, damaged (February 2005) due to heavy rains, was awarded belatedly (March 2006), to a firm³⁵ at a cost of ₹ 7.37 crore for completion in 12 months (April 2007). The main reasons for delay included belated assignment of the work to executive wings and subsequent delays in tendering process. However, the Company neither made the worksite available to the contractor nor obtained necessary clearance from the Forest Department, which resulted in delay in completion of work upto April 2008. The delay in completion of work for about 24 months (March 2005 to February 2006 and

³² On modification of tail race pool (₹ 2.30 crore) and rehabilitation of Unit- II and Unit-III (BHEL: ₹ 3.76 crore).

³³ Calculated on the basis of potential generation arrived at minimum PLF of 20 *per cent* for the period of complete shut down (May 2004 to April 2007: Unit –II and September 2004 to February 2006: Unit-III) with the sale rate of the corresponding period.

³⁴ Calculated on the basis of potential generation arrived at minimum PLF of 20 *per cent* for the period November 2008 to July 2009 with the sale rate of the corresponding period.

³⁵ M/S K.K.Chibber Constructions, Khanna (Punjab)

April 2007 to March 2008) resulted in generation loss of 88.64 MU³⁶ valued at ₹ 9.93 crore.

5.2.15 Financial Management

Efficient fund management is the need of the hour in any organisation. This also serves as a tool for decision-making, optimum utilisation of available resources, and borrowings at favourable terms at appropriate time.

The power sector companies should, therefore, streamline their systems and procedures to ensure that:

- funds in idle inventory are not invested,
- outstanding advances are adjusted/recovered promptly,
- funds are not borrowed in advance of actual need, and
- swapping high cost debt with low cost debt is availed expeditiously.

The main sources of funds were realisations from the sale of power and loans from State Government/Banks/Financial Institutions (FIs), etc. These funds were mainly utilized for generation cost, debt servicing, employee and administrative costs, and system improvement works of capital and revenue nature.

Details of sources and utilisation of resources on actual basis for the years 2005-10 are given below:

Table 12

(₹ in crore)

S. No	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Sources						
1.	Net Profit/(loss)	5.31	19.66	12.90	37.17	(76.84)
2.	Add: adjustments	25.61	23.14	19.95	17.16	760.76
3.	Funds from operations (1+2)	30.92	42.80	32.85	54.33	683.92
4.	Cash deficit (9-3)	880.64	971.57	760.75	1223.18	293.13
5.	Total (3+4)	911.56	1014.37	793.60	1277.51	977.05
Utilisation						
6.	Capital expenditure*	775.76	795.75	1004.84	1001.80	596.18
7.	Increase in working Capital	135.80	218.63	(211.24)	275.71	380.87
8.	Cash surplus (3-(6+7))	-	-	-	-	-
9.	Total	911.56	1014.37	793.60	1277.51	977.05

(* Source: utilisation certificates)

³⁶ Calculated on the basis of potential generation arrived at minimum PLF of 20 per cent for the period of complete shut down with the sale rate of the corresponding period.

The cash deficit was overcome mainly by increased borrowings in the form of cash credit/loans from Commercial Banks/Financial Institutions. Main reasons for cash deficit identified by audit were poor/delayed recovery of power supply bills, heavy interest commitment on loans, etc. It was seen that dependence on borrowed funds increased from ₹ 3164.44 crore in 2005-06 to ₹ 4572.10 crore in 2009-10. This resulted in interest burden of ₹ 3493.84 crore during 2005-10, thereby, increasing the operating cost of the Company.

Following lapses were noticed in the financial management.

- Due to liberalised economic policies, the interest rates on the loans started declining from 1999-2000 onwards. Different bankers reduced the rates of interest on the existing loans. Similarly Financial Institutions also evolved schemes to restructure the high cost loans into low cost loans with certain conditions. It was therefore, advantageous for the Company to go for restructuring high cost loans. It was, however, seen that the Company had not undertaken any exercise in this regard and had failed to take advantage of this facility. The loans availed by the Company, thus, continued to be serviced at the rates at which they were availed. The Management stated (December 2010) that the Company shall make an exercise to ascertain economies of swapping of debts.
- Based on the recommendation of the Planning Commission, the GOI sanctioned (October 2008) ₹ 670 crore as Special Plan Assistance in lieu of interest free loan to the State Government to meet the escalation cost of Baglihar Hydro Electric Project repayable in 12 monthly installments of ₹ 55.83 crore. However, out of ₹ 670 crore released by the GOI, the Company had received (December 2008/March 2009) ₹ 230 crore only from the State as of May 2010. Non-release of ₹ 440 crore by the State indicated diversion of Special funds.
- All the power projects commissioned during 10th plan (2002-07) were entitled to assistance under Accelerated Generation and Supply Programme (AG&SP) in the form of interest subsidy and the assistance availed by the projects not commissioned within 10th plan were required to refund the benefit so availed. We observed that the Company availed (2004-05) interest subsidy of ₹ 12.51 crore for Baglihar HEP from Power Finance Corporation Limited with a commitment to complete the project by 31 March 2007. However, non-completion of the Project in time resulted in refund (November 2007) of subsidy with interest by the Company.

- Consequent upon transfer³⁷ of projects to and from NHPC, it was decided (March 2001) that payments due from NHPC, for the transferred projects after taking into account the balance outstanding in respect of Baglihar Project, would be set off against the total outstanding due from the J&K Government on account of power purchase from NHPC. Necessary credits were to be passed on to the Company by internal book adjustment, etc. by the State Government.

As per the books of the Company, ₹ 79.14 crore was outstanding against NHPC on this account. However, neither any confirmation of the figures had been obtained from NHPC nor the amount recovered by the Company (June 2010). We observed that non-availability of complete details and project-wise balance sheets with the Company delayed the recovery with resultant loss of interest. The Management stated that NHPC had asked for some details which were to be worked out from the records and the matter continued to be discussed with NHPC. The reply is not convincing as serious efforts to reconcile the amounts with the NHPC were not made by the Company and same had been pending for almost a decade.

5.2.16. Claims and Dues

Company sells energy to J&K Power Development Department and Power Trading Corporation at the rates determined by JKSERC and as per the MOU signed with PDD/PTC from time to time. It was seen that receivables on account of sale of energy made to PDD have shown a sharp increase during 2005-06 to 2009-10. Against ₹ 250.53 crore due from the PDD in April 2005, the outstanding had gone up to ₹ 1041.28 crore in March 2010. The PDD had released payments to the Company in a staggered manner. Against energy bills of ₹ 1267.71 crore, only ₹ 476.96 crore had been paid during 2005-10 as depicted in the following table.

Table 13

(₹ in crore)

Year	Opening Balance	Bill raised	Amount Received	Balance outstanding
2005-06	250.53	129.41	54.33	325.61
2006-07	325.61	120.21	40.00	405.82
2007-08	405.82	116.87	80.00	442.69
2008-09	442.69	336.23	77.00	701.92
2009-10	701.92	564.99	225.63	1041.28

³⁷ Seven Projects (Uri-II HE Project, Kishenganga HE Project, Bursar HE Project, Pakal Dul HE Project, Nimoo Bazgoo HE Project, Chutak HE Project and Sewa-II HE Project) were handed over (July 2000) by the Company to NHPC and Three projects (Baglihar HE project, Sawlakote HEP and DPR of Ratle HEP) were handed over by NHPC to the Company.

Poor revenue realisation, apart from affecting the Company financially, had also affected the credit rating of the Company.

In reply, the management, while appreciating (March 2010) audit concerns, stated that the matter was being pursued vigorously and the Chief Minister, as the ex-officio Chairman, was also apprised of the position during meetings.

5.2.17 Tariff Fixation

The Company is required to file the application for approval of Generation Tariff for each year 120 days before the commencement of the respective year or such other date as may be directed by the JKSERC. The Commission accepts the application filed by the Company with such modifications/conditions as may be deemed just and appropriate and after considering all suggestions and objections from public and other stakeholders, issue an order containing targets for controllable items and the generation tariffs for the year within 120 days of the receipt of the application. Deficiencies noticed in filing ARR are given below:

- The Company was unable to furnish details of project cost of 11 old power projects³⁸ as it was unable to either locate records for these projects or, alternatively, get the project cost determined through independent valuers. This resulted in the fixation (2008-09) of tariff by the commission at ₹ 0.76 per unit, which was less than the rate (₹ 1.24 per unit based on the Power Purchase Agreement (PPA) entered with the State PDD) charged by the Company since 2001 on these projects. Due to this, the Company suffered a loss of ₹ 33.85 crore. The Company inspite of huge loss of revenue had not filed any review petition against the decision of JKSERC. The Management stated that due to non-availability of historical cost of the projects as such these were got revaluated through an independent agency which required time and as such review petition could not be filed. The reply is not correct as the process of revaluation should have been started before filing the first tariff petition due in 2005-06, consequently there was a time lag of three years in getting the project cost revaluated.
- The Company had neither maintained project-wise details nor got it audited timely, with the result the JKSERC disallowed an amount of ₹ 129.83 crore on account of actual capital cost of projects and applied a ceiling of ₹ 5.5 crore per MW on the project cost for the purpose of ARR and tariff determination in respect of eight newly commissioned projects. Apart from this, it was seen that while issuing tariff order for 2009-10, the J&K SERC had allowed ₹ 23.03 crore only as O&M charges against ₹ 43.72 crore incurred by the Company due to

³⁸ LJHP, USHP-I, Ganderbal, Chenani-I, Chenani-II, Karnah, Iqbal Bridge, Hunder, Sumoor, Bagzo, Mohra

non-filing of details thereof with the ARR & Tariff Petitions, thereby, resulting in disallowance of ₹ 20.69 crore by the J&K SERC. A review petition filed against the disallowance was un-disposed off (June, 2010). The capping of capital costs by JKSERC also affected the Annual Fixed Charges in which the Company had to forgo an additional amount of ₹ 26.02 crore. The Management stated that the review petition in this regard is pending before JKSERC.

5.2.18. Environment Issues

In order to minimize the adverse impact on the environment, the GOI had enacted various Acts and statutes. At the State level, State Pollution Control Board is the regulating agency to ensure compliance with the provisions of these Acts and statutes. Ministry of Environment and Forests (MoE&F), GOI and Central Pollution Control Board (CPCB) are also vested with powers under various statutes.

Except for BHEP which is a run-off of the river with storage (dam) project, all the hydro-electric projects of the Company are canal based and as such the issues relating to environment are very limited in terms of air, water and noise pollution.

5.2.18.1 Catchment Area Treatment Plan of BHEP

To address the problem of silting, soil erosion and to ensure longevity of the BHEP project, the DPRs envisaged a Catchment Area Treatment (CAT) Plan covering 1,98,366 hectares of land spread in five catchments for treatment/fencing, etc. Although the treatment should have started simultaneously with the project activity, so that the benefits envisaged would also begin to accrue to the Company and the people in the area, the State Government belatedly (February 2004) entrusted treatment of 11,403 hectares (out of 31400 hectares planned under phase-I) of the CAT to Soil Conservation Department (SCD) for completion by March 2010 at a cost of ₹ 15.96 crore. Out of this, only 5108 hectares (55 per cent) incurring ₹ 7.74 crore had been treated as of May 2010. The delay in decision by four years and subsequent delays in completion of Phase-I resulted into CAT plan remaining incomplete.

The Management attributed the delay to transfer of the project from NHPC to JKPDC resulting into delay in formulation of plan in line with the recommendation of the Environmental Impact Assessment Studies (EIAS). The reply is not convincing as the project was handed over by the NHPC in 1999 and the work of CAT should have been completed simultaneously with the completion of the project.

5.2.19. Monitoring by top Management.

5.2.19.1 MIS data and monitoring of service parameters

The Company plays an important role in the State economy. For such a giant organisation to succeed in operating economically, efficiently and effectively, there should be documented management systems of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on

achievement of targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that their achievement would make an organisation self-reliant. Audit review of the system existing in this regard revealed the following.

- The Company did not devise a proper management information system to evaluate power demand and supply position in the State to take timely policy decision regarding capacity addition programme.
- The Company did not devise a system to minimize the delay in decision making process and for monitoring the adherence to comprehensive plan in the implementation of the projects, mid-term evaluation and regular maintenance of the power houses in order to take the timely corrective action.
- The Company did not evolve a proper system for monitoring the adherence to performance parameters and targets.
- The data/information required for monitoring and analysis at Corporate Headquarters was not being submitted by divisions/sub-offices on a regular basis. Although the Company has evolved a standard format for reporting information on generation outages and auxiliary consumption, yet these are not being furnished regularly. Wherever these are sent by some units, no action to consolidate and monitor are taken at corporate level.
- There is no standard format to report status of contracts entered into at division level and its monitoring at Corporate level. Except for Baglihar, the information in respect of contracts entered into during 2005-2010 was not made available to audit because no such information was prepared/consolidated at corporate office level.
- No targets in terms of generation were fixed by the management to assess the performance of the Company in absence of which performance could not be monitored by the top management as well as Board of Directors (BOD).

Thus, benefit of effective MIS like compilation/consolidation of data, analysis of business activities including fund management, contract management, realisation of revenue, etc could not be achieved.

The Management stated that the Company has been carved out of the PDD and in the new structure, a proper MIS would be implemented.

5.2.20. Conclusion

- The Company failed to meet the growth in peak demand as deficit of 36 *per cent* was registered in meeting the peak demand.
- Delay in RMU of projects resulted in generation losses.
- Delay in completion of the ongoing projects resulted in huge cost overruns ranging between 41 and 687 *per cent* and the time over run ranged between four and 16 years.
- Poor contract management resulted in delay in implementation of projects, undue favour to the contractors, etc.
- The Company could achieve PLF ranging between 40 and 56 *per cent* and utilized capacity ranging between 66 and 90 *per cent* power plants leading to non-utilisation of capacity to maximum possible extent.
- The forced outages were alarmingly high and averaged at 52 *per cent* against the norm of 10 *per cent* fixed by CEA.
- Despite having its officials trained in operation of BHEP, the unplanned management thereof forced the Company to outsource operations to NHPC.
- Poor revenue realization affected financial and operational capability of the Company.
- As a result of inordinate delay in obtaining financial closure, the project implementation was hampered.
- Inability to have tariff fixed by the State SERC timely, resulted in revenue losses.
- Proper MIS did not exist in the Company to evaluate the execution of project and operational performance of power houses.

5.2.21. Recommendations

The Company must:

- Intensify its capacity addition programmes to exploit the huge unexploited hydropower potential of the State by close monitoring so as to meet the national objective of power for all by the year 2012.
- Formulating a long term plan for ensuring funding of projects and renovation activities
- Timely completion of ongoing projects should be ensured to avoid time and cost overruns.
- The Company should take immediate steps for arresting forced outages and increasing PLF of the power generation units.

- Manpower needs to be immediately restructured to bring down employee cost.
- There is an urgent need to optimize internal resource generation by enhancing the PLF to national level and vigorous pursuance of outstanding dues relating to effective recovery of energy bills.

Audit of Transactions

Jammu and Kashmir Bank Limited

5.3 Loss of interest

Bank's omission to stipulate an unequivocal clause in the agreement in regard to revision of interest rates on the term loan resulted in loss of ₹ 3.49 crore to the Bank.

The Shimla Branch of the Jammu and Kashmir Bank Limited (the Bank) sanctioned (February 2005) a term loan of ₹ 40 crore to a customer³⁹ for a term of 10 years. The conditions of the loan, inter-alia, included payment of interest at a rate of eight *per cent* per annum (annualized) with monthly rests or such other rates as may be charged by any other Bank/Financial Institutions (FIs), whichever is higher, and re-payment of principal in six annual installments⁴⁰ after an initial moratorium of four years. The rate of interest offered to the customer was three *per cent* below the then prevailing (11 *per cent*) Prime Lending Rate (PLR).

We noticed that despite revision (from 11 to 14 *per cent*) of the PLR thrice⁴¹ during the period from July 2006 to June 2008, the Bank had not revised the interest on this account and continued to charge the interest at the rate of eight *per cent*. Efforts by the Bank to revise the interest rates during 2006-10 had failed as the customer did not agree to the Bank's plea on the pretext that the interest rate on the account was fixed. Though the sanction letter/agreement with the customer provided for 'charging of such other rates as may be charged by any other Banks/FIs', the same proved unenforceable due to lack of a clear clause in this regard in the agreement. Having omitted to stipulate an unequivocal clause in regard to revising interest rate and having failed to have the interest rate revised, the Bank subsequently contemplated recalling (September 2009) the loan. However, the loan had not been recalled till date (August 2010).

The Management stated (June 2010/August 2010) that the facility was sanctioned at the fixed rate of interest, permitted under applicable regulatory guidelines. The reply was not convincing as, (1) instead of keeping a vague clause of interest revision in the sanction letter/agreement, the Bank should have taken adequate safeguards and incorporated specific clause, for revision of the interest rate from time to time as the non-inclusion of sufficient clause had led to customer ignoring the Bank's repeated pleas for revision of interest rates and, (2) in case the loan was sanctioned at the fixed interest rate, then there should not have any stipulation regarding charging of interest at higher rate if charged by another bank/Financial Institutions nor there should have

³⁹ M/S Himachal Pradesh Infrastructure Development Board (HPIDB), Shimla

⁴⁰ First five equal Installments of ₹ 6.67 crore and one last installment of ₹ 6.65 crore.

⁴¹ Rates of PLR (1) 1st July 2006: 12 *per cent*, (2) 14th February 2007: 13 *per cent* and (3) 12th June 2008: 14 *per cent*.

been any necessity to enter into a prolonged correspondence with the client for revision of rates, the failure of which had prompted the bank to think in terms of recalling the loan.

Thus, non-incorporation of an adequate interest clause in the agreement to safeguard the Bank's interests resulted in loss of ₹ 3.49 crore⁴² to the bank which is likely to cumulate further till the loan is completely redeemed.

It is recommended that the Bank should streamline its internal control mechanism and also fix responsibility for such lapses causing financial loss to the Bank.

The matter was referred to Government in June 2010; reply had not been received (November 2010).

Social Welfare Department

Jammu and Kashmir SC/ST/OBC Development Corporation Limited

5.4 Blocking up of funds

Failure of the Corporation to get back the money, consequent upon non-implementation of a scheme, resulting in blocking of funds of ₹ 45.37 lakh.
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The Jammu and Kashmir SC/ST/OBC Development Corporation Limited (Corporation) submitted (December 2001) a proposal to the National Minorities Development and Finance Corporation Limited (NMDFC) for providing term loan assistance under Transport Sector for rehabilitation of the drivers/conductors belonging to two Srinagar based transport unions⁴³ affected due to militancy. The NMDFC conveyed (July 2002) sanction to the project (estimated cost: ₹ 4.54 crore) with a finance sharing pattern of 85:10:05 between the NMDFC, the Corporation and the promoters.

We noticed that the NMDFC, owing to pending past overdues, did not release its share of funds. The matter remained unresolved till November 2005 when it was decided to implement the scheme through the Jammu and Kashmir Bank Limited (JKBL), which was nominated as the additional State Channelising Agency (SCA) of NMDFC. The funding pattern was revised to be paid by NMDFC, JKBL, the Corporation and the promoters on 40:40:10:10 sharing basis respectively. Accordingly, the Corporation paid its share of ₹ 45.37 lakh (10 *per cent* contribution) to JKBL in October 2006. However, due to non-fulfillment of the conditions related to guarantee by the State Government, stipulated for securing its share (₹ 1.81 crore), the NMDFC did not release its contribution and the scheme had not been implemented as of September 2010. The contribution paid by the Corporation has

⁴² Calculated at the rate of three *per cent* below prevailing PLR viz. 9 *per cent* with effect from 01.07.2006, 10 *per cent* with effect from 14.02.2007 and 11 *per cent* with effect from 12.06.2008

⁴³ KMDU & NDCU, Batmaloo, Srinagar

been lying with the JKBL for over three years without interest thereon. The Corporation did not make any serious efforts to get the money back and utilize the same for some tangible purpose.

Thus, failure of the Corporation to get back the amount paid to the JKBL resulted in blocking of amount of ₹ 45.37 lakh besides loss of interest.

The Management stated (January 2010) that the matter would be taken up with the Administrative/Finance Departments to execute an agreement with the JKBL and for conversion of the amount into term deposit till the project is implemented. The reply is not convincing as the Corporation should have safeguarded its interests and kept track of the implementation of the scheme and insisted upon return of its money in the event of non-implementation of the scheme.

It is recommended that the Company should evolve a system to evaluate and monitor the implementation of schemes. The financial management also needs to be strengthened.

The matter was referred to Government in July 2010; reply had not been received (November 2010).

Industries and Commerce Department

Jammu and Kashmir Cements Limited

5.5 Avoidable loss

Faulty inventory management and injudicious action of Company to lift the coal without re-weighment resulted in loss of ₹ 61.16 lakh.

The Company procures coal from Eastern Coal Fields Limited (ECL), Kolkata for use in the cement plant at Khrew (Kashmir). The transportation, handling, and supervision of loading/un-loading are executed through carriage contractors.

Mention was made regarding payment of penal charges for excess loading of coal by the Jammu and Kashmir Cements Limited (Company) during 1994-2000, in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Paragraph: 7.11.14). On subsequent audit scrutiny, we noticed that the Company had not taken any remedial steps for correcting the faulty stores procurement process and preventing payment of huge penalty as elaborated below.

The Company allotted (July 2005) handling, supervision, and transportation of a coal rake to a carriage contractor on the terms that the contractor shall supervise loading of coal at the loading points as well as during transit of rake up to Bari Brahmana, Jammu. Audit check (July 2009) showed that the rake loaded at Kolkata (Asansol) on 17 July 2005 was to be unloaded at Bari Brahmana Railway Station, Jammu. While the said rake was in transit, the handling agent conveyed (18 July 2005) to the Company that against the normal load capacity of 3,400 MTs, the rake load had been weighed at 3,851 MTs by the Railway Authorities at the loading point, reportedly due

to malfunctioning of the weigh-bridge, thereby resulting in an excess carriage of 451 MTs. The Company, sensing the implications of excess load, immediately (19 July 2005) took up the matter with the Railway Authorities for re-weighment of the rake en-route or at the delivery point. On getting no response from the Railways, the Company filed (20 July 2005) a writ petition in the Hon'ble High Court for re-weighment and got (22 July 2005) an interim relief from the Hon'ble Court with directions to the Railways to carry out re-weighment.

It was noticed that instead of going in for the re-weighment, the Company lifted (26 July 2005) the coal after its arrival (20 July 2005) on the plea that it needed the coal stock urgently at the factory site. The Company paid the penal charges of ₹ 33.94 lakh for overloading of rake (451 MTs) and an avoidable amount of ₹ 22.17 lakh being the cost of excess quantity of coal (417.83⁴⁴ MTs). The Company then approached the Railways protesting against the excess charges on account of excess load as the consignment received had weighed 3441 MTs only as checked by the Toll Tax authorities at Jammu. The Company got (19 January 2006) refund of the penalty of ₹ 14.83 lakh and adjusted ₹ 41.53 lakh⁴⁵ against the pending bills of the carriage contractor (March 2006). The carriage contractor, however, countered the adjustments made by the Company in the arbitration and got the award in his favour (April 2009) with damages in the form of interest (₹19.43 lakh) on the adjusted amount and legal expenses. As a result, the Company had to bear a loss of ₹ 61.16 lakh⁴⁶ due to non-re-weighment of the coal rake which indicated that the Company had not worked out an efficient inventory management system by which the stocks could be replenished in an orderly manner to avoid procurements in haste despite the earlier audit comment.

The Management stated (August 2009/October 2010) that re-weighment en-route would have taken a week's time and the coal stocks had touched zero level at the factory site, a situation which necessitated lifting of the coal without waiting for re-weighment to avoid stoppage of plant and that the Company was not getting adequate quantity of coal as it was not readily available from M/s ECL and was supplied on sanctioned linkage basis which was subjected to further cuts. The reply of the management was, however, not tenable as (a) the stocks of coal at factory site had ranged between 257 MTs and 176 MTs from 21 July 2005 to 26 July 2007 which was sufficient to last for 10-12 more days at an average daily consumption of the preceding 7 days as per stock statement of the factory, (b) the Railways had agreed to carry out the re-weighment (23 July 2005) (c) coal was lifted (26 July 2005) after 06 days of its delivery (20-July 2005) and (d) the stock shortage crises referred to by the

⁴⁴ Quantity of Coal dispatched from Kolkata: 3851 MTs minus Coal taken on stock by the Company: 3433.17 MTs (as actually weighed by the Company at its own site).

⁴⁵ Penal charges ₹ 19.11 lakh (₹ 33.94 lakh minus ₹ 14.83 lakh (refund)) + Cost of excess load (₹ 22.17 lakh) + Legal Expenses on getting re-weighment order (₹ 0.25 lakh)

⁴⁶ ₹ 19.11 lakh on account of penal freight, ₹ 22.17 lakh on account of cost of excess coal, ₹ 19.43 lakh interest on amounts adjusted payable as per the award, ₹ 0.25 lakh on account of legal charges for filing writ petition in Hon'ble High court for obtaining re-weighment order and ₹ 0.20 lakh awarded as cost of legal expenses incurred by the contractor.

Company was an outcome of inefficient inventory management as the Company had started underutilizing the plant during the second week of July 2005 itself when the coal was actually lifted in third week. The Company should have planned/initiated the coal procurement much before the stock had started dwindling, keeping in view the lead time and average stock consumptions, in order to ensure that the plant is run at the optimum capacity. The inventory management is essentially required in case of proprietary items and also in the case of material which are scarce and have the scope of procedural delays.

The Company needs to streamline the inventory management system particularly in regard to essential items like coal and take decisions in the best interest of the organization.

The matter was referred to the Government in September 2010; reply had not been received (November 2010).

Srinagar/Jammu

The

**(VENKATESH MOHAN)
Principal Accountant General,
Jammu and Kashmir**

Countersigned

New Delhi

The

**(VINOD RAI)
Comptroller and Auditor General of India**

Appendices

Appendix-5.1

Statement showing particulars of up to date paid-up capital, loans outstanding and manpower as on 31 March 2010 in respect of Government companies and statutory corporations

(Referred to in paragraph 5.1.7; Page:132)

(Figures in column 5 (a) to 6 (c) are ₹ in crore)

S. No.	Sector & Name of the Company	Name of the Department	Month and year of incorporation	Paid-up Capital ^S				Loans ^{**} outstanding at the close of 2009-10				Debt equity ratio for 2009-10 (Previous year)	Manpower (No. of employees) (as on 31.3.2010)
				State Government	Central Government	Others	Total	State Government	Central Government	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	5 (e)	6 (a)	6 (b)	6 (c)	(7)	(8)
A. Working Government Companies													
AGRICULTURE & ALLIED													
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	Agriculture Production	30 January 1970	2.60	0.94	-	3.54	23.71	-	0.00	23.71	6.70:1 (7.14:1)	178
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	Agriculture Production	10 April 1978	6.00	3.20	-	9.20	15.65	-	30.30	45.95	4.99:1 (4.80:1)	NA
Sector wise total				8.60	4.14	-	12.74	39.36	-	30.30	69.66	5.47:1 (5.46:1)	178
FINANCE													
3.	Jammu and Kashmir Bank Limited	Finance	10 October 1938	25.78	-	22.70	48.48	-	-	1100.21	1100.21	22.69:1 (20.56:1)	7662
4.	Jammu and Kashmir Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	Social Welfare	April 1986	11.37	9.91	Nil	21.28	-	-	28.05	28.05	1.32:1 (0.38:1)	110
5.	Jammu and Kashmir State Women's Development Corporation Limited	Social Welfare	10 May 1991	6.00	Nil	Nil	6.00	3.37	23.80	NA	27.17	4.53:1 (4.24:1)	35
Sector wise total				43.15	9.91	22.70	75.76	3.37	23.80	1128.26	1155.43	15.25:1 (13.77:1)	7807
INFRASTRUCTURE													
6.	Jammu and Kashmir Projects Construction Corporation Limited	Public Works	22 May 1965	1.53	-	-	1.53	-	-	-	-	-	NA
7.	Jammu and Kashmir Police Housing Corporation Limited	Home	26 December 1997	2.00	-	-	2.00	-	-	-	-	-	61
8.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	Industry & Commerce	28 November 1975	3.12	-	-	3.12	7.91	-	-	7.91	2.54:1 (2.44:1)	374
9.	Jammu and Kashmir State Industrial Development Corporation Limited	Industry & Commerce	17 March 1969	17.65	-	-	17.65	8.05	-	-	8.05	0.46:1 (0.46:1)	NA
Sector wise total				24.30	-	-	24.30	15.96	-	-	15.96	0.66:1 (0.64:1)	435
MANUFACTURING													
10.	Jammu and Kashmir Industries Limited	Industry & Commerce	4 October 1960	16.27	-	-	16.27	329.21	-	-	329.21	20.23:1 (17.77:1)	1623

Appendices

Appendix-5.1 (Contd.)

S. No.	Sector & Name of the Company	Name of the Department	Month and year of incorporation	Paid-up Capital ¹				Loans ^{**} outstanding at the close of 2009-10				Debt equity ratio for 2009-10 (Previous year)	Manpower (No. of employees) (as on 31.3.2010)
				State Government	Central Government	Others	Total	State Government	Central Government	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	5 (e)	6 (a)	6 (b)	6 (c)	(7)	(8)
11.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	Industry & Commerce	6 June 1970	7.13	0.89	-	8.02	76.93	-	1.40	78.33	9.77:1 (9.54:1)	NA
12.	Jammu and Kashmir State Handloom Development Corporation Limited	Industry & Commerce	29 June 1981	3.50	1.50	-	5.00	74.88	-	-	74.88	14.98:1 (17.35:1)	262
13.	Jammu and Kashmir Cements Limited	Industry & Commerce	24 December 1974	41.77	-	-	41.77	-	-	41.22	41.22	0.99:1 (1.80:1)	813
14.	Jammu and Kashmir Minerals Limited	Industry & Commerce	5 February 1960	8.00	-	-	8.00	304.85	-	-	304.85	38.11:1 (33.06:1)	1318
Sector wise total				76.67	2.39	-	79.06	785.87	-	42.62	828.49	10.48:1 (11.93:1)	4016
POWER													
15.	Jammu and Kashmir State Power Development Corporation Limited	Power Development	16 February 1995	5.00	-	-	5.00	230	-	1633.81	1863.81	372.76:1 (409.31:1)	3331
Sector wise total				5.00	-	-	5.00	230	-	1633.81	1863.81	372.76:1 (409.31:1)	3331
SERVICES													
16.	Jammu and Kashmir State Tourism Development Corporation Limited	Tourism	13 February 1970	23.51	-	-	23.51	4.26	-	-	4.26	0.18:1 (0.18:1)	1006
17.	Jammu and Kashmir State Cable Car Corporation Limited	Tourism	28 November 1988	23.57	-	-	23.57	-	-	-	-	-	90
Sector wise total				47.08	-	-	47.08	4.26	-	-	4.26	0.09:1 (0.09:1)	1096
Total A (All sector wise working Government companies)				204.80	16.44	22.70	243.14	1078.82	23.80	2834.99	3937.61	16.14:1 (17.21:1)	16863
B. Working Statutory corporations													
FINANCE													
1.	Jammu and Kashmir State Financial Corporation	Finance	2 December 1959	43.47	-	21.08	64.55	53.55	-	96.97	150.52	2.33:1 (1.91:1)	240
Sector wise total				43.47	-	21.08	64.55	53.55	-	96.97	150.52	- (1.91:1)	240
AGRICULTURE & ALLIED													
2.	Jammu and Kashmir State Forest Corporation Limited	Forest	1 July 1979	9.03	-	-	9.03	18.06	-	-	18.06	2:0 (2:1)	3600
Sector wise total				9.03	-	-	9.03	18.06	-	-	18.06	(2:0) (2:1)	3600
SERVICES													
3.	Jammu and Kashmir State Road Transport Corporation	Transport	1 September 1976	90.82	15.01	42.21	148.04	363.29	-	25.27	388.56	2.62:1 (3.42:1)	NA
Sector wise total				90.82	15.01	42.21	148.04	363.29	-	25.27	388.56	2.62:1 (3.42:1)	NA
Total B (All sector wise working Statutory corporations)				143.32	15.01	63.29	221.62	434.10	-	122.24	557.14	2.53:1 (2.80:1)	3840
Grand Total (A + B)				348.12	31.45	85.99	464.76	1513.72	23.80	2957.23	4494.75	9.65:1 (10.87:1)	20703

φ The Company (Serial number A-17) had not prepared Profit and Loss Account, as it had not commenced business activities

Appendices

Appendix-5.1 (Concl.)

S. No.	Sector & Name of the Company	Name of the Department	Month and year of Incorporation	Paid-up Capital [§]				Loans ^{**} outstanding at the close of 2009-10				Debt equity ratio for 2009-10 (Previous year)	Manpower (No. of employees) (as on 31.3.2010)
				State Government	Central Government	Others	Total	State Government	Central Government	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	5 (e)	6 (a)	6 (b)	6 (c)	(7)	(8)
C. Non working Government companies													
MANUFACTURING													
1.	Tawi Scooters Limited	Industries and Commerce	15 December 1976	0.80	-	-	0.80	0.83	-	-	0.83	1.03 :1 (1.03:1)	NA
2.	Himalyan Wool Combers Limited	Industries and Commerce	24 January 1978	1.37	-	-	1.37	Information not available.					
Sector wise Total				2.17	-	-	2.17						
MISCELLANEOUS													
3.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalyan Wool Combers Limited)	Industries and Commerce	29 November 1991	0.40	-	-	0.40	Information not available.					
Sector wise total				0.40	-	-	0.40	-	-	-	-		
Total C (All sector wise non working Government companies)				2.57	-	-	2.57	0.83	-	-	0.83	0.32:1 (0.32:1)	NA
D. Non working Statutory corporations				--	--	--	--	--	--	--	--	--	--
Total D (All sector wise non working Statutory corporations)				--	--	--	--	--	--	--	--	--	--
Grand Total (A + B + C + D)***				350.69	3145	85.99	467.33	1514.55	23.80	2957.23	4495.58	8.64:1 (10.03:1)	20703

§ Paid-up capital includes share application money.

** Loans outstanding at the close of 2009-10 represent long-term loans only.

***Annexure based on data furnished by the PSUs.

Appendices
Appendix-5.2

Summarised financial results of Government companies and Statutory corporations for the latest year

for which accounts were finalised

(Referred to in paragraphs 5.1.15; Page:135)

(Figures in column 5 (a) to (6) and (8) to (10) are ₹ in crore)

S. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments [#]	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed [@]	Return on capital employed ^{\$}	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A. Working Government Companies														
AGRICULTURE & ALLIED														
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	1992-93	2008-09	(-) 0.88	0.05	0.03	(-) 0.96	6.33	-	3.54	(-) 6.65	(-) 1.28	(-) 0.91	--
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	1993-94	2008-09	(-) 0.61	6.16	0.47	(-) 7.24	1.96	-	9.20	(-) 44.11	10.89	(-) 1.08	--
Sector wise total				(-) 1.49	6.21	0.50	(-) 8.20	8.29	-	12.74	(-) 50.76	9.61	(-) 1.99	--
FINANCE														
3.	Jammu and Kashmir Bank Limited	2009-10	2010-11	2486.85	1937.54	36.93	512.38	3473.11	-	48.48	--	19478.71	2449.92	12.58
4.	Jammu and Kashmir Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	1995-96	2007-08	0.11	0.12	0.02	(-) 0.03	0.19	-	7.91	Nil	15.42	0.09	0.58
5.	Jammu and Kashmir State Women's Development Corporation Limited	1998-99	2010-11	0.12	0.02	0.03	(-) 0.17	0.14	-	1.62	(-) 0.44	1.79	(-) 0.15	--
Sector wise total				2487.08	1937.68	36.98	512.18	3473.44	-	58.01	(-) 0.44	19495.92	2449.86	12.57
INFRASTRUCTURE														
6.	Jammu and Kashmir Projects Construction Corporation Limited	1990-91	2008-09	(-) 0.18	0.04	0.17	(-) 0.39	8.51	-	1.52	(-) 1.42	0.82	(-) 0.35	--
7.	Jammu and Kashmir Police Housing Corporation Limited	2000-01	2008-09	0.64	--	0.10	0.54	0.60	-	2.05	NA	3.29	0.54	16.41
8.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	1989-90	2008-09	1.24	0.46	0.34	0.44	23.49	-	2.73	NA	9.44	0.90	9.53

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S. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments [#]	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed [@]	Return on capital employed ^{\$}	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
9.	Jammu and Kashmir State Industrial Development Corporation Limited	2000-01	2010-11	(-)5.65	0.12	1.03	(-) 6.80	1.41	0.86	17.65	(-) 44.71	38.55	(-) 6.68	--
Sector wise total				(-) 3.95	0.62	1.64	(-) 6.21	34.01	0.86	23.95	(-) 46.13	52.10	(-) 5.59	--
MANUFACTURING														
10.	Jammu and Kashmir Industries Limited	2001-02	2008-09	(-) 16.66	17.66	1.91	(-) 36.23	17.23	-	16.27	(-) 268.81	(-) 34.13	(-) 18.57	--
11.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	1997-98	2008-09	(-) 4.28	1.99	0.04	(-) 6.31	4.02	-	4.40	(-) 25.21	1.05	(-) 4.32	--
12.	Jammu and Kashmir State Handloom Development Corporation Limited	1996-97	2006-07	(-) 1.10	0.69	0.06	(-) 1.85	7.56	-	3.00	(-) 5.72	9.09	(-) 1.16	--
13.	Jammu and Kashmir Cements Limited	1997-98	2008-09	2.81	0.22	1.06	1.53	22.19	(-) 0.03	15.50	(-) 2.59	27.06	1.75	6.47
14.	Jammu and Kashmir Minerals Limited	1993-94	2008-09	(-) 3.07	0.52	0.05	(-) 3.64	2.93	-	8.00	(-) 27.97	(+) 2.45	(-) 3.12	--
Sector wise total				(-) 22.30	21.08	3.12	(-) 46.50	53.93	(-) 0.03	47.17	(-) 330.30	5.52	(-) 25.42	--
POWER														
15.	Jammu and Kashmir State Power Development Corporation Limited	2001-02	2010-11	14.39	4.18	57.62	(-) 39.05	59.17	-	5.00	(-) 146.64	2109.20	(-) 34.87	--
Sector wise total				14.39	4.18	57.62	(-) 39.05	59.17	-	5.00	(-) 146.64	2109.20	(-) 34.87	--
SERVICES														
16.	Jammu and Kashmir State Tourism Development Corporation Limited	1994-95	2008-09	(-) 0.43	0.06	0.63	(-) 1.12	4.58	(-) 0.74	9.91	(-) 7.08	10.84	(-) 1.06	--
17.	Jammu and Kashmir State Cable Car Corporation Limited	1997-98	2010-11	--	--	--	--	--	--	23.52	--	22.99	--	--
Sector wise total				(-) 0.43	0.06	0.63	(-) 1.12	4.58	(-) 0.74	33.43	(-) 7.08	33.83	(-) 1.06	--
Total A (All sector wise working Government companies)				2473.30	1969.83	100.49	411.10	3633.42	0.09	180.30	(-) 581.35	21706.18	2380.93	10.97

Appendices

S. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments [#]	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed [@]	Return on capital employed ^{\$}	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
B. Working Statutory corporations														
FINANCE														
1.	Jammu and Kashmir State Financial Corporation	2005-06	2009-10	2.33	2.61	0.12	(-) 0.40	6.08	-	64.60	(-) 192.90	231.92	2.21	0
Sector wise total				2.33	2.61	0.12	(-) 0.40	6.08	-	64.60	(-) 192.90	231.92	2.21	0
AGRICULTURE & ALLIED														
2.	Jammu and Kashmir State Forest Corporation Limited	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)												
Sector wise total				--	--	--	--	--	--	--	--	--	--	--
SERVICES														
3.	Jammu and Kashmir State Road Transport Corporation	2004-05	2006-07	(-) 22.10	28.21	4.36	(-) 54.67	60.88	-	109.51	(-) 598.92	(-) 184.55	(-) 26.46	--
Sector wise total				(-) 22.10	28.21	4.36	(-) 54.67	60.88	-	109.51	(-) 598.92	(-) 184.55	(-) 26.46	--
Total B (All sector wise working Statutory corporations)				(-) 19.77	30.82	4.48	(-) 55.07	66.96	-	174.11	(-) 791.82	47.37	(-) 24.25	
Grand Total (A + B)				2453.53	2000.65	104.97	356.03	3700.38	0.09	354.41	(-) 1373.17	21753.55	2356.68	10.83
C. Non working Government companies														
MANUFACTURING														
1.	Tawi Scooters Limited	1989-90	1991-92	(-) 0.06	-	-	(-) 0.06	-	-	0.80	(-) 1.04	(+) 0.59	(-) 0.06	-
2.	Himalyan Wool Combers Limited	1999-2000	2000-01	(-) 1.29	-	-	(-) 1.29	-	-	1.36	(-) 10.49	(-) 1.71	(-) 1.29	-
Sector wise total				(-) 1.35	--	--	(-) 1.35	--	-	2.16	(-) 11.53	(-) 1.12	(-) 1.35	
MISCELLANEOUS														
3.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalyan Wool Combers Limited)	1991-92	1999-2000	-	-	-	-	-	-	-	-	-	-	-
Sector wise total				--	--	--	--	--	-	-	-	-	-	-
Total C (All sector wise non working Government companies)				(-) 1.35	--	--	(-) 1.35	--	-	2.16	(-) 11.53	(-) 1.12	(-) 1.35	--

Appendices

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments [#]	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed [@]	Return on capital employed ^{\$}	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	D. Non working Statutory corporations	--	--	--	--	--	--	--	--	--	--	--	--	--
	Total D (All sector wise non working Statutory corporations)	--	--	--	--	--	--	--	--	--	--	--	--	--
	Grand Total (A + B + C + D)			2452.18	2000.65	104.97	354.68	3700.38	0.09	356.57	(-) 1384.70	21752.43	2355.33	10.83

φ The Company (Serial number A-17) had not prepared Profit and Loss Account, as it had not commenced business activities

[#] Impact of accounts comments include the net impact of comments of Statutory Auditors and CAG and is denoted by (+) increase in profit/decrease in losses (-) decrease in profit/ increase in losses.

[@] Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in case of finance companies/corporations where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).

^{\$} For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the Profit and loss account.

Appendices
Appendix-5.3

Statement showing equity and loans, grants and subsidy received/receivable out of budget during the year, guarantees received, waiver of dues, loans written off and loans converted into equity during the year and guarantee commitment at the end of March 2010

(Referred to in paragraph 5.1.10; Page: 134)

(Figures in column 3 (a) to 6 (d) are ₹ in crore)

S. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year [@]		Waiver of dues during the year			
		Equity	Loans	Central Government	State Government	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
A. Working Government Companies													
AGRICULTURE & ALLIED													
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	-	0.44	-	-	-	-	-	-	-	-	-	-
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	-	0.54	-	-	-	-	-	30.30	-	-	-	-
Sector wise total		-	0.98	-	-	-	-	-	30.30	-	-	-	-
FINANCE													
3.	Jammu and Kashmir Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	1.00	-	0.50 (Grants)	0.20 (Subsidy)	-	0.70	2.54	9.64	-	-	-	-
4.	Jammu and Kashmir State Women's Development Corporation Limited	1.00	0.95	-	0.004 (Grants)	-	0.004	-	-	4.04	-	-	4.04
Sector wise total		2.00	0.95	0.50	0.20	-	0.70	2.54	9.64	4.04	-	-	4.04
INFRASTRUCTURE													
5.	Jammu and Kashmir State Industrial Development Corporation Limited	-	-	9.88 (Grants)	18.01 (Grants)	-	27.89 (Grants)	-	-	-	-	-	-
Sector wise total		-	-	9.88	18.01	-	27.89	-	-	-	-	-	-
MANUFACTURING													
6.	Jammu and Kashmir Industries Limited	-	5.51	-	-	-	-	-	-	-	-	-	-
7.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	-	1.29	-	-	-	-	-	1.40	-	-	-	-
8.	Jammu and Kashmir State Handloom Development Corporation Limited	1.56	2.33	-	-	-	-	-	0.94	-	-	-	-
9.	Jammu and Kashmir Minerals Limited	-	1.80	-	-	-	-	-	-	-	-	-	-
Sector wise total		1.56	10.93	-	-	-	-	-	2.34	-	-	-	-

Appendices

S. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year [@]		Waiver of dues during the year			
		Equity	Loans	Central Government	State Government	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
POWER													
10.	Jammu and Kashmir State Power Development Corporation Limited	-	30	-	57.86 (Grants)	-	57.86 (Grants)	483.00	2547.26	-	-	-	-
Sector wise total		-	30	-	57.86	-	57.86	483.00	2547.26	-	-	-	-
Total A (All sector wise working Government companies)		3.56	42.86	10.38	76.07	-	86.45	485.54	2589.54	4.04	-	-	4.04
B. Working Statutory corporations													
SERVICES													
1.	Jammu and Kashmir State Road Transport Corporation	13.53	13.71	-	-	-	-	-	6.00	-	-	-	-
Sector wise total		13.53	13.71	-	-	-	-	-	6.00	-	-	-	-
Total B (All sector wise working Statutory corporations)		13.53	13.71	-	-	-	-	-	6.00	-	-	-	-
Grand Total (A + B)		17.09	56.57	10.38	76.07	-	86.45	485.54	2595.54	4.04	-	-	4.04
C. Non working Government companies													
MANUFACTURING													
1.	Tawi Scooters Limited	Information not available		-	-	-	-	-	-	-	-	-	-
2.	Himalyan Wool Combers Limited	Information not available		-	-	-	-	-	2.83	-	-	-	-
Sector wise total		--	--	-	-	-	-	-	2.83	-	-	-	-
MISCELLANEOUS													
3.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalyan Wool Combers Limited)	Information not available		-	-	-	-	-	0.40	-	-	-	-
Sector wise total		--	--	-	-	-	-	-	0.40	-	-	-	-
Total C (All sector wise non working Government companies)		-	-	-	-	-	-	-	3.23	-	-	-	-
D. Non working Statutory corporations		--	--	--	--	--	--	--	--	--	--	--	--
Total D (All sector wise non working Statutory corporations)		--	--	--	--	--	--	--	--	--	--	--	--
Grand Total (A + B + C + D)		17.09	56.57	10.38	76.07	-	86.45	485.54	2598.77	4.04	-	-	4.04

[@] Figures indicate total guarantees outstanding at the end of the year.

Note: 1. Except in respect of Companies which fianlised their accounts for the current year, figures are provisional and as given by the Companies/Corporations.

2. Non-Working Companies/Corporations include Companies under Merger/Liquidation/Closure/Abolition.

Appendices

Appendix-5.4

(Reference: Paragraph: 5.1.24; Page: 138)

Statement showing investment made by the State Government in PSUs, whose accounts are in arrears
(₹ in crore)

S.No	Name of the Company/ Corporation	Year up to which accounts finalized	Paid-up capital as per the latest finalized account	Investment made by the State Government during the years (upto 2009-10) for which accounts are in arrears				Total
(A-Working Government Companies)								
				Equity	Loans	Grants	Subsidy	Total
1.	J&K State Agro Industries Development Corporation Limited	1992-93	3.54	-	11.67	4.77	4.93	21.37
2.	J&K State Horticultural Produce Marketing and Processing Corporation Limited	1993-94	9.20	-	8.20	2.36	-	10.56
3.	J&K State Handloom Development Corporation Limited	1996-97	3.00	2.00	25.19	5.30	-	32.49
4.	J&K Handicrafts (Sale and Export) Development Corporation Limited	1997-98	4.40	3.62	21.32	1.66	1.38	27.98
5.	J&K Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	1995-96	7.91	11.37	-	3.93	3.50	18.80
6.	J&K State Women's Development Corporation Limited	1998-99	1.62	4.38	3.37	5.07	-	12.82
7.	J&K Industries Limited	2001-02	16.27	-	31.05	14.90	-	45.95
8.	J&K Small Scale Industries Development Corporation Limited	1989-90	2.73	0.39	1.41	6.53	0.80	9.13
9.	J&K State Industrial Development Corporation Limited	2000-01	17.65	-	-	44.13	7.70	51.83
10.	J& K Minerals Limited	1993-94	8.00	-	67.23	8.93	-	76.16
11.	J&K Cements Limited	1997-98	15.50	26.27	-	-	-	26.27
12.	J&K State power Development Corporation Limited	2001-02	5.00	-	230.00	443.73	-	673.73
13.	J&K State Tourism Development Corporation Limited	1994-95	9.91	13.60	-	4.55	-	18.15
14.	J&K State Financial Corporation Limited	2005-06	64.60	-	53.55	-	-	53.55
15.	J&K State Cable Car Corporation Limited	1997-98	23.52	0.05	-	-	-	0.05
	Total (A):		192.85	61.68	452.99	545.86	18.31	1078.84
(B) Working Statutory Corporations								
16.	J&K State Road Transport Corporation	2004-05	109.51	38.58	96.01	7.00	-	141.59
	Total (B)		109.51	38.58	96.01	7.00	-	141.59
	Total (A)+(B)		302.36	100.26	549.00	552.86	18.31	1220.43

(Figures based on data furnished by the PSUs from time to time subject to reconciliation.)

Appendices

Appendix-5.5

(Reference: Paragraph: 5.1.15; Page:135)

Statement showing financial position of the Statutory corporations for the latest three years for which accounts were finalised

(₹ in crore)

	Particulars	2002-03	2003-04	2004-05
1.	Jammu and Kashmir State Road Transport Corporation Limited			
A.	Liabilities			
	Capital (including capital loan and equity capital)	107.51	108.51	109.51
	Borrowings:	250.09	275.57	304.86
	Trade dues and other liabilities (including provisions)	196.16	221.17	254.99
	Total-A	553.76	605.25	669.36
B.	Assets			
	Gross block	51.57	50.51	49.59
	<i>Less depreciation</i>	4.40	4.49	4.36
	Net fixed assets	47.17	46.02	45.23
	Current assets, loans and advances	16.23	14.98	25.21
	Accumulated loss	490.36	544.25	598.92
	Total-B	553.76	605.25	669.36
C	Capital employed¹	(-) 132.76	(-) 160.17	(-) 184.55
2.	Jammu and Kashmir State Financial Corporation			
	Particulars	2003-04	2004-05	2005-06
A.	Liabilities			
	Paid-up capital	63.80	64.60	64.60
	Reserve funds and surplus	7.59	7.58	7.59
	Borrowings			
	Bonds and debentures	80.45	80.45	56.50
	Others (including State Government)	68.89	80.00	103.03
	Other liabilities and provisions	70.77	73.77	24.22
	Total-A	291.50	306.40	255.94
B	Assets			
	Cash and bank balances	4.07	4.17	3.13
	Loans and advances	42.17	58.26	58.70
	Net fixed assets	0.61	0.75	0.93
	Investments and other assets	47.51	50.72	0.28
	Accumulated loss	197.14	192.50	192.90
	Total-B	291.50	306.40	255.94
C	Capital employed	221.07	226.69	231.72

¹ Capital employed represents net fixed assets including capital works in progress and assets not in use plus working capital. In the case of Jammu and Kashmir State Financial Corporation, capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, loans in lieu of capital, seed money, debentures, reserves (other than those which have been funded specifically and backed by investments outside), bonds, deposits and borrowings (including refinance).

Appendices

Appendix-5.6

(Reference: Paragraph 5.1.15; Page:135)

Statement showing working results of the Statutory corporations for the latest three years for which accounts were finalised

(Amount: ₹ in crore)

	Particulars	2002-03	2003-04	2004-05
1.	Jammu and Kashmir State Road Transport Corporation			
	Operating and non-operating			
	(a) Revenue	41.70	43.76	60.88
	(b) Expenditure	88.92	97.65	115.56
	(c) Surplus (+)/Deficit (-)	(-) 47.22	(-) 53.89	(-) 54.68
	Interest on capital and loans	22.57	24.97	28.21
	Return on capital employed	(-) 24.65	(-) 28.92	(-) 26.47
2	Jammu and Kashmir State Financial Corporation	2003-04	2004-05	2005-06
A	Income			
	(a) Interest on loans and advances	7.51	6.78	5.86
	(b) Other income	4.36	21.74	2.18
	Total-A	11.87	28.52	8.04
B	Expenditure			
	(a) Interest on long-term loans	9.11	18.89	2.61
	(b) Other expenditure	5.26	4.99	5.83
	Total-B	14.37	23.88	8.44
C	Profit (+)/Loss (-)	(-) 2.50	(+) 4.64^φ	(-) 0.40
D	Total return on capital employed	6.61	23.53	2.21
E	Percentage of return on capital employed	2.99	10.38	1.00

^φ Profit of ₹ 4.64 crore arrived due to write back of excess NPA provisions of ₹ 21.64 crore made during previous year.

Appendix-5.7

(Reference Paragraph: 5.2.7; Page: 150)

Statement showing operational performance

Jammu and Kashmir Power Development Corporation

S. No	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1	Installed Capacity (MW)	(MW)				
(a)	Thermal	-	-	-	-	-
(b)	Hydel	302.95	304.70	304.70	754.70	754.70
©	Gas	175.00	175.00	175.00	175.00	175.00
(d)	Others	-	-	-	-	-
	Total:	477.95	479.70	479.70	929.70	929.70
2	Power generated (MUs)	(MKWH)				
(a)	Thermal	-	-	-	-	-
(b)	Hydel	922.31	985.57	909.65	1702.96	3458.82
©	Gas	24.36	00.00	00.00	00.00	12.42
(d)	Other	-	-	-	-	-
	Total	946.67	985.57	909.65	1702.96	3471.24
	LESS Auxiliary consumption (including transmission losses)	-	-	-	-	-
	Hydel	4.69	5.08	5.03	12.33	33.83
3	Net power generated	941.98	980.49	904.62	1690.63	3437.41

Appendix-5.8

(Reference Paragraph: 5.2.13.1; Page : 163)

Statement showing Generation statistics – Jammu and Kashmir Power Development Corporation

S. No	HEP	2005-06				2006-07			
		DESIGN ENERGY	ACTUAL GEN	DESIGN PLF	ACTUAL PLF	DESIGN ENERGY	ACTUAL GEN	DESIGN PLF	ACTUAL PLF
1	LJHP	609.43	598.92	86.96%	85.46%	609.43	504.48	86.96%	71.99%
2	USHP-I	106.62	88.82	86.94%	72.43%	106.62	98.11	86.94%	80.00%
3	USHP-II	447.37	152.10	48.64%	16.54%	447.37	308.21	48.64%	33.51%
4	GANDERBAL	90.15	31.39	128.64%	44.79%	90.15	28.60	128.64%	40.81%
5	BAGLIHAR-HEP	UC	UC	UC	UC	UC	UC	UC	UC
6	CHENANI_I	110.02	0.00	73.88%	0.00%	110.02	0.00	73.88%	0.00%
7	CHENANI-II	12.00	0.00	68.49%	0.00%	12.00	0.00	68.49%	0.0%
8	CHENANI-III	36.71	16.44	55.88%	25.03%	36.71	11.09	55.88%	16.88%
9	SEWA-III	33.06	12.05	41.93%	15.28%	33.06	10.24	41.93%	12.99%
10	IQBAL	21.23	7.79	64.63%	23.70%	21.23	7.69	64.63%	23.41%
11	PAHALGAM	14.92	5.40	56.77%	20.55%	14.92	6.23	56.77%	23.72%
12	BHADERWAH	8.32	0.82	94.98%	9.42%	8.32	1.17	94.98%	13.36%
13	IGO-MERCILLONG	15.88	5.42	60.43%	20.61%	15.88	7.17	60.43%	27.28%
14	KARNAH	11.36	2.19	64.84%	12.47%	11.36	0.00	64.84%	0.00%
15	SUMOOR	0.45	0.08	51.37%	9.47%	0.45	0.10	51.37%	11.76%
16	HUNDER	1.77	0.57	50.51%	16.30%	1.77	0.54	50.51%	15.41%
17	BAZGO	1.09	0.32	41.48%	12.06%	1.09	0.46	41.48%	17.50%
18	MARPACHO	UC	UC	UC	UC	3.79	0.88	57.69%	13.39%
19	HAFTAL	UC	UC	UC	UC	4.88	0.60	55.71%	6.86%
	TOTAL	1520.38	922.31	67.78%	41.12%	1529.05	985.57	67.71%	43.64%

(GEN: Generation, PLF: Plant Load Factor)

Appendix-5.8 (Continued)
(Reference Paragraph: 5.2.13.1)

2007-08				2008-09				2009-10			
DESIGN ENERGY	ACTUAL GEN	DESIGN PLF	ACTUAL PLF	DESIGN ENERGY	ACTUAL GEN	DESIGN PLF	ACTUAL PLF	DESIGN ENERGY	ACTUAL GEN	DESIGN PLF	ACTUAL PLF
609.43	418.41	86.96%	59.70%	609.43	526.20	86.96%	75.09%	609.43	391.17	86.96%	55.82%
106.62	89.39	86.94%	72.89%	106.62	85.02	86.94%	69.32%	106.62	89.24	86.94%	72.27%
447.37	333.12	48.64%	36.22%	447.37	249.34	48.64%	27.11%	447.37	143.57	48.64%	15.61%
90.15	22.33	128.64%	31.86%	90.15	22.21	128.64%	31.69%	90.15	18.18	128.64%	25.94%
UC	UC	UC	UC	617.88	712.23	52.81%	60.87%	2536.07	2712.12	64.33%	68.80%
110.02	0.00	78.88%	0.00%	110.02	57.27	73.88%	38.46%	110.02	58.02	73.88%	38.96%
12.00	0.00	68.49%	0.00%	12.00	2.82	68.49%	16.07%	12.00	3.71	68.49%	21.19%
36.71	6.67	55.88%	10.15%	36.71	11.14	55.88%	16.95%	36.71	6.74	55.88%	10.26%
33.06	10.03	41.93%	12.72%	33.06	7.68	41.93%	9.75%	33.06	4.44	41.93%	5.63%
21.23	8.14	64.63%	24.78%	21.23	7.97	64.63%	24.26%	21.23	7.87	64.63%	23.96%
14.92	7.18	56.77%	27.34%	14.92	6.51	56.77%	24.76%	14.92	7.98	56.77%	30.35%
8.32	0.57	94.98%	6.51%	8.32	0.00	94.98%	0.00%	8.32	0.00	94.98%	0.00%
15.88	10.21	60.43%	38.85%	15.88	10.12	60.43%	38.53%	15.88	10.91	60.43%	41.52%
11.36	1.62	64.84%	9.26%	11.36	2.91	64.84%	16.61%	11.36	3.26	64.84%	18.61%
0.45	0.11	51.37%	12.90%	0.45	0.06	51.37%	6.85%	0.45	0.03	51.37%	3.20%
1.77	0.52	50.51%	14.84%	1.77	0.58	50.51%	16.55%	1.77	0.48	50.51%	13.62%
1.09	0.44	41.48%	16.74%	1.09	0.49	41.48%	18.65%	1.09	0.42	41.48%	15.98%
3.79	0.12	57.69%	1.83%	3.79	0.15	57.69%	2.28%	3.79	0.63	57.69%	9.59%
4.88	0.79	55.71%	9.02%	4.88	0.26	55.71%	3.00%	4.88	0.05	55.71%	0.53%
1529.05	909.65	67.71%	40.28%	2146.93	1702.96	62.62%	49.67%	4065.12	3458.82	65.56%	55.28%

(GEN: Generation, PLF: Plant Load Factor, UC: Un-commissioned)

Note: The PLF has been calculated after considering the derated capacity in respect of four power houses viz: LJHP (105 MW actual), USHP-I (22.60 MW actual), Ganderbal (15 MW actual) and Chenani-I (23.30 MW actual) which has been derated to 80MW, 14MW, 8MW and 17 MW respectively as approved/acknowledged by CE