REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

(CIVIL AND COMMERCIAL)

FOR THE YEAR ENDED 31 MARCH 2011
(REPORT NO. 2)

Civil Secretariat, Srinagar

GOVERNMENT OF JAMMU AND KASHMIR

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PREFACE

1. This Report has been prepared for submission to the Governor under Article 151 of the Constitution.

2. Chapter-I deals with the findings of performance reviews in the Education, Agriculture Production, Housing and Urban Development and Power Development departments, while Chapter-II deals with the findings of transaction audit in Animal Husbandry, Higher Education, Public Works, Public Health Engineering, Irrigation and Flood Control, Power Development Department, Health and Medical Education, Rural Development departments. Chapter-III includes comments on CCO based audit of Public Works (Roads and Buildings) department.

3. The observations arising out of audit of Statutory Corporations, Boards and Government Companies are included in Chapter-IV of this Report.

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 2010-11 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 2010-11 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 2011 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.

OVERVIEW

This Report contains Civil and Commercial chapters comprising 19 paragraphs and six performance reviews (including one CCO-based review of Public Works Department). Copies of draft paragraphs and reviews were sent to the concerned Commissioner/Secretary of the Department concerned by the Principal Accountant General with a request to furnish replies within six weeks. However, in respect of 16 draft paragraphs and five performance reviews included in the Report, no replies were received from the Commissioners/Secretaries concerned. A synopsis of the important findings contained in the Report is presented in the overview.

1. PERFORMANCE REVIEWS

EDUCATION DEPARTMENT

ELEMENTARY EDUCATION PROGRAMME

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

- The Department had not prepared any perspective plan. Annual plans prepared were not based on inputs from school/Zonal level or Household Surveys. NGO's were not involved at any level.

- At the State level 3256 habitations (12 *per cent*) were without any schooling facility. Though Teacher Pupil ratio in test-checked schools was 1:12 and within the prescribed norm of 1:40, 718 schools out of 7016 schools in test-checked districts were run by single teachers.

- Out of 5232 works relating to construction of schools, additional class rooms cluster resource centres, etc., taken up during 2002-11, only 65 *per cent* had been completed. Work on 560 school buildings had not been started. 485 works had been abandoned mid-way and work on 34 school buildings in test-checked districts had been taken up on disputed sites.

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

AGRICULTURE PRODUCTION DEPARTMENT

COMMAND AREA DEVELOPMENT AND WATER MANAGEMENT PROGRAMME

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

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

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

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

MANAGEMENT OF DAL LAKE

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

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

POWER DEVELOPMENT DEPARTMENT

POWER DISTRIBUTION IN JAMMU AND KASHMIR

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

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

2. AUDIT OF TRANSACTIONS

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

(Paragraph: 2.1)

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

(Paragraph: 2.2)

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

(Paragraph: 2.3)

Improper planning by the Department in execution of water supply schemes resulted in non-completion of overhead tanks and consequent wasteful expenditure of ₹ 68.92 lakh.

(Paragraph: 2.4)

Failure of the Department to verify admissibility of payment of excise duty and central sales tax to the contractors resulted in excess payment of ₹ 2.48 crore.

(Paragraph: 2.5)

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

(Paragraph: 2.6)

Non-provision of an acoustics component in the estimates and subsequent delays in rectification of deficiencies resulted in non-utilisation of an auditorium. As a result, the investment of ₹ 1.06 crore was unfruitful.

(Paragraph: 2.7)

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

(Paragraph: 2. 9)

Failure of the departmental authorities to ascertain a viable and technically feasible source of water before taking up execution of a water supply scheme resulted in unfruitful expenditure of ₹ 1.79 crore.

(Paragraph: 2.10)

Wrong reporting about land availability and lackadaisical approach in completion of work resulted in unproductive expenditure of ₹ 90.18 lakh for over three years, besides depriving the populace of the road facility.

(Paragraph: 2.11)

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

(Paragraph: 2.12)

Departmental failure in adhering to the instructions of the GOI in getting the designs of the projects vetted by the CWC before execution and subsequent failure to ensure execution of works resulted in blocking of ₹ 8.67 crore.

(Paragraph: 2.13)

3. CCO BASED AUDIT

PUBLIC WORKS DEPARTMENT

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

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

4. COMMERCIAL ACTIVITIES

Section I: Overview of State Public Sector Undertakings

The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Jammu and Kashmir, the State PSUs occupy a moderate place in the state economy. The Working PSUs registered a turnover of ₹ 4409.87 crore in 2010-11 as per their latest finalised accounts as of 30th September 2011. This turnover was equal to 9.24 *per cent* of State Gross Domestic Product (GDP) of ₹ 47709 crore in 2010-11. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. The working PSUs earned a profit of ₹ 500.37 crore in the aggregate as *per* their latest finalised accounts as of 30th September 2011. They had employed 0.25 lakh employees as on 31 March 2011. The State PSUs do not include two[1] prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

Investment in State PSUs

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

Performance of PSUs

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

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

[1] Consumer Affairs & Public Distribution Department and Government Press

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

Arrears in finalisation of accounts

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

Section II: Performance Review

Jammu and Kashmir Bank Ltd.

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

Advances

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

Priority Sector lending

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

Investments

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

Conclusion and Recommendations

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

Section-III Transaction Audit Observations

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

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

(Paragraph 4.3.1)

Public Works Department

Jammu And Kashmir Projects Construction Corporation Limited

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

(Paragraph 4.3.2)

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

(Paragraph 4.3.3)

Tourism Department

Jammu and Kashmir State Cable Car Corporation Limited

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

(Paragraph 4.3.4)

Consumer Affairs and Public Distribution Department

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

(Paragraph 4.3.5)

CHAPTER-I: PERFORMANCE REVIEWS

EDUCATION DEPARTMENT

1.1 ELEMENTARY EDUCATION PROGRAMME

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

Highlights

- ***The Department had not prepared any perspective plan. Annual plans prepared were not based on inputs from school/Zonal level or Household Surveys. NGO's were not involved at any level.***

(Paragraphs: 1.1.7)

- ***State Implementing Society (SIS) of SSA had retained funds and parked it in Saving Bank Accounts during 2006-11. 32 to 72 per cent of funds were released by SIS to implementing agencies at the fag end of financial years.***

(Paragraph: 1.1.10.2)

- ***At the State level 3256 habitations (12 per cent) were without any schooling facility. Though Teacher Pupil ratio in test-checked schools was 1:12 and within the prescribed norm of 1:40, 718 schools out of 7016 schools in test-checked districts were run by single teachers.***

(Paragraphs: 1.1.11.1 and 1.1.11.4)

- ***Out of 5232 works relating to construction of schools, additional class rooms cluster resource centres etc. taken up during 2002-11, only 65 per cent had been***

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

(Paragraph: 1.1.12)

- ***There was a lack of basic amenities and facilities such as toilets, drinking water, play grounds, etc., in many schools.***

(Paragraph: 1.1.12.3)

- ***488 computer systems earmarked for 97 CAL Centres purchased during 2006-09 in six test-checked districts were lying idle due to which computer facilities could not be extended to 184 of the 193 surveyed schools.***

(Paragraph: 1.1.12.6)

- ***Delay of more than three to five months in issue of text books to students was observed.***

(Paragraph: 1.1.14)

- ***Non-completion of 68 KGBV school-cum-hostel buildings for the last three years had resulted not only in unproductive expenditure of ₹9.24 crore but also avoidable annual rentals of ₹27.20 lakh on hired accommodation.***

(Paragraph: 1.1.16.1)

- ***Introduction of Mid-day-meals programme did not have the desired impact due to inadequate infrastructure, deficient survey for preparation of Annual plans and less lifting food grains from Food Corporation of India***

(Paragraph: 1.1.18)

- ***Monitoring of the programme was virtually non-existent.***

(Paragraph: 1.1.22)

1.1.1 Introduction

The National System of Education envisages a common education structure and, at the elementary level, it comprises five years of Primary and three years of Upper Primary Education. Indian Constitution (Article 45 A) directs that Governments should provide free and compulsory education to all the children within age group of 6 to 14. The 93rd Constitutional Amendment envisages that Primary Education shall be a “fundamental right”. The right of children to free and compulsory education (RTE) Act 2009 also came into effect from 1st April 2010. To achieve the goals of universal access, enrollment and retention and achieve improvement in quality of education by providing useful and relevant elementary education to all children in the age group of 6-14 years, the Government of India (GOI) introduced flagship programmes to support the states in creating, developing and strengthening formal primary and upper primary school systems by laying emphasis on:

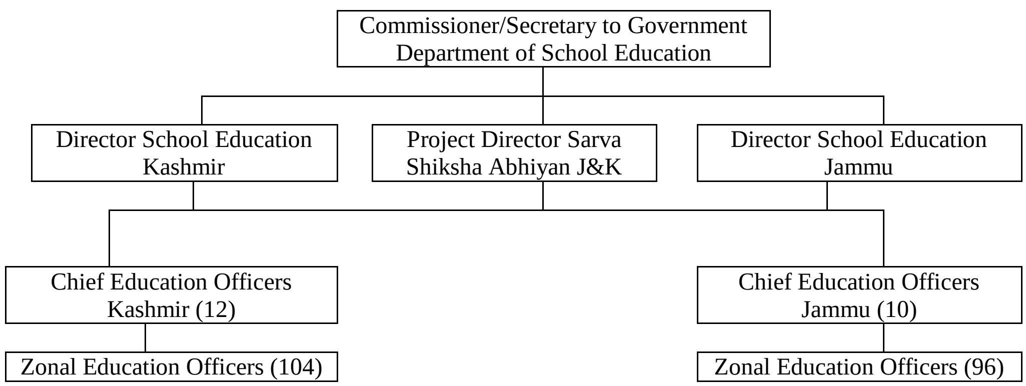
- Universal access and enrolment, i.e making education accessible to all children up to 14 years;
- Universal retention, i.e., making sure that the children continue education; and
- Improvement in the quality of education to enable children to achieve essential competence levels of learning.

The RTE Act had not been extended to J&K State as the 42nd constitutional amendment, listing 'Education' on the concurrent list, had not been adopted by the State. The Education system in the State is governed by the Jammu and Kashmir School Education Act 2002 containing provisions similar to the RTE Act.

1.1.2 Administrative Set-up

The organizational set-up for implementation of the schemes/programmes is as under:

Chart-I



1.1.3 Scope of Audit

The performance audit of Elementary Education Programme was conducted, between May and July 2011 covering the period from 2006-07 to 2010-11, by test-check of the records of Administrative Department (Commissioner Secretary, Education Department), Director School Education, Kashmir and Jammu; six out of 22 Chief Education Officers, 34[1] out of 200 Zonal Education Officers, four out of 22 District Institute of Education & Trainings and 193 out of 21,579 Primary/Upper primary (PS/UPS) schools, selected on random sampling basis. The expenditure of ₹ 1931.41 crore representing 31 *per cent* of the total expenditure of ₹ 6186.94 crore was test-checked during the review.

[1] Test checked CEO's:- Kupwara, Pulwama, Srinagar, Rajouri, Kathua and Doda.
Test checked ZEO's:- Rajouri-10, Kathua-6, Doda-4, Srinagar-2, Kupwara,-7, Pulwama-5.
Test checked DIET's:- Rajouri, Doda, Basohli and Kupwara.

1.1.4 Audit Objectives

The performance audit was conducted to assess whether:-

a) annual planning process for various schemes/flagship programmes were adequate and effective;

b) financial management was effective and efficient and funds provided were utilized properly;

c) implementation of various schemes/programmes was efficient and economical;

d) schemes/programmes achieved its principal objective of universalization of Elementary Education through improved enrollment and retention and reduced dropout rate; and

e) adequate monitoring mechanism existed for evaluating the outcome of the flagship programmes.

1.1.5 Audit Criteria

Audit findings were benchmarked against the following criteria:-

01 Annual Works Plans and Budget (AWP&B)/Annual Action Plans

02 Guidelines for the schemes/flagship programmes being implemented by the Department

03 Financial Rules of the State Government

04 Prescribed monitoring mechanism

05 Quality assurance norms of food in respect of mid-day meals scheme

1.1.6 Audit Methodology

An entry conference was held on 13.06.2011 with Principal Secretary to Government, Department of School Education and other functionaries wherein objectives, scope and audit criteria were discussed. Exit Conferences were held in November 2011 with the Directors School Education Jammu/Srinagar wherein major audit findings were discussed by the Deputy Accountant General (I-C). The Directors assured that corrective steps would be taken for better implementation of the programmes. The replies of the Department have been suitably incorporated in the review at appropriate places.

1.1.7 Planning

Planning is the basic element in execution of a scheme/project/programme for bringing out the desired results in a time-bound framework. It forms the core of an implementation process and ensures that a programme addresses need-based issues in an economical, efficient and timely manner. For this, the State is to formulate an action plan, keeping in view the resources, for both the long and short-term goals. A long-term plan should encompass a State Level plan formulated from District Level plans based on habitation level plans. The district and habitation level plans, having focus on deficiencies at the ground level are to be prepared by core teams constituted at district and block level with adequate representation from Education Department/District Institute of Education and Training/Cluster Resource Centers/Block Resource Centers/NGOs, etc.

It was seen that:

- The State had not prepared any long-term Perspective Plan for addressing deficiencies in the Elementary Education sector.
- Annual Plans were prepared at the district level by the Chief Education Officers (CEOs) as per the directions of the State Planning Department for Plan funding of that particular year. These district plans were discussed in the District Development Board (DDB) meetings in consultation with elected public representatives before approval. The Plans formulated were not, however, based on inputs from Schools/Blocks/Zones as no data on baseline household surveys, gap analysis, research studies, etc. were received from Schools/ZEO's. The Plans had been prepared adopting a top down approach instead of bottom up approach and did not reveal true and realistic basis for fund allocation.
- The annual plans were found deficient on following counts:-
    - Key areas of backwardness in Elementary Education level and steps taken for their redressel and development were not considered.
    - There was no roadmap in the plans to bridge the gap in development of elementary education with prioritization and clear time-frame for achieving the objectives at each level.
    - The role of NGO's associated with Elementary Education for implementation of various programmes had not been considered.

The Director Education, Jammu while admitting (May 2011) that only annual district plans were being formulated, that too for Plan fund purposes, assured that the deficiencies would be taken into account while formulating the plans in future.

1.1.8 Financial Management

Funds are allocated through the State Budget for carrying out various developmental activities. In addition, funds are released directly to the implementing agencies for educational developmental programmes sponsored by the GOI and the State Government. The source/pattern of funding and the purpose for implementation of various Schemes in the State under the Sector are elaborated in the following table.

Table 1.1.1

Source	*Funding pattern*		*Purposes/Intervention*
	GOI Share	*State share*	
State Sector	Nil	Full	Direction and Administration
Sarva Shiksha Abhiyan	2006-07: 75 2007-08: 65 2008-09: 65 2009-10: 60 2010-11: 65	25 35 35 40 35	Salary, Innovative activities like Bridge courses, school maintenance grants, school grants, TLE, Civil works, seasonal centres, etc.
Mid-Day-Meal	75 (100% in respect of food grains and transportation costs)	25	Food grains, cooking cost, kitchen-sheds, utensils, transportation etc.

Funding under State Sector

The position of funds received under State Sector (excluding State Share of GOI assisted schemes) and expenditure incurred thereagainst was as under:-

Table 1.1.2

(₹ in crore)

Year	*Plan*		*Non-Plan*		*Total*	
	Allocation	*Expenditure*	*Allocation*	*Expenditure*	*Allocation*	*Expenditure*
2006-07	220.87	187.34	378.44	362.25	599.31	549.59
2007-08	234.14	185.00	438.80	413.70	672.94	598.70
2008-09	160.66	137.69	611.72	545.48	772.38	683.17
2009-10	410.57	364.29	764.06	707.95	1174.63	1072.24
2010-11	184.87	173.79	971.48	854.83	1156.35	1028.62
Total	***1211.11***	***1048.11***	***3164.50***	***2884.21***	***4375.61***	***3932.32***

Source: Records of the Directors School Education

The State funding has largely been for direction and administration and comprised 92 *per cent* Revenue and 08 *per cent* Capital expenditure during 2006-11. The savings ranged between eight and 11 *per cent* and analysis revealed these savings were mostly recorded under components like land acquisitions, subsidy/incentives, purchase of books, on-going works, etc. Hence, the Sector had to rely on funding under Centrally Sponsored Schemes for expansion and infrastructural development.

1.1.9 Programme Implementation

Since the State funding over the years had been insufficient to improve the education system, the GOI schemes are targeted at filling the gaps in infrastructure in a time-bound manner so as to achieve the goal of ‘Education for all’ within a specified time period.

- The SSA promises to change the face of Elementary Education and provide useful and quality education to all children in the age group of 6-14 years by 2010 besides extending support to States in creating, developing and strengthening primary and upper primary school system. The SSA is an effort to improve the performance of the school system and provide community-owned quality education in a mission mode besides bridging gender and social disparities in elementary education with special focus on educational needs of girls, SC/ST children with disabilities and disadvantaged children.

- The National Programme of Nutritional Support to primary education commonly known as Mid-Day Meal (MDM) scheme was launched by the GOI in the State on 1st September 2004 with the objective of boosting primary education by increasing enrolment, retention and attendance in Government schools and Education Guarantee Scheme (EGS) centres.

While the SSA envisages providing full infrastructural facilities to the school-going children, the MDM was introduced with the dual purpose of providing nutritional support apart from alluring children to attend schools. As the activities under the two programmes are distinctly different, the achievements under the two programmes since introduction of the schemes, as observed by Audit, have been dealt with separately in the succeeding paragraphs.

1.1.10 Sarva Shiksha Abhiyan

1.1.10.1 Planning

As per the SSA guidelines, five-year perspective plan (PP) and annual plans are required to be prepared for implementation of the programme. An annual plan proposes the interventions for a year and is to flow from PP. However, it was noticed that PP had not been formulated; as a result, long-term strategies with a vision to accomplish the goals through phasing of funds and activities of the programme had been ignored.

It was noticed that:

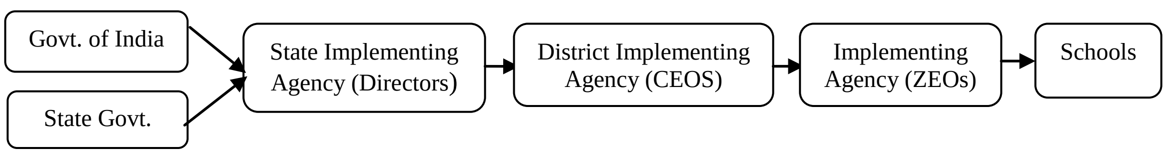
- The annual plans during 2006-11 were formulated at the district level without consulting the stakeholders (Zonal/Village Education Committees/School Management Committees levels) and the district authorities had not conducted any research or survey on the baseline indicators like enrolment, retention and out-of-school children. There were, thus, no clear benchmarks on various social indicators and the reality at the grassroots level was not actually reflected in the annual plans. The documentation process for preparation of plans to evidence the fact that they had been prepared at the habitation level through participatory planning mode was not on record.

- The main sources of data required for planning and plan formulations are household surveys, the District Information System for Education (DISE) data and research studies. It was seen that planning teams had neither been constituted at the habitation level nor the Block/Zonal Level indicating absence of community participation. In the absence of household surveys and research studies, the authenticity of the data of all children up to the age of 14 years – enrolled or never enrolled, out of school and children to be enrolled in EGS/alternative/PS Schools, etc. could not be ascertained. Funds provided for these surveys in two (Rajouri and Kathua) out of six test-checked districts had been lying unspent as of March 2011, indicating that the CEOs had not taken any steps to have a formal survey carried out despite availability of funds. No funds had been provided for household surveys from 2006-07 onwards by the State Project Director (SPD) to other districts. The CEOs attributed non-utilisation of funds to non-performing of this activity since 2006-07.

1.1.10.2 Financial Management

To achieve the intended objectives of the Programme, the GOI/State Government releases funds (Centre/State Share) in favour of the State Implementing Society (SIS) for further release to the District Implementing Society (CEOs) for implementation of the Programme for onward transmission to the Zonal Education Officers (ZEOs).

Funds Flow Chart



Funds for Teaching Learning Equipment (TLE), Teacher Learning Material (TLM) and school Maintenance Grants (SMG) are credited by the ZEOs to the joint Bank accounts of School Education Committees and Village education Committees.

The year-wise details of allotments made by the GOI/State to the SIS and their further distribution to the district implementing units during 2006-11 were as under:

Table 1.1.3

(₹in crore)

Year	*Opening balance*	*G.O. India releases*	*State Govt. releases*	*Other receipts*	*Total*	*Releases*	*Closing balance*
2006-07	45.88	220.83	59.89	0.83	327.43	316.27	11.16
2007-08	11.16	200.63	74.21	4.32	290.32	270.58	19.74
2008-09	19.74	205.32	69.00	4.49	298.55	268.13	30.42
2009-10	30.42	373.63	180.51	7.47	592.03	548.70	43.33
2010-11	43.33	403.49	539.14	33.24	1019.20	640.01	379.19
Total		***1403.90***	***922.75***	***50.35***	***2377.00***	***2043.69***	

The SIS had retained huge balances ranging between ₹ 11 crore and ₹ 379 crore during 2006-11 indicating that funds had not been released to the CEOs in full. It was also seen that release of funds by the CEOs to the ZEOs was not in synchronization with the pace of implementation of the programme at the ground level, thus, resulting in parking of huge funds in Saving Bank accounts at all levels (CEOs/ZEOs/Schools). As a result, the balances with the six test-checked CEOs also increased from ₹ 29 crore ending March 2006 to ₹ 85.16 crore at the close of March 2011 as detailed in the table.

Table 1.1.4

(₹ in crore)

Districts	O.B as on 01-04-2006	Closing Balance as on 31-03-2011	Percentage of unspent yearly balances
Rajouri	9.93	28.00	**40 to 66%**
Doda	0.45	19.36	**25 to 60%**
Kathua	5.72	12.85	**22 to 63%**
Kupwara	5.28	3.28	**5 to 24%**
Pulwama	5.61	10.34	**39 to 47%**
Srinagar	2.01	11.33	**43 to 57%**
Total	***29***	***85.16***	

It was also seen in 34 test-checked zones that funds had been released routinely by the CEOs without having regard to the actual requirements which had contributed to accumulation of unspent bank balances of ₹ 58.85 crore with the ZEOs.

On being pointed out, it was intimated that the funds were released without having been requisitioned. Reasons for release of funds without being requisitioned were not intimated.

1.1.10.3 Short Releases by GOI/State Government

As per financial manual of SSA, the GOI is to release funds to the SIS in April and September every year and the participating State is to release its share within 30 days of the receipt of central contribution. Shortfall in releases of funds by both the GOI and the State Government against the approved annual action (AAP) plans, observed during 2006-11, are tabulated below:

Table 1.1.5

(₹ in crore)

Year	Annual Plan	GOI share	Actual GOI releases	Shortfall by GOI	State Share	Actual State releases	Shortfall in releases by the State
2006-07	354.54	265.90	220.83	45.07	88.64	59.89	**28.75**
2007-08	321.52	208.98	200.63	8.35	112.53	74.21	**38.32**
2008-09	499.45	324.64	205.33	119.32	174.81	69.00	**105.81**
2009-10	761.09	456.66	373.63	83.03	304.44	180.51	**123.93**
2010-11	1066.00	692.90	403.49	289.41	373.10	539.14	**(-) 166.04**

There was shortfall ranging between ₹ 8.35 crore and ₹ 289.41 crore in releases by the GOI against the AAP outlay during 2006-11. The State had short-released the matching share between ₹ 28.75 crore and ₹ 123.93 crore during the period. The aggregate shortfall of ₹ 297 crore had, however, been compensated by the State to the extent of ₹ 166.04 crore during 2010-11.

Following further significant points were noticed in audit.

- Financial rules stipulate that releases and expenditure should be evenly distributed throughout the financial year. Contrary to this, 32 to 72 *per cent* of the funds had been released by the SPD to the CEOs at the fag end of the financial year during 2006-11.

- Test-check in six districts revealed delays, in the release of funds by the CEOs to the implementing agencies (ZEOs), ranging between 24 and 354 days during 2006-11. The CEO's attributed late release of funds to non-receipt of utilization certificates and allied documents from the ZEO's. This was indicative of weak controls over the flow of funds.

- At the State level, against the release of ₹ 2044 crore by the State Project Director (SPD) to the CEOs during 2006-11, ₹ 1002 crore (49 *per cent*) only had been certified by the Chartered Accountants and utilization certificates (UCs) to that extent only had been submitted to the GOI/State Government, indicating that huge unspent balances were lying unutilized with the implementing units. Moreover, UCs pertaining to the period had not been submitted by the ZEOs to the CEOs which had resulted in non-submission of UCs by the CEOs to the SPD. The CEOs stated (August 2011) that the receipt and issue of UCs would be watched in future.

- As per SSA manual for Financial Management and Procurement (2004), funds released by SPD, CEOs and ZEOs are to be initially classified as Advances in the books and subsequently adjusted on receipt of expenditure statements/UCs in proof of the amount having been spent. Advances not actually spent are to be shown as outstanding advances and not as expenditure.

  Contrary to the above, the SPD, CEOs and ZEOs had booked the advances paid as expenditure without first booking them as advances in the advance payment registers, which had not been maintained. The District Implementing Societies had released ₹ 634.24 crore to ZEOs for various interventions for which no utilization/expenditure statements had been obtained and these advances had remained unadjusted. 34 test-checked ZEOs too had advanced ₹ 12.89 crore to various schools as grants, teacher grant, maintenance of school buildings grant, for teacher learning equipment etc. for 2006-11 but the expenditure statements/UCs thereagainst were awaited.

- Expenditure incurred on items of work not provided in the programmes is construed as diversion which is irregular as it affects other activities of the programme. Test-check of records in DIET, CEO Rajouri and 10[2] ZEOs revealed that ₹ 39.79 lakh had been spent during 2006-11 irregularly on items like stationery, POL, hiring of vehicles, telephone charges, repairs of office equipment, carriage, Teacher's Day celebrations, vehicle hiring/vehicle repair and

[2] Kupwara, Drugmula, Rajwar, Mawar, Kralpora, Pulwama, Loorigam, Awantipora, Rajouri and Sunderbani

fabrication etc., not covered under any interventions of the scheme. In Kashmir province, such expenditure was incurred out of interest earned on SSA funds which as per guidelines were to be refunded to SPD. On being pointed out (July 2011), the Principal DIET, CEO Rajouri and ZEO's Kupwara/Pulwama intimated that instructions had been noted and such diversion would be avoided in future.

Also, Financial Manual (SSA) prohibits diversion of funds from one activity to another. In contravention thereto, the CEO, Kupwara had diverted ₹ 34.39 lakh from one activity of the SSA to another irregularly without any approval from the grant sanctioning authority. On this being pointed out, it was stated that due to non-availability of funds for a particular intervention, the loan was taken from other interventions which would be recouped. The reply was not acceptable as the action taken by the CEOs was not in accordance with the dictates of the Financial Manual of the SSA.

- Test-check of records for the period 2006-11 in two CEOs and four ZEOs revealed that money sanctioned for approved interventions had not been utilised and were lying idle as detailed in the table:-

Table 1.1.6

(₹ in lakh)

District/Zone	*Activity*	*Amount*
Chief Education Officer, Doda	Innovative activities, TLE for EGS upgraded	1.49 3.80
Chief Education Officer, Rajouri	House hold survey Text book supply Electric facilities Remedial teaching	1.95 1.73 11.50 5.35
Zonal Education Officer, Bani	Household survey, salary of third teacher, rent of building	1.72
Zonal Education Officer, Balesa	Ramps, electric charges, ECCE, BRC/CRC buildings	2.30
Zonal Education Officer, Bhaderwah	Construction of ramps, BRC/CRC furniture ECCE	1.83
Zonal Education Officer, Doda	Salary of third teacher, ECCE and construction of ramps	0.96
Total		***32.63***

Source: Departmental Statements.

On being pointed out, the CEOs intimated that interventions could not be taken up due to non-formulation of action plans, non-conduct of household survey, most of the targeted students having left the schools, and funds having been received in excess of requirements.

- Cash books of SPD revealed that control issues like working out of monthly cash balances, attestation of individual entries/cutting and working out annual closing cash balances had not been taken care of while writing the cash books. Apart from this, reconciliation of releases/closing balances with those of the CEOs had not been carried out. Variation between SPD releases and CEOs receipts and between CEOs releases and ZEOs receipts were noticed in Rajouri district. Similarly, neither had the intra-department reconciliation been conducted in any of the test-checked CEOs/ZEOs nor the monthly bank reconciliation carried out at the District/zonal/school levels. In the absence of these control mechanism, chances of misappropriation etc. could not be ruled out.

On this being pointed out, the SPD/CEOs/ZEOs intimated that it would be done in future.

- An expenditure of ₹ 1.58 crore booked by the Director School Education, Jammu under 'material and supplies' during 2006-11 could not be test-checked in audit as the details of allocation of ₹ 1.13 crore for 2007-10 made to different CEOs were not available with the Directorate. Besides, ₹ 45 lakh booked during 2010-11 showed that ₹ 6.42 lakh allocated to CEO Rajouri was not shown as having been received by the district office. Also, details of ₹ four lakh under this component spent by CEO Rajouri during 2007-08 were not available in that office. The CEO intimated that the records were not available and would be located.

1.1.11 Status of Major Interventions

1.1.11.1 Access of Children to Schooling

Availability of schooling facility is measured by a set of indicators concerning access. Norms provide that a habitation with a population of 300 and above having no school within a radius of one km is entitled to a Primary School, and an Upper Primary school is to be located at a distance of three kms from a habitation with a population of 500 and above.

Also, EGS and Alternative Innovative Education (AIE) are important components of the programme to bring out-of-school children in the fold of Elementary Education. EGS addresses the inaccessible habitations with no formal school. In exceptional cases, such as remote habitations in hilly area, an EGS can be opened even for 10 children. Alternative education interventions for specific categories of very deprived children e.g. child labourers, street children, migrating children, working children, children living in difficult circumstances and older children in the 9+ age-group, especially adolescent girls, are being supported under EGS and AIE. At the State level, the position of availability of PS/EGS/AIE and UPS at the beginning and end of the review period was as under.

Table 1.1.7

S.No	Particulars	2006-07	2010-11
1	Total habitations	23683	27223
Primary/EGS/AIS			
2	Habitations with PS/EGS within one km	21,702	23969
3	Habitations without PS/EGS within one km	1981	3256
4	Habitations eligible for PS as per State norms	195	498
5	Habitations not eligible for PS but eligible for EGS	244	1346
6	Children affected due to (4) and (5) above	NA	12104
Upper Primary			
7	Habitations having UPS facility in 3 km	NA	24278
8	Habitations without UPS facility in 3 km	NA	2945
9	Eligible school less habitations for UPS as per distance and population	953	863

Source: State Project Director, SSA

At the State level, 3256 habitations (12 *per cent*) were without any schooling facility as of March 2011, indicating that the aim of providing elementary education to all by 2010 was still a distant dream.

The situation was similar in the test-checked districts where out of 8588 habitations, 1298 (15 *per cent*) were without any schooling facilities as of March 2011 as given under:

Table 1.1.8

Particulars	Kupwara	Srinagar	Pulwama	Rajouri	Doda	Kathua	Total
Total habitations	1762	813	965	2076	1474	1498	8588
Habitations without PS/EGS/AIE	136	11	188	196	38	34	603
Habitations without Upper Primary Schools	92	9	122	78	136	163	600

Source: State Project Director, SSA

In order to fill the gap and provide access to/ availability of schools at the elementary level, the department was required to open new primary schools, upgrade EGS centers to primary schools and primary schools to upper primary schools. At the State level it was seen that:

- Against a target of opening of 969 new primary schools under SSA, 863 (89 *per cent*) schools were opened during 2006-11.
- Against a target of up-gradation of 4039 PS to UPS, 3685 (91 per cent) had been upgraded.
- Against the target of conversion of 5876 EGS to PS, 5692 (97 per cent) had been converted during 2006-11.

The details connected therewith are discussed in paragraph under ‘infrastructure’.

1.1.11.2 Enrolment

The position of child population (6-14 year age group), enrollment and out-of-school children for the period 2006-11 at the State level is given hereunder:-

Table 1.1.9

Particulars	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*2010-11*
Child Population	19.54	18.44	19.99	20.19	NA
Enrollment	18.42	17.35	19.15	19.67	NA
Out of school children (*per cent*)	**1.12 (5.73)**	**1.09 (5.91)**	**0.84 (4.20)**	**0.52 (2.58)**	**NA**

Source: Departmental records SSA

Though there had been a gradual decline in the out-of-school children from 5.73 *per cent* in 2006-07 to 2.58 *per cent* in 2009-10, yet the goal of Universal Elementary Education (UEE) was not achieved as of March 2010.

In the test-checked districts, the position as of March 2011 was as under:

Table 1.1.10

Particulars	*Kashmir Province*			*Jammu Province*			
	Kupwara	***Pulwama***	***Srinagar***	***Rajouri***	***Kathua***	***Doda***	***Total***
Child Population	122848	80106	135878	125181	102649	79909	646571
Enrolment	90049	79286	134149	121966	101322	79015	605787
Out of School Children	2335	820	1729	3215	1327	894	10320
Percentage	**2**	**1**	**1**	**3**	**1**	**1**	**1.59**

(Source: Departmental Figures),(Enrolment does not include students admitted in private schools)

As can be seen, 1.59 *per cent* of children in the age group of 6-14 were still out of schools. It was further noticed that attendance and progress of each and every child in the age group of 6-14, enrolled in primary/upper primary schools, were not monitored through the village education committees, retention registers, and pupil progress cards which were not prepared at district/zonal level. The CEOs stated that it would be done in future.

1.1.11.3 Status of Schools and Enrolment

It was seen that despite increase in number of schools, the enrolment had decreased in the test-checked districts as depicted in the following table:

Table 1.1.11

Province	*No of zones*	*Particulars*	*2006-07*	*2010-11*	*Increase (+)/ Decrease (-) per cent*
Kashmir	3	Enrolment	24,795	22,686	(-) 09
		No of schools	329	443	35
Jammu	8	Enrolment	34,894	34,247	(-) 02
		No of schools	624	797	28

Reasons for decrease in enrolment despite increase in the number of schools were attributed to mushrooming of private schools in the districts and preference being given by the parents for enrolling their wards in those schools.

Following table shows the comparative position of number of schools, their enrollment and number of teachers in Government and private schools in six test-checked districts.

Table 1.1.12

School Management	*No. of schools*	*Enrollment (In lakh)*	*No. of teachers*
Government schools	6918	3.55	26,883
Private schools	1505	2.41	15,911

It would be seen that despite the number of Government schools (6,918) being much higher than the number of private schools and also the student teacher ratio being better at 13 in Government schools compared to 15 in private schools, the enrolment in Government schools was only 3.55 lakh (51 students per school) compared to 2.41 lakh (160 students per school) in private schools. This indicated that the people preferred sending their children to private schools despite supply of free text books, providing of mid-day-meals, etc. in Government schools. The department was, thus, not successful in fulfilling the commitment of increasing enrolment in Government schools as envisaged under SSA.

1.1.11.4 Availability of Teachers

As per norms, there should be at least two teachers for every primary school and one teacher for every class in upper primary school. The ratio of one teacher to every 40 students was to be maintained. The position of the number of existing primary and upper primary schools and the number of teachers is given in the table:

Table 1.1.13

Item	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*2010-11*[3]
Primary Schools	13564	11250	14920	14646	6155
Upper Primary Schools	5190	5948	7419	7959	4752
Total	***18754***	***17198***	***22339***	***22605***	***10907***
No. of teachers	68359	70752	76701	83297	41928
Enrollment (in lakh)	15.62	13.14	13.02	12.50	7.21
Ratio of schools with teachers	***1:4***	***1:4***	***1:3***	***1:4***	***1:4***
Pupil -Teacher ratio	***23:1***	***19:1***	***17:1***	***15:1***	***17:1***

Source: Directors School Education

As can be seen both the overall school-teacher ratio and pupil-teacher ratio were well within the prescribed norms.

In the test-checked districts, the position as of March 2011 was as under:

3 Figures for only Kashmir province as figures for Jammu yet under compilation

Table 1.1.14

Province	*Number of schools*	*Total enrolment*	*Total teachers*	*Teacher Pupil ratio*	*School teacher ratio*
Kashmir	2961	151709	15134	1:10	1:5
Jammu	4055	210447	14936	1:14	1:4
Total	**7016**	**362156**	**30070**	**1:12**	**1:4**

Source: CEOs Offices records

As can be seen, the teacher pupil ratio in the test-checked districts was in the vicinity of 1:12 against the norm of 1:40 with the school teacher ratio of 1:4.

The position of teacher deployment in the schools visited by Audit is given in the following table.

Table 1.1.15

S. No	*Particulars*	*Rajouri*	*Kathua*	*Doda*	*Kupwara*	*Pulwama*	*Srinagar*
1.	No. of Schools visited	36	59	28	37	25	8
2.	Range of Teachers	1 to 13	1 to10	1 to 17	2 to 8	2 to 16	2 to 9
3.	Range of students	15 to 204	4 to 244	11 to 180	22 to 120	18 to 157	23 to 109

Source: CEOs Offices records

It was seen that:

- 718 out of 7016 primary/upper primary schools were being run by a single teacher which was against the SSA norms indicating under-deployment of teachers.
- Five teachers had been deployed in four schools of Pampore Zone (Pulwama district) with zero enrolment for the last one year to three years which had resulted in payment of idle wages of ₹ 15.26 lakh to these teachers during 2008-11 indicating irregular deployment of teachers. Department intimated that steps are afoot for utilizing the services and assets of these defunct schools.

However, during personal visit to schools it was seen that teachers were not engaged in fair and rational numbers as demonstrated below.

Table 1.1.16

District	Upper Primary			District	Primary		
	Name of the school	*No. of teachers*	*No. of students*		*Name of the school*	*No. of teachers*	*No. of students*
Doda	MS Doda	16	180	Doda	GPS Haveli	8	17
	MS Changa	6	170		GPS Chinote	5	11
	GMS Mandir	12	116				
	MS Gangal	1	33				
	MS Mohalla	9	89				
	GMS Assise	6	33				
Rajouri	MS sunderbani Mogla	6	204	Rajouri	PS Seripur Behrote	1	33
	MS Rajouri	13	153		GPS Gambir Brahmana	3	16
	MSJaglanoo	8	140				
	MS Kakora	10	84				
	MS Birthpur	8	34				
	MS Balibawan	6	39				
Kathua	GMS Chak Desa Singh	8	244	Kathua	GPS Kangrial	3	29
	MS Chapper	7	19		GPS Palahi	2	11
	GMS Mora Dalian	7	32		PS Chakian	1	8
	MS Kori Thial	1	62		PS Darbal	1	21
	MS Bani	10	138		GPS Satoora	3	8
	Ms Thanoon	1	83				
Kupwara	GMS Kralpora	8	120	Kupwara	GPS Malik Mohalla Gorihar	2	22
	GMS Chak Mohalla Kralpora	5	158		GPS Harpora Handwara	2	56
	GMS Wadipora	7	139				
Srinagar	GMPS Dhobighat	2	23	Pulwama	GPS Ratinipora	16	136
	GMS Hazratbak	9	64		GPS Babapora	2	32
	GMS Habak	6	109		GPS Kachnopora	2	18
	GBMS Tabiya Sangrashi	5	41				

On this being pointed out it was stated that rationalization of staff would be done.

1.1.11.5 Academic performance

Interaction of the audit party with the children in two districts (Rajouri, Doda) showed that 35 out of 53 students of Vth primary and 47 out of 53 students of VIIIth standard could not perform elementary addition, subtraction, division and reading of texts indicating inadequate learning levels of children.

1.1.12 Infrastructure

1.1.12.1 School accommodation

Infrastructure is one of the main interventions under SSA. Norms provided that there should be a room for every teacher or for every grade/class whichever is lower in primary and upper primary with the provision that there shall be two class rooms with *varandah* to every primary school with at least two teachers. Records revealed that 2085 (30 *per cent*) schools at elementary level in six test-checked districts were functioning in rented buildings and 946 (13 *per cent*) out of 7016 schools were having single-room accommodation.

The position of infrastructure in test-checked zones is depicted in the following table.

Table 1.1.17

(In Number)

Particulars	Jammu	Kashmir
No. of Zones	***37***	***29***
Number of schools (Primary/upper primary)	**4055**	**2961**
Without buildings	1055	1030
With only one room	681	265
With two rooms	NA	826
With three rooms	NA	833
More than 3 rooms	NA	767

Source: ZEOs data

As can be seen, huge deficiencies in accommodation existed in the test-checked zones and records revealed that 31 schools in Kupwara District were functioning in tents, while two schools in Srinagar district were functioning in open, indicating non-prioritisation of construction of buildings and the pace of opening of new schools being not in tune with the requirement.

1.1.12.2 Status of constructions

Construction of school buildings/additional classrooms is one of the major interventions under SSA so that adequate accommodation is provided to children.

At the State level, the position relating to construction works sanctioned under SSA since inception of the scheme (2002-03) up to March 2011 was as under:-

Table 1.1.18

Type of Buildings	*Targets*	*Completed*	*In Progress*	*Not taken up*
Primary schools	9725	5269	2717	1739
Middle schools	1119	680	380	59
Additional Class rooms	13242	5467	3458	4320
Cluster Resource Centres	681	546	44	91
Block Resource Centres	119	89	23	07

Source: SPD, SSA records

While 6216 works (25 *per cent*) had not been taken up at all, 6622 works (27 *per cent*) were in progress as of March 2011. Project Director SSA had not analyzed the reasons for not taking up 6216 works for which explanation from the Chief Education Officers had been called for (May 2011). Analysis of the available data by Audit in one of the districts (Rajouri) showed that the broad reasons for shortfall were disputes between community members and school management. Although the Project Director, *Sarva Shiksha Abhiyan* had booked ₹ 314.90 crore on civil works during 2006-10, yet work-wise, component-wise, zone-wise details had not been maintained.

In the test-checked districts, it was noticed that out of ₹ 231.33 crore received during 2006-11 by the CEOs from the SIS for the intervention, only ₹ 201.20 crore had been released to the zones. The retentions had ranged between 30 and 59 *per cent* during the period.

The annual targets and achievements in respect of construction of primary/upper primary schools, additional classrooms and CRC during 2006-11 in the six test-checked districts were as under:

Table 1.1.19

Year	*Targets*				*Achievements*			
	PS	*UPS*	*ACRs*	*CRC*	*PS*	*UPS*	*ACRs*	*CRC*
2006-07	554	100	1198	00	461	86	1063	00
2007-08	742	13	00	41	441	06	00	27
2008-09	653	107	00	00	301	45	00	00
2009-10	153	00	1333	00	26	00	269	00
2010-11	308	00	600	10	00	00	00	00
Total	*2410*	*220*	*3131*	*51*	*1229*	*137*	*1332*	*27*
Shortfall					*51*	*62*	*43*	*53*

Source: SPD, SSA records
(Primary School PS, Upper Primary School UPS, Additional Class Room ACR, Cluster Resource Centre - CRC)

Evidently, a significant number of students had been denied the benefit of infrastructural facilities proposed under SSA with shortfall in achievement of targets ranging between 43 and 62 *per cent* despite there being availability of funds.

Out of 5232 works estimated to cost ₹ 156.83 crore taken up during 2002-11, 3422 works had been completed during the period at a cost of ₹ 105.45 crore.

The status of remaining 35 *per cent* works-in-progress as of March 2011 was as under:

Table 1.1.20

District	No. of incomplete Works	Expenditure incurred	Work not started	Disputed	Present Status		
					Plinth level	Lintel level	Roof/Finishing Level
Jammu	1434	1338.85	397	34	508	316	179
Kashmir	376	520.42	163	Nil	101	57	55
Total	**1810**	**1859.27**	**560**	**34**	**609**	**373**	**234**

As can be seen 1810 works taken up for execution during 2002-11 had not been completed and work on 560 school buildings had not been started as of March 2011. The work on 34 school buildings was under dispute due to land disputes, forest land and disputes between Village Education Committees and School Committee members and out of remaining 1216 works, 485 works had been abandoned after spending ₹ 807.23 lakh thereon as of March 2011. These works were required to be completed within the target period of three to six months. Abandonment of work had not only resulted in unproductive expenditure of ₹ 807.23 lakh but had also deprived children of the intended benefits. On this being pointed out, it was stated that efforts were afoot to get the works completed.

As per the standing instructions, community participation is to be ensured in creating infrastructural facilities and in no case are the works to be got executed through contractors/mates. Contrary to this, 685 (Expenditure: ₹ 17.55 crore) out of 1239 works had been got executed through contractors without involving School Management

Committees/Village Education Committees. The Department attributed it to non-receipt/absence of programme guidelines upto 2007-08.

1.1.12.3 Basic Amenities and facilities

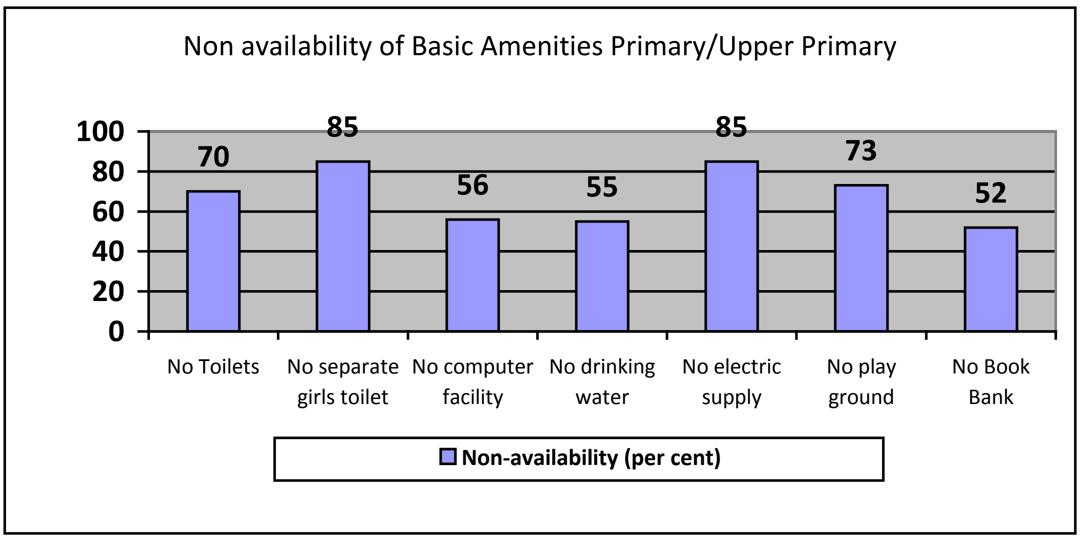
Huge deficiencies in basic minimum amenities at the elementary level were observed in all the six test-checked districts as depicted in the following table.

Table 1.1.21

(In Number)

Amenities	*Jammu*	*Kashmir*	*Total*	*Percentage*
No. of Schools	**4055**	**2961**	**7016**	
No Toilets	2838	2029	4867	**69**
No separate Girls Toilet	3388	2554	5942	**85**
No Computer facility	3936	2046	5982	**85**
No Drinking Water	2108	724	2832	**40**
No Electric Supply	3257	2691	5948	**85**
No Access Ramps for handicapped/disabled children	3579	2435	6014	**86**
No Play Ground	2770	2329	5099	**73**
No Book Bank	2382	1274	3656	**52**
No Furniture for Students	830	2316	3146	**45**

Chart-1.1.2



The huge deficiency in the basic amenities indicated denial of quality education to the children.

1.1.12.4 Infrastructure/amenities at ground level

Quality of education depends, *inter alia*, upon the quality of infrastructure available. One of the basic objectives of the SSA was to enhance the quality of education at elementary school level by providing adequate amenities in the schools. In an on-the-spot visit of various schools in the six test-checked districts following deficiencies were noted.

Table 1.1.22

S. No	*Particulars*	*Rajouri*	*Kathua*	*Doda*	*Kupwara*	*Pulwama*	*Srinagar*
1	**No. of Schools visited**	**36**	**59**	**28**	**37**	**25**	**8**
2	Black Boards not available	2	3	2	Nil	Nil	Nil
3	School Building not in good condition	9	16	6	22	15	02
4	No Play ground	22	21	25	31	18	03
5	No toilets	nil	nil	nil	22	04	Nil
6	No Separate Toilets	24	38	18	33	22	06
7	Seating arrangement						
	Only Mats	32	29	20	30	22	01
	Only Desks	2	9	-	04	03	07
	Mats/Desk	-	21	8	03	Nil	Nil
	Only Gunny Bags	2	-	-	Nil	Nil	Nil
8	No Boundary Wall	29	44	21	33	17	05
9	No Drinking Water Facilities	14	19	20	22	03	Nil
10	No Electricity	34	33	25	34	25	08
11	No Approach Road	26	12	11	16	06	02
12	Without Kitchen cum store shed with utensils	8	14	16	26	19	05
13	No Library/Book Bank	36	59	28	34	23	08
14	No Displaying Boards	36	59	28	30	16	04
15	Decreasing Enrolment	NA	22	16	17	06	05

The amenities were deficient practically in all the categories.

1.1.12.5 Allotment of grants

Under SSA three types of grants are provided for all Government elementary schools. Primary and Upper Primary schools are treated as separate schools even if they are in the same premises.

(i) School grant of ₹ 5000 per annum per primary school and ₹ 7000 per annum per upper primary school is provided to replace school equipment such as blackboard, sitting mats etc. The grant can also be utilized to buy chalk, duster, registers and other office equipment.

(ii) School Maintenance grant is given for maintenance of school building including whitewashing, beautification, repairing of building, boundary wall and playground. Maximum of ₹ 5000 per school per annum is provided if the school has upto three classrooms; maximum of ₹ 10000 per annum if the school has more than three classrooms. The grant is given only for those schools in rural areas which are having their own buildings. The grant is also given to schools in urban areas running from rented buildings. As per SSA norms, the average grant per school for the district should not exceed ₹ 7500.

(iii) Teaching Learning Material grant of ₹ 500 per teacher per annum (these go directly to teachers) is given to all teachers in primary and upper primary schools for buying low cost teaching aids such as charts, posters, models etc.

During the period 2006-11, an amount of ₹ 127.84 crore were released to all districts by Project Director SSA under school grants, school maintenance grants and teacher grants out of which ₹ 44.47 crore were released to six test-checked districts. Audit could verify that the above three grants were not released to schools annually and ₹ 8.98 crore (20 *per cent*) were lying in saving bank accounts as on 31 March 2011. Further, it was seen in two (Doda and Rajouri) of the six test-checked districts that 33 schools (Primary and Upper Primary) had not been paid the admissible annual grants (TLM and SMG). The position of non-receipt of grants by these test-checked schools is tabulated as under:-

Table 1.1.23

Year	*Nil Grant received*	*Only 1 Grant received*	*Only 2 Grants received*	*All 3 grants received*
	(No of schools)			
2006-07	8	4	3	10
2007-08	10	2	6	7
2008-09	7	2	8	8
2009-10	10	7	6	2
2010-11	17	3	4	9

On this being pointed out, the CEOs intimated (August 2011) that the ZEOs had been instructed to pay all admissible grants to schools in future.

1.1.12.6 Idling of Computer systems

Computer Aided Learning (CAL) is an important component under SSA and its real purpose is to make children aware of the use of computers in making content matter of Teaching Learning Process practical and simple. Computer-based learning not only makes learning interesting and joyful, but also induces novelty in thinking approach of the children thereby enhancing their imaginative power.

The Project Director, SSA had purchased 2144 computers with equal number of UPS and 986 printers at a cost of ₹ 7.61 crore during 2006-09 for issue to District Implementing Societies for opening of CAL centers (five computers each) at cluster level out of which only 703 computers/accessories had been supplied to the six test-checked districts.

It was, however, seen in 34 test-checked zones, that 488 computer systems earmarked for 97 CAL centers were lying idle due to non-establishment of the centers as of March 2011. This had not only resulted in blocking of ₹ 1.73 crore for over three years but also defeated the very purpose of procuring the computer systems. Due to this, 184 of the 193 sampled schools could not be provided facilities.

The CEOs attributed non-utilization of computer systems to non-availability of computer trained teachers for running of CAL centers. However, action taken, if any, to get the available manpower trained in the field were not intimated.

1.1.13 Training

The National Policy for Education emphasized the need for a substantial improvement in the quality of education. Engagement of qualified teachers, improvement of performance and skills up-gradation of existing manpower is the most important challenge as the teachers are the principal instrument of education.

The training for teachers in the State is conducted at the State level by the State Institute of Education (SIE) and at the district level by the District Institute of Education and Training (DIET). The training in the sphere of elementary education being imparted by these institutions comprise pre-service and in-service training with special emphasis on content training and refresher courses.

It was, however, seen that:

- SIE had not prepared any periodical appraisal reports on Community Development Blocks, Education Blocks, Block Resource Centers, Cluster Resource Centers in villages/panchayats and no inspection of Primary / Upper Primary Schools had been conducted.
- Test-check of four[4] out of six DIETs revealed that though 15-26 zonal level workshops/camps had been conducted during 2006-11 annually, no research programmes had been conducted. Also, the number of exhibitions/seminars/conferences held was paltry and ranged between one and two annually during the period. In Kupwara, between 15 and 26 camps were held under NEPGEL and Community Mobilization Programmes. This indicated that these activities in these districts were not given priority.
- Data regarding trained/un-trained teachers/masters in Elementary Education Programme had not been maintained at SIE/DIET level which prevented Audit from verifying the availability of trained manpower with the department.
- In the test-checked districts only 14202 (49 *per cent*) of 28893 teachers had been trained.

  The department attributed (June 2011) tardy progress in Programme activities to non-cooperation of the field officers, powers not being vested with DIET for effective and efficient implementation of the programme, and the funds being generally allocated at the fag end of a session.

[4] Rajouri, Doda, Basohli and Kupwara

1.1.14 Supply of Text Books

Text books are supplied free of cost under District Plan to the students of class I and II and under SSA to the enrolled students from Class III to VIII after purchasing the same from Board of School Education (BOSE).

The position of funds provided to the Director School Education (DSE), Jammu/Kashmir by the Project Director, SSA and the expenditure thereagainst during 2006-11 was as under:

Table 1.1.24

(₹in crore)

Year	*Opening Balance*	*Funds Received*	*Total*	*Expenditure*	*Closing balance*
2006-07	0.46	11.79	12.25	11.54	0.71
2007-08	0.71	12.05	12.76	8.41	4.35
2008-09	4.35	18.57	22.92	11.58	11.34
2009-10	11.34	16.75	28.09	16.67	11.42
2010-11	11.42	17.31	28.73	17.70	11.03

It is seen that the opening balance of ₹ 0.46 crore (2006-07) had swelled to ₹ 11.03 crore (March 2011) during the five-year period registering an increase of 2398 *per cent*. It was further learnt that the balances had been parked in the Saving Bank Account by the Directors. The DSE Jammu/Srinagar attributed reasons for accumulation of huge closing balances and short-utilization of funds to despatch of funds by *Sarva Shiksha Abhiyan* without requisition/requirement.

It was also noticed that:

- In 193 sampled schools, incomplete sets of text books had been supplied to the students and that too in the middle of the academic session.
- In two test-checked districts (Pulwama and Srinagar), text books had been procured in excess of actual requirements in 2010-11 resulting in loss of ₹ 11.43 lakh due to change in syllabi.
- The data in the following table depicts the dates of requisitioning the books by the Director Jammu and Kashmir for the academic session from 2007-09 to 2010-11.

Table 1.1.25

Authority	*2007-08*	*2008-09*	*2009-10*	*2010-11*
Director, Education, Jammu	NA	18-01-2008	26-12-2008	16-11-2009
Director, Education, Kashmir	04-07-2007	03-09-2008	20-04-2009	04-05-2010

Although the requisitions were placed by the Directors with BOSE well in advance, yet month-wise receipt of books had not been monitored statedly (October 2011) on the plea that the books had been lifted by the CEOs/ZEOs directly and no such information was being sent to the Directorates. The verification of the despatches made by BOSE to assess the extent of delay on their part could not be conducted as the relevant records related thereto were not made available to audit.

- The Utilization Certificates/Statement of Expenditure had not been received from BOSE for the above period though called for. Further, reconciliation had not been conducted at any level for the number of books received and payments made with the result Audit could not verify the balances, if any, lying with BOSE. The Director, School Education, Jammu intimated (June 2011) that the CEOs had been directed to conduct reconciliation.

1.1.15 Scholarships

Scholarships are paid to meritorious and economically downtrodden/special category students for boosting the level of education. At the State level the allocation of funds, expenditure booked and physical achievements made against the targets are tabulated as under.

Table 1.1.26

(Students in lakh) *(₹in lakh)*

Year	*Physical*			*Financial*		
	Targets	*Achievements*	*Shortfall percentage*	*Allocation*	*Expenditure*	*Short utilization percentage*
2007-08	2.55	2.06	19	100.00	80.00	20
2008-09	2.77	2.16	22	96.00	89.58	7
2009-10	2.51	2.09	17	96.00	89.46	7
2010-11	2.48	2.52	Nil	96.00	94.62	1

From the above, it would be seen that shortfall in percentage utilization of funds had ranged between one and 20 while 17 to 22 *per cent* students had not been covered under this programme for the above period. The amount of scholarship each student received during a year on an average works out to less than ₹ 50 during the period 2007-11.

Besides, the sanctions issued for the scholarships had envisaged payments to be made through cheques in the presence of community members (Advisory Board/VEC/Guardians and the concerned teacher) to eligible and rightful students of Gujjar, Bakerwal and Pahari-speaking community from the date of admission during current academic session and no payment was to be made to more than two children with the same parentage, failed and detained students.

Test check of mode and manner of payment in one (Rajouri district) of the test checked district revealed that the acquaintance roll of the scholarship payments had not been attested by disbursing authority in token of having made the payments to the concerned. Instead of payment by cheques in the presence of VEC/Guardian/teachers etc., the payments were shown to have been made to students in cash even to 1st/2nd primary students in the absence of VEC/Guardian/Teacher. It was seen that Primary class students had recorded their signature in English; while most of students of 4th / 5th Primary had affixed thumb impressions for having received the payments. Even classes and period for which scholarships had been paid to students had not been recorded on the acquaintance rolls. The payments having been made in these cases were questionable. Test-check further revealed that neither UCs nor a copy of acquaintance had been sent by the ZEOs to the District Officer nor called for.

The CEO intimated (August 2011) that the ZEO's had been requested time and again to furnish UCs and other relevant records but the same had not been sent. This was indicative of the inadequate control mechanism.

1.1.16 Coverage of Special Focus Groups

Under SSA, the girls, SC/ST Children, Children with Special Needs and Early Childhood care have been reckoned as the special focus groups. Incentive by way of providing basic infrastructure for their schooling had been envisaged under SSA and the status thereof is discussed in the succeeding paragraphs.

1.1.16.1 Kasturba Gandhi Balika Vidhyalaya (KGBV)

The scheme launched (August 2004) by the GOI was merged (April 2007) with SSA programme as a separate component for the purpose of setting up residential schools at the Upper Primary Level for girls belonging to the SC/ST/OBC and minorities in difficult areas. Check of the records relating thereto revealed the following.

Construction of schools

Of the 79 KGBV sanctioned for the State[5], 78 were functional. Out of the 78 functional KGBVs 70 were housed in rented accommodation as of March 2011. The Project Director SSA, received ₹ 80.55 crore during 2005-11 for implementation of the programme and undertook construction of 73 school-cum-residential buildings estimated to cost ₹ 24.61 crore between June 2008 and February 2010 without AA/TS. It was seen that the work on five such buildings (estimated cost: ₹ 1.76 crore) had not been taken up for want of sites. After spending ₹ 9.24 crore out of the released funds of ₹ 9.77 crore during 2008-10 on the balance 68 works, further execution was stopped (September 2009) due to withdrawal of execution powers from the Engineering Wing of the society by the higher authorities. No steps had been taken for completion of these works and the unspent balance of ₹ 52.94 lakh continued to lie with the JEs (March 2011). Interestingly, no action had been taken by the department to recover the money from the JEs for depositing the same into the Government account. This had resulted not only in unproductive expenditure of ₹ 9.24 crore for the last two to three years but also payment of avoidable annual rentals of ₹ 27.20 lakh on the rented accommodation.

On being pointed out in audit, the Project Director, SSA stated (February 2011) that the issue of resumption of works had been taken up with the State Government and every effort would be made to complete these works.

[5] Jammu: 34; Kashmir: 45

1.1.16.2 Education for Children with Special Needs (CWSN)

SSA ensures that every child with special needs, irrespective of the kind, category and degree of disability is provided meaningful and quality education. In order to achieve the objective, SSA has made adequate provisions for educating children with special needs in regular schools. Under this intervention, ₹ 1200 per disabled child could be spent annually to meet special learning activity needs of such children viz. early detection and identification of children with special needs, functional and formal assessment, educational placements, aids and appliances, support services, special equipment, reading material, special educational techniques, remedial teaching, training to teachers for such children, resource support by appointment of resource teachers, strategies, removal of architectural barriers in schools, research, monitoring and evaluation.

The position in six test-checked districts regarding enrolment and out-of-school children was as under:-

Table 1.1.27

Year	*Jammu*		*Kashmir*	
	No. of CWSN Identified	*No. of CWSN Enrolled*	*No. of CWSN Identified*	*No. of CWSN Enrolled*
2006-07	3947	2592	7461	5500
2007-08	2940	2339	6845	4157
2008-09	2913	2598	6245	5449
2009-10	3510	2539	6399	5681
2010-11	3709	2471	7198	6234
Total	***17019***	***12539***	***34148***	***27021***

Though huge deficit (23 *per cent*) existed in enrollment of such children, the exact number of children who could have been enrolled in the school could not be commented upon due to non-availability of the data regarding the type of disability the un-enrolled children would be suffering from.

However, it was seen that against the available funds of ₹ 2.62 crore for the programme in six test-checked districts during 2006-11, the expenditure under the intervention was only ₹ 1.03 crore (39 *per cent* only) and the *percentage* of unspent balances during these years ranged between 61 and 97. Shortfall in utilization of funds had not only affected efficient implementation of the programme but also deprived children with special needs of the intended benefits.

The following significant points were also noticed:

- In three sampled schools of a test-checked district where 12 such children had been enrolled, although training had been imparted to the teachers yet their services had not been utilized.
- DIET Kupwara had been entrusted with the responsibility of implementation of the scheme in the district from 2009-10 onwards. Out of ₹ 39.28 lakh received up to 2010-11, only ₹ 2.09 lakh had been spent leaving 95 per cent balances unspent. Reasons for such huge unspent balances were attributed to awaited parent's

consent for correction of deformity surgically in respect of physically handicapped children.

- In three test-checked districts, out of 2961 schools, only 19 *per cent* (577 schools) had been made barrier-free for easy access in order to provide disabled-friendly facilities in schools. The CEO's had failed to provide ramps and other easy approaches to children with special needs despite availability of sufficient funds.
- SSA guidelines provide that all children requiring assistive devices should be provided with aids and appliances as far as possible through convergence with Ministry of Social Justice and Empowerment, State Social Welfare Department, National Institute or NGO's and in case it was not possible to provide it through convergence, these were to be purchased out of the admissible grant of ₹ 1200 earmarked per child per annum. However, it was seen that only 579 (11 *per cent*) out of 5018 such identified children had been provided aids and appliances in three (Srinagar, Kupwara and Pulwama) test-checked districts depriving other children of this facility for which no reasons were on record.

1.1.16.3 Early Childhood Care and Education (ECCE)

The importance of pre-school learning and early childhood care are crucial inputs for improving enrollment and participation of children in formal schooling. Recognizing variety of learning and development, the SSA aims to make all-out efforts to develop an integrated approach to meet the educational needs of pre-schoolers. A provision of up to ₹ 15 lakh per year per district had been made for the purpose under the component 'Innovative Activities'. It provided for strengthening the existing ICDS Centers in the areas of pre-school education by starting such centers in the formal primary school inhabitations not covered under ICDS. The support was to include honoraria for pre-school teachers and extend training to *Aganwari Sevaks*. In order to achieve the objectives, the Project Director, *SSA* released ₹ 3.13 crore to CEO's for ECCE activities. Audit scrutiny of records, however, revealed as under:

- Six test-checked districts had received ₹ 1.41 crore out of which only ₹ 0.31 crore had been spent on organising three workshops and purchase of ECCE kits leaving ₹ 1.10 crore (78 *per cent*) unspent as of March 2011.

  These amounts should have been advanced to Programme Officers, ICDS of the respective districts to identify institutions/groups to strengthen the ECCE component in I.C.D.S. *Anganwari* system. The same had not been done; consequently, ₹ 1.10 crore meant to be spent on this important component of the programme had remained unutilized. In none of the test-checked districts, survey of children in the age group of 0-6 years had been conducted and no plans had been prepared for their educational facilities. The CEOs confirmed that they had not taken any steps to strengthen the pre-school component in ICDS through need-based training of *Aganwari Sevaks*, provision of additional manpower or learning material. No *Balvadis* had been set up in any required area and no programmes had been conducted or training imparted to generate awareness about importance of early child development.

- Under this scheme *Anganwari* Centers were to be upgraded to Nursery Schools through convergence. The Director, Social Welfare, Jammu intimated (July-2011) that Early Childhood Care and Education Programmes launched by the GOI under SSA Special Focus Group had not been implemented in Jammu province till date. A proposal to this effect mooted (February-2009) by the Director and sent to Administrative Department had not been approved as of March 2011.

1.1.16.4 Education of Girl child, SC/ST Children

Education of girl children belonging especially to SC/ST and other disadvantaged groups aims at bringing "out-of-school children" to the school by way of interventions like supply of free text books to targeted girl students, enrolment and retention drives, special course camps and bridge courses, conducting remedial coaching classes and monitoring attendance of girl child. Funds up to ₹ 15 lakh per intervention per year and ₹ 50 lakh in a district in a particular year can be spent on the above interventions.

Test check of records, however, revealed as under:

(i) Although text book were supplied to all students yet there were cases of late supply of two to three months in 193 test-checked schools.

(ii) Enrolment and retention drives through special camps, bridge courses, community mobilization trainings and innovative activities for girls were required to be held under the programme. Out of ₹ 6.58 crore allotted to six test-checked districts, only ₹ 4.04 crore constituting 61 *per cent* of the allotment had been utilized on the activities and the unspent balance of ₹ 2.54 crore had remained parked in the savings bank accounts of the CEOs. In respect of the monies advanced to DRGs/ZRPs/CRCs for holding camps, bridge courses, remedial coaching classes, innovative activities and training courses, it was seen that in none of the cases had the detailed accounts and the details of the programmes/activities been submitted to the district authorities. Also, no advance payment registers had been maintained to watch adjustments there against. The District authorities had not ascertained the impact of the activities undertaken on retention and enrolment of Out of School (OOS) girls in classes on regular basis.

(iii) Data of enrolment of girl student belonging to SC/ST and weaker sections of the society though required had not been maintained and monitoring of attendance of target group had never been done in any of the test-checked districts.

1.1.17 National Programme for Education of Girls at Elementary Level (NPEGEL)

NPEGEL has been formulated for providing education to under-privileged disadvantaged girls from Class 1st to Class 8th as a separate and distinct gender component plan of *SSA*. Under the scheme Primary/Upper Primary Schools were required to be identified as Model Cluster School (MCS) for development / education of girl child.

At the State level the position of MCSs sanctioned/opened, funds allocated and expenditure incurred there-against for 2006-11 was as under:-

Table 1.1.28

(₹ in lakh)

Year	*No. of MCS Sanctioned/Opened*	*Allocation*	*Expenditure*	*Closing Balance*
Upto 2005-06	287	-	-	-
2006-07	15	46.43	44.18	**02.25**
2007-08	261	997.59	962.28	**37.56**
2008-09	Nil	359.36	267.43	**129.49**
2009-10	Nil	359.36	267.43	**221.42**
2010-11	Nil	NA	NA	-
Total	*563*	*1762.74*	*1541.32*	

As can be seen, out of ₹ 17.63 crore released, ₹ 15.41 crore (87 *per cent*) were spent during 2006-10 resulting in accumulation of unspent balance of ₹ 2.22 crore at the end of March 2010. Partial utilization of funds affected proper implementation of NPEGEL Programme. Further, during 2008-10 the spending was only 71 *per cent*. Reasons for not opening MCSs during 2008-11 were attributed to late receipt of funds.

Further, MCS for girls was to be created as a Model Girl Child friendly school at cluster level for a cluster of 5-10 villages. This Girl Child friendly infrastructure which includes facilities in terms of teaching learning equipment, books, learning through computers, film shows, reading material, self-defence, life skills, riding bicycle etc. were to be provided. However, in none of the operational MCSs had the facilities been made available and all functioned as routine schools. The CEOs stated that such facilities would be provided. The reasons for non-provision thereof were not assigned.

1.1.18 National Programme for Education and Nutritional Support (MDM)

The main objective of Mid-Day Meal (MDM) programme besides providing nutritional support was to increase enrollment, retention and attendance of children at Primary/Upper Primary level.

Under Mid Day Meal Scheme, GOI provides the following assistance to State Governments.

(i) Supply of free food grains (wheat/rice) from the nearest FCI go-down @ 100 grams per child per school day for primary classes (I-V) and @ 150 grams per child per school day for upper primary classes (VI-VIII).

(ii) Reimbursement of the actual cost incurred in transportation of food grains from nearest FCI godown to the school subject to the prescribed ceiling.

(iii) Assistance for cooking cost at rates prescribed from time to time.

(iv) Assistance to construct kitchen-cum-store.

(v) Assistance for provisioning and replacement of kitchen devices.

1.1.18.1 Planning

The MDM guidelines assign importance to preparation of Annual Works Plans and Budget (AWP&B) by States based on the information maintained at school level and consolidated in Zones, Districts and at the State level. It also envisages a bottom up approach rather than the top down approach for planning. It is necessary that there is documentation of the process of plan preparation showing number of children already enrolled in schools, number of anticipated children to be enrolled in ensuing year, cost element for providing mid-day meals component-wise and other details at school level through participatory planning process.

It was, however, seen that the documentation process for preparation of AWP&B was deficient. Instead of being prepared at the school level and consolidated at the Zonal level for 2006-11, it had been prepared at District level without any inputs from schools. The Department stated that AWP&B were formulated at the district level on the basis of District Information System for Education (DISE) data. The ZEOs stated that due to political interference the plans were not implemented in accordance with the policy.

1.1.18.2 Financial Management

The details of allocation made and expenditure incurred there-against during the period 2006-11 was as under:

Table 1.1.29

(₹ in crore)

Year	*Allocation*	*Expenditure*	*Un-spent/surrender (Percentage)*
2006-07	11.84	09.93	**16**
2007-08	68.99	29.88	**57**
2008-09	87.36	57.33	**34**
2009-10	62.49	49.36	**21**
2010-11	78.56	65.91	**16**
Total	***309.24***	***212.41***	

The *percentage* of unspent balance ranged between 16 and 57. Reasons therefor were attributed to abnormal conditions prevailing in the valley. It was, however, noticed that though on the one hand the Department had surrendered funds to the extent of savings as depicted in the table above, the Directors School Education (DSE) Kashmir and Jammu, on the other hand, had created liability of ₹ 1.83 crore and ₹ 15.16 crore respectively under MDM as of March 2011.

The DSE, Jammu attributed (August 2011) creation of liability to non-release of 2nd Installment of Central Share by the GOI. However, the DSE, Kashmir did not furnish any reasons for creation of liability.

1.1.18.3 Food Grain Management

The GOI allocates food grains on the basis of district-wise enrollment figures of the eligible schools. It was observed that the state nodal department had not established a system of reliable and authentic data-capture with regard to enrollment figures which would serve as the basis for receipt of food grains. This was borne out by the fact that there was substantial short-lifting of food grains of 15 *per cent* during 2010-11 with reference to lifting of food grains in 2009-10 and to allocations made by the GOI as revealed from the following details: -

Table 1.1.30

(Quantity in MTs.)

Year	Opening balance	Allocation of foodgrains in MTs approved by PAB	Lifting of foodgrains from FCI	Utilization of foodgrains	Closing balance
2006-07	Figures not provided by Administrative Department.				
2007-08	Pry. – 1339.04 Upp. – Nil	16636.37 4622.75	15575.97 864.73	15732.37 777.97	1182.64 86.76
2008-09	Pry. – 1182.64 Upp. 86.76	17388.71 10151.86	11549.16 6017.95	11189.03 5662.20	1542.77 442.51
2009-10	Pry. – 1542.77 Upp. – 442.51	16489.50 9365.02	11706.85 7377.57	11417.90 7169.58	1831.72 650.50
2010-11	Pry. – 1831.72 Upp. 650.50	16500.00 10230.00	9647.01 6643.32	10089.75 6989.01	1388.98 304.81
Total		***101384.21***	***69382.56***	***69027.81***	

It can be seen from the above details, that the State Nodal Agency had lifted 69382.56 MT of food grains during 2007-08 to 2010-11, against the allocation of 101384.21 MT of food grains by GOI which was about 68 *per cent* of the allocation and the quantity actually utilized was less by 355 MTs than what had been lifted which showed that allocations were not made as per requirements. As a result, during the period 2008-11, about 35 *per cent* children studying in primary classes and 33 *per cent* students of upper primary classes were deprived of the benefits of mid-day meal scheme.

As required, the State nodal department had to conduct reconciliation with FCI in order to regulate the claims of actual lifting made by the GOI but no such reconciliation had ever been conducted by the State Nodal Department (March 2011).

Further, it was seen that food grains had been lifted without Joint Inspection by the representatives of FCI and Education Department and without verifying the quality of food grains as required under scheme guidelines.

1.1.18.4 Utilization of funds under "cooking cost"

For getting the meals cooked, the assistance provided by GOI under cooking cost component and the matching share of the State Government during the period 2006-11 is given in the table below.

Table 1.1.31

(₹ in crore)

Period	Primary Class Stage (1 to 5)		Upper Primary Class Stage (6 to 8)	
	Central Assistance	State Share	Central Assistance	State Share
July 2006 to November 2009	1.50	0.50	2.00*	0.50*
December 2009 to March 2010	1.88	0.62	2.81	0.94
April 2010 to March 2011	2.02	0.67	3.02	1.01

Extended Upper primary Classes w.e.f October 2007

A test-check of utilization certificates for the period 2007-11 under the component both for Primary and Upper Primary Stage furnished by the State Nodal agency to the GOI showed that against the allocation due based on the figures conveyed by the Programme Approval Board (PAB), the releases made by the GOI was less than the demand. Despite short releases, substantial shortfall in utilization of funds by the State Government ranging from 21 to 41 per cent had occurred during 2007-11 as observed from the following year-wise details:-

Table 1.1.32

(₹ in lakh)

Year	Due allocation as per PAB	Opening balance	Cooking assistance received	Total	Expenditure incurred	Closing Balance
2006-07	Details not available					
2007-08	Pry. – 3929.23 Upp. – 616.37	498.06 -	3431.17 616.37	3929.23 616.37	3414.51 160.74	514.72 455.63
2008-09	Pry. – 3486.54 Upp. – 1270.54	514.72 455.63	3486.54 1270.54	4001.26 1726.17	2443.97 942.92	1557.29 783.25
2009-10	Pry. – 3912.51 Upp. – 1912.08	1557.29 783.25	1708.40 740.19	3265.69 1523.44	2331.81 1084.67	933.88 438.77
2010-11	Pry. – 4420.53 Upp. – 2734.47	933.88 438.77	2292.68 1521.63	3226.56 1960.40	2191.16 1452.35	1035.40 508.05

Based on the enrollment figures furnished by the State Government, ₹ 222.82 crore was required to be released by the GOI / State Government during 2007-11 against which only ₹ 150.68 crore were released to the State Nodal Agency. The department could utilize only 69 *per cent* of the available funds resulting in non-utilization of ₹ 15.43 crore during 2007-11. From the expenditure pattern it could be concluded that the cooked food was not served to all eligible school students on all working days. The shortfall during the period 2008-11 ranged between 50 and 30 *per cent* in primary classes and 43 and 24 *per cent* in upper primary classes. Despite this, the Director School Education Jammu had created liability under this component during 2010-11.This was attributed to the non-release of the second installment of the share by the GOI under the component- an argument that was not acceptable as the department had ample funds to meet such liability under this component of intervention as can be seen from the table.

1.1.19 Infrastructure

Kitchen-cum-store is a vital part of the MDM scheme. Under the scheme, GOI provides assistance upto a maximum of ₹ 60000 for construction of Kitchen-cum-Store. State Governments were expected to pro-actively pursue convergence with other development programmes for this purpose, as allocation under the scheme was not adequate to cover all schools.

Test check of the records revealed inadequate infrastructural facilities for preparation/serving mid-day meals in primary and upper primary schools. Significant aspects noticed are discussed in the subsequent paragraphs.

Kitchen-cum-Store facilities

Absence of kitchen-cum-store or inadequate facilities can expose children to food poisoning and other health hazards as well as fire accidents.

A test-check of records of the Administrative Department revealed that the State nodal agency had allocated the central assistance of ₹ 34.89 crore for construction of 5815 Kitchen sheds during 2006-09 out of which only 4376 units had been constructed at a cost of ₹ 26.25 crore and remaining 1439 units had not taken up as of March 2011. Out of the unspent balance of ₹ 8.63 crore under this component, ₹ 6.27 crore had not been revalidated since 2008-09 and 2009-10 by the GOI.

In the six test-checked districts records showed that 3482 (50 *per cent*) out of 7016 schools were without kitchen-cum-store facilities. In the absence of kitchen-cum-store facilities, the authorities were left with no alternative but to cook/store food articles in classrooms or in the open, thereby hampering the classroom activities. This involved the risk of providing unhygienic food to the inmates.

The availability of kitchen-cum-store sheds during an on-the-spot visit by Audit to schools in six test-checked districts revealed the following position.

Table 1.1.33

S.No	*Particulars*	*Rajouri*	*Kathua*	*Doda*	*Kupwara*	*Pulwama*	*Srinagar*
1	No. of Schools visited	36	59	28	37	25	8
2	Without Kitchen cum store shed with utensils	8	14	16	26	19	05

Kitchen utensil/Kitchen devices

The programme guidelines have a provision for providing and replacing kitchen devices at an average cost of ₹ 5,000 per school. Under the programme, the department has the flexibility to incur expenditure on the items like stoves, *chulhas*, containers for storage of food grains and other ingredients, utensils for cooking and serving on the basis of the actual requirements of the school (provided that the overall average for the State remains ₹ 5000 per school).

It was, however, noticed that there were inadequate kitchen utensils/devices in 81 out of 193 surveyed schools. It was further seen that in some cases the students had been compelled to bring with them their own serving plates.

Excess over estimates

Guidelines of MDM scheme envisage that the GOI would provide assistance to construct kitchen-cum-store in a phased manner with the assistance up to a maximum of ₹ 60,000 per unit. However, in Rajouri district it was seen that for the target of 807 kitchen-cum-store sheds, ₹ 1.88 crore had been received during 2010-11. The District authorities in contravention to the scales fixed by the GOI had constructed only 250 kitchen-sheds with this allotment thereby utilizing ₹ 38.33 lakh in excess. On being pointed out it was intimated that the issue would be taken up with the Director School Education, Jammu (July 2011).

1.1.20 Micro-nutritional supplementation to Children

MDM guidelines also envisage that the meals should be supplemented with appropriate interventions relating to micro nutrient supplementation and de-worming through administration of (a) six monthly doze for deworming and vitamin A supplementation (b) weekly iron and folic acid supplement, zinc and (c) other appropriate supplementation depending on common deficiencies found in local area. For this, technical advice and doses were to be obtained by schools from the nearest Government Hospitals/PHCs and funding was to be made by the State Government under MDM programme. Besides, weighing machines and height recorders were also to be kept in the schools for detecting mal-nutrition cases.

It was seen that neither any funds were allocated for this intervention nor any student got medically examined for nutritional deficiencies in the schools of test-checked districts resulting in non-detection of health problems which could have been rectified at the early stage. The CEO, Rajouri intimated (July 2011) that the matter had been taken up with the Health Department for providing such facilities. The other CEOs did not reply to the audit observation.

1.1.21 Asset Management

In order to safeguard against loss, misuse of assets, and to help in assessing future requirements of the Department, maintenance of Register of Assets at district/zone/ school level was a prerequisite. However, it was noticed in six test-checked districts that no records relating to assets created were maintained. Non-maintenance of records had led to misuse and idling of assets and purchase of assets in excess of the actual requirements.

1.1.22 Monitoring and Evaluation

Elementary Education Programme had not been evaluated at any level by any external or internal agency. There was no system evolved at Administrative Department level to monitor the programme / scheme / projects. On being pointed out in audit, Administrative Department stated (June 2011) that the monitoring of programme was being done by two Directors of Education which was not based on facts as no monitoring was done at Directorate level. Internal control systems though existing were not subject to periodical reviews to ensure that they remained adequate and appropriate.

Director Education Jammu had not conducted any inspection of Primary / Upper Primary Schools for getting an on-the-spot assessment of performance activities nor maintained any inspection notes. On this being pointed out (May 2011), the Director School Education Jammu stated that it would be done in future. Although University of Jammu and Kashmir were nominated by the Ministry of Human Resources and Development in January 2004 for monitoring SSA programme and were paid ₹ 1.50 lakh as advance, yet neither any monitoring strategy was formulated nor any monitoring reports created at PDSSA Level. Even Works wing of the Project Director, SSA and Director Education, Jammu were not aware of financial progress of works completed and those in progress.

1.1.23 Conclusion

Despite all efforts of the GOI and the State Government, providing "Education to all" still remains a distant dream. Non-preparation of long and short-term plans based on ground realities, non-monitoring of schemes at all the levels and inadequate internal control mechanism had hampered implementation of the programmes at the school/zonal levels. Mid-term appraisal of ongoing CSSs (SSA &MDM) had not been conducted for possible corrections, if needed. Cases of financial irregularities viz. advances paid and awaited adjustment accounts, diversion of funds, abandoned school buildings resulting in unproductive expenditure were noticed in a large number of cases which had dented programme implementation. Huge unspent balances were noticed at every level.

1.1.24 Recommendations

- ***Action plans should be linked to grass root indicators and performance and prepared by dovetailing funds from different sources to adopt a holistic approach to derive maximum benefit out of investments.***
- ***Effective monitoring at all levels, revival of systematic and strong internal control system, conducting of inspections by top and middle level functionaries should be established to give a boost to the ongoing programme.***

- ***External and Internal evaluation should be carried out to ascertain the impact of the programmes.***
- ***There is an immediate need for establishing reliable and efficient Management Information System.***
- ***DIETs need to be strengthened and held responsible for training of community members, teachers and other functionaries associated with the Programmes for improving educational standard of students.***
- ***Management of SSA funds needs to be strengthened.***
- ***Infrastructure development works should be taken up only after formulating plans in consultation with VECs, NGOs, women participants, VECs, eminent teachers and other efficient educational functionaries.***
- ***Rationalization of deployment of teachers and smooth flow of grants viz. SG, SMG & TG to the school level should be ensured.***

AGRICULTURE PRODUCTION DEPARTMENT

1.2 Command Area Development and Water Management Programme

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

Highlights

- ***Delay in release of funds received from the GOI at the Finance Department level ranged between 25 and 46 days and at the Directorate level between 27 and 252 days.***

(Paragraph: 1.2.7)

- ***Proposals for release of GOI assistance during 2007-11 were submitted to the GOI with delays ranging between one and four months from the due dates of submission.***

(Paragraph: 1.2.7)

- ***No data relating to topographical surveys, as envisaged in the guidelines, had been maintained by the Department.***

(Paragraph: 1.2.9.1)

- ***Participatory Irrigation Management (PIM) Act had not been enacted by the State and legalized Water User Agencies (WUAs), a pre-requisite for ensuring public participation in the programme, had not been formed.***

(Paragraph: 1.2.9.3)

- ***Though achievements against annual targets for construction of field channels and drains were satisfactory, pace of overall implementation of the Projects had been tardy.***

(Paragraphs: 1.2.9.4 and 1.2.9.7)

- ***Lack of post construction maintenance had resulted in damage to the created assets (field channels/drains).***

(Paragraphs: 1.2.9.6 and 1.2.9.7)

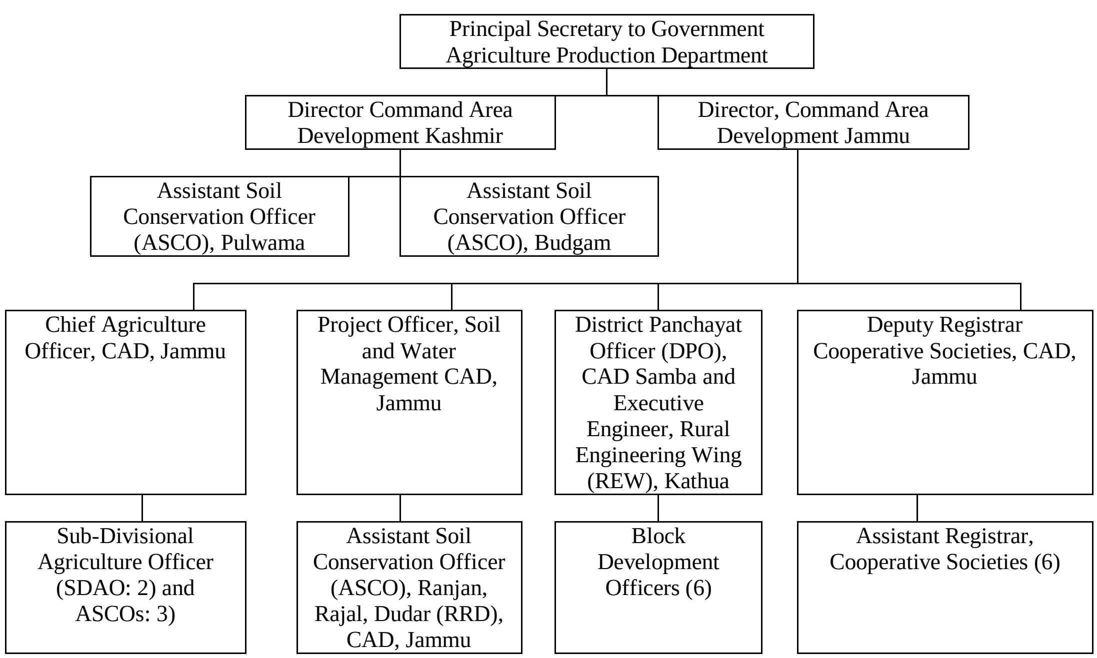
1.2.1 Introduction

To improve the socio-economic condition of farmers through enhanced agriculture production and productivity, the GOI launched (1974) 'Command Area Development (CAD) Programme'. The objective of the programme was to bridge the gap between irrigation potential created and irrigation potential utilized through micro-level *Infrastructure Development* and efficient *Farm Water Management*. The programme was restructured (April 2004) by the GOI to incorporate water resource management holistically and re-named as 'Command Area Development and Water Management Programme' (CADWMP). The programme involves execution of *On Farm Development* (OFD) works like construction of field channels and field drains, reclamation of water logged areas, renovation and rehabilitation of Minor Irrigation (MI) tanks, correction of system deficiencies of outlets up to distributaries, etc. The Programme also involves *Software Activities* like adaptive trials, demonstrations, training of farmers and evaluation studies, etc. Besides, activities covered under *Rashtriya Krishi Vikas Yojna (RKVY*) - a 100-*per cent* Centrally Sponsored Scheme (CSS) - and *Bani* CAD - a State Sponsored Scheme - also relate to the Programme. The activities under the Programme are funded by the GOI and the State Government. The State Government also obtains loans from NABARD for this purpose.

1.2.2 Organisational setup

At State Level, the Programme is implemented under the overall supervision of the Principal Secretary to Government of Jammu and Kashmir, Agriculture Production Department. The organisational chart is as under:-

Chart-I



1.2.3 Scope of Audit

Out of thirty-two (32) different projects covered under the Programme, 18 are funded by the GOI and the State Government on sharing basis, three are exclusively funded by the State Government, and 11 supported by NABARD assistance. A performance review of the Programme covering the period 1991-98 featured in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998. The review had, however, not been taken up by the Public Accounts Committee for discussion. The present performance review covers the period from 2006-07 to 2010-11. Records of two Directors, six ASCOs, one Project Officer (Soil and Water Management), and one Chief Agriculture Officer (CAD) were test-checked between December 2010 and April 2011, covering an expenditure of ₹ 43.25 crore.

1.2.4 Audit Objectives

The main objectives of the performance review were to assess whether the:-

- scheme was implemented in accordance with the guidelines issued by the GOI/State Government;
- targets were fixed on a realistic basis and achieved economically and efficiently;
- objectives of enhanced production and productivity of crop were achieved;
- system of monitoring was in place; and
- impact evaluation studies were conducted.

1.2.5 Audit Criteria

Audit findings were benchmarked against the following criteria:-

- Guidelines issued by the GOI/State Government,
- Project reports/action plans of various projects/schemes, and
- Financial rules of the State and orders issued thereunder.

1.2.6 Audit Methodology

An entry conference was held in January 2011 with the Directors of Command Area Development, Jammu and Kashmir wherein objectives, scope and audit criteria were discussed. An exit Conference was held on 13th October 2011 with Principal Secretary to Government of Jammu and Kashmir, Agriculture Production Department. Out of 26 DDOs, records of all the 10 DDOs connected with implementation of schemes were reviewed. The Rural Development Department (06 units), Registrar Co-operative Societies (06 units) and District *Panchayat* Officer (DPO), Samba, Executive Engineer, REW, Kathua (02 units) who administered only Non-plan funds, primarily for salary and other administrative purposes, and submitted their progress reports to the respective

Administrative Departments were not taken up for audit. Replies/response of the Department have been incorporated at appropriate places.

1.2.7 Financial Management

CADWMP has component-wise[6] sharing of funds between GOI, State Government and beneficiaries (only in case of field channel works). Besides, some of the components are funded with NABARD assistance.

Pending finalization of the Annual Action Plan (AAP), funds to the extent of 25 *per cent* of the previous year's State share are released to the implementing units by the State Government. The remainder of the State's share is released after approval of the AAP. The Central share is released by the GOI in two installments of 70 and 30 *per cent* each during the course of year. The position of funds released and expenditure incurred thereagainst during 2006-11 is indicated in following table:-

Table 1.2.1

(₹ in crore)

Year	*Central Share*				*State Share/ NABARD Loan*		*Total fund available*	*Total Expenditure*
	Opening balance	*Releases*	*Expenditure*	*Closing balance*	*Releases*	*Expenditure*		
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8) =(2+3+6)*	*(9)=(4+7)*
2006-07	0.22	6.06	6.11	0.17	9.53	9.02*	15.81	**15.13**
2007-08	0.17	7.78	6.86	1.09	9.85	9.81	17.80	**16.67**
2008-09	1.09	12.93	13.97	0.05	7.78	6.27	21.80	**20.24**
2009-10	0.05	16.28#	16.04#	0.29	11.34	11.26	27.67#	**27.30#**
2010-11	0.29	14.78	14.70	0.37	18.00	18.00	33.07	**32.70**
Total		***57.83***	***57.68***		***56.50***	***54.36***	***116.15***	***112.04***

*[Source: Information furnished by agriculture production department, # Includes releases/expenditure of RKVY- ₹ 0.88 (J) and ₹ 1.08 (K) crore, *Includes expenditure of ₹ 0.48 (0.27 –J & 0.21 -K) crore of NABARD released in 2005-06]*

The Department was able to spend ₹ 112.04 crore (96 *per cent*) out of ₹ 116.15 crore released during 2006-11. However, the following was noticed in audit.

- Prior to April 2008, letter inviting proposals for release of central assistance on *adhoc* basis for the first quarter and for regular releases in subsequent quarters were being sent every year to all States by the MoWR prescribing due dates for submission of proposals. For subsequent installments, the State Government was required to send expenditure and physical progress made upto the preceding quarter of the year and the anticipated expenditure and progress for the subsequent quarters of the year. However, from 2008-09 onwards, the Central assistance is released in two instalments. First instalment is released on ad-hoc basis upto June on receipt of the Certificate/Statement showing utilization of the central assistance provided in the preceding year, physical progress in the

[6] Field channels:-50:40:10; Field drains:-50:50; Adaptive Trials/Demonstration:-75:25

previous year, quarterly targets fixed for the current financial year (in the prescribed formats). The second instalment of the central assistance is released only as a regular release for rest of the year after receipt of duly certified statements (in the prescribed proforma) showing the physical progress and actual expenditure incurred and other relevant information.

It was, however, seen that the proposals (containing details of UCs/physical progress for the preceding year and quarterly targets for the current financial year) during 2006-11 had been submitted to the GOI with a delay ranging between one month and four months from the due dates of submission as detailed below.

Table 1.2.2

Year	Due date of submission of proposals to GOI	Actual dates of submission	Delay in months
2006-07	July 2006	August 2006	01
2007-08	July 2007	September 2007	02
2008-09	June 2008	November 2008	04
2009-10	June 2009	October 2009	03
2010-11	June 2010	October 2010	03

This led to release of GOI share in the third and fourth quarters of the financial years resulting in rush of expenditure in the last quarter (ranging between 36 and 74 *per cent*).

- Physical works and expenditure were to be so planned as to avoid rush of expenditure during the last quarter particularly during the months of February/March. Further, as per the standing instructions of the Ministry of Finance, not more than 33 *per cent* of the funds were to be released by the Central Government in the last quarter of the Financial Year and not more than 15 *per cent* of the funds were to be released in March.

  It was seen that in March alone, the releases ranged between 24 and 66 *per cent* during 2006-10 except for 2010-11, in which second installment of 30 *per cent* had not been released by the Administrative Department as of March 2011. This also led to release of 63 *per cent* of the annual GOI share to the Department in the last quarter against the prescribed norm of 33 *per cent* during 2006-11.

- The GOI share for the years 2006-11 (₹ 54.97 crore) was released by the State Finance Department to the Department belatedly, with delays ranging between 25 and 46 days as against the envisaged period of 15 days. Apart from delays in the release of the GOI share by the State Finance Department, there were delays (ranging between 27 and 252 days) in release of funds, received under the State as well as the Central share, by the Directors to the field units. In reply, the Director, CAD, Jammu stated (January 2011) that part of the funds were released only after due deliberations on the Action Plan received from implementing agencies during 2009-10. The Director, CAD, Srinagar stated (October 2011) that the delays were procedural. Replies are not tenable as there was no need of deliberating upon the Annual Action Plans once these are approved and funds are released by the GOI/State. The deliberation on the Action Plan subsequent to approval further suggests that these had not been vetted properly before submission to the GOI for approval. Reply of the State Finance Department for delay in releases though called for (July 2011) was awaited.

- Audit scrutiny revealed that in Kashmir Division the releases and expenditure (2006-11) booked by the Director, Command Area Development, Kashmir and communicated to the GOI and State Government were at variance with the figures actually booked by the sub-divisions as detailed below.

Table 1.2.3

(₹in lakh)

Year	Shown by DDO		Booked by Director		Excess/ Less	
	Releases	Expenditure	Releases	Expenditure	Releases	Expenditure
2006-07	649.73	628.81	600.76	580.71	(-) 48.97	(-) 48.10
2007-08	1079.59	967.87	1080.05	968.31	0.46	0.44
2008-09	1266.40	1266.37	1268.88	1268.88	2.48	2.51
2009-10	1581.81	1576.78	1532.58	1527.56	(-) 49.23	(-) 49.22
Total	**4577.53**	**4439.83**	**4482.27**	**4345.46**	**(-) 95.26**	**(-) 94.37**

(Source:-Monthly Expenditure statements/Quarterly Progress Reports)

A variation of ₹ 95.26 lakh and ₹ 94.37 lakh in quantum of funds released and expended, respectively during 2006-10 had led to communication of incorrect figures to the GOI. On this being pointed out, the Director CAD Kashmir informed (October 2011) that incorrect communication of figures was a result of non-accountal of backlog amounts which, based on the audit observation, have been rectified. The reply indicates that proper mechanism in monitoring and reconciliation of funds had not been carried out from time to time.

1.2.8 Planning

The objective of the CADWMP is to bridge the gap between irrigation potential created and that utilized. This is to be done through infrastructure development and efficient water management. The conveyance of irrigation water upto and within the farms and its distribution to different farm owners plays a key role in deciding the overall efficiency with which the created water resources can be made available for actual use. To achieve this in a planned manner, areas which require interventions through Government sponsored programmes are to be identified, which would then serve as a database to the Department. Areas requiring immediate attention are required to be prioritized for tackling the problems in a phased manner.

It was seen that the Department had not prepared any long term perspective plan for management of the Command Area in the State and the actual implementation had been restricted to selection of areas on need-basis and preparation of the Annual Action Plans based on the identified projects.

It was further seen that actual Command Area requiring intervention in the entire State had not been identified. Areas covered under various programmes in the State were without definite notification and had been taken up on need-basis. It was stated by the two Directors of CAD that on the basis of irrigation potential created, the areas have been identified and brought under CAD activities. The fact, however, remains that despite programme implementation going on since 1974 in the State, non-identification of overall Command area and non-formulation of a perspective plan had resulted in unplanned selection of the areas without any assessment with regard to actual area still pending coverage in the State.

1.2.9 Programme Implementation

The components of the programme executed during the review period included

- survey, planning, and designing viz. preparation of maps for designing and alignment of land development works, water courses, etc.;
- construction of field channels for adequate and regular flow of water to the tail end;
- enforcing proper regulation of water so as to ensure availability of water to each beneficiary;
- construction of field drains including maintenance/remodeling/de-silting of existing choked drains to drain out excess water from farms; and
- software activities viz. training of farmers and officers of implementing agencies, demonstrations, etc.

1.2.9.1 Survey, Planning and Designing

Guidelines provided for conducting topographic survey for proper planning and designing of 'On Farm Development (OFD) works[7]' to ensure their quality. Also, soil survey was to be conducted for crop planning and undertaking proper treatment measures to realize full crop potential. The topographic and soil survey maps of the project are to be maintained by the CAD Authorities.

Audit scrutiny of the Project Reports revealed that the Department had kept provision for detailed soil survey for preparation of maps for designing and alignment of land development works/water course/field channels and a separate provision of funds was kept for this activity each year.

Following significant points were noticed:-

- Though soil survey and preparation of maps had been carried out in Kashmir Division and details of land surveyed had been recorded in the relevant records,

[7] Which include construction of field channels and drains, etc.;

same had not been done in Jammu division. It was seen that despite spending ₹ 54 lakh during 2006-11 on the proposed survey of 13 projects in Jammu division, no data relating to survey and micro-level maps had been maintained by the ASCOs connected with execution. Though labour had been engaged for surveys and paid through muster-sheets, yet survey reports had not been prepared. Further, the Muster Sheets did not contain names of beneficiaries or details of land surveyed. Non-maintenance of records relating to survey renders the expenditure incurred questionable. The Director, CAD, Jammu stated (October 2011) that concerned ASCOs had maintained the data in the form of progress recorded on Muster Rolls and that beneficiary names and details of land survey are recorded on completion statements. The Director further informed that, based on audit observations, the instructions would be followed in future. However, the fact remains that the reply of Director, contradicts the replies furnished (December 2010-April 2011) by the ASCOs that survey data had not been maintained and same would be maintained in future.

- Contrary to the assertion in the completion report of 'Kashmir Kathua Canal Project' that soil survey samples were drawn from different areas of the project and analysed at ATTC[8] (Laboratory) Chack Jarallan, an independent verification by Audit from the laboratory revealed that no samples had been sent to the lab by ASCO Sarore (who executed the project) from inception of the project in 2003-04 till its completion. Similarly, two[9] ASCOs of the Jammu Division had not sent any sample to the testing lab during 2006-10.

1.2.9.2 On Farm Development (OFD) Works

Construction of field channels and field drains are the main components of OFD. Among these, field channels comprised about 82 *per cent* of the programme activity during 2006-11. All the works under the component were to be got executed through registered Water User Associations (WUA) under the overall supervision of CAD staff.

1.2.9.3 Water Users Association

To imbibe amongst the beneficiary farmers a sense of ownership, the guidelines underline beneficiary participation as the central theme of the Programme. The Programme was accordingly to be implemented only in those project areas where legalized associations had been formed and were effective. The GOI assistance was conditional upon enactment of Participatory Irrigation Management (PIM) legislation. Till this was done, alternative arrangements were to be made for formation and empowerment of Water Users Associations (WUAs) which were to be in place before the project components were taken up. Besides, a functional grant to WUAs was to be

8 Adaptive Trials-cum-Training Centre (ATTC)
9 Dayalachak and Supwal

provided @ ₹ 600 per Ha, revised (2008-09) to ₹ 1000 per Ha, to be shared by the GOI, the State and the beneficiaries (farmers) in the ratio of 45:45:10 for maintenance of Field Channels.

During review of the projects, Audit noticed that the above provisions of the guidelines had not been observed as mentioned hereunder:

- The Participatory Irrigation Management (PIM) Act had not been passed as of March 2011, with the result that no legalized WUAs existed in the State. The Director, CAD Jammu/Kashmir informed (October 2011) that formulation of the PIM Act was under active consideration of the Administrative Department.
- Contrary to the claim of the Department that works had been got executed through *adhoc* WUAs, it was seen in Kashmir Division that *adhoc* WUAs had been formed belatedly (with delays ranging between one and eight years) after the start of the projects and in Jammu Division it was seen that no records such as resolutions of *adhoc* WUAs to suggest their participation was found on record. Though in the Kashmir Division the payment bills drawn had been endorsed in favour of the concerned *adhoc* WUAs, in Jammu Division it was seen that these had been drawn by the departmental officers without any endorsements indicating that the works had been executed departmentally.
- It was observed that some of the field channels constructed prior to 2008-09 were in a dilapidated condition due to their non-maintenance. This was a fallout of non-formation of WUAs who would have taken care of these assets by means of functional grants.

1.2.9.4 Field Channels

Construction of field channel is the main activity under the programme as execution of this component results in reduction of seepage of water and ensures free flow of water to last field/each holding.

During 2006-11, as many as 21 Projects envisaging *inter-alia* construction of field channels were under implementation out of which nine projects had been sanctioned prior to 2006-07. This does not include eleven NABARD assisted projects. It was seen that the targets set in the original Project Reports had not been adhered to due to delay in approval of the Project Reports and also due to insufficient funding subsequent to approvals. The annual targets for various activities had been restricted to the financial ceilings. Though the achievements against annual targets set according to the financial ceilings, had been satisfactory, the overall implementation of the projects had been tardy and huge areas targeted for coverage in the original project reports had remained uncovered as of March 2011 as depicted in the following table.

Table 1.2.4

Achievement against Targets set in original Project Reports

(Area in hectares)

Division	Number of projects	Area to be covered during 2006-11 as per Targets set in initial project Reports	Actual Annual targets	Achievements during 2006-11	Uncovered area (Ha)	Shortfall (%age)
Kashmir	16	48,957	29,233	28,988	19,969	**41**
Jammu	5	26,733	21,210	19,812	6,921	**26**
Total	**21**	**75,690**	**50,443**	**48,800**	**26,890**	**36**

(Excluding NABARD schemes)

As can be seen, non-implementation of projects in accordance with the original Reports resulted in under-coverage by about 41 *per cent* in the Kashmir Division and 26 *per cent* in Jammu Division.

The shortfall in achievement of physical targets resulted in delay of two to three[10] years in completion of three projects and five to 22 years in four[11] on-going projects.

Audit analysis of six projects in Kashmir Division revealed that the delay in completion had *inter-alia*, resulted in cost escalation aggregating to ₹ 14.11 crore due to revision of rates in April 2004 and April 2008. These delays had resulted also into non-accrual of the intended benefits to the beneficiaries in time.

The Director, CAD, Kashmir stated (March/October 2011) that shortfall in achievement of targets was due to non-receipt of sufficient funds from the GOI/State Government for execution of the works in various projects and consequent restriction of activities to the annual financial ceilings. The reply should, however, be seen in the light of the fact that the benefits of the projects conceived about 22 years ago had yet to be realized.

1.2.9.5 Beneficiary contribution

As per the programme guidelines, for construction of field channels the Government provides 90 *per cent* funds and the remaining 10 *per cent* is to be collected by WUAs as mandatory contribution from the beneficiaries in advance to imbibe in them a sense of participation and ownership. The CAD authorities are required to receive the beneficiary share from the WUAs or obtain, in lieu, a promise in writing of the contribution in the form of free labour.

It was seen that ₹ 35.86 crore had been spent on construction of Field Channels covering 19,662 hectares in Jammu Division during 2006-11 on four[12] Central sponsored projects.

10 Aharbal, Bringi and Martand

11 Rafiabad, Zaingeer, Lower Jehlum and Sindh catchment

12 Ranbir Canal, Kashmir Kathua Canal in Jammu region, Doda-Rajouri-Gool-Sanghaldhan, Poonch Cluster Command project.

Test-check of 1,063 bills, involving ₹ 10.40 crore, in four[13] ASCOs revealed that against the prescribed 10 *per cent* beneficiary share of ₹ 1.05 crore, the CAD authorities had deducted ₹ 68 lakh only from the final bills of works as free labour contribution. It was seen that though ₹ 68 lakh had been deducted from the bills as free labour, no entry with regard to this labour component had actually been recorded in the Muster Sheets. This indicates that the beneficiary contribution had been deducted mechanically without any actual free labour contribution. The audit contention was strengthened during an on-the-spot interaction of the Audit team with the beneficiaries, who admitted to not having contributed anything in cash or as free labour. This rendered the claim of the Department of receipt of 10 *per cent* free labour questionable.

The Director, CAD, Jammu stated (October 2011) that though free labour contribution had not been recorded in the Muster Sheets, same had been recorded in completion statements and that compliance to Audit observation would be done in future. The reply was however not tenable as none of the completion statements test-checked by Audit contained such entries. The reply should further be viewed in light of the fact that the *modus operandi* for the execution of the OFD works had defeated the participatory aspect of the Programme and also resulted into sub-optimal performance of the project due to lack of beneficiary participation and asset ownership.

Plum Concrete Field Channel
(RS Pura/December 2010)

Interaction with beneficiaries
(RS Pura/December 2010)

1.2.9.6 Maintenance of Field Channels

As highlighted in paragraph 1.2.9.3 some of the field channels constructed prior to 2008-09 were in a dilapidated condition due to their non-maintenance in absence of WUAs. However, works executed in 2008-11 were found to be in good condition as the Department had since switched over from pitching/grouting channels to plum-concrete channels and the cost component had also been enhanced by the GOI. The farmers acknowledged percolation of benefits viz. free flow of water to their fields in these projects and reduction in loss of water due to seepage.

[13] ASCO Supwal, Sarore, RRD, Dayalachak

Under-construction Plum concrete Field Channel (RS Pura/December 2010)

Well maintained Plum concrete Field Channel (RS Pura/December 2010)

Damaged field channel

Blocked field channel

1.2.9.7 Field Drains

The drainage under the programme includes removal of excess water from farmers land and re-modelling/de-silting of existing choked drainage lines.

Though there was minimal shortfall in achievement of annual targets set in accordance with the annual financial ceiling, there was overall shortfall in achievement of targets set in the initial Project Reports as depicted in following table.

Table 1.2.5

Achievement against Targets set in original Project Reports

(Area in hectares)

Division	Number of projects	Area to be covered during 2006-11 as per Targets set in initial project Reports	Actual Annual targets	Achievements during 2006-11	Shortfall (Ha.)	Shortfall (%age)
Kashmir	15	32,122	12,722	12,722	19,400	60
Jammu	5	17,553	9,764	9,439	8,114	46
Total	**20**	**49,675**	**22,486**	**22,161**	**27,514**	**55**

As can be seen, there existed huge under-coverage of 60 *per cent* in the Kashmir division and 46 *per cent* in Jammu division against the targets set in the original project reports.

Following further significant points were noticed.

- The project reports of two[14] projects out of four centrally sponsored projects of Jammu Division envisaged funding in the ratio of 80:20 (revised to 70:30 in case of one[15] project) on construction of field drains and construction of drop structures/culverts respectively. The drop structures/culverts were to be provided for crossing of farmers and farm machinery at vulnerable points for systematic management of farm land. It was, however, observed that no such structures had been constructed in Jammu division and the allocation for the purpose had been diverted for construction of drains. Test-check of 276 bills (cost ₹ 1.44 crore) in four ASCOs revealed that 20 *per cent* allocation (₹ 23.90 lakh) had been absorbed in the overall cost of field drains on the pretext of less progress of work under water/mud. Physical inspection of sites also revealed that the drains constructed/re-modeled had been damaged due to absence of such structures at many places, thus, defeating the purpose of construction of drains.

  The Director, CAD, Jammu intimated (October 2011) that the component of drop structures/culverts could not be undertaken due to revision of cost of the projects necessitated due to revision (2004 and 2008) of PWD schedule of rates, which resulted in inclusion of earth work only within the ceiling limits and thus non-inclusion of such structure. The replies are not tenable as the projects revised in 2004 and 2010 provided for 20 and 30 *per cent* cost for construction of such structures.

Damaged Field Drain

Blocked Field Drain

- Apart from the Department, various other departments' viz., Rural Development Department and the Agriculture Department of the State, also carry out execution of field drains. It was noticed that the drains constructed/remodeled by the Department had not been marked so as to avoid duplication of work by the same or other departments.

14 Ranbir Canal and Kashmir Kathua Canals projects
15 Ranbir Canal

1.2.10 NABARD Assisted projects

During March to June 2006, 11 projects[16] were prepared/approved for 'On Farm Development works' under NABARD assistance at a cost of ₹ 12.12 crore[17] (excluding the beneficiary share) to be implemented by three ASCOs[18] for completion in one year to three years. The position of allotment of funds and expenditure incurred thereagainst during 2006-09 is given in the table.

Table 1.2.6

(₹ in crore)

Year	Allotment			Expenditure		
	State Share	NABARD loan	Total	State Share	NABARD loan	Total
2006-07	0.27	2.00	2.27*	0.27	2.48	2.75*
2007-08	Nil	5.00	5.00	Nil	5.00	5.00
2008-09	0.20	Nil	0.20	0.20	Nil	0.20
Total	**0.47**	**7.00**	**7.47**	**0.47**	**7.48**	**7.95**

*(*An amount of ₹ 48 lakh released during 2005-06 (NABARD Loan) was utilized during 2006-07)*

It was seen that against an outlay of ₹ 12.12 crore (NABARD: ₹ 11.00 crore and State: ₹ 1.12 crore) during the period, ₹ 7.95 crore[19] (NABARD: ₹ 7.48 crore and State: ₹ 0.47 crore) only had been spent on construction of Field Channels and Survey and Planning. The projects were not completed within the stipulated period in Jammu and abandoned during 2008-09. This resulted in non-achievement of physical targets in Jammu division with shortfall ranging between nine and 33 *per cent* in Field Channels and 100 *per cent* in *Nallah* Bank Erosion Control. In Kashmir division, the works had, however, subsequently been merged with other ongoing/proposed Centrally/State sponsored schemes. Reasons for inadequate NABARD releases and non-release of due State share, though called for (March 2011), were not furnished.

Essential components like *Warabandi* and Training and Adaptive Trials/ Demonstration which constitute important component of the programme were not executed in any of the projects. In four projects, these components were not even proposed in the project reports.

The Chief Agriculture Officer, CAD, Jammu stated that these components were excluded after discussions with the consultant of NABARD due to financial implication involved being of little importance. The reply is not tenable as the OFD Works executed were to be supported invariably by *Warabandi* component as per guidelines of the CAD & WM and the Adaptive Trials/Demonstrations also constituted an important aspect of the scheme. Besides, the Department should have taken steps to have these project funded from State resources as had been done in the case of projects in Kashmir Divisions.

16 Jammu: 8 and Kashmir: 3

17 Jammu: ₹ 5.95 crore and Kashmir: ₹ 6.17 crore

18 Two ASCO's in Jammu and one in Kashmir Division

19 Jammu: ₹ 4.45 crore and Kashmir: ₹ 3.50 crore

Following further points were noticed.

- The projects envisaged increase in Crop/Fodder production from 4,23,263 Quintals (Crop: 1,47,564 Qtls and Fodder: 2,75,699 Qtls) valuing ₹ 13.21 crore to 7,53,135 Quintals (Crop: 342985 Qtls and fodder: 410150 Qtls) valuing ₹ 29.45 crore, on completion of the projects. It was seen that no assessment of crop production had been carried out by the Department. The Chief Agriculture Officer, CAD Jammu stated that the results of crop production are to be recorded by the Agriculture Department working in the area. The reply is not tenable as the Command Area Development Department has an Agriculture Wing comprising two Sub-Divisional Agriculture Officers (SDAO's) which should have recorded the impact of implementation of the schemes vis-à-vis crop production to quantify the envisaged benefits.

- Physical check of the works revealed that the works were in a dilapidated condition, which was attributed by the CAO (CAD) Jammu to non-provision of funds for restoration or renovation of damaged channels in NABARD Scheme and that these were to be maintained by the farmers themselves. The reply needs to be seen in the light of the fact that maintenance of the channels by the farmers was not possible in view of non-formation of WUAs which could have looked after the damages with the help of functional grants provided under CAD programme.

	
Blocked Field Channel (Malpur Bhathera- Akhnoor)	***Damaged Field Channel (Malpur Bhathera- Akhnoor)***

1.2.11 Recording of on Farm Development Works in Revenue records

Scheme guidelines provide for the OFD works, executed on different completed projects, to be entered in revenue records including the maps as part of irrigation system. It was seen that six projects (3 each in Kashmir[20] and Jammu[21]) completed during 2006-11 had

20 Aharbal, Bringi and Martand

21 Poonch Cluster, Kashmir-Kathua Canal and Bani CAD

not been entered in revenue records. The department stated that the matter would be taken up with the Revenue authorities.

1.2.12. Warrabandi

As per the Guidelines, *Warabandi* comprises deciding, in consultation with farmers, the day and time of delivery of water commensurate with the size of the holding(s). This activity is to be initiated immediately after the field channels have been constructed and is an important component of the Programme, to be supported by State Government funding and enforced by WUAs.

The regulatory structures laid down by the GOI for enforcing *Warabandi* were

- Formation of WUAs.
- Construction of proportionate modules viz**.,** Adjustable Proportionate Modules (APMs) at outlet head and of measuring devices in field channels such as parshall flumes, notches or weirs depending upon situation.
- Providing gates for the outlets in case of un-gated pipe outlets.
- Display boards at outlets showing the name of outlet, discharge, Culturable Command Area (CCA**)**, name of farmers, area of the fields, their turn indicating day and time for taking water, duration of time, the name of farmers associations, their functions/responsibilities, etc.

1.2.12.1 Enforcement of Warabandi

During 2006-11, a total of 48,800 Ha (28,988 Ha. in Kashmir and 19,812 Ha. in Jammu division) of land had been covered through field channels in respect of 21 projects[22]. However, it was noticed in audit that against this, *Warabandi* had been achieved in 13,762 Ha[23] only (i.e. 28 *per cent* of field channels constructed) leaving the balance area unattended as depicted in the following table.

Table 1.2.7

Achievement against Targets set in original Project Reports

(Area in hectares)

Division	Number of projects	Area to be covered during 2006-11 as per Targets set in initial project Reports	Actual Annual targets	Achievements during 2006-11	Shortfall (Ha)	Shortfall (percentage)
Kashmir	15	51,621	10,640	10,656	40,965	**79**
Jammu	5	23,247	5,383	3,106	20,141	**87**
Total	**20**	**74,868**	**16,023**	**13,762**	**61,106**	**82**

22 Kashmir: 16 and Jammu: 5

23 Kashmir: 10656 Ha. and Jammu: 3106 Ha.

The PO (S&WM), CAD Jammu stated that non-achievement of targets was due to less release of State share. The PO further stated that though the action plan was submitted as per targets fixed each year, the targets had to be re-fixed as per ceiling of State share communicated by the Planning Department. Even the slashed down targets had been achieved to the extent of 58 *per cent* only. This was indicative of framing of unrealistic action plans and lack of financial planning for implementation of the project.

It was further seen that entire expenditure of ₹ 8.70 lakh (on *Warrabandi* during 2006-11) in Jammu Division had been incurred on painting of boards and walls portraying slogans for water-conservation and judicious use of water, etc. which was not connected to *Warabandi*. The records corroborate the physical inspection of sites, which showed that nowhere were the structures like APMs, drop gates etc. for *Warabandi* in place, nor did the boards display the information required under the scheme guidelines. Action of the Department rendered ₹ 8.70 lakh spent on painting of boards wasteful. Due to this, the claim of Department of having covered an area of 3106 hac. of land under warabandi in Jammu Division is doubtful.

Field channel with drop gates (Kashmir)

Field Channel without Warabandi structure

Slogans not connected with Warabandi

The Project Officer (S&WM), CAD Jammu, stated (February 2011) that despite repeated attempts, the Engineering Workshop of Agriculture Department had not supplied the gates in the absence of approval of rates. The reply was not convincing as the correspondence with the concerned Workshop showed that the Department had not pursued the matter vigorously. Director, CAD Jammu stated (October 2011) that requisite steps would be taken to provide gates.

1.2.13 Software Activities

Software activities include adaptive trials and demonstration, action research, training courses for farmers and field functionaries, monitoring and evaluation sponsored by State etc.

1.2.13.1 Adaptive Trials/Demonstrations/Trainings

Adaptive Trials consist in evolving various soil-water-crop relationships and suitable techniques for their management with a view to applying the most appropriate combination of relationship and techniques to the farmers' fields. The focus of Adaptive Trials was to bring about a switch from traditional low risk, low input and low yielding crops to high risk, high input but high yielding and profitable crops. Demonstration of scientific technology covering scientific water management and land development practices, introduction of scientific technology, introduction of suitable crops and varieties, proper dose and method of application of fertilizers, irrigation practices etc. were important for increasing productivity. These are to be taken up extensively on farmers' fields and farmers are to be provided practical training on these aspects to optimize productivity and production as per conditions of fields and above all judicious use of canal irrigation.

Action Plans (2006-11) envisaged Adaptive Trials and Demonstrations of cereals to be laid on a varying area of 0.5 and 0.4 Ha. in farmers fields with promising and preferably new varieties.

Scrutiny of the records revealed that 8,723 (Kashmir: 4,275 & Jammu: 4,448) adaptive trials/demonstrations were carried out and 595 trainings (217 in Kashmir & 378 in Jammu) were conducted after incurring an expenditure of ₹ 1.57 crore in 19 projects in both the Divisions during 2006-11 as detailed in the following table.

Table 1.2.8

Division	Year	No of projects	Adaptive Trials/Demonstration			Trainings/Awareness Camps		
			Target	Achievement	Shortfall (%age)	Target	Achievement	Shortfall (%age)
Jammu	2006-07	02	600	316	284 (47)	96	46	50 (52)
	2007-08	03	1784	1684	100 (06)	162	120	42 (26)
	2008-09	03	735	400	335 (46)	109	83	26 (24)
	2009-10	03	1400	1457	+57	80	85	+5
	2010-11	02	175	591	+416	16	44	+28
Kashmir	2006-07	07	NA	319	NA	NA	Nil	NA
	2007-08	11	NA	1053	NA	NA	15	NA
	2008-09	12	NA	1173	NA	NA	24	NA
	2009-10	13	NA	770	NA	NA	78	NA
	2010-11	15	NA	960	NA	NA	100	NA

The above table shows that there was shortfall in achievement of physical targets ranging between six and 47 *per cent* in respect of Adaptive Trials/Demonstration during 2006-09 and between 24 and 52 *per cent* in the case of Trainings/Awareness Camps in Jammu Division. The achievements were, however, more than the targets during 2009-11. The P.O (S&WM) and Director (CAD), Jammu attributed the shortfall to approval of rates and release of funds after *Kharif* season leading to negligible achievement of training in *Kharif* season. Further, it was stated that fertilizers, for demonstration/trials, were also not available on credit basis. Late release of funds and late approval of rates for different material defeated the purpose of the trials/demonstrations/trainings which were important components of the scheme.

In Kashmir division, no annual targets had been fixed. However, audit scrutiny revealed that though the department organised 217 Awareness/Training Camps and 4275 Adaptive Trials/Demonstrations in 13 projects (out of 15) at a cost of ₹ 76.35 lakh, no proper rationale was formulated for organizing such Training/Awareness Camps/Adaptive Trials for each project during the year. Neither were training/awareness camps held nor adaptive trials organized in some project during certain years.

While confirming audit contention, the ASCO stated (March 2011) that proper rationale for organizing the training/awareness camps/adaptive trials for each project during the year would be formulated in future.

Following significant points were noticed:-

- Though data relating to assessment of impact of demonstrations had been maintained, no data relating to assessment of impact of awareness/trainings on improvement of crop had been maintained. Thus, effectiveness and fruitfulness of the expenditure incurred on these items could not be ascertained in audit.
- An amount of ₹ 14.32 lakh had been spent on construction of 25 pre-fabricated field channels in Jammu division during 2006-11which was outside the scope of “Adaptive Trials/Demonstration” as per guidelines and thus resulted in diversion

of funds to that extent. The construction of such channels results in restricted access to the water source which is usually a tube well and benefits only the individual holding control over the source.

On being pointed out (December 2009/February 2011), the P.O. (S&WM), Jammu admitted the audit contention but stated that these were constructed in view of practice in vogue in the Department.

- As per procedure followed in Kashmir Division, a maximum of ₹ 10,000 was being spent on one Training camp. However, in 2009-10, ₹ 2.97 lakh was spent on eight such camps. The Director, CAD, Kashmir stated (October 2011) that apart from eight camps, the expenditure had been incurred on two mega camps in Baramulla and Anantnag which was within the prescribed norms. The reply is not tenable as the same was silent about the norms and scale being followed by the Department in organizing different types of camps.
- An analysis of details of trainings conducted during 2006-09 in Kashmir Division showed that ₹ 4.71 lakh had been booked as having been spent on training/Awareness Camps, trials and demonstrations during 2006-09 in respect of nine projects[24]. However, no such trainings had been shown conducted during the period in the project-wise annual training data made available to Audit. As such the entire expenditure of ₹ 4.71 lakh shown as incurred on training/awareness camps is questionable. Reasons for inconsistency though called for (February 2011) were not furnished to Audit.

1.2.14 Miscellaneous Observations

1.2.14.1 Soil Testing Laboratory

Under the Programme, a laboratory has been established at Check-Jaralan Bishnah for soil testing of farmer's fields so that the flow of water and dosage of fertilizers can be appropriately regulated with due regard to various other factors and thus optimize production and productivity. The laboratory with an annual optimum capacity of 13500 samples is manned by one Subject Matter Specialist, one Agriculture Assistant, one Field Assistant, one Lab Assistant and one Survey Mate. However, against the annual capacity of 13500 samples, the shortfall in utilization of the laboratory had increased gradually from 50 *per cent* in 2006-07 to 90 *per cent* in 2009-10, as given in the table below.

[24] Aharbal, Bringi, Martand, Rafiabad, Lower Jehlum, Sindhcatchment and Zaingeer, Arin-Bandipora, Kehmil-Kupwara

Table 1.2.9

Year	Targets/ capacity of lab	Actual tests conducted	Shortfall	*Percentage*
	Samples in No.			
2006-07	13500	6748	6752	**50**
2007-08	13500	6806	6694	**50**
2008-09	13500	1987	11513	**85**
2009-10	13500	1310	12190	**90**

The underutilization had resulted not only in shortfalls in the achievement of targets but also idle capacity. The Project Officer (S&WM), CAD Jammu attributed under-utilization to lack of funds even though the requirements had been projected by the office from time to time.

1.2.14.2 Release of Water and Roster schedules

Guidelines of the scheme provide for transparency in release of water and roster schedules. For this purpose, the guidelines desired creation of websites of CAD Programmes in each State/CADA's in local language. Details of roster of water supply, training programmes, results of adaptive trials were to be put on the website for the benefit of the beneficiaries. It was, however, seen that no such websites had been launched.

The Director (CAD) Jammu/Kashmir stated that the matter had been taken up with the NIC.

1.2.14.3 Dissemination of technical knowhow

In order to bridge the gap between the innovative researches made in the research Institutes, Universities, Water and Land management Institutes (WALMIs) etc, and technology adopted by the farmers in respect of crop production, use of irrigation methods, frequency of irrigation and other technical know-how in respect of irrigated agriculture land, the Department was required to collect data from these institutions and present it in an understandable form for distribution among farmers. Audit observed that no such information was obtained from the research institutes concerned.

On this being pointed out, it was stated that no such procedure existed in the State. The reply is not tenable as the Department should have explored the possibility of seeking advice on these issues from the two Agricultural universities (SKUAST) at Jammu and Srinagar. By not collecting and disseminating the information by which the farmers could be made aware of the latest technology, the Department can not absolve itself of the responsibility of providing such information to the farmers nor adequately justify spending money on various projects.

1.2.14.4 Monitoring and Evaluation

- Guidelines envisage monitoring of CAD projects as a State Subject. The State was required to constitute a Multi-Disciplinary Committee with Secretary Incharge (CAD) as its Chairman. The State Level Monitoring Committee was to meet twice a year to monitor/review the performance of the Programme.

  It was, however, seen that Multi-Disciplinary Committee had not been set up. The Director Planning in the office of Principal Secretary, Agriculture Production Department stated (December 2010) that evaluation of the projects was being conducted by Directorate of Economics and Statistics and the Programme was being monitored by GOI on regular basis.

  The Directorate of Economics and Statistics stated (March 2011) that evaluation studies of only one project viz Kashmir Kathua Canal had been conducted by the Department.

- The impact of construction of Field Drains on farmers cultivable land and their production/productivity had also not been documented which indicated the absence of a Management Information System.

1.2.14.5 Action on Report of GOI monitoring

Government of India, Ministry of Water Resources, Central Water Commission, Monitoring and Appraisal Directorate, Jammu had conducted the first monitoring of the *Martand* project in November 2007 and submitted its report in January 2008 with the following observations:-

- The contraction/expansion joints had not been provided.
- Earthen channels had not been lined with concrete to plug heavy leakage.
- Water regulating valve had not been provided at off take point of any of the field channel.
- The bottom width of concrete channel wall must be checked for earth pressure where field channels are constructed in cutting.

On an audit enquiry regarding follow-up action of the monitoring report, the Executing Agency viz. ASCO, Pulwama stated (March 2011) that these were not necessary. However, Director CAD, Kashmir stated (October 2011) that recommendation had been taken care of during execution of OFD works.

1.2.15 Conclusion

Planning of the projects was not up to the mark. Targets fixed had not been achieved. Water User Associations had not been constituted to execute works and maintain the created assets. Monitoring mechanism was virtually non-existent. Impact of the Programme on production and productivity had not been assessed.

1.2.16 Recommendations

- WUAs should be put in place and steps taken for enacting PIM Act so that WUAs are legalized.
- Proper soil survey for preparation of maps for designing and alignment of land development works/water course/field channels should invariably be got conducted before taking up of projects and detailed survey records should be maintained.
- Project Reports once formulated should be got approved in a time bound manner so as to ensure initiation of implementation process in accordance with the envisaged time frame.
- Muster sheets and connected documentation of works undertaken should be maintained so as to lend itself to full verification in regard to beneficiaries' contribution/involvement.
- Thrust should be laid on maintenance of the created assets so as to avoid wastage of the resources.
- Monitoring mechanism needs to be strengthened and impact evaluation studies conducted so as to ensure achievement of scheme objectives.

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

1.3 MANAGEMENT OF DAL LAKE

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

Highlights

The State Government had not conducted any survey for source water protection. A nodal agency for overall formulation, implementation and coordination of a comprehensive programme for pollution control in water bodies was not in place.

(Paragraph: 1.3.7)

There was considerable underutilization of funds ranging between 32 and 60 per cent during 2006-11 due to inaction of LAWDA to execute works like house boat sanitation, infrastructure development, etc.

(Paragraph: 1.3.8.2)

The DPR for conservation of the lake had not been prepared on the basis of an exhaustive investigation and survey.

(Paragraph: 1.3.8.3)

The performance efficiency of STPs was not up to the mark; as a result, ₹ 11.05 crore spent on installation of these STPs had remained largely unfruitful. Also, non-completion of IPS and Sewer works/trunk sewer/remodeling of drains had resulted into non-optimal use of installed STPs.

(Paragraphs: 1.3.9.2, 1.3.9.3 and 1.3.9.4)

Despite spending ₹ 70 lakh on pilot studies for management of solid/liquid wastes of population residing in and around Dal Lake, no considerable headway had been made on the sanitation front.

(Paragraph: 1.3.9.5)

Improper land use planning by LAWDA prior to acquiring land and delayed decision of the State Government to change the originally envisaged land-use had rendered ₹ 8.32 crore unfruitful, besides adversely affecting the rehabilitation and resettlement programme of the lake-dwellers.

(Paragraph: 1.3.10)

The monitoring by scientific advisory committee and Board of Directors was poor. Also, the internal control mechanism was virtually non-existent.

(Paragraphs: 1.3.13 and 1.3.14)

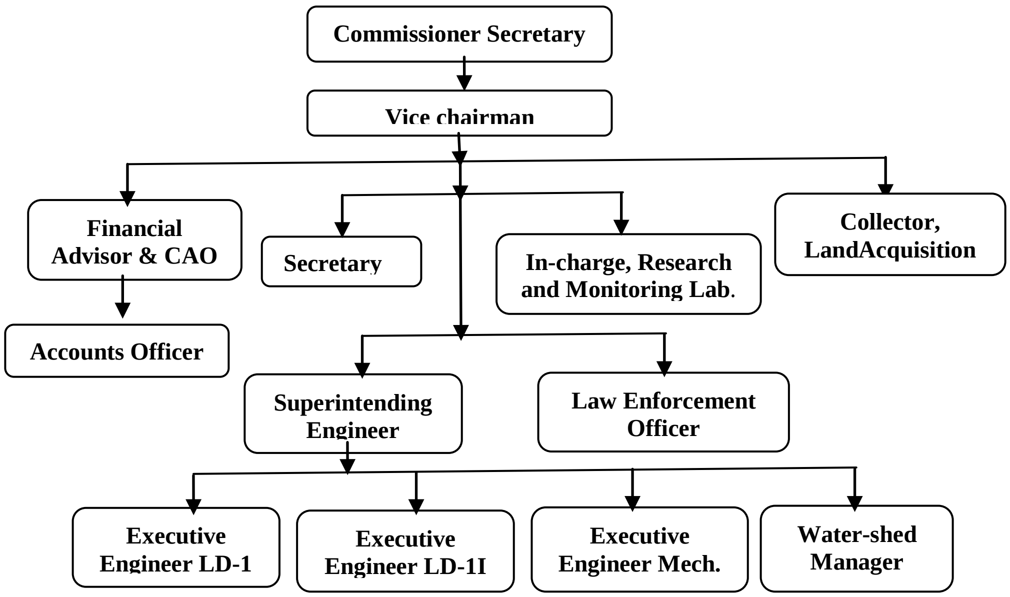
1.3.1 Introduction

Lakes are not only objects of beauty but also a source of livelihood, recreation and economic activity. As potential sources of potable water, they are valuable national assets that need to be carefully conserved. Properly managed lakes can be a veritable blessing for the community living around them for all of the above reasons. The State of Jammu and Kashmir is gifted with 38 major water bodies that together cover 743 sq. kms of area. Many of these hold great ecological and socio-economic significance for the State. All except one of these water bodies belong to the natural category. The lakes constitute the backbone of tourism which is a key revenue earner for the State, Dal Lake being particularly notable in this regard. The largest lakes in the State are Pangong Tso, Amto Gore and Tso-morari in Ladakh which are salt water lakes followed by Wular, Dal and Manasbal which are fresh water lakes. Wular is the largest in India with an area of 20 kms by 8 kms.

All the lakes in Jammu and Kashmir are being subjected to forces of degradation by anthropogenic activities. Different problems encountered in the lakes include excessive influx of sediments from the catchment areas, discharge of untreated or partially treated sewage and industrial waste waters/solid waste disposal, entry of diffused source nutrients from agricultural and forestry, improper management of storm water/combined with over abstraction, over-exploitation of lake for activities like recreation, fishing, encroachments, land reclamation resulting in lake shrinkage, shoreline erosion and impact on lake hydrology, deterioration in water quality and impact on bio-diversity, climate change etc.

The Government of Jammu and Kashmir created (March 1997) Lakes and Waterways Development Authority (LAWDA) under the Jammu and Kashmir Development Act, 1970 as an autonomous body, to serve as a one-point agency to look after, manage, and conserve the water bodies and water ways of the State of Jammu and Kashmir. LAWDA has a whole-time mandate to conserve and manage the Dal/Nigeen Lakes under National Lake Conservation Plan (NLCP) of the Government of India under the aegis of the Ministry of Environment and Forests (GOI). The organizational chart of the Authority is given in the following chart.

Chart I



The Authority is managed by a Board of Directors comprising nine members including a Chairman and a Vice-Chairman, appointed by the State Government. The day-to-day activities are looked after by the Vice-Chairman who is assisted by the officers as detailed in the hierarchy.

1.3.2 Audit Objectives

The objectives of the performance review were to assess whether:

- ✓ surveys were conducted for identification of lakes and an inventory prepared thereof;
- ✓ policies, regulations and strategies existed for addressing the conservation of lakes;
- ✓ programmes were planned, implemented and monitored to address the issues pertaining to the conservation and management of lakes; and
- ✓ nodal agencies existed for the purpose.

1.3.3 Audit Criteria

Performance review was assessed against the following audit criteria:

- Lakes and Waterways Development Authority (LAWDA) Act
- Detailed Project Reports (DPRs)
- Guidelines prescribed by Government of India (GOI)
- Plans prepared by the implementing agency

- Prescribed monitoring mechanism
- Financial Rules

1.3.4 Scope of Audit

The performance review on 'Conservation and Management System of Lakes in Jammu & Kashmir' was attempted to assess the State's performance in planning, operating and monitoring the scientific management of its lakes, some of which have been victims of increased human interference over the years due to constantly growing population and failing civic management of the lakeside towns and cities. The review covered an evaluation of the policies and programmes of the Government for conservation of lakes in the State. Since, no comprehensive policy has been formulated for lakes in the State other than Dal, the scope of this performance review was confined to Dal Lake only.

1.3.5 Audit Methodology

An entry conference was held on 26th October 2010 with the Commissioner-cum-Secretary, Jammu and Kashmir Housing and Urban Development Department, Vice-Chairman and FA&CAO of the Authority wherein audit objectives, criteria and scope of audit were discussed. An exit conference was held with the Principal Secretary-cum-Commissioner, Housing and Urban Development Department on 13th October 2011 and points emerging out of the discussions have been incorporated in the review at relevant places.

1.3.6 Policies and Strategies

The Lakes and Wetlands are presently not covered by any specific legal statute but several legislations enacted till date have provisions for conservation of lakes. Some of these are The Forest Conservation Act (1980), The Wild life Act (1972), The Water (Prevention and Control of Pollution) Act (1974) and the Environment (Protection) Act (1986).

Recognizing the importance of lakes, the Ministry of Environment & Forests, Government of India, launched the National Lake Conservation Plan (NLCP), a Centrally Sponsored Scheme exclusively aimed at restoring the water quality and ecology of the lakes in different parts of the country. The objective of the scheme is to restore and conserve the urban and semi-urban lakes of the country degraded due to waste water discharge into the lake and unique freshwater eco-systems through an integrated ecosystem approach.

The activities covered under NLCP were:

- Prevention of pollution from point sources by intercepting, diverting and treating pollution loads entering the lake. The interception and diversion works were to include sewerage and sewage treatment for the entire lake catchment area.

- In-situ measures of lake cleaning such as de-sliting, de-watering, bioremediation, and constructed wetland approach etc. depending upon the site conditions.
- Catchment area treatment and lake front eco-development which was to include bunding, fencing, shoreline development, creation of facilities for public recreation and entertainment (Children Park, boating etc.) and public area.
- Solid waste management
- Prevention and pollution from non-point sources by providing low cost sanitation.
- Public awareness and public participation.
- Other activities depending upon location specific conditions including the interface with human population.

1.3.7 Planning

A comprehensive plan that would have involved, as a first step, inventorying systematically all the water bodies of the State to scientifically and effectively tackle the issue of lake conservation in the State should have been formulated. Such comprehensive planning would have enabled the State to formulate and phase appropriate action plans to restore the health, serenity and sanctity of polluted water bodies within a timeframe.

Following short comings in policy and planning were noticed.

- ✓ The State had not conducted any survey for source water protection. Besides, complete study of lakes indicating the type, area, water volume, habitation, land-use in the catchment area, sources of pollutants, quality of water, etc. had not been prepared by the State at any point of time. Even assessment of critical risk parameters had not been carried out in respect of the major lakes except the Dal Lake. Accordingly, no comprehensive programme had been framed at any point of time to assess, monitor and control the pollution levels of the major water bodies.
- ✓ The State Pollution Control Board had been assigned (1987) the responsibility for prevention and control of water pollution issues in the State. It had confined its activities to testing the water pollution levels of Dal Lake only. With LAWDA restricting its activities only to Dal-Nigeen Lake by virtue of the State Government notification (1997), other water bodies in the State such as Wular, Mansbal, Anchar and Gilser lakes which had suffered significant habitat and water chemistry deterioration due to unhampered human activity, had remained unattended. Though programmes for conservation and management of the Dal Lake had been in operation for some years and another for Wullar had been launched in 2011-12, yet no programme for conservation and management of other lakes had been framed/ implemented by the State Government.

- ✓ To ensure effective implementation of the project, appointment of a Project Management Consultant (PMC) was a pre-requisite who would coordinate, plan and control (funding and execution) various activities undertaken under the Dal project. Despite lapse of over five years during which the programme had been under implementation, LAWDA had failed to appoint a PMC due to which the project had adversely suffered in terms of implementation of various components of the programme and consequently various performance evaluation parameters viz. water quality, animal life, etc. In reply it was stated that the consultant could not be appointed due to poor response to the tenders floated in this behalf.

1.3.8 Dal Lake Conservation Project

Among all the lakes of Kashmir, the Dal is by far the most famous- highly regarded by tourists for its serene beauty and by the locals for its rich agricultural produce also. The cultivators of the lake, known as *Mirbahri*, live on and by the lake and cultivate numerous vegetables of high quality in floating gardens known as *radh* and in lakeside plots known as *demb.* Rape-seed, maize, tobacco, melons, potatoes, onions, radishes, turnips, egg-plants, white beans, peaches, apricots, and quinces flourish on the rich soil of radh and demb. The lake also produces naturally *singhara nuts*, *jewar* (Euryale ferox), and *bumbh*. *Bumbh*, with its long stem and white flower, provides a nourishing vegetable from the former and an agreeable *sharbat* from the latter. The size of the lake has been mentioned as 6.4 kms long and 4 kms wide where it is the broadest in some early texts. Besides the springs of the lake itself, the Lake is also fed by a stream which comes from the Marsar Lake high up in the mountains. In its lower course where this stream approaches the north shore of the Dal, it bears the name of Telbal Nallah. The lake is also fed by other smaller streams.

The threat of the lake silting up with the deposit brought forth by these streams and the floating gardens (*radh*) extending all over the lake has been recognized since a long time past.

1.3.8.1 Programme Management

With a view to improving water quality of the lake and also saving it from further degradation, the State Government launched (1977) the Project ‘Conservation of Dal-Nigeen Lake’. The work on the project was got executed through the State Urban Environmental Engineering Department (UEED).

The Dal Lake Conservation Programme was approved and included in NLCP (2005-06) by MoEF, GOI with a view to addressing the problem areas by way of:

- ✓ reduction in volume of silt caused due to catchment area degradation and increased pollution due to increasing number of lake-dwellers;

- ✓ stoppage of untreated sewage and solid waste from peripheral areas, hamlets and house boats, agricultural return flow from catchment, etc. into the lake;
- ✓ controlling the reduced circulation of lake water due to reduction and clogging of water channels within the lake;
- ✓ improvement of fresh water inflow into the lake;
- ✓ enrichment of the lake water by removal of nutrients to avoid excessive weed growth and adverse changes to the bio-diversity of the lake; and
- ✓ creating a data bank.

The DPR for Dal Lake Conservation and Management Programme was prepared (October 1999) by Alternate Hydro Energy Centre, (AHEC) of the Indian Institute of Technology, Roorkee and submitted (December 2002) to MoEF.

The project of Conservation and Management of Dal Lake was sanctioned (September 2005) by the GOI under NLCP at an estimated cost of ₹ 298.76 crore and targeted for completion in March 2010, subsequently extended to March 2012. The Rehabilitation and Resettlement Programme was approved (May 2001) by the State Government at an estimated cost of ₹ 135 crore revised to ₹ 442 crore in 2007-08. After inclusion of the lake under NLCP, the Authority spent ₹ 308.43 crore during 2005-11.

1.3.8.2 Financial Management

Before the programme was brought under the NLCP, the conservation programme of the Lake was being looked after by the State Urban Engineering Department (UEED) which spent ₹ 72 crore on the development activities of the lake upto 1996-97. LAWDA, after coming into existence, spent a further amount of ₹ 119.43 crore from 1997-98 to the end of March 2005.

The position of funds released and those spent on the project during the last six years after the activities of the Lake were brought under NLCP was as under:

Table 1.3.1

(₹ in crore)

Year	Opening Balance	Funds Received	Total	Expenditure	Closing Balance	Under utilization (%age)
2005-06	11.07	52.12	63.19	43.26	19.93	32
2006-07	19.93	44.00	63.93	34.07	29.86	47
2007-08	29.86	82.54	112.40	44.76	67.64	60
2008-09	67.64	30.50	98.14	55.11	43.03	44
2009-10	43.03	74.01	117.04	67.79	49.25	42
2010-11	49.25	48.94	98.19	63.44	34.75	35
Total		*332.11*		*308.44*		

As can be seen from the table, the implementation of the programme was sluggish in the initial stages of its execution under NLCP as huge funds ranging between 32 and 60 *per cent* remained unutilized during 2005-10. The under-utilization was mainly due to inaction of LAWDA to execute various works like houseboat sanitation, infrastructure development, construction of water tanks in the catchment area, construction of a canal for carrying of fresh water to lake, resettlement of Dal-dwellers etc. The Vice-Chairman (VC) attributed underutilization of funds (September 2011) to unfavourable conditions in the valley, land disputes and non-cooperation of houseboat owners.

1.3.8.3 Preparation of DPR

The State Government in December 2002 approved the DPR which was got prepared by the MoEF through Alternate Hydro Energy Centre (AHEC), Roorkee.

Audit observed that later in December 2003/January and March 2004, LAWDA had pointed out some discrepancies to AHEC. However, it was also noticed that the deficiencies had not been pursued by LAWDA vigorously with MOEF for their effective resolution. It was also seen that phasing of the components of the work to be undertaken under the programme had not been made in the DPR.

The Vice Chairman stated **(S**eptember 2011 that formulation of a comprehensive DPR was a challenge owing to involvement of multiple disciplines associated with it. It was stated that the discrepancies were pointed out to the firm in 2004 but the GOI sanctioned the project in 2005 after evaluating all *pros and cons* which was subsequently given a go-ahead by the State Government. The Authority in view thereof was left with no option but to implement the project.

1.3.9 Implementation

The project included two components viz. 'Lake Conservation & Management Programme' and 'Rehabilitation & Resettlement Programme'. Salient aspects of the programme are:-

a) Lake Conservation & Management Programme

The works under the programme include Sewerage Treatment, Hydraulic Works, Restoration and Development Works, Solid Waste Management, Infrastructure Development and Catchment Management including provision for Land Acquisition and Public Awareness.

b) Rehabilitation & Resettlement Programme

The programme includes resettlement of the dislocated hamlet population in new colonies and acquisition of watery area surrounding the hamlets.

The status of various activities undertaken covered under the programme are enunciated in the succeeding paragraphs.

1.3.9.1 Conservation and Management Programme

The programme includes Sewerage Treatment, Hydraulic Works, Restoration and Development Works, Solid Waste Management, Infrastructure Development and Catchment Management including provision for Land Acquisition and Public Awareness. The status of the works undertaken under various components of the programme is discussed hereunder.

1.3.9.2 Sewerage Treatment Works

Sewerage Treatment Plants (STPs) are designed for removing impurities present in waste water in the form of floating material, suspended solids, bio-degradable organics and pathogens. Six[25] STPs estimated to cost ₹ 21.45 crore were projected to be constructed in the DPR. Out of these, three[26] STPs were taken up in the first phase at a cost of ₹ 9.30 crore. The construction of two STPs (*Brari Nambal* and *Nala Amir Khan*) was under progress as of March 2011 and STP at Hotel Welcome was amalgamated with the one at *Brari Nambal*. Audit check of the execution of this component of the work revealed the following:

- ✓ Despite the doubts expressed by the Ministry of Urban and Poverty Alleviation, GOI over the effectiveness of these treatment plants in cold conditions and the sustainability of their huge maintenance cost, the construction work of the STPs was allotted (August 2004) by LAWDA to M/S Thermax at a cost of ₹ 8.90 crore (Habak: ₹ 2.42 crore, Laam: ₹ 2.82 crore and Hazratbal: ₹ 3.66 core) for completion in nine months. The STP at Hazratbal, Habak and Laam were commissioned in February 2006, April 2006 and October 2006, respectively with time overruns of nine to 17 months.

  Tests of outflow of the two (Hazratbal, Habak) STPs conducted (August 2006) by *LAWDA*, however, showed that despite receiving treatment, the concentration of nutrients present in the waste water had increased at the outflow stage vis-à-vis inflow stage. As already brought out in the report of the Comptroller and Auditor General of India for the year ended March 2006 the percentage efficiencies of the STPs had ranged between 63.39 and (-) 366.3. Further, tests/monitoring (October 2008, March 2009 and January 2010) by the Authority had confirmed the increase in the nutrients at the outflow stage as detailed in ***Appendix-1.2*** which was indicative of the fact that the STPs had not been functioning to the desired levels. Other parameters which define the purity of water too were inadequate and did not match the prescribed norms of the NIT. The position thereof is indicated in ***Appendix-1.3***. The aggregate amount of ₹ 11.05 crore (Habak: ₹ 3.13 crore, Hazratbal: ₹ 4.36 crore and Laam: ₹ 3.56

[25] Hazratbal, Laam, Habbak, Brari Nambal, Nallah Aaamir Khan and Hotel Welcome
[26] Laam, Hazratbal and Habbak

crore) spent on construction of these three STPs had, thus, proved counter-productive for the health of the lake.

The VC while admitting (September 2011) that Ammonical Nitrogen and phosphorous contents had been found to be inconsistent stated that the firm had been directed to optimise the process to achieve the desired results. No steps had, however, been taken to arrest the problem. The Scientific Advisory Committee (SAC) of LAWDA which was concerned over the functioning of the STPs, decided (June 2009) either to install de-nitrification units for the STPs or create artificial wetlands. The fact remains that the decision to install the de-nitrification plants or creation of the artificial wetlands had to be taken in view of improper functioning of the STPs not provided in the DPR. It was also seen that the firm had also not conducted any internal assessment of the sewage characteristics to modify the design of STPs so as to ensure that the plants were able to function to the desired extent as per agreed terms. The payments made to the firm in view of the stipulation in the NIT regarding payments to be made to the agency after satisfactory performance of the STPs were questionable. The reasons, though called for, were not furnished.

An on-the-spot verification of the three completed STPs showed that sewage collection chambers in all three STPs were without any covering/roof causing air pollution and foul smell. The VC in reply stated that providing of covering /roof was not provided in the NIT/contract and were not required at all. The reply was not acceptable as during a spot visit to the area it was found that the sewage collection chambers were emitting a very foul smell.

Swerage treatment chambers of STPs without covering/roofs.

Keeping in view the environmental concerns of the lake, Audit is of the opinion that a disaster management system should have been in place to overcome the problem that would arise in the event of the STPs becoming non-functional owing to power/machine failure, technical fault, etc. It was, however, seen that no planning was done by LAWDA to meet any such eventuality. In reply the EE while appreciating the audit suggestion stated that steps would be taken in that direction.

1.3.9.3 Intermediate Pumping Stations/Sewer Works/Trunk sewers/re-modeling of drains

To overcome the problems where sewer lines had been laid so low that they could not be relaid from practical or economic consideration, construction of 11 Intermediate Pumping Stations (IPSs) estimated to cost ₹ 18.78 crore was proposed in the DPR. Out of these, only six IPSs had been completed at a cost of ₹ 8.60 crore during the last seven years with physical and financial progress of 55 and 46 *per cent* respectively. No phasing had, however, been included in the DPR *vis-a-vis* completion of the involved components.

Similarly, against 63,000 meters of sewer lines/trunk sewers/remodeling of drains estimated to cost ₹ 35.66 crore, only 49656 meters of sewer lines/trunk sewers/remodeling of drains had been laid at a cost of ₹ 30.25 crore upto March 2011 with physical and financial progress of 79 and 85 *per cent* respectively.

The incompletion of IPSs and Sewer Works/Trunk Sewers/Remodeling of drains had resulted into non-optimal use of installed STPs. The shortfall in execution was attributed by the EE to unrest in the valley, short working season and non-preparation of tender documents for these works by the AHEC which formulated the DPR. It was also stated that the tender documents had been prepared by the LAWDA to ensure completion of the work.

The chances of completion of the Sewer lines/trunk sewers/remodeling of drains within the project period, *i. e.* March 2012, appeared remote, particularly, because in many instances the works had been allotted to contractors without acquiring the land falling in the sewer/drain alignments. Due to this either the works had not been taken up by the contractors or were abandoned after spending huge funds thereon. In one such case {sewer line for sub-zone C01, C02, C03 and C04 of zone 1 (C)}, the contractor after spending ₹ 36.38 lakh on the work abandoned (March 2009) it as the owner of the private property demanded compensation for allowing the passage of the proposed sewer line through his land. In another such instance, construction of sewer line for sub-zone C04, C05, C06 and C07 of zone 1 (C) along Nigeen fringe from RD-1011 to RD-1684 Mtrs could not be taken up for execution by the contractor for the same reason. On this being pointed out, the EE, LD-II stated that the land owners had created hindrance during execution of the work for want of land compensation/non-clearance of land use and that after the land was acquired the contractor asked for escalation or fore-closure of the contract. The contracts were accordingly fore-closed and balance works retendered. The reply of the Authority reflects a casual approach in allotment of works without ensuring availability of encumbrance-free site which is tantamount to improper planning. The Vice Chairman of the Authority stated (September 2011) that the land disputes had been resolved and work was expected to be completed soon.

1.3.9.4 House- to- house connectivity

Construction of lateral sewers for house-to-house connectivity to receive sewage for treatment plants though vital to the programme was not included in the original DPR of Dal Lake Conservation Programme (DLCP). The action of State Government/Authority in not properly evaluating the DPR before accepting it without the vital component of house-to-house sewer besides bringing the casualness of LAWDA to the fore also deprived the State/project of the sustained flow of funds from the GOI. Hence, a separate DPR, estimated to cost ₹ 55 crore, revised to ₹ 60.20 crore, with a target of 77,805 running meters of Secondary/Lateral Sewer/house-to-house connectivity, was framed (2004-05) for funding by the State Government. Against the target, LAWDA had laid 59,973 (77 *per cent*) running meters of Secondary/Lateral Sewer lines at a cost of ₹ 44.70 crore as of March 2011. However, due to inadequate execution of house-to-house connectivity related works, STPs were not receiving the quantum of sewage for which they had been installed resulting in non-optimal use of the sewerage network and STPs so far. Inadequate house-to-house connectivity had also resulted in sewage from households finding their way into the lake**.** Under-utilization of sewerage network and sewerage treatment plants had also been pointed out (July 2009) by the MoEF team.

Water of Houseboats going into the lake

Waste of habitations finding their way into the lake

Houses/Shops constructed in the lake periphery

1.3.9.5 Houseboat Sanitation

Besides, the peripheral area of the lake, human settlements residing within the lake in 1094 houseboats and 2800 *shikaras* and hamlets also contribute to generation of solid and liquid wastes of 4.80 lakh kilograms and 49.91 million litres annually. Though LAWDA undertook a number of experimental projects to rectify the problem prior to NLCP and also spent ₹ 0.70 crore on pilot studies (2005-11) under NLCP, none of the studies could provide any viable solution (March 2011). Despite the omission having been pointed out in the CAG's Audit Report for the year ended 31 March 2006, nothing had been done to arrest the flow of unwanted wastes into the water body.

The team of MoEF (July 2009) also felt concerned and pointed out that the land mass behind the houseboats, used for the housing of the staff, was causing stagnation of water and supporting growth of dense vegetation thereby deteriorating water quality of the lake.

On this being pointed out, the EE, LD-I stated that a decision had been taken to relocate all the houseboats at one place (Dole-Demb area) where they would be provided sewer links for treatment of the waste at the nearest STP. The VC stated that the decision regarding relocation of houseboats at Dole-Demb had been taken by LAWDA on the directions of the Hon'ble High Court, J&K. The VC in his reply, however, refuted the figures brought out in the review and claimed that these were highly exaggerated. The reply was not tenable as the figures brought out in the review were based on the details incorporated in the DPR.

1.3.9.6 Hydraulic Works

With a view to arresting flow of sediments from the *Nallah*s, catchment areas and melting glaciers flowing into the Lake a settling basin had been constructed but a diversion weir had not been constructed. The DPR among other things included construction of diversion works of Telbal *Nallah*, balance works of *Nallah* Amir Khan and extension of Padshahi canal to the lake which had been estimated at ₹ 12.83 crore.

During check of the records related thereto, following significant points came to the notice of Audit.

- ✓ To arrest flow of sediments from entering into the lake, a settling basin had been constructed in 1997-98. It was, however, observed that settling basin had been able to retain sediment load ranging between 42 and 50 *per cent* only as detailed in the table.

Table 1.3.2

Year/Month	*Average inflow of sediment load (mg/l)*	*Average outflow of sediment load (mg/l)*	*Retention of Sediment Load (%)*	*In-efficiency of settling basin (%)*
9/2005 to 8/2006	**153**	**73**	**48**	**52**
9/2006 to 8/2007	**143**	**71**	**50**	**50**
9/2007 to 8/2008	**24**	**12**	**50**	**50**
9/2008 to 8/2009	**17**	**8**	**47**	**53**
9/2009 to 8/2010	**24**	**10**	**42**	**58**

Inadequate capacity of the settling basin to retain the inflowing quantum of sediments from the catchment areas and consequential flow of sediments into the lake beyond the retaining capacity of the basin meant that the decrease in the depth of the lake, increase of nutrients in the lake bed with nutrients and consequential increase in weeds, etc. could not be arrested as envisaged. It was noticed that an inspection team of MoEF had noted (July 2009) that new habitations were coming up in the catchment area especially along the water courses and liquid/solid wastes from such habitations were getting discharged directly or indirectly into the lake thereby, polluting it. Despite knowing to this phenomenon and despite having a full-fledged Enforcement Wing, the Authority had not been able to stop constructions in the catchment area. Reasons therefor, though called for, were not furnished. The VC stated that monitoring of the surface water only was being done initially which conversely should be measured on bed load as well.

- ✓ One of the components included in the DPR under 'balance works' was construction of a diversion weir for the settling basin which would help the settling basin perform better through the gates constructed thereon which would prevent muddy waters from entering the basin during floods. It was noticed that against the approved cost of ₹ 6.17 crore, an amount of ₹ 3.05 crore had been spent with a physical achievement of 99 *percent* as of March 2011. The physical and the financial progress had not been commensurate and it was seen that the expenditure incurred had not proved fully effective due to non-construction of a gate on one of the constructed bays due to which a large part of flood water entered the lake directly instead of through the settling basin as intended. This problem was also highlighted (July 2009) in its report by the monitoring team of the GOI. LAWDA did not reply to the audit observation.

- ✓ To improve water budget of the lake during lean period (June-July) and help flushing of the lake by bringing additional two cums of water per second from Sindh *Nallah* through *Padshahi* Canal to the lake ₹ 2.61 crore had been earmarked in the DPR. After spending ₹ 35.26 lakh between 2003 and March 2008, progress could not be made as the Irrigation Department informed (December 2009) LAWDA that the project was not technically viable. The Monitoring Division of LAWDA also did not find the project viable on the grounds that it carried high load of nutrients of Nitrogen and Phosphorous. As a result, the entire expenditure of Rs.35.26 lakh incurred so far has been rendered wasteful. This was indicative of the fact that the DPR had not been properly evaluated before implementation. No efforts had been made by LAWDA to find an alternate solution, thus, depriving the lake of additional fresh water which could have also helped its flushing.

1.3.9.7 Restoration and Development

One of the components of Conservation and Management Programme was 'Restoration and Development Programme' approved at a cost of ₹49.62 crore. Main activities of the component were dredging of the blocked channels, de-weeding, creation of reed belt, development of shoreline, establishment of aerators and carrying of fresh water from streams to the lake etc. The purpose of these activities was to improve water circulation, increase aesthetic beauty of the lake and further eco-tourism and revenue earnings.

With regard to this component following significant points were noticed.

- ✓ With a view to improving hydrology of the lake for creating a positive impact on the water quality and longevity, the DPR had recommended dredging and deepening of 38 blocked channels in the backwaters of the lake at an approved cost of ₹ 5.81 crore with a physical target of 81833 cum and also dredging and de-weeding of the lake at a cost of ₹ 14.52 crore for completion within the project period. While 22 *per cent* physical and 68 *per cent* financial achievement had been made in dredging in the blocked channels at a cost of ₹ 3.94 crore, the Authority had spent ₹ 16.54 crore on de-weeding/ dredging of the main lake by the end of March 2011. Assessment studies had not been carried out to analyze the impact of dredging and de-weeding on the lake ecology including invasion of species both in the dredged part and the hinterland where the sedimentation had occurred.

  The team of MoEF had also noticed (July 2009) inadequate execution in dredging of channels of the lake and dredging of the lake without bathymetric map (Map that shows basin morphology and helps with identifying areas to be dredged).

  On this being pointed out, the EE attributed (August 2011) the delay in completion of this component to unrest in the valley. Regarding monitoring and evaluation studies it was stated that it was not possible to ascertain the impact of execution at this stage unless all the components of the project were completed. It was further stated that these studies would be conducted in future.

  The expenditure of ₹ 20.48 crore (blocked channels: ₹ 3.94 crore; lake: ₹ 16.54 crore) incurred on this component had so far not led to the desired outcome. The water quality of the lake had not shown any improvement yet, species of local fish had dwindled and exotic species had invaded the lake as discussed in the succeeding paragraphs.

  - With the objective of acquiring land, developing tourist related facilities, raising its means of finances, etc. a component viz. 'shoreline activity' was approved in the DPR at a cost of ₹ 22.04 crore. The Authority had spent ₹ 8.46 crore with financial achievement of only 38 *per cent* during the last over five years under shoreline development which included fencing of the northern foreshore road, landscaping and development of a park and construction of viewing points. The main components viz. clearance of settlements which had grown close to the Northern foreshore, construction of boat club at Telbal, pedestrian Mall at either side of Telbal *Nallah*, roadside Arboriculture, Time share resort, camping sites, craft bazar, mini zoo etc. had not been taken up by the Authority. Given the present scenario, the chances of completion of this component of project by March 2012 seemed remote. The non-completion of the component of work was attributed by the EE to short working season and unrest in the valley.

- Conveyance of fresh water from 57 springs located outside the lake periphery was one of the activities provided in the project and the cost of this activity was estimated at ₹ 2.89 crore. An amount of ₹ 1.57 crore had been spent (financial progress: 54 *per cent*; physical progress of 74 *per cent*) on this activity on 42 springs as of March 2011. No studies had been carried out to ascertain whether these springs actually carried water to the lake or had choked. This aspect was also highlighted (July 2009) by the monitoring team of the GOI in its report.

  In reply the EE, LD-I stated that the issue of analyzing the impact of restored springs would be taken up with the Research and Monitoring Wing of LAWDA. It was also stated that the delay was due to unrest in the valley and that the balance work would be completed within the project period.

1.3.9.8 Catchment Management Works

The main objective of the project was to check soil erosion and degradation process in the catchment area of 33,700 hectares with a perimeter of 93.70 kms (maximum width of 16.70 kms) by reducing inflowing silt load of 60,877 tons per year by 60 to 70 *per cent.* The component was to cost ₹ 25.84 crore. The activity under this component included catchment treatment in identified zones, limiting the building activities in the uphill catchment area, restoration of degraded forests through massive plantation, drainage line treatment through properly designed structures reinforced by vegetative measures, fuel wood and fodder plantation of indigenous and exotic species in State and village common lands, supporting private efforts of raising plantations, forage production through silvi-pasture, pasture development and on-farm fodder development, beneficiary participation through entry point activities, stabilization of quarry area etc.

LAWDA had spent ₹ 14 crore on watershed activities on this component as of March 2011. One of the vital activities of the component was to plant 31.15 lakh plants in 5,545 hectares at a cost of ₹ 8.65 crore. Against this ₹ 2.73 crore had been spent on planting 13.35 lakh plants on 1,563 hectares (physical achievement of 43 *per cent* under plantation and 28 *per cent* under land cover with financial achievement of 32 *per cent*) of the catchment area as per the progress report of LAWDA. In the report submitted by the Project/Watershed Manager, the survival rate of plantation ending September 2011 was placed at 53.71 *per cent*.

To ascertain the impact of plantation on reducing the soil erosion, a silt-monitoring station (SMS)/observatory for gauging runoff had to be launched. No such station/observatory had been launched as of March 2011. In the absence thereof, the inflow of silt from the catchments area and the reduction in the flow of silt into the lake could not be assessed. The team of MoEF also felt concerned over the slow progress of catchment works.

On being pointed out, the Water-shed Manager of LAWDA disputed the figures included by the FA&CO in the progress reports and claimed that target had been achieved up to 75 *per cent* (12.12 lakh against 16 lakh plants). It was also stated that it would take steps to lay SMS at the appropriate time of project completion. The reply was not acceptable as laying of the SMS was a pre-requisite to enable assessment of the impact of treatment meted out to the catchment area by way of plantation etc. for possible mid-term corrections. The VC in his reply put the targets at 16.50 lakh plants on 1500 ha out of which 13 lakh had been statedly planted on 1102 ha which was also at variance with the figures provided by the Watershed Manager. The variation between the three sets of figures was not explained.

1.3.9.9 Evacuation of hamlet population

The Lake Conservation Programme envisaged acquisition of 58 hamlets (over 6000 *kanals*) alongwith 3741 structures erected thereon and restoration of the area so evacuated to the Lake. It was observed that only 1073 *kanals* of land (18 *per cent*) and 592 structures (16 *per cent*) had been acquired (March 2011) at a cost of ₹ 84.19[27] crore. It was also observed that the area had been acquired at isolated spots in a sporadic manner instead of in clusters without demarcation of the acquired land, masses and also, no physical verification was carried out by LAWDA to ensure that the land acquired had not been encroached upon. As a result, despite spending ₹ 84.19 crore, the programme objectives could not be achieved in full rendering the expenditure largely unfruitful. The omission had also been pointed out in the CAG's Audit Report for the year ended 31 March 2006.

The EE, LD-I attributed it to non-settlement of compensation with the lake-dwellers under private negotiations. The reply was not acceptable as in a huge number (66 test-checked) of cases, though the mutations/sale deeds and acquisition of land had taken place yet payments had not been made to the lake-dwellers.

[27] Includes expenditure incurred prior to inclusion of lake under NLCP (NLCP expenditure: ₹ 53.62 crore)

1.3.10 Rehabilitation and Resettlement Programme

The programme includes resettlement of the dislocated hamlet population in new colonies and acquisition of watery land surrounding the hamlets. Against the availability of ₹ 191.60 crore for the component, the total amount spent was ₹ 157.23 crore during 2005-11 and the unspent balance was ₹ 34.37 crore at the close of March 2011. The status of the activity is given in the succeeding paragraphs.

- ✓ The rehabilitation programme related to Dal Lake Conservation and Management Project envisaged relocation of Dal-dwellers residing in hamlets within the lake. The programme aimed at rehabilitation of about 6,000 families residing aboard 58 hamlets (1999) within the lake body. The number of families had subsequently (July 2005) increased to 11,000. The State Government had approved (May 2001) the project for ₹ 135 crore, revised (September 2005) to ₹ 264.85 crore and further revised (2006-07) to ₹ 442.70 crore. To relocate the affected people, land measuring 581 *kanals* was acquired upto October 2003 by LAWDA at *Guptaganga* and *Chandpora* at a cost of ₹ 8.32 crore. The land was, however, not allotted to the Dal-dwellers as these sites were shown to be green belt areas in the Master Plan of Srinagar city. Though proceedings for change of land-use were initiated time and again, the cabinet did not approve the change. The State cabinet approved (October 2008) the change of land-use from restricted open land to tourist and residential activities after a lapse of more than four years. Improper planning of LAWDA to ascertain the genuineness of the use of the land prior to its acquisition and delayed decision of the State Government to change land-use had rendered the expenditure of ₹ 8.32 crore unfruitful, besides adversely affecting the rehabilitation and resettlement programme of the lake dwellers. The land in question had not been put to fruitful use so far.

  Before the decision regarding the land-use could be taken, the State Government had transferred 7,526 *kanals* and 7 *marla* of land at *Rakh-i-Arth*, Budgam to LAWDA in April 2006. The colony was proposed (March 2008) to be developed at a cost of ₹ 402 crore in a phased manner. In the first phase, 3,000 *kanals* of land was decided to be developed to accommodate 4600 families.

  LAWDA had, however, taken possession of only 494 *kanals* (out of 7526 *kanals*) of land at a cost of ₹ 34.68 crore (includes payment to *Kamas*, development charges etc.) as of March 2011. Besides, the environmental impact assessment (EIA) study of the area on which Dal-dwellers were to be relocated was also pending. All the components of the project had to be implemented simultaneously as per the DPR but had not been done. Evidently, LAWDA was not able to rehabilitate Dal-dwellers since the implementation of the Dal-lake Conservation and Rehabilitation Programme. Thus, the purpose of the project had been defeated as the sewage of these inhabitants had continued to be discharged directly into the lake body. The team of MoEF had also pointed out that the rehabilitation project was moving at a slow pace.

Land acquisition

The Dal dwellers had propriety rights of watery land within the lake. To prevent the dislocated dwellers from returning to the lake and filling up this watery land for residential/agricultural purposes, it was proposed (January 1999) to acquire 14,547 *kanals* of watery area under the Rehabilitation Programme. However, against the target of acquiring 14,547 *kanals*, only 3907 *kanals* (27 *per cent*) had been acquired as of March 2011. It was also observed that the area had been acquired at isolated spots instead of in clusters without demarcation of the acquired land masses and also no physical verification was carried out by the Authority to ensure that land acquired had not been encroached upon. As a result, despite spending ₹ 40.71 crore, the programme objectives had not been achieved in full rendering the expenditure largely unfruitful. The omission had also been pointed out in the CAG's Audit Report for the year ended 31 March 2006. The team of MoEF (December 2010) had also felt concerned over the slow progress in this particular component. In reply, the EE stated that the land would be acquired in clusters and matter of demarcation and physical verification would be taken up with the field staff.

The fallout of non-completion or partial completion of the components of the conservation and rehabilitation programmes had been manifold as brought out hereunder.

- ✓ ***Entrapping of phosphorous and inorganic nitrogen***

  156.62 tonnes of phosphorus and 241.18 tonnes of inorganic nitrogen flows into the lake annually as part of sewage, soil from erosion, agricultural back flows, etc. from non-point/point sources out of which about 80.62 tonnes of phosphorus and 109.22 tonnes of inorganic nitrogen leaves the lake, mainly through two outlets, resulting in entrapping of about 76 tonnes of phosphorus and 131.96 tonnes of inorganic nitrogen in the lake annually. The gradual increase in the levels of nutrient load meant accelerated eutrophication of the lake and was an issue of foremost concern. LAWDA had not carried out any studies to assess the impact of eutrophication or set up formal mechanism for regular monitoring of such eutrophication.

- ✓ ***Dwindling of local fish species***

  It was seen that notable fish species common in the Lake like schizothoraxe socinus, s. niger, s. curvifons, s. micropogon, labeodera, carassius carassius had decreased sharply over the last thirty years and had since been outnumbered by carpiodes. It was further seen that the two fish species, viz. cyprinus carpio specularis and c. carpio communis, introduced in 1956 had got well established as they thrived in waters rich in nutrients and organic matter. The Ex-Director of Research and Monitoring Laboratory had researched that the fish catch of Dal Lake comprise more than 80 *per cent* of the introduced carp.

The decline in fish diversity and yield was attributed to the changes in hydrological regime and loss of critical habitats and heavy loads of incoming sewage which had led to increased eutrophication with adverse impact on growth and development of sensitive fish species.

- ✓ ***Invasion of exotic species***

Azolla, the exotic species of weed was a new invader that had consumed the greater area of the lake causing significant changes to its vegetation pattern. The prolific growth of azolla was attributed to unabated inflow from effluent channels and drains, raw sewage and enrichment of sediments particularly due to heavy load of organic nitrogen and phosphates.

1.3.11 Infrastructure

A provision of ₹ 15.93 crore had been sanctioned for creation of infrastructure facilities for the Project viz. establishment of buildings for Authority, its laboratory, purchase of equipment, installation of captive power plant, etc.

Despite the provision for establishment of office building, LAWDA had continued to house its offices in rental accommodations paying huge rent annually thereby resulting in avoidable expenditure of ₹ 0.47 crore from September 2003 to June 2010. Utilization of money on payment of rent out of the funds meant for creation of infrastructure is tantamount to diversion of the project funds. The VC attributed it to non-availability of suitable land.

The team of MoEF had pointed out (July 2009) that equipping the Authority with the needed infrastructure was the basic requirement for effective implementation and monitoring of works and for evaluating the status of the lake, as also for undertaking research that was considered necessary for management of interventions. The team had noticed meager expenditure under infrastructure facilities and had further noticed that the laboratory of LAWDA which earlier had its own building was housed in a small rented space which was ill-furnished, ill-equipped and poorly staffed. The team had concluded that unless the infrastructure was provided, it was neither possible to implement the scheme properly nor undertake regular field works for collection of samples for physico-chemical analysis and monitoring. Audit noticed that not much progress had been achieved in this regard.

1.3.12 Human resources development

Human resource management is one of the basic ingredients for an organization to run efficiently and effectively. It was, however, seen that human resources development by means of training and capacity building had not been undertaken by LAWDA fully as prescribed in the DPR. The organizational set-up as proposed in the DPR for LAWDA had not been replicated by the State Government. Except for the appointment of a Chief Executive Officer, though not of the rank prescribed in the DPR, none of the five Directors had been appointed in the Authority to oversee various components/activities of the project work as the rules regarding service of the employees were pending approval of the State Government. The laboratory of LAWDA had remained head-less during the entire period of NLCP. Also, the LAWDA-borne **s**taff had stagnated for nine years or more and not given in-situ promotions despite a decision having been taken by the Board. Training programmes were also not conducted for the staff to handle/run equipment such as STPs etc. The VC stated that draft recruitment rules and the issue of in-situ promotions to the employees were under consideration in the Administrative Department.

1.3.13 Monitoring

Effective monitoring at all stages of execution of a project is essential for carrying out mid-term corrections and for overall progress in the intended direction. It was, however, seen that the monitoring mechanism was non-existent which had resulted in non-completion of the project and also ineffective functioning of the components of work already executed. The position of monitoring system available or lack of it is brought out hereunder.

Monitoring by State Level Monitoring Committee

The implementation of the project was to be monitored by the State Government and the GOI. A Monitoring Committee was to be set up to monitor and evaluate the work done on quarterly basis i.e. four times a year starting September 2005. The committee had met only once (January 2007) against 22 meetings due to be held between September 2005 and March 2011. This had resulted in non-monitoring and non-evaluation of the work done under the project and consequential impairment in the implementation of the project.

Monitoring by Scientific Advisory Committee

A Scientific Advisory Committee was to be constituted to oversee various aspects like aquatic ecology, hydrobiology, environmental engineering, chemical engineering, hydraulic engineering/hydrology, watershed management, economics, sociology, etc. The Committee was to meet periodically, at least twice a year (i.e. at least 11 times from September 2005 to March 2011`), to assess the impact of the various ongoing measures taken by Authority in implementation of the Dal Lake Conservation Programme. The

Committee had met only twice since September 2005 which had led to non-monitoring of the project.

- ✓ ***Board of Directors***

  The Board of Directors which had to meet at least 18 times during 2005-10 to take policy, strategic and tactical decisions about implementation of the programme had met only six times. Inadequate Board oversight had also contributed to poor execution of the project.

  The reply of LAWDA that the meetings could not be held due to busy schedule and pre-occupation was not acceptable as lack of monitoring of the project had contributed to its remaining incomplete in respect of most of its components. The likelihood that all components would be complete by the end of the year 2012 seemed remote.

1.3.14 Internal Controls

Proper internal control mechanism in an organization is essential for smooth implementation of various programmes undertaken by it. Existence or otherwise thereof adversely affects the day to day activities of the organization. The review of the organization of Authority showed inadequacies in controls as brought out hereunder.

- ✓ Despite M/S Thermax having defaulted by not executing the work on the three STPs to the specifications of the conservation programme, it was allotted (August 2009) the work of the remaining two STPs under the programme with a different technology (SBR) at an aggregate cost of ₹ 34.64 crore. It was seen that although M/S Thermax had originally offered its rates for 'Moving Bed Bio Reactor (MBBR)' technology, yet the State Contract Committee negotiated the rates with the firm for 'Sequencing Batch Reactor (SBR)' technology after opening of the financial bids of three firms instead of negotiating the rates with the firm (ION Exchange) which had offered the rates for SBR technology. It was also seen that the Authority had opened financial bids prior to technical evaluation of each tenderer which contravened the basic tenets of tendering.

  On this being pointed out , the Financial Advisor and Chief Accounts Officer (FA & CAO) of the Authority stated that M/S ION Exchange had been requested vide a series of letters to match the price offer with that of the lowest tenderer M/S Thermax (who had offered for MBBR technology). The reply was not acceptable as the former had requested for negotiating the rates but the authority had not responded to its pleadings.

  It was further seen that the firm had been paid interest-free mobilization advance (₹ 3.35 crore) and material (₹ 2.26 crore ended December 2010) on credit basis though the terms did not contain such provisions, thereby extending undue favour to the firm. On this being pointed out, the FA & CAO stated that no interest is to be levied on mobilization advance under the State Public Works Accounts Code. The reply was not tenable as provision for payment of such advance to contractors does not exist in the State Public Works Accounts Code. However, the payment of such advance has been defined in the Central Public Works Accounts Code which envisages levy of interest on such advances. As regards issue of material on credit basis, it was stated that the practice would be stopped in future. Issue of material on credit basis so far was not, however, explained.

✓ ***Submission of monthly progress reports***

Progress reports regarding implementation of the project were required to be submitted to the GOI and the State Government on quarterly basis. Delays of up to 38 days were, however, observed in submission of progress reports to MoEF/State Government. Besides, nine monthly progress reports were not sent to MoEF and State Government respectively. Progress reports prior to April 2007 had either not been sent to the GOI/State or the same had not been prepared**.**

✓ ***Allotment of works without invitation of tenders***

Allotment of works for execution without ascertaining the reasonability of rates is prohibited under the State Financial rules. The Authority without resorting to proper tendering process as required under rules had allotted works amounting to ₹ 1.01 crore to contractors in violation of rules.

✓ ***Diversion of funds***

Despite the fact that the GOI had categorically laid down in the sanction order that the cost of operation and maintenance (O&M) should be borne by the State Government, the Authority had spent ₹ 4.84 crore on this component leading to diversion of programme funds. The reasons for the violation, though called for, were not assigned.

✓ ***Adjustment of advances***

An amount of ₹ 37.41 crore had been advanced to various agencies/departments during 2005-11 for procurement of material/execution of various works. The advances were debited to the final head of account without obtaining adjustment account therefor. This had resulted in inflation of expenditure and consequently understatement of balances. In reply it was stated by the EE that action would be taken after reconciling the figures.

- ***Unclaimed deposits***

  Deposits which remain unclaimed for over three years are required to be transferred to Misc. Revenue as per the State Public Works Accounts Code. Notwithstanding this LAWDA continued to hold the deposits of CDRs/bills of ₹ 0.54 crore (Test-checked cases) in its accounts without actually transferring them to the revenue of LAWDA. The VC stated that action as warranted under rules would be taken.

- ***Undue financial aid***

  Despite incorporation of a specific condition in the NIT regarding issuance of material to the contractors on cash-basis, the Authority continued to issue key construction material to the contractors on credit-basis which was tantamount to undue financial aid to contractors. The amount of such undue financial aid involved in the test-checked cases alone stood at ₹ 2.80 crore. The EE stated that the material was being issued departmentally for maintaining the quality control. The reply, however, did not contain the reasons for issuance of the material on credit-basis.

- ***Obtaining of sales tax/VAT clearance certificate***

  The conditions incorporated in the supply orders stipulate production of sales tax/VAT clearance certificates of the Sales Tax Department from the suppliers before making payment for the supplies made. Authority had in contravention of the same paid ₹ 4.12 crore to the suppliers without the requisite certificates. The EE stated that instructions had been noted for compliance.

- ***Non-finalization of accounts***

  In terms of Section 21 of the Jammu and Kashmir Development Act, 1970, LAWDA is required to prepare annual accounts in consultation with auditor to be appointed by the Government. LAWDA, despite having a full-fledged Accounts Wing had neither prepared its accounts nor engaged Chartered Accountants to prepare the annual accounts. LAWDA had not even prepared the accounting manual nor prescribed the accounting procedures to be adopted by it. In the absence thereof, the financial position and details of assets/liabilities of Authority could not be ascertained. Non-preparation of accounts had exposed the organization to the risk of financial irregularities/frauds going undetected. The VC stated that a Chartered Accountant had been engaged for preparation of Annual Accounts.

- ***Excess payment***

  The amount of ₹ 11.05 crore paid to M/S Thermax for construction of STPs (paragraph 1.3.9.2) included an excess payment of ₹ 30.83 lakh. On being pointed out, the EE stated that the payments had been made by the Head Office. The reply of the division was not acceptable as the payments had been made by the Head Office after due verification of the contractors bills by the EE.

1.3.15 Effectiveness of the programme

A comparative position of indicators defining the health of the lake at various points of time, before embarking upon the conservation programme and during 2010-11, is tabulated hereunder.

Table 1.3.3

Year	*1996-97*	*2005-06*	*2010-11*	*Variation during review period*
PhValue	NA	8.0	7.9	(-) 0.1
Dissolved Oxygen	8.6	6.1	6.2	(+) 0.1
Nitrate Nitrogen	272	572	418	(-) 154
Ammonical Nitrogen	362	319	126	(-)193
Ortho-phosphate	135	105	178	(+) 73
Total Phasphorous	768	360	485	(+) 125
Chemical Oxygen Demand (COD)	NA	25	32	(+) 7
Bioligical Oxygen Demand (BOD)	NA	NA	13	-

Increases in the parameters defined in the table and reduction in dissolved oxygen content is detrimental to the health of the lake. As can be seen from the table, though Nitrogen Nitrate and Ammonical Nitrogen components have come down, the other components have increased to the detriment of the quality of water leading to excessive vegetation.

The drastic change in the water quality was attributed to intensified release of nutrients due to soil erosion, run-off from catchment area and discharge of urban wastes including inorganic fertilizers. The increase in the value of total dissolved solids indicated continued siltation, failure of retention of silt by settling basin and high ingress of sewage into the lake and mineralization process of organic matter. This indicated that multi-pronged approach to conserve and manage the lake had been neither effectively implemented nor properly monitored for the desired outcomes.

1.3.16 Wular Lake Conservation Programme

The WularLake Conservation Programme had been recently included in the NLCP. A Conservation and Management Programme for the lake had been prepared (Forest Department) and submitted (2007) to the MoEF at an estimated cost of ₹ 386.39 crore against which the 13th Finance Commission had recommended ₹ 120 crore for the current five year plan with year-wise allocation of ₹ 30 crore starting from the year 2011-12. The State had not established any authority as yet for implementation of the programme.

1.3.17 Conclusion

The State Government had not conducted any survey of lakes for source water protection. No nodal agency was formulated for the overall formulation, implementation and co-ordination of the comprehensive programme for pollution control in lakes. DPR for conservation of Dal Lake had not been prepared after exhaustive study and had been accepted without proper evaluation. Sub-optimal performance of the STPs, partial working of settling basin, non-completion of house-to-house connectivity for carriage of sewer, non-construction of gates, etc. for the bays had resulted in increase in the nutrients and weeds and depletion of the fish population in the lake. No studies had been carried out to ascertain whether the springs existing in the lake were actually carrying water to lake or had choked. No adequate planning existed for re-settling Dal-dwellers despite spending huge amount on this count.

1.3.18 Recommendations

- ✓ ***The State Government needs to appoint a nodal agency to coordinate planning and implementation of the programmes for all the water bodies in the State.***
- ✓ ***LAWDA needs to have a well-functioning and adequately empowered PMC, State Level Monitoring Committee, Scientific Advisory Committee and Board.***
- ✓ ***LAWDA needs to have a well-documented accounting system in place for efficient financial management of the programme to prevent occurrence of any frauds.***
- ✓ ***House-to-house connectivity and houseboat sanitation needs to be given priority so that the wastes from the areas outside and inside the lake do not enter the lake.***
- ✓ ***Dredging of the blocked channels, de-weeding, creation of reed belt, development of shoreline, establishment of aerators and carrying of fresh water from streams to the lake need to be done on scientific lines for stopping degradation of the lake.***
- ✓ ***Rehabilitation and resettlement programme of the lake-dwellers needs to be given top most priority.***
- ✓ ***With a view to making the Authority a self-sustaining organization as per the provisions of the DPR, all the activities undertaken in and around the lake needs to be transferred to LAWDA.***

POWER DEVELOPMENT DEPARTMENT

1.4 POWER DISTRIBUTION UTILITIES IN JAMMU AND KASHMIR

1.4.1 Introduction

The distribution system of the power sector constitutes the final link between the power sector and the consumer. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. As this sector has been incurring huge losses, the real challenge of reforms in the power sector lies in efficient management of the distribution system. The National Electricity Policy (NEP) aims to bring about reforms in the Power Distribution sector through system upgradation; control and reduction of T & D losses and power thefts; and making the sector commercially viable, besides adopting appropriate financing strategy to generate adequate resources. It further aims to bring out conservation strategy to optimize utilisation of electricity with focus on demand side management and load management.

The responsibility for distribution of power in Jammu and Kashmir State vests in the J&K Power Development Department which functions under the administrative control of Commissioner/Secretary to the J&K Government, Power Development Department. The day-to-day operations of the department are carried out by the Development Commissioner Power (DCP), J&K State who is assisted by two Chief Engineers, Electric Maintenance and Rural Electrification (EM&RE) Wing, Jammu and Srinagar. The Chief Engineers are assisted by twelve Superintending Engineers (Jammu: 5, Srinagar: 6 and Leh: 1), who act as circle heads. There are 45 Electric Divisions (Jammu: 19, Srinagar: 24 and Leh: 02) each headed by an Executive Engineer under the control of Superintending Engineers in the State. During 2006-07, 4,031 MUs of energy was sold by the Department which increased to 4,041 MUs during 2010-11 recording a minuscule increase of 0.25 *per cent* over the period 2006-11. As on 31 March 2011, the Department had distribution network of 85,631 CKM (HT lines: 27,532 and LT lines: 58,099), 34,682 sub-stations of various categories in 27 out of 31 EM&RE Divisions. The number of consumers in 27 divisions (Kashmir: 15; Jammu: 12) visited by audit was 11.39 lakh as on 31 March 2006 which had grown by nine *per cent* to 12.42 lakh as of March 2011.

A performance review on the working of the Power Distribution in the State was conducted with a view to ascertaining whether it adhered to the aims and objectives stated in the National Electricity Policy and Plan and achieve the proposed distribution reforms.

A performance review on Accelerated Power Development Reforms Programme (APDRP) was included in the Report of the Comptroller and Auditor General of India, Govt. of J&K for the year ended 31st March 2006. The Report was discussed by PAC in June 2007. The PAC gave its part recommendations in its 48th Report (March 2010).

1.4.2 Scope and Methodology of Audit

The present performance audit conducted during April and June 2011 covered the performance of the Department during the period 2006-07 to 2010-11. The review mainly deals with Network Planning and Execution, Implementation of Central Schemes, Operational Efficiency, Billing and Collection efficiency, Financial Management, Consumer Satisfaction, Energy Conservation and Monitoring. The audit examination involved test check of records of 14 utility divisions[28] out of the total of 45 divisions, besides DCP and two Chief Engineer's Offices. The utility divisions were selected on random sampling basis whose annual audit had not been conducted during the period immediately preceding 12 months. Besides, data on various activities viz., consumer base, transformation capacity, connected load, substations, HT/LT Line spread etc were collected from 15 more EM&RE divisions[29] (making a total of 27 out of 31 EM&RE divisions) for analysis.

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.

1.4.3 Audit Objectives

The objectives of the performance audit were to assess whether:

Network Planning and execution

- plans were made to develop, maintain and augment the distribution network systematically, to provide reliable and quality power supply for all by 2012 as per the prime objective of the NEP;

Implementation of Central Schemes

- the central schemes such as, Restructured Accelerated Power Development Reform Programme (RAPDRP) aimed at bringing about improvement in the urban distribution sector and Rajiv Gandhi Grameen VidyutikaranYojna (RGGVY) were implemented efficiently and effectively.

Operational Efficiency

- the distribution work exists for reliable, safe and quality supply of power and is capable of meeting the power demand of the consumers in the State; and

[28] EM&RE Divisions: Anantnag, Awantipora, Bararmulla, Batote, Bijbehara, Handwara, Poonch, Rajouri, Reasi, I-Srinagar, Sopore and Udhampur; STD Divisions: II-Srinagar and Sopore

[29] EM&RE Divisions: Budgam, Doda, V-Ganderbal, I-Jammu, II-Jammu, III-Jammu, Kathua, Kishtwar Kulgam, Pulwama, II-Srinagar, III-Srinagar, IV-Srinagar, Sumbal and Vijaypur

- ❖ proper and timely repairs and maintenance were carried out to the distribution systems (sub-station transformers, meters and lines) to prevent disruption in power supply.

Billing and Collection Efficiency

- ❖ electricity bills were generated promptly; and
- ❖ Collection of revenue from consumers was efficient and effective.

Financial Management

- ❖ the fund management was effective
- ❖ Annual Revenue Requirement (ARR) was filed in time and tariff revised.

Consumer Satisfaction

- ❖ a system is in place to assess consumer satisfaction and redress grievances; and

Energy Conservation

- ❖ the loss reduction techniques and energy conservation measures were undertaken in line with the National Electricity Plan (NEP); and
- ❖ the concept of energy audit was in place.

Monitoring

- ❖ there is a monitoring system in place and the same is utilised in review of ongoing projects, corrective measures to overcome the deficiencies are taken properly and whether there is adequate response to Government audit/Internal audit observations.

1.4.4 Audit Criteria

The audit criteria adopted for assessing the achievement of the objectives were:

- ❖ Guidelines issued by the GOI regarding implementation of APDRP, Rural Electrification Corporation (REC), RGGVY and R-APDRP.
- ❖ Guidelines of committee of experts for planning, implementation and monitoring of projects.
- ❖ Various MOAs and MOUs executed between Central and State Governments.
- ❖ Directives of SERC for reduction of T&D losses and revenue realization.
- ❖ State Financial Rules

1.4.5 Power Revenue and Expenses

The Department draws electricity from three sources for distribution to the consumers in the State. The main sources of energy for the Department apart from self-generation are purchases from State-owned Power Development Corporation and the Central

Government PSUs. The main sources of revenue are the sale of power to the consumers and other miscellaneous receipts like fee, fines, etc.

The position of departmental expenditure (including power purchase), revenue realisation and budgetary support from the State to make good the deficiency during 2006-11 is given in the following table.

Table 1.4.1

(₹ in crore)

Year	Total expenditure on distribution (including power purchase)	Total Income including sale of power	Difference Budgetary support	Budgetary support (*per cent*)	Energy Sold (MUs)
2006-07	1,926	395	1,531	79	4,030.84
2007-08	2,335	594	1,741	75	3,331.64
2008-09	2,270	630	1,640	72	3,538.70
2009-10	3,141	704	2,437	78	3,833.00
2010-11	3,383	1,053	2,330	69	4,041.00

It can be seen from the above table that the Department is heavily dependent upon the budgetary support from the State Government to provide electricity to the population in the State. An analysis of the data revealed that for every unit of energy supplied to the consumers by the Department during 2010-11, the State had spent an amount of ₹ 5.77 from its budget.

1.4.6 Audit Findings

An entry conference was held with the Development Commissioner (Power) on 22nd February 2011. Subsequently, audit findings were reported to the Department and the State Government in September 2011 and discussed in an 'Exit Conference' held in October 2011, attended by the Development Commissioner Power (DCP) J&K. The views expressed by the Departmental officers have been considered while finalising this Review. The audit findings are discussed in subsequent paragraphs.

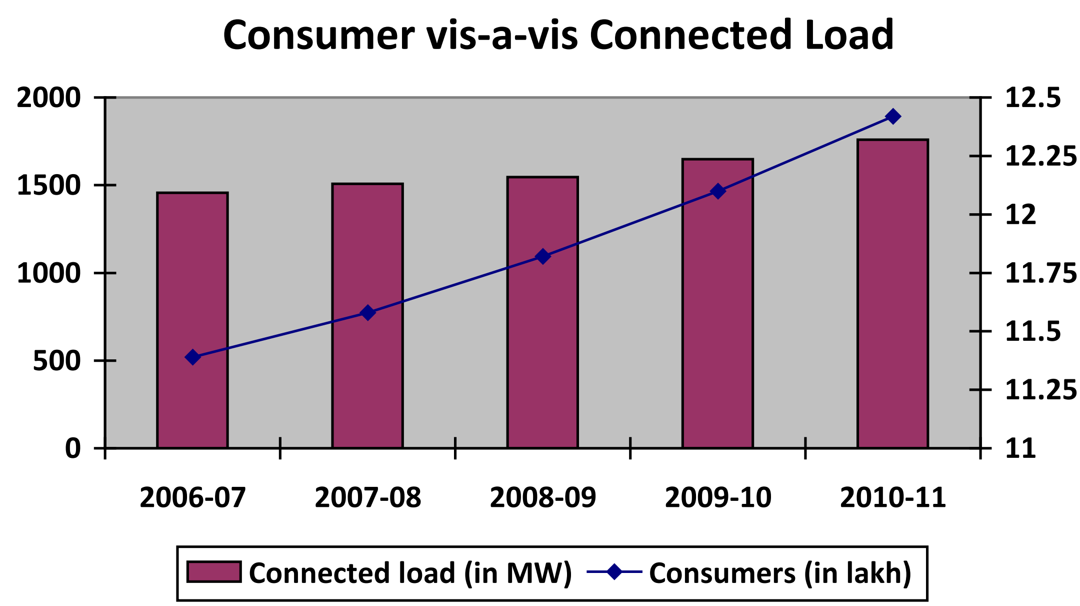
1.4.7 Distribution Network Planning

The Department was required to prepare a long-term plan and annual plans for creation of infrastructure facilities for efficient distribution of electricity to the maximum possible population in the State. Besides, the upkeep of the existing network, additions to distribution network were required to be planned keeping in view the demand/connected load, anticipated new connections and growth in demand based on Electric Power Survey. Capital Investment Plans were required to be submitted to the State Government/SERC after considering the physical parameters. The major components of the outlay were to include outlays for normal development and system improvement besides rural electrification and strengthening of IT enabled systems.

It was, however, observed that annual plans based on the above parameters had not been prepared. Instead, works were executed on individual demands in an indiscriminate manner leading to situations of distribution transformers being installed in disregard to power availability and connected load in a particular area. Indiscriminate capacity additions had resulted in increased energy misuse and overload at receiving and grid stations. Non-existence of proper planning was brought (May 2010) to the notice of the Chief Engineer, EM&RE Wing, Srinagar by the Deputy Director of his planning wing and was accepted by the Commissioner /Secretary, PDD in a meeting held (February 2011) under the chairmanship of Finance Minster.

The particulars of consumers and their connected load based on the information collected by audit from 27 out of 31 field divisions (EM&RE) during the review period are given below in bar chart.

Chart-I



(Source: Data collected from 27 out of 31 field divisions)

While the system improvement and rural electrification schemes have been dealt with separately under subsequent paragraphs, the particulars of distribution network planned and achieved in 27 out of 31 EM&RE Divisions are depicted in ***Appendix-1.4***. It may be seen from the appendix that against the planned addition of 10,515 sub-stations over the review period, only 8,296 sub-stations were actually added. Further, alongwith the growth *(*21 *per cent)* of connected load of 1,456.98 MW in 2006-07 to 1,759.82 MW (equivalent to 2,199.78 MVA at 0.80 Power Factor) in 2010-11 as depicted in the graph, the increase in transformer capacity from 4,322.09 MVA to 5,066 MVA (17 *per cent*), despite existing excess transformation capacity as highlighted in paragraph 1.4.10.3. The increase in distribution capacity had not matched the pace of growth in the consumer-base.

Audit noticed huge variation between figures of connected load supplied by the Development Commissioner, Power and those collected by Audit from the field units. As per the figures supplied by the Commissioner, the connected load for the State as a whole, as of March 2011, was only 1,589.05 MW (1,986.32 MVA[30]) which was far less than the load arrived at by Audit on the basis of figures collected from 27 divisions only and depicted in the graph above. Reasons for the mismatch though called for were awaited (September 2011).

1.4.8 Implementation of Centrally Sponsored Schemes

1.4.8.1 Rural Electrification

The National Electricity Policy lays down the key objective of development of power sector as supplying electricity to all areas including rural areas through joint efforts of the GOI and the State Governments. Accordingly, the *Rajiv Gandhi Grameen Vidyutikaran Yojana* (RGGVY) was launched in April 2005, with the aim of providing all households access to electricity in five years. Under RGGVY, the GOI provided 90 *per cent* capital subsidy.

In August 2006, the GOI notified the Rural Electrification Policy (REP) which, *inter-alia*, aimed at providing all households access to electricity by 2009 and Minimum consumption of one unit per household per day as a merit good by the year 2012. The other RE schemes viz., Accelerated Electrification of one lakh villages and one crore households and Minimum Needs Programme were merged into RGGVY. The features of the erstwhile '*Kutir Jyoti Programme*' were also suitably integrated into this scheme.

As on 31 March 2006, out of 6,652 villages in the State (as per 2001 Census), 6,268 (94 *per cent*) villages were electrified.

As per guidelines, the State Government had to implement the projects through State Power utilities or Central Public Sector Undertakings on turnkey basis as per the prescribed procurement and bidding conditions and execution of each project had to be completed within a period of two years.

It was seen that 14 projects covering the entire J&K State were sanctioned between 2005-06 and 2008-09 by REC at a cost of ₹ 821.62 crore for completion by the end of March 2010. Under these projects 3,03,682 rural household connections were proposed to be provided. This included 96,381 BPL households earmarked to be electrified free of cost and 12,530 already electrified villages/hamlets for intensive electrification. The execution of the projects in 14 districts was entrusted to NHPC Ltd. (7 districts)[31] and JKPDC (7 districts[32]).

30 At 0.80 Power Factor

31 Budgam, Jammu, Kargil, Kathua, Leh, Srinagar and Udhampur

32 Anantnag, Baramulla, Doda, Kupwara, Poonch, Pulwama and Rajouri

The coverage of Rural Household connections including BPL households during the last five years was as under:-

Table 1.4.2

Target No. of HH to be electrified including BPL HH ending March 2011	Cumulative achievements including BPL HH ending March 2011	Coverage *(percent)*	Shortfall *(percent)*
3,03,682	29,742	10	90

(Source: Data furnished by the Planning Wing of PDD, HH: Household habitations)

Huge shortfall of 90 *per cent* despite spending ₹ 499.69 crore during the last five years ending March 2011 indicated that the main objectives of the programme to provide access to electricity to all households within the stipulated time frame including coverage of all BPL households in all Rural habitations could not be achieved.

1.4.8.2 The achievements of the two implementing agencies viz., NHPC and JKPDC at the district level are depicted in following table.

Table 1.4.3

District	Target			Achievement			Shortfall *(percentage)*		
	Un-electrified/ de-electrified villages/ hamlets	Intensive electrification in already electrified villages/ hamlets	HH	Un-electrified/ de-electrified villages/ hamlets	Intensive electrification in already electrified villages/ hamlets	HH	Un-electrified/de-electrified villages/ hamlets	Intensive electrification in already electrified villages/ hamlets	HH
Executing Agency: NHPC									
Srinagar	311	711	9,212	3	27	1,488	99	96	84
Budgam	1,427	591	10,135	0	0	0	100	100	100
Leh	171	224	6,909	20	1,965	1,780	88	-	74
Kargil	145	559	1,614	11	585	585	92	-	64
Jammu	1,375	5,530	36,697	0	1,134	6,314	100	79	83
Kathua	648	1,644	31,632	122	1,522	6,461	81	7	80
Udhampur	1,363	1,945	59,357	35	747	11,136	97	62	81
Executing Agency: JKPDC									
Baramulla	194	0	15,994	0	0	0	100	100	100
Pulwama	352	0	20,606	0	0	0	100	-	100
Kupwara	229	332	8,099	74	74	555	68	78	93
Anantnag	601	600	27,016	309	0	1,423	49	100	95
Rajouri	962	158	41,092	0	0	0	100	100	100
Poonch	276	104	7,288	0	0	0	100	100	100
Doda	275	132	28,031	0	0	0	100	100	100
Total	**8,329**	**12,530**	**3,03,682**	**574**	**6,054**	**29,742**	**93**	**52**	**90**

(Source: Data furnished by the Planning Wing of PDD, HH: Household habitations)

Evidently the pace of implementation of the projects has been tardy with huge areas yet to be covered. There was 'nil' achievement against the targets in case of Baramulla, Pulwama, Doda, Rajouri and Poonch districts despite allotment of funds during 2009-10 and 2010-11. Year-wise details of coverage of households including BPL households under RGGVY by the implementing agencies (NHPC and JKPDC), though called for (August 2011), were not intimated (September 2011). Apart from this, inherent contradiction existed in the data furnished by the planning wing of the Department depicted in the above table. As can be seen against the target coverage of 224 and 559 villages/habitations under intensive electrification in Leh and Kargil respectively, the achievements shown were much higher at 1,965 and 585 villages/hamlets. Reasons for such variation, though called for (October 2011), were not furnished. The discrepancies in the data render the claim of achievements doubtful.

Further, despite signing tripartite and bipartite agreements with the NHPC and REC by the Development Commissioner (Power) of the State PDD on 9th September 2005, neither had any franchisee been engaged for management of the rural distribution network nor any project completed within the implementation period of two years indicating unsatisfactory implementation of all the sanctioned projects. This meant that the State Government was liable to lose not only the benefit of 90 *per cent* capital subsidy but also repay the loan alongwith interest.

1.4.8.3 Project Funding Mechanism

100 *per cent* (90 *per cent* capital subsidy and 10 *per cent* loan) funds were required to be provided by REC to the State Government for the eligible projects. Further, under bi-partite agreement signed by the State Government with REC, funds were to be released by the REC to the State Government in four installments (first three @ 30 *per cent* of the sanctioned project cost and fourth 10 *per cent* on furnishing of the completion certificate after final monitoring by REC). First installment (30 *per cent*) was to be released within 15 days from the date of execution of the loan documents and furnishing of undertaking by the implementing agency that the contract for execution of the project would be awarded within one week from the date of release of the first installment. Second and third installments were to be released on furnishing 80 *per cent* expenditure details of the previously released installments by the State Government to REC. In the event of non-implementation of the projects satisfactorily as per the conditionalities in the guidelines, the capital subsidy could be converted into interest bearing loans.

In the State, the Department entered (September 2005) into a bi-partite agreement with the REC. Subsequently, the Department entered (September 2005/November 2009) into tripartite agreements with the REC and the implementing agencies viz., NHPC and JKPDC wherein it was stipulated to release funds directly to the implementing agencies by the REC in suitable installments as prescribed under the bi-partitie agreement signed with the REC.

Under the bi-partite agreement, the Department had also to specify quarterly milestones and progress thereof was to be reviewed jointly by REC and the authorized representatives of the State Government in the quarterly performance review meetings.

The details of funds received by the implementing agencies and utilisation thereagainst during 2006-11 are shown in the table below:-

Table 1.4.4

(₹ in crore)

Year	OB	Funds received	Interest earned	Total availability of funds	Funds utilised	Unspent balances (percentage)
2006-07	-	19.59	-	19.59	-	19.59 (100)
2007-08	19.59	19.59	0.57	39.75	41.36	(-) 1.61 (-)
2008-09	(-) 1.61	187.12	1.52	187.03	146.79	40.24 (22)
2009-10	40.24	354.40	2.77	397.41	216.70	180.71 (45)
2010-11	180.71	84.03	5.49	270.23	94.84	175.39 (65)
Grand Total		664.73			499.69	

As can be seen, the utilisation of funds ranged between zero and 78 *per cent* during the last five years resulting in accumulation of unspent balances at the end of each year. This had led to non-completion of the targeted works and non-extension of benefits to the consumers, besides undue financial aid to the executing agencies on account of earning of interest on unutilised grants. It was seen that NHPC had earned interest of ₹ 10.35 crore on unspent balances lying with it during the year 2007-08 to 2010-11.

1.4.9 Restructured Accelerated Power Development Reforms Programme

The Government of India (GOI) approved (2002-03) Accelerated Power Development Reforms Programme (APDRP) with the objective of reduction in AT&C losses, infrastructure development by upgrading sub-transmission and distribution system and 100 *per cent* metering of all categories of consumers.

In order to carry on the reforms further, the GOI launched the Restructured APDRP (R-APDRP) in July 2008 as a Central Sector Scheme for XI Plan. The R-APDRP scheme comprises Parts 'A' and 'B'. Part 'A' was dedicated to establishment of IT enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA[33]/Distribution Management System. For this, 100 *per cent* loan is provided, and was convertible into grant on completion and verification of same by independent third party evaluating agencies. Part 'B' of the scheme deals with strengthening of regular sub-transmission & distribution system and upgradation of projects.

Activities under APDRP

1.4.9.1 Programme Implementation and Financial Performance

The details of the funds released by GOI, mobilized from other agencies (including REC/ PFC), utilization thereagainst and balances are depicted below.

33 Supervisory Control and Data Acquisition – It generally refers to industrial control systems: computer systems that monitor and control industrial, infrastructure, or facility-based processes.

Table 1.4.5

(₹in crore)

Year	O.B	Funds released by GOI	Others	Total funds available	Funds utilised	Balance	*percent*age of balance to funds available
2006-07	88.16	184.89	Nil	273.05	134.19	138.86	**51**
2007-08	138.86	85.71	Nil	224.57	109.65	114.92	**51**
2008-09	114.92	26.43	30.07	171.42	160.14	11.28	**07**
2009-10	11.28	130.84	Nil	142.12	60.48	81.64	**57**
2010-11	81.64	81.36	Nil	163.00	27.38	135.62	**83**
Total		**509.23**	**30.07**		**491.84**		

Against the availability of ₹ 627.46 crore during the period 2006-11, expenditure of only ₹ 491.84 crore (78 *per cent*) had been incurred resulting in non-achievement of key objectives of the programme.

Our scrutiny revealed as below:

The programme was taken up in 12 erstwhile districts of the State for implementation under six projects estimated to cost ₹ 1100.13 crore by seven Electric Maintenance and Rural Electrification (EM&RE) Circles of the State, duly approved by the GOI during 2002-03 and 2004-05 with completion schedule by the end of 10th Five Year Plan (2006-07).

The implementation of the programmes was marred by non-prioritisation of project works in densely electrified zones in urban and industrial areas, improper planning in the formulation of project proposals, non-conversion of existing distribution network into High Voltage Distribution System, etc. As a consequence, the project targets were not achieved by the end of 2006-07 and works spilled over to 11th Five Year Plan and with R-APDRP in place the projects sanctioned under APDRP during 10th Plan and not taken up for execution were ordered to be closed. The State Government constituted (October 2009) a committee to clear work done claims and completion cost of works under short closure of APDRP. Funding for the incomplete works, however, continued upto March 2011. It was seen that the works had been mainly executed departmentally instead of pre-qualified turnkey contractors selected on a competitive basis as per the guidelines.

1.4.9.2 The physical and financial performance under all components of the programme ending March 2006, between 2006-11 and ending March 2011 in respect of the entire State is depicted in ***Appendix-1.5***.

Huge shortfall ranging between 74 and 95 *per cent* under replacement of overhead H.T line by underground cables, erection of 11 K.V. cable, replacement of overhead L.T line by underground cables, reactive compensation and modernisation/ computerisation, besides consumer metering (52 *per cent*) indicated that the components which were vital for reducing losses and enhancing financial health of the Department were not prioritised resulting in non-fulfillment of envisaged goals.

1.4.9.3 Despite spending ₹ 491.84 crore on six projects during 2006-11 with progressive expenditure of ₹ 812.90 crore ending March 2011, the envisaged benefits could not accrue as indicated below:

Table 1.4.6

S.No	Benchmark Parameters	Project	Level at the time of sanction of the project *(per cent)*	Target Level of achievement set for the State *(per cent)*	Level actually achieved *(per cent)*
1.	T&D/AT&C losses	EM&RE, Kashmir	56	24	61
		EM&RE, Jammu	44	25	42
2.	Failure rate of distribution transformers	EM&RE, Kashmir	38	07	41
		EM&RE, Jammu	38	10	43
3.	Meter Installation	EM&RE, Kashmir	20	100	33
		EM&RE, Jammu	45	100	70

Thus, the programme objectives of reducing T&D losses, bringing about commercial viability in power sector, ensuring consumer satisfaction could not be achieved due to slow/non-execution of works under essential components (consumer/feeder metering, capacitor installations, modernisation works, replacement of overloaded LT lines by cable reactive compensation, etc.), diversion of programme funds, idle/un-fruitful investments and excess over approved costs as brought out in the succeeding paragraphs.

1.4.9.4 Idle investment

Two divisions[34] spent ₹ 9.98 crore on construction of twelve 33 KV receiving stations (Out of 113 targeted under APDRP) during 2004-11 for evacuation of power to various areas in three districts of Rajouri, Poonch and Anantnag. However, power could not be evacuated from eight Receiving Stations completed at a cost of ₹ 9.18 crore during 2009-11 as no feeder lines had been laid due to non-provision of requisite funds. Apart from this, construction of four receiving stations against which ₹ 0.80 crore had been booked as of March 2010 on account of procurement of material, had to be dropped due to short closure of APDRP. Thus, funds spent on construction of seven (three completed and four incomplete) receiving stations were not extending the benefits for which the amount was spent since March 2010 & March 2011 whereas investment made on the remaining five stations was being partially utilised due to non-laying of additional feeder lines.

In reply, the Executive Engineers of EM&RE Divisions Rajouri and Poonch stated (June 2011) that demand of funds amounting to ₹ 63.66 lakh (Rajouri: ₹ 40.25 lakh and Poonch: ₹ 23.41 lakh) placed in 2009-10 had not been met as of June 2011.

[34] Sub-Transmission Division, Kalakote, Sub-Transmission Division, Bijbehara

1.4.9.5 Diversion of funds

Six divisions[35] diverted (2006-11) ₹ 3.48 crore to creation of sub-stations, renovation of sub-stations, improvement of LT lines, payment of wages, purchase of desktop, digital copier, furniture, voltage stabiliser, renovation of divisional office building, modernisation of air conditioning, renovation of circle office and divisional offices, etc. not provided in the approved project reports under the programme.

This was despite the fact that diversion of similar nature had been pointed out in the Report of CAG for the year ended 31 March 2006.

In reply, the Executive Engineers (EM&RE Division Rajouri & Poonch) stated (June 2011) that sub-stations were created as per public demand on the recommendations of the representatives of the local people. Reply was, however, silent about the reasons for diversions made for office contingencies.

1.4.9.6 Excess expenditure over approved cost

Four divisions[36] exceeded the approved cost by ₹ 3.14 crore on execution of one to six components (laying/replacement of 11 KV lines, laying/reconductoring of LT lines, creation/augmentation of 11/04 KV Sub-stations, construction/erection of new receiving stations/33 KV lines, modernisation works and consumer metering etc.) at the end of March, 2011 without seeking approval of Ministry of Power, Government of India.

While the Executive Engineers of EM&RE Divisions of Udhampur and Batote stated (June 2011) that the reason for exceeding the approved cost was price/cost escalation, no reply was received from the Kashmir based divisions. Justification of price/cost escalation does not hold good as per short closure guidelines whereunder increase in approved cost was to be allowed only in the case of open-bid turnkey projects and not in case of works which were executed departmentally.

1.4.9.7 Non-implementation of High Voltage Distribution System (HVDS)

Guidelines provided for conversion of existing network into High Voltage Distribution System (HVDS). This was an effective method of reducing technical losses, theft in LT lines, etc. By adopting this process the consumer could not resort to hooking which was the common way of committing theft of power in the State. In Kashmir Division, PDD had started pilot HVDS system at Nishat and Soura of Srinagar District in 2005-06 which had given encouraging results. However, no follow up steps had been taken to introduce this system in other areas to reduce losses/pilferage.

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35 (i) EM&RE Division, Rajouri, ₹ 82.31 lakh (ii) EM&RE Division, Poonch, ₹ 121.49 lakh, (iii) EM&RE Division-I, Srinagar ₹ 47.36 lakh, (iv) EM&RE Division, Kulgam ₹ 8.64 lakh, (v) EM&RE Division, Ganderbal ₹ 9.41 lakh, (vi) STD-II, Srinagar ₹ 78.32 lakh

36 (i) EM&RE Division, Udhampur (four components) ₹ 71.88 lakh, (ii) EM&RE Division, Batote (Six components) ₹ 115.61 lakh (iii) STD-II, Srinagar (Three components) ₹ 102.42 lakh (iv) STD, Bijbehara (One component) ₹ 23.66 lakh

Though non-inclusion of HVDS and inclusion of more LT lines in Project Reports had been commented upon in the Report of CAG for the year ended 31 March 2006, no corrective measures had been taken and LT lines had continued to be added. During 2006-11, 1620.593 CKM of more L.T. lines at a cost of ₹ 39.55 crore had been added to the system raising T&D losses further from 45 *per cent* in 2005-06 to 62.12 *per cent* in 2010-11. The DCP informed (June 2011) that HVDS implementation had now been included in the proposals under R-APDRP.

Activities under R-APDRP

1.4.9.8 Establishment of IT enabled system

Part–A of the R-APDRP scheme is dedicated to establishment of IT-enabled system and SCADA/Distribution Management System.

The activities include;

- Preparation of base-line data for the project area covering consumer indexing, G.I.S mapping, metering of distribution transformers and feeders and automatic data logging for all DTRs and feeders and SCADA/DMS System (only in project areas having a population over four lakh and energy input of 350 MU).
- Asset mapping of entire distribution network at and below the level of 11 KV transformers including DTRs and feeders, low tension lines, poles and other distribution equipment.
- Adoption of IT applications for meter reading, billing and collection, energy accounting and auditing, MIS, redressal of consumer grievances, establishment of IT enabled consumer service centres etc.
- The base-line data and required system is to be verified by an independent agency appointed by the Ministry of Power.

The GOI approved (November 2009) 30 projects of Part-A under R-APDRP of the State for ₹ 144.11 crore which was revised (December 2010) to ₹ 191.35 crore (₹ 151.99 crore as PFC loan and ₹ 39.26 crore as State Share) for completion in 18 months. The State Government had framed these projects for 30 towns under Part-A with the assistance of IT consultants.

It was seen that though the process had been initiated in November 2009 the delay in finalisation of contracts which had continued upto February 2011 under Part-A had delayed actual implementation of the projects with the result that project reports under Part-B were under process as of March 2011 which had in turn affected process of reduction of Aggregate Technical and Commercial (AT&C) losses by envisaged three *per cent* per year as per the guidelines.

It was seen that the funds released by the GOI during the last two years had remained almost unutilised as tabulated below.

Table 1.4.7

(₹ in crore)

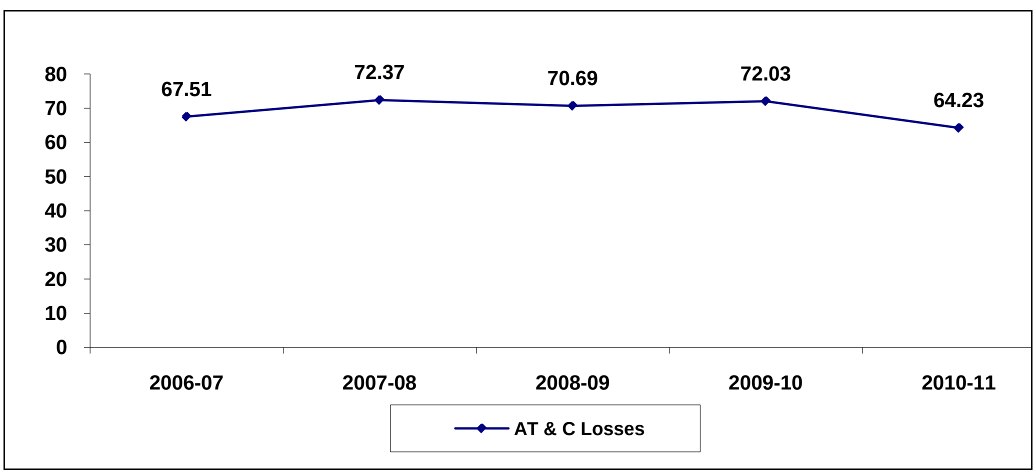
Year	O.B	Funds released by		Funds available	Funds utilised	Balance	Percentage of balance to funds available
		GOI	Others				
2009-10	0.00	40.347	0.068	40.415	0.0679	40.347	99.83
2010-11	40.347	5.25	0.50	46.097	0.04924	46.048	99.89

In view of the delayed award of contracts, the works were unlikely to be completed by the end of three years period from the date of original approval (i.e. 26th November 2009) which would entail loss of conversion of 100 *per cent* loan as grant, besides repayment of full loan alongwith interest. Steps taken either by the PDD or the Nodal Agency (PFC) to adhere to the completion schedule before the crucial date of 25th November 2012 were not intimated.

1.4.9.9 Strengthening of sub-transmission and distribution system

One of the prime objectives of R-APDRP is to strengthen the distribution system with focus on reduction of AT&C losses on sustainable basis. For special category states, 90 *per cent* loan is provided by GOI, which is convertible to grant in five tranches, subject to AT&C loss levels being maintained at or below 15 *per cent* for five years. The graph below depicts the AT&C losses over the review period.

Chart-II



During the review period, the AT&C losses remained between the level of 64.23 and 72.37 *per cent* which was over four times more than the acceptable level of 15 *per cent*.

1.4.9.10 Consumer metering

Attainment of 100 *per cent* metering is one of the objectives of the R-APDRP scheme. As per benchmarks kept under 3rd Tripartite MOU signed between the Union Ministry of Finance, Planning Commission, Government of India and the State Government on 6th July, 2009, the State Government had to take steps to dovetail funds under APDRP, R-APDRP and normal Plan (2009-10) to achieve 75 *per cent* consumer metering, besides making functional all non-functional meters damaged in the disturbances of summer 2008 in the State. Further, under Part 'A' works of R-APDRP scheme, 100 *per cent* metering was committed by the State Government in 30 identified towns by June 2011 for establishing base-line data. However, there were variable dates for achieving 100 *per cent* metering of consumers as discussed below:-

(i) The SERC had, in its directives issued in tariff order for 2007-08, fixed target date for 100 *per cent* metering across all consumer categories at 31st December 2009 which was further extended to 31st December 2011 in the tariff order for 2010-11.

(ii) As per J&K Electricity Act-2010 notified in April 2010, 100 *per cent* metering is to be achieved by April 2012. Against these variable target dates, actual achievements as intimated in June 2011 are tabulated as under:-

Table 1.4.8

S. No.	*Region*	*No. of consumers as on 31.08.2010*	*No. of consumers metered*	*Percentage of consumers metered*
1.	Kashmir	6,39,134	2,07,247	32
2.	Jammu	5,81,882	4,64,835	80
	Total	**12,21,016**	**6,72,082**	**55**

(Source: Data furnished by the Department)

- Test-check of records of Electric Central Stores Division, Pampore revealed that the Electric Maintenance Divisions, Kashmir had lifted 2,97,492 single phase digital energy meters procured by P&MM wing at a cost of ₹ 30.23 crore during 2003-09. This shows that full quantity of procured meters had not been used by the department as it could not cover even Srinagar city in full. This also meant that parts of other districts were mostly un-metered paving way for large scale misuse of electricity. Records showed that the Chief Engineer, EM&RE Wing, Srinagar had observed (July 2010) that in eight[37] divisions, meters were lying in stock in excess of the un-metered connections. Against 15,683 un-metered installations in these areas, 57,529 meters were available with the divisions resulting in retention of excess quantity of 41,846 meters. Sensing that 100 *per cent* metering of project areas covered under R-APDRP was a prerequisite for implementation of part-A of the said project, the Chief Engineer, EM&RE, Kashmir ordered (July 2010) relocation of these excess energy meters. Out of the excess meters, 36,900 meters were withdrawn from these divisions and allotted to other seven[38] divisions indicating that the initial distribution had been carried out without proper assessment of requirements.

- Scrutiny of records further revealed that majority of digital meters installed during 2003 to 2007 had failed to work at low voltages and low temperature and thus did not

[37] Awantipora, Baramulla, Bijbehara, Handwara, Kulgam, Pulwama, Sopore and Sumbal

[38] Anantnag, Srinagar I, II, III, IV, V and Sumbal

record correct consumption of energy in winter, which had proved more of a liability leading to massive un-recorded consumption by consumers. The department started replacing these meters by LCD type in some areas of Srinagar city. Evidently, no assessment of working of digital meters in low voltage/temperature had been made before going for large scale purchase. No orders for procurement of meters were placed by P&MM wing during 2009-10 and 2010-11 due to disagreement about the type of meters to be procured, thus, badly affecting the metering programme. Funds available under metering component could not, as such, be utilised.

- Test check of records of Electric Central Stores Division, Pampore revealed that against the purchase of 4,000 three-phase Whole Current AC Static Energy Meters by the P&MM wing at a cost of ₹ 1.14 crore in July 2006, only 3,205 meters had been lifted by various utility divisions of Kashmir and the balance 795 meters were lying in the Electric Central Store for the last more than three years. These meters had been procured for installation of commercial and big consumer connections. The action of the Electric Maintenance & RE Department resulted in locking up of huge government money amounting to ₹ 22.03 lakh besides non- plugging of energy theft and deliberate omission of proper energy accounting.

- The EE, EM&RE Division, Vijaypur (Jammu) could not utilise material (meters and allied cable) procured for ₹ 67.36 lakh upto March 2010 for installation of consumer meters despite allotment of ₹ 85.51 lakh during 2009-10 under APDRP. Out of the allotted funds, ₹ 8.16 lakh only were spent on installation of 1,870 meters and the balance amount of ₹ 77.35 lakh was surrendered in March 2010. No further funds were released during 2010-11 for utilisation of the material procured upto March 2010 resulting in blocking of the investment of ₹ 67.36 lakh. In reply it was stated (October 2010) that on receipt of funds, the material purchased would be utilised on installation of meters lying in the Division. Further progress was awaited (July 2011).

1.4.10 Operational efficiency

The operational performance of the Department is judged on the basis of availability of adequate power for distribution, adequacy and reliability of distribution network, extent of line losses, detection of theft of electricity, etc. These aspects have been discussed below.

1.4.10.1 Purchase of Power

The demand for energy in the State has been increasing year after year. Assessment of future demand and requirement of power is calculated on the basis of consumption trends of the past, present requirement, load growth trends and T&D losses and its trend. SERC approves the sources of purchase of power and the purchase cost based on the estimates made in the ARR.

The demand and availability scenario of energy in the State during the period from 2006-07 to 2010-11 was as under:-

Table 1.4.9

(in Million Units)

	2006-07	2007-08	2008-09	2009-10	2010-11
Energy requirement	11,343	14,037	14,750	15,656	16,544
Energy availability	8,237	8,744	9,147	10,371	10,876
Deficit	3,106	5,293	5,603	5,285	5,668
Deficit (*Percentage*)	**27**	**38**	**38**	**34**	**34**

The above details indicate that energy deficit had increased from 27 *per cent* in 2006-07 to 38 *per cent* in 2008-09. The deficit had come down to 34 *per cent* in 2010-11 apparently due to availability of more power after commissioning of Baglihar and Sewa–II Hydroelectric Projects in the State.

To meet the growing demand of power, the State Government purchases power from Northern Grid as per assessment made in the Electric Power Survey and the approval granted by the SERC. The details of purchase of power assessed and approved by SERC vis-a-vis actual purchase made by the PDD, between 2006-07 and 2010-11 were as under:-

Table 1.4.10

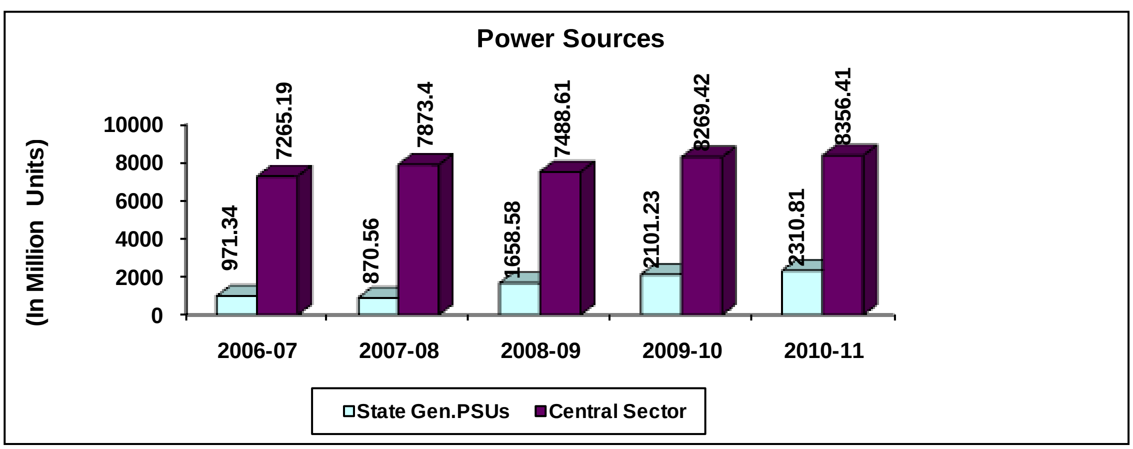
(in Million Units)

Year	Demand assessed in EPS	Purchases approved by SERC	Actual Power purchased	Power Deficit	Excess against approved purchase
(1)	**(2)**	**(3)**	**(4)**	**(5) = (2 – 4)**	**(6) = (4 –3)**
2006-07	9,099.00	8,150.00	8,236.53	862.47	86.53
2007-08	9,704.20	7,947.00	8,743.96	960.24	796.96
2008-09	10,309.40	8,674.00	9,147.21	1,162.19	473.21
2009-10	10,914.60	10,194.35	10,370.65	543.95	176.30
2010-11	11,519.80	10,004.62	10,667.22	852.57	662.60

No reasons for purchasing excess power without proper approval of SERC were furnished.

Source wise purchase of power during 2006-11 (in MUs)

Chart-III



The above details indicated increase in purchase of 1,339.47 MU (138 *per cent*) from State PSU against the increase of 1,091.22 MUs (15 *per cent*) from central sector during the period from 2006-07 to 2010-11 indicating improvement in generation of power at the State level.

1.4.10.2 Sub-Transmission & Distribution Losses

The distribution system is an important and essential link between the power generation source and the ultimate consumer of electricity. For efficient functioning of the system, it must be ensured that there are minimum losses in sub-transmission and distribution of power. While energy is carried from the generation source to the consumer, some energy is lost in the network. The losses at 33 KV stage are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. These are based on the difference between energy received (paid for) by the Distribution Company and energy billed to consumers. The percentage of losses to available power indicates the effectiveness of distribution system. The losses occur mainly on two counts, i.e., technical and commercial. Technical losses occur due to inherent character of equipment used for transmitting and distributing power and resistance in conductors through which the energy is carried from one place to another. On the other hand, commercial losses occur due to theft of energy, defective meters and excess drawal through unmetered supply, etc.

Under 3rd tripartite agreement signed (July 2009) for the implementation of R-APDRP in the State, the Government had to take steps to reduce T&D losses by at least three *per cent* per year.

The table below indicates the energy losses for the State as a whole for the last five years upto 2010-11.

Table 1.4.11

(In Million units)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Energy purchased	8,236.53	8,743.96	9.147.21	10,370.65	10,667.23
2.	Energy sold	4,030.84	3,331.64	3,538.70	3,833.00	4,041.00
3.	Energy losses (1-2)	4,205.69	5,412.32	5,608.51	6,537.65	6,626.23
4.	*Percentage* of energy losses	51.06	61.90	61.27	63.04	62.12
5.	*Percentage* of losses allowed by SERC	50.70	46.70	62.09	63.60	57.79
6.	Excess losses (in MUs)	29.77	1,328.90	-	-	461.64
7.	Average realisation rate per unit (in ₹)	2.04	2.62	-	-	2.92
8.	Value of excess losses (in crore)	6.07	348.17	-	-	134.80

The table above shows that losses had ranged between 51 and 63 *per cent* during the last five years ending March 2011. As per MOU (April 2002) executed with the GOI under APDRP, the State Government was committed to bringing down T&D losses to 25 *per cent* from 46 *per cent* by December 2006. These losses had alarmingly gone up from 45 *per cent* in 2005-06 to 62 *per cent* in 2010-11 due to unsatisfactory implementation of the Centrally Sponsored Programmes. Reduction in these losses is the most significant step towards making the department financially self-sustainable. Reducing losses was important from the fact that three *per cent* decrease in losses per year could add ₹ 93.43 crore to the revenue of the department annually. The main reasons for such high energy losses were significant number of unmetered consumers and theft/misuse of electricity.

Records revealed that while approving tariff for 2010-11, the SERC had noted that the T&D losses in the State were amongst the highest in the country. Despite various submissions made by the Department with regard to the initiatives being taken for reducing such losses in the State over the years, it had miserably failed in controlling the losses. It was seen in audit that despite all assurances to make sincere efforts to reduce T&D losses to an acceptable level, such losses for 2010-11 were at staggering 62 *per cent* which was 33 *per cent* higher than the proposed reduction of 29 *per cent* by 2010-11 spelt out in the 11th five year plan document. In response, the Department stated that a detailed turn-around plan to improve the T&D network and reduce losses to acceptable limits under R-APDRP scheme covering 30 towns in the state having population above 10,000, had been worked out.

1.4.10.3 Excessive transformation capacity

Transformer is a static device installed for stepping up/stepping down voltage in transmission and distribution system. The energy received at high voltage (132 KV, 66 KV and 33 KV) from primary sub-stations of the Transmission Companies is transformed to lower voltage (11 KV) at 11 KV sub-stations to make it usable by the consumers. In order to cater to the entire connected load, the transformation capacity should be adequate. The ideal ratio of transformation capacity to connected load is considered as 1:1. The table below indicates the details of transformation capacity at 11 KV sub-stations and connected load of the consumers in 27 out of 31 divisions (EM&RE) during the period 2006-11.

Table 1.4.12

(In MVA)

Year	Transformation capacity	Connected loads	Gap in transformation capacity	Ratio of transformation capacity to connected load
2006-07	4,322.09	1,821.23	2,500.86	2.37:1
2007-08	4,573.77	1,885.39	2,688.38	2.43:1
2008-09	4,768.24	1,932.70	2,835.54	2.47:1
2009-10	4,908.58	2,059.59	2,848.99	2.38:1
2010-11	5,066.51	2,199.78	2,866.73	2.30:1

(Source: Data collected from field units)

It can be seen that the ratio of transformation capacity to total connected load ranged around 2.39:1 (against standard ratio of 1:1), thus representing excess transformation capacity against the connected load indicating that the transformers provided were more than the requirements. Reasons, for such huge distribution of transformation capacity which is not in synchronisation with the actual load, called for from the Development Commissioner Power were awaited (September 2011).

1.4.10.4 Performance of Distribution Transformers

The SERC had fixed the norm of failure of Distribution Transformers (DTRs) in its tariff orders. The details of norms fixed, actual DTRs failed and the expenditure incurred on their repairs in 27 of the 31 divisions is depicted in the table below.

Table 1.4 13

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Existing DTRs at the close of the year	28,275	29,910	30,239	32,936	34,586
2.	DTRs failed	9,515	10,938	11,401	12,872	15,394
3.	Percentage of failures	33.65	36.56	37.70	39.08	44.50
4.	Norms allotted by SERC (*percentage*)	5	5	5	5	5
5.	Excess failure (*percentage*) over norms	28.65	31.56	32.70	34.08	39.50
6.	Expenditure on repair of failed DTRs (in crore)	10.358	16.218	16.244	16.652	16.661

Evidently, the failure rate of DTRs was higher than the permissible rate to the extent of 28.65 to 39.50 *per cent*. This could be minimised by taking adequate steps for preventive maintenance and avoiding overloading of the DTRs.

Cause-wise analysis of failure of DTRs revealed that the percentage of failure due to overloading ranged between 60 and 68 *per cent* during the years under review as shown in the table.

Table 1.4.14

Year	Total number of DTRs failed during the year	Number of failures due to overloading	Percentage of failures due to overloading
2006-07	9,515	6,516	68
2007-08	10,938	6,936	63
2008-09	11,401	7,527	66
2009-10	12,872	8,301	64
2010-11	15,394	9,310	60

(Source: Data furnished by the Divisions of Kashmir Province and CE Jammu)

The high rate of failure of DTRs due to overloading was attributed to large scale theft and misuse of power due to non-installation of meters. Other reasons accounting for failure of DTRs were reported as thunder, lightning, high speed winds and torrential rains which could be avoided by installation of lightning arrestors on sub stations and observance of regular quarterly maintenance schedule.

1.4.10.5 Pending liability of ₹ 14.14 crore on account of repair of transformers

During test check of records of the Chief Engineer, EM&RE Wing, Jammu it was seen that a liability of ₹ 14.14 crore on account of repair of transformers was created by 15 utility divisions in Jammu province upto March 2011. The Chief Engineer stated that due to release of inadequate funds, liability was created by the divisions over the years on repair of transformers required for supply of power to the consumers. He further stated that the matter had been taken up with the Administrative Department for providing necessary funds for clearance of the liability.

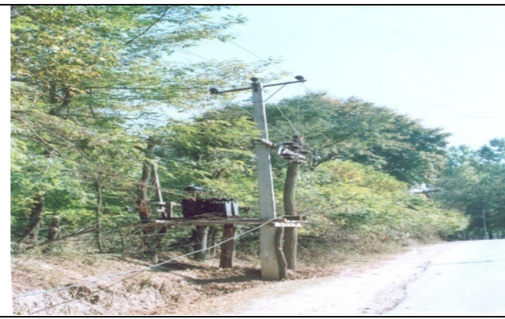
1.4.10.6 Charging of newly constructed systems without inspection and clearance

Under State Electricity Act/Rules, newly created infrastructure (sub-stations, HT and LT lines network) had to be inspected for safety precautions by the Inspection Agency of the Department and a fitness certificate issued therefor before charging the system. It was observed that the network of 1,086 sub-stations and 2,290.34 CKM of HT and LT lines was created during 2006-11 by five test-checked divisions of EM&RE Wing, Jammu but the requisite inspection had not been conducted even in a single case. Non-conduct of mandatory inspection made the entire network vulnerable to fatal accidents. The fact remains that 80 cases were pending payment of compensation on account of electric shocks in these divisions. In reply the Executive Engineer, EM&RE Division, Poonch stated that the Inspection Agency had been approached for the requisite inspection/issue of fitness certificate. The reply is not tenable as the Inspection and issue of fitness certificate had to be carried out well before charging the systems.

In Kashmir province, out of 5,543 sub-stations created during 2006-11, inspection of 2,269 (41 *per cent*) sub-stations was conducted before charging the sub-stations for supply of power leaving 59 *per cent* newly created sub-stations vulnerable. Further, out of 208 receiving stations, only 13 (six *per cent*) had been inspected by the concerned division. The non-clearance of the installations was in clear violation of the electricity rules. During field visits it was observed that the electric installations at a large number of places were in a shambles, posing a grave risk to the lives of the population. At a number of places L.T conductors had been laid on sleek wooden poles by the villagers themselves and the department had energised the same. At some places LT lines were tied on standing poplar trees as shown below.

	
Low lying Transformer (Reasi)	***LT Line on Tree (Bon-Dayalgam – Doru)***

LT Line attached to Residential shed (Mohri-pora Bhagat mohalla)



Transformer just above ground level with low level LT Line (Pingnan- Srinagar)

1.4.10.7 Capacitor Banks

Capacitor bank improves power factor by regulating the current flow and voltage regulation saves loss of energy. In the event of voltage falling below normal, the capacitor bank can set right the system by improving the voltage profile and reducing dissipation of energy to a great extent.

Under benchmarks of the 3rd tripartite agreement for implementation of R-APDRP, capacitor banks were to be added on sub-stations/feeders that feed energy to at least 75 *per cent* of consumers with a load of 25 KVA or more. It was noticed that coverage of capacitor banks ending August 2010 was as under:-

Table 1.4.15

S. No.	Particulars	Jammu	Kashmir	Total
1.	Existing connections with load of 25 KVA and above	2,495	1,268	3,763
2.	Connections to be covered by capacitors (75 *per cent* of S.No. 1)	1,871	951	2,822
3.	Capacitors installed at load	806	202	1,008
4.	Connections covered by shunt capacitors at Grid Stations	934	412	1,346
5.	Total coverage (3+4)	1,740	614	2,354
6.	Coverage (percentage)	70	48	63

(Source: Data furnished by the Department)

From the above, it would be seen that the achievement was only 63 *per cent* against 75 *per cent*, kept as benchmark.

1.4.11 Non-completion of System-Improvement-Scheme under other CSS and State Sector

1.4.11.1 As per REC norms, in case of non-start of an REC loan-funded scheme within one year of disbursement of the 1st installment of 20 *per cent* loan, the entire loan alongwith penal interest is to be recovered from the loan installments due for disbursement for other sanctioned schemes. Audit of the accounts of the Development Commissioner Power, Jammu showed (April 2011) that for two system improvement schemes (Pahalgam and Chanderkote), 1st installments disbursed upto March 2006, had not been started till September 2010. The outstanding loan alongwith interest/penal interest @ one *per cent* per annum amounting to ₹ 1.12 crore was deducted by the REC at source from the due installments of other sanctioned schemes. Thus, lack of proper planning in prioritising execution of the sanctioned schemes with the available resources had resulted in avoidable loss of money on account of penal interest of ₹ 28.66 lakh besides loss of an opportunity for implementation of SIS.

1.4.11.2 The Executive Engineer, EM&RE Division, Kathua took up the execution of works relating to providing irrigation facilities through pump sets to the farmers of Kathua district at an estimated cost of ₹ 2.24 crore for creation of infrastructure for energisation of 754 pump sets within a period of two years under REC loan sanctioned scheme. It was seen that the scheme had continued upto March 2010 and completed after creation of infrastructure for 855 pumps at a cost of ₹ 2.08 crore. However, the Department had issued permanent connection to only 232 pump sets and the rest were provided temporary connections.

The verification of revenue ledgers showed that only permanent connections (232) were assessed for revenue and temporary connections treated as lapsed. Thus, only 27 *per cent* (232 out of 855) of the potential created was utilised and the balance 73 *per cent* (₹ 1.52 crore) expenditure remained unfruitful. In reply the EE stated that efforts would be made to utilise full potential and progress achieved would be intimated. Further progress was awaited (July 2011).

1.4.11.3 Against the estimated cost of ₹ 197.15 lakh approved by the Chief Engineer, EM&RE Wing PDD, Jammu in September 2007 for construction of 33 KV Battal-Ramkote Transmission Line within two months under T&D (State Plan), ₹ 21.69 lakh were spent on procurement and erection of 125 ST poles during the year 2007-08 and no further efforts were made to complete the transmission line. The Executive Engineer, STD-III, Kathua stated (August 2011) that work could not be completed as funds were not made available during 2008-09 to 2011-12 (August 2011) despite being repeatedly demanded in the action plans under T&D State Plan and the project being cleared by the State Techno-Economic Committee. Thus unplanned execution without ensuring availability of resources had resulted in idle investment of ₹ 21.69 lakh on purchase and erection of poles.

1.4.11.4 Financial rules provide that supervision charges on works undertaken on behalf of other Government Departments/Agencies be recovered as per rates specified therein. During test-check of records of EM&RE Division, Rajouri it was noticed that supervision charges of ₹ 74.99 lakh on the works executed on behalf of army authorities on the Line of Control (LOC) during the period ending March 2011 had not been recovered. In reply, the Executive Engineer stated (June 2011) that the matter regarding recovery of supervision charges would be taken up with army authorities and outcome intimated to audit.

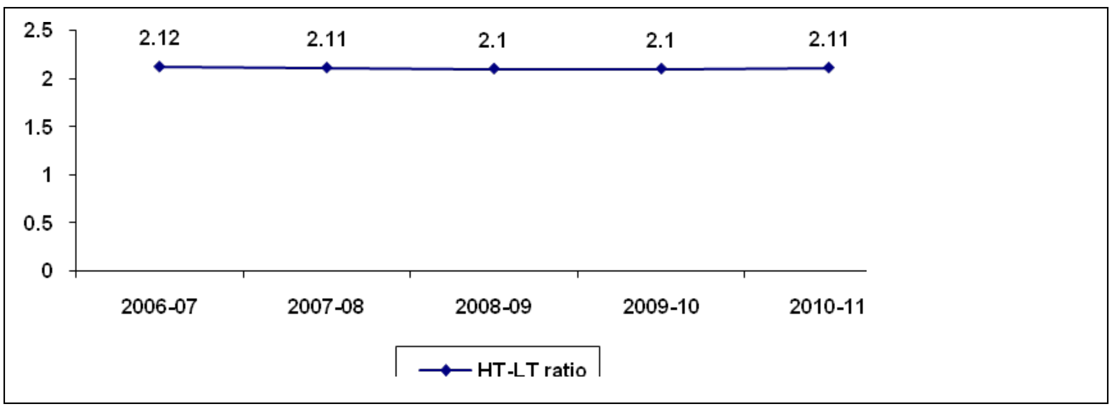
1.4.12 Commercial losses

Majority of commercial losses relate to consumer metering and billing besides pilferage of energy. While metering and billing aspects have been covered separately, other observations relating to commercial losses are discussed below:-

1.4.12.1 Implementation of LT less system

High voltage distribution system is an effective method of reducing technical losses, prevention of theft, improve voltage profile and better consumer service. The GOI had also stressed (February 2001) the need to adopt LT-less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses. It was seen that the ratio of HT to LT lines created between 2006-07 and 2010-11 stood between 1:2.10 and 1:2.12 as depicted below.

Chart-IV



It may be seen from the above graph that the high ratio of LT over HT during the last five years accounted for corresponding increase in technical and commercial losses during this period.

1.4.12.2 High incidence of theft

Substantial commercial losses are caused due to theft of energy by tampering of meters by the consumers and tapping/hooking by the unauthorised consumers. Theft of energy is an offence punishable under the State Electricity Act. Targets for number of checking theft cases, assessed amount and amount realised has been given in ***Appendix-1.6***. It was seen that the shortfall in achievement of fixed targets of checking had ranged between five and 34 *per cent* during 2006-10. Against the assessed penalty of ₹ 7.65 crore, realisation was ₹ 6.48 crore (85 *per cent*). An amount of ₹ 1.17 crore had, thus, remained unrecovered from defaulters at the end of March 2011.

1.4.12.3 Performance of Raid Teams

In order to minimise the cases of pilferage/loss of energy and save the utility from sustaining heavy financial losses on this account, the State Electricity Act empowers the departmental raid teams to enter the premises of a consumer for inspection and testing of apparatus. The Executive Engineers of the divisions were supposed to prepare work plans to conduct raids by identifying such consumers/areas where large scale theft was suspected. The position of raids conducted during review period was as under:-

Table 1.4.16

(₹ in crore)

S. No.	Year	Total Consumers as on 31st March	No. of consumers checked	Assessed amount	Realized amount	*per cent* age of checking to total No. of consumers
1.	2006-07	11,38,731	17,546	1.09	0.89	1.54
2.	2007-08	11,58,035	13,374	1.65	1.60	1.15
3.	2008-09	11,82,177	14,295	1.82	1.73	1.20
4.	2009-10	12,10,427	25,432	2.13	1.83	2.10
5.	2010-11	12,41,817	28,937	2.92	2.15	2.33

There was a year-on-year improvement both in terms of realisation of revenue from raids as also the number of checking of consumers. However given the enormity of distribution losses the number of raid teams needs to be increased so as to reduce the theft of energy.

1.4.12.4 Un-registered Domestic Consumers

There was a huge gap between the energy supplied and actual revenue realised. Evidently, it was due to theft of energy and also to presence of a significant number of un-registered consumers. In order to plug it, Development Commissioner (Power) had requested Director Consumer Affairs & Public Distribution Department Kashmir/Jammu (March 2010) to make the electricity agreement of consumer a prerequisite for issuance of ration cards for the year 2010-11 and onwards. No follow-up action in the matter was taken by the Department with the result the illegal consumers could not be identified/regularised as evidenced in the huge gap reported between the number of card holders and the number of registered domestic consumers. Against about 20 lakh Ration Card holders in the State, only 12 lakh registered domestic consumers existed at the end of March 2011, resulting in gap of eight lakh. This had not been attended to by the Department.

1.4.13 Billing Efficiency

The Department is required to take reading of energy consumption of each consumer at the end of the notified billing cycle. After obtaining the meter readings, bills are issued to the consumers at sub-divisional level on monthly basis.

The efficiency in billing of energy lies in distribution/sale of maximum energy by the utility division to its consumers and realisation of revenue there from in time. The position of energy available for sale and energy billed during the review period was as under:-

Table 1.4.17

(In MUs)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Energy available for sale	8,236.53	8,743.96	9,147.22	10,370.65	10,667.23
2.	Free supply	-	-	-	-	-
3.	Energy billed	4,030.84	3,331.64	3,538.70	3,833.00	4,041.00
4.	*Percentage* of energy billed	49	38	39	37	38

It was seen from the above details that energy billed during the last five years had ranged between 37 and 49 *per cent* of the total energy available for sale. The main reasons for large gap of 4,205.69 MUs to 6,626.23 MUs were non-metering of consumer connections, theft, pilferage and misuse of energy by the consumers.

Audit analysis of the losses due to unbilled energy revealed that the Department had to incur loss of ₹ 858 crore[39] in 2006-07 and ₹ 1,935 crore in 2010-11.

1.4.13.1 Non-achievement of benchmarks under Tripartite Agreement

(i) As per benchmarks of 3rd tripartite agreement for implementation of R-APDRP, cash collected from larger consumers having load of 25 KVA or more, had to be at least 85 *per cent* of the amount billed. The quantum of cash collected from such consumers from September 2009 to August 2010 is reflected in the table below:-

Table 1.4.18

(₹ in crore)

S. No.	Region	Amount billed	Amount collected	*Percentage* of collection
1.	EM&RE Wing, Jammu	374.77	307.36	82
2.	EM&RE Wing, Kashmir	193.26	111.47	58
	Total	**568.03**	**418.83**	**74**

(Source: Data furnished by the Department)

Thus, there was an overall shortfall of 11 *per cent* in the achievement of fixed target of 85 *per cent* in the collection of cash from larger consumers.

(ii) Total cash collected for any preceding 12 months period should be at least 60 *per cent* of the bulk power purchase cost as per the benchmarks under the tripartite agreement. The position of bulk power purchase for the State vis-a-vis total cash collected during 01.09.2009 to 31.08.2010 was as follows:-

Table 1.4.19

(₹ in crore)

S. No.	Period	Power purchase cost	Amount collected			
			Jammu	Kashmir	Total	*Percentage* of collection
1.	01.09.2009 to 31.08.2010	2,881.76	535.93	295.70	831.63	29

(Source: Data furnished by the Department)

As the table shows there existed a huge shortfall (31 *per cent*) in achievement of the target of 60 *per cent* collection.

1.4.13.2 Computerised Billing

Against the target of 75 *per cent* computerised billing of the preceding 12 months (September 2009 to August 2010), achievements were 61 *per cent* as detailed below:-

[39] Calculated on the basis of average sale rate during 2006-07 and 2010-11

Table 1.4.20

S. No.	Particulars	Jammu	Kashmir	Total
1.	Energy billed through computerised billing from 09/2009 to 08/2010 in lakh units (LUs)	10,582.86	12,784.00	23,366.86
2.	Total energy billed from 09/2009 to 08/2010 in lakh units (LUs)	22,355.89	16,130.20	38,486.09
3.	*Percentage* of billed energy through computerised billing.	47	79	61

(Source: Data furnished by the Department)

Non-achievement of fixed targets to the extent of 14 *per cent* (overall) was apparently due to non-installation of computers to a larger extent in Jammu region.

1.4.13.3 Incorrect/under assessment of revenue

As per tariff order for 2010-11, 10 *per cent* extra surcharge on the energy charges (metered or flat) was required to be levied on all consumers who had not installed capacitors of required KVAR on their installations having aggregate inductive load of three HP and above (except domestic and street lights and consumers where KVAH tariff had been introduced). Test-check of revenue records of three[40] utility divisions revealed that 10 *per cent* extra surcharge on such connections had not been levied while issuing bills during the period of review which had resulted in under-assessment of revenue of ₹ 0.69 crore and an equivalent amount remaining unrecovered at the end of March 2011.

The EE, EM&RE Division, Rajouri stated (June 2011) that instructions had been issued to the sub-divisions to levy extra surcharge for non-installation of capacitors. The other two divisions intimated that the claims would be raised against the concerned.

1.4.13.4 Non-levy of late payment surcharge

Tariff order for the year 2010-11 provides levy of late payment surcharge at the rate of 1.5 *per cent* per month which works out to 18 *per cent* per year. It was observed that two[41] divisions had not levied late payment surcharge of ₹ 29 lakh on consumers for non-payment of energy charges during the period from April 2006 to March 2011. The EEs intimated (July 2011) that the claims would be raised against the concerned.

1.4.14 Revenue Collection Efficiency

The table below indicates the balance outstanding at the beginning of the year, revenue assessed and collected during the year and the balance outstanding at the end of the year during the period 2006-11.

[40] Anantnag, Bijbehara and Rajouri
[41] Anantnag, Bijbehara

Table 1.4.21

(₹ in crore)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Balance outstanding at the beginning of the year	734.88	821.08	831.19	855.69	908.48
2.	Revenue assessed/billed during the year	517.55	670.48	726.46	840.19	1,059.26
3.	Total amount due for realisation	1,252.43	1,491.56	1,557.65	1,695.88	1,967.74
4.	Amount realised during the year	431.02	660.33	701.92	787.36	894.04
5.	Amount written off during the year	0.33	0.04	0.04	0.04	0.05
6.	Balance outstanding at the end of the year	821.08	831.19	855.69	908.48	1,073.65
7.	Percentage of amount realised to total dues	34.41	44.27	45.06	46.42	45.43

The balance dues outstanding at the end of the year had increased from ₹ 821.08 crore in 2006-07 to ₹ 1073.65 crore in 2010-11.

1.4.14.1 Un-authorised retention of power revenue by the J&K Bank Ltd.

As per agreement drawn by the PDD with the J&K Bank Ltd. collection of power revenue by any branch of the J&K Bank in the State had to be transferred to the Government account within 72 hours of its collection. It was observed that ₹ 23.87 crore collected during the period 2008-11 from five[42] divisions had not been transferred to the official account within the stipulated period and instead un-authorisedly retained for a period ranging between one day and 87 days resulting in loss of interest of ₹ 5.34 lakh, calculated (in respect of three divisions[43]) at the interest rate chargeable on overdraft extended by the J&K Bank to the State Government. In reply the Executive Engineer, EM&RE Division, Poonch stated (October 2011) that the matter was being looked into.

1.4.15 Tariff Fixation

Revenue collection is the main source of generation of funds for the Department. While other aspects relating to revenue collection have been discussed in the preceding paragraphs, the issues relating to tariff are discussed hereunder.

The tariff structure of the power distribution utility is subject to revision approved by the State Electricity Regulatory Commission (SERC) after objections, if any, received against Annual Revenue Requirement (ARR) petitions filed within the stipulated dates. The department was required to file the ARR for each year 120 days before commencement of the respective financial year. The SERC accepts the application filed by the department with such modifications/conditions as may be deemed fit and appropriate and after considering all suggestions and objections from public and other stakeholders. The table below shows the due date of filing ARR, actual date of filing, date of approval of tariff petition and effective date of the revised tariff.

[42] Batote, Poonch, Rajouri, Reasi and Udhampur
[43] Batote, Reasi and Udhampur

Table 1.4.22

Year	Due date of filing	Actual date of filing	Delay in days	Date of approval	Effective date
2006-07	30th November 2005	14th November 2006	349 days	Not approved due to delay in filing petitions for 2006-07	
2007-08	30th November 2006	30th November 2006	Nil	28.03.2007	01.04.2007
2008-09	30th November 2007	07th February 2008	69 days	12.09.2008	01.04.2008
2009-10	30th November 2008	16th December 2009	381 days	29.04.2010	The tariff of 2008-09 remained effective for the year 2009-10
2010-11	30th November 2009	20th January 2010	51 days	29.04.2010	01.04.2010

The above details reveal that the delay in filing ARR had ranged between 51 and 381 days during the last five years resulting in significant revenue loss due to non-revision of tariff in 2006-07 and 2009-10.

The position of realisation from sale of power vis-a-vis recovery of fixed costs during the review period was as under:-

Table 1.4.23

(₹ in crore)

Year	Sales (excluding subsidy)	Variable cost	Fixed cost	Contribution (2-3)	Deficit in recovery of fixed cost (4-5)	Deficit as *percentage* of sales (6×100 / 2)
1	2	3	4	5	6	7
2006-07	593.54	1,634.30	291.50	(-) 1,040.76	1,332.26	224.46
2007-08	848.84	1,966.35	368.50	(-) 1,117.51	1,486.01	175.06
2008-09	829.64	1,935.02	335.39	(-) 1,105.38	1,440.77	173.66
2009-10	928.13	2,704.58	436.74	(-) 1,776.45	2,213.19	238.46
2010-11	1,174.62	2,836.51	546.28	(-) 1,661.89	2,208.17	187.99

Though it appears that the tariff is on lower side and needs to be revised for recovery of the costs, it may be highlighted here that the same can be brought in by improving operational efficiency, viz., reduction in/control of AT & C losses, conversion of LT lines to HT lines, metering of unmetered connections/ defective meters, improving billing and collection efficiency, etc., which have been discussed separately in the review.

1.4.16 Consumer Satisfaction

The PDD was required to introduce consumer friendly initiatives, such as introduction of computerised billing, online bill payment, establishment of customer care centres, etc., with a view to enhancing consumer satisfaction and minimising consumer grievances. The position of redressal of grievances in the department was as follows:

The SERC had notified Distribution Performance Standards vide notification dated 19th June 2006 whereunder procedure for handling of complaints through customer complaint centres had been laid down. Under these standards, time limit for rendering services to the customers and compensation payable for not adhering to the complaints had been prescribed. The nature of services included line breakdowns, DTRs failures, period of load shedding/scheduled outages, voltage variations, meter complaints, installation of new meters/connections or shifting thereof, etc.

The PDD, while showing compliance to the benchmarks of the 3rd tripartite agreement signed in July 2009 for the implementation of R-APDRP, stated that consumer call centres at Jammu and Srinagar had been established which were working round the clock. However, roadmap for addressing consumer grievances in an effective manner as per R-APDRP guidelines had not been devised. The overall position with regard to receipt and clearance of complaints was as under:-

Table 1.4.24

S.No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Total complaints received	14,805	15,883	15,372	15,176	16,342
2.	Complaints redressed within time	14,202	15,556	15,120	14,916	16,026
3.	Complaints redressed beyond time	47	136	80	169	77
4.	Pending complaints	556	191	172	91	239
5.	Percentage of complaints redressed beyond time to total complaints	0.32	0.86	0.52	1.11	0.47
6.	Compensation paid if any, to consumers	Nil	Nil	Nil	Nil	Nil

Test-check of records of five divisions[44] showed that no records for registration and disposal of complaints had been maintained by the divisions. The details of complaints filed in the above table were, thus, not based on any verifiable records. It was further noticed that although the SERC had, in its notification issued on 19th June 2006, directed PDD to submit quarterly and annual reports on the performance achieved with reference to overall standards of performance to the Commission, yet no such report (s) had been submitted by the PDD during the review period.

1.4.17 Energy Conservation

Efficient use of energy and its conservation is the least cost option to mitigate the gap between demand and supply. The State Government notified its own Energy Conservation Act 2011 in April 2011 on the lines of the Union Government's Energy Conservation Act 2001. It was stated in June 2011 that Bureau of Energy Efficiency (BEE) would be established in the State for taking further energy conservation measures under the Act 2011.

- The State Government through Development Commissioner (Power), Power Development Department and Chief Executive Officer, Jammu &Kashmir Energy Development Agency (JKEDA) signed a Memorandum of Understanding (MOU) with the Ministry of New & Renewable Energy, Government of India for electrification of remote un-electrified villages through non-conventional energy sources. Under Remote Village Electrification (RVE), Solar lanterns were provided by Jammu and Kashmir Energy Development Agency in un-electrified villages.

[44] EM&RE Divisions: Batote, Poonch, Rajouri, Reasi and Udhampur

It was noticed that the central share amounting to ₹ 52.80 crore and the State share amounting to ₹ 6.86 crore stood released ending March 2011 against which an expenditure of ₹ 23.83 crore had been booked ending March 2011. Solar Home Lighting Systems (SHLSs) numbering 15,065 had been distributed to the inhabitants of the un-electrified villages ending March 2011.

- The SERC in its tariff order had also kept provisions of monthly rebate of ₹ 50 for all metered consumers who had installed solar heating system for meeting their hot water and/or cooking requirements.

  No case of availing such rebate had been noticed in the test-checked divisions. The State had also not implemented the Centrally Sponsored '*Bachat Lamp Yojana'* whereunder consumers were to be issued CFLs at concessional cost of ₹ 15 per lamp.

1.4.18 Energy Audit

A concept of comprehensive energy audit was put in place with the objective of identifying the areas of energy losses and taking steps to reduce the same through system improvements, besides accurately accounting for the units purchased/ sold and losses at each level. The main objectives of energy audit are as follows:

- better and more accurate monitoring of the consumption of electricity by consumers;
- elimination of wastages;
- reduction of equipment downtime; and
- Identification of opportunities for operational cost savings and revenue enhancements.

It was seen that no such audit mechanism was in place in the State. The DC (P), J&K informed (June 2011) that necessary legal framework for conducting the energy audit of the designated consumers had been provided in the Energy Conservation Act 2011.

1.4.19 Monitoring by top Management

The Development Commissioner (P), J&K stated (June 2011) that MIS was being established under Part 'A' of R-APDRP for monitoring progress by the top management. However, various physical and financial parameters were being monitored through monthly/quarterly/yearly progress reports.

Under bipartite agreement for implementation of RGGVY between the Rural Electrification Corporation, GOI and the PDD on 9th September, 2005, the State Government had to specify quarterly milestones and progress thereof was to be reviewed jointly by REC and the authorised representative of the State Government in the quarterly Performance Review Meetings.

It was seen that neither any milestones were specified nor any quarterly performance review meetings held during the period 2006-11.

1.4.20 Conclusion

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

1.4.21 Recommendations

- ***The Department must prepare a long-term perspective plan for creation of infrastructural facilities for efficient distribution of electricity so as to cover maximum population in the State.***
- ***Additions in distribution network should be planned keeping in view the demand/connected load, anticipated new connections and growth in demand based on Electric Power Survey.***
- ***Physical and financial progress should be reviewed regularly on monthly/quarterly basis as per MOUs signed with the financing and executing agencies to avoid mismatch in achievement of the physical and financial targets.***
- ***Stipulated timeframe should be the essence of the contract for preventing time and cost overruns. For better transparency and accountability, the transmission and distribution sector should be unbundled into separate entities to look after the activities of transmission and distribution of power independently.***
- ***For revenue collection and maintenance of T&D works in rural areas under RGGVY, franchisees should be introduced without any further delay.***
- ***For monitoring, MIS mechanism should be strengthened.***

CHAPTER – II

AUDIT OF TRANSACTIONS

Fraud/Embezzlement/Mis-appropriation/Loss

Animal Husbandry Department

2.1 Loss of Government money

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

To improve the local live-stock genetically, the State Government approved implementation of embryo transfer technology. A contract for supply and implantation of 900 frozen embryos was awarded (June 2008) by the Director Sheep Husbandry (DSH), Jammu to M/S Canadian Sheep Genetics International (company) at a cost of $ 430 per embryo. As per the terms and conditions of agreement, the firm had to guarantee a minimum success rate of 50 *per cent* confirmed pregnancies in the ewes implanted with the embryos supplied by the company. Also, in the event of failure to achieve 50 *per cent* pregnancy in the first instance, the company was to provide additional embryos and services to meet the guarantee.

Scrutiny (October 2010) of the records of DSH, Jammu showed that out of 420 frozen embryos implanted (February/March 2009) in 210 ewes, only 33 pregnancies (16 *per cent*) against the assured 105 pregnancies (50 *per cent*) had been achieved. Further correspondence with the company to provide additional embryos and services to meet the minimum 50 *per cent* success rate as per the agreement evoked no response as of October 2010. The matter was taken up by the DSH with the Government for seeking legal opinion from the Law Department. This had not been received as of March 2011. It was seen that ₹ 53.23 lakh constituting 60 *per cent* payment of the total value of the embryos supplied had been paid to the contractor as per terms and conditions of the contract.

The DSH, Jammu stated (October 2010) that the matter had been taken up with the Administrative Department to initiate legal action against the company. The reply of the department was not acceptable as it had failed to incorporate a proper penalty clause in the agreement for safeguarding Government interests required in terms of J&K Financial rules. This had resulted in a loss of ₹ 25.35 lakh[1] to the public exchequer.

The matter was referred to Government in May 2011; reply had not been received (October 2011).

[1] Worked out proportionately on cost of 72 against 105 assured pregnancies

Public Works Department

(Roads and Building Department)

2.2 Payment against fake documents

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

As per the standing instructions for payment of Mobilisation Advance to contractors executing *Pradhan Mantri Gram Sadak Yogna* (PMGSY) works, the payment is *inter-alia* subject to the conditions that (a) a Bank Guarantee (BG) of an equal amount is furnished by the contractor and (b) the payment is made to the contractor only after verification of the BG furnished by the contractor from the concerned Bank branch.

Audit scrutiny of records of the Executive Engineers (EE), PMGSY Division, Bandipora (May 2010) and Baramulla (June 2011) revealed that the Chief Engineer (CE), PMGSY, Jammu allotted road construction works to M/S Jay Kay Sam Construction Private Limited, Srinagar on turnkey basis for completion in 18 months. Mobilisation/Machinery advance was sanctioned by the CE in favour of the contractor for both the works subject to above mentioned conditions.

The details of contracts and Mobilisation advance paid are given in the following table;

Division	Name of Work	Date of allotment	Contract Cost	Month of payment of the Advance	Amount of advance
Bandipora	Construction of Binlipora-Ketson road	July 2008	₹ 5.41 crore	March 2009	₹ 78.86 lakh
Baramulla	Construction of Isham-Nawarunda road	October 2008	₹ 11.19 crore	July 2009	₹ 96.73 lakh

The payment of Mobilisation/Machinery advance was made to the contractor by both the Divisions against BGs issued by Manager, State Bank of India, TRC Branch, Srinagar. The contractor in both the cases abandoned the works midway and despite repeated notices and reminders did not resume the works. To recover the amount, the CE sent (February 2010), both the guarantees to the concerned Bank for verification/encashment. However, both the BGs turned out to be fake, indicating that the BGs had not been verified by the concerned EEs before release of the advance. Till abandonment of the works, the contractor had executed works to the tune of ₹ 80.66 lakh only against which ₹ 11.73 lakh had been adjusted from the mobilisation advance (MA). An amount of ₹ 1.64 crore was recoverable from the contractor at the time of abandonment of the works. While the EE, Bandipora stated that the matter had been forwarded to the crime branch for investigation, the EE, Baramulla stated that since the contractor had backed out, the works had been allotted after fresh tendering. The EEs, however, did not forward any cogent reasons for their inaction in verification of the correctness and validity of the BGs before the release of advances.

Failure of Department to verify the genuineness of the BGs furnished by the contractor before release of mobilisation/machinery advance, thus, resulted in inadmissible/recoverable payment of ₹ 1.64 crore.

The matter was referred to Government/Department in July 2011. In reply the Financial Advisor and Chief Accounts Officer, Public Works Department stated that the Department had already initiated action against the said contractor by way of withholding payments lying in his deposits besides, approaching the sister departments for stoppage of any payment due to the said contractor.

Health and Medical Education Department

2.3 Embezzlement of Government money

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

(A) Rule 2.2 of the Jammu and Kashmir Financial Code Volume I envisages that all sums of money which a Government servant receives in his official capacity must immediately be paid in full into the nearest treasury/bank. Further, Rule 2.10 of the ibid code prescribes for maintenance of cash book and controls to be exercised by the Drawing and Disbursing Officer (DDO)/Head of office over cash balances. Accordingly, the control mechanism involves receipt of cash against proper FC-I receipt, maintenance of stocks of FC-I, entry of cash received into a subsidiary cash book, deposit with the main cashier for entry into main cash book and deposit of money into Government Account on daily basis. Further, checks by DDO over the receipt of cash include verification of entries into FC-I book, the subsidiary/main cash book, cross checking of entries and attestation thereof on daily basis and subsequent reconciliation of cash book with the Bank balances.

Audit scrutiny (November/December 2009) of the records of Medical Superintendent, SMHS Hospital, Srinagar revealed that out of ₹ 4.73 crore (includes ₹ 8.36 lakh available as on 31 March 2007) realized from April 2007 to December 2009 on account of sale of OPD[2]/IPD[3] tickets, medical facilities/investigation[4] charges, parking charges etc, ₹ 70.60 lakh had not been accounted for and un-authorisedly retained by the cashier. The non-accountal of huge sums by the cashier had been facilitated due to lack of an internal control mechanism and lax supervision by the DDO. Based on detection of the embezzlement by Audit, an enquiry committee was constituted (March 2010) by the

[2] Out patient Department
[3] Indoor patient Department
[4] X-Ray, USG, ECG, Laboratory tests/Blood bank/Dental

Principal, Medical College, Srinagar. While confirming the embezzlement, the Committee raised the quantum of embezzlement from ₹ 70.60 lakh (covering period from April 2007 to December 2009), detected by the Audit, to ₹ 1.03 crore (covering period from April 2007 to March 2010). Out of this, ₹ 54.10 lakh had been recovered (December 2009 to April 2010), thus leaving a balance ₹ 48.70 lakh unrecovered from the delinquent official (August 2011).

The delinquent cashier was placed under suspension (June 2010) and the Department stated (August 2011) that a case had been registered (August 2010) against the official by the State Vigilance Organization which had also seized the relevant records for investigation.

Thus, failure of the DDO/Medical Superintendent in adhering to the monitoring system and internal controls as prescribed in the Financial Code resulted in misappropriation of revenue of ₹ 1.03 crore.

(B) Scrutiny (April 2011) of records of the Medical Superintendent (DDO), District Hospital, Pulwama revealed that against ₹ 18.06 lakh realized from 9th January 2010 to 14th September 2010 as OPD/IPD/DC[5]/investigation charges by an official posted as incharge Registration section, ₹ 14.89 lakh only had been deposited with the office cashier for onward deposition into the Hospital Development Fund (HDF) account, thereby, embezzling ₹ 3.17 lakh.

The embezzlement was facilitated due to lax supervision and non-observance of following prescribed control procedure by the DDO.

- cash receipts were not entered in the subsidiary cash book promptly and had never been checked by the concerned RMO[6] or the Medical Superintendent;
- reconciliation/verification of accounts with reference to actual revenue realized and that deposited into the bank was not conducted;
- receipts were not issued under the signatures of RMO;
- non-reconciliation of OPD/IPD tickets and FC-I receipt books issued from the stores to the Registration section;
- reconciliation of revenue realized and deposited in the bank account by the cashier was not carried out;
- reconciliation of work done reports of X-Ray, USG, ECG, Laboratory section, Blood bank and Dental section with the total revenue realized was not done to see whether the revenue realized and the total work done by respective sections were in agreement with each other; and
- surprise checks by the DDO/RMO over the physical cash balances had not been conducted.

[5] Discharge certificates
[6] Resident Medical Officer

On this being pointed out, the DDO stated (April 2011) that the official had been directed to deposit the outstanding amount into HDF account. An amount of ₹ 0.27 lakh only had been deposited into HDF by the official as intimated (July 2011) by the DDO. However, the reply was silent about any disciplinary action having been taken or contemplated against the erring official. Progress of recovery was awaited (October 2011).

The matter was referred to Government (October 2011); reply was awaited (November 2011).

Excess payment/Wasteful expenditure

Public Health Engineering Department

2.4 Wasteful expenditure due to improper planning/execution of a project

Improper planning by the Department in execution of water supply schemes resulted in non-completion of overhead tanks and consequent wasteful expenditure of ₹ 68.92 lakh.

For improvement/augmentation of the existing water supply to Channi Himmat, Trikuta Nagar and Greater Kailash areas of Jammu city, the Executive Engineer (EE), Public Health Engineering (PHE) City Division-II, Jammu proposed three different schemes (aggregate estimated cost of ₹ 3.80 crore)[7], which included construction of tube-wells, water sumps, laying of allied distribution network and construction of four Over-Head Tanks (OHTs).

Audit scrutiny (November 2009) of records of the Division revealed that work of construction of three (out of four) OHTs was allotted (April/August 2004) by the Chief Engineer, PHE Department, Jammu to two contractors[8] at an estimated cost of ₹ 68.92 lakh[9] for completion within one year. However, after taking up the work and completing the OHTs upto shaft (OHTs at Channi Himmat/Trikuta Nagar) and Dome (OHT at Greater Kailash) levels, the Contractors abandoned (between July 2007 and June 2008) the works due to non-supply of key construction material by the Department and non-availability of funds for these schemes. An expenditure of ₹ 68.92 lakh (including payment of ₹ 48.43 lakh made to the contractors) had been booked by the Division against these works as of March 2011. The efforts during 2007-11 of the Department to have funds sanctioned for completion of the pending works had failed (May 2011). Further, efforts to persuade the contractors to re-start the works during 2006-07 had also

[7] Improvement/augmentation of water supply scheme Channi Himmat colony (Estimated Cost: ₹ two crore); Improvement/augmentation of water supply to Greater Kailash colony(Estimated Cost: ₹ 1.27 crore) and Construction of two lakh Gallon capacity OHT including allied works at GSR complex Trikuta Nagar Jammu (Estimated Cost: ₹ 53.30 lakh)

[8] M/S Mengi Constructions, Jammu (OHT tanks at Channi Himmat and Trikuta Nagar) and M/S Janak Raj Gupta (OHT at Greater Kailash)

[9] OHT Channi Himmat, Jammu: ₹ 14.98 lakh; OHT Greater Kailash: ₹ 27 lakh and OHT Trikuta Nagar: ₹ 26.94 lakh

failed as the contractors asked for compensation for escalation in cost and other losses suffered by them due to delay in supply of material. Moreover, the Department with a view to testing the strength of existing reinforced cement concrete structures of the unfinished OHTs approached (July/August 2009) the Research Officer, Material Testing Laboratory (Design Directorate) and Government College of Engineering and Technology Jammu for R.C.C testing. Both these agencies expressed inability to conduct the tests due to lack of facilities with them. No further action was taken in the matter till a high level committee was constituted (January 2010) by the Department to address the issue of incomplete OHTs, which suggested (February 2010) revision of designs of all the structures in accordance with Indian Standard Code. The committee further recommended that the structures be got inspected through some expert committee so as to strengthen the existing half constructed OHTs. The Department thereafter had sought the help of Economic Reconstruction Agency for suggesting remedial measures and further progress in the matter was awaited (May 2011).

Thus, due to improper planning by the Department by way of inadequate funding, non-availability of key construction material and not designing OHTs as per the Indian Standard Code, the construction of OHTs could not be completed despite delay of more than six years which rendered the investment of ₹ 68.92 lakh wasteful, besides depriving the intended consumers of the benefits of the water supply schemes.

The matter was referred to Government/Department in July 2011; the reply had not been received (October 2011).

Power Development Department

2.5 Excess payment due to admission of higher rates of duty/tax

Failure of the Department to verify admissibility of payment of excise duty and central sales tax to the contractors resulted in excess payment of ₹ 2.48 crore.

(A) The Chief Engineer (CE), System and Operation Wing, Power Development Department, Kashmir awarded (May 2008) a contract for construction of 160 MVA, 220/132 KV and 50 MVA, 132/33 KV Grid Sub-station, Amargarh (Delina) to M/S Jyoti Structures Ltd., Mumbai (Contractor) on turnkey basis at a cost of ₹ 52.75 crore. As per the terms of the contract, 100 *per cent* of Central Excise duty (CED) and Central Sales Tax (CST) was admissible to the firm on the purchases, on receipt of goods. At the time of allotment of the contract, the rates of CED and CST stood at 14 *per cent* and three *per cent* which had been reduced by the Government to eight *per cent* and two *per cent* from 1 March 2009 and 1 June 2008, respectively.

Audit scrutiny (May 2010) of records of the Executive Engineer (EE) Transmission Line Construction Division-I Bemina, Srinagar revealed that CED at the rate of 14 *per cent* and CST at the rate of three *per cent* had been allowed while making payment on the bills submitted by the Contractor between March 2009 and March 2010. The EE without verifying the claims of the contractor with reference to admissibility had made payment of taxes at higher rates resulting in excess payment of ₹ 70.46 lakh[10]. This was despite the fact that the contractor had procured material from different suppliers/manufacturers by paying CED and CST of eight *per cent* and two *per cent* respectively.

Audit also noticed that in another case pertaining to construction of 220 KV D/C Zainakote-Amargarh Transmission line, where the CE had allotted (May 2008) contract to M/s ECI Engineering & Construction Co. Ltd., Hyderabad on turnkey basis, an excess payment[11] of ₹ 55.12 lakh on similar account had been made by the EE.

The lapse on this account had led to excess payment aggregating ₹ 1.26 crore by the division on Eighteen (18) bills submitted by the Contractors.

On this being pointed out by audit, the EE stated (February 2011) that the Division had made a payment of ₹ 42.70 lakh only on account of CED, CST on ten (10) bills of two Contractors and that the excess would be recovered and the remaining claims had been withheld. The reply, however, is not based on facts, as verification of records of Director Finance, Power Development Department, Srinagar, who is entrusted with release of payments to the Contractors, revealed that the payment on all the Eighteen (18) bills had been made during 2009-10.

Thus, failure of the Department to verify admissibility of payment of excise duty and central sales tax to the contractors resulted in excess payment of ₹ 1.26 crore.

The matter was referred to Government/Department in August 2011. The EE stated (September 2011) that the excess amount of ₹ 70.46 lakh had been recovered from M/S Jyoti Structures Limited, Mumbai and the recovery of ₹ 55.12 lakh made to M/S ECI Engineering and Construction Corporation would be effected.

(B) The Chief Engineer, System and Operation Wing, Power Development Department, Jammu awarded (April 2008) two contracts both on turnkey basis, for construction of '220 KV D/C transmission line from *Hiranagar* to *Barn* with LILO at Grid Station Bishnah' and construction of '132 KV D/C transmission line from Battal *Manwal* to *Hiranagar*' to M/s KEC International Limited, Mumbai (contractor) at a cost of ₹ 35.70 crore and ₹ 13.53 crore respectively. According to the relevant clauses of the contracts, 100 *per cent* of admissible taxes/duties and levies was to be paid on receipt of goods at site. At the time of allotment of contracts, the rate of Central Excise Duty (CED) was 16 *per cent* which was reduced by the Government to 14 *per cent* with effect from 1 March 2008, 10 *per cent* with effect from 7 December 2008 and to eight *per cent* with effect from 1 March 2009.

10 Excise duty: ₹ 56.10 lakh: CST: ₹ 14.36 lakh

11 Excise duty: ₹ 46.36 lakh: CST: ₹ 8.76 lakh

Scrutiny (June 2010) of the records of the Executive Engineer (EE), Transmission Line Construction Division-II, Jammu revealed that CED at an inadmissible rate of 16 *per cent* had been allowed while making payment on the bills submitted by the contractor between August 2008 and December 2009. The EE, without verifying the claims of the contractor with reference to the admissibility of rates, had made payment of taxes at the higher rate resulting in excess payment of ₹ 1.22 crore on account of excise duty. On this being pointed out in audit (February 2011/April 2011), the Financial Advisor cum Chief Accounts Officer of the department accepted the Audit contention and directed (May 2011) the Chief Engineer, Systems and Operation Wing, Jammu to recover the excess payment from the contractor.

Thus, failure of the department to ensure payment of excise duty at the rates admissible at the time of supply of material/equipment resulted in excess payment of ₹ 1.22 crore to the contractor.

The matter was referred to Government/Department in September 2011. In reply the Government stated (September 2011) that the excess payment of ₹ 1.22 crore made to the contractor has been recovered in full.

Housing and Urban Development Department
(Patnitop Development Authority)

2.6 Abandonment of road construction project

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

To develop Patnitop and its adjoining areas, the Patnitop Development Authority (Authority) decided to construct nine Km Karlah-Gaurikund road. The project estimated to cost ₹ 3.20 crore was submitted (December 2000) to the Government for approval.

Scrutiny (April 2011) of the records of the Authority showed that in anticipation of administrative approval and technical sanction, the Authority advanced (2002-03) ₹ 38.70 lakh to Land acquisition Officer, Udhampur for acquisition of private land and ₹ 5.69 lakh to D F O, Batote for transfer of forest land coming under the first two kms of the road alignment. The Authority got the work on the first two kilometers of the road executed through Executive Engineer, R&B Division, Udhampur during 2002-05 at a cost of ₹ 81.55 lakh. The Authority also spent ₹ 15.80 lakh on construction of retaining walls and lanes during 2007-10 on the already constructed stretch of the road. No further execution was carried out thereafter (October 2011). On this being pointed out (April 2011), the Chief Executive Officer (CEO) of the Authority stated that the project got bogged down due to passing of the proposed road alignment through forest land and a wild life sanctuary and to avoid loss to the green wealth and the sanctuary, decision to think of an alternative route was taken. The reply was not acceptable as these aspects should have been taken into cognizance by him before embarking upon the project. Thinking of these aspects after spending ₹ 1.42 crore on the project was indicative of the casual approach of the Authority in planning the project.

It was seen in audit that the Authority formulated a revised project (January 2007) at a cost of ₹ 2.08 lakh through a consultant who put the revised cost of the project at ₹ 18.24 crore. The revised estimates envisage construction of a 680 meters tunnel which would reduce the length of the road to 6.650 kms only. Though the project report had been sent (February 2007) to the Government for getting it funded by the Government of India, yet it was decided (March 2011) by the Board of the Authority, in view of the escalation in the project cost, to get the balance work executed through the State PWD. Incurring of an expenditure of ₹ 15.80 lakh on the first two kms of the road in view of appointment of a consultant for revising (March 2005) the project for an alternative road to save green wealth was also questionable.

The action of the CEO in embarking upon a project without taking the environmental concerns into account, which dawned on him after spending ₹ 1.42 crore, resulted in the whole expenditure becoming unproductive.

The matter was referred to Government/Department in July 2011; the reply had not been received (October 2011).

Unfruitful/Unproductive/Idle expenditure

Higher Education Department

2.7 Deficiencies in the construction of an auditorium resulting in unfruitful expenditure

Non-provision of the acoustics component in the estimates and subsequent delays in rectification of deficiencies resulted in non-utilisation of an auditorium. As a result, the investment of ₹ 1.06 crore was unfruitful.

Based on the approval of the State Education Minister, the Principal, Degree College, Udhampur requested (October 2003) Jammu and Kashmir Projects Construction Corporation Ltd (JKPCC) to furnish a cost offer for construction of an auditorium (Multi-purpose Hall) in the college. Against the cost offer of ₹ 83 lakh submitted (August 2004) by JKPCC, the department released (2004-08)[12] the amount in anticipation of accord of administrative approval and technical sanction. The work was started by JKPCC in December 2004.

[12] 2004-05: ₹ 23 lakh, 2005-06: ₹ 40 lakh, 2006-07: ₹ 15 lakh, 2007-08: ₹ 05 lakh

Records of the college showed (July 2010) that while the work was in progress, the Principal asked (June 2007) JKPCC to execute some additional items of work not included in the original estimates for which an additional cost offer for ₹ 23 lakh was submitted (April 2008) by JKPCC. The agency requested (September 2008) the Principal to take over the possession of the building and release the balance ₹ 23 lakh to it. The funds were, however, released belatedly in March 2009 (₹ eight lakh) and March 2010 (₹ 15 lakh). It was seen in audit that the building was not taken over by the Principal due to certain deficiencies including the acoustic problem noticed by him. The issue was discussed (October 2009) with JKPCC which demanded additional ₹ 18.65 lakh to rectify the acoustic problem. Owing to non-release of the amount, the multi- purpose hall had not been taken-over by the college as of April 2011. The Principal stated (April 2011) that the provision of acoustics had not been provided in the original estimates by the JKPCC. The reply of the Principal is not acceptable as he had failed to assess the requirement and communicate it to the agency and also could not locate the deficiency on receipt of the initial and the supplementary cost offers submitted by JKPCC.

The failure of the Principal to specifically intimate JKPCC about the requirements for inclusion in the estimates, thus, resulted in blocking of ₹ 1.06 crore.

The matter was referred to Government/Department in June 2011; the reply had not been received (October 2011).

Public Works Department

2.8 Unfruitful expenditure on construction of a road

Inaction of the Government on the recommendation of a committee to use manual chiseling instead of blasting resulted in unfruitful expenditure of ₹ 59.26 lakh.

The Superintending Engineer, Roads and Buildings (R&B), Kargil, in anticipation of Administrative Approval and Technical Sanction, allotted (February 2007) the work for constructing four Km fair-weather link road from Chaulichan to Sharchay to a contractor at a cost of ₹ 2.02 crore for completion by September 2008. The contractor took up the work in April 2007 and after spending ₹ 59.26 lakh on construction of 1.5 Km road stopped (December 2007) further execution owing to a dispute between the villagers[13] over the possible damage, due to blasting, to an irrigation *khul* belonging to Chaulichan and running along the alignment of the road under construction. The road was subsequently (June 2008) taken over by the PMGSY Division, Kargil for completion.

Scrutiny (August 2010) of records of the Executive Engineer (EE), PMGSY, Kargil showed that no work on the road had been executed after its taking over by PMGSY. To complete the road, the District Administration constituted (October 2009) a committee

[13] Chaulichan and Sharchay

which recommended (February 2010) manual chiseling in place of blasting, revision of the project and re-tendering of the work after closure of the earlier contract. It further recommended that the extra financial burden of ₹ 25 lakh involved due to the change be met by the State Government. However, the recommendations referred (April 2010) by the Chief Engineer (CE), PMGSY to the Administrative Department had not been approved by the latter as of April 2011.

Thus, inaction of the Government on the recommendations of the committee resulted in unfruitful expenditure of ₹ 59.26 lakh incurred on the work so far besides, depriving the inhabitants of the area of a motorable road.

The matter was referred to Government/Department in May 2011. In reply, the Financial Advisor and Chief Accounts Officer, Public Works (R&B) Department endorsed (June 2011) the departmental reply stating that the work had been re-tendered in June 2011. Further progress was awaited (October 2011).

Public Health Engineering Department

2.9 Injudicious purchase of Hand Pump Jackets

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

On the basis of an indent placed (May 2007) by the Executive Engineer (EE), Ground Water Division (GWD), Srinagar, the Chief Engineer (CE), Public Health Engineering Department, Kashmir purchased (October 2007) 300 (450 meters) V-Wire Hand Pump Jackets (HPJ) at a cost of ₹ 33.02 lakh from a private firm[14]. These HPJs were to add to the performance of the hand pumps by way of removing suspended impurities from water thereby prolonging their life.

Scrutiny (July 2009) of the records of the EE, GWD, Srinagar showed that out of 300 HPJs purchased, only three[15] had been utilised and the balance (297) HPJs valued at ₹ 32.69 lakh[16] had not been utilised as of May 2011 despite the fact that the division had dug 1,734 deep wells during 2007-11. This shows that the material had been requisitioned/purchased without actual requirement and such purchases are in violation of instruction of the State Financial Rules. On this being pointed out by Audit, the EE stated (April 2011) that stern steps had been effected to utilise the material wherever required. The reply of the EE should be viewed in the light of the fact that utilisation of just three out of the 300 HPJs when 1,734 deep wells had been dug during the last over three years ended March 2011 indicated injudicious purchase.

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14 M/S Sumer Chand and Sons, Delhi

15 2008-09: 2; 2009-10: 1

16 Worked out on proportionate basis

Purchase of Hand Pump Jackets without actual requirement, thus, resulted in blocking of ₹ 32.69 lakh for over three years. Deterioration in the condition of the item due to prolonged storage can not be ruled out.

The matter was referred to Government/Department in May 2011; the reply had not been received (October 2011).

Public Health Engineering Department

2.10 Unfruitful expenditure due to improper planning of a water supply scheme

Failure of the departmental authorities to ascertain a viable and technically feasible source of water before taking up execution of a water supply scheme resulted in unfruitful expenditure of ₹ 1.79 crore.

To augment water supply to seven[17] villages in Ganderbal area drawing water from WSS Zarna extension (two[18] villages) and from a tube well at Takenwaripora (5-villages), the Executive Engineer (EE), Rural Water Supply Division, Ganderbal conceived (2003-04) a project at an estimated cost of ₹ 1.17 crore. The scheme proposed lifting of water from river Jehlum at Karnabal and was targeted to be completed during 2005-06. The need for augmentation had been proposed on the grounds that the existing supply to two[19] villages had been found to be inadequate and in the case of other five[20] villages the water reportedly contained excess iron and thus, was unfit for consumption.

Scrutiny (January 2010) of the records showed that the work taken up (2003-04), in anticipation of administrative approval, had been lying incomplete despite being under execution for more than seven years as of March 2011. It was seen that almost all the components which included works at in-take point, laying of pipes, construction of treatment plant/OHT and electric and mechanical works etc., proposed in the original plan were incomplete despite incurring an amount of ₹ 1.79 crore as of March 2011. Apart from the slow pace of execution, the problem had reportedly been complicated midway due to objection to tapping of source (intake point) by the locals on the pretext of violation of their privacy. The department after a site inspection (September 2010) of the source concluded that the activities around would contaminate the water and thus, decided for an alternate source of the scheme. The Department subsequently prepared (February 2011) a revised proposal for the work at an enhanced cost of ₹ 3.54 crore. It was, however, seen that since the project revision had taken place due to change in the original source point, no mention about the new source point had been made in the revised proposal. Further, construction of an OHT provided in the original estimates had been deleted in the revised proposal and instead laying of pipes for connecting the tank

[17] Khan Mohalla, Dar Mohalla, Bonapora, Karnabal, Bangladesh colony, Takenwaripora and Gurhanjipora
[18] Khan Mohalla, Dar Mohalla
[19] Khan Mohalla, Dar Mohalla
[20] Bonapora, Karnabal, Bangladesh colony, Takenwaripora and Gurhanjipora

area to an already existing OHT about 2.2 Kms away from the plant area had been proposed on the ground that the source (a tube well) which fed the existing OHT had gradually been depleting. An amount of ₹ 5.48 lakh had been booked as expenditure on OHT works deleted in the revised proposal. None of the proposal submitted by the Department had received administrative approvals as of March 2011 and despite this the department had been executing works and booking expenditure throughout 2003-11 and an amount of ₹ 1.79 crore had been incurred on the partly completed works as of March 2011.

Thus, delay in execution, non-provision of a dispute free source and subsequent inconsistencies in the revised proposal resulted in non-accrual of intended benefits to the populace who continue to be fed from the same source of water as was existing in 2003-04, thereby, raising a question mark on the very utility of the whole exercise.

On this being pointed in audit, the EE stated (May/October 2011) that the execution of the scheme could not be carried forward due to the dispute over the site of source of water as the locals residing near the site did not allow tapping of source. The reply is not tenable as the Department had not been able to complete the project during the last eight years.

The matter was referred to Government in July 2011; the reply had not been received (October 2011).

Public Works Department

2.11 Un-productive expenditure due to stoppage of road work

Wrong reporting about land availability and lackadaisical approach in completion of work resulted in unproductive expenditure of ₹ 90.18 lakh for over three years, besides depriving the populace of road connectivity.

With a view to developing village Bed Blore, which was unconnected, the Chief Engineer (CE), PMGSY, Jammu allotted (March 2007) construction of 6.50 Kms Janglote-Bed Blore road to a firm[21] at a turnkey cost of ₹ 2.77 crore under PMGSY, for completion in 12 months. In the DPR submitted to the GOI, the Executive Engineer (EE), R&B, Kathua/Superintending Engineer, R&B, Jammu-Kathua Circle, Jammu had certified that land was available and that no forest land was involved. It was further certified that the villagers were ready to part with the land coming under the road alignment free of compensation.

Scrutiny (June 2010) of the records of the EE, PMGSY Division, Kathua showed that the work, which should have been completed by April 2008, remained incomplete despite a lapse of more than three years (August 2011). It was seen that Department’s claim of land availability and non-involvement of forest land in the proposed road alignment was found

[21] M/S New Jehlum Construction Company, Jammu

to be incorrect immediately after start (April 2007) of the work by the contractor who had reported (April 2007) that the work could not be started as neither the private land had been made available by the Department nor the land under the forest department coming under the road alignment had been transferred.

As a result, the contractor could complete only 47 *per cent* of the allotted work in piece-meals/stretches against which ₹ 90.18 lakh had been paid by the Department between August 2007 and June 2008. Though the Department could finally get the land transferred from the Forest Department in June 2008, the contractor did not re-start the work.

A perusal of the protracted correspondence between the Department and the contractor during 2007-08 revealed that while on the one hand the Department had been highlighting the shortcoming on the part of the contractor leading to slow pace of work and breach of various contract clauses[22], on the other hand the contractor had been complaining about the non-provision of encumbrance free land by the Department leading to idling of his men and machinery with consequential financial losses. The correspondence which continued through 2008-09 revealed that though the Department had been warning of action in accordance with clauses and even cancellation of contract and re-allotment of work at the risk and cost of the contractor, no such action had been taken. The contractor in the meanwhile had requested (September 2008) the Department for termination of the contract and approached (January 2009) the Hon'ble High Court for appointment of an arbitrator to adjudicate the issue. The arbitrator appointed to look into the issue had not delivered its judgment so far (August 2011). The Departmental initiative (November 2008) for termination of the contract took about two years upto June 2010 when the contract was eventually terminated. In August 2011 the Department stated that it had floated tenders for the balance work.

The Department did not furnish any reasons for allotment of the work without completion of the basic formalities of acquisition of land coming under the road alignment and issuance of a wrong certificate regarding availability of the required land.

Thus, wrong reporting of the Department combined with departmental delays in having the work completed resulted in unproductive investment of ₹ 90.18 lakh for over three years, besides depriving the populace of the area the benefit of the road facility.

The matter was referred to Government in September 2011. In reply the Government forwarded (October 2011) the reply of the Department, furnished to Audit in August 2011.

[22] Clause 52.2-non-setting up of field laboratory, clause 9-non-placement of technical person at the site, clause 26- non-submission of bar chart etc.

Rural Development Department

2.12 Non-operationalisation of Production and Training Centres for Handicrafts

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

On the basis of a proposal mooted (January 2002) by the District Rural Development Agency (DRDA), the Project titled 'Production and Training Centres for Handicrafts in Baramulla District' was sanctioned (July 2002) by the Government of India (GOI), under *Swaranjayanti Gram SwarozgarYojana* (SGSY), at a cost of ₹ 3.40 crore for completion in three years. The cost of the project was to be shared by the GOI and State Government in 75:25 ratio. The project had envisaged to ameliorate the lot of 4200 BPL rural craftsmen through promotion of handicrafts by providing logistical, technological and marketing support for producing quality products for national/international market and remove middle-men to ensure that the craftsmen get due price of their skill.

For bringing production, training, skill up-gradation, technology transfer, quality control, marketing and group formation under one roof, 16 production centers and five sales outlets were to be set up in 14 blocks of the District which would generate income of ₹ 4.34 crore for 1400 families at an average of ₹ 0.31 lakh per annum per family. The Project had also envisaged procurement of Plant and Machinery to be installed at a centrally located place in the District for washing/finishing of products which were to be produced in the production centres.

Scrutiny (May 2011) of the records of the Project Officer, DRDA, Baramulla (Agency) showed that against the releases (July 2002 to March 2007) of ₹ 2.89 crore[23], the department had only set up six production centres and nine production centres were either incomplete or not handed over to the Agency despite grant of extension to the life of the project twice (October 2007 and October 2009). An amount of ₹ 75 lakh had been spent on this component of work. Also, ₹ 10 lakh had been advanced to the Block Development Officers (BDO) for construction of five show-rooms out of which only three show-rooms[24] had been constructed at a cost of ₹ six lakh (₹ two lakh each) and no work had been taken up in respect of two show-rooms[25] due to non-availability of land. Further, the Agency had booked ₹ six lakh on the activities not falling within the purview of the project.

[23] GOI: ₹ 2.04 crore (₹ 1.02 crore each in July 2002 and March 2007) and State Government: ₹ 0.85 crore {(₹ 0.34 crore (March 2003) and ₹ 0.51 crore (March 2007)}

[24] Sopore, Baramulla, Bandipora

[25] Uri and Tangmarg

It was seen in audit that despite spending ₹ 86.58 lakh on completion of six production centres and three sales outlets, the Agency had failed to impart training to the intended beneficiaries, which should have been conducted simultaneously with other components of the project, due to which the infrastructure created so far had not been put to the intended use. Of the six completed production centres, three had been used for office purposes, two had been damaged by earthquake/unrest and one had been occupied by the security forces. Similarly, one show-room had been used for office purpose, one was being used by a self-help group and the third one was in dilapidated condition.

Wrong planning of the Agency in not imparting training to the beneficiaries had resulted in unproductive expenditure of ₹ 86.58 lakh spent on the project so far. Due to non-completion of the project even in the extended period and non-submission of the utilization certificates for the entire release, the GOI did not release the balance amount. The work on the project had been stopped from February 2007 and had not been resumed as of May 2011.

The Agency attributed (May 2011) non-implementation of scheme to the earthquake of October 2005 and unrest during 2008-09. Further, the Agency stated that the project period had expired in October 2009 and the matter would be taken up with the GOI for restart of the project. The reply is not acceptable as other programmes under SGSY undertaken by the Agency from 2006-07 to 2010-11 had not been hampered for the reasons forwarded by the Agency. Besides, the State/District Level Monitoring Committees had not been framed to monitor the project.

Non-monitoring of the project and non-imparting of training to the beneficiaries had resulted in unproductive expenditure of ₹ 86.58 lakh and consequent denial of intended benefits and also in projected annual income loss of ₹ 4.34 crore to 1400 BPL families. Further, funds to the extent of ₹ six lakh was diverted and ₹ 2.02 crore remained un-utilised so far which were lying in saving account of DRDA.

The matter was referred to Government/Department in July 2011; the reply had not been received (October 2011).

Regularity issues and Other

Irrigation and Flood Control Department

2.13 Blockage of funds due to stoppage of water storage schemes

Departmental failure in adhering to the instructions of the GOI in getting the designs of the projects vetted by the CWC before execution and subsequent failure to ensure execution of works resulted in blocking of ₹ 8.67 crore.

To create irrigation potential of 3,500 acres for hitherto uncultivable land and to overcome drought like situations, the Chief Engineer (CE), Irrigation and Flood Control

Department, Jammu awarded (July 2007) contract for three[26] water storage schemes (Construction of RCC Check Dams) in Samba, Jammu under Border Area Development Programme (BADP)[27] to a contractor[28] for completion in eight months. As per the directions (November 2006) of the GOI, the design and drawings of all the Check Dams were to be approved by Central Water Commission (CWC) before their implementation.

Audit scrutiny (November 2010/March 2011) of the records of the CE, however, showed that despite spending ₹ 8.67 crore, the schemes had not been completed as of March 2011 for the reasons indicated against each in the table.

Scheme/Estimated cost	Audit findings
Nallah Yakh, near U/S of village Gurha Mundian/₹ 4.02 crore	✓ Work was taken up (July 2007) as per the design approved/vetted by the Design Directorate, Jammu. ✓ After completing 70 *per cent* of the allotted works, the work had been abandoned (November 2009). ✓ ₹ 2.64 crore (66 *per cent* of the allotted cost) on account of material (₹ 1.34 crore), labour (₹ 1.10 crore) and mobilisation advance (₹ 20.13 lakh) had been booked by the Division against this work (March 2011). ✓ Only ₹ 5.39 lakh out of the Mobilisation Advance had been adjusted.
River Basanter, near SKUAST, Samba/ ₹ 8.39 crore	✓ Work abandoned by the contractor after executing 10 *per cent* of the allotted work. ✓ The work was also taken up after approval of designs by Design Directorate which was, however, changed by the CWC to whom these were submitted after taking up of the work. ✓ Based on the drawings approved by the CWC, the contractor stopped further work and submitted a revised cost offer of ₹ 23.01 crore. ✓ A committee constituted for inspection of work recommended closing of contract and invitation of fresh tenders (February 2011). ✓ ₹ 3.34 crore (40 *per cent* of the approved cost) on material (₹ 2.92 crore) and mobilisation advance (₹ 41.95 lakh) had been booked by the division as of March 2011. ✓ Entire Mobilisation Advance remained unadjusted.
River Devak near, village Utter Behni/ ₹ 4.37 crore	✓ The contractor had not started the work at all. Even the drawings had not been submitted. ✓ The division had paid mobilisation advance of ₹ 21.83 lakh to the contractor and booked ₹ 2.46 crore as cost of material against this work. ✓ The work had not been started as of May 2011. ✓ Entire Mobilisation Advance remained unadjusted.

It was seen that despite the fact that the contractor had either not taken up the works at all or the pace of work, wherever taken up, had been tardy, the Department had all along (2005-11) booked expenditure on procurement of material on all the three works. The Department had, in addition, paid (November 2007) interest free Mobilisation Advance to the contractor, which apart from being prohibited resulted in extension of undue benefit to the contractor. Out of the payment of MA of ₹ 83.91 lakh, ₹ 5.39 lakh only had been recovered from the executed portion of the works and the balance ₹ 78.52 lakh continued to be retained by the contractor for the last four years.

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26 (1) Nallah Yakh, near U/S of village Gurha Mundian-RD 2275M (2) River Basanter, near SKUAST Samba RD 500M and; (3) River Devak near, village Utter Behni RD 1000M.

27 A Cent *per cent* GOI sponsored scheme

28 M/s UAN Raju Construction Ltd; Vishakhapatnam

The Department was either evasive or did not reply at all to the audit queries regarding allotment of works without ensuring vetting of designs by the CWC, booking of huge amounts on material against the works which had either been taken up partially or not taken up at all, payment of mobilisation advance and subsequent failure to ensure start/re-start of works by the contractor. No cogent reasons for delay in completion despite huge spending were furnished to audit.

The department failed to adhere to the instructions of the GOI in getting the designs of the projects vetted from the CWC before execution and subsequently failed to ensure execution of works. This resulted in blocking of ₹ 8.67 crore and defeated the intended purpose.

The matter was referred to Government/Department in August 2011. In response the Chief Engineer, Irrigation and Flood Control Department, Jammu while confirming (November 2011) the status of the project, as pointed out by audit, did not furnish any reasons for delays in completion of the project. Reply from the Government, however was awaited (November 2011).

Education Department

(Sarva Shiksha Abhiyan)

2.14 Diversion/blocking of funds meant for up-gradation of the State Institute of Education Jammu

Release of funds by the society in anticipation of clearance of the project by the State Government resulted in blocking of funds.

The Government of India (GOI) approved (July 2003) up-gradation of the State Institute of Education (SIE) Jammu to the level of Institute of Educational Management and Training (SIEMAT) subject to furnishing of a proposal by the State Government and also taking-over of the project once its central funding was over. A provision of ₹ three crore was kept for the project in the Xth Plan under *Sarva Shiksha Abhiyan* (SSA).

Scrutiny (February 2011) of records of the State Project Director (PD), Ujalla Society, J&K (*Sarva Shiksha Abhiyan)* showed that the State Government proposal/MOA forwarded to the GOI in July 2005 was returned (December 2005 and May 2006) for modification in the light of certain observations made by the National Institute of Educational Planning and Administration (NIEPA). In anticipation of clearance of the project by the State Government, the society received ₹ 2.10 crore[29] from GOI for implementation of the project out of which the society released ₹ 60.00 lakh[30] in favour of SIE, Jammu which was lying unutilized as of February 2011. The balance ₹ 1.50 crore

[29] 2003-04: ₹ 50 lakh; 2004-05: ₹ 100 lakh; 2006-07: ₹ 50 lakh and 2007-08: ₹ 10 lakh

[30] March 2007: ₹ 50 lakh and March 2008: ₹ 10 lakh

had been diverted by the Society, without approval of the grant sanctioning authority, for other spillover works not covered under the programme. The Society had not maintained project-wise details of the funds received by it. Funds for all the projects were amalgamated and consolidated utilization certificates (UC) were submitted annually to the grant sanctioning authority without giving project-wise details of receipts/expenditure figures.

The PD stated (February 2011) that the project had not been cleared by the State Government so far and every effort was being made to finalize it. The reply is not tenable as the Society should not have released or utilized the funds for activities not covered under the programme without clearance of the project by the State Government.

Lack of monitoring of the approved projects by the Government, non-existent internal controls in the Society coupled with inaction of the Government in finalizing the project resulted in blocking of ₹ 60 lakh for the periods ranging between 36 and 46 months and diversion of ₹ 1.50 crore.

The matter was referred to Government/Department in May 2011; the reply had not been received (October 2011).

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 Public Accounts Committee (PAC)/Committee on Public Undertakings (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. Consequent upon the holding of National Seminar on Legislature Audit Interface on 5th July 2010 at New Delhi regarding strengthening of Legislative Control over the financial activities of the Government and securing greater response of the Executive to the Reports of the Comptroller and Auditor General of India and recommendations of the PAC and COPU on these Reports, the suggestions of the CAG of India were adopted by the Committees. The Committees (PAC and COPU) skipped over the paragraphs prior to Audit Report 2000-01 and sought ATNs on all the pending audit paragraphs thereafter 2007-08 from the concerned Secretaries (Government).

It was, however, noticed that out of 356 paragraphs featuring in the Civil Chapters of Audit Reports 2000-01 to 2008-09, *suo-moto* ATNs in respect of only 167 paragraphs have been received during the period January 2011 to March 2011.

2.16 Action taken on recommendations of the PAC/COPU

Action Taken Notes, duly vetted by the PAG 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. Out of 356 paragraphs featuring in the Civil chapters of Audit Reports for the years 2000-01 to 2008-09 (excluding Audit Reports presented in the Jammu and Kashmir State Legislature on 31 March 2011), only 122 paragraphs have been discussed by the PAC up to March 2011. Recommendations in respect of 108 paragraphs have been given by the PAC but ATNs on the recommendations of the Committee have been received in respect of only 22 paragraphs despite the PAG taking up the matter with the Chairperson of the committee 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.

Nine Audit Committee meetings were held during 2010-11 in respect of paragraphs contained in IRs pertaining to the civil wing, wherein 627 transaction audit paragraphs were discussed and 241 paragraphs were settled.

At the end of March 2011, 5613 IRs involving 28769 paragraphs pertaining to the period 1998-2011 were outstanding.

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

3. PUBLIC WORKS DEPARTMENT

The State Roads and Buildings Department is mandated with the construction and maintenance of roads, bridges and buildings in the State. Though implementation of Pradhan Mantri Gramin Sadak Yogna (PMGSY) is under the Public Works Department (PWD), as the funding pattern, accounting methodology, tendering and other aspects of the programme are different and are being looked after by a separate wing (J&K Rural Road Development Agency) in the State, the same has not been covered in the present performance audit. Sufficient funds are being poured in the sector through both State and Centrally Sponsored Schemes. Despite huge spending in the sector, the outcome has not been up to the mark primarily due to non-prioritisation of schemes, taking up of unapproved schemes for execution and incurring huge sums on execution without ensuring that the land on which the works are being executed are free from all encumbrances.

Highlights

- ✓ ***No comprehensive road planning policy was in place in the State. Planning of works was not upto the mark.***

  (Paragraph: 3.9)

- ✓ ***Delay in release of funds was seen at all the levels which impacted programme implementation.***

  (Paragraph: 3.10.2)

- ✓ ***Diversion of ₹16.30 crore to other schemes impacted the schemes for which the funds were meant.***

  (Paragraph: 3.10.5)

- ✓ ***Unauthorised liability of ₹110.82 crore had been created due to execution of unapproved works.***

  (Paragraph: 3.10.8)

- ✓ ***Shortfall in achievement of targets was witnessed in all the programmes.***

  (Paragraph: 3.11)

- ✓ ***Unrealistic estimation led to cost over-run over the original estimates in 1,803 road works. Cost overrun of ₹ 27.52 crore was witnessed in 98 roads and 45 building works. Also, time over-run of one to nine years was seen in 167 road and 220 building works.***

  (Paragraphs: 3.11.1, 3.11.3 and 3.13.1)

- ✓ ***Works taken up on disputed sites resulted in blocking of ₹ 140.34 crore on 112 road and 81 building works.***

  (Paragraphs: 3.11.4 and 3.13.2)

- ✓ ***59 works had been split at different levels to avoid sanction of the higher authority.***

  (Paragraph: 3.12.2)

- ✓ ***Due to non-procurement of sufficient construction material, eight executing divisions spent ₹ 62.47 crore on procurement of material from open market and incurred an extra expenditure of ₹ 1.04 crore.***

  (Paragraph: 3.14)

- ✓ ***Internal control mechanism, monitoring and quality control of works were virtually non-existent.***

  (Paragraphs: 3.15, 3.16 and 3.19)

3.1 Introduction

The State Public Works Department is mandated with construction and maintenance of Roads, Bridges and Buildings in the State. In view of the State having a small railway network, road communication assumes great importance for socio-economic development. Road development in the State is also important in view of the hilly terrain and limited alternate means of transport. The State Government with the backing of GOI resources is building the infrastructure in the shape of roads, bridges, buildings and other social infrastructure. The main thrust of the 11th five year plan (2007-12) is to create quality road infrastructure with the objective of improving mobility and accessibility and reducing cost of transportation. Ensuring a balanced development of the total road network across the State including widening of roads, improvement of riding quality and strengthening road safety measures would be the thrust. In particular, 100 *per cent* road connectivity, with all weather roads to inhabitations with a population of 1000+ in plains and 500+ in hilly areas is the priority objective under *Bharat Nirman*. The activities of the Department during the review period remained confined to implementation of various schemes under Central Road Fund (CRF), NABARD, Prime Minister's Reconstruction Plan (PMRP), *Pradhan Mantri Gramin Sadak Yogna* (PMGSY) alias *Bharat Nirman* besides works under the District Plan. The PMGSY was implemented in the State from December 2000 and till 2003 was being implemented by the State Rural Development Department after which it was transferred to PWD. In April 2007, a separate agency with the nomenclature 'J&K Rural Road Development Agency' was created for execution of PMGSY works with Chief Engineers (one each at Srinagar and Jammu) at the helm. The agency works under the overall control of the Principal Secretary to Government, Public Works Department, who acts as the Chief Executive Officer.

Building works of various departments is also undertaken by the Department. All the building works are executed by the executive divisions as deposit works through the funds transferred by the respective departments.

3.2 Road Density

Apart from the Public Works Department, the road infrastructure development works in the State are also carried out by the Border Roads Organization. A minor portion of the road length is maintained by Irrigation and Flood Control (I&FC) and Forest Departments for their own use and the State Rural Development Department constructs and maintains minor road works and bridle paths. The road network of all the Departments (excluding National Highways) taken together as on 31 March 2010 was as under:

Table 3.1

(In Kms.)

Category	*PWD*	*Forest*	*BRO*	*I&FC*	*Rural Development*	*Total*
Surfaced	16,838	1,099	5,499	133	2,009	**25,578**
Unsurfaced	3,178	10,112	1,099	388	1,518	**16,295**
Total	***20,016***	***11,211***	***6,598***	***521***	***3,527***	***41,873***

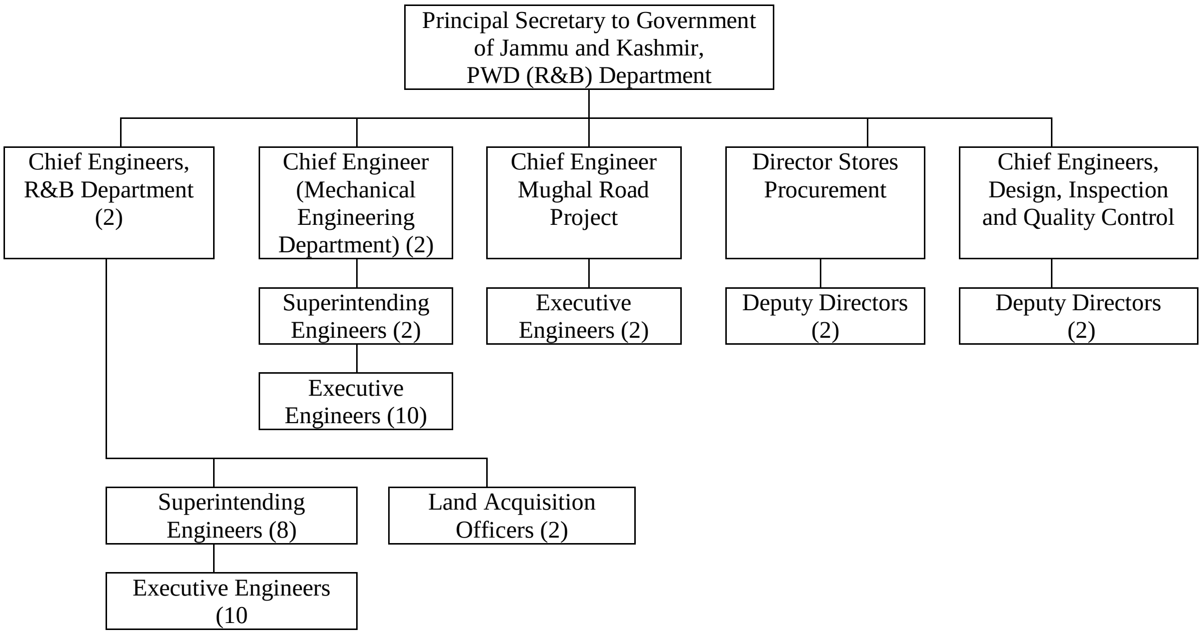
(Source: Plan document.)

The road density in the State increased from 35.71 Km per 100 sq. Km. during 2006-07 to 41.30 Km per 100 sq. Km. during 2009-10. Compared to Himachal Pradesh where the road density stood at 54.43 Kms/100 sq. Kms as on March 2009, it was as low as 41.30 Km per 100 sq. Km. during 2009-10 in the State. The total road length constructed and maintained by the Department increased from 15,768 Kms (Surfaced: 13,885 Kms; unsurfaced: 1,883 Kms) in April 2006 to 20,016 Kms in March 2010 (Surfaced: 16,838 Km; unsurfaced: 3,178 Kms). Out of the total 6,417 inhabited census villages (2001) in the State, 1,406 villages (22 *per cent*) were yet to be connected by all weather or fair weather roads at the end of March 2010.

3.3 Organisational set up

Organisational set up of the Department is as under:

Chart-I



3.4 Scope of audit

A review on the functioning of internal control mechanism in the R&B Department on NABARD assisted works was last attempted during 2005-06 and incorporated in the Report of Comptroller and Auditor General of India for the year ended 31 March 2006. The report was partially discussed and recommendation on the points fully discussed were brought out in the 48^{th} Report of the PAC and communicated to the Department/Government.

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 Department-Centric audit. Audit did not venture into the activities undertaken under *Pradhan Mantri Gramin Sadak Yogna* (PMGSY) alias *Bharat Nirman* – a flagship programme of the GOI, as the funding pattern, accounting methodology, tendering and other parameters connected therewith are different and are being looked after by a separate wing (J&K Rural Road Development Agency) in the State.

The audit was carried out during September 2010 to June 2011 and covered the period from 2006-07 to 2010-11.

3.5 Audit objective

The objectives of the review were to assess the performance of the Department on the following parameters:

- Planning process
- Financial management

- Programme implementation
- Internal control mechanism
- Monitoring

3.6 Audit criteria

The CCO-based audit of the Department was benchmarked against the following audit criteria.

- Plan documents/Annual works programmes/Project reports.
- J&K P W Accounts Code, J&K Financial Code read with Book of Financial Powers, J&K CSR and Schedule of Rates (SOR).
- Guidelines of the Central Road Fund (CRF), NABARD-assisted projects, Border Area Development Programme.

3.7 Audit Methodology

An entry conference was held with the Principal Secretary, Public Works (R&B) Department, J&K on 2nd December 2010 wherein objectives, criteria and scope of audit were discussed. The selection of the units was done on the basis of classification under Category A (100 *per cent*), B (50 *per cent*) and C (25 *per cent*). The findings were discussed with the Principal Secretary, Public Works (R&B) Department, J&K on 18th October 2011. Based on the discussions and the replies received from the Government, modifications were carried out and the views of the Government have been incorporated at appropriate places in the review.

3.8 Audit Coverage

The Department has 81 units comprising offices of Chief Engineers, Director Stores Procurement, Superintending Engineers and Works Divisions headed by Executive Engineers, etc. in the State. Out of these, audit of 42 units comprising two Chief Engineers (R&B) Jammu/Kashmir, two Chief Engineers, Mechanical Engineering Department (MED) Jammu/Kashmir, Director Stores Procurement Department Jammu/Kashmir, two Dy. Director Stores Procurement Department, one Superintending Engineer Jammu/Kathua Circle, Jammu, 32 Works Divisions, one Mechanical Division Jammu and one Collector Land Acquisition, PWD, Jammu was conducted during the period from September 2010 to March 2011.

AUDIT FINDINGS

3.9 Planning

3.9.1 Formulation of plans

Public participation is an important component in planning which allows plans to be considered from a variety of perspectives and helps in identifying the potential problems in the process. For providing missing links and increasing connectivity to villages, remote areas and for facilitating construction of roads on scientific lines, it was necessary to have a comprehensive road policy and prepare a perspective plan at the State level, based on the inputs from the divisional/district level, showing a detailed road map of the area, specification for different roads, norms for maintenance in view of manifold increase in passenger transport and freight axle load.

In the State, Five Year Plans considered as Perspective Plans (PP) form basis for execution of various activities under the roads and bridges sector by the Department. Annual works plans are to be prepared from the PP and works prioritized for completion within the specified time period. The works included in the PP are taken-up under different sectors/schemes for the purpose of funding. The major categories of schemes are those funded by the GOI like Central Road Fund (CRF) and others through State Sector, NABARD, and District Sector. The PPs on Roads and Bridges in the State are prepared by the Planning and Development Department on the basis of feedback received from the Department (PWD).

It was seen that:

- No comprehensive road policy had been framed by the State Government. The Government while admitting the fact intimated that the State Government had entrusted preparation of a comprehensive mobility plan for Srinagar and Jammu cities in the first place to M/S RITES through ERA.
- No base line survey had been conducted, in the absence of which the gap between availability and demand had not been analyzed on inter/intra District basis to prioritize future course of interventions. The plans sent to State Planning and Development Department for incorporation in the PPs by the Department had been prepared at the apex level (CEs) without any feedback from the field units. Ten out of 32 divisions confirmed this fact during audit.
- The targets envisaged in PPs were to be considered while preparing Annual Plans by the Department. It was, however, seen that annual plans (2007-11) had exceeded the targets set in FYP (2007-12) by about ₹ 21 crore and the actual expenditure had exceeded by ₹ 553 crore during 2007-11 indicating PPs had no relevance. Further, excepting for PMRP works, no centrally sponsored schemes had been included in the PPs. These, however, had been included in the Annual

Plans alongwith other District and State plan schemes. An analysis of the physical targets set in the PP and those included in the annual plans in two sectors revealed huge deviations as depicted below.

Table 3.2

S. No	Name of the Department/Sector	Financial (₹ in crore)			Physical	
		Total outlay 11th Five Year Plan	Total outlay as per Annual Plans 2007-11	Total expenditure 2007-11	Physical targets as per Five Year Plan	Physical targets as per Annual Plans 2007-11
1.	R&B Jammu	1,229	1,196	1,459	770	1,438
2.	R&B Kashmir	1,229	1,291	1,479	128	1,156
3.	PWD (NFB)** Jammu	136	32	22	119	193
4.	PWD (NFB) Kashmir	136	41	63	87	194

*(** NFB=Non-functional buildings)*

As can be seen from the table, works taken up by the Department during 2007-11 on the basis of AAPs was far in excess of those fixed in the PP for the period which had reduced preparation of the PP to a mere formality. Absence of proper survey, non-implementation of the schemes as per programme guidelines and not taking up of the schemes as per the phasing worked out in the PPs resulted in time and cost over-runs in 167 ongoing schemes due to thin spreading of the available resources. Besides, 60 schemes approved under NABARD and CRF at the total cost of ₹ 206.60 crore had been de-sanctioned as these were found to be either already approved under other programmes or were not fulfilling the requirement of the guidelines of respective programmes.

- As per the PP, the Department had to undertake limited number of new schemes and lay focus on completion of existing schemes. However, it was noticed in audit that the Department instead of completing 424 ongoing schemes under State Sector in Kashmir division, undertook 350 new works, thus, not adhering to the directions in the PP.

3.10 Financial Management

3.10.1 Financial Allocation and Expenditure

Funds are received by the Department as Non-plan, Plan and District Plan components. While Non-plan funds are released by the Finance Department and cover revenue expenditure, Plan funds are released by the State Planning Department and cover expenditure of capital nature. Loans released by NABARD and funds released through centrally assisted schemes form part of State plan. District plan funds are released to the Department by the District Development Commissioners. The details of funds released and expenditure incurred thereagainst as communicated by Administrative Department of R&B during 2006-11 were as follows:-

Table 3.3

(₹ in crore)

Year	*Funds allotted*	*Expenditure incurred*	*Excess (+)/saving (-)*
2006-07	813.90	842.43	(+) 28.53
2007-08	1,052.13	1,407.02	(+) 354.89
2008-09	1,268.12	1,491.34	(+) 223.22
2009-10	1,744.21	1,854.35	(+) 110.14
2010-11**	1,931.44	1,741.17	(-) 190.27

*(** Does not include the figures of District Plan, not available with the Department)*

Substantial spending over the allotments during the period 2006-10 was brought to the notice of the Administrative Department. It was stated that there had been no excess expenditure over the release but the additional releases made at the close of the respective financial years had not been included in the releases of the respective years. The additionalities were, however, not communicated to Audit though requested. In the absence of authentic figures of releases made during the years, comments on utilization of funds adequately or otherwise could not be made.

Following significant lapses in financial management were noticed.

3.10.2 Delayed releases

The PAC in its 48th Report on delayed releases, brought out by Audit in the review on NABARD assisted schemes, had recommended to the Department to come up with the reasons for the delayed releases in the next meeting. The departmental representatives assured the committee that responsibility would be fixed. Despite the assurance, Audit observed delay in release of funds during 2006-11 at all the levels i. e. administrative department (21 to 100 days), Chief Engineer (21 to 158 days) and at Superintendent Engineer (21 to 75 days). The Dy. Director (P&S), R&B Department, Civil Secretariat stated that the delay was procedural as releasing of funds took 10 to 20 days. Late release of funds was responsible for delayed completion of works, surrender of funds or rush of expenditure during the closing months of the financial years as brought out in the subsequent paragraphs. In reply, the Government assured to take special measures in releasing funds to eliminate delays.

3.10.3 Rush of expenditure

Rules provide that expenditure should be evenly distributed over the year. Audit, however, noticed rush of expenditure in 19 out of 32 divisions in the last month of the financial year ranging between 22 and 75 *per cent* during 2006-10. On this being pointed out, the EEs stated that rush of expenditure was due to late release of funds by the higher authorities.

3.10.4 Surrender of funds

For ensuring effective financial management, the funds are to be utilized in full during the year. It was noticed that the Chief Engineer, Projects Organisation, Mughal Road Project surrendered ₹ 221.28 crore (36 *per cent*) out of ₹ 612.65 crore released during 2006-11. Further, ₹ 27.17 crore was surrendered during the year 2008-09 to 2010-11 by three divisions[1]. The surrendering of funds indicated poor financial management. Delayed release of funds was stated by the EEs to be the main reason for surrender of funds.

3.10.5 Diversion of funds

Funds released by the State Government are scheme-specific and are to be utilized on specified items only. It was seen that eight out of 32 test-checked divisions had diverted ₹ 7.22 crore to other schemes. Besides, ₹ 9.08 crore meant for 'Maintenance and Repairs' had also been diverted by 18 divisions during 2006-11 on 354 new schemes. On being pointed out, the EEs stated that diversion of funds was necessitated for clearing liabilities in respect of works ordered for execution by the Hon'ble MLAs/Ministers. The Chief Engineer PWD (R&B) Kashmir, however, stated that works were executed by the divisional authorities without approval. The impact of such transfer on maintenance and repair of roads for which it was meant had not been assessed.

The Government, in reply, assured to take action against the erring officials.

3.10.6 Awaited detailed account and utilisation certificates

The divisional officers are required to obtain the detailed accounts/utilisation certificates for money advanced by them. However, 27 divisions (Kashmir: 13, Jammu: 14 division) out of 32 test-checked divisions had not obtained detailed accounts/utilisation certificates against the advances of ₹ 321.28 crore made to various Collectors, Land Acquisition/JKPCC[2] during the period 2006-11 which was indicative of poor financial management in the divisions. The period of delay was in the range of one year to 10 years. On being pointed out, the EEs stated that the matter had been noted for compliance.

3.10.7 Drawal of funds

Financial rules prohibit drawal of sums from treasury in anticipation of requirements. Further, vouchers/bills are not to be passed for crediting the amount to deposits at the close of the financial year in order to avoid lapse of budget grants. Audit examination of records of 14 divisions (Kashmir: 9, Jammu: 5) showed that divisional authorities had passed 114 vouchers/bills (test-checked cases) for 'nil' payments and credited ₹ 3.84

[1] Project Circle Division, 1st Srinagar: ₹ 25.94 crore; R&B Division, Chatroo: ₹ 0.46 crore and R&B Division, Qazigund: ₹ 0.77 crore

[2] Jammu and Kashmir Projects Construction Corporation

crore to deposits at the end of financial year to avoid lapse of budget grant. On being pointed out, the EEs stated that due to delayed release of funds and pending formalities viz. work measurements and required test-checks, the funds were credited to the Deposit head. The reply is unacceptable as the chances of making payments out of the withheld amounts without clearance of the formalities cannot be ruled out.

3.10.8 Creation of liabilities

Financial rules provide that no work shall be taken up for execution unless sufficient funds are provided and no liability shall be created except under the special orders of the Government. It was, however, noticed that liability of ₹ 110.82 crore in respect of 1,328 works[3] was created. The Chief Engineer, R&B Department, Jammu stated (October 2010) that the schemes were mostly unapproved and had been taken up on the directions of the concerned Hon'ble Ministers/MP's/MLA's. The reply was in violation of the State Financial Code which prohibits taking up of works without ensuring availability of funds. Works taken up, as such, dents the targets laid down in the PP and the Annual Action Plans. The Government, however, admitted the audit observation and attributed it to execution of some unapproved schemes under local requirements and pressures.

3.11 Programme Management

The efficient programme management in an organisation involves selection of schemes properly as per criteria of programme for their successful completion within estimated time and cost so that intended benefits accrue to the public.

The status of various projects in the State during 2006-11 as of March 2011 is depicted in the following tables.

Table 3.4

Programme/ Scheme	No. of Works under execution during 2006-11			Works to be completed by 31 March 2011	Works completed	Shortfall (percentage)
	Pending as of March 2006	Sanctioned during 2006-11	Total			
CRF	44	49	93	59	39	20 (34)
PMRP	-	3	3	3	1	2 (67)
NABARD	233	1,143	1,376	1,196	725	471 (39)
Total				1,258	765	493 (39)

As can be seen, out of 1,258 works to be completed by the end of March 2011, only 765 works had been completed registering a shortfall of 39 *per cent* indicating that completion of road works taken up for execution had been tardy and the shortfall in completion thereof was in the range of 34 to 67 *per cent* under various sectors.

The targets and achievement of the corresponding period are given in the table.

3 Jammu: 890 works with ₹ 89.16 crore and Kashmir: 438 works with ₹ 21.66 crore

Table 3.5

(In Kms)

Year	Target						Achievement					
	BT			MT/SH/FW			BT			MT/SH/FW		
	Jammu	Kashmir	Total	Jammu	Kashmir	Total	Jammu	Kashmir	Total	Jammu	Kashmir	Total
2006-07	200	336	536	690	995	1,685	189	331	520	570	875	1,445
2007-08	200	623	823	690	1,417	2,107	235	553	788	759	1,407	2,166
2008-09	200	648	848	720	1,549	2,269	270	473	743	1,187	1,549	2,736
2009-10	790	1,352	2,142	880	1,985	2,865	1,005	1,300	2,305	1,768	2,274	4,042
2010-11	1,100	1,216	2,316	1,930	1,464	3,394	1,310	865	2,175	2,170	962	3,132

The figures depicted in the above tables were indicative of the propensity of the Department to take up new works without ensuring completion of the works-in-progress. This action of the Department had proved to be an impediment in completion of works in time, resultant time and cost over-runs, and non-accrual of benefits out of the funds utilized on the on-going schemes.

The major shortcomings in programme implementation as detected by Audit are elaborated hereunder.

3.11.1 Un-realistic estimation

As per the Financial Rules, the EE is authorised to sanction excess over estimates of works up to five *per cent*. It was seen that EEs in 21 divisions (Kashmir: 13, Jammu: 08) out of 32 test-checked divisions had authorised excess over estimates in execution of 1,803 works (Cost: ₹ 195.01 crore) during 2006-11. The number of schemes and the range of excess over the original allotments is tabulated below.

Table 3.6

S.No	Range	No. of works	S. No	Range	No. of works
1.	Upto 100 *per cent*	922	4	501 to 1000 *per cent*	85
2.	101 to 200 *per cent*	441	5.	1001 to 2000 *per cent*	15
3.	201 to 500 *per cent*	333	6	2001 and above	7

This apart from being irregular indicates preparation of unrealistic works estimates. The EEs attributed the excess to carrying out of the execution on extended stretches of the roads executed on public demand and site conditions. The reply is not acceptable as the action was in violation of the codal provisions.

3.11.2 Execution without administrative approval (AA)/technical sanction (TS)

As per Rule 9.3 of the State Financial Code, obtaining of AA/TS is a pre-requisite for taking up a project. Test-check of records revealed that 1,301 works (32 test-checked Divisions) had been executed at a cost of ₹ 294.66 crore during 2006-11 without AA/TS. The EEs stated that applications for accord of administrative approvals were submitted to the higher authorities but approvals thereof were awaited. The execution of works without AA/TS continued despite this being pointed out to the executing divisions/CEs through the Annual Inspection Reports and to the Government through Annual Audit

Reports. Matter was referred to the Government (September 2011); the reply was awaited.

3.11.3 Time and Cost over-runs

Completion of schemes in a time bound manner and within the estimated cost is of vital importance for providing benefit of the schemes to the people. Test-check revealed instances of time over-runs ranging between one and nine years in 167 schemes (Jammu: 45, Kashmir: 122) in 16 divisions (Jammu: 10, Kashmir: 6) and cost overrun of ₹ 19.63 crore (range: ₹ 0.96 lakh to ₹ 68.12 lakh) in 98 schemes. On being pointed out, the Chief Engineers, R&B Department Jammu/Srinagar stated that cost escalation of schemes was mainly due to increase in cost of key construction material. The reply was not acceptable as the cost escalation was due to time-overruns which was avoidable.

3.11.4 Unfruitful expenditure/locking up of capital

Executive Engineers of the divisions are to ensure availability of encumbrance-free land and availability of funds before taking up execution of works.

It was noticed that 112 works taken up for execution by 23 test-checked divisions had been lying incomplete due to land dispute (54 cases), for forest clearance (04 cases), inadequate funding (33 cases), improper planning (9 cases) and others (12). The expenditure of ₹ 128.28 crore incurred thereon had proved unproductive as of March 2011.

On being pointed out, it was stated that the works could not be completed due to land disputes, pending forest clearance, inadequate funding etc. The reply is not acceptable as the Divisional Authorities had certified availability of encumbrance-free land at the time of submission of project reports. Thus, failure of the divisional authorities to ensure availability of encumbrance free land, proper funding coupled with improper planning and wrong reporting had resulted in denial of envisaged benefits to the public.

A few cases leading to blocking of funds are brought out hereunder.

- Ranga-Sangam road estimated to cost ₹ 19.97 crore was taken up by R&B Division, Ganderbal in February 2005 without ensuring that the land coming under the road alignment was free from encumbrances. After spending ₹ 94.02 lakh upto March 2007, the work was stopped by the forest authorities rendering ₹ 77.31 lakh spent on execution unfruitful and blocking ₹ 16.71 lakh spent on procurement of material. Work on the scheme had not been resumed as of March 2011.
- Out of ₹ 3.01 crore allotted to Executive Engineer, R&B Division, Ramban for Chanderkot-Swani road estimated to cost ₹ 4.08 crore, an amount of ₹ 2.75 crore had been spent on procurement of material, ₹ 10.80 lakh on earthwork and ₹ 15 lakh had been advanced to the Land Acquisition Officer for acquisition of land

coming under the road alignment. Immediately after start, the work was stopped due to land dispute which had not been resolved as of March 2011 resulting in blocking of funds.

3.11.5 Delay in implementation

- ✓ The PP also envisaged completion of three [4]prestigious projects sanctioned under Prime Minister's Re-construction Programme (PMRP) by March 2007.

  It was seen that only Khanabal-Pahalgam (KP) road estimated to cost ₹ 25 crore, revised to ₹ 110 crore, involving four lanning of the first 14.5 Kms and double lanning of the balance 28.5 Kms had been completed within the revised cost. The increase in cost was due to providing of Wet Mix Macadam instead of Water Bound Macadam found necessary at site after soil tests.

  The target date for completion of Mughal Road had been extended upto March 2013 with a revised cost of ₹ 639.85 crore against the original AA cost of ₹ 255 crore. The delay in completion was attributable to delayed environmental clearance and *de-novo* survey conducted by a private firm for the road alignment. Similarly, Narbal-Tangmarg (NTR) road estimated to cost ₹ 38 crore (Revised: ₹ 116 crore) although nearing completion, had witnessed a cost overrun of ₹ 78 crore as of March 2011 due to land disputes and delay in receipt of forest clearance.

  Thus, physical achievement in respect of PMRP roads was not in consonance with the PP. While the cost over-run in respect of KP and NTR was attributed to change in scope of work, the same was attributed to taking up of the work on Mughal Road on the survey conducted in the year 1999 which had to be redone.

- ✓ Against 1,196 schemes sanctioned under NABARD (RIDF IV to RIDF-XIII) to be completed by 2010-11, only 725 (61 *per cent*) schemes had been completed and the balance 471 schemes had not been completed due to non release of matching share by the State Government. The schemes taken up thereafter upto RIDF-XV were also likely to suffer as the State share of ₹ 373.11 crore had not been released as of April 2011.

- ✓ Out of 49 schemes taken up for execution under Central Road Fund (CRF) during 2006-11, 30 schemes were due for completion by March-2011. It was seen that only four schemes had been completed thereby registering a shortfall of 87 *per cent*. An amount of ₹ 211.28 crore had been spent on 26 incomplete schemes. Out of 46 schemes taken up prior to March 2006, two schemes on which ₹ 19.07 crore had been spent had also not been completed as of March 2011 with time over-run of three to four years.

[4] Khanabal-Pahalgam Road, Mughal Road, and Narbal-Tangmarg Road

The Government in reply accepted the audit contention and attributed the shortfall to delays in acquisition of land, forest clearance and non-availability of State share. No justification was provided for taking up the works in anticipation of completion of the formalities which were pre-requisite under the guidelines of NABARD and CRF.

3.12 Execution of works

3.12.1 Execution of works through labour mates/approval basis

The State Public Works Account Code forbids execution of works departmentally. In cases where execution is to be made on emergent basis the Department may do it and make payments by taking recourse to use of muster sheets. In contravention thereto, it was seen that in Jammu Division the works had been got executed through labour mates and payment of ₹ 68.28 crore (selected months) had been made by taking recourse to use of hand receipts - an instrument not meant for the purpose. In Kashmir Division the works to the tune of ₹ 69.26 crore (selected months) had, however, been allotted on approval basis without invitation of tenders. Action of the department, as such, defeated the purpose of tendering and transparency in execution of works. On being pointed out it was stated that works were of emergent nature. The CE, Kashmir stated that expenditure incurred on works on approval basis[5] was of meager amount as compared to the total work executed. The reply of the EEs that the works were of emergent nature was not correct as most of the works taken up were still under execution as of March 2011.

The Government stated in reply that circular instructions had been issued by the Finance Department in this regard and compliance thereto would be ensured.

3.12.2 Splitting of works

As per Financial rules, the Contract Committee of the Department has full powers for grant of contract of individual works. The Chief Engineers, Superintending Engineers and Executive Engineers have been delegated the powers to allot works costing up to ₹ two crore, up to ₹ 40 lakh and up to ₹ 20.00 lakh, respectively.

Test-check of records of 12 divisions (Kashmir: 08, Jammu: 04) revealed that the EEs had split 59 works to the tune of ₹ 90.76 crore to keep the works within their delegated powers and awarded the contracts to 845 contractors without involving the contract committee/Chief Engineer/Superintending Engineer of the Department. On being pointed out, the EEs stated that splitting was done for speedy execution of works. The reply is not acceptable as most of the roads had not been completed as of March 2011.

In reply, the Government stated that in view of the limited capacity of the local contractors the works had been split. It was also stated that the Government was examining the issue of financial limits and manner in which a contract could be split without adversely affecting the speed and quality of execution in view of the Union

[5] Allotment of works without tendering

Minister for Road Transport and Highways directions to resort to splitting of works to encourage participation by local contractors.

3.12.3 Inadmissible works and non-recovery of cost of works/agency charges

The responsibility for developing and maintaining National Highway By-pass Srinagar was entrusted to the National Highways Authority of India (NHAI) in November 2003. The works were, however, being got executed by the agency through the State PWD after paying the agency charges along with the cost of the work executed.

Test-check of records revealed that the Executive Engineer, R&B Project Circle Division-I, Srinagar executed (September 2009) restoration works of Lasjan-Padshahi Bagh, Chanapora, Tengpora bridges and five allied works on National Highway By-pass road at a cost of ₹ 44.02 lakh out of the funds allotted by the State Government which were recoverable from NHAI.

After this was pointed out in audit, the EE stated that the assets pertain to National Highway Authority of India and that the claim for reimbursement of expenditure incurred would be sent to them.

3.13 Building works

The Department also undertakes building works on behalf of other State Departments in the form of 'Deposit Contribution Works'. It was seen that the Department had not maintained a consolidated record of such works at the Chief Engineer/Administrative Department level. However, the year-wise position relating to execution of building works during 2008-11 in respect of 27 divisions (Jammu: 18 and Kashmir: 09) out of 32 divisions was as given in the table:

Table 3.7

(₹in crore)

S. No	Year	No. of building works**	Estimated cost		Expenditure incurred	No. of works completed	Expenditure incurred on completed works	Percentage of completed works
			Original	Revised				
1.	2008-09	1,461	450.26	456.32	151.45	486	49.18	33
2.	2009-10	1,911	640.29	649.88	252.30	649	48.13	34
3.	2010-11	2,228	784.54	803.45	330.78	737	110.55	33

*(** Includes the closing balance of previous year)*

Table above shows that the percentage of completed building works was in the range of just 33 and 34 of the works taken up for execution during the year.

As per the DPRs of building works taken up for execution by the executing divisions, the works were required to be completed within one year to two years subject to availability of funds. In view of the enormity of the number of buildings, collection of full details of all the works undertaken for execution was not possible. To mitigate this problem, tentative period of completion for all the works was taken as two years for the purpose of calculating time over-run.

3.13.1 Time and cost over-runs

In view of the fact that the executing divisions are dependent on funding from the department on whose behalf the works are being executed, the executing divisions have no control over the flow of funds for the works. The departments also depend upon the allotments for the works made by respective administrative departments. Due to the fund-flow problem, 220 building works registered time overrun of one year to nine years in their completion. Due to non-completion of the buildings in time, 45 out of 220 works witnessed cost overrun of ₹ 7.89 crore.

3.13.2 Idle investment

Logically, money should be advanced by the indenting department to the executing divisions only after identification of a site on which construction is to take place and the executing divisions should take up the works for execution after ensuring that the site on which the proposed construction is to come up is free from all encumbrances. It was, however, seen that without taking these aspects into consideration, money had been advanced by the indenting departments without making available the required sites for 38 works and the executing divisions had taken up execution of 81 works on disputed sites. The amount of ₹ 17.21 crore advanced by the indenting departments had been rendered idle. The reasons, though called for, were awaited.

It was also seen that 124 buildings completed at a cost of ₹ 28.65 crore (March 2011), one to three years back, had not been handed-over to the indenting departments resulting in idle investment. The reasons therefor were not assigned.

Following further significant points were noticed.

- Twelve health centre buildings comprising three PHCs, eight sub-centres and one medical aid centre constructed in Ramban and completed in March-2009 at a cost of ₹ 4.80 crore had not been handed-over to the Medical Department as of March-2011 due to non-receipt of the required funds from the intending departments which rendered the expenditure so incurred as idle, besides denying medi-care facilities to the intended population. On being pointed out, the Executive Engineer without giving any cogent reasons stated that matter of handing over of buildings would be taken up with Medical Department.
- Works relating to construction of 44 school buildings[6] had been taken up (2007-08) for execution under the earthquake restoration programme. It was seen that despite spending ₹ 7.67 crore thereon during 2007-11, only five buildings had been completed out of which only one building had been handed-over to the Education Department. On this being pointed out, the EE stated that the delay in

[6] Handwara: 4; Tangdar: 19 and Uri :21 school buildings

completion of buildings was due to non-release of funds. Reasons for non-handing over of the four completed buildings were not furnished.

3.13.3 Execution without AA/TS

As per Rule 9.3 of the State Financial Code, obtaining of Administrative Approval (AA) and Technical Sanction (TS) before taking up the works for execution is a pre-requisite. Notwithstanding the rules, 136 building works had been taken up for execution by 18 executing divisions between 2008-11 in anticipation of accord of AA/TS and they had spent ₹ 36.47 crore thereon as of March 2011. Taking up of works, as such, besides being irregular, puts in question the physical and financial viability of the projects under execution.

The fallout of non-accord of TS in one of the cases, which came to notice of Audit, has been that MO's Quarter at Sub-District Hospital Gandoh constructed (March 2006) by R&B Division, Kishtwar was damaged (March 2007) due to snow/rainfall due to uneven settlement of foundations. The building had to be eventually demolished resulting in wasteful expenditure of ₹ 23.50 lakh spent thereon. No cogent reasons were furnished by the EE, R&B Division, Gandoh to whom the building had been transferred after bifurcation of R&B Division, Kishtwar.

3.13.4 Avoidable expenditure

The Government ordered (December 1989) that the State Architect Organisation headed by the State Chief Architect (SCA) would be the Advisor/Consultant to all the Engineering and other Government Departments in regard to their building programmes. Cases where engagement of private architect for prestigious projects was deemed necessary, the private architects were to be hired in consultation with the SCA. Notwithstanding the directions, it was seen that ₹ 1.48 crore had been spent by 26 test-check divisions, during 2006-11, towards payment to private architects/designers for design/consultancy charges of various structures. On being pointed out, the EEs stated that the projects were prestigious and due to non-availability of manpower with the Design Directorate/Architect Organisation, the services of private agencies were obtained. The reply is not tenable as there was nothing on record to suggest that the Design Directorate/Architect Organisation was short of manpower and prior consultation as required had been held with the SCA and NOCs had been obtained before engaging the services of private architects..

3.14 Stores Management

The Department of Stores & Procurement within PWD is the sole Government agency for material management of Key Construction Materials for various wings of the Public Works Department. The Department is headed by a Director/Chief Engineer with a Joint Director under him. The Department has two provincial level stores headed by Deputy

Director, at Jammu and Pampore-Kashmir. The key construction materials which are procured by this Department include Cement, Bitumen, Steel, BA Wire, RCC Hume Pipes and any other item specifically requisitioned by the Indenting Divisions/Departments.

The annual requirements are assessed on the basis of the annual statement of requirements submitted by user-divisions and material is procured as per allotment of funds made by the Government and money transferred by the user-agencies.

The position of annual requirement of key construction material and the material procured thereagainst during the years from 2006-07 to 2009-10 was as follows.

Table 3.8

(₹ in crore)

Year	*Annual requirement of material*	*Material procured*	*Percentage of material procured to annual requirement*
2006-07	131.14	90.42	69
2007-08	153.19	121.91	80
2008-09	321.63	159.26	50
2009-10	308.86	212.84	69

The material actually procured by the Department was far below the annual requirement and ranged between 50 and 80 *per cent* during the period from 2006-10. Lesser procurement of material had resulted in non-catering of demands which consequently forced the indenting divisions to purchase the material from open market at higher rates. The Director, SPD attributed less procurement of material to less allocation of funds against the demands sent to the Government annually.

Test-check of records revealed that 23 (Kashmir: 11, Jammu: 12) out of 32 divisions had procured material (689 cases) worth ₹ 62.47 crore from the open market during 2006-10. Further, analysis of eight (Kashmir: 3, Jammu: 5) out of 23 division revealed that the divisions had incurred an extra expenditure of ₹ 1.04 crore by effecting purchases from open market at higher rates. On being pointed out, the EEs stated that the purchases were affected from agencies other than store procurement department in pursuance of Government orders. The reply is not acceptable as obtaining of approval from the competent authority was a pre-requisite before making purchases from the open market as per the Government orders which had not been obtained.

- Financial Rules also envisage purchase of stores in an economical manner and in accordance with definite requirements of the public service. Purchase of store items in advance of requirement involves locking up of Government money. Scrutiny of records of 23 divisions (Kashmir: 7, Jammu: 16) revealed that ₹ 108.71 crore had been advanced to various Government and other agencies during 2007-11, mostly at the close of the financial years, for procurement of stores without ascertaining the actual requirements.

On being pointed out, it was stated that since funds were released at the fag end of financial year, the Divisions had no option but to advance funds to procurement agencies in order to avoid their lapsing. The reply is not acceptable as this action on part of Divisions was in contravention of the codal provisions.

3.14.1 Irregular purchase

The Director, SPD, Jammu placed orders with two firms [7] for supply of 2600 MTs of TMT Fe-500D Bars in August/September 2009 for ₹ 13.70 crore**.** As per the supply orders, the material had to conform to IS 1786-2008 amended upto date bearing ISI specification with the chemical composition and physical properties described in the supply orders and that defective material was to be replaced within 15 days from the date of intimation to the suppliers.

Audit scrutiny revealed that the entire quantity of material supplied (September/October 2009) did not conform to the specifications mentioned in the supply orders. The supplier had supplied TMT Fe-500 bars instead of ordered specification of TMT Fe-500D. As the material had failed the physical properties tests, the Department made repeated requests to the suppliers to lift the material which was not done by the suppliers. The matter was thereafter taken up (November 2009) in the Purchase Committee which referred (December 2009) the matter to the Administrative/Law Department. However, it was seen that a corrigendum had been issued (January 2010) treating the supply order for material to be supplied as TMT Fe-500 instead of TMT Fe-500D. The Department in the whole exercise had ignored the opinion of the Director who found the material defective with changes in the physical properties. Despite the fact that the Accounts Officers, SPD, Jammu/Pampore had raised these issues, the material was received and payment of ₹ 13.70 crore released (March 2010) to the suppliers on their quoted rates (₹ 3.29 crore to M/S Kashmir Steel Rolling Mills, Jammu for supply of 993.960 MTs of TMT Bars, ₹ 10.41 crore to M/S Jhelum Industries Samba J&K for supply of 2999.700 MTs of TMT Bars). While Dy. Director, SPD, Jammu stated that matter will be looked into, reply from Dy. Director, SPD, Pampore was awaited.

3.14.2 Purchase of material in excess of requirement

Financial rules provide that stores should not be purchased unless these are required for immediate utilization by the Department. It was seen that stores comprising BA wire, CRMB 50, TOR 32 mm, TMT bars, MS Angle, etc. valuing ₹ 4.69 crore purchased in excess of requirements during 1998-2008 had been lying in stores at Jammu and Pampore for the last one year to ten years as detailed in the table.

[7] M/S Jhelum Industries, Samba (1900 MTs of TMT Fe-500D Bars) and M/S Kashmir Steel Rolling Mills, Bari Brahamana, Jammu (700 MTs)

Table 3.9

S. No	Particulars	Amount (₹ in lakh)
1	Prior to 2003-04	81.69
2	More than five years	66.88
3	More than two years	257.05
4	Less than two years	63.23
Total:		**468.85**

No efforts to divert or dispose of the material had been made. The possibility of deterioration in the quality of the material due to prolonged storage could not be ruled out.

The Dy. Director, SPD, Pampore stated that the material (TOR/TMT/CRMB) was purchased on the requisition of various executing divisions which did not lift full quantity requisitioned for. The Deputy Director, SPD, Jammu stated that the material was purchased to meet the requirement of the divisions. The reply furnished is not acceptable as non-lifting of material by the divisions indicated that there was no immediate requirement of the material which had eventually resulted in blocking of funds. No action to get the material lifted/utilized had been taken by the Director/Administrative Department to whom the matter was being reported by the Deputy Directors through the monthly progress reports.

3.14.3 Outstanding amount

The receipt of stores against advance payments is to be monitored strictly by the Department to carry out necessary adjustments. Test-check of records of the Dy. Directors Stores Procurement revealed that ₹ 21.08 crore was outstanding against various Corporations on account of supply of material. Also, ₹ 8.47 lakh was outstanding against two departments on account of hire charges of machinery/equipment as of October 2010 as detailed below:

Table 3.10

S. No	Name of the Government Department/Corporation	Outstanding as of October 2010 (₹ in lakh)
1.	Bharat Petroleum Corporation (BPC) Ltd	31.60
2.	Hindustan Petroleum Corporation (HPC) Ltd;	6.04
3.	Indian Oil Corporation (IOC) Ltd	2,070.81
	Total	*2,108.45*
1.	Mechanical Engineering Division Srinagar	7.92
2.	Mechanical Engineering Division Jammu	0.55
	Total	**8.47**

It was further noticed that the amount advanced in respect of BPC, HPC and MED Srinagar/Jammu pertained to the period from 1996-97 to 2009-10 for which no action had been taken by the Department. The outstanding amount against IOC alone was huge and was around ₹ 21 crore as on 31st October 2010. The period for which the amount was outstanding could not, however, be worked out due to maintenance of details of payments and receipts in a progressive manner. Reasons for huge outstanding though called for were not intimated.

3.14.4 Undue favour to the contractors

As per the standing instructions, cement is to be issued to contractors against cash payment. In contrast, in 30 (Kashmir: 15; Jammu: 15) out of 32 test-checked divisions cement costing ₹ 95.93 crore had been issued during 2006-11 to the contractors on loan basis which is tantamount to undue benefit to the contractors besides departure from the standing instructions. On being pointed out, the EEs stated that cement was issued on loan to contractors keeping in view the pending work done liability with the Department. The reply is not acceptable as issue of cement on loan to contractors was not in consonance with the standing instructions.

3.15 Monitoring

Monitoring is an effective tool to ascertain the effects and impact of schemes/programmes undertaken for implementation by the Department. It was noticed that while physical and financial progress of schemes is being monitored by the higher authorities through monthly progress reports, no system for conducting periodical physical inspection of works by the higher authorities had been established by the Department with the result most of the schemes particularly funded by NABARD and CRF had not been completed within the prescribed time and cost. The submission of monthly progress reports to the higher authorities had been reduced to a mere formality as timely action for taking remedial measures had not been taken indicating laxity in monitoring mechanism of the Department. The matter was brought to the notice of the Department (May 2011); the reply is awaited (October 2011).

3.16 Quality control

The material used for construction of roads is required to be tested to ensure quality standards. However, in 10 test-checked divisions it was noticed that testing of material and works executed in the divisions, both WBM and BT works, were not got done at any stage of execution. The Department had established only two testing laboratories in the districts of Jammu and Udhampur, as a result, the quality of works executed by the works divisions falling in other districts of the State could not be ensured due to non-testing of material used in works. Out of 435 tests conducted by the Material Testing Laboratory Nagrota, Jammu from September 2008 to December 2010 for concrete and bituminous works, 110 tests (25 *per cent*) showed that the material did not meet the requisite standards indicating that sub-standard works were executed by the Department. In the absence of testing laboratories in all districts, instances wherein material of requisite standards not being used in the construction going unnoticed cannot be ruled out, which would adversely affect on the quality of work executed. Further NABCONS, the third party monitoring agency appointed (2009-10) by the State Government in its report submitted to the Government too had given adverse remarks on poor quality control/quality control arrangements for 23 schemes out of 34 schemes reported upon. The matter was discussed with the Chief Engineer, Jammu who stated that the payments were not released till rectification was not done by the contractors which was verified by the party in selected cases and found to be rectified. The matter was brought to the notice of Government (May 2011). In reply, it was stated that the Government was exercising strict quality control checks through third party intervention and any cases coming to its notice would be dealt with strictly. It also stated that to achieve it, testing laboratories were being established at all the districts.

3.17 Training

Training of different categories of staff on regular basis is vital for capacity building, skill enhancement, awareness about technological developments and adaptation to the rapidly changing systems and scenarios in constructional engineering.

It was, however, seen that the Department had not established any system for imparting trainings to its staff. The Chief Engineer, R&B, Jammu stated that the Department sends engineers for refresher courses from time to time to CRRI, IRC and Engineering Development Council. However, the number of engineers trained during 2006-07 to 2009-10 was not intimated. The reply is not acceptable as no targets had been set for imparting training to field staff.

3.18 Regularity issues

3.18.1 Irregular expenditure on maintenance and repairs

As per the financial rules, the Executive Engineer is empowered to accord technical sanction to detailed estimates chargeable to maintenance and repairs up to ₹ five lakh, provided the estimates are within the corresponding provisions approved by the Chief Engineer in the Annual Distribution Statement of maintenance grant, failing which estimates are to be submitted to the Chief Engineer for sanction. Test check of records of 21 divisions (Kashmir:13, Jammu: 08) revealed that no approval to Annual Repairs Distribution Statements submitted to the respective Chief Engineers for sanction was accorded, thus, rendering ₹ 79.66 crore spent on these works irregular. On being pointed out, the EEs stated that since the budget for maintenance and repairs had been released by the Chief Engineer, no separate sanction was required. The reply is not acceptable as the action was in violation of codal provisions.

3.18.2 Non-levy of supervision charges

Public Works Account Code provides for levy of supervision charges at the rate of 9.5 *per cent* of the cost of works amounting to ₹ five lakh or more executed by the Divisions on behalf of local bodies or other departments not financed through consolidated fund of the State.

However, it was observed that in two Divisions supervision charges of ₹ 44.05 lakh for execution of works on behalf of BSNL and VODAFONE had not been recovered from the concerned agencies. On being pointed out, the EE, R&B Division-II, Jammu stated that the charges would be deducted. However, no reasons for non-levy were furnished.

3.18.3 Miscellaneous Public Works Advance (MPWA)

As per rules, the transactions accounted in MPWA should be cleared or adjusted within a reasonable time. It was observed that in 22 divisions (Kashmir: 8, Jammu: 14) MPWA to the tune of ₹ 1.92 crore were outstanding for more than three years as of March-2011. On being pointed out, EEs stated that category-wise/department-wise balances would be worked out and recovered.

3.18.4 Credit of lapsed deposits to revenue

Financial rules provide that deposits remaining unclaimed for more than three complete financial years after becoming due for payment lapse to the Government and are to be credited to revenue account as lapsed deposits. Test-check of records 27 divisions (Kashmir: 13, Jammu: 14) revealed that there existed a credit balance of ₹ 48.89 crore under deposit head of accounts and no exercise had been conducted to identify the lapsed deposits for being credited to the Government account. In the absence of proper details in the Deposit Registers, the age-wise analysis of the amounts could not be worked out in audit. On being pointed out, it was stated that needful would be done.

3.18.5 Excess expenditure over deposits

According to paragraph 351 of the J&K Public Works Account Code, expenditure on deposit works is required to be limited to the amount of contribution received and any expenditure on deposit works incurred in excess of the amount deposited is chargeable to Miscellaneous Public works Advances pending recovery. Scrutiny of Deposit Contribution Register of the Executive Engineer, Construction Division I, Jammu revealed that ₹ 19.44 lakh were spent on eight schemes in excess of deposits received from the concerned departments[8] and was not reflected in the Miscellaneous Public Works Advances Schedule/Register of the Division.

Also, ₹ 20.64 lakh spent on restoration of roads was recoverable from other agencies[9]. No action had been taken to recover the expenditure incurred in excess of the deposits received or expenditure incurred (January 2011). On being pointed out, the EE stated that the matter for reimbursement is under active correspondence with the concerned department.

8 Education Department, Geology and Mining Department and Chief Election Commissioner

9 Airtel, Vodafone, BSNL

3.18.6 Non-recovery of premium

An award for fixation of premium and rent for land measuring 23 *kanals* 16 *marlas* at Pampore transferred by the Stores Procurement Department to the Steel Authority of India was issued by the Deputy Commissioner (Collector) District Pulwama in July 2008. A premium of ₹ 15 lakh per *kanal* for a period of 99 years amounting to ₹ 3.57 crore alongwith rent for structures and ground was fixed by the Collector in the award. The Director Stores Procurement Department J&K, Jammu took up the matter for execution of lease agreement with the Government in April 2009. However, despite lapse of more than two years since the issue of award by the Collector, the lease deed had not been finalised as a result the premium of ₹ 3.57 crore alongwith the ground rent and rent of structures (₹ 2.02 lakh) could not be got recovered from the Steel Authority of India (December 2010). On being pointed out in audit, it was stated that matter for execution of lease deed had been taken up with the administrative department.

3.19 Outstanding Hire Charges

The Mechanical Engineering Department is responsible for providing key construction machinery and equipments to the executing agencies and recovers hire charges fixed by the Government from them. Audit scrutiny revealed that hire charges of machinery and equipment to the tune of ₹ 17.32 crore (Chief Engineer, MED, Kashmir: ₹ 7.27 crore and Chief Engineer, MED, Jammu: ₹ 10.05 crore) pertaining to period 1982-83 to 2009-10 was outstanding against various government departments as of January 2011. On being pointed out in audit, it was stated that matter is being regularly taken up with the Chief Engineers of hiring Divisions but no progress had been achieved.

3.19.1 Hiring of private transport and machinery

According to the standing instructions (September 2004) of the Government, all the divisional authorities were directed to utilize the services of the machinery available with the Mechanical Engineering Department (MED). In case of non-availability of such machinery the executing authorities were required to obtain no objection certificate from the MED. It was noticed in audit that 18 divisions had spent ₹ 8.43 crore on carriage of key construction material up to divisional stores and ₹ 1.52 crore on hiring of machinery from the private agencies instead of availing the services of MED. The EEs attributed it to non-availability of machinery with the MED. The assertion of the department is contested on the plea that in no case had the NOCs been obtained which were required to be obtained as per the directions of the Government referred to above.

3.20 Internal control

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. Audit observed that the controls though in place were not being adhered to as discussed below.

A test-check of the records of the sampled divisions revealed following shortcomings.

- Security deposit of ₹ 3.48 crore was either deducted less or not deducted at all in 727 cases by 18 Divisions (Kashmir: 7 and Jammu: 11) during 2006-11. Besides, in 143 cases, nine divisions (Kashmir: 3 and Jammu: 6) released security deposit of ₹ 78.17 lakh prematurely within the defect liability period.
- Service tax of ₹ 3.88 crore was either deducted less or not deducted at all from the contractor bills by 20 divisions (Kashmir: 12 and Jammu: 8) during 2006-11 which resulted in loss of revenue to the Government besides undue financial aid to the contractors. Besides, eight Kashmir-based divisions did not deduct service tax at source in respect of works executed by SICOP resulting in undue financial aid of ₹ 1.51 crore to the Corporation. The EEs stated that the recovery would be affected from the future payments of the contractors.
- Section-3 of the 'Buildings and Other Construction Workers Welfare Cess Act 1996' provides for levy and collection of cess on all constructions specified under 2-D of the said Act at one *per cent* of the cost of the contract from the contractors from July 2007. It was, however, seen that Labour Cess of ₹ 62.51 lakh was not deducted at source by 15 divisions (Kashmir: 5, Jammu: 10) from the contractor bills while releasing payments. The EEs stated that the cess could not be deducted due to belated receipt of the orders. The EEs in the instant cases should have recovered the amount from the deposits of the contractors in cases where the works had been completed and in respect of ongoing works the cess could have been recovered from the bills of the contractors.
- The totals of the cash book maintained in each office were to be verified by an official other than the writer of the cash book to ensure proper accountal of all monetary transactions. A certificate to this effect was to be recorded on the cash book. The procedure was not followed in 13 out of 32 test-checked divisions. By not resorting to such practice the executing divisions are always at the risk of over-payments.
- The physical verification of stores had not been conducted in 14 out of 32 divisions for the years ranging between two and three years although the same was required to be conducted annually.
- The unserviceable articles ought to be disposed off/auctioned. It was observed that unserviceable articles were lying undisposed in seven out of 32 test-checked units for the periods ranging from one year to eight years.

- The administrative inspection of subordinate offices is required to be conducted annually by the next superior authority. The administrative inspection was not conducted by the higher authorities in 31 (Jammu: 16; Kashmir: 15) offices out of 43 offices test-checked in audit.
- Asset register was not maintained in 31 divisions. The reasons though called for were not intimated.
- Priced Store Ledger was not maintained properly in 10 divisions.
- Suspense stock of ₹ 3.80 crore had not been adjusted (January 2011) in 16 divisions though the operation of suspense stock head in respect of divisions had been closed by the Government.
- Material worth ₹ 10.95 crore of 30 schemes transferred to the sister divisions/agencies were retained by three divisions unauthorisedly for the periods ranging from one year to four years. This had adversely affected the completion of schemes. No action was taken by the CE, Jammu on the report of the committee constituted for looking into ‘material at site’ accounts and unadjusted material of PW(R&B) (for unauthorised diversion of material) by the EE, Construction Division 1st Jammu against the schemes transferred to Samba Division.
- In contravention of the terms and conditions of contract for construction of District Court Complex at Srinagar, the EE, Project Circle Division-I, Srinagar unauthorisedly advanced (March 2010) ₹ three crore to the contractor as mobilization advance which had not been recovered as of November 2010, thereby giving undue benefit to the contractor and causing burden on the State exchequer.
- Idle wages of ₹ 1.19 crore were disbursed to 40 staff members between June 2008 and October 2010, who were either attached or retained without utilizing their services by two Chief Engineers (Kashmir and Jammu) and six test-checked divisions. The Chief engineer, R&B, Jammu stated that attachments had been made by the Administrative Department from time to time for drawal of salaries.
- A test-check by audit revealed that excess pay and allowances to the tune of ₹ 20.37 lakh had been paid to various employees in 12 out of 32 test-checked offices. The inadmissible payments were made due to wrong pay fixation and wrong interpretation of Government rules and orders. The concerned DDOs stated that the excess payments would be recovered.
- The response of the Department had been slow to the audit objections/queries which can be gauged from the fact that at the close of the March 2011, 263 audit inspection reports involving 1,365 paragraphs were pending settlement which

indicated casual approach of the Department with regard to settlement of paras and had resulted in recurrent incidence of irregularities and consequent loss to the Government.

3.21 Conclusion

The plans were prepared on adhoc basis without conducting baseline surveys. Financial management of the Department was inadequate with lack of proper budgetary control, such as persistent excesses over allocations, rush of expenditure at fag end of the year, delay in release of funds and excess release of loan component to field offices. Programme implementation was inefficient and suffered from delays in completion of works, execution of works without invitation of tenders, irregular extensions of works, unfruitful investments, unrealistic estimation and cost and time over-runs, execution of work without accord of administrative approvals and technical sanctions, etc. Quality control measures were deficient due to non-establishment of material testing laboratories and non-conduct of adequate quality control tests. Absence of control mechanism in the Department to evaluate/monitor the execution of projects was virtually non-existent.

3.22 Recommendations

- ***Plans should be prepared on the basis of ground level survey and inputs received from field functionaries and finalized with actual annual allocations to be received from the Government.***
- ***While making provision of funds, the department should dovetail the anticipated expenditure with the schemes drawn up in the annual plans.***
- ***Estimates should be prepared on realistic data and actual survey of sites and tendering system in the Department should be strengthened.***
- ***All encumbrances including land acquisition and forest clearances should be addressed prior to the execution of work to avoid delays in the completion of projects.***
- ***Tender notices should be posted in the website and action should be initiated for e-tendering.***
- ***Prescribed system of quality control and monitoring and evaluation of projects should be strengthened and made effective.***

CHAPTER-IV: COMMERCIAL ACTIVITIES

Section-I

4. Overview of State Public Sector Undertakings

4.1 Introduction

4.1.1 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 Working PSUs registered a turnover of ₹ 4409.87 crore in 2010-11 as per their latest finalised accounts as of 30th September 2011. This turnover was equal to 9.24 *per cent* of State Gross Domestic Product (GDP) of ₹ 47709 crore in 2010-11. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. The working PSUs earned a profit of ₹ 500.37 crore in the aggregate as *per* their latest finalised accounts as of 30th September 2011. They had employed 0.25 lakh employees as on 31 March 2011. The State PSUs do not include two[*] prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments.

4.1.2 As on 31 March 2011, there were 24 PSUs as *per* the details given below. Of these, one company[§] was listed on the stock exchanges.

Type of PSUs	Working PSUs	Non-working PSUs[ψ]	Total
Government Companies	18	3	**21**
Statutory Corporations	3	Nil	**3**
Total	**21**	**3**	**24**

4.1.3 During the year 2010-11, one PSU viz. Jammu and Kashmir Bank Financial Services Limited was established.

Audit Mandate

4.1.4 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 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

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[*] Consumer Affairs & Public Distribution Department and Government Press

[§] Jammu and Kashmir Bank Limited.

[ψ] Non-working PSUs are those which have ceased to carry on their operations.

were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act,1956.

4.1.5 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, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

4.1.6 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 Corporation*. 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

4.1.7 As on 31 March 2011, the investment (capital and long-term loans) in 24 PSUs was ₹ 5225.63 crore as *per* details given below.

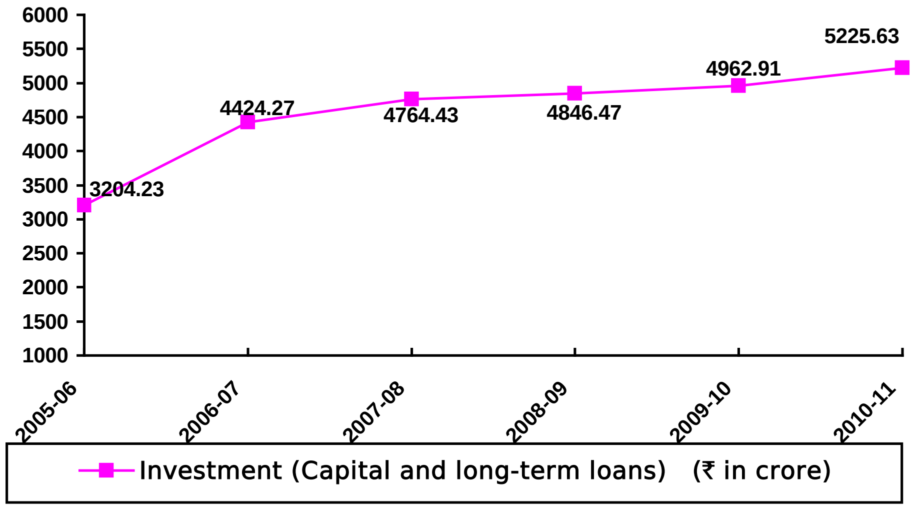
(₹. In crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	250.94	4194.53	4445.47	237.19	539.57	776.76	**5222.23**
Non-working PSUs	2.57	0.83	3.40	Nil	Nil	Nil	**3.40**
Total	**253.51**	**4195.36**	**4448.87**	**237.19**	**539.57**	**776.76**	**5225.63**

A summarised position of government investment in State PSUs is detailed in **Appendix 4.1**

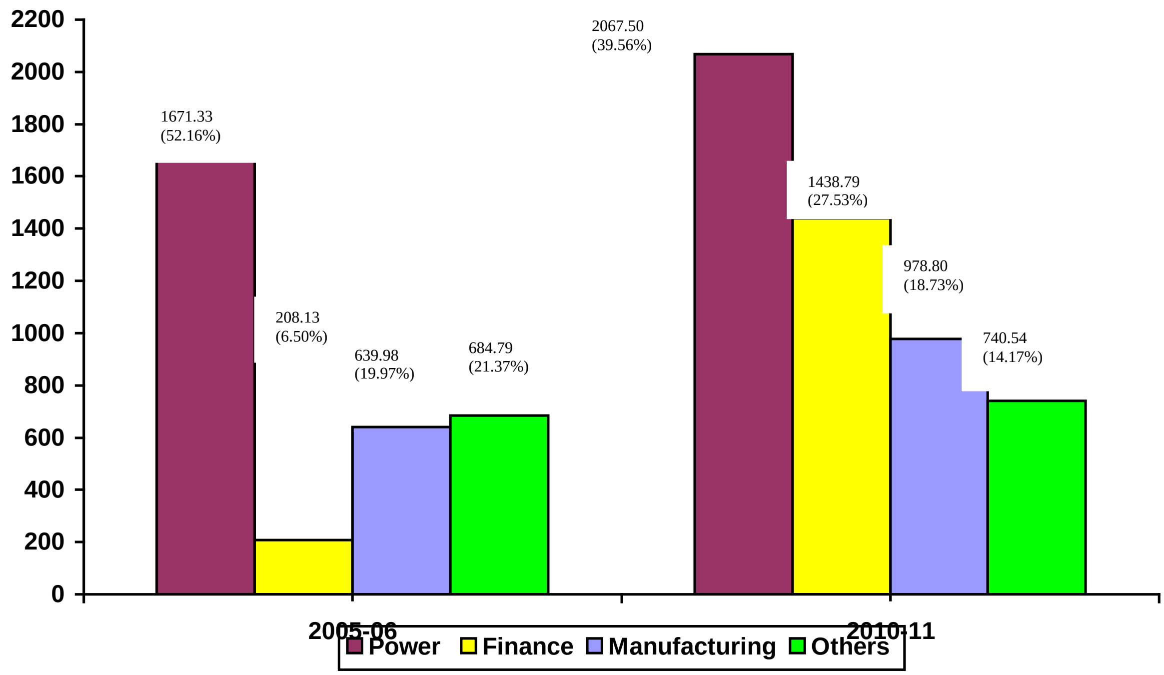
4.1.8 As on 31 March 2011, of the total investment in State PSUs, 99.93 *per cent* was in working PSUs and the remaining 0.07 *per cent* in non-working PSUs. The total investment consisted of 9.39 *percent* towards capital and 90.61 *per cent* in long-term loans. The investment has grown by 63.09 *percent*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

* Jammu and Kashmir State Forest Corporation was incorporated in 1978-79 and its audit was entrusted to CAG with effect from 1996-97. The Corporation, however, had never submitted its accounts to CAG for audit for any of the years.



4.1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart. Though the highest investment during 2010-11 was in power sector (39.56 *per cent*), the thrust of PSU investment was mainly in finance sector during the six years which has seen its percentage share rising from 6.50 *per cent* in 2005-06 to 27.53 *per cent* in 2010-11.

(Rs in crore)



Budgetary outgo, grants/subsidies, guarantees and loans

4.1.10 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 4.3.** The summarised details are given below for three years ended 2010-11.

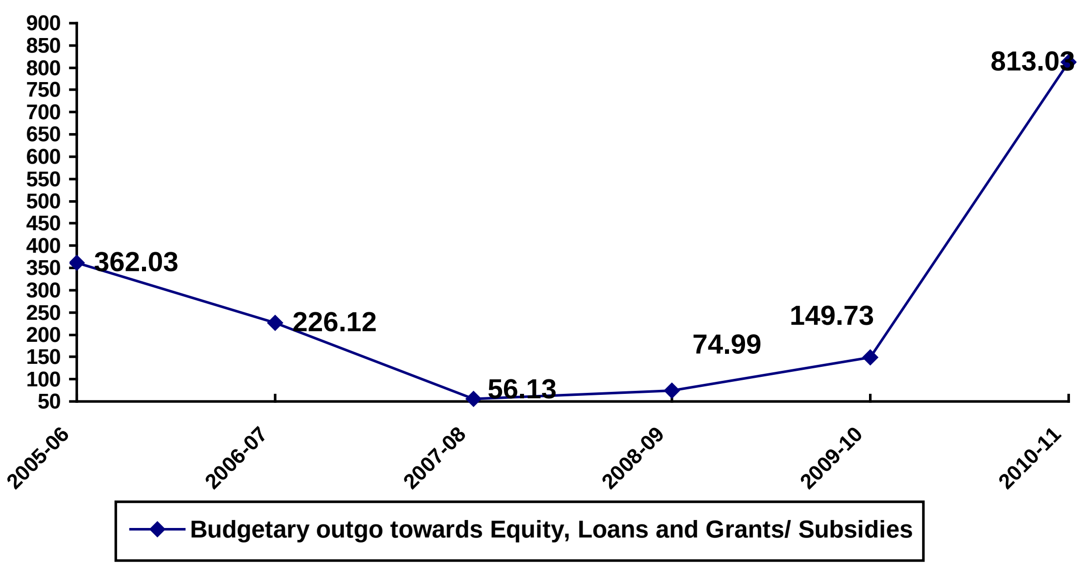
(₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	3	7.63	4	17.09	3	7.00
2.	Loans given from budget	9	43.76	9	56.57	10	488.54
3.	Grants/Subsidy received from State Government.	8	23.60	4	76.07	6	317.49
4.	Total Outgo (1+2+3)	12#	74.99	11#	149.73	14#	813.03
5.	Interest/Penal interest written off	2	21.79	1	4.04	1	3.69
6.	Total Waiver	2	21.79	1	4.04	1	27.78*
7.	Guarantees issued	3	7.51	2	485.54	2	2.70
8.	Guarantee Commitment	10	2194.72	8	2598.77	9	2411.39

*# Actual number of PSUs which received budgetary support. ,*Includes waiver of loan repayment of ₹24.09 crore.*

4.1.11 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past six years are given in a graph below.

(Rs in crore)



The budgetary outgo of the State Government towards equity contribution, loans, grants and subsidy was all time high in 2010-11 at ₹ 813.03 crore during the preceding six years. The downward trend of budgetary outgo can be seen during 2005-06 to 2007-08 with marginal increase during 2008-09 and stood at ₹ 813.03 crore in 2010-11.

4.1.12 The guarantees issued by the State Government received during the year 2010-11 was ₹ 2.70 crore and outstanding at the end of 31 March 2011 was ₹ 2411.39 crore. More than 96 *per cent* of these guarantees outstanding were on the loans raised by Jammu and Kashmir State Power Development Corporation Limited from various Financial Institutions. However, the State Government has not charged any guarantee commission or fee from the PSUs during 2010-11.

Reconciliation with Finance Accounts

4.1.13 The figures of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2011 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	441.06	357.69	83.37
Loans	833.80	1512.96	(-) 679.16
Guarantees	2411.39	2411.39	Nil

4.1.14 Audit observed that the differences occurred were due to misclassification and were under reconciliation. Reasons therefor, though called for, were not intimated (September 2011). The Government and the PSUs should take concrete steps to reconcile the differences in a time bound manner.

Performance of PSUs

4.1.15 The financial results of PSUs, financial position and working results of working statutory corporations are detailed in **Appendices 4.2, 4.5 and 4.6** 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 2005-06 to 2010-11.

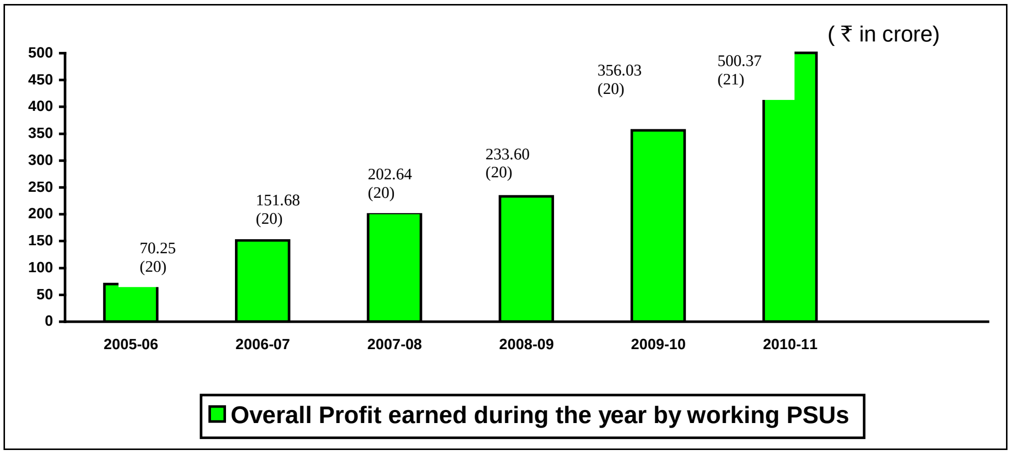
(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover[∝]	2539.27	2679.33	3595.92	3206.88	3700.38	4409.87
State GDP	26537	29030	31793	34805	38298	47709
Percentage of Turnover to State GDP	9.57	9.23	11.31	9.21	9.66	9.24

∝ Turnover as per the latest finalised accounts as of 30 September 2011

The percentage of turnover to State Gross Domestic Product was 9.57 *per cent* during 2005-06 which increased to 11.31 *per cent* in 2007-08 but marginally decreased to 9.24 *per cent* during 2010-11. This was due to the increase in State Gross Domestic Product in 2010-11.

4.1.16 Profit earned by State working PSUs during 2005-06 to 2010-11 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years)

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

4.1.17 The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of C&AG shows that the State PSUs incurred losses to the tune of ₹ 226.11 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	Total
Net Profit	233.60	356.03	500.37	**1090.00**
Controllable losses as per CAG's Audit Report	14.04	27.05	185.02	**226.11**

4.1.18 The above losses pointed out by Audit Reports of CAG 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 losses can be minimised. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

4.1.19 Some other key parameters pertaining to State PSUs are given below.

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed (*Per cent*)	13.94	7.17	8.85	10.91	10.83	9.61
Debt	2806.26	4023.13	4361.59	4435.99	4495.58	4734.93
Turnover*	2539.27	2679.33	3595.92	3206.88	3700.38	4409.87
Debt/ Turnover Ratio	1.11:1	1.50:1	1.21:1	1.38:1	1.21:1	1.07:1
Interest Payments	1098.72	1977.53	1697.43	2063.75	2000.65	2250.07
Accumulated losses*f*	1172.45	1230.70	1285.72	1338.05	1384.70	1529.98

The debt/turnover ratio improved in 2010-11 as compared to 2009-10. This was due to higher increase in turnover during 2010-11 with reference to the increase in debts.

4.1.20 As per the latest finalised accounts, six PSUs earned an aggregate profit of ₹ 654.31 crore and only one PSU (Jammu and Kashmir Bank Ltd.) declared a dividend of ₹ 126.04 crore.

Arrears in finalisation of accounts

4.1.21 Under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, 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 2011.

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of Working PSUs	20	20	20	20	20	21
2.	Number of accounts finalised during the year	11	12	12	15	10	34
3.	Number of accounts in arrears	203	211	219	224	236†	223
4.	Average arrears *per* PSU (3/1)	10.15	10.55	10.95	11.20	11.70	10.62
5.	Number of Working PSUs with arrears in accounts	19	19	19	19	19	19
6.	Extent of arrears	1 to 18	2 to 19	3 to 19	4 to 19	4 to 20	2 to 20

4.1.22 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

* Turnover of working PSUs as *per* the latest accounts (Position up to 30th September 2011).

f This represents the losses of all the working and non-working PSUs

† Includes two accounts received from a new Company viz., J&K Bank Financial Services, for the years 2008-09 and 2009-10, not earlier included as accounts in arrears.

accounts by the PSUs noticed during audit were non-constitution of the Boards, non-holding of regular Board meetings, delay in audit of accounts by the Statutory Auditors and lack of trained staff.

4.1.23 In addition to above, there were also arrears in finalisation of accounts by non-working PSUs. All the three non-working PSUs (all companies) had gone into liquidation process. The accounts of non-working PSUs are in arrears for the period ranging between 11 to 21 years.

4.1.24 The State Government had invested ₹ 1347.83 crore (equity: ₹ 118.44 crore, loans: ₹ 739.27 crore, grants: ₹ 476.98 crore and subsidy: ₹ 13.14 crore) in 16 PSUs during the years for which accounts are in arrears as detailed in ***Appendix 4.4***. In the absence of finalization of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in the risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

4.1.25 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 every quarter by the Audit, of the 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 with the Finance Secretary in April 2011 to expedite the backlog of arrears in accounts in a time bound manner.

4.1.26 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/PSUs may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Winding up of non-working PSUs

4.1.27 There were three non-working PSUs (all companies) as on 31 March 2011 and all three[♥] were under liquidation process. The numbers of non-working companies at the end of each year during past six years are given below.

[♥] Tawi Scooters Limited, Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited.

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
No. of non-working Companies	3	3	3	3	3	3

4.1.28 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*	--	2
(b)	Voluntary winding up (liquidator appointed)	1	--	1

4.1.29 During the period October 2010 to September 2011, 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 eight 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.

Accounts Comments and Internal Audit

4.1.30 Thirteen working companies forwarded their audited 32 accounts to Audit during the period October 2010 to September 2011. Of these, thirteen accounts of eight companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needed to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(₹. in crore)

S.No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	1	0.03	--	--	6	18.17
2	Increase in loss	1	0.74	1	0.86	12	43.76
3	Non-disclosure of material facts	3	31.14	4	8.32	4	15.66
4	Errors of classification	--	--	3	28.11	9	217.20

4.1.31 During the year, the statutory auditors had given unqualified certificates for four accounts, qualified certificates for 19 accounts, and disclaimers (meaning the auditors are

* Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited.

unable to form an opinion on accounts) for nine accounts. The compliance of companies with the Accounting Standards remained poor as there were 22 instances of non-compliance.

4.1.32 Some of the important comments in respect of accounts of companies finalised during the year 2010-11 are stated below:

Jammu and Kashmir Power Development Corporation (2005-06)

- The Fixed Assets were overstated by ₹` 7.56 crore due to charging of depreciation at 15 *per cent* on Plant and Machinery and Miscellaneous Assets instead of at 25 *per cent* applicable.
- The Company had not disclosed contingent liability in respect of four court cases where the Hon'ble court has passed awards worth ₹ 7.45 crore against Company

4.1.33 During 2010-11, one Statutory Corporation (Jammu and Kashmir State Financial Corporation) forwarded one account (2006-07) and another Statutory Corporation (Jammu and Kashmir State Road Transport Corporation) had furnished the revised accounts for one year (2005-06) during the period October 2010 to September 2011. Jammu and Kashmir State Forest Corporation had never submitted its accounts to CAG since 1996-97 when its audit was entrusted to CAG. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(₹. in crore)

S.No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	-	-	-	-	-	-
2	Increase in loss	-	-	1	5.80	1	25.87
3	Non-disclosure of material facts	-	-	-	-	1	0.84
4	Errors of classification	-	-	-	-	1	1.00

Some of the important comments in respect of Accounts of Statutory Corporations are stated below:

Jammu and Kashmir State Financial Corporation (2006-07)

- The Capital included ₹ 0.80 crore contributed by the State Govt. towards share capital for which no shares had been allotted. The amount should have been reflected as capital pending allotment.
- Against outstanding advances of ₹ 32.23 crore, the advances worked out ₹ 31.09 crore after taking into account outstanding advances as on March, 2006, additions recovery and provision, thus indicating variation of ₹ 1.14 crore.

Jammu and Kashmir State Road Transport Corporation (2005-06)

- The Capital included ₹ one crore received from the State Government as grant-in-aid. Treatment of grant-in aid as Equity capital has resulted in overstatement of Share Capital.
- Interest of ₹ 11.60 crore payable as outstanding balances of Contributory Provident Fund, State Life Insurance and Life Insurance Corporation for the last fifteen years had not been accounted for. This had resulted in understatement of current liabilities and provisions as well as loss by ₹ 11.60 crore.
- Non-accountal of outstanding electricity charges payable to Power Development Department had resulted in understatement of current liabilities as well as loss to the extent of ₹ 53.55 lakh.
- Non-accountal of outstanding rent payable to Srinagar Municipal Corporation for use of City Services yard had resulted in understatement of current liabilities as well as loss to the extent of ₹ 61.91 lakh.
- Non-accountal of compensation payable on account of Motor Accidental claims awarded by MACT against Corporation had resulted in understatement of current liabilities as well as loss by ₹ 40.84 lakh.

4.1.34 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 in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. The Statutory Auditors had stated that internal audit system in respect of twelve companies was either not in place or internal audit reports 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-4.2
Non-maintenance of records pertaining to fixed assets	06	A: 7,11,13,15,16,17
Non-conducting of physical verification/Non production of records of physical verification of inventories of raw material, stores, spares etc.,	06	A: 7,11,14,15,16,17
Non-valuation of stocks	05	A: 11,14,15,16,17
Absence of internal audit system	06	A: 7,11,13,14,15,16
Company irregular in depositing statutory dues like PF, ESI, Income Tax, TDS, Sales tax etc	03	A: 11,13,15
Incorrect accounting system	02	A: 7,16
Non-produciton of records	03	A: 15, 16, 17

Status of placement of Separate Audit Reports

4.1.35 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.

Sl. 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 Financial Corporation	2005-06	2006-07	05 July 2011	-

Disinvestment, Privatisation and Restructuring of PSUs

4.1.36 The State had not carried out any disinvestment or restructuring of the PSUs during 2010-11. Further, it did not intimate about any plans for disinvestment, privatization or restructuring of the non-performing PSUs.

SECTION-II

PART-A

FINANCE DEPARTMENT

THE JAMMU AND KASHMIR BANK LTD.

4.2 Performance Audit on the working of Jammu and Kashmir Bank Limited.

Executive Summary

The Jammu & Kashmir Bank Limited (Bank) was incorporated on 01 October 1938 under the provisions of the then Jammu & Kashmir Companies Regulation No. XI of 1977 Samvat (1920 AD). The Bank is also regulated by the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949.The Reserve Bank of India (RBI) notified (October 1971) the Bank retrospectively as a Scheduled Commercial Licensed Bank. As on 31 March 2011, the Bank had 11 Zonal offices controlling a network of 548 branches (excluding extension counters) spread over 20 States and one Union Territory of the country. The turnover (income) of the Bank was ₹ 4077.89 crore during 2010-11as against ₹ 2059.54 crore during 2006-07. The Bank employed 7939 employees as on 31 March 2011. The paid up capital as on March 2011 was ₹ 48.49 crore. The performance audit of the Bank for the period from 2006-07 to 2010-11 was conducted to assess the performance of core activities of the Bank viz: Advances, Priority Sector Lending and Investments.

Advances

Though the overall achievements against the targets of advances were satisfactory, inter- zone disparity required attention. Credit Deposit Ratio of the Bank declined from 69.02 per cent in the year 2006-07 to 59.67 per cent in 2010-11 and remained on lower side as compared to average CD Ratio of all Scheduled Commercial Banks (SCB) in India. The Bank lacked in monitoring the credit facilities. The percentage of NPA to total advances of the Bank ranged between 2.89 and 1.95 during 2006-11. However, huge inter-zonal disparities existed on this account. In the course of settlement of Loan cases under One Time Settlement (OTS), the Bank had ended up sacrificing principal amount of ₹ 33.35 crore and ₹ 147.47 crore towards interest during the years 2006-11.

Priority Sector lending

The Bank's achievement under agriculture sector was dismal. Consequent upon shortfall of targets on this account, the Bank had to invest an amount of ₹ 2862.74 crore in low yielding (interest rate off three to six per cent per annum) Rural Infrastructure Development Fund (RIDF) for a period of three to seven years, leading to loss of interest to the tune of ₹ 334.49 crore. The Bank had not been able to recover NPA under Priority Sector, leading to

increase in NPA levels by ₹214.37 crore to ₹ 312.44 crore during 2006-11. The Bank had not been able to achieve the targets under centrally/State sponsored schemes leading to tardy implementation of various programmes. Under Lead Bank Segment, the Bank had not been able to discharge its responsibilities.

Investments

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

Conclusion and Recommendations

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

4.2.1 Introduction

The Jammu & Kashmir Bank Limited (Bank) was incorporated on 01 October 1938 under the provisions of the then Jammu & Kashmir Companies Regulation No. XI of 1977 *Samvat* (1920 AD). It commenced business on 04 July 1939. After the extension (November 1956) of the Companies Act 1956 to the State of Jammu & Kashmir, the Bank became a Government Company in terms of Section 617 of the Companies Act, 1956. The Bank is also regulated by the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949.

The Reserve Bank of India (RBI) notified the Bank retrospectively as a Scheduled Commercial Licensed Bank in October 1971 by including it in the Second Schedule to the RBI Act 1934.

As on 31 March 2011, the Bank had 11 Zonal offices controlling a network of 548 branches (excluding extension counters) spread over 20 States and one Union Territory of the country. Under Branch expansion programme, the Bank opened 119 new branches during 2006-11 as against 146 branches approved by the RBI.

The Management of the Bank is vested in a Board comprising 12 Directors[*] including Chairman. The day-to-day activities are managed by the Chairman who is also its Chief Executive Officer. He is assisted by two Executive Directors and a Secretary.

The turnover (income) of the Bank was ₹ 4077.89 crore during 2010-11 and it employed 7939 employees as on 31 March 2011.

4.2.2 Objectives

The main objects of the Bank are as follows:

- establish and carry on business of a Banking Company;
- borrow or raise money;
- establish and carry on the business of a Savings Bank and to provide Custodial & Depository services;
- lend money by making loans and advances;
- buy, sell, collect and deal in bills of exchange, hundies, promissory notes, drafts, bills of lading, debentures & other instruments;
- deal in stocks, shares, debentures, securities and investment of all kinds;
- buy and sell foreign exchange including foreign notes; and
- act as agents for Government or local authorities.

4.2.3 Scope of Audit

A review on the working of the Bank was incorporated in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1995. The review was discussed in the Committee on Public Undertakings (COPU) during 1997-99. Besides, a performance review on the Information Systems of the Bank was incorporated in the Stand Alone Report of the Comptroller and Auditor General of India for the year ended 31 March 2006. The Report presented in the State Legislature on 31 August 2009, had not been taken up for discussion by the COPU as of October 2011.

The Performance Audit, conducted between March 2011 and July 2011, covers the performance of the Bank during the period from 2006-07 to 2010-11. The Performance Audit mainly deals with core activities of the Bank viz., ***Advances, Priority Sector Lending and Investments.*** The audit examination involved scrutiny of records at the Corporate Office of the Bank at Srinagar, Treasury Operations and Investment Department at Mumbai, five[†] out of 11 Zonal Offices covering 279 branches. In addition detailed check of relevant record of 60 branches of five Zones was carried out at respective Zonal Offices.

[*] Two: Government nominee, one: RBI nominee, two: Executive directors of the Bank and seven: Independent directors nominated by the shareholders.

[†] Bangalore, Delhi, Jammu Central, Kashmir Central and Mumbai

4.2.4 Audit Objectives

The objectives of the performance audit were to assess:

- whether the guidelines/instructions of the RBI Act, 1934, Banking Regulation Act, 1949, Companies Act, 1956 and Securities and Exchange Board of India (SEBI) Act, 1992 concerning the areas covered under the performance audit have been complied with,
- the achievement of targets as per Annual Business Plan and growth of advances,
- the efficacy of the monitoring system relating to advances,
- the Implementation of NPA Recovery Policy and effect of One Time Settlement Scheme,
- the achievements of the targets under Priority Sector Lending as fixed by the RBI and impact of shortfall there against,
- the efficiency in implementation of the Central/State Sponsored Schemes,
- the extent of growth of Investment vis-a-vis income,
- the impact of write off and one time settlement of Non Performing Investments.

4.2.5 Audit Criteria

Audit criteria adopted for assessing the achievements of the audit objectives were:

- Reserve Bank of India Act, 1934 and guidelines of the RBI issued from time to time,
- Banking Regulation Act, 1949, Companies Act, 1956 and SEBI Act 1992,
- Annual Business Plans,
- Policy of the Bank with regard to Credit, Investment, Recovery of NPA, etc.,
- Guidelines of Central/State Sponsored and Lead Bank Schemes.

4.2.6 Audit Methodology

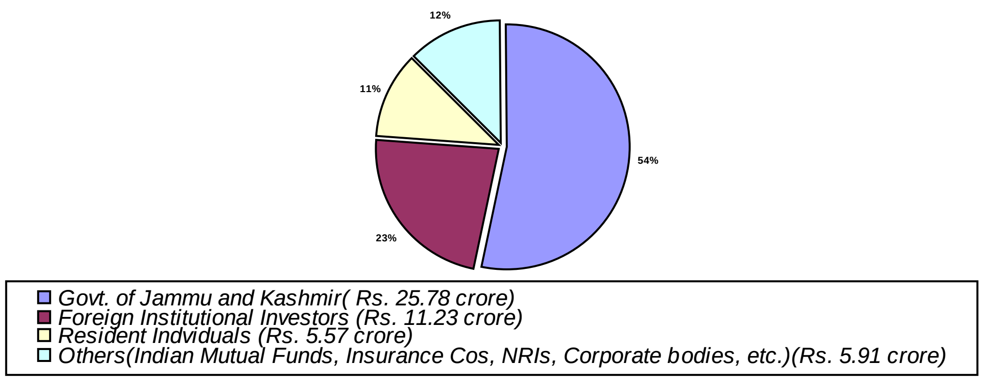
The methodology adopted for attaining the audit objectives consisted of obtaining and studying the minutes of the meetings of Board of Directors (BoD), scrutiny of records and statistical data at Corporate Office and selected Zonal offices, analysis of data, raising of audit queries, discussion of audit findings with the Management of the Bank and issue of draft performance audit report to the Management/Government for comments.

4.2.7 Financial Position and working results

4.2.7.1 The Authorized Share Capital of the Bank as on 31 March 2011 was ₹ 100.00 crore divided into 10 crore shares of ₹ 10 each. The paid up capital as on that date was ₹ 48.49 crore contributed by Government of Jammu and Kashmir

(₹ 25.78 crore), Foreign Institutional Investors (₹ 11.23 crore), Resident Individuals (₹ 5.57 crore) and others (₹ 5.91 crore including amount of forfeited shares). The percentage of the shareholding pattern as on 31 March 2011 is given below in the pie-chart:

Shareholding pattern



4.2.7.2 The Bank had been maintaining its annual account in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

The financial position and the working results of the Bank as per audited annual accounts for the five years ending 2010-11 are given below:

Financial Position

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
A. Liabilities					
a) Paid up Capital	48.49	48.49	48.49	48.49	48.49
b) Equity Share Warrants	-	28.10	-	-	-
c) Reserve and Surplus	1960.24	2232.33	2574.37	2961.97	3430.19
d) Deposits	25194.30	28593.26	33004.10	37237.16	44675.94
e) Borrowings	620.19	751.79	996.63	1100.21	1104.65
f) Other Liabilities and Provisions	823.31	1102.02	1069.67	1198.97	1248.88
Total	**28646.53**	**32755.99**	**37693.26**	**42546.80**	**50508.15**
B. Assets					
a) Cash & Bank Balance	1854.77	3219.97	2302.95	2744.73	2974.96
b) Balance with Banks & Money at Call & Short Notice	1758.99	1217.28	2971.81	1869.51	573.85
c) Net Investments*	7392.19	8757.66	10736.34	13956.25	19695.77
d) Net Advances†	17079.94	18882.61	20930.41	23057.23	26193.63
e) Fixed Assets	183.45	192.00	199.41	204.13	393.77
f) Other Assets	377.19	486.47	552.34	714.95	676.17
Total	**28646.53**	**32755.99**	**37693.26**	**42546.80**	**50508.15**
Net Worth‡	2008.73	2308.92	2622.86	3010.46	3478.68

* After provisions for depreciation

† After provisions for NPA

‡ Aggregate of Paid up Capital, Share Warrants and Reserves & Surplus

From the above it would be seen that:

- Total Reserves and Surplus had increased by 74.99 *per cent* from ₹ 1960.24 crore as on March 2007 to ₹ 3430.19 crore as on March 2011.
- Total deposits had grown by ₹ 19481.64 crore (77.33 *per cent*) from ₹ 25194.30 crore as on March 2007 to ₹ 44675.94 crore as on March, 2011.
- Total advances (net) had increased by ₹ 9113.69 (53.36 *per cent*) *per cent* crore from ₹ 17079.94 crore as on March 2007 to ₹ 26193.63 crore as on March 2011.
- Investment (net) had increased by ₹12303.58 crore (166.44 *per cent)* from ₹ 7392.19 crore in March 2007 to ₹ 19695.77 crore in March 2011. Major increase during 2010-11 was mainly because of surplus funds, due to low credit demand, which were deployed in Commercial Papers/Certificate of Deposits.
- Net worth had increased by ₹ 1469.95 crore (73.18 *per cent*) from ₹ 2008.73 crore as on March 2007 to ₹ 3478.68 crore as on March 2011.
- The Capital to Risk Weighted Assets Ratio (CRAR) of the Bank ranged between 12.80 *per cent* and 14.81 *per cent* during the years 2006-11 which comfortably exceeded the norms of nine *per cent* stipulated by the RBI. Despite this, the Bank had raised a subordinate debt (10 year NCD[*]-9% coupon) of ₹ 600 crore (₹ 500 crore from LIC[†], ₹ 75 crore from SICOM Ltd. and ₹ 25 crore from IFCI[‡] Ltd.) during 2009-10 and serviced an interest of ₹ 54 54 crore upto the end of March 2011, putting an additional burden of interest on the Bank to that extent.

[*] Non-Convertible Debentures
[†] Life Insurance Corporation of India Limited
[‡] Industrial Finance Corporation of India

Working Results

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1. Income					
a). Interest Earned	1899.33	2434.23	2988.12	3056.88	3713.13
b). Other Income	160.21	245.01	245.05	416.24	364.76
Total	**2059.54**	**2679.24**	**3233.17**	**3473.12**	**4077.89**
2. Expenditure					
a). Interest Expended	1131.48	1623.79	1987.86	1937.54	2169.47
b). Operating Expenses	372.44	403.62	470.86	577.37	758.93
c).Provisions and Contingencies	281.13	291.83	364.61	445.83	534.29
Total	**1785.05**	**2319.24**	**2823.33**	**2960.74**	**3462.69**
3. Net Profit	**274.49**	**360.00**	**409.84**	**512.38**	**615.20**
4. Total	**2059.54**	**2679.24**	**3233.17**	**3473.12**	**4077.89**
5. Appropriations					
a). Statutory Reserve	68.62	90.00	102.33	128.89	153.80
b). Revenue & Other Reserves	140.64	182.09	211.59	258.71	314.42
c). Final Dividend Proposed	55.75	75.14	81.97	106.65	126.04
d). Tax on Dividend	9.48	12.77	13.93	18.13	20.94
Total	**274.49**	**360.00**	**409.82**	**512.38**	**615.20**
Operating Revenue*	928.06	1055.45	1245.31	1535.58	1908.42
Operating Profit†	555.62	651.84	774.45	958.21	1149.49
Return on Average Net worth‡ (In *per cent*)	14.42	16.68	16.62	18.19	18.96
Earning Per Share (₹)	56.62	74.26	84.54	105.69	126.90
Dividend Per Share (₹)	11.50	15.50	17.00	22.00	26.00

From the above it would be seen that:

- Income by way of interest had increased by 1813.80 crore (95.50 *per cent*) from ₹ 1899.33 crore in 2006-07 to ₹ 3713.13 crore in 2010-11.
- Net Profit had increased by 340.71crore (124.12 *per cent*) from ₹ 274.49 crore in March 2007 to ₹ 615.20 crore in March 2011 and operating profit by ₹ 593.87 crore (106.88 *per cent*) from ₹ 555.62 crore in 2006-2007 to ₹ 1149.49 crore in 2010-11.
- The Bank had declared a dividend of ₹ 26 per share during 2010-11 as against ₹ 11.50 per share during 2006-07 registering an increase of 126.09 *per cent*.

4.2.7.3 The Bank decided (July 2007) to raise additional capital of ₹ 700 crore by way of issue of American/Global Depository Receipts (A/GDRs). Since raising of additional capital necessitated raising of corresponding shareholding of the State Government, the

* Total Income minus Interest expended.

† Netting of income and expenditure (excluding provisions & contingencies)

‡ Percentage of Net Profit to Average Net Worth

Bank issued (September 2007) convertible warrants on preferential basis to the State Government to be converted into shares on the date of allotment of shares or within the 18 months from the date of issue of warrants, whichever was earlier, for which State Government deposited (2007) ₹ 28.10 crore (10 *per cent* advance of the warrants). The Bank decided (March, 2009) to postpone the issuance of GDR and by the time this decision was taken, the Bank had incurred an expenditure of ₹ 99.52 lakh on GDR issue which was rendered wasteful.

The State Government also decided (December 2008) not to exercise its right for conversion of warrants into shares on preferential basis with the result the Bank in terms of the SEBI (DIP)[*] Guidelines 2000, forfeited (March 2009) the advance payment of ₹ 28.10 crore and credited the same to Capital Reserve (2008-09). It was, however, noticed that the Bank had subsequently (September 2009 to March 2010) compensated the State Government for the whole amount of ₹ 28.10 crore by way of adjustment in interest rate on the overdraft facility, thereby, extending undue favour to the State Government.

4.2.8 Audit Findings

The audit objectives were explained to the Bank during an 'entry conference' held on 21 March 2011. Audit findings were reported (August 2011) to the Bank and to the State Government and were also discussed (12 October, 2011) in an 'exit conference' held with the Commissioner Secretary, State Finance Department and Chairman of the Bank. The views expressed by the Management have been incorporated at suitable places. The audit findings are discussed below.

4.2.9 Deposits

The position of Deposits and growth of Deposits of the Bank during the years 2006-11 is tabulated below:

(₹ in crore)

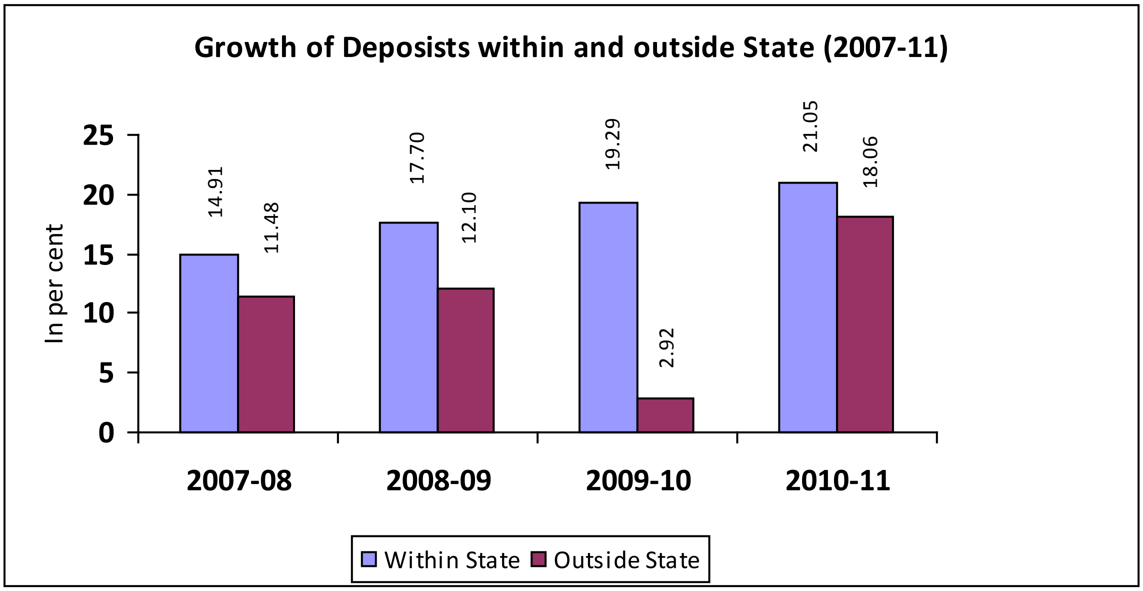
Year	Deposits	YoY Growth	Growth (*per cent*)
2006-07	25194.30	1709.70[†]	7.28
2007-08	28593.26	3398.96	13.49
2008-09	33004.10	4410.84	15.43
2009-10	37237.16	4233.06	12.83
2010-11	44675.94	7438.78	19.98
Total Growth during 2006-11		**19481.64**	**77.33**

YoY: Year Over Year

There had been 77.33 *per cent* growth in deposits during 2006-11. The Year over Year (YoY) growth increased from 7.28 *per cent* in 2006-07 to 19.98 *per cent* in 2010-11.

[*] Securities and Exchange Board of India (Disclosure and Investor Protection)
[†] Calculated on Deposits during 2005-06: ₹ 23484.60 crore

Growth of deposits within State and Outside the State during the years 2007-11 is depicted in the graph below:



Audit analysis revealed that growth of deposits within the State had been increasing over the years whereas it had been un-even in zones outside the State. During 2006-11 the growth of deposits within the State stood at 95.32 *per cent* as against 51.85 *per cent* outside the State.

4.2.10 Advances

4.2.10.1 Shortfall in achievement of Targets of Advances

The Bank approves the business plan for each year wherein the targets for Advances (Gross) are fixed in respect of each Zone/Branch. The position of targets vis-à-vis achievements in respect of advances for the last five years ending 2010-11 is tabulated below:

(₹ in crore)

Year	Targets (Gross)	Achievements	Shortfall	Shortfall (In *per cent*)
2006-07	19,822.00	17,388.20	2,433.80	12.28
2007-08	21,683.00	19,164.28	2,518.72	11.62
2008-09	23,367.00	21,219.71	2,147.29	9.19
2009-10	24,921.00	23,455.20	1,465.80	5.88
2010-11	29,868.00	26,659.22	3,208.78	10.74

Though the overall achievements had been satisfactory, audit analysis of inter-zone data revealed uneven spread with shortfall in zones as high as 71.65 *per cent* (Mohali/2006-07), 28.78 *percent* (Jammu-North/2010-11), 22.57 *per cent* (Ladakh/2008-09), 21.43 *per cent* (Mumbai/2007-08) and 17.65 *per cent* (Delhi/2009-10).

Division-wise analysis revealed that shortfall in Kashmir Division had remained at 14.91 *per cent*, in Jammu Division 17.79 *per cent* and in Zones outside the State 19.08 *per cent* during the years 2006-11 which was on higher side than the overall shortfall during each year.

Non-achievement of targets had resulted in keeping the funds idle to the extent of shortfall occurred and subsequent loss of earnings at Prime Lending Rate (PLR) to the Bank. Audit also observed that the 'Cash actually retained' in all the zones remained far in excess of 'Cash retention limit' fixed by the Bank.

The Management stated (August 2011) that the persistent political disturbance in the State for three consecutive years (ending 2010-11) forced the Bank to reallocate the Advance targets in respect of various zones and higher targets were assigned to zones outside the State so as to make good the loss suffered by the zones of Kashmir division, as a result large chunk of shortfall was observed in those zones. The contention of the Management is not acceptable as the shortfall was higher during the years 2006-08 and not during the years of political disturbance, as claimed by the Bank.

4.2.10.2 Decline in Growth of Advances

Growth of Advances (Gross) of the Bank during the period from 2006-11 is tabulated below:

(₹ in crore)

Year	Advances	YoY Growth	Growth (*per cent*) of advances	Growth (*per cent*) of deposits
2006-07	17388.20	2668.78*	18.13	7.28
2007-08	19164.28	1776.08	10.21	13.49
2008-09	21219.71	2055.43	10.73	15.43
2009-10	23455.20	2235.49	10.53	12.83
2010-11	26659.22	3204.02	13.66	19.98
Total Growth during 2006-11		**9271.02**	**53.32**	**77.33**

Though there was 53.32 *per cent* increase in advances during 2006-11, the Year over Year (YoY) growth which stood at 18.13 *per cent* in 2006-07 had declined to 10.53 *per cent* during 2009-10 with marginal increase during 2010-11. The growth of advances, however, did not commensurate with the growth of the deposits except in 2006-07.

The growth of Advances at Zonal Office level had remained as low as 5.84 *per cent* (Delhi/2006-07), negative 0.52 *per cent* (Mumbai/2007-08), 2.88 *per cent* (Bangalore/2008-09), negative 16.44 *per cent* (Bangalore/2009-10) and 13.28 *per cent* (Jammu-West/2010-11).

Inter-Division analysis revealed that growth in Kashmir Division had ranged between 12.35 *per cent* and 35.96 *per cent*, in Jammu Division between 13.63 *per cent* and 36.51 *per cent* and in Zones outside the State between 2.48 *per cent* and 38.59 *per cent* during the period 2006-11.

* Calculated on Advances for 2005-06: ₹ 14719.42 crore

The Management stated (August 2011) that overall decline in growth was due to global economic recession in the year 2007 and disturbance in the home State for three consecutive years from 2008-09, whereas zone-wise meager/negative growth was due to shifting of composition of advances from large corporate lending to small and medium enterprises lending in home State.

4.2.10.3 Credit Deposit Ratio

Credit Deposit (CD) Ratio is an index of the health of banking system in terms of demand for credit in proportion to total deposit growth in the Banking sector. A declining CD ratio implies inadequate lending compared to the deposit available and results into weakened profitability owing to reduced spread.

Table below indicates the CD Ratio of the Bank during the years 2006-07 to 2010-11:

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Bank (as a whole)	**69.02**	**67.02**	**64.24**	**62.99**	**59.67**
Zones within J&K State	49.76	52.31	51.89	51.06	37.99
Zones Outside J&K State	96.28	88.50	84.61	85.88	100.85
Urban (Branches)	67.32	66.74	60.26	58.96	42.88
Rural (All branches within State)	33.39	37.98	37.38	38.22	38.33
Semi-urban (Branches)	39.35	42.96	36.41	37.77	40.36
Metro (Branches)	100.42	92.53	96.31	102.74	111.76

CD Ratio declined from 69.02 *per cent* in the year 2006-07 to 59.67 *per cent* in 2010-11 and was far below the overall national average of Scheduled Commercial Banks (SCBs) during the years 2008 to 2010 as would be seen from the comparison in the box.

Credit-Deposit Ratio - Comparison

(Ending March/Per cent)

Banks	2008	2009	2010
Overall	74.60	73.80	73.60
Public Sector	73.30	72.60	73.20
Private Sector	67.40	64.50	67.10
J&K Bank	67.02	64.24	62.99

(Source: RBI)

Audit analysis revealed that the CD Ratio during 2006-11 in the Zones outside the State was better (ranging between 84.61 *per cent* and 100.85 *per cent*) as compared to that of the Zones within the State (ranging between 37.99 and 52.31 *per cent*). Further it was on the lower side in Rural and Semi-urban area (Branches) as compared to Metro and urban area (Branches).

The Management attributed (August 2011) the reasons of decline in CD Ratio to political disturbances in the State for successive three years. The Bank should have, however, concentrated in zones outside the State to improve the CDR.

4.2.10.4 Position of Net Advances

Table below indicates the position of net advances under various categories and securities held for total net advances for the period from 2006-07 to 2010-11:

(₹ in crore)

Category of Net Advances	2006-07	2007-08	2008-09	2009-10	2010-11
Bills purchased and discounted Y-o-Y Growth (*per cent*)	619.16 -	714.15 (15.34)	637.85 (-10.68)	364.74 (-42.82)	570.56 (56.43)
Cash credits, overdrafts and loans repayable on demand Y-o-Y Growth (*per cent*)	5990.38 -	6546.52 (9.28)	6538.24 (-0.13)	7508.80 (14.84)	5950.17 (-20.76)
Term loans Y-o-Y Growth (*per cent*)	10470.40 -	11621.94 (11.00)	13754.32 (18.35)	15183.68 (10.39)	19672.90 (29.57)
Total Net Advances	**17079.94**	**18882.61**	**20930.41**	**23057.22**	**26193.63**
Secured by Tangible Assets	11486.66	15208.73	18277.28	19076.42	21190.24
Covered by Bank/Govt. Guarantees	3204.00	1146.15	696.78	320.52	360.12
Unsecured	2389.28	2527.73	1956.35	3660.28	4643.27
Total	**34159.88**	**37765.22**	**41860.82**	**46114.44**	**52387.26**
Percentage of Unsecured to total advances	13.99	13.39	9.35	15.87	17.73

The following points emerged from the table:

- The Bank had made advances under the classification 'unsecured' and the percentage of unsecured advances to total net advances had increased from 9.35 *per cent* in 2008-09 to 17.73 *per cent* in 2010-11 indicating that the interest of the Bank had not been safeguarded to that extent.
- The impact of earnings of the Bank due to decline in various categories of advances was not ascertainable as the Bank had not maintained the data showing income under each category of advances separately. The Bank had also not maintained data under each category of Advances showing classification into Secured by Tangible Assets, Covered by Bank/Govt. guarantees and Unsecured. Non-maintenance of basic data has the chances of affecting the decision making process of the Bank.

The Management stated (September 2011) that 51 *per cent* unsecured advances as on 31 March 2011 comprised advances to salary class from whom no collateral securities had been obtained and are classified as unsecured. However, the fact remains that the balance 49 *per cent* (₹ 2275.20 crore) was unsecured.

As regards non-maintenance of data, the Management stated (September 2011) that the Management Information System (MIS) Department had been formulated which was at infancy stage and when fully functional, would enable the Bank to generate such type of information.

4.2.10.5 Valuation of properties charged to the Bank

Credit Policy of the Bank (2007-08) stipulates that the valuation of Mortgaged/hypothecated properties including plant and machinery is required to be got done through the valuers approved by the Bank, and in case of land, by the Revenue Authorities.

Test check of 71 cases sanctioned by the Bank during 2008-11 in five Zonal Offices[*] revealed that the land securities in all the cases had been valued by approved valuers instead of Revenue authorities, which was in violation of the Bank's own credit policy.

The Management stated (August 2011) that the Branch managers had been instructed to get the valuation of land securities done from the Revenue Authority.

4.2.11 Monitoring of Advances

For an effective monitoring of advances, it is imperative for Banks to undertake a review of the advances portfolio on a regular basis. Credit Policy of the Bank stipulates that a close supervision and follow up of advances at the post disbursal stage is to be carried out with the aim of timely detection of warning signals and taking effective/preventive measures for avoiding possible slippage into Non-Performing Advances (NPA).

We noticed that the Bank's monitoring of the credit facilities had been inadequate in many areas as discussed in the succeeding paragraphs.

4.2.11.1 Working Capital (WC) Limit Accounts

Credit Policy of the Bank stipulates that all WC Limit accounts should be reviewed/renewed on a yearly basis. In case of low rated category/high risk category, six monthly time schedules for review of the Credit limits have to be followed.

Audit, however, observed that the Bank had not identified the accounts falling under high risk category required to be reviewed/renewed on six-monthly basis to avoid slippage to NPA. Besides, the Bank had not reviewed/renewed all the WC limit accounts, as laid in Credit Policy, and there was a shortfall in review/renewal of accounts to the extent of 1291 and 3918 accounts ranging between four and 7.51 *per cent* (up to 13.44 *per cent* at Zonal Offices level) during the years 2006-11. The following table indicates the position of WC accounts reviewed/renewed during 2006-11.

(in numbers)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
A	Total number of accounts (WC) targeted	32267	42175	46547	53426	57736
B	Number of accounts reviewed/renewed	30976	39009	43108	49965	53818
C	Number of accounts not renewed/reviewed	1291	3166	3439	3461	3918
	Percentage of non renewal/review	4.00	7.51	7.39	6.48	6.79
D	Age-wise analysis					
	(i). Up to 3 months	1146	2781	3045	2950	3441
	(ii). 3-6 months	115	353	211	227	441
	(iii). 6 months & above	30	32	183	284	36

[*] Kashmir Central: 18, Jammu Central: 16, Mumbai: 10, Bangalore: 13 and Delhi: 14.

Age-wise analysis of accounts revealed that a large number of accounts ranging between 1146 in 2006-07 to 3441 in 2010-11 had remained un-reviewed/un-renewed for periods up to three months and 145 to 511 accounts for more than three months during the same period, which was in contravention of the Credit Policy of the Bank enhancing the chances of slippage to NPA.

The Management stated (June 2011) that non-availability of financial statements and other data from the borrower resulted in delay in renewal/review of the WC accounts. The reply is not convincing as it is the responsibility of the management to obtain the relevant data from the concerned borrowers and to ensure that all the WC limit accounts are renewed/reviewed in accordance with the Credit Policy of the Bank.

4.2.11.2 Stock Audit

Stock audit is an effective post-disbursement tool for monitoring advances and ensuring end use of funds. It helps in assessing the value of security correctly and enhances the reliability of stock valuation. Credit Policy of the Bank stipulates that annual stock audit (including book debts) should be conducted in all cases of fund based credit limit of ₹ one crore and above and also in such cases which are recommended (by CHQ (A&AP[*])/Zonal Head) where the limit is below ₹ one crore. The Policy further stipulates obligatory annual stock audit in all cases of high risk[†] accounts having credit limit of ₹ 50.00 lakh and above.

The following significant points were noticed in audit.

- The Bank had not identified the high risk accounts involving ₹ 50 lakh and above for conducting annual stock audit during 2006-11.
- No account with credit limit below ₹ one crore had been recommended by the CHQ (A&AP)/Zonal Heads for the stock audit during the audit period.
- A significant number of accounts falling under the category of ₹ one crore and above, which qualified for annual stock audit, had not been audited during 2006-11 with shortfalls ranging between 10.45 per *cent* and 21.67 *per cent*

The Management attributed (June 2011) the reasons for shortfall to a) accounts turned NPA, b) most of the accounts being under Consortium, c) failure of the Chartered Accountants (Auditors) to take up the audit and d) adjustment/settlement of accounts. Audit, however, observed that the major shortfall (nearly 50 *per cent*) was due to failure of the Auditors to take up the audit and it was the responsibility of the Bank to ensure that the Auditors completed the Stock Audit within the stipulated time. Besides, the Bank should have conducted the stock audit of NPA accounts as the unit continues to hold

[*] Corporate Head Quarters (Advances and Assets Planning Department)
[†] Risk Grade-V and above

stock even after the account is declared NPA. Non-conducting of Stock Audit enhances the chances of slippage to NPA which, otherwise, could be avoided.

4.2.11.3 Credit Audit

Credit Audit is an effective tool for constantly evaluating the quality and risk of loan portfolio of the Bank to bring about qualitative improvement in credit administration through overall financial health assessment of the borrower entities with the aim to pick up early warning signals and suggest remedial measures. Credit Policy of the Bank and further directions (December 2007) of the Audit Committee of the Board stipulate that all borrower accounts having total exposure of ₹ one crore and above be subject to credit audit annually.

Table below indicates the shortfall ranging between 6.84 *per cent* and 44.79 *per cent* in conducting the Credit Audit by the Bank during 2007-11:

(*in numbers*)

Year	Targets/planned	Actually conducted	Shortfall	Percentage of shortfall
2007-08	259	143	116	44.79
2008-09	643	514	129	20.06
2009-10	760	708	52	6.84
2010-11	956	794	162	16.95

Further, it was seen that 773 observations relating to deficiencies in documentation and securities, infirmities in insurance cover, arrears in installments/interest, unauthorized Temporary Overdraft (TODs), pending valuation of properties, inspection of unit/properties, etc. had remained un-rectified as of 30 June 2011, indicating that the Bank had no mechanism in place to ensure rectification of the irregularities immediately after reporting.

The Management stated (September.2011) that the Bank had a mechanism in place to ensure conducting of credit audit/rectification of irregularities immediately after reporting. The fact, however, remains that huge observations continued to remain un-attended as of 30 June 2011, periodicity of which could not be ascertained, as the Bank had not done age-wise analysis of un-rectified irregularities.

4.2.12. Restructured/Re-schedulement of loan accounts

In case a borrower faces difficulties in meeting his repayment obligations due to certain internal and external factors, the Bank restructures the account, in accordance with the guidelines issued by RBI from time to time. Restructuring proposals have to be considered after assessing viability of the units and ascertaining certainty of repayment.

The position of restructured /rescheduled loan accounts and amount sacrificed during the last three years ending 2010-11 is tabulated below.

(Amount: ₹ in crore)

Category of advance	Particulars	Year			Total
		2008-09	**2009-10**	**2010-11**	
Standard	No of borrowers	7075	119	2357	**9551**
	Amount involved	574.31	615.59	648.46	**1838.36**
	Amount Sacrificed(diminution in value)	16.60	25.41	17.25	**59.26**
Sub-standard	No of borrowers	240	6	-	**246**
	Amount involved	26.85	0.25	-	**27.10**
	Amount Sacrificed(diminution in value)	0.49	0.01	-	**0.50**
Doubtful	No of borrowers	1	2	-	**3**
	Amount involved	6.00	0.06	-	**6.06**
	Amount Sacrificed(diminution in value)	0.44	0.001	-	**0.44**
Total	**No of borrowers**	**7316**	**127**	**2357**	**9800**
	Amount involved	**607.16**	**615.90**	**648.46**	**1871.52**
	Amount Sacrificed (diminution in value)	**17.53**	**25.42**	**17.25**	**60.20**

Audit noticed that of the 9800 restructured/rescheduled accounts during 2008-11 on which an amount of ₹ 60.20 crore had been sacrificed, 82 accounts (sacrificed amount: ₹ 1.38 crore) had turned NPA.

Since the restructuring was to be considered after assessing viability of the units and ascertaining certainty of repayment, turning of 82 accounts as NPA is indicative of the fact that the Bank had not assessed the viability of the units correctly and also that the certainty of the repayment had not been ensured.

The Management stated (August 2011) that unforeseen circumstances and unprecedented unrest during 2008-09 till 2010-11 had an impact on the earning of the borrowers accounts which otherwise were considered as viable unit. Under these circumstances the RBI had permitted the Banks for taking up the restructure for second and more times. The reply is not convincing as the guidelines stipulate that only such accounts are to be rescheduled where the repayment is certain. Turning of accounts as NPA, after restructure, defeated the purpose of restructuring the accounts. Besides, the Bank had not restructured these accounts the second time.

4.2.13 Non-Performing Assets

4.2.13.1 The Bank is exposed to credit and operational risks in credit/loan portfolio and, as such, is required to classify the advance as per Income Recognition and Assets Classification norms formulated by the RBI. An asset which ceases to generate income for the Bank becomes a Non-Performing Asset (NPA).

Table below indicates the movement of gross NPA of the Bank during the years from 2006-07 to 2010-11

(₹ in crore)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	Total
1.	Total advances at the end of each year	17388.20	19164.28	21219.71	23455.20	26659.22	
2.	NPA at the beginning of the year	370.18	501.83	485.23	559.27	462.31	
3.	Additions during the year	273.57	227.93	401.89	188.78	289.15	1381.32
4.	**Total NPA during the year(2+3)**	**643.75**	**729.76**	**887.12**	**748.05**	**751.46**	
5	**Less**						
5a	Upgraded accounts	141.92*	42.39	103.67	127.78	44.61	318.45
5b	Actual recoveries made		132.55	151.94	126.58	113.57	666.56
5c	Written off		69.59	72.24	31.38	74.45	247.66
6.	**Total (5a+5b+5c)**	**141.92**	**244.53**	**327.85**	**285.74**	**232.63**	**1232.67**
7.	**NPA at the end of each year(4-6)**	**501.83**	**485.23**	**559.27**	**462.31**	**518.83**	
8.	Targets of recoveries of NPA	211.50	250.95	194.08	292.15	128.38	
9.	Percentage of targets of recoveries fixed to NPA at the beginning of each year(8/2X100)	57.13	50.00	40.00	52.24	27.77	
10.	Percentage of actual recovery to total NPA at the beginning of each year(5b/2X100)	38.34	26.41	31.31	22.63	24.57	
11.	Shortfall (Percentage) {(8-5b)/8x100}	32.89	47.18	21.71	56.66	11.54	
12.	Percentage of NPA to total gross advances(7/1X100)	2.89	2.53	2.64	1.97	1.95	

Audit analysis revealed the following:

- Total reduction of NPA of ₹ 1232.67 crore during 2006-11 comprised 54.08 *per cent* (₹ 666.56 crore) as actual recovery and the remaining 45.92 *per cent* was on account of up-gradation (₹ 318.45 crore/25.83 *per cent)* and write-off of NPA (₹ 247.66 crore/20.09 *per cent)*. The decrease of NPA from 2.89 *percent* in 2006-07 to 1.95 *percent* in 2010-11 was mainly due to writing off huge amount.

- Of ₹ 1381.32 crore NPAs added during 2006-11, ₹ 722.13 crore (52.28 *per cent*) came from three zones viz. 336.95 crore (24.39 *per cent*/Kashmir-Central), ₹ 205.49 crore (14.88 *per cent*/Delhi Zone) and ₹ 179.69 crore (13.01 *per cent*/Jammu-Central) which were considerably very high. Besides, the *percentage* of NPA to total advances was as high as 7.58 *per cent* (Mohali Zone/2010-11), 6.15 *per cent* (Bangalore Zone/2006-07), and 5.77 *per cent* (Kashmir-North/2007-08), indicating the failure of the Bank to effectively check the slippage of advances to NPA. The Management attributed (September 2011) the slippage of advances to NPA mainly to increase in advance portfolio. The fact, however, remains that huge inter-zone disparities need to be analysed and remedial measures taken to check slippage to NPA.

Non-Performing Assets - Comparison

(Ending March/Per cent)

Banks	2008	2009	2010
Overall	2.3	2.3	2.39
Public Sector	2.2	2.0	2.19
Private Sector	2.3	2.4	2.32
J&K Bank	2.53	2.64	1.97

(Source: RBI)

- Despite having fixed low targets (ranging between 27.77 *per cent* and 57.13 *per cent* of total NPA) for recovery of NPA during 2006-11, the overall shortfall in recovery

* Taken as recoveries made during the year as bifurcation was not available

ranged between 11.54 and 56.66 *per cent.* Audit analysis revealed that shortfall in achievement of recovery targets of NPA at Zonal level remained as high as 63.75 *per cent* (Delhi/2006-07), 68.23 *per cent* (Bangalore/2007-08), 70.49 *per cent* (Bangalore/2008-09), 79.08 *per cent* (Mumbai/2009-10) and 94.90 per *cent* (Mumbai/2010-11). Non-achievement of targets is indicative of the fact that the Management had not taken effective steps towards the targeted recovery of NPAs. The Management, however, attributed (September 2011) the reasons of shortfall to general recession in the market at global level and non-conducive atmosphere in the valley. The reply is not acceptable as the shortfall had remained high even in zones outside the State.

4.2.13.2 <u>Deficient appraisal/inadequate securities leading to write off the NPA</u>

The Bank[*] sanctioned (June/October 2002) Cash Credit (CC) limit of ₹ two crore, term loan of ₹ 3.56 crore, Letter of Credit (LOC) of ₹ 4 crore and Bank Guarantee (BG) of ₹ 0.50 crore in favour of a Company[†] against the primary security of hypothecation of raw material, finished goods, book debts and first charge on Plant and Machinery valuing ₹ 13.25 crore, built-up shed valued at ₹ 1.35 crore and equitable mortgage of 2.70 acre land valued at ₹ 0.40 crore, besides collateral security of equitable mortgage of commercial-cum-residential building valued at ₹ one crore, land valued at ₹ 12 lakh and personal guarantee of all the directors of the Company.

In June 2004, the Bank accorded the sanction of fresh Term Loan facility of ₹ 1.10 crore and enhancement of existing CC limit to ₹ 3.50 crore, LOC to ₹ 20.00 crore, BG to ₹ one crore for setting up of a Palmoline/Palm oil refinery unit. The enhancement was granted against primary securities of the hypothecation of current assets, first charge on Plant and machinery, tool, equipments in addition to earlier primary and collateral securities.

After availing enhanced credit facilities the Company was irregular in repayment and the Bank classified the account as NPA on 31 December 2006 with an outstanding NPA balance of ₹ 24.41 crore. After taking over the securities under SARFAESI[‡] Act, 2002, the mortgaged properties were re-assessed at ₹ 15.37 crore in September 2007. The Bank had not been able to dispose off the property as of June 2011.

Audit observed that the Bank enhanced the credit facilities in June 2004 from ₹ 10.06 crore to ₹ 29.16 crore without taking adequate securities to safeguard its interest proportionate to the exposure. Further, appraisal made at the time of enhancing the limits indicated that the Company was running successfully and had well established network for its oil products in the States of Andhra Pradesh and Karnataka. However, within two years of enhancing the credit facilities, the account was declared NPA and the borrower got the unit declared as sick. This was indicative of the fact that the appraisal of the

[*] J.N. Road , Hyderabad Branch
[†] M/s Lohiya Vanaspati (P) Ltd.
[‡] The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act

proposal/valuation of the mortgaged properties had not been done correctly at the time of enhancement leading to a loss of ₹ 24.41 crore to the Bank which had been written off (May 2009).

The Management stated (July, 2011) that the value of Plant & Machinery depleted drastically to scrap and the value of land was badly affected because of Telengana issue in Andhra Pradesh. The reply is not convincing as the value of securities could not deplete to such an extent within two years of advancing credit facilities indicating that the appraisal/valuation of the mortgaged property was not done correctly.

4.2.13.3 Classification of NPA

As per norms formulated by the RBI, the banks are required to classify NPAs further into three categories viz: Sub-standard, Doubtful and Loss Assets. The position of category-wise NPAs during 2006-11 is tabulated below:

(₹ in crore)

Classification	2006-07		2007-08		2008-09		2009-10		2010-11	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Sub-standard (percentage of total)	8152	185.62 (36.99)	1124	178.25 (36.74)	10427	248.37 (44.41)	6274	96.85 (20.95)	7242	104.72 (20.18)
Doubtful (percentage of total)	13427	269.32 (53.67)	14725	269.48 (55.53)	15732	266.18 (47.60)	16509	309.53 (66.95)	15038	320.61 (61.80)
Loss (percentage of total)	2530	46.89 (9.34)	3728	37.49 (7.73)	4380	44.71 (7.99)	4469	55.93 (12.10)	5768	93.50 (18.02)
Total	**24109**	**501.83**	**19577**	**485.22**	**30539**	**559.26**	**27252**	**462.31**	**28048**	**518.83**

The Bank had failed to effect recoveries in case of chronic NPA cases as a result the NPA under the loss assets category had increased from ₹ 46.89 crore (9.34 *per cent*) involving 2530 accounts during 2006-07 to ₹ 93.50 crore (18.02 *per cent*) involving 5768 accounts during 2010-11. Similarly, doubtful assets had increased from ₹ 269.32 crore (53.67 *per cent*) involving 13427 accounts to ₹ 320.61 crore (61.80 *per cent*) involving 15038 accounts during the same period.

The Management stated (September 2011) that increase in doubtful and loss category of NPAs was marginal as compared to increase in Advance portfolio. The Bank needs to strengthen the recovery mechanism.

4.2.13.4 Position of NPA cases under litigation

As of March 2011, out of 28,048 NPA accounts, 2349 cases (8.37 *per cent*) were under litigation. Age-wise analysis of the pendency of the litigation cases is depicted in the following table:

(₹ in crore)

Particulars	Suit filed cases		Decreed cases				Total Suit filed & Decreed cases	
			Cases where decree not executed		Cases where decree executed but realisation pending			
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Below 1 year	211	88.49	76	2.64	120	54.66	407	145.79
1-5 years	857	140.40	191	6.54	196	40.78	1244	187.72
5-10 years	279	114.60	28	0.48	121	36.56	428	151.64
10 years and above	190	61.57	26	0.59	54	3.27	270	65.43
Total	**1537**	**405.06**	**321**	**10.25**	**491**	**135.27**	**2349**	**550.58***

Audit noticed that despite lapse of considerable time, the Bank had failed to effect recovery or dispose off the assets of the borrowers in 812 cases involving ₹ 145.52 crore, decreed in favour of the Bank as of March 2011. The figures included 229 cases (₹ 40.90 crore) where the decision had been pronounced five to over 10 years back**.**

The Management attributed (September 2011) the delay to changing of residence by the borrowers and new addresses were not traceable, stay against proceeding under J&K Stay of Proceedings (Migrants) Act, 1997 and complications in application of SARFAESI Act, 2002 in the State of Jammu and Kashmir.

4.2.13.5 Non-execution of decree led to Doubtful recovery of dues.

The Bank, assessing the financial position as quite satisfactory and the net worth strong, sanctioned (December 2000) credit facility (under Multiple Banking arrangement) by way of financial restructuring (augmenting working capital) of ₹ 10 crore in favour of a Company† for expansion of its production capacity. The facility was secured against *pari-passu*‡ first charge on entire fixed assets of the Company.

The Bangalore branch of the Bank disbursed (January 2001) ₹ 10 crore to the Company. The Company right from the beginning was irregular in servicing the interest and the account eventually turned NPA in March 2004 with an outstanding NPA balance of ₹ 9.15 crore. The Bank restructured (June 2005) the facility under Corporate Debt Restructuring (CDR) package along with other lenders where the same was to be repaid in seven years, commencing from 2008-09. The CDR package failed in February 2008 as the Company did not continue its operations and filed a document in Bureau of Industrial and Financial Reconstruction (BIFR) for declaring the unit as sick. The Bank filed (October 2008) a recovery suit for ₹ 19.48 crore in Debt Recovery Tribunal, Bangalore, which was decreed (November 2009) in favour of the Bank, execution of the decree had been pending (July 2011).

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* This is inclusive of interest component.
† M/S BPL Engineering Ltd.
‡ In proportion to

Audit observed that the Bank had failed to correctly assess the viability of expansion programme of the Company for which the working capital was released and also to ensure proper monitoring of the end use of the facility as the funds had been diverted by the company towards other sister concerns which consequently led to account turning NPA. Moreover, the value of the assets had not been ascertained by the Bank before releasing the facility and no documentation of the securities was done proportionate to the amount of advance which was in contravention of the terms and conditions of the sanction**.** Bank had also failed to take appropriate action against the Company by way of taking over securities and also to execute the decree which had resulted in non-recovery of outstanding amount of ₹ 28.95 crore (Principal: ₹ 9.15 crore and unapplied interest: ₹ 19.80 crore) for more than seven years (as of June 2011). The chances of recovery are bleak as the Bank had classified the NPA as loss.

The Management replied (July 2011) that all the other lenders of the Company had proceeded against the company under SARFAESI Act, 2002 and possession of the mortgaged property (Hyderabad unit) had been taken over by IDBI[*] on behalf of the lender Banks.

The reply is not convincing as taking over the mortgaged property by the IDBI does not guarantee that the Bank (J&K Bank) would get its share in full as documentation of the securities had not been done proportionate to the amount of advance before releasing the facility.

4.2.14 Consortium Advances

4.2.14.1 Credit Policy authorizes the Bank to make advances under Consortium arrangements to share credit risk, stipulating that in addition to the appraisal made by the leader bank, the Bank should also make an independent appraisal regarding viability of the project. The Bank might consider opting out from the consortium, where it is not satisfied with the financial/operational performance of the borrower.

The Bank had made advances to the tune of ₹ 7359.66 crore (101 loan cases) during 2006-11 to Corporate houses/Companies under the Consortium arrangements where the Projects were financed by a number of Financial Institutions with one financial institution acting as a leader. The outstanding advances under Consortium stood at ₹ 5763.77 crore (145 cases) as at the end of March 2011.

The following points were noticed.

- NPA under Consortium advances amounted to ₹ 141.72 crore as on 31 March 2011 which constituted 2.46 *per cent* of the total advances under consortium as against the overall NPA of 1.95 *per cent.*

[*] Industrial Development Bank of India

- Slippage of ₹ 106.05 crore into NPA during 2006-11 resulted in increase in NPA by 44 *per cent* as of March 2011 as compared to 2006 level.
- The recovery of NPA during 2006-11 ranged between zero and 12.14 *per cent* indicating that the position of recovery of NPA under Consortium Advances was not satisfactory.
- Out of total reduction of ₹ 65.80 crore in NPA under consortium during 2006-11, ₹ 30.46 crore (46.29 *per cent*) had been by way of write off.
- It was seen that the Bank, in contravention of its Credit Policy, largely depended on the appraisals made by the leader Bank and had not made any independent appraisal of the financial strength of the borrower. Further, it had also not revalued the securities to safeguard its interests where it was not satisfied with the performance of the borrower, as a result the Bank had to write off considerable amount leading to loss to the Bank.

The cases noticed in the performance audit are discussed below.

4.2.14.2 In December 2004, a credit facility of ₹ 755 crore (₹ 395 crore as Term Loan (TL), Bank Guarantee (BG) ₹ 240 crore and Cash credit ₹ 120 crore) was sanctioned in favour of a Company[*] by a consortium of 12 Banks with State Bank of India as Leader Bank. The Bank (Worli Mumbai-Branch) also participated and sanctioned (December 2005) ₹ 41.50 crore (TL: ₹ 36.50 crore and BG: ₹ 5.00 crore). However, the Company availed only ₹ 34.66 crore up to 17 September 2005. The TL was disbursed against the security of first charge on all present and future assets of the Company including personal guarantee of two Indian Promoter Directors and NRI[†] director having combined net worth of ₹ 25 crore.

From the very beginning the Company did not run well and incurred losses due to failure in arranging key resources for smooth running of the plant. The Company defaulted in repayment of loan and finally the account was declared as NPA (December 2007), within two and a half years of disbursement of loan, with NPA balance ₹ 33.20 crore. Later, the consortium arranged (November 2008) the CDR[‡] but the Company failed to arrange the equity and the CDR could not be finalized. Thereafter, the Bank approved (March 2010) ₹ 24.90 crore as full and final settlement of the NPA under OTS, thereby, sacrificing ₹ 8.30 crore being Principal amount and ₹ 11.09 crore un-applied interest. The borrower had not deposited the settlement amount so far (August 2011)

Audit observed that the Bank had sanctioned the facility on the assumption that the Project was reasonable and satisfactory and was expected to meet its debt servicing obligations towards the project and overall financial liquidity and profitability

[*] GPT Steel Industries Limited incorporated in December 2003 to manufacture Cold Rolled and Tinplate products in Gujarat.

[†] Non-Resident Indian

[‡] Corporate Debt Restructuring

parameters. Moreover, the Bank did not conduct appraisal independently before lending huge money, in contravention of Bank's Credit Policy. The Bank also had not assessed the value of the Assets of the Company before advancing the credit facilities as it had first charge on all assets (present and future) of the Company and should have got the valuation of the assets done to safeguard the interest of the Bank. Non-conducting the appraisal and non-assessing the value of mortgaged securities led to non-recovery of ₹ 44.29 crore.

The Management stated (August 2011) that SBI as a leader Bank was working out a negotiated settlement package for entire credit facilities on behalf of all lenders including J&K Bank. The fact remains that in any case the Bank would not get the entire recoverable amount and was bound to suffer loss.

4.2.15 One Time Settlement

4.2.15.1 To eliminate or reduce NPA, Banks have the option of settling the accounts through compromises/negotiated settlements or resorting to legal action. The recovery through negotiated settlements is preferred in view of the advantage of recovering maximum dues in less time with minimum expenses.

The Bank had formulated (2004) a policy /guidelines for recovery of NPA by way of compromise/negotiated settlement and write off under the guidelines of the RBI for reducing its NPA level. The policy was required to be revised periodically in the light of the instructions issued by the RBI from time to time. The Bank submitted (October 2006) a draft revised policy to the Board which was, however, not approved as the Board desired some changes regarding marketability of securities. It was noticed in audit that recast policy as desired by the Board had not been submitted to it for approval (September 2011).

The Bank, following the unrevised policy/guidelines (2004) read with guidelines of RBI issued from time to time, settled 6073 NPA cases during 2006-11 under "One Time Settlement" (OTS) Scheme through compromise/negotiated settlements where the chances of recovery were remote.

The position of cases settled under OTS, recovery effected and amount waived off (Principal and Interest) during 2006-11 is indicated in the table below:

(₹ in crore)

Year	No. of cases settled	Balance Outstanding		Settlement Amount		Amount waived off/sacrificed		Total waiver
		NPA	Un-applied interest	NPA	Un-applied interest	NPA	Un-applied interest	
2006-07	716	53.82	32.19	47.14	5.99	6.68	26.20	32.88
2007-08	966	40.30	18.36	39.22	3.87	1.08	14.48	15.56
2008-09	1021	29.00	24.60	27.11	2.46	1.89	22.14	24.03
2009-10	1765	134.08	68.80	114.42	2.66	19.67	66.15	85.82
2010-11	1605	46.60	23.10	42.57	4.59	4.03	18.50	22.53
Total	**6073**	**303.80**	**167.05**	**270.46**	**19.57**	**33.35**	**147.47**	**180.82**

An analysis of the data reveals the following.

- The settlement under OTS had resulted in sacrifice of Principal amount of ₹ 33.35 crore and interest of ₹ 147.47 crore.
- Zone-wise analysis revealed waiver to the extent of ₹ 63.85 crore (35.31 *per cent* of total waiver of ₹ 180.82 crore*)* in Mumbai, ₹ 43.02 crore (23.79 *per cent*) in Kashmir-Central, which is comparatively on higher side. Similarly, at the division level, waiver under OTS had been of the order of 58.58 *per cent* in the Zones outside the State and 29.51 *per cent* in Kashmir Division.

Further, it was seen that out of the total reduction of NPA amount of ₹ 1232.67 crore during 2006-11(*indicated in paragraph 4.2.13.1*), ₹ 303.80 crore (24.65 *per cent*) was settled under OTS Scheme by waiving off ₹ 180.82 crore (Principal: ₹ 33.35 crore and Un-applied Interest ₹ 147.47 crore).

Zone-wise analysis revealed that 46.51 *per cent* of the total reduction of NPA (2006-11) had been made through OTS Scheme in Mumbai, 33 *per cent* in Mohali, 35.32 *per cent* in Kashmir (Central), 23.49 *per cent* in Delhi and 20.95 *per cent* in Bangalore Zones. This is indicative of the fact that the reduction in NPA was mainly through settlement under OTS rather than recovery of NPA through normal course.

The Management stated (August 2011) that since the recovery through negotiated settlement involves less time with minimum expenses, it has proved to be effective tool to reduce NPA level, thereby, making option of recycling of funds possible. It further stated that on an average the settlements were made in NPA accounts with age of three years and above and had recovered around 90 *per cent* of NPA balances through settlement under OTS during last five years.

The reply is not convincing as the purpose of holding the securities (primarily 1.25 times of loan amount as per Credit Policy besides collateral securities) at the time of sanctioning the loan is defeated when the cases are preferably settled under OTS without taking over/realization of securities in NPA cases.

4.2.15.2 The guidelines for negotiated settlement of NPA cases (OTS) formulated (2004) by the Bank, read with the RBI directives issued from time to time, provide for settlement of only chronic NPAs emphasizing 100 *per cent* recovery of the NPA balance leaving no space to cover cases of wilful default, fraud and malfeasance. Audit, however, noticed that in most of the test-checked cases the settlement under OTS was made in cases which were not chronic in nature and where the borrowers were wilful defaulters. Besides, principal amount was also sacrificed contrary to the prescribed guidelines. Following are some interesting cases noticed in audit:-

4.2.15.3 The Bank[*] sanctioned (September 1997) a term loan (TL) of ₹ 5.18 crore and Cash Credit of ₹ 1.40 crore to a Company[†] for setting unit of spinning raw cotton yarn and meeting its working capital requirements, enhanced from time to time, last enhanced in October 2008. All the credit facilities were primarily secured by hypothecation of Plant and Machinery (valuing ₹ 3.13 crore), raw materials, semi finished and finished stocks and book debts and collateral security of five plots (valuing ₹ 3.34 crore), besides, personal guarantee of directors of the Company. The Bank sanctioned (July 2003) additional TL of ₹ 13.50 lakh for installation of one more Diesel Generator Set.

The Company failed to adhere to the repayment schedule. On request of the promoter, the Bank rescheduled (March/October 2005) the repayment. The Company could not manage to run the factory even after sanctioning (July/October 2005) of an additional *adhoc* cash credit facility of ₹ 25 lakh and reduction (July 2007) of interest rate from 13 to 10 *per cent*.

Despite all the concessions, the Company continued to default in its repayment schedule suggesting that the default was willful. Finally, the account was termed as NPA in June 2009 (within eight months of enhancing the limits in October 2008) with NPA balance of ₹ 4.05 crore. The Bank settled (September 2010) the loan case at ₹ three crore under OTS within 15 months of turning the accounts as NPA violating the prescribed guidelines ibid.

Audit observed that Bank failed to recover the outstanding amount from the defaulting Company by invoking the primary as well as collateral securities clauses of the sanction. Instead, the Bank settled the account under OTS sacrificing principal amount of ₹ 1.05 crore and un-applied interest of ₹ 0.24 crore which was in contravention of the settlement guidelines of the OTS Scheme, resulting in loss to the Bank to the tune of ₹ 1.29 crore.

The Management stated (August 2011) that settlement was made in line with the general policy guidelines of the Bank for compromise/negotiation under OTS. The reply is not acceptable as the case had been settled in contravention of the guidelines of the scheme.

4.2.15.4 The Bank[‡] sanctioned (March 2005) a term loan of ₹ 45 crore in favour of M/s Hassan Sons for acquisition of land measuring 940 *kanals* and development of housing colony at Zakura, Naseem Bagh, Srinagar against the primary security of hypothecation of all materials and machinery at site, collateral security of land valued not less than ₹ 50 crore and personal guarantee of all the partners of the firm. The loan was to be repaid completely during 2008-09.

However, the loan could not be disbursed in favour of the borrower as the firm did not have a clear title over the land offered as a collateral security and the sanction lapsed.

[*] Badohi (Uttar Pradesh) Branch
[†] M/S MAMB Private Ltd
[‡] Air Cargo Branch, Srinagar

The Bank subsequently revalidated the sanction (November 2005) and accepted another land valuing ₹ 33 crore. The Bank released (December 2005) an amount of ₹ 45 crore.

Audit observed that despite lapse of two and half years the borrower neither executed the project nor repaid the loan suggesting that the borrower was a willful defaulter. On turning the account irregular, the Bank classified (June 2008) the account as NPA with outstanding balance of ₹ 45.92 crore. Within one year of turning the account as NPA, the Bank settled (May 2009) the NPA account under OTS for an amount of ₹ 43.50 crore in contravention of the prescribed guidelines, thereby, sacrificing ₹ 2.42 crore principal amount and ₹ 16.99 crore un-applied interest. Besides, the Bank had not taken over/realized the collateral security and instead settled the case under OTS.

The Management stated (August, 2011) that the case had been settled under Bank's compromise/remission scheme considering all aspects of the case. The reply is not tenable as the settlement under OTS scheme was preferred against taking over the mortgaged securities having ignored the interests of the Bank to the extent of ₹ 19.41 crore (NPA balance: ₹ 2.42 crore and unapplied interest: ₹ 16.99 crore) besides, violating the prescribed guidelines of the OTS Scheme.

4.2.15.5 The Bank [*] advanced (April 1987) cash credit facility of ₹ 10 lakh in favour of M/s Wani Carpets for manufacturing, export/local sale of carpets. The facility was enhanced from time to time, last renewed in August 2006, to the extent of ₹ 4.45 crore for a period of one year (CC ₹ 0.90 crore, PCL[†] ₹ 0.90 crore, WCTL ₹ 1.60 crore and PSL[‡] ₹ 1.05 crore), against the primary security of hypothecation of stocks, book debts, ECGC[§] cover, title of goods and proceeds of export bill etc. and collateral security of mortgage of house property valued at ₹ three crore and third party guarantee of two persons with net worth of ₹ 3.63 crore.

The account holder defaulted in repayment within seven months of availing enhanced facility indicating that the borrower was a wilful defaulter. The Bank declared the account as NPA on March 2007 with an outstanding NPA balance of ₹ 3.84 crore.

We noticed that the Bank decided (August 2009) to file a Civil Suit for recovery against the party, but on the recommendation of the branch (September 2009) it settled (February 2010) the account under OTS scheme for an amount of ₹ two crore sacrificing ₹ 2.75 crore (Principal ₹ 0.83 crore and Un-applied interest ₹ 1.92 crore) after adjusting ECGC claim of ₹ 1.01 crore. Settlement of case under OTS was in contravention of OTS guidelines being a case of wilful default, which resulted in loss to the Bank to the tune of ₹ 2.75 crore. Further, the Bank had not invoked personal guarantees obtained at the time of sanctioning the limits.

[*] International Banking Division Zonal Office Srinagar branch
[†] Packing/Pre-Shipment Credit Limit
[‡] Post Shipment Credit Limit
[§] Export Credit and Guarantee Corporation

The Management stated (July 2011) that one time settlement was approved keeping in mind all aspects of cost involved in legal course and the account was fully provided for and it had no impact on the profitability of the Bank. The reply is not convincing because the provisions are made out of the profits of the Bank and any adjustment made there against tantamounts to loss. Moreover, the settlement made was in contravention of OTS.

4.2.15.6 Contrary to the policy of the Bank of not considering the cases of Flour Mills, the Bank* sanctioned (January 1999), as a special case, term loan of ₹ 69.70 lakh and a cash credit facility of ₹ 41 lakh in favour of M/s Shree Vaishno Flour mills Ltd. for establishment and running of flour mills at Jammu. The CC limit was reviewed/enhanced from time to time, last in September 2006 to the extent of ₹ 150 lakh. The entire loan was secured against primary securities of land and building, Plant & Machinery and other assets having realizable value of ₹ 107.08 lakh, hypothecation of stocks and Collateral securities having realizable value of ₹ 146.86 lakh, besides, personal guarantee of four persons.

The borrower adjusted (February 2007) the term loan but defaulted in repayment of the enhanced cash credit limit of ₹ 150 lakh. Audit observed that immediately after availing the enhanced limit, the borrower willfully defaulted the repayment and the Bank declared the account as NPA on 30 September 2007 i.e. within one year of the date of last enhancement of CC limit. Despite being a wilful defaulter, the Bank approved (February 2008) i.e. within 5 months of declaring the account as NPA, the settlement under OTS at an amount of ₹ 152.66 lakh (principal only) which, however, did not mature. Later on, the Bank settled (November 2008) the account at an amount of ₹ 110 lakh, thereby, sacrificing ₹ 42.66 lakh Principal amount and ₹ 35.24 lakh un-applied interest resulting in loss to the Bank to the tune of `₹ 77.90 lakh which was in contravention of the guidelines of OTS Scheme.

4.2.16. Assignment of rights to Assets Reconstruction Companies

4.2.16.1 The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) provides for acquisition by any reconstruction company of any right or interest of any bank and financial institution in any financial assistance for the purpose of realization of such financial assistance.

The Board of Directors (BOD) of the Bank desired (November 2007) that the Bank should explore the possibility of selling a portion of its NPAs to Assets Reconstruction Company (ies) (ARC) as an additional measure. During 2006-11, the Bank had assigned the rights to Asset Reconstruction Companies to sell only two NPA cases.

4.2.16.2 A Company†, dealing in manufacture of steel bars, had been availing working capital facility from the SBI and secured overdraft from SCB* . The Bank†, in

* I/C Bari-Brahmna Branch, Jammu

† M/S Golden Rathi Star Industries Ltd., New Delhi

view of satisfactory performance and expansion programme of the Company, took over (August 2007) all the credit facilities availed by the Company and sanctioned (August 2007) Cash Credit facility of ₹ 25 crore. The Credit facility was secured against the primary security of first charge on current assets, hypothecation of stocks and book debts, besides, collateral securities of equitable mortgage of factory Land (valuing ₹ 34.59 crore), Building (₹ 1.11 crore), Plant/Machinery (₹ 15.77 crore), residential property (₹ 6.03 crore), Personal Guarantee of all the Directors and third party guarantee of shareholders. In addition, the Bank sanctioned (June 2008) *adhoc* credit facility of ₹ two crore.

Consequent upon the non-servicing of the interest the account was declared NPA in September 2008 with an outstanding NPA balance of ₹ 27 crore. Due to some family dispute and death of one of the Directors (October 2008), the activities of the Company came to a halt. The Bank took over (July 2009) the possession of mortgaged properties including land under SARFEASI Act, 2002 and the revaluation done (July 2009) placed the market value of the land at ₹ 19.44 crore only as against ₹ 34.59 crore valued at the time of sanction of credit facility.

Audit observed that the valuation of the land had not been done through Revenue Authorities as laid down in the Credit Policy and instead was got done by the approved valuer, which was overvalued (July 2009) to the extent of ₹ 15.15 crore. The Bank, sensing that it was not in a position to recover the entire outstanding balance due to overvaluation of land, assigned (January 2011) its rights to M/S Invent Asset and Reconstruction Company, Mumbai and recovered (January 2011) ₹ 25.51 crore thereby, losing an amount of ₹ 10.05 crore (Principal: ₹ 1.49 crore, un-applied Interest ₹ 8.09 crore, SARFAESI Expenses: ₹ 0.29 crore and Enforcement Agency BWFL ₹ 0.18 crore).

The Management stated (May 2011) that the valuation of the properties was got carried out by the approved valuer of the Bank which got decreased probably due to unfortunate death of a partner and subsequent closure of the unit. The reply is not convincing in view of the fact that the closure of the unit might affect the value of the Plant/Machinery/Building but not the value of land as had happened in this case.

4.2.17 Priority Sector Lending

4.2.17.1 National Credit Council emphasized (July 1968) that Commercial Banks should increase their investment in financing of priority sector. Only those sectors were included as part of the priority sector, that impact large sections of the population, weaker sections and sectors which were employment intensive such as Agriculture and Micro and Small Enterprises.

* Standard Chartered Bank

† Branch at Vikas Marg New Delhi

Initially targets for Priority Sector Lending were not fixed. However, presently all Commercial Banks are advised by the RBI to lend under priority sector at 40 *per cent* of Adjusted Net Bank Credit (ANBC) on the rate of interest as determined from time to time. Accordingly, the Banks are required to take effective steps to achieve the recommended targets and monitor the priority sector lending from quantitative and qualitative aspects.

On the basis of the guidelines and recommendations of the RBI, the Bank made Advances under Priority Sector, but not to the extent of targets fixed. Table below indicates the shortfall in lending under Priority Sector by the Bank during the period 2006-11.

(₹ in crore)

S. No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	**ANBC* for determination of Priority Sector Lending**	**14854.91**	**14897.41**	**16756.16**	**18412.05**	**20082.88**
2.	Percentage of Targets fixed by the RBI/Bank for Priority Sector Lending of ANBC	40	40	40	40	40
	(i)Agriculture and allied Sector	18	18	18	18	18
	(ii) Micro & Small and other Enterprises	22	22	22	22	22
3.	Priority Sector Advance required to be made vis-à-vis ANBC/**Targets**					
	(i)Agriculture and allied Sector	2673.88	2681.53	3016.11	3314.16	3614.91
	(ii)Micro & Small and other Enterprises.	3268.08	3277.43	3686.35	4050.66	4418.24
	Total Targets	**5941.96**	**5958.96**	**6702.46**	**7364.82**	**8033.15**
4.	**Achievement**					
	a) Agriculture and Allied Sector					
	(i) Direct†	401.08	491.30	1154.74	1484.77	1619.31
	(ii) Indirect‡	295.80	335.78	747.23	809.21	1302.27
	Total Agriculture Sector	**696.88**	**827.08**	**1901.97**	**2293.98**	**2921.58**
	b) Micro & Small and Other Enterprises	2918.03	4681.69	5512.75	6025.15	7556.33
	(i). Direct	§NA	NA	NA	NA	NA
	(ii). Indirect	NA	NA	NA	NA	NA
	Total Other sectors	**2918.03**	**4681.69**	**5512.75**	**6025.15**	**7556.33**
	Total Achievements	**3614.91**	**5508.77**	**7414.72**	**8319.13**	**10477.91**
5.	**Shortfall (3-4)**					
	(i) Agriculture and allied Sector (percentage)	1977.00 (73.94)	1854.45 (69.16)	1114.14 (36.94)	1020.18 (30.78)	693.33 (19.18)
	(ii) Micro & Small and other Enterprises (percentage)	350.05 (10.71)	Nil	Nil	Nil	Nil

The following points were noticed.

- There was huge shortfall during 2006-11 in lending under Agriculture Sector (₹ 6659.10 crore), ranging between ₹ 693.33 crore and ₹ 1977 crore (19.18 *per cent* to 73.94 *per cent*).
- Lending under Micro, Small and other Enterprises was in excess of the targets.
- Reasons for shortfall in achievement of targets in Agriculture Sector and excess lending in Micro, small and other Enterprises were not found on record. The Bank

* Previous Year's Gross advances less Provisions and Ways & Means Advance to State Government

† Advance made directly to the beneficiary

‡ Advances made through financial institutions like Tata Motors, Kotak Mahindra, etc.

§ Not available with the Bank

had not maintained data of Direct and Indirect lending under Micro & Small and other Enterprises.

As per RBI guidelines issued from time to time, Banks having shortfall in lending to Priority Sector target (40 *per cent* of ANBC) or Agriculture Sector target (18 *per cent* of ANBC) are required to contribute, to the extent shortfall occurs, to RIDF[*] on rate of interest, ranging between three to six *per cent*, as a penalty for non-achievement of Priority Sector lending targets. Consequent upon shortfall of targets in lending under Agriculture sector, the Bank had to invest an amount of ₹ 2862.74 crore[†] in RIDF, SIDBI[‡] and NABARD[§] for a period of three to seven years at an interest rate of three to six *per cent* per annum, which is lower than the average rate (ranging between nine *per cent* to 12.5 *per cent*) of lending under Priority Sector, leading to loss of interest to the tune of ₹ 334.49 crore[**].

The Management attributed (August 2011) the shortfall in Agriculture sector lending mainly to the prevailing turmoil. The reply is not convincing as in sectors other than Agriculture sector (Micro, Small and other Enterprises) the Bank had made advances far in excess of targets (2007-11) under the same conditions. The Bank, however, expressed hope to achieve the targets in Agriculture sector in future.

4.2.17.2 <u>Movement on NPA under Priority Sector Lending</u>

In Priority Sector Lending, the Bank had huge NPA. The table below indicates the movement of NPA of the Bank under Priority Sector Lending during 2006-11:

(₹ in core)

S. No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	NPA at the beginning of each year	180.99	214.37	225.12	263.39	267.36
2.	Additions during the year	33.38	10.75	38.27	3.97	45.08
3.	Total NPA	**214.37**	**225.12**	**263.39**	**267.36**	**312.44**
4	Less Total Recoveries	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
5	NPAs at the end of each year(3-4)	**214.37**	**225.12**	**263.39**	**267.36**	**312.44**
6.	Lending under Priority Sector (Gross)	**3614.91**	**5508.77**	**7414.72**	**8319.13**	**10477.91**
7	Percentage of NPA to Lending under Priority Sector (Gross) (5/6X100)	**5.93**	**4.08**	**3.55**	**3.21**	**2.98**
8.	Overall percentage of NPA of the Bank	2.89	2.53	2.64	1.97	1.95

The NPA under Priority Sector remained on higher side as compared to overall NPA of the Bank. The Bank had neither fixed any targets for recovery of NPA nor could make any recovery of NPA in any of the years under audit period resulting in increase of NPA from ₹ 180.99 crore in April 2006 to ₹ 312.44 crore ending March 2011. It was further observed that within the NPA, the Doubtful Assets increased from ₹ 109.47 crore to ₹ 198.60 crore (81.42 *per cent*) and Loss assets from ₹ 25.30 crore to ₹ 49.45 crore

[*] Rural Infrastructure Development Fund

[†] ₹ 43.87 crore in 2006-07, ₹ 243.54 crore in 2007-08, ₹ 801.92 crore in 2008-09, ₹ 586.11 crore in 2009-10 and ₹ 1187.30 crore in 2010-11

[‡] Small Scale Industrial Development Bank of India

[§] National Bank for Agriculture and Rural Development

[**] ₹ 12.81 crore in 2006-07, ₹ 66.68 crore in 2007-08, ₹ 154.37 crore in 2008-09, ₹ 56.25 crore in 2009-10 and ₹ 44.38 crore in 2010-11

(95.45 *per cent)* during the same period. The Bank had neither analyzed the reasons of increase in doubtful and loss assets nor had it taken any measures to settle/recover the chronic cases of NPA under Priority Sector Lending.

The Management stated (October, 2011) that constant pursuance, monitoring and follow-up had resulted in decline of NPA from 5.93 *per cent* to 2.98 *per cent* during 2006-11. The reply is not acceptable as there had been nil recovery on account of NPA during 2006-11 and NPA had increased from ₹ 214.37 crore in 2006-07 to ₹ 312.44 crore in 2010-11.

4.2.17.3 Tardy implementation of the Central/State Sponsored Schemes

The Bank is providing credit assistance to the beneficiaries through Centrally Sponsored Schemes viz. (i) SGSY[*] (ii) SJSRY[†] (iii) PMEGP[‡] and JKSES[§] - a State sponsored scheme under Priority Sector Lending. The main objective of these schemes is to (a) bring the assisted poor families (*Swarojgaris*) above the poverty line, (b) provide assistance to individual urban poor beneficiaries and provide gainful employment to unemployed and under-employed youth encouraging setting up of self-employment ventures, (c) generate employment opportunities in rural as well as urban areas through setting up of new self employment ventures/projects/micro enterprises etc. and (d) address unemployment problems in respect of all these schemes.

The position of targets, achievements and shortfall under Centre/State Sponsored schemes for the period 2006-11 are detailed in the following table.

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Targets					
SGSY	19.41	22.07	25.31	26.50	33.03
SJSRY	7.51	12.82	7.88	5.73	4.71
PMRY/PMEGP	22.39	21.96	8.48	69.81	75.17
JKSES	45.40	50.99	62.87	58.11	80.53
Total	**94.71**	**107.84**	**104.54**	**160.15**	**193.44**
Achievements					
SGSY	8.94	11.49	11.90	13.77	14.69
SJSRY	1.96	5.83	2.82	2.45	2.06
PMRY/PMEGP	13.46	20.11	1.33	37.66	45.80
JKSES	25.04	32.91	34.18	45.39	55.62
Total	**49.40**	**70.34**	**50.23**	**99.27**	**118.17**
Shortfall					
SGSY (Percentage)	10.47 (53.94)	10.58 (47.94)	13.41 (52.98)	12.73 (48.05)	18.34 (55.52)
SJSRY (Percentage)	5.55 (73.90)	6.99 (54.52)	5.06 (64.21)	3.28 (57.24)	2.65 (56.26)
PMRY/PMEGP (Percentage)	8.93 (39.88)	1.85 (8.42)	7.15 (84.31)	32.15 (46.05)	29.37 (39.07)
JKSES (Percentage)	20.36) (44.85)	18.08 (35.45)	28.69 (45.63)	12.72 (21.88)	24.91 (30.93)
Total	**45.31 (47.84)**	**37.50 (34.77)**	**54.31 (51.95)**	**60.88 (38.01)**	**75.27 (38.91)**

[*] *Swaran Jayanti Gram Swarozgar Yojana*

[†] *Swaran Jayanti Shahri Rozgar Yojana*

[‡] Prime Minister Employment Generation Programme

[§] Jammu and Kashmir Self Employment Scheme

Audit observed that these schemes were not implemented fully and there was huge shortfall in achievement of targets ranging between 8.42 *per cent* and 84.31 *per cent* during the years 2006-11, as a result of which the purpose of launching the schemes was defeated. Besides, the Bank had not framed any plan for implementing the schemes effectively.

The Management stated (August 2011) that 100 *per cent* achievement was not possible because of non-completion of requisites by the beneficiaries or sometimes the beneficiaries were not interested to establish their units due to personal reasons. The reply is not convincing as the Banks have a proactive role to play in the implementation of these scheme by way of involving themselves in the planning and preparation of projects, pre-sanction appraisal, etc. The Bank had, however, failed on this front leading to shortfall occurring as high as 84.31 *per cent* (2008-09/PMRY & PMEGP).

Audit further observed that percentage of NPA to the total amount advanced under these schemes ranged between 12.50 and 25.83 *per cent* during the years 2006-11 which was alarming when compared with overall NPA position of the Bank. The recovery of NPAs was nominal/nil during the audit period. The Bank had not classified NPAs into Sub-standard, Doubtful and Loss Assets though required under the guidelines of RBI.

The Management stated (August 2011) that efforts were on to make recoveries to the maximum.

4.2.17.4 Lead Bank Schemes (LBS)

The Lead Bank Scheme came (December 1969) into existence as per the directives of the RBI with objectives of improvement in branch expansion, deposit mobilization and lending to the priority sectors especially in rural/semi-urban areas. The scheme envisaged allotment of districts to banks to enable them to assume leadership in bringing about banking developments in the respective districts by (a) Surveying the resources and potential for banking development in the districts; (b) Surveying the number of industrial and commercial units and other establishments and farms which do not have banking accounts or depend mainly on money-lenders; (c) Surveying the facilities for stocking of fertilizers and other agricultural inputs and repairing and servicing of equipments; (d) Recruiting and training staff, for offering advice to small borrowers and farmers in the priority sectors and for follow up and inspection of end use of loans and (e) Assisting other primary lending agencies.

The functions of the scheme envisaged appointment of Lead District Managers (LDMs) by the Bank who shall be responsible for drawing up the road map for banking penetration, preparation of one time comprehensive Development Plan for the district, associate with the setting up of Financial Literacy and Credit Counseling Centers (FLCCS), setting up of Rural Self Employment Training Institutes (RSETIs), holding annual sensitization workshops for banks and government officials with participation by NGOs/PRIs, arranging for quarterly awareness, feedback public meetings, etc.

The Jammu and Kashmir Bank had been assigned (between 1969 and 2007) lead bank responsibility in respect of 12 districts out of the total 22 districts across the State. In audit it was observed that though the Bank had appointed Lead Bank Officers (LBOs) in all the 12 districts and had drawn the Annual Credit Plan, the LBOs had not discharged their duties to the extent that:

- FLCCCs and RSETI had not been set up in any of the districts,
- Annual sensitization workshops for Banks/Govt. officials and arrangements for quarterly awareness and feedback public meetings, redressal of grievances, etc. had not been held,
- Surveys with regard to potential for banking development, identify the industrial units which do not have banking accounts or depend on money lenders, examine the facilities for marketing and agriculture produce, stocking of fertilizers and other agricultural inputs, recruiting and training staff, etc. had not been conducted.

The Management stated (August 2011) that the Bank was in the process of implementation of the Lead Bank responsibilities. However, the fact remains that the approach of the Bank towards this vital activity had been lackadaisical.

4.2.18 Investments

4.2.18.1 With a view to provide a basic structure and framework for effective management of investment portfolio, the Bank had put in place Investment Policy to be reviewed from time to time (last reviewed in January 2011).

The Investment portfolio of the Bank comprised SLR[*] Investment (Government Securities) and Non-SLR Investments (Bond, Debentures etc.).

SLR is the percentage of Demand and Time maturities that Bank needs to have in the form of Cash, Gold and approved Government securities. Non-SLR securities on the other hand, comprise PSU Bonds, Corporate Debentures, Commercial papers (CP), Certificate of Deposits (CD) etc. The investment policy of the Bank prohibits investment under a particular sector beyond 25 *per cent* of the total non-SLR portfolio of investments.

Table below indicates the position of Investments (Gross), SLR and non-SLR during 2006-11: -

[*] Statutory Liquidity Ratio – 24 *per cent* of the Demand and Time Liabilities (DTL)

(₹ in crore)

Investments	2006-07	2007-08	2008-09	2009-10	2010-11
SLR					
1. Govt Securities	4524.32	5215.09	6483.53	8055.10	9539.07
2. Treasury Bills	1007.08	1721.69	1122.21	405.26	787.65
3. Trustee Securities	39.07	37.08	20.86	11.42	10.28
Total (A)	**5570.47**	**6973.86**	**7626.60**	**8471.78**	**10337.00**
Non-SLR					
1. Equity	52.79	49.84	58.10	65.89	288.72
2. Preference Shares	36.96	31.92	24.87	11.29	23.30
3. Bonds & Debentures(including suit filed)	962.67	956.16	1100.96	1423.84	1932.26
4. Mutual funds	122.50	117.00	92.00	185.00	18.30
5. RIDF, NABARD, SIDBI	258.90	436.74	1124.55	1545.05	2479.61
6. Commercial Paper (CP) / Certificate of Deposit (CD)	268.67	-	539.67	2037.27	4607.48
7. Security Receipts	-	-	-	-	3.24
8. Investment in Sponsored Institute*	9.82	9.82	22.11	22.11	22.11
9. Investment in Joint venture	132.50	220.27	220.27	220.27	-
10. Investment in Subsidiary†	-	-	5.00	5.00	5.00
11. Venture capital	-	-	-	5.00	10.00
Total (B)	**1844.81**	**1821.75**	**3187.53**	**5520.72**	**9390.02**
Grand Total (A+B)	**7415.28**	**8795.61**	**10814.13**	**13992.50**	**19727.02**
Year-Over-Year Growth *(per cent)*	-	**1380.33 (18.61)**	**2018.52 (22.95)**	**3178.37 (29.39)**	**5734.52 (40.98)**
Income					
SLR *(Per cent of income to investment)*	365.41 (6.56)	445.18 (6.38)	527.25 (6.91)	540.96 (6.39)	670.77 (6.49)
Non-SLR *(Per cent of income to investment)*	119.21 (6.46)	88.39 (4.85)	127.47 (4.00)	172.89 (3.13)	403.76 (4.30)

An analysis of the above table revealed the following:

- As on March 2011, total Investments (SLR and Non-SLR) stood at ₹ 19727.02 crore against ₹ 7415.28 crore as on March 2007, registering 166.03 *per cent* increase. Year-over-Year growth of investments increased from 18.61 *per cent* in 2007-08 to 40.98 *per cent* in 2010-11.
- SLR investments increased from ₹ 5570.47 crore in 2006-07 to ₹10337.00 crore in 2010-11, registering 85.57 *per cent* increase. The income generated from SLR investments ranged between 6.38‡ *per cent and* 6.91 *per cent* during the same period at an average annual return of 6.54 *per cent*.
- Non-SLR investment increased from ₹ 1844.81 crore in 2006-07 to ₹ 9390.02 crore in 2010-11 registering 409 *per cent* increase. The income generated ranged between 3.13 *per cent* and 6.46 *per cent* during the same period at an average annual return of 4.19 *per cent*, which was low as compared to income under SLR investments. Despite low return under Non-SLR portfolio, the Bank enhanced its investment under this portfolio.

* J&K Grameen Bank

† JKB Financial Services Ltd.

‡ All the percentage of income to investments are calculated on the basis of closing balances of investments at the end of each year.

- The Bank had invested ₹ 2037.27 crore during 2009-10 and ₹ 4607.48 crore during 2010-11 under Commerciasl papers (CP) and Certificate of deposit (CD) sectors of Non-SLR portfolio which accounted for 36.90 *per cent* and 49.07 *per cent* of total Non-SLR investments respectively as against the prescribed 25 *per cent* limit.

The Management stated (July 2011) that actual average returns on SLR & Non-SLR portfolio are 6.92 *per cent* and 6.46 *per cent* respectively calculated on the basis of average balances of investments maintained during each year and included the trading income, but low average yield on Non-SLR investments as compared to SLR portfolio was mainly due to Bank's investment in priority sector substitutes viz. RIDF, NABARD, SIDBI at low rate of interest.

Audit, however, observed that failure of the Bank to achieve the targets under Priority Sector Lending forced it to invest under RIDF (as discussed in paragraph 4.2.17.1).

4.2.18.2 <u>Movement of Non-Performing Investments</u>

Similar to NPA, Investments, where interest/installment (including maturity proceeds) remains unpaid/stagnant for more than 90 days, are termed as Non-Performing Investments (NPI).

The Bank had Non-Performing Investments (NPI) of ₹ 113.97 crore at the beginning of March 2006 which declined to ₹ 20.01 crore at the end of March 2011 and are under litigation. Table below indicates the movements of NPIs during the period from 2006-07 to 2010-11:-

(₹ in crore)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	Total
1.	Total NPIs at the beginning of each year	113.97	79.07	89.55	74.75	20.01	
2.	Additions during the year	Nil	15.48	5.15	Nil	Nil	**20.63**
3.	**Total NPIs (1+2)**	**113.97**	**94.55**	**94.70**	**74.75**	**20.01**	
4	NPIs written off	Nil	5.00	10.75	49.74	Nil	**65.49**
5.	Recovery made						
	a). In full	Nil	Nil	0.15	5.00	Nil	**5.15**
	b).Byway of settlement	23.00	Nil	3.60	Nil	Nil	**26.60**
	c). Amount waived off under OTS	11.90	Nil	5.45	Nil	Nil	**17.35**
6	**Total adjustments made (4+5a+5b+5c)**	**34.90**	**5.00**	**19.95**	**54.74**	**Nil**	
7	**Total NPIs at the end of each year (3-6)**	**79.07**	**89.55**	**74.75**	**20.01**	**20.01**	

Audit analysis revealed the following.

- During 2006-11, Investments of ₹ 20.63 crore turned NPI, whereas the Bank had recovered ₹ 5.15 crore only during 2008-10. No recovery was made during 2006-07, 2009-10 and 2010-11, which showed lack of concern of the Bank with regard to recovery under this category.

- The Bank had written off NPIs of ₹ 65.49 crore during 2007-10, out of which ₹ 15.77 crore were subsequently recovered between June 2009 and March 2011 leading to loss of ₹ 49.72 crore.
- The Bank had settled NPIs amounting to ₹ 43.95 crore under OTS Scheme during the years 2006-09 whereby recovery of ₹ 26.60 crore was made and ₹ 17.35 crore were waived off.
- Other than NPIs, the Bank had also written off investments under Equity (Non-SLR), valuing ₹ 2.60 crore during 2007-09. Besides, the Bank scarified the Principal amount of Bonds/Debentures (Non-SLR) during 2007-08 amounting to ₹ 1.70 crore by waiver, leading to further loss of ₹ 4.30 crore.

The Management stated (July 2011) that the investments were over due since long and largely comprised either suit filed or Corporate Debt Restructured (CDR) and had to be written off due to very poor financial position of the Companies where the chances of recovery were bleak. Besides, it was done with a view to cleaning up of the books of accounts by writing off the amount against the provisions made.

The reply is not convincing as the Bank had subsequently recovered ₹ 15.77 crore between June 2009 and March 2011 after writing off NPIs during 2007-10 indicating that the Bank had not taken all out efforts to effect recoveries before writing off the NPIs whereas the scope of recovery always remained there.

Audit test-checked cases of write off/waiver as discussed in the succeeding paragraphs.

4.2.18.3 On the request of a Company[*], the Bank made an investment of ₹ 25 crore (10 July 2001) in 14 *per cent* unsecured and unrated redeemable NCD, due for payment on 9 December 2002 (in 17 months) to fill the working capital gap. The Company defaulted in redemption on due date.

It was observed that the Bank had made investment earlier in the same Company in 1996 and again in March 2001 but on both the occasions the Company demanded roll over, which was granted, and after some delay it redeemed the debts. Despite that, the Bank invested ₹ 25 crore in unsecured NCD simply on the speculation that it was a lucrative one which ultimately turned to be loss making investment.

Since the investment of the Bank made on 10 July 2001 was unsecured/unrated, the Bank's persuasion for redemption proved unfruitful. The Bank, considering the liquidity problems, inadequate working capital, etc. of the Company, restructured the investment (February 2006) by converting the outstanding amount of NCDs (₹ 25.97 crore) into Rupee Term Loan (RTL) of ₹ 10.06 crore, Funded Interest Term Loan (FITL) of ₹ 1.17 crore and Zero Coupon Principal Bond (ZCPB) of ₹ 14.74 crore. Conversion of

[*] M/S Himachal Futuristic Communications Limited

Investment (NCD) into RTL and FITL was, however, not in line with the Investment Policy of the Bank.

Rescheduling the repayments did not yield any results and the Bank, having convinced that the recovery had become doubtful, settled (April 2010) the case under OTS accepting ₹ 6.43 crore as full and final payment by sacrificing ₹ 23.03 crore including un-booked interest of ₹ 3.74 crore resulting in loss to the Bank to that extent.

The Management stated (July 2011) that the Bank had no option but to settle the case under OTS keeping in view the poor financial health of the Company. The contention is not acceptable on the grounds that the Bank should have assessed the financial health of the Company before making huge investment of ₹ 25 crore in unsecured NCDs.

4.2.18.4 The Bank invested (between October 2001 and May 2002) ₹ 15 crore in 12.25 *per cent* NCDs with a Company*. The Company serviced the interest up to August 2002 and thereafter defaulted in payment of interest on due dates and also in repayment of Principal amount. The Bank had to accept (May 2005) ₹ 8.23 crore as CDR package† against the total outstanding of ₹ 16.46 crore sacrificing ₹ 8.23 crore. Despite restructuring, the Company defaulted in payment of interest on term loan from February 2006 and offered (March 2008) ₹ 1.60 crore towards full and final settlement of the dues which was accepted (March 2008), by the Bank, thereby, sacrificing an additional amount of ₹ 2.52 crore leading to a total loss of ₹ 10.75 crore to the Bank.

Audit observed that the Bank invested in un-secured/un-rated NCDs without analyzing the financial position of the Company which resulted in loss of ₹ 10.75 crore which otherwise could have been avoided had the Bank shown prudence and analyzed the financial position correctly before making investment of ₹ 15 crore.

The Management stated (July 2011) that the investment was made keeping in mind good brand image, strong financials and good track record of the Company.

The fact remains that the Bank had not analyzed the financial position of the Company before making investments but invested on the request of the Company, considering only its brand image which ultimately proved to be an imprudent decision leading loss to the Bank to the tune of ₹ 10.75 crore.

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* M/S BPL Ltd.

† ₹ 4.11 crore as upfront payment, conversion of ₹ 2.06 crore into non-convertible non-cumulative preferential shares and ₹ 2.06 crore into term loan @ 8 *per cent*.

4.2.19 Conclusion

Advances

- Though the overall achievements against the targets of advances were satisfactory, inter- zone disparity in achievements existed.
- Credit Deposit Ratio of the Bank declined from 69.02 *per cent* in the year 2006-07 to 59.67 *per cent* in 2010-11 indicating that the Bank was not able to lend corresponding to the deposit of the Bank.
- The Bank lacked in monitoring the credit facilities under renewal of Working Capital Limit Accounts, Stock Audit and Credit Audit.
- Due to writing-off huge amounts, the percentage of NPA to total advances declined from 2.89 *per cent* in 2006-07 to 1.95 *per cent* in 2010-11. The inter Zones NPA were on higher side.
- NPA under consortium advances constituted 2.46 *per cent* of the total advances as against overall NPA of 1.95 *per cent*. Besides, recovery of advances was unsatisfactory.
- The Bank had not maintained data with regard to category-wise income of the Advances and sub-classification under each category.
- By settling 6073 cases under OTS during the years 2006-11, the Bank apart from sacrificing interest to the tune of ₹ 147.47 crore, sacrificed the principal amount of ₹ 33.35 crore resulting in loss to that extent.

Priority sector lending

- The Bank failed to achieve the targets under agriculture sector. Consequently the Bank had to invest an amount of ₹ 2862.74 crore in Rural Infrastructure Development Fund (RIDF) for a period of three to seven years at lower interest rate of three to six *per cent* per annum leading to loss of interest to the tune of ₹ 334.49 crore.
- The Bank had neither fixed any targets for recovery of advances made under Priority Sector nor had made any recovery of NPA in any of the years during performance audit period leading to increase of NPA.
- The Bank failed to achieve the targets under Central/State Sponsored Schemes leading to tardy implementation of various programmes.
- Despite lapse of four years since lead bank responsibilities had been assigned in respect of 12 districts, the Bank was still in the process of implementation of the Lead Bank functions.

Investments

- The return on investments portfolio remained below seven *per cent* during the audit period which was not financially prudent.
- The Bank did not take effective steps to recover overdue investments leading to huge financial loss by way of NPIs write-off.

4.2.20 Recommendations

- The Bank needs to strengthen its mechanism to ensure that cash is not retained in excess of limit fixed and the same is utilized to achieve the targets of Advances at Zonal Office/Branch level.
- The Bank needs to improve the monitoring system of advances so as to ensure that high risk accounts are identified in time and corrective steps are taken to prevent slippage to NPA. The Bank must take effective steps to reduce the NPA at Zonal Level/Branch level to a comfortable position.
- The Bank must settle the cases under OTS strictly in accordance with policy/guidelines and ensure realization of 100 *per cent* Principal amount.
- The Bank should make all-out endeavours to achieve the targets under Priority Sector lending to avoid investment on low interest rates.
- The Bank must fix targets for recovery of NPA under Priority Sector lending to reduce the NPA level.
- The Bank must take steps to implement the centrally/State sponsored schemes effectively so as to extend the benefits of the schemes to the targeted classes.
- The Bank needs to strengthen its investment portfolio in order to maximize return on investment.

PART-B: Transaction Audit Observations

Social Welfare Department

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

4.3.1 Unauthorised Diversion

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

The Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Backward Classes Development Corporation Limited (the Company), declared (February 2008) as a 'Service Institution' is responsible for providing self employment avenues to the target groups viz., Scheduled Castes, Scheduled Tribes, Backward classes and Notified Minorities. To achieve the objectives, the Company acts as State Channelizing Agency (SCA) for five Apex Level Corporations of the Government of India (GOI)[*] for various financing schemes. The Company being a 'Service Institution' depends upon the budgetary support from the State Government and also has an earning by way of interest from the funds obtained from Apex Corporations pending disbursement as loan to the target groups. The schemes in collaboration with the Apex Corporations are financed in the ratio of 85:10:05 by the Apex Corporations, the Company and the promoter contribution, respectively.

The Apex Level Corporations release funds to the Company for financing the income generating units amongst the targeted groups strictly in accordance with the standard conditions of the 'Term Loan Schemes' which stipulates that 10 *per cent* of the project cost is to be financed by the Company by way of subsidy and Margin Money Loan (MML). The Company meets its share of 10 *per cent* contributions from the Share Capital Contribution which is released by the State Government for financing under all categories.

During the years 2008-11, the State Government sanctioned and released ₹ 2.20 crore[†] in favour of the Company as contribution towards share capital which was to be utilized as 10 *per cent* share for welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes. The sanctions stipulate that no diversion of funds was allowed and progress

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[*] National Scheduled Castes Finances and Development Corporation (NSFDC) New Delhi, (for Scheduled Castes) (from 1992-93); National Scheduled Tribes Finances and Development Corporation (NSTFDC) New Delhi, (for Scheduled Tribes) (from 2001); National Minorities Development and Finance Corporation (NMDFC) New Delhi (for National Minorities Male members) (from 1995-96); National Backward Classes Finance and Development Corporation (NBCFDC) New Delhi, (for Backward Classes) (from 1995-96)' National Handicapped Finance and Development Corporation (NHFDC), New Delhi (for male Handicapped members) (from 2007-08)

[†] 2008-09 : ₹ 0.20 crore, 2009-10: ₹ 1.00 crore and 2010-11: ₹ 1.00 crore

report of the utilization of funds was required to be furnished on monthly basis to the Administrative Department of the State Government.

Audit, however, observed (September 2010) that instead of utilizing share capital so released for the intended purpose, the Company diverted ₹ 1.15 crore* (2009-11) towards payment of salary to the staff without seeking consent/approval of the State Government, which was not only unauthorized and irregular but also deprived the beneficiaries of the benefits of the schemes to set up income generating units. Besides, it was seen that details of monthly utilization of funds had not been sent to the Administrative Department as was stipulated in the sanction governing the release of the Share Capital Contribution leading to violation of the terms and conditions of the Government sanctions.

The Management stated (October 2010/June 2011) that it had no regular income to meet its salary and administrative expenses. It further stated that though the Government was constantly approached for grant of enhanced budgetary support than what was being granted, sufficient budgetary support was not provided, consequently the share capital contribution was diverted for payment of salary and other administrative expenses. The reply is not convincing as the Company should have obtained special sanction of the Government for diversion of the share capital contribution which it had failed to do, rendering the diversions unauthorized and irregular besides denying benefits of financing schemes to the targeted beneficiaries.

The matter was referred to Government in July 2011; the reply had not been received (October 2011).

The State Government must provide sufficient funds for running the day to day affairs of the Company to ensure that no diversions from scheme funds meant for up-liftment of the underprivileged classes are made. The Company should also not resort to such irregular diversions without the consent/approval of the State Government.

* 2008-09 : Nil, 2009-10: ₹ 58.40 lakh and 2010-11: ₹ 56.41 lakh

Public Works Department

Jammu And Kashmir Projects Construction Corporation Limited

4.3.2 Undue favour to Contractor

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

The Jammu and Kashmir Projects Construction Corporation Limited (the Company) signed (December, 2006) a Memorandum of Understanding (MOU) with J&K Power Development Corporation (JKPDC) (both State Public Sector Undertakings) for construction of Motorable R.C.C Bridge at Ganpat, Doda at a cost of ₹ 29.95 crore, which included 15 *per cent* supervision charges (Company's share) of ₹ 4.49 crore, for completion by February 2009. An amount of ₹ 5.99 crore was received (December 2006/March 2007) by the Company from the JKPDC as Mobilization Advance against a Bank Guarantee for the full amount. The Company allotted (February 2007) the work to a sub-contractor[*] at the cost of ₹ 25.46 crore for completion within 25 months i.e., by February 2009. The work, however, had not been completed as of June 2011.

Audit scrutiny (February 2011) revealed the following:

- The Company, while sub-contracting the work, instead of following a transparent and competitive tendering process, had allotted work to the sub-contractor on the recommendation (January 2007) of a committee set up by the Company which had opined that the said contractor had the capacity to undertake such works and had, in the past, already executed some of the bridge projects with the Company. Scrutiny of records, however, revealed that though the committee had recommended allotment of work in January 2007, as per records the work had already been started by the contractor in November 2006, rendering the process meaningless. The Company stated (September 2011) that the work had been allotted to the firm by an MOU between the Company and the sub-contractor. The reply is not tenable as mere entering into an MOU does not absolve the Company of the responsibility of following prescribed procedure laid down in the State Financial Code as well as the guidelines of the Central Vigilance Commission (CVC) with regard to allotment of contracts, which provide for transparent tendering process.

- The CVC guidelines (October 1997/June 2004/April 2007) prohibit payment of unsecured and interest free mobilization advance. The guidelines provided that decision to provide such advance should rest at the level of Board of Directors (with concurrence of Finance) in the organization. The guidelines further provide

[*] M/S A.K. Constructions, Jammu

that the advance should be released in stages depending upon the progress of the work, there should be a security by way of Bank guarantee of an equal amount, a fixed re-payment scheduled and provision of an interest element in the event of failure to repay. In violation of the above guidelines, it was seen that the sub-contractor was paid an interest free mobilization advance of ₹ 5.09 crore[*] immediately (February/March 2007) on start of the work. No safeguards to secure the advance by way of a bank guarantee of equivalent amount were insisted upon even though the Company had itself taken the mobilization advance from the JKPDC against a Bank Guarantee. Audit noticed that out of total value of work done of ₹ 13.06 crore ending June 2011, the contractor had submitted bills to the tune of ₹ 3.80 crore in March 2008 and no other claim had been preferred since then. An amount of ₹ 1.50 crore only out of the mobilization advance had been adjusted (March 2008) and the balance amount remained unadjusted as of June 2011. The payment of unsecured and interest free mobilization advance paid in violation of the instructions of the CVC, thus, resulted in interest loss of ₹ 1.64 crore[†] (for the period from March 2007 to March 2011) besides, extension of undue favour to the contractor. The Management stated (August 2011) that the advance had been given as per the agreement with the contractor. The reply does not justify payment of advance in violation of guidelines thereby, extending undue benefit to the contractor.

The matter was taken up with the Government (July 2011); the reply was awaited (October 2011).

The Company should take immediate steps for recovery of the advance and henceforth ensure compliance with the guidelines/rules in the matters of allotment of contracts and mobilization advance.

[*] ₹ 1.20 crore in February 2007 and ₹ 3.89 crore in March 2007

[†] Calculated at the rates (9.5 *per cent* , 10.75 *per cent* and 11.25 *per cent*) charged by Jammu and Kashmir Bank on State Government's Overdraft from time to time

Public Works Department

Jammu and Kashmir Projects Construction Corporation Limited

4.3.3 Non-receovery of labour cess

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

Government of India (GOI) enacted 'Building and Other Construction Workers Welfare Cess Act', 1996 to regulate employment and conditions of service of building and other construction workers and to provide for their safety, health and welfare measures and for other matters connected therewith or incidental thereto, through the Boards constituted by the State Governments under Building and Construction Workers Ordinance.

As per the Act;

- Cess is payable by the employer which includes owner of an establishment, specified authority of any department of the Government carrying on construction work or the head of the department, at the rate not exceeding two *per cent* but not less than one *per cent* of the cost of construction incurred by the employer.
- The cess collected, as such, is to be paid by the employer to the Cess-collector appointed by the State Government within 30 days of completion of the construction or within 30 days of the date on which assessment of cess payable is finalized, whichever is earlier. However, where the duration of the construction work exceeds one year, cess is to be paid within 30 days of completion of one year from the date of commencement of work and every year thereafter.
- If an employer fails to pay cess within the specified period, the Assessing Officer may impose a penalty not exceeding the amount of such cess and also charge interest at the rate of two *per cent* for every month or part thereof.

Though the Act was enacted by GOI in 1996, a notification for formation of the Jammu and Kashmir Buildings and Other Construction Works Board (Board) was issued belatedly in July 2007. Reasons for delay in issue of notification though called for (July 2011) from the Government, were awaited (August 2011).

In the State, all works of roads and buildings, estimated to cost ₹ 15 lakh and above, are executed by the State-owned Jammu and Kashmir Projects Construction Company (Company), under instructions of the State Government. Audit scrutiny (January 2011) revealed that despite having executed work to the tune of ₹ 772 crore* since enactment of the Act to March 2010, the Company had neither levied nor paid to the Cess-collector the minimum one *per cent* cess on the value of work done including material. Viewed from the fact that the levy and collection of cess was to augment the resources for the Labour

* July 2007 to March 2008: ₹ 198 crore, 2008-09: ₹ 272 crore; 2009-10: ₹ 302 crore

welfare, the non-adherence to the provisions of the Act had resulted in non-recovery of ₹ 7.72 crore from the works executed by the Company. Out of this recovery of cess of ₹ 2.68 crore on 154 completed works on which an expenditure of ₹ 268.42 crore (out of ₹ 772 crore) had been incurred as of March 2011, was doubtful.

The Management attributed (June 2011) reasons for non-implementation of the provisions of Cess Act to lack of awareness. It was further stated that measures to recover the amounts in respect of contracts started earlier and still under execution were under way by revision of cost offers and submission thereof to the concerned project authorities and in respect of new projects cost offers were loaded with the cess component. The fact, however, remains that the Company had failed to take cognizance of the provisions of the Act in right earnest by which it had missed the opportunity to recover the statutory dues of ₹ 2.68 crore, besides depriving the labour force of the State of the intended benefits.

The matter was taken up with the Government (May 2011); the reply was awaited (October 2011).

The Company must take immediate steps to comply with provisions of the Act.

Tourism Department

Jammu and Kashmir Cable Car Corporation

4.3.4 Wasteful expenditure due to deficient planning

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

The Managing Director (MD), J&K State Cable Car Corporation (Company) issued (August 2006) orders for construction of a centrally heated restaurant to be constructed at Apharwat (Gulmarg) without Administrative approval (AA)/Technical sanction (TS) or approval by the Board of Directors (BoD).

We noticed (March 2010) that the structural designs for the restaurant were got prepared (August 2006) by a consultant. The work orders for supply, erection, fixing, cutting and hoisting of structural steel were issued (October 2006) to a firm at an estimated cost of ₹ 90.65 lakh. The firm supplied (December 2006) the ordered quantity of 870 quintals of structural steel for which an amount of ₹ 60.90 lakh was paid by the Company. The Company simultaneously allotted base work of the restaurant to piece workers and an amount of ₹ 17.37 lakh had been incurred as of March 2007. It was seen that apart from supply of the steel, no other components of the work order viz., erection, fixing, cutting and hosting of structural steel design had been undertaken by the firm concerned with the result the steel supplied had not been used as of March 2010. It was further seen that a Committee constituted (March 2007) by the BoD, to ascertain the status of work, noticed that the steel members supplied were of very high specifications and had ordered for its disposal and construction of the restaurant by erection of a structure similar to the one that had been erected by army for its use at Apharwat. However, no action to start the works on foundation works already executed or to dispose off the material was taken till October 2010 when the Company allotted the construction work to J&K Housing Board (Board) at an estimated cost of ₹ 2.59 crore. It was, however, seen (July 2011) that the Board had lifted only 200 quintals of steel valued at ₹ 15.62 lakh for meeting of its full requirement for the restaurant. The remaining quantity of 670 quintals valued at ₹ 45.28 lakh was lying un-utilised and the Corporation contemplated its disposal by way of transfer to other needy PSUs or State Government Departments which, however, was pending as of September 2011. It was further revealed that the foundation already constructed had not been put to use by the Board as the new restaurant was being constructed at a place away from the previous location. This had resulted in non-utilisation of the already constructed plinth and thus, rendered the expenditure incurred on it wasteful.

Thus, action of the Corporation in embarking upon the project without proper planning resulted in blocking of ₹ 45.28 lakh for about five years and wasteful expenditure of ₹ 17.77 lakh[*].

The matter was referred to the Government (September 2011); reply was awaited (October 2011).

The Company must refrain from taking up works in an adhoc manner and without Administrative approvals and Technical Sanction. Planning and implementation aspects should be given due consideration to avoid loss on account of faulty project implementations.

[*] Construction of plinth: ₹ 17.37 lakh and Consultant charges: ₹ 0.40 lakh

Consumer Affairs and Public Distribution Department

4.3.5 Misappropriation due to absence of monitoring mechanism

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

Assistant Director, Consumer Affairs and Public Distribution Department (CAPD), Udhampur in the course of visit/inspection (August 2010) of Food Store, CAPD at Udhampur noticed huge shortages in the food grains stocks. A physical verification ordered (August/November 2010) by the Director CAPD, Jammu revealed shortages in the stock of Wheat, Atta, Rice and Sugar to the tune of ₹ 64.57 lakh[*] and the store keeper (In-charge)[†], a class IV employee posted at the Food Store since 01 February 2010, was placed under suspension. Subsequent to suspension, the defaulting storekeeper had deposited ₹ 16.24 lakh in treasuries at Udhampur and Jammu. Thus, net shortage of food grains worth ₹ 48.33 lakh was assessed as recoverable from the defaulting storekeeper, which had remained unrecovered as of August 2011. The case had been referred (August 2010) to Crime Branch Jammu without conducting a departmental enquiry.

Audit observed as follows:

➢ The delinquent official, despite being a Class IV employee and entrusted with job of Store keeper had been a chronic defaulter. The official had been placed under suspension in September 1993 in Udhampur and reinstated in August 2000 treating the whole period as 'on duty'. Subsequently he had mis-appropriated food grains during his tenure as Salesman/Storekeeper at CAPD Stores at Chenani (2000) and Basantgarh (2002). The official had also obtained a loan of ₹ 1.25 lakh (August 2008) from a Co-operative Bank by forging the signatures of Tehsil Supply Officer on which he had defaulted. Before his posting in CAPD Udhampur, the official had mis-appropriated food grains worth ₹ 4.48 lakh as salesman (June 2009) at his previous place of posting viz., CAPD Store, Ramnagar which had subsequently (November 2009) been recovered by the Department.

We noticed that the Department had not taken any disciplinary action against the official and instead the official had been posted as Storekeeper of the Udhampur store, the biggest in the region, in February 2010. The official after assuming (February 2010) the charge had mis-appropriated food grains by the end of July 2010 as highlighted above.

➢ As per the Departmental Manual, physical verification of food grain stocks, lying in various stores/sale depots, should be conducted by the designated teams of the

[*] Total shortage: ₹ 74.82 lakh less unaccounted permits (issue slips): ₹ 10.25 lakh.
[†] Shri Babu Ram

Department during first quarter of succeeding financial year in collaboration with the Tehsil Supply Officer (TSO), Storekeeper and Salesman in position. The responsibility for arranging the physical verification (PV) lies with the Director who should immediately after the close of financial year constitute a team and fix dates for conducting the verification and submission of Report thereof. The PV report is to be submitted to the Assistant Director of the District concerned and a copy thereof is sent to Director CAPD.

It was, however, noticed that despite teams for Physical verification of various stores including the Udhampur store having been constituted (June 2010) by the Director CAPD, physical verification of the stocks lying in Udhampur store had not been conducted.

➢ The departmental manual further provides that a monthly off-take statement and monthly abstract of stock position showing opening stock, receipts, issues and closing stock of food grains is to be prepared by the Store Keeper and sent to Assistant Director duly countersigned by the TSO. It was seen that though these statements had been submitted, no verification of facts and figures were carried out at the TSO/Joint Director/Directorate level rendering the preparation and submission of these statements futile.

➢ There was nothing on record to suggest that follow up action by way of calling for the physical verification report or ascertaining the reasons for not carrying out of the physical verification by the designated team and verification of the monthly stock statements, had been taken at the Directorate/Joint Director/TSO level. The lapse had resulted into non-detection of the shortage of food grains for a longer spell. Failure on part of the departmental officers to enforce the system of monitoring and control over the stocks had facilitated the misappropriation.

➢ Financial rules provide that the officials entrusted with the duty of handing of cash and stores must furnish personal security in the form of an indemnity bond to safeguard the interests of the Government. In the instant case it was seen that no such security had been obtained from the storekeeper.

➢ After placing (August 2010) the delinquent Storekeeper under suspension, no disciplinary action as warranted under rules had been initiated by the Department.

Thus, failure of the Department;

- to take cognizance of the past record and conduct of the official before entrusting him with the responsibility of managing the Store,
- to take timely and appropriate disciplinary action under Rules for the past mis-conducts of the delinquent store keeper,

- to adhere to the procedure of conducting timely physical verification of the stock of food grains and obtaining monthly off take/stock statements, led to mis-appropriation/shortage of food grains to the extent of ₹ 74.82 lakh out of which shortages worth ₹ 48.33 lakh still remains to be recovered (August 2011).

The Director, CAPD Department Jammu did not offer (March/August 2011) any reasons for lapses on the part of the Department.

The matter was referred to Government in September 2011; reply was awaited (October 2011).

The Department must put in place a strong internal control and monitoring mechanism to ensure that pilferages and misappropriations are detected/tapped in a timely manner.

Srinagar/Jammu **(Venkatesh Mohan)**
The **Principal Accountant General**

Countersigned

New Delhi **(Vinod Rai)**
The **Comptroller and Auditor General of India**

Appendix-1.1

(Reference: Paragraph: 1.2.9.4; Page: 46)

Economic loss to beneficiaries due to delay in completion of projects

Name of the project	Time period in which the project was to be completed	Year of start	Targeted Year of completion as per DPR	Year of actual completion	Delay (in years)	Net profit for targeted area before CAD (in lakh)	Net projected profit after CAD (₹ in lakh)	Economic loss per year (₹ in lakh)	Total economic loss (₹ in lakh)	(₹ in crore)
Aharbal	05 years	2003-04	2007-08	2009-10	2	271.40	1489.40	1218.00	2436.00	24.36
Bringi	05 years	2003-04	2007-08	2009-10	2	342.65	1644.14	1301.49	2602.98	26.03
Martand	05 years	2001-02	2005-06	2008-09	3	453.59	1983.50	1529.91	4589.73	45.90
Rafiabad	05 years	2001-02	2005-06	Ongoing	5	1046.26	4314.00	3267.74	16338.70	163.39
Zaingeer	05 years	2001-02	2005-06	Ongoing	5	497.90	1751.00	1253.10	6265.50	62.66
Lower Jehlum	05 years	1984-85	1988-89	Ongoing	22	643.68	2055.21	1411.53	31053.66	310.54
Sindhcatchment	05 years	1984-85	1988-89	Ongoing	22	599.78	4088.28	3488.50	76747.00	767.47
Igo-Phey Leh	03 years	2007-08	2009-10	Ongoing	1		860.01	860.01	860.01	8.60
Total						**3855.26**	**18185.54**	**14330.28**	**140893.58**	**1408.95**

Appendix-1.2

(Reference: Paragraph : 1.3.9.2; Page: 69)

Statement showing increase in the nutrients at the flow stage in respect of Sewerage Treatment Plants (STPs)

(A) STP HAZRATBAL

Parameter	Unit	October 2008			March 2009			January 2010		
		Raw	Final	Percentage reduction	Raw	Final	Percentage reduction	Raw	Final	Percentage reduction
NH3-N	µg/l	5235	2830	45.9	4053	2583	36	2000	1870	7
NO3-N	µg/l	1530	3436	-124.6	500	2200	-340	380	2250	-492
TP	µg/l	3575	1358	62.0	2712	728	73	1100	850	23
PO3-P	µg/l	2435	885	63.7	3098	816	74	850	890	27

(B) STP HABAK

Parameter	Unit	October 2008			March 2009			January 2010		
		Raw	Final	Percentage reduction	Raw	Final	Percentage reduction	Raw	Final	Percentage reduction
NH3-N	µg/l	3945	2234	43.4	3205	1682	48	1400	2205	-58
NO3-N	µg/l	1252	3039	-142.7	678	2349	-246	290	1905	-557
TP	µg/l	2895	1358	53.1	2105	1052	50	1450	1050	28
PO3-P	µg/l	2218	985	55.6	2356	1198	49	1715	1315	23

(C) STP LAAM

Parameter	Unit	October 2008			March 2009			January 2010		
		Raw	Final	Percentage reduction	Raw	Final	Percentage reduction	Raw	Final	Percentage reduction
NH3-N	µg/l	2280	1210	46.9	1187	560	53	1400	205	85
NO3-N	µg/l	1390	3641	-161	239	2078	-769	290	880	-203
TP	µg/l	1256	752	40	790	480	39	760	250	67
PO3-P	µg/l	897	526	41	817	515	37	1450	390	73

Appendix-1.3

(Reference: Paragraph: 1.3.9.2; Page: 69)

Statement showing inadequate parameters

Sample Specification	Required parameters of STP as per DPR	Habak		Hazratbal		Laam	
		Raw (Influent)	Final (Effluent)	Raw (Influent)	Final (Effluent)	Raw (Influent)	Final (Effluent)
		January 2010		January 2010		January 2010	
Water Temperature	NI	9.00	9.00	9.00	9.00	9.00	8.00
PH	7.0 – 8.0	7.60	7.80	7.30	7.40	7.80	8.10
DO (Mg/Ltr)	NI	1.90	4.10	2.00	4.30	1.70	5.10
COD(Mg/Ltr)	<100	315.00	145.00	315.00	129.00	185.00	81.00
PO4-P(Mg/Ltr)	More than 90% removal	1.63	0.79	1.59	0.68	1.66	0.89
Ammonical Nitrogen (Mg/Ltr)	More than 90% removal	8.86	2.37	9.58	3.91	8.21	3.09
Chloride (Mg/Ltr)	NI	64.00	58.00	78.00	72.00	46.00	42.00
TDS (Mg/Ltr)	<50	630.00	620.00	642.00	504.00	642.00	502.00
BOD (Mg/Ltr)	<30	138.00	27.00	138.00	29.00	76.00	23.00

* Non treatment of COD, Phosphates, Ammonical Nitrogen and TDS to the desired parameters indicates poor efficiency of STPs.

Appendix-1.4

(Reference: Paragraph: 1.4.7; Page: 90)

Statement showing particulars of distribution network planned and achievements there against

	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Substations (in numbers)						
At the beginning of the year	26,386	28,343	30,039	31,638	33,049	
Additions planned for the year	2,274	1,982	2,042	1,973	2,244	**10,515**
Additions made during the year	1,957	1,696	1,599	1,411	1,633	**8,296**
At the end of the year	28,343	30,039	31,638	33,049	34,682	
Shortfall	317	286	443	562	611	**2,219**
HT lines in (CKM)						
At the beginning of the year	23,498.641	24,558.63	25,305.65	25,984.263	26,655.813	
Additions planned for the year	1,269.159	977.89	862.173	827.25	1,089.038	**5,025.51**
Additions made during the year	1,059.929	747.07	678.613	671.55	876.381	**4,033.54**
At the end of the year	24,558.63	25,305.65	25,984.263	26,655.813	27,532.194	
Shortfall	209.23	230.82	183.56	155.7	212.657	**991.97**
LT lines (in CKM)						
At the beginning of the year	50,626.905	52,112.795	53,411.31	54,575.97	56,238.35	
Additions planned for the year	1,787.93	1,470.285	1,484.8	2,008.31	2,289.185	**9,040.51**
Additions made during the year	1,485.89	1,298.515	1,164.66	1,662.38	1,861.425	**7,472.87**
At the end of the year	52,112.795	53,411.31	54,575.97	56,238.35	58,099.775	
Shortfall	302.04	171.77	320.14	345.93	427.76	**1,567.64**
Transformation capacity (MVA)						
At the beginning of the year	4,020.923	4,322.086	4,573.766	4,768.243	4,908.579	
Additions planned for the year	474.253	432.19	209.367	351.696	372.028	**1,839.534**
Additions made during the year	301.163	251.68	194.517	140.336	157.926	**1,045.622**
At the end of the year	4,322.086	4,573.766	4,768.243	4,908.579	5,066.505	
Shortfall	173.09	180.51	14.85	211.36	214.102	**793.912**

Appendix-1.5

(Reference: Paragraph 1.4.9.2; Page: 96)

Statement showing physical and financial performance under all the components of the APDRP ending March 2006, between 2006-11 and ending March 2011 in respect of the entire State

S. No.	Component	Physical targets as per DPRs	Achievements			Excess / Shortfall	Percentage	Financial Targets	Achievements			Excess / Shortfall	%age
			Ending March 2006	Between April 2006 and March 2011	Cumulative ending March 2011				Ending March 2006	Between April 2006 to March 2011	Cumulative ending March 2011		
1.	Creation of 66/33/11 KV R-Station	113	19	70	89	(-) 24	21	120.69	37.70	85.44	123.14	(+) 2.45	2
2.	Augmentation of 66/33/11 KV R Station	73	52	43	95	(+) 22	30	30.18	24.35	10.97	35.32	(+) 5.14	17
3.	Creation of 11/0.4 KV Sub-Stations	10,633	2,475	3,530	6,005	(-) 4,628	43.5	127.56	47.89	62.24	110.13	(-) 17.43	13.6
4.	Augmentation of 11/0.4 KV Sub-Stations	2,965	1,424	1,240	2,664	(-) 301	10	26.19	16.64	12.85	29.49	(+) 3.30	12.6
5.	Creation of 66/33 KV lines	1,016 CKM	246.58	343	589.58	(-) 426.42	42	54.38	30.84	19.68	50.52	(-) 3.86	7
6.	Erection of 11 KV lines CKM	3,332	1,370.82	1,620.99	2,991.81	(-) 340.19	10	89.65	32.60	48.47	81.07	(-) 8.58	8
7.	Erection of LT Lines	4,553	1,696.61	1,898.61	3,595.22	(-) 967.78	21	87.54	35.67	39.55	75.22	(-) 12.32	14
8.	Reconditioning / realignment of												
(i)	66/33 KV Lines	588	59.30	162.72	222.02	(-) 365.98	62	21.91	10.68	8.11	18.79	(-) 3.12	14
(ii)	11 KV lines	2,419	361.33	1,031.48	1,392.81	(-) 1,026.19	42	49.89	14.52	15.09	29.61	(-) 20.28	40
(iii)	LT lines and conversion	6,305	1,464.90	1,752.02	3,216.92	(-) 3,088.08	49	102.96	21.62	27.04	48.66	(-) 54.30	53
9.	Renovation / Modernisation of 66/33/11 KV R Stations	206	36	72	108	(-) 98	48	52.17	12.53	24.44	36.97	(-) 15.20	29
10.	Renovation /Modernisation of 11/0.4 KV Sub-Stations	6,912	1,970	2,356	4,326	(-) 2,586	37	42.25	9.53	13.01	22.54	(-) 19.71	47
11.	Receiving Stations Bays	60	-	19	19	(-) 41	68	11.12	-	7.38	7.38	(-) 3.74	34
12.	Erection of 11 KV Cable	12	-	1.56	1.56	(-) 10.44	87	-	-	0.33	0.33	(+) 0.33	
13.	Re-alignment of 11 KV cable	70	-	39.56	39.56	(-) 30.44	43	2.74	-	1.22	1.22	(-) 1.52	55
14.	Replacement of 0/H HT by UG Cables & new LT cables	58	3	12.05	15.05	(-) 42.95	74	13.28	0.10	4.13	4.23	(-) 9.05	68
15.	Replacement of O/H LT by UG Cables	154	10	13.69	23.69	(-) 130.31	85	10.29	0.42	0.91	1.33	(-) 8.96	87
16.	Replacement / Insertion of HT/LT rotten poles	25,363	8,870	9,499	18,369	(-) 6,994	28	27.18	7.85	5.55	13.40	(-) 13.78	51

Appendix-1.5 (Concld.)

(Reference: Paragraph: 1.4.9.2; Page: 96)

S. No.	Component	Physical targets as per DPRs	Achievements			Excess / Shortfall	Percentage	Financial Targets	Achievements			Excess / Shortfall	%age
			Ending March 2006	Between April 2006 and March 2011	Cumulative ending March 2011				Ending March 2006	Between April 2006 to March 2011	Cumulative ending March 2011		
17.	Consumer metering												
(i)	Single phase	9,88,473	67,129	4,10,735	4,77,864	(-) 5,10,699	52	191.39	9.68	89.48	99.16		
(ii)	Third phase											(-) 92.23	48
(iii & iv)	11 KV & 33 KV												
18.	Reactive Compensation	37	-	02	02	(-) 35	95	11.12	-	0.36	0.36	(-) 10.76	97
A	HT												
B	LT												
19.	Modernisation/ Computerisation	366	02	24	26	(-) 340	93	21.51	0.83	11.15	11.98	(-) 9.53	44
20.	Material Procurement	-	-	-	-	-	-	-	4.86	(-) 3.84	1.02	-	-
21.	Conversion of 6.6 KV / 0.4 KVA Sub-Station to 11/0.4 KVA Sub-Station at Sidhra	-	-	28	28	-	-	-	-	0.18	0.18	-	-

Appendix – 1.6

(Reference: Paragraph: 1.4.12.2; Page: 110)

Statement showing targets for number of checking, theft cases, assessed amount and amount realised

	2006-07	2007-08	2008-09	2009-10	2010-11
Number of checking					
Targets	12,230	17,997	23,966	21,328	33,121
Actuals	9,981	13,595	15,809	20,259	34,323
Theft cases					
Targets	5,482	5,049	4,301	4,072	9,632
Actuals	5,487	5,118	4,521	6,513	11,040
Assessed amount (₹ in crore)	0.81	0.75	1.08	2.74	2.27
Amount realised (₹ in crore)	0.68	0.58	0.92	2.59	1.71
Shortfall (%age)	18%	24%	34%	5%	3 *per cent* excess achievement

Appendix 4.1

Statement showing particulars of up to date paid-up capital, loans outstanding and Manpower as on 31 March 2011 in respect of Government companies and statutory corporations

(Referred to in paragraph 4.1.7)

(Figures in column 5 (a) to 6 (c) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorpo-ration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2010-11				Debt equity ratio for 2010-11 (Previous year)	Manpower (No. of employees) (as on 31.3.2011)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Govern-ment	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	-Nil-	3.54	33.13	Nil	1.99	35.12	9.92:1 (6.70:1)	119
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	Agriculture Production	10 April 1978	6.00	3.20	-Nil-	9.20	16.38	-Nil-	Nil	16.38	1.78:1 (4.99:1)	319
Sector wise total				**8.60**	**4.14**	**Nil**	**12.74**	**49.51**	**Nil**	**1.99**	**51.50**	**4.04:1**	**438**
FINANCE													
3.	Jammu and Kashmir Bank Limited	Finance	10 October 1938	25.78	-Nil-	22.70	48.48	-Nil-	-Nil-	1104.65	1104.65	22.79:1 (22.69:1)	7938
4.	Jammu and Kashmir Bank Financial Services Limited	Finance	27 August 2009	Nil	Nil	5.00	5.00	Nil	Nil	Nil	Nil	Nil	NA
5.	Jammu and Kashmir Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	Social Welfare	April 1986	12.37	9.91	-Nil-	22.28	-Nil-	-Nil-	27.07	27.07	1.21:1 (1.32:1)	110
6.	Jammu and Kashmir State Women's Development Corporation Limited	Social Welfare	10 May 1991	7.00	-Nil-	-Nil-	7.00	6.50	-	25.04	31.54	4.51:1 (4.53:1)	31
Sector wise total				**45.15**	**9.91**	**27.70**	**82.76**	**6.50**	**Nil**	**1156.76**	**1163.26**	**14.06:1**	**8079**
INFRASTRUCTURE													
7.	Jammu and Kashmir Projects Construction Corporation Limited	Public Works	22 May 1965	1.53	-Nil-	-Nil-	1.53	-Nil-	-Nil-	-Nil-	-Nil-	-Nil-	1110
8.	Jammu and Kashmir Police Housing Corporation Limited	Home	26 December 1997	2.00	-Nil-	-Nil-	2.00	-Nil-	-Nil-	-Nil-	-Nil-	-Nil-	60
9.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	Industry & Commerce	28 November 1975	3.12	-Nil-	-Nil-	3.12	8.22	-Nil-	-Nil-	8.22	2.63:1 (2.54:1)	334
10.	Jammu and Kashmir State Industrial Development Corporation Limited	Industry & Commerce	17 March 1969	17.65	-Nil-	-Nil-	17.65	8.05	-Nil-	-Nil-	8.05	0.46:1 (0.46:1)	551
Sector wise total				**24.30**	**Nil**	**Nil**	**24.30**	**16.27**	**Nil**	**Nil**	**16.27**	**0.67:1**	**2055**
MANUFACTURING													
11.	Jammu and Kashmir Industries Limited	Industry & Commerce	4 October 1960	16.27	-Nil-	-Nil-	16.27	371.80	-Nil-	-Nil-	371.80	22.85:1 (20.23:1)	936

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorpo-ration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2010-11				Debt equity ratio for 2010-11 (Previous year)	Manpower (No. of employees) (as on 31.3.2011)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Govern-ment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	5 (e)	6 (a)	6 (b)	6 (c)	(7)	(8)
12.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	Industry & Commerce	6 June 1970	7.13	0.89	-	8.02	77.75	-Nil-	1.40	79.15	9.87:1 (9.77:1)	364
13.	Jammu and Kashmir State Handloom Development Corporation Limited	Industry & Commerce	29 June 1981	3.50	1.50	-Nil-	5.00	82.32	-Nil-	-Nil-	82.32	16.46:1 (14.98:1)	259
14.	Jammu and Kashmir Cements Limited	Industry & Commerce	24 December 1974	41.77	-Nil-	-Nil-	41.77	-Nil-	-Nil-	38.77	38.77	0.93:1 (0.99:1)	803
15.	Jammu and Kashmir Minerals Limited	Industry	5 February 1960	8.00	-Nil-	-Nil-	8.00	324.70	-Nil-	-Nil-	324.70	40.59:1 (38.11:1)	1140
Sector wise total				**76.67**	**2.39**	**Nil**	**79.06**	**856.57**	**Nil**	**40.17**	**896.74**	**11.34:1**	**3502**
POWER													
16.	Jammu and Kashmir State Power Development Corporation Limited	Power Development	16 February 1995	5.00	-Nil-	-Nil-	5.00	167.50	--	1895.00	2062.50	412.50:1 (372.76:1)	3290
Sector wise total				**5.00**	**-Nil-**	**-Nil-**	**5.00**	**167.50**	**--**	**1895.00**	**2062.50**	**412.50:1**	**3290**
SERVICES													
17.	Jammu and Kashmir State Tourism Development Corporation Limited	Tourism	13 February 1970	23.51	-Nil-	-Nil-	23.51	4.26	-Nil-	-Nil-	4.26	0.18:1 (0.18:1)	986
18.	Jammu and Kashmir State Cable Car Corporation Limited	Tourism	28 November 1988	23.57	-Nil-	-Nil-	23.57	-Nil-	-Nil-	-Nil-	-Nil-	-Nil-	90
Sector wise total				**47.08**	**Nil**	**Nil**	**47.08**	**4.26**	**Nil**	**Nil**	**4.26**	**0.09:1**	**1076**
Total A (All sector wise working Government companies)				**206.80**	**16.44**	**27.70**	**250.94**	**1100.61**	**Nil**	**3093.92**	**4194.53**	**16.72:1**	**18440**
B. Working Statutory corporations													
FINANCE													
1.	Jammu and Kashmir State Financial Corporation	Finance	2 December 1959	43.47	-Nil-	21.08	64.55	0.17	35.55	92.50	128.22	1.99:1 (2.33:1)	226
Sector wise total				**43.47**	**-Nil-**	**21.08**	**64.55**	**0.17**	**35.55**	**92.50**	**128.22**	**1.99:1**	**226**
AGRICULTURE & ALLIED													
2.	Jammu and Kashmir State Forest Corporation Limited	Forest	1 July 1979	9.03	-Nil-	-Nil-	9.03	18.06	Nil	Nil	18.06	2:1 (2:1)	3730
Sector wise total				**9.03**	**-Nil-**	**-Nil-**	**9.03**	**18.06**	**Nil**	**Nil**	**18.06**	**2:1**	**3730**
SERVICES													
3.	Jammu and Kashmir State Road Transport Corporation	Transport	1 September 1976	95.82	15.01	52.78	163.61	393.29	Nil	Nil	393.29	2.40:1 (2.62:1)	3078
Sector wise total				**95.82**	**15.01**	**52.78**	**163.61**	**393.29**	**Nil**	**Nil**	**393.29**	**2.40:1**	**3078**
Total B (All sector wise working Statutory corporations)				**148.32**	**15.01**	**73.86**	**237.19**	**411.52**	**35.55**	**92.50**	**539.57**	**2.27:1**	**7034**

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorpo-ration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2010-11				Debt equity ratio for 2010-11 (Previous year)	Manpower (No. of employees) (as on 31.3.2011)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Govern-ment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	5 (e)	6 (a)	6 (b)	6 (c)	(7)	(8)
Grand Total (A + B)				**355.12**	**31.45**	**101.56**	**488.13**	**1512.13**	**35.55**	**3186.42**	**4734.10**	**9.70:1**	**25474**
C. Non working Government companies													
MANUFACTURING													
1.	Tawi Scooters Limited	Industries and Commerce	15 December 1976	0.80	Nil	Nil	0.80	0.83	Nil	Nil	0.83	1.04 :1	NA
2.	Himalyan Wool Combers Limited	Industries and Commerce	24 January 1978	1.37	Nil	Nil	1.37	Information not available.					
Sector wise Total				**2.17**	**Nil**	**Nil**	**2.17**	**0.83**	**Nil**	**Nil**	**0.83**	**0.38:1**	**NA**
MISCELLENEOUS													
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	Nil	Nil	0.40	Information not available.					
Sector wise total				**0.40**	**Nil**	**Nil**	**0.40**						
Total C (All sector wise non working Government companies)				**2.57**	**Nil**	**Nil**	**2.57**	**0.83**	**Nil**	**Nil**	**0.83**	**0.32:1**	**NA**
D. Non working Statutory corporations		Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total D (All sector wise non working Statutory corporations)		Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Grand Total (A + B + C + D)				**357.69**	**31.45**	**101.56**	**490.70**	**1512.96**	**35.55**	**3186.42**	**4734.93**	**9.65:1**	**25474**

[$] Paid-up capital includes share application money.

[**] Loans outstanding at the close of 2010-11 represent long-term loans only.

Figures based on data furnished by the PSUs.

Appendix 4.2
Summarised financial results of Government companies and Statutory corporations for the latest year for which accounts were finalised
(Referred to in paragraphs 4.1.15)

(₹ in crore)

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)
A. Working Government Companies														
AGRICULTURE & ALLIED														
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	1993-94	2011-12	(-) 1.63	0.04	0.03	(-) 1.70	5.36	-	3.54	(-) 8.35	(-) 2.58	(-) 1.66	-
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	Nil
Sector wise total				**(-) 2.24**	**6.20**	**0.50**	**(-) 8.94**	**7.32**	-	**12.74**	**(-) 52.46**	**8.31**	**(-) 2.74**	-
FINANCE														
3.	Jammu and Kashmir Bank Limited	2010-11	2011-12	2822.60	2169.47	37.93	615.20	4077.89	-	48.48	-	23065.64	2784.67	12.07
4.	Jammu and Kashmir Bank Financial Services Limited	2008-09 to 2010-11	2011-12	0.13	-	-	0.13	0.26	-	5.00	-	5.25	0.13	2.48
5.	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
6.	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				**2822.72**	**2169.61**	**37.98**	**615.13**	**4078.48**	-	**63.01**	**(-) 0.44**	**23088.10**	**2784.74**	**12.06**
INFRASTRUCTURE														
7.	Jammu and Kashmir Projects Construction Corporation Limited	1991-92 to 1993-94	2011-12	0.09	0.05	0.17	(-) 0.13	22.84	(-) 3.27	1.52	(-) 0.88	1.27	(-) 0.08	-
8.	Jammu and Kashmir Police Housing Corporation Limited	2001-02	2010-11	0.89	Nil	0.10	0.79	1.71	(-) 0.21	2.00	Nil	4.08	0.79	19.36

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)
9	Jammu and Kashmir Small Scale Industries Development Corporation Limited	1990-91	2011-12	0.53	0.52	0.36	(-) 0.35	22.56	-	3.12	-	7.99	0.17	2.13
10.	Jammu and Kashmir State Industrial Development Corporation Limited	2001-02	2011-12	(-) 5.31	2.92	1.20	(-) 9.43	1.24	(-) 0.11	17.65	(-) 54.14	55.37	(-) 6.51	-
Sector wise total				**(-) 3.80**	**3.49**	**1.83**	**(-) 9.12**	**48.35**	**(-) 3.59**	**24.29**	**(-) 55.02**	**68.71**	**(-) 5.63**	**-**
MANUFACTURING														
11.	Jammu and Kashmir Industries Limited	2002-03 2003-04	2011-12	(-) 17.51	23.65	1.15	(-) 42.31	11.96	1.08	16.27	(-) 353.98	(-) 33.54	(-) 18.66	-
12.	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	-
13.	Jammu and Kashmir State Handloom Development Corporation Limited	1997-98	2010-11	(-) 1.79	0.90	0.08	(-) 2.77	7.27	Nil	3.00	(-) 8.49	8.96	(-) 1.87	Nil
14.	Jammu and Kashmir Cements Limited	1998-99 to 2000-01	2011-12	1.56	0.18	0.61	0.77	36.19	-	15.50	(-) 2.07	28.76	0.95	3.30
15.	Jammu and Kashmir Minerals Limited	1994-95	2011-12	(-) 3.91	0.75	0.10	(-) 4.76	3.20	Nil	8.00	(-) 32.73	1.90	(-) 4.01	Nil
Sector wise total				**(-) 25.93**	**27.47**	**1.98**	**(-) 55.38**	**62.64**	**1.08**	**47.17**	**(-) 422.48**	**7.13**	**(-) 27.91**	**-**
POWER														
16.	Jammu and Kashmir State Power Development Corporation Limited	2002-03 to 2008-09	2011-12	65.10	10.77	17.16	37.17	120.68	-	5.00	(-) 109.99	5815.48	47.94	0.82
Sector wise total				**65.10**	**10.77**	**17.16**	**37.17**	**120.68**	**-**	**5.00**	**(-) 109.99**	**5815.48**	**47.94**	**0.82**
SERVICES														
17.	Jammu and Kashmir State Tourism Development Corporation Limited	1995-96 to 2001-02	2011-12	1.44	0.10	1.09	0.25	12.23	(-) 0.08	15.96	(-) 7.51	25.22	0.35	1.39
18.	Jammu and Kashmir State Cable Car	1997-98	2010-11	-	-	-	-	-	-	23.52	-	22.99	-	-

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)
	Corporation Limitedφ													
Sector wise total				**1.44**	**0.10**	**1.09**	**0.25**	**12.23**	**(-) 0.08**	**39.48**	**(-) 7.51**	**48.21**	**0.35**	**0.73**
Total A (All sector wise working Government companies				**2857.29**	**2217.64**	**60.54**	**579.11**	**4329.70**	**(-) 2.59**	**191.69**	**(-) 647.90**	**29035.94**	**2796.75**	**9.63**
B. Working Statutory corporations														
FINANCE														
1.	Jammu and Kashmir State Financial Corporation	2006-07	2010-11	(-) 24.19	1.88	0.15	(-) 26.22	5.82	-	64.60	(-) 219.11	(-) 231.30	(-) 24.34	-
Sector wise total				**(-) 24.19**	**1.88**	**0.15**	**(-) 26.22**	**5.82**	**-**	**64.60**	**(-) 219.11**	**(-) 231.30**	**(-) 24.34**	**-**
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		**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
SERVICES														
3.	Jammu and Kashmir State Road Transport Corporation	2005-06	2011-12	(-) 17.20	30.55	4.77	(-) 52.52	74.35	(-) 25.87	111.51	(-) 651.44	(-) 193.27	(-) 21.97	-
Sector wise total				**(-) 17.20**	**30.55**	**4.77**	**(-) 52.52**	**74.35**	**(-) 25.87**	**111.51**	**(-) 651.44**	**(-) 193.27**	**(-) 21.97**	**-**
Total B (All sector wise working Statutory corporations)				**(-) 41.39**	**32.43**	**4.92**	**(-) 78.74**	**80.17**	**(-) 25.87**	**176.11**	**(-) 870.55**	**(-) 424.57**	**(-) 46.31**	**-**
Grand Total (A + B)				**2815.90**	**2250.07**	**65.46**	**500.37**	**4409.87**	**(-) 28.46**	**367.80**	**(-) 1518.45**	**28611.37**	**2750.44**	**9.61**
C. Non working Government companies														
MANUFACTURING														
1.	Tawi Scooters Limited	1989-90	1991-92	(-) 0.06	Nil	Nil	(-) 0.06	Nil	Nil	0.80	(-) 1.04	(+) 0.59	(-) 0.06	-
2.	Himalyan Wool Combers Limited	1999-2000	2000-01	(-) 1.29	Nil	Nil	(-) 1.29	Nil	Nil	1.36	(-) 10.49	(-) 1.71	(-) 1.29	-
Sector wise total				**(-) 1.35**	**Nil**	**Nil**	**(-) 1.35**	**Nil**	**Nil**	**2.16**	**(-) 11.53**	**(-) 1.12**	**(-) 1.35**	**Nil**
MISCELLENEOUS														
3.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of	1991-92	1999-2000	NA	NA	NA	0	NA	Nil	Nil	0	`Nil	-	-

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)
	Himalyan Wool Combers Limited)													
Sector wise total				Nil	Nil	Nil	Nil	Nil	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
Total C (All sector wise non working Government companies)				**(-) 1.35**	**Nil**	**Nil**	**(-) 1.35**	**Nil**	**Nil**	**2.16**	**(-) 11.53**	**(-) 1.12**	**(-) 1.35**	**Nil**
D. Non working Statutory corporations		Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total D (All sector wise non working Statutory corporations)		**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
Grand Total (A + B + C + D)				**2814.55**	**2250.07**	**65.46**	**499.02**	**4409.87**	**(-) 28.46**	**369.96**	**(-) 1529.98**	**28610.25**	**2749.09**	**9.61**

φ The Company (Serial number A-18) 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.

Appendix 4.3

Statement showing grants and subsidy received/receivable, guarantees received, waiver of dues, loans written off and loans converted into equity during the year and guarantee commitment at the end of March 2011

(Referred to in paragraph 4.1.10)

(Figures in column 3 (a) to 6 (d) are ₹ in crore)

Sl. 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	Nil	0.59	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2.	Jammu and Kashmir State Horticultural Produce Marketing and Processing Corporation Limited	Nil	0.99	Nil	Nil	Nil	Nil	Nil	Nil	24.09	Nil	Nil	24.09
Sector wise total		**Nil**	**1.58**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**24.09**	**Nil**	**Nil**	**24.09**
FINANCE													
3.	Jammu and Kashmir Bank Limited	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
4.	Jammu and Kashmir Bank Financial Services Limited	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
5.	Jammu and Kashmir Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	1.00	1.00	Nil	0.20 (Subsidy)	Nil	0.20 (Subsidy)	1.00	27.07	Nil	Nil	Nil	Nil
6.	Jammu and Kashmir State Women's Development Corporation Limited	1.00	0.50	Nil	Nil	Nil	Nil	1.70	14.85	Nil	Nil	Nil	Nil
Sector wise total		**2.00**	**1.50**	**Nil**	**0.20**	**Nil**	**0.20**	**2.70**	**41.92**	**Nil**	**Nil**	**Nil**	**Nil**
INFRASTRUCTURE													
7.	Jammu and Kashmir Projects Construction Corporation Limited	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
8.	Jammu and Kashmir Police Housing Corporation Limited	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
9	Jammu and Kashmir Small Scale Industries Development Corporation Limited	Nil	Nil	Nil	1.00 (Grants)	Nil	1.00 (Grants)	Nil	Nil	Nil	Nil	Nil	Nil
10.	Jammu and Kashmir State Industrial Development Corporation Limited	Nil	Nil	5.51 (Grants)	20.34 (Grants)	Nil	25.85 (Grants)	Nil	Nil	Nil	Nil	Nil	Nil
Sector wise total		**Nil**	**Nil**	**5.51 (Grants)**	**21.34 (Grants)**	**Nil**	**26.85 (Grants)**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

Sl. 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)
MANUFACTURING													
11.	Jammu and Kashmir Industries Limited	Nil	35.27	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
12.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	Nil	1.20	Nil	Nil	Nil	Nil	Nil	1.40	Nil	Nil	Nil	Nil
13.	Jammu and Kashmir State Handloom Development Corporation Limited	Nil	2.37	Nil	Nil	Nil	Nil	Nil	2.12	Nil	Nil	Nil	Nil
14.	Jammu and Kashmir Cements Limited	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
15.	Jammu and Kashmir Minerals Limited	Nil	1.62	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Sector wise total		**Nil**	**40.46**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**3.52**	**Nil**	**Nil**	**Nil**	**Nil**
POWER													
16.	Jammu and Kashmir State Power Development Corporation Limited	Nil	440.00	Nil	284.00 (Grants)	Nil	284.00 (Grants)	Nil	2321.17	Nil	Nil	Nil	Nil
Sector wise total		**Nil**	**440.00**	**Nil**	**284.00 (Grants)**	**Nil**	**284.00 (Grants)**	**Nil**	**2321.17**	**Nil**	**Nil**	**Nil**	**Nil**
SERVICES													
17.	Jammu and Kashmir State Tourism Development Corporation Limited	Nil	Nil	Nil	6.95 (Grants)	Nil	6.95 (Grants)	Nil	Nil	Nil	Nil	Nil	Nil
18.	Jammu and Kashmir State Cable Car Corporation Limited[φ]	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Sector wise total		**Nil**	**Nil**	**Nil**	**6.95 (Grants)**	**Nil**	**6.95 (Grants)**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
Total A (All sector wise working Government companies)		**2.00**	**483.54**	**5.51**	**312.49**	**Nil**	**318.00**	**2.70**	**2366.61**	**24.09**	**Nil**	**Nil**	**24.09**
B. Working Statutory corporations													
FINANCE													
1.	Jammu and Kashmir State Financial Corporation	Nil	5.00	Nil	5.00 (Grants)	Nil	5.00 (Grants)	Nil	35.55	Nil	Nil	3.69	3.69
Sector wise total		**Nil**	**5.00**	**Nil**	**5.00**	**Nil**	**5.00**	**Nil**	**35.55**	**Nil**	**Nil**	**3.69**	**3.69**
AGRICULTURE & ALLIED													
2.	Jammu and Kashmir State Forest Corporation Limited	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Sector wise total		**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

φ The Company (Serial number A-18) had not prepared Profit and Loss Account, as it had not commenced business activities

Sl. 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)
SERVICES													
3.	Jammu and Kashmir State Road Transport Corporation	5.00	Nil	Nil	Nil	Nil	Nil	Nil	6.00	Nil	Nil	Nil	Nil
Sector wise total		**5.00**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**6.00**	**Nil**	**Nil**	**Nil**	**Nil**
Total B (All sector wise working Statutory corporations)		**5.00**	**5.00**	**Nil**	**5.00**	**Nil**	**5.00**	**Nil**	**41.55**	**Nil**	**Nil**	**3.69**	**3.69**
Grand Total (A + B)		**7.00**	**488.54**	**5.51**	**317.49**	**Nil**	**323.00**	**2.70**	**2408.16**	**24.09**	**Nil**	**3.69**	**27.78**
C. Non working Government companies													
MANUFACTURING													
1.	Tawi Scooters Limited	Information not available		Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2.	Himalyan Wool Combers Limited	Information not available		Nil	Nil	Nil	Nil	Nil	2.83	Nil	Nil	Nil	Nil
Sector wise total		**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**2.83**	**Nil**	**Nil**	**Nil**	**Nil**
MISCELLENEOUS													
3.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalyan Wool Combers Limited)	Information not available		Nil	Nil	Nil	Nil	Nil	0.40	Nil	Nil	Nil	Nil
Sector wise total		**Nil**		**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**0.40**	**Nil**	**Nil**	**Nil**	**Nil**
Total C (All sector wise non working Government companies		**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**3.23**	**Nil**	**Nil**	**Nil**	**Nil**
D. Non working Statutory corporations		Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total D (All sector wise non working Statutory corporations)		**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
Grand Total (A + B + C + D)		**7.00**	**488.54**	**5.51**	**317.49**	**Nil**	**323.00**	**2.70**	**2411.39**	**24.09**	**Nil**	**3.69**	**27.78**

@ 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.

Appendix-4.4

(Reference: Paragraph: 4.1.24)

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 (up to 2010-11) 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	1993-94	3.54	0.64	12.81	6.98	Nil	20.43
2.	J&K State Horticultural Produce Marketing and Processing Corporation Limited	1993-94	9.20	6.00	11.82	16.53	Nil	34.35
3.	J&K State Handloom Development Corporation Limited	1997-98	3.00	1.93	25.45	13.09	1.37	41.84
4.	J&K Handicrafts (Sale and Export) Development Corporation Limited	1997-98	4.40	3.62	22.52	1.66	1.38	29.18
5.	J&K Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	1995-96	7.91	14.38	3.15	0.03	10.39	27.95
6.	J&K State Women's Development Corporation Limited	1998-99	1.62	5.90	4.36	0.08	Nil	10.34
7.	J&K Industries Limited	2003-04	16.27	Nil	55.34	Nil	Nil	55.34
8.	J&K Small Scale Industries Development Corporation Limited	1990-91	3.12	Nil	2.27	9.82	Nil	12.09
9.	J&K State Industrial Development Corporation Limited	2001-02	17.65	Nil	22.72	25.67	Nil	48.39
10.	J& K Minerals Limited	1994-95	8.00	Nil	34.66	Nil	Nil	34.66
11.	J&K Cements Limited	2000-01	15.50	26.27	-	-	-	26.27
12.	J&K State power Development Corporation Limited	2008-09	5.00	Nil	470.00	341.86	Nil	811.86
13.	J&K State Tourism Development Corporation Limited	2001-02	15.96	7.55	Nil	28.26	Nil	35.81
14.	J&K State Cable Car Corporation Limited	1997-98	23.52	0.05	-	-	-	0.05
	Total (A):			**66.34**	**665.10**	**443.98**	**13.14**	**1188.56**
(B) Working Statutory Corporations								
15.	J&K State Road Transport Corporation	2005-06	111.51	52.10	74.17	7.00	Nil	133.27
16.	J&K State Financial Corporation Limited	2006-07	64.60	Nil	Nil	26.00	Nil	26.00
	Total (B)			**52.10**	**74.17**	**33.00**	**13.14**	**159.27**
	Total (A)+(B)			**118.44**	**739.27**	**476.98**	**13.14**	**1347.83**

(Figures based on data furnished by the PSUs from time to time subject to reconciliation).

Appendix-4.5
(Reference: Paragraph 4.1.15)
Statement showing financial position of the Statutory corporations for the latest three years for which accounts were finalised

(Amount: ₹ in crore)

	Particulars	2003-04	2004-05	2005-06
1.	**Jammu and Kashmir State Road Transport Corporation Limited**			
A.	**Liabilities**			
	Capital (including capital loan and equity capital)	108.51	109.51	111.51
	Borrowings:	275.57	304.86	329.13
	Trade dues and other liabilities (including provisions)	221.17	254.99	282.42
	Total-A	**605.25**	**669.36**	**723.06**
B.	**Assets**			
	Gross block	50.51	49.59	55.00
	Less depreciation	4.49	4.36	4.77
	Net fixed assets	46.02	45.23	50.23
	Current assets, loans and advances	14.98	25.21	21.39
	Accumulated loss	544.25	598.92	651.44
	Total-B	**605.25**	**669.36**	**723.06**
C	**Capital employed**[1]	**(-) 160.17**	**(-) 184.55**	**(-) 193.27**
2.	**Jammu and Kashmir State Financial Corporation**			
	Particulars	**2004-05**	**2005-06**	**2006-07**
A.	**Liabilities**			
	Paid-up capital	64.60	64.60	64.60
	Reserve funds and surplus	7.58	7.59	7.59
	Borrowings			
	Bonds and debentures	80.45	56.50	56.50
	Others (including State Government)	80.00	103.03	102.18
	Other liabilities and provisions	73.77	24.22	24.93
	Total-A	**306.40**	**255.94**	**255.80**
B	**Assets**			
	Cash and bank balances	4.17	3.13	3.25
	Loans and advances	58.26	58.70	32.23
	Net fixed assets	0.75	0.93	0.92
	Investments and other assets	50.72	0.28	0.29
	Accumulated loss	192.50	192.90	219.11
	Total-B	**306.40**	**255.94**	**255.80**
C	**Capital employed**	**226.69**	**231.72**	**231.30**

[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).

Appendix-4.6
(Reference: Paragraph 4.1.15)
Statement showing working results of the Statutory corporations for the latest three years for which accounts were finalised

(Amount ₹ in crore)

	Particulars	2003-04	2004-05	2005-06
1.	***Jammu and Kashmir State Road Transport Corporation***			
	Operating and non-operating			
	(a) Revenue	43.76	60.88	74.35
	(b) Expenditure	97.65	115.56	126.87
	(c) Surplus (+)/Deficit (-)	(-) 53.89	(-) 54.68	(-) 52.52
	Interest on capital and loans	24.97	28.21	30.55
	Return on capital employed	(-) 28.92	(-) 26.47	(-) 21.97
2	**Jammu and Kashmir State Financial Corporation**	**2004-05**	**2005-06**	**2006-07**
A	*Income*			
	(a) Interest on loans and advances	6.78	5.86	5.71
	(b) Other income	21.74	2.18	0.11
	Total-A	**28.52**	**8.04**	**5.82**
B	***Expenditure***			
	(a) Interest on long-term loans	18.89	2.61	1.88
	(b) Other expenditure	4.99	5.83	30.16
	Total-B	**23.88**	**8.44**	**32.04**
C	**Profit (+)/Loss (-)**	**(+) 4.64**[2]	**(-) 0.40**	**(-) 26.22**
D	**Total return on capital employed**	**23.53**	**2.21**	**(-) 24.34**
E	**Percentage of return on capital employed**	**10.38**	**1.00**	**Nil**

[2] *Profit of Rs. 4.64 crore arrived due to write back of excess NPA provisions of Rs. 21.64 crore made during previous year.*