Chapter-3
Audit of Transactions

CHAPTER – 3

AUDIT OF TRANSACTIONS

Finance Department

(Jammu and Kashmir Bank Limited)

3.1 Doubtful recovery of loan

Non-observance of due diligence to monitor transactions of unusual pattern before sanction of credit facility in favour of a borrower and subsequent failure to initiate timely action resulted in doubtful recovery of ₹1.19 crore.

According to the Know Your Customer (KYC) guidelines (July 2009) of the Reserve Bank of India monitoring of transactions is an essential element of effective KYC procedures. Banks can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer. Further the Banks are required to pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.

Audit check (February 2015) of records of Zonal Office Pulwama, Kashmir showed that the Bank sanctioned (October 2009) credit facility to the tune of ₹67 lakh for one year in favour of M/s Farukh Enterprises Awantipora[1] engaged in the business of supply of building material against primary security of hypothecation of stock of building material, book debts and collateral security of mortgage of eight *kanals* of land situated at Midoora (Awantipora), Pulwama. After availing loan, the borrower failed to repay and maintain the account from September 2010. The borrower diverted the loan amount by transferring cash credit from one account to another and had not utilised it for the intended purpose. The Bank declared the loan as non-performing asset (NPA) on 31 March 2011 with outstanding balance of ₹89.77 lakh and issued notices to the borrower followed by initiation of recovery proceedings under SARFAESI[2] Act 2002 in October 2013. The Bank came to know that the land which the borrower had mortgaged was attached by the Vigilance Organisation in June 2011 as the land was purchased by the borrower out of misappropriated amount of land compensation during the year 2009-10. Prior to sanction of loan the borrower had FDRs valuing ₹1.60 crore in his name or related persons and the Bank had failed to monitor the transactions of

[1] Sole proprietorship concern of Sh. Farukh Jehan Zeb
[2] Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act

unusual pattern having no apparent economic purpose. The recovery proceedings were initiated under SARFAESI Act 2002 which was not enacted by the State Government and the Bank had not initiated any action for recovery of dues from October 2010 to October 2013. As of December 2014, the Bank had NPA balance of ₹69.39 lakh with unapplied interest of ₹49.56 lakh thereon.

After this was pointed out in audit, the In-charge Credit Zonal Office South Kashmir Pulwama stated that loan amount had been transferred to related accounts of the borrower and that the KYC norms had been duly followed. The fact, however, remains that the Bank had not monitored transactions of unusual pattern and timely action was not initiated for recovery of dues from the borrower.

Thus, non-observance of due diligence to monitor transactions of unusual pattern before sanction of credit facility in favour of a borrower and subsequent failure to initiate timely action resulted in doubtful recovery of ₹1.19 crore.

The matter was referred to the Government/ Bank in May 2015. The Assistant Vice President of the Bank stated (June 2015) that Bank had filed a civil recovery suit for ₹1.10 crore against the borrower in the civil court in January 2015 and that the transactions in the account prior to sanction of loan were almost of transfer mode and in normal course. The reply should be viewed in light of the fact that transactions of misappropriated amount of land compensation being of unusual pattern with no apparent economic purpose had passed through the Bank accounts of the borrower.

Forest Department

(Jammu and Kashmir State Forest Corporation)

3.2 Avoidable extra expenditure and blockade of funds

Procurement of imported timber by the Corporation without ascertaining actual requirement of the cloudburst affected families of Leh and at higher rates besides effecting its sale at reduced rates resulted in avoidable extra expenditure of ₹95.35 lakh, loss of ₹1.03 crore besides blocking of resources to the extent of ₹2.19 crore for over four years.

For rehabilitation and reconstruction of damaged infrastructure in district Leh caused due to cloud burst (August 2010), the Deputy Commissioner Leh submitted (August 2010) requirement[3] for key construction material[4] including 92,500 cft

[3] On the basis of proposals of Superintending Engineer, Public Works Division Circle Leh
[4] Cement, Tor steel of sorts, Timber of sorts, CGI sheets, Bitumen, GI pipes

of timber of sorts to the State Government. The high powered Committee headed by the State Chief Secretary appointed for the purpose assigned (August 2010) the responsibility of procurement and supply of imported timber to cloud burst hit victims to the Jammu and Kashmir State Forest Corporation on the suggestion of the Principal Chief Conservator of Forests. For this purpose, the Government sanctioned (September 2010) interest free ways and means advance of ₹two crore in favour of the Corporation.

Audit check (April 2015) of records of the Corporation showed that the Managing Director on the recommendations of tender Committee accorded (October 2010) sanction for supply of 30000 cft of spruce (Picea-abies) and 20000 cft of silver (Pinus Sylvester's) varieties of imported timber at a cost of ₹840 per cft and ₹950 per cft respectively from two firms after inviting tenders. The Corporation purchased 92,275 cft of imported Silver and Spruce imported timber from these two firms[5] at a cost of ₹7.62 crore[6] during October-November 2010 against sanction of 50000 cft. The expenditure was met from an advance of ₹two crore and from internal resources of the Corporation (₹5.62 crore). Audit noticed that market rate of imported timber was ₹100[7] less than the rate at which the timber was offered and procured from the selected firms as intimated (September 2010) by the Divisional Forest officer Leh thereby revealing that purchases had been made at higher rate resulting in avoidable extra expenditure of ₹95.35 lakh. No market survey with respect to rates, demand and popularity of this alien species was conducted before deciding upon imported timber.

As the imported timber was found to be expensive by the consumers with a poor demand during the period 2010-12, the Corporation reduced its sale rates by ₹150 per cft on the intervention (August 2011) of Chief Executive Councilor, Ladakh Autonomous Hill Development Council (LAHDC). The sale rates of Silver and Spruce varieties of imported timber were further reduced (May 2013) by ₹220 and ₹130 per cft respectively. The reduction in sale rates resulted in loss of ₹1.03 crore[8] on sale of 68956 cft of imported timber. Further out of 92,275 cft of imported timber purchased by the Corporation, 23,319 cft valuing ₹2.19 crore remained unsold (June 2014) thereby resulting in blocking of resources of Corporation to the extent of ₹2.19 crore for over four years. There was also possibility of this unsold timber getting deteriorated with the passage of time.

[5] M/s Green Gold Timber, Kandla, Gujrat and M/s Abdul Gani Kichloo and sons Anantnag
[6] Silver timber (61558 cft)= ₹5.11 crore and Spruce timber (30717 cft): ₹2.51 crore
[7] As intimated by Divisional Forest Officer Leh
[8] Considering sale rate of ₹800 and ₹690 for silver and spruce varieties respectively after reduction of ₹150 per cft

Thus, procurement of imported timber by the Corporation without ascertaining actual requirement of the cloudburst affected families of Leh and at higher rates besides effecting its sale at reduced rates resulted in avoidable extra expenditure of ₹95.35 lakh, loss of ₹1.03 crore besides blocking of resources to the extent of ₹2.19 crore for over four years.

The matter was referred to the Government/ Corporation in May 2015. The Government endorsed (July 2015) reply of the Managing Director who stated that the Deputy Commissioner Leh, Superintending Engineer PWD Circle Leh and LAHDC had worked out the requirement and that the Corporation was not aware as to how the LAHDC and Assistant Director Consumer Affairs and Public Distribution Department had determined market rates. The Managing Director further stated that reduction of sale rates was a conscious decision of the Government so as to give price relief to the victims. The reply should be viewed in light of the fact that since Corporation was made responsible for procurement and supply of imported timber by the high powered committee, it was required to observe due diligence for procurement on the basis of actual requirement as well as for subsequent sale of imported timber to the affected families.

3.3 Loss of revenue and blockade of funds

Imprudent decision of the Management in entering into public private partnership mode with a non-viable venture selected in non-transparent manner and without ensuring assured market of products resulted in loss of ₹58 lakh, besides blockade of ₹98 lakh.

On the basis of request by Managing Director of Tramboo Joinery Mills Private Limited (TJM) (a Private Joinery Mill) and recommendation (May 2009) of the Hon'ble Chief Minister, a Committee[9] was constituted (March 2010) by the Commissioner Secretary of the Department for examining the proposal and to work out the detailed modalities for public private partnership (PPP) between the TJM and the Jammu and Kashmir State Forest Corporation. A detailed proposal on the basis of recommendation of the Committee was submitted to the Hon'ble Chief Minister who approved (October 2010) it with the condition that final contours of PPP arrangement would be decided by the Board of Directors (BOD) of the Corporation. The BOD however, decided to invite offers from other similarly placed firms. Out of four bids including bid of TJM received in December 2012, two offers[10] were rejected on the basis of being constituent members of a cluster

[9] Director General Finance (Chairman), Chief General Manager PP (Member), Chief General Manager Admn. (Member) and Dy. General Manager Estates Jammu (Member)

[10] (i) Kashmir Furniture International (ii) SICOP

of units and other offer[11] was rejected because of inadequate land/ infrastructure and low turnover leaving bid of TJM only for consideration. Thereafter sanction was accorded (January 2011) to the PPP between Corporation and TJM with the creation of new Division 'Public Private Partnership J&K SFC and Trambo Joinery Mills'. An agreement was executed (February 2011) for a pilot period of 18 months between the two parties with the condition that the net revenue from the sale of the finished products would be shared between the Corporation and TJM in the ratio of 75:25.

Audit check (April 2015) of records of the Corporation showed that the only ground that made TJM eligible for PPP was its land and infrastructure and the Committee was silent on the issue of average turnover of the firm for the last three years and other pre bid conditions. The unit had also furnished an affidavit that it was free from all liabilities which was not correct as the unit had outstanding Bank loan of ₹1.25 crore. Though the unit had turned sick for want of raw material and had defaulted in its purchase commitments earlier during the year 1980-81 yet the management failed to take cognizance of its earlier experience.

The unit started functioning from February 2011 and the Corporation supplied 43371 cft of timber (value: ₹2.65 crore) during the period from February 2011 to July 2012. The TJM crushed and processed 27343 cft of timber (value: ₹1.67 crore) to generate joinery items of 6547 cft worth ₹1.09 crore only. The balance timber remained either unutilized or generated as by products/ waste or rendered unfit and the unit stopped its functioning. Out of a total revenue of ₹1.09 crore generated by the venture over a period of six quarters, sharing position was ₹80.48 lakh for the Corporation (74 *per cent*), ₹26.10 lakh for TJM (24 *per cent*) and ₹18 lakh for marketing agency (2 *per cent*). The revenue earned was less by ₹58 lakh than the value of raw material supplied. The Corporation had also to incur an expenditure of ₹55 lakh on the administrative expenses as per clause 13 of the agreement viz. salary and wages in connection with the joint venture project. Audit further noticed following deficiencies in implementation of PPP project.

- As per terms and conditions of the agreement 70 *per cent* of the manpower was required to be recruited by the TJM mutually in consultation with the Corporation but the TJM failed to meet this requirement. The management had never impressed upon the firm to employ skilled labour and also to avoid excessive wastages for value addition which was brought to its notice by the Manager In-charge.

[11] Touch wood Joinery Mill Sopore

- Due to non application of proper skill and optimum utilization of timber PPP could not deliver the desired result. The committee framed in this regard attributed failure of the venture to non application of proper skills.
- The marketing agency appointed for arranging sale of products was a sister concern of the TJM. The objections to the marketing of products by the Corporation were raised by the State Industries and Commerce Department reiterating the Industrial policy of the Government that joinery products should continue to be strictly reserved for SSI units. In absence of any assured market for sale of its finished products the venture failed to remain viable, resulting in loss of ₹58 lakh[12] to the Corporation.

After this was pointed out in audit, Managing Director of the Corporation stated (May 2015) that the management did not initiate any PPP arrangement with TJM of its own but had turned down the project proposal and that the Committee constituted by the Government gave a positive nod to the Corporation for entering into PPP arrangement with TJM. The reply is not acceptable as by ignoring pre-bid conditions the selection of non-viable venture was made in non-transparent manner. Further the Corporation had entered into PPP mode without ensuring assured market of the products and without taking cognizance of Industrial policy of the Government wherein joinery products were to be reserved for SSI units.

Thus, imprudent decision of the Management in entering into PPP mode with a non-viable venture selected in non-transparent manner and without ensuring assured market of products resulted in loss of ₹58 lakh, besides blockade of ₹98 lakh[13].

The matter was referred to the Government/ Corporation in June 2015; their reply was awaited (December 2015).

[12] ₹1.67 crore-₹1.09 crore=₹0.58 crore

[13] Value of unused timber with the firm=16028 x 610.75=₹98 lakh

Power Development Department

(Jammu and Kashmir State Power Development Corporation Limited)

3.4 Unplanned execution of RMU Project of Ganderbal Power House

Execution of project of renovation, modernisation and upgradation of 15 MW Ganderbal Power House which suffered right from its approval due to delay, repeated revisions necessitated by restricting execution of works resulted in unplanned execution of the project and consequent unfruitful expenditure of ₹9.92 crore. The objective of the project to generate additional power of 63.64 MUs with extra annual revenue of ₹12.72 crore could as such not be achieved.

The Chief Engineer (Generation) of Jammu and Kashmir State Power Development Corporation Ltd. (Company) submitted (December 2001) project proposal for renovation, modernisation and upgradation (RMU) of Ganderbal Power House[14] at an estimated cost of ₹39.06 crore[15] to the Central Electricity Authority (CEC), New Delhi. The Project was to generate additional power of 63.64 MUs with extra annual revenue to the extent of ₹12.72 crore. The CEC approved (May 2002) the project at a cost of ₹28.87 crore (electro/ mechanical works: ₹17.58 crore and civil works: ₹11.29 crore). The Board of Directors of the Company approved (August 2006) RMU works of the Power house at a cost of ₹39.30 crore[16] with the plan to raise finances by way of debt of ₹24 crore from Power Finance Corporation Limited New Delhi (PFC), subsidy of ₹10 crore from Ministry of New Renewable Energy (MNRE) and equity of ₹5.30 crore from the State Government. The PFC sanctioned (February 2006) loan of ₹24 crore against which the Company availed (October 2007) loan of ₹3.60 crore only.

Audit check (September 2014) of records of the Company showed that the Company took up the works of the project during 2009-10 and as of July 2014 executed civil works[17] to the extent of ₹9.08 crore and electro-mechanical works[18] to the tune of ₹83.54 lakh upto 30 June 2014. Keeping in view the

14 Four units (2x3 MW and 2x4.5 MW) of 15 MW installed capacity
15 (Electro/ mechanical works: ₹24.23 crore and civil works: ₹14.83 crore)
16 (Electro/ mechanical works: ₹19.42 crore, civil works: ₹14.78 crore and interest during construction: ₹5.10 crore)
17 In addition to works executed by the contractor M/s Mohd Sultan Dar civil works in respect of Head Works, Water Conductor, Cross-Drainage Improvements, Escape Channel/ Tail Race Channel, Nallah Training Works, Catch Water Drain, Desilting Basin Balancing Reservoir etc.
18 Reconditioning/ overhauling of Butterfly values of Penstock-II; erection of 11 KV feeder alongwith sub- stations and allied LT lines; electrification/ Lighting/ heating of Power house Control room, Gates & Gearings, renovation of various gates; improvement/ modernisation of workshop and repairs to M/C-I & II etc.

availability of water post execution of 93 MW New Ganderbal Hydroelectric power (NGHEP) project, the Managing Director of the Company accorded (September 2009) approval for carrying out RMU works for reduced capacity of 9 MWs of units III and IV (4.5 MW capacity each) and repairs of units I and II (3 MM capacity each). Thereafter, the civil works of the project was allotted (August 2010) on turnkey basis at a cost of ₹6.98 crore to a contractor[19]. As per the terms of contract, the work was to be started within 15 days from the date of issue (March 2010) of letter of intent. In case of failure to complete the work within stipulated time[20], penalty of 0.5 *per cent* of the contract value was to be imposed for 15 days delay and the Company, in such an event, was free to re-tender the work or execute the work in any manner it deemed fit. Further, the security deposit was to be released after satisfactory completion of defect liability period i.e six months after completion of work.

Audit noticed that the contractor executed work with slow pace and against the scheduled date of completion (21 February 2011) of work, the contractor executed the work to the extent of ₹3.67 crore only (52 *per cent* of the allotted cost) as of March 2011. Thereafter the Company revised the drawings for construction of super passages of the project in October 2011 and the contractor executed the works[21] to the tune of ₹5.52 crore (79 *per cent* of the allotted cost) as of March 2013 and abandoned the balance work in July 2013. The Company had not taken any action against the contractor in terms of contract for not executing and completing the balance work. After this was pointed out (September/ November 2014) in Audit, the Executive Engineer, CMD, Sindh Valley Projects, Kangan stated (November 2014) that various notices had been issued to the contractor for resumption of work. The Company again decided (April 2014) to take up RMU works of only one unit of 4.5 MW capacity at an estimated cost of ₹9.81 crore in view of inadequate discharge of water due to execution of 93 MW NGHEP project. The contract for these works had not been finalised (March 2015).

Audit check of records further showed that the Company had repaid the loan of ₹3.95 crore (Principal: ₹1.71 crore, interest: ₹2.24 crore) to PFC as of September 2014. The Ministry of New Renewable Energy (GoI) had sanctioned (March 2002) ₹10 crore for the project and had released ₹56.40 lakh as of March 2014 (₹55 lakh: March 2002 and ₹1.40 lakh during 2012-13). As there was considerable delay in execution of works of the project, the balance amount was not released by the MNRE (November 2014).

[19] M/s Mohd. Sultan Dar, Srinagar

[20] Within 150 working days from 1 April 2010

[21] Improvement to weir and restoration of glacis: ₹1.10 crore; Repairs to Sindh Power Canal etc: ₹3.05 crore; Re-construction of super passages/ overheads etc.: ₹3.13 lakh and improvement to existing B/R: ₹1.34 crore

The matter was referred to the Government/ Company in January 2015. The Director Finance of the Company stated (March 2015) that final notice for termination of contract and imposition of penalties was given to the contractor in November 2014 who approached the Hon'ble Court and obtained stay order. Further progress in the matter was awaited (December 2015).

Thus, the execution of project of renovation, modernisation and upgradation of 15 MW Ganderbal Power House which suffered right from its approval in May 2002 due to delay, repeated revisions necessitated by restricting execution of works resulted in unplanned execution of the project and consequent unfruitful expenditure of ₹9.92 crore. The objective of the project to generate additional power of 63.64 MUs with extra annual revenue of ₹12.72 crore could also not be achieved.

3.5 Delay in execution of works of Power project

Failure of the Company to ensure timely completion of works of 'Restoration of Wangath Link Canal' and 'Modernisation of spill channel' of Upper Sindh Hydropower Project-II Kangan and inaction to enforce the terms and conditions of the contract for delay in execution against the contractors resulted in loss of power generation of 230.79 MUs valuing ₹19.15 crore.

The water conductor of Wangath Link Canal feeding Upper Sindh Hydropower Project (USHP)-II, Kangan[22] as well as the spill channel got damaged (September 2009) which put the power house to halt. By delinking Wangath Canal, the Company made (April 2010) two turbines of the Power House Operational by feeding water through Sumbal Link Canal. The proposal for restoration of Wangath Link Canal[23] was taken up with Central Water Commission and Geological Survey of India. The work of 'Restoration of Wangath Link Canal' by way of construction of 288 M circular shape tunnel (4 M dia) and 144 M cut and cover conduits in open cut excavation was allotted (May 2012) to a contractor[24] at a cost of ₹8.83 crore. The work was to be completed within 13 calendar months and the date of start of work was to be reckoned from date of issuance (13 March 2012) of letter of intent. Further, for arresting recurring progressive damages caused to spill channel the work of 'Modernisation of Spill Channel, from RD 801.7 M to RD 1338.55 M' of the power house USHP-II was allotted (September 2012) in four parts[25] to the contractors at a cost of ₹14 crore. The work was required to be completed within

[22] Three turbines of 35 MW each

[23] Between 6285 M to 6657 M (432 M approximate)

[24] M/s Rash Builders India Limited, Srinagar and M/s Himalayan Construction Company Private Limited New Delhi (a Joint Venture with lead partner M/s Rash Builders India Ltd.)

[25] 801-861 M: ₹3.57 crore; 861-1100 M: ₹4.25 crore; 1100-1280 M; ₹3.28 crore and 1280-1338 M: ₹2.90 crore

six calendar months. In case of failure to complete the work within stipulated time, the contractors were liable to pay a penalty of 0.5 *per cent* of the contract sum per week of delay subject to maximum of five *per cent* of contract sum for a total cumulative delay of eight weeks and beyond that additional penalty of ₹two lakh/ ₹0.10 lakh for each day of delay. Besides the Engineer-in-charge had also the powers to get the work executed, in part/ full at the risk and cost of the defaulting contractors.

Audit check of records of Executive Engineer, Civil Maintenance Division USHP-II Kangan, Kashmir showed that the work of 'Restoration of Wangath Link Canal' was executed by the contractor very slowly with less deployment of men and machinery and as of December 2014, works to the extent of ₹5.26 crore (60 *per cent* of the total allotted cost) were executed out of which ₹3.81 crore was paid to the contractor and ₹1.45 crore remained unpaid. The Executive Engineer, CMD, USHP-II, Kangan and the Chief Engineer Civil Investigation and Design, (CID) Wing Bemina, Srinagar time and again instructed the contractor to gear up the pace of execution of work in multiple shifts by deployment of men and machinery adequately to complete the work in time. The work which was to be completed by April 2013 had remained incomplete and the Company had not taken any action against the contractor in terms of the contract for delayed execution of work.

In respect of work of 'Modernisation of spill Channel' the District Court, Ganderbal in a land dispute case passed (December 2012) orders in favour of the Company and directed (December 2012) the contractors to resume and accelerate the work at full swing in multiple shifts. The Contractors however executed the work with slow pace without paying any heed to the notices issued by the Company. As of December 2014, the contractors had executed work to the extent of ₹9.18 crore (including liability of ₹3.21 crore) constituting 65 *per cent* of the total allotted cost of the contract. The Company terminated (October 2014) the contract allotted for section RD 1100-RD 1280 M and allotted (December 2014) it to another contractor. No action had been taken against other contractors for delay in completion of work in term of the contract.

The delay in execution of works had put the Company to loss of generation of power to the extent of 230.74 MUs valuing ₹19.15 crore for the period from May 2013 to December 2014.

The Executive Engineer (CMD) USHP-II Kangan stated (December 2014) that execution of work of 'Restoration of Wangath Link Canal' suffered due to one or another reason and that the contractor was directed to gear the work for early completion. It was further stated that progress of work of a section of spill channel was held up due to non-completion of next section and the Company was working out modalities of penalties to be imposed on defaulters in light of the agreement clauses. The fact remains that the Company failed to initiate timely action for getting the work completed resulting in recurring loss of generation of power and consequent revenue therefrom.

Thus failure of the Company to ensure timely completion of works of 'Restoration of Wangath Link Canal' and 'Modernisation of spill channel' of Upper Sindh Hydropower Project-II Kangan and inaction to enforce the terms and conditions of the contract for delay in execution against the contractors resulted in loss of power generation of 230.79 MUs valuing ₹19.15 crore.

The matter was referred to the Government/ Company in May 2015; their reply was awaited (December 2015).

3.6 Delay in execution of projects of evacuation of power

The projects for evacuation of power from BHEP Stage-II which were targetted for completion by November 2014 had not been taken up due to non-acquisition and handing over of land to PGCIL by the Company despite release of ₹2.48 crore in advance.

With a view to evacuating power from the Baglihar Hydro-electric Project Stage-II (BHEP-II) the commercial operation of which was expected to start from 1 April 2015, the Jammu and Kashmir State Power Development Corporation Limited (Company) entered (March 2013) into an agreement with the Power Grid Corporation of India Limited (PGCIL) for execution of project 'Loop in and Loop out of one circuit of 400 KV D/C Kishenpur-Wagoora transmission line at Pot head yard of Hydroelectric project'. The scope of services/ works of the project (estimated cost: ₹10.75 crore) to be rendered by the PGCIL was to include design, engineering, NIT, tender evaluation, finalisation of contract, procurement, erection, project management, testing and commissioning etc. The entire work of the project was to be completed within 20 months from the date of release of first instalment or signing of the contract whichever was later. The terms of the agreement stipulated that ten *per cent* of the estimated project cost along with consultancy fee was to be paid within fifteen days of signing of the agreement and ten *per cent* of the awarded cost along with consultancy fee after award of contract by the PGCIL. The Company had also executed (April 2013) a supplementary agreement with the PGCIL for execution of another project for 'Rerouting of 400 KV D/C Baglihar-Kishanpur transmission line' (estimated cost: ₹7 crore) with all terms and conditions of the agreement of March 2013. The Company was responsible for acquisition of land for transmission line and handing over the same to the PGCIL free from all encumbrances.

Audit check (December 2014) of records of Executive Engineer 400 KV TLD (BHEP) Chanderkote, Ramban showed that Company advanced ₹1.62 crore

(March 2013) and ₹0.86 crore (April 2013) to the PGCIL for these two projects in accordance with the conditions of the agreement. The PGCIL submitted approved route alignment for both the projects to the Company in November 2013 and thereafter the Company approached the Forest Department in December 2013 for forest clearance for these projects after nine months of entering into an agreement for execution of work. Audit noticed that despite expiry of over 15 months, the clearance for use of forest land was awaited from the Forest Department (March 2015). In view of urgency of the projects, the Chief Engineer (C) BHEP-II Chanderkote took up the matter of forest clearance with the District Development Commissioner Ramban which was reported (March 2015) to be under process. The contract for both the projects had been awarded (December 2014) by the PGCIL after over 21 months of execution of the agreement.

Thus the projects which were to be completed by November 2014 before schedule date of commissioning of the BHEP Stage-II for evacuation of power therefrom had not been taken up due to non-acquisition and handing over of land to the PGCIL by the Company.

The matter was referred to the Government/ Company in May 2015; their reply was awaited (December 2015).

3.7 Non-payment of labour cess

Failure of the Company to comply with provisions of the Act to book labour cess on expenditure incurred on account of payment made to the contractor for execution of works of BHEP Stage-II resulted in non-payment of labour cess to the extent of ₹7.08 crore.

Section 3 of the Building and Other Construction Workers Welfare Cess Act, 1996 provide for levy and collection of cess for the purposes of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 at such rate not exceeding two *per cent* but not less than one *per cent* of the cost of construction incurred by an employer. Further, Rule 4 of the Building and Other Construction Workers Welfare Cess Rules, 1998 *interalia* provide that where the duration of the project or 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. Section 8 of the Act stipulates that if any employer fails to pay any amount of cess within the specified time such employer shall be liable to pay interest[26] on the amount to be paid.

Audit check (January/ February 2015) of records of the Executive Engineer, (EE) Head Race Tunnel (HRT) Division (BHEP) and EE, Power

[26] At the rate of two *per cent* for every month or part of a month till such amount is actually paid

House Division (BHEP) Chanderkote of the Jammu and Kashmir State Power Development Corporation Limited (Company) showed that expenditure of ₹707.97 crore was incurred on account of payment made to the contractor[27] for execution of civil and mechanical works[28] of Baghlihar Hydro Electric Project (BHEP) Stage-II during the period from April 2012 to August 2014 by the Company. However, the Company had not booked labour cess of ₹7.08 crore on the expenditure of ₹707.97 crore in terms of provisions of the Act. This resulted in non-payment of labour cess of ₹7.08 crore and creation of liability to that extent by the Company. Audit noticed that the Company had not reflected this liability in its accounts as well.

After this was pointed out in audit, the EE, HRT Division (BHEP) and EE Power House Division (BHEP) Chanderkote stated (January/ February 2015) that the matter had been taken up with the Chief Engineer (BHEP) (Civil) and with the Corporate Office of the Company. Further progress in the matter was awaited (May 2015).

Thus, failure of the Company to comply with provisions of the Act to book labour cess on expenditure incurred on account of payment made to the contractor for execution of works of BHEP Stage-II resulted in non-payment of labour cess to the extent of ₹7.08 crore and creation of liability to that extent by the company.

The matter was referred to the Government/ Company in May 2015; their reply was awaited (December 2015).

Srinagar/Jammu
The 29th March 2016

(Hoveyda Abbas)
Accountant General (Audit)
Jammu and Kashmir

Countersigned

New Delhi
The 31st March 2016

(Shashi Kant Sharma)
Comptroller and Auditor General of India

27 Jaiprakash Associates Limited

28 Civil works infrastructure: ₹26.10 crore; Civil works-Main: ₹667.12 crore and Hydro mechanical equipment erection: ₹14.75 crore